

# ***Annual Review 2006***

**Year ended March 31, 2007**

**Furusato Industries, Ltd.**



In the fiscal year ended March 31, 2007, the Furusato Group marked the 8th anniversary of its founding. Without the support of our stakeholders, we would not have been able to come this far. We would like to express our sincere gratitude for all of you in this regards.

Meanwhile, we will present the financial results for the year ended March 31, 2007 and the forecasts for the year ending March 31, 2008.

Furthermore, we would like to ask for all of your renewed support and understanding as we continue on our quest.

Ryoichi Furusato  
Chairman and Representative Director

Ryohei Furusato  
President and Representative Director

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**Forward-looking Statements**

The forecasts involve our management's assumptions, prospects and plans based on the information currently available. Actual results may differ materially from the expectations depending on various factors.

## ■ Consolidated Financial Highlights (Japan GAAP)

### Operating Results

Fiscal year		2002	2003	2004	2005	2006
Net sales	Millions of yen	51,877	62,032	74,739	84,129	90,378
Gross profit	Millions of yen	7,637	9,196	11,568	12,562	13,334
Operating income	Millions of yen	7	1,575	3,800	4,681	5,097
Ordinary income	Millions of yen	422	2,003	4,226	5,148	5,518
Net income	Millions of yen	(137)	778	1,772	2,880	3,154
Capital investments	Millions of yen	283	1,890	242	356	534
Depreciation & amortization	Millions of yen	380	409	393	364	360

### Ratio of Profits to Net Sales

Fiscal year		2002	2003	2004	2005	2006
Gross profit margin	%	14.7	14.8	15.5	14.9	14.8
Operating income margin	%	0.0	2.5	5.1	5.6	5.6
Ordinary income margin	%	0.8	3.2	5.7	6.1	6.1
Net income margin	%	(0.3)	1.3	2.4	3.4	3.5

### Financial Position

Fiscal year		2002	2003	2004	2005	2006
Net assets	Millions of yen	18,734	19,346	20,866	23,950	27,496
Total assets	Millions of yen	32,206	36,286	41,327	45,580	50,715
Net assets to total assets	%	58.2	53.3	50.5	52.5	54.2

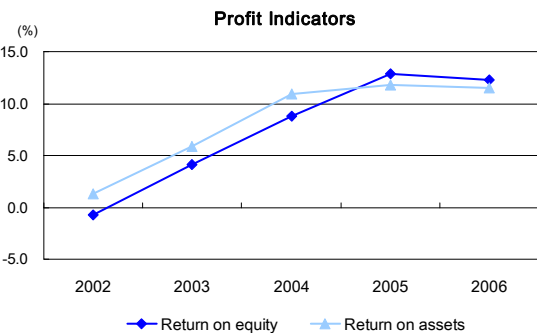
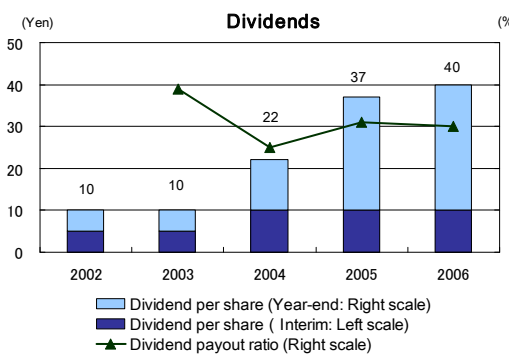
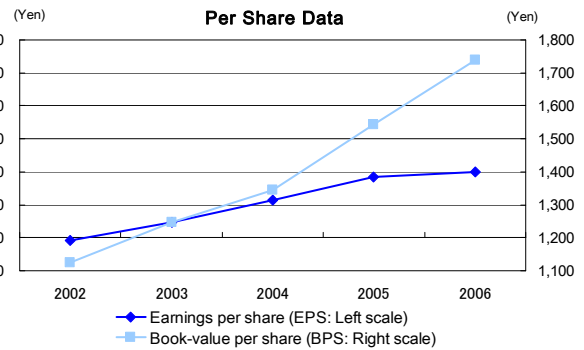
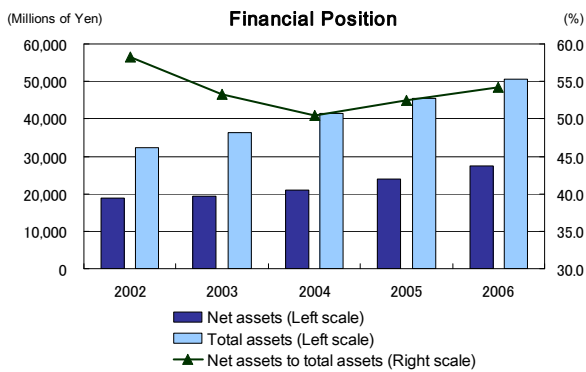
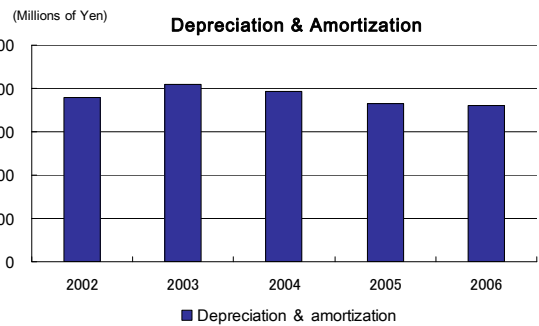
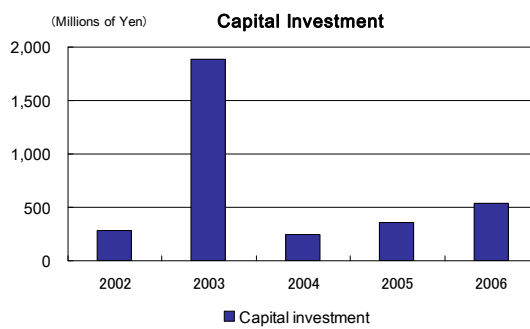
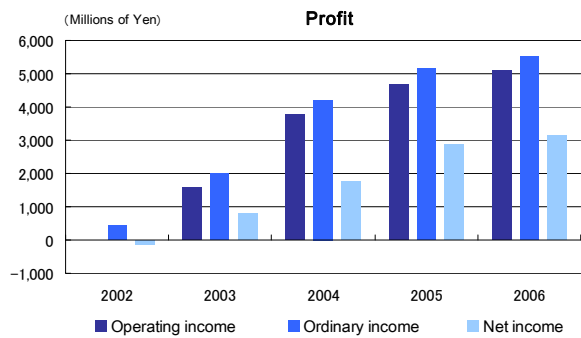
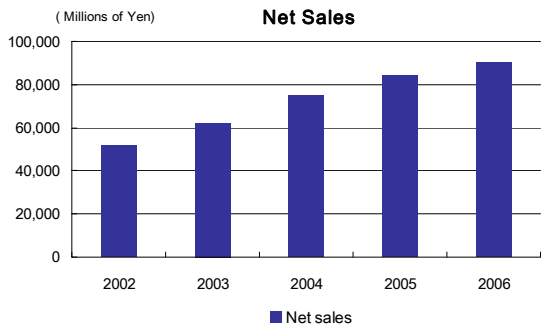
### Per Share Data

Fiscal year		2002	2003	2004	2005	2006
Earnings per share	Yen	(9.62)	47.83	113.00	184.37	199.86
Book-value per share	Yen	1,123.80	1,245.34	1,344.86	1,544.22	1,739.63
Dividend per share (Annual)	Yen	10	10	22	37	40

### Profit Indicators

Fiscal year		2002	2003	2004	2005	2006
Return on equity	%	(0.7)	4.1	8.8	12.9	12.3
Return on assets	%	1.3	5.8	10.9	11.8	11.5
Dividend payout ratio	%	–	20.9	19.5	20.1	20.0

# Consolidated Financial Highlights (Japan GAAP)



**Q What was the main market trend in fiscal 2006?**

**A** In steel frame building market, business domain of Furusato Industries, Ltd., the steel frame used in 2006 (calendar year) recorded 7.3 million ton, flat for three consecutive years. The highest record of steel frame used was 12.2 million ton in 1990. The current level is 60% of the peak volume, which is expected to remain for a while.

Regarding non-dwelling steel frame building construction starts by use, Factories marked strong growth for two consecutive years, up 13% year over year while Warehouses was up 15 %, compared with 2006 that was flat from 2005, led by strong capital investment in production facilities.

In the market of Machine Tools segment, the core of G-net, the machine tools orders remained at a high level. The domestic demand showed a slowdown in growth compared with positive overseas demand so that it is difficult to forecast the future trend. Meanwhile, Indices of Industrial Production indicating status of factory operating ratio has stayed at a high level for two consecutive years, which showed positive manufacturing activities in Japan.



**Q Would you explain the business results of Furusato Group for the year ended March 31, 2007?**

**A** In fiscal 2006, consolidated net sales recorded ¥90.3 billion, up 7.4% year over year. On the earnings front, operating income was ¥5.0 billion yen, up 8.9%, ordinary income was ¥5.5 billion, up 7.2%, and net income was ¥3.1 billion, up 9.5%.

Regarding the operating results by segment, in the Machine Tools segment, net sales recorded ¥63.2 billion, up 6.8% year over year and operating income was ¥2.5 billion, up 16.3%. That benefited from double-digit growth in the sales volume of machine tools and stable growth in the Industrial Tools business with the highest sales volume of this Segment, backed by steady manufacturing activities.

In the Procured Construction Supplies segment, net sales totaled ¥20.8 billion, up 10.5 % compared with the previous fiscal year and operating income was ¥1.9 billion, up 8.4%. The Plumbing business included in this segment increased ¥1.2 billion, up 51.9%.

In the In-house Construction Supplies segment, net sales were ¥6.2 billion, up 4.5% and operating income was ¥0.5 billion, down 13.2%, positively impacted by sales growth in foundation bolts used for building structure, one of the key items.

**Q Please explain the business overview of the Machine Tools segment.**

**A** The Machine Tools segment consists of machines and industrial tools business and other businesses. The machines and industrial tools business accounted for more than 90% of total sales, led by the Industrial Tools business as the core field. In the Industrial Tools business offering machines, tools and consumable supplies used for production activities in the manufacturing industry, the demand tends to move moderately, associated with the Indices of Industrial Production. We define the Industrial Tools business as a pillar of the segment. We believe that this will be able to stabilize the segment results.

The Machines business offers mainly machine tools. The machine tool is a powered mechanical device to fabricate various components of machines used for manufacturing activities by machining. The demand for machine tools sensitively reflects capital investment trends in the manufacturing industry so that the Machines business faces high risks in cyclical changes of the economy.

In fiscal 2006, the Industrial Tools business with the highest sales volume in the segment steadily increased by 4.1% year over year. The Machines business was up 11.5%, backed by favorable orders received and by focus on marketing of major brand machine tools.

In other businesses, the Housing Equipments business offering housing-related equipments increased by 5.4% from the previous fiscal year.

**Q Would you explain the operating results in the steel frame construction supplies business?**

**A** In the steel frame construction supplies business which consists of the In-house Construction Supplies segment and the Procured Construction Supplies segment excluding the Plumbing business, net sales marked ¥23.2 billion, up 4.2% year over year.

We offer Furusato's main customers, steel fabricators who are engaged in steel-frame work, almost all supplies they use excluding steel products and some product categories.

In order to respond to "immediate needs", specific needs in the steel frame building industry, Furusato worked on setting up nationwide sales offices, enhancing inventory and distribution functions and introducing and renewing computer systems.

As a result of the efforts, our market share has expanded, led by turnbuckle braces which accounts for more than 60% of the market share in the turnbuckle brace market. We expect that the demand for the steel frame buildings will not change drastically so that this business will keep stable profit structure.

**Q What are the measures of the Plumbing business?**

**A** In the fourth year after the Plumbing business launched in 2003, net sales recorded ¥3.8 billion, up 51.9%.

We successfully established the business in a short period of time by fully leveraging the business model of the steel frame construction supplies business including nationwide sales networks, distribution systems and computer networks.

In the initial stage, sales staff serves both steel frame construction supplies market and plumbing market to develop the customer base of the Plumbing business. After achieving the target sales volume, we assign the full-time staff to develop the market further.

The Plumbing business generated the profit in the first year and has increased the positive impact on the consolidated earnings as the sales volume grows.

Although the market size of the Plumbing business is substantially larger than that of the steel frame construction supplies business, our current market share is very small. Accordingly, Furusato believes that the Plumbing business has high growth potential.

**Q What are the forecasts for Furusato Group's business results in the current fiscal year?**

**A** In Japanese economy, economic recovery is likely to be continued, backed by domestic private demand based on positive household sector impacted by continuous high corporate earnings, while the durability of economic growth is uncertain.

In the steel frame construction supplies business, the demand is expected to be flat from the previous fiscal year, while net sales will increase slightly, led by price inflation in steel products and a market share increase in foundation bolts and tools.

The Plumbing business plans to increase sales and income as a growing field by reinforcing the supplier base and assigning full-time staff.

The Machine Tools segment is likely to be softening due to nearly flat domestic machine tool orders and a slowdown in capital investment.

Accordingly, net sales are expected to be ¥91.6 billion, operating income ¥5.1 billion, net income ¥3.1 billion, and EPS ¥197.52. Annual cash dividend is expected to be ¥40 per share.

## 1. Management policy

〈Management objective〉

Furusato Group sets our management objective as “business continuity” to consistently fulfill our responsibilities to our stakeholders including shareholders, customers, business partners, employees, etc. We will identify our core competencies and exercise our unique competitive advantages. Then, we will be an indispensable corporate group for the society and secure sustainable profit structure. As a result, we believe that we can realize to become the “sustainable corporate group”.

〈Basic management principle and code of conduct〉

The basic management principle of Furusato Group is “customer first”, the origin of thoughts and conduct of all officers and employees. Based on this principle, we deal with anything our customers, the steel fabricators, need. Furthermore, Furusato provides customers anything they need, in the amounts, in the timing, and to the place as requested. This is our code of conduct.

With the aim of execution of the code of conduct, Furusato takes steady actions to improve infrastructures by efficient allocation of human resources, an increase in inventory items and a review of distribution network. In addition, we upgrade systems for order-taking, reporting and settlement management and foster a mindset of employees in order to respond to customers’ immediate needs. This is the basic management policy of Furusato Group.

## 2. Target management indicator

Furusato Group sets returns on equity (ROE) as our target management indicator. We strive to improve our corporate value and the returns of profits to shareholders with the aim of achieving the ROE of more than 10%.

## 3. Medium- to long-term corporate management strategy

Furusato Group sets Machine Tools segment, Procured Construction Supplies segment and In-house Construction Supplies segment as our core businesses. We will set up appropriate strategies for each segment, execute them steadily and build sustainable growth track based on the concept of the

“customer first”.

### (1) Maintaining and enhancing stable profit structure

In the Procured Construction Supplies segment and the In-house Construction Supplies segment, which enjoy high market share, we strive to develop and stabilize sales base to maintain solid profit structure and to increase sales volume by marketing new supplies and services. We aim to secure core fields as stable sources of income for Furusato Group through these measures.

### (2) Increasing market share by proactive investment

In the Machine Tools segment, targeting at the manufacturing industry with substantial market size, we aim to increase market share by reinforcing purchasing power through expansion of supplier base; by improving customer service with extension of inventory items and restructuring of distribution network and by proactively investing management resources in development of marketing methods and tools.

### (3) Fostering the new business

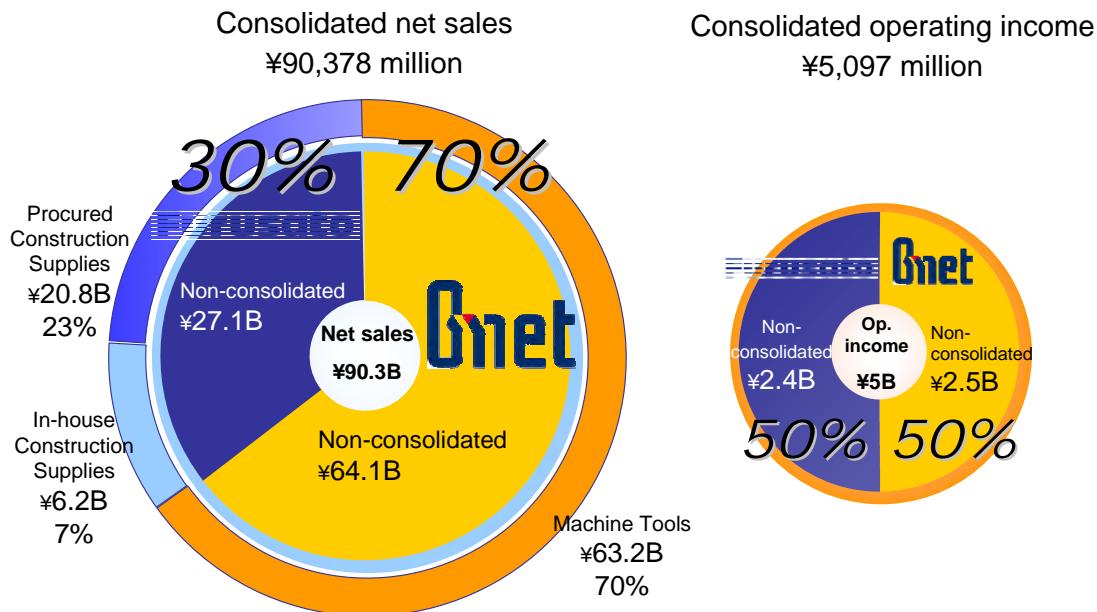
In order to diversify risks arising from concentration on a specific business and realize well-balanced profit structure and growth as Furusato Group, we consistently screen a new business field that can develop efficiently like the business related to the existing businesses. The ongoing Plumbing business has steadily increased sales volume by leveraging existing sales offices, warehouses and infrastructures including system network, etc.

### (4) Improving corporate value by organizational reform and proactive use of human resources

We work hard to improve social value and shareholder value as Furusato Group by enhancing the corporate governance; by getting rid of dishonesty and antisocial activism through reinforcement of compliance and by improving operational efficiency based on the proactive use of management resources.

## 4. Tasks ahead

Unexpected events may happen amid a process of rapid change as business environment is getting harsh. Under the circumstances, challenging issues to be solved is reinforcement of compliance, which is one of the priority issues to obey regulations as a corporate citizen and establish a system to get rid of dishonesty and anti-social activism.



**Furusato Group**

Furusato Group consists of three companies: Furusato Industries, Ltd., the parent company, and its wholly-owned subsidiaries, G-net Corporation and Wakaba Lease.

**Furusato Industries, Ltd.**

Furusato is listed on the First Section of Tokyo Stock Exchange and Osaka Securities Exchange. The major business of Furusato is steel frame building business offering a broad range of product line including in-house supplies like turnbuckle braces and procured supplies like high strength bolts to the steel frame building market. Moreover, Furusato enters into Plumbing business, the new business field, offering supplies used for plumbing systems in plants.

Basically, Furusato is a retailer. The target customers in the steel frame building business are steel fabricators. Meanwhile, in the Plumbing business, the major customers are plumbing engineers.

**G-net Corporation**

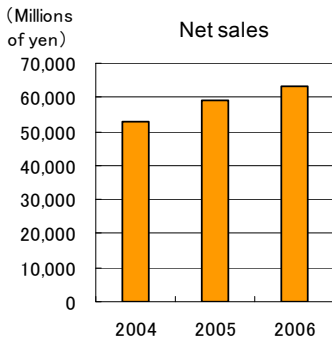
G-net is a wholly-owned subsidiary of Furusato, an unlisted, wholesale company. The major business of G-net is machines and industrial tools business offering various machines, tools, parts and consumable supplies used at domestic manufacturing sites.

G-net is positioned as a trading company specialized in machines and industrial tools that directly purchases machines and industrial tools from manufacturers and then offer them to users via sales dealers. The customers in this business are mainly sales dealers offering various kinds of machines and industrial tools to the manufacturing industry.

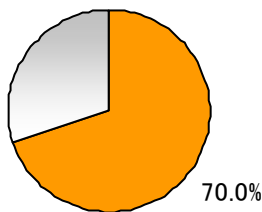
Besides that, G-net engages in housing equipments business, overseas business and business related to security systems.

**Wakaba Lease**

Wakaba Lease operates lease and insurance businesses.



Machine Tools  
% of Total sales



## Machine Tools

The Machine Tools segment includes all businesses of G-net Corporation. The major businesses consist of Industrial Tools business, Machine Tools business and FA System business. The Industrial Tools business offers small and medium-sized machines, equipments, tools, parts and consumable supplies as a wholesaler. The Machines business provides mainly machine tools by wholesale while the FA System business retails mainly machine tools. Net sales in these three businesses account for more than 90% of overall segment sales. Besides, the Housing Equipments business offers system kitchens, toilets, and unit baths to dealers. The Overseas Sales business develops and imports new supplies. The Other field includes sales of shop-lifting prevention security systems and security-related products.

### <Basic strategy>

■ Machine Tools segment – Maintaining balance in sales among segments

The Industrial Tools business offers supplies used for production activities in the manufacturing industry, so that the demand changes moderately and relatively remains stable. Meanwhile, the Machines business and the FA System business deal with mainly machine tools related to capital investment. Therefore, the demand for the machine

tools is volatile at high risk. In the Machine Tools segment, we aim for stable, balanced growth in overall segment by setting the Industrial Tools business with stable profit as a pillar of the segment, keeping the sales volume of this business over the certain level and allocating management resources according to the ratio of total sales.

■ Industrial Tools business-Establishing stable profit base by setting up core businesses

In the Industrial Tools business, “Metal working tools field”, a category of tools used for machining process by the machine tools is positioned as one of the core fields. The subcore field is “Industrial built-in equipment field” including machine elements such as motors and reduction gears built-in machines and equipments. We increase our recognition among customers by expanding product diversity in each product category and reinforcing business relationships with the major manufacturers. Furthermore, we differentiate from competitors by establishing the problem-solving sales methods to clarify the problems that our users are facing and will be encountering, and then by offering the methods with our knowledge to our dealers. Eventually, we aim to establish stable profit base by strengthening the core businesses.

■ Machines business-Increasing in market share of domestic machine tool orders

In the Machine Tools segment, we target at 3% of the market share of the domestic machine tool orders. The broad selection of machine tools offered by various manufacturers is crucial. Especially, we deal with the major brands of machine tools in main categories such as CNC turning center and machining center. Moreover, we sell machines for specialty use and distinctive machines and import and sell general machine tools that Japanese manufacturers nearly stop producing.

### <Major product line>

#### ■ Industrial Tools

- Metal working system (core field): cutting tools, toolings, vises and chucks
- Industrial built-in equipments (subcore field): motors, reduction gear, pneumatic and oil-hydraulic devices, industrial robots
- Other: Environmental equipments, facility equipments, general tools, measuring equipments, material handling

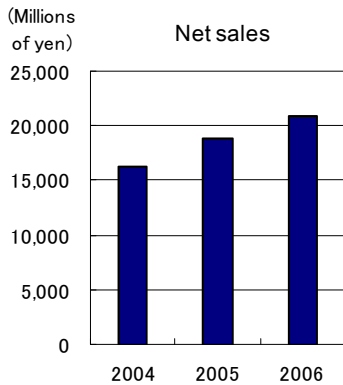
#### ■ Machines

- Machine tools, large machines

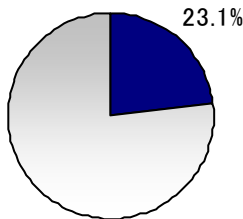
#### ■ Other businesses

- System kitchen, sanitary equipments, shop-lifting prevention security systems, monitoring camera





Procured Construction Supplies  
% of total sales



### Procured Construction Supplies

In the Procured Construction Supplies segment, a part of businesses of Furusato Industries, we purchase items from suppliers and retail them to customers. Originally, we set steel fabricators as our target customers. To be exact, we purchase supplies used by the steel fabricators from manufacturers and sell them directly to the steel fabricators.

Recently, we launched a new business, Plumbing business, retailing supplies to plumbing engineers to newly build or maintain pipe and plumbing facilities to transport a wide variety of fluids including liquid and gas at plants, etc.

#### <Basic strategy>

##### ■ Procured Construction Supplies segment-Respond to “immediate needs”

We purchase all items used by the steel fabricators from over 500 domestic and overseas suppliers. We attained high recognition from our customers by the convenience to get anything they need.

Regarding the delivery system, we have a community-based sales system with the sales offices nationwide to carry sufficient inventory. Therefore, we can respond to the immediate needs, the specialty needs that the steel fabricators face at construction sites.

##### ■ Plumbing business-Develop a new business at a low cost

A business strategy of the Plumbing business is based on the same concept of the Procured Construction Supplies segment. We established the business in a short period of time without high initial cost through

gradual business development by leveraging existing sales and distribution systems based on existing nationwide sales offices.

In the initial stage, all sales staff members in the steel frame building business develop the plumbing engineers in their own business area. Next, we assign full-time staff members to develop the market further in each sales office that achieves the target sales.

In the final step, considering further increase in the sales volume, the Plumbing division is established, however the capital investment hardly occurs because the Plumbing division uses the existing infrastructure.

#### <Product line for steel frame building industry>

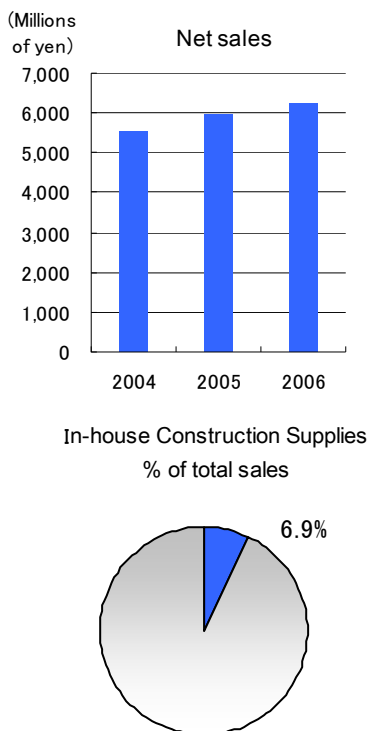
High strength bolts, fastening products, welding supplies, coating materials, tools



#### <Product line of Plumbing business>

Pipe & fittings, valve, flange, pipe, fastening products, welding supplies, tools





### In-house Construction Supplies

In the In-house Construction Supplies segment, another part of businesses of Furusato Industries, we sell the in-house manufacturing products to steel fabricators nationwide. Major products are Furu-Brace, braces for quake-resistant structure used in steel frame buildings, and foundation bolts used in building foundations.

#### <Basic strategy>

##### ■ Basic strategy 1-Manufacturing close to customers

In order to deliver our products to the customers as quickly as possible, we put our priority on a community-based manufacturing system with 12 factories from Hokkaido to Kyusyu including three major plants, Shiga Plant, Saitama Plant and Utsunomiya Plant. We manufacture primarily the Furu-Brace in each region. Besides, new standard JSS (Japanese Society of Steel Construction Standards) foundation bolts for building structure are manufactured at five factories nationwide.

Each plant also functions as a base point of the logistics network for in-house products, which contributes to reduction in lead-time and distribution costs. Therefore, the customers appreciate for our immediate responses to their requirements.

##### ■ Basic strategy 2-Providing high-quality JIS (Japanese Industrial Standards) brace from all plants

The Furu-Brace, a turnbuckle brace for quake-resistant structure, has a vital role in protecting human lives by adding the elasticity to the buildings in order to prevent buildings from collapsing in the event of big earthquakes. To fulfill the role, the standard for the JIS Brace is defined.

Furusato attained new JIS mark certifications at all factories. Now, we manufacture and sell the JIS braces.

#### <Product line>

Braces, foundation bolts, other products



JIS brace for quake-resistant structure



Foundation bolts



Other products

### Other segment

Here we mean a business of Wakaba Lease. This segment is omitted because Wakaba Lease accounts for less than 0.1% of consolidated sales and income.

## Consolidated Results

Fiscal year		2005		2006		Change	
		Amount	% of sales	Amount	% of sales	Amount	%
Net sales	Millions of yen	84,129	-	90,378	-	6,249	7.4%
Gross profit	Millions of yen	12,562	14.9%	13,334	14.8%	772	6.1%
SG&A expenses	Millions of yen	7,880	9.4%	8,237	9.1%	356	4.5%
Operating income	Millions of yen	4,681	5.6%	5,097	5.6%	415	8.9%
Ordinary income	Millions of yen	5,148	6.1%	5,518	6.1%	369	7.2%
Net income	Millions of yen	2,880	3.4%	3,154	3.5%	274	9.5%

### Record-high sales and income

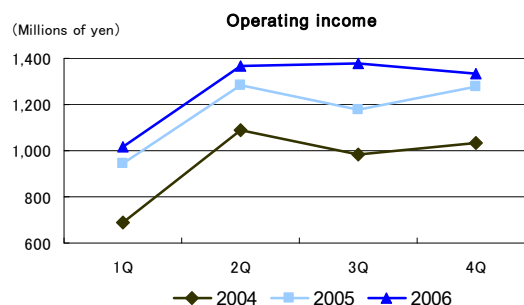
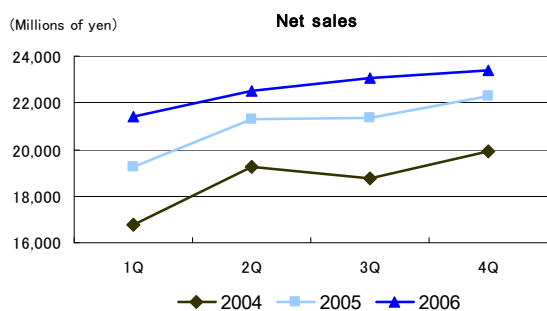
In fiscal 2006, consolidated net sales were ¥90,378 million, up 7.4% year over year. In the Machine Tools segment of Furusato Group, the favorable Machines business contributed to consistent growth in earnings, mainly led by steady machine tool orders. Meanwhile, the Procured Construction Supplies segment and the In-house Construction Supplies segment marked high growth, supported by slight volume increase in steel frame used for building construction starts including significant growth in

Factories and Warehouses, capital investment-related buildings.

The operating income for fiscal 2006 was up 8.9% to ¥5,097 million, ordinary income was up 7.2% to ¥5,518 million, and net income increased by 9.5% to ¥3,154 million compared to the previous fiscal year.

For the details of operating results by segment, please refer to "Results in fiscal 2006" in each segment.

### Quarterly sales and operating income



### Quarterly sales

Fiscal year		1Q	2Q	3Q	4Q	Total
2004	Millions of yen	16,753	19,279	18,777	19,928	74,739
2005	Millions of yen	19,238	21,294	21,325	22,270	84,129
2006	Millions of yen	21,381	22,496	23,086	23,414	90,378

### Quarterly operating income

Fiscal year		1Q	2Q	3Q	4Q	Total
2004	Millions of yen	691	1,091	985	1,031	3,800
2005	Millions of yen	943	1,281	1,177	1,279	4,681
2006	Millions of yen	1,018	1,365	1,377	1,335	5,097

[Market Overview]

In the machines and industrial tools market in fiscal 2006, the capital investment continued on an upward trend, led by improvement of corporate earnings and a rebound in demand in the manufacturing industry closely related to the Machine Tools segment. According to the statistics of machine tool orders, domestic demand was nearly flat from the previous year and stayed at high levels, which has exceeded production capacity of each manufacturer.

Meanwhile, the Indices of Industrial Production increased moderately overall, driven by steady growth in transportation equipments.

Of the businesses in this segment, the Machines business and the FA System business, offering the machine tools, are impacted by the trend in the capital investment. Meanwhile, the Industrial Tools business, providing small machinery and industrial tools, is associated with the Indices of the Industrial Production.

[Results in fiscal 2006]

**Steady Machines business and FA System business**

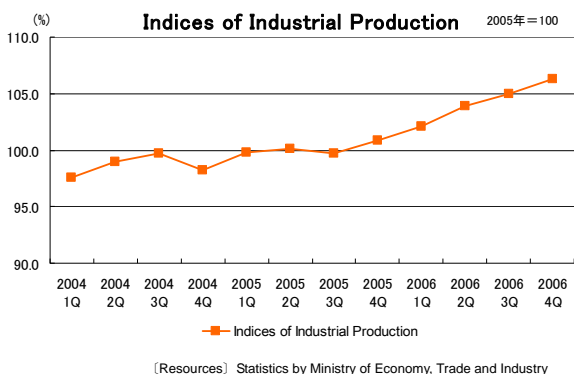
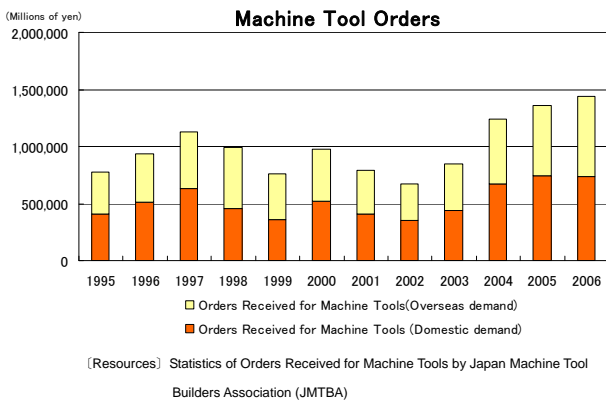
In fiscal 2006, in the Machine Tools segment, net sales in the Industrial Tools business, offering a broad range of industrial tools and equipments, increased 4.1% to ¥34,562 million, reflecting sales of new brands reported in the second half of fiscal 2006 as well as strong industrial production of the manufacturing industry.

In the Machines business, net sales were up 11.5% to ¥17,937 million surpassing steady results in the previous fiscal year by focusing on the sale of major manufacturers' machines.

In the FA System business retailing to users, net sales were up 13.3% to ¥6,740 million, driven by an increase in the orders received for expensive machine tools.

Regarding net sales in other businesses excluding the above three major businesses, the Housing Equipments was up 5.4% to ¥3,170 million, the Overseas Sales was down 18.3% to ¥359 million, and Others was down 14.9% to ¥467 million.

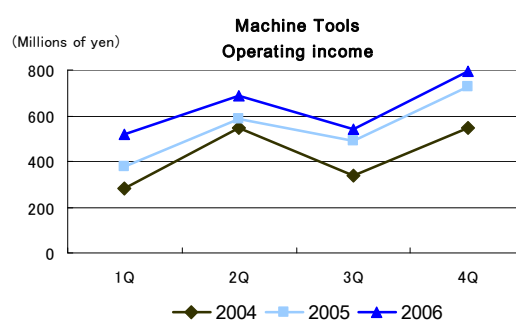
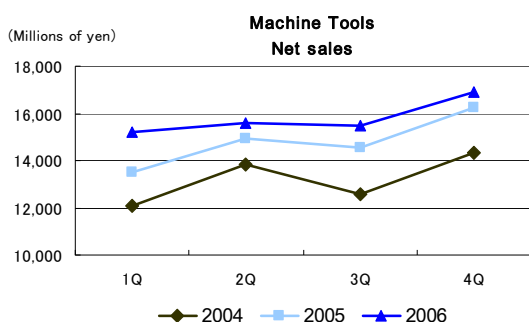
Accordingly, segment sales increased by 6.8% year over year to ¥63,237 million. Operating income was up 16.3% to ¥2,537 million.



**Machine Tools Segment**

Fiscal year		2005		2006		Change	
		Amount	% of sales	Amount	% of sales	Amount	%
Net sales	Millions of yen	59,229	-	<b>63,237</b>	-	4,007	6.8%
Gross profit	Millions of yen	6,105	10.3%	<b>6,601</b>	<b>10.4%</b>	495	8.1%
Operating income	Millions of yen	2,181	3.7%	<b>2,537</b>	<b>4.0%</b>	355	16.3%
<b>Net sales by business</b>							
Industrial Tools	Millions of yen	33,201	56.1%	<b>34,562</b>	<b>54.7%</b>	1,360	4.1%
Machines	Millions of yen	16,081	27.2%	<b>17,937</b>	<b>28.3%</b>	1,855	11.5%
FA System	Millions of yen	5,949	10.0%	<b>6,740</b>	<b>10.7%</b>	790	13.3%
Housing Equipments	Millions of yen	3,007	5.1%	<b>3,170</b>	<b>5.0%</b>	163	5.4%
Overseas Sales	Millions of yen	440	0.7%	<b>359</b>	<b>0.6%</b>	(80)	(18.3%)
Other	Millions of yen	549	0.9%	<b>467</b>	<b>0.7%</b>	(82)	(14.9%)

**Quarterly sales and operating income**



**Machine Tools quarterly sales**

Fiscal year		1Q	2Q	3Q	4Q	Total
2004	Millions of yen	12,104	13,837	12,562	14,314	52,819
2005	Millions of yen	13,492	14,923	14,565	16,248	59,229
2006	Millions of yen	15,227	15,586	15,496	16,927	63,237

**Machine Tools quarterly operating income**

Fiscal year		1Q	2Q	3Q	4Q	Total
2004	Millions of yen	282	546	336	545	1,711
2005	Millions of yen	379	588	488	724	2,181
2006	Millions of yen	516	687	541	792	2,537

[Market Overview]

The steel frame buildings were used mainly for non-dwelling such as office buildings, factories, distribution centers, and commercial facilities, which accounts for 40% of all buildings according to the floor area.

The steel frame used calculated based on the floor area of the steel frame building construction starts (steel frame structure and steel frame reinforced concrete structure) remains at the level of 7 million ton in recent years following the decrease after the peak volume in 1990.

The steel frame used in 2006 increased by 1.2% to 7.3 million ton. According to the floor area of steel frame buildings by use, dwelling decreased by 1.8% while non-dwelling related to the capital investment increased by 3.1%, of which Factories by 12.5% and Warehouses by 15.1%.

[Results in fiscal 2006]

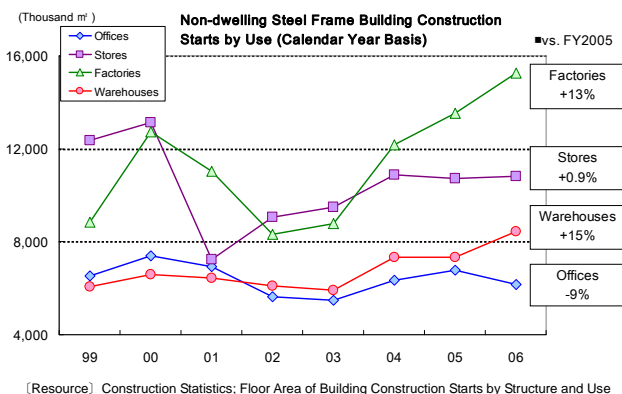
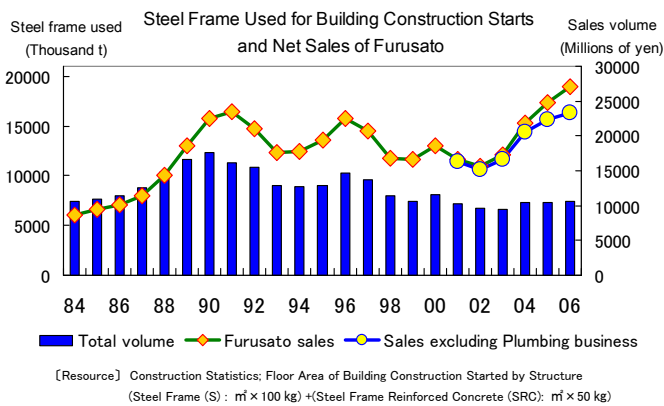
**Double digit growth in Steel Frame-related Supplies and Tools**

Regarding the Procured Construction Supplies segment in fiscal 2006, the prices of steel raw materials have not changed significantly. Additionally, unit price of orders received for steel frame fabrication was relatively stable.

Under the circumstances, in the steel frame building market, we worked hard to increase the sales volume led by tools and to maintain the selling prices.

Furthermore, net sales in the Plumbing business in this segment recorded ¥3.8 billion, up 51.9% from fiscal 2006, driven by expanding customer base through reinforcing sales force and enhancing procurement methods. As a result, the Plumbing business accounts for 14% of total sales of Furusato Industries.

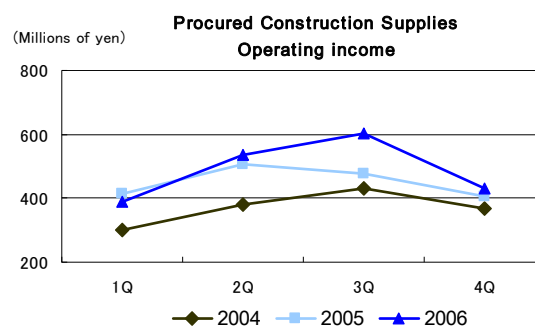
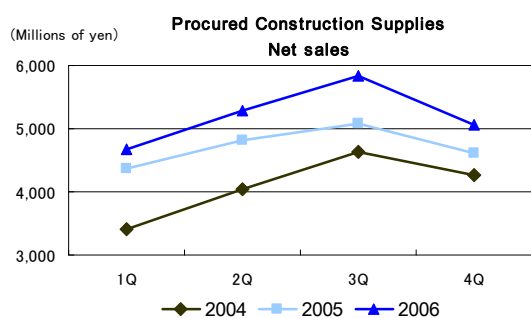
Accordingly, those strategies contributed to overall sales increase in this segment. Segment sales were up 10.5% to ¥20,870 million and operating income increased by 8.4% to ¥1,954 million compared with fiscal 2005.



## Procured Construction Supplies Segment

Fiscal year		2005		2006		Change	
		Amount	% of sales	Amount	% of sales	Amount	%
Net sales	Millions of yen	18,883	-	<b>20,870</b>	-	1,986	10.5%
Gross profit	Millions of yen	4,428	23.5%	<b>4,728</b>	<b>22.7%</b>	299	6.8%
Operating income	Millions of yen	1,803	9.6%	<b>1,954</b>	<b>9.4%</b>	150	8.4%
<b>Net sales by product line</b>							
High strength bolts	Millions of yen	4,810	25.5%	<b>4,987</b>	<b>23.9%</b>	177	3.7%
Fastening products	Millions of yen	2,114	11.2%	<b>2,291</b>	<b>11.0%</b>	176	8.3%
Coating materials	Millions of yen	486	2.6%	<b>528</b>	<b>2.5%</b>	42	8.8%
Welding supplies	Millions of yen	2,328	12.3%	<b>2,521</b>	<b>12.1%</b>	192	8.3%
Steel frame-related supplies	Millions of yen	6,850	36.3%	<b>7,958</b>	<b>38.1%</b>	1,108	16.2%
Tools	Millions of yen	2,293	12.1%	<b>2,582</b>	<b>12.4%</b>	289	12.6%

## Quarterly sales and operating income



## Procured Construction Supplies quarterly sales

Fiscal year		1Q	2Q	3Q	4Q	Total
2004	Millions of yen	3,402	4,045	4,630	4,256	16,335
2005	Millions of yen	4,363	4,823	5,087	4,609	18,883
2006	Millions of yen	4,677	5,290	5,845	5,056	20,870

## Procured Construction Supplies quarterly operating income

Fiscal year		1Q	2Q	3Q	4Q	Total
2004	Millions of yen	300	379	431	369	1,481
2005	Millions of yen	413	505	477	407	1,803
2006	Millions of yen	387	534	603	429	1,954

[Market Overview]

This section is omitted because this segment is targeting at the same market in which the Procured Construction Supplies segment operates.

[Results in fiscal 2006]

**Sales up, income down/Deterioration in margin due to fierce competition**

Regarding the In-house Construction Supplies segment, net sales of turnbuckle braces were up

3.7% from fiscal 2005 in line with sales volume increase by strong capital investment.

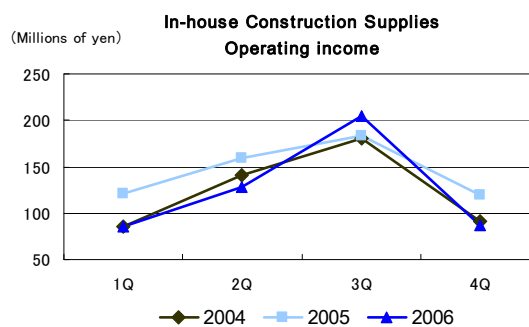
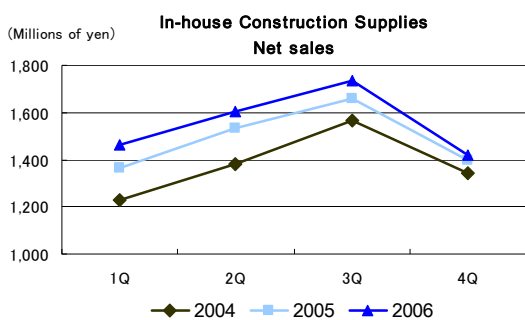
Regarding foundation bolts, sales expansion strategy of the foundation bolts for building structural use resulted in the significant sales increase by 13.9% from the previous fiscal year.

Consequently, segment sales were up 4.5% to ¥6,221 million, while operating income was down 13.2% to ¥507 million, negatively impacted by lower gross profit margin due to fierce competition.

**In-house Construction Supplies Segment**

Fiscal year		2005		2006		Change	
		Amount	% of sales	Amount	% of sales	Amount	%
Net sales	Millions of yen	5,956	-	6,221	-	265	4.5%
Gross profit	Millions of yen	1,995	33.5%	1,977	31.8%	(18)	(0.9%)
Operating income	Millions of yen	584	9.8%	507	8.2%	(77)	(13.2%)
<b>Net sales by product line</b>							
Turnbuckle braces	Millions of yen	4,918	82.6%	5,099	82.0%	181	3.7%
Foundation bolts	Millions of yen	444	7.5%	505	8.1%	61	13.9%
Other	Millions of yen	593	10.0%	616	9.9%	22	3.9%

**Quarterly sales and operating income**



**In-house Construction Supplies quarterly sales**

Fiscal year		1Q	2Q	3Q	4Q	Total
2004	Millions of yen	1,227	1,380	1,567	1,342	5,518
2005	Millions of yen	1,366	1,533	1,656	1,399	5,956
2006	Millions of yen	1,462	1,606	1,733	1,419	6,221

**In-house Construction Supplies quarterly operating income**

Fiscal year		1Q	2Q	3Q	4Q	Total
2004	Millions of yen	85	141	181	91	499
2005	Millions of yen	121	159	183	119	584
2006	Millions of yen	86	128	205	87	507

Fiscal year		2006 Actual		2007 Forecasts		Change
		Amount	% of sales	Amount	% of sales	%
Net sales	Millions of yen	90,378	–	<b>91,636</b>	–	1.4%
Gross profit	Millions of yen	13,334	14.8%	<b>13,667</b>	<b>14.9%</b>	2.5%
SG&A expenses	Millions of yen	8,237	9.1%	<b>8,564</b>	<b>9.3%</b>	4.0%
Operating income	Millions of yen	5,097	5.6%	<b>5,103</b>	<b>5.6%</b>	0.1%
Ordinary income	Millions of yen	5,518	6.1%	<b>5,469</b>	<b>6.0%</b>	(0.9%)
Net income	Millions of yen	3,154	3.5%	<b>3,122</b>	<b>3.4%</b>	(1.0%)

**Consolidated: Net sales increase by ¥1,200 million**

Regarding Japanese economy, economic recovery is likely to be continued, backed by domestic private demand due to positive household sector impacted by continuous high corporate earnings. Due to improved employment conditions, consumer spending is expected to increase, driven by income growth. Industrial production is expected to maintain a moderate upward trend due to favorable capital investment. There will be concerns about price inflation of non-ferrous metal including steel and copper used for stainless-steel supplies as well as crude oil.

In fiscal 2007, Furusato will work hard to improve

profit structure by consistently promoting efficiency of consolidated corporate management by flexible allocation of management resources of Furusato Group, sales force reinforcement and productivity growth.

Net sales are expected to be ¥91,636 million, up ¥1,257 million (+1.4%) from fiscal 2006, operating income ¥5,103 million (+0.1%) due to an increase in selling, general and administrative expenses, etc. Meanwhile, ordinary income will be ¥5,469 million, down 0.9% due to decrease in non-operating income including decrease in purchase discount and increase in sales discount. Consequently, net income will be ¥3,122 million, down 1.0%.

## Financial Section

Consolidated Balance Sheets  
Consolidated Statements of Income  
Consolidated Statements of Changes in Shareholders' Equity  
Consolidated Statements of Cash Flows

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Please refer to "Fact Book 2006" for market data,  
management indicators and stock-related data.

<http://www.furusato.co.jp/ir/historical.html>

The financial section of this annual review was prepared in its entirety based on financial data announced on May 8, 2007 and is unaudited.

Fiscal year	2002	2003	2004	2005	2006
<b>Assets</b>					
Current assets	20,965	23,644	29,688	32,921	<b>37,229</b>
Cash and cash equivalents	2,199	2,507	3,127	4,079	<b>4,516</b>
Trade receivables (notes and accounts)	14,233	17,596	21,683	24,079	<b>28,053</b>
Marketable securities	1,009	99	—	—	—
Inventories	2,823	3,012	3,676	3,765	<b>4,141</b>
Deferred tax assets	169	273	323	310	<b>318</b>
Others	652	328	1,083	873	<b>318</b>
Allowance for doubtful accounts	(123)	(173)	(206)	(185)	<b>(119)</b>
Fixed assets	11,240	12,641	11,638	12,658	<b>13,485</b>
Property, plant and equipment	7,898	9,462	8,781	8,804	<b>8,758</b>
Buildings and structures	1,877	2,493	2,396	2,315	<b>2,351</b>
Land	5,436	6,443	5,864	5,903	<b>5,705</b>
Others	585	525	520	585	<b>700</b>
Intangible fixed assets	338	271	160	115	<b>105</b>
Consolidation adjustment account	84	55	26	8	—
Goodwill	—	—	—	—	<b>2</b>
Others	253	215	133	106	<b>102</b>
Investments and other assets	3,003	2,907	2,697	3,738	<b>4,621</b>
Investment securities	1,003	1,416	1,299	2,651	<b>3,160</b>
Deferred tax assets	829	800	681	357	<b>385</b>
Others	1,663	1,249	1,114	860	<b>1,197</b>
Allowance for doubtful accounts	(493)	(559)	(397)	(130)	<b>(121)</b>
<b>Total assets</b>	<b>32,206</b>	<b>36,286</b>	<b>41,327</b>	<b>45,580</b>	<b>50,715</b>
<b>Liabilities</b>					
Current liabilities	12,186	15,224	18,760	19,668	<b>21,125</b>
Trade payable (notes and accounts)	11,182	13,297	15,211	16,547	<b>18,048</b>
Short-term borrowings	—	—	1,000	730	<b>500</b>
Accrued income taxes	74	930	1,379	1,236	<b>1,283</b>
Allowance for directors' bonuses	—	—	—	—	<b>23</b>
Others	929	995	1,168	1,153	<b>1,270</b>
Long-term liabilities	1,285	1,715	1,700	1,961	<b>2,093</b>
Deferred tax liabilities	—	—	—	105	<b>292</b>
Reserve for employees' retirement benefits	903	1,324	1,280	1,249	<b>1,157</b>
Reserve for directors' retirement benefits	348	361	394	582	<b>623</b>
Others	33	29	25	24	<b>20</b>
<b>Total liabilities</b>	<b>13,472</b>	<b>16,939</b>	<b>20,460</b>	<b>21,629</b>	<b>23,218</b>
<b>Shareholders' Equity</b>					
Common stock	5,232	5,232	5,232	5,232	—
Capital surplus	5,975	5,975	5,975	5,975	—
Retained earnings	7,616	8,216	9,741	12,262	—
Net unrealized gain (losses) on revaluation of securities	(24)	308	322	896	—
Treasury stock, at cost	(65)	(385)	(405)	(415)	—
<b>Total shareholders' equity</b>	<b>18,734</b>	<b>19,346</b>	<b>20,866</b>	<b>23,950</b>	—
<b>Total liabilities and shareholders' equity</b>	<b>32,206</b>	<b>36,286</b>	<b>41,327</b>	<b>45,580</b>	—
<b>Net Assets</b>					
Shareholders' equity:	—	—	—	—	<b>26,312</b>
Common stock	—	—	—	—	<b>5,232</b>
Capital surplus	—	—	—	—	<b>6,446</b>
Retained earnings	—	—	—	—	<b>14,816</b>
Treasury stock, at cost	—	—	—	—	<b>(183)</b>
Revaluation and translation adjustment:	—	—	—	—	<b>1,183</b>
Net unrealized gain on revaluation of securities	—	—	—	—	<b>1,183</b>
<b>Total net assets</b>	—	—	—	—	<b>27,496</b>
<b>Total liabilities and net assets</b>	—	—	—	—	<b>50,715</b>

Fiscal year	2002		2003		2004		2005		2006	
Net sales	51,877	100.0%	62,032	100.0%	74,739	100.0%	84,129	100.0%	<b>90,378</b>	<b>100.0%</b>
Cost of sales	44,240	85.3%	52,836	85.2%	63,170	84.5%	71,566	85.1%	<b>77,043</b>	<b>85.2%</b>
Gross profit	7,637	14.7%	9,196	14.8%	11,568	15.5%	12,562	14.9%	<b>13,334</b>	<b>14.8%</b>
Selling, general and administrative expenses	7,630	14.7%	7,620	12.3%	7,768	10.4%	7,880	9.4%	<b>8,237</b>	<b>9.1%</b>
Operating income	7	0.0%	1,575	2.5%	3,800	5.1%	4,681	5.6%	<b>5,097</b>	<b>5.6%</b>
Non-operating income	624	1.2%	684	1.1%	682	0.9%	711	0.8%	<b>688</b>	<b>0.8%</b>
Interest and dividend income	76		52		27		36		<b>42</b>	
Purchase discount	463		521		569		592		<b>567</b>	
Rent income	28		62		54		55		<b>55</b>	
Others	55		47		30		26		<b>23</b>	
Non-operating expenses	209	0.4%	256	0.4%	255	0.3%	244	0.3%	<b>267</b>	<b>0.3%</b>
Interest expenses	—		4		6		3		<b>5</b>	
Loss on sale of trade notes	67		54		33		16		<b>8</b>	
Sales discount	115		139		163		198		<b>223</b>	
Leasehold value	—		41		13		13		<b>13</b>	
Others	26		16		38		12		<b>17</b>	
Ordinary income	422	0.8%	2,003	3.2%	4,226	5.7%	5,148	6.1%	<b>5,518</b>	<b>6.1%</b>
Extraordinary income	—	—	28	0.0%	127	0.2%	92	0.1%	<b>144</b>	<b>0.2%</b>
Extraordinary losses	492	0.9%	479	0.8%	670	0.9%	188	0.2%	<b>66</b>	<b>0.1%</b>
Income (loss) before income taxes and minority interests	(69)	(0.1%)	1,552	2.5%	3,683	4.9%	5,053	6.0%	<b>5,597</b>	<b>6.2%</b>
Income taxes	299		1,075		1,852		2,122		<b>2,319</b>	
Adjustment	(189)		(301)		59		50		<b>123</b>	
Minority interests	(42)		—		—		—		<b>—</b>	
Net income (loss)	(137)	(0.3%)	778	1.3%	1,772	2.4%	2,880	3.4%	<b>3,154</b>	<b>3.5%</b>

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

	Shareholders' equity					Revaluation and translation adjustment	Total net assets
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total	Net unrealized gain on revaluation of securities	
Balance at March 31, 2006	5,232	5,975	12,262	(415)	23,054	896	23,950
Changes during the period							
Dividends*			(418)		(418)		(418)
Dividends (Interim)			(158)		(158)		(158)
Directors' bonuses*			(23)		(23)		(23)
Net income			3,154		3,154		3,154
Purchases of treasury stock				(3)	(3)		(3)
Disposal of treasury stock		616		90	706		706
Retirement of treasury stock		(145)		145	-		-
Changes in items other than shareholders' equity						287	287
Total changes during the period	-	471	2,554	231	3,258	287	3,545
Balance at March 31, 2007	5,232	6,446	14,816	(183)	26,312	1,183	27,496

Note: \*Allocated at the ordinary general meeting of shareholders held in June 2006.

**[Reference] CONSOLIDATED STATEMENTS OF RETAINED EARNINGS**

	Year ended March 31, 2006	
	Amounts	
<b>Capital Surplus</b>		
Capital surplus at beginning of the period	¥	5,975
Capital surplus at end of the period		<u>5,975</u>
<b>Retained Earnings</b>		
Retained earnings at beginning of the period		9,741
Increase in retained earnings		2,880
Net income		2,880
Decrease in retained earnings		360
Cash dividends		340
Directors' bonuses		19
Retained earnings at end of the period	¥	<u>12,262</u>

Note: All figures are rounded down to the nearest million yen.

Fiscal year	2002	2003	2004	2005	2006
<b>I. Cash flows from operating activities:</b>					
Income before income taxes	(69)	1,552	3,683	5,053	<b>5,597</b>
Depreciation and amortization	353	380	364	346	<b>349</b>
Impairment loss	—	—	579	—	<b>55</b>
Amortization of consolidation adjustment account	26	29	29	17	—
Amortization of goodwill	—	—	—	—	<b>10</b>
Change in reserve for directors' bonuses	—	—	—	—	<b>23</b>
Change in reserve for employees' retirement benefits	185	420	(43)	(31)	<b>(92)</b>
Change in reserve for directors' retirement benefits	(16)	13	33	188	<b>41</b>
Change in allowance for doubtful accounts	64	116	(108)	(157)	<b>(75)</b>
Interest and dividend income	(76)	(52)	(27)	(36)	<b>(42)</b>
Interest expenses and loss on sale of trade notes	67	58	39	19	<b>13</b>
Gain on the previous fiscal term adjustment	—	—	—	—	<b>(24)</b>
Gain on sale of fixed assets	—	—	—	—	<b>(72)</b>
Gain on sale of marketable securities	—	—	(108)	(3)	<b>(25)</b>
Loss on sale of marketable securities	3	15	—	—	—
Loss on write-down of marketable securities	109	1	—	—	—
Loss on write-down of memberships	106	—	—	—	—
Increase in trade notes and accounts receivable	(258)	(3,416)	(3,850)	(2,305)	<b>(3,930)</b>
Change in inventories	195	(188)	(664)	(88)	<b>(376)</b>
Change in other accounts receivable	—	—	(824)	203	<b>612</b>
Change in trade notes and accounts payable	(430)	2,017	1,966	1,364	<b>1,432</b>
Change in accrued expenses	18	30	62	(1)	—
Directors' bonuses	(15)	(15)	(14)	(19)	<b>(23)</b>
Others	(52)	244	199	(74)	<b>97</b>
<b>Subtotal</b>	<b>211</b>	<b>1,208</b>	<b>1,316</b>	<b>4,474</b>	<b>3,569</b>
Interest and dividend income received	65	46	26	34	<b>44</b>
Interest and loss on sale of trade notes paid	(67)	(58)	(40)	(19)	<b>(13)</b>
Income taxes paid	(434)	(210)	(1,466)	(2,233)	<b>(2,276)</b>
<b>Net cash provided by (used in) operating activities</b>	<b>(224)</b>	<b>985</b>	<b>(163)</b>	<b>2,255</b>	<b>1,323</b>
<b>II. Cash flows from investing activities:</b>					
Increase in time deposits	—	—	(110)	(7)	<b>(350)</b>
Proceeds from sale of marketable securities	600	1,010	100	—	—
Purchases of investment securities	(2)	(29)	(2)	(430)	<b>(201)</b>
Proceeds from sale of investment securities	58	83	252	115	<b>32</b>
Purchases of property, plant and equipment	(271)	(1,886)	(202)	(324)	<b>(498)</b>
Proceeds from sale of property, plant and equipment	—	—	—	—	<b>268</b>
Loans receivable	(10)	(26)	(9)	(9)	<b>(12)</b>
Collection of loans receivable	14	14	16	14	<b>15</b>
Additional purchases of subsidiaries' stock	(30)	—	—	—	—
Proceeds from matured employees' insurance reserve fund	—	105	—	—	—
Others	(119)	135	(18)	(49)	<b>(63)</b>
<b>Net cash provided by (used in) investing activities</b>	<b>239</b>	<b>(593)</b>	<b>25</b>	<b>(690)</b>	<b>(811)</b>
<b>III. Cash flows from financing activities:</b>					
Change in short-term borrowings	—	—	1,000	(270)	<b>(230)</b>
Purchases of treasury stock	(64)	(320)	(19)	(9)	<b>(3)</b>
Disposal of treasury stock	—	—	—	—	<b>699</b>
Dividends paid	(153)	(162)	(231)	(340)	<b>(574)</b>
<b>Net cash provided by (used in) financing activities</b>	<b>(218)</b>	<b>(482)</b>	<b>748</b>	<b>(620)</b>	<b>(109)</b>
<b>IV. Effect of exchange rate changes on cash and cash equivalents</b>	<b>(0)</b>	<b>(0)</b>	<b>0</b>	<b>—</b>	<b>0</b>
<b>V. Change in cash and cash equivalents</b>	<b>(203)</b>	<b>(90)</b>	<b>609</b>	<b>944</b>	<b>403</b>
<b>VI. Cash and cash equivalents at beginning of year</b>	<b>2,801</b>	<b>2,598</b>	<b>2,507</b>	<b>3,117</b>	<b>4,062</b>
<b>VII. Cash and cash equivalents at end of year</b>	<b>2,598</b>	<b>2,507</b>	<b>3,117</b>	<b>4,062</b>	<b>4,465</b>

## Corporate Governance Framework

### 1 . Basic stance on corporate governance framework

To achieve “sustainable corporate group”, we regard the corporate governance as one of the critical issues and strive to enhance the corporate governance system. The principal measures are the following three items:

#### ①Reforming management structure and systems

We will discuss to reform the management structure and systems in order to make quick decisions and streamline business operations.

#### ②Improving transparency of corporate activities

In order to fulfill the accountability to shareholders and investors, we will enhance the disclosure system to disclose information in a timely and accurate manner with high-quality.

#### ③Establishing the compliance system

In order to reinforce the compliance, we will set up our principles and deliberate the framework and rules to establish the compliance system.

### 2 . Status of implementation of Corporate Governance framework

#### ①Director, Board of Directors

The Board of Directors, consisting of seven Directors, decides the important management matters. The Directors meet monthly, with special meetings as necessary. The Board decides items defined by laws and regulations and important issues concerning the management; deliberates the status of achievement of management goals and considers necessary countermeasures against the current problems.

#### ②Corporate Auditors, Board of Corporate Auditors

Furusato is a company with the Corporate Auditors. The Board of Corporate Auditors consists of three members, two Outside Corporate Auditors and one Full-time Corporate Auditor. The Corporate Auditors attend meetings of the Board of the Directors, through which they audit the legality and appropriateness of the performance of the Directors’ duties, business operations and financial conditions of the Company. The Board of Corporate Auditors holds periodic meetings with the Representative

Directors to exchange opinions and to review and monitor management documents and other material reports.

The Outside Corporate Auditors have no personal, capital, business relationships with and no particular vested interest in the Company.

《 Collaboration between Corporate Auditors and Accounting Auditors 》

The Corporate Auditors ensure that the audits are conducted effectively by interviewing audit plans and interim and year-end audit results by the Accounting Auditors, by attending inventory audits conducted by the Accounting Auditors and by holding periodic meetings whenever they come for the audits.

《 Collaboration between Corporate Auditors and Internal Auditing Division 》

In the Board of Corporate Auditors, the Corporate Auditors ensure that the audits are conducted effectively by exchanging opinions when the auditing plan is compiled at the start of each fiscal year and when the regular internal audit reports and follow-up audit reports are reviewed, as well as by interviewing internal audit policy, action plans and interim and year-end audit results conducted by the Internal Auditing Division.

#### ③Internal Auditing Division

The Internal Auditing Division with two Internal Corporate Auditors consistently implements on-site audits in order to penetrate the internal control system into Furusato Group overall, to make operating processes appropriate, to comply with laws and rules, and to fairly execute operational processes.

**Internal Control Framework**

**1. Basic stance on internal control framework**

Furusato makes efforts to ensure the legality and efficiency of any operations and control risks. In addition, we believe it is essential to review, improve and fulfill the status of operations as socioeconomic circumstances and other business environment change.

**2. Status of implementation of internal control framework**

① In accordance with the basic policy to set up the internal control system resolved at a meeting of the Board of Directors in May 2006, Furusato is working on establishing the framework.

② As one of the systems to ensure the Directors and employees perform their duties in accordance with the laws and the Articles of the Incorporation, we compiled and distributed a booklet including Corporate Philosophy, Code of Conduct, Corporate Action Guideline, Corporate Ethics and Whistleblower System to all officers and employees of Furusato and its group companies. It contributes to educate individual members and to raise awareness of the internal control.

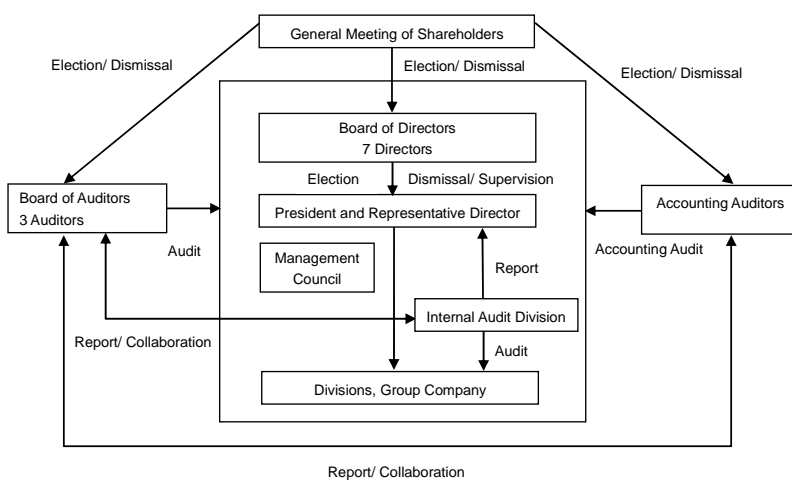
③ With regard to the information relating to the performance of duties by the Directors and employees, we run a system to appropriately store and manage the minutes of important meetings, approval documents and contracts by the relevant divisions according to a type of the information.

④ With regard to the management of risks that could result in losses, we are working on identifying any risks inherent in the Company and creating the system to take appropriate countermeasures on the important risks.

⑤ To ensure that Directors and employees perform their duties, the Board of Directors hold a regular meeting once a month. In the meeting, the Directors discuss the issues stipulated by the Board of Directors Rule and the issues applicable to its deliberation standard and make decisions on the important matters.

⑥ The Corporate Auditors and the Internal Auditing Division ensure the effectiveness of and improve the efficiency of the audits by exchanging opinions when they review the auditing reports. In addition, the Corporate Auditor ensures a system for efficient and effective audits by periodical dialogue with the Accounting Auditors.

Furusato Group Internal Control Framework



## Risk Factors

The following risks may influence the Furusato Group's operating results, stock price and financial condition.

The information concerning the future presented herein are forecasts as of May 8, 2007.

### 1. Trends in capital investment

Furusato Group consists of Furusato Industries (Procured Construction Supplies segment and In-house Construction Supplies segment) and its subsidiaries including G-net Corporation (Machine Tools segment) and Wakaba Lease (Other segment).

Furusato, closely related to steel frame building industry, offers procured and in-house steel frame construction supplies excluding steel products to steel fabricators. G-net, closely related to machine tools industry, offers machines and industrial tools to machines and industrial tools dealers. Wakaba Lease is a small-sized nonlife insurance agent, which has an immaterial impact on the operating results of the Furusato Group.

As for Furusato, high strength bolts, one of the major procured supplies, and braces, one of the major in-house products, are mainly used for non-dwellings, such as Factories, Warehouses and Stores. Therefore, the results of operations tend to be negatively impacted by the trends in private capital investment. Accordingly, risks of deterioration in profitability could adversely affect the operating results depending on the level of demand for private capital investment due to fierce competition.

G-net is a primary wholesaler to mainly offer the

machine tools and industrial tools. Machines business tends to be volatile, reflecting demand for the capital investment in the manufacturing sector and the number of the machine tool orders. Therefore, profit deterioration due to the low level of the orders received could adversely affect the operating results depending on the trends in the capital investment of the manufacturing sector.

The trends in the capital investment could adversely affect our results of operation and financial condition.

### 2. Risk of bad debts

Furusato is a retailer to offer the procured and in-house steel frame construction supplies directly to approximately 8,900 steel fabricators nationwide. Therefore, the risk arising from bad debts is diversified because our business does not depend on single or a limited number of suppliers.

The bad debts may increase, negatively impacted by the operating results of building constructors under continued severe business environment in the construction industry.

Meanwhile, G-net serves approximately 4,600 machines and industrial tools dealers nationwide. The trade receivable per customer is relatively high so that G-net mainly controls credit lines by each customer. G-net makes every effort to minimize the risk of the bad debts by diversifying its sales volume through expansion of the customer base. The bad debts may increase depending on the operating results of machines and industrial tools dealers.

The market trend could have an impact on the Furusato Group's operating results and financial condition.

**Basic Policy for Returns to Shareholders**

Furusato regards our dividend policy as one of the critical management issues and adopts the following policy:

(1) In order to reinforce profit structure to increase the returns to shareholders over the long term, internal capital resources will be secured for active investment in growing businesses.

(2) Furusato aims to continue the stable dividend returns to our shareholders according to our performance-based dividend policy with a target annual dividend payout ratio of approximately 20% or minimum annual dividend of 10 yen per share even in case of deterioration in operating results.

This basic policy is to meet our long-term

shareholders' expectation. Moreover, we intend to maintain stable management with the aim of maximizing the corporate value by reinforcement of management foundation.

(Note) Amount is rounded up by ¥0.5.

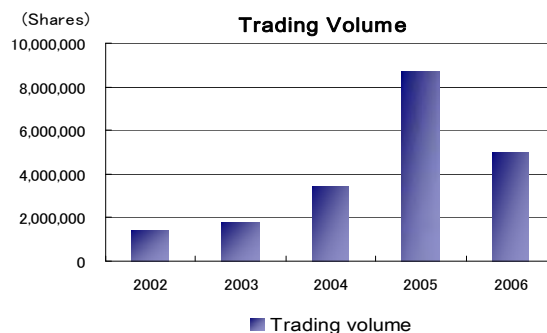
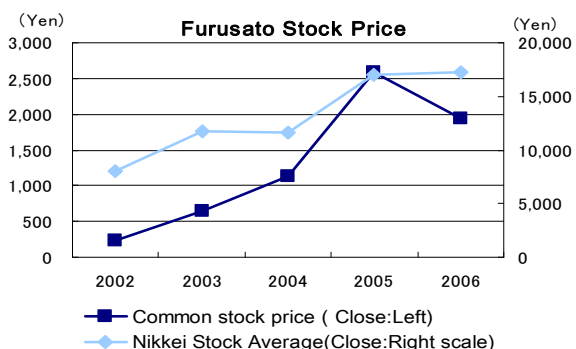
¥0.01 - ¥0.49; ¥0.5

¥0.51 - ¥0.99; ¥1.0

**Dividends in Fiscal 2006 and Dividends Forecast for Fiscal 2007**

In fiscal 2006, annual dividend is ¥40 per share including the interim dividend of ¥10 per share based on the above basic policy.

The annual dividend for fiscal 2007 is expected to be ¥40 per share.

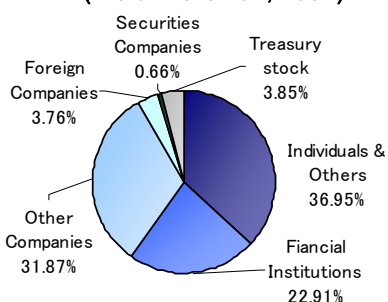


**Furusato Stock Price, Trading Volume**

Fiscal year		2002	2003	2004	2005	2006
Common stock price (High)	Yen	319	640	1,222	2,645	<b>2,630</b>
Common stock price (Low)	Yen	202	231	520	1,049	<b>1,436</b>
Common stock price (Close)	Yen	237	640	1,125	2,580	<b>1,934</b>
Nikkei Stock Average (Close)	Yen	7,972.71	11,715.39	11,668.95	17,059.66	<b>17,287.65</b>
TOPIX (Close)	Yen	788.00	1,179.23	1,182.18	1,728.16	<b>1,713.61</b>
Trading volume	Shares	1,403,000	1,772,500	3,455,500	8,705,400	<b>4,999,700</b>

Note: Stock price and trading volume are quoted from those on the Second Section of Osaka Securities Exchange by February 28, 2006 and on the First Section of Osaka Securities Exchange since March 1, 2006.

**Ownership Breakdown (As of March 31, 2007)**



**Principal Shareholders**

	Investment in Furusato	
	Shares	%
FRT, Ltd.	2,168,361	13.19%
Japan Trustee Services Bank, Ltd. (Trust account)	1,032,500	6.28%
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	755,440	4.59%
Ryoichi Furusato	585,500	3.56%
Nippon Life Insurance Company	496,640	3.02%
Ryohei Furusato	401,500	2.44%
SHINSHO Corporation	386,891	2.35%
HANWA Co., Ltd.	344,000	2.09%

※The Company holds 632,938 shares of treasury stock not included in the above table.

**Furusato Industries, Ltd.**

[1946]  
Construction hardware manufacturing business commenced.

[1959]  
Furusato Tekkosho Ltd. founded.

[1963]  
Shiga Plant established. Braces manufactured.

[1973]  
Renamed to Furusato Industries, Ltd.

[1986]  
Furusato stocks listed on the New Second Section of Osaka Securities Exchange.  
Shiga Plant acquired a JIS mark certificate.

[1988]  
Issued convertible bonds worth 30 million Swiss Francs.

[1991]  
Issued convertible bonds worth 70 million Swiss Francs.

[1993]  
Furusato stocks listed on the Second Section of Osaka Securities Exchange.

**G-net Corporation**

[1909]  
Gomiya Shoten founded.

[1947]  
Gomiya Kikou Co., Ltd. established.

[1949]  
Renamed to Gomiya Kikou Shoukai Co., Ltd.

[1960]  
Renamed to Gomiya Co., Ltd.  
Tokyo branch established.

[1964]  
G-net stocks listed on the Second Section of Osaka Securities Exchange.

[1983]  
Nobuo Tsumuro named President and Representative Director.

[1987]  
Hiroshi Takehana named President and Representative Director.

[1991]  
Renamed to G-net Corporation, one of CI (Corporate Identity) program introduced.

[1999]  
Announced a mid-term business plan "Vision for 21st Century."

**Furusato Group**

Announced investment in G-net	Feb. 2000	Announced a management renewal plan.
	Jun. 2000	Ryoichi Furusato named President and Representative Director.
Accepted a third party allocation of new stocks of G-net Corporation, making G-net a subsidiary. (Investment ratio: 51%)	Aug. 2000	The third party allocation of new stocks executed to Furusato. G-net joined Furusato Group.
G-net became a wholly-owned subsidiary of Furusato by a share exchange.	Aug. 2002	G-net stocks delisted after Furusato acquired its 100% shares.
Headquarters (currently headquarters of Furusato Group) relocated to Chuo-ku, Osaka city.	Sep. 2003	Headquarters and Osaka branch relocated to Chuo-ku, Osaka city.
Ryoichi Furusato named Chairman and Representative Director, and Ryohei Furusato named President and Representative Director.	Jun. 2004	Ryoichi Furusato named Chairman and Representative Director, and Ryohei Furusato named President and Representative Director.
Furusato stocks listed on the Second Section of Tokyo Stock Exchange.	Nov. 2004	
Furusato stocks listed on the First Section of Tokyo Stock Exchange and Osaka Securities Exchange.	Mar. 2006	

Company Name	Furusato Industries, Ltd.
Headquarters	1-2-10, Minamishin-machi, Chuo-ku, Osaka 540-0024, Japan TEL +81-6-6946-9600
Date of Establishment	May 19, 1959
Number of Employees	400
Fiscal Year-end Date	March 31
Stock Listings	The First Section of the Tokyo Stock Exchange The First Section of the Osaka Securities Exchange
Securities Code	8087
Trading Unit	100
Number of shares outstanding	16,438,648
Number of shareholders	5,316
Paid-in Capital	¥ 5,232 million
Administrator of Shareholder's Register	Mitsubishi UFJ Trust and Banking Corporation

#### Directors and Auditors (As of June 28, 2007)

Chairman and Representative Director	Ryoichi Furusato
President and Representative Director	Ryohei Furusato
Senior Director	Masaaki Ebi
Managing Director	Takashi Ogura
Director	Susumu Yamauchi
Director	Seiichi Kanasaki
Director	Masatoshi Imayoshi
Full-time Corporate Auditor	Shigemitsu Kishimoto
Corporate Auditor	Tomio Kawaguchi
Corporate Auditor	Yoshiharu Senoue

#### Contact

Furusato Industries, Ltd.  
Corporate Planning Division  
1-2-10, Minamishin-machi, Chuo-ku, Osaka  
540-0024, Japan  
TEL: +81-6-6946-9608 FAX: +81-6-6946-9780  
<http://english.furusato.co.jp/>  
Inquiry Form  
<http://english.furusato.co.jp/ir/ircontact.html>

#### IR Information

<http://english.furusato.co.jp/ir/>  
The following materials are posted on the IR sites:

- Earnings Releases
- Presentation Materials
- Annual Review (Annual business report)
- Fact Book (Five-year historical data)