

**Corporate Governance Framework**

**Basic stance on corporate governance framework**

To achieve “sustainable corporate group”, Furusato regards 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 systems and mechanism to manage the compliance system.

**Status of implementation of corporate governance framework**

① Overview of corporate governance framework

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 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 Corporate Auditors regularly exchange opinions with the Representative Director and review and monitor management documents and other important reports.

The Board of Directors decides the important management matters. The Directors, in principal, meet monthly, with extraordinary meetings as necessary. The Board consists of four Directors in order to make appropriate and quick decisions based on sufficient discussion, which decides items defined by laws and regulations and important issues concerning the management. In addition, it deliberates the status of achievement of management goals and considers necessary countermeasures against the ongoing and potential problems.

② Reasons for adopting corporate governance framework

Furusato appointed two Outside Corporate Auditors as independent auditors to supervise the business execution functions separately from the Board of Directors. They attend the meetings of the Board of the Directors and other important business meetings in order to enhance the effectiveness of management oversight. We maintain our current corporate governance framework that can monitor the status of execution of duties of each Director by the Outside Corporate Auditors in an independent and fair manner.

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

③ Status of implementation of internal control framework  
《Basic stance on internal control framework》

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

《Status of implementation of internal control framework》

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

b) 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 handbook 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.

c) 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.

d) 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 significant risks.

e) To ensure that the Directors and employees perform their duties, the Board of Directors holds 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.

f) 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.

④ Status of implementation of risk management framework

Furusato regards the reinforcement of the compliance as one of the critical issues. We compiled and distributed the in-house Compliance Manual to all board member and employees of Furusato and its group companies. We raise awareness of the compliance among them through in-house trainings, etc. In order to enhance the risk management framework, we regularly hold the Risk Management Committee, chaired by the Director and General Manager of the Headquarters of the Administrative Division. The Committee evaluates and analyzes the risks which could affect Furusato Group and promotes the necessary measures.

**Status of internal audits and audits by Corporate Auditors**

① Internal Auditing Division

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

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 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 Corporate Auditors regularly exchange opinions with the Representative Director and review and monitor management documents and other important reports.

Takashi Ogura, the Full-time Corporate Auditor, was formerly the General Manager of the Accounting Division

and the Administration Head Office from March 1996 to May 2008 in charge of accounting settlement procedures and preparation of financial statements. Tomio Kawaguchi, the Outside Corporate Auditor, has his expertise and experience as a judge and lawyer. Yoshiharu Senoue, the Outside Corporate Auditor, with his long experience in the finance industry, was formerly the Full-time Corporate Auditor at Astellas Pharma Inc.

《Collaboration between Internal Auditing Division and Corporate Auditors》

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

《Collaboration between Corporate Auditors and Accounting Auditors》

The Corporate Auditors ensure that the audits are conducted effectively by hearing audit plans, quarterly review reports and audit reports compiled by the Accounting Auditors, by attending inventory audits conducted by the Accounting Auditors and by holding periodic meetings whenever they come for the audit.

**Outside Directors and Outside Corporate Auditors**

Furusato appointed two Outside Corporate Auditors.

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

Furusato appointed the Outside Corporate Auditors from the outside of the Company, who are independent from the Board of Directors. We believe that the oversight of execution of management activities by the Outside Corporate Auditors in an independent and fair manner contributes to enhancing the effectiveness of management oversight.

In regard to the election of the Outside Corporate Auditors, both of them are appointed as an independent board member. They fully fulfill audit functions by asking questions and stating their ideas in an independent and fair manner at the meeting of the Board of Directors.

The Outside Corporate Auditors ensure that the audits

are conducted effectively and efficiently 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 hearing internal audit policies, action plans and interim and year-end audit results from the manager of the Internal Auditing Division at the meetings of the Board of Corporate Auditors.

The Corporate Auditors attend the meetings of the Board of the Directors according to the audit policy defined at the Board of Corporate Auditors, through which they review important documents and research subsidiaries, etc. Before attending at the meeting of the Board of Directors, the

Outside Corporate Auditors receive explanations on the agenda in advance from the Full-time Corporate Auditor whenever necessary.

Furusato does not appoint the Outside Directors. We appointed two Outside Corporate Auditors out of three Corporate Auditors, which contributes to strengthening the oversight of execution of management activities. As for the corporate governance, we believe that the management oversight function in an objective and neutral point of view from the outside of the company is vital. Thus, we adopted the current framework which exercises the external oversight of the management sufficiently through the audit by two Outside Corporate Auditors.

### **Remuneration for Directors and Auditors**

#### ① Total amounts of annual remuneration paid by position

Position	Total amounts paid (Thousand yen)	Total amounts paid by type of remuneration (Thousand yen)				No. of Directors and Auditors
		Base salary	Stock option	Bonuses	Retirement benefits	
Directors (Exc. Outside Directors)	53,265	53,265	-	-	-	5
Corporate Auditors (Exc. Outside Corporate Auditors)	13,500	13,500	-	-	-	1
Outside Directors and Outside Corporate Auditors	12,300	12,300	-	-	-	2

Note: Total amount of remuneration paid to Directors does not include the remuneration for services rendered in any capacity other than as a director.

#### ② Total amount of annual remuneration paid to Director and Corporate Auditor on a consolidated basis

Omitted because there is no Director or Corporate Auditor who receives more than ¥100 million yen.

#### ③ Method of determining remuneration policies

The aggregate maximum amounts of annual remuneration to pay to Directors and Corporate Auditors were approved respectively at the Ordinary General Meeting of Shareholders.

The amounts of annual remuneration to pay to Directors were allocated at the meeting of the Board of Directors while the amounts of annual remuneration to pay to Corporate Auditors were allocated at the meeting of the Board of Directors.

The aggregate maximum amounts of annual remuneration to pay to Directors and Corporate Auditors were approved ¥200 million (excluding the remuneration for services rendered in any capacity other than as a director) and ¥50 million, respectively at the 50th Ordinary General Meeting of Shareholders held on June 27, 2008.

### **Status of Shares Hold**

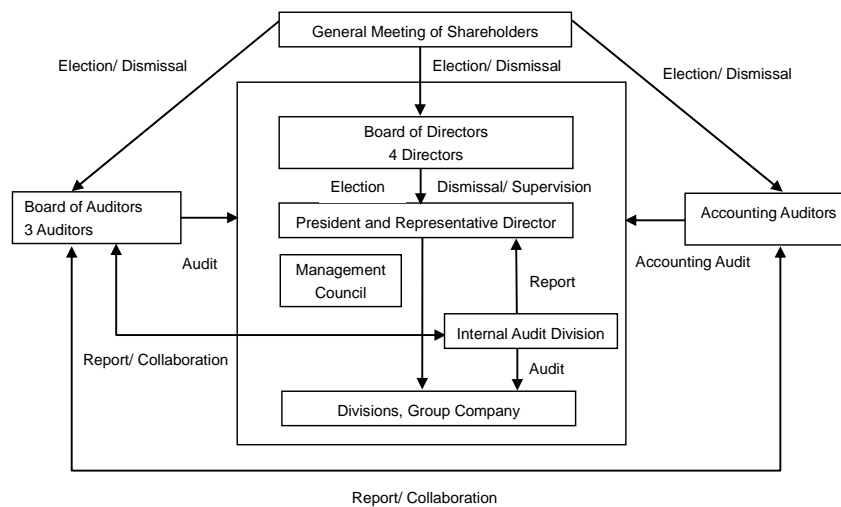
#### ① Of investment securities hold, the number of stocks hold except for investment purpose and total of their balance sheet amounts

12 stocks, 1,706,791 thousand yen

#### ② Stock name, the number of shares hold and balance sheet amounts, and purpose of holding in regard to shares hold except for investment purpose

Stock name	No. of shares hold (shares)	Balance sheet amounts (Thousand yen)	Purpose of holding
Seiwa Chuo Holdings Corporation	60,000	1,020,000	Developing and maintaining business relationship
Hoshiden Corporation	140,000	171,220	Developing and maintaining business relationship
Mory Industries Inc.	440,000	124,520	Developing and maintaining business relationship
Mori Seiki Co., Ltd.	100,000	115,300	Developing and maintaining business relationship
SHINSHO Corporation	386,230	83,425	Developing and maintaining business relationship
Mitsubishi UFJ Financial Group, Inc.	122,000	59,780	Developing and maintaining business relationship
HANWA Co., Ltd.	114,010	45,148	Developing and maintaining business relationship
Mitsui Sumitomo Insurance Group Holdings, Inc.	10,800	28,026	Developing and maintaining business relationship
Daiwa House Industries, Co., Ltd.	20,000	21,100	Developing and maintaining business relationship
Resona Holdings, Inc.	15,500	18,321	Developing and maintaining business relationship

**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 7, 2010, 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, G-net Corporation, Gifu Shoji Co., Ltd. (both in 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, procured construction supplies such as high strength bolts and in-house construction supplies such as braces are mainly used for non-dwellings including 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, deterioration in profitability due to the low level of the orders received could adversely affect the operating results depending on the trends in the capital investment in 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 factory operating ratio in the automotive industry because the machine tools business accounts for a small portion of its 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 8,000 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 4,200 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.