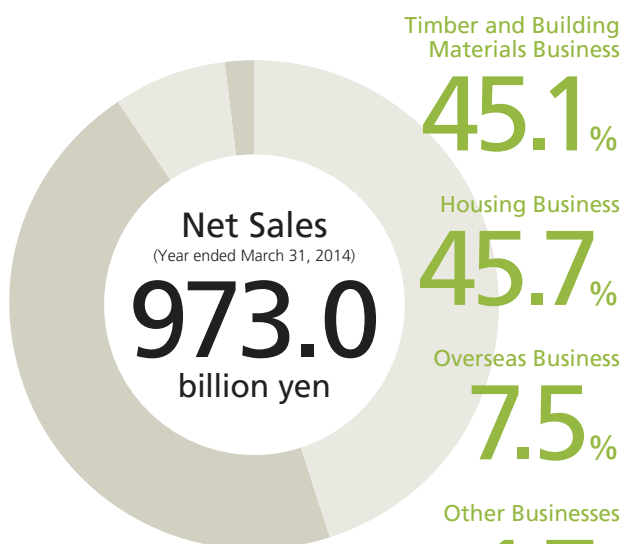


# Business Strategies by Segment

## Net Sales by Segment



## Timber and Building Materials Business



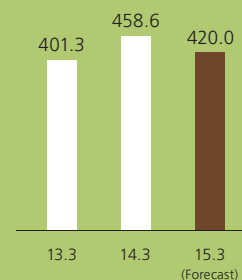
We operate a distribution business that sources high quality timber and building materials from Japan and overseas for marketing to domestic and overseas customers, and a manufacturing business that makes building materials in Japan.

### Net Sales and Recurring Income by Segment (Billions of yen)

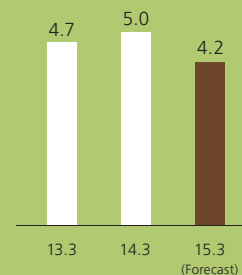
(Years ended March 31)	2013	2014	2015 (Forecast)
<b>Net Sales</b>	<b>845.2</b>	<b>973.0</b>	<b>990.0</b>
Timber and Building Materials Business	401.3	458.6	420.0
Housing Business	430.8	465.4	470.0
Overseas Business	38.7	76.3	128.0
Other Businesses	15.4	17.3	15.0
Adjustments	(40.9)	(44.6)	(43.0)
<b>Recurring Income</b>	<b>27.0</b>	<b>33.6</b>	<b>32.0</b>
Timber and Building Materials Business	4.7	5.0	4.2
Housing Business	26.2	32.2	28.5
Overseas Business	(1.8)	(0.1)	2.5
Other Businesses	0.8	0.8	0.7
Adjustments	(2.9)	(4.3)	(3.9)

\* Figures are rounded when less than one unit.

### Net Sales (Billions of yen)



### Recurring Income (Billions of yen)

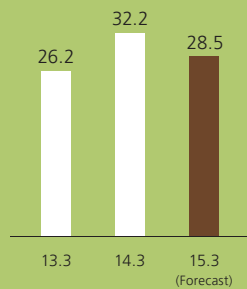
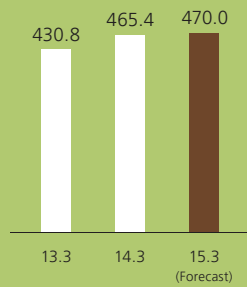


\* Sales and recurring income of each segment shown include inter-segment transactions.

## Housing Business



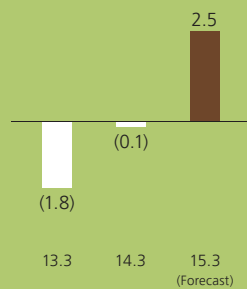
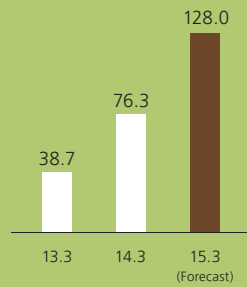
Centered on the Custom-Built Detached Housing Business, we operate a wide range of lifestyle-related businesses. These include the Renovation and Leasing Housing Business, which focuses on renovation, the resale of renovated homes, real estate brokerage and management, and the Apartment Business, the Detached Spec Homes Business.



## Overseas Business



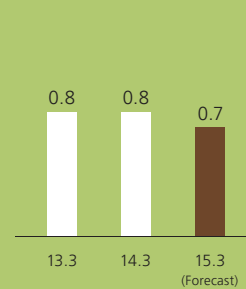
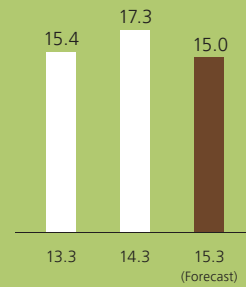
We operate the resources and manufacturing business, which are engaged in the plantation forestry business and the building materials manufacturing business, and the housing and real estate business, mainly in the Pacific Rim, including Southeast Asia, Oceania, North America and China.



## Other Businesses



We operate businesses including the biomass power generation business, the private-pay elderly care facilities business, the lease business, various service businesses including the insurance agency business for our housing business customers, the manufacture and sale of farming and gardening materials, and information systems development targeting each Group company.



# Timber and Building Materials Business

Fiscal 2013

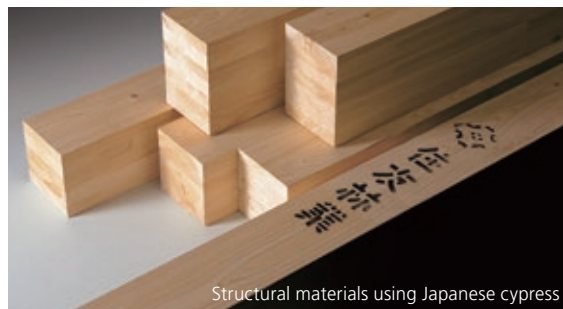
Sales  
**458.6**  
billion yen

Recurring Income  
**5.0**  
billion yen

Percentage of  
Total Sales  
**45.1**  
%

## Basic Policy

Strengthening responses to domestic and overseas growth markets and further increasing market share



Structural materials using Japanese cypress

New housing starts in Japan in fiscal 2013 trended steadily, increasing 10.6% year on year to approximately 987,000 units, which was largely due to the temporary surge in demand prior to the increase in consumption tax. However, in fiscal 2014 they are forecast to decline 12.9% year on year, to around 860,000 units, because of a decline in reaction to this surge.

In this type of business environment, in our timber and building materials distribution business in Japan, we will focus our energies on expanding our regional strategy and handling environmentally sound equipment and Japanese timber. Moreover, we will strengthen our responses to customer needs in the renovation market, which is expected to expand. Through this, we are aiming not to simply maintain our position as the number one company in Japan in the volume of timber and building materials handled, but also to further increase our market share. In addition, in our domestic building materials manufacturing business and logistics system business for home-building materials, we are pushing ahead with initiatives toward further solidifying our earnings fundamentals. In our overseas logistic business, our goal is to build our business foundations by using the network we have constructed over many years to meet, for example, the increase in demand for timber and building materials in developing countries, particularly those in Asia.

While in the short term we will deal with the reactive decline in demand that we anticipate will occur in conjunction with the increase in consumption tax, we are implementing a business strategy from a medium-to-long-term perspective that takes into account the expected shrink in domestic new housing market in the future.



Volume of timber and building materials handling in Japan

**No.1**

In our timber and building materials distribution business in Japan, we are further strengthening our relationship with customers by advancing a sales strategy closely linked to the local areas. Also, we are bolstering our sales of solar power systems and other environmentally sound equipment, and also heat-insulation materials, as the demand for these products is increasing against the backdrop of the government's efforts to promote energy saving. In conjunction with this, we are responding to the public's increasing environmental awareness and focusing our energies into high value-added products, such as plantation timber and timber from certified forests. We are also working hard to expand sales of Japanese timber, which is becoming increasingly competitive relative to non-Japanese timber due to the continued depreciation of the yen. The government has set the target of increasing Japan's timber self-sufficiency rate from the current level of around 28% up to 50% by 2020. As a result, we can expect demand for Japanese timber to increase in the future, which in turn will contribute to the conservation of domestic forests and the global environment.

In the renovation market, where sales are forecast to increase, we are concentrating on seismic-resistance repairs and the distribution of energy-saving materials. Biomass power generation, which is a type of renewable energy, is also expected to increase in scale and so we are focusing more on handling the wood chips that are used for its fuel and also other biomass fuels.

We will leverage our knowhow in logistics systems to contribute to our customers' improved business efficiency. Moreover, in our housing-business systems, through methods such as our provision of services that can be utilized via the Internet, we intend to build a stronger network with housing-related businesses, which will enable us to expand the volume of products we handle.

## Domestic Distribution Business

**Responding to market changes, supplying high value-added products**



Demand for solar power systems is increasing

## Overseas Distribution Business

**Utilizing our network to pursue new initiatives in the global market**



Timber being loaded on ships and exported from North America

Against the backdrop of the economic growth of emerging countries, the Group is targeting the increase in demand for timber and building materials throughout the world and is working to strengthen its timber and building materials distribution business overseas. To expand these businesses, we are putting in place an organization centered on our distribution bases in South East Asia and China for the future expansion of business. This organization will enable us to react responsively to trends in the global timber and building materials market, particularly those in Asia. In addition, we are aiming to differentiate the Group from our competitors by supplying timber and building materials to Japanese companies that are expanding their businesses into Southeast Asia and other regions, and also by providing product-sales support that makes full use of our extensive network.

In addition, we are boosting the synergy effects generated between our businesses by undertaking the task of selling the products of the Group's building materials manufacturing bases in Southeast Asia and Oceania, to various countries around the world.

We are also making full use of timber resources within Japan and actively exporting Japanese timber. Alongside the government's promotion of exports of Japanese forestry products, the demand for timber from emerging countries such as China is expected to increase. In such circumstances, we are also contributing to the development of the Japanese forestry industry by increasing our sales of Japanese timber.

# Housing Business

Fiscal 2013

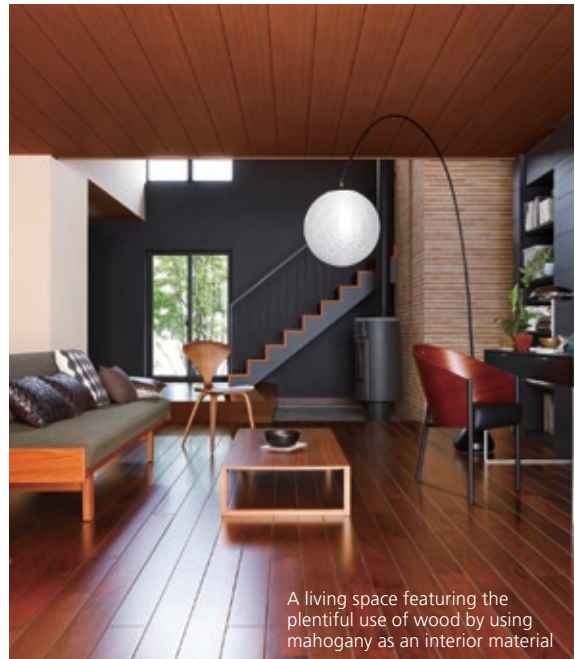
Sales  
**465.4**  
billion yen

Recurring Income  
**32.2**  
billion yen

Percentage of  
Total Sales  
**45.7**  
%

Basic Policy

Responding flexibly to market changes  
and expanding earnings fundamentals



A living space featuring the plentiful use of wood by using mahogany as an interior material

It is unclear what will be the effects of the decline in demand in the housing market in Japan in fiscal 2014 as a reaction to the temporary surge in demand prior to the increase in consumption tax. If, as expected, the consumption tax rate is increased from 8% to 10% in October 2015, it is possible that approaching the end of fiscal 2014, which is the cut-off point for the transitional measures, there will once again be a temporary surge in demand and so the situation is expected to continue to be unstable.

Based on these sorts of unstable conditions, the Group is continuing to respond flexibly to market changes by realizing the possibilities of wood and increasing the value-added of its products, but at the same time it is also striving to expand its earnings fundamental and to seek out demand in new fields.

In our Custom-Built Detached Housing Business, we are further solidifying the earning fundamentals constructed thus far. We are expanding the business engaged in stock housing, which revolves around the Renovation Business by responding to customer needs for reliable, safe and energy-saving stock housing. Moreover, we are also expanding and developing our MOCCA (timber solutions) Business, Apartment Business, and Detached Spec Homes Business.



Approximately  
**270,000** units  
 Total accumulate custom-built detached houses sold



Despite the lack of clarity in the market environment of our Custom-Built Detached Housing Business, the Group is trying to maintain and even expand its order and sales structure at the level of 9,000 units per year, while also aiming to continuously improve earnings. Our sales strategy is to promote the superior qualities of wood in all areas and appeal to potential customers with our advanced technological capabilities. More specifically, we execute the strategy through our own exhibition space such as the Technology Housing Display Center, at which potential customers are able to easily experience the technological capabilities and performance of our products, and the Proto-housing Display Center, that makes plentiful use of wood, and through promoting our Big Frame construction method. Elsewhere, we are also working on sales of environmentally sound equipment and on orders of Green Smart, our smart house product.

Custom-Built Detached Housing Business  
**Promoting wood in every area and pursuing advanced technological capabilities**



Renovation and Leasing Housing Business  
**Responding to diverse market needs through advanced technologies**



In our Renovation Business, we are differentiating the Group from our competitors by constantly developing new technologies. Our advanced technological capabilities for wooden detached houses are also being utilized for the renovation of traditional Japanese-style houses so that they can be passed down from our ancestors to future generations. In 2013, we developed our Original Seismic Control Damper Model S. By combining it with a conventional seismic-resistance construction method, we came up with our original seismic-resistance, seismic-vibration damper construction method, achieving a double level of safety. We were awarded the Good Design Award in fiscal 2013 for this development. Going forward, we will continue to invest in our management resources, particularly in our human resources, centered on Japan's three major metropolitan areas, and we will work to further increase the scale of our businesses.

In our Existing Home Renovation Business in March 2014 we launched 'forestia,' which is a brand for an entire, renovated condominium building. Renovation work for this brand employs interiors in which you can feel the warmth and comfort provided by the wood materials and technologies for custom-built detached homes exteriors. We are currently expanding sales for this brand, while also aiming to raise awareness of it.

For our Real Estate Brokerage Business and Real Estate Management Business, we are enhancing in-Group cooperation and striving to construct a system to stably generate earnings.



Original Seismic Control Damper Model S

In the Apartment Business, we are strengthening our sales structure, including by increasing the number of sales and marketing personnel, raising awareness of our production through television commercials and other advertisement, and meeting customer needs by offering them ways to cope with inheritance taxes.

In our Detached Spec Homes Business, we are mainly targeting first-time buyers, particularly those in the three major metropolitan areas of Tokyo, Nagoya, and Osaka, and are providing detached spec homes that blend with their surroundings and reflect the characteristics of the area where they are built. In the medium-to-long term, we are aiming to further expand this business and have an annual sales target of around 500 units.

In our MOCCA (timber solutions) Business, which we have positioned as a new and next-generation business, we are taking advantage of the greater number of opportunities to use wood in buildings other than homes that is resulting from the enactment in October 2010 of the Act for Promotion of Use of Wood in Public Buildings. We are working to develop new wood manufacturing and construction technologies in this area, including promoting wood construction in the non-housing sector and spaces that utilize wood materials. We are particularly focusing on winning orders for wood-construction building in the fields of commercial facilities, educational facilities, and welfare facilities, where the expectations for the use of wood are rising.

Apartment Business, Detached Spec Homes Business, MOCCA (timber solutions) Business  
**Expanding our existing businesses and developing the next generation of business**



# Overseas Business

Fiscal 2013

Sales

**76.3**  
billion yen

Recurring Income

**-0.1**  
billion yen

Percentage of  
Total Sales

**7.5**  
%

Basic Policy

Concentrating on developing existing businesses and expanding our business area as a one of our growth businesses



Vina Eco Board, the Group's wood building materials manufacturing company in Vietnam

Our Overseas Business is centered on the Pacific Rim regions of Southeast Asia, Oceania, North America, and China, and it is comprised of a resources business of forest-plantation operations, a manufacturing business of wood-building materials, and a housing and real estate business. Just as we are doing in Japan, we are developing our overseas wood-related business from the upstream through to the downstream.

We have positioned our Overseas Business as one of the growth businesses within the Group that will drive our earnings in the future and we are actively investing management resources into it. Although some businesses are at the anticipatory-investment stage, due to the positive effects of the recoveries of the housing markets in the United States and Australia as well as M&As, we now see growth in our overseas housing business, and expect its sales in fiscal 2014 to significantly increase and record profits. Our Overseas Business has grown to the extent that it can now play a role in the earnings portfolio of the Group. We will continuously strive to increase the scale of our businesses through improving the level of earnings of our existing businesses and expanding our business areas, such as by M&As.



Approximately  
Number of homes sold overseas **2,300** units

Within our manufacturing business, we are manufacturing a variety of wooden building materials at our manufacturing bases in Southeast Asia and Oceania and are supplying them to countries throughout the world. Business results in the manufacturing business are largely determined by factors such as trends in the prices of raw materials, production efficiency at factories, and sales capabilities. Our Indonesian manufacturing subsidiary has benefited from declines in the prices of raw materials and strong sales of plywood and thus its business results have trended positively. But in contrast, we anticipate a slump in business results in fiscal 2014 at our MDF manufacturing business in New Zealand due to the impact of the exchange rate. Moreover, our particleboard manufacturing business of Vietnam, which began commercial production in 2012, is focusing its energies into developing new customers and on improving production efficiency in preparation for full production. Going forward, we will improve our ability to procure raw materials and increase production efficiency at all of our bases, and further strengthen our sales system that utilizes each of the Group's distribution bases. In these ways, we will strive to improve the profitability of the Manufacturing Business as a whole.

In our overseas resources business, we are developing our forest-plantation business, particularly in Southeast Asia, by utilizing the knowhow that we have cultivated in our forestry management within Japan. In the future, we will expand our plantation forests in order to meet the increase in demand for timber and building materials from Southeast Asia and other regions, and moreover we will contribute in such areas as regional employment, the restoration of devastated regions, and the preservation of biodiversity.

#### Overseas Resources and Manufacturing Business

Improving the level of earnings by increasing production efficiency and strengthening the sales structure



Kutai Timber Indonesia, the Group's wood building materials manufacturing company in Indonesia

#### Housing and Real Estate Business

Expanding business scale in regions where growth is expected



A detached spec home (interior view) in Texas U.S.A.

We are developing our overseas housing and real estate business primarily in the United States and Australia and have recently accelerated business expansion centered on mergers and acquisitions (M&A). In the United States, in addition to the operations we previously developed in Seattle, we are also focusing on Texas, where we expect demand to grow stably in the future. In fiscal 2013, we purchased equity shares in a local homebuilder and sold a combined total of approximately 2,300 homes in both countries. In fiscal 2014, we turned a local homebuilder, which has bases of operation in Texas and Arizona, into a consolidated subsidiary. As a result, we plan to sell 2,000 homes in the United States in fiscal 2014.

The deceleration of the resources boom in Australia has caused its economy to slowdown, but its housing market has been on the recovery track due to the Australian government's monetary policies and other factors, and we consider it to be an important market for wooden homes that will grow in the future due to the country's increasing population. In fiscal 2013, we purchased additional equity shares in the Henley Properties Group, which has a housing business mainly in Australia, and made it a consolidated subsidiary, and we expect it to sell around 1,900 units in fiscal 2014, exceeding its previous year's total. We are also looking to advance into new regions within Australia in the future and we are promoting our business within the country in a more flexible manner.

We are continuously working to improve both the quality and designs of our homes overseas by introducing the knowhow we acquired in our housing business in Japan into our housing business overseas. In addition, we are implementing strategies that reflect local conditions and we are carefully but continuously expanding the scale of this business.

# Other Businesses

Approximately  
**1/900** of Japanese land area  
The area of forest managed in Japan

## Forestry and Environmental Business

Practicing sustainable and efficient forestry management and developing an environmental energy business

Fiscal 2013

Sales  
**17.3**  
billion yen

Recurring Income  
**0.8**  
billion yen

Percentage of Total Sales  
**1.7**  
%



A tower yarder

We are advancing mechanization, including the introduction of tower yarders that make possible the cable yarding, which enables more efficient forestry management.

Demand for Japanese timber is increasing, due to factors such as the enactment of a law in Japan that promotes the use of timber in public buildings and the introduction of a points system for the use of timber. The Group currently has 45,808 hectares of company-owned forests within Japan (about 1/900th of the nation's land area). We will manage the forest in a sustainable and efficient manner, and make sure that it serves as our stable timber production base. In addition, we will contribute more than ever before to the revitalization of forestry in Japan and work hard to ensure the nation's renewable forestry resources. Moreover, by integrating the handling of inquiries for the business area related to "forests, landscaping, and the environment" into the Forest and Landscape Research Center, we are aiming to create new businesses through business synergies.

Within our Environmental Business, we are working on the energy business, such as biomass power generation, in response to the increase in the importance of renewable energy, which has occurred against the backdrop of Japan's energy problem.

\* In this annual report, the Group's "forestry business in Japan," which is included in adjustment items, is described within the 'Other Businesses' segment.

In our Lifestyle Service Business, we are targeting the changes to the social structure and people's values in Japan and also their changing needs. We are, therefore, developing businesses for different types of lifestyles and for an aging society that utilize the Group's customer base.

Within our aging society-related business, our management of private-pay elderly care facilities has been performing steadily with occupancy rates stably exceeding 90%. In the future, we will also launch new nursing businesses, such as day-care services, and in addition to nursing facilities we will also provide services in the home-care field.

An important challenge for the Group is expanding into business fields that are not affected by trends in new housing starts in Japan. To address this problem, we are developing for the future lifestyle-related businesses in a diverse range of areas, including property insurance agency services, leasing operations and the manufacture and sales of farming and gardening soil.

## Lifestyle Service Business

Developing a wide-ranging lifestyle businesses

Grand Forest Kobe Rokko, a private-pay elderly care facility

