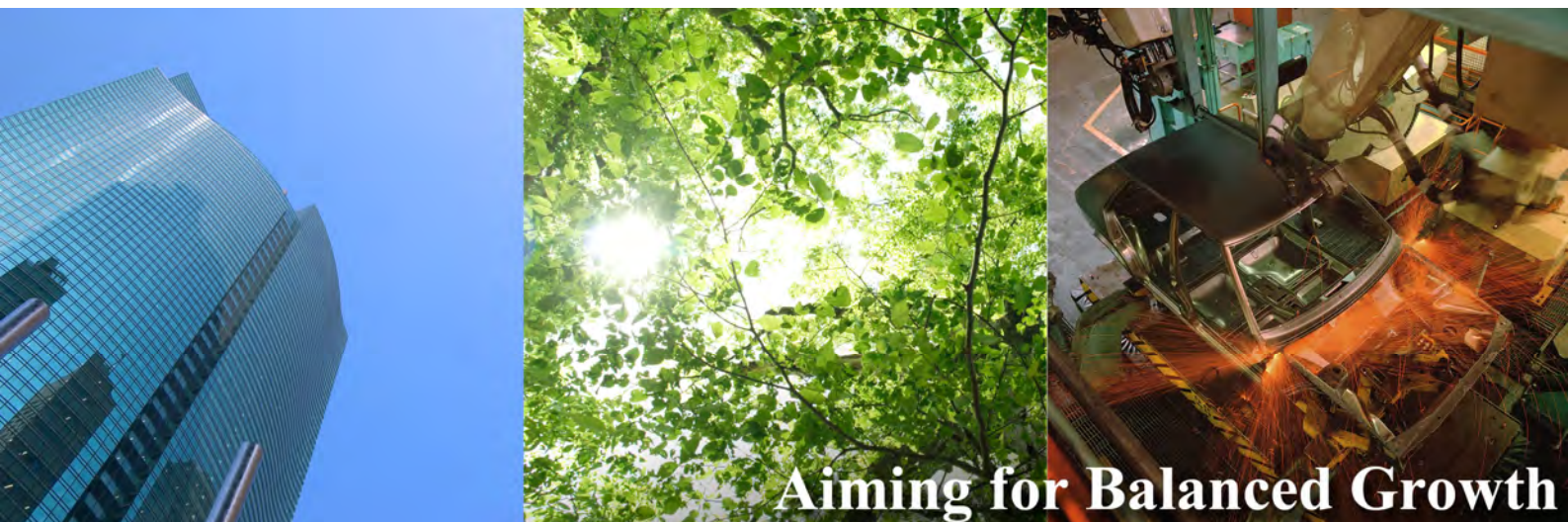


**Furusato**



**Aiming for Balanced Growth**

# **Annual Review 2010**

**Year Ended March 31, 2011**

**Furusato Industries, Ltd.**

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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.

**Furusato Industries, Ltd. would like to extend our deepest sympathies to all those affected by the Great East Japan Earthquake and pray for the earliest possible restoration of the affected regions.**

In Furusato Group, none of our employees has been missed or injured. The damages to our sales offices in the affected region were relatively small. Now, we place utmost priority on supporting our customers affected and the restoration of affected region by the earthquake.

The Japanese economy showed a moderate recovery in fiscal 2010 after it had plunged following Lehman's fall in 2008. However, the Great East Japan Earthquake drastically heightened the uncertainty over the future economic conditions. It is thus difficult to predict prospective trends in the Furusato Group's operating environment, reflecting sluggish economic activities mainly in the affected region by the earthquake, volume and timing of construction of temporary housing and the restoration of building and facilities, shrinking consumer spending and short of electric power supplies.

Even under unclear circumstances, Furusato Industries is manufacturing turnbuckle braces for temporary housing in the affected region at full capacity. After that, we will prioritize providing supplies for new housing construction and building renovation. In addition, G-net and Gifu Shoji support to replace facilities and machines of the affected manufacturers and suggest energy-saving machines and equipments. We all will work hard for the reconstruction of the affected region as Furusato Group.

Moreover, we continue to foster the Piping Products

Business, expand the business through the synergy generated by a combination of G-net and Gifu Shoji and create added value leveraging engineering functions. Besides that, we strive to prepare for the changes to come in the near future.

Furusato Group makes every effort to satisfy the needs of the society and our shareholders by conducting what we are supposed to do even under unclear circumstances.

We look forward to your continued understanding and support in the years ahead.

Ryohei Furusato  
President and Representative Director



**Operating Results**

Fiscal year		2006	2007	2008	2009	2010
Net sales	Millions of yen	90,378	92,064	83,103	53,776	<b>64,454</b>
Gross profit	Millions of yen	13,334	13,198	13,132	7,674	<b>9,046</b>
Operating income (loss)	Millions of yen	5,097	4,317	3,791	(780)	<b>767</b>
Ordinary income (loss)	Millions of yen	5,518	4,732	4,193	(520)	<b>1,074</b>
Net income (loss)	Millions of yen	3,154	2,590	1,732	(1,407)	<b>569</b>
Capital investment	Millions of yen	534	1,586	419	39	<b>116</b>
Depreciation & amortization	Millions of yen	360	549	758	629	<b>341</b>

**Ratio of Profits to Net Sales**

Fiscal year		2006	2007	2008	2009	2010
Gross profit margin	%	14.8	14.3	15.8	14.3	<b>14.0</b>
Ratio of operating income (loss) to net sales	%	5.6	4.7	4.6	(1.5)	<b>1.2</b>
Ratio of ordinary income (loss) to net sales	%	6.1	5.1	5.0	(1.0)	<b>1.7</b>
Ratio of net income (loss) to net sales	%	3.5	2.8	2.1	(2.6)	<b>0.9</b>

**Financial Position**

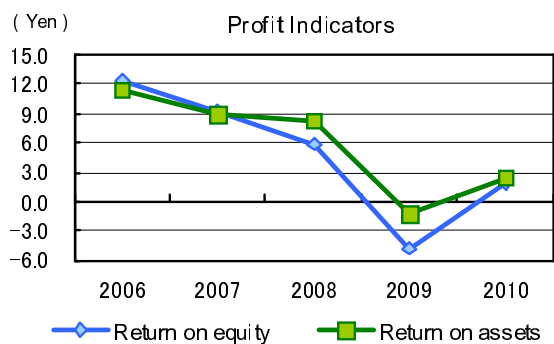
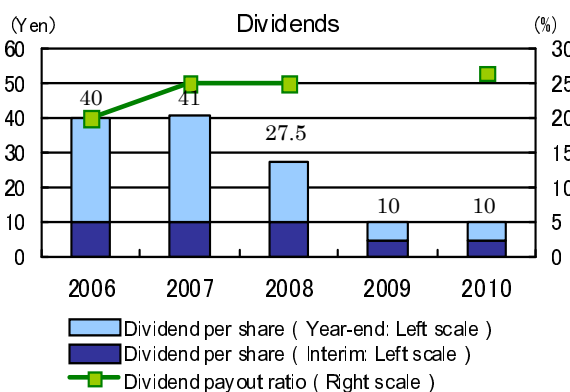
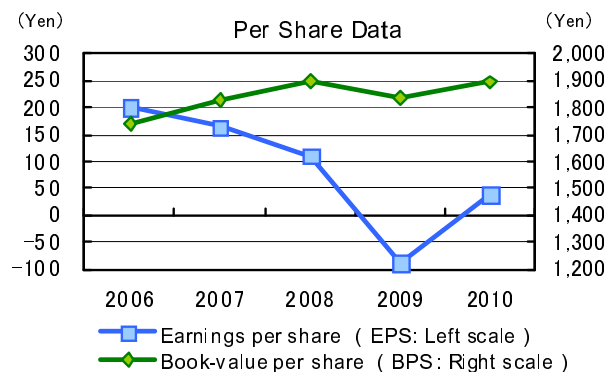
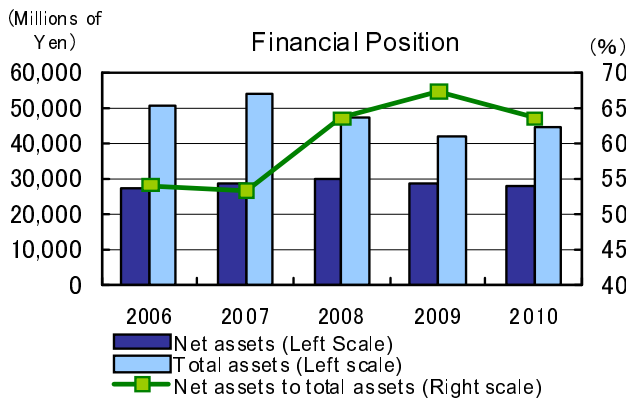
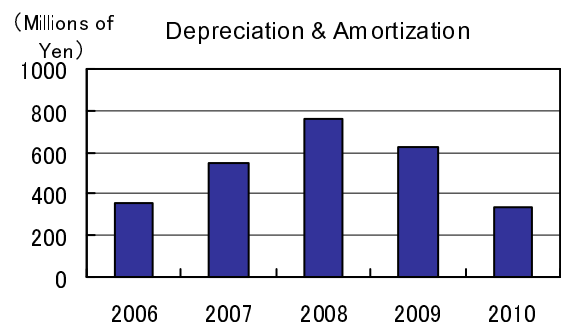
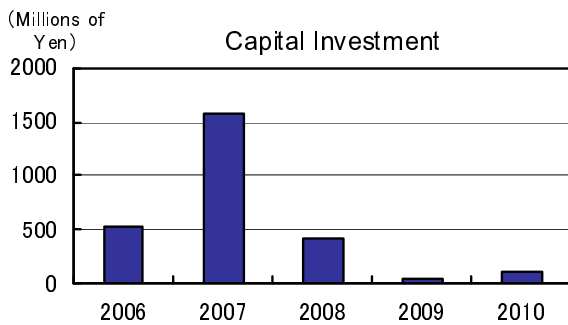
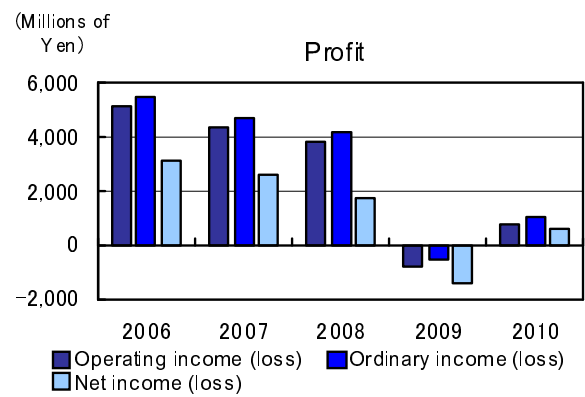
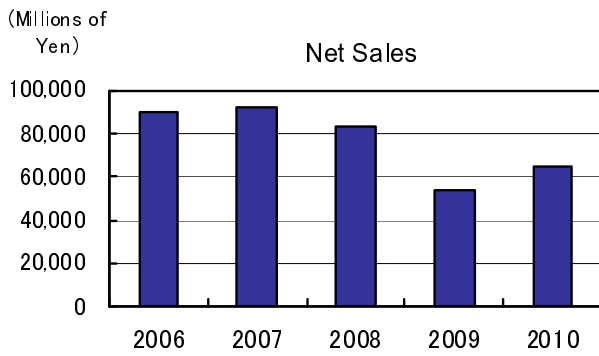
Fiscal year		2006	2007	2008	2009	2010
Net assets	Millions of yen	27,496	28,860	29,987	28,429	<b>28,315</b>
Total assets	Millions of yen	50,715	54,025	47,171	42,187	<b>44,536</b>
Net assets to total assets	%	54.2	53.4	63.6	67.4	<b>63.6</b>

**Per Share Data**

Fiscal year		2006	2007	2008	2009	2010
Earnings per share	Yen	199.86	163.92	109.64	(89.58)	<b>37.55</b>
Book-value per share	Yen	1,739.63	1,826.06	1,897.58	1,838.27	<b>1,892.90</b>
Dividend per share (Annual)	Yen	40	41	27.5	10	<b>10</b>

**Profit Indicators**

Fiscal year		2006	2007	2008	2009	2010
Return on equity	%	12.3	9.2	5.9	(4.8)	<b>2.0</b>
Return on assets	%	11.5	9.0	8.3	(1.2)	<b>2.5</b>
Dividend payout ratio	%	20.0	25.0	25.1	–	<b>26.6</b>



## 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, we take 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 the Equipment and Tools Business, the Machine and Facility Business and the Construction and Piping Products Business 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 Construction and Piping Products Business, which enjoys 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 Equipment and Tools Business, the Machine and Facility Business and the Piping Products Business, which have high growth potential, 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.

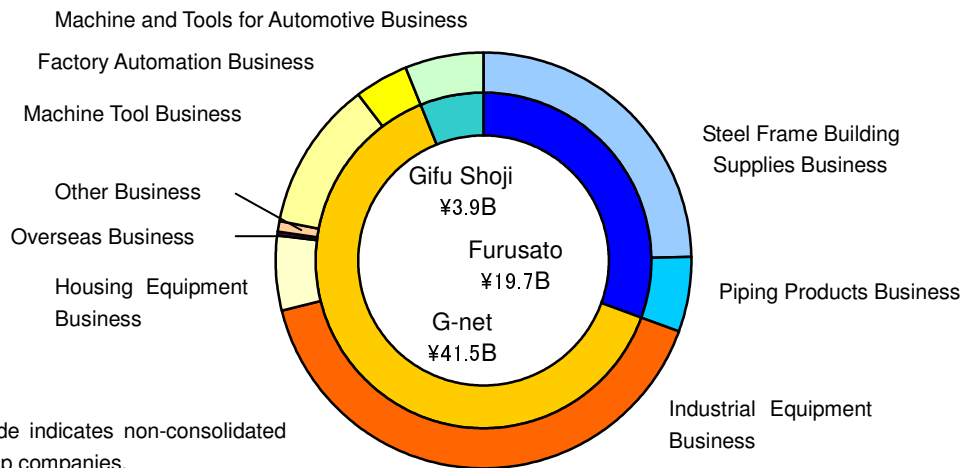
### (4) Improving corporate value by organizational reform and proactive use of human resources

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-Net Sales by Company-



※Pie chart inside indicates non-consolidated results of group companies.

**Furusato Group**

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

**Furusato Industries, Ltd.**

Furusato, listing on the First Section of Tokyo Stock Exchange and Osaka Securities Exchange, engaged in the Steel Frame Building Supplies Business and the Piping Products Business. Both businesses directly provide users with our supplies from our 45 sales offices nationwide. Basically, we purchase the supplies directly from manufacturers. Meanwhile, in the Steel Frame Construction Supplies Business, in-house products account for approximately 25% of total sales.

Of total net sales of ¥19.7 billion in fiscal 2010, the Steel Frame Construction Supplies Business made up approx. 81% and the Piping Product Business approx. 19%.

**G-net Corporation**

G-net is a wholly-owned subsidiary of Furusato, an unlisted company. The major business of G-net is the Industrial Equipment Business, offering various machines

and tools at wholesale, which sells them to manufacturers in Japan through machine and industrial tools sales dealers. This business makes up approx. 64% of total net sales. As another earning pillar, the Machine Tool Business, accounting for approx. 18% of total sales, specializes in machine tools that make parts of machines and sells them at wholesale from Tokyo, Nagoya and Osaka.

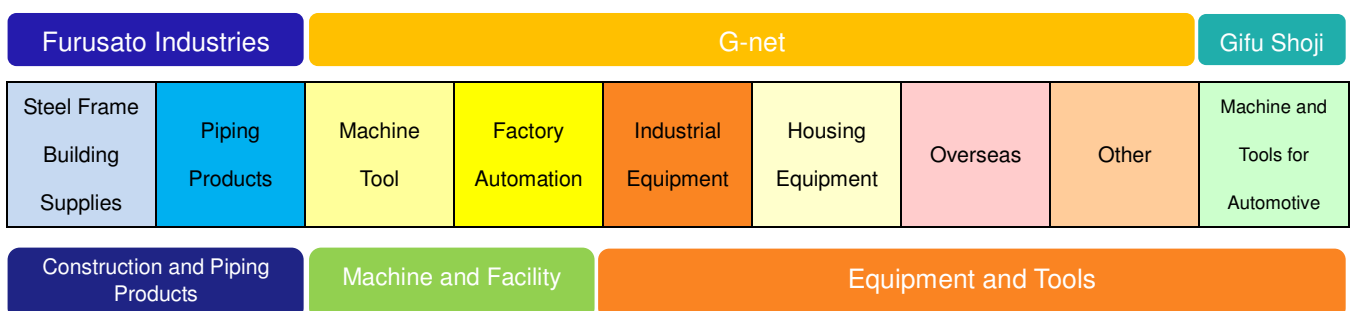
Besides that, G-net operates the Factory Automation Business, directly offering machines and facilities to some users, the Housing Equipment Business, offering housing equipments to builders at wholesale, the Overseas Business, importing and exporting mainly machines and industrial tools.

**Gifu Shoji Co., Ltd.**

Gifu Shoji is also a wholly-owned subsidiary of Furusato, an unlisted company. It directly purchases primarily industrial tools from manufacturers and sells them to automotive and automotive parts manufacturers based in Tokai Area, mainly headquarters in Gifu and Nagoya, Kariya and Hamamatsu sales offices.

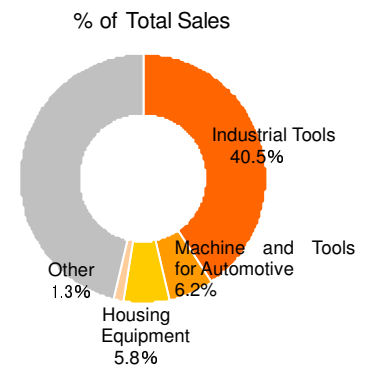
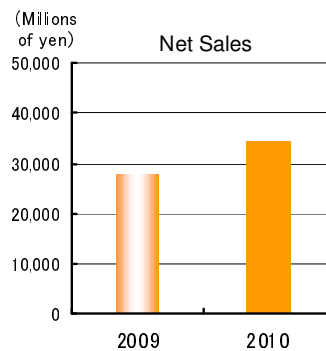
※Wakaba Lease was dissolved on March 31, 2011 and is in the course of liquidation.

○Classification of businesses of Furusato Group by Company and Segment



## Equipment and Tools Business

The Equipment and Tools Business consists of the Industrial Tools Business as the major business, offering machines and tools at wholesale, the Machine and Tools for Automotive, the Housing Equipment business, the Overseas Business and the Other Business.



### ■ Industrial Tools Business

#### 【Business outline】

In the Industrial Tools Business, we purchase machines, industrial tools, components, consumable supplies and other related supplies, used for production activities in the manufacturing sector, directly from Japan and overseas and sell them through machines and industrial tools dealers nationwide. We establish our sales network that is composed of distribution centers in Tokyo, Nagoya and Osaka and 30 sales offices from Miyagi to Kumamoto. We define the “Metal working tools field” and the “Industrial built-in equipment field” as our core competencies (our own strength) and aim to foster this business by focusing on expanding the product diversity and establishing sales methods in the core fields.

#### 【Major products】

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

#### 【Major market】

Domestic manufacturers

#### 【Major suppliers】

SMC, SANDVIK, BIG DAISHOWA SEIKI, NITTO KOHKI and other domestic and overseas machines and industrial tools manufacturers

#### 【Related business environment】

Factory operating ratio of the domestic manufacturing sector

#### 【Basic strategy】

With the aim of differentiating us from other machines and industrial tools trading companies, we define “the Metal working tools field” consisting of holding devices such as cutting tools, toolings, chucks and vises and measuring equipments, used for machining process by machine tools, and “the Industrial built-in equipments field” including industrial robots, pneumatic and oil-hydraulic devices and motor reducers as our core fields and execute various measures leveraging those advances. Besides that, we establish organized proposal methods that identify users’ potential needs and develop a new market.

### ■ Machine and Tools for Automotive

#### 【Business outline】

The Machine and Tools for Automotive Business retails machine and industrial tools to the automotive sector in Tokai area. We have the sales system specialized in hard metal tools mainly to serve major automotive parts manufacturers in Mikawa area. With regard to purchasing, the major product lines are procured directly from manufacturers while machine tools are sourced from machines and industrial tools trading companies.

#### 【Major products】

Hard metal tools, measuring equipments, machine tools

#### 【Major market】

Domestic automotive industry

#### 【Major suppliers】

OSG, Hitachi Tool Engineering, Tungaloy, G-net, etc.

**【Related business environment】**

Factory operating ratio of the automotive sector

**【Basic strategy】**

In the Machine and Tools for Automotive Business, we define the expansion of the business leveraging sale channels to good customers in the automotive sector as the basic strategy and increase sales volume based on the expansion of the breath of product lines as our major policy. In order to achieve it, the FA system division of G-net was transferred to Gifu Shoji, operating this business, and then we pursue the policy by leveraging their know-how.

**■ Housing Equipment Business**

**【Business outline】**

The Housing Equipment Business purchases system kitchens, bath units, toilets and other related products directly from manufacturers and sells them to builders, constructors, remodeling companies and others at wholesale mainly in Osaka and Nagoya.

**【Major products】**

System kitchen, toilets, unit baths, vanity units, and other related products

**【Major market】**

Domestic new housing market and remodeling market

**【Major suppliers】**

INAX(LIXIL), Rinnai, Noritz

**【Related business environment】**

New housing demand and housing remodeling demand

**【Basic strategy】**

As a business to generate stable earnings, we strive to develop the sales policy for new housing and remodeling demand.

**■ Overseas Business**

**【Business outline】**

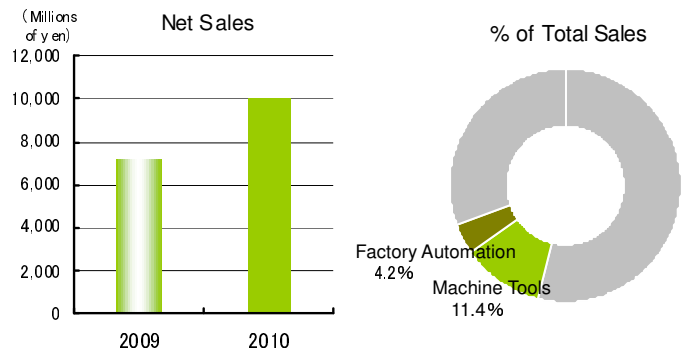
The major part of the Overseas Business is import of machine tools, equipments and tools. We support the Industrial Equipment Business to establish private label brands and import products.

**■ Other Business**

Sale of shop-lifting prevention security systems, propose, design, building and maintenance of production lines and facilities

## Machine and Facility Business

The Machine and Facility Business consists of the Machine Tools Business, offering machine tools at wholesale and the Factory Automation Business, offering machines and facilities directly to some users.



### ■ Machine Tools Business

#### 【Business outline】

In the Machine Tools Business, we have agency licenses of machine tools manufacturers in Japan. We select models of machine tools to meet users' needs and sell them through machine dealers.

#### 【Major products】

Machine tools, large machines

#### 【Major market】

Domestic manufacturing sector

#### 【Major suppliers】

Yamazaki Mazak, Mori Seiki, Okuma and other machine tools manufacturers

#### 【Related business environment】

Domestic orders received for machine tools

#### 【Basic strategy】

In the Machine Tools Business, we promote the policies, one of which hold exhibitions to enable users to compare machine tools among various manufacturers and models and select the best one to satisfy their needs. Moreover, we differentiate us from competitors by providing original added values such as proposals for the installation of CAD/CAM to improve the efficiency of machining and the improvement of production lines.

### ■ Factory Automation Business

#### 【Business outline】

The Factory Automation Business sells machines, facilities and other related products directly to some users, mainly our machine and industrial tools suppliers.

#### 【Major products】

Machine tools, big machines, industrial robots and other related products

#### 【Major market】

Domestic manufacturing sector

#### 【Major suppliers】

Machine tools manufacturers, machines manufacturer, industrial tools manufacturers

#### 【Related business environment】

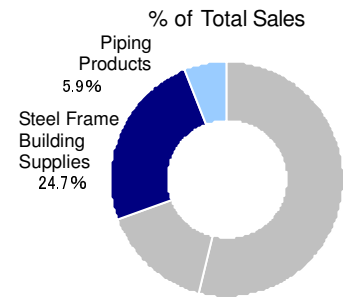
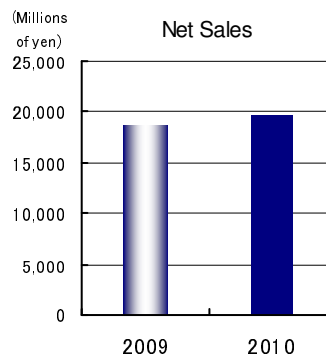
Domestic orders received for machine tools

#### 【Basic strategy】

The Factory Automation Business offers total proposal including grasping conditions of users' facilities, installing, replacing and maintaining machines and exchanging their components. In addition, we feedback the knowledge, know-how and needs that accumulated by direct sales to the Industrial Tools Business and the Machine Tools Business, which results in enhancing the contents of proposals to users.

**Construction and Piping Products Business**

The Construction and Piping Products Business consists of the Steel Frame Building Supplies Business, retailing supplies, machine and tools to steel fabricators and the Piping Products Business, retailing supplies and equipments to plumbing engineers.



**■ Steel Frame Building Supplies Business**

**【Business outline】**

The Steel Frame Building Supplies Business retails structural members, building supplies, consumable supplies, machines and tools to the steel fabricators who assemble steel frames of steel and steel reinforced concrete structure (SRC structure) from our 45 sales offices located from Hokkaido to Kagoshima. Our supplies are purchased from manufacturers in Japan and overseas and manufactured at our own factories.

**【Major products】**

In-house products: Braces, foundation bolts, other products

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

**【Major market】**

Domestic steel frame building market

**【Related business environment】**

Demand for new steel frame building

**【Basic strategy】**

In the Steel Frame Building Supplies Business, we strive to enhance the satisfaction of users by improving users' convenience with almost all items that steel fabricators buy<sup>(\*)</sup> and establish inventory and distribution systems for prompt delivery. In order to maintain a certain level of a high share in the small and shrinking market, we strive to ensure stable growth and profitability through advanced customer management and improvement in efficiency of sales based on the basic measures above.

※Excluding steel materials, the main parts of steel frame.

**■ Piping Products Business**

**【Business outline】**

In the Piping Products Business, we retail supplies, equipments and tools to plumbing engineers who install, repair and maintain piping facilities primarily in factories and manufacturing plants through the sales network as the same as the Steel Frame Building Supplies Business. In addition, we use the distribution network of the Steel Frame Building Supplies Business to deliver supplies purchased from manufacturers and wholesalers in Japan and overseas.

**【Major products】**

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

**【Major market】**

Domestic plant piping market

**【Related business environment】**

Demand for new building and repair of factories

**【Basic strategy】**

The basic strategy of the Piping Products Business is to expand the business as a driver of growth of Furusato. We aim to increase our market share by leveraging the competitive strength of low break-even point, contributed by sharing the infrastructure including the sales offices and the logistics network with the Steel Frame Building Supplies Business.

**Consolidated Results**

Fiscal year		2009		2010		Change	
		Amount	% of sales	Amount	% of sales	Amount	%
Net sales	Millions of yen	53,776	-	<b>64,454</b>	-	10,678	19.9%
Gross profit	Millions of yen	7,674	14.3%	<b>9,046</b>	<b>14.0%</b>	1,371	17.9%
SG&A expenses	Millions of yen	8,455	15.7%	<b>8,278</b>	<b>12.8%</b>	(176)	(2.1%)
Operating income (loss)	Millions of yen	(780)	(1.5%)	<b>767</b>	<b>1.2%</b>	1,547	-
Ordinary income (loss)	Millions of yen	(520)	(1.0%)	<b>1,074</b>	<b>1.7%</b>	1,595	-
Net income (loss)	Millions of yen	(1,407)	(2.6%)	<b>569</b>	<b>0.9%</b>	1,977	-

**Increase sales and profits, led by a pickup in business environment**

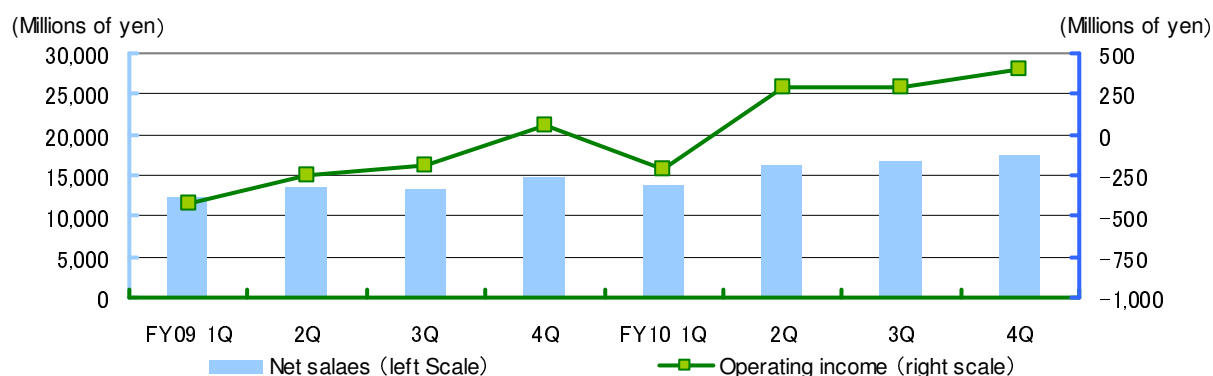
During the year ended March 31, 2011, under this business environment, Furusato group strived to intensively market competitive overseas supplies and private label brand supplies, promote energy-saving proposals, hold original exhibitions and fairs like the Osaka Machines and Tools Fair, and develop new business fields and our customer base.

Consequently, net sales in fiscal 2010 increased by 19.9% to ¥64,454 million compared with the previous fiscal year. Along with increased sales, gross profit increased by 17.9% year over year to ¥9,046 million while gross profit margin dropped by 0.3% due to a significant increase in sales of the Machine and Facility Business with low profitability. Selling, general and administrative expenses decreased by 2.1% year over year to ¥8,278 million. That was due primarily to recording no equal amortization of

goodwill from this fiscal year, resulting from one-time amortization of goodwill of Gifu Shoji in the previous fiscal year despite sales increase and increased allowance for doubtful accounts affected by the earthquake disaster. Operating income was ¥767 million (in fiscal 2009, operating loss ¥780 million). Ordinary income totaled ¥1,074 million (in fiscal 2009, ordinary loss ¥520 million). Extraordinary income including insurance premiums refunded cancellation and gain on transfer of insurance agency business of our subsidiary was ¥116 million. Extraordinary loss including loss on sale of investment securities and loss on disaster was ¥128 million. Accordingly, net income was ¥569 million (in fiscal 2009, net loss ¥1,407 million).

For the details of operating results by segment, please refer to the overview of operation by segment from the next page.

**Quarterly sales and operating income (loss)**



Quarterly sales		1 Q	2 Q	3 Q	4 Q	Total
Fiscal year						
2009	Millions of yen	12,332	13,454	13,214	14,774	53,776
2010	Millions of yen	13,869	16,247	16,788	17,549	64,454

Quarterly operating income (loss)		1 Q	2 Q	3 Q	4 Q	Total
Fiscal year						
2009	Millions of yen	(416)	(244)	(194)	61	(780)
2010	Millions of yen	(207)	289	288	396	767

Equipment and Tools Business		2009		2010		Change	
		Amount	% of sales	Amount	% of sales	Amount	% of sales
Net sales	Millions of yen	27,938	-	<b>34,652</b>	-	6,714	24.0%
Gross profit	Millions of yen	3,244	11.6%	<b>4,077</b>	<b>11.8%</b>	833	25.7%
Operating income (loss)	Millions of yen	(467)	(1.7%)	<b>468</b>	<b>1.4%</b>	936	-
<b>Net sales by business</b>							
Industrial Equipment	Millions of yen	20,815	74.5%	<b>26,051</b>	<b>75.2%</b>	5,235	25.2%
Machine and Tools for Automotive	Millions of yen	2,745	9.8%	<b>3,995</b>	<b>11.5%</b>	1,250	45.5%
Housing Equipment	Millions of yen	3,803	13.6%	<b>3,759</b>	<b>10.8%</b>	(44)	(1.2%)
Overseas	Millions of yen	79	0.3%	<b>261</b>	<b>0.8%</b>	181	228.9%
Other	Millions of yen	494	1.8%	<b>585</b>	<b>1.7%</b>	90	18.4%

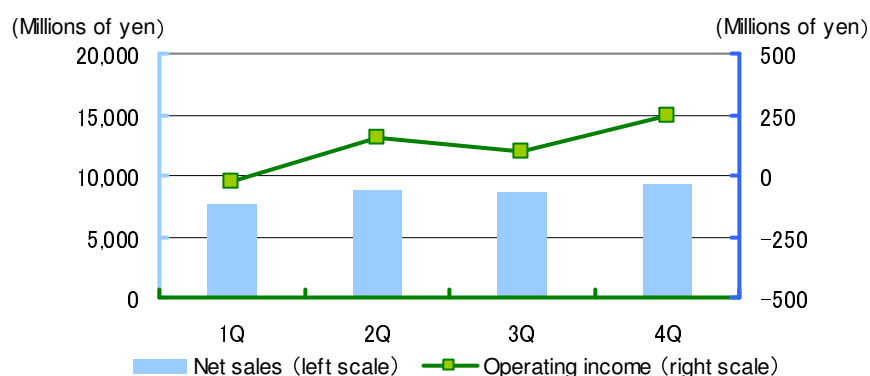
**Increase in sales and profit due to improved factory operating ratio of the manufacturing sector**

The indices of industrial production closely related to the Equipment and Tools Business showed an upward trend throughout the year compared with fiscal 2009. Especially, the general machinery recorded steady growth while motor vehicle parts, which had rebounded at a high pace, showed a slowdown in growth.

In the Equipment and Tools Business, net sales increased by 24.0% year over year to ¥34,652 million.

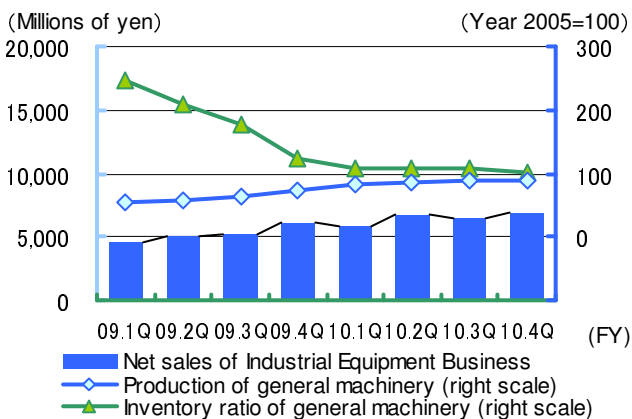
According to the sales breakdown, the Industrial Equipment Business, associated with an operating ratio of manufacturing facilities, increased by 25.2% year over year to ¥26,051 million, and the Machine and Tools for Automotive Business was up 45.5% year over year to ¥3,995 million. Meanwhile, the Housing Equipment Business slightly decreased by 1.2% year over year to ¥3,759 million. As a result, operating income was ¥468 million (in fiscal 2009, operating loss ¥467 million).

**Quarterly sales and operating income (loss)**



Equipment and Tools Quarterly Trend		1Q	2Q	3Q	4Q	Total
Net sales	Millions of yen	7,749	8,822	8,709	9,370	34,652
Operating income (loss)	Millions of yen	(26)	152	101	242	468

[Industrial Equipment]

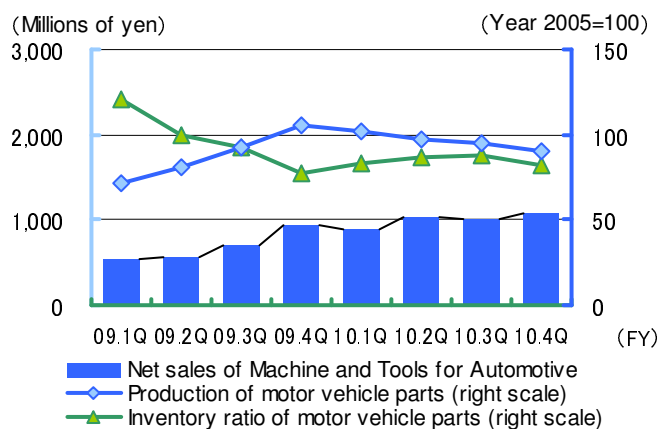


The Equipment and Tools Business is impacted by the factory operating ratio of the manufacturing industry, our end-users of this business.

According to the Indices of Industrial Production, the production of general machinery, showing the factory operating ratio of most of the end users, steadily recovered. Meanwhile, the inventory ratio of general machinery remained nearly flat after a significant drop in fiscal 2009.

Amid this improving demand environment, we focused on our core product fields and proactively developed private label brand products. Besides that, we conducted energy-saving diagnosis at end-users' factories and proposed high-efficiency facilities and equipments to solve problems identified by the diagnosis. Consequently, net sales increased by 25.2% year over year to ¥26,051 million.

[Machine and Tools for Automotive]

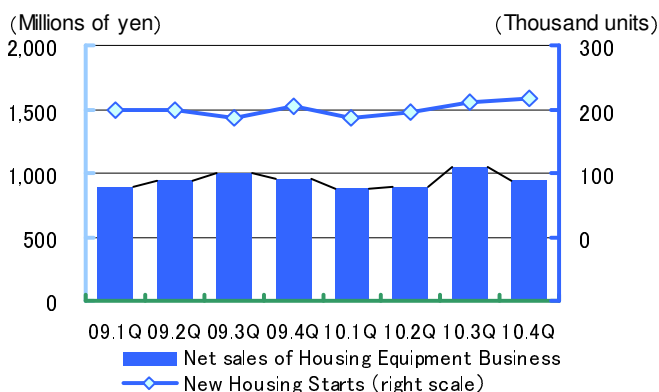


The Machine and Tools for Automotive Business reflects mainly a status of the production and inventory of automotive parts manufacturers.

The production of motor vehicle parts was on the downward trend in fiscal 2010 following a rapid recovery in fiscal 2009. Meanwhile, the inventory ratio gradually rose in line with the trend of production.

Despite a slowdown in the recovery of the demand, net sales significantly increased by 45.5% year over year to ¥3,995 million, due partly to a rebound from a substantial drop in sales after Lehman fall.

[Housing Equipment]



\*(Note) Net sales: Fiscal year (1Q=Apr. to Jun.)

\*(Note) New Housing Starts: Calendar year (1Q=Jan. to Mar.)

The Housing Equipment Business is affected by the number of new construction starts, extension and remodeling of houses.

The new housing starts shows demand for newly-built housing. According to this statistics, the new housing starts in 2010 (calendar base) stayed at the bottom, approximately 810,000 units. The severe situation has continued since 2009, recording below 800,000 units for the first time in 45 years.

Under the sluggish demand for new construction and remodeling of housing, we focused on increasing sales volume of environment-friendly facilities and equipments like heat pump. Consequently, net sales decreased by 1.2% to ¥3,759 million.

Machine and Facility		2009		2010		Change	
		Amount	% of sales	Amount	% of sales	Amount	% of sales
Fiscal year							
Net sales	Millions of yen	7,165	-	<b>10,054</b>	-	2,889	40.3%
Gross profit	Millions of yen	613	8.6%	<b>846</b>	<b>8.4%</b>	232	37.9%
Operating income (loss)	Millions of yen	(205)	(2.9%)	<b>56</b>	<b>0.6%</b>	261	-
<b>Net sales by business</b>							
Machine Tool	Millions of yen	5,243	73.2%	<b>7,359</b>	<b>73.2%</b>	2,116	40.4%
Factory Automation	Millions of yen	1,921	26.8%	<b>2,695</b>	<b>26.8%</b>	773	40.2%

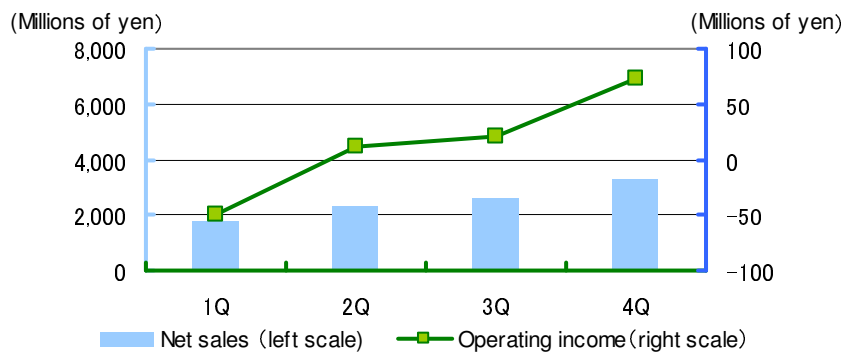
**Increase in sales and profits, led by improved domestic orders received for machine tools**

The domestic orders received for machine tools, closely related to the Machine and Facility Business, increased by 87.1% compared with the previous fiscal year with quarterly year-over-year growth.

In the Machine and Facility Business, net sales increased by 40.3% year over year to ¥10,054 million. According to

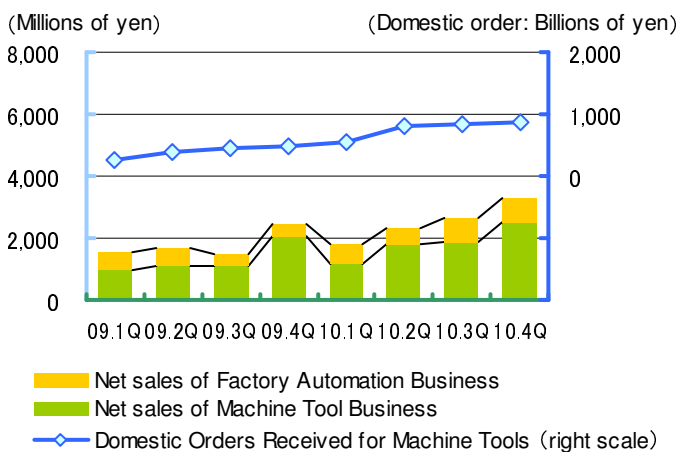
the sales breakdown, the Machine Tool Business, selling machine tools at wholesale, was up 40.4% year over year to ¥7,359 million, and the Factory Automation Business, directly selling machines and facility equipments to users, increased by 40.2% year over year to ¥2,695 million. Consequently, operating income was ¥56 million (in fiscal 2009, operating loss ¥205 million).

**Quarterly sales and operating income (loss)**



Machine and Facility Business		1 Q	2 Q	3 Q	4 Q	Total
Fiscal year						
Net sales	Millions of yen	1,802	2,327	2,624	3,300	10,054
Operating income (loss)	Millions of yen	(50)	11	21	73	56

**[Machine Tool· Factory Automation Business]**



\*(Note) Net sales: Fiscal year (1Q=Apr. to Jun.)

\*(Note) Domestic orders received for machine tools: Calendar year (1Q=Jan. to Mar.)

The Machine Tool Business and the Factory Automation Business are affected by the trend in capital investment.

According to the statistics of orders received for machine tools, domestic demand showed a gradual recovery in fiscal 2010. Especially, demand in the fourth quarter was up approximately 80% year over year, but still has reached approximately a half of the level attained prior to the Lehman fall.

Under the gradual recovery of demand, in the Machine Tool Business, we held our original exhibitions and fairs like the Osaka Machines and Tools Fair and made proposals to and took orders from users.

Accordingly, net sales of the Machine Tool Business increased by 40.4% to ¥7,359 million with increased orders, reflecting a steady growth in our orders received but low remaining capacity of manufacturers.

Meanwhile, in the Factory Automation Business, net sales increased by 40.2% to ¥2,695 million.

Construction and Piping Products		2009		2010		Change	
		Amount	% of sales	Amount	% of sales	Amount	% of sales
Fiscal year							
Net sales	Millions of yen	18,641	-	<b>19,726</b>	-	1,084	5.8%
Gross profit	Millions of yen	3,794	20.4%	<b>4,106</b>	<b>20.8%</b>	311	8.2%
Operating income (loss)	Millions of yen	(222)	(1.2%)	<b>130</b>	<b>0.7%</b>	353	-
<b>Net sales by business</b>							
Steel Frame Building Supplies	Millions of yen	15,192	81.5%	<b>15,951</b>	<b>80.9%</b>	759	5.0%
Piping Products	Millions of yen	3,449	18.5%	<b>3,774</b>	<b>19.1%</b>	325	9.4%

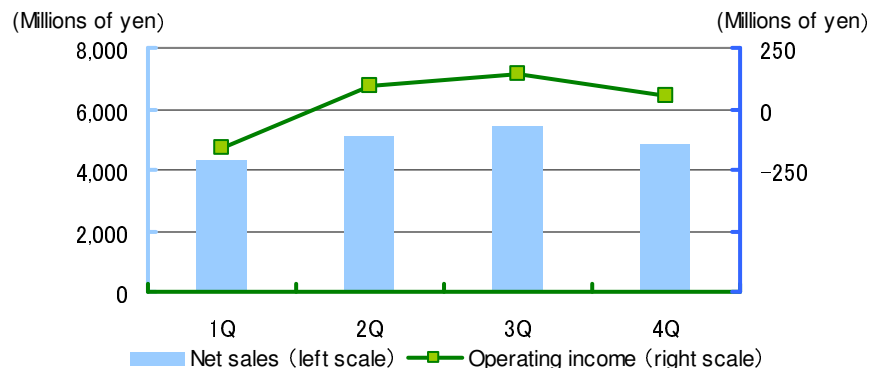
### Slight increase in sales due to stagnant business environment

According to the statistics of the amount of steel frame used, closely related to the Construction and Piping Products Business, it totaled 4.2 million ton, up 2.3% year over year, the second consecutive year of the 4 million ton level.

In the Construction and Piping Products Business, net

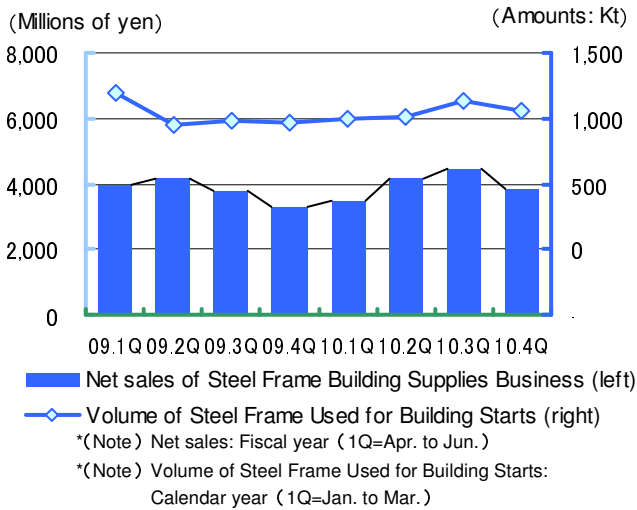
sales increased by 5.8% year over year to ¥19,726 million. According to the sales breakdown, the Steel Frame Building Supplies Business was ¥15,951 million, up 5.0% year over year, and the Piping Products Business was ¥3,774 million, up 9.4% year over year. Accordingly, operating income totaled ¥130 million (in fiscal 2009, operating loss ¥222 million).

### Quarterly sales and operating income (loss)



Construction and Piping Products Quarterly Trend						
Fiscal year		1Q	2Q	3Q	4Q	Total
Net sales	Millions of yen	4,311	5,092	5,447	4,874	19,726
Operating income (loss)	Millions of yen	(159)	98	140	51	130

[Steel Frame Building Supplies Business]



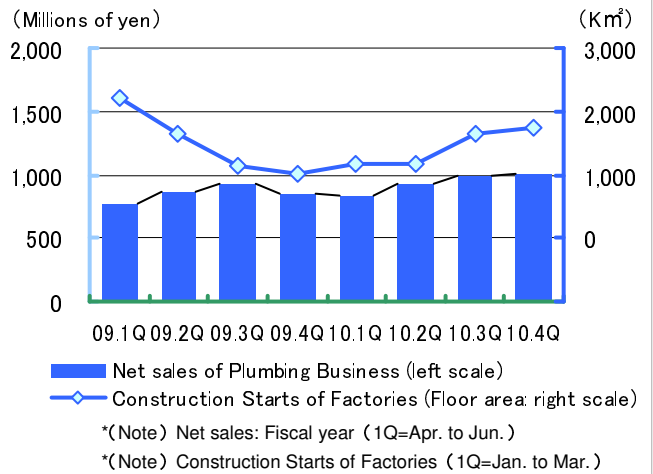
The Steel Frame Building Supplies Business is greatly impacted by demand for steel frame buildings.

The volume of steel frame used for building increased by 2.3% to 4.2 million ton, the second straight year of the lowest level since 1967. The demand dropped by over 30% compared with the demand level falling between 6 million ton and less than 7.5 million ton since 2001.

Meanwhile, the steel product prices, which affects our selling prices, increased by approximately 15% from the fiscal 2009 when it had dropped by nearly 40% year over year.

Under this sluggish demand environment, we provided supplies for seismic strengthening works, conducted marketing campaigns and held original exhibitions and fairs like "the Warehouse Market." Meanwhile, we tried to pass on increase in the cost of steel products to our selling prices, but we could not complete it due to fierce competition caused by the sluggish demand. Consequently, net sales were up 5.0% to ¥15,951 million.

[Piping Products Business]



The Plumbing Business was affected by demand for building, repair and maintenance of the plumbing facilities.

The floor area of new construction starts of factories, showing construction demand for factories, had remained at a low level, but showed a gradual recovery from the third quarter.

Although net sales had significantly declined due to constraint of capital investment after Lehman's fall regardless of our new business, net sales in fiscal 2010 increased by 9.4% to ¥3,774 million by intensively expanding customer base and marketing new supplies using original sales leaflets.

Fiscal year		2010 Actual		2011 Forecasts		Change	
		Amount	% of sales	Amount	% of sales		%
Net sales	Millions of yen	64,454	-	<b>66,000</b>	-		2.4%
Gross profit	Millions of yen	9,046	14.0%	<b>9,244</b>	<b>14.6%</b>		2.2%
SG&A expenses	Millions of yen	8,278	12.8%	<b>8,329</b>	<b>12.6%</b>		0.6%
Operating income	Millions of yen	767	1.2%	<b>915</b>	<b>1.4%</b>		19.3%
Ordinary income	Millions of yen	1,074	1.7%	<b>1,170</b>	<b>1.8%</b>		8.9%
Net income	Millions of yen	569	0.9%	<b>595</b>	<b>0.9%</b>		4.5%

Note: Forecasts announced on June 16, 2011.

Although the forecasts for the year ending March 31, 2012 had not determined due to the difficulty in making the rational calculation, impacted by the Great East Japan Earthquake occurred on March 11, 2011, we decided the forecasts based on the information and prospects available on June 16, 2011.

## 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 2010" for market data,  
management indicators and stock-related data.

<http://english.furusato.co.jp/ir/factbook.html>

(Millions of yen)

Fiscal year	2006	2007	2008	2009	2010
<b>Assets</b>					
Current assets:	37,229	37,583	31,972	27,900	<b>30,887</b>
Cash and deposits	4,516	3,608	6,624	6,905	<b>6,861</b>
Notes and accounts receivable-trade	28,053	28,554	20,255	16,891	<b>20,003</b>
Inventories	4,141	4,698	4,576	3,265	<b>3,499</b>
Deferred tax assets	318	337	278	279	<b>309</b>
Other	318	483	286	597	<b>257</b>
Allowance for doubtful accounts	(119)	(99)	(49)	(39)	<b>(42)</b>
Noncurrent assets:	13,485	16,441	15,198	14,287	<b>13,648</b>
Property, plant and equipment:	8,758	10,395	10,325	9,992	<b>9,795</b>
Buildings and structures, net	2,351	2,856	2,911	2,735	<b>2,573</b>
Land	5,705	6,808	6,801	6,801	<b>6,868</b>
Other, net	700	730	612	454	<b>353</b>
Intangible assets:	105	1,517	1,230	115	<b>83</b>
Goodwill	2	1,398	1,087	-	-
Other	102	119	142	115	<b>83</b>
Investments and other assets:	4,621	4,528	3,643	4,179	<b>3,769</b>
Investment securities	3,160	3,122	2,437	3,054	<b>2,540</b>
Prepaid pension cost	-	-	138	60	<b>71</b>
Deferred tax assets	385	379	372	398	<b>187</b>
Other	1,197	1,131	809	772	<b>1,140</b>
Allowance for doubtful accounts	(121)	(105)	(115)	(106)	<b>(170)</b>
<b>Total assets</b>	<b>50,715</b>	<b>54,025</b>	<b>47,171</b>	<b>42,187</b>	<b>44,536</b>
<b>Liabilities</b>					
Current liabilities:	21,125	21,844	14,615	12,170	<b>14,961</b>
Notes and accounts payable-trade	18,048	18,764	12,809	11,106	<b>13,456</b>
Short-term loans payable	500	915	310	-	-
Income taxes payable	1,283	902	325	48	<b>347</b>
Provision for bonuses	-	520	494	409	<b>464</b>
Provision for directors' bonuses	23	29	15	5	<b>13</b>
Other	1,270	711	661	600	<b>679</b>
Noncurrent liabilities:	2,093	3,320	2,568	1,588	<b>1,258</b>
Long-term loans payable	-	1,200	900	-	-
Provision for retirement benefits	1,157	1,107	903	521	<b>453</b>
Provision for directors' retirement benefits	623	708	51	57	-
Other	312	304	713	1,008	<b>805</b>
<b>Total liabilities</b>	<b>23,218</b>	<b>25,165</b>	<b>17,183</b>	<b>13,758</b>	<b>16,220</b>
<b>Net Assets</b>					
Shareholders' equity:	26,312	28,268	29,352	27,414	<b>27,562</b>
Capital stock	5,232	5,232	5,232	5,232	<b>5,232</b>
Capital surplus	6,446	6,446	6,446	6,135	<b>6,135</b>
Retained earnings	14,816	16,775	17,860	16,097	<b>16,513</b>
Treasury stock	(183)	(185)	(187)	(50)	<b>(318)</b>
Valuation and translation adjustments:	1,183	591	635	1,014	<b>752</b>
Valuation difference on available-for-sale securities	1,183	591	635	1,014	<b>752</b>
Minority interests	-	0	-	-	-
<b>Total net assets</b>	<b>27,496</b>	<b>28,860</b>	<b>29,987</b>	<b>28,429</b>	<b>28,315</b>
<b>Total liabilities and net assets</b>	<b>50,715</b>	<b>54,025</b>	<b>47,171</b>	<b>42,187</b>	<b>44,536</b>

(Millions of yen)

Fiscal year	2006		2007		2008		2009		2010	
Net sales	90,378	100.0%	92,064	100.0%	83,103	100.0%	53,776	100.0%	<b>64,454</b>	<b>100.0%</b>
Cost of sales	77,043	85.2%	78,866	85.7%	69,971	84.2%	46,101	85.7%	<b>55,408</b>	<b>86.0%</b>
Gross profit	13,334	14.8%	13,198	14.3%	13,132	15.8%	7,674	14.3%	<b>9,046</b>	<b>14.0%</b>
Selling, general and administrative expenses	8,237	9.1%	8,880	9.6%	9,340	11.2%	8,455	15.7%	<b>8,278</b>	<b>12.8%</b>
Operating income (loss)	5,097	5.6%	4,317	4.7%	3,791	4.6%	(780)	(1.5%)	<b>767</b>	<b>1.2%</b>
Non-operating income	688	0.8%	693	0.8%	668	0.8%	446	0.8%	<b>520</b>	<b>0.8%</b>
Interest and dividends income	42		57		64		39		<b>48</b>	
Purchase discounts	567		558		514		322		<b>407</b>	
Rent income	55		54		56		55		<b>30</b>	
Other	23		21		33		28		<b>33</b>	
Non-operating expenses	267	0.3%	278	0.3%	266	0.3%	187	0.3%	<b>212</b>	<b>0.3%</b>
Interest expenses	5		15		19		6		<b>0</b>	
Loss on sale of notes payable	8		12		11		2		<b>-</b>	
Sales discounts	223		227		217		155		<b>201</b>	
Cost of lease revenue	13		12		12		16		<b>4</b>	
Other	17		10		5		6		<b>6</b>	
Ordinary income (loss)	5,518	6.1%	4,732	5.1%	4,193	5.0%	(520)	(1.0%)	<b>1,074</b>	<b>1.7%</b>
Extraordinary income	144	0.2%	19	0.0%	29	0.0%	13	0.0%	<b>116</b>	<b>0.2%</b>
Extraordinary loss	66	0.1%	66	0.1%	938	1.1%	855	1.6%	<b>128</b>	<b>0.2%</b>
Income (loss) before income taxes and minority interests	5,597	6.2%	4,685	5.1%	3,284	4.0%	(1,363)	(2.5%)	<b>1,062</b>	<b>1.6%</b>
Income taxes-current	2,319		2,029		1,352		84		<b>324</b>	
Income taxes-deferred	123		65		199		(40)		<b>168</b>	
Minority interests	-		0		-		-		<b>-</b>	
Net income (loss)	3,154	3.5%	2,590	2.8%	1,732	2.1%	(1,407)	(2.6%)	<b>569</b>	<b>0.9%</b>

(Millions of yen)

Fiscal 2010 (from April 1, 2010 to March 31, 2011)

	Shareholders' equity					Valuation and translation adjustments		Total net assets
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total	Valuation difference on available-for-sale securities	Total valuation and translation adjustments	
Balance at March 31, 2010	5,232	6,135	16,097	(50)	27,414	1,014	1,014	28,429
Changes during the period								
Dividends			(152)		(152)			(152)
Net Income			569		569			569
Purchases of treasury stock				(268)	(268)			(268)
Net changes of items other than shareholders' equity, net						(262)	(262)	(262)
Total changes of items during the period	-	-	416	(268)	148	(262)	(262)	(113)
Balance at March 31, 2011	5,232	6,135	16,513	(318)	27,562	752	752	28,315

(Millions of yen)

Fiscal year	2006	2007	2008	2009	2010
<b>I . Cash flows from operating activities:</b>					
Income (loss) before income taxes	5,597	4,685	3,284	(1,363)	<b>1,062</b>
Depreciation and amortization	349	392	447	395	<b>341</b>
Amortization of goodwill	10	157	310	1,087	-
Impairment loss	55	-	-	-	-
Increase (decrease) in provision for directors' bonuses	23	0	(14)	(9)	<b>7</b>
Decrease in provision for retirement benefits	(92)	(104)	(203)	(381)	<b>(68)</b>
Decrease (increase) in prepaid pension costs	-	-	(138)	78	<b>(10)</b>
Increase (decrease) in provision for directors' retirement benefits	41	44	(657)	6	<b>(57)</b>
Increase (decrease) in provision for bonuses	-	474	(26)	(84)	<b>54</b>
Increase (decrease) in allowance for doubtful accounts	(75)	(72)	(39)	(19)	<b>67</b>
Interest and dividends income	(42)	(57)	(64)	(39)	<b>(48)</b>
Interest expenses	-	-	19	6	<b>0</b>
Interest expenses and loss on sales of notes receivable-trade	13	27	-	-	-
Loss (gain) on sales of investment securities	(25)	-	-	-	<b>76</b>
Loss on revaluation of investment securities	-	-	799	-	-
Gain from prior period adjustment	(24)	-	-	-	-
Gain on sales of noncurrent assets	(72)	-	-	-	-
Gain on transfer of business	-	-	-	-	<b>(30)</b>
Decrease (increase) in notes and accounts receivable-trade	(3,930)	1,763	8,253	3,343	<b>(3,107)</b>
Decrease (increase) in inventories	(376)	(317)	121	1,310	<b>(233)</b>
Decrease in accounts receivable-other	612	-	-	-	-
Increase (decrease) in notes and accounts payable-trade	1,432	(986)	(5,766)	(1,559)	<b>2,232</b>
Increase (decrease) in accrued expenses	-	(470)	(0)	(6)	<b>10</b>
Increase (decrease) in long-term accounts payable-other	-	-	200	101	<b>(52)</b>
Directors' bonuses	(23)	-	-	-	-
Other	97	(56)	69	(57)	<b>128</b>
<b>Subtotal</b>	<b>3,569</b>	<b>5,479</b>	<b>6,594</b>	<b>2,810</b>	<b>371</b>
Interest and dividends income received	44	58	64	40	<b>48</b>
Interest expenses paid	-	-	(20)	(13)	<b>(0)</b>
Interest expenses and loss on sales of notes receivable-trade	(13)	(19)	-	-	-
Income taxes paid	(2,276)	(2,483)	(1,925)	(737)	<b>(46)</b>
Income taxes refund	-	-	-	-	<b>393</b>
<b>Net cash provided by (used in) operating activities</b>	<b>1,323</b>	<b>3,034</b>	<b>4,712</b>	<b>2,099</b>	<b>766</b>
<b>II . Cash flows from investing activities:</b>					
Payments into time deposits	(350)	(66)	(85)	(129)	<b>(420)</b>
Proceeds from withdrawal of time deposits	-	150	366	85	<b>176</b>
Purchases of property, plant and equipment	(498)	(1,524)	(403)	(36)	<b>(109)</b>
Proceeds from sales of property, plant and equipment	268	2	10	0	-
Purchase of investment securities	(201)	(8)	(12)	(20)	<b>(11)</b>
Proceeds from sales of investment securities	32	-	20	-	<b>36</b>
Proceeds from transfer of business	-	-	-	-	<b>30</b>
Purchase of investments in subsidiaries	-	(3,032)	(0)	-	-
Payments of loans receivable	(12)	(12)	(12)	(16)	<b>(22)</b>
Collection of loans receivable	15	12	12	15	<b>16</b>
Other	(63)	(69)	(56)	(20)	<b>(30)</b>
<b>Net cash provided by (used in) investing activities</b>	<b>(811)</b>	<b>(4,550)</b>	<b>(162)</b>	<b>(122)</b>	<b>(334)</b>
<b>III . Cash flows from financing activities:</b>					
Net decrease in short-term loans payable	(230)	(275)	(605)	(10)	-
Proceeds from long-term loans payable	-	1,500	-	-	-
Repayment of long-term loans payable	-	-	(300)	(1,200)	-
Purchase of treasury stock	(3)	(2)	(1)	(174)	<b>(268)</b>
Proceeds from disposal of treasury stock	699	-	-	-	-
Cash Dividends paid	(574)	(631)	(646)	(355)	<b>(152)</b>
<b>Net cash provided by (used in) financing activities</b>	<b>(109)</b>	<b>591</b>	<b>(1,552)</b>	<b>(1,740)</b>	<b>(420)</b>
<b>IV . Effect of exchange rate changes on cash and cash equivalents</b>	<b>0</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>V . Net increase (decrease) in cash and cash equivalents</b>	<b>403</b>	<b>(923)</b>	<b>2,997</b>	<b>236</b>	<b>11</b>
<b>VI . Cash and cash equivalents at beginning of period</b>	<b>4,062</b>	<b>4,465</b>	<b>3,541</b>	<b>6,539</b>	<b>6,775</b>
<b>VII . Cash and cash equivalents at end of period</b>	<b>4,465</b>	<b>3,541</b>	<b>6,539</b>	<b>6,775</b>	<b>6,787</b>

**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 strives 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 appropriate measures to respond to 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 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 measures on the significant risks.
- e) To ensure that the Directors 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 members 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 operations of the Furusato Group and formulates appropriate measures to respond to them.

**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.

All of the three Corporate Auditors have their profound

knowledge in financial and accounting fields, respectively as follows:

- a) Yoshitsugu Takata, the Full-time Corporate Auditor, has his long experience in the financial institution and expertise mainly in finance.
- b) Tomio Kawaguchi, the Outside Corporate Auditor, has his long expertise and experience as a judge and lawyer.
- c) Yoshiharu Senoue, the Outside Corporate Auditor, with his long experience in the financial institution, was formerly the Full-time Corporate Auditor at Astellas Pharma Inc.

《Communication among Internal Auditing Division, Corporate Auditors and Accounting Auditors, and Relation between their audits and internal control section》

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 audit results from the Internal Auditing Division. Besides, 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 exchanging opinions whenever necessary.

The Internal Auditing Division collaborates with the Accounting Auditors by sharing the auditing results and other information through the exchange of opinions and the discussions in a timely and appropriate manner as well as by attending the inventory audits conducted by the Accounting Auditors.

The Internal Control Section receives reports on overviews of audits from the Internal Auditing Division, the Corporate Auditors and the Accounting Auditors. In the event that the Internal Control Section finds items where improvement is deemed necessary, it establishes the framework to improve them.

**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.

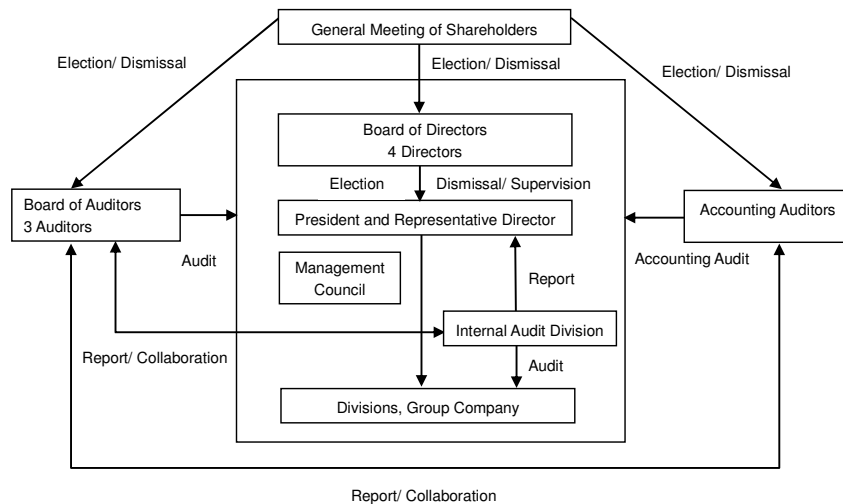
In regard to the election of the Outside Corporate Auditors, both of them are appointed as an independent board member. They fully fulfill audit functions by asking questions and stating their opinions in an independent and fair manner at the meeting of the Board of Directors.

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 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. Ac-

ording to the audit policy defined at the Board of Corporate Auditors, the Corporate Auditors mainly review important documents and investigate subsidiaries at the meetings of the Board of the Directors and others. 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 outside of the company is vital. Thus, we adopted the current framework which enables sufficient oversight of management from the outside of the company through the audit by the two Outside Corporate Auditors.

**Furusato Group Corporate Governance Framework**



**Remuneration for Directors and Auditors**

① Total remuneration for Directors and Corporate Auditors with a breakdown by type

Classification	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)	66,180	60,755	-	5,425	-	5
Corporate Auditors (Exc. Outside Corporate Auditors)	13,650	13,500	-	150	-	1
Outside Directors and Outside Corporate Auditors	12,350	12,300	-	50	-	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.

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 Corporate Auditors.

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.

**Shares Holding**

① Total number of companies and amounts on the balance sheet for shares holding for reasons other than pure investment

12 stocks, 1,281,811 thousand yen

② Stock name, number of shares, balance sheet amounts and purpose of holding for shares holding that are not for pure investment.

Stock name	No. of shares hold (Shares)	Balance sheet amounts (Thousand yen)	Purpose of holding
Seiwa Chuo Holdings Corporation	60,000	642,000	Developing and maintaining a business relationship
Mory Industries Inc.	440,000	180,400	Developing and maintaining a business relationship
Hoshiden Corporation	140,000	118,300	Developing and maintaining a business relationship
Mori Seiki Co., Ltd.	100,000	99,300	Developing and maintaining a business relationship
SHINSHO Corporation	393,904	83,901	Developing and maintaining a business relationship
Mitsubishi UFJ Financial Group, Inc.	122,000	46,848	Developing and maintaining a business relationship
HANWA Co., Ltd.	117,809	43,353	Developing and maintaining a business relationship
MS&AD Insurance Group Holdings, Inc.	10,800	20,455	Developing and maintaining a business relationship
Daiwa House Industries, Co., Ltd.	20,000	20,440	Developing and maintaining a business relationship
Maeda Metal Industries, Ltd.	100,000	17,000	Developing and maintaining a business relationship
Resona Holdings, Inc.	15,500	6,138	Developing and maintaining a business relationship
Daishin Chemical Co., Ltd.	5,000	3,675	Developing and maintaining a business relationship

## 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 6, 2011, including but not limited to the items presented herein.

### 1. Trends in capital investment

Furusato Group consists of Furusato Industries (Construction and Piping Products Business) and its subsidiaries, G-net Corporation (Equipment and Tools Business, Machine and Facility Business), Gifu Shoji Co., Ltd. (Equipment and Tools Business) and Wakaba Lease (Other Business). Wakaba Lease was dissolved on March 31, 2011 and is in the course of liquidation.

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.

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 impacted by the trends in private capital investment. Accordingly, there is a risk that profitability may deteriorate depending on sluggish demand for private capital investment due to the fierce competition.

G-net is a primary wholesaler to mainly offer the machine tools and industrial tools. The Machine and Facility 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, there is a risk that the profitability may deteriorate due to sluggish orders received 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.

However, 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.

### 3. Risks arising from natural disasters and others

In the event of social turmoil occurred by natural disasters including earthquakes and floods, accidents like fires, epidemics, terrorism, wars and other factors, the Furusato Group may suspend its business activities or lose business opportunities. In addition, significant expenses for the restoration of the damaged facilities may be incurred. Therefore, these impacts triggered by the disasters could affect 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 our 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.

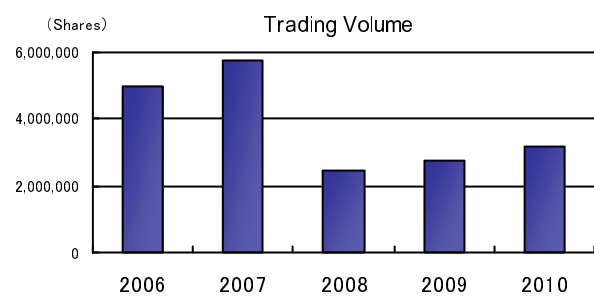
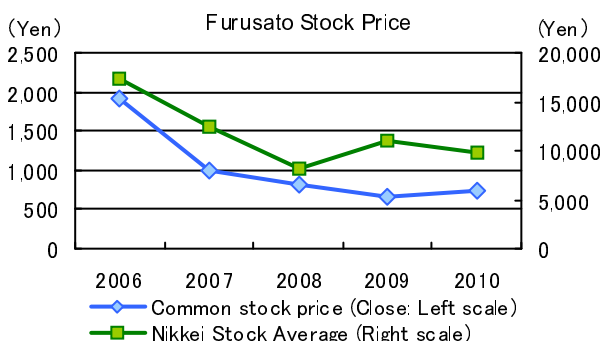
¥0.01 - ¥0.49; ¥0.5

¥0.51 - ¥0.99; ¥1.0

## Dividends for Fiscal 2010 and Dividends Forecast for Fiscal 2011

In fiscal 2010, annual dividend is ¥10 per share including the interim dividend of ¥5 per share based on the above basic policy.

The annual dividend for fiscal 2011, ending March 31, 2012 is expected to be ¥10 per share (the forecast announced on June 16, 2011).

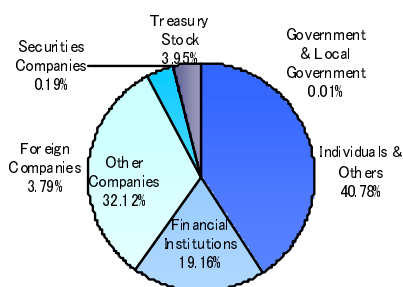


## Furusato Stock Price, Trading Volume

Fiscal year		2006	2007	2008	2009	2010
Common stock price (High)	Yen	2,630	1,950	1,175	812	<b>775</b>
Common stock price (Low)	Yen	1,436	906	652	473	<b>384</b>
Common stock price (Close)	Yen	1,934	1,000	797	658	<b>748</b>
Nikkei Stock Average (Close)	Yen	17,287.65	12,525.54	8,109.53	11,089.94	<b>9,755.10</b>
TOPIX (Close)	Yen	1,713.61	1,212.96	773.66	978.81	<b>869.38</b>
Trading volume	Shares	4,999,700	5,753,000	2,468,500	2,754,900	<b>3,175,500</b>
【Reference】 Trading volume (Tokyo Stock Exchange)	Shares	560,200	500,500	266,200	217,000	<b>246,300</b>

Note: Stock price and trading volume are quoted from those on the First Section of Osaka Securities Exchange.

## Ownership Breakdown (As of March 31, 2011)



## Principal Shareholders

	Investment in Furusato	
	Shares	%
FRT, Ltd.	2,168,361	14.50%
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	707,840	4.73%
Ryoichi Furusato	585,500	3.91%
Nippon Life Insurance Company	496,640	3.32%
Japan Trustee Services Bank, Ltd. (Trust account)	476,500	3.19%
Ryohei Furusato	401,500	2.68%
SHIN SHO Corporation	386,800	2.59%
HANWA Co., Ltd.	344,000	2.30%

※ The ratio of investment in Furusato is calculated after deduction of the number of treasury stock (615,569 shares).

**Purchase of Treasury Shares**

① Total of shares purchased in accordance with the resolutions at the meeting of the Board of Directors

Detail	No. of shares holds (shares)	Total amount (yen)
Resolution at the meeting of the Board of Directors on November 4, 2009	500,000	300,000,000
Treasury stock purchased in fiscal 2010	152,300	89,177,700
Total number and total amount of remaining shares resolved	10,500	36,520,100
% of the non-executed shares at the end of fiscal 2010(%)	2.1	12.2

Detail	No. of shares holds (shares)	Total amount (yen)
Resolution at the meeting of the Board of Directors on June 8, 2010	200,000	120,000,000
Treasury stock purchased in fiscal 2010	66,400	36,420,100
Total number and total amount of remaining shares resolved	133,600	83,579,900
% of the non-executed shares at the end of fiscal 2010(%)	66.8	69.6

Detail	No. of shares holds (shares)	Total amount (yen)
Resolution at the meeting of the Board of Directors on July 9, 2010	500,000	300,000,000
Treasury stock purchased in fiscal 2010	287,400	142,390,500
Total number and total amount of remaining shares resolved	212,600	157,609,500
% of the non-executed shares at the end of fiscal 2010(%)	42.5	52.5

Note: Furusato resolved the change of period of purchase from July 12, 2010 to June 20, 2011 at the meeting of the Board of Directors held on March 31, 2011 as follows:

Revised period of purchase: from July 12, 2010 to March 31, 2011

② The number of treasury shares retired and held

Detail	No. of shares (shares)
The number of treasury shares held (As of March 31, 2011)	615,569

**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.

Oct. 2009      Nagoya FA System division of G-net transferred to Gifu Shoji.

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	416
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	15,574,366
Number of shareholders	5,509
Paid-in Capital	¥ 5,232 million
Administrator of Shareholder's Register	Mitsubishi UFJ Trust and Banking Corporation

**Directors and Auditors (As of June 29, 2011)**

President and Representative Director	Ryohei Furusato
Managing Director	Satoshi Onishi
Director	Susumu Yamauchi
Director	Seiichi Kanasaki
Full-time Corporate Auditor	Yoshitsugu Takata
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)