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.

ES CON JAPAN

IDEAL to REAL

Annual Report 2018

For the year ended December 31, 2018

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

Committed to Building a Bright Future for Japan

ES-CON JAPAN Ltd. (ES-CON JAPAN) develops select retail, hotel and logistics properties, while primarily focusing on high-value residential properties such as condominiums. We, at ES-CON JAPAN, are committed to creating a new future for Japan by realizing ideal lifestyle and towns, envisioning the happiness and future of the residents.

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

ES-CON JAPAN's team is committed to contributing to society in the best possible manner. Applying our findings derived from our efforts to do so generates results. At the same time, all members of ES-CON JAPAN pursue how they can realize the happiness they seek. Our staff is committed to assisting each other in realizing the goal of positively contributing to society.

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

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Performance Backed by Distinct Business Sections

ES-CON JAPAN has continued to grow its real estate business. Presently, the businesses of ES-CON JAPAN can be broken down into the real estate sales business, real estate leasing business and real estate planning agency and consulting business, which posted a growth in combined segment income from 9,825 million yen in Fiscal 2017 to 14,839 million yen in Fiscal 2018.

	Real Estate Sales Business	Real Estate Leasing Business	Real Estate Planning Agency and Consulting Business
Net Sales	50,519 million yen	3,400 million yen	405 million yen
Segment Income	12,341 million yen	2,128 million yen	369 million yen

ES-CON JAPAN had a solid year in the real estate sales business. Net sales and segment income in this division grew by 22.7% and 54.7% respectively. We sold 539 condominium units, 92.1% of our annual target. As for sales ratio by area for condominiums in Fiscal 2018, the Tokyo metropolitan area (56.2%) slightly exceeds the Kinki area (43.8%), but are at almost the same share of around 50%, but we posted strong increases in profit and sales through the disposition of seven hotel projects, profit-generating real estate, land, etc. The profit margin for the hotel sales was a robust 37.7% on average. ES-CON JAPAN was able to lay the foundation for a strong future by increasing our inventory assets by 16.9 billion yen compared with the previous fiscal year. In particular, we secured for-sale condominium and retail development sites for business in the future.

Owned Assets (Unit: million yen)

	Fiscal 2018	Fiscal 2017
Condominiums	37,198	27,344
Retail properties, etc.	37,280	24,390
Hotels	5,564	10,821
Other	1,156	1,664
Total	81,199	64,219

Net sales in the real estate leasing business fell by 1.7% compared with the previous fiscal year but remained 17.2% ahead of initial forecasts, segment income grew by 20.8% compared with the previous fiscal year to 2,128 million yen. This division will strive to secure stable rental income at retail properties we own, enhance asset value and continue to acquire properties.

Looking ahead, this segment will focus on land for retail properties and expand our stock business (business generating stable income) to support the external growth strategy of ESCON JAPAN REIT Investment Corporation (hereinafter, "ESCON REIT" or "the REIT"), the new REIT we listed in December 2018.

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. Sales in this segment actually grew a robust 321.4% compared with the previous fiscal year to 405 million yen, more than double our target. Segment income grew an astounding 332.3% compared with the previous fiscal year to 369 million yen.

ES-CON JAPAN focuses on delivering products that provide comfortable and high-quality living by considering lifestyle changes and local characteristics as well as envisioning the happiness of people living in our properties. We are committed to becoming a "life developer" that develops people's lifestyles and creates communities as well as residences.

To Our Shareholders

Fiscal 2018 marked the second year under our Second Medium-Term Business Plan titled "IDEAL to REAL 2019." We listed a number of targets in the plan and though some segments have not quite reached the targets, our performance numbers generally far surpass the targets set in the plan overall. We revised upward out Fiscal 2019 plan, the final year of the Medium-Term Business Plan. Major topics are registering over 10 billion yen in ordinary income for the first time since our founding, ES-CON JAPAN becoming the equity-method affiliate of Chubu Electric Power Co., Inc. ("Chubu Electric Power") under the business partnership contract, ES-CON JAPAN obtaining approval from the Tokyo Stock Exchange, Inc. for the listing of ESCON REIT in December followed by its listing in February 2019 and an outstanding increase in income and profit. These accomplishments contributed to a dividend of 32 yen to our shareholders far greater than the initially planned 20 yen. These accomplishments are evidence of our progress in becoming a corporation that is needed by society. Your continued support is appreciated.

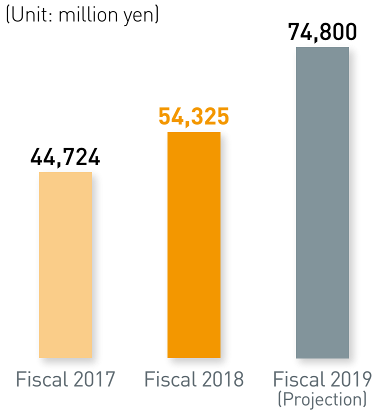
Takatoshi Ito

President and Representative Director

ES-CON JAPAN Ltd.

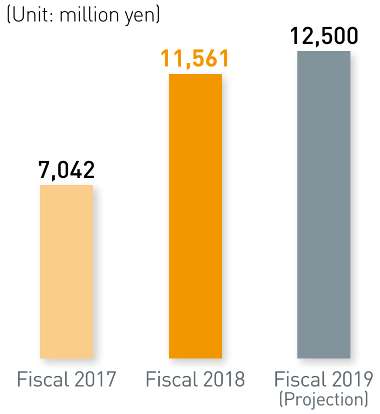
Net Sales

(Unit: million yen)



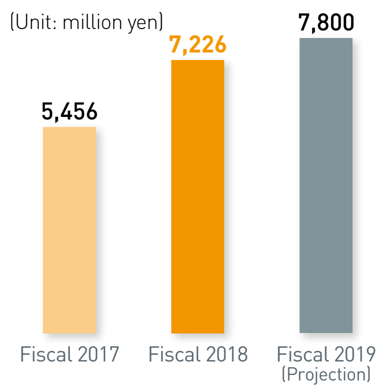
Operating Income

(Unit: million yen)



Profit Attributable to Owners of Parent

(Unit: million yen)



Strategic Steps in Fiscal 2018

1 Acquisition of 27 New Business Sites

In 2018, ES-CON JAPAN successfully acquired 17 sites for for-sale condominiums, 2 sites for hotel development, 1 site for community redevelopment business, 4 sites for retail property (including leasehold land) and 3 sites for rental apartments.

2 Executed Contracts to Sell Five Owned Hotels

ES-CON JAPAN contracted to sell and sold five hotels it developed and owned in the Tokyo and Kinki areas.

3 Chubu Electric Power becomes Leading Shareholder and ES-CON JAPAN Concludes Strategic Alliance with It

Chubu Electric Power acquired 22,980,000 shares off market from our previous leading shareholder and its related corporations. As a result, Chubu Electric Power is our new leading shareholder and we have concluded a strategic business partnership contract that promotes both business groups by taking advantage of various synergies inherent in the relationship.

4 Approval of J-REIT Listing in December 2018 and IPO Conducted with Listing in February 2019

ES CON JAPAN REIT

ESCON REIT listed with 25 properties in which ES-CON JAPAN was involved as the sponsor*, acquired for 41.6 billion yen and with a 99.5% occupancy rate. The J-REIT is a diversified REIT investing in community based retail properties and land leased for retail and other uses.

*Sponsor involvement refers to properties that ES-CON JAPAN once owned or currently owns.

5 Acquisition of Tsukuba Q't, Tsukuba MOG and Tsukuba Creo

ES-CON JAPAN acquired these retail properties directly linked to Tsukuba Station on the Tsukuba Line. We will contribute to reinvigorating the area around the station and further development, by utilizing our knowhow in multi-faceted real estate development, and capitalizing on the strength of it being a traffic hub in front of Tsukuba Station with its good traffic flow in the station area.

6 Opening of the Nagoya Branch

ES-CON JAPAN opened its Nagoya Branch on March 1, 2019. The branch is located at 2-4-1 Sakae, Naka Ward, Nagoya City, Aichi Prefecture. With the opening of the branch, ES-CON JAPAN will proactively develop a wide variety of real estate development business in the Chubu area jointly with Chuden Real Estate Co., Inc. ("Chuden Real Estate") under the Chubu Electric Power Group and further leverage the synergies between ES-CON JAPAN at the Chubu Electric Power Group.

7 Opened the neighborhood shopping center, tonarie Yamato-Takada

tonarie Yamato-Takada opened on November 23, 2018. It is a 3-story center with about 70 tenants located a 1-minute walk from Yamato-Takada Station on the Kintetsu Osaka Line directly connected to the station via a pedestrian deck.

8 Launched Business Developing Residences for University Students

ES-CON JAPAN has launched a business developing residences for university students in partnership with GSA Star Asia. The residents will be operated by GSA Star Asia, and the land and building will be sold to GSA Star Asia and its affiliates after completion of development. The residence is scheduled to be completed in December 2019 and have 149 rooms. It is a 5-minute walk from Kami-Kitazawa Station on the Keio Line, an excellent location for students.

Second Medium-Term Business Plan: IDEAL to REAL 2019

ES-CON JAPAN's Second Medium-Term Business Plan aims to firmly realize customers' ideals and creating a new future. ES-CON JAPAN is committed to improving the living standards of customers, society and our future by realizing each "ideal" pursued by our customers. The following page presents the new corporate strategy under the Second Medium-Term Business Plan and numerically presents the excellent performance achieved by ES-CON JAPAN under this plan.

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	Fiscal 2017	Fiscal 2018
Equity ratio	23.6%	24.8%	24.9%
ROE	25.1%	28.1%	29.6%
ROA	6.0%	6.8%	7.4%
ROIC*	6.5%	8.4%	10.2%
EPS	58.76 yen	81.77 yen	105.98 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	Fiscal 2017	Fiscal 2018
Net sales	34,347	44,724	54,325
Real estate sales business	30,687	41,168	50,519
Real estate leasing business	3,594	3,459	3,400
Real estate planning agency and consulting business	65	96	405
Operating income	4,680	7,042	11,561
Ordinary income	3,575	5,988	10,498

Summary of Results

ES-CON JAPAN delivered significant increases in income and profit far above the plan overall. Consequently, targets of the original plan for Fiscal 2019 have been revised significantly upwards. The equity ratio is the sole indices that is far below the target and this is primarily because of the acquisition of business sites and proactive increase in inventory assets to achieve growth. These positive results have been transferred to the shareholders with the dividend raised from 18 yen for Fiscal 2017 to 32 yen for Fiscal 2018.

ES-CON JAPAN Revised 2019 (Fiscal Year) Numerical Targets Dramatically Upward

(Unit: million yen)

	Original Plan	Revised Plan
Net sales	60,000-62,000	74,800
Real estate sales business	57,800-59,700	70,250
Real estate leasing business	2,000-2,100	4,300
Real estate planning agency and consulting business	200	250
Operating income	8,200-9,500	12,500
Ordinary income	7,200-8,500	11,200

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: ES-CON JAPAN has sourced real estate sites that will enable it to supply around 800 condominium units in both 2020 and 2021 to the market in this its core business. The internal sales team has reached 37 people and the profitability of individual projects has risen from 12.1% in Fiscal 2017 to 14.4% in Fiscal 2018.

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 diversity 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 diversifying its businesses by newly adding logistics development and community redevelopment projects to its existing businesses of for-sale condominium, retail and hotel property 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 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: ES-CON JAPAN is reinforcing its neighborhood shopping center (NSC) development efforts as a key element of its retail property development. tonarie Yamato-Takada held its grand opening in November 2018. The second project, tonarie Toga-Mikita held its grand opening in April 2019. ES-CON JAPAN will carefully select assets for long-term ownership while balancing these with those properties to be sold to REITs and other external buyers.

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: ESCON REIT was approved for listing in December 2018 and successfully listed on the J-REIT market on February 13, 2019.

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 has launched a renovation business that is added to its asset management, retail property management, café and other food service operations and condominium management. We will continue to focus on maximizing the value inherent in 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 Le JADE for-sale condominium series.

PROGRESS REPORT: ES-CON JAPAN unveiled the new TV commercial for the Grand Le JADE brand and continues to be the sponsor of a popular TV program. We will continue to focus on raising the brand power of ES-CON JAPAN.

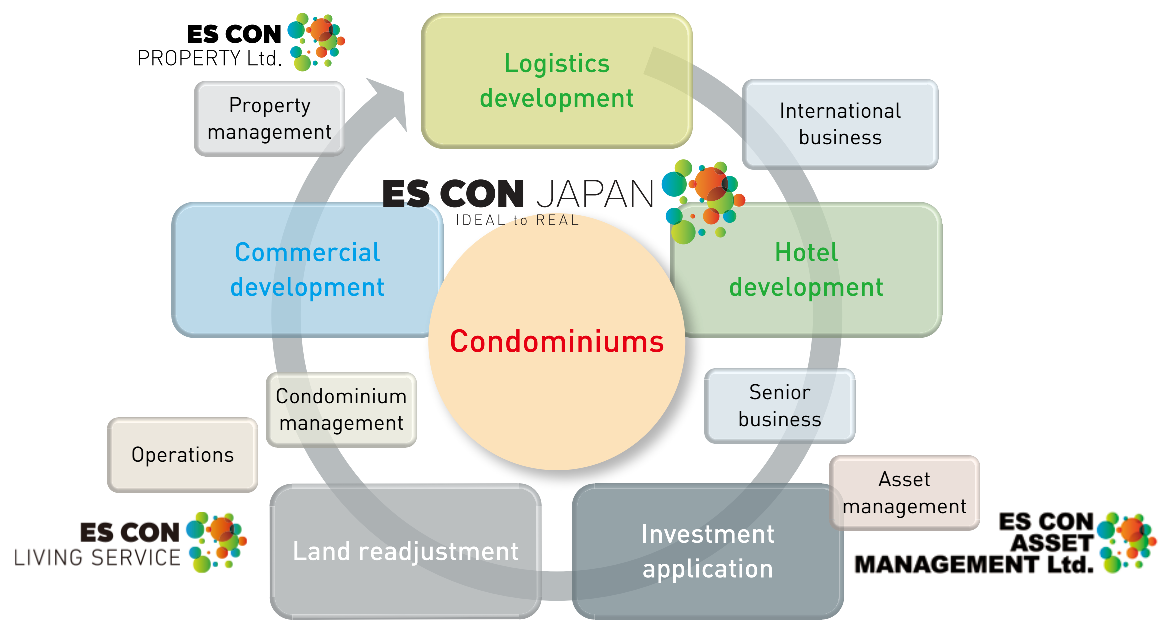
7

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.

PROGRESS REPORT: ESG was made a part of the growth strategy and ES-CON JAPAN is striving to obtain the first GRESB certification in the real estate industry.

Businesses of ES-CON JAPAN



Interview of President Takatoshi Ito

ES-CON JAPAN Ltd.
April 16, 2019

Q Comprehensively the results for Fiscal 2018 were superb. How do you specifically analyze the performance?

In our business, land or sites you acquire today generally post profits two to three years later. In our Fiscal 2018, we were able to post all-time highs in profit and profitability. So I am very satisfied with the performance for the year.

Looking at it more specifically, the hotel sites we in particular bought two to three years ago for development and sold made a very strong contribution to our profits.

Presently, real estate prices, however, have gone up significantly compared to two to three years ago, making our acquisition prices much higher. So we have to carefully realize profit plans over two to three years. An analysis of Fiscal 2018 shows that it was a very difficult year to obtain development sites as desired.

Q A look at the acquisition of sites for development over the past year shows that fewer hotel sites have been acquired and more retail sites. Does this mean that you are intentionally emphasizing retail development more than hotel development in the future and that despite developing hotels you will be careful and more selective?

Our assets on inventory in 2018 total a little more than 80 billion yen, and compared to 2017 there has been an increase in retail sites acquired and decrease in hotel sites. Development of hotels is a very competitive area where it is comparatively easier for other developers to enter.

On the other hand, redevelopment of retail properties for example like tonarie Yamato-Takada, which we finished late year in Yamato-Takada City, Nara Prefecture, where we negotiated early termination of leases by existing tenants, began design and planning of a new retail property focused on the next generation and also negotiated with potential new tenants about taking space in the revamped facility. These sensitive areas are not easy for competitors to enter. We anticipate that municipalities here in Japan will increasingly be requesting participation in the repositioning projects of retail properties going forward since retail properties and apartments have a high level of synergy. In particular, we will focus on station front areas, our plans are to reconstruct and redevelop centering on retail properties and link housing to those facilities. We want to be a key player in such regional redevelopment. This explains why we have increased the stock of retail sites we have on stock.

Q Redevelopment is probably an eternal theme of real estate. Do you think that the main stream of redevelopment will be station front redevelopment, neighborhood type redevelopment or shopping centers adjacent to residences?

Yes. In particular, there are very few vacant lots that are available for condominium development. Additionally, large developers aggressively move to purchase these lots. Therefore I am convinced that we can create valuable real estate development by tackling sites that require an extra degree of patience, negotiation with the land right holders, negotiation with tenants and such additional efforts to successfully reach the deal. This is especially the case since we are in a market where the prices remain high and are unlikely to decline. In this climate, customers will evaluate us for the value added products we deliver to the market. We will strive to focus on this area.

Q There were a number of major developments for ES-CON JAPAN in 2018. In particular, Chubu Electric Power became the main shareholder and you concluded strategic business partnership contract with them. What is ES-CON's position concerning the relationship with Chubu Electric Power?

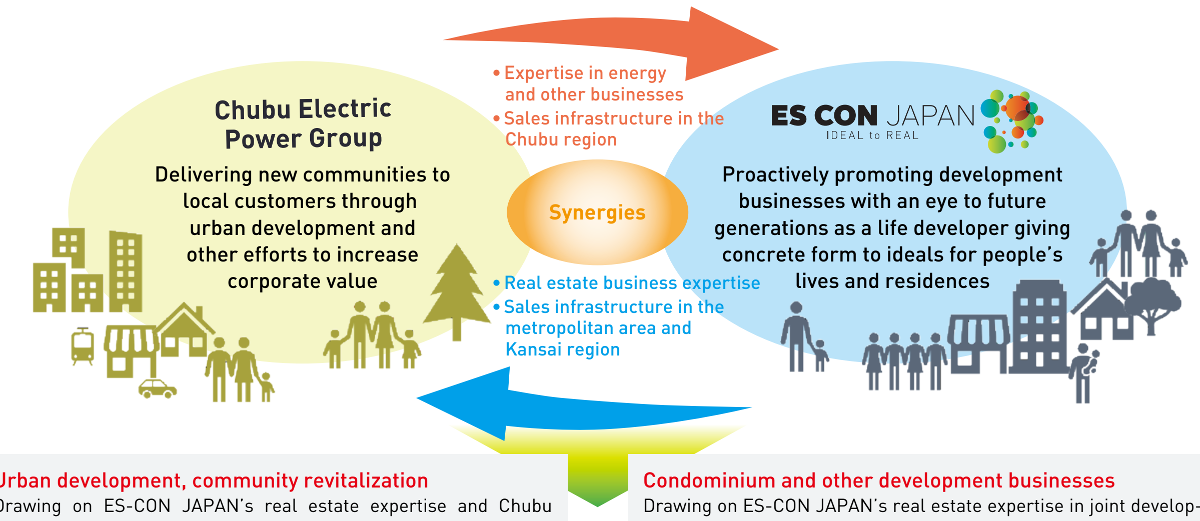
For us, we have already been blessed by many tangible and intangible effects of Chubu Electric Power becoming our main shareholder. The change from an individual to a leading corporation has clearly stabilized our capital. We concluded the strategic business partnership contract on August 28, 2018 and already in March 2019 we opened our Nagoya Branch and in April two employees were seconded to Chuden Real Estate, a 100% subsidiary of Chubu Electric Power. This will demonstrate synergy with Chubu Electric Power properly supporting the optimal development of real estate presently owned by the Chubu Electric Power Group.

Furthermore, our end user clients are also enjoying benefits of our business partnership with Chubu Electric Power supplying electricity in our developments both in the Tokyo metropolitan area and Kansai area. Since it is a development business, the business partnership will truly begin contributing to performance in two to three years and this synergy between a power company and developer is not simply the addition of development strength and capital but our partnership will bring a multiplication of results achieved by combining development strength with capital strength. This partnership also gives us the ability to work on even bigger opportunities and I myself am very eager to see the content of our next business plan.

Capital and Business Partnership with Chubu Electric Power Co., Inc.

In August 2018, we concluded a capital and business partnership with Chubu Electric Power, becoming an equity method affiliate of Chubu Electric Power, which holds 33.3% of voting rights of our company.

Strengthening the real estate business through capital and business partnership with the Chubu Electric Power Group



Urban development, community revitalization
Drawing on ES-CON JAPAN's real estate expertise and Chubu Electric Power's strong ties to local communities in urban development and community revitalization that deliver new communities to local customers

Condominium and other development businesses
Drawing on ES-CON JAPAN's real estate expertise in joint developments with Chuden Real Estate; sales of energy from Chubu Electric Power to properties developed and owned in the metropolitan area, Kansai region, and elsewhere; providing ancillary works with the Chubu Electric Power Group, etc.

Q Often times corporate partnerships experience difficulty when the company as a whole does not share the same enthusiasm as the senior leadership, but have you faced this?

There is clearly a difference in the speed of in-house decision-making between the Chubu Electric Power and ES-CON JAPAN due to the differences in scale. The key, however, to making this business partnership successful is the extent to which we can share the belief in raising the corporate value and match the sense of speed needed in this business. ES-CON JAPAN will steadily and assuredly secure the trust of the Chubu Electric Power Group by carefully generating results in the real estate business. This will in turn be transformed into even greater synergy. Obviously we cannot change overnight but key to our transformation will be the reliable generation of profits and corporate performance.

Q The listing of ESCON REIT was approved in December 2018 and it conducted its IPO in February2019. How do you assess the long-awaited the IPO the events thereafter?

The just discussed business partnership with Chubu Electric Power and the IPO of ESCON REIT this February are enormous foundations for ES-CON JAPAN as it enters the next stage of its real estate business. In particular, it took almost five years to list the ESCON REIT following our initial conceptualization of it. During the five years, you had the period when many of the small and medium REITs fell below their IPO price soon after listing and conditions that prevented the REIT market from performing well such as the Financial Services Agency suppressing the sale of investment trusts paying monthly dividends. These circumstances made us think we will create a J-REIT that could deliver high distributions.

This illustrates that are commencement of activities towards listing a J-REIT began with the belief that ES-CON JAPAN as a company could help in a small way the shift of money from savings to investment, which is a theme of Japan. In the sense that we successfully listed in February 2019 and have since maintained a unit price higher than our list price, our J-REIT has gotten off to a good start.

However, the listing of the J-REIT itself is not a goal it is a development that has gotten us to the starting line. It is our duty to realize internal growth as the sponsor and to generate steps that meet the expectations of investors and buyers of our investor units.

Q Originally, ES-CON JAPAN was a company focused on residential development. What are your thoughts on residential development going forward? In a sense, ES-CON JAPAN was a company specialized in residential development, so what role will it take?

ES-CON JAPAN has maintained residential development business as its core business since its inception. We have not followed the traditional condominium developer's business model of increasing sales profit by increasing the supply volume. In other words, the core thinking of our condominium business is to supply customers in need with products in locations that we ourselves would want to live not just make condominiums the driver of our growth. Today, still, all our employees act according to this belief.

Therefore we will continue to develop new condominium product in areas where we would like to live. We want to solidly focus on providing the market with high quality product and not just with a large supply into the market.

We are also aware that our for-sale condominium brand Le JADE is still unknown compared to the product of major developers and so we must remain committed to providing high quality standards and facilities to customers in great locations. We must also continue to reinforce our internal sales team.

In addition, presently roughly 40% of our condominium sales are sold by our internal sales team. We need to continue to reinforce this team and our goal is to eventually sell all of our condominiums through our internal sales team. Our personnel plan for the medium and long-term will continue to emphasize securing the trust of customers on the front line. This means providing end users with highly satisfactory after services after they move-in. This is how we need to raise our brand's power.

Q If I remember correctly your internal condominium sales team had about thirty people last year?

We now have 37. It is our goal to raise this to an organization of sixty or seventy people. We recently opened a branch in the Chubu area and in Fukuoka two years ago. We want to employ this branches in helping us steadily supply the market with about 1,000 condominium units a year. I am more than convinced that our development business department has more than enough ability to obtain sites that will enable us to do this.

Q Last year, the supply of condominiums was greater in the Tokyo metropolitan area than in the Kinki area. Is this something that will continue for a long time or something that is temporary and what do you think the ratio of condominium supply in Fukuoka and the Chubu region will be going forward?

In Fiscal 2018, the Tokyo and Kansai regions had roughly the same sales level but in Fiscal 2019 we expect Kansai to post slightly higher numbers. If I were to interpret potential markets from a macroeconomic viewpoint, I would say that since the Tokyo market is about four times greater than the Kansai market in size and since the prices are about 1.5 times, I would expect us to generate six times greater results in the Tokyo market than the Kansai market.

However, we originated in Kansai and are still not large enough to cover all of the Tokyo metropolitan area. In particular, we are able to source information about the downtown areas but are limited when it comes to the areas around Yokohama in Kanagawa, areas around Omiya in Saitama and central Chiba City in Chiba. Our networks there are still weak. We plan to shift personnel to the Tokyo metropolitan area even more.

It is with this in mind also that we are moving our Tokyo office in October so we can form an even stronger organization and reinforce our efforts in the Tokyo area even more. It is also true that when we compare the sales conditions in Kansai with those in the Tokyo area Kansai is doing very well. An analysis of this phenomenon shows that as prices for condominiums continue to rise nationwide, those in Kansai have been much lower and thus can absorb end user demand. It appears that prices in the Tokyo area have risen a little too much. We gather information as said earlier on areas we would like to live in and we would like to develop projects in. Rather than emphasizing percentages of sales in each area we would like to continue to solidly provide the market with product in locations in which we are confident.

Therefore, the corporate supply image we imagine is steadily supplying the market with 1,000 units a year. The balance of the supply by area will depend ultimately on the product being supplied.

Q ES-CON JAPAN has recently opened branches in Fukuoka and Nagoya. Could you tell us about the specific movements?

In the case of Fukuoka, we are already considering a number of residential development projects. Following the redevelopment project in Kasuga, we are presently involved in the rezoning and redevelopment of Genboen in Koga. We have established the rezoning kumiai (association) with about 100 land holders and construction is proceeding along smoothly. The landscaping and roadwork of the project will be completed around November of this year. We will then sell them as residential a logistics park around 2020. Our next step is to find a residential, retail and roadside development in central Fukuoka. Our team is still small in Fukuoka with three people but we want to capture the opportunities to repeatedly post strong results.

On the other hand, the Nagoya Branch has begun with staffing of five. We will support the development work of Chuden Real Estate in the Chubu area and also form joint ventures. There is a plan to transfer the real estate business of Chubu Electric Power to Chuden Real Estate, its subsidiary. We would like to ensure these move forward in a timely manner. We would also like to source sites in the real estate market in the Chubu area with regular members at the Nagoya Branch. Although only two months has passed since the branch was opened, we have been blessed with a huge source of information as we are now a part of the Chubu Electric Power Group and we keenly feel the expectation of local companies based on the credit worthiness of Chubu Electric Power. Consequently, we keenly feel a huge opportunity for the Nagoya Branch.

Q ES-CON JAPAN had just under 100 employees a few years back, but now it has grown to about 200. You run the bigger organization and are involved in ESG measures, but what are the challenges you are emphasizing going forward?

First, with regards to the environment, under the strategic business partnership with Chubu Electric Power we will focus on the energy business and promote town creation. By being engaged in the development of various efficient energy businesses will make it possible to realize more environmentally friendly development. As for the societal aspect of ESG, we must tackle compact cities within the aging of society, which have public facilities, retail and residential all in close proximity. We can contribute significantly to society in this area, that is, the creating of the community in compact cities. This includes operational and management know how on how to create the community and development know-how on how to develop apartments and retail destinations. We can contribute significantly to overcoming the issues of society.

As for governance, as a company of only 200 we are still small and I would like to continue realizing a very transparent management of the company. I would also like to meet the expectations of our shareholders even more and become a company that is trusted by the market by continuing our commitment to disclosure, etc. This requires a solid commitment to governance, which I am confident we have.

Q As we approach the latter half of the final year of the Second Medium-Term Business Plan, I assume you are deeply involved in discussing the content of the Third Medium-Term Business Plan. Do you anticipate any large changes or goals in the Third Medium-Term Business Plan?

We have resolved several large themes facing the company during the Second Medium-Term Business Plan. These include capital measures, shareholder measures and creating a pipeline function for the development business that is essential for a real estate developer and the IPO of the J-REIT. The accomplishment of these measures and objectives in the Second Medium-Term Business Plan means that the Third Medium-Term Business Plan will look at how to take advantage or apply these foundations to future business. One thing is to ensure that ESCON REIT steadily grows.

We need to take solid advantage of Chubu Electric Power's credit worthiness and more aggressively tackle the development business. The Third Medium-Term Business Plan needs to not only take up supplying product to the REIT but also focus on the accumulation of our own revenue generating stock with concrete goals.

One approach is to take advantage of this credit worthiness to arrange long-term project financing for apartments that are becoming old or projects that could be good for-sale condominium sites in the future and then take the steps to change the rights and terms so that the sites can become future condominium sites. Another segment will be the renovation business targeting existing buildings. This is an absolute within the dramatic rise in cost of real estate and what appears to be the locking of construction costs at expensive levels due to the lack of personnel. We foresee that the coming years will be times where a company's ability to plan products and to technically verify the possibilities inherent in the products will be key. The Third Medium-Term Business Plan will be built around this type of business reinforcement.

I am convinced that the real estate business partnership with Chubu Electric Power can be transformed into an enormous power including creating systems and organizations for major development projects, REIT bridge functions and such and business strategies for the future. It is with these points in mind that I would like to announce the Third Medium-Term Business Plan sometime during the summer or early autumn.

Q Finally, what do you perceive the market risk to be and how are you stepping up to it?

Japan can be said to be one of the first of the advanced nations to tackle society issues like aging with low birthrate, social insurance and the declining population. I keenly feel that companies that had become disillusioned with domestic demographics have in part thanks to the efforts of Abenomics slowly changed their perspective to focusing on the world. In relation to this and the reformation of work style we need to take even greater advantage of women in the work place and extend the retirement age.

In other words, we need to increase the people that support society and not the people supported by society. For example, today Japanese people in their sixties have the energy and mindset of people around 45 years of age years ago. These people in their sixties believe they will soundly age for another 15 years or so and thus have the strength and will to work. It cannot be refuted that this number is growing. We can overcome the issues listed above by consciously training and developing an awareness in these people and in companies that each person in Japan should move from receiving to the supporting of society.

I have high expectations that in the new Reiwa Era a generation that can respond to these changes in a flexible manner will emerge and move to transform Japan into a better society with new measures such as artificial intelligence and laborers from overseas. For these people and for the resurrection of Japan we want to act, though a small company, so that our projects can play a vital role in achieving these changes.

This means taking steps to increase productivity as much as possible. It is irrefutable that automatic vehicles and robots will begin playing a real role in condominiums and urban creation within only a few years. We must make sure our antenna firmly grasp these trends and that innovative measures be applied to solve our greatest issue of declining population. However, we as individuals and corporate citizens must not depend on the nation but, as corporate citizens, must become the core players in solving these issues and changing trends.

We must not depend on the nation but rather work to create groups of people with the attitude that they will improve Japan in the future. I believe this is where the changing of ourselves begins. I want to make the Third Medium-Term Business Plan the commencement of an era where we assuredly resurrect ourselves from the so-called lost 20 or 25 years.

Takatoshi Ito

President & Representative Director

September	2001	Joined ES-CON JAPAN
February	2006	Appointed Executive Officer
March	2007	Appointed Managing Director
November	2010	Appointed Head of Business Division
March	2011	Appointed President & Representative Director (present post)
January	2012	Appointed Head of Tokyo Office
May	2013	Appointed President & Representative Director at ES-CON Property (present post)
August	2013	Appointed Head of Development Division at ES-CON JAPAN
July	2014	Appointed Director at ES-CON Asset Management (present post)
November	2014	Appointed President and Corporate Officer at ES-CON JAPAN (present post)
September	2016	Appointed Director at ES-CON Living Service (present post)
July	2018	Appointed Director at ES-CON Property (present post)

Management: Directors and Auditors

Minoru Nakanishi

Senior Managing Director

August	2011	Joined ES-CON JAPAN
June	2012	Appointed Executive Officer (Head of Finance and Accounting Department)
March	2013	Appointed Director
May	2013	Appointed Director at ES-CON Property (present post)
August	2013	Appointed Head of Management Division at ES-CON JAPAN (present post)
July	2014	Appointed Director at ES-CON Asset Management (present post)
November	2014	Appointed Executive Officer at ES-CON JAPAN
March	2015	Appointed Managing Executive Director at ES-CON JAPAN Appointed Managing Executive Officer at ES-CON JAPAN
September	2016	Appointed Director at ES-CON Living Service (present post)
March	2017	Appointed Senior Managing Director at ES-CON JAPAN (present post) Appointed Senior Managing Officer at ES-CON JAPAN (present post)

Tomohiko Egashira

Managing Director

April	2002	Joined ES-CON JAPAN
January	2012	Appointed Head of Corporate Officer Division
July	2012	Appointed Head of Corporate Officer Tokyo Division
February	2013	Appointed Head of Corporate Officer Development Division
March	2015	Appointed Director
January	2016	Appointed Executive Officer Appointed Head and Corporate Officer of Development Division (present post)
March	2017	Appointed Managing Director (present post) Appointed Managing Executive Officer (present post)
November	2017	Appointed Head of Fukuoka Branch Office (present post)
July	2018	Appointed Director at ES-CON Property (present post)

Kenji Fujita

Director

March	2019	Appointed Director at ES-CON JAPAN (present post)
April	2019	Appointed Head of General Affairs Department (present post)

Junya Kikuchi

Director

March	2010	Appointed Director at ES-CON JAPAN (present post)

Kunio Takahashi

Full-time Auditor [Director]

March	2013	Appointed Auditor at ES-CON JAPAN
June	2013	Appointed Full-Time Auditor
March	2016	Appointed Director (Full-Time Auditor Director) (present post)

Hiroto Mizobata

Auditor [Director]

March	2015	Appointed Auditor at ES-CON JAPAN
March	2016	Appointed Director (Auditor Director) (present post)

Kotaro Niwa

Auditor [Director]

March	2011	Appointed Director at ES-CON JAPAN
March	2016	Appointed Director (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 Midosuji 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

Nagoya Office
Hirokoji Sakae Building 5F
2-4-1 Sakae
Naka-ku, Nagoya-shi, Aichi 460-0008

Established: April 18, 1995
Paid-in Capital: 6,259,000,000 yen (as of end of 2018)
Sales: 54,325,000,000 yen (consolidated; as of end of 2018)
Number of Employees: 181 (consolidated; as of end of 2018)
142 (on-consolidated; as of end of 2018)
Businesses: Real estate sales, real estate leasing, real estate planning, brokerage and consultation

Property Descriptions

GOOD DESIGN AWARD 2018

Grand Le JADE Wakamatsucho Residence

(Shinjuku Ward, Tokyo)

- This condominium is a 3-minute walk from Wakamatsu-Kawada Station on the Toei Oedo Line, offering smooth access to central stations like Shinjuku, Tokyo and Shibuya and great views from its high elevation.
- Despite being downtown and near the station, the location is a high-value rarity featuring residences with honorable origins such as the Ogasawara Hakushakutei, built in the early Showa era, and other large estates.
- With its thoughtful exterior use of tile reminiscent of historic buildings and modern glass, mainly south-facing, privacy-focused corner units and protruding patios for light and openness, it provides comfortable, sophisticated living spaces.
- This property received the 2018 Good Design Award for its disruption of conventional outside space design in urban apartments with eye-catching, boldly sticking out glass balconies on one side and an understated inner courtyard through which wind and light passes through on the other, making positive use of its two aspects.

Le JADE Kawasaki

(Kawasaki City, Kanagawa Prefecture)

- Condominium with two stations and five lines available, the Kawasaki Station with the JR Tokaido Line and Keihin Tohoku Line and the Keikyu Kawasaki Station on the Keikyu Line. It boasts it excellent access to Yokohama Station, Shinagawa Station and Tokyo Stations.
- The location provides comfort, convenience and security by also being near La Zona Kawasaki Plaza, a major shopping center where gourmet foods and fashion can be enjoyed, green parks, elementary and junior high schools and medical facilities. Thus it is a location blessed with access to diverse benefits.
- 28 diverse plans have been prepared for the 2-4 bedroom units. ES-CON JAPAN is providing a living environment that is blessed with access to two roads and excellent accessibility.

Minami-Senba I Hotel Project

(Chuo Ward, Osaka)

- Conveniently located only a 9-minute walk from Shinsaibashi Station on the Osaka Metro Midosuji Line, this location is surrounded by shopping facilities and restaurants.
- 14 floors above ground, 256 guest rooms in total (90 double, 153 twin, 12 triple, 1 universal)

Le JADE Southern Gate Toyoda

(Hino City, Tokyo)

- The site of the condominium is excellent a mere 2-minute walk from Toyoda Station on the JR Chuo Line. Toyoda is a station where the limited rapid trains stop and the excellent location near the station makes direct access to Shinjuku and Tokyo stations possible.
- The site is very near retail facilities that enhance one's life including Aeon Mall Tamadaira no Mori, home to a supermarket and about 120 stores. It is also blessed by the natural environment being close to the Kurokawa Seiryu Park, where people can enjoy playing in the natural waters.
- ES-CON JAPAN has delivered a comfortable life via a menu of units designed to satisfy various lifestyles and realization of an open space with all units facing the south each and being corner units on three of their four sides.

tonarie Yamato-Takada

(Yamato-Takada City, Nara Prefecture)

- This property is connected by pedestrian deck to Yamato-Takada Station on the Kintetsu Osaka Line and is a mere 3-minute walk from Takada Station on the JR Wakayama Line.
- The neighborhood shopping center has a terrace and was conceptualized as a 3D park linked to the surrounding area.
- It has three floors and about 70 tenants with each floor given a theme: the dining table, lifestyle and hobbies and health.
- tonarie was reborn in November 2018 from a shopping center that only sold goods to a neighborhood shopping center that gathers and delivers experiences.

Grand Le JADE Shibuya Tomigaya

(Shibuya Ward, Tokyo)

- An excellent location with speedy, direct access to major stations in central Tokyo including Otemachi Station, Omotesando Station and Shinjuku Station. The project is a short walk from Yoyogi Koen Station on the Tokyo Metro Chiyoda Line and Yoyogi Hachiman Station on the Odakyu Odawara Line.
- The condominium is located at the top of a hill with an excellent view of Yoyogi Park to the East and a wide open feel with excellent sunlight and views to the South where the heights and usages of buildings are most strictly regulated by the law.
- The condominium provides a high quality living environment with great comfort and privacy with all units facing the south, all units corner units, only two units per floor, keyed elevator requiring a key for each unit, etc.

Grand Le JADE Okamoto

(Higashi Nada Ward, Kobe City)

- This project is a short 3-minute walk from Okamoto Station on the Hankyu Kobe Line at which limited express trains stop and a mere 2-minute walk from Settsu Motoyama Station on the JR Kobe Line. Thus the project boasts smooth access to Kobe Sannomiya Station and Umeda Station.
- It is a convenient location with supermarkets and other shopping facilities, educational facilities and public facilities. The location is also known for its beautiful cobblestone streetscapes and refined historical atmosphere.
- ES-CON JAPAN insisted on the finest detail of the rock, tile and other designs based on the motif of a western mansion of times gone past. A high quality and comfortable living space has been realized with two units per floor all units facing south and dedicated elevator halls for each residential unit along with the use of CUCINA designed kitchens.

Feel Garden Minami-Senri

(Suita City, Osaka)

- Condominium with three stations and two lines available, including Senriyama Station on the Hankyu Senriyama Line. It is an excellent location with direct access to Shin Osaka, Umeda and other points in central Osaka.
- It is a great location with an excellent balance of facilities supporting lifestyles including tonarie Minami Senri, which is owned by ESCON REIT, Aeon Minami Senri ES-CON JAPAN owns and other major shopping malls, supermarkets, schools, a hospital and parks.
- The project comes with diverse common facilities and services that enable comfortable lifestyles for various generations including a concierge counter providing various services and information, an indoor park that allows playing indoors during bad weather and an inner garden space known as the community terrace that is located towards the middle of the site.

Le JADE Nakano

(Nakano Ward, Tokyo)

- This condominium is a short walk from Nakano Station on the JR Chuo, Sobu, Tokyo Metro Tozai Lines and a mere 4-minute ride from Shinjuku by train. Smooth access to the key stations of Tokyo including Tokyo, Shibuya and Otemachi.
- Despite being located at the corner of a type one low-rise residential zone where there are strict regulations on building height and usage (including part of the neighboring commercial area), it is a very appealing location undergoing major redevelopment that combines shops and culture from years past with new parks and major multi-use facilities in the station area.
- Privacy has been secured by creating a green lane that utilizes a private road and all of the units are facing south. Windows have been positioned at high locations near the ceiling making the interiors bright and realizing a sense of openness. The terraces and dedicated gardens make residents feel as if they are in stand-alone homes. Furthermore, the project enjoys wonderful sunlight and a fresh breeze.

Le JADE Nagaokakyo

(Nagaokakyo City, Kyoto)

- The property is located between the two stations of Nagaokakyo on the JR Tokaido Honsen and Nagaoka Tenshin on the Hankyu Kyoto Line. Thus it is an excellent location boasting strong access to Kyoto, Osaka, etc.
- The surrounding area is blessed with a variety of cultural assets including Nagaoka Tenmangu, a shrine blessed with beautiful seasonal scenes including the Kirishima Azalea, a roughly 150-year old tree designated a natural treasure. It is an excellent location that combines streetscapes rich in history with facilities that enhance the living standards including shopping, education and medical facilities.
- The entrance employs a design that blends in with the streetscape by introducing Japanese elements to the exterior including the planting of Japanese-maple (momiji) trees. Steps have been taken to make it an excellent living space by introducing the latest in facilities such as a security system where the entrance door can be unlocked with a registered smart phone.

Renovated Property
Le JADE Bio Funabashi Kita Narashino

(Funabashi City, Chiba Prefecture)

- The project is located near Kita Narashino Station on the Toyo Rapid Line and New Keisei Line and Narashino Station on the New Keisei Line. This enables residents to smoothly access major downtown stations including Tokyo and Nihonbashi.
- The area is well populated with shopping, medical and other convenience enhancing facilities and also boasts a wealth of public facilities like libraries and educational facilities and parks. Thus it is also a great location for raising children.
- New spaces and lifestyles have been provided for the exclusive areas to meet customer needs such as introducing a system for selecting layouts and color coordination of units. The exterior design has also been revised to arouse thoughts of the forests of Narashino and common areas have been improved both for safety and design.

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 2018), the Japanese economy showed potential to maintain a moderate recovery due in part to various governmental measures proving effective amid ongoing improvement in the employment and income situation. The economic outlook remains clouded, however, as the situation calls for attention to the impact of U.S.-China trade issues on the world economy, uncertainties in overseas economies including the Brexit issues, the effects of fluctuations in the financial and capital markets and the impact of natural disasters, among other factors.

The real estate industry in which the ES-CON JAPAN Group operates held resilient and firm due in part to low interest rates from monetary easing policies, but the situation warrants no optimism because of such factors as a rise in land prices, intensified competition over land acquisitions, the risk of higher interest rates and the consumption tax rate hike.

Given such circumstances, the Company proactively developed multifaceted businesses based on the second medium-term management plan "IDEAL to REAL 2019" which started from the fiscal year ended December 2017.

In the real estate sales business, which is our core business, we conducted income-generating real estate sales, etc., and made steady progress in condominium sales. We have also placed our focus on hotel development projects incorporating inbound tourism needs. During the fiscal year under review, we acquired new business sites for 8 projects in the Tokyo metropolitan area, 16 projects in the Kinki metropolitan area and 3 projects in other areas as well as retail properties, to be used as the site for for-sale, commercial and other multifaceted development.

In the real estate leasing business, efforts are being made to secure stable rental income from retail properties held by ES-CON JAPAN and to enhance their asset value. In the real estate planning agency and consulting business, we are focusing on non-asset and profitable businesses such as entrustment and planning agency consulting services by utilizing planning abilities as our strength.

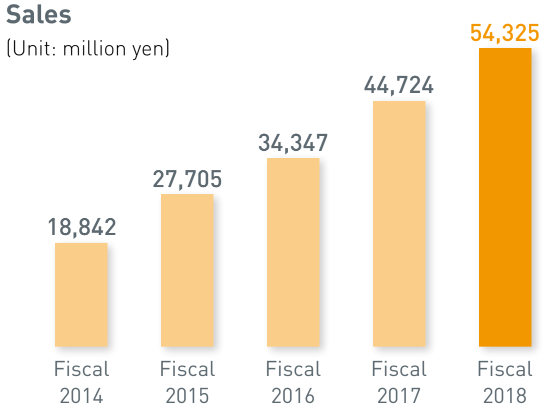
In August 2018, the Company concluded a business partnership agreement with Chubu Electric Power Co., Inc., with an aim to maximize the corporate value of both companies, as it can generate synergistic effects by taking advantage of our strengths regarding planning and operational expertise, etc. in the real estate business, and utilizing the strengths of the Chubu Electric Power Group in energy supply, customer bases in the Chubu region and know-how in facility construction works it has fostered through its electric power business, etc. In accordance with this, ES-CON JAPAN became an equity-method affiliate of Chubu Electric Power, as the latter acquired 22,980,000 shares of the former to become the largest shareholder of the Company.

On February 2019, ESCON JAPAN REIT Investment Corporation was listed on the on the Tokyo Stock Exchange Real Estate Investment Trust Securities Market. ES-CON Asset Management Ltd., a consolidated subsidiary of ES-CON JAPAN, is entrusted to manage the assets of the new REIT.

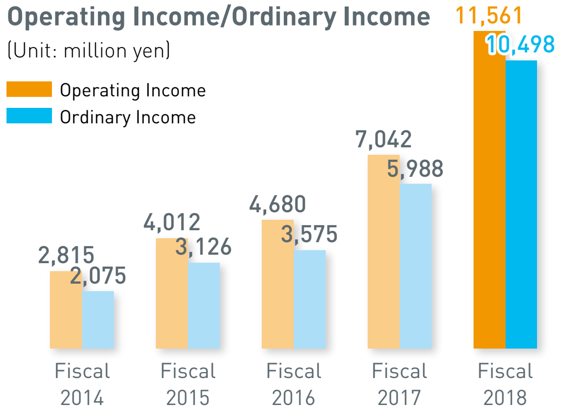
Operating Results

As a result of these endeavors, business performance for the fiscal year ended December 2018 was net sales of 54,325 million yen (up 21.5%), operating income of 11,561 million yen (up 64.2%), ordinary income of 10,498 million yen

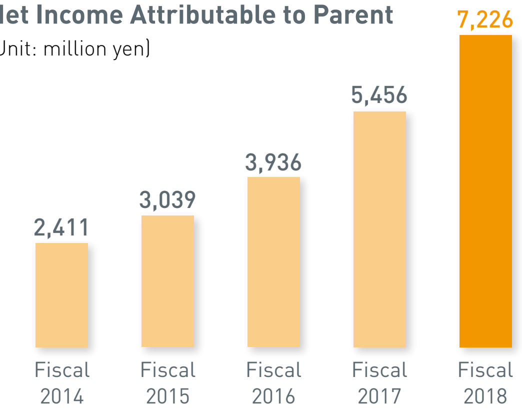
Sales
(Unit: million yen)



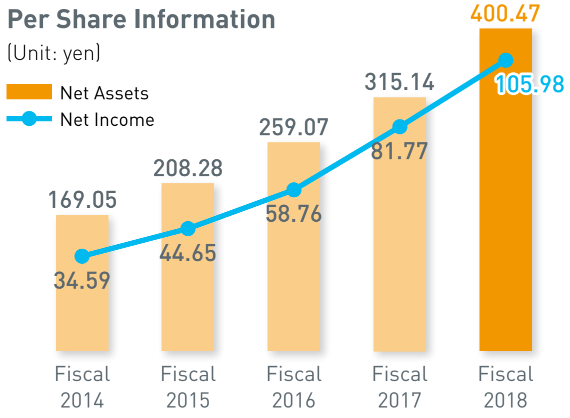
Operating Income/Ordinary Income
(Unit: million yen)



Net Income Attributable to Parent
(Unit: million yen)



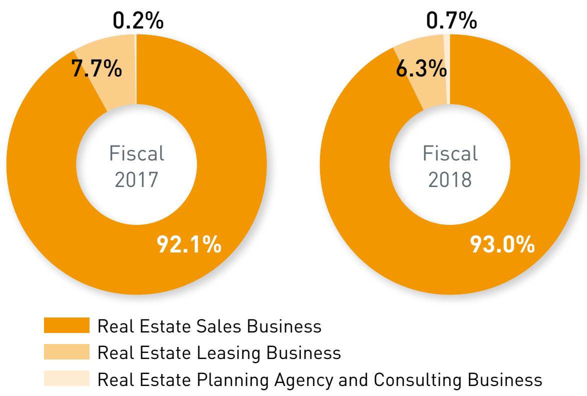
Per Share Information
(Unit: yen)



(up 75.3%) and profit attributable to owners of parent of 7,226 million yen (up 32.4%), all compared with the previous fiscal year.

Results by Segment

Sales Distribution Ratio 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 50,519 million yen (up 22.7% compared with the previous fiscal year) and segment income of 12,341 million yen (up 54.7% compared with the previous fiscal year).

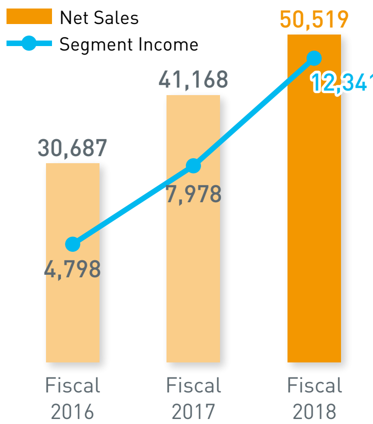
Real estate leasing business

In the real estate leasing business, we focused on leasing activities and the property management business in an effort to enhance asset value, including an increase in rental income from the income-generating real estate we own. Although net sales decreased 1.7% compared with the previous fiscal year to 3,400 million yen, segment income grew 20.8% compared with the previous fiscal year to 2,128 million yen.

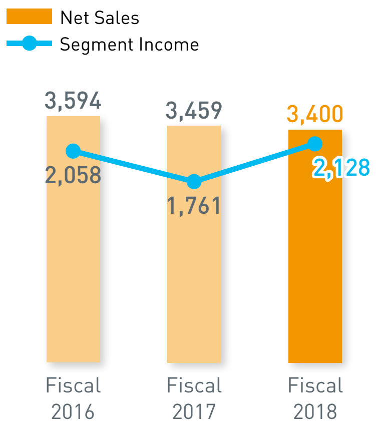
Real estate planning agency and consulting business

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 the best use of our planning capabilities and multifaceted business

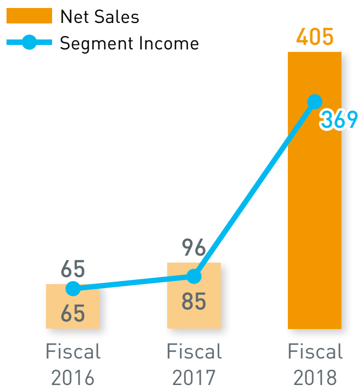
Real Estate Sales Business
(Unit: million yen)



Real Estate Leasing Business
(Unit: million yen)



Real Estate Planning Agency and Consulting Business
(Unit: million yen)



building abilities, resulting in net sales of 405 million yen (up 321.4% compared with the previous fiscal year) and segment income of 369 million yen (up 332.3% compared with the previous fiscal year).

Analysis of Financial Position

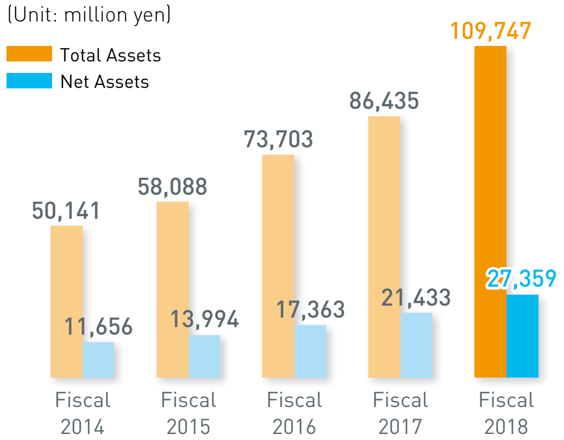
Assets, liabilities and net assets

Assets at the end of the fiscal year ended December 2018 increased by 23,311 million yen compared with the end of the previous fiscal year to 109,747 million yen. This was mainly attributable to cash and deposits increasing by 5,930 million yen and inventories increasing by 16,978 million yen, respectively.

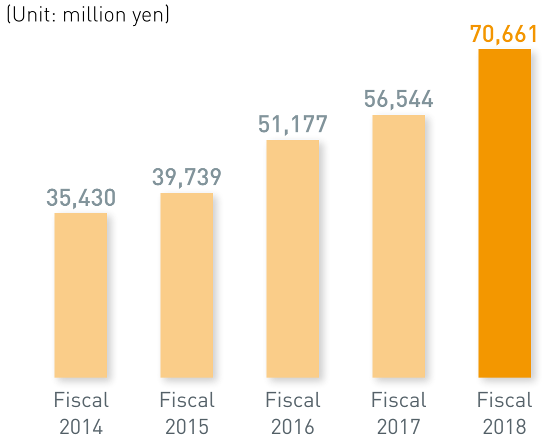
Liabilities increased by 17,385 million yen in comparison with the end of the previous fiscal year to 82,387 million yen. This was mainly attributable to long-term loans payable and short-term loans payable increasing by 14,152 million yen in total.

Net assets increased by 5,926 million yen in comparison with the end of the previous fiscal year to 27,359 million yen. This was due to recording of 7,226 million yen as profit attributable to owners of parent despite payment of 1,238 million yen as dividends of surplus and acquisition of treasury shares by 131 million yen. As a result, the equity ratio came to 24.9% (24.8% at the end of the previous fiscal year).

Total Assets/Net Assets
(Unit: million yen)



Interest-bearing Liabilities
(Unit: million yen)



Overview of Consolidated Balance Sheet

(Unit: million yen)

Assets

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

Non-current assets: 5,930 | Current assets: 80,504

Property, plant and equipment: 1,729
Intangible assets: 28
Investments and other assets: 4,173

Cash and deposits: 10,667
Real estate for sale: 4,162
Real estate for sale in process: 60,057

Fiscal 2018 Total assets: **109,747**

Non-current assets: 4,856 | Current assets: 104,890

Property, plant and equipment: 1,658
Intangible assets: 30
Investments and other assets: 3,167

Cash and deposits: 16,598
Real estate for sale: 15,308
Real estate for sale in process: 65,890

Liabilities and Net Assets

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

Fiscal 2018 Liabilities and net assets: **109,747**

Net assets: 27,359 | Non-current liabilities: 45,176 | Current liabilities: 37,210

Shareholders' equity: 27,352

Long-term loans payable: 44,568

Short-term loans payable: 1,720
Current portion of long-term loans payable: 23,993
Current portion of bonds: 40

Status of Cash flows

Cash and cash equivalents ("net cash") in the fiscal year under review increased by 5,918 million yen compared with the end of the previous fiscal year to 16,563 million yen (10,644 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 2018.

Cash flows from operating activities

Cash flows from operating activities in the fiscal year ended December 2018 amounted to net cash used in operating activities of 7,123 million yen (net cash used in operating activities of 10,694 million yen in the previous fiscal year). This was mainly attributable to recording 10,445 million yen as profit before income taxes and an increase in inventories by 16,489 million yen.

Cash flows from investing activities

Cash flows from investing activities in the fiscal year ended December 2018 amounted to net cash provided by investing activities of 223 million yen (net cash provided by investing activities of 9,167 million yen in the previous fiscal year). This was mainly attributable to proceeds from and repayments of guarantee deposits received amounting to net proceeds of 796 million yen.

Cash flows from financing activities

Cash flows from financing activities in the fiscal year ended December 2018 amounted to net cash provided by financing activities of 12,818 million yen (net cash provided by financing activities of 3,979 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 14,152 million yen, cash dividends paid of 1,237 million yen and payments of 131 million yen for purchasing treasury shares.

Consolidated Balance Sheet

(Unit: million yen)

	Fiscal 2017 (as of December 31, 2017)	Fiscal 2018 (as of December 31, 2018)
Assets		
Current assets		
Cash and deposits	10,667	16,598
Notes and accounts receivable - trade	497	491
Real estate for sale	4,162	15,308
Real estate for sale in process	60,057	65,890
Deferred tax assets	298	247
Other	4,819	6,353
Total current assets	80,504	104,890
Non-current assets		
Property, plant and equipment		
Buildings and structures	1,476	1,459
Accumulated depreciation	(410)	(462)
Buildings and structures, net	1,066	997
Land	623	623
Leased assets	18	9
Accumulated depreciation	(13)	(6)
Leased assets, net	4	2
Other	129	142
Accumulated depreciation	(93)	(107)
Other, net	35	35
Total property, plant and equipment	1,729	1,658
Intangible assets		
Other	28	30
Total intangible assets	28	30
Investments and other assets		
Investment securities	1,901	2,077
Deferred tax assets	1,675	111
Other	600	1,016
Allowance for doubtful accounts	(4)	(37)
Total investments and other assets	4,173	3,167
Total non-current assets	5,930	4,856
Total assets	86,435	109,747

(Unit: million yen)

	Fiscal 2017 (as of December 31, 2017)	Fiscal 2018 (as of December 31, 2018)
Liabilities		
Current liabilities		
Short-term loans payable	1,953	1,720
Current portion of long-term loans payable	22,462	23,993
Current portion of bonds	40	40
Lease obligations	1	0
Accounts payable - other	1,615	1,731
Income taxes payable	467	1,448
Advances received	1,467	3,051
Deposits received	4,368	4,933
Asset retirement obligations	—	33
Other	287	255
Total current liabilities	32,664	37,210
Non-current liabilities		
Bonds payable	110	270
Long-term loans payable	31,874	44,568
Lease obligations	2	1
Provision for directors' share-based benefits	82	97
Provision for share-based benefits	18	30
Asset retirement obligations	93	77
Other	155	130
Total non-current liabilities	32,337	45,176
Total liabilities	65,002	82,387
Net assets		
Shareholders' equity		
Capital stock	6,224	6,259
Capital surplus	1,953	1,988
Retained earnings	14,322	20,310
Treasury shares	(1,089)	(1,207)
Total shareholders' equity	21,411	27,352
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	20	6
Total accumulated other comprehensive income	20	6
Subscription rights to shares	1	1
Total net assets	21,433	27,359
Total liabilities and net assets	86,435	109,747

Consolidated Statement of Income and Consolidated Statement of Comprehensive Income

Consolidated Statement of Income

(Unit: million yen)

	Fiscal 2017 (from January 1, 2017 to December 31, 2017)	Fiscal 2018 (from January 1, 2018 to December 31, 2018)
Net sales	44,724	54,325
Cost of sales	33,164	37,397
Gross profit	11,559	16,927
Selling, general and administrative expenses		
Advertising expenses	1,501	1,965
Sales commission	515	459
Directors' compensations	175	190
Salaries and allowances	963	1,126
Provision for directors' share-based benefits	30	28
Provision for share-based benefits	5	12
Commission fee	224	373
Taxes and dues	351	328
Other	749	881
Total selling, general and administrative expenses	4,517	5,366
Operating income	7,042	11,561
Non-operating income		
Interest income	0	0
Dividend income	2	2
Cancellation income	24	12
Reversal of allowance for doubtful accounts	29	—
Other	1	2
Total non-operating income	58	17
Non-operating expenses		
Interest expenses	1,093	1,020
Other	18	60
Total non-operating expenses	1,112	1,080
Ordinary income	5,988	10,498
Extraordinary income		
Gain on sales of non-current assets	372	—
Gain on sales of shares of subsidiaries and associates	22	—
Gain on reversal of subscription rights to shares	—	0
Total extraordinary income	395	0
Extraordinary losses		
Loss on retirement of non-current assets	0	5
Impairment loss	150	47
Total extraordinary losses	150	52
Profit before income taxes	6,232	10,445
Income taxes - current	497	1,604
Income taxes - deferred	279	1,615
Total income taxes	776	3,219
Profit	5,456	7,226
Profit attributable to owners of parent	5,456	7,226

Consolidated Statement of Comprehensive Income

(Unit: million yen)

	Fiscal 2017 (from January 1, 2017 to December 31, 2017)	Fiscal 2018 (from January 1, 2018 to December 31, 2018)
Profit	5,456	7,226
Other comprehensive income		
Valuation difference on available-for-sale securities	(2)	(14)
Total other comprehensive income	(2)	(14)
Comprehensive income	5,453	7,211
Comprehensive income attributable to owners of parent	5,453	7,211
Comprehensive income attributable to non-controlling interests	—	—

Consolidated Statement of Changes in Equity

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

(Unit: million yen)

	Shareholders' equity					Accumulated other comprehensive income			
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity	Valuation difference on available-for-sale securities	Total accumulated other comprehensive income	Subscription rights to shares	Total net assets
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

Fiscal year ended December 2018 (from January 1, 2018 to December 31, 2018)

(Unit: million yen)

	Shareholders' equity					Accumulated other comprehensive income			
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity	Valuation difference on available-for-sale securities	Total accumulated other comprehensive income	Subscription rights to share	Total net assets
Balance at beginning of current period	6,224	1,953	14,322	(1,089)	21,411	20	20	1	21,433
Changes of items during period									
Issuance of new shares	35	35			70				70
Dividends of surplus			(1,238)		(1,238)				(1,238)
Profit attributable to owners of parent			7,226		7,226				7,226
Purchase of treasury shares				(131)	(131)				(131)
Disposal of treasury shares				13	13				13
Net changes of items other than shareholders' equity						(14)	(14)	0	(14)
Total changes of items during period	35	35	5,987	(117)	5,940	(14)	(14)	0	5,926
Balance at end of current period	6,259	1,988	20,310	(1,207)	27,352	6	6	1	27,359

Consolidated Statement of Cash Flows

(Unit: million yen)

	Fiscal 2017 (from January 1, 2017 to December 31, 2017)	Fiscal 2018 (from January 1, 2018 to December 31, 2018)
Cash flows from operating activities		
Profit before income taxes	6,232	10,445
Depreciation	186	80
Impairment loss	150	47
Increase (decrease) in allowance for doubtful accounts	(73)	33
Increase (decrease) in provision for directors' share-based benefits	28	15
Increase (decrease) in provision for share-based benefits	5	12
Interest and dividend income	(2)	(2)
Interest expenses	1,093	1,020
Loss (gain) on sales of non-current assets	(372)	—
Loss on retirement of non-current assets	0	5
Loss (gain) on sales of shares of subsidiaries and associates	(22)	—
Decrease (increase) in notes and accounts receivable - trade	(211)	5
Decrease (increase) in inventories	(18,943)	(16,489)
Decrease (increase) in prepaid expenses	(529)	(475)
Increase (decrease) in accounts payable - other	532	111
Decrease/increase in consumption taxes receivable/payable	368	(45)
Increase (decrease) in advances received	110	1,584
Increase (decrease) in deposits received	2,597	(220)
Decrease (increase) in other assets	(614)	(1,548)
Increase (decrease) in other liabilities	54	(1)
Subtotal	(9,409)	(5,421)
Interest and dividend income received	2	2
Interest expenses paid	(1,148)	(1,085)
Income taxes (paid) refund	(139)	(619)
Net cash provided by (used in) operating activities	(10,694)	(7,123)
Cash flows from investing activities		
Payments into time deposits	(18)	(18)
Proceeds from withdrawal of time deposits	18	18
Purchase of investment securities	(1,711)	(180)
Proceeds from withdrawal of investment securities	14	21
Purchase of non-current assets	(200)	(443)
Proceeds from sales of non-current assets	11,651	83
Payments for asset retirement obligations	(0)	—
Proceeds from sales of shares of subsidiaries resulting in change in scope of consolidation	34	—
Payments of loans receivable	—	(37)
Collection of loans receivable	0	0
Proceeds from guarantee deposits received	615	1,578
Repayments of guarantee deposits received	(1,232)	(782)
Payments for investments in capital	(4)	(17)
Net cash provided by (used in) investing activities	9,167	223
Cash flows from financing activities		
Increase in short-term loans payable	10,830	7,581
Decrease in short-term loans payable	(13,184)	(7,814)
Proceeds from long-term loans payable	45,348	38,884
Repayments of long-term loans payable	(37,549)	(24,659)
Proceeds from issuance of bonds	—	200
Redemption of bonds	(40)	(40)
Repayments of lease obligations	(4)	(1)
Repayments of installment payables	(32)	(33)
Proceeds from issuance of common shares	378	70
Purchase of treasury shares	(748)	(131)
Cash dividends paid	(1,016)	(1,237)
Net cash provided by (used in) financing activities	3,979	12,818
Net increase (decrease) in cash and cash equivalents	2,453	5,918
Cash and cash equivalents at beginning of period	8,191	10,644
Cash and cash equivalents at end of period	10,644	16,563

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 three consolidated subsidiaries as of December 31, 2018, as follows:
ES-CON PROPERTY Ltd.
ES-CON ASSET MANAGEMENT Ltd.
ES-CON LIVING SERVICE Ltd.

Furthermore, E-STATE Co., Ltd. and Aries Investment Two, LLC, which had been consolidated subsidiaries in the fiscal year ended December 2017, were both deconsolidated due to completion of liquidation.

(2) Equity-method affiliates

The Company has one equity-method affiliate, as follows:
NBNS Investment Limited Liability Partnership

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.

(3) Valuation standard and method for significant assets	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. 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).
(4) Depreciation method for significant depreciable assets	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. 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. 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.
(5) Standards for recording significant allowances	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. 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. 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.
(6) Scope of funds in the consolidated statement of cash flows	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.
(7) Other significant items fundamental to preparing the financial statements	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.

[Changes in Accounting Policies]

"Practical Solution on Transactions Granting Employees and Others Stock Acquisition Rights, which Involve Considerations, with Vesting Conditions" (Practical Issues Task Force (PTIF) No. 36; January 12, 2018) was applied, starting from April 1, 2018. Accordingly, for the transactions granting the employees and others stock acquisition rights, which involve considerations, with vesting conditions, the Company decided to conduct accounting treatment based on the Accounting Standard for Share-based Payment (Accounting Standards Board of Japan (ASBJ) Statement No. 8; December 27, 2005).
However, as the application of the PTIF No. 36 follows the transitional treatment stipulated in Article 36-10-(3) of the PTIF No. 36, the Company continues to conduct the accounting treatment that have been conventionally applied for the transactions that granted its employees and others stock acquisition rights, which involve considerations, with vesting conditions prior to the application date of the PTIF No. 36.

[Unapplied Accounting Standard and Implementation Guidance]

1. Implementation Guidance on Tax Effect Accounting, etc.

- Implementation Guidance on Tax Effect Accounting (Accounting Standards Board of Japan (ASBJ) Guidance No. 28; revised on February 16, 2018)
- Implementation Guidance on Recoverability of Deferred Tax Assets (ASBJ Guidance No. 26: final revision on February 16, 2018)

(1) Overview
The following revisions deemed necessary were made to the Implementation Guidance on Tax Effect Accounting, etc. upon the transfer of the practical guidance on tax effect accounting by The Japanese Institute of Certified Public Accountants to the Accounting Standards Board of Japan, while fundamentally adhering to the initial content.
(Major revisions to the accounting treatment)
- Treatment of the temporary difference in the future taxable amounts for subsidiary shares, etc. in the financial statements on a non-consolidated basis
- Treatment of recoverability of deferred tax assets of corporations that fall under the category of (Classification 1)

(2) Scheduled date of the application

The Company will adopt the implementation guidance from the beginning of the fiscal year ending December 2019.

(3) Impact of the application of the respective accounting standard and implementation guidance

The impact on the consolidated financial statements from adoption of the Implementation Guidance on Tax Effect Accounting, etc. is currently being assessed.

2. Accounting Standard for Revenue Recognition, etc.

- Accounting Standard for Revenue Recognition (ASBJ Corporate Accounting Standards No. 29; March 30, 2018)
- Implementation Guidance on Accounting Standard for Revenue Recognition (ASBJ Implementation Guidance of Corporate Accounting Standards No. 30; March 30, 2018)

(1) Overview

The International Accounting Standard Board ("IASB") and the Financial Accounting Standards Board ("FASB") have jointly developed the comprehensive accounting standard for revenue recognition, and have published "Revenue from Contracts with Customers" (IFRS No. 15 issued by IASB and Topic 606 issued by FASB) in May 2014. As IFRS No. 15 is effective for annual periods beginning on or after January 1, 2018 and Topic 606 is effective for annual periods beginning after December 15, 2017, ASBJ has developed the comprehensive accounting standard for revenue recognition, and announced it along with the implementation guidance.

As a basic policy to develop the accounting standards for revenue recognition, ASBJ decided to incorporate the basic principles from IFRS No. 15 in order to ensure the comparability among Financial Statements based on IFRS, U.S. GAAP and Japanese GAAP. The comparability between the financial statements is one of the benefits of the consistency with IFRS No. 15. In addition, in the case there is an item where consideration should be given to special treatment in Japan, the alternative treatment is accepted to the extent consistency is maintained.

(2) Scheduled date of the application

The Company will adopt the Accounting Standard and Implementation Guidance from the beginning of the fiscal year ending December 2022.

(3) Impact of the application of the respective Accounting Standard and Implementation Guidance

The impact on the consolidated financial statements from adoption of the Accounting Standard and Implementation Guidance for Revenue Recognition is currently being assessed.

(Changes in Presentation)

Not applicable.

(Additional Information)

Not applicable.

4. Notes to Consolidated Balance Sheet

(1) Equity in equity-method affiliate

(Unit: million yen)

	Fiscal 2017 (as of December 31, 2017)	Fiscal 2018 (as of December 31, 2018)
Investment securities (equity capital)	1,007	1,039

(2) Pledged assets and secured debts

Assets provided as collateral are as follows:

(Unit: million yen)

	Fiscal 2017 (as of December 31, 2017)	Fiscal 2018 (as of December 31, 2018)
Real estate for sale	2,025	13,556
Real estate for sale in process	56,758	62,372
Buildings and structures	939	903
Land	623	623
Total	60,345	77,456

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

(Unit: million yen)

	Fiscal 2017 (as of December 31, 2017)	Fiscal 2018 (as of December 31, 2018)
Short-term loans payable	1,487	1,550
Current portion of long-term loans payable	22,077	23,476
Long-term loans payable	31,174	43,905
Total	54,739	68,933

5. Notes to Consolidated Statement of Income

(1) Book value reduction due to lowered profitability of inventories held for the purpose of ordinary sales is as follows:

(Unit: million yen)

	Fiscal 2017 (from January 1, 2017 to December 31, 2017)	Fiscal 2018 (from January 1, 2018 to December 31, 2018)
Cost of sales	—	171

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

(Unit: million yen)

	Fiscal 2017 (from January 1, 2017 to December 31, 2017)	Fiscal 2018 (from January 1, 2018 to December 31, 2018)
Buildings and structures	0	5
Property, plant and equipment (Other)	—	0
Total	0	5

(3) Impairment loss

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.

In the fiscal year ended December 31, 2018, the ES-CON JAPAN Group realized impairment loss on the following asset groups.

(Unit: million yen)

Location	Use	Type	Impairment loss
Headquarters (Chiyoda Ward, Tokyo)	Office	Facilities attached to buildings	47

(Note) The ES-CON JAPAN Group classifies its individual properties into asset groups as minimum units for generating cash flows.
In the fiscal year ended December 2018, the Company made a decision to relocate its headquarters functions. Of the office facilities, the Company reduced the book value of the non-current assets that have no prospect of use in the future to the net realizable value and recorded the reduced amount (47 million yen) as impairment loss.
Breakdown of the impairment loss consists of 39 million yen for facilities attached to buildings and 7 million yen for others.
Furthermore, the net realizable value is measured by using the net sale value, which is set as zero because no possibility of sale is anticipated.

6. Notes to Consolidated Statement of Comprehensive Income

Not applicable.

7. Notes to Consolidated Statement of Changes in Equity

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.

Fiscal 2018 (from January 1, 2018 to December 31, 2018)

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

	Number of shares at beginning of Fiscal 2018	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 2018
Issued shares				
Common shares	71,203,387	446,000	—	71,649,387
Total	71,203,387	446,000	—	71,649,387
Treasury shares				
Common shares	3,195,300	196,500	56,900	3,334,900
Total	3,195,300	196,500	56,900	3,334,900

(Notes) 1. The increase in the number of common shares issued and outstanding (446,000 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 (196,500 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 (56,900 shares) is due to provision of shares to the qualifying directors by the share-based payment benefits trust (56,000 shares) and provision of shares to the qualifying employees by the share-based payment benefits type ESOP trust (900 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: 543,200 shares at the beginning of Fiscal 2018 and 487,200 shares at the end of Fiscal 2018; the share-based payment benefits type ESOP trust: 235,200 shares at the beginning of Fiscal 2018 and 234,300 shares at the end of Fiscal 2018).

(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 2018 (million yen)
			Beginning of Fiscal 2018	Increase during the fiscal year	Decrease during the fiscal year	End of Fiscal 2018	
Reporting company (parent company)	Fifth offer of subscription rights to shares (Note 1)	Common shares	758,500	—	446,000	312,500	0
	Sixth offer of subscription rights to shares (Note 2)	Common shares	1,400,000	—	101,000	1,299,000	1
Total		—	2,158,000	—	547,000	1,611,500	1

(Notes) 1. The decrease in the number of common shares issued and outstanding (446,000 shares) is due to exercise of the fifth offer of subscription rights to shares.
2. The decrease in the number of treasury shares in common shares (101,000 shares) is due to expiration 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 23, 2018 Annual General Meeting of Shareholder	Common shares	1,238	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.

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 26, 2019 Annual General Meeting of Shareholders	Common shares	2,209	Retained earnings	32.00	December 31, 2018	March 27, 2019

(Note) The total amount of dividends includes 15 million yen of dividends to the Company's shares owned by the share-based payment benefits trust for directors and 7 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

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 2017 (from January 1, 2017 to December 31, 2017)	Fiscal 2018 (from January 1, 2018 to December 31, 2018)
Cash and deposits	10,667	16,598
Time deposits with maturities of more than 3 months	(3)	(3)
Deposits of share-based payment benefits trust	(20)	(32)
Cash and cash equivalents	10,644	16,563

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 2017 (as of December 31, 2017)	Fiscal 2018 (as of December 31, 2018)
Due within one year	52	55
Due after one year	61	9
Total	114	64

(Lessor)

(1) Operating Lease Transactions

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

	Fiscal 2017 (as of December 31, 2017)	Fiscal 2018 (as of December 31, 2018)
Due within one year	526	644
Due after one year	4,897	3,906
Total	5,424	4,550

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.

Among loans payable and bonds payable, short-term loans payable and bonds payable are procured mainly for working capital, and long-term loans payable are procured mainly for real estate development projects. In addition, while loans payable are exposed to liquidity risks related to fund procurement, the ES-CON Japan Group manages the risks through such measures as preparing capital plans on a monthly basis.

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 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.

Fiscal 2018 (as of December 31, 2018) (Unit: million yen)

	Book value recorded on the balance sheet	Fair value	Difference
(1) Cash and deposits	16,598	16,598	—
(2) Notes and accounts receivable - trade	491	491	—
(3) Investment securities Other securities	33	33	—
Total of assets	17,124	17,124	—
(1) Accounts payable - other	1,731	1,731	—
(2) Deposits received	4,933	4,933	—
(3) Short-term loans payable	1,720	1,720	—
(4) Long-term loans payable*1	68,562	68,640	78
(5) Bonds payable*2	310	310	0
Total of liabilities	77,258	77,336	78

*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 2017 (as of December 31, 2017)	Fiscal 2018 (as of December 31, 2018)
1) Non-listed shares	10	10
2) Investment limited liability partnership equity investment	1,007	1,039
3) Silent partnership equity investment, etc.	836	993
Total	1,853	2,043

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 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	—	—	—

Fiscal 2018 (as of December 31, 2018) (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	16,598	—	—	—
Notes and accounts receivable - trade	491	—	—	—
Total	17,090	—	—	—

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

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

Fiscal 2018 (as of December 31, 2018) (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	1,720	—	—	—	—	—
Long-term loans payable	23,993	20,306	6,962	7,747	7,365	2,186
Bonds payable	40	40	230	—	—	—
Total	25,754	20,346	7,192	7,747	7,365	2,186

11. Notes to Securities

(1) Other Securities

Fiscal 2017 (from January 1, 2017 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.

Fiscal 2018 (from January 1, 2018 to December 31, 2018) (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	33	27	6
Total		33	27	6

(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: 2,043 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 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.

Fiscal 2018 (from January 1, 2018 to December 31, 2018)

(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 11 million yen for the defined contribution pension plan.

14. Notes to Stock Options, Etc.

(Additional Information)

(Adoption of the Practical Solution on Transactions Granting Employees and Others Stock Acquisition Rights, which Involve Considerations, with Vesting Conditions, etc.)

For transactions granting employees and others stock acquisition rights, which involve considerations, with vesting conditions conducted prior to the application date of the Practical Solution on Transactions Granting Employees and Others Stock Acquisition Rights, which Involve Considerations, with Vesting Conditions (Practical Issues Task Force (PTIF) No. 36; January 12, 2018), the Company continues to conduct the accounting treatment that have been conventionally applied for such transactions.

1. Overview of the stock acquisition rights, which involve considerations, with vesting conditions

(1) Descriptions of the stock acquisition rights, which involve considerations, with vesting conditions

	5th subscription rights to shares	6th subscription rights to shares
Category and number of eligible persons	49 people comprising the Company's directors (in-house) and employees	146 people comprising the Company's directors and employees and the employees of its subsidiaries
Number of stock options by type of shares (Note 1)	Common shares: 3,500,000 shares	Common shares: 1,400,000 shares
Date of grant of options	November 29, 2013	December 27, 2017
Vesting conditions	(Note 2)	(Note 3)
Covered period of work	Not specified	Not specified
Exercise period	From April 1, 2015 to November 28, 2020	From April 1, 2021 to December 26, 2025

(Notes) 1. The figures have been converted to the number of shares.

2. The vesting conditions to exercise the subscription rights to shares are as follows;

(1) The persons eligible for the subscription rights to shares may exercise their rights if the operating income (referring to the operating income in the consolidated statement of income described in the Company's securities report (or statement of income if no consolidated statement of income is prepared); the same shall apply hereinafter) falls below 1,790 million yen.

(2) When (1) above is satisfied, the persons eligible for the subscription rights to shares may exercise their rights for the number of shared equivalent to 10% of the subscription rights to shares allotted to them if the operating income for any of the fiscal years ended December 2014 through December 2016 exceeds 2,500 million yen. Furthermore, when the number of the subscription rights to shares they can exercise has a portion less than one share, the number shall be rounded down to one share.

(3) Even before (1) above is satisfied, the persons eligible for the subscription rights to shares may exercise the entire subscription rights to shares allotted to them if the cumulative operating income for the fiscal years ended December 2014 through December 2016 exceeds 7,000 million yen. Furthermore, they may exercise the entire subscription rights to shares allotted to them if the cumulative operating income for the fiscal years ended December 2014 through December 2015 exceeds 7,000 million yen.

(4) In determining the operating income for (1) through (3) above, if material changes are made to the concept of the operating income to be referred to due to changes in the applicable accounting standards, etc., the Company shall otherwise determine the appropriate indicators to be referred to at the Board of Directors to the extent reasonable.

(5) The persons eligible for the subscription rights to shares must be directors, auditors or employees of the Company or its affiliates when they exercise their subscription rights to shares; however, this shall not apply for their retirement from office due to expiration of tenure, retirement at predetermined age or for other reasons deemed reasonable by the Board of Directors.

(6) Successors of the persons eligible for the subscription rights to shares may not exercise the subscription rights to shares; however, this shall not apply if the persons eligible for the subscription rights to shares died of accidents during their work or if the Board of Directors approve that there is fair reason to allow the said successors to exercise the subscription rights to shares.

(7) The subscription rights to shares may not be exercised if such an exercise cause the Company's number of shares issued and outstanding to exceed the authorized number of shares at that time.

(8) The subscription rights to shares may not be exercised for less than one share each.

3. The vesting conditions to exercise the subscription rights to shares are as follows;

(1) The persons eligible for the subscription rights to shares may exercise the subscription rights to shares allotted to them, starting on the first day of the month following the date when the securities report for the fiscal year ending December 2020 is submitted, if the Company's operating income for all the fiscal years ending December 2018 through December 2020 exceeds the respective amounts described in the following items. When the number of the subscription rights to shares they can exercise has a portion less than one share, the number shall be rounded down to one share.

1) If the operating income for the fiscal year ended December 2018 exceeded 8,500 million yen

2) If the operating income for the fiscal year ending December 2019 exceeds 9,500 million yen

3) If the operating income for the fiscal year ending December 2020 exceeds 10,000 million yen

Furthermore, in determining the operating income stated above, the operating income in the consolidated statement of income described in the Company's securities report (or statement of income if no consolidated statement of income is prepared) shall be referred to. In addition, if material changes are made to the concept of the items to be referred to due to such reasons as application of the international financial reporting standards, the Company shall otherwise determine the appropriate indicators to be referred to at the Board of Directors to the extent reasonable (the same shall be applied hereinafter).

(2) The persons eligible for the subscription rights to shares must be directors, auditors or employees of the Company or its affiliates when they exercise their subscription rights to shares; however, this shall not apply for their retirement from office due to expiration of tenure, retirement at predetermined age or for other reasons deemed reasonable by the Board of Directors.

(3) Successors of the persons eligible for the subscription rights to shares may not exercise the stock acquisition rights; however, this shall not apply if the persons eligible for the subscription rights to shares died of accidents during their work or if the Board of Directors approve that there is fair reason to allow the said successors to exercise the subscription rights to shares.

(4) The subscription rights to shares may not be exercised if such an exercise cause the Company's number of shares issued and outstanding to exceed the authorized number of shares at that time.

(5) The subscription rights to shares may not be exercised for less than one share each.

(2) Size and changes of the stock acquisition rights, which involve considerations, with vesting conditions

The following table describes the stock option plan that existed in Fiscal 2018 ended December 31, 2018. The number of stock options indicates the number of shares when the stock options are exercised.

1) Number of stock options

	5th subscription rights to shares	6th subscription rights to shares
Before right allotment (shares)		
Balance of unexercised options at the end of the previous fiscal year	—	1,400,000
Granted	—	—
Expired	—	101,000
Right allotment	—	—
Balance of unexercised options	—	1,299,000
After right allotment (shares)		
Balance of unexercised options at the end of the previous fiscal year	758,500	—
Right allotment	—	—
Exercise of right	446,000	—
Expired	—	—
Balance of unexercised options	312,500	—

2) Unit price information (Unit: yen)

Exercise price	157	627
Average share price upon exercise	891	—

2. Overview of the adopted accounting treatment

When issuing the subscription rights to shares, the Company records the paid-in amount corresponding to the issuance as Subscription rights to shares in Net assets of the balance sheet. When the subscription rights to shares are exercised and new shares are issued, the Company re-states the paid-in amount corresponding to the issuance of the said subscription rights to shares and the paid-in amount corresponding to the exercise of the subscription rights to shares as Capital stock and Capital surplus.

Furthermore, when the subscription rights to shares are expired, the Company records the amount corresponding to the expiration as profits for the fiscal year in which the expiration has been finalized.

15. Notes to Tax Effect Accounting

(1) Significant Components of Deferred Tax Assets and Deferred Tax Liabilities

(Unit: million yen)

	Fiscal 2017 (as of December 31, 2017)	Fiscal 2018 (as of December 31, 2018)
Deferred tax assets		
Net operating loss carried forward	1,830	16
Loss on valuation of inventories	169	314
Impairment loss	46	47
Loss on valuation of investment securities	39	20
Asset retirement obligations	28	34
Unrecorded interest receivable	46	—
Temporary difference related to investments in subsidiaries	1,642	—
Other	106	161
Subtotal of deferred tax assets	3,910	594
Valuation allowance	(1,924)	(227)
Total of deferred tax assets	1,986	366
Deferred tax liabilities		
Asset retirement expenses	(11)	(7)
Other	(0)	(0)
Total of deferred tax liabilities	(11)	(7)
Deferred tax assets, net	1,974	359

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

(Unit: %)

	Fiscal 2017 (as of December 31, 2017)	Fiscal 2018 (as of December 31, 2018)
Effective statutory tax rate	30.9	The note is omitted as the difference between the effective statutory tax rate and the income tax rate applicable after applying tax effect accounting is less than 5/100 of the effective statutory tax rate.
(Adjustment)		
Permanently non-deductible entertainment and other expenses	0.2	
Per-capita inhabitants tax	0.2	
Increase/decrease in valuation allowance	(18.7)	
Impact of change in tax rate	0.0	
Other	(0.1)	
Income tax rate after applying tax effect accounting	12.5	

16. Notes to Business Combination, Etc.

Not applicable

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 0.0% to 1.9%, with the expected period of use estimated to be 6 years to 18 years.

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

(Unit: million yen)

	Fiscal 2017 (from January 1, 2017 to December 31, 2017)	Fiscal 2018 (from January 1, 2018 to December 31, 2018)
Balance at beginning of fiscal year	83	93
Increase due to acquisition of property, plant and equipment	9	14
Adjustments over passage of time	1	1
Decrease due to implementation of asset retirement obligations	(0)	—
Other	—	2
Balance at end of fiscal year	93	111

18. Notes to Rental Real Estate

The Company owns medical facilities and other properties. 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). Income or loss from leasing these rental properties during Fiscal 2018 totaled 96 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 2017 (from January 1, 2017 to December 31, 2017)	Fiscal 2018 (from January 1, 2018 to December 31, 2018)
Book value recorded on the consolidated balance sheet		
Balance at beginning of fiscal year	12,832	1,562
Increase/decrease during fiscal year	(11,270)	(35)
Balance at end of fiscal year	1,562	1,526
Fair value at end of fiscal year	1,950	1,980

(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 2017 is primarily attributable to sales of non-current assets (11,163 million yen) and depreciation (117 million yen). The amount of decrease during Fiscal 2018 is primarily attributable to depreciation (35 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 2017 (from January 1, 2017 to December 31, 2017)

(Unit: million yen)

	Reportable segment					
	Real estate sales business	Real estate leasing business	Real estate planning agency and consulting business	Total	Reconciliation (Note 1)	Amount on consolidated financial statements (Note 2)
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.

Fiscal 2018 (from January 1, 2018 to December 31, 2018)

(Unit: million yen)

	Reportable segment					
	Real estate sales business	Real estate leasing business	Real estate planning agency and consulting business	Total	Reconciliation (Note 1)	Amount on consolidated financial statements (Note 2)
Net sales						
Net sales to external customers	50,519	3,400	405	54,325	—	54,325
Intersegment net sales or transfers	—	—	—	—	—	—
Total	50,519	3,400	405	54,325	—	54,325
Segment income	12,341	2,128	369	14,839	(3,277)	11,561
Segment assets	85,641	6,265	17	91,924	17,822	109,747
Other items						
Depreciation	—	36	—	36	43	80
Investment in equity method affiliates	—	1,039	—	1,039	—	1,039
Increase in property, plant and equipment and intangible assets	—	5	—	5	43	49

(Notes) 1. Reconciliations are as follows:

(1) The reconciliation of segment income of -3,277 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 17,822 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 43 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 43 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 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
ESCON JAPAN REIT Investment Corporation	7,417	Real estate sales business
Aries LLC	5,920	Real estate sales business

Fiscal 2018 (from January 1, 2018 to December 31, 2018)

(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
Ascendas Hospitality Honmachi TMK	10,290	Real estate sales business

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

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

Fiscal 2018 (from January 1, 2018 to December 31, 2018)

(Unit: million yen)

	Real estate sales business	Real estate leasing business	Real estate planning agency and consulting business	Eliminations or corporate	Total
Impairment loss	—	—	—	47	47

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 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 ESCON 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 ESCON 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 invest-ment (million yen)	Business description or occupation	The Company's share of voting rights, etc. [or ownership of such in the Company] (Note 1)	Descrip-tion of rela-tionship	Description of transaction	Trans-action amount (million yen)	Catego-ry	Balance at end of fiscal year (million yen)
Affiliate	NBNS Investment Limited Liability Partnership (Note 2)	Kanaza-wa City, Ishikawa	2,060	Equity investment in ESCON JAPAN REIT Investment Corporation	Owned by the Company: 50.0% (4.9%)	Under-taking of forma-tion and equity invest-ment	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.

Fiscal 2018 (from January 1, 2018 to December 31, 2018)

(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 invest-ment (million yen)	Business description or occupation	The Company's share of voting rights, etc. [or ownership of such in the Company]	Descrip-tion of rela-tionship	Description of transaction	Trans-action amount (million yen)	Catego-ry	Balance at end of fiscal year (million yen)
Officer	Keiko Akashi	—	—	Director of the Company	Ownership in the Compa-ny: 0.8%	—	Exercise of subscription rights to shares (Note 1)	21	—	—

(Notes) 1. 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, 2018. The figure does not include consumption taxes.
2. Keiko Akashi does no longer fall into the category of related parties as she resigned the office of director as of October 30, 2018. Accordingly, the transaction amount covers the transactions for the period when she was a related party, and the ownership in the Company indicates the share as of the end of the fiscal year.

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.

25. Per Share Information

(Unit: yen)

	Fiscal 2017 (from January 1, 2017 to December 31, 2017)	Fiscal 2018 (from January 1, 2018 to December 31, 2018)
Net assets per share	315.14	400.47
Basic earnings per share	81.77	105.98
Diluted earnings per share	79.81	105.48

(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: 543,200 shares for Fiscal 2017 and 487,200 shares for Fiscal 2018; the share-based payment benefits type ESOP trust: 235,200 shares for Fiscal 2017 and 234,300 shares for Fiscal 2018) 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 (781,062 shares for Fiscal 2017 and 768,063 shares for Fiscal 2018) 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:

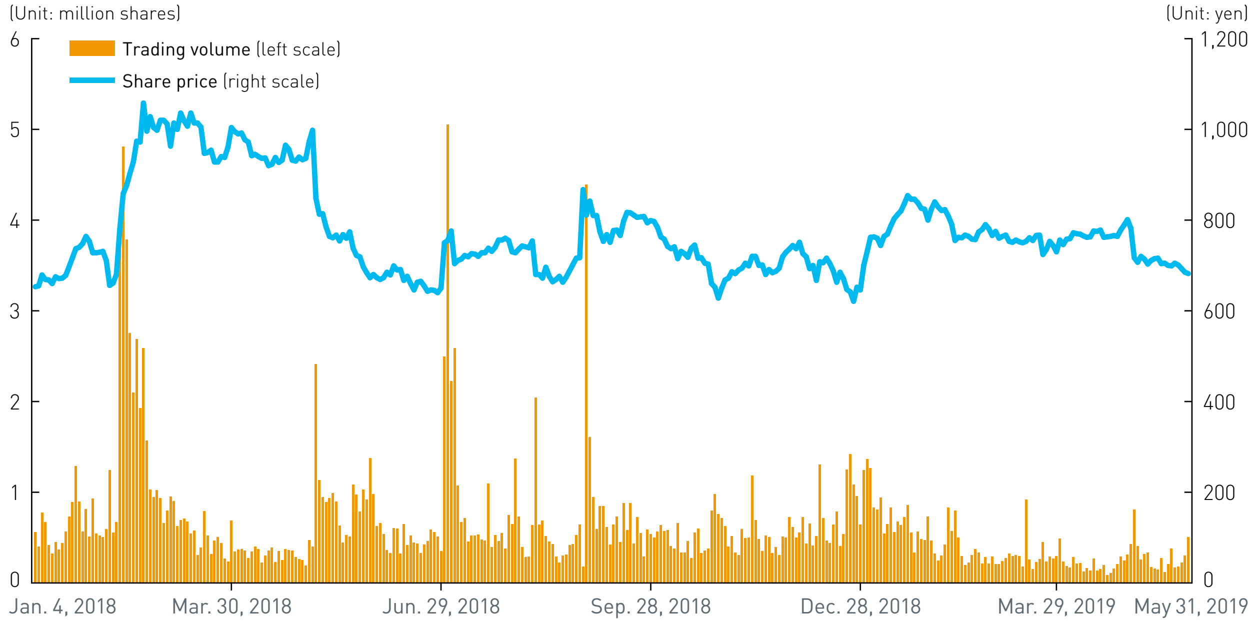
	Fiscal 2017 (from January 1, 2017 to December 31, 2017)	Fiscal 2018 (from January 1, 2018 to December 31, 2018)
Basic earnings per share		
Profit attributable to owners of parent (million yen)	5,456	7,226
Profit not attributable to common shareholders (million yen)	—	—
Profit attributable to owners of parent for common shares (million yen)	5,456	7,226
Period-average number of common shares (shares)	66,724,613	68,185,053
Diluted earnings per share		
Adjustments to profit attributable to owners of parent (million yen)	—	—
Increase in common shares (shares)	1,641,286	320,110
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	Sixth offer of subscription rights to shares based on resolution by the Board of Directors' meeting on December 1, 2017 Common shares: 1,299,000 shares

26. Significant Subsequent Events

Not applicable

Investor Information

Status of Share Price (from January 4, 2018 to May 31, 2019)



Major Shareholders (as of March 31, 2019)

	Name	No. of shares owned	Ownership ratio (%)
1	Chubu Electric Power Co., Inc.	22,980,000	33.21
2	Nissei Build Kogyo Co., Ltd.	6,500,000	9.39
3	Tenma Seiryu Co., Ltd.	3,610,000	5.21
4	ES-CON JAPAN Ltd.	2,613,400	3.77
5	BNY GCM CLIENT ACCOUNT JPRD AC ISG (FE-AC)	2,217,312	3.20
6	Koryu Oh	2,100,000	3.03
7	Japan Trustee Services Bank, Ltd.	2,049,400	2.96
8	Takatoshi Ito	1,202,400	1.73
9	The Master Trust Bank of Japan, Ltd.	842,300	1.21
10	NS Corporation Co., Ltd.	800,300	1.15

(Notes) 1. Treasury shares are excluded from the calculation of ownership ratios.
2. 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: 71,806,887 shares (as of March 31, 2019)

Total number of shareholders: 9,047 shareholders (as of March 31, 2019)

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.