

TSUGAMI

ANNUAL REPORT 2008

For the year ended March 31, 2008

 **TSUGAMI CORPORATION**

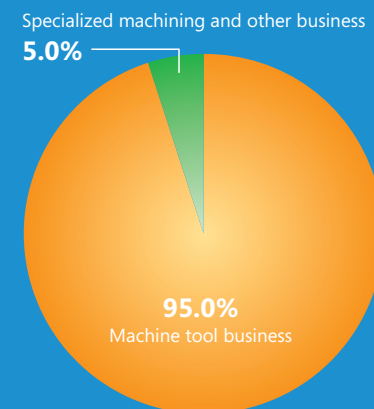
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Chuo-ku, Tokyo 103-0012, JAPAN
TEL.03-3808-1172 FAX.03-3808-1175
<http://www.tsugami.co.jp/>

Accuracy, Speed and Rigidity Tsugami is renowned all over the world for its superior precision machine tools.

Tsugami was founded in 1937, and as the one of the most experienced machine tool companies in Japan, the Company has been supplying “high-accuracy, high-speed and high-rigidity” products as a comprehensive manufacturer of small-sized ultraprecision machine tools.

Tsugami has an advantage in that it can supply many types of machine tools, such as automatic lathes, grinding machines, machining centers and rolling machines, and is capable of proposing a comprehensive production system.

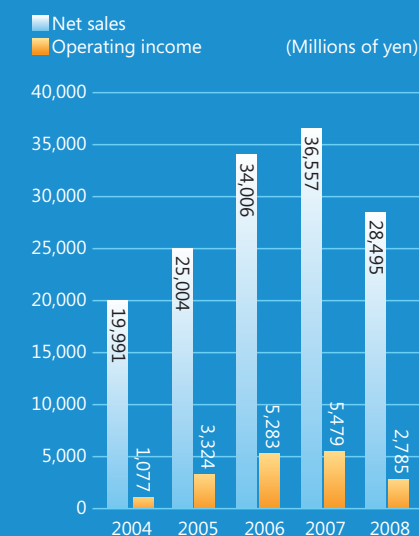
We are devoting all our efforts to the development of small-sized, high-speed, high-precision processing machines so that we can immediately respond to manufacturing needs: automobile-related components, where countermeasures in terms of environment, energy conservation and safety are necessary; small-sized information terminal components for the ever more sophisticated information and telecommunication sector; and ultraprecision processing parts for medical sector.



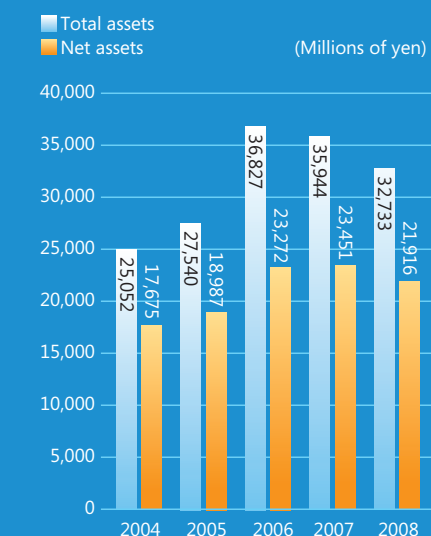
Years ended March 31,	Millions of yen		Thousands of U.S. dollars
	2007	2008	2008
Net sales	¥36,557	¥28,495	\$284,414
Operating income	5,479	2,785	27,795
Net income	3,448	1,630	16,268
Operating income to sales ratio (%)	15.0	9.8	9.8
Per share of common stock (Yen or U.S. dollars)			
Net income (Basic)	¥46.36	¥23.03	\$0.23
Net assets	322.67	319.50	3.19
At March 31,			
Total assets	¥35,944	¥32,733	\$326,709
Net assets	23,451	21,916	218,749
ROA (%)	15.2	8.5	8.5
ROE (%)	14.8	7.2	7.2

Dollar amounts represent translations at the rate of ¥100.19 = U.S.\$1, the rate prevailing on March 31, 2008.

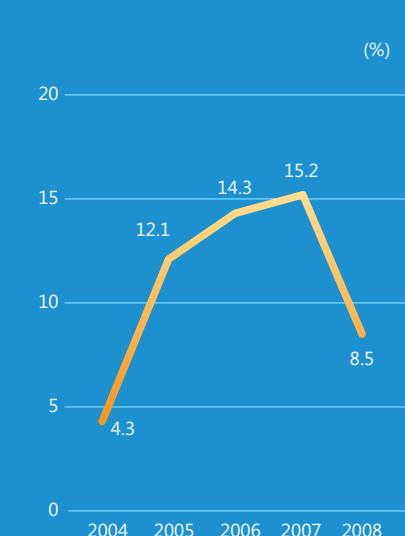
Net sales / Operating income



Total assets / Net assets



ROA



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Forward-Looking Statements

This annual report contains forward-looking statements related to management's projections about future business conditions. Actual business conditions may differ significantly from management's expectations and accordingly affect our sales and profitability. Actual results may differ as a result of factors over which we have no control, including unexpected changes in competitive and economic conditions, government regulations, technology and other factors.

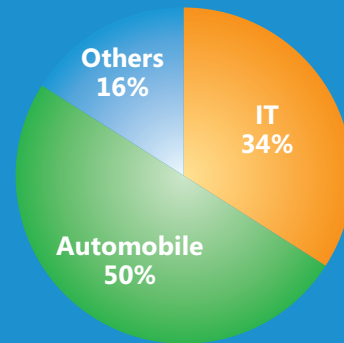
Our Products and Its Superiority

High accuracy and stability even offer 24 hours running operation

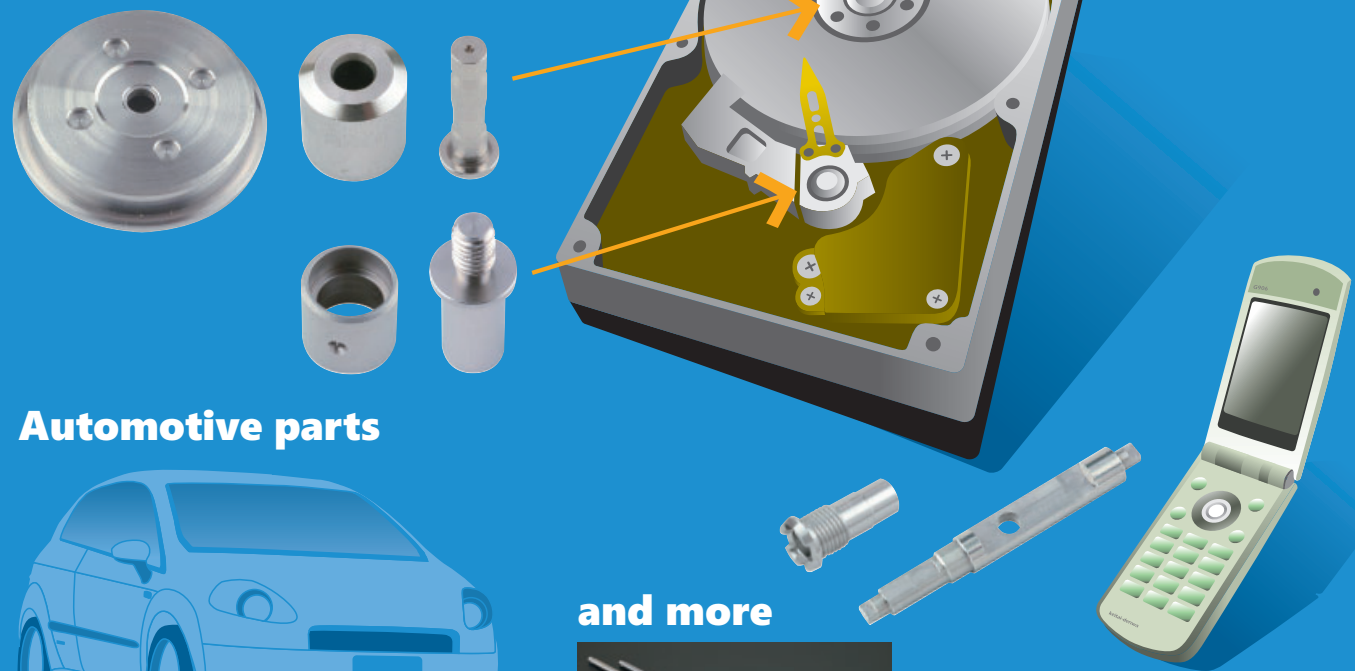
Tsugami's ultraprecise processing technology is so outstanding that it leads the IT industry, an industry in which technology is progressing rapidly. Take the HDDs used in PCs for example, their capacity is increasing year by year while the disks themselves are getting smaller and smaller.

We support this progress in HDD by developing CNC High Precise Automatic Lathes that enable mass processing by the very small unit of less than a micron (submicron). This is how we were able to acquire a large market share in the industry. Demand has been growing in the past few years for the technologies we have cultivated, as measures are sought for automobile engine components to cope with environmental issues, conserve energy and enhance safety. In addition to the above, our strengths include having various peripheral technologies in machine tools, as well as work materials, tooling technologies and tools, which support high precise processing.

Sales Breakdown



HDD FDB parts processing



Automotive parts

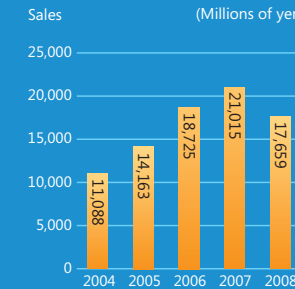


and more



Main Products

CNC Precision Automatic Lathe

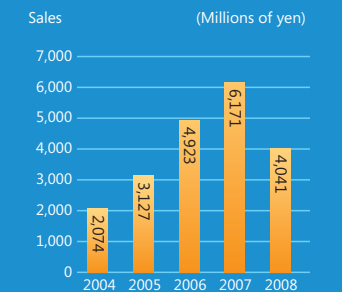


This machine's tools are fitted to minimize any effects resulting from high temperatures, and its cast iron base, with high rigidity, can suppress the vibration that occurs during high-speed processing. Hence, it enables stable and accurate processing for a long time.

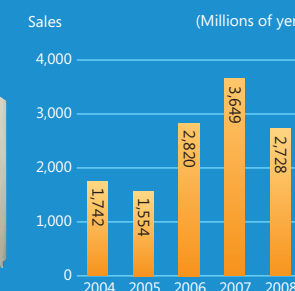
This model is best suited to high-precision mass production of automobile parts, HDD components, office automation equipment, medical and dental equipment, digital cameras, cellular phones and other small parts in a wide range of fields, including optical communications.

CNC Precision 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.



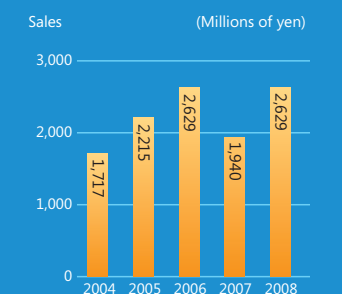
Precision Machining Center



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.

Precision Thread Rolling Machine and Other Products

Integrating our own roll dies manufacturing corresponds not only to normal screw or knurl, but also to high-precision lead screws, worms or form rolling.



To Our Stakeholders

In the first half of the fiscal year 2007, although 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, 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 ultraprecision 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.

Overview of Earnings for Fiscal 2007

Q. Please share with us the overview of earnings for the year ended March 2008.

A. The fiscal year 2007 was tough. Due to negative factors such as stagnant sales for automotive parts and in IT related industries, our core clients, delays in some shipping plans caused by gaps during which the number of orders turned around and the factory utilization ratio increased, and decline in OEM sales, consolidated net sales for fiscal 2007 decreased 22.1% year-on-year to ¥28,495 million, with domestic sales dropping 30.3% to ¥14,823 million and exports declining 10.6% to ¥13,672 million. As a result, our export ratio grew to 48.0% from 41.8% a year earlier.

Overseas Business Expansion

Q. I understand that you further strengthened overseas business in fiscal 2007. Will you tell us the details?

A. In November 2007, we established a wholly-owned local sales affiliate, Tsugami GmbH, in Germany, in order to achieve further expansion of Group sales in Europe, where Tsugami's market share is small.

The distinctive high quality of Tsugami's products has been well known throughout Europe. Despite stagnation

in the domestic automotive industry, we were able to raise the number of orders received from the European automotive parts industry. As a result, we were able to increase our sales to Europe to ¥2.8 billion in fiscal 2007, from ¥0.6 billion a year earlier.

We have also striven to reinforce our after-sales service personnel in the Asian market, particularly in South Korea, China, and India, and to strengthen relationships with local agencies in these countries.

Medium-term Strategies and Measures for Fiscal 2008

Q. The sales cycle of Tsugami appears to be different from other companies in so-called machine tool industry. What do you think about it?

A. What you call machine tools in general have different markets depending on the users. I think that there are different sales cycles for the large, medium and small machine tool markets.

Tsugami belongs to the small machine tool industry, and has expertise in ultraprecision processing. This technology is used in processing electronic parts, with the main market being the ultraprecise parts of personal computers and cellular phones, as well as the precision parts that are needed following the sophistication of automobile

engines. Those markets are promising in the medium- and long-term. However, they are distinctively susceptible to economic ups and downs.

Therefore, in order to secure a steady performance, it is necessary to get Tsugami's products to reach a wide range of users. During Fiscal 2007, we established our own sales channel (Tsugami GmbH) in Europe, where Tsugami's products have a low market share, and signed a business alliance with TORNOS S.A. in Switzerland.

TORNOS is a long-established machine tool manufacturer in Europe and, as with the Company, its main products are small machine tools (mainly sliding headstock automatic lathes). However, Tsugami and TORNOS are complementary in terms of their geographical markets and product range. Therefore, we decided that it would be much easier for the two groups to generate a synergy effect.

Returning Profits to Shareholders

Q. Will you tell us about your view of purchase of treasury stocks?

A. When I took office as president in March 2003, the total number of shares outstanding of Tsugami was approximately 89 million shares.

I thought we would need to improve performance per a share since the number of shares outstanding was too large for the sales and asset size of the Company. Therefore, we decided to promote the acquisition of treasury stocks and bought back about 21 million shares from the market, of which 10 million shares were cancelled in November 2006, followed by the cancellation of 11 million shares in March 2008.

As a result, we now hold about 68 million outstanding shares. Since we set the target number of shares outstanding at approximately 70 million as the immediate target, we have achieved the target level.

We will flexibly accommodate the number of shares by watching the status of operations, which are the status of cash flows including capital spending.

Q. Please discuss your policy on returning profits to shareholders.

A. We paid a dividend of 10 yen per share annually. For future dividend payments, we will focus on enhancing shareholders' profit by way of maintaining steady dividend payments and reinforcing our performance-based dividend policy, coupled with the purchase of treasury stocks.

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



Takao Nishijima
Chairman and C.E.O.

Plant

Japan

- Nagaoka plant Nagaoka city, Niigata pref.
- Shinshu plant Saku city, Nagano pref.
- Niigata plant Niigata city, Niigata pref.
- Takami plant Nagaoka city, Niigata pref.

China

- China plant (Precision Tsugami (China) Co.)
Pinghu Economic Development Zone,
Zhejiang, China

Branch

Korea

- Tsugami Corporation Seoul Branch

China

- Precision Tsugami (China) Corporation Shanghai Branch



Nagaoka plant



Shinshu plant

Subsidiaries, Affiliates and Agents

Subsidiaries

- 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 GmbH (Germany)

Affiliates

- U.S.A. North America Rem Sales Incorporated

Agents

- Asia Singapore & Malaysia Henko Industries Pte. Ltd.
- Thailand Tsugami (Thai) Co., Ltd.
- Hong Kong Kowloon Engineering Ltd.
- Taiwan R.O.C. Great Tung Ching Trading Co.
- Philippines Mesco Inc.
- India Proteck Machinery Pvt. Ltd.

Europe

- Germany WECO Werkzeugmaschinen GmbH CO KG
WEMCO Werkzeugmaschinen Automation GmbH
- France DELTA MACHINES
- Italy CELLTECH MACCHINE UTENSILI SPA
- Switzerland Josef Binkert AG
- Hungary Ge-Co Hungary Kft.
- Poland DEMATEC Polska Sp. z o. o.



China plant



Niigata plant



Takami plant

Ten-Year Financial Summary

Years ended March 31,	Millions of yen										Thousands of U.S. dollars
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2008
Net sales	12,035	12,288	21,735	15,577	16,318	19,991	25,004	34,006	36,557	28,495	284,414
Operating income (loss)	(331)	(631)	1,258	(303)	(207)	1,077	3,324	5,283	5,479	2,785	27,795
Operating income (loss) to sales ratio (%)	(2.7)	(5.1)	5.8	(1.9)	(1.3)	5.4	13.3	15.5	15.0	9.8	9.8
Income (loss) before income taxes	(3,190)	(1,166)	1,266	(470)	(856)	(889)	2,934	6,851	5,219	2,678	26,729
Net income (loss)	(3,203)	(1,182)	1,180	(427)	(901)	(919)	2,832	5,531	3,448	1,630	16,268
At March 31,											
Current assets	17,319	18,277	22,259	20,207	18,119	17,961	20,498	26,395	25,921	22,735	226,923
Current liabilities	3,260	4,981	9,713	8,042	6,368	6,452	7,646	12,169	11,344	9,913	98,943
Total assets	24,570	25,482	31,481	29,157	26,130	25,052	27,540	36,827	35,944	32,733	326,709
Net assets	20,981	19,719	20,963	19,924	18,880	17,675	18,987	23,272	23,451	21,916	218,749

Per share of common stock	Yen										U.S. dollars
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2008
Net income (loss)											
Basic	(35.99)	(13.28)	13.28	(4.81)	(10.17)	(10.71)	35.02	71.38	46.36	23.03	0.23
Diluted	-	-	-	-	-	-	34.99	70.81	46.05	22.86	0.23
Cash dividends	-	-	-	-	-	-	5.00	8.00	10.00	10.00	0.10
Net assets	235.76	222.74	235.70	224.03	216.12	213.36	243.41	306.53	322.67	319.50	3.19

Dollar amounts represent translations at the rate of ¥100.19 = U.S.\$1, the rate prevailing on March 31, 2008.

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Business Results

Net sales

Net sales for fiscal 2007 decreased 22.1% year-on-year to ¥28,495 million, due to negative factors such as stagnant sales for automotive parts and IT related industries, our core clients, delays in some shipping plans caused by gaps during which the number of orders turned around and the factory utilization ratio increased, and a decline in OEM sales.

Domestic sales decreased 30.3% year-on-year to ¥14,823 million and exports declined 10.6% year-on-year to ¥13,672 million. As a result, our export ratio grew to 48.0% from 41.8% a year earlier.

Sales of the machine tool business decreased 17.4% year-on-year to ¥27,057 million. Sales of specialized machining and other business declined 62.0% year-on-year to ¥1,438 million due to the reduction of OEM production.

Profit and loss

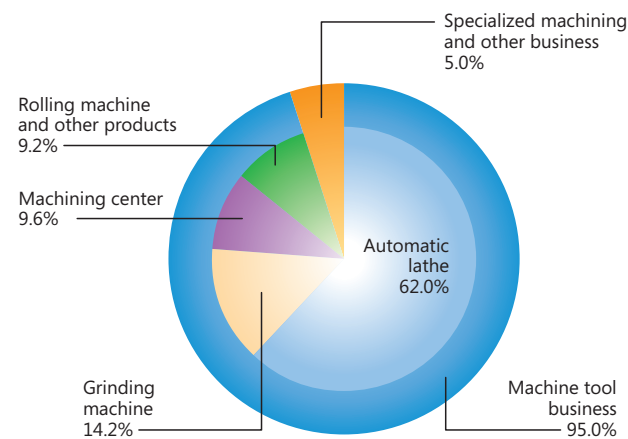
In the year under review, operating income decreased 49.2% year-on-year to ¥2,785 million, ordinary income decreased 50.2% year-on-year to ¥2,756 million, net income decreased 52.7% year-on-year to ¥1,630 million.

Result by business segment

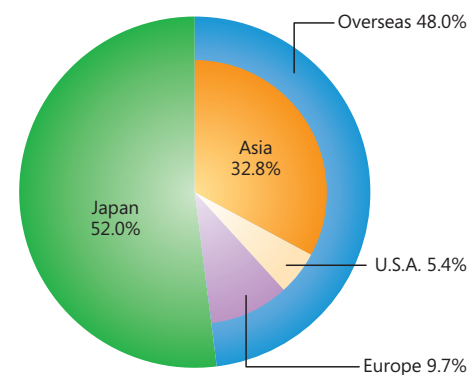
(Millions of yen)

	2006	2007	2008
Machine tool business			
Net sales	29,097	32,775	27,057
Operating income	4,988	5,653	3,354
Specialized machining and other business			
Net sales	4,909	3,782	1,438
Operating income	900	585	197

Sales by business and product



Sales breakdown by region



Cash Flows

Cash and cash equivalents on a consolidated basis for fiscal 2007 decreased ¥145 million from the previous year, and the balance was ¥3,352 million at the end of fiscal year 2007.

Cash flows from operating activities

Net cash provided by operating activities increased ¥3,946 million.

This was mainly attributed to the following factors: a decrease in funds due to outflows of ¥1,650 million yen in inventories, ¥874 million in accounts payable and ¥1,375 million in income tax payments, together with an increase in funds due to inflows of ¥2,678 million in income before income taxes, ¥4,629 million in decreased trade receivable and ¥871 million in depreciation and amortization.

Cash flow from investing activities

Net cash used in investing activities decreased ¥1,395 million from the previous year.

This was mainly due to an outflow of 1,214 million yen to fund the purchase of investment securities.

Cash flows from financing activities

Net cash used in financing activities decreased ¥2,696 million.

This was mainly attributed to outflows of ¥1,919 million and ¥787 million to fund the purchase of treasury stock and dividends payments, respectively.

Cash flows indices

	2005	2006	2007	2008
Net worth ratio (%)	68.9	63.2	65.0	66.3
Net worth ratio based on market value (%)	126.3	195.6	136.5	69.3
Number of years for debt redemption	-	-	-	-
Interest coverage ratio	-	-	-	-

(Notes)

Net worth ratio (%): Net worth/total assets

Net worth ratio on market value (%): Total market capitalization/total assets

Number of years for debt redemption: Interest-bearing liabilities/cash flows

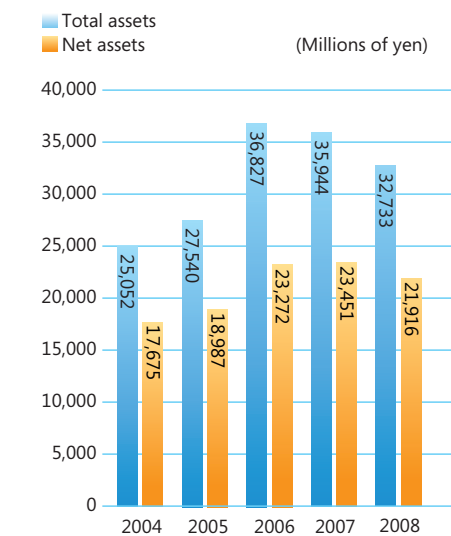
Interest coverage ratio: Cash flows/interest payment

- All indices were computed using the consolidated financial figures.

- Total market capitalization was computed based on the closing stock price at period-end multiplied by number of outstanding shares at period-end (after deducting treasury stock).

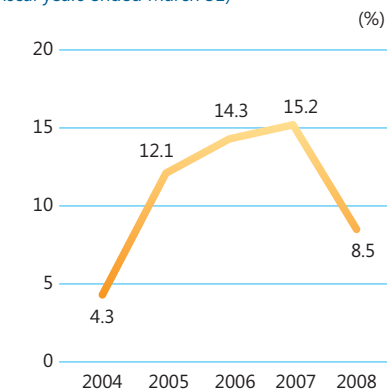
- Cash flows present cash flows from operating activities on the consolidated statements of cash flows. Interest-bearing debts represent all debts on the consolidated balance sheets, including notes receivable discounted, for which interest is paid. In addition, interest payment represents the amount of interest paid on the consolidated statements of cash flows.

Total assets / Net assets



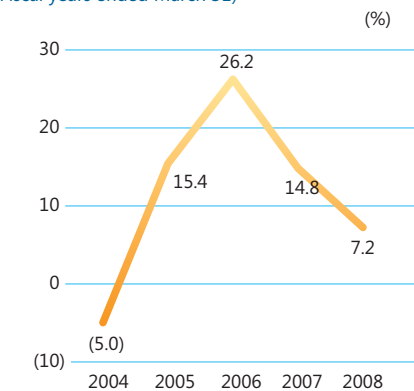
Return on assets

(Fiscal years ended March 31)



Return on equity

(Fiscal years ended March 31)



Consolidated Balance Sheets

(March 31, 2007 and 2008)

ASSETS	Millions of yen		Thousands of U.S. dollars (Note 1)
	2007	2008	2008
Current assets:			
Cash and deposits (Note 4)	¥ 3,577	¥ 3,402	\$ 33,959
Trade notes and accounts receivable			
Unconsolidated subsidiaries and affiliated companies	146	293	2,923
Other	14,168	9,370	93,520
Inventories (Note 7)	7,659	9,046	90,290
Deferred tax assets (Note 9)	385	371	3,702
Other	65	310	3,100
Allowance for doubtful accounts	(79)	(57)	(571)
Total current assets	25,921	22,735	226,923
Property, plant and equipment:			
Land	598	598	5,970
Buildings and structures	7,875	7,908	78,931
Machinery and equipment	8,805	8,888	88,712
Other	596	709	7,071
Accumulated depreciation	(10,416)	(11,067)	(110,462)
Net property, plant and equipment	7,458	7,036	70,222
Intangible assets:	33	44	436
Investments and other assets:			
Investment securities (Note 6)	2,224	2,488	24,834
Investments in and advances to unconsolidated subsidiaries and affiliated companies	209	219	2,184
Other	99	211	2,110
Total investments and other assets	2,532	2,918	29,128
Total fixed assets	10,023	9,998	99,786
Total assets	¥35,944	¥32,733	\$326,709

The accompanying notes are an integral part of these financial statements.

LIABILITIES AND NET ASSETS	Millions of yen		Thousands of U.S. dollars (Note 1)
	2007	2008	2008
Current liabilities:			
Trade notes and accounts payable			
Unconsolidated subsidiaries and affiliated companies	¥ –	¥ –	\$ –
Other	9,130	8,221	82,053
Income taxes payable	1,025	691	6,901
Accrued bonuses	345	327	3,264
Other	844	674	6,725
Total current liabilities	11,344	9,913	98,943
Long-term liabilities:			
Deferred tax liabilities (Note 9)	270	–	–
Accrued pension and severance costs (Note 8)	751	790	7,886
Retirement benefits for directors and corporate auditors	34	22	218
Other	94	92	913
Total long-term liabilities	1,149	904	9,017
Total liabilities	12,493	10,817	107,960
Contingent liabilities (Note 14)			
Net assets (Notes 5, 10, 11, 12 and 19):			
Owners' equity:			
Common stock, no-par-value	10,599	10,599	105,793
Authorized: 320,000,000 shares in 2008 and 320,000,000 shares in 2007			
Issued: 68,019,379 shares in 2008 79,019,379 shares in 2007			
Capital surplus	4,209	4,138	41,305
Retained earnings	10,569	6,936	69,231
Shares of common stock in treasury	(2,681)	(50)	(505)
130,967 shares in 2008 6,341,667 shares in 2007			
Total owners' equity	22,696	21,623	215,824
Net unrealized gain on investment securities	600	40	401
Foreign currency translation adjustments	61	27	265
Total valuation and translation adjustments	661	67	666
Stock subscription rights	94	226	2,259
Total net assets	23,451	21,916	218,749
Total liabilities and net assets	¥35,944	¥32,733	\$326,709

Consolidated Statements of Income

(Years ended March 31, 2007 and 2008)

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2007	2008	2008
Net sales	¥36,557	¥28,495	\$284,414
Cost of sales (Note 15)	27,326	22,142	221,006
Gross profit	9,231	6,353	63,408
Selling, general and administrative expenses (Note 15)	3,752	3,568	35,613
Operating income	5,479	2,785	27,795
Other income (expenses)			
Gain on sales of property, plant and equipment	121	–	–
Loss on disposal of property, plant and equipment	(88)	(3)	(31)
Loss on disposal of inventories	(55)	–	–
Loss on exchange of bills without L/C	(71)	(59)	(591)
Expenses of lawsuit	(87)	–	–
Cost of product improvement	–	(110)	(1,102)
Other	(80)	65	658
Income before income taxes	5,219	2,678	26,729
Current income taxes (Note 9)	1,882	1,037	10,350
Deferred	(111)	11	111
Income Taxes	1,771	1,048	10,461
Net income	¥ 3,448	¥ 1,630	\$16,268
Per share of common stock (Note 18)	Yen		U.S. dollars (Note 1)
Net assets	¥322.67	¥319.50	\$3.19
Net income — basic	46.36	23.03	0.23
— diluted	46.05	22.86	0.23
Cash dividends, applicable to earnings of the year	10.00	10.00	0.10

The accompanying notes are an integral part of these financial statements.

Consolidated Statements of Changes in Net Assets

(Years ended March 31, 2007 and 2008)

	Thousands		Millions of yen								
	Number of shares of common stock	Common stock	Capital surplus	Retained earnings	Shares of common stock in treasury	Total owners' equity	Net unrealized profit on investment securities	Foreign currency translation adjustments	Total valuation and translation adjustments	Stock subscription rights	Total net assets
Balance at March 31, 2006	89,019	¥10,599	¥8,011	¥7,872	¥(4,015)	¥22,467	¥805	¥ –	¥805	¥ –	¥23,272
Cash dividends paid				(678)		(678)					(678)
Bonuses paid to directors and corporate auditors				(38)		(38)					(38)
Decrease due to increase in consolidated subsidiary				(35)		(35)					(35)
Net income				3,448		3,448					3,448
Purchase of treasury stock					(2,588)	(2,588)					(2,588)
Loss on disposal of treasury stock				(32)	152	120					120
Retirement of treasury stock	(10,000)		(3,770)		3,770	–					–
Net changes of items other than owners' equity							(205)	61	(144)	94	(50)
Total changes during the year	(10,000)	–	(3,802)	2,697	1,334	229	(205)	61	(144)	94	179
Balance at March 31, 2007	79,019	¥10,599	¥4,209	¥10,569	¥(2,681)	¥22,696	¥600	¥61	¥661	¥94	¥23,451
Cash dividends paid				(796)		(796)					(796)
Net income				1,630		1,630					1,630
Purchase of treasury stock					(1,917)	(1,917)					(1,917)
Loss on disposal of treasury stock				(6)	16	10					10
Retirement of treasury stock	(11,000)		(65)	(4,467)	4,532	–					–
Net changes of items other than owners' equity							(560)	(34)	(594)	132	(462)
Total changes during the year	(11,000)	–	(71)	(3,633)	2,631	(1,073)	(560)	(34)	(594)	132	(1,535)
Balance at March 31, 2008	68,019	¥10,599	¥4,138	¥6,936	¥(50)	¥21,623	¥40	¥27	¥67	¥226	¥21,916

	Thousands of U.S. dollars (Note 1)									
	Common stock	Capital surplus	Retained earnings	Shares of common stock in treasury	Total owners' equity	Net unrealized profit on investment securities	Foreign currency translation adjustments	Total valuation and translation adjustments	Stock subscription rights	Total net assets
Balance at March 31, 2007	\$105,793	\$42,010	\$105,489	\$(26,764)	\$226,528	\$5,990	\$604	\$6,594	\$941	\$234,063
Cash dividends paid			(7,944)		(7,944)					(7,944)
Net income			16,268		16,268					16,268
Purchase of treasury stock				(19,127)	(19,127)					(19,127)
Loss on disposal of treasury stock			(53)	152	99					99
Retirement of treasury stock			(652)	(44,582)	45,234					–
Net changes of items other than owners' equity						(5,589)	(339)	(5,928)	1,318	(4,610)
Total changes during the year		(705)	(36,258)	26,259	(10,704)	(5,589)	(339)	(5,928)	1,318	(15,314)
Balance at March 31, 2008	\$105,793	\$41,305	\$69,231	\$(505)	\$215,824	\$401	\$265	\$666	\$2,259	\$218,749

The accompanying notes are an integral part of these financial statements.

Consolidated Statements of Cash Flows

(Years ended March 31, 2007 and 2008)

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2007	2008	2008
Cash flows from Operating activities:			
Income before income taxes	¥5,219	¥2,678	\$26,729
Depreciation and amortization	760	871	8,690
Loss on disposal of inventories	55	–	–
Expenses of lawsuit	87	–	–
Change in allowance for doubtful accounts	1	(22)	(221)
Change in accrued pension and severance costs	55	39	392
Interest and dividend income	(35)	(40)	(395)
Interest expense	0	1	11
Gain on sales of property, plant and equipment	(121)	–	–
Loss on disposal of property, plant and equipment	88	3	31
Change in trade notes and accounts receivable	(182)	4,629	46,206
Change in inventories	196	(1,650)	(16,472)
Change in trade notes and accounts payable	165	(874)	(8,719)
Bonuses paid to directors and corporate auditors	(38)	–	–
Other	443	(283)	(2,835)
Subtotal	6,693	5,352	53,417
Proceeds from interest and dividend income	35	39	395
Payment of interest	(0)	(1)	(11)
Payment of expenses of lawsuit	(17)	(69)	(693)
Payment of income taxes	(2,568)	(1,375)	(13,718)
Net cash provided by operating activities	4,143	3,946	39,390
Cash flows from Investing activities:			
Proceeds from time deposits	40	200	1,996
Payment for time deposits	(70)	(170)	(1,697)
Payment for purchase of property, plant and equipment	(1,071)	(234)	(2,332)
Proceeds from sales of property, plant and equipment	725	3	29
Payment for purchase of investment securities	(205)	(1,214)	(12,113)
Proceeds from sales of investment securities	201	40	402
Proceeds from loans receivable	0	0	3
Other	(3)	(20)	(209)
Net cash used in investing activities	(383)	(1,395)	(13,921)
Cash flows from Financing activities:			
Proceeds from short-term loans	–	1,000	9,981
Repayments of short-term loans	–	(1,000)	(9,981)
Proceeds from sales of shares of common stock in treasury	115	10	100
Payment for purchase of shares of common stock in treasury	(2,595)	(1,919)	(19,159)
Dividends payments	(677)	(787)	(7,851)
Net cash used in financing activities	(3,157)	(2,696)	(26,910)
Effect of translation of cash and cash equivalents	(2)	0	0
Net increase (decrease) in cash and cash equivalents	601	(145)	(1,441)
Cash and cash equivalents at beginning of year	2,797	3,497	34,901
Cash and cash equivalents of newly consolidated subsidiary	99	–	–
Cash and cash equivalents at end of year (Note 4)	¥3,497	¥3,352	\$33,460

The accompanying notes are an integral part of these financial statements.

Notes to Consolidated Financial Statements

Tsugami Co., Ltd. and Consolidated Subsidiaries

1 BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements of Tsugami Co., Ltd. (the "Company") and its domestic consolidated subsidiaries are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards, and are compiled from the consolidated financial statements prepared by the Company as required by the Financial Instruments and Exchange Law of Japan. The accounts of overseas subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles prevailing in the respective countries of domicile. Certain reclassifications have been made to present the accompanying consolidated financial statements in a format which is more familiar outside Japan. In addition, the accompanying notes include additional information which is not required under accounting principles and practices generally accepted in Japan. U.S. dollar amounts in the accompanying consolidated financial statements are included solely for convenience, at ¥100.19=U.S.\$1, the exchange rate on March 31, 2008. The translation should not be construed as a representation that yen amounts have been or could be converted into U.S. dollars at that or any other rate.

For comparison, certain amounts reported for the previous financial statements are retrospectively adjusted in accordance with changes in classification.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(1) Principles of consolidation

The accompanying consolidated financial statements include the accounts of 5 subsidiaries as of March 31, 2007 and 2008. The remaining 1 subsidiaries and 2 affiliates as of March 31, 2007 and 2 subsidiaries and 2 affiliates as of March 31, 2008, whose total assets, net sales and net income are immaterial in relation to the comparable amounts in these statements have been excluded.

All significant inter-company transactions, accounts and unrealized profits have been eliminated. Investments in the affiliates and unconsolidated subsidiaries, not significant in amount, are carried at cost or less. Where there has been permanent impairment in the value of investments, the Company has written down such investments.

(2) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, available funds on deposit and short-term, highly liquid investments that are readily convertible to cash and with original maturities of three months or less, and substantially free from price fluctuation risk.

(3) Securities

Available-for-sale securities with determinable market value are stated at market value. Net unrealized gain on

investment securities is accounted for as a component of net assets. Cost of securities sold is determined by the moving average method. Available-for-sale securities without determinable market value are stated at cost determined by the moving average method.

(4) Inventories

Inventories of the Company and its consolidated subsidiaries are stated at cost determined by the moving average method.

(5) Property, plant and equipment

Property, plant and equipment are stated generally at cost. Depreciation of the Company and its domestic consolidated subsidiaries is principally computed by the declining-balance method over the estimated useful lives of the respective assets. However, buildings purchased on and after April 1, 1998, excluding fittings, equipment and foreign subsidiary, are depreciated on a straight-line basis.

The significant useful lives are summarized as follows:
Buildings and structures 15-38 years
Machinery and equipment 10 years

(6) Intangible assets

Intangible assets are stated at cost less accumulated amortization. Capitalized costs of software for internal use and other intangible assets are amortized using the straight-line method over the estimated lives.

(7) Leases

Finance leases which do not transfer ownership to lessee are accounted for in the same manner as operating leases in accordance with Japanese GAAP.

(8) Allowance for doubtful accounts

Allowance for doubtful accounts is provided in an amount sufficient to cover probable losses on collection. Provision is made based on the historical default rates for non-specific ordinary receivables and in the amount deemed necessary for specific receivables whose recoverability is highly doubtful, after due consideration of recoverability on an individual basis.

(9) Accrued bonuses

Provision is made in an amount deemed necessary at the term-end based on the estimated amount of bonus payments.

(10) Allowance for bonus payments to directors and corporate auditors

Bonuses to directors and corporate auditors are recorded on an accrual basis which is linked to the Company's income. At the current year-end, bonuses to directors and corporate auditors were not recorded, due to difficulty in logically forecasting.

(11) Accrued pension and severance costs

Accrued pension and severance costs are provided based on an estimate of the pension and severance obligation and the plan assets at the end of the year.

Notes to Consolidated Financial Statements

Tsugami Co., Ltd. and Consolidated Subsidiaries

Net transition obligation in the amount of ¥2,180 million (\$21,759 thousand) is amortized to income over 15 years on a straight-line basis.

Actuarial gains and losses are charged to income over 5 years, which are shorter than the averaged remaining service period of employees, on a straight-line basis, beginning with the term following that in which differences were incurred.

(12) Retirement benefits for directors and corporate auditors

Provision is made in the maximum amount stipulated in the internal regulations for certain subsidiaries.

(13) Foreign currency translation

In accordance with the accounting standards of Japan for foreign currency transactions, assets and liabilities denominated in foreign currencies of the Company and its consolidated subsidiaries are principally translated into yen at the rate of exchange in effect at the balance sheet dates.

(14) Income taxes

Deferred tax assets and liabilities are determined based on the differences between financial reporting and the tax bases of the assets and liabilities and are measured using the enacted tax rates and laws which will be in effect when the differences are expected to reverse.

(15) Amounts per share of common stock

Net assets per share is based on the number of shares outstanding at the respective balance sheet dates. The computation of basic net income per share is based on the weighted average number of share of common stock outstanding during the respective fiscal year. Diluted net income per share is computed based on the weighted average number of shares of common stock outstanding during the respective fiscal year and assuming the exercise of stock option. Cash dividends per share represent the cash dividends declared as applicable to the respective year together with the interim cash dividends paid.

3 CHANGES IN ACCOUNTING POLICIES AND ADOPTION OF NEW ACCOUNTING STANDARDS

(1) Directors' Bonus

Effective from the fiscal year ended March 31, 2007, the Company adopted the "Accounting Standard for Directors' Bonus" (Accounting Standard Board of Japan, November 29, 2005, Corporate Accounting Standard No. 4). As a result, for the year ended March 31, 2007, operating income and income before income taxes all decreased by ¥15 million.

(2) Share-based Payment

Effective from the fiscal year ended March 31, 2007, the Company adopted "Accounting Standard for Share-based Payment" (Accounting Standards Board of Japan, December 27, 2005, Corporate Accounting Standard No. 8) and "Implementation Guidance on Accounting Standards for Share-based Payment" (Accounting

Standards Board of Japan, May 31, 2006, Corporate Accounting Standard Implementation Guidance No.11). As a result, for the year ended March 31, 2007, operating income and income before income taxes all decreased by ¥98 million.

(3) Presentation of net assets in the balance sheets

Effective from the fiscal year ended March 31, 2007, the Company adopted the "Accounting Standard for Presentation of Net Assets in the Balance Sheet" (Accounting Standards Board of Japan, December 9, 2005, Corporate Accounting Standard No. 5) and "Implementation Guidance on Accounting Standards for Presentation of Net Assets in the Balance Sheet" (Accounting Standards Board of Japan, December 9, 2005, Corporate Accounting Standard Implementation Guidance No. 8). This amount as of March 31, 2007 corresponding to the previous "Net Assets" is ¥23,356 million. Due to amendment of the Financial Statements Regulations, the Company prepares the presentation of net assets in the balance sheet as of March 31, 2007 based on the amended Financial Statements Regulations.

(4) Partial revision of Accounting Standard for Treasury stock and appropriation of legal reserves.

Effective from the fiscal year ended March 31, 2007, the Company adopted the revised "Accounting Standard for Treasury stock and Appropriation of Legal Reserves" (Accounting Standards Board of Japan, August 11, 2006, Revised Corporate Accounting Standard No.1) and "Implementation Guidance on Accounting Standard for Treasury stock and Appropriation of Legal Reserves" (Accounting Standards Board of Japan, August 11, 2006, Revised Corporate Accounting Standard Implementation Guidance No. 2).

(5) Depreciation methods used for amortization for tangible fixed assets

Effective from the fiscal year ended March 31, 2008, the Company and its domestic consolidated subsidiaries have changed their depreciation method in terms of the tangible fixed assets acquired after April 1, 2007 in accordance with the Corporation Tax Law as amended. As a result, operating income and income before income taxes all decreased by ¥20 million (\$201 thousand). (Additional information)

Effective from the fiscal year ended March 31, 2008, after having depreciated fixed assets acquired before March 31, 2007 up to 5 percent of the remaining acquisition cost based on the prior Corporate Tax Law, the Company and its domestic consolidated subsidiaries have depreciated 5 percent of the remaining acquisition cost less minimum salvage value, using a straight line method over 5 years and booked as depreciation expense, accordance to the corporation tax law as amended. As a result, operating income and income before income taxes all decreased by ¥52 million (\$521 thousand).

4 CASH AND CASH EQUIVALENTS

Reconciliation of cash and time deposits shown in the consolidated balance sheets and cash and cash equivalents shown in the consolidated statements of cash flows as of March 31, 2007 and 2008 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2008	2008
Cash and time deposits	¥3,577	¥3,402	\$33,959
Less: Time deposits with maturities exceeding three months	(80)	(50)	(499)
Cash and cash equivalents	¥3,497	¥3,352	\$33,460

5 SIGNIFICANT NON-CASH TRANSACTIONS

Retirement of treasury stock: ¥4,532 million (\$45,234 thousand)

6 INVESTMENT SECURITIES

The aggregate acquisition cost and fair value of securities with fair value (equity and debt securities) as of March 31, 2007 and 2008 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2008	2008
Acquisition cost	¥1,184	¥2,400	\$23,953
Fair value	2,196	2,468	24,628
Unrealized gain	¥1,012	¥ 68	\$ 675

The aggregate acquisition cost of securities without fair value was ¥11 million as of March 31, 2007 and ¥4 million (\$43 thousand) as of March 31, 2008.

Available-for-sale securities sold during the years ended March 31, 2007 and 2008 were as follows:

	Millions of yen			Thousands of U.S. dollars					
	2007	2008	2008	2007	2008	2008			
Sales amount	¥201	¥0	—	¥40	¥10	—	\$402	\$104	—

7 INVENTORIES

Inventories as of March 31, 2007 and 2008 consisted of the following items:

	Millions of yen		Thousands of U.S. dollars
	2007	2008	2008
Goods and finished products	¥853	¥1,009	\$10,071
Work in process	5,306	6,504	64,915
Raw materials and supplies	1,500	1,533	15,304
	¥7,659	¥9,046	\$90,290

8 ACCRUED PENSION AND SEVERANCE COSTS

The Company and its domestic subsidiaries use a combined funded non-contributory tax-qualified retirement pension plans and lump-sum retirement benefit plans.

(1) Actuarial present value of projected benefit obligations

	Millions of yen		Thousands of U.S. dollars
	2007	2008	2008
Actuarial present value of projected benefit obligations	¥(2,467)	¥(2,451)	\$(24,467)
Plan assets	395	526	5,253
Net transition obligation	1,122	982	9,806
Unrecognized net actuarial losses	199	153	1,522
Accrued pension and severance costs	¥ (751)	¥ (790)	\$ (7,886)

Consolidated subsidiaries employ the simplified method for calculation of retirement benefit obligations.

(2) Components of periodic pension and severance cost

	Millions of yen		Thousands of U.S. dollars
	2007	2008	2008
Service cost	¥123	¥130	\$1,298
Interest cost	35	35	350
Expected return on plan assets	(5)	(7)	(73)
Amortization of net transition obligation	140	140	1,393
Actuarial loss	95	100	1,001
Periodic pension and severance cost	¥388	¥398	\$3,969

Pensions and severance cost of consolidated subsidiaries are included in service cost.

(3) Major assumptions at the beginning of year

	2007	2008
Allocation method of pension and severance costs	Straight-line basis	Straight-line basis
Discount rate (%)	1.5	1.5
Expected rate of return on plan assets (%)	2.0	2.0
Period of amortization of net actuarial losses	5 years beginning with the following period when actuarial differences incurred	5 years beginning with the following period when actuarial differences incurred
Period of recognition of transition obligation (year)	15	15

9 INCOME TAXES

The Company and its consolidated subsidiaries are subject to a number of taxes based on income which, in the aggregate, resulted in statutory tax rate of approximately 40.7% in 2007 and 2008, respectively. Data for the year ended March 31, 2008, has been omitted because the difference between effective tax rate and actual tax rate was not material. The effective tax rate reflected in the consolidated statements of income for the year ended March 31, 2007 differ from the statutory tax rate for the following reasons:

	2007	2008
Statutory tax rate (Reconciliation)	40.7%	—
Decline in valuation allowance	(5.5)	—
Inhabitants' taxes	0.4	—
Tax credit for increased research and development expenses	(1.3)	—
Non-deductible expenses such as entertainment expenses	0.2	—
Non-taxable income such as dividend income	(0.1)	—
Other, net	(0.5)	—
Effective tax rate	33.9%	—

The significant components of deferred tax assets and liabilities as of March 31, 2007 and 2008 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2008	2008
Deferred tax assets:			
Allowance for doubtful accounts	¥ 36	¥ 25	\$ 251
Accrued employees' bonuses	140	133	1,328
Accrued retirement benefits	313	329	3,285
Loss on valuation of investment securities	381	360	3,592
Loss on valuation of inventories	13	11	107
Loss on impairment of fixed assets	122	122	1,215
Accrued enterprise taxes	95	56	559
Other	116	110	1,104
Gross deferred tax assets	1,216	1,146	11,441
Less valuation allowance	(689)	(630)	(6,292)
Total deferred tax assets	527	516	5,149
Deferred tax liabilities:			
Net unrealized gain on securities	(412)	(28)	(275)
Deferred tax liabilities	(412)	(28)	(275)
Net deferred tax assets (liabilities)	¥115	¥488	\$4,874

10 NET ASSETS

The Japanese New Company Law (the "Law") requires at least 50% of the issue price of new shares to be designated as stated capital as determined by resolution of the Board of Directors. Proceeds in excess of amounts designated as stated capital are credited to additional paid-in capital, which is included in capital surplus. The Company may transfer portions of additional paid-in capital to stated capital by resolutions of the shareholders. The Company may also transfer portions of additional paid-in capital to earnings available for dividends by resolution of the shareholders.

Retained earnings include a legal reserve provided in accordance with the provisions of the Law. This reserve is not available for common stock, but it is available for dividends and may be used to reduce or eliminate a deficit by resolution of the shareholders.

Dividends are determined by resolution of the Board of Directors according to the limitation of the Law. In addition, quarterly dividends, semiannual interim dividends may be paid. Cash dividends charged to retained earnings during the fiscal year were year-end cash dividends for the preceding fiscal year and interim cash dividends for the current fiscal year. The Law provides that an amount equal to at least 10% of the amounts to be disbursed as distributions of earnings be appropriated to the additional paid-in capital or the legal reserve until the sum of the legal reserve and additional paid-in capital equals 25% of the common stock account. The Law also stipulates that, to the extent

that the sum of the additional paid-in capital account and the legal reserve exceeds 25% of the common stock account. The amount of any such excess is available for appropriation by resolution of the shareholders.

11 MATTERS RELATED TO THE TYPE AND TOTAL NUMBER OF SHARES OUTSTANDING AND THE TYPE AND NUMBER OF TREASURY STOCK WERE AS FOLLOWS:

	Thousands of shares			
	Number of shares as of March 31, 2007	Increase in the number of shares during the year ended March 31, 2008	Decrease in the number of shares during the year ended March 31, 2008	Number of shares as of March 31, 2008
Number of shares outstanding				
Common stock	79,019	–	11,000	68,019
Total	79,019	–	11,000	68,019
Treasury stock				
Common stock	6,342	4,824	11,035	131
Total	6,342	4,824	11,035	131

The decrease of 11,000 thousand in the number of common shares outstanding resulted from retirement of shares.

The increase of 4,824 thousand in the number of common shares of treasury stock is due to an increase of 13 thousand resulting from the purchase of less-than-one-unit shares and to acquisition of 4,811 thousand common shares in treasury stock by the Company.

The decrease of 11,035 thousand in the number of common shares of treasury stock is attributed to a decrease of 35 thousand resulting from the exercise of stock options and a decline of 11,000 thousand due to retirement.

12 STOCK OPTION PLANS

(1) Outline of stock options

The following table summarized terms and conditions of stock option plans as of March 31, 2008:

	The maximum number of shares to be issued	Exercisable period of the stock option	Exercise price per share	Issue price per share when exercise	Paid-in capital per share
Stock option I (stock purchase right)	195,000	From July 1, 2006 to June 30, 2009	¥286 \$2.85	¥286 \$2.85	¥143 \$1.43
Stock option II (stock purchase right)	360,000	From July 1, 2007 to June 30, 2010	¥575 \$5.74	¥575 \$5.74	¥288 \$2.87
Stock option III (based compensation plan)	180,000	From July 1, 2005 to June 30, 2025	¥1 \$0.01	¥1 \$0.01	¥1 \$0.01
Stock option IV (stock purchase right)	340,000	From July 4, 2008 to June 30, 2011	¥759 \$7.58	¥935 \$9.33	¥468 \$4.67
Stock option V (based compensation plan)	78,000	From July 21, 2006 to July 20, 2026	¥1 \$0.01	¥609 \$6.08	¥305 \$3.04
Stock option VI (based compensation plan)	59,000	From July 21, 2006 to July 20, 2026	¥1 \$0.01	¥609 \$6.08	¥305 \$3.04
Stock option VII (stock purchase right)	350,000	From July 10, 2009 to June 30, 2012	¥600 \$5.99	¥738 \$7.37	¥369 \$3.68
Stock option VIII (based compensation plan)	101,000	From July 10, 2007 to July 9, 2027	¥1 \$0.01	¥514 \$5.13	¥257 \$2.57
Stock option IX (based compensation plan)	89,000	From July 10, 2007 to July 9, 2027	¥1 \$0.01	¥514 \$5.13	¥257 \$2.57

A part of each stock option cannot be exercised. Provide the condition of other execution of rights in "New stock subscription right allocation contract" concluded among the Company and the object people.

In order to transfer stock option, the approval of board of directors is required.

(2) Valuation technique used for valuating fair value of stock options

Stock option VII, Stock option VIII and Stock option IX granted in the fiscal year ended March 31, 2008 were valuated using the following valuation technique.

(a) Valuation technique: Black-Scholes option-pricing model

(b) Principal parameters used in the option-pricing model

	Expected volatility (*1)	Average expected life (*2)	Expected dividends (*3)	Risk-free interest rate (*4)
Stock option VII (stock purchase right)	33.058%	3.5 years	10 yen per share	1.299%
Stock option VIII (based compensation plan)	58.605%	10.0 years	10 yen per share	1.934%
Stock option IX (based compensation plan)	58.605%	10.0 years	10 yen per share	1.934%

(*) 1. Stock option VII is calculated based on the closing stock price at the last trading day of each month during the 3.5 years from January 4, 2004 to July 3, 2007.

Stock option VIII and Stock option IX is calculated based on the closing stock price at the last trading day of each month during the 10 years from June 1997 to June 2007.

- The average expected life could not be estimated rationally due to insufficient amount of data. Therefore, it was estimated assuming that the options were exercised at the mid point of the exercise period.
- The actual dividends on common stock for the fiscal year ended March 31, 2007.
- Japanese government bond yield corresponding to the average expected life.

(3) Method of estimating number of stock options vested

Only the actual number of forfeited stock options is reflected because it is difficult to rationally estimate the number of stock options that will be forfeited in the future.

13 LEASE INFORMATION

Finance leases which do not transfer ownership are as follows:

(1) Acquisition costs, accumulated depreciation and balance

	Millions of yen		Thousands of U.S. dollars
	2007	2008	2008
Machinery and equipment			
Acquisition costs	¥43	¥39	\$393
Accumulated depreciation	26	27	275
Balance	17	12	118
Other tangible fixed assets			
Acquisition costs	96	76	757
Accumulated depreciation	54	48	474
Balance	42	28	283
Intangible assets			
Acquisition costs	32	22	216
Accumulated depreciation	20	16	156
Balance	¥12	¥ 6	\$ 60

Acquisition costs are calculated including the interest, as the ratio of the term-end balance of future lease rental payments to the term-end balance of tangible fixed assets is low.

(2) Future lease rental payments of finance leases

	Millions of yen		Thousands of U.S. dollars
	2007	2008	2008
Current portion	¥29	¥25	\$250
Non-current portion	42	21	211
Total	¥71	¥46	\$461

Future lease rental payments are calculated including interest, as the ratio of the term-end balance of future lease rental payments to the term-end balance of tangible fixed assets is low.

(3) Lease payments and depreciation

	Millions of yen		Thousands of U.S. dollars
	2007	2008	2008
Lease payments	¥33	¥30	\$296
Estimated depreciations expense	33	30	296

(4) Calculation of depreciation

The amounts equivalent to depreciation are calculated by assuming leasing periods as useful lives and residual value as zero on a straight-line basis.

14 CONTINGENT LIABILITIES

Contingent liabilities were as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2008	2008
Bills of exchange without L/C	¥2,688	¥2,268	\$22,635
Trade notes receivable discounted	1,000	1,315	13,123
Transfer of notes for endorsement	54	–	–

Notes to Consolidated Financial Statements

Tsugami Co., Ltd. and Consolidated Subsidiaries

15 RESEARCH AND DEVELOPMENT COSTS

Research and development costs included in cost of sales and general and administrative expenses were ¥636 million and ¥471 million (\$4,698 thousand) for the years ended March 31, 2007 and 2008, respectively.

16 SEGMENT INFORMATION

The Company and its consolidated subsidiaries (the "Group") are primarily engaged in the sales and manufacture of products in two major segments.

1) Machine tool: CNC precision automatic lathes, CNC cylindrical grinding machines, precision machining centers, precision turning centers, and precision thread rolling machines.

2) Specialized machining and other business: specialty equipment, gauge blocks, roll dies, and screw inserts Business segments and overseas sales of the Group for the years ended March 31 2007 and 2008 are as follows:

(a) Business segments

Year ended March 31, 2007	Millions of yen				
	Machine tool business	Specialized machining and other business	Total	Corporate and elimination	Consolidation
Sales and operating income:					
Sales to third parties	¥32,775	¥3,782	¥36,557	¥ -	¥36,557
Intersegment sales and transfer	-	-	-	-	-
Total sales	32,775	3,782	36,557	-	36,557
Cost of revenue from operations	27,122	3,197	30,319	759	31,078
Operating income	¥ 5,653	¥ 585	¥ 6,238	(¥ 759)	¥ 5,479
Assets, depreciation and capital expenditure:					
Assets	¥26,334	¥3,665	¥29,999	¥5,945	¥35,944
Depreciation	574	163	737	23	760
Capital expenditure	782	172	954	-	954

Year ended March 31, 2008	Millions of yen				
	Machine tool business	Specialized machining and other business	Total	Corporate and elimination	Consolidation
Sales and operating income:					
Sales to third parties	¥27,057	¥1,438	¥28,495	¥ -	¥28,495
Intersegment sales and transfer	-	-	-	-	-
Total sales	27,057	1,438	28,495	-	28,495
Cost of revenue from operations (*1)	23,703	1,241	24,944	766	25,710
Operating income	¥ 3,354	¥ 197	¥ 3,551	(¥ 766)	¥ 2,785
Assets, depreciation and capital expenditure:					
Assets (*2)	¥24,936	¥1,801	¥26,737	¥5,996	¥32,733
Depreciation (*3)	682	168	850	21	871
Capital expenditure (*3)	494	7	501	-	501

Year ended March 31, 2008	Thousands of U.S. dollars				
	Machine tool business	Specialized machining and other business	Total	Corporate and elimination	Consolidation
Sales and operating income:					
Sales to third parties	\$270,057	\$14,357	\$284,414	\$ -	\$284,414
Intersegment sales and transfer	-	-	-	-	-
Total sales	270,057	14,357	284,414	-	284,414
Cost of revenue from operations (*1)	236,586	12,388	248,974	7,645	256,619
Operating income	\$ 33,471	\$ 1,969	\$ 35,440	(\$ 7,645)	\$ 27,795
Assets, depreciation and capital expenditure:					
Assets (*2)	\$248,886	\$17,975	\$266,861	\$59,848	\$326,709
Depreciation (*3)	6,803	1,672	8,475	215	8,690
Capital expenditure (*3)	4,935	67	5,002	-	5,002

(*1) Cost of revenue from operations included in Corporate and elimination were ¥766 million (\$7,645 thousand), consisting mainly of cost related to administrative operations.

2. Corporate assets included in Corporate and elimination were ¥5,996 million (\$59,848 thousand), consisting mainly of financial assets of the Company (cash and time deposits, short-term investments in securities, and investments in securities), and assets related to administrative operations.

3. Depreciation and Capital expenditure include amounts relating to long-term prepaid expenses and their depreciation.

(b) Overseas sales

Overseas sales, which include export sales of the Company and its domestic consolidated subsidiaries, are as follows:

Year ended March 31, 2007	Millions of yen			
	Asia	North America	Europe	Total
Overseas sales	¥11,361	¥3,297	¥639	¥15,297
Consolidated sales				36,557
Ratio of overseas sales to consolidated sales	31.1%	9.0%	1.7%	41.8%

Year ended March 31, 2008	Millions of yen			
	Asia	North America	Europe	Total
Overseas sales	¥9,356	¥1,545	¥2,771	¥13,672
Consolidated sales				28,495
Ratio of overseas sales to consolidated sales	32.9%	5.4%	9.7%	48.0%

Year ended March 31, 2008	Thousands of U.S. dollars			
	Asia	North America	Europe	Total
Overseas sales	\$93,386	\$15,419	\$27,654	\$136,459
Consolidated sales				284,414
Ratio of overseas sales to consolidated sales	32.9%	5.4%	9.7%	48.0%

17 RELATED PARTIES

Significant transactions and balances with related parties as of and for the years ended March 31, 2007 and 2008 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2008	2008
TOKYO SEIMITSU CO., LTD.			
Sales	¥1,877	¥619	\$6,183
Trade notes and accounts receivable	437	1	7
Purchases	103	74	741
Trade notes and accounts payable	26	26	256
Payment for purchase of property, plant and equipment	15	2	15
Notes payable-equipment	10	-	-

We disclose the transaction with Tokyo Seimitsu Co., Ltd. because Kazuo Fujimori, a corporate auditor of Tsugami Co., Ltd., serves as a representative director of Tokyo Seimitsu.

18 NET INCOME PER SHARE

A reconciliation of the numerators and denominators between basic and diluted net income per share for the years ended March 31, 2007 and 2008 is as follows:

Year ended March 31	Millions of yen		Thousands of U.S. dollars
	2007	2008	2008
Net income	¥3,448	¥1,630	\$16,268
Net income unavailable to common shareholders (bonus paid to directors)	—	—	—
Net income available to common shareholders and assumed conversions	¥3,448	¥1,630	\$16,268

Year ended March 31	Thousands of shares	
	2007	2008
Weighted-average number of shares of common stock outstanding for the year	74,365	70,775
Incremental shares from assumed conversions of dilutive stock option	499	531
Weighted-average number of shares of diluted common stock outstanding for the year	74,864	71,307

Year ended March 31	Yen		U.S. dollars
	2007	2008	2008
Net income per share of common stock:			
-Basic	¥46.36	¥23.03	\$0.23
-Diluted	46.05	22.86	0.23

19 SUBSEQUENT EVENT

(1) The following appropriations of retained earnings of the Company, which have not been reflected in the accompanying consolidated financial statements for the year ended March 31, 2008, were approved by the Board of Directors at a meeting held on May 15, 2008.

Year-end cash dividends (¥5 = U.S.\$0.05 per share)	Millions of yen	Thousands of U.S. dollars
	¥339	\$3,388

(2) Stock option

The company passed a resolution for issuance of stock subscription rights at the general meeting of shareholders held on June 20, 2008.

Independent Auditors' Report

To the Shareholders and Board of Directors of
Tsugami Co., Ltd.:

We have audited the accompanying consolidated balance sheets of Tsugami Co., Ltd. and consolidated subsidiaries as of March 31, 2008 and 2007, and the related consolidated statements of income, change in net assets and cash flows for the years then ended, expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to independently express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Tsugami Co., Ltd. and subsidiaries as of March 31, 2008 and 2007, and the consolidated results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in Japan.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2008 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

KPMG AZSA & Co.

Tokyo, Japan
June 20, 2008

Corporate Data / Corporate Governance

As of March 31, 2008

Corporate Name	Tsugami Corporation
Established	March 15, 1937
Head Office	9-10, Horidome-cho 1-chome, Nihombashi, Chuo-ku, Tokyo
Paid-in Capital	10,599 million yen
Number of Employees	591
Directors and Auditors (As of June 20, 2008)	
Chairman and C.E.O.	Takao Nishijima
Directors	Tadashi Narisawa Yoshiharu Kikuchi Nobuyuki Moriuchi Toshiharu Nijima Hiroshi Terai Nobuo Nakagawa
Standing statutory auditor	Ikuo Oomiya
Statutory auditors	Kyouji Umeoka Kouichiro Watanabe 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	
Shinshu Plant: 3600 Nakagomi, Saku-shi, Nagano	
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 GmbH.	

Corporate Governance

The basis of the management of the Company is to contribute to society by always anticipating the needs of the market and to create new value based on precision technologies, which we have been cultivating since our founding. Under this basic policy, we will strive to further enhance legal compliance and aim at sound and transparent management in order to properly execute duties and continue to grow over the long term.

Tsugami recognizes the return of profits to shareholders as one of its most important business tasks. Under the principle of steady dividend payments and retaining treasury stocks, we will return profits depending on the improvement levels of our consolidated earnings.

1. Corporate governance system

The Company has adopted the corporate auditor system, consisting of the Board of Directors and the Board of Statutory Auditors. The Board of Directors and the Board of Statutory Auditors are our basic structure of corporate governance.

The Board of Directors of the Company is comprised seven directors, with one outside directors, as of June 20, 2008. The term of directors is set at one year to better clarify management responsibility.

The Board of Statutory Auditors is made up of four statutory auditors, including three outside statutory auditors. The statutory auditors always attend the meetings of the Board of Directors and other major meetings, and audit the execution of duties by directors as well as company-wide business and financial conditions.

2. Status of establishment of internal control system and risk management system

As one of its most important business tasks, the Company is committed to the establishment of a system for securing proper business operations and credible financial reporting (internal control system).

Specifically, Tsugami set up the "Audit Office," an organization under the direct control of the president, with the aim of auditing such situations as compliance with laws, regulations, Articles of Incorporation, etc. which are related to the Company and its subsidiaries. In conjunction with such efforts, it is striving to manage the risk of loss and secure proper business operations.

Tsugami has formulated a basic policy to meet requirements for the establishment of a system to exclude antisocial forces. The Company is making all its employees aware of the policy through the "Tsugami Group Code of Conduct." In order to ensure that all employees execute their duties in compliance with laws, regulations and the Articles of Incorporation, the Company has established systems such as the "Compliance Committee," the "Information Security Committee," the "Business Improvement Committee," and the "Whistle-blowing System."

Tsugami will establish the "Risk Management Committee," aimed at identifying and managing any kind of risks inherent in our business activities, and build a system for preventing and preparing for possible risks.

Stock Information

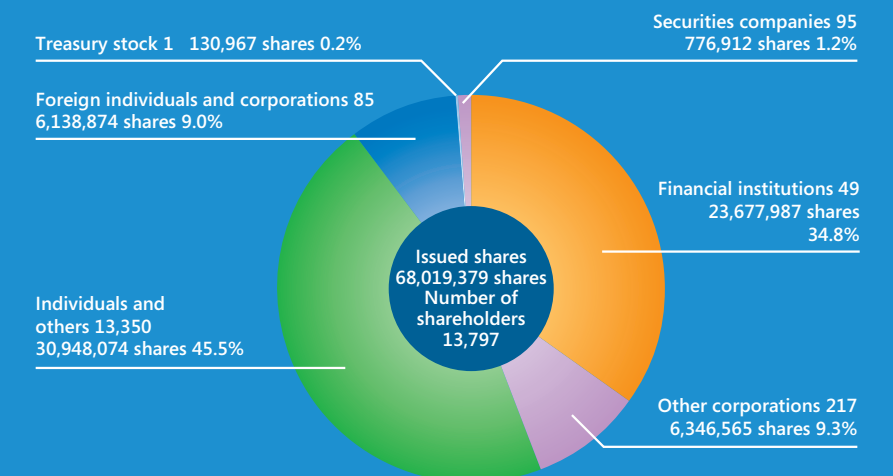
As of March 31, 2008

Authorized shares	320,000,000 shares
Issued shares	68,019,379 shares
Number of shareholders	13,797
Major shareholders	

Shareholders	Investment in the Company		Investment in shareholders	
	Number of shares held	Ownership ratio	Number of shares held	Ownership ratio
	Thousands	%	Thousands	%
Mizuho Trust and Banking Co., Ltd. (Pension trust account for Tokyo Seimitsu Co., 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 percentage are truncated to two decimal places.
2. The 4,592 thousand shares held by Mizuho Trust & Banking Co., Ltd. (pension trust account for Tokyo Seimitsu Co., 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)

Stock price / volume	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