

Information Disclosure Based on TCFD Recommendations

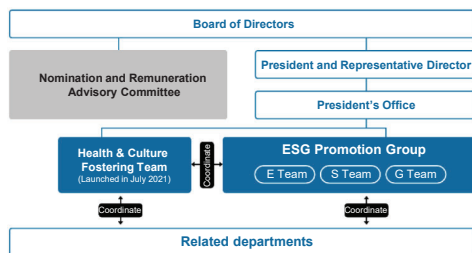
Based on the goal of achieving a carbon-neutral society by 2050, we are seeking to create new environmental value, such as next-generation urban development. With countering climate change as a key management strategy, we have selected members from management and each department to create the ESG Promotion Group, which has worked on disclosing information based on the TCFD framework recommendations.

After implementing capacity building activities for management and department heads and sharing these activities as a crucial companywide effort, department heads and the ESG Promotion Group members led discussions on the risks and opportunities posed by climate change that may affect the Group's core businesses of real estate sales and real estate leasing. Based on the results of these analyses, we plan to incorporate the appropriate measures as key elements of our business strategy.

1 Governance regarding climate change

Positioning "address social issues through promotion of ESG initiatives" as a corporate strategy, the "ESG Promotion Group," which has a director serving as head of the President's Office appointed as the person in charge and consists of members selected from each department, is divided into the "E Team," "S Team" and "G Team" to set fiscal targets and promote initiatives for "Environment," "Social" and "Governance." The E Team is a key team promoting activities to address environmental issues such as climate change.

Each team reports their activities at monthly meetings of the ESG Promotion Group. The director responsible for the President's Office reports his or her summary impressions to the Board of Directors to make the oversight by the Board more effective.



2 Strategy

(1) Scenario Analysis

We undertook a scenario analysis of the impact of climate change on our business based on the framework recommended by TCFD. This year's analysis focused on the Group's core businesses of real estate sales and real estate leasing, examining transition risks and physical risks/opportunities as of 2030. The analysis considered two hypothetical scenarios: the 3°C scenario, in which decarbonization efforts do not progress beyond the current state; and the 1.5°C scenario, in which decarbonization makes advancements.

Scenario	Details
3°C Scenario	<ul style="list-style-type: none"> This scenario is based on the assumption that countries that have already declared specific decarbonization measures proceed as stated and no additional decarbonization measures are taken. See "Stated Policies Scenario (STEPS)" provided by the International Energy Agency (IEA). GHG emissions are estimated to be slightly higher overall in 2030 than in 2020, with a temperature increase of 2.4–2.8°C as of 2100. Environmental certification standards and energy efficiency standards for buildings are estimated to remain as is, with no increase in demand for energy efficiency retrofits or in the number of customers seeking ZEH and ZEB properties.
1.5°C Scenario	<ul style="list-style-type: none"> This scenario is based on the assumption that we achieve global net zero GHG emissions by 2050; see IEA's scenario "Net Zero by 2050 (NZE)." Global GHG emissions are estimated to decrease by approximately 40% as of 2030 compared to 2020, with a carbon tax introduced and rigorously implemented. GHG emissions from buildings are assumed to fall by roughly 40% from 2020 to 2030. Temperature is projected to rise 1.3–1.5°C as of 2100. New buildings will generally be constructed in alignment with net zero pathway guidelines. Zero carbon building regulations are projected to be introduced. Existing buildings will be retrofitted for energy efficiency to comply with these regulations.

Note: As the two scenarios referenced from the IEA show little difference in temperature increases (both about 1.5°C) as of 2030, we assume the physical risk to be the same for both the 1.5°C and 3°C scenario. Thus, we made no distinction with regard to magnitude of risk between the two scenarios as of 2030.

(2) Process of Scenario Analysis

We undertook scenario analysis according to the following process, in line with TCFD recommendations.

① Examine climate-related risks and opportunities crucial to business activities

We first identified climate change risks/opportunities that could have a significant impact on our business based on research on TCFD recommendations and related reports.

② Create scenarios

After identifying significant risks and opportunities as described in Step ①, we referenced information published by external organizations, such as scenarios by the IEA, to create the 1.5°C scenario and 3°C scenario, looking toward 2030.

③ Estimate financial impacts and assess risks and opportunities based on scenarios

Based on the scenarios created in Step ②, we estimated the financial impact on our business and evaluated the magnitude of each risk/opportunity along two axes: likelihood of occurrence and degree of impact. Risks and opportunities found difficult to evaluate quantitatively were assessed through qualitative analysis.

④ Consider countermeasures

We plan to consider countermeasures for risks and opportunities with an especially significant impact on our business.

(3) Results of scenario analysis: Risks and opportunities

Upon examining the transition to a decarbonized society and the physical risks/opportunities posed by climate change, we identified the significant risks/opportunities surrounding the real estate sales and leasing business by 2030, as shown in the table below. Evaluations consider likelihood of occurrence and degree of impact.

► Risks

Regarding transition risks associated with decarbonization, there will be greater impact under the 1.5°C scenario, with higher procurement prices for steel, cement, and other highly carbon-intensive construction materials due to carbon tax implementation, as well as increasing costs due to taxation of CO2 emissions from construction and owned properties. In addition, stricter GHG emission regulations may lead to cost increases in taking low-carbon measures such as investments in energy-saving equipment, and changing customer needs may lead to a rise in vacancy rates and a decline in closing rates, leases, and sales prices for properties that do not comply with ZEH or ZEB. Moreover, shortfalls in decarbonization efforts at our Company may lead to increased financing costs. With regard to physical risk, increasingly severe weather disasters may delay construction schedules at properties under development and result in damage, equipment failure, or suspended operations at owned properties. This in turn could lead to the need for repair costs and reduced property reputation that may result in increased vacancy rates.

► Opportunities

With regard to opportunities in relation to climate change, it is possible that properties with low CO2 emissions may gain in competitiveness, while properties with environmental certifications gain in value, leading to reduced travel distances and compact cities for expanded opportunities in mixed-use development of urban areas where energy is produced locally for local consumption and a wide range of generations can live together to enjoy high quality of life. Increasingly severe weather may also contribute to expanding sales of disaster-resistant properties. In addition, financing costs may reduce through environmentally-friendly loans or other factors and our decarbonization efforts may appeal to investors and strengthen the Company's share price. As a condominium developer, we are registered as a ZEH developer and are working to construct more environmentally-friendly condominiums. Specifically, we seek to introduce one ZEH-M condominium per year. In addition, we have established a target of 50% ZEH diffusion within our subsidiaries ES-CON HOME and ESCON CRAFT from FY2020, and have completed registration as a ZEH builder to continue providing environmentally-friendly homes. With regard to the acquisition of environmental certification, a community-based commercial facility owned by ESCON Japan REIT Investment Corporation, which is managed by our subsidiary ES-CON ASSET MANAGEMENT as its asset management trustee, has acquired DBJ Green Building certification. We will continue to develop similarly certified properties.

Significant risks for the real estate sales and leasing business through 2030

Category	Changes in the external environment	Risks for the Company
Transition	Policy and Regulations	Carbon taxes are introduced and/or strengthened.
	Market	GHG emission regulations tighten; carbon emission targets are set. Demands for environmental performance and energy-saving retrofits of existing buildings increase.
	Reputation	Customer needs change; demands for environmental and energy efficiency performance increase.
Physical	Urgent	Pressure intensifies from investors and financial institutions to decarbonize real estate.
		Weather-related disasters grow increasingly severe.

Significant opportunities for the real estate sales and leasing business through 2030

Category	Changes in the external environment	Opportunities for the Company
Products/Services	Regulations such as carbon taxes and building energy standards are tightened.	Competitiveness of properties with low CO2 emissions grow—for example, low-carbon buildings. The reputation of buildings with environmental certification also grows.
	Promotion of regional and urban development models, such as the compact city concept	Compact cities contribute to reduced travel distances and expand opportunities for mixed-use urban area development, where energy can be produced locally for local consumption and where multiple generations can coexist and enjoy high quality of life.
Market	Decarbonization-related investments and loans grow. Investor appreciation of decarbonization efforts grows.	Decarbonization efforts are recognized by financial institutions. Financing costs are reduced by environmentally-friendly loans. In addition, investors' improved reputation of the Company strengthens share price.
	Resilience	Weather disasters become increasingly severe.

(4) Assessment of Financial Impact

Based on available quantitative data, we assessed the financial impact on real estate sales and real estate leasing businesses in 2030. We made qualitative assessments for aspects for which quantitative financial estimations were difficult.

With regard to negative financial impacts, we concluded that the 1.5°C scenario would lead to cost increases, including higher capital investment in low-carbon facilities due to the introduction of a carbon tax and stricter energy standards/regulations, higher operational/renovation costs for the properties we own, and an overall greater impact on financing costs and share prices. On the other hand, we also saw this as a positive impact under the 1.5°C scenario, with increased profit-earning opportunities and positive feedback from decarbonization efforts, including mixed-use development contributing to the creation of a compact city that reduces travel distances and the creation of communities that produce and consume energy locally, allowing people of all generations to live in harmony and enjoy a high quality of life.

We concluded that increasingly severe weather disasters will have significant impact in both the 1.5°C and 3°C scenarios, with severe weather disasters leading to increased costs due to construction delays for properties under development, repair costs at owned properties, rising vacancy rates due to declining reputation, and compensation obligations in the event of disasters at commercial facilities that lead to human casualties.

Category	Risks/Opportunities relating to the Company	Financial Impact	Assessment of Financial Impact	
			3°C Scenario	1.5°C Scenario
Transition Risks	Policy and Regulations Procurement prices for steel, cement, and other highly carbon-intensive construction materials rise; costs increase due to taxing of CO2 emissions from property construction and owned properties.	<ul style="list-style-type: none"> Increase in procurement costs for materials Increase in costs related to CO2 emissions 	Low	Moderate
	Costs increase for low-carbon measures such as investments in energy-saving equipment. Operational and renovation costs for owned properties also rise.	<ul style="list-style-type: none"> Increase in costs for capital investment and renovations, etc. 	Low	High
	Market Properties that do not comply with ZEH or ZEB standards are no longer chosen by customers, resulting in higher vacancy rates, lower closing rates, rents, and sales prices.	<ul style="list-style-type: none"> Decrease in sales due to lower rents and sales prices 	Low	Moderate
	Reputation Lack of decarbonization efforts at real estate held and real estate for sale increases finance costs. Failure to meet investor expectations with regard to decarbonization activities affects Company's share prices.	<ul style="list-style-type: none"> Increase in financing costs 	Low	High
Physical Risks	Urgent On-site construction of properties under development is disrupted; construction schedules are delayed.	<ul style="list-style-type: none"> Increase in construction costs 		High
	Owned properties located in disaster-prone areas may see property damage, equipment failure, and other functional issues resulting from disasters. This could lead to the need for repair costs and reduced property reputation that may result in increased vacancy rates. In addition, the Company may be held liable for human casualties attributable to disasters at commercial facilities.	<ul style="list-style-type: none"> Repair costs required Decrease in sales due to higher vacancy rates Compensation obligations 		High
Opportunities	Products/Services Competitiveness of properties with low CO2 emissions grows. The reputation of buildings with environmental certification increases.	<ul style="list-style-type: none"> Increase in sales due to improved competitiveness of properties 	Low	Moderate
	Market Compact cities contribute to reduced travel distances and expand opportunities for mixed-use urban area development, allowing energy to be produced locally for local consumption and a wide range of generations to coexist and enjoy a high quality of life.	<ul style="list-style-type: none"> Increase in sales due to increased opportunities for mixed-use development 	Low	High
	Decarbonization efforts are recognized by financial institutions; the acquisition of environmentally-friendly loans reduces financing costs. The improved reputation of the Company for decarbonization efforts boosts share prices.	<ul style="list-style-type: none"> Lower financing costs 	Low	High
Resilience Sales opportunities for disaster-resistant properties expand in disaster-prone areas. The ability to serve as a local recovery center in the event of disasters helps gain the support of local residents and customers, leading to lower tenant vacancy rates.	<ul style="list-style-type: none"> Increase in sales due to expanded property sales opportunities and lower tenant vacancy rates 		Moderate	

We classify the degree of financial impact assessment as follows:
High: More than 10% of net sales; moderate: 3% to 10% of net sales; low: less than 3% of net sales
Risks and opportunities for which quantitative data is difficult to obtain are analyzed qualitatively.

(5) Strategies based on scenario analysis

We plan to further consider measures for risks/opportunities that pose especially significant impact on our business based on the results of scenario analysis and financial impact assessments.

► Examples of response measures

- Increase percentage of electricity use from renewable energy sources.
- Promote installation of LED lighting and other energy-saving equipment/devices among commercial facilities.
- Further promote ZEH-M development.
- Promote improvement of environmental performance evaluation by acquiring DBJ Green Building certification and CASBEE for Real Estate Certification.

3 Risk Management

We monitor cross-organizational risk conditions and share information throughout the company through the Risk Management Committee, which is composed of directors and department heads. The Risk Management Committee discovers, identifies, and evaluates a wide range of risks and deliberates on possible countermeasures. These risks include those related to climate change, as well as compliance, legal, labor, and safety management. Discussions and deliberations within the Risk Management Committee are reported to the Company meeting, which are then reported to the Board of Directors through the President and Representative Director. The Board of Directors makes decisions on key matters concerning the Company's risk management efforts and solicits reports on these activities.

4 Metrics and Targets

► Targets

In realizing a carbon-neutral society by 2050 with the goal of creating new environmental values such as next-generation urban development, we have set the following targets for our efforts in the ESG management plan:

- Reduced CO2 emissions
- Application/registration of one ZEH-M condominium Stee per year
- Expanded development of buildings with green building certification

Based on the results of this scenario analysis, we will continue to study the establishment of metrics and targets to reduce climate related risks and evaluate our progress in seizing opportunities.

► Metrics

• GHG emissions
The table below shows GHG emissions from our offices and company vehicles. We plan to continue with calculations and the disclosure of GHG emissions from our business activities.

	2018	2019	2020	2021	2030 (Goal)	2050 (Goal)
GHG emissions from vehicle fuel 1)	16 tons of CO2	16 tons of CO2	18 tons of CO2	17 tons of CO2	—	—
GHG emissions from electricity use 2)	130 tons of CO2	133 tons of CO2	139 tons of CO2	137 tons of CO2	—	—
Total	146 tons of CO2	149 tons of CO2	157 tons of CO2	154 tons of CO2	40% Reduction *vs FY2021	Net Zero

(1) Emissions from fuel consumption by company-owned vehicles
(2) Emissions from electricity used at company-owned offices

• Other Metrics

As a condominium developer, we are registered as a ZEH developer (Registration D) and are currently seeking to introduce one ZEH-M condominium per year to promote the development of more environmentally-friendly condominiums. The table below shows development results for condominiums falling into the ZEH-M category.

	2018	2019	2020	2021
Development of ZEH-M condominium per term	0	1	0	1

ZEH (net Zero Energy House) is "a residence designed to achieve an annual primary energy consumption balance of zero by significantly improving the insulation performance of the exterior skin, introducing highly efficient equipment systems that achieve significant energy savings while maintaining the quality of the indoor environment and introducing renewable energy."