

Business Report

for the First Half of Fiscal Year 2007

(from April 1, 2007 to September 30, 2007)



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 2007 (April 1, 2007 to September 30, 2007).

During this period, the Japanese economy has faced unstable elements, such as soaring prices of raw materials including crude oil and the subprime mortgage crisis in the U.S. However, thanks to an increase in capital investments based on improved corporate earnings and recovering consumer spending buoyed by job growth, as well as increase in exports to Europe and the BRIC countries, the economy showed moderate growth.

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. However, conditions in the field of small and ultrahigh-precision processing, the market targeted by the Company, entered an adjusting phase from latter half of the previous year, and is yet to make a full-fledged recovery.

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.

The Company also put forth efforts towards the improvement and reinforcement of its after-sales service sector.

As a result of these efforts, consolidated sales for the first half of fiscal year 2007 decreased by 26.5% year-on-year to 13,596 million yen due to factors such as the temporary pause in the growth of capital investments in the automotive and IT-related industries and the postponing of the delivery date for some previous orders until the second

half of the fiscal year, as well as the ceasing of OEM production.

Operating income decreased by 57.2% to 1,260 million yen. Ordinary income decreased by 57.1% to 1,264 million yen, and net income decreased by 57.5% to 735 million yen.

We have decided to pay an interim dividend of 5 yen per share, which is a dividend increase by 1 yen per share in comparison to that of the previous year. For the year-end dividend, the Company is planning to pay 5 yen per share (a total annual dividend of 10 yen per share).

As for future dividends, we will strive to maintain stable payouts through a collective effort by the Group as a whole, while we continue our efforts in further reinforcing our competitiveness and increasing the efficiency of our management in order to strengthen our corporate structure.

In addition, in regards to the acquisition of treasury stock as an aspect of measures to return profits to our shareholders, we will implement adequate measures with the aim of making capital policy available in an expeditious manner, and by drawing conclusions on various matters including the necessity of the aforementioned acquisition, the financial situation of the Company and stock movements.

The entire Group will do its utmost to provide new products that fully meet customer requirements in terms of automotive parts, for which measures to cope with environmental and energy-saving issues are required, and the high-precision processing of small parts in the area of HDD parts, digital cameras and other products that are becoming even more sophisticated, as well as to expand its business in overseas markets, including Asia, Europe, and the U.S.

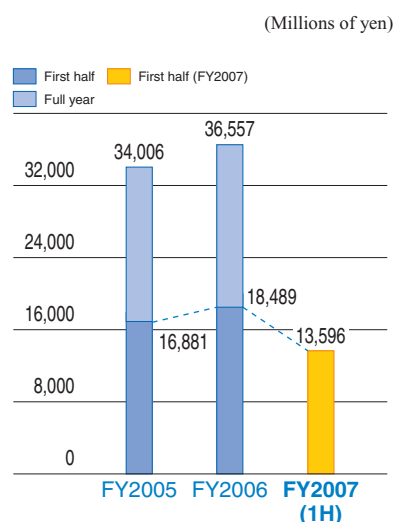
We hope that our shareholders will extend even greater support and encouragement to Tsugami in the time to come.

November 2007

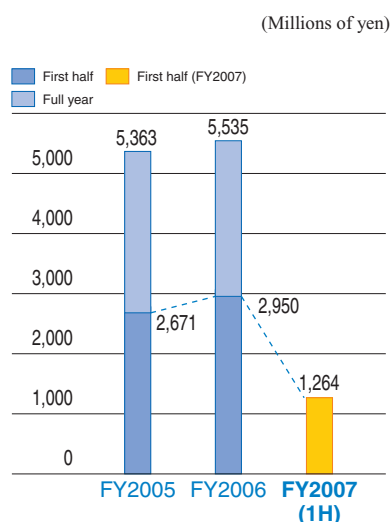
Takao Nishijima
Chairman and C.E.O.

Business Performance (Consolidated)

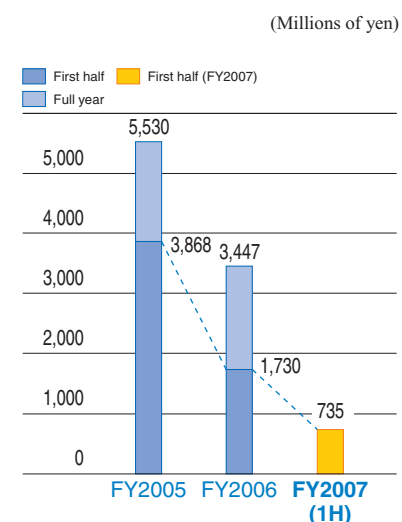
● Net sales



● Ordinary income



● Net income



● Financial Highlights

		FY2006 (1H)		FY2006		FY2007 (1H)	
		Consolidated	Non-consolidated	Consolidated	Non-consolidated	Consolidated	Non-consolidated
Net sales	(Millions of yen)	18,489	18,123	36,557	35,255	13,596	13,289
Ordinary income	(Millions of yen)	2,950	2,757	5,535	5,110	1,264	1,320
Net income	(Millions of yen)	1,730	1,675	3,447	3,257	735	826
Net income per share	(Yen)	22.95	22.21	46.36	43.80	10.17	11.43
Total assets	(Millions of yen)	35,145	34,472	35,943	35,186	32,718	32,066
Net assets	(Millions of yen)	23,213	22,648	23,450	22,723	23,205	22,566
Net assets per share	(Yen)	311.67	304.08	322.67	312.66	322.46	313.58

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

Consolidated Financial Statements

● Consolidated Balance Sheets

(Millions of yen)

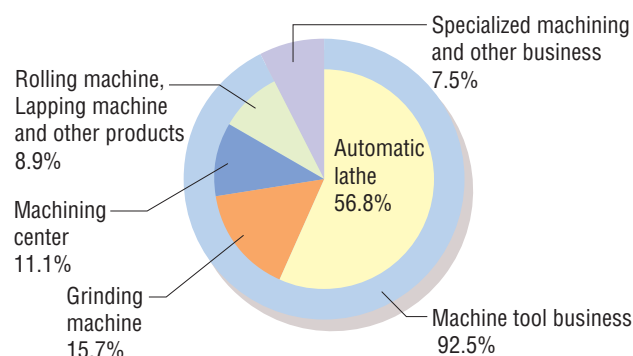
	September 30, 2007	March 31, 2007
Assets		
Current assets	22,704	25,920
Cash and deposits	3,116	3,576
Trade notes and accounts receivable	11,004	14,314
Inventories	8,135	7,659
Other current assets	446	370
Fixed assets	10,014	10,023
Tangible fixed assets	7,316	7,457
Buildings, Machinery, equipment and vehicles	6,454	6,606
Land	598	598
Other tangible fixed assets	263	252
Intangible fixed assets	34	33
Investments and other assets	2,663	2,532
Total assets	32,718	35,943
Liabilities		
Current liabilities	8,499	11,344
Trade notes and accounts payable	7,178	9,129
Accrued income tax	382	1,024
Other current liabilities	938	1,190
Long-term liabilities	1,013	1,148
Total liabilities	9,513	12,493
Net assets		
Shareholders' equity	22,579	22,695
Common stock	10,599	10,599
Capital surplus	4,203	4,208
Retained earnings	10,867	10,568
Treasury stock	(3,092)	(2,681)
Valuation and translation adjustments	474	660
Unrealized gains on marketable securities	410	600
Translation adjustments	63	60
Subscription rights to shares	152	94
Total net assets	23,205	23,450
Total liabilities and net assets	32,718	35,943

● Consolidated Statements of Income

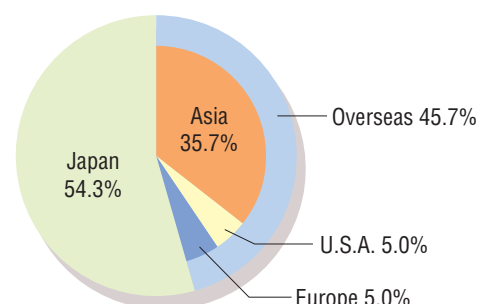
	(Millions of yen)	
	Six months ended September 30, 2007	Six months ended September 30, 2006
Net sales	13,596	18,489
Cost of sales	10,610	13,673
Gross profit	2,985	4,816
Selling, general and administrative expenses	1,725	1,870
Operating income	1,260	2,945
Non-operating income	56	55
Non-operating expenses	52	51
Ordinary income	1,264	2,950
Extraordinary income	34	—
Gain on reversal of allowance for doubtful accounts	19	—
Other extraordinary income	15	—
Extraordinary expenses	102	116
Loss on disposal and sales of fixed assets	4	47
Loss on devaluation of inventories	—	35
Product improvement expenses	90	—
Other extraordinary expenses	6	33
Income before taxes and other adjustments	1,196	2,833
Corporate, inhabitant and enterprise taxes	408	1,095
Deferred taxes	53	8
Net income	735	1,730

● Sales Breakdown (Consolidated)

● Sales product by business and product (FY2007, 1H)



● Sales breakdown by region (FY2007, 1H)



Consolidated Financial Statements

● Consolidated Statements of Cash Flows

(Millions of yen)

	Six months ended September 30, 2007	Six months ended September 30, 2006
Net cash provided by operating activities	1,007	2,717
Net cash used in investing activities	(673)	(192)
Net cash used in financing activities	(852)	(1,547)
Effect of exchange rate changes on cash and cash equivalents	(0)	(1)
Net increase (decrease) in cash and cash equivalents	(519)	977
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	2,976	3,872

● Consolidated Statements of Changes in Net Assets Six months ended September 30, 2007

(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			(436)		(436)
Net income			735		735
Acquisition of treasury stock				(425)	(425)
Disposal of treasury stock		(5)		15	10
Net changes of items other than shareholders' equity					
Total changes during the period	–	(5)	299	(410)	(116)
Balance as of September 30, 2007	10,599	4,203	10,867	(3,092)	22,579

(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					(436)
Net income					735
Acquisition of treasury stock					(425)
Disposal of treasury stock					10
Net changes of items other than shareholders' equity	(189)	3	(186)	57	(128)
Total changes during the period	(189)	3	(186)	57	(244)
Balance as of September 30, 2007	410	63	474	152	23,205

Releasing New Products in the Market

CNC Precision Automatic Lathe SS20

We launched the “CNC Precision Automatic Lathe SS20, ” a high-functional complex machine, and have made active efforts towards expanding its sale.

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 is also possible to easily discharge longish parts from the front.

It allows for high work productivity for complex shapes (automobile parts, IT-related parts).



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

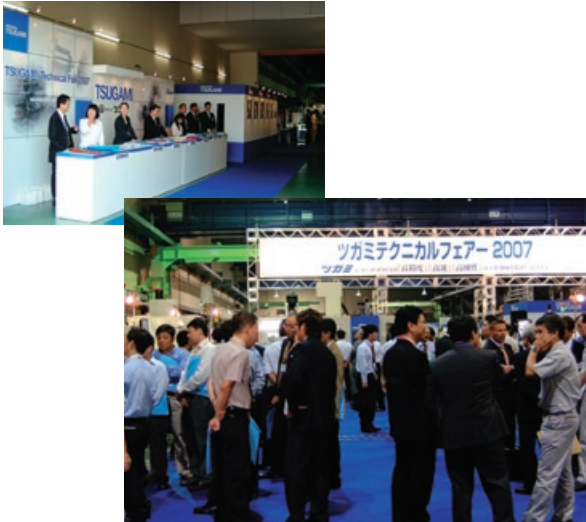
We actively developed new business partners.

We held the Tsugami Technical Fair 2007 at the Tsugami Nagaoka Plant on July 19 and 20, 2007.

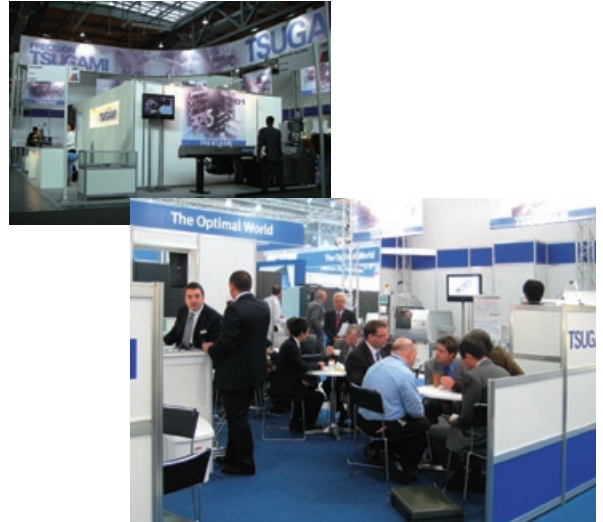
We also had an exhibit at the EMO2007 held in Hanover (Germany) for six days from September 17, 2007.

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

Tsugami Technical Fair 2007



EMO2007



Establishment of an Affiliated Company in Europe



In order to achieve further expansion of Group sales and improve Group services in Europe, as well as to reinforce support provided to local distributing agents, we have established an affiliated company in the Federal Republic of Germany.

<Overview of the affiliated company>

Company name: TSUGAMI GmbH.

Location: Frankfurt, the Federal Republic of Germany

Founded: November 2007

Paid-in capital: 60,000 euro (approx. 9,600,000 yen)
(100% owned by the Company)

Stock Information (as of September 30, 2007)

- Authorized shares 320,000,000 shares
- Issued shares 79,019,379 shares
- Number of shareholders 13,435
- Major shareholders (Top 10)

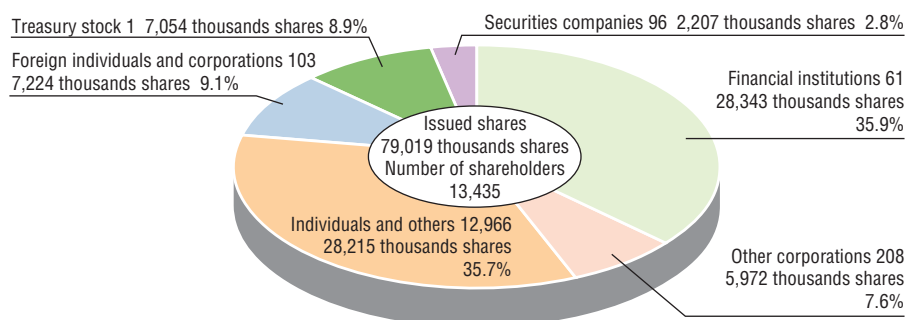
Shareholders	Investment in the Company		Investment in shareholders	
	Number of shares held	Ownership ratio	Number of shares held	Ownership ratio
	thousands	%	thousands	%
The Master Trust Bank of Japan, Ltd. (Trust account)	5,232	6.62	—	—
Mizuho Trust & Banking Co., Ltd. (Employee retirement benefit trust of Tokyo Seimitsu Co., Ltd., new trust custodian: Trust & Custody Services Bank, Ltd.)	4,592	5.81	—	—
Mori Seiki Co., Ltd.	2,000	2.53	100	0.09
The Dai-Ichi Mutual Life Insurance Company	1,800	2.27	—	—
Sumitomo Mitsui Banking Corporation	1,516	1.91	—	—
The Hokuetsu Bank, Ltd.	1,484	1.87	468	0.18
NikkoCiti Trust and Banking Corporation	1,406	1.77	—	—
Japan Trustee Services Bank, Ltd. (Trust account)	1,264	1.59	—	—
Tsugami Clients Stock Holding Association	1,173	1.48	—	—
Bank of New York GCM Client Accounts EISG	1,108	1.40	—	—

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 7,054 thousand shares.

● Shareholder composition by type of shareholder



● Stock price and volume (from October 2006 to September 2007)

Year/month		2006			2007								
		10	11	12	1	2	3	4	5	6	7	8	9
Stock price	High (yen)	725	707	775	771	766	693	700	654	610	615	593	542
	Low (yen)	605	625	666	724	640	645	631	531	529	536	453	410
Volume (thousands of shares)		15,529	11,899	12,009	10,286	13,011	11,305	11,529	12,982	24,847	17,636	17,180	12,834

- **Corporate Name** Tsugami Corporation
- **Established** March 15, 1937
- **Head Office** 1-9-10, Horidome-cho, Nihonbashi, Chuo-ku, Tokyo
- **Paid-in Capital** 10,599 million yen
- **Number of Employees** 447

- **Directors and Auditors**

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

- **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.

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.