

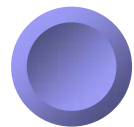
# Briefing of Financial Statements for the Year Ended March 2007

(Securities Code: 6101)

 **TSUGAMI CORPORATION**

May 18, 2007

<http://www.tsugami.co.jp>




**Summary of the Financial Statements for the Year End  
March 2007 (FY2006) and Perspective for the Next  
Fiscal Term (FY2007)**

**..... P2 – P13**



**Future Business Development of the TSUGAMI Group**

**..... P14 – P22**



**Summary of the Financial Statements  
for the Year End March 2007 (FY2006)  
and Perspective for the Next Fiscal  
Term (FY2007)**



*Future Business Development of the  
TSUGAMI Group*

# Summary of Financial Highlights (Full-year, on a consolidated basis)

(Billions of yen; %)

	FY2005			FY2006			FY2007 (Projections)		
	1 <sup>st</sup> half	2 <sup>nd</sup> half	Full-year	1 <sup>st</sup> half	2 <sup>nd</sup> half	Full-year	1 <sup>st</sup> half	2 <sup>nd</sup> half	Full-year
<b>Net sales</b>	16.9	17.1	34.0	18.5	18.1	36.6	16.5	18.5	35.0
<b>Gross profit</b>	4.2	4.3	8.5	4.8	4.4	9.2			
Gross profit margin	(24.8)	(25.2)	(25.0)	(26.0)	(24.4)	(25.3)			
<b>Operating income</b>	2.7	2.6	5.3	2.9	2.5	5.5	2.25	2.85	5.1
<b>Ordinary income</b>	2.7	2.7	5.4	3.0	2.6	5.5	2.25	2.85	5.1
Ordinary income margin	(15.8)	(15.7)	(15.8)	(16.0)	(14.4)	(15.1)	(13.6)	(15.4)	(14.6)
<b>Net income</b>	3.9	1.7	5.5	1.7	1.8	3.4	1.3	1.7	3.0

## Full-year operating results for FY2006:

- 1) Both revenue and profit increased for the fourth consecutive year (both net sales and ordinary income reached new record highs)
- 2) While growth in the domestic market was slightly slow, inquiries remained high.
- 3) New products launched in November 2006 got on track. Profit margins also improved.

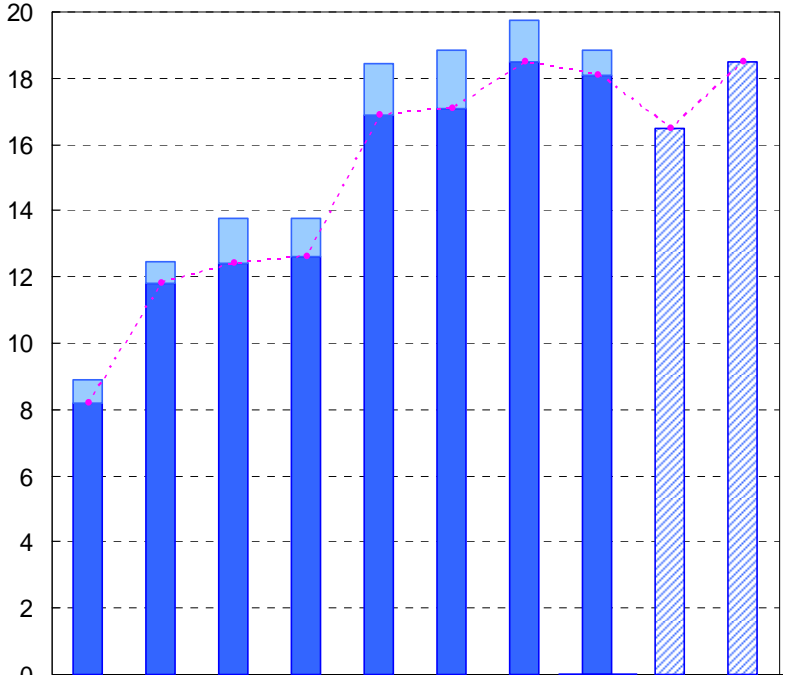
## Full-year projections for FY2007:

- 1) Sales of the Company's products are expected to be in line with the level of FY2006.  
 ... Anticipate a fall in sales with the discontinuation of OEM production  
 Orders should remain firm overseas, while in Japan they should move out of their temporary lull in the first half of FY2007.
- 2) Sales promotion expenses are likely to increase overseas, and depreciation is set to rise  
 Profit margins should improve with the increase in new products, despite the tax system revision.

# Change in Financial Indicators on a Semiannual Basis

## Net sales

Billions of yen

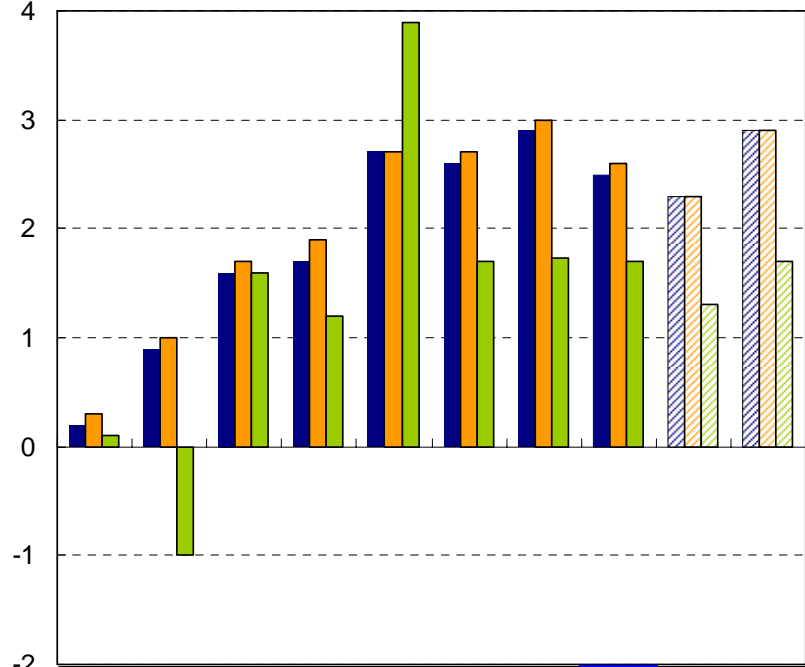


	FY2003 1H	FY2003 2H	FY2004 1H	FY2004 2H	FY2005 1H	FY2005 2H	FY2006 1H	FY2006 2H	FY2007 1H	FY2007 2H
Net sales	8.2	11.8	12.4	12.6	16.9	17.1	18.5	18.1	16.5	18.5

( ..... excluding OEM)

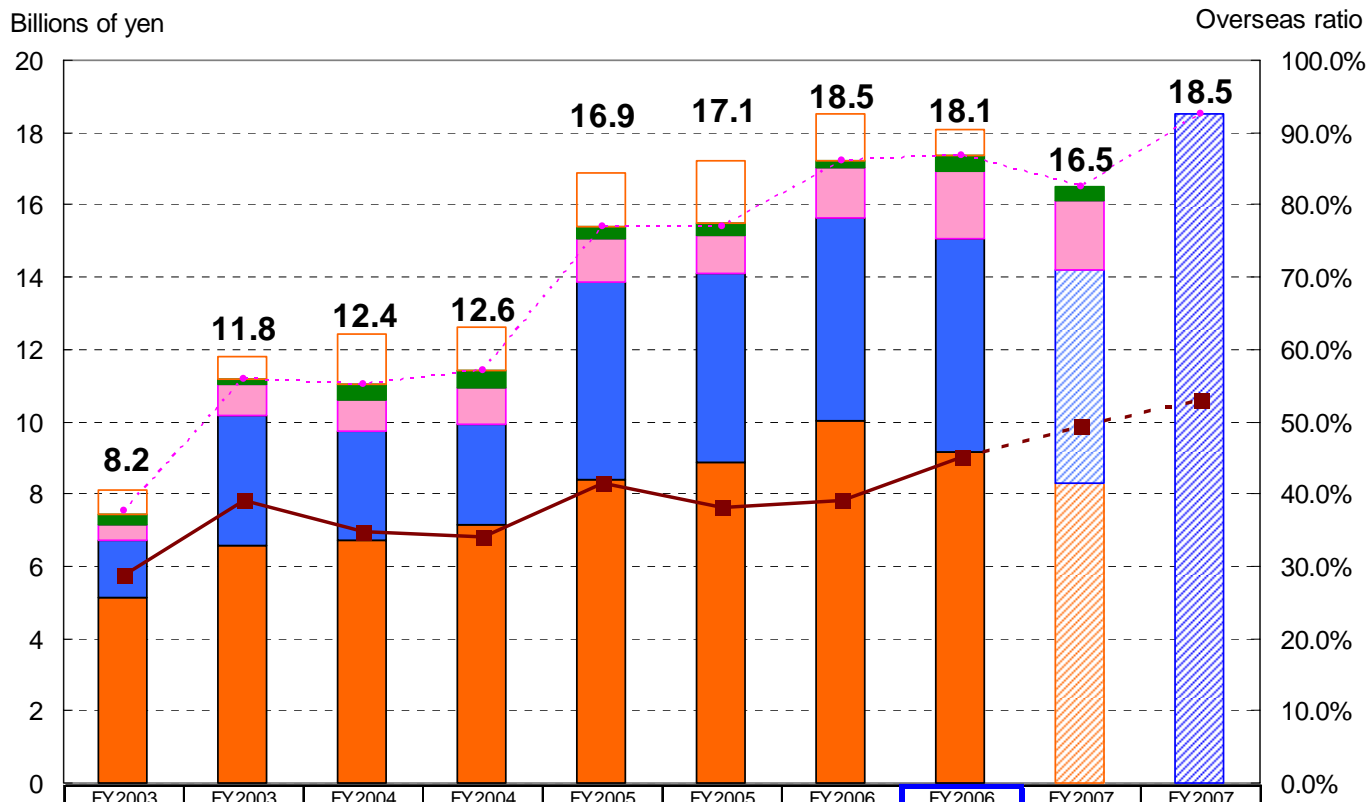
## Profit

Billions of yen



	FY2003 1H	FY2003 2H	FY2004 1H	FY2004 2H	FY2005 1H	FY2005 2H	FY2006 1H	FY2006 2H	FY2007 1H	FY2007 2H
Operating income	0.2	0.9	1.6	1.7	2.7	2.6	2.9	2.5	2.3	2.9
Ordinary income	0.3	1.0	1.7	1.9	2.7	2.7	3.0	2.6	2.3	2.9
Net income	0.1	-1.0	1.6	1.2	3.9	1.7	1.7	1.7	1.3	1.7

# Net Sales Projections by Geographic Segment



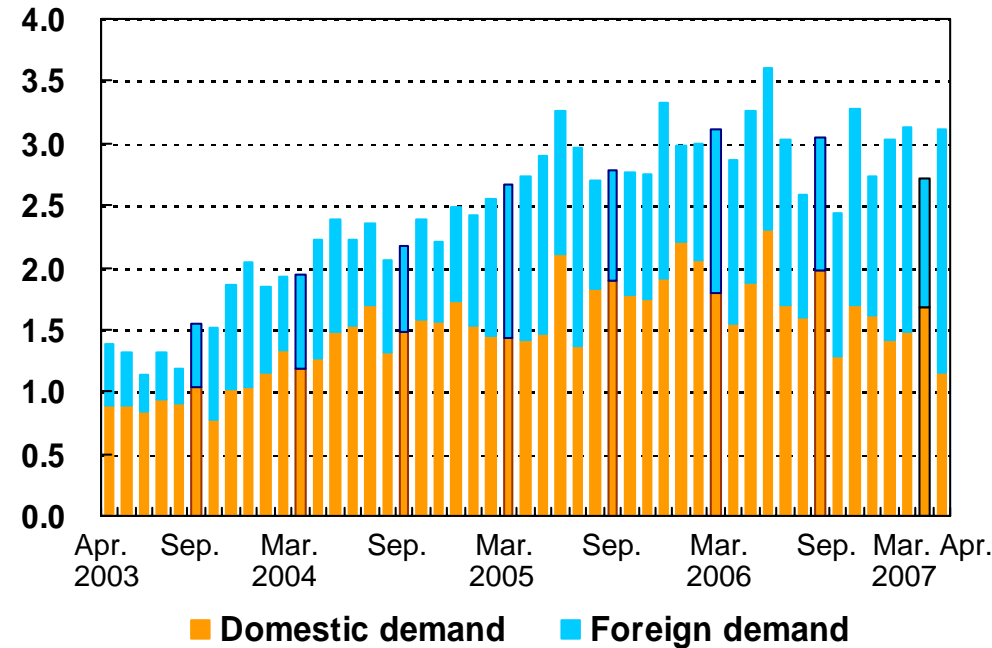
	FY2003 1H	FY2003 2H	FY2004 1H	FY2004 2H	FY2005 1H	FY2005 2H	FY2006 1H	FY2006 2H	FY2007 1H	FY2007 2H
Europe	0.3	0.1	0.4	0.5	0.3	0.3	0.2	0.4	0.4	18.5
U.S.A.	0.4	0.9	0.9	1.0	1.2	1.1	1.4	1.9	1.9	
Asia	1.6	3.6	3.0	2.8	5.5	5.2	5.6	5.8	5.9	
Total foreign demand	2.3	4.6	4.3	4.3	7.0	6.6	7.2	8.1	8.2	
Total domestic demand	5.8	7.2	8.1	8.3	9.9	10.6	11.3	10.0	8.3	
Overseas ratio	28.7%	39.1%	34.7%	34.0%	41.6%	38.1%	39.0%	44.7%	49.4%	-

( ..... excluding OEM)

# Orders

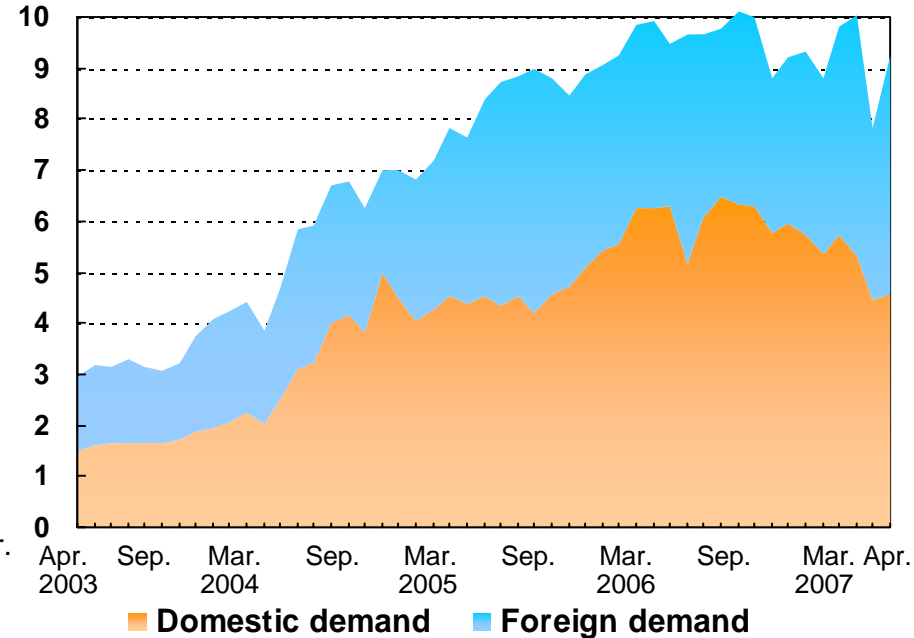
## Orders Received

Billions of yen



## Order Backlogs

Billions of yen



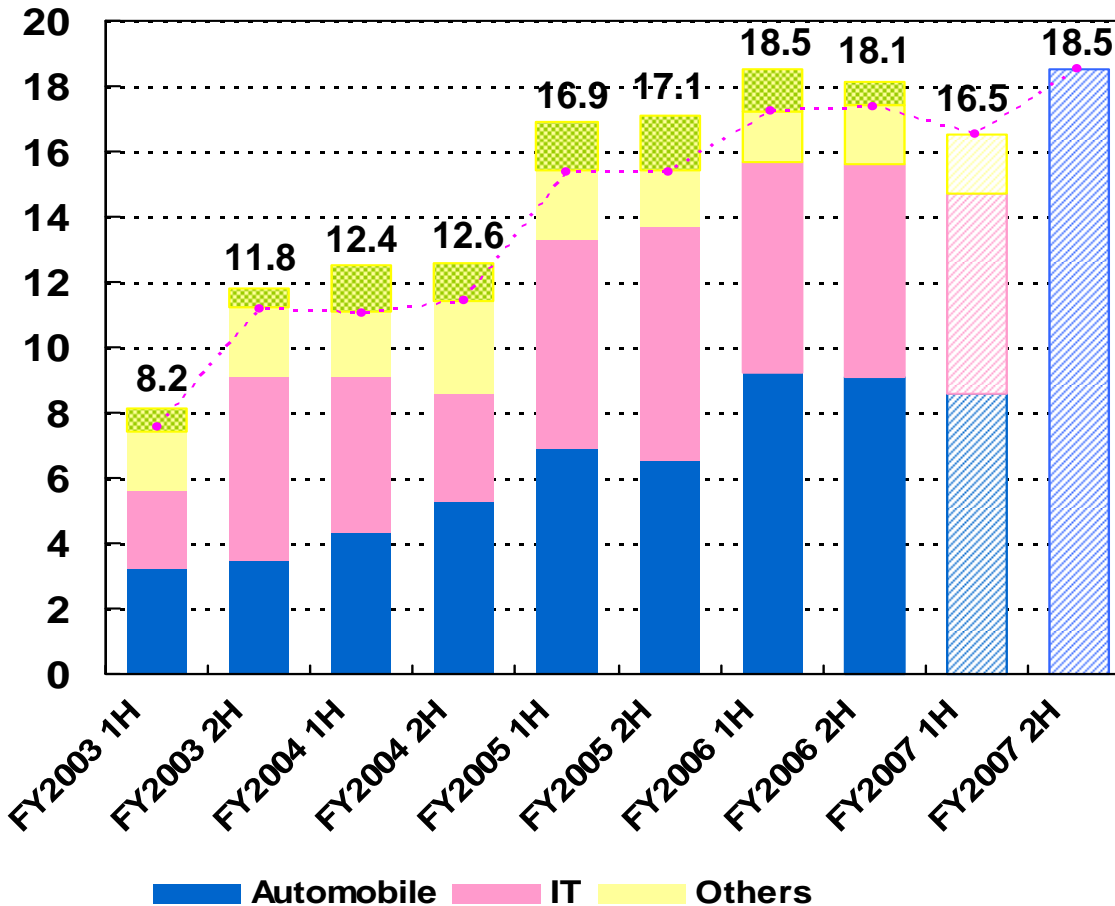
**While inquiries remain high, growth is slightly slow in Japan.**

**Orders are increasing in overseas markets (in both IT and Automobile)**

# Changes in Net Sales by Business Segment (1): Strong Sales for Automobile and the Other Segments

## Net Sales by Business Segment (on a semiannual basis)

Billions of yen

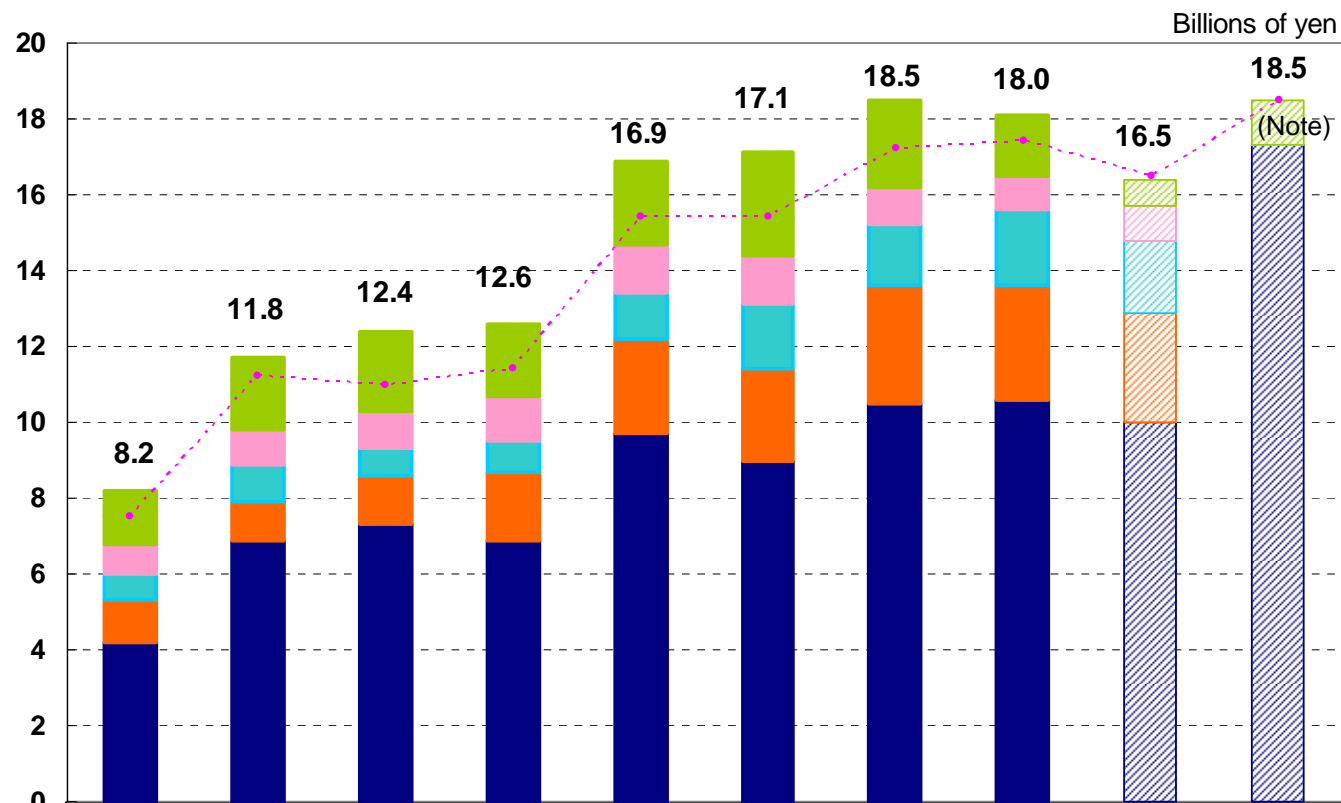


- 1) Japan: While inquiries remain high in both Automobile and IT, contracts are somewhat slow.
- 2) Overseas: Sales are increasing in both Automobile and IT.

(..... excluding OEM)



# Projected Net Sales by Machinery Category



	FY2003 1H	FY2003 2H	FY2004 1H	FY2004 2H	FY2005 1H	FY2005 2H	FY2006 1H	FY2006 2H	FY2007 1H	FY2007 2H
Special-purpose machines, etc.	1.4	2.0	2.1	1.9	2.2	2.7	2.3	1.5	0.7	18.5
Rolling machines, etc.	0.8	0.9	1.0	1.2	1.3	1.3	1.0	0.9	0.9	
Machining centers	0.7	1.0	0.7	0.8	1.2	1.7	1.6	2.0	1.9	
Grinding machines	1.1	1.0	1.3	1.8	2.5	2.4	3.1	3.0	2.9	
Automatic lathes	4.2	6.9	7.3	6.9	9.7	9.0	10.5	10.6	10.0	

( ..... excluding OEM)

(Note) indicates consumable supplies (special-purpose machines, etc.)

# Consolidated Balance Sheets (As of March 31, 2005, 2006 and 2007)

Billions of yen

	FY2005 (31-Mar-05)	FY2006 (31-Mar-06)	FY2007 (31-Mar-07)		FY2005 (31-Mar-05)	FY2006 (31-Mar-06)	FY2007 (31-Mar-07)
<b>Current Assets</b>	20.5	26.4	25.9	<b>Current Liabilities</b>	7.6	12.2	11.3
Cash and bank deposits	4.2	2.8	3.6	Trade notes & accounts payable	6.5	9.0	9.1
Trade notes & accounts receivables	10.5	14.4	14.3	Short-term debt	-	-	-
Inventories	5.8	7.9	7.7	Income taxes payable	0.1	1.8	1.0
Other current assets	0	1.3	0.3	Other current liabilities	1.0	1.4	1.2
<b>Fixed Assets</b>	7.0	10.4	10.0	<b>Long-term Liabilities</b>	0.9	1.4	1.2
Property, plant and equipment	4.8	7.0	7.5	<b>Total Liabilities</b>	8.5	13.6	12.5
Investments and other assets	2.2	3.4	2.5	<b>Common stock</b>	10.6	10.6	10.6
				<b>Capital surplus</b>	8.0	8.0	4.2
				<b>Retained earnings</b>	2.8	7.9	10.6
				<b>Treasury stocks</b>	- 2.6	- 4.0	- 2.7
				<b>Net unrealized profit on investment securities</b>	0.2	0.8	0.6
				<b>Share warrants</b>	0	0	0.1
				<b>Total Net Assets</b>	19.0	23.3	23.4
<b>Total Assets</b>	27.5	36.8	35.9	<b>Total Liabilities and Net Assets</b>	27.5	36.8	35.9

Major Turnover period (on a year-end balance basis)	3/2004	3/2005	3/2006	3/2007
Trade receivables turnover period	6.3 months	5.0 months	5.1 months	4.7 months
Inventory turnover period	3.3 months	2.8 months	2.8 months	2.5 months
Trade payables turnover period	3.3 months	3.1 months	3.2 months	3.0 months

(Ending balance method)

## The Company's own shares

	Thousands of shares	Billions of yen
As of Sep. 2006	14,538	5.2
As of Nov. 2006	15,593	5.9
Retirement	10,000	(Note) 3.8
After retirement	5,593	2.1
As of Mar. 2007	6,341	2.7
At present	6,621	2.9

(Note) B/S account

Capital surplus 4.2

# Consolidated Statements of Cash Flows

Billions of yen

	FY2006 (31-Mar-06)	FY2007 (31-Mar-07)	Year-over-year increase/decrease
Cash flows from operating activities	1.56	(Note 1) 4.14	2.58
Cash flows from investing activities	- 1.02	(Note 2) - 0.38	0.64
Cash flows from financing activities	- 1.85	(Note 3) - 3.16	- 1.31
Increase in cash and cash equivalents due to new consolidation	-	0.10	0.10
Cash and cash equivalents at beginning of year	4.11	2.80	- 1.31
Cash and cash equivalents at end of year	2.80	3.50	0.70

## 3/2007 Notes:

### Cash flows from operating activities (Note 1)

Income before income taxes	5.22
Depreciation and amortization	0.76
Loss on disposal of machinery inventory	0.14
Other	0.12
(Subtotal)	(6.24)
Increase in trade receivables	- 0.18
Increase in inventories	0.20
Increase in trade payables	0.16
(Subtotal)	(0.18)
Taxes paid	- 2.57
Other	0.29
(Subtotal)	(- 2.28)

### Cash flows from investing activities (Note 2)

Deposits from sale of part of the land of the Shinshu Plant premises	0.49
Proceeds from sale of land of former single men's dormitories	0.20
Other	0.27
(Subtotal)	(0.96)
New single men's dormitories and other buildings	- 0.20
Machinery and equipment	- 0.40
Matured bills payable for equipment	- 0.35
Other	- 0.39
(Subtotal)	(- 1.34)

### Cash flows from financing activities (Note 3)

Purchase of treasury stock	- 2.59
Exercise of stock options	0.11
Cash dividends paid	- 0.68
(Subtotal)	(-3.16)

# Major Consolidated Financial Indicators (on a year-end balance bases)

Yen

	FY2005 (31-Mar-05)	FY2006 (31-Mar-06)	FY2007 (31-Mar-07)
Book-value per share (BPS)	213.3	261.4	296.8
Book-value per share (excluding treasury stock)	243.4	306.5	322.7
Earnings per share (EPS)	31.8	62.1	43.6
Earnings per share (excluding treasury stock)	36.3	72.8	47.4
Equity ratio	68.9%	63.2%	65.0%
Ratio of ordinary income to total capital	12.9%	14.6%	15.4%
Ratio of ordinary income to net sales	14.2%	15.8%	15.1%

# Return to stockholders

Billions of yen

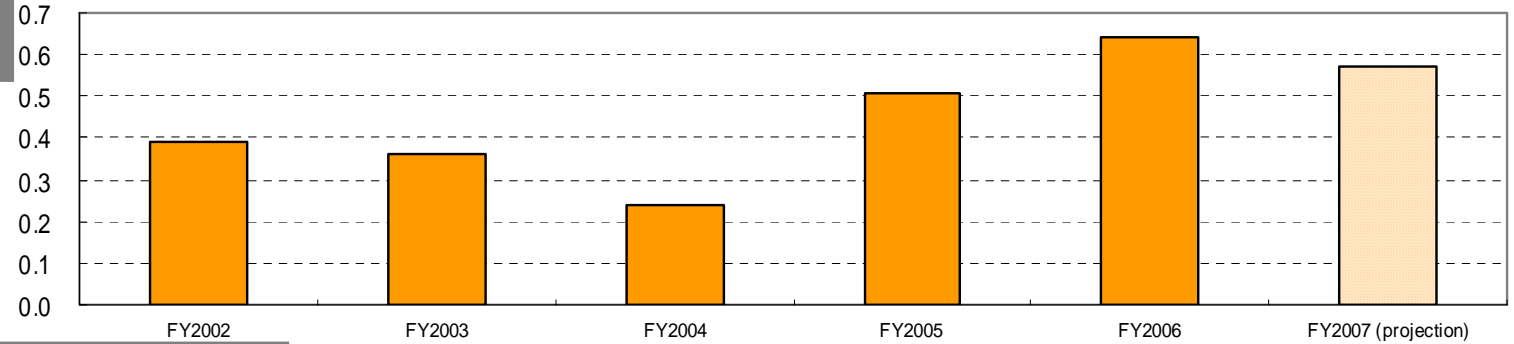
	FY2005 (31-Mar-05)	FY2006 (31-Mar-06)	After the corrections for special factors (Note)	FY2007 (31-Mar-07)
Net income	2.83	5.53	(3.10)	3.45
Return to shareholders	1.87	1.99	(1.99)	3.33
Dividends	(Interim: ¥2 per share) 0.39 (Year-end: ¥3 per share)	(Interim: ¥3 per share) 0.61 (Year-end: ¥5 per share)	(0.61)	(Interim: ¥4 per share) (Year-end: ¥4 per share, Commemorative dividend: ¥2 per share) 0.73
Purchase of treasury stock	1.48	1.38	(1.38)	2.59
Shareholder return ratio	66.1%	36.0%	(64.2%)	96.5%

(Note) After making corrections for special factors such as the loss carried forward for tax purposes and the recording of expenses involved in the construction of a new plant as an extraordinary loss.

# R&D Expenditures and Capital Investment

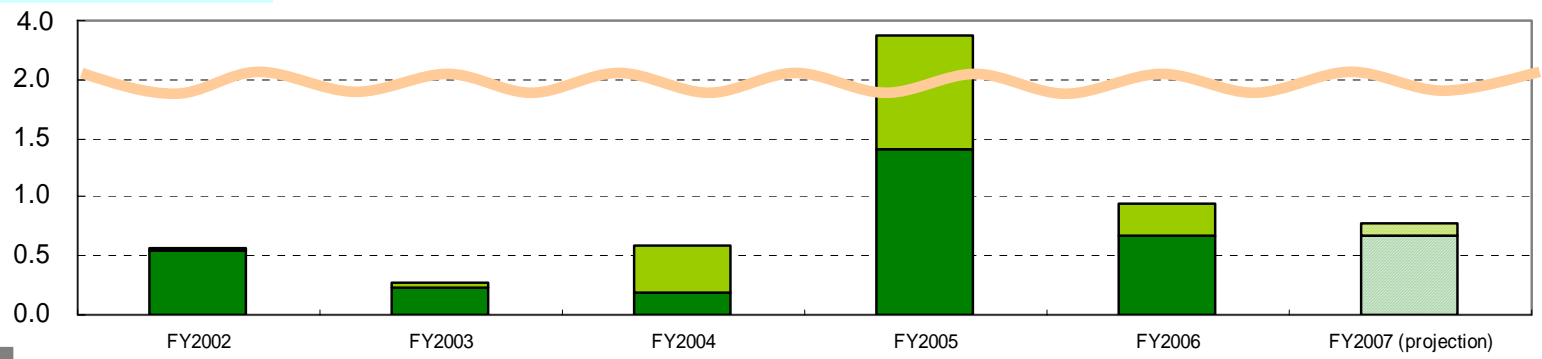
Billions of yen

## R&D Expenditures

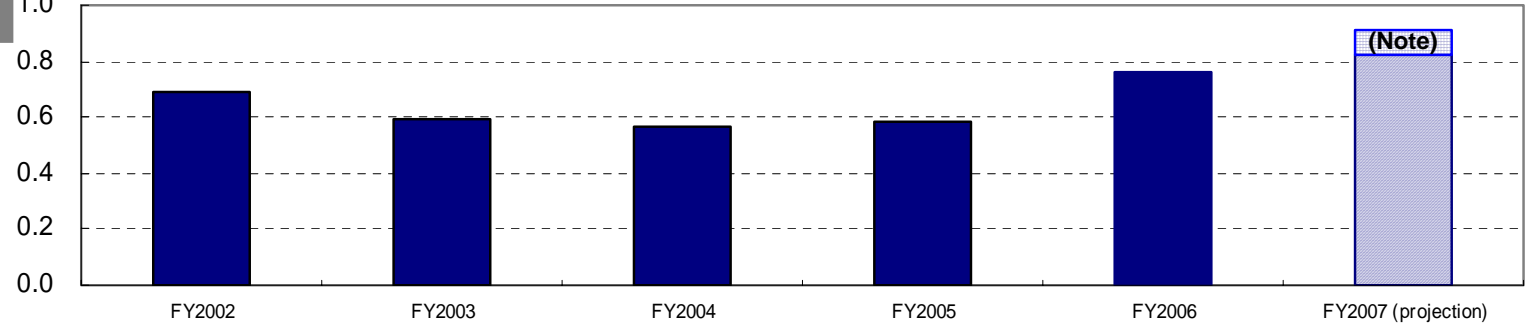


## Capital Investment


(including ■-colored portion for equipment to increase production capacity)



## Depreciation



(Note) Impact of the change of the depreciation method: Approximately 90 million yen



Summary of the Financial Statements for the Year End March 2007 (FY2006) and Perspective for the Next Fiscal Term (FY2007)



**Future Business Development of the TSUGAMI Group**

# Priority Tasks in the Medium-Term Management Plan

1. Launching new products in selected high-growth fields and boosting their sales
2. Business strategy focusing on high-growth regions
3. Bolstering our business base  
(to take customer satisfaction to new levels)



# 1. Launching new products in selected high-growth fields and boosting their sales

- Ensuring our position as the world leader in super precision processing
- Striving to achieve more efficient processing

<FY2006>

Ten new models launched

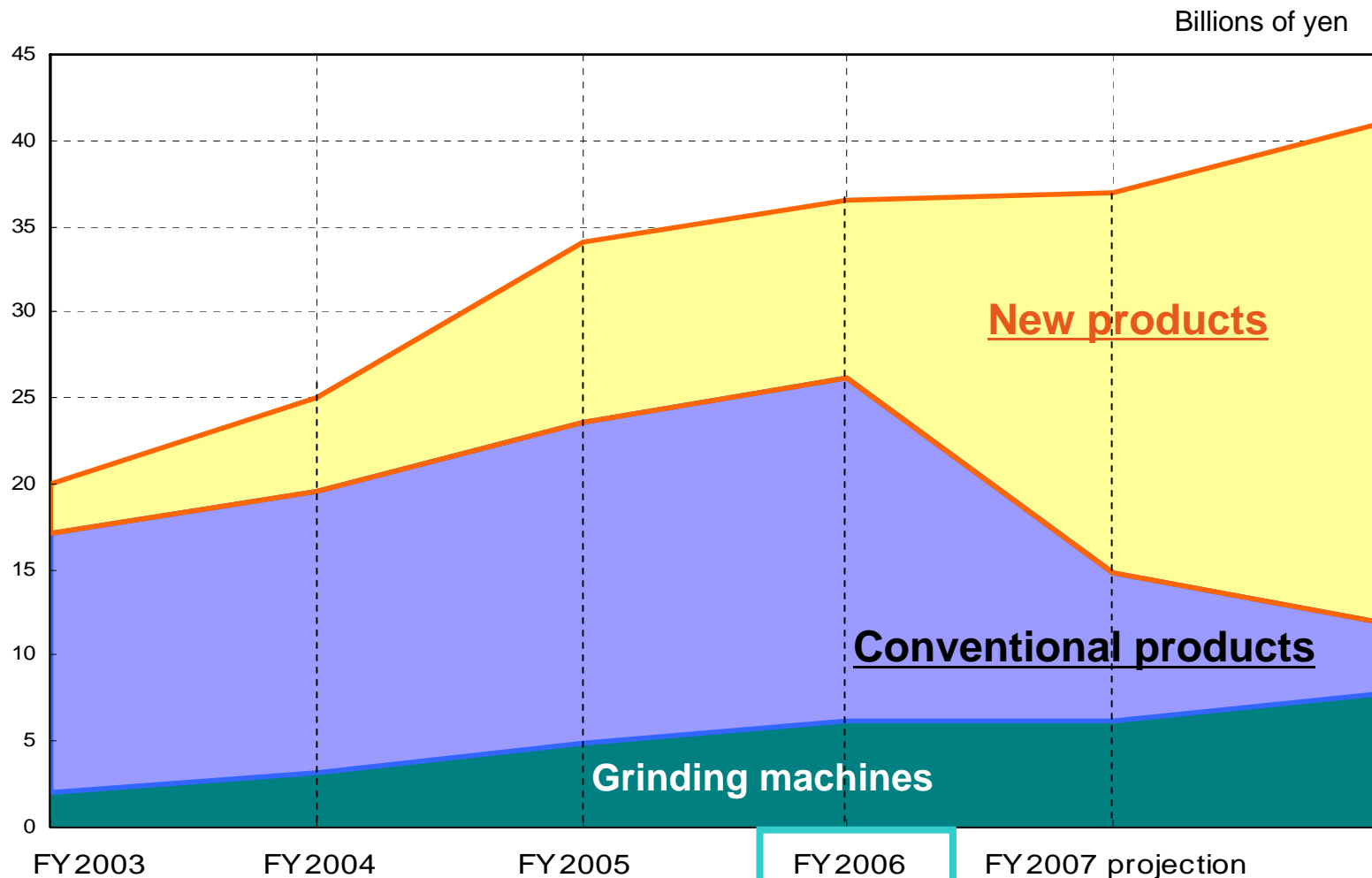
	IT field	Four models	C15 BH20	B012/20-V BS12/20-V	
	Semiconductor manufacturing equipment and others	One model	P01		
	Automobile and other industrial machinery	Five models	BH26/38 TMB2	M42/50SD B026-V	U300

<FY2007>

Four or five new models to be launched

# Medium-Term Sales Projections for Our Products

## Total Sales



# 2. Business strategy focusing on high-growth regions

Reinforce overseas sales divisions (Overseas Sales Division 1, Overseas Sales Division 2, New branch office in Suwon, South Korea)

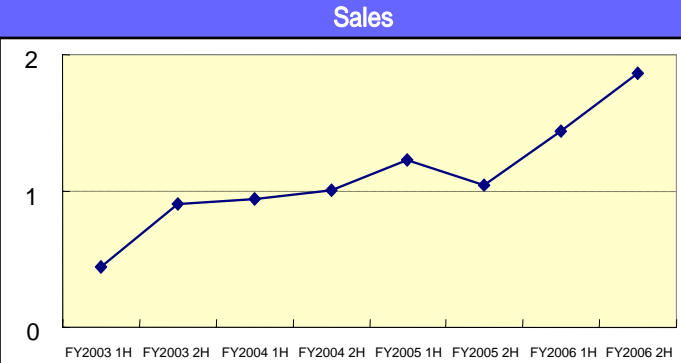
Raise local sales and service supply capabilities through alliances with leading distributors.

(Billions of yen)

<b>Asia</b>		<b>Sales</b>																											
<b>China</b>	<ol style="list-style-type: none"> <li>1. Sales system through the channel of three leading, local distributors. Increase sales and after-sales staff in growth areas, such as Guangzhou and Shanghai.</li> <li>2. Aim to achieve full operation of the local plant (PRECISION TSUGAMI (CHINA) CORPORATION) and plan to increase production</li> <li>3. Established the Shanghai Branch of PRECISION TSUGAMI (CHINA) CORPORATION in August 2006 to support agents (follow-up on sales to local large enterprises, reinforcement of staff for after-sale services, and support for users and agents)</li> </ol>	<table border="1" style="display: none;"> <caption>Sales - China</caption> <thead> <tr><th>Period</th><th>Sales (Billions of yen)</th></tr> </thead> <tbody> <tr><td>FY2003 1H</td><td>0.6</td></tr> <tr><td>FY2003 2H</td><td>1.6</td></tr> <tr><td>FY2004 1H</td><td>1.4</td></tr> <tr><td>FY2004 2H</td><td>1.4</td></tr> <tr><td>FY2005 1H</td><td>2.2</td></tr> <tr><td>FY2005 2H</td><td>2.1</td></tr> <tr><td>FY2006 1H</td><td>2.0</td></tr> <tr><td>FY2006 2H</td><td>1.9</td></tr> </tbody> </table>	Period	Sales (Billions of yen)	FY2003 1H	0.6	FY2003 2H	1.6	FY2004 1H	1.4	FY2004 2H	1.4	FY2005 1H	2.2	FY2005 2H	2.1	FY2006 1H	2.0	FY2006 2H	1.9									
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<b>Thailand</b>	<ol style="list-style-type: none"> <li>1. Strengthen the sales &amp; service functions of the TSUGAMI (THAI). (Number of staff increased from eight in 2003 to 18 in May 2007)</li> <li>2. Reinforce the service system and raise sales capability in the Southeast Asia regions such as Thailand, Vietnam and the Philippines. (Staff already employed and its training completed at the Nagaoka Plant.)</li> </ol>	<table border="1" style="display: none;"> <caption>Sales - Thailand</caption> <thead> <tr><th>Period</th><th>Sales (Billions of yen)</th></tr> </thead> <tbody> <tr><td>FY2003 1H</td><td>0.5</td></tr> <tr><td>FY2003 2H</td><td>1.2</td></tr> <tr><td>FY2004 1H</td><td>0.9</td></tr> <tr><td>FY2004 2H</td><td>0.9</td></tr> <tr><td>FY2005 1H</td><td>2.6</td></tr> <tr><td>FY2005 2H</td><td>2.4</td></tr> <tr><td>FY2006 1H</td><td>1.7</td></tr> <tr><td>FY2006 2H</td><td>2.4</td></tr> </tbody> </table>	Period	Sales (Billions of yen)	FY2003 1H	0.5	FY2003 2H	1.2	FY2004 1H	0.9	FY2004 2H	0.9	FY2005 1H	2.6	FY2005 2H	2.4	FY2006 1H	1.7	FY2006 2H	2.4									
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<b>South Korea</b>	<ol style="list-style-type: none"> <li>1. Upgrade local service capability. -&gt; Established a branch office in Suwon (to begin operating in May 2007)</li> <li>2. Solidify the alliance with leading distributors.</li> <li>3. Promote marketing efforts in the high-growth industries such as automobile and IT.</li> </ol>	<table border="1" style="display: none;"> <caption>Sales and Orders - South Korea</caption> <thead> <tr><th>Period</th><th>Sales (Billions of yen)</th><th>Orders (Billions of yen)</th></tr> </thead> <tbody> <tr><td>FY2003 1H</td><td>0.2</td><td>-</td></tr> <tr><td>FY2003 2H</td><td>0.1</td><td>-</td></tr> <tr><td>FY2004 1H</td><td>0.3</td><td>-</td></tr> <tr><td>FY2004 2H</td><td>0.2</td><td>-</td></tr> <tr><td>FY2005 1H</td><td>0.3</td><td>-</td></tr> <tr><td>FY2005 2H</td><td>0.2</td><td>-</td></tr> <tr><td>FY2006 1H</td><td>0.6</td><td>0.3</td></tr> <tr><td>FY2006 2H</td><td>0.5</td><td>0.7</td></tr> </tbody> </table>	Period	Sales (Billions of yen)	Orders (Billions of yen)	FY2003 1H	0.2	-	FY2003 2H	0.1	-	FY2004 1H	0.3	-	FY2004 2H	0.2	-	FY2005 1H	0.3	-	FY2005 2H	0.2	-	FY2006 1H	0.6	0.3	FY2006 2H	0.5	0.7
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<b>Other regions</b> (the Philippines, Vietnam, Malaysia and others)	<ol style="list-style-type: none"> <li>1. Solidify the alliance with leading distributors</li> <li>2. Strengthen the Group's own sales and service support system via the TSUGAMI(THAI)</li> </ol>	<table border="1" style="display: none;"> <caption>Sales - Other regions</caption> <thead> <tr><th>Period</th><th>Sales (Billions of yen)</th></tr> </thead> <tbody> <tr><td>FY2003 1H</td><td>0.2</td></tr> <tr><td>FY2003 2H</td><td>0.6</td></tr> <tr><td>FY2004 1H</td><td>0.3</td></tr> <tr><td>FY2004 2H</td><td>0.2</td></tr> <tr><td>FY2005 1H</td><td>0.4</td></tr> <tr><td>FY2005 2H</td><td>0.4</td></tr> <tr><td>FY2006 1H</td><td>1.1</td></tr> <tr><td>FY2006 2H</td><td>0.8</td></tr> </tbody> </table>	Period	Sales (Billions of yen)	FY2003 1H	0.2	FY2003 2H	0.6	FY2004 1H	0.3	FY2004 2H	0.2	FY2005 1H	0.4	FY2005 2H	0.4	FY2006 1H	1.1	FY2006 2H	0.8									
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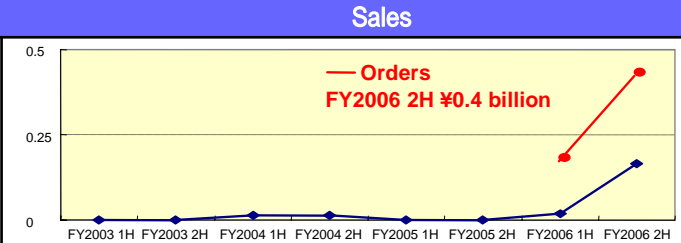
# U.S.A.

1. Reinforce local sales and service capabilities with positive effects of the investment in the local distributor (Our equity position of approximately 30%)
2. Expand sales toward new types of businesses and new customers.
3. Increase the number of Japanese engineers who help regional customers smoothly use our software applications.



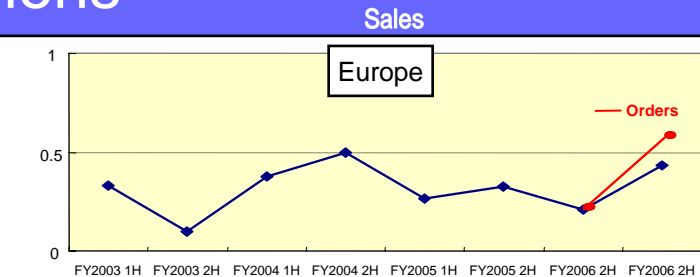
# India

1. Concluded an agency agreement with Proteck Machinery, a local sales agent, for services and sales (Chennai)  
Inquiries from other leading local agents are increasing
2. In particular, inquiries from local automobile-related companies are increasing



# Europe, Russia, Brazil and Other Regions

We are now keenly studying how to increase effective marketing measures to be taken in these regions.



# 3. Bolstering our business base

(to take customer satisfaction to new levels)

## (1) Step up technical consultation services for customers (Technology Division)

Increase the number of technical staff responsible for customer consultation services

Respond quickly and accurately to the technical needs of customers

## (2) Re-established the Quality Assurance Division (March 2007) to further improve quality

Integrated customer consultation services into the Quality Assurance Division (User Support Team) at the Nagaoka Plant (June 2007)

## (3) Enhance after-sales services

- Japan

**Added 14** more after-sales service personnel from January to May 2007 (44 people in total)  
(including after-sales service personnel who cover South Korea)

- Overseas

Thailand

Increased sales service **personnel by 10** in TSUGAMI (THAI) (18 persons in total)

Philippines

**Added four people.** TSUGAMI MACHINERY concluded an outsourcing agreement with PHITTS in February 2006 for after-sales services in the Philippines

China

**Added five people.** Bolstered the sales service system in China by establishing the Shanghai Branch of PRECISION TSUGAMI (CHINA) CORPORATION in August 2006

# Progress in Basic Policy on Development of Internal Control System

(Resolved at the Board of Directors meeting in May 2006)

- July 2006                      Implemented a compliance training program (the TSUGAMI Group Code of Conduct distributed to all employees)
- August 2006                      Established an internal reporting system
- December 2006                      Concluded an outsourcing agreement with an external specialist firm to respond to the J-SOX (Japanese version of the Sarbanes-Oxley Act)  
Developing internal controls and risk management systems in our operating processes related to financial reporting centering on in-house PT

# Notice

The content in this material is premised on various assumptions and does not ensure or guarantee the realization of the planned figures and/or future policies stated herein.

 **TSUGAMI CORPORATION**