

ES-CON JAPAN

Our Name Represents Our Core Functions

ES-CON JAPAN Ltd.'s core business is the development of real estate, from which the ES of ES-CON JAPAN derives. ES-CON JAPAN's business spreads out from its core business of developing condominiums—the CON of ES-CON JAPAN—to include the development of hotels, neighborhood shopping centers, logistics centers, etc., and the management of assets and buildings. Japan is the realm in which the company operates. Thus the name of ES-CON JAPAN Ltd. was adopted.



Annual Report 2017

For the year ended December 31, 2017

<https://www.es-conjapan.co.jp/english/>

Embarking on Our Next Phase of Working for the Future of Japan, Society and Communities

ES-CON JAPAN Ltd. (ES-CON JAPAN) has expanded to the company that it is today, listed on the first tier of the Tokyo Stock Exchange, by developing its main business of condominium development and spreading to the development of retail, hotels and other types of real estate properties while focused on planning and delivering a high-value product. We and the next generation of youth have the responsibility of building a society where people can hope. This transformation cannot occur overnight but ES-CON JAPAN is committed to the deliberate and prudent positive transformation of society and the building of a bright future for Japan.

Corporate Philosophy: Realizing the Importance of Being a Member of Society

The staff of ES-CON JAPAN spends time thinking about how it can contribute to society in the best possible manner every day. Applying our findings in contributing to society generates results. At the same time, all members of ES-CON JAPAN pursue how they can contribute to the happiness they seek. Our staff is committed to assisting each other so they can sincerely find the next stage of unique personal expression aspired to by all, while aiming to realize the theme of positively contributing to society.

In this process, we seek to improve society by contributing and delivering better ideas for a better life and to materialize our ideals. We seek to transform the connections of people into a significant force through our human resources and to expand the possibilities of society through flexible solutions and concepts generated through brainstorming.

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Performance Backed by Distinct Business Sections

ES-CON JAPAN continues to expand operations rooted in real estate. Presently, the businesses of ES-CON JAPAN can be broken down into the real estate sales business, the real estate leasing business and the real estate planning agency and consulting business, which accounted for 92.1%, 7.7% and 0.2% respectively of annual net sales in Fiscal 2017.

Real Estate Sales Business	Real Estate Leasing Business	Real Estate Planning Agency and Consulting Business
Net Sales 41,168 million yen	Net Sales 3,459 million yen	Net Sales 96 million yen
Segment Income 7,978 million yen	Segment Income 1,761 million yen	Segment Income 85 million yen

To understand the scope of our real estate sales business, ES-CON JAPAN's net sales and segment income in this division grew by 34.2% and 66.3% respectively. We sold 476 condominium units, 88% of our annual target but posted strong increases in profit and sales through the disposition of hotels and retail properties. ES-CON JAPAN continued to lay the foundation for a strong future by acquiring 13 sites for developing for-sale condominiums, 7 retail development sites, 1 hotel development site, 1 logistics site and 1 renovation property. We are confident that these 23 new sites were acquired at prices that will guarantee a steady and strong future going forward.

The real estate leasing business fell off by 3.8% annually but remained 33% ahead of initial forecasts. This division will continue to acquire properties that generate steady rental income and an improvement in our asset value, and build high-yielding properties with an eye on both long-term ownership and selling them. Looking ahead, it will consistently provide high-quality properties, centering on land for retail facilities to support the external growth strategy of the new REIT for which we are the main sponsor.

Our real estate planning agency and consulting business remains small but is a highly profitable non-asset business and we will continue to proactively market our planning services and ability to optimize the value of projects over multiple segments and usages.

ES-CON JAPAN focuses on planning products and provides comfortable and high-quality living by considering lifestyle changes and local characteristics as well as envisioning the happiness of people living in our products. We pursue our goal of becoming a "life developer" that works to develop people's lifestyles and promote communication among the residents who meet at our products.

Forward-looking Statements

The earnings outlook and other forward-looking statements contained in this document are based on information currently available to the management of ES-CON JAPAN and certain assumptions that are thought to be reasonable by ES-CON JAPAN. Accordingly, actual business performance and other results may differ materially. ES-CON JAPAN assumes no obligation to update any forward-looking statements in this report as a result of new information or future events.

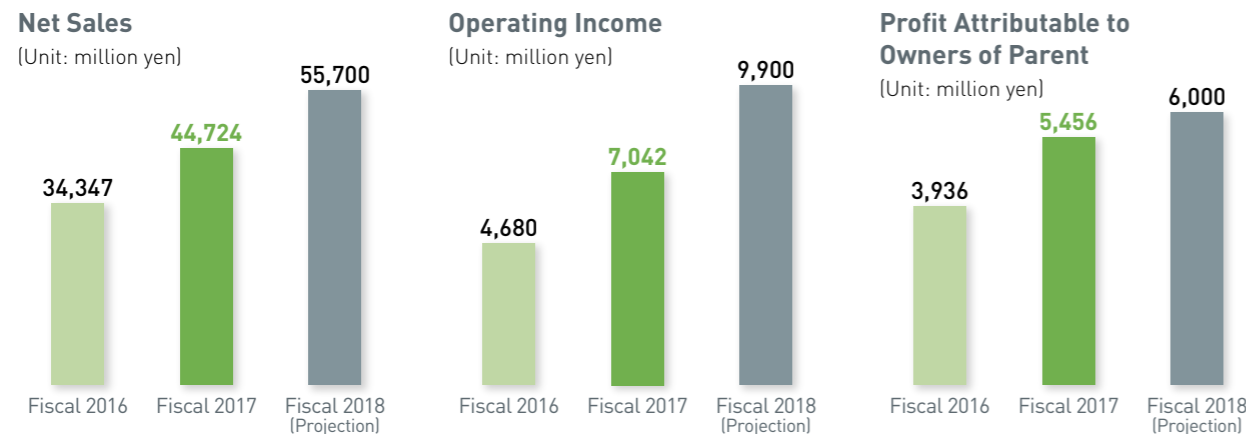
To Our Shareholders

Fiscal 2017 marked the first year under our Second Medium-Term Business Plan titled “IDEAL to REAL 2019.” We listed a number of targets in the new plan and though some segments have not reached the targets, our overall performance numbers far surpass the targets set in the plan. Milestones of particular note are the internal sales structure for for-sale condominiums growing to around thirty staff, launching of the new business segment of logistics development, listing and start of operations of a private REIT with an AUM of about 11 billion yen, and reinforcing our corporate brand through the launch of TV commercials on the Le JADE brand. Our efforts have led to an 18-yen dividend, 3 yen greater than last year, and we continue to progress in our goal to become a corporation that is needed by society. Your continued support is appreciated.



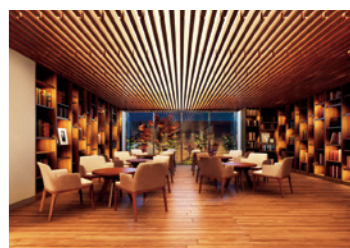
Takatoshi Ito

President and Representative Director
ES-CON JAPAN Ltd.



Strategic Steps in Fiscal 2017

- 1 Launched the Logistics Business**
ES-CON JAPAN acquired land in Hyogo Prefecture and launched the logistics development business in 2017. We will make best use of our planning capabilities to serve as the base of large-scale logistics facilities and others, leveraging transportation accessibility and will promote the business to contribute to regional development.
- 2 Internal Sales Structure**
ES-CON JAPAN has positioned the founding of an internal sales structure as a key measure for raising the profit rate of the firm and directly communicating our message for the development projects we created based on our own planning capabilities. As of the end of April 2018, the team is now as large as 32 people.
- 3 Raised Additional Capital for Sponsored REIT**
The REIT sponsored by ES-CON JAPAN raised capital in December 2017 and applied the capital raised to the acquisition of assets now totaling 11 billion yen in AUM.
- 4 Broadcasted Le JADE Branded TV Commercials**
ES-CON JAPAN began broadcasting Le JADE branded TV commercials in January 2017 to reinforce the brand image and widely advertise its uniquely developed condominiums with bold planning concepts. We will strive to further enhance corporate value and brands, developing lifestyles that embody the ideals of a broader base of customers in our aim to become a life developer.
- 5 Opened the Fukuoka Branch**
ES-CON JAPAN opened the Fukuoka Branch in November 2017 with the goal of expanding operations and contributing to regional revitalization. We started multi-use development such as factory and logistics facilities as land readjustment business, following large-scale mixed use development.
- 6 New “tonarie” Brand for Neighborhood Shopping Centers**
ES-CON JAPAN launched a new brand “tonarie” for its lineup of neighborhood shopping centers that meet community needs and develop with the community.
- 7 Steady Progress of Hotel Development Business**
ES-CON JAPAN has proactively developed the hotel development business grasping the inbound needs and 15 projects (1,963 guestrooms) are underway nationwide. We opened four hotel projects in 2017. We opened Hotel the M Kanazawa Uan, operated by Solare Hotels and Resorts Co., Ltd., and it is a good fit with the ambience of Kanazawa.



Report of Strategic Early 2018 Step

- 8 Added ESG to Growth Action Plan of Second Medium-Term Business Plan**
ES-CON JAPAN revised its Second Medium-Term Business Plan “IDEAL to REAL 2019” in March and added (7) Creation of new value and realization of sustainable growth by promoting ESG to the Growth Action Plan of the Second Medium-Term Business Plan. We intend to apply the concepts of environment, society and governance (ESG) to heightening our corporate value in the market place.

Second Medium-Term Business Plan: IDEAL to REAL 2019

ES-CON JAPAN's Second Medium-Term Business Plan calls for firmly realizing customers' ideals and creating a new future. In other words, to make the ideal real. ES-CON JAPAN is committed to its duty as a life developer to develop "living" itself based on its basic philosophy of placing the customer first. The following page presents the new corporate strategy under the Second Medium-Term Business Plan and celebrates the near-complete achievement of performance targets in the First Medium-Term Business Plan with new numerical targets.



Corporate Strategy

1. Maximization of corporate value and returning profits to shareholders
2. Establishment of a robust business foundation that can withstand almost any economic environment
3. Building diverse businesses to ensure sustainable and stable growth
4. Building a robust business foundation (quality) and not focusing on corporate scale (quantity)
5. Implementation of corporate social responsibilities that return wealth to shareholders, society and other stakeholders

Management Indices

	Fiscal 2016 (Actual)	Fiscal 2017 (Actual)	Fiscal 2019 (Plan)
Equity ratio	23.6%	24.8%	33.0% ~ 35.0%
ROE	25.1%	28.1%	18.0% ~ 21.0%
ROA	6.0%	6.8%	6.0% ~ 7.0%
ROIC*	6.5%	8.4%	7.0% ~ 9.0%
EPS	58.76 yen	81.77 yen	75 yen ~ 85 yen

*ROIC is arrived at using the following formula: operating income after taxes ÷ (shareholders' equity + interest-bearing liabilities)

Performance Targets

(Unit: million yen)

	Fiscal 2016 (Actual)	Fiscal 2017 (Plan)	Fiscal 2017 (Actual)	Fiscal 2018 (Original Plan)	Fiscal 2018 (Plan)	Fiscal 2019 (Plan)
Net sales	34,347	45,500	44,724	57,000 ~ 58,000	55,700	60,000 ~ 62,000
Real estate sales business	30,687	42,700	41,168	54,900 ~ 55,800	52,600	57,800 ~ 59,700
Real estate leasing business	3,594	2,600	3,459	1,900 ~ 2,000	2,900	2,000 ~ 2,100
Real estate planning agency and consulting business	65	200	96	200	200	200
Operating income	4,680	5,700	7,042	7,500 ~ 8,500	9,900	8,200 ~ 9,500
Ordinary income	3,575	4,800	5,988	6,500 ~ 7,500	8,700	7,200 ~ 8,500

Summary of Results

In the mainstay real estate sales business, the steady progress of the sales of condominiums of the Le JADE brand and the sales of income-generating properties in the Tokyo metropolitan area and the Kinki area resulted in the increase in income and profit for Fiscal 2017. As a result of favorable sales and cost reductions, operating income increased by 50.5% year-on-year to 7,042 million yen, ordinary income increased by 67.5% year-on-year to 5,988 million yen and profit attributable to owners of parent grew to a record high of 5,456 million yen, surpassing 4,473 million yen in the year ended December 2007. Furthermore, EPS rose from 58.76 yen to 81.77 yen, surpassing the target in the Second Medium-Term Business Plan IDEAL to REAL starting from 2017. Based on the plan, we have steadily promoted the diversification of our businesses, such as retail, hotel development, logistics development, land readjustment and renovation.

Growth Strategy Under the Second Medium-Term Business Plan

1

Further enhancement of core businesses

ES-CON JAPAN will not only expand the number of for-sale condominium units it sells, a core business, but also develop the ability to stably supply the market with 500–600 units annually. Under the Second Medium-Term Business Plan, the sale of for-sale condominium units will be completely transferred to an internal sales structure by 2019 to keep expenses within the internal structure and increase profit margins.

PROGRESS REPORT: The development properties for sale on the market in 2019 have been secured and the properties for provision in 2020 are being acquired presently. We are presently steadily building the internal sales structure and have secured about 30 people for our internal sales structure.

2

Heightening corporate value by establishing diverse aspects of multiple core businesses

ES-CON JAPAN will newly establish the core businesses of retail development and hotel development. Furthermore, ES-CON JAPAN will diversify its real estate development businesses and strive to become a general developer that can take advantage of multiple and overlapping business opportunities through a growing number of core businesses.



PROGRESS REPORT: ES-CON-JAPAN is steadily continuing its diversification of real estate businesses adding logistics development to its existing businesses of for-sale condominiums, retail property development and hotel development.

3

Securing long-term and stable stock-based revenues through proactive implementation of the real estate leasing business

ES-CON JAPAN will use the proactive focus on the real estate leasing business as a means to diversify its real estate products and consequently reduce price fluctuation risks associated with real estate. Thus ES-CON JAPAN will further heighten its stability by owning good-quality assets that deliver stable rental income over the long term. Specifically, ES-CON JAPAN is aiming by the end of Fiscal 2019 to either own or have begun developing rental assets that can cover all general management costs with their rental income.

PROGRESS REPORT: The logistics development business and other new businesses are being steadily added to our retail property and hotel development businesses. Presently we are selecting assets to be owned for the long term with an eye on balancing these with the sale of assets to our REIT and outside parties.

4

Expansion of real estate sales business by sponsoring a newly-established REIT to which ES-CON JAPAN will steadily supply good-quality products

ES-CON JAPAN intends to realize the listing of the REIT formed in August 2016 on the Tokyo Stock Exchange as early as possible. ES-CON JAPAN will steadily supply good-quality properties to the REIT centering on simple ownership of land beneath retail facilities and thus expand the real estate sales business of ES-CON JAPAN while supporting the sustainable growth of the REIT.

PROGRESS REPORT: We procured capital in December 2017 to establish ES-CON JAPAN REIT as a private REIT with 11 billion yen in assets under management.

5

Enlarging the breadth and depth of real estate development abilities by enhancing the real estate operations business

ES-CON JAPAN will strive to become a comprehensive, unique general developer that not only develops real estate but also possesses the operation teams to operate the real estate in their optimal form. In addition to managing retail properties, the group companies of ES-CON JAPAN will also proactively operate hotels, restaurants and cafes, and manage and renovate condominiums. ES-CON JAPAN will apply the strategy to maximize the value of its real estate.

PROGRESS REPORT: ES-CON JAPAN launched its renovation business and added to its diversified range of services: asset management, property management for retail properties, the operation of cafes and restaurants and the management of apartments. ES-CON JAPAN will continue to maximize the value of owning real estate.

6

Heightening the corporate brand power

ES-CON JAPAN will further strengthen the corporate brand through proactive PR strategies and commit itself to raising the quality of its Le JADE for-sale condominium series.

PROGRESS REPORT: ES-CON JAPAN began broadcasting TV commercials on the Le JADE brand of condominiums from Fiscal 2017 and sponsored a popular TV program. ES-CON JAPAN will continue to focus on reinforcing its corporate brand.

7

Creating new values and realizing sustainable growth by promoting ESG

ES-CON JAPAN makes it a basic philosophy to place the customer first and heighten its corporate value in the marketplace from the standpoint of the environment, society and governance (ESG). Moreover, ES-CON JAPAN is committed to address the changing values over time through urban development, and to handle issues surrounding our society as a life developer.

Businesses of ES-CON JAPAN





Interview with the President

Takatoshi Ito, President & Representative Director of ES-CON JAPAN, has just come off a robust fiscal year full of eclipsed goals and an upwardly-revised dividend. Now in the midst of ES-CON JAPAN's Second Medium-Term Business Plan, we sat down to talk with the leader.

Q

The first year of your new Medium-Term Business Plan has ended. What is your appraisal of the first year?

We have basically done better than targeted overall in the first year of the new strategy and performed strongly. We have completed 100% plus of our sourcing last year, which is connected to the net sales for the final year of the plan.

Q

In one specific area—the sale of condominium units—ES-CON JAPAN fell behind its initial targets for Fiscal 2017. Can you provide insight into this?

There were two projects where sales did not satisfy our plans—Hananokicho, Minami Ward in Yokohama and Chushojima, Fushimi Ward in Kyoto. The reason was that the number of individually contracted for-sale units were below the targets at the time the buildings were completed and originally handed over. Additionally, one factor behind the “slow” sales for the Hananokicho and Chushojima properties is that both are low-rise condominiums, which meant a slightly shorter sales period was planned. However, the amount by which we fell below our targets was more than covered by sales in the hotel business, overall.

On the other hand, sales after completion of the properties have progressed steadily without any need to discount prices and we expect both projects to sell out in the first half of the new fiscal year, specifically in June. Our products are highly evaluated and our customers are highly satisfied.

Q

You recently opened a hotel in Hayabusacho, Chiyoda Ward. Is the hotel business progressing smoothly?

We plan to sell about 20 billion yen worth of hotels this year. We have received purchase orders from not only Japanese customers but also overseas customers in Hong Kong and Singapore. We put the brakes on our sourcing of land for hotels last year because there has been a large volume of hotels supplied to the market recently as well as a surge in land prices. The projects we launched two years ago are being completed this year and next year and they will make solid contributions to our revenues during the coming two fiscal years. Recently we are active in acquiring properties worth investing in and we plan to acquire a property very soon. We will continue to carefully select good properties that are suitable for hotels.

Q

Has it become difficult to source new properties for development with the recent overall rise in market prices?

The intensification in market competition is inevitably leading to a rise in sourcing costs. On the other hand, there continues to be no sign of a drop in construction costs. There is a need to project both profit margins and profit amounts conservatively.

Q

Can you name the good and the bad of 2017?

We have adjusted to new prices in the condominium market during 2017 as sourcing prices rose so much. We were able to surpass our initial profit plans. We were fortunate in that our closing rate was far better than that of competitors in our for-sale business. Our new logistics business and redevelopment of old commercial facilities businesses have both started out well. The fact that these businesses will be able to serve as pillars in the next two fiscal years is also a good development.

Q

Can you discuss progress towards being able to secure income from the leasing business that covers general and administrative expenses?

We have been able to acquire quality properties despite the intensifying competition for sourcing new product. Therefore, although our balance sheet has become a little bloated, to balance our assets we sold commercial properties to our REIT as part of preparations for the listing of our REIT in the future and we also launched a private REIT in December 2017. Consequently, our income from the leasing business slightly shrank in 2017.

We will develop a financial foundation for covering general and administrative expenses with income from our leasing business. We are halfway to our ideal financial position. It is our intent to build up a solid organization that can maintain sustainable growth within three to four years.

Q

How is the development of your first logistics property progressing?

We have acquired about 30,000 tsubos located about 3 minutes from the Tojo Interchange in Hyogo Prefecture. In Kansai, the Ibaraki City and Takatsuki City areas are popular interior areas for logistics centers. GLP, Daiwa House, Nomura Realty & Development and others are developing major logistics centers with five floors and six levels in those areas. We are developing a large logistics center that doesn't overlap with them. Our facility is a single story 12,000-tsubo facility accessible from four directions.

We are not developing a mega logistics facility but rather creating a model case for developing a single-story logistics facility with high functionality. Construction designs have been approved, the single 100% tenant has been found and construction has started. We will complete construction in November 2019. I am certain that we have established a good model case as the first transaction of a new strategy.

As a member of the preparatory association for the land rezoning project association in Genboen, Koga City, Fukuoka as well as a project agent, we were directly involved with the negotiations with residents and the construction began in March of this year. Through this land rezoning project, we will develop 60,000 tsubos of residential land for a logistics park. Through the logistics development project we were involved with in Tojo, we found that the restructuring of the logistics industry has progressed with the recent demand for e-commerce. In the project in Koga City, we plan to not only build a logistics center on the site, but lease entire single-story warehouses and sell residences to corporations as a logistics park. Under the restructuring of the logistics industry, we further exert our existential value and raison d'être as a developer by involving ourselves in the logistics project, land rezoning project consultancy, project agency and multi-use development.

ES-CON JAPAN intends to solidify its presence and the value of its participation as a developer in logistics and land rezoning projects.



Q

Are the unit construction costs cheaper for this type of facility than the mega logistics properties that are often built now?

Yes, they are less expensive. We are also implementing environmental measures this time. We will be installing solar panels on the flat roof of the warehouse.

Q

Can you tell us about your new Fukuoka Branch?

A representative example of major development conducted by ES-CON JAPAN is the 49-hectare development project in Kasuga City, Fukuoka Prefecture. It has been 15 years since this development project began. The opening of a branch in Fukuoka has enabled us to gather more information on opportunities in the market. For example, we will be beginning the new land rezoning project in Koga once the Kasuga project winds down. In Fukuoka—just like the Tokyo and Kansai areas—there is demand for not only housing but also for hotels and retail. Opening the Fukuoka Branch will enable us to realize the development of hotels and residences.



Q

Can you tell us about any developments regarding your private REIT and listed REIT?

The REIT market, including REIT indexes, did not perform well last year due to a correction in the REIT market through suppressing investment trusts. Signs of a recovery in the index have been apparent since the beginning of 2018. We are currently conducting preparations with an eye to list this fall. Our listing will depend on the market but most of the sourcing of the portfolio is done and we intend to originate a REIT that will be sustainable. We intend to realize it this year or next year.

Q

Prices in the real estate market are peaking and some say it may be a bubble. Within these conditions, how do you see ES-CON JAPAN performing in the market in 2018-2020?

The present environment will continue through 2018 and 2019. The consumption tax is to be raised in October 2019 and so I see a market correction possibly starting from around that period. On the other hand, another perspective is that Japanese real estate is being highly valued again by overseas buyers and there is great potential in Japanese real estate.

As for the growth speed of the company, it is essential to not only improve performance and grow profits but to establish management pillars that enable sustainable growth, and we will nurture and train new and existing staff. Following the Fukuoka branch that was opened last year, we intend to develop our business in a manner that takes advantage of our multi-faceted development skills also in Nagoya, Sendai and Sapporo. Therefore, the training of staff is indispensable. Reinforcing this within the company will enable us to achieve solid, reliable growth and to pursue the realization of a meaningful company and not just a pursuer of numerical targets.



Q

Why did you raise your dividend to 18 yen per share for Fiscal 2017?

In our last business plan we introduced a progressive dividend policy, where we are committed to not lowering the dividend and paying out 15 yen per share. Our performance last year and profit after taxes led to the decision to pay a dividend of 18 yen per share (up 3 yen). Our corporate value will be enhanced by not only constantly being aware of maintaining a balance in our performance, internal reserves and overall dividend payout ratio, but also by realizing the dividend promised to shareholders. We also conducted a buyback of treasury stocks last year and maintained a total return ratio of over 30% in Fiscal 2017.

Q

What is the intent behind recently adding Environmental, Social and Governance (ESG) to your growth strategy?

As for the “E” or environment, we intend to emphasize environmental performance within our development projects. For example, installing solar panels, implementing energy saving measures in housing development, etc.

As for the “S” or social, we are responsible for forming a community with the people in the areas where we develop retail facilities. As developers, we do not want to end our roles just with the actual hardware development, but we want to commit ourselves to jointly forming communities with the people in the trade zones of our retail properties. We intend to communicate this approach to our stakeholders, including investors.

As for “G” or governance, we intend to further implement highly transparent management of the company including our future growth strategy. In addition to timely disclosure, we intend to create a governance system

that is aware of responsibilities as a listed firm. We intend to not be a firm that follows the traditional inward looking Japanese management style but to always be aware of our growth strategy and to become a sustainable firm that is conscious of local society and the environment. We will establish clear objectives as a company and execute strategies to achieve these while raising the awareness throughout the company of these objectives. It is with these thoughts and objectives that we incorporated ESG targets in our business plan from the new fiscal year.



Q

Starting last year, you put a new emphasis on corporate branding including running TV commercials. How do you rate the success of these measures?

We started broadcasting TV commercials last year. Our commercials focused on the ES-CON JAPAN condominium brand of Le JADE. The message thoroughly focused on the fact that there are no two buildings that are identical throughout the world and that we are committed to the characteristics of each property and constructing buildings that match the locality and its environment. We have seen clear indications that the Le JADE brand’s recognition in the marketplace is gradually growing in the Tokyo metropolitan area in addition to the

Kansai region. It is our intent to grow Le JADE into a brand with power in the next year and onwards. We intend to develop the Grand Le JADE series in relatively high grade areas of Tokyo, such as Bancho and Shirokane.

Presently, we have promoted the establishment of an internal sales structure in the condominium business. We have gradually developed an internal sales structure with more than 30 people on the internal sales team. Every member of the internal sales team recommends our unique products created with passion to our customers with confidence, resulting in not only reducing costs paid to parties outside the company (sales commission fees), but shortening the contract period and increasing sales. We will also refine our brand strategies and continue to develop fans of our products.

We continue to realize solid growth by prudently controlling costs, and aim to enhance our performance and continuously contribute to society. In 2018, we intend to continue to further solidify our distinctive position in the detailed planning and competitive products in our mainstay condominium market, diversify businesses with commercial development, hotels and logistics, and further enhance our financial foundation. We will steadily enhance our performance and provide returns to shareholders through dividends. As the representative of ES-CON JAPAN, I sincerely ask for your continued support and patronage.



Takatoshi Ito

President & Representative Director

- Sep. 2001 Joined ES-CON JAPAN
- Feb. 2006 Appointed Executive Officer
- Mar. 2007 Appointed Managing Director
- Mar. 2011 Appointed President & Representative Director (present post)
- May 2013 Appointed President & Representative Director at ES-CON PROPERTY (present post)
- July 2014 Appointed Director at ES-CON ASSET MANAGEMENT (present post)
- Sep. 2016 Appointed Director at ES-CON LIVING SERVICE (present post)

Management: Directors and Auditors



Minoru Nakanishi

Senior Managing Director

Aug. 2011 Joined ES-CON JAPAN
 June 2012 Appointed Executive Officer (Head of Finance and Accounting Department)
 Mar. 2013 Appointed Director
 May 2013 Appointed Director at ES-CON PROPERTY (present post)
 Aug. 2013 Appointed Head of Management Division (present post)
 July 2014 Appointed Director at ES-CON ASSET MANAGEMENT (present post)
 Nov. 2014 Appointed Operating Officer
 Mar. 2015 Appointed Executive Director and Managing Executive Officer
 Sep. 2016 Appointed Director at ES-CON LIVING SERVICE (present post)
 Mar. 2017 Appointed Senior Managing Director (present post)



Junya Kikuchi

Director

Mar. 2010 Joined ES-CON JAPAN
 Appointed Director (present post)
 Feb. 2013 Appointed Director at NB Construction Co., Ltd. (present post)
 Jan. 2014 Appointed Representative Director at Integrated Solutions Co., Ltd. (present post)
 June 2014 Appointed Representative Employee at Hoyu Certified Public Accountant Office (present post)
 Appointed Representative at NB Networks (present post)
 Apr. 2016 Appointed Director at System House R & C Co., Ltd. (present post)
 Aug. 2017 Appointed Director at P Parking International Private Limited (present post)



Tomohiko Egashira

Managing Director

Apr. 2002 Joined ES-CON JAPAN
 Jan. 2012 Appointed Head and Corporate Officer of Business Division
 July 2012 Appointed Head and Corporate Officer of Tokyo Division
 Feb. 2013 Appointed Head and Corporate Officer of Development Division
 Mar. 2015 Appointed Director (present post)
 Jan. 2016 Appointed Head and Corporate Officer of Development Division
 Mar. 2017 Appointed Managing Director (present post)
 Nov. 2017 Appointed Managing Director, Managing Executive Officer, Head Corporate Officer of Development Division and Head of Fukuoka Branch Office (present post)



Kunio Takahashi

Full-time Auditor [Director]

Apr. 1975 Joined Daiwa Bank, Limited (currently Resona Bank Co., Ltd.)
 June 2003 Appointed Executive Officer and Head of Osaka Public Affairs Department at Resona Bank Co., Ltd.
 Apr. 2004 Appointed Auditor at Saitama Resona Bank Co., Ltd.
 June 2005 Appointed Auditor at Kinki Bank of Osaka Co., Ltd.
 June 2010 Appointed Auditor at Nippon Metal Industry Co., Ltd.
 Mar. 2013 Appointed Auditor at ES-CON JAPAN
 June 2013 Appointed Auditor at Shikibo Co., Ltd.
 Appointed Full-time Auditor
 Mar. 2016 Appointed Full-time Auditor [Director] (present post)



Keiko Akashi

Director

Sep. 2001 Joined ES-CON JAPAN
 Feb. 2005 Appointed Head of Sales Integration Department of Residential Development Division
 Mar. 2007 Appointed Head of Business Management Office
 Mar. 2010 Appointed Director
 Nov. 2010 Appointed Head of Management Department (present post)
 Mar. 2011 Appointed Head of Business Management Department
 Feb. 2013 Appointed Head of Planning and Sales Department
 May 2013 Appointed Director at ES-CON PROPERTY (present post)
 Aug. 2013 Appointed Head of Planning and Sales Department
 Nov. 2014 Appointed Operating Officer
 Mar. 2015 Appointed Executive Director and Managing Executive Officer
 Sep. 2016 Appointed President and Representative Director at ES-CON LIVING SERVICE (present post)
 Mar. 2017 Appointed Director (present post)



Hiroto Mizobata

Auditor [Director]

Apr. 1986 Joined KPMG Asahi Shinwa Accounting, Inc. (currently KPMG AZSA LLC)
 Mar. 1988 Registered as certified public accountant
 Dec. 1991 Registered as licensed tax accountant
 Mar. 1992 Appointed Representative at Mizobata Certified Public Accountant Office (present post)
 Mar. 2015 Appointed Auditor at ES-CON JAPAN
 Mar. 2016 Appointed Auditor [Director] (present post)



Kotaro Niwa

Auditor [Director]

Oct. 2000 Joined Oshima Partners Law Office as Registered Lawyer
 May 2006 Appointed Head at Niwa Partners Law Office
 May 2010 Appointed Partner at IPAX Law Office (present post)
 Mar. 2011 Appointed Director at ES-CON JAPAN (present post)
 Mar. 2016 Appointed Auditor [Director] (present post)

Management Policy

1. ES-CON JAPAN is committed to realizing the unlimited potential of real estate through its information sourcing, planning and product development ability to create new value that sincerely satisfies customers.
2. ES-CON JAPAN is committed to achieving management that is a step more proactive than the competition by implementing work management that has a robust defense based on ROA, cash flow and thorough risk management.
3. ES-CON JAPAN is committed to becoming a limited-scale team of professionals that can maintain the ability to respond quickly and maintain flexibility within a rapidly changing society.
4. ES-CON JAPAN will maintain and build robust relationships of cooperation by respecting and appreciating competitors at all times whether inside or outside the company.
5. ES-CON JAPAN is committed to building a “well-ventilated” bottom-up organization while also building an enhanced internal audit system consciously aware of compliance and governance.

Direction, Corporate Governance and CSR

Corporate Philosophy

We ask our employees to think daily about how they should live their lives, how they should participate in society, what kind of fruit they will bear society by contributing and, as a result, how the happiness desired by each and every one of us will be attained through these efforts.

Our employees assist and encourage each other to achieve the above goal. ES-CON JAPAN pursues a management that continues to provide fields as steps to self-realization of the unique characteristics pursued by each of our employees.

Corporate Vision

“Life Developer”

ES-CON JAPAN seeks to be a life developer; that is, a company that develops not only the hardware of the condominium itself but also conceptualizes and develops the lives of residents.

This is our goal at ES-CON JAPAN. We are creating “new wealth” that traditional real estate firms cannot achieve with solutions provided by our small cross-organizational teams that overcome the boundaries of divisions. ES-CON JAPAN teams connect people, communities and the future.

Corporate Mission

Development of the “New Norm Neighborhood”

Our teams create, connect and expand values built into local areas. We do not perceive the term “local” as an antonym to “urban” but rather as a location where residents are proud of the area where they live.

System of Corporate Governance

ES-CON JAPAN boasts a Board of Auditors and a structure whereby the implementation, management, supervision and auditing of work are overseen by the Board of Directors and Board of Auditors.

(1) The Board of Directors is comprised of eight people: four directors in charge of various operations, one director with a non-operational focus, and three auditors who are also directors. Of these, one shall be a woman, three shall be outside directors, two shall be independent outside directors and the president of the Board shall be the President.

- In principle, the Board holds meetings at least once a month where the management and auditing functions are heightened by vetting and discussing important items on the agenda.
- Speed and flexibility of operations is secured by entrusting directors responsible for operations with related decisions in line with the articles of incorporation. The scope to which operations are entrusted to individual directors is strictly managed in line with monetary and other criteria stipulated by the Board of Directors. Furthermore, the status of vital operations that have been entrusted to the Board shall be reported to the Board of Directors without delay.

(2) Board of Auditors

The Board of Auditors is entirely comprised of outside directors so that the three members can all heighten their management supervisory function and the independence of such. There are two independent outside directors and one full-time auditor.

- In principle, the Board shall meet once a month and the accounting auditor, party in charge of corporate governance, directors in charge of operations and other executives can be instructed to attend the Board meeting by an auditor as needed. The Board shall report its findings in a timely and appropriate manner.
- Auditors shall take steps to ensure they grasp the present status of operations for each division and the issues they face. These steps include regular exchanges of opinion with the President & Representative Director and the interviewing of corporate executives such as directors in charge of operations when necessary.
- The full-time auditor shall participate in divisional meetings attended by directors in charge of operations and executions of each division along with regularly-held management meetings where members are comprised primarily of directors in charge of operations. The participation of the full-time auditor ensures that management conditions and the progress on business plans can be shared.
- The Board shall check important documents like *ringi* circulation documents and other decision-confirmation documents and coordinate with the internal audit division to verify that the implementation of operations by directors is legal and appropriate. The full-time auditor is also nominated to be the lead auditor so that governance is further strengthened.

Corporate Governance

ES-CON JAPAN believes the present system and organization of corporate governance is appropriate because it contributes to the sustainable improvement of corporate value.

1. **Directors who are Members of the Board of Auditors reinforce the auditing functions and execution ability of the Board of Directors by being able to vote on agenda items at Board of Directors’ meetings.**
2. **The entrusting of vital operations to directors in charge of operations secures speed, dynamism and flexibility of operations and prevents loss of business opportunities.**
3. **Directors who are also auditors are able to state opinions concerning the nomination and compensation of directors who are not auditors, thus reinforcing the transparency of the process.**

Basic Philosophy of Corporate Governance

The corporate activities of ES-CON JAPAN are supported by a vast group of stakeholders including customers, shareholders and vendors. ES-CON JAPAN believes that corporate governance is a key theme for enhancing its trust and reputation among its shareholders and pledges to continue efforts to heighten its governance. In addition to naturally pursuing the fulfillment of legally required functions related to the Boards of Directors and Auditors, ES-CON JAPAN will fulfill its social responsibilities by endeavoring to also improve the efficiency and transparency of corporate management by conducting external and internal audits on a regular basis.

Thorough Implementation of Compliance

This shall be implemented and achieved by committing to company-wide compliance with the department responsible for compliance cooperating with each internal department under the instruction of the officer responsible for compliance. ES-CON JAPAN has summarized its Code of Conduct under a Compliance Activity Standard, Compliance Manual and Compliance Rules as the organization for realizing its commitment to compliance. The Code of Conduct designates the activities to be conducted by officers and employees to comply with laws, regulations and social norms based on due diligence regarding the Corporate Ethics Charter that declares the implementation of corporate ethics and corporate social responsibilities.

Implementation of CSR Activities

ES-CON JAPAN emphasizes the development and design of real estate properties that take into consideration the global environment by constantly thinking of the environmental load generated by business activities. ES-CON JAPAN implements various measures in each property that consider the environment including installing disposers that reduce raw garbage, installing water-conserving toilets that reduce the volume of water used by 50%, and the use of thermal baths with high humidifying effects. ES-CON JAPAN is committed to the proactive building of “resource-conserving housing” that reduces the environmental load so that we can build a better future. Furthermore, ES-CON JAPAN proactively supports regional revitalization projects and such as part of the measures of the Japanese government to address the decreasing population and super-aging society.

Company Overview: ES-CON JAPAN Ltd.



Tokyo Head Office

Try Edge Ochanomizu Building 12F
4-2-5 Kanda Surugadai
Chiyoda-ku, Tokyo 101-0062



Osaka Head Office

Meiji Yasuda Seimei Osaka Midotsuji Building 13F
4-1-1 Fushimi-machi
Chuo-ku, Osaka 541-0044



Fukuoka Office

Yasuda The seventh Building 9F
13-15 Kamikawabata-machi
Hakata-ku, Fukuoka 812-0026

Established: April 18, 1995

Paid-in Capital: 6,258,440,018 yen (as of May 2018)

Sales: 44,724 million yen (consolidated results for Fiscal 2017)

Number of Employees: 158 (consolidated, Fiscal 2017), 123 (non-consolidated, Fiscal 2017)

Businesses: Real estate development, sales, leasing, brokering, etc.

Property Descriptions

Le JADE Fushimi Chushojima

[Fushimi-ku, Kyoto-shi, Kyoto]

- A 7-minute walk from Keihan Chushojima Station, which offers direct access to Kansai's most urban areas such as Osaka and Kyoto.
- A combination of everyday convenience with large retail facilities nearby and a calm, historical atmosphere unique to Kyoto with seasonal scenery and events.
- Open sky balconies that protrude up to 2.3 m creating "outdoor living rooms" for reading and other hobbies with a great view.



Le JADE Southern Gate Toyoda

[Toyoda, Hino-shi, Tokyo]

- A 2-minute walk from Toyoda Station on the JR Chuo Line. Conveniently located for daily commuting directly into central Tokyo areas such as Tokyo Station and Shinjuku Station.
- Plenty of convenient facilities for everyday life such as large retail facilities in the surrounding area as well as Kurokawaseiryu Park, where children can play in the natural spring water, within walking distance. A location blessed with both convenience and nature.

tonarie

[Suita-shi, Osaka; Kawanishi-shi, Hyogo; Yamatotakada-shi, Nara; Sakai-shi, Osaka]

- Our new retail facility brand, launched in May 2017.
- The name is meant to connote "being part of the neighborhood and developing together with it, always being alongside customers' lifestyles."
- We launched the brand with tonarie Yamato-Takada and tonarie Toga-Mikita.



Le JADE Takatsuki Cross

[Takatsuki-shi, Osaka]

- Conveniently located near three stations with two lines for smooth access toward Osaka and Kyoto.
- In addition to a concentration of everyday facilities such as supermarkets conveniently within walking distance, a great location for raising children, being near public facilities such as schools, a library and parks.
- Provides unique living spaces with features such as a party lounge with kitchen and terrace for resident gatherings.

Grand Le JADE Shibuya Tomigaya

[Shibuya-ku, Tokyo]

- An extremely convenient location that allows quick, direct access to major stations in central Tokyo such as Shinjuku, Omotesando and Otemachi from the nearest two stations.
- On the south side is a type-one low-rise residential zone in which building height and use is most severely restricted, making for exceptional sunshine, views and openness.
- Two private residences per floor with dedicated elevator foyers facing the entrance of each residence. Bi-directional elevator doors are designed to open only toward one's own residence, ensuring independence and privacy.



Le JADE Yokohama Hananoki

[Yokohama-shi, Kanagawa]

- Use of two lines through three stations allows smooth access to Yokohama and Shin-Yokohama as well as Shinagawa and other major stations in central Tokyo.
- Conveniently located within comfortable bicycling and walking distance of central Yokohama in a rare flat area.
- In addition to everyday facilities such as shops and clinics within walking distance, there are also a variety of exercise facilities including several large parks with lush greenery.
- Unique living spaces with shared facilities such as the entrance lounge designed to look like a ship cabin to connote Yokohama's seafaring history and one wall in each living room with 72 color options.





Le JADE Kawasaki
[Kawasaki-shi, Kanagawa]

- Conveniently located near two stations with five lines, allowing easy access to Shinagawa, Tokyo, Yokohama and other stations.
- In addition to large retail facilities in the vicinity, the location is blessed with parks full of greenery, elementary and junior high schools, clinics and other facilities for complete comfort, convenience and peace of mind.



Hotel the M Kanazawa Uan
[Oyamamachi, Kanazawa-shi, Ishikawa]

- Located in central Kanazawa near tourist spots such as Kanazawa Castle Park, Kenroku-en and Omicho Market.
- Its exterior matches Kanazawa's classic cityscape and culture and interior shared areas and guest rooms incorporate Japanese tastes.

Le JADE Minamimorimachi
[Kita-ku, Osaka-shi, Osaka]

- Use of three lines through two stations offers easy access to central areas of Osaka such as Umeda, Kitashinchi, Kitahama and Kyobashi.
- Near a full array of convenient everyday facilities such as medical and public facilities as well as Tenjinbashiuji Shopping Street, containing around 600 shops, while still a quiet living environment.
- With three residences per floor, each on a corner, and hotel-like internal corridors, this is a highly private living space.



Grand Le JADE Okamoto
[Higashinada-ku, Kobe-shi, Hyogo]

- Smooth access to Kobe-Sannomiya Station and Umeda Station with two lines through two stations, one of them a limited express stop.
- The location combines the convenience of shopping, educational, public and other facilities with beautiful cobbled streets and a historic, sophisticated atmosphere.
- Designed in detail with stone and tile along the motif of an old Western-style house, each floor contains two residences, all facing south, with a dedicated elevator hall in front of each residence for greater privacy, CUCINA kitchens and other features for comfortable, high-class living spaces.



Grand Le JADE Ochanomizu
[Bunkyo-ku, Tokyo]

- Offering quick access to downtown areas such as Tokyo Station, Ginza and Shinjuku with nine lines through nine stations yet nevertheless located in a calm area back away from the main road, it is attractive for its quiet surroundings.
- Within walking distance are major, landmark retail facilities with cafes, restaurants, supermarkets, drugstores as well as public facilities such as large and small green parks and a library, healthcare facilities such as a general hospital, and other convenient everyday facilities.
- This unique living space includes a lounge hall designed to look like an Eastern resort, with large windows and greenery cultivated inside and outside giving it an open feel, and BGM in both the hall and elevators.

Mirakita City Himeji
[Himeji-shi, Hyogo]

- Two stops from the nearest station to JR Himeji Station, from which Shinkansen bullet trains offer speedy access to all of Japan.
- This large-scale integrated residential and retail redevelopment is planned to include a commercial building with a library and clinics. Its main draw is its comfortable living environment with various neighboring retail facilities, schools, hospitals, public facilities, parks and more within walking distance.
- In addition to providing shared spaces that can be used in a variety of ways such as guest rooms for accommodation and the "owners' lounge" with tables and bookshelves and a kids' space in the corner, the residential building and retail building each have their own direct elevators, enhancing security.





Financial Section

The Management Discussion and Analysis, Financial Statements and Notes to Financial Statements contained in this report are outside the scope of the auditing procedures under the Financial Instruments and Exchange Act of Japan, and have not been audited. However, the original financial data and descriptions in Japanese used as the base for the translation of this English version have been audited.

Management Discussion and Analysis

Overview

In the consolidated fiscal year under review (fiscal year ended December 2017), the Japanese economy was poised to stay on track toward a moderate recovery, partly due to various governmental measures proving effective amid ongoing improvement in the employment and income situation. The outlook remains cloudy, however, as attention must be paid to the growing geopolitical risks, uncertainty in overseas economies and the impact of fluctuations in the financial and capital markets.

The real estate industry in which the ES-CON JAPAN Group operates remained solid and strong thanks to the low interest environment stemming from the monetary easing policy, among other factors. Still, optimism is not allowed in the face of rising land prices, intensified competition over land acquisitions and other difficulties.

Given such circumstances, the Company proactively implemented multifaceted business operations based on the “IDEAL to REAL 2019,” its second medium-term management plan that started in the fiscal year under review.

In the real estate sales business, which is our core business, we were engaged in income-generating real estate sales, while seeing condominium sales make steady progress. During the fiscal year under review, we acquired new business sites for 11 projects in the Tokyo metropolitan area, 10 projects in the Kinki area and 2 projects in other areas for developing for-sale condominiums, retail properties, renovation businesses, hotels, logistics facilities and other purposes for the future.

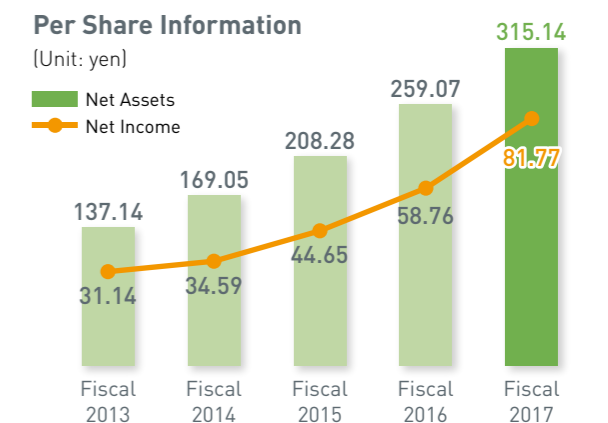
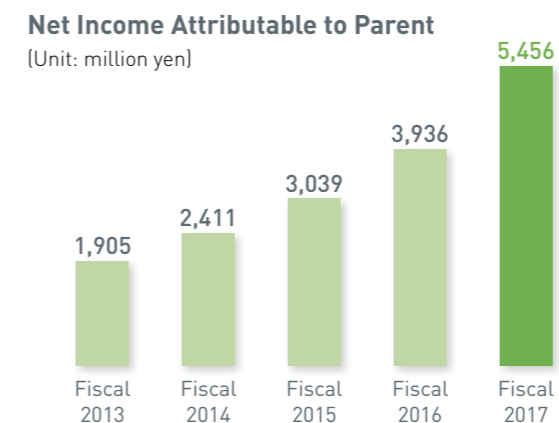
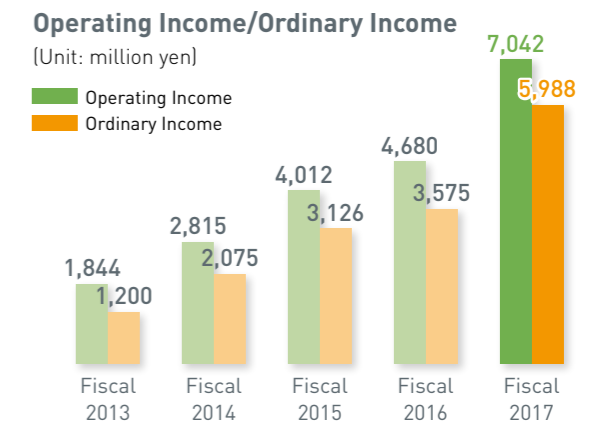
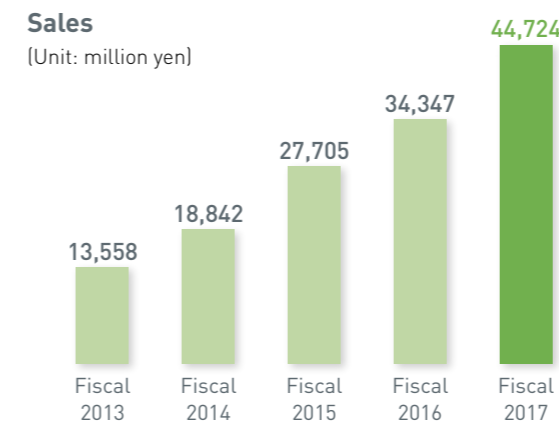
In the real estate leasing business, efforts are being made to secure stable rental income from, and enhance asset value of, retail properties held by ES-CON JAPAN. Focus is also being placed on the real estate planning agency and consulting business which, built on our planning capabilities and other strengths, calls for high profit margins from such non-asset operations as subcontracting, planning agency and consulting.

In December 2017, ES-CON JAPAN REIT Investment Corporation completed a capital increase to become a private REIT with an asset size of approximately 11 billion yen, and started preparations for listing.

Operating Results

As a result of our endeavors in multifaceted business operations for further business development and enhancement of corporate value, we posted net sales of 44,724 million yen (up 30.2%), operating income of 7,042 million yen (up 50.5%), ordinary income of 5,988 million yen (up 67.5%) and profit attributable to owners of parent of 5,456 million yen (up 38.6%), all on a year-on-year basis, for the fiscal year ended December 2017.

Furthermore, profit attributable to owners of parent marked a new record high, exceeding the 4,473 million yen recorded in the fiscal year ended December 2007.



Results by Segment

Real estate sales business

In the real estate sales business, we promoted condominium sales while working to sell real estate for sale and real estate for sale in process, resulting in net sales of 41,168 million yen (up 34.2% year-on-year) and segment income of 7,978 million yen (up 66.3% year-on-year).

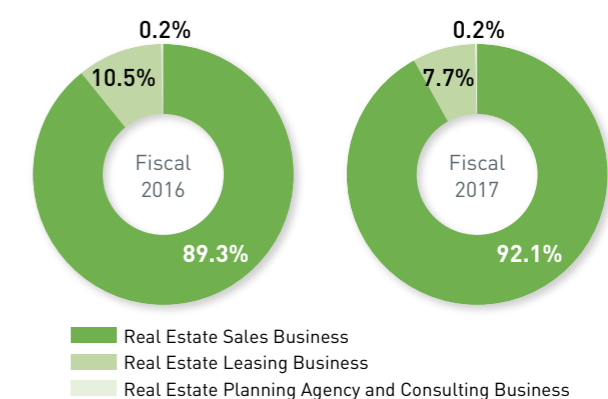
Real estate leasing business

In the real estate leasing business, we focused on leasing activities and the property management in an effort to enhance asset value, including an increase in rental income from the income-generating real estate we own. Nevertheless, due to sale of certain income-generating real estate owned as non-current assets and other factors, net sales decreased 3.8% year-on-year to 3,459 million yen and segment income dropped 14.4% year-on-year to 1,761 million yen.

Real estate planning agency and consulting business

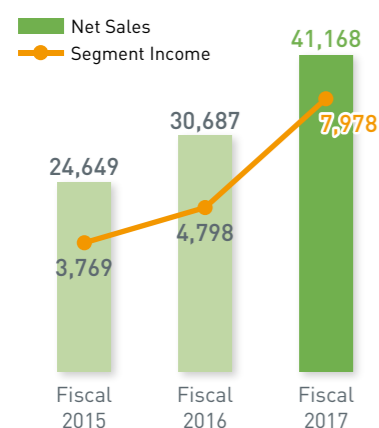
In the real estate planning agency and consulting business, proactive efforts were made in receiving orders for planning, consultation and other consigned services by making best use of our planning capabilities and

Sales Distribution Ratio by Segment

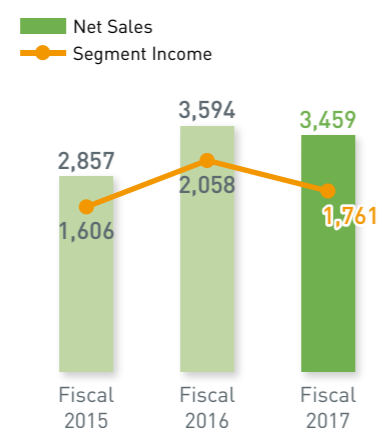


Real Estate Sales Business

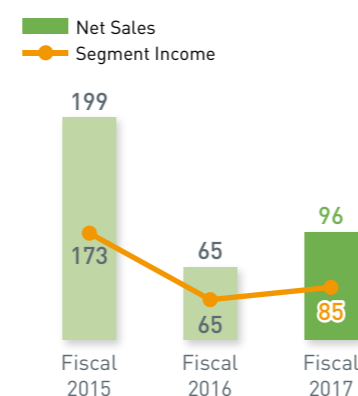
(Unit: million yen)

**Real Estate Leasing Business**

(Unit: million yen)

**Real Estate Planning Agency and Consulting Business**

(Unit: million yen)



multifaceted business building abilities, resulting in net sales of 96 million yen (up 47.8% year-on-year) and segment income of 85 million yen (up 31.2% year-on-year).

Analysis of Financial Position**Assets, liabilities and net assets**

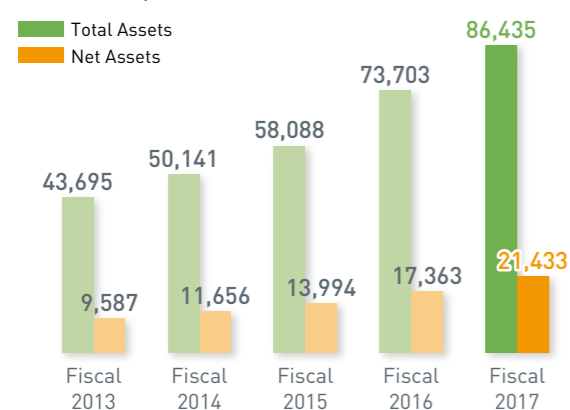
Assets at the end of the fiscal year ended December 2017 increased by 12,732 million yen compared with the end of the previous fiscal year to 86,435 million yen. This was mainly attributable to an increase in cash and deposits by 2,463 million yen, inventories by 18,765 million yen and investments in securities by 1,674 million yen, respectively, offsetting the decrease of 11,418 million yen due to sale of property, plant and equipment and other factors.

Liabilities increased by 8,662 million yen compared with the end of the previous fiscal year to 65,002 million yen. This was mainly attributable to an increase in long-term loans payable and short-term loans payable by 5,444 million yen in total.

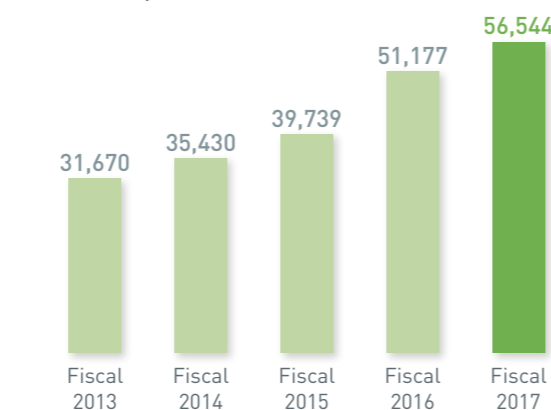
Net assets increased by 4,069 million yen compared with the end of the previous fiscal year to 21,433 million yen. This was due to recording of 5,456 million yen as profit attributable to owners of parent despite payment of 1,017 million as cash dividends and acquisition of treasury shares by 748 million yen. As a result, the equity ratio came to 24.8% (23.6% at the end of the previous year).

Total Assets/Net Assets

(Unit: million yen)

**Interest-bearing Liabilities**

(Unit: million yen)

**Overview of Consolidated Balance Sheet**

(Unit: million yen)

AssetsFiscal 2016 Total assets: **73,703**

Fiscal 2016		Total assets: 73,703	
Non-current assets:	16,048	Current assets: 57,654	
Property, plant and equipment:	13,147	Cash and deposits:	8,204
Intangible assets:	17	Real estate for sale:	6,103
Investments and other assets:	2,883	Real estate for sale in process:	39,319

Fiscal 2017 Total assets: **86,435**

Fiscal 2017		Total assets: 86,435	
Non-current assets:	5,930	Current assets: 80,504	
Property, plant and equipment:	1,729	Cash and deposits:	10,667
Intangible assets:	28	Real estate for sale:	4,162
Investments and other assets:	4,173	Real estate for sale in process:	60,057

Liabilities and Net AssetsFiscal 2016 Liabilities and net assets: **73,703**

Fiscal 2016			Liabilities and net assets: 73,703
Net assets:	17,363	Non-current liabilities:	30,847
		Current liabilities:	25,492
Shareholders' equity:	17,338	Long-term loans payable:	29,784
		Short-term loans payable:	4,308
		Current portion of long-term loans payable:	16,753
		Current portion of bonds:	40

Fiscal 2017 Liabilities and net assets: **86,435**

Fiscal 2017			Liabilities and net assets: 86,435
Net assets:	21,433	Non-current liabilities:	32,337
		Current liabilities:	32,664
Shareholders' equity:	21,411	Long-term loans payable:	31,874
		Short-term loans payable:	1,953
		Current portion of long-term loans payable:	22,462
		Current portion of bonds:	40

Status of Cash Flows

Cash and cash equivalents ("net cash") in the fiscal year under review increased by 2,453 million yen compared with the end of the previous fiscal year to 10,644 million yen (8,191 million yen at the end of the previous fiscal year). The following outlines the cash flows and the factors of changes in cash flows in the fiscal year ended December 2017.

Cash flows from operating activities

Cash flows from operating activities in the fiscal year ended December 2017 amounted to net cash used in operating activities of 10,694 million yen (net cash used in operating activities of 14,684 million yen in the previous fiscal year). This was mainly attributable to recording 6,232 million yen as profit before income taxes and an increase in inventories by 18,943 million yen.

Cash flows from investing activities

Cash flows from investing activities in the fiscal year ended December 2017 amounted to net cash provided by investing activities of 9,167 million yen (net cash provided by investing activities of 7,656 million yen in the previous fiscal year). This was mainly attributable to sale of non-current assets amounting to net proceeds of 11,651 million yen.

Cash flows from financing activities

Cash flows from financing activities in the fiscal year ended December 2017 amounted to net cash provided by financing activities of 3,979 million yen (net cash provided by financing activities of 11,003 million yen in the previous fiscal year). This was mainly attributable to proceeds from and repayments of long-term loans payable and short-term loans payable amounting to net proceeds of 5,444 million yen, payments due to purchase of treasury shares of 748 million yen and cash dividends paid of 1,016 million yen.

Consolidated Balance Sheet

(Unit: million yen)

	Fiscal 2016 (as of December 31, 2016)	Fiscal 2017 (as of December 31, 2017)
Assets		
Current assets		
Cash and deposits	8,204	10,667
Notes and accounts receivable - trade	285	497
Real estate for sale	6,103	4,162
Real estate for sale in process	39,319	60,057
Deferred tax assets	127	298
Other	3,687	4,819
Allowance for doubtful accounts	[73]	—
Total current assets	57,654	80,504
Non-current assets		
Property, plant and equipment		
Buildings and structures	5,351	1,476
Accumulated depreciation	(1,614)	(410)
Buildings and structures, net	3,737	1,066
Land	9,320	623
Leased assets	18	18
Accumulated depreciation	(8)	(13)
Leased assets, net	9	4
Other	158	129
Accumulated depreciation	(77)	(93)
Other, net	80	35
Total property, plant and equipment	13,147	1,729
Intangible assets		
Other	17	28
Total intangible assets	17	28
Investments and other assets		
Investment securities	226	1,901
Deferred tax assets	2,127	1,675
Other	533	600
Allowance for doubtful accounts	(4)	(4)
Total investments and other assets	2,883	4,173
Total non-current assets	16,048	5,930
Total assets	73,703	86,435

(Unit: million yen)

	Fiscal 2016 (as of December 31, 2016)	Fiscal 2017 (as of December 31, 2017)
Liabilities		
Current liabilities		
Short-term loans payable	4,308	1,953
Current portion of long-term loans payable	16,753	22,462
Current portion of bonds	40	40
Lease obligations	4	1
Accounts payable - other	1,087	1,615
Income taxes payable	69	467
Advances received	1,357	1,467
Deposits received	1,831	4,368
Other	39	287
Total current liabilities	25,492	32,664
Non-current liabilities		
Bonds payable	150	110
Long-term loans payable	29,784	31,874
Lease obligations	4	2
Provision for directors' share-based benefits	54	82
Provision for share-based benefits	13	18
Asset retirement obligations	83	93
Other	757	155
Total non-current liabilities	30,847	32,337
Total liabilities	56,339	65,002
Net assets		
Shareholders' equity		
Capital stock	6,034	6,224
Capital surplus	1,763	1,953
Retained earnings	10,417	14,322
Treasury shares	(876)	(1,089)
Total shareholders' equity	17,338	21,411
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	22	20
Total accumulated other comprehensive income	22	20
Subscription rights to shares	3	1
Total net assets	17,363	21,433
Total liabilities and net assets	73,703	86,435

Consolidated Statement of Income and Consolidated Statement of Comprehensive Income

Consolidated Statement of Income

(Unit: million yen)

	Fiscal 2016 (from January 1, 2016 to December 31, 2016)	Fiscal 2017 (from January 1, 2017 to December 31, 2017)
Net sales	34,347	44,724
Cost of sales	25,494	33,164
Gross profit	8,852	11,559
Selling, general and administrative expenses		
Advertising expenses	1,369	1,501
Sales commission	655	515
Directors' compensations	172	175
Salaries and allowances	758	963
Provision for directors' share-based benefits	24	30
Provision for share-based benefits	7	5
Commission fee	199	224
Taxes and dues	404	351
Other	580	749
Total selling, general and administrative expenses	4,172	4,517
Operating income	4,680	7,042
Non-operating income		
Interest income	0	0
Dividend income	1	2
Cancellation income	8	24
Reversal of allowance for doubtful accounts	—	29
Other	1	1
Total non-operating income	11	58
Non-operating expenses		
Interest expenses	999	1,093
Share issuance cost	26	—
Other	90	18
Total non-operating expenses	1,116	1,112
Ordinary income	3,575	5,988
Extraordinary income		
Gain on sales of non-current assets	172	372
Gain on sales of shares of subsidiaries and associates	—	22
Gain on reversal of subscription rights to shares	0	—
Total extraordinary income	172	395
Extraordinary losses		
Loss on sales of non-current assets	36	—
Loss on retirement of non-current assets	0	0
Impairment loss	1,042	150
Loss on valuation of investment securities	42	—
Total extraordinary losses	1,120	150
Profit before income taxes	2,628	6,232
Income taxes - current	240	497
Income taxes - deferred	(1,548)	279
Total income taxes	(1,308)	776
Profit	3,936	5,456
Profit attributable to owners of parent	3,936	5,456

Consolidated Statement of Comprehensive Income

(Unit: million yen)

	Fiscal 2016 (from January 1, 2016 to December 31, 2016)	Fiscal 2017 (from January 1, 2017 to December 31, 2017)
Profit	3,936	5,456
Other comprehensive income		
Valuation difference on available-for-sale securities	22	(2)
Total other comprehensive income	22	(2)
Comprehensive income	3,958	5,453
Comprehensive income attributable to owners of parent	3,958	5,453
Comprehensive income attributable to non-controlling interests	—	—

Consolidated Statement of Changes in Equity

Fiscal year ended December 2016 (from January 1, 2016 to December 31, 2016)

(Unit: million yen)

	Shareholders' equity					Accumulated other comprehensive income		Sub- scription rights to shares	Total net assets
	Capital stock	Capital surplus	Re- tained earnings	Trea- sury shares	Total share- holders' equity	Valuation difference on available- for-sale securities	Total accumulated other comprehen- sive income		
Balance at beginning of fiscal year	6,029	1,758	7,024	(821)	13,989	—	—	4	13,994
Changes of items during fiscal year									
Issuance of new shares	5	5			10				10
Dividends of surplus			(543)		(543)				(543)
Profit attributable to owners of parent			3,936		3,936				3,936
Purchase of treasury shares				(54)	(54)				(54)
Disposal of treasury shares				0	0				0
Net changes of items other than shareholders' equity						22	22	(1)	21
Total changes of items during fiscal year	5	5	3,392	(54)	3,348	22	22	(1)	3,369
Balance at end of fiscal year	6,034	1,763	10,417	(876)	17,338	22	22	3	17,363

Fiscal year ended December 2017 (from January 1, 2017 to December 31, 2017)

(Unit: million yen)

	Shareholders' equity					Accumulated other comprehensive income		Sub- scription rights to shares	Total net assets
	Capital stock	Capital surplus	Re- tained earnings	Trea- sury shares	Total share- holders' equity	Valuation difference on available- for-sale securities	Total accumulated other comprehen- sive income		
Balance at beginning of fiscal year	6,034	1,763	10,417	(876)	17,338	22	22	3	17,363
Changes of items during fiscal year									
Issuance of new shares	190	190			380				380
Dividends of surplus			(1,017)		(1,017)				(1,017)
Profit attributable to owners of parent			5,456		5,456				5,456
Purchase of treasury shares				(748)	(748)				(748)
Disposal of treasury shares				2	2				2
Retirement of treasury shares			(533)	533	—				—
Net changes of items other than shareholders' equity						(2)	(2)	(1)	(3)
Total changes of items during fiscal year	190	190	3,905	(212)	4,073	(2)	(2)	(1)	4,069
Balance at end of fiscal year	6,224	1,953	14,322	(1,089)	21,411	20	20	1	21,433

Consolidated Statement of Cash Flows

(Unit: million yen)

	Fiscal 2016 (from January 1, 2016 to December 31, 2016)	Fiscal 2017 (from January 1, 2017 to December 31, 2017)
Cash flows from operating activities		
Profit before income taxes	2,628	6,232
Depreciation	229	186
Impairment loss	1,042	150
Increase (decrease) in allowance for doubtful accounts	74	(73)
Increase (decrease) in provision for directors' share-based benefits	24	28
Increase (decrease) in provision for share-based benefits	7	5
Interest and dividend income	(1)	(2)
Interest expenses	999	1,093
Share issuance cost	26	—
Loss (gain) on sales of non-current assets	(136)	(372)
Loss on retirement of non-current assets	0	0
Loss (gain) on valuation of investment securities	42	—
Loss (gain) on sales of shares of subsidiaries and associates	—	(22)
Decrease (increase) in notes and accounts receivable - trade	(200)	(211)
Decrease (increase) in inventories	(17,033)	(18,943)
Decrease (increase) in prepaid expenses	199	(529)
Increase (decrease) in accounts payable - other	162	532
Decrease/increase in consumption taxes receivable/payable	(385)	368
Increase (decrease) in advances received	11	110
Increase (decrease) in deposits received	258	2,597
Decrease (increase) in other assets	(1,462)	(614)
Increase (decrease) in other liabilities	165	54
Subtotal	(13,349)	(9,409)
Interest and dividend income received	1	2
Interest expenses paid	(1,060)	(1,148)
Income taxes (paid) refund	(275)	(139)
Net cash provided by (used in) operating activities	(14,684)	(10,694)
Cash flows from investing activities		
Payments into time deposits	(18)	(18)
Proceeds from withdrawal of time deposits	18	18
Purchase of investment securities	(110)	(1,711)
Proceeds from withdrawal of investment securities	10	14
Purchase of non-current assets	(223)	(200)
Proceeds from sales of non-current assets	7,343	11,651
Payments for asset retirement obligations	(3)	(0)
Proceeds from sales of shares of subsidiaries resulting in change in scope of consolidation	—	34
Collection of loans receivable	0	0
Proceeds from guarantee deposits received	1,120	615
Repayments of guarantee deposits received	(440)	(1,232)
Payments for investments in capital	(41)	(4)
Net cash provided by (used in) investing activities	7,656	9,167
Cash flows from financing activities		
Increase in short-term loans payable	11,887	10,830
Decrease in short-term loans payable	(8,846)	(13,184)
Proceeds from long-term loans payable	28,915	45,348
Repayments of long-term loans payable	(20,284)	(37,549)
Proceeds from issuance of bonds	200	—
Redemption of bonds	(567)	(40)
Repayments of lease obligations	(4)	(4)
Repayments of installment payables	(2)	(32)
Proceeds from issuance of common shares	9	378
Purchase of treasury shares	(54)	(748)
Cash dividends paid	(541)	(1,016)
Proceeds from release of deposits as collateral	293	—
Net cash provided by (used in) financing activities	11,003	3,979
Net increase (decrease) in cash and cash equivalents	3,976	2,453
Cash and cash equivalents at beginning of period	4,214	8,191
Cash and cash equivalents at end of period	8,191	10,644

Notes to Financial Statements

1. Organization

ES-CON JAPAN Ltd. (ES-CON JAPAN or the Company) is a Japanese real estate company established in 1995. It conducts planning, development and sales of for-sale condominiums, retail facilities and other properties; leasing of owned properties; property management services; for-sale condominium management services; consignment, planning, brokerage and consulting services for real estate-related matters; and real estate investment advisory services. ES-CON JAPAN was listed on the second tier of the Tokyo Stock Exchange in 2015, and successfully rose to the first tier in June 2016.

2. Basis of Presentation

The accompanying consolidated financial statements of ES-CON JAPAN and its consolidated subsidiaries (the "Group") are a translation of the financial statements that have been prepared in accordance with the provisions set forth in the Financial Instruments and Exchange Act of Japan and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards.

The Company's accounting period is a twelve-month period, which ends at the end of December each year. Unless otherwise specified, amounts have been rounded down to the nearest thousand yen in the accompanying financial statements and the notes thereto. As a result, the total shown in the financial statements and notes thereto do not necessarily agree with the sum of the individual account balances.

3. Summary of Significant Accounting Policies

(1) Consolidation

The Company has five consolidated subsidiaries as of December 31, 2017, as follows:

ES-CON PROPERTY Co., Ltd.
ES-CON ASSET MANAGEMENT Co., Ltd.
ES-CON LIVING SERVICE Ltd.
E-STATE Co., Ltd.
Aries Investment Two, LLC.

For E-STATE Co., Ltd., a resolution on corporate dissolution was made at its general meeting of shareholders held in November 2017. For Aries Investment Two, LLC., which had been reorganized from a limited liability company to a joint-stock company in August 2017, a resolution on corporate dissolution was made at its general meeting of shareholders, and the liquidation was completed in January 2018.

Pro Net ES-CON Eight, Ltd. and ES-CON JAPAN REIT Investment Corporation, which had been consolidated subsidiaries in the fiscal year ended December 2016, were deconsolidated due to completion of liquidation for the former and transfer of the investment units held by ES-CON JAPAN to NBNS Investment Limited Liability Partnership in December 2017 for the latter.

(2) Equity-method affiliates	<p>The Company has one equity-method affiliate, as follows: NBNS Investment Limited Liability Partnership</p> <p>The Company and its consolidated subsidiaries are limited liability partners of NBNS Investment Limited Liability Partnership and have no business execution right. However, as the Company is practically influential, it decided to make NBNS Investment Limited Liability Partnership its equity-method affiliate, starting in the fiscal year ended December 31, 2017.</p>
(3) Valuation standard and method for significant assets	<p>1) Securities Other securities Securities with fair value are stated using the market price method based on the market price, etc. at the end of the fiscal year (valuation difference is directly charged to shareholders' equity, and selling costs are calculated by using the moving-average method). Securities without fair value are stated by the cost method using the moving-average method. However, silent partnership and limited liability partnership equity interests are stated at their net asset value. As for income and losses from silent partnership and limited liability partnership equity interests, the net amount of income or losses equivalent to the equity interests are recorded as net sales or cost of sales, respectively, with the relevant investment securities set as corresponding accounts.</p> <p>2) Inventories Real estate for sale is stated using the cost method (the value on the balance sheet is calculated using the method of reducing book value due to a decline in profitability). Real estate for sale in process is stated using the cost method at net asset value (the value on the balance sheet is calculated by using the method of reducing book value due to a decline in profitability).</p>
(4) Depreciation method for significant depreciable assets	<p>1) Property, plant and equipment (excluding leased assets) The declining-balance method is applied. However, the straight-line method is applied to buildings (excluding facilities attached to buildings) acquired on or after April 1, 1998 and facilities attached to buildings and structures acquired on or after April 1, 2016.</p> <p>2) Intangible assets (excluding leased assets) Software for internal use is amortized using the straight-line method over the useful lives (5 years) estimated by the Company. Trademarks are amortized using the straight-line method over 10 years.</p> <p>3) Leased assets For finance leases without any transfer of ownership of leased assets, the straight-line method is adopted with a residual value of zero, deeming the lease period to be equal to the useful lives of the assets.</p>

(5) Standards for recording significant allowances	<p>1) Allowance for doubtful accounts To prepare for expected losses from bad debts, such as notes and accounts receivable – trade and loans receivable, the Company records estimated uncollectible amounts based on the historical loan loss ratio for general accounts receivable, and by considering individual collectibility for certain specific receivables such as doubtful accounts receivables.</p> <p>2) Provision for directors' share-based benefits To prepare for granting the Company's shares to its directors based on its share-based benefit rules for directors, the Company records estimated amount of share-based benefit obligations as of the end of the consolidated fiscal year as a provision.</p> <p>3) Provision for share-based benefits To prepare for granting the Company's shares to its employees based on its share-based benefit rules, the Company records estimated amount of share-based benefit obligations as of the end of the consolidated fiscal year as a provision.</p>
(6) Scope of funds in the consolidated statement of cash flows	<p>The funds (cash and cash equivalents) in the consolidated statement of cash flows consist of cash on hand, deposits that can be withdrawn at any time, and short-term investments with a maturity of 3 months or less from the date of acquisition, which are readily convertible to cash and bear only an insignificant risk of changes in value.</p>
(7) Other significant items fundamental to preparing the financial statements	<p>1) Accounting for deferred assets Share issuance cost is amortized by the straight-line method over 3 years.</p> <p>2) Accounting for consumption taxes Consumption taxes are excluded from the transaction amounts. Non-deductible consumption taxes are recorded as expenses for the relevant consolidated fiscal year.</p>

(Changes in Accounting Policies)

Not applicable.

(Changes in Presentation)

Balance sheet

It was decided that Deposits received, which had been included in Other of Current liabilities for the fiscal year ended December 31, 2016, shall be separately presented for the fiscal year ended December 31, 2017, as the relevant amount surpassed 5/100 of Total liabilities and net assets. To reflect the change in presentation, the consolidated financial statements for the fiscal year ended December 31, 2016 have been restated.

As a result, the 1,871 million yen that was indicated as Other of Current liabilities in the balance sheet for the fiscal year ended December 31, 2016 has been restated as 1,831 million yen in Deposits received and 39 million yen in Other, respectively.

(Additional Information)

Not applicable.

4. Notes to Consolidated Balance Sheet

(1) Equity in equity-method affiliate

(Unit: million yen)

	Fiscal 2016 (as of December 31, 2016)	Fiscal 2017 (as of December 31, 2017)
Investment securities (equity capital)	—	1,007

(2) Pledged assets and secured debts

Assets provided as collateral are as follows:

(Unit: million yen)

	Fiscal 2016 (as of December 31, 2016)	Fiscal 2017 (as of December 31, 2017)
Real estate for sale	5,396	2,025
Real estate for sale in process	38,615	56,758
Buildings and structures	3,506	939
Land	9,320	623
Total	56,839	60,345

Debts secured by the above assets provided as collateral are as follows:

(Unit: million yen)

	Fiscal 2016 (as of December 31, 2016)	Fiscal 2017 (as of December 31, 2017)
Short-term loans payable	3,051	1,487
Current portion of long-term loans payable	16,468	22,077
Long-term loans payable	28,848	31,174
Total	48,368	54,739

5. Notes to Consolidated Statement of Income

(1) Breakdown of gain on sales of non-current assets is as follows:

(Unit: million yen)

	Fiscal 2016 (from January 1, 2016 to December 31, 2016)	Fiscal 2017 (from January 1, 2017 to December 31, 2017)
Land	172	182
Buildings and structures	—	189
Property, plant and equipment (Other)	—	0
Total	172	372

(2) Breakdown of loss on retirement of non-current assets is as follows:

(Unit: million yen)

	Fiscal 2016 (from January 1, 2016 to December 31, 2016)	Fiscal 2017 (from January 1, 2017 to December 31, 2017)
Buildings and structures	0	0
Property, plant and equipment (Other)	0	—
Total	0	0

(3) Impairment loss

In the fiscal year ended December 31, 2016, the ES-CON JAPAN Group realized impairment loss on the following asset groups.

(Unit: million yen)

Location	Use	Type	Impairment loss
Suita City, Osaka	Rental real estate	Building and land	1,033
Kawanishi City, Hyogo	Eatery business facilities	Facilities attached to buildings	8
Total			1,042

(Note) The ES-CON JAPAN Group classifies its individual properties into asset groups as minimum units for generating cash flows.

For the asset groups where profitability dropped significantly as the Company's policy is to sell rental real estate owned by its consolidated subsidiaries for the purpose of further enhancing asset efficiency and its financial standing, among other factors, the ES-CON JAPAN Group reduced the book value of the relevant asset groups to net realizable value and recorded the reduced amount (1,042 million yen) as impairment loss. Breakdown of the impairment loss consists of 1,033 million yen (124 million yen for the building and 909 million yen for the land) in Suita City, Osaka and 8 million yen (8 million yen for facilities attached to buildings) in Kawanishi City, Hyogo.

Furthermore, the collectible amount of the relevant asset groups is measured by using net sales value, which is calculated by using the estimated sales value for buildings and lands and setting the value of the facilities attached to buildings at zero because no sale is anticipated.

In the fiscal year ended December 31, 2017, the ES-CON JAPAN Group realized impairment loss on the following asset group.

(Unit: million yen)

Location	Use	Type	Impairment loss
Setagaya Ward, Tokyo	Eatery business facilities	Facilities attached to buildings	38
Otsu City, Shiga	Lodging business facilities	Facilities attached to buildings	111
Total			150

(Note) The ES-CON JAPAN Group classifies its individual properties into asset groups as minimum units for generating cash flows.

For the asset groups indicated above, a decrease in profitability caused net realizable value to drop significantly. Because of the change, the Company reduced the book value of the relevant asset groups to the net realizable value and recorded the reduced amount (150 million yen) as impairment loss.

Breakdown of the impairment loss consists of 38 million yen (30 million yen for facilities attached to buildings and 8 million yen for others) in Setagaya Ward, Tokyo and 111 million yen (78 million yen for facilities attached to buildings and 33 million yen for others) in Otsu City, Shiga. Furthermore, the net realizable value of the relevant asset groups is measured by using their use value, which is set as zero because the estimate amount of future cash flows is expected to turn negative.

6. Notes to Consolidated Statement of Comprehensive Income

Not applicable.

7. Notes to Consolidated Statement of Changes in Equity

Fiscal 2016 (from January 1, 2016 to December 31, 2016)

(1) Type and Number of Shares Issued and Outstanding and Type and Number of Treasury Shares

	Number of shares at beginning of Fiscal 2016	Increase in number of shares during the fiscal year	Decrease in number of shares during the fiscal year	Number of shares at end of Fiscal 2016
Issued shares				
Common shares	70,511,887	83,000	—	70,594,887
Total	70,511,887	83,000	—	70,594,887
Treasury shares				
Common shares	3,342,000	241,700	100	3,583,600
Total	3,342,000	241,700	100	3,583,600

(Notes) 1. The increase in the number of common shares issued and outstanding (83,000 shares) is due to exercise of subscription rights to shares.
 2. The increase in the number of treasury shares in common shares (241,700 shares) is due to acquisition of treasury shares based on the resolution by the Board of Directors.
 3. The decrease in the number of treasury shares in common shares (100 shares) is due to provision of shares to the qualifying employees by the share-based payment benefits type ESOP trust.
 4. The number of treasury shares in common shares includes the Company's shares owned by the share-based payment benefits trust for directors and the share-based payment benefits type ESOP trust (the share-based payment benefits trust for directors: 554,200 shares at the beginning of Fiscal 2016 and 554,200 shares at the end of Fiscal 2016; the share-based payment benefits type ESOP trust: 235,400 shares at the beginning of Fiscal 2016 and 235,300 shares at the end of Fiscal 2016).

(2) Subscription Rights to Shares and Subscription Rights to Treasury Shares

Category	Breakdown of subscription rights to shares	Type of shares subject to subscription rights to shares	Number of shares subject to subscription rights to shares (shares)				Balance at end of Fiscal 2016 (million yen)
			Beginning of Fiscal 2016	Increase during the fiscal year	Decrease during the fiscal year	End of Fiscal 2016	
Reporting company (parent company)	Fifth offer of subscription rights to shares (Note)	Common shares	3,320,000	—	153,000	3,167,000	3
Total			3,320,000	—	153,000	3,167,000	3

(Note) The decrease in the fifth offer of subscription rights to shares in Fiscal 2016 (153,000 shares) comprises a decrease of 54,000 shares due to the exercise of subscription rights to shares and a decrease of 99,000 shares due to the expiry of subscription rights to shares.

(3) Dividends

1) Dividends paid

(Resolution)	Type of shares	Total dividends (million yen)	Dividend per share (yen)	Record date	Effective date
March 25, 2016 Annual General Meeting of Shareholders	Common shares	543	8.00	December 31, 2015	March 28, 2016

(Note) The total amount of dividends includes 4 million yen of dividends to the Company's shares owned by the share-based payment benefits trust for directors and 1 million yen of dividends to the Company's shares owned by the share-based payment benefits type ESOP trust.

2) Dividends for which the record date was within the fiscal year but the effective date for the dividends was in the following fiscal year

(Resolution)	Type of shares	Total dividends (million yen)	Source of dividends	Dividend per share (yen)	Record date	Effective date
March 24, 2017 Annual General Meeting of Shareholders	Common shares	1,017	Retained earnings	15.00	December 31, 2016	March 27, 2017

(Note) The total amount of dividends includes 8 million yen of dividends to the Company's shares owned by the share-based payment benefits trust for directors and 3 million yen of dividends to the Company's shares owned by the share-based payment benefits type ESOP trust.

Fiscal 2017 (from January 1, 2017 to December 31, 2017)

(1) Type and Number of Shares Issued and Outstanding and Type and Number of Treasury Shares

	Number of shares at beginning of Fiscal 2017	Increase in number of shares during the fiscal year	Decrease in number of shares during the fiscal year	Number of shares at end of Fiscal 2017
Issued shares				
Common shares	70,594,887	2,408,500	1,800,000	71,203,387
Total	70,594,887	2,408,500	1,800,000	71,203,387
Treasury shares				
Common shares	3,583,600	1,422,800	1,811,100	3,195,300
Total	3,583,600	1,422,800	1,811,100	3,195,300

(Notes) 1. The increase in the number of common shares issued and outstanding (2,408,500 shares) is due to exercise of the fifth offer of subscription rights to shares, and the decrease (1,800,000 shares) is due to retirement of treasury shares.
 2. The increase in the number of treasury shares in common shares (1,422,800 shares) is due to acquisition of treasury shares based on the resolution by the Board of Directors.
 3. The decrease in the number of treasury shares in common shares (1,811,100 shares) is due to retirement of treasury shares (1,800,000 shares), provision of shares to the qualifying directors by the share-based payment benefits trust (11,000 shares) and provision of shares to the qualifying employees by the share-based payment benefits type ESOP trust (100 shares).
 4. The number of treasury shares in common shares includes the Company's shares owned by the share-based payment benefits trust for directors and the share-based payment benefits type ESOP trust (the share-based payment benefits trust for directors: 554,200 shares at the beginning of Fiscal 2017 and 543,200 shares at the end of Fiscal 2017; the share-based payment benefits type ESOP trust: 235,300 shares at the beginning of Fiscal 2017 and 235,200 shares at the end of Fiscal 2017).

(2) Subscription Rights to Shares and Subscription Rights to Treasury Shares

Category	Breakdown of subscription rights to shares	Type of shares subject to subscription rights to shares	Number of shares subject to subscription rights to shares (shares)				Balance at end of Fiscal 2017 (million yen)
			Beginning of Fiscal 2017	Increase during the fiscal year	Decrease during the fiscal year	End of Fiscal 2017	
Reporting company (parent company)	Fifth offer of subscription rights to shares (Note 1)	Common shares	3,167,000	—	2,408,500	758,500	0
	Sixth offer of subscription rights to shares (Note 2)	Common shares	—	1,400,000	—	1,400,000	0
Total		—	3,167,000	1,400,000	2,408,500	2,158,500	1

(Notes) 1. The increase in the number of common shares issued and outstanding (2,408,500 shares) is due to exercise of the fifth offer of subscription rights to shares.

2. The increase in the number of treasury shares in common shares (1,400,000 shares) is due to issuance of subscription rights to shares.

3. For the sixth offer of subscription rights to shares, the first day of the exercise period has not yet arrived.

(3) Dividends**1) Dividends paid**

(Resolution)	Type of shares	Total dividends (million yen)	Dividend per share (yen)	Record date	Effective date
March 24, 2017 Annual General Meeting of Shareholders	Common shares	1,017	15.00	December 31, 2016	March 27, 2017

(Note) The total amount of dividends includes 8 million yen of dividends to the Company's shares owned by the share-based payment benefits trust for directors and 3 million yen of dividends to the Company's shares owned by the share-based payment benefits type ESOP trust.

2) Dividends for which the record date was within the fiscal year but the effective date for the dividends was in the following fiscal year

(Resolution)	Type of shares	Total dividends (million yen)	Source of dividends	Dividend per share (yen)	Record date	Effective date
March 23, 2018 Annual General Meeting of Shareholders	Common shares	1,238	Retained earnings	18.00	December 31, 2017	March 26, 2018

(Note) The total amount of dividends includes 9 million yen of dividends to the Company's shares owned by the share-based payment benefits trust for directors and 4 million yen of dividends to the Company's shares owned by the share-based payment benefits type ESOP trust.

8. Notes to Consolidated Statement of Cash Flows**(1) Relationship between the year-end balance of cash and cash equivalents and the amounts of accounts on the consolidated balance sheet**

(Unit: million yen)

	Fiscal 2016 (from January 1, 2016 to December 31, 2016)	Fiscal 2017 (from January 1, 2017 to December 31, 2017)
Cash and deposits	8,204	10,667
Time deposits with maturities of more than 3 months	(3)	(3)
Deposits of share-based payment benefits trust	(10)	(20)
Cash and cash equivalents	8,191	10,644

(2) Major assets and liabilities of a company that was deconsolidated in the fiscal year ended December 31, 2017 due to sale of investment units

ES-CON JAPAN REIT Investment Corporation was deconsolidated due to sale of investment units held by ES-CON JAPAN. Breakdown of the assets and liabilities of the corporation upon the sale as well as the sale price of the investment units and the gain on sale are as follows:

(Unit: million yen)

Current assets	929
Non-current assets	10
Current liabilities	(34)
Unrealized gain	22
Gain on sale of investment units	22
Sale price of investment units	950
Cash and cash equivalents	(915)
Difference: income from sale	34

9. Lease Transactions**(Lessee)****(1) Finance Lease Transactions**

Finance lease transactions without any transfer of ownership of leased assets

1) Leased assets

Property, plant and equipment

Consists of vehicles, etc.

2) Depreciation method for leased assets

As described in 3. Summary of Significant Accounting Policies, (4) Depreciation method for significant depreciable assets

(2) Operating Lease Transactions

Unearned lease payments for non-cancellable operating lease transactions (Unit: million yen)

	Fiscal 2016 (as of December 31, 2016)	Fiscal 2017 (as of December 31, 2017)
Due within one year	74	52
Due after one year	458	61
Total	532	114

(Lessor)**(1) Operating Lease Transactions**

Unearned lease payments for non-cancellable operating lease transactions (Unit: million yen)

	Fiscal 2016 (as of December 31, 2016)	Fiscal 2017 (as of December 31, 2017)
Due within one year	1,099	526
Due after one year	3,937	4,897
Total	5,036	5,424

10. Financial Instruments**(1) Conditions of Financial Instruments**

1) Policy for financial instruments

The ES-CON JAPAN Group manages funds only through short-term deposits, etc., and procures funds mainly through borrowing from banks and other financial institutions.

2) Description of financial instruments and associated risks, and risk management structure

Among operating receivables, notes and accounts receivable – trade are exposed to customer credit risks. The Company averts such risks by receiving guarantee deposits for part of them. Moreover, in terms of these risks, it conducts credit control and account balance management for respective customers in accordance with the internal rules of the ES-CON JAPAN Group, and works to identify and mitigate concerns about accounts becoming uncollectible due to such factors as worsening of financial conditions at its business customers at an early stage.

Investment securities mainly consist of shares owned over a medium to long term in order to strengthen relationships with business partners, and equity investment in investment limited liability partnership and silent partnership. Listed shares are exposed to market price fluctuation risks, but the Company periodically checks their fair value. Non-listed shares and equity investment in investment limited liability partnership and silent partnership have the risks from worsening financial conditions, etc. of the issuer companies, investment limited liability partnership and silent partnership, but the Company periodically checks their financial conditions and other factors through financial statements and other materials.

Among operating payables, accounts payable – other are to be fully paid within one year.

Deposits received mainly consist of guarantee deposits received from tenants of income-generating real estate, and funds deposited by joint venture partners of certain real estate development projects.

3) Supplementary explanation on fair value, etc. of financial instruments

The fair value of financial instruments, aside from values based on market price, includes values based on reasonable calculations when there is no market price. Certain variable factors are adopted in calculating those values, and there may be cases where the values will vary when different assumptions, etc. are adopted.

(2) Fair Value, Etc. of Financial Instruments

The following table shows the book values on the consolidated balance sheet, fair value and the difference between them. The following table does not include items for which determining the fair value is recognized to be extremely difficult (See Note 2 below).

Fiscal 2016 (as of December 31, 2016) (Unit: million yen)

	Book value recorded on the balance sheet	Fair value	Difference
(1) Cash and deposits	8,204	8,204	—
(2) Notes and accounts receivable - trade	285	285	—
(3) Investment securities Other securities	49	49	—
Total of assets	8,540	8,540	—
(1) Accounts payable - other	1,087	1,087	—
(2) Deposits received	1,831	1,831	—
(3) Short-term loans payable	4,308	4,308	—
(4) Long-term loans payable*1	46,537	46,981	444
(5) Bonds payable*2	190	187	(2)
Total of liabilities	53,954	54,397	442

*1 Long-term loans payable includes current portion of long-term loans payable.

*2 Bonds payable includes current portion of bonds payable.

Fiscal 2017 (as of December 31, 2017) (Unit: million yen)

	Book value recorded on the balance sheet	Fair value	Difference
(1) Cash and deposits	10,667	10,667	—
(2) Notes and accounts receivable - trade	497	497	—
(3) Investment securities Other securities	47	47	—
Total of assets	11,213	11,213	—
(1) Accounts payable - other	1,615	1,615	—
(2) Deposits received	4,368	4,368	—
(3) Short-term loans payable	1,953	1,953	—
(4) Long-term loans payable*1	54,337	54,330	(6)
(5) Bonds payable*2	150	148	(1)
Total of liabilities	62,424	62,416	(7)

*1 Long-term loans payable includes current portion of long-term loans payable.

*2 Bonds payable includes current portion of bonds payable.

(Notes) 1. Calculation method for fair value of financial instruments and matters related to derivative transactions.

Assets

(1) Cash and deposits and (2) Notes and accounts receivable - trade

As these are settled within a short period of time, the fair value is approximately the same as the book value and is thus stated at that book value.

(3) Investment securities

With regard to investment securities, the fair value of stocks is determined by their price on stock exchanges.

Liabilities

(1) Accounts payable - other, (2) Deposits received and (3) Short-term loans payable

As these are settled within a short period of time, the fair value is approximately the same as the book value and is thus stated at that book value.

(4) Long-term loans payable and (5) Bonds payable

The fair value of these financial instruments is based on the method of calculating by discounting the sum of their principal by a rate assumed as being applicable to a new similar borrowing to be made or bonds payable to be issued by the Company.

2. Financial instruments for which discerning fair value is recognized to be extremely difficult.

(Unit: million yen)

Category	Fiscal 2016 (as of December 31, 2016)	Fiscal 2017 (as of December 31, 2017)
1) Non-listed shares	10	10
2) Investment limited liability partnership equity investment	—	1,007
3) Silent partnership equity investment, etc.	166	836
Total	176	1,853

These are not subject to disclosure of fair value because discerning fair value is recognized to be extremely difficult as there is no market price and future cash flows cannot be estimated.

3. Scheduled redemption amount of monetary claims and securities with maturities after closing of accounts.

Fiscal 2016 (as of December 31, 2016) (Unit: million yen)

	Due within 1 year	Due in 1 to 5 years	Due in 5 to 10 years	Due in 10 years or more
Cash and deposits	8,204	—	—	—
Notes and accounts receivable - trade	285	—	—	—
Total	8,490	—	—	—

Fiscal 2017 (as of December 31, 2017) (Unit: million yen)

	Due within 1 year	Due in 1 to 5 years	Due in 5 to 10 years	Due in 10 years or more
Cash and deposits	10,667	—	—	—
Notes and accounts receivable - trade	497	—	—	—
Total	11,165	—	—	—

4. Scheduled repayment amount of bonds payable, long-term loans payable and other interest-bearing liabilities after closing of accounts.

Fiscal 2016 (as of December 31, 2016) (Unit: million yen)

	Due within 1 year	Due in 1 to 2 years	Due in 2 to 3 years	Due in 3 to 4 years	Due in 4 to 5 years	Due in 5 years or more
Short-term loans payable	4,308	—	—	—	—	—
Long-term loans payable	16,753	15,547	10,321	731	2,115	1,068
Bonds payable	40	40	40	40	30	—
Total	21,101	15,587	10,361	771	2,145	1,068

Fiscal 2017 (as of December 31, 2017) (Unit: million yen)

	Due within 1 year	Due in 1 to 2 years	Due in 2 to 3 years	Due in 3 to 4 years	Due in 4 to 5 years	Due in 5 years or more
Short-term loans payable	1,953	—	—	—	—	—
Long-term loans payable	22,462	19,681	1,019	2,514	6,850	1,808
Bonds payable	40	40	40	30	—	—
Total	24,456	19,721	1,059	2,544	6,850	1,808

5. Changes in presentation

Deposits received was newly included in the notes herein, starting in the fiscal year ended December 31, 2017, as the amount has become more meaningful. To reflect the change in presentation, the relevant figures are indicated for the fiscal year ended December 31, 2016.

11. Notes to Securities

(1) Other Securities

Fiscal 2016 (from January 1, 2016 to December 31, 2016)

(Unit: million yen)

	Type	Book value recorded on the balance sheet	Acquisition cost	Difference
Securities with book values on the consolidated balance sheet exceeding acquisition cost	(1) Shares	49	27	22
Total		49	27	22

(Note) The table above does not include non-listed shares and silent partnership equity investment, etc. (book value recorded on the consolidated balance sheet: 176 million yen) as Other securities, because discerning fair value is recognized to be extremely difficult as there is no market price.

Fiscal 2017 (from January 1, 2016 to December 31, 2017)

(Unit: million yen)

	Type	Book value recorded on the balance sheet	Acquisition cost	Difference
Securities with book values on the consolidated balance sheet exceeding acquisition cost	(1) Shares	47	27	20
Total		47	27	20

(Note) The table above does not include non-listed shares, investment limited liability partnership equity investment and silent partnership equity investment, etc. (book value recorded on the consolidated balance sheet: 1,853 million yen) as Other securities, because discerning fair value is recognized to be extremely difficult as there is no market price.

12. Notes to Derivative Transactions

Not applicable

13. Notes to Retirement Benefits

Fiscal 2016 (from January 1, 2016 to December 31, 2016)

(1) Description of Retirement Benefit Plans Adopted by the Company

The Company and certain consolidated subsidiaries have adopted a defined contribution pension plan.

(2) Defined Contribution Pension Plan

The Company and certain consolidated subsidiaries paid 8 million yen for the defined contribution pension plan.

Fiscal 2017 (from January 1, 2017 to December 31, 2017)

(1) Description of Retirement Benefit Plans Adopted by the Company

The Company and certain consolidated subsidiaries have adopted a defined contribution pension plan.

(2) Defined Contribution Pension Plan

The Company and certain consolidated subsidiaries paid 9 million yen for the defined contribution pension plan.

14. Notes to Stock Options, Etc.

Not applicable.

15. Notes to Tax Effect Accounting

(1) Significant Components of Deferred Tax Assets and Deferred Tax Liabilities (Unit: million yen)

	Fiscal 2016 (as of December 31, 2016)	Fiscal 2017 (as of December 31, 2017)
Deferred tax assets		
Net operating loss carried forward	2,749	1,830
Loss on valuation of inventories	144	169
Impairment loss	716	46
Loss on valuation of investment securities	38	39
Asset retirement obligations	25	28
Unrecorded interest receivable	46	46
Temporary difference related to investments in subsidiaries	1,856	1,642
Other	89	106
Subtotal of deferred tax assets	5,666	3,910
Valuation allowance	(3,402)	(1,924)
Total of deferred tax assets	2,264	1,986
Deferred tax liabilities		
Asset retirement expenses	(10)	(11)
Other	—	(0)
Total of deferred tax liabilities	(10)	(11)
Deferred tax assets, net	2,254	1,974

(2) Significant Components of Material Difference between the Effective Statutory Tax Rate and Income Tax Rate Applicable after Applying Tax Effect Accounting (Unit: %)

	Fiscal 2016 (as of December 31, 2016)	Fiscal 2017 (as of December 31, 2017)
Effective statutory tax rate	33.0	30.9
(Adjustment)		
Permanently non-deductible entertainment and other expenses	0.3	0.2
Per-capita inhabitants tax	0.3	0.2
Increase/decrease in valuation allowance	(88.8)	(18.7)
Impact of change in tax rate	5.6	0.0
Other	(0.2)	(0.1)
Income tax rate after applying tax effect accounting	(49.8)	12.5

16. Notes to Business Combination, Etc.

(Business separation)

The Company transferred all the investment units of ES-CON JAPAN REIT Investment Corporation, which had been a consolidated subsidiary, to NBNS Investment Limited Liability Partnership.

1. Overview of business separation

(1) Name of the company to which the business was separated

NBNS Investment Limited Liability Partnership

(2) Description of the separated business

Holding of and distribution of profits from income-generating real estate conducted by ES-CON JAPAN REIT Investment Corporation

(3) Major reason of conducting business separation

The Company transferred all of the investment units of ES-CON JAPAN REIT Investment Corporation to NBNS Investment Limited Liability Partnership on December 1, 2017 as part of the capital policy for ES-CON JAPAN REIT Investment Corporation to acquire properties.

(4) Date of business separation

December 1, 2017

(5) Matters related to other aspects of the transaction including legal format

Transfer of investment units with considerations paid by cash

2. Overview of accounting treatment conducted

(1) Amount of transferred income and loss

22 million yen in gain on sale of affiliate shares

(2) Fair book value of assets and liabilities of the transferred business and major breakdown (Unit: million yen)

Current assets	929
Non-current assets	10
Total assets	939
Current liabilities	34
Total liabilities	34

(3) Accounting treatment

The difference between the book value of ES-CON JAPAN REIT Investment Corporation on the consolidated balance sheet and the sales amount, etc. are recorded as Gain on sales of shares of subsidiaries and associates in Extraordinary income.

3. Name of the reportable segment that included the separated business

Real estate leasing business

4. Estimated income and loss of the separated business recorded on the consolidated statement of income for the relevant fiscal year

The description is omitted as it gives minimum impact on the consolidated statement of income for the fiscal year ended December 31, 2017.

17. Notes to Asset Retirement Obligations**(Asset retirement obligations that are recorded on the consolidated balance sheet)****(1) Description of the Relevant Asset Retirement Obligations**

The Company is obliged to restore its Tokyo Head Office, Osaka Head Office and Fukuoka Office to the original state in accordance with each of the real estate lease agreements.

(2) Calculation Method of the Amount of the Asset Retirement Obligations

The amount of the asset retirement obligations is calculated by using discount rates of 0.6% to 1.9%, with the expected period of use estimated to be 10 years to 18 years.

(3) Increase/Decrease of the Total Amount of the Asset Retirement Obligations

(Unit: million yen)

	Fiscal 2016 (from January 1, 2016 to December 31, 2016)	Fiscal 2017 (from January 1, 2017 to December 31, 2017)
Balance at beginning of fiscal year	86	83
Increase due to acquisition of property, plant and equipment	—	9
Adjustments over passage of time	1	1
Decrease due to implementation of asset retirement obligations	(3)	(0)
Balance at end of fiscal year	83	93

18. Notes to Rental Real Estate

The Company and certain of its consolidated subsidiaries own retail facilities and land for retail facilities, etc. Income or loss from leasing these rental properties during Fiscal 2016 totaled 759 million yen in income (with rental income recorded as net sales and rental expenses recorded as cost of sales). Income or loss from leasing these rental properties during Fiscal 2017 totaled 497 million yen in income (with rental income recorded as net sales and rental expenses recorded as cost of sales).

The book value for the rental real estate as stated in the consolidated balance sheet, the amount of increase/decrease during the fiscal year and fair value were as follows: (Unit: million yen)

	Fiscal 2016 (from January 1, 2016 to December 31, 2016)	Fiscal 2017 (from January 1, 2017 to December 31, 2017)
Book value recorded on the consolidated balance sheet		
Balance at beginning of fiscal year	21,674	12,832
Increase/decrease during fiscal year	(8,841)	(11,270)
Balance at end of fiscal year	12,832	1,562
Fair value at end of fiscal year	13,540	1,950

(Notes) 1. The book value recorded on the consolidated balance sheet represents the amount obtained by deducting accumulated depreciation and accumulated impairment loss from acquisition cost.
2. Of the amount of increase/decrease during fiscal year, the amount of decrease during Fiscal 2016 is primarily attributable to sales of non-current assets (7,161 million yen), impairment loss of non-current assets (1,033 million yen), transfer to real estate for sale in process due to change of holding purposes (473 million yen) and depreciation (180 million yen). The amount of decrease during Fiscal 2017 is primarily attributable to sales of non-current assets (11,163 million yen) and depreciation (117 million yen).
3. Fair value at end of fiscal year indicates the amount calculated on the basis of Japan's Real Estate Appraisal Standards, using appraisals by outside real estate appraisers as a reference.

19. Segment Information**(1) Overview of Reportable Segments**

The reportable segments of the ES-CON JAPAN Group are, among the Group's business units, those for which separate financial information can be obtained and that are to be regularly reviewed by the Board of Directors and other meeting structures in order to decide the distribution of management resources and to assess business performance.

The ES-CON JAPAN Group integrates individual projects that have similar features in terms of products and services into three reportable segments of Real estate sales business, Real estate leasing business and Real estate planning agency and consulting business.

Each of the reportable segments mainly comprises the following operations.

Real estate sales business: Development and sale of for-sale condominiums and retail facilities, sale of land, etc.

Real estate leasing business: Leasing of real estate, etc.

Real estate planning agency and consulting business: Consigned operations of real estate-related services, brokerage of transactions, sales agency, etc.

(2) Calculation Method of Net Sales, Income or Loss, Assets and Other Item Amounts by Reportable Segment

The accounting method for the reported business segments is the same as described in "Summary of significant accounting policies."

(3) Information on Net Sales, Income or Loss, Assets and Other Item Amounts by Reportable Segment

Fiscal 2016 (from January 1, 2016 to December 31, 2016)

(Unit: million yen)

	Reportable segment			Total	Reconcilia- tion (Note 1)	Amount on consolidat- ed financial statements (Note 2)
	Real estate sales business	Real estate leasing business	Real estate planning agency and consulting business			
Net sales						
Net sales to external customers	30,687	3,594	65	34,347	—	34,347
Intersegment net sales or transfers	—	—	—	—	—	—
Total	30,687	3,594	65	34,347	—	34,347
Segment income	4,798	2,058	65	6,921	(2,241)	4,680
Segment assets	48,004	14,673	0	62,678	11,024	73,703
Other items						
Depreciation	—	192	—	192	37	229
Increase in property, plant and equipment and intangible assets	—	193	—	193	19	213

[Notes] 1. Reconciliations are as follows:

- (1) The reconciliation of segment income of -2,241 million yen is from corporate expenses not attributable to any reportable segment. Corporate expenses are general and administrative expenses not attributable to reportable segments.
 - (2) The reconciliation of segment assets of 11,024 million yen is mainly from surplus operating funds (cash and deposits) and administrative assets, etc. not attributable to reportable segments.
 - (3) The reconciliation of depreciation of 37 million yen is from depreciation on corporate assets not attributable to reportable segments.
 - (4) The reconciliation of increase in property, plant and equipment and intangible assets of 19 million yen is from an increase in corporate assets not attributable to reportable segments.
2. Segment income is reconciled with operating income on the consolidated statement of income.

Fiscal 2017 (from January 1, 2017 to December 31, 2017)

(Unit: million yen)

	Reportable segment			Total	Reconcilia- tion (Note 1)	Amount on consolidat- ed financial statements (Note 2)
	Real estate sales business	Real estate leasing business	Real estate planning agency and consulting business			
Net sales						
Net sales to external customers	41,168	3,459	96	44,724	—	44,724
Intersegment net sales or transfers	—	—	—	—	—	—
Total	41,168	3,459	96	44,724	—	44,724
Segment income	7,978	1,761	85	9,825	(2,782)	7,042
Segment assets	68,045	5,043	3	73,092	13,342	86,435
Other items						
Depreciation	—	146	—	146	39	186
Investment in equity method affiliates	—	1,007	—	1,007	—	1,007
Increase in property, plant and equipment and intangible assets	—	10	—	10	83	93

[Notes] 1. Reconciliations are as follows:

- (1) The reconciliation of segment income of -2,782 million yen is from corporate expenses not attributable to any reportable segment. Corporate expenses are general and administrative expenses not attributable to reportable segments.
 - (2) The reconciliation of segment assets of 13,342 million yen is mainly from surplus operating funds (cash and deposits) and administrative assets, etc. not attributable to reportable segments.
 - (3) The reconciliation of depreciation of 39 million yen is from depreciation on corporate assets not attributable to reportable segments.
 - (4) The reconciliation of increase in property, plant and equipment and intangible assets of 83 million yen is from an increase in corporate assets not attributable to reportable segments.
2. Segment income is reconciled with operating income on the consolidated statement of income.

20. Related Information

Fiscal 2016 (from January 1, 2016 to December 31, 2016)

(1) Information by Product and Service

Descriptions are omitted as identical information is disclosed in the segment information section.

(2) Information by Region

1) Net sales

Not applicable as the Company records no net sales to external customers outside Japan.

2) Property, plant and equipment

Not applicable as the Company has no property, plant and equipment outside Japan.

(3) Information by Major Customer

Descriptions are omitted as the Company's net sales for any individual customer is less than 10% of net sales recorded in the consolidated statement of income.

Fiscal 2017 (from January 1, 2017 to December 31, 2017)

(1) Information by Product and Service

Descriptions are omitted as identical information is disclosed in the segment information section.

(2) Information by Region

1) Net sales

Not applicable as the Company records no net sales to external customers outside Japan.

2) Property, plant and equipment

Not applicable as the Company has no property, plant and equipment outside Japan.

(3) Information by Major Customer

Customer's name	Sales (million yen)	Related segment
ES-CON JAPAN REIT Investment Corporation	7,417	Real estate sales business
Aries LLC	5,920	Real estate sales business

21. Information on Impairment Loss on Non-current Assets by Reportable Segment

Fiscal 2016 (from January 1, 2016 to December 31, 2016) (Unit: million yen)

	Real estate sales business	Real estate leasing business	Real estate planning agency and consulting business	Eliminations or corporate	Total
Impairment loss	—	1,042	—	—	1,042

Fiscal 2017 (from January 1, 2017 to December 31, 2017) (Unit: million yen)

	Real estate sales business	Real estate leasing business	Real estate planning agency and consulting business	Eliminations or corporate	Total
Impairment loss	—	150	—	—	150

22. Information on Amortization of Goodwill and Unamortized Balance by Reportable Segment

Not applicable

23. Information on Gain on Negative Goodwill by Reportable Segment

Not applicable

24. Information on Related Parties

Fiscal 2016 (from January 1, 2016 to December 31, 2016)

(1) Transactions with Related Parties

1) Transactions between the filing party of these consolidated financial statements and related parties

a. Officers of the filing party of these consolidated financial statements and major shareholders (individuals only), etc.

Not applicable.

b. Non-consolidated subsidiaries of the filing party of these consolidated financial statements and affiliates

Not applicable.

2) Transactions between the consolidated subsidiaries of the filing party of these consolidated financial statements and related parties

Not applicable.

(2) Notes to Parent Company or Important Affiliates

Not applicable.

Fiscal 2017 (from January 1, 2017 to December 31, 2017)

(1) Transactions with Related Parties

1) Transactions between the filing party of these consolidated financial statements and related parties

a. Officers of the filing party of these consolidated financial statements and major shareholders (individuals only), etc.

Type	Name	Location	Paid-in capital or equity investment (million yen)	Business description or occupation	The Company's share of voting rights, etc. [or ownership of such in the Company]	Description of relationship	Description of transaction	Transaction amount (million yen)	Category	Balance at end of fiscal year (million yen)
Officer	Takatoshi Ito	—	—	President and Representative Director of the Company	Ownership in the Company: 1.7%	—	Exercise of subscription rights to shares (Note)	71	—	—
Officer	Minoru Nakanishi	—	—	Director of the Company	Ownership in the Company: 0.2%	—	Exercise of subscription rights to shares (Note)	47	—	—
Officer	Tomohiko Egashira	—	—	Director of the Company	Ownership in the Company: 0.4%	—	Exercise of subscription rights to shares (Note)	31	—	—
Officer	Keiko Akashi	—	—	Director of the Company	Ownership in the Company: 0.6%	—	Exercise of subscription rights to shares (Note)	28	—	—

[Note] The transaction indicates the exercise of subscription rights to shares, issued based on the resolution made at the Board of Directors' meeting held on October 31, 2013, conducted during the fiscal year ended December 31, 2017. The figure does not include consumption taxes.

b. Non-consolidated subsidiaries of the filing party of these consolidated financial statements and affiliates

Type	Name	Location	Paid-in capital or equity investment (million yen)	Business description or occupation	The Company's share of voting rights, etc. [or ownership of such in the Company] (Note 1)	Description of relationship	Description of transaction	Transaction amount (million yen)	Category	Balance at end of fiscal year (million yen)
Affiliate	NBNS Investment Limited Liability Partnership (Note 2)	Kanazawa City, Ishikawa	2,060	Equity investment in ES-CON JAPAN REIT Investment Corporation	Owned by the Company: 50.0% (4.9%)	Undertaking of formation and equity investment	Undertaking of equity investment (Note 3)	920	—	—
							Sale of investment units (Note 4)	950	—	—

- (Notes) 1. The figure in parenthesis in The Company's share of voting rights, etc. [or ownership of such in the Company] represents the ownership ratio by consolidated subsidiaries and is included in the Company's share
2. The Company and its consolidated subsidiaries are limited liability partners of NBNS Investment Limited Liability Partnership and have no business execution right. However, as the Company is practically influential, it has made NBNS Investment Limited Liability Partnership its equity-method affiliate.
3. The Company undertook part of the capital increase conducted by NBNS Investment Limited Liability Partnership.
4. The Company transferred all of the investment units of ES-CON JAPAN REIT Investment Corporation, which was fully-owned by the Company, to NBNS Investment Limited Liability Partnership. The sale price of the investment units was determined reasonably, with considerations given to the practical value and other factors. A bullet payment was made by cash.

2) Transactions between the consolidated subsidiaries of the filing party of these consolidated financial statements and related parties

Type	Name	Location	Paid-in capital or equity investment (million yen)	Business description or occupation	The Company's share of voting rights, etc. [or ownership of such in the Company] (Note 1)	Description of relationship	Description of transaction	Transaction amount (million yen)	Category	Balance at end of fiscal year (million yen)
Affiliate	NBNS Investment Limited Liability Partnership (Note 2)	Kanazawa City, Ishikawa	2,060	Equity investment in ES-CON JAPAN REIT Investment Corporation	Owned by the Company: 50.0% [4.9%]	Undertaking of formation and equity investment	Undertaking of equity investment (Note 3)	90	—	—

- (Notes) 1. The figure in parenthesis in The Company's share of voting rights, etc. [or ownership of such in the Company] represents the ownership ratio by consolidated subsidiaries and is included in the Company's share
2. The Company and its consolidated subsidiaries are limited liability partners of NBNS Investment Limited Liability Partnership and have no business execution right. However, as the Company is practically influential, it has made NBNS Investment Limited Liability Partnership its equity-method affiliate.
3. ES-CON LIVING SERVICE Ltd., one of the Company's consolidated subsidiaries, undertook part of the capital increase conducted by NBNS Investment Limited Liability Partnership.

25. Per Share Information

(Unit: yen)

	Fiscal 2016 (from January 1, 2016 to December 31, 2016)	Fiscal 2017 (from January 1, 2017 to December 31, 2017)
Net assets per share	259.07	315.14
Basic earnings per share	58.76	81.77
Diluted earnings per share	57.41	79.81

- (Notes) 1. In calculating net assets per share, the Company's shares owned by the share-based payment benefits trust for directors and share-based payment benefits type ESOP trust (the share-based payment benefits trust for directors: 554,200 shares for Fiscal 2016 and 543,200 shares for Fiscal 2017; the share-based payment benefits type ESOP trust: 235,300 shares for Fiscal 2016 and 235,200 shares for Fiscal 2017) are included in treasury shares, which are excluded from the number of shares issued and outstanding at end of the fiscal year.
2. In calculating basic earnings per share and diluted earnings per share, the Company's shares owned by the share-based payment benefits trust for directors and the share-based payment benefits type ESOP trust (789,596 shares for Fiscal 2016 and 781,062 shares for Fiscal 2017) are included in treasury shares, which are excluded when calculating the period-average number of shares.

3. The basis for the calculation of basic earnings per share and diluted earnings per share is as follows:

	Fiscal 2016 (from January 1, 2016 to December 31, 2016)	Fiscal 2017 (from January 1, 2017 to December 31, 2017)
Basic earnings per share		
Profit attributable to owners of parent (million yen)	3,936	5,456
Profit not attributable to common shareholders (million yen)	—	—
Profit attributable to owners of parent for common shares (million yen)	3,936	5,456
Period-average number of common shares (shares)	66,988,398	66,724,613
Diluted earnings per share		
Adjustments to profit attributable to owners of parent (million yen)	—	—
Increase in common shares (shares)	1,572,883	1,641,286
Description of dilutive shares without dilutive effect and not included in the calculation of diluted earnings per share	—	Sixth offer of subscription rights to shares based on resolution by the Board of Directors' meeting on December 1, 2017 Common shares: 1,400,000 shares

26. Significant Subsequent Events

[Acquisition of Treasury Shares]

The Company resolved at its Board of Directors' meeting held on December 1, 2017 on the acquisition of its treasury shares and the specific method for acquisition, pursuant to the provisions of Article 156 of the Companies Act, which are applied in place of the provisions of Article 165-3 of the Act, and implemented the acquisition of treasury shares as indicated below.

(1) Reason for Acquiring Treasury Shares

The Company acquired its treasury shares in order to enhance capital efficiency and conduct flexible capital policy in accordance with changes in the business management environment.

(2) Description of Resolution on the Acquisition

- Type of shares to acquire: Common shares
- Number of shares to acquire: 900,000 shares (maximum)
(Ratio to the number of shares issued and outstanding (excluding treasury shares): 1.3%)
- Total acquisition price of shares: 450 million yen (maximum)
- Acquisition period: From December 11, 2017 to February 28, 2018
- Acquisition method: Market buying in a trust scheme

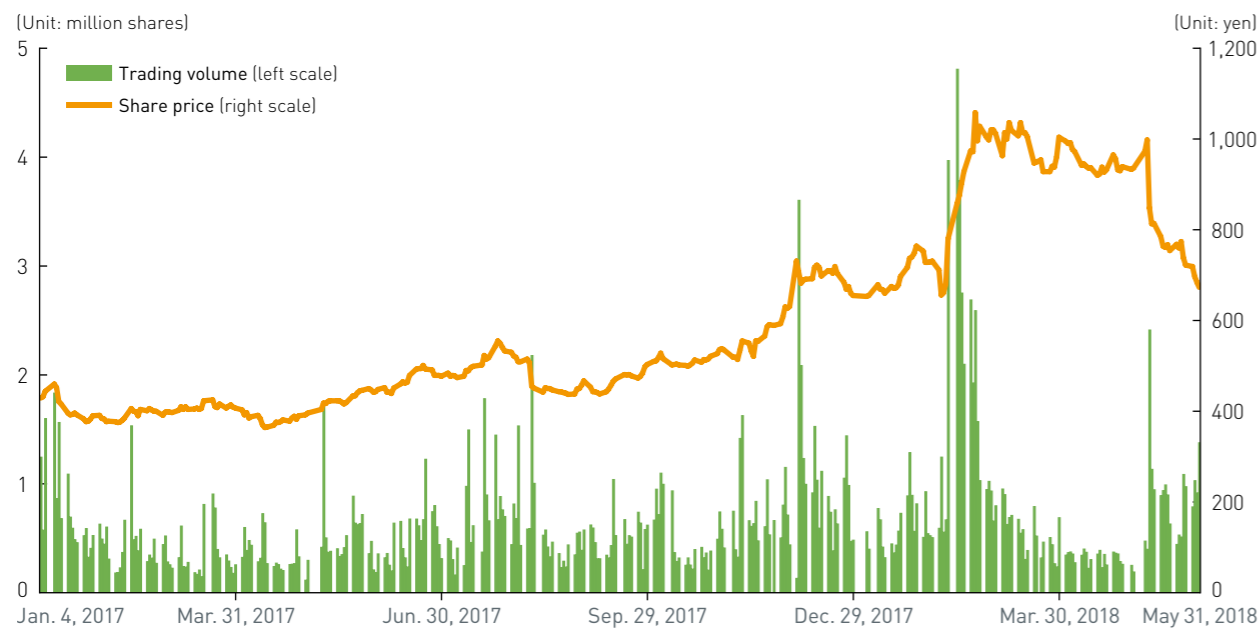
(3) Others

Conducting market buying in a trust scheme as stated above, the Company acquired 646,500 shares of its common shares (acquisition price: 449 million yen) by January 15, 2018 (agreed upon on January 10, 2018) and completed the acquisition of treasury shares.

Furthermore, the Company acquired 450,000 shares of its common shares (acquisition price: 319 million yen) by December 31, 2017.

Investor Information

Status of Share Price (from January 4, 2017 to May 31, 2018)



Major Shareholders (as of March 31, 2018)

	Name	No. of shares owned	Ownership ratio (%)
1	Koryu Oh	10,600,000	15.3
2	Tenma Seiryu Co., Ltd.	9,000,000	13.0
3	Nissei Build Kogyo Co., Ltd.	6,500,000	9.4
4	San Ai Housing Corp.	6,090,000	8.8
5	Seiryu Asset Management Co., Ltd.	3,000,000	4.3
6	Japan Trustee Services Bank, Ltd.	2,711,600	3.9
7	The Master Trust Bank of Japan, Ltd.	1,532,200	2.2
8	Takatoshi Ito	1,199,200	1.7
9	Oberweis International Opportunities Institutional Fund	932,100	1.3
10	Oberweis International Opportunities Fund	806,500	1.1

(Notes) 1. ES-CON JAPAN retains 2,613,400 shares of its own stock, but they are excluded from the list of major shareholders above.
 2. Treasury shares are excluded from the calculation of ownership ratios.
 3. Ownership ratio is rounded down to the first decimal place.

Notes for Investors

Fiscal year: January 1 to December 31

Securities code: 8892

Standard date for regular general meeting of shareholders: End of March

Standard date for submission of periodic securities report: End of March

Standard date for start of end-of-year dividend: December 31

The names of shareholders to be paid interim dividends shall be finalized on June 30 in the event they are to be paid.

Listing exchange: First tier, Tokyo Stock Exchange

Total number of shares issued and outstanding: 71,631,387 shares (as of March 31, 2018)

Total number of shareholders: 7,604 shareholders (as of March 31, 2018)

Share units: 100 shares

Institution managing the Shareholder Register Manager's Extraordinary Account:

Sumitomo Mitsui Trust & Banking, 1-4-1 Marunouchi, Chiyoda-ku, Tokyo

Contact: Transfer Agent Department, Sumitomo Mitsui Trust & Banking, 2-8-4 Izumi, Suginami-ku, Tokyo 168-0063

Toll-free: 0120-782-031 (Japan only)

Agency services are available at the main branch and all branches of Sumitomo Mitsui Trust & Banking nationwide.

Notification of address change, etc.:

Please notify the securities firm that holds your investment account. Shareholders who have extraordinary accounts because they do not have an account at the securities firm should contact Sumitomo Mitsui Trust & Banking, the account manager for extraordinary accounts.

Payment of unpaid dividends: Please notify Sumitomo Mitsui Trust & Banking, the shareholder register manager.

Announcement method: Electronic announcements (<https://www.es-conjapan.co.jp/>) (Japanese)

However, the announcement shall be made via Nihon Keizai Shimbun when an accident or other development makes announcement via electronic announcement impossible.

Shareholders who have owned shares in ES-CON JAPAN for at least one year since June 30 of each year and who own more than 1,000 shares are eligible to receive shareholder benefits.

Disclaimer

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