



Bulls

JK Holdings
Quarterly Report International

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The overview of Financial Results for JK Holdings for the third quarter of the Fiscal year Ending March, 2018

Keiichiro Aoki

President
JK holdings Co.,Ltd.



The cumulative number of new housing starts from the first quarter to the third quarter came to 741,300 units (decreased by 1.3% from the same period of the previous year), and the number of new housing starts for owner-occupied house, our main markets also decreased to 221,200 units (decreased by 3.3%). Regarding with plywood of our main products, imported plywood is still short in supply due to felling tax increase and environmental regulation in the countries of origin, causing the continuous anticipation of rising prices. Consequently, the plywood market is shifting to Japanese softwood plywood. As a result of the sluggish business environment, we have enhanced sales of lumber and pre-cut in the basic materials sector, and have tackled expansion of sales and strengthen sales and improving profits in the sector of J-GREEN (Regal Wood Material) which is our private brands.

Concerning the building materials and housing equipment, we have undertaken functional enhancement of the engineering business to promote sales and improve profitability.

As a result, the consolidated financial settlement for the third quarter showed net sales of 260.393 billion yen (2.1% increase compared to the same period of the previous year), operating profit of 4.449 billion yen (23.5% increase), ordinary income of 4.447 billion yen (25.4% increase), and the net income for the quarter was 2.642 billion yen (16.5% increase) that are attributable to the parent company shareholders. Our annual targets for the fiscal year shows net sales of 35.0 billion yen, operating profit of 5.0 billion yen, ordinary income of 4.6 billion yen, and current net income of 2.8 billion yen that are attributable to the parent company shareholders.

Event

“The 39th Japan Kenzai Fair” Ending to a great success

Biannual “Japan Kenzai Fair” held at Tokyo Big Sight is Japan’s largest general home building materials exhibition and spot the sale show, which more than 200 major vendor manufactures of Japan Kenzai participate. The event achieves popularity as a place to see new products, top selling items, and latest trends of the industry.

The fair in March 2018 with the theme of “Way of Living and Way of Life – Road to 2020 –” showed survived houses through a heavy earthquake in Japan in the past to explain the durability from the viewpoints of design and structure, which gained a good reputation. The number of visitors was 24,000 and the sales exceeded 54 billion yen, a great success.



Survey

Prospect of Business Condition for April-June

<Demand Forecast by Builders and Distributors>

Demand forecast for April-June, 2018 were made by builders and distributors. According to the results, builder's demand forecast decreased from - 6.1 points in the previous survey (January-March) to - 9.1% points and distributors do a drop of 4.0 points, showing that the momentum of housing starts has showed down in general.

Analyzing the results by area, those which expect "The demand increase" are three including Kinki, Chugoku and Kyusyu areas among builders, and four including

the Kinki, Chugoku, Kyusyu and Shikoku areas among distributors. They are mostly in the western part of Japan.

On the other hand, most of the builders and distributors in the area of the Tohoku, Kanto, Koshinetsu, Hokuriku and Chubu expect "It will decrease". The situations of western Japan and Eastern Japan are different from each other.

According to the figures by the Ministry of Land, Infrastructure, Transport and Tourism, total housing starts in Jan - Dec 2017 were 964,641 units (99.7% of those in the previous year). Those of owners occupied housed was 29.5% which, on the calendar basis, went below the 30% mark for the first time in nine years.

Continuing the subsidizing projects from the previous year, the ministry, in the 2018 budget,

puts emphasis on the policy: "Revitalization of the housing market by improving the quality of existing houses and promoting the distribution of them".

In April, distribution of "Anshin R houses" will start, which is

expected to change the situation of the second-hand housing market.

<Sales Forecast by Main Manufacturers>

According to main manufacturers, only those housing equipment manufacturers, answered the sales "increase" more than "decrease". In manufactures of plywood and ceramics, insulation, the number of answer with "the sales will increase" were almost the same with "the sales will decrease" while 50% of wooden building material makers predicted "the sales will decrease".

The construction work on site appears to be delayed because of winter season.

<Current States of Remodeling Business>

Nearly 50% (46.8%) of the inquired builders answered "more than 50% of their works is remodeling construction".

The most effective factor to get orders is "the government's subsidized project" more than "advertisements and events". From now on, Builders is necessary and important to deal with inspection (condition of the houses) of the subsidized projects.

The forecast (for Apr-Jan, 2018) is the totaled results of the data gathered from 3,000 client companies in Japan through interviews which took place from late-January to mid-February in 2018.

Demand Forecast by Builders



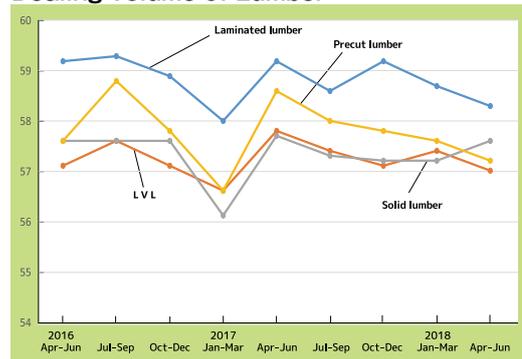
Point 0 = business result in April-June, 1992

Demand Forecast by Distributors



Point 0 = business result in April-June, 1992

Dealing volume of Lumber



Point 100 = all responses expect increase

Sales Forecast by Major Supplying Manufacturers(Apr-Jun 2018)

| | Increase | | | Level-off | Decrease | | |
|------------------------------------------|----------|--------|----------|-----------|----------|--------|---------|
| | over15% | 14~10% | below10% | | below10% | 10~14% | over15% |
| Plywood(13companies) | 0.0 | 1.3 | 16.0 | 65.4 | 17.3 | 0.0 | 0.0 |
| Wooden Building Materials (11companies) | 0.0 | 0.0 | 5.0 | 44.9 | 43.8 | 2.5 | 3.8 |
| Ceramic Building Materials (14companies) | 0.0 | 0.8 | 20.8 | 54.3 | 23.3 | 0.8 | 0.0 |
| House Equipments (9companies) | 0.0 | 0.0 | 36.1 | 51.4 | 11.1 | 1.4 | 0.0 |
| Average | 0.0 | 0.5 | 19.5 | 54.0 | 23.9 | 1.2 | 0.9 |

Trend

Market Outlook of Plywood

<Trend of Domestic Plywood>

Domestic softwood Plywood production in January 2018, was 245,400 cubic meter (Increase 7.8% from the same month in the previous year), while shipments were 252,200 cubic meters. The stock was 98,400 cubic meters, falling below 100,000 cubic meters for the first time in eight months. Demands on direct distribution route has been robust. Heavy snow in eastern Japan and shortage of trucks for transportation in the years end and new year period affected the market and there has been a sense of shortage. The movement of products is slowing down from late February, especially on general distribution route, so the new prices announced by a manufacturer in March are likely to be accepted. Precut factories plan to start purchasing material from the end of March for products to be processed in April. In Kyusyu area, regardless of the level pf new housing start figure, the move to strengthen purchasing of plywood was seen. As manufacturers have been working on developing a wider range of production of domestic softwood plywood, they are becoming more and more able to adjust supply to the market.

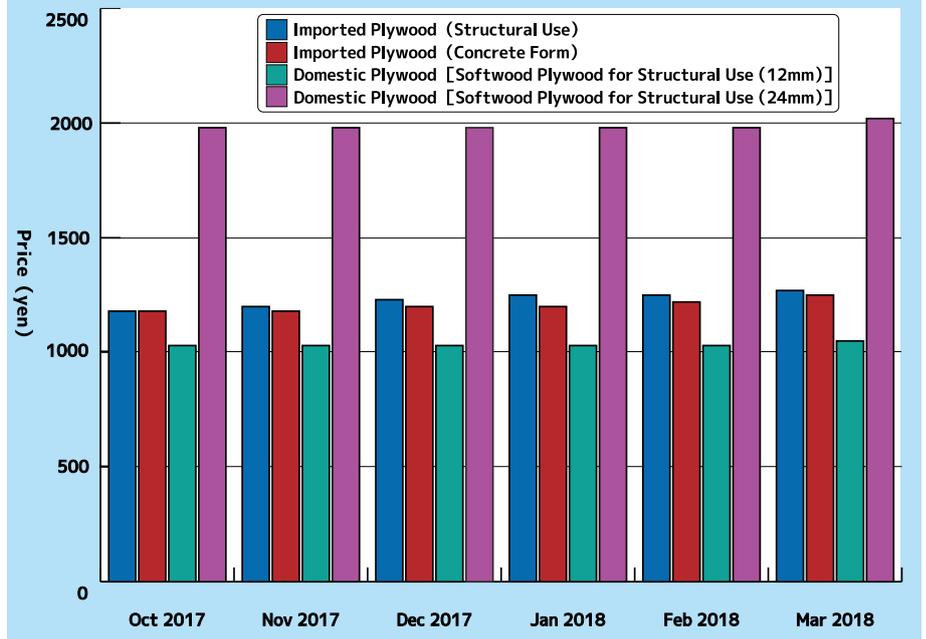
<Trend of imported plywood>

Imported plywood arrivals in January 2018 were 273,000 cubic meters (decreased 11.2% year on year) looking at the amount of arrivals based on country, 103,500 cubic meters were from Malaysia (decreased 1.0% year on year) and 63,600 cubic meters were from China (Decreased 7.9% year on year). Although port inventories around the country temporary increased, shortage of products that were in short supply has not resolved, because not all items arrived. As the supply of logs decreased,

the import of imported plywood decreased, leading to a change in the market. There was a shift to using domestic lumber for floor base. The import cost increases every time products are newly received, and those involved in the distribution are torn between "bullish upstream" and "downstream that has priority on prices" and are forced to handle the tough situation. As for the future arrival, as the yen is showing a weakening tendency, there is a possibility that trading companies that are concerned about the negative spread may refrain from purchasing products.

Wholesalers' Prices of Plywood in Tokyo

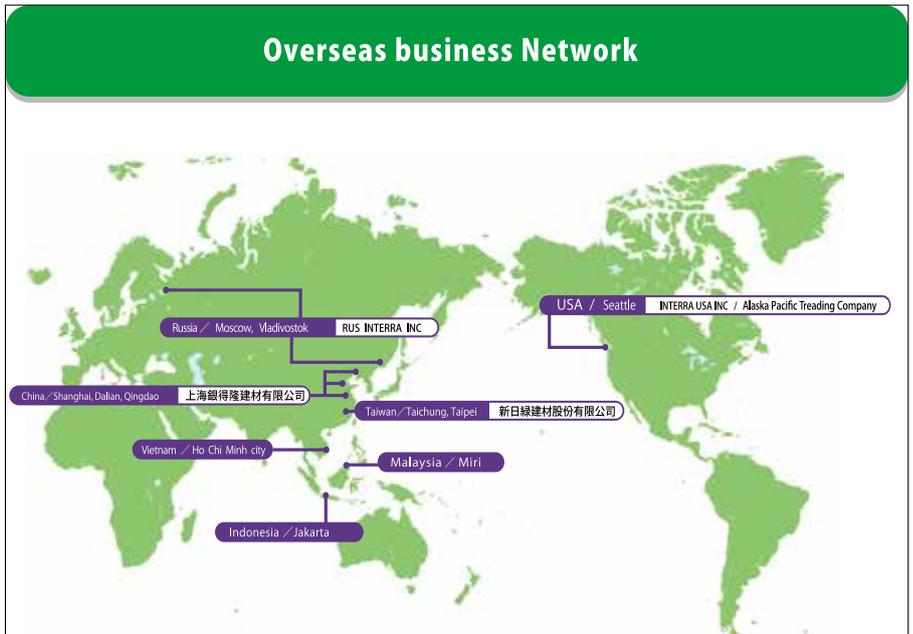
yen/sheet



Company

The JK Group has established bases for selling home building materials in eleven areas in seven countries, aiming for providing high quality building materials that are friendly to the environment and human. We opened offices in Moscow (Russia), Jakarta (Indonesia) and Taipei (Taiwan) in 2017, to promote our business into the local markets. The annual sales volume of the overseas business as a whole is about 1.2 billion yen. The Major one is the sales of MDF for the U.S. market. We have also started selling siding in Russia and business of interior work for apartments in China. And we have decided to advance to Singapore to start our business in Southeast and Southwest Asia in the future.

Expansion of overseas business



Company

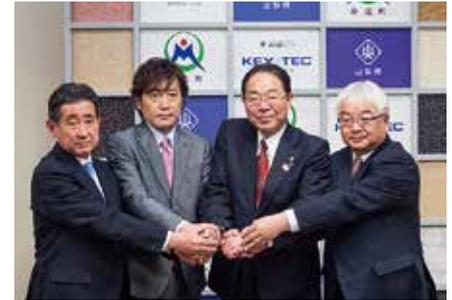
JK Wooden Structure-Lignification Group NEWS (JK Timber Engineering Group)

KEYTEC Co.,Ltd. a subsidiary company of JK Holdings Co., Ltd. has announced that will build a new factory for domestic plywood in Yamanashi Prefecture. The company has long been using the prefecture's larch as the material for LVL (Laminated Veneer Lumber) and softwood plywood. In addition to the connection, the place is close to the Tokyo metropolitan area, which is another reason for the advance. On the back of the construction of the new factory, there are problems of imported plywood caused by the regulations for deforestation



and the markets trend to shift materials of products to Japanese wood.

The LVL current production volume of KEYTEC Co.,Ltd. is about 5,000 cubic meters. The new factory's sales target is 6,000 cubic meters of domestic plywood. After the completion of the new factory, the sales volume is expected to be about 15,000 cubic meters per month.



左から キーテック中西社長、JKHD 青木社長、後藤山梨県知事、望月幹也身延町長

Topics

Working towards the Development of Japanese Wood Resources Utilization

Japan is a lushly green country with 25 million hectares of forests accounting for about 70% of the country's land. Among the forest land, 13.4 million hectares are natural forests accounting for about 60%, and 10.0 million hectares are planted forests accounting for about 40%. Within the 4.9% billion cubic meters of total forests accumulation, 3.0 billion cubic meters are planted forests accounting for about 60%.

In response to the recent trend to switch to domestic lumber, Japanese lumber self-sufficiency rate has increased to 35% (As of 2016, Forestry Agency) expanding about 200% in the past ten years. However, in order for the self-sufficiency rate to rise further in the future, the utilization of lumber the planted forests, which have matured and reached the harvest period, are necessary.

Supported by JK Holdings, the PHOENIX Wood & Plywood Museum (a public interest incorporated foundation) has become popular as a museum that introduces the benefits of wood and plywood to the general public ranging from children to adults, and in 2017, the number of visitors exceeded 100,000 people. Though woodworking classes for the general public and for wood craftsmen, the interest in wood has risen for many people, and through various educational programs such as scholarships and research grants, effort and support are also being put into the human

resources that will support the lumber and plywood industry and housing industry in the future. By supporting the wood & plywood museum, JK Holdings is working to contribute to the development for utilization of wood resources in Japan.



Planted Forest Area by Age

