

Annual Review 2007

Year Ended March 31, 2008

Furusato Industries, Ltd.



Furusato will steadily move forward in order to achieve our goal under the new management.

At the conclusion of the Ordinary General Meeting of Shareholders held on June 27, 2008, three directors: Ryoichi Furusato, Chairman and Representative Director; Masaaki Ebi, Senior Managing Director and Takashi Ogura, Managing Director retired. As a result, we renewed the Board of Directors. The new management, consisting of five directors, operates the business more efficiently and quickly.

We strive to improve the corporate value by making decisions rapidly and steadily in the more challenging business environment.

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		2003	2004	2005	2006	2007
Net sales	Millions of yen	62,032	74,739	84,129	90,378	92,064
Gross profit	Millions of yen	9,196	11,568	12,562	13,334	13,198
Operating income	Millions of yen	1,575	3,800	4,681	5,097	4,317
Ordinary income	Millions of yen	2,003	4,226	5,148	5,518	4,732
Net income	Millions of yen	778	1,772	2,880	3,154	2,590
Capital investments	Millions of yen	1,890	242	356	534	1,586
Depreciation & amortization	Millions of yen	409	393	364	360	549

Ratio of Profits to Net Sales

Fiscal year		2003	2004	2005	2006	2007
Gross profit margin	%	14.8	15.5	14.9	14.8	14.3
Operating income margin	%	2.5	5.1	5.6	5.6	4.7
Ordinary income margin	%	3.2	5.7	6.1	6.1	5.1
Net income margin	%	1.3	2.4	3.4	3.5	2.8

Financial Position

Fiscal year		2003	2004	2005	2006	2007
Net assets	Millions of yen	19,346	20,866	23,950	27,496	28,860
Total assets	Millions of yen	36,286	41,327	45,580	50,715	54,025
Net assets to total assets	%	53.3	50.5	52.5	54.2	53.4

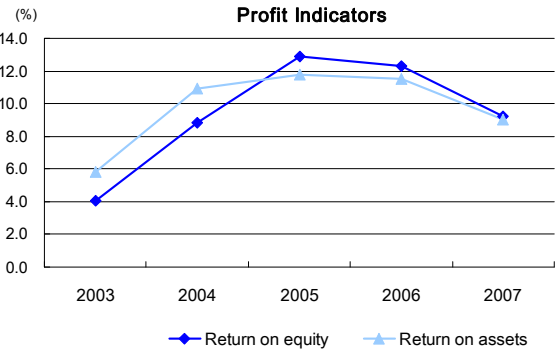
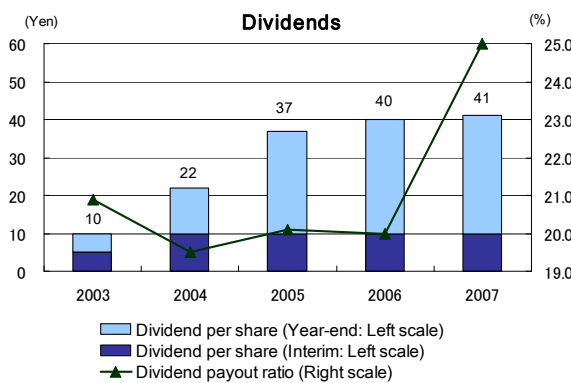
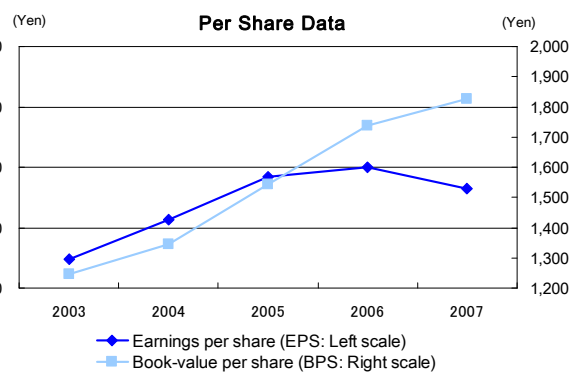
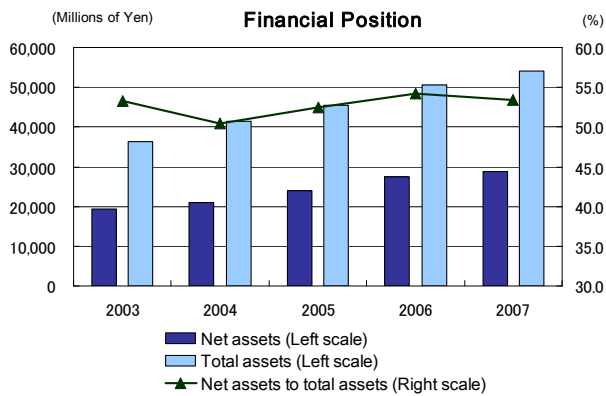
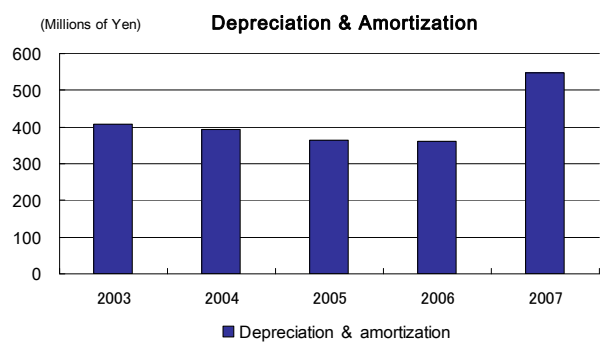
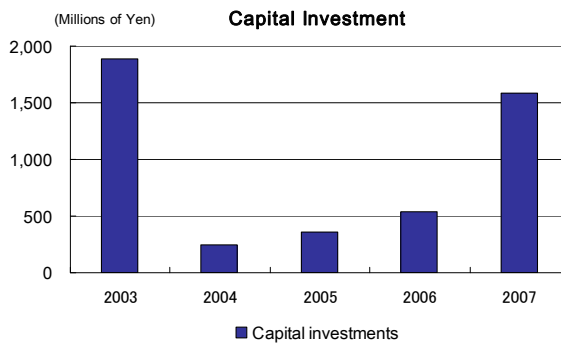
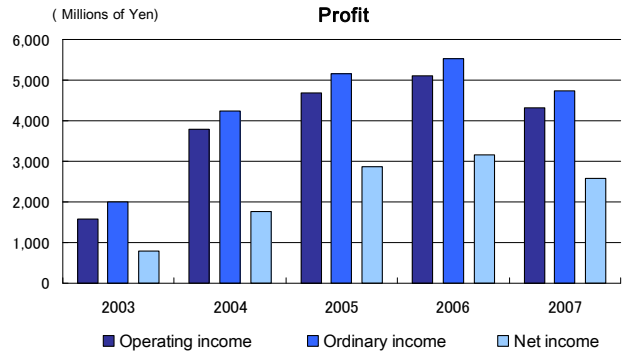
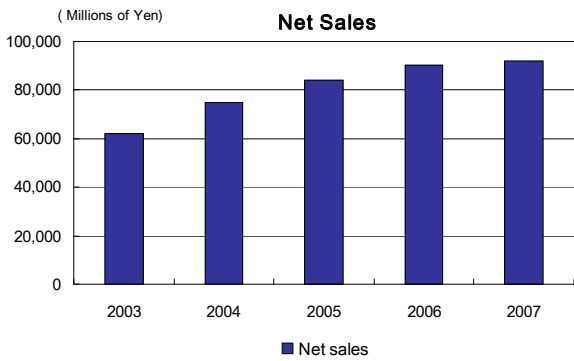
Per Share Data

Fiscal year		2003	2004	2005	2006	2007
Earnings per share	Yen	47.83	113.00	184.37	199.86	163.92
Book-value per share	Yen	1,245.34	1,344.86	1,544.22	1,739.63	1,826.06
Dividend per share (Annual)	Yen	10	22	37	40	41

Profit Indicators

Fiscal year		2003	2004	2005	2006	2007
Return on equity	%	4.1	8.8	12.9	12.3	9.2
Return on assets	%	5.8	10.9	11.8	11.5	9.0
Dividend payout ratio	%	20.9	19.5	20.1	20.0	25.0

Consolidated Financial Highlights (Japan GAAP)



Q Despite record-high net sales, why were earnings down in fiscal 2007, ended March 31, 2008?

A In fiscal 2007, on a consolidated basis, net sales were up 1.9% year over year to ¥92,064 million, the highest ever. Meanwhile, earnings dropped sharply. Operating income decreased by 15.3 % to ¥4,317 million, and net income was down by 17.9% to ¥2,590 million compared to fiscal 2006.

As a result of the consolidation of Gifu Shoji Co., Ltd. in the second half of fiscal 2007, consolidated net sales were up, while consolidated operating income was down due to the addition of Gifu Shoji's operating expenses for the second half and its goodwill amortization.

Regarding sales by segment, the Procured Construction Supplies segment and the In-house Construction Supplies segment were impacted by decrease in the demand for the steel frame buildings because the revision of the Building Standard Law made the building confirmation processes longer than before. Despite an 11% decrease in the demand, the Procured Construction Supplies segment was up 1.6% year over year in sales to ¥21,198 million. The reason for this was that the Procured Construction Supplies segment included the new business, the Plumbing business, which grew 22% year over year. Consequently, the favorable sales of the Plumbing business offset the segment sales decline owing to the decreased demand for the steel frame buildings. Meanwhile, net sales of the In-house Construction Supplies dropped by 6.1%, fully depending on the demand for the steel frame buildings.

In the Machine Tools segment, net sales increased by 2.8% year over year to ¥64,984 million. However, the segment sales excluding Gifu Shoji were down 2.4%. Regarding the Industrial Tools business, net sales slightly increased, associated with stable factory operating ratio of the domestic manufacturing industry. On the other hand, the Machines business and the FA System business were down in sales due to the decline in the domestic machine tool orders.



Q What are the forecasts and the strategies for both the Procured Construction Supplies segment and the In-house Construction Supplies segment in fiscal 2008, ending March 31, 2009?

A Regarding the business environment of the steel frame building industry, though a negative impact on the demand caused by the revision of the Building Standard Law is coming to an end, the number of building starts is predicted to decrease due to the decline of the corporate earnings and consumer spending. However, the demand in fiscal 2008 is expected to surpass that in fiscal 2007 because the demand in fiscal 2007 was the lowest record in the past 20 years.

Additionally, we are concerned about postponement of capital investment plans and decrease in corporate earnings in the construction industry due to significant hikes in steel product prices from the beginning of 2008.

In the harsh business environment, the strategies for the Procured Construction Supplies segment and the In-house Construction Supplies segment in fiscal 2008 are to increase the sales volume against the stagnant demand and raise the selling prices to respond to the hikes of procurement prices and raw material costs.

Q What are the forecasts and the strategies for Machine Tools segment in fiscal 2008?

A In fiscal 2008, it is difficult to forecast the trends in the domestic manufacturing sector, the end user of the Machine Tools segment, due to hikes in crude oil price and raw material costs and concerns over the yen's appreciation.

Under the circumstances, we consolidated Gifu Shoji, which enabled us to enter into the automotive industry that plays a critical role in the manufacturing industry. As a result, we expanded our business domain, which contributed to diversify the risks and stabilize our profit structure. Moreover, we will pursue the synergy by leveraging product knowledge and marketing methods and collaboration in purchasing between G-net and Gifu Shoji. In addition, we will further expand the sales opportunities by offering comprehensive services to set up production facilities from proposal, planning, installation, inspection to maintenance by the new section, the Engineering division of G-net.

Q Would you explain the past progress and the current measures of the Plumbing business, the new business field?

A Furusato used to fully rely on the steel frame building business as our source of income. In order to diversify the risks by securing a new profit pillar, we entered into the Plumbing business in 2003.

Consequently, despite the sharp drop in the steel frame building demand in fiscal 2007, Furusato net sales were slightly down 0.2% year over year, reflecting the addition of the Plumbing business of ¥4.6 billion in sales. This is the exact scenario designed five years ago.

In this business, we aim to achieve net sales of ¥5 billion and to improve the gross profit margin by developing new suppliers and reducing the purchasing prices through volume buying like centralized purchasing in fiscal 2008.

Q What is the basic policy with respect to the returns to shareholders?

A Furusato proactively makes every effort to improve the corporate value and to return profits to shareholders.

Our annual dividend payout ratio is approximately 25% on a consolidated basis. Even if the annual dividend per share is less than ¥10 based on the dividend payout ratio, we aim to continue the stable dividend returns to pay at least ¥ 10 per share.

In fiscal 2007, an annual dividend is ¥41 per share including an interim dividend of ¥10 per share and a year-end dividend of ¥ 31 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

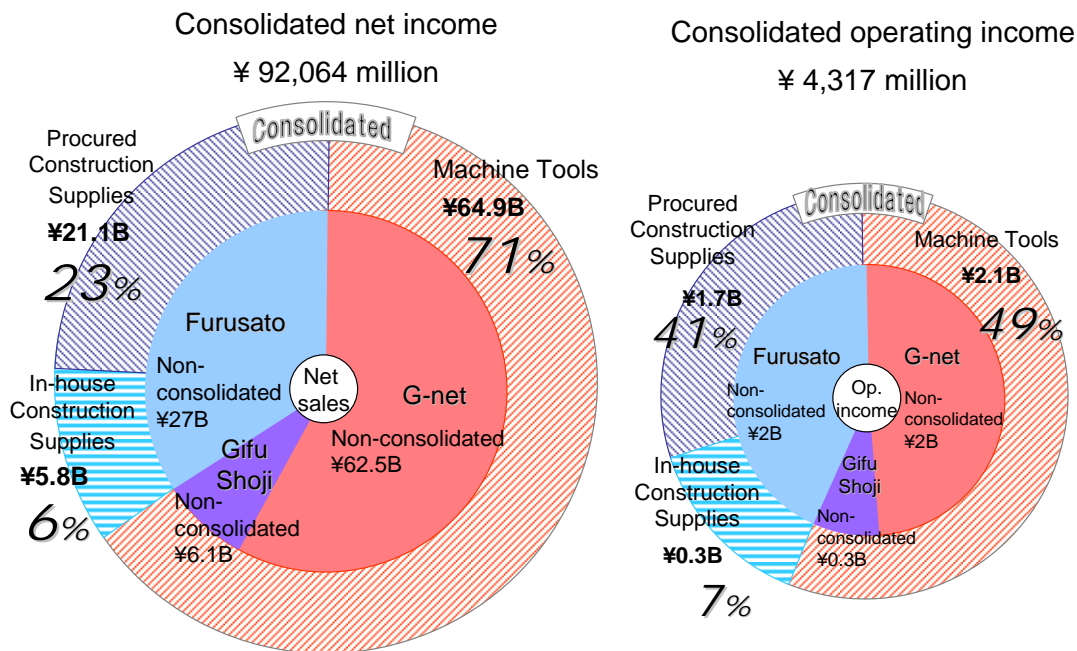
In order to diversify risks arising from concentration on a specific business and realize well-balanced profit structure and growth as Furusato Group, we consistently screen a new business field that can develop efficiently like the business related to the existing businesses. The ongoing Plumbing business 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. As one of our top priorities, we will work hard to establish the framework to obey regulations as a corporate citizen and to get rid of dishonesty and anti-social activism.



Furusato Group

Furusato Group consists of four companies: Furusato Industries, Ltd., the parent company, and its wholly-owned subsidiaries including G-net Corporation, Gifu Shoji Co., Ltd. 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 the 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.

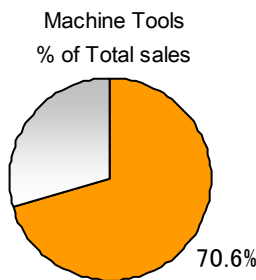
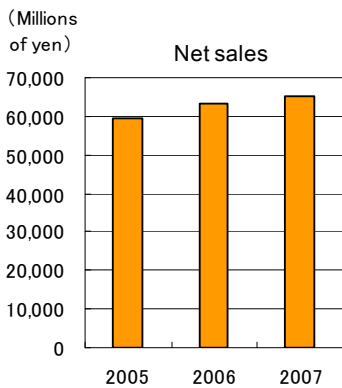
Besides that, G-net engages in housing equipments business, overseas business and business related to security systems.

Gifu Shoji Co., Ltd.

Gifu Shoji is also a wholly-owned subsidiary of Furusato, an unlisted, retailing company. It is a trading company that directly purchases hard metal tools and machine tools from manufacturers and sell them to the automotive industry based in Tokai Area. The main customers are automotive manufacturers and automotive components manufacturers.

Wakaba Lease

Wakaba Lease operates lease and insurance businesses.



Machine Tools

The Machine Tools segment includes all businesses of G-net Corporation and Gifu Shoji Co., Ltd. The major businesses consist of the Industrial Tools business, the Machines business and the 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 of these three businesses account for more than 90% of overall segment sales. Gifu Shoji, the new business field, directly offers the automotive industry machine tools and industrial tools. 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 sale 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 is volatile at high risk. In the Machine Tools segment, we aim for stable, balanced growth by setting the Industrial Tools with stable earnings as a profit pillar of this segment, keeping the sales of this business over the certain level and allocating management resources to each business according to the ratio to total segment 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 Machines business, 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.

■ Gifu Shoji – Expanding fully into the automotive industry

In October 2007, Furusato consolidated Gifu Shoji Co., Ltd., a trading company that directly purchases supplies from the manufacturers and offers them to the automotive industry, based in Tokai area. One of the major purposes of this consolidation was to secure a marketing channel to the automotive industry. Even though G-net targets at the manufacturing sector in Furusato Group, it is hard for wholesalers like G-net to fully enter into the automotive industry that plays a critical role in the manufacturing sector. As a result of the consolidation of Gifu Shoji, we gained a toehold in the automotive industry including the knowledge and methods accumulated by Gifu Shoji, which enables us to expand the machines and industrial tools business.

<Major product line>

■ Industrial Tools

- Metal working tools (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

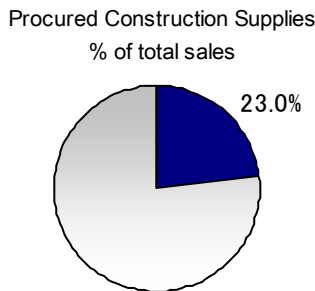
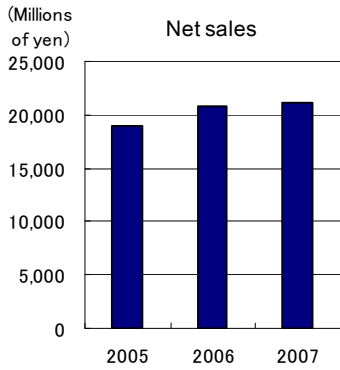
■ Machines

- Machine tools, large machines

■ Other businesses

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





Procured Construction Supplies

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 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 infrastructures.

<Product line for steel frame building industry>

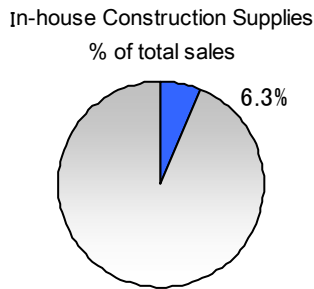
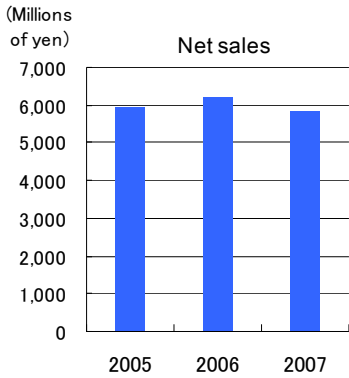
High strength bolts, fastening products, welding supplies, coating materials, tools



<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		2006		2007		Change	
		Amount	% of sales	Amount	% of sales	Amount	%
Net sales	Millions of yen	90,378	-	92,064	-	1,686	1.9%
Gross profit	Millions of yen	13,334	14.8%	13,198	14.3%	(136)	(1.0%)
SG&A expenses	Millions of yen	8,237	9.1%	8,880	9.6%	643	7.8%
Operating income	Millions of yen	5,097	5.6%	4,317	4.7%	(779)	(15.3%)
Ordinary income	Millions of yen	5,518	6.1%	4,732	5.1%	(786)	(14.3%)
Net income	Millions of yen	3,154	3.5%	2,590	2.8%	(563)	(17.9%)

Sales Slightly Up, Income Down Impacted by the Revised Building Standard Law

In fiscal 2007, ended March 31, 2008, Furusato Group implemented reinforced strategies for stable business expansion according to our business plan. As part of the strategies, Furusato made Gifu Shoji Co., Ltd., a trading company of industrial tools and machine tools, a subsidiary in October 2007. Gifu Shoji directly sells supplies to the automotive industry mainly in Tokai area. The consolidation of Gifu Shoji enabled Furusato Group to gain a toehold in the automotive industry where G-net Corporation, a subsidiary of Furusato, could not enter as a wholesaler. The marketing channel to the automotive industry that plays a critical role in the manufacturing sector significantly benefits the Furusato Group. In addition, the knowledge and the marketing methods of hard metal tools that Gifu Shoji has accumulated are greatly valuable for the Machines business and the Industrial Tools business of G-net. Therefore, we expect a big impact on

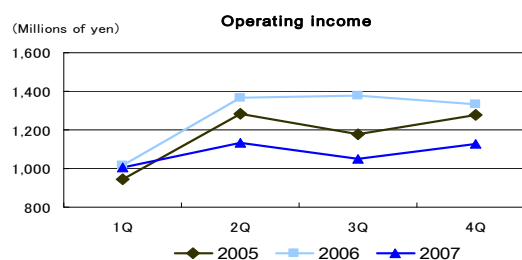
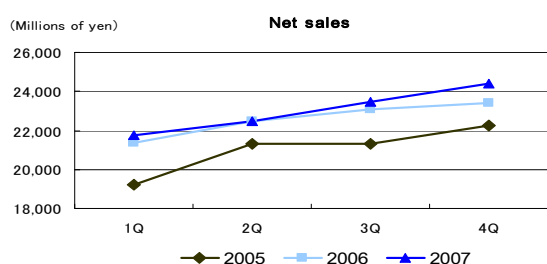
consolidated results from these merits in the future.

In the steel frame construction supplies business, despite a double-digit decrease in the demand for steel frame buildings, net sales showed a low single-digit decline compared with fiscal 2006, as a result of consistent efforts to reinforce sales activities. The gross profit margin was down due to fierce competition. Meanwhile, the Plumbing business, the new business field, increased by 22.9% year over year regardless of the negative impact by the revised Building Standard Law.

Consequently, consolidated net sales for fiscal 2007 increased by 1.9% to ¥92,064 million compared with fiscal 2006. On the earnings front, operating income was down 15.3% to ¥4,317 million, ordinary income was down 14.3% to ¥4,732 million, and accordingly, net income declined by 17.9% to ¥2,590 million.

For the details of operating results by segment, please refer to "Results in fiscal 2007" in each segment.

Quarterly sales and operating income



Quarterly sales

Fiscal year		1Q	2Q	3Q	4Q	Total
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
2007	Millions of yen	21,766	22,445	23,466	24,386	92,064

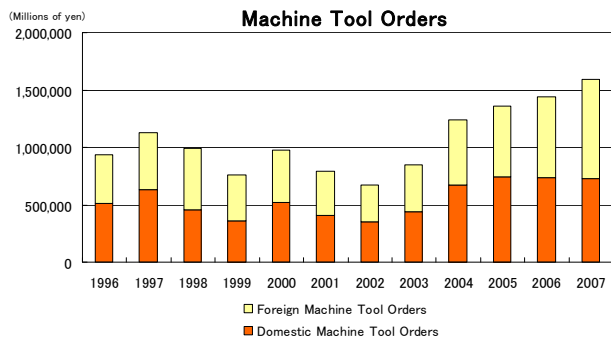
Quarterly operating income

Fiscal year		1Q	2Q	3Q	4Q	Total
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
2007	Millions of yen	1,003	1,134	1,050	1,128	4,317

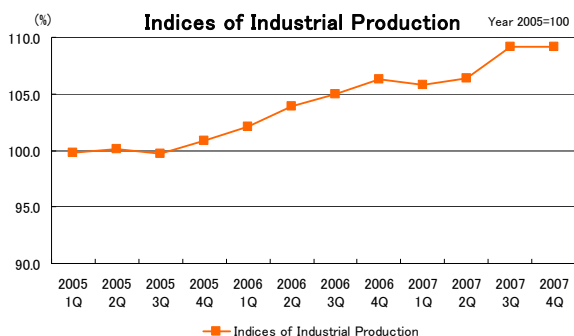
[Market Overview]

In fiscal 2007, in the machines and industrial tools industry, according to the statistics, the machine tool orders increased by 8.1% year over year. Of the total demand, the domestic demand was down 1.5% compared with the previous fiscal year. The Indices of the Industrial Production had relatively remained favorable until it recorded a year-over-year decrease in the three-month period from January to March 2008 for the first time in four quarters. Considering the data, there were concerns over a slowdown in production activities.

Regarding 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.



[Resources] Statistics of Orders Received for Machine Tools by Japan Machine Tool Builders Association (JMTBA)



[Resources] Statistics by Ministry of Economy, Trade and Industry

[Results in fiscal 2007]

Net Sales +2.8%, Operating Income -16.3%

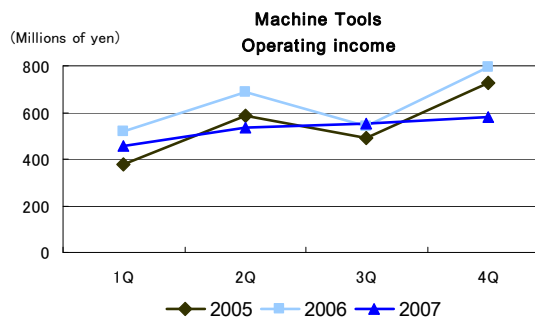
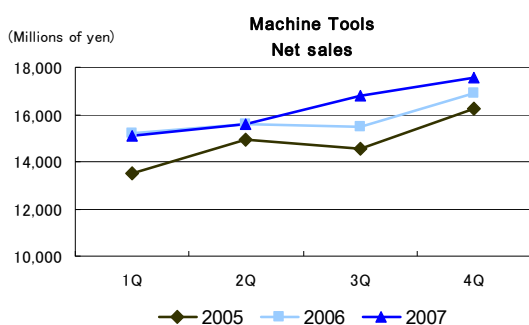
In fiscal 2007, segment sales increased by 2.8% to ¥64,984 million, while operating income decreased by 16.3% to ¥2,122 million. The major factor in this income decline was an increase in SG&A expenses due to Gifu Shoji's operating expenses and goodwill amortization despite an addition of its net sales for the second half.

Regarding sales by business, the Industrial Tools business recorded ¥34,952 million, slightly up 1.1% year over year, which benefited from focus on sales promotion of target fields centering on the core, backed by the solid industrial production. The Machines business amounted to ¥17,593 million, down 1.9%, while the FA System business totaled ¥5,086 million, down 24.5%, negatively impacted by a slowdown in the private capital investment and the domestic demand for machine tools.

In regard to net sales in other businesses excluding the above major businesses, the Housing Equipments was up 5.7% to ¥3,352 million, the Overseas Sales dropped by 18.0% to ¥294 million, and Other business decreased by 1.2% to ¥461 million. Gifu Shoji, newly consolidated in the second half, recorded ¥3,242 million.

Machine Tools		2006		2007		Change	
		Amount	% of sales	Amount	% of sales	Amount	%
Fiscal year							
Net sales	Millions of yen	63,237	-	64,984	-	1,747	2.8%
Gross profit	Millions of yen	6,601	10.4%	6,697	10.3%	96	1.5%
Operating income	Millions of yen	2,537	4.0%	2,122	3.3%	(414)	(16.3%)
Net sales by business							
Industrial Tools	Millions of yen	34,562	54.7%	34,952	53.8%	390	1.1%
Machines	Millions of yen	17,937	28.3%	17,593	27.1%	(344)	(1.9%)
FA Systems	Millions of yen	6,740	10.7%	5,086	7.8%	(1,653)	(24.5%)
Housing Equipments	Millions of yen	3,170	5.0%	3,352	5.2%	182	5.7%
Overseas Sales	Millions of yen	359	0.6%	294	0.4%	(64)	(18.0%)
Other	Millions of yen	467	0.7%	461	0.7%	(5)	(1.2%)
Gifu Shoji	Millions of yen	-	-	3,242	5.0%	3,242	-

Quarterly sales and operating income



Machine Tools quarterly sales

Fiscal year		1Q	2Q	3Q	4Q	Total
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
2007	Millions of yen	15,096	15,578	16,770	17,539	64,984

Machine Tools quarterly operating income

Fiscal year		1Q	2Q	3Q	4Q	Total
2005	Millions of yen	379	588	488	724	2,181
2006	Millions of yen	516	687	541	792	2,537
2007	Millions of yen	458	533	551	579	2,122

[Market Overview]

The steel frame structure accounts for 40% of all buildings according to the floor area. It is mainly applied to non-dwellings, such as office buildings, factories, distribution centers, and commercial facilities.

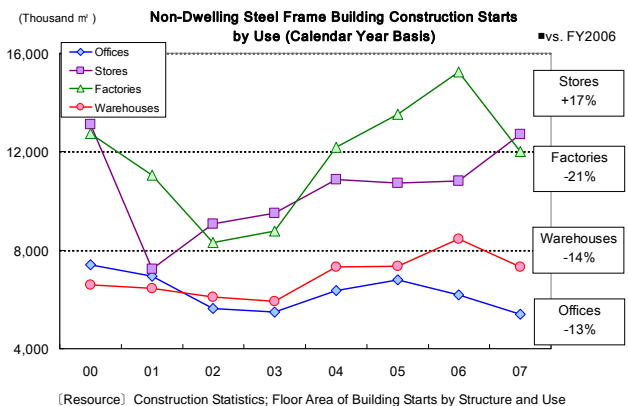
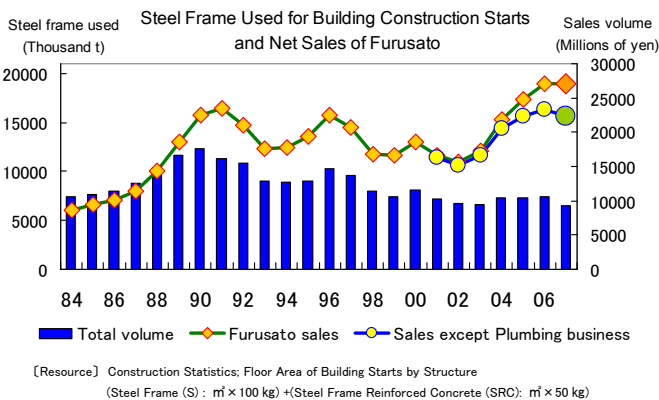
The annual steel frame used calculated based on the floor area of the steel frame building starts (steel frame structure and steel frame reinforced concrete structure) has remained at the level of 7 million ton in recent years following the decrease after the peak volume in 1990.

In fiscal 2007, in the construction industry related to the steel frame construction supplies business, the confusion over building confirmation procedures extended the confirmation period following the enforcement of the revised Building Standard Law since June 2007. This resulted in a decrease in the number of building construction starts. The floor area of building construction starts recorded 22% year-over-year decrease in July and over 40% year-over-year decline in August and September respectively. The confusion over the building confirmation has been getting controlled since the end of 2007, while the annual volume of steel frame used in the building construction starts dropped sharply to 6.5 million ton in 2007. In the three-month period from January to March 2008, the floor area of the building construction starts was still down 7.3% from the corresponding period of the previous year.

[Results in fiscal 2007]

Net Sales +1.6%, Operating Income -9.3%

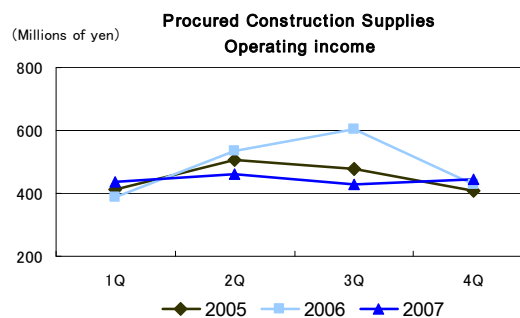
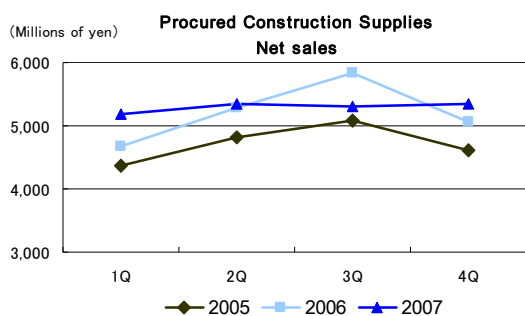
In fiscal 2007, segment sales were up 1.6% to ¥21,198 million, and ordinary income was down 9.3% to ¥1,772 million compared with fiscal 2006. Of the total segment sales, the steel frame building business decreased by 3.1% to ¥16,535 million, while the Plumbing business increased by 22.9% to ¥4,672 million compared with the previous fiscal year. The net sales of the steel frame building business recorded a slight decline despite a sharp drop in the demand for the steel frame buildings by 11.3% year over year, reflecting the impact of the revised Building Standard Law. However, gross profit margin was down 0.4 pts. due to fierce competition caused by reinforced marketing activities, which partially resulted in decline in operating income. Of the total segment sales, the Plumbing business accounted for 22%, an increase from 18.2% in fiscal 2006. The decline of overall gross profit margin in this segment was attributed to lower margin of the Plumbing business compared with that of the steel frame building business. Meanwhile, overall income decline in the segment was partially offset by an increase in the gross profit of the Plumbing business by ¥130 million.



Procured Construction Supplies

Procured Construction Supplies		2006		2007		Change	
		Amount	% of sales	Amount	% of sales	Amount	%
Fiscal year							
Net sales	Millions of yen	20,870	-	21,198	-	327	1.6%
Gross profit	Millions of yen	4,728	22.7%	4,677	22.1%	(50)	(1.1%)
Operating income	Millions of yen	1,954	9.4%	1,772	8.4%	(181)	(9.3%)
Net sales by product line							
High Strength Bolts	Millions of yen	4,987	23.9%	4,818	22.7%	(168)	(3.4%)
Fastening Products	Millions of yen	2,291	11.0%	2,370	11.2%	79	3.5%
Coating Materials	Millions of yen	528	2.5%	496	2.3%	(31)	(6.0%)
Welding Supplies	Millions of yen	2,521	12.1%	2,688	12.7%	167	6.7%
Steel Frame-related Supplies	Millions of yen	7,958	38.1%	8,184	38.6%	225	2.8%
Tools	Millions of yen	2,582	12.4%	2,638	12.5%	56	2.2%

Quarterly sales and operating income



Procured Construction Supplies quarterly sales						
Fiscal year		1Q	2Q	3Q	4Q	Total
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
2007	Millions of yen	5,192	5,340	5,309	5,356	21,198

Procured Construction Supplies quarterly operating income						
Fiscal year		1Q	2Q	3Q	4Q	Total
2005	Millions of yen	413	505	477	407	1,803
2006	Millions of yen	387	534	603	429	1,954
2007	Millions of yen	435	461	428	446	1,772

[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 2007]

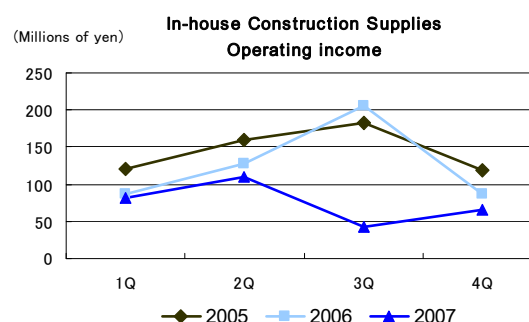
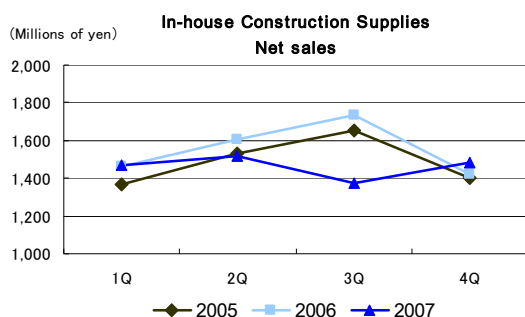
Income Down Owing to Decrease in Building Construction Starts

In fiscal 2007, segment sales were down 6.1% year over year to ¥5,842 million. Due to the product mix affected by the number of the building

construction starts, the segment sales were directly impacted by the revised Building Standard Law. Regarding the Furu-Brace primarily used for building structure related to capital investment, such as Factories and Warehouses, net sales were down 7.0% year over year. Operating income was down 40.7% to ¥300 million owing to a decline in gross profit margin by 1.2 pts. under intensifying competition, with the SG&A expenses flat from fiscal 2006.

In-house Construction Supplies		2006		2007		Change	
		Amount	% of sales	Amount	% of sales	Amount	%
Fiscal year							
Net sales	Millions of yen	6,221	-	5,842	-	(379)	(6.1%)
Gross profit	Millions of yen	1,977	31.8%	1,789	30.6%	(187)	(9.5%)
Operating income	Millions of yen	507	8.2%	300	5.2%	(206)	(40.7%)
Net sales by product line							
Turnbuckle Braces	Millions of yen	5,099	82.0%	4,740	81.2%	(359)	(7.0%)
Foundation Bolts	Millions of yen	505	8.1%	504	8.6%	(1)	(0.3%)
Other	Millions of yen	616	9.9%	597	10.2%	(18)	(3.0%)

Quarterly sales and operating income



In-house Construction Supplies quarterly sales		1Q	2Q	3Q	4Q	Total
Fiscal year						
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
2007	Millions of yen	1,466	1,518	1,376	1,481	5,842

In-house Construction Supplies quarterly operating income		1Q	2Q	3Q	4Q	Total
Fiscal year						
2005	Millions of yen	121	159	183	119	584
2006	Millions of yen	86	128	205	87	507
2007	Millions of yen	82	110	42	65	300

Fiscal year		2007 Actual		2008 Forecasts		Change	
		Amount	% of sales	Amount	% of sales		%
Net sales	Millions of yen	92,064	-	92,844	-		0.8%
Gross profit	Millions of yen	13,198	14.3%	14,578	15.7%		10.5%
SG&A expenses	Millions of yen	8,880	9.6%	9,682	10.4%		9.0%
Operating income	Millions of yen	4,317	4.7%	4,896	5.3%		13.4%
Ordinary income	Millions of yen	4,732	5.1%	5,328	5.7%		12.6%
Net income	Millions of yen	2,590	2.8%	2,311	2.5%		(10.8%)

Note: Revised forecasts announced on October 27, 2008.

Net sales +0.8%, Net income -10.8%

The business environment in fiscal 2008, ending March 31, 2009 will most likely deteriorate in both the steel frame construction supplies business and the machines and industrial tools business, reflecting the rising raw material prices led by steel; the decline in corporate capital investment due to a slowdown in consumer spending and the economic uncertainty.

In this severe environment, Furusato Group will strive to reinforce our business foundation by consistently promoting strategies for stable growth.

In the steel frame construction supplies business, the demand for the steel frame buildings showed signs of a slowdown despite the end of the confusion caused by the revision of the Building Standard Law. Meanwhile, purchasing prices of mainly steel raw materials and steel products have risen significantly. We will focus on measures to pass the increase in the purchasing price on to the selling prices.

In the Plumbing business, we will continue the

ongoing market share expansion measure with the aim of sales volume increase. Meanwhile, we will make efforts to boost gross profit margin through development of new suppliers and an increase in inventory items.

In the Machine Tools Segment, we aim to expand our market share of the domestic orders received for machine tools by offering our high value-added engineering service and to create greater synergy with Gifu Shoji.

In fiscal 2008, consolidated net sales are expected to be ¥92,844million, up 0.8% year over year. On the earnings front, operating income will be ¥4,896 million, up 13.4%, ordinary income will be ¥5,328 million, up 12.6%, and net income will be ¥2,311 million, down 10.8%. The decrease in net income is due mainly to recording the loss on revaluation of investment securities due to sharp decline in stock prices.

Financial Section

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

Please refer to "Fact Book 2007" for market data,
management indicators and stock-related data.

<http://english.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, 2008 and is unaudited.

Fiscal year	2003	2004	2005	2006	2007
Assets					
Current assets	23,644	29,688	32,921	37,229	37,583
Cash and cash equivalents	2,507	3,127	4,079	4,516	3,608
Trade receivables (notes and accounts)	17,596	21,683	24,079	28,053	28,554
Marketable securities	99	–	–	–	–
Inventories	3,012	3,676	3,765	4,141	4,698
Deferred tax assets	273	323	310	318	337
Others	328	1,083	873	318	483
Allowance for doubtful accounts	(173)	(206)	(185)	(119)	(99)
Fixed assets	12,641	11,638	12,658	13,485	16,441
Property, plant and equipment	9,462	8,781	8,804	8,758	10,395
Buildings and structures	2,493	2,396	2,315	2,351	2,856
Land	6,443	5,864	5,903	5,705	6,808
Others	525	520	585	700	730
Intangible fixed assets	271	160	115	105	1,517
Consolidation adjustment account	55	26	8	–	–
Goodwill	–	–	–	2	1,398
Others	215	133	106	102	119
Investments and other assets	2,907	2,697	3,738	4,621	4,528
Investment securities	1,416	1,299	2,651	3,160	3,122
Deferred tax assets	800	681	357	385	379
Others	1,249	1,114	860	1,197	1,131
Allowance for doubtful accounts	(559)	(397)	(130)	(121)	(105)
Total assets	36,286	41,327	45,580	50,715	54,025
Liabilities					
Current liabilities	15,224	18,760	19,668	21,125	21,844
Trade payable (notes and accounts)	13,297	15,211	16,547	18,048	18,764
Short-term borrowings	–	1,000	730	500	915
Accrued income taxes	930	1,379	1,236	1,283	902
Reserve for bonuses	–	–	–	–	520
Allowance for directors' bonuses	–	–	–	23	29
Others	995	1,168	1,153	1,270	711
Long-term liabilities	1,715	1,700	1,961	2,093	3,320
Long-term loans	–	–	–	–	1,200
Deferred tax liabilities	–	–	105	292	281
Reserve for employees' retirement benefits	1,324	1,280	1,249	1,157	1,107
Reserve for directors' retirement benefits	361	394	582	623	708
Others	29	25	24	20	22
Total liabilities	16,939	20,460	21,629	23,218	25,165
Shareholders' Equity					
Common stock	5,232	5,232	5,232	–	–
Capital surplus	5,975	5,975	5,975	–	–
Retained earnings	8,216	9,741	12,262	–	–
Net unrealized gain on revaluation of securities	308	322	896	–	–
Treasury stock, at cost	(385)	(405)	(415)	–	–
Total shareholders' equity	19,346	20,866	23,950	–	–
Total liabilities and shareholders' equity	36,286	41,327	45,580	–	–
Net Assets					
Shareholders' equity:	–	–	–	26,312	28,268
Common stock	–	–	–	5,232	5,232
Capital surplus	–	–	–	6,446	6,446
Retained earnings	–	–	–	14,816	16,775
Treasury stock, at cost	–	–	–	(183)	(185)
Revaluation and translation adjustment:	–	–	–	1,183	591
Net unrealized gain on revaluation of securities	–	–	–	1,183	591
Minority interests	–	–	–	–	0
Total net assets	–	–	–	27,496	28,860
Total liabilities and net assets	–	–	–	50,715	54,025

Fiscal year	2003		2004		2005		2006		2007	
Net sales	62,032	100.0%	74,739	100.0%	84,129	100.0%	90,378	100.0%	92,064	100.0%
Cost of sales	52,836	85.2%	63,170	84.5%	71,566	85.1%	77,043	85.2%	78,866	85.7%
Gross profit	9,196	14.8%	11,568	15.5%	12,562	14.9%	13,334	14.8%	13,198	14.3%
Selling, general and administrative expenses	7,620	12.3%	7,768	10.4%	7,880	9.4%	8,237	9.1%	8,880	9.6%
Operating income	1,575	2.5%	3,800	5.1%	4,681	5.6%	5,097	5.6%	4,317	4.7%
Non-operating income	684	1.1%	682	0.9%	711	0.8%	688	0.8%	693	0.8%
Interest and dividend income	52		27		36		42		57	
Purchase discount	521		569		592		567		558	
Rent income	62		54		55		55		54	
Others	47		30		26		23		21	
Non-operating expenses	256	0.4%	255	0.3%	244	0.3%	267	0.3%	278	0.3%
Interest expenses	4		6		3		5		15	
Loss on sale of trade notes	54		33		16		8		12	
Sales discount	139		163		198		223		227	
Leasehold value	41		13		13		13		12	
Others	16		38		12		17		10	
Ordinary income	2,003	3.2%	4,226	5.7%	5,148	6.1%	5,518	6.1%	4,732	5.1%
Extraordinary income	28	0.0%	127	0.2%	92	0.1%	144	0.2%	19	0.0%
Extraordinary losses	479	0.8%	670	0.9%	188	0.2%	66	0.1%	66	0.1%
Income before income taxes and minority interests	1,552	2.5%	3,683	4.9%	5,053	6.0%	5,597	6.2%	4,685	5.1%
Income taxes	1,075		1,852		2,122		2,319		2,029	
Adjustment	(301)		59		50		123		65	
Minority interests	—		—		—		—		0	
Net income	778	1.3%	1,772	2.4%	2,880	3.4%	3,154	3.5%	2,590	2.8%

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.

Fiscal 2007 (from April 1, 2007 to March 31, 2008)

	Shareholders' equity					Revaluation and translation adjustment	Minority interests	Total net assets
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total	Net unrealized gain on revaluation of securities		
Balance at March 31, 2007	5,232	6,446	14,816	(183)	26,312	1,183	-	27,496
Changes during the period								
Dividends			(632)		(632)			(632)
Net income			2,590		2,590			2,590
Purchases of treasury stock				(2)	(2)			(2)
Changes in items other than shareholders' equity						(592)	0	(592)
Total changes during the period	-	-	1,958	(2)	1,956	(592)	0	1,364
Balance at March 31, 2008	5,232	6,446	16,775	(185)	28,268	591	0	28,860

Fiscal year	2003	2004	2005	2006	2007
I. Cash flows from operating activities:					
Income before income taxes	1,552	3,683	5,053	5,597	4,685
Depreciation and amortization	380	364	346	349	392
Impairment loss	—	579	—	55	—
Amortization of consolidation adjustment account	29	29	17	—	—
Amortization of goodwill	—	—	—	10	157
Increase in reserve for directors' bonuses	—	—	—	23	0
Change in reserve for employees' retirement benefits	420	(43)	(31)	(92)	(104)
Increase in reserve for directors' retirement benefits	13	33	188	41	44
Increase in reserve for bonuses	—	—	—	—	474
Change in allowance for doubtful accounts	116	(108)	(157)	(75)	(72)
Interest and dividend income	(52)	(27)	(36)	(42)	(57)
Interest expenses and loss on sale of trade notes	58	39	19	13	27
Gain on the previous fiscal term adjustment	—	—	—	(24)	—
Gain on sale of fixed assets	—	—	—	(72)	—
Gain on sale of marketable securities	—	(108)	(3)	(25)	—
Loss on sale of marketable securities	15	—	—	—	—
Loss on write-down of marketable securities	1	—	—	—	—
Change in trade notes and accounts receivable	(3,416)	(3,850)	(2,305)	(3,930)	1,763
Increase in inventories	(188)	(664)	(88)	(376)	(317)
Change in other accounts receivable	—	(824)	203	612	—
Change in trade notes and accounts payable	2,017	1,966	1,364	1,432	(986)
Change in accrued expenses	30	62	(1)	—	(470)
Directors' bonuses	(15)	(14)	(19)	(23)	—
Others	244	199	(74)	97	(56)
Subtotal	1,208	1,316	4,474	3,569	5,479
Interest and dividend income received	46	26	34	44	58
Interest and loss on sale of trade notes paid	(58)	(40)	(19)	(13)	(19)
Income taxes paid	(210)	(1,466)	(2,233)	(2,276)	(2,483)
Net cash provided by (used in) operating activities	985	(163)	2,255	1,323	3,034
II. Cash flows from investing activities:					
Increase in time deposits	—	(110)	(7)	(350)	(66)
Decrease in time deposits	—	—	—	—	150
Proceeds from sale of marketable securities	1,010	100	—	—	—
Purchases of property, plant and equipment	(1,886)	(202)	(324)	(498)	(1,524)
Proceeds from sale of property, plant and equipment	—	—	—	268	2
Purchases of investment securities	(29)	(2)	(430)	(201)	(8)
Proceeds from sale of investment securities	83	252	115	32	—
Purchases of new consolidated subsidiary's stock	—	—	—	—	(3,032)
Loans receivable	(26)	(9)	(9)	(12)	(12)
Collection of loans receivable	14	16	14	15	12
Proceeds from matured employees' insurance reserve fund	105	—	—	—	—
Others	135	(18)	(49)	(63)	(69)
Net cash provided by (used in) investing activities	(593)	25	(690)	(811)	(4,550)
III. Cash flows from financing activities:					
Change in short-term borrowings	—	1,000	(270)	(230)	(275)
Proceeds from long-term loans payable	—	—	—	—	1,500
Purchases of treasury stock	(320)	(19)	(9)	(3)	(2)
Disposal of treasury stock	—	—	—	699	—
Dividends paid	(162)	(231)	(340)	(574)	(631)
Net cash provided by (used in) financing activities	(482)	748	(620)	(109)	591
IV. Effect of exchange rate changes on cash and cash equivalents	(0)	0	—	0	—
V. Change in cash and cash equivalents	(90)	609	944	403	(923)
VI. Cash and cash equivalents at beginning of year	2,598	2,507	3,117	4,062	4,465
VII. Cash and cash equivalents at end of year	2,507	3,117	4,062	4,465	3,541

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:

① Reforming management structure and systems

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

② Improving 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.

③ Establishing 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

① Director, Board of Directors

The Board of Directors, consisting of five 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.

② Corporate 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.

③ Internal 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.

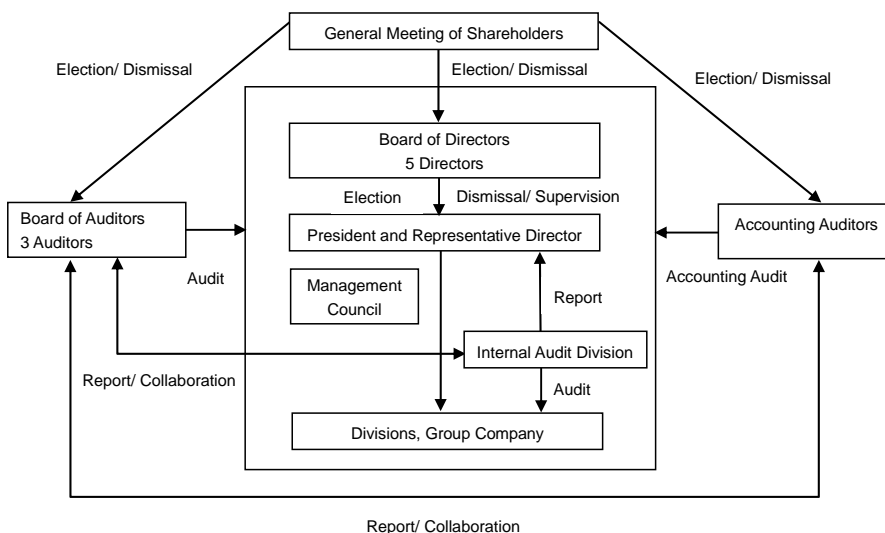
《 Basic concept on the execution of anti-social elements》

Furusato is resolved not to have any relations with, and to fight against anti-social groups and organizations that pose a threat to the order and safety of civil society.

《Efforts to exclude anti-social elements》

The concept on the exclusion of anti-social elements described is specified and fully communicated to all employees as part of the company’s compliance manual. The General Affairs Division at Furuato’s headquarters assuming the responsibility for supervising efforts to exclude anti-social elements are cooperating with police, other relevant organizations and parties and lawyers to gather and share information in order to deal with such elements in an organized way.

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, 2008, including but not limited to the items presented herein.

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 and Gifu Shoji Co., Ltd. (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 associated with machine tools industry, offers a wide range of machines and industrial tools to machines and industrial tools dealers. Gifu Shoji Co., Ltd., closely related to the automotive industry, offers the automotive manufacturers and their group companies mainly cutting tools. 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 orders received for the machine tools. 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.

Gifu Shoji offers primarily cutting tools to the automotive manufacturers and their group companies. Gifu Shoji is not impacted significantly by the capital investment trend like G-net, but affected by the operating rate of the automotive industry because the machine tools business accounts for a small portion of total sales.

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

2. Risk arising from 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 increase the returns of profits to shareholders over the long term, we strive to reinforce our profit structure. To realize it, we put our priority on securing retained earnings for active investment in growing businesses.
2. The target annual dividend payout ratio is approximately 25% of consolidated net income. In case that the annual dividend per share based on the above dividend payout ratio is less than ¥10, we aim

to continue the stable dividend returns to pay at least ¥10 per share.

Note: Amount is rounded up by ¥0.5.

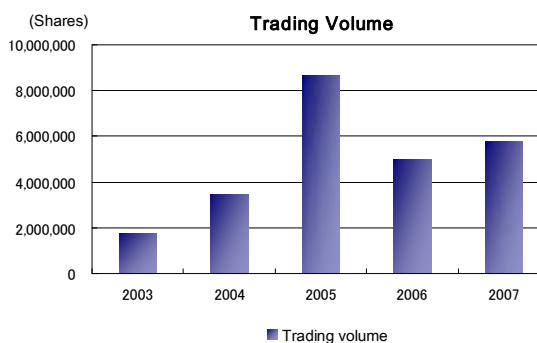
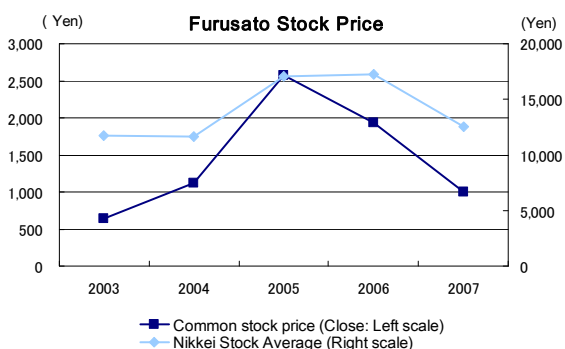
¥0.01 - ¥0.49; ¥0.5

¥0.51 - ¥0.99; ¥1.0

Dividends for Fiscal 2007 and Dividends Forecast for Fiscal 2008

In fiscal 2007, annual dividend is ¥41 per share including the interim dividend of ¥ 10 per share based on the above basic policy.

The annual dividend for fiscal 2008 is expected to be ¥37 per share (the revised forecast announced on October 27, 2008).

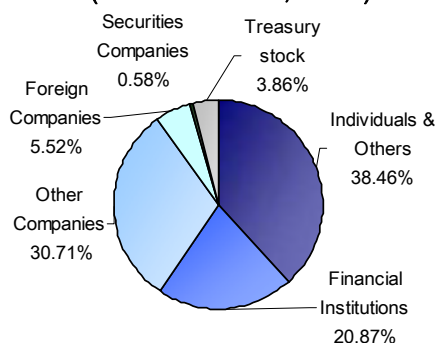


Furusato Stock Price, Trading Volume

Fiscal year		2003	2004	2005	2006	2007
Common stock price (High)	Yen	640	1,222	2,645	2,630	1,950
Common stock price (Low)	Yen	231	520	1,049	1,436	923
Common stock price (Close)	Yen	640	1,125	2,580	1,934	1,000
Nikkei Stock Average(Close)	Yen	11,715.39	11,668.95	17,059.66	17,287.65	12,525.54
TOPIX (Close)	Yen	1,179.23	1,182.18	1,728.16	1,713.61	1,212.96
Trading volume	Shares	1,772,500	3,455,500	8,705,400	4,999,700	5,753,000

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, 2008)



Principal Shareholders

	Investment in Furusato	
	Shares	%
FRT, Ltd.	2,168,361	13.72%
Japan Trustee Services Bank, Ltd. (Trust account)	924,000	5.85%
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	755,440	4.78%
Ryoichi Furusato	585,500	3.70%
Nippon Life Insurance Company	496,640	3.14%
Ryohei Furusato	401,500	2.54%
SHINSHO Corporation	386,891	2.45%
HANWA Co., Ltd.	344,000	2.18%

※The Company holds 634,227 shares of treasury stock not included 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".

Gifu Shoji Co., Ltd.

[1934] Kayo Nenryo Co., Ltd. established
 [1941] Renamed to Gifu Shoji Co., Ltd.
 [1947] Nagoya branch opened
 [1962] Hamamatsu branch opened
 [1974] Kariya branch opened
 [1995] Joined Tokai Group
 [2006] Kita-kyusyu subbranch office opened

Furusato Group

Feb. 2000 Announced investment in G-net

Aug. 2000 Accepted a third party allocation of new stocks of G-net Corporation, making G-net a subsidiary. (Investment ratio: 51%)

Aug. 2002 G-net became a wholly-owned subsidiary of Furusato by a share exchange.

Sep. 2003 Headquarters of Furusato and Headquarters and Osaka branch of G-net relocated to Chuo-ku, Osaka (currently headquarters of Furusato Group)

Jun. 2004 Ryoichi Furusato named Chairman and Representative Director, and Ryohei Furusato named President and Representative Director of both Furusato and G-net

Nov. 2004 Furusato stocks listed on the Second Section of Tokyo Stock Exchange.

Mar. 2006 Furusato stocks listed on the First Section of Tokyo Stock Exchange and Osaka Securities Exchange.

Oct. 2007 Gifu Shoji became a subsidiary of Furusato by its share acquisition.

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	431
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	5,811
Paid-in Capital	¥ 5,232 million
Administrator of Shareholder's Register	Mitsubishi UFJ Trust and Banking Corporation

Directors and Auditors (As of June 27, 2008)

President and Representative Director	Ryohei Furusato
Director	Susumu Yamauchi
Director	Satoshi Onishi
Director	Seiichi Kanasaki
Director	Masatoshi Imayoshi
Full-time Corporate Auditor	Takashi Ogura
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)