

Business Report

for the Fiscal Year 2006

(from April 1, 2006 to March 31, 2007)



Accuracy, Speed and 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 2006 (April 1, 2006 to March 31, 2007).

The Japanese economy remained on a moderate recovery path during the year under review, mainly because of a rise in capital investment reflecting improved corporate earnings and firmness of consumer spending thanks to an improvement in the employment situation.

In the machine tool industry, the number of overall orders is maintaining a high level supported by capital spending in a wide variety of businesses, including automotive, IT-related and general-machinery industries.

Under these circumstances, the Company continued to supply high-precision processing products that meet the needs of the automotive industry, where countermeasures in terms of environment, energy-conservation and safety are necessary, or IT-related business, where further high precision is required, and introduced new products in the market, using our long-standing know-how and experience. We actively carried out sales promotion activities for our products, participating in both domestic and international exhibitions and advertising directly to our customers.

We started full operation in the new production system which we built in the previous year by investing in new plants in Nagaoka, Shinshu, and China as well as other manufacturing subsidiaries to increase the overall production capacity. Also, we made concerted company-wide efforts to increase productivity and reduce costs by starting in-house production and unit production of parts.

Under these circumstances, we achieved record-high sales and profits for the fourth straight business year. Both net sales and ordinary income were all-time highs in the year under review.

Net sales increased 7.5% year-on-year to 36,557 million yen, with both domestic and overseas sales growing year-on-year thanks to our marketing efforts, including proactive development of new users.

Ordinary income rose 3.2% year-on-year to 5,535 million

yen owing to increased sales, our efforts for in-house production by making the most of the enhancement of production capacity, further improvement of efficiency and promotion of cost reductions.

Net income decreased 37.7% to 3,447 million yen compared with previous year. Because there was no such a factor as we posted extraordinary income in the previous year and there was no deferment of tax deduction in the year under review, which means the Company bore the usual tax burden.

As described above, we were able to achieve favorable earnings for fiscal 2006 and we paid a term-end dividend of 6 yen per share – 4 yen as an ordinary dividend and 2 yen as a dividend to commemorate the 70th anniversary of the Company's founding. Combined with the interim dividend, we made 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.

As part of our measures to return profits to our shareholders, we are reacquiring our treasury stock, 10 million shares of which we canceled in November 2006.

The Company will continue to supply new products to the IT-related, automotive and other industries and expand sales in Asian markets, where high growth is expected in the future and capital investment is active. The Company will also focus on improving management efficiency and productivity as well as increasing customer satisfaction.

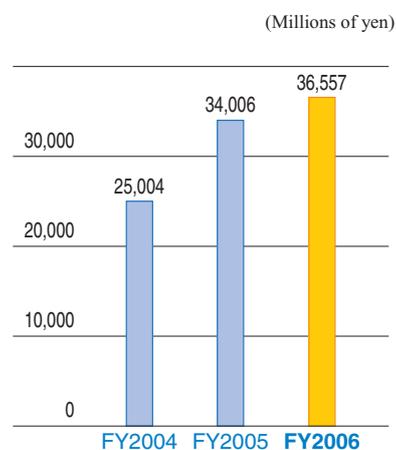
We hope that our shareholders will extend even greater support and encouragement to Tsugami in the time to come.

June 2007

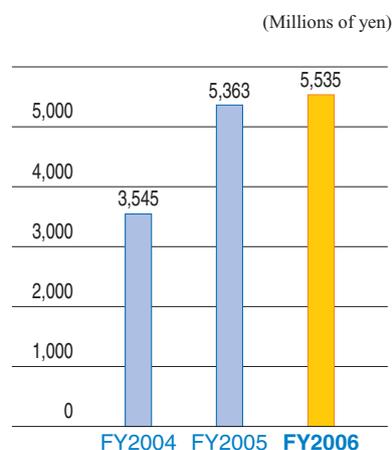
Takao Nishijima
Chairman and C.E.O.

Business Performance (Consolidated)

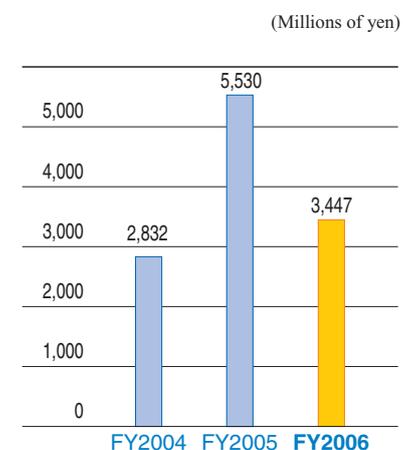
● Net sales



● Ordinary income



● Net income



● Financial Highlights

		FY2004		FY2005		FY2006	
		Consolidated	Non-consolidated	Consolidated	Non-consolidated	Consolidated	Non-consolidated
Net sales	(Millions of yen)	25,004	24,336	34,006	33,262	36,557	35,255
Ordinary income	(Millions of yen)	3,545	3,164	5,363	5,016	5,535	5,110
Net income	(Millions of yen)	2,832	2,650	5,530	5,333	3,447	3,257
Net income per share	(Yen)	35.02	32.80	71.38	68.99	46.36	43.80
Total assets	(Millions of yen)	27,539	26,927	36,827	36,215	35,943	35,186
Net assets	(Millions of yen)	18,986	18,655	23,272	22,747	23,450	22,723
Net assets per share	(Yen)	243.41	239.16	306.53	299.63	322.67	312.66

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

Consolidated Financial Statements

● Consolidated Balance Sheets

(Millions of yen)

	March 31, 2007	March 31, 2006
Assets		
Current assets	25,920	26,394
Cash and deposits	3,576	2,846
Trade notes and accounts receivable	14,314	14,389
Inventories	7,659	7,934
Other current assets	370	1,223
Fixed assets	10,023	10,432
Tangible fixed assets	7,457	7,036
Buildings, Machinery, equipment and vehicles	6,606	6,135
Land	598	642
Other tangible fixed assets	252	257
Intangible fixed assets	33	17
Investments and other assets	2,532	3,378
Total assets	35,943	36,827
Liabilities		
Current liabilities	11,344	12,168
Trade notes and accounts payable	9,129	8,974
Accrued income tax	1,024	1,760
Other current liabilities	1,190	1,433
Long-term liabilities	1,148	1,386
Total liabilities	12,493	13,555
Minority interests	-	-
Shareholders' equity		
Common stock	-	10,599
Capital surplus	-	8,011
Retained earnings	-	7,871
Unrealized gains on available-for-sale securities	-	805
Treasury stock, at cost	-	(4,015)
Total shareholders' equity	-	23,272
Total liabilities, minority interests and shareholders' equity	-	36,827
Net assets		
Shareholders' equity	22,695	-
Common stock	10,599	-
Capital surplus	4,208	-
Retained earnings	10,568	-
Treasury stock	(2,681)	-
Valuation and translation adjustments	660	-
Unrealized gains (losses) on marketable securities	600	-
Translation adjustments	60	-
Subscription rights to shares	94	-
Total net assets	23,450	-
Total liabilities and net assets	35,943	-

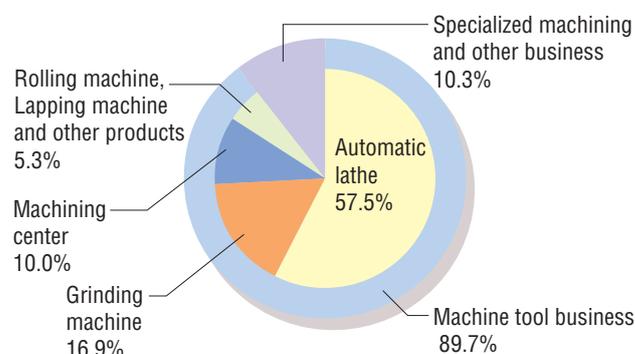
● Consolidated Statements of Income

(Millions of yen)

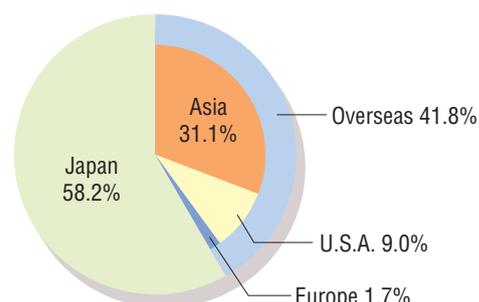
	Year ended March 31, 2007	Year ended March 31, 2006
Net sales	36,557	34,006
Cost of sales	27,325	25,507
Gross profit	9,231	8,499
Selling, general and administrative expenses	3,752	3,216
Operating income	5,478	5,282
Non-operating income	154	161
Interest and dividend income	34	30
Other non-operating income	118	131
Non-operating expenses	97	81
Interest expense	0	0
Other non-operating expenses	97	81
Ordinary income	5,535	5,363
Extraordinary income	120	2,588
Gain on sales of fixed assets	120	2,430
Gain on sales of investment securities	–	54
Other extraordinary income	–	104
Extratorordinary expenses	437	1,101
Loss on disposal and sales of fixed assets	145	728
Transfer expenses of equipment	–	154
Loss on disposal of inventories	55	93
Loss on valuation of inventories	51	12
Loss on valuation of investment securities	63	19
Lawsuit expenses	86	–
Other extraordinary expenses	35	93
Income before taxes and other adjustments	5,218	6,850
Corporate, inhabitant and enterprise taxes	1,882	1,735
Deferred taxes	(111)	(416)
Minority interests	–	–
Net income	3,447	5,530

● Sales Breakdown (Consolidated)

• Sales product by business and product (FY2006)



• Sales breakdown by region (FY2006)



Consolidated Financial Statements

● Consolidated Statements of Cash Flows

(Millions of yen)

	Year ended March 31, 2007	Year ended March 31, 2006
Net cash provided by operating activities	4,142	1,551
Net cash used in investing activities	(383)	(1,020)
Net cash used in financing activities	(3,157)	(1,845)
Effect of exchange rate changes on cash and cash equivalents	(1)	–
Net increase (decrease) in cash and cash equivalents	601	(1,315)
Cash and cash equivalents at beginning of period	2,796	4,112
Increase in cash and cash equivalents resulting from initial consolidation of subsidiaries	98	–
Cash and cash equivalents at end of period	3,496	2,796

● Consolidated Statements of Changes in Net Assets Year ended March 31, 2007

(Millions of yen)

	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance as of March 31, 2006	10,599	8,011	7,871	(4,015)	22,466
Changes during the period					
Dividend through appropriation of profits			(379)		(379)
Dividends from surplus			(297)		(297)
Directors' bonuses from profit appropriations			(38)		(38)
Decrease in retained earnings due to increase of consolidated subsidiaries			(34)		(34)
Net income			3,447		3,447
Acquisition of treasury stock				(2,587)	(2,587)
Disposal of treasury stock		(32)		151	119
Cancellation of treasury stock		(3,770)		3,770	–
Net changes of items other than shareholders' equity					
Total changes during the period		(3,802)	2,697	1,333	228
Balance as of March 31, 2007	10,599	4,208	10,568	(2,681)	22,695

(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, 2006	805		805		23,272
Changes during the period					
Dividend through appropriation of profits					(379)
Dividends from surplus					(297)
Directors' bonuses from profit appropriations					(38)
Decrease in retained earnings due to increase of consolidated subsidiaries					(34)
Net income					3,447
Acquisition of treasury stock					(2,587)
Disposal of treasury stock					119
Cancellation of treasury stock					–
Net changes of items other than shareholders' equity	(205)	60	(144)	94	(50)
Total changes during the period	(205)	60	(144)	94	178
Balance as of March 31, 2007	600	60	660	94	23,450

Main Products

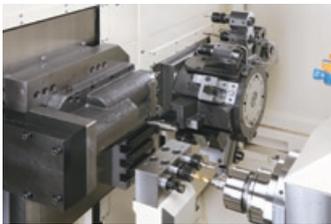
CNC Precision Automatic Lathe



This machine tools are fitted to minimize any effects resulting from high temperatures, and its cast iron base, with high rigidity, can suppress the vibration that occurs during high-speed processing. 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. Equipped with such functions as automatic loading, automatic measuring, and fully automatic processing, the device can handle a variety of items, ranging from single components, such as mold pins, to processed products such as automobile engines, transmissions and oil hydraulic parts, IT-related components and medical and dental equipment. Hence, the machine can meet all the manufacturing needs of our customers.

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.

Setting up a booth at an exhibition

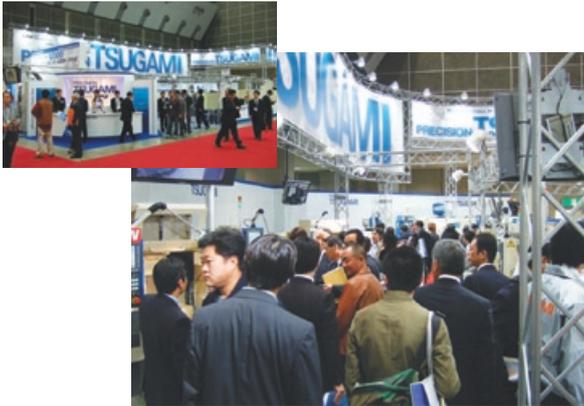
The Company has developed new clients.

We exhibited products at the JIMTOF2006 (the 23rd Japan International Machine Tool Fair), which was held at Tokyo Big Sight from November 1 to 8, 2006.

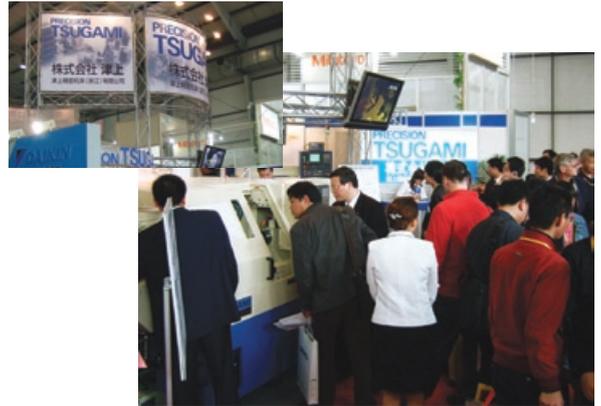
We also exhibited products at CIMT2007 (the China International Machine Tool Show), which was held in Beijing (China) from April 9 to 15, 2007.

At the exhibitions mentioned above, which were visited by many users and dealers at home and abroad, we actively exchanged our views with customers.

JIMTOF2006



CIMT2007



Expansion of sales bases in Asia



We opened the Shanghai Office in Shanghai Caohejing New Technology Development Zone in Shanghai, China in August 2006 as an office of Precision Tsugami (China) Corporation, which is a Chinese local unit of the Group, with a view to further expanding sales and enhancing services and maintenance in the Asian Market. In April 2007, we set up a branch in Suweon, South Korea, as a South Korean sales base.

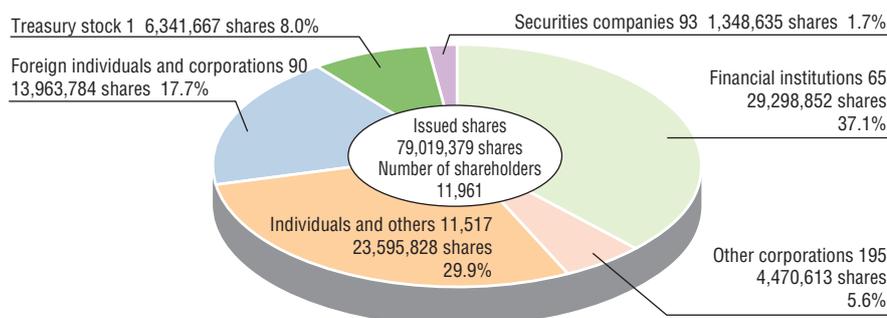
Stock Information (as of March 31, 2007)

- Authorized shares 320,000,000 shares
- Issued shares 79,019,379 shares
- Number of shareholders 11,961
- 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	%
The Master Trust Bank of Japan, Ltd. (Trust account)	7,314	9.25	—	—
Mizuho Trust & Banking Co., Ltd. (Employee retirement benefit trust of Tokyo Seimitsu Co., Ltd., new trust custodian: Trust & Custody Services Bank, Ltd.)	4,592	5.81	—	—
Japan Trustee Services Bank, Ltd. (Trust account)	3,047	3.85	—	—
Morgan Stanley and Company International Limited	2,283	2.88	—	—
Morgan Stanley & Co., Inc.	2,098	2.65	—	—
Mori Seiki Co., Ltd.	2,000	2.53	100	0.09
The Bank of New York (Luxembourg), S.A. (131800)	1,898	2.40	—	—
The Dai-ichi Mutual Life Insurance Company	1,800	2.27	—	—
The Hokuetsu Bank, Ltd.	1,484	1.87	466	0.18
The Chase Manhattan Bank (385032)	1,313	1.66	—	—

- 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.
 3. In addition to the shares in the table above, there are treasury stock of 6,341 thousand shares.

● Shareholder composition by type of shareholder



● Stock price and volume (from April 2006 to March 2007)

Year/month		2006										2007		
		4	5	6	7	8	9	10	11	12	1	2	3	
Stock price	High (yen)	979	961	785	779	745	750	725	707	775	771	766	693	
	Low (yen)	878	720	655	634	667	650	605	625	666	724	640	645	
Volume (thousands of shares)		8,930	15,255	17,466	16,132	13,365	11,757	15,529	11,899	12,009	10,286	13,011	11,305	

- **Corporate Name** Tsugami Corporation
- **Established** March 15, 1937
- **Head Office** 1-9-10, Horidome-cho, Nihonbashi, Chuo-ku, Tokyo
 (The head office was relocated to the above-mentioned address as of June 23, 2006.)
 (Former location of the head office: 1-26-1, Hamamatsu-cho, Minato-ku, Tokyo)
- **Paid-in Capital** 10,599 million yen
- **Number of Employees** 425

- **Directors and Auditors**

Representative Director and C.E.O.	Takao Nishijima	Standing Statutory Auditor	Ikuo Oomiya
Directors	Yoshiharu Kikuchi	Statutory Auditors	Kyouji Umeoka
	Kazunori Miyamoto		Kouichiro Watanabe
	Tadashi Narisawa		Kazuo Fujimori

- **Head Office and Plants**

Head Office: 1-9-10, Horidome-cho, 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.
 (Note) Tsugami General Service Co., Ltd. and Tsugami Tool Co., Ltd. merged as of October 1, 2006, and the new company name is "Tsugami General Service Co., Ltd."

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.
Stock transfer	
Agent to manage shareholders registry	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.