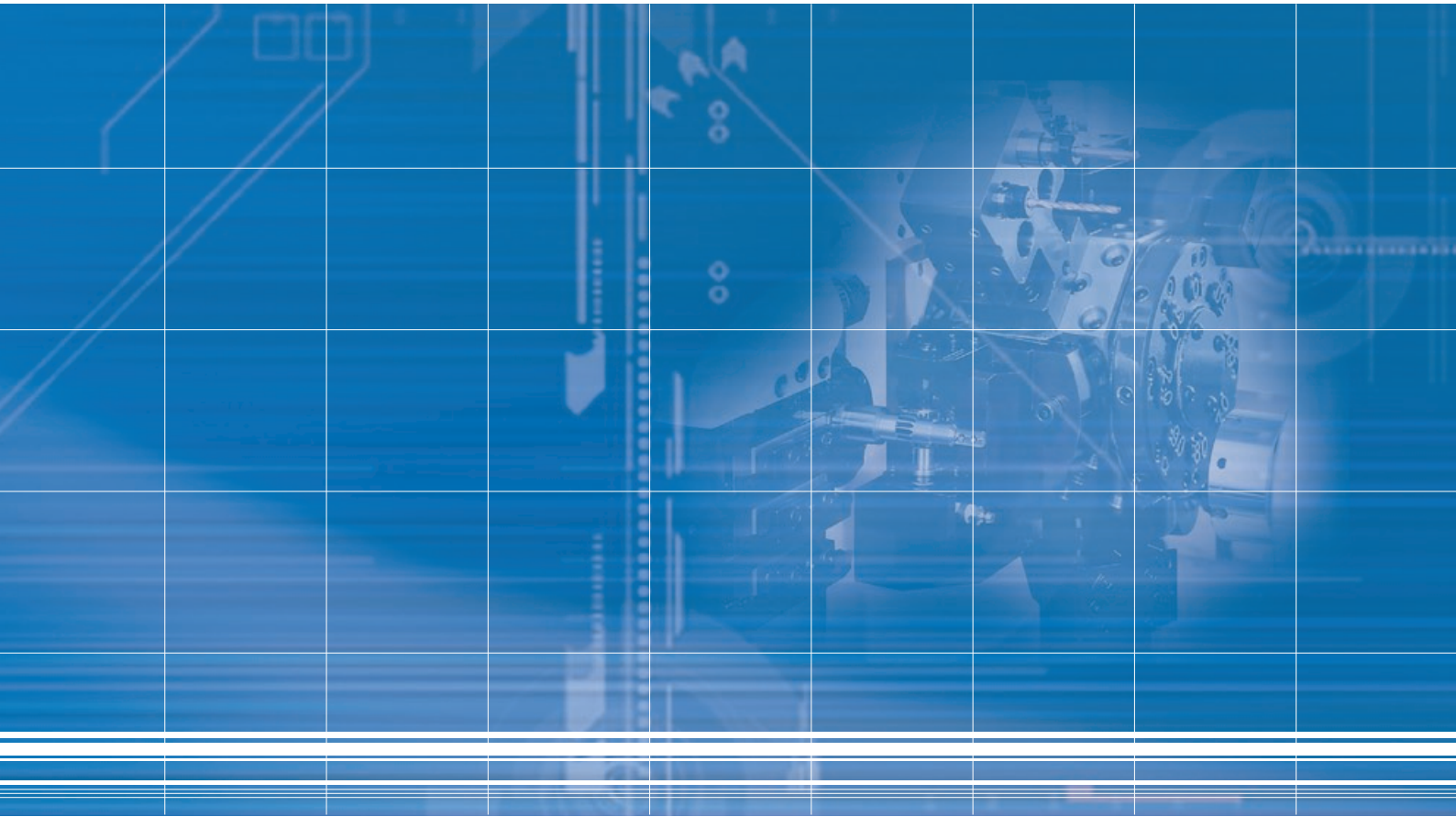


Business Report

for the First Half of Fiscal Year 2008

(from April 1, 2008 to September 30, 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 first half of the fiscal year 2008 (April 1, 2008 to September 30, 2008).

The Japanese economy during the first half of the fiscal year 2008 has seen a mounting recessionary mood with its outlook plunged into uncertain conditions, reflecting fluctuating stock prices and currency movements following the outbreak of the financial crisis triggered by U.S. subprime mortgage loan problems, in addition to the soaring prices of raw materials.

In the machine tool industry, along with domestic demand stagnating, adverse effects also started to appear for orders received as a result of external demand that had remained relatively strong.

The Company's net sales for the first half of fiscal year 2008 increased by 12.5% year-on-year to 15,289 million yen.

As for profits and losses for the first half of fiscal year under review, operating income increased 2.7% to 1,293 million yen, ordinary income also increased 4.9% to 1,326 million yen, but we saw net loss of 187 million yen after reporting the share appraisal loss from the negative impacts of the worldwide simultaneous decline in share prices after the U.S. financial crisis.

The dividend for the first half of fiscal year under review was 5 yen per share, the same amount as the previous year's interim dividend. Also, the year-end dividend is scheduled to be 5 yen (10 yen annually).

The Company will consider returning profits to shareholders as one of the highest priority management tasks and carry out profit returns based on our consolidated business performance improvement, focused on the maintenance of steady dividend payment as well as the purchase of treasury stocks.

The Company will also continue its efforts to offer new products that fully meet customers' 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.

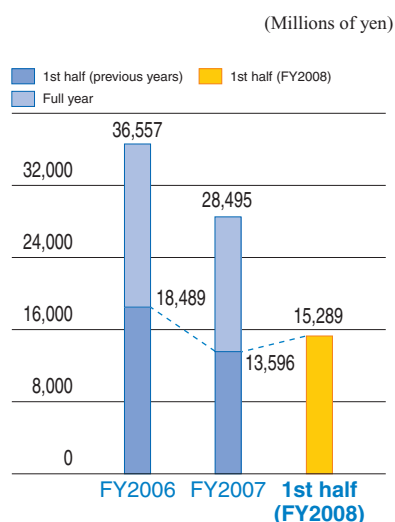
We hope that our shareholders will extend even greater support and encouragement to Tsugami in the future.

November 2008

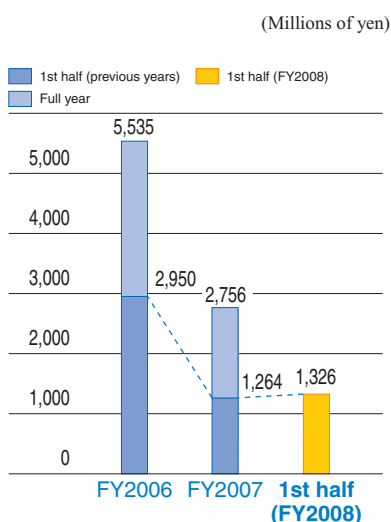
Takao Nishijima
Chairman and C.E.O.

Business Performance (Consolidated)

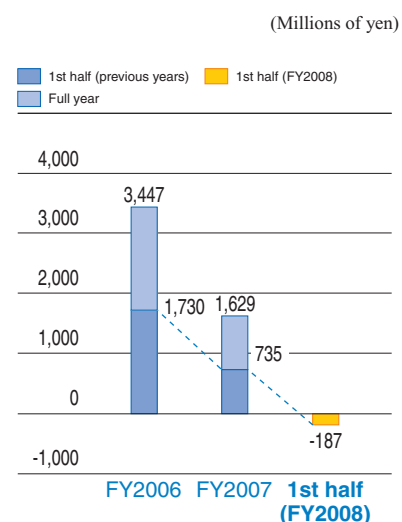
● Net sales



● Ordinary income



● Net income



● Financial Highlights

		FY2006		FY2007		FY2008
		1st half	Full year	1st half	Full year	1st half
Net sales	(Millions of yen)	18,489	36,557	13,596	28,495	15,289
Ordinary income	(Millions of yen)	2,950	5,535	1,264	2,756	1,326
Net income	(Millions of yen)	1,730	3,447	735	1,629	(187)
Net income per share	(Yen)	22.95	46.36	10.17	23.03	(2.76)
Total assets	(Millions of yen)	35,145	35,943	32,718	32,732	31,553
Net assets	(Millions of yen)	23,213	23,450	23,205	21,916	21,492
Net assets per share	(Yen)	311.67	322.67	322.46	319.50	312.50

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

Consolidated Financial Statements

● Consolidated Balance Sheets

(Millions of yen)

	September 30, 2008	March 31, 2008
Assets		
Current assets	21,894	22,735
Cash and deposits	2,927	3,402
Trade notes and accounts receivable	8,610	9,662
Inventories	9,556	9,046
Other current assets	800	624
Fixed assets	9,659	9,997
Tangible fixed assets	6,931	7,035
Buildings, Machinery, equipment and vehicles	5,976	6,170
Land	591	598
Other tangible fixed assets	363	266
Intangible fixed assets	42	43
Investments and other assets	2,685	2,918
Total assets	31,553	32,732
Liabilities		
Current liabilities	9,175	9,913
Trade notes and accounts payable	7,780	8,220
Accrued income tax	146	691
Other current liabilities	1,248	1,000
Long-term liabilities	885	903
Total liabilities	10,060	10,816
Net assets		
Shareholders' equity	21,112	21,623
Common stock	10,599	10,599
Capital surplus	4,138	4,138
Retained earnings	6,399	6,936
Treasury stock	(24)	(50)
Valuation and translation adjustments	122	66
Unrealized gains on marketable securities	56	40
Translation adjustments	65	26
Subscription rights to shares	256	226
Total net assets	21,492	21,916
Total liabilities and net assets	31,553	32,732

● Consolidated Statements of Income

(Millions of yen)

	Six months ended September 30, 2008
Net sales	15,289
Cost of sales	12,020
Gross profit	3,269
Selling, general and administrative expenses	1,975
Operating income	1,293
Non-operating income	121
Non-operating expenses	89
Ordinary income	1,326
Extraordinary income	11
Extraordinary expenses	1,386
Loss on disposal and sales of fixed assets	7
Impairment loss	99
Loss on valuation of inventories	24
Loss on valuation of investment securities	1,163
Other extraordinary expenses	91
Income before taxes and other adjustments	(48)
Corporate, inhabitant and enterprise taxes	122
Deferred taxes	16
Net income	(187)

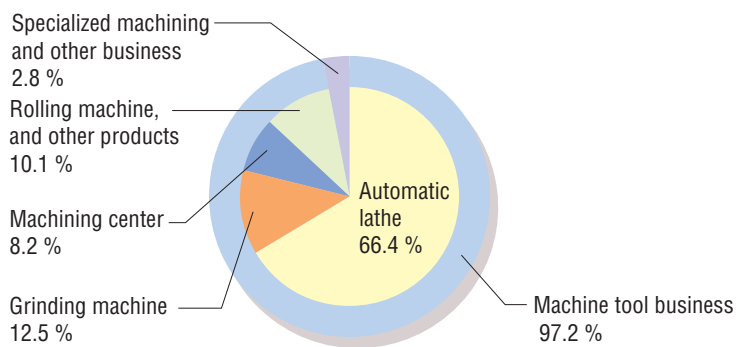
● (Reference) Consolidated Statements of Income (FY2007)

(Millions of yen)

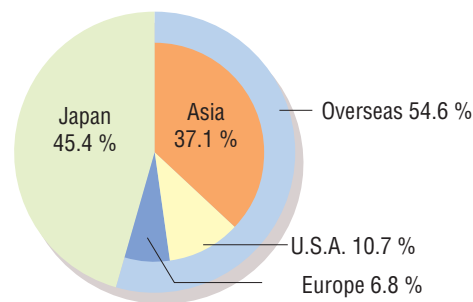
	Six months ended September 30, 2007
Net sales	13,596
Cost of sales	10,610
Gross profit	2,985
Selling, general and administrative expenses	1,725
Operating income	1,260
Non-operating income	56
Non-operating expenses	52
Ordinary income	1,264
Extraordinary income	34
Extraordinary expenses	102
Loss on disposal and sales of fixed assets	4
Impairment loss	-
Loss on valuation of inventories	-
Loss on valuation of investment securities	-
Other extraordinary expenses	96
Income before taxes and other adjustments	1,196
Corporate, inhabitant and enterprise taxes	408
Deferred taxes	53
Net income	735

● Sales Breakdown (Consolidated)

● Sales by business and product (FY2008, 1H)



● Sales breakdown by region (FY2008, 1H)



Consolidated Financial Statements

● Consolidated Statements of Cash Flows

(Millions of yen)

	Six months ended September 30, 2008	Six months ended September 30, 2007
Net cash provided by operating activities	987	1,007
Net cash used in investing activities	(1,123)	(673)
Net cash used in financing activities	(343)	(852)
Effect of exchange rate changes on cash and cash equivalents	4	(0)
Net increase (decrease) in cash and cash equivalents	(474)	(519)
Cash and cash equivalents at beginning of period	3,352	3,496
Cash and cash equivalents at end of period	2,877	2,976

CNC Precision Automatic Lathe B0124/B0204/B0125/B0205

We launched the “CNC Precision Automatic Lathe B0124/B0204/B0125/B0205,” as the new line-up of B0 series, our core model of Swiss Automatic Lathes.

In particular, it allows for even higher productivity and user-friendliness, and is suitable for processing high-precision parts for all fields. The new B0 series is equipped with the high-speed long-stroke guide bushing and the dividing function of main spindle C. Idle-time-reducing functions including the cycle-reducing function for thread cutting and the direct dividing function of spindle C increase the productivity. With auto-programming software, the elevating function of the main spindle, and tool counters as standard equipment, operation performance is improved.



CNC Precision Automatic Lathe BS125H/BS126H/BS205H/BS206H

We launched the “CNC Precision Automatic Lathe BS125H/BS126H/BS205H/BS206H” as part of the best-selling BS series.

The lathes are designed to have reduced idle time, improved operation performance, upgraded processing abilities and an enhanced form of Tsugami’s unique software functions. The new B0 series line-up makes operation more user-friendly thanks to the addition of numerous new functions. A direct dividing function of C-spindle can now be loaded as an option. Moreover, functions loaded as standard equipment include auto-programming software, an elevating function of the main spindle, and tool counters. Other new functions include split-style cutting oil nozzles and an anti-toggle-falling design.



CNC Precision Automatic Lathe C15-II

We remodeled the highly-reputed C15 and launched the “CNC Precision Automatic Lathe C15-II”.

The introduction of gang-tool twin X slide enables precise processing and high industrial processing capacity. One machine can overlap both sides of high-precision parts and process finished products. There are two options: bar stock and chuck work specification. The air-tube-less main spindle enables high-speed processing.



CNC Precision Automatic Lathe C18LH

The Company released the “CNC Precision Automatic Lathe C18LH” as a new type of gang tool slide automatic lathe.

The gang tool slide automatic lathe boasts high precision and high productivity with a linear motor drive, two spindle holders and two tool posts.

This machine is suitable for mass-production processing of HDD parts and small-diameter high-precision parts. It is equipped with fast-response linear motors on all spindles. It processes micro-contour shapes without distortion and backlash. The two main spindles and two tool posts are designed symmetrically to enable processing two of the same parts or both front-back sides of a part at the same time. Air-tube-less main spindle enables high-speed processing.



Releasing new products in the market

High-speed Vertical Machining Center VA31H/VA32H

We launched a new type of Machining Center, “High-speed Vertical Machining Center VA31H/VA32H.” With the highly rigid and high-speed compact machine body, two different types of main spindles are available: one for heavy cutting and another for high-speed processing. Therefore, it enables a wide range of parts processing.

We adopted a highly rigid structure with a bed with a low center of gravity, wide columns and a triangular structure for the spindle head. The ATC adopts a simple direct system to realize a Chip-to-Chip speed of 1.8 seconds. As the maintenance zone is installed in the rear section of the machine, it is possible to place several machines parallel. With the thermal displacement correction program, dimension change can be minimized.



High-speed Vertical Machining Center VA35H

We launched a new type of Machining Center, “High-speed Vertical Machining Center VA35H.”

High-speed Vertical Machining Center VA35H is highly efficient for high-speed cutting from raw materials. As it is equipped with a main spindle of 50000min⁻¹, with the rapid traverse speed of 48m/min, and the cutting feed speed of 20m/min, highly efficient cutting with the high-speed main spindle and the high-speed cutting feed diminish processing time. As for a tool holder, we adopted the double fit holder with a high rigidity-retention capability and the ability to stand repeating at ATC.



Setting up a booth at an exhibition

We held the 2008 Tsugami Technical Fair at the Tsugami Nagaoka Plant on July 24, 2008.

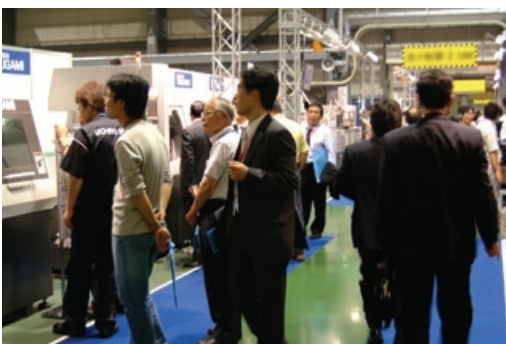
A great number of users and dealers both from Japan and overseas visited our booth, and we were able to have active business talks.

We actively tried to develop new overseas business partners.

We set up a booth at an IMTS2008 Exhibition (Chicago Auto Show) in Chicago (U.S.A.) starting from September 8, 2008.

Also, we actively supported our agents in Europe with its participation in an exhibition.

2008 Tsugami Technical Fair



IMTS2008 (Chicago Auto Show) (U.S.A)



Stock Information (as of September 30, 2008)

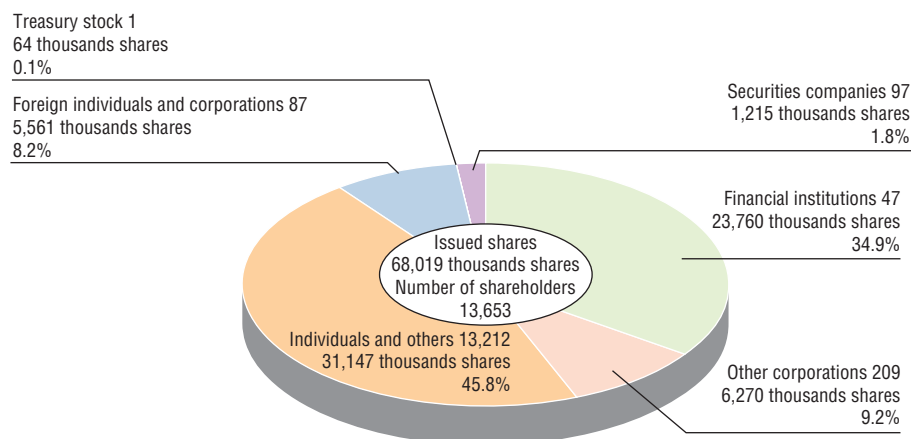
- Authorized shares 320,000,000 shares
- Issued shares 68,019,379 shares
- Number of shareholders 13,653
- Major shareholders (Top 10)

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)	4,024	5.91		
The Dai-ichi Mutual Life Insurance Company	2,100	3.08		
Mori Seiki Co., Ltd.	2,000	2.94	100	0.10
Japan Trustee Services Bank, Ltd. (Trust account 4G)	1,684	2.47		
Sumitomo Mitsui Banking Corporation	1,516	2.22		
Japan Trustee Services Bank, Ltd. (Trust account)	1,488	2.18		
The Hokuetsu Bank, Ltd.	1,484	2.18	470	0.18
Tsugami Clients Stock Holding Association	1,294	1.90		
NikkoCiti Trust and Banking Corporation (Trust account)	1,205	1.77		

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 October 2007 to September 2008)

Year/month		2007			2008								
		10	11	12	1	2	3	4	5	6	7	8	9
Stock price	High (yen)	464	499	400	340	354	348	374	406	424	388	358	310
	Low (yen)	402	320	319	276	281	293	326	358	380	329	300	251
Volume (thousands of shares)		26,770	21,222	15,287	16,864	11,319	8,806	6,727	5,372	7,949	5,749	3,133	4,105

- **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 Nijjima		
	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
Contact office	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 (See Notice below) 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

[Request for forms related to procedures concerning stock]

For administrative paperwork documents relating to stocks (changes to registered address or designated application forms for dividend payments, purchase request forms for fractional stocks etc.), please contact the agent to manage shareholders registry who is available 24 hours a day, either by telephone or via the Internet. Please be aware that after the implementation of the electronic share certificate system, these forms will only be available for stocks registered in special accounts.

Telephone (toll free number)

0120-244-479

Website address

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

(Notice) Concerning the contact office of the administrator of shareholders' register

The contact office of the Company's administrator of shareholders' register will be abolished the moment the electronic share certificate system is implemented, since shareholders will be required to follow all kinds of procedures via, in principle, securities companies where they hold their accounts.

Unreceived dividends are to be paid at the main office and branch offices of Mitsubishi UFJ Trust and Banking Corporation, the transfer agent of the Company.