

ES-CON JAPAN

Our Name Represents Our Core Functions

ES-CON was coined from a combination of “real estate” and “constellation.” All people connected by ES-CON JAPAN produce powerful lights of various colors creating a beautiful harmony that shines brightly into the future—we aspire to be a “constellation in the real estate industry.” Japan is the realm in which the company operates. Thus the name of ES-CON JAPAN Ltd. was adopted.



Annual Report 2021

For the year ended December 31, 2021

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



Committed to Building a Bright Future for Japan

ES-CON JAPAN Ltd. (“ES-CON JAPAN”) develops a comprehensive selection of real estate assets including retail, logistics, office and hotel, while primarily focusing on high-value condominiums and other residential properties. We at ES-CON JAPAN are committed to creating a new future for Japan by realizing ideal lifestyles and towns that envision the happiness and future of residents.

Corporate Philosophy

How should we live each day? How should we participate in society? And through this participation, what fruits can we bear for society that translate into the happiness we each pursue? To answer these questions, our management style seeks to provide a foundation upon which employees can earnestly build toward individual self-realization while aiding and encouraging one another.

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Forward-looking Statements

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

To Our Shareholders

Thank you for your continued support and patronage. We would like to express our deepest sympathy to those who suffered and are suffering from the novel coronavirus (COVID-19) pandemic and its spread.

In Fiscal 2021, the second year since the outbreak of the pandemic, society entered a “new normal” era of living with COVID-19, changing our conventional lifestyles and ways of working.

Despite this, in Fiscal 2021 we expanded into new business domains and laid the groundwork for sustainable growth. In April, we raised approximately 20.4 billion yen through a third-party allotment of new shares to Chubu Electric Power Co., Inc. (“Chubu Electric Power”), making us a consolidated subsidiary of Chubu Electric Power. With Chubu Electric Power’s strong corporate credit, this provided flexibility to our financing options by improving our creditworthiness and generated various other synergies.

Furthermore, in February 2021, we formulated our Fourth Medium-Term Management Plan “IDEAL to REAL 2023” (Fiscal 2021 - Fiscal 2023) and, with the themes of “Transformation” and “Rapid Progress,” pursued management strategies of “establishing business foundations able to withstand unexpected changes in economic conditions” and “simultaneously changing the revenue structure and expanding business domains.” In October, we made Picasso Co., Ltd. and six other companies (“the Picasso Group”), which own many excellent rental income properties, into subsidiaries, thereby achieving our goal of “changing the revenue structure.”

Our business results for Fiscal 2021 as described above were broadly in line with our initial plan, with net sales of 79.0 billion yen (up 2.2% year-on-year) and operating income of 10.3 billion yen (down 14.9% year-on-year). This fiscal year and next, we plan to achieve record profits and maintain our “rapid progress.”

We will continue to develop our business in a multifaceted manner, and by promoting environment, social and governance (ESG), we will respond appropriately to the diversifying social challenges in an aim to maximize our corporate value. I invite you to join and support us in this endeavor.

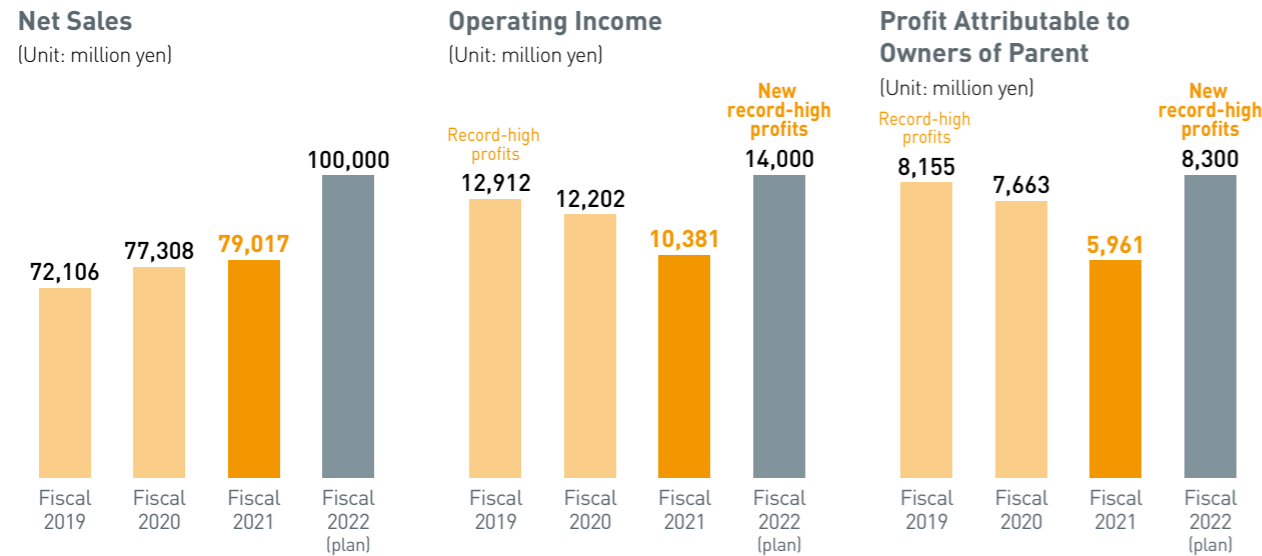


Takatoshi Ito

President and
Representative Director
ES-CON JAPAN Ltd.

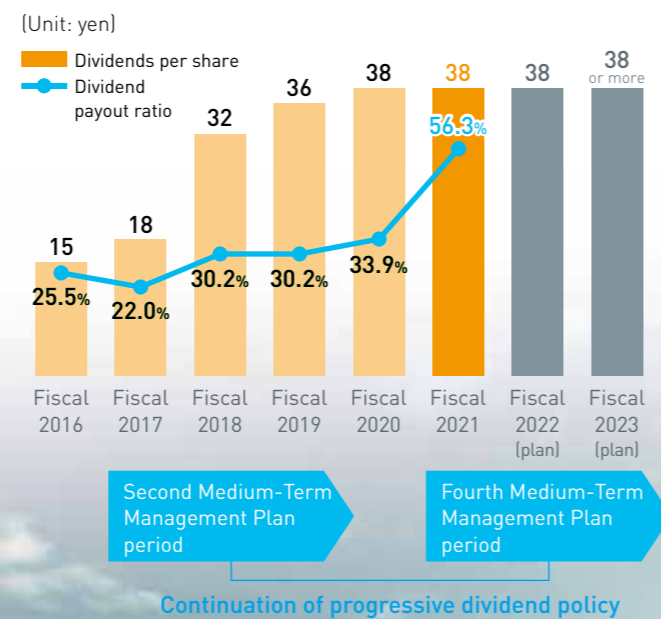
Financial Highlights

In Fiscal 2021, the condominium business remained strong, and the increase in rental income due to the acquisition of Picasso Group as a subsidiary resulted in a revenue increase for ten consecutive fiscal years. Although profits decreased year-on-year, we plan to achieve record-high profits in Fiscal 2022.



Dividend Policy

From the Second Medium-Term Management Plan, we introduced a progressive dividend policy, in which the dividend per share (DPS) for the previous year is set as the lower limit and principally adopting “no reduction, and only maintaining or increasing dividends,” and this policy continues to be implemented in the Fourth Medium-Term Management Plan. We paid a dividend of 38 yen per share in Fiscal 2021, and plan to pay 38 yen per share also in Fiscal 2022.



Segment Overview

Real Estate Sales Business	Real Estate Leasing Business	Real Estate Planning Agency and Consulting Business
Net Sales 70,334 million yen	Net Sales 8,090 million yen	Net Sales 592 million yen
Segment Income 13,039 million yen	Segment Income 3,372 million yen	Segment Income -516 million yen

Within the real estate sales business, the number of delivered units in the condominium business increased by 368 units year-on-year to 1,020 units due to the favorable progress in sales, and net sales increased by 14.3 billion yen year-on-year to 45 billion yen. Other than the condominium business, we conducted the second capital increase at ESCON JAPAN REIT Investment Corporation (“EJR”) in August 2021 and sold seven real estate for sale to EJR (net sales of 11.9 billion yen), and also realized the sale of logistics facilities and other properties.

As a result, in the real estate sales business, net sales was 70,334 million yen (down 1.6% year-on-year) and segment income was 13,039 million yen (down 8.5% year-on-year).

In the real estate leasing business, we secured stable income by strengthening leasing business through efforts such as the increase in rental income of revenue-generating real estate by making Picasso Group a subsidiary, opening of “tonarie Yokkaichi,” a community-based shopping center, and “tonarie Fujimino” (former name: Soyoca Fujimino), phased opening of “tonarie CREO” at “tonarie Tsukuba Square,” a redevelopment project in front of Tsukuba Station in Ibaraki Prefecture, and reopening of “tonarie Minami-Senri Annex” after renovating it.

As a result, net sales was 8,090 million yen (up 46.4% year-on-year) and segment income was 3,372 million yen (up 41.6% year-on-year).

In the real estate planning agency and consulting business, although sales increased as a result of our efforts to maximize our strengths in planning and multifaceted business development including the launch of sales of columbarium, delays in sales of columbarium and prior expenditures for advertising mainly due to the spread of the COVID-19 infection resulted in net sales of 592 million yen (up 100.6% year-on-year) and segment loss of 516 million yen (segment income of 152 million yen in Fiscal 2020).

Overview and Progress of Medium-Term Management Plan

Progress of the Fourth Medium-Term Management Plan

“IDEAL to REAL 2023” (Fiscal 2021 – Fiscal 2023)

Basic Management Strategy Policies

1. Establishing business foundations able to withstand unexpected changes in economic conditions
2. Simultaneously change the revenue structure and expand business domains

Basic Policy: Transformation and Rapid Progress

Transformation

- Proactive investment in long-term revenue-generating real estate and improvement of balance sheet structure
- Transform the focus of management from flows to stock

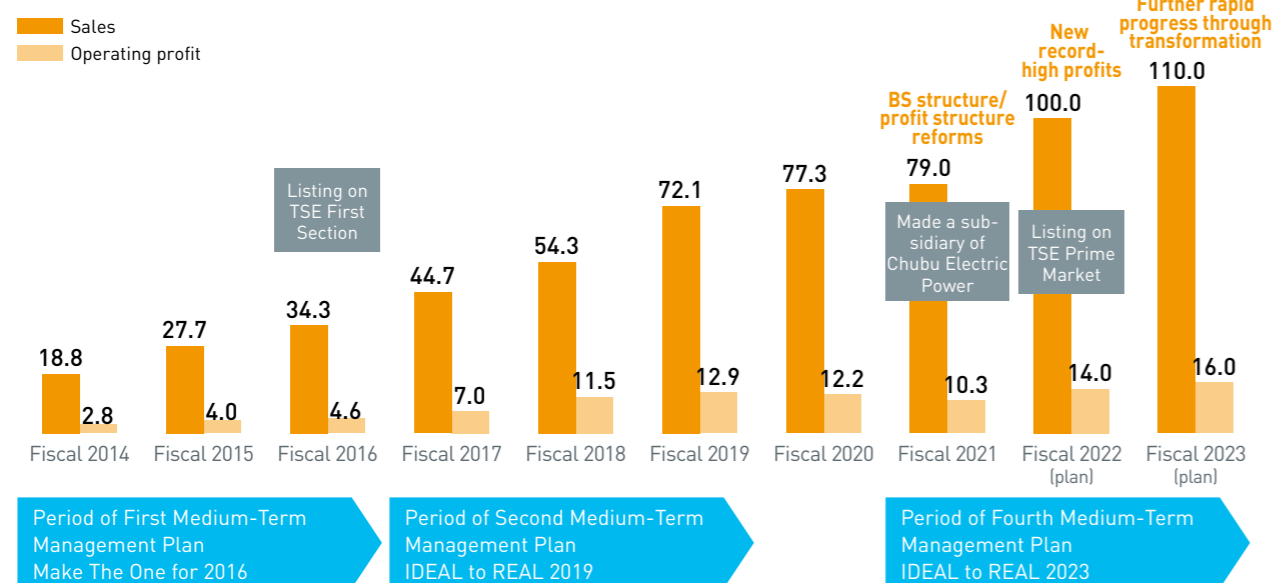
Rapid Progress

- Demonstrating synergies within the Chubu Electric Power Group
- Achieving net sales of 110 billion yen and operating income of 16 billion yen (in the final fiscal year of the medium-term management plan)

Performance Trends Over the Past 10 Years

- We are targeting sustainable growth through maximizing corporate value and further increasing returns to shareholders, in addition to establishing robust business foundations capable of withstanding any economic conditions.

(Unit: Billion yen)



Performance Plan

- In the first fiscal year, Fiscal 2021, despite recording lower sales and profits than planned, we implemented a transformation of our revenue structure. This period is identified as a stage for BS and profit structural reforms.
- We plan to set new record high in Fiscal 2022 and to realize rapid progress by expanding results from the initial plans announced February 2021 in Fiscal 2023.

(Unit: Million yen)

Planned financial results	Fiscal 2021				Fiscal 2022					Fiscal 2023
	Actual results	Plan (announced Feb. 2021)	vs. plan	Percentage	Initial plan (Q2) (announced Jan. 2022)	Initial plan (full year) (announced Jan. 2022)	Initial plan (announced Feb.2021)	vs. initial plan (full year)	Percentage	Plan (announced Feb. 2021)
Sales	79,017	80,000	-983	-1.2%	36,300	100,000	98,000	2,000	2.0%	110,000
Real estate sales business	70,334	69,900	434	0.6%	—	87,300	—	—	—	—
Condominium sales	45,050	47,240	-2,190	-4.6%	—	59,300	—	—	—	—
Condominium units sold	1,020	1,062	-42	-4.0%	—	1,200	1,200	—	—	1,200
Other sales	25,283	22,660	2,623	11.6%	—	28,000	—	—	—	—
Real estate leasing business	8,090	7,900	190	2.4%	—	11,600	9,500	2,100	22.1%	11,200
Real estate planning agency and consulting business	592	2,200	-1,608	-73.1%	—	1,100	—	—	—	—
Operating income	10,381	10,800	-419	-3.9%	4,700	14,000	14,000	—	—	16,000
Ordinary income	9,099	9,400	-301	-3.2%	3,800	12,200	—	—	—	—
Dividends per share	38 yen	38 yen	—	—	—	38 yen (plan)	38 yen or more	—	—	38 yen or more

Stage for BS and profit structural reforms → Stage for new record-high profits → Stage for rapid progress

Policy of gradually increasing dividends to continue

Strive to expand results from the plans announced February 2021

Management Targets

Made Picasso Group subsidiary → Revised some of the indicators for stable profit revenue structure for the fiscal year under review and the final fiscal year of the medium-term management plan

- Most management indicators progressed according to plan in the Fiscal 2021.
- Accelerated progress on investment plans after making the Picasso Group a subsidiary. Revised some of the management indicators for the fiscal year under review and the final fiscal year of the medium-term management plan in order to make further progress on transforming profit structure.

	Fiscal 2020	Fiscal 2021		Fiscal 2022		Fiscal 2023	
	Actual results	Actual results	Plan (Announced Feb. 2021)	Initial plan (Announced Jan. 2022)	Initial plan (Announced Feb. 2021)	Revised plan (Announced Mar. 2022)	Initial plan (Announced Feb. 2021)
Share of profits from leasing *1	14.2%	21.2%	23.0%	26.0%	24.0%	30.0%	26.0%
Return on equity (ROE)	21.2%	11.8%	12.0%	13.0%	13.0%	13.0%	13.0%
Return on invested capital (ROIC)	6.6%	3.2%	4.0%	4.0%	4.0%	4.0%	4.0%
Equity ratio	25.8%	24.8%	29.0%	23.0%	26.0%	21.0%	23.0%
Share of long-term earnings from real estate *2	9.5%	20.6%	12.0%	21.0%	14.0%	23.0%	18.0%
Net assets [billion yen]	38.6	62.6	61.0	67.3	66.0	72.0	72.0

*1. Share of profits from leasing: Leasing segment profits/segment total profits (excluding adjustments)

*2. Share of long-term earnings from real estate: Real estate generating leasing revenues recorded as noncurrent assets/net assets

Transformation of Revenue Structure

Investment Plan

- Gross investment during three-year period of the medium-term management plan: 220 billion yen.
- Gross investment increased by 74.4% ahead of schedule, after making the Picasso Group a subsidiary.
- Investment of 70 billion yen planned in Fiscal 2022.

Three-year cumulative investment (2021-2023)

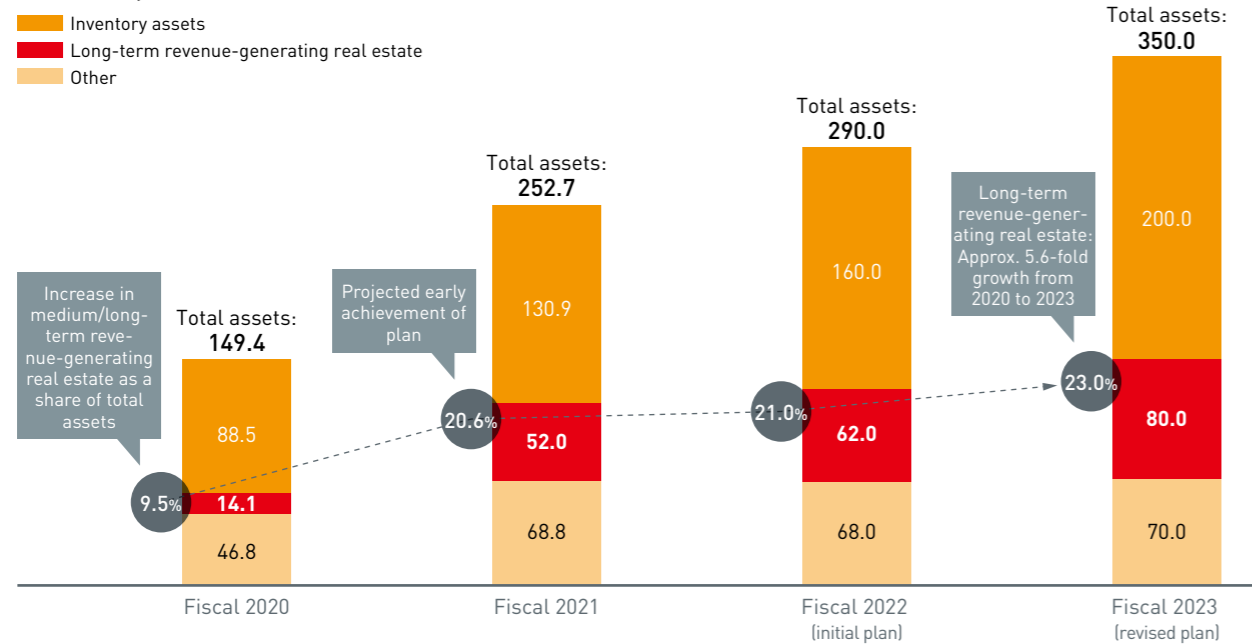
(Unit: billion yen)

Planned financial results	Fiscal 2021				Fiscal 2022	Fiscal 2023	Three-year cumulative
	Actual	Plan (Announced Feb. 2021)	vs. plan	Percentage			
Gross investment	95.9	55.0	40.9	74.4%	70.0	95.0	220.0
Investment in revenue-generating real estate	76.7	30.0	46.7	155.7%	40.0	60.0	130.0
Investment in development of revenue-generating real estate	5.6	5.0	0.6	12.0%	10.0	15.0	30.0
Investment in medium-term revenue-generating real estate*	33.7	15.0	18.7	124.7%	20.0	25.0	60.0
Investment in long-term revenue-generating real estate	37.3	10.0	27.3	273.0%	10.0	20.0	40.0
Investment in other development	19.1	25.0	-5.9	-23.6%	30.0	35.0	90.0
Amount recovered	4.8	0	4.8	—	0	30.0	30.0
Net investment amount	91.1	55.0	36.1	65.6%	70.0	65.0	190.0

*Rental revenue-generating real estate acquired while leased and intended for sale after increasing its value.

Trends in Share of Long-Term Revenue-Generating Real Estate

(Unit: billion yen)

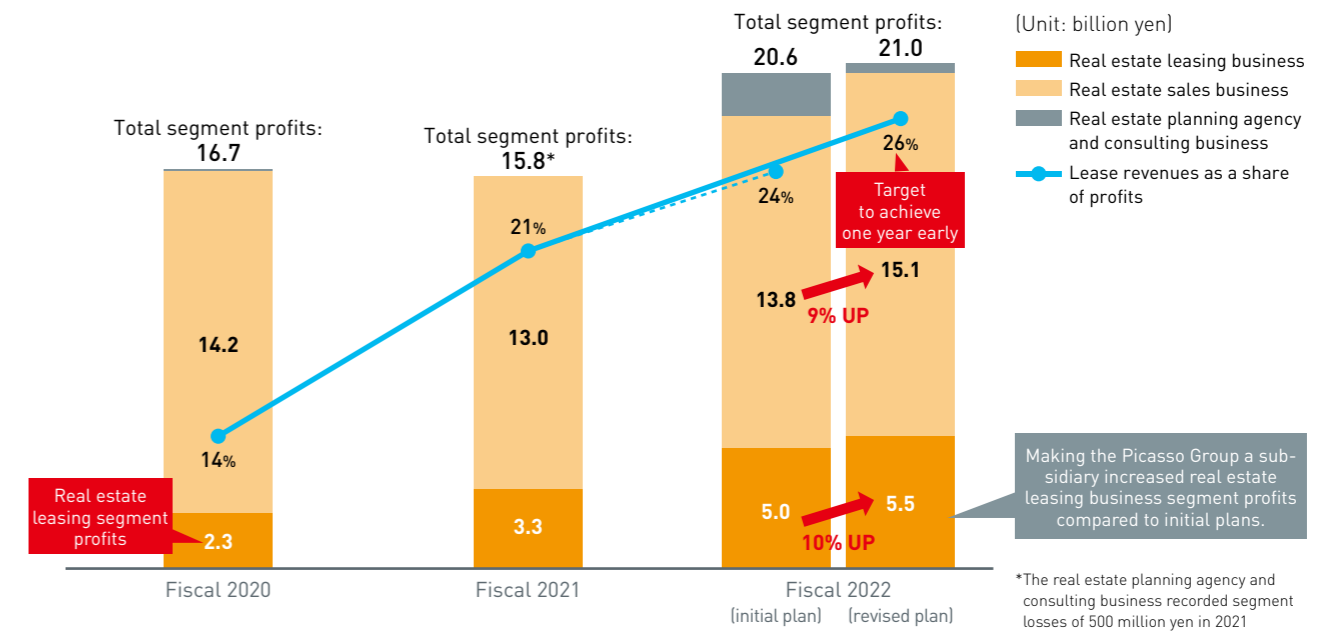


Strengthening the Leasing Segment

Trends in Leasing Segment Profits and Lease Revenues as a Share of Profits

(Lease revenues as a share of profits: leasing segment profits/total segment profits [excluding adjustments])

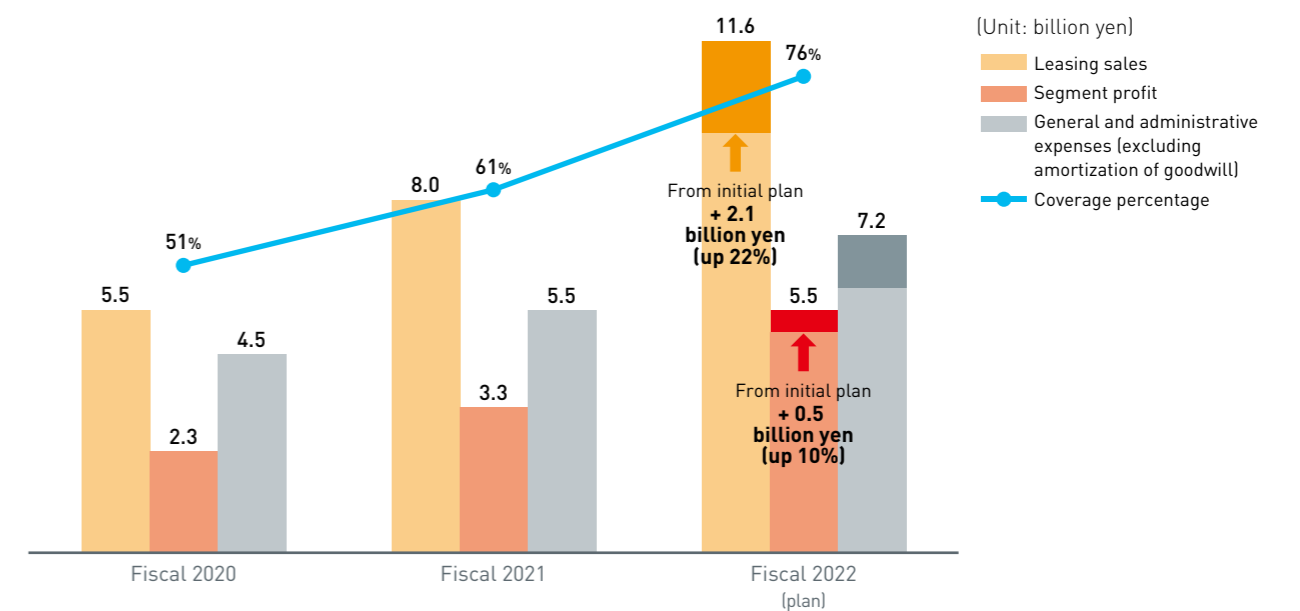
- We plan to achieve the target for the final year of the medium-term management plan, which is to increase lease revenues as a share of profits to 26%, one year early, in Fiscal 2022, and then to proceed with further transformations of the revenue structure.



General and Administrative Expense Coverage Percentage of Leasing Segment Profits

(Coverage percentage: leasing segment profits/general and administrative expenses [excluding amortization of goodwill])

- A coverage percentage of leasing segment profits for total general and administrative expenses of 90% is targeted for Fiscal 2023. This percentage will be 76% in 2022. Work is generally proceeding according to plan.





Interview of President Takatoshi Ito

ES-CON JAPAN Ltd.

Q Could you tell us about the impact of market fluctuations during the COVID-19 pandemic and how you responded and proceeded with your business?

A little more than two years have passed since the outbreak of the COVID-19 pandemic in 2020. In the initial stage of the pandemic, the future outlook of the market was extremely uncertain, and although there was a project we were considering regarding the purchase of land, we decided to

cancel the contract and instead monitor how the situation would change. In particular, during the first state of emergency in April 2020, the number of visitors to our condominium sales centers declined by about 70% from that at normal times, but we started using the web to serve customers and achieved certain results. After that, residential demand remained strong partly due to the re-recognition of the need for and importance of residences as a result of the expansion of remote work and other factors. As a result, sales of for-sale condominiums, which is our core business, continued

to progress favorably even after the outbreak of COVID-19.

The logistics market has also remained strong due to the stimulated demand for e-commerce resulting from the COVID-19 pandemic, and we intend to strengthen our logistics business. Our strategy is not to acquire logistics sites at high prices in the market but to focus on the logistics business by creating logistics sites from scratch and developing facilities through land readjustment projects or by selling the land itself to warehouse companies.

Q How do you view the results in Fiscal 2021, the first year of the Fourth Medium-Term Management Plan “IDEAL to REAL 2023”? Also, how are things progressing in Fiscal 2022, the second year of the plan?

In the Fourth Medium-Term Management Plan, we plan to achieve net sales of 110 billion yen and operating income of 16 billion yen in Fiscal 2023, which is the final fiscal year of the plan, under the basic policy of “Transformation and Rapid Progress,” and everything remains favorable towards the achievement of such targets.

In Fiscal 2021, the previous year, we made the Picasso Group, which owns a large number of prime rental revenue-generating properties, a subsidiary, and transformed the revenue structure by securing stable rental income at once. We believe that in the first fiscal year we have established the foundation for growing into a “hybrid” developer that can increase earnings from both the flow business through real estate development in which we have strengths and the stock business through the expansion of leasing business.

Furthermore, the purchase of business sites necessary to achieve the plan by Fiscal 2023 has been completed. In addition, due to the transformation of the revenue structure in the first fiscal year, we have revised some of our management indicators such as the percentage of rental income in Fiscal 2023, which is the final fiscal year. In both Fiscal 2022 and Fiscal 2023, we aim to achieve record-high profits and further “rapid progress.”

Q What are your plans for business expansion in 2024 onwards after the Fourth Medium-Term Management Plan?

As mentioned earlier, we have completed the purchase of sites for up to Fiscal 2023 and are currently purchasing business sites for 2024 onwards, and

such sites have been accumulated steadily.

However, due to the recent deterioration of the situation in Ukraine, cost-push inflation is forecast in the future. Moreover, we believe that there are concerns over soaring construction costs from early fall of this year. In order to minimize business risks, it is important to find a balance between projects that newly develop and sell real estate and those that acquire revenue-generating properties and sell them after increasing their value.

In such a situation, we intend to actively consider M&A of companies that own prime revenue-generating properties such as the acquisition of Picasso Group as a subsidiary last year. In particular, we would like to continue considering not M&A projects on the market but those that are done together with companies that are considering business succession while having issues such as the absence of successors.

Q What are the current status and future developments of the ballpark plan in Hokkaido and the development at the west exit of JR Kitahiroshima Station?

ES CON FIELD HOKKAIDO, which is the new stadium of the Hokkaido Nippon-Ham Fighters, is scheduled to open in March 2023, and urban development around the stadium is progressing steadily.

In February 2022, we started selling “Le JADE Hokkaido Ballpark,” a for-sale condominium under development at a site approximately 80 meters from the new stadium. The response was beyond expectation with more than 600 visits, and it was immediately sold out in the first phase of sales. In the same month, we also announced the development of a senior residence with a medical mall. Urban development centering on the stadium is progressing steadily. We will develop our business with the development contributing to such urban development at the core and work with our busi-

ness partners to enhance the value of the city.

Regarding the development project in front of JR Kitahiroshima Station, which is an important access point to the ballpark, we will conduct three developments consisting of a station square in front of JR Kitahiroshima Station, an exchange center complex comprising commercial facilities and a hotel, and a three-dimensional indoor/outdoor plaza and park. The commercial facilities, etc. are scheduled to be completed in 2024, and the infrastructure maintenance work for the roundabout in front of the station started this year. We will work on urban development so that the two areas will be connected as one and create a bustling atmosphere in the entire city with the development of the west exit of Kitahiroshima Station and the opening of the ballpark.

Q What synergies have been demonstrated and what has changed since the company became a consolidated subsidiary of Chubu Electric Power Co., Inc. in April 2021?

As you mentioned, multiple projects are in progress due to the demonstration of synergy effects after becoming a consolidated subsidiary. Last October, at GK TSUNAGU Community Farm, which was established together with Chubu Electric Power Co., Ltd. and Spread Co., Ltd., we started construction of Techno Farm Fukuroi, which will be the world’s largest vertical farm utilizing fully artificial light and capable of producing 10 tons of lettuce per day. In February 2022, a consortium of businesses led by Chubu Electric Power of which ES-CON JAPAN is a member concluded a basic agreement on a project organized by Aichi Prefecture and the city of Nagoya concerning utilization of the site of the 20th Asian Games Aichi-Nagoya 2026 Athletes’ Village after the games. We are still promoting and considering various projects to realize a “new form of community” which Chubu

Electric Power aims for.

Additional significant progress came with the establishment of a flexible financing structure due to the significant increase in our creditworthiness as a result of the acquisition of credit ratings from external institutions and other factors since becoming a consolidated subsidiary. We are now able to stably procure funds necessary for ES-CON JAPAN Group’s future growth, as evidenced by the registration of issuance of corporate bonds last year (planned issue amount: 50 billion yen). In a situation with high risks of economic fluctuations and volatility due to the situation in Ukraine, we believe that the development of an environment in which we can flexibly invest in quality projects will be a positive factor in our further growth. We intend to conduct selective investments in prime projects and achieve results as a real estate developer of the Chubu Electric Power Group.

Q As a member of the Chubu Electric Power Group, what are your thoughts on future ESG initiatives with the increasing importance being placed on initiatives from the perspective of the Task Force on Climate-Related Financial Disclosure (TCFD)?

As initiatives towards so-called decarbonization and carbon neutrality are progressing in Japan, we intend to further accelerate the development of ZEH condominiums especially in the development of for-sale condominiums, which is our core business.

Moreover, as Chubu Electric Power Group, it will be important also from the perspective of ESG to conduct urban development utilizing Chubu Electric Power’s know-how and knowledge in energy business. We would like to further cooperate with Chubu Electric Power Group in the future, including in renewable energy.

Furthermore, we regard climate change issues as one of the core management strategies and are

making efforts to disclose financial information based on the TCFD framework. Last year, we conducted capacity building for the management and all department heads and discussed the risks and opportunities associated with climate change in our business after sharing it as a material issue for the entire company. We plan to disclose the financial impact assessment based on our scenario as well as incorporate it as an important factor of our business strategy.

On the other hand, with the recent situation in Ukraine, there is a possibility that the efforts in Europe to achieve carbon neutrality may slightly recede in the future as the trend of rising costs for liquid natural gas (LNG) and other resources are seen. Naturally, this will have an impact on the Japanese economy, and we intend to make appropriate judgments and promote ESG initiatives one by one, while taking into account the situation of resources and other factors.

Q We heard that sales of condominiums under development have been particularly strong, but could you tell us about the status of the mixed-use development you are conducting in front of Tsukuba Station in Ibaraki Prefecture?

In front of Tsukuba Station there are integrated projects of “commerce, work and residence” such as “tonarie CREO” consisting of commercial facilities and offices, “tonarie Q⁺” and “tonarie MOG,” which are commercial facilities, and “Le JADE Tsukuba Station Front,” a for-sale condominium directly connected to “tonarie CREO.”

As for “tonarie CREO,” the media has reported that stores are opening in phases and that the mobility in front of Tsukuba Station has returned. Moreover, with the scheduled handover of “Le JADE Tsukuba Station Front” in November 2022, the flow of people will further increase. In the Tsukuba Station area, developments of

condominiums by other companies are also active and supply is increasing, and we feel that the projects we have undertaken are contributing to the revitalization of the area in no small measure.

In cooperation with the government, we will continue to promote projects in order to contribute to the further revitalization of the area in front of Tsukuba Station, while challenging the “new state of city” in Tsukuba City, which is a special economic zone.

Q Other than the Tsukuba initiatives, are there a number of mixed-use development projects centering on stations, such as the mixed-use development in Yamatotakada City, Nara Prefecture, and the development in front of Kitahiroshima Station in Hokkaido?

Yes, indeed, there have been. The common thing in our redevelopment projects in front of stations, especially those in Tsukuba and Yamatotakada, is to let people make daily purchases at places centering not on the so-called urban shopping centers but commercial facilities closely related to local communities and lives (neighborhood shopping centers) as well as develop residences there, increase the number of people in front of stations and create a new bustling atmosphere.

As for the case of Tsukuba mentioned earlier, the size of the station is much larger than that of Yamatotakada, and we feel the power for starting a truly new city from a conventional new town with the cooperation with the government in the future. To further accelerate this trend, we will continue to firmly demonstrate the stance of not just developing condominiums or renovating commercial facilities but becoming involved in and supporting local communities.

We also believe that the development project in Hokkaido will significantly change the flow of people as a result of the huge content, namely the new stadium of the Hokkaido Nippon-Ham

Fighters. Kitahiroshima currently has a population of just under 60,000 people, but it is located half-way between Chitose where the airport is located and Sapporo, which is the center of Hokkaido, and the entire city of Kitahiroshima will change significantly when the stadium opens in 2023. The developments at the ballpark and in front of Kitahiroshima Station are projects attempt to create a new town in itself, which is very different from the positioning of Tsukuba and Yamatotakada as regional revitalization projects.

Q Do you position the development of products for high-net-worth individuals as an important strategy for the future as signified by the recent plans for “OST RESIDENCE KARUIZAWA” in Karuizawa?

Yes, we do. We feel that there are more high-net-worth individuals in the domestic market and that we are in a completely different environment compared with 10 years ago.

In such a situation, we expect new residential demand to emerge in places such as Niseko in Hokkaido, as well as Karuizawa, Hakone and Atami that are an hour or so from the Tokyo metropolitan area. We believe that it will become more important to provide high-value-added condominiums, which were scarce in the past, to high-net-worth individuals.

Recently, we developed “OST RESIDENCE KARUIZAWA,” a luxury condominium utilizing the rich nature of the resort town of Karuizawa, and the condominium sold out last year. We are also proceeding with the development of residences along the beautiful coast of Hayamacho in Kanagawa Prefecture. We are also strengthening for-sale condominium development in the center of Tokyo, such as “Park Le JADE Shirokane Residence” and “Minato Ward Nishiazabu 2-chome Project (tentative name).”

Q ESCON JAPAN REIT (“EJR”) conducted its second public offering last August. What are your future growth strategies and how do you plan to develop the REIT business?

EJR conducted its second public offering last August, and the asset size has steadily increased from 41.6 billion yen at the time of listing to 69.6 billion yen. The aim is to increase the asset size to 100 billion yen at an early stage. As EJR’s sponsor company, ES-CON JAPAN will continue to support the improvement of EJR’s earnings and stable growth by acquiring development projects and existing revenue-generating properties and stably supplying projects whose value has been enhanced to EJR.

In order to realize the shift to a stable revenue structure as stated in the medium-term management plan, we will accumulate assets with stable income, but it is also important to sell part of the assets which we have accumulated and convert them into income. To achieve this balance, we intend to provide functions such as those of EJR, which is a public REIT, as well as private REITs or private funds that are scheduled to be formed to the entire ES-CON JAPAN Group. We intend to supply them to REITs and funds while keeping an eye on the market trends.

Q How do you view the future development of FUEL Co., Ltd., which is engaged in the real estate crowdfunding business, that was recently made a subsidiary and do you think it could become a pillar following the public/private REITs and funds mentioned earlier?

FUEL is a company with a platform including the operation of online funds, and we made it a subsidiary this January by judging that we could create business synergy by strengthening our asset

management business and making it a stepping-stone for future participation in the real estate finance business.

FUEL’s current business model is to collect funds from individual customers through crowdfunding and lend them to companies, but we believe that investors will benefit from equity-based business in the future. In this aspect, we have just started making preparations to obtain a license under the Real Estate Specified Joint Enterprise Act. Furthermore, we recognize the fact that we have developed a system which enables us to challenge new real estate DX businesses 5 to 10 years ahead from now such as security tokens at an early stage and that a leading company contributing to the expansion and growth of our business domain has joined ES-CON JAPAN Group.

Q How is the development of the columbarium business, which you started selling last year?

Sales of the permanent use rights of the Ryomon columbarium started last year, but due to the prior expenditure of advertising expenses and a delay in the plan to attract customers attributable to the COVID-19 pandemic, a segment loss was recorded in the first fiscal year. However, in locations with extremely high potential near Hiroo Station in central Tokyo, we are convinced that there is extremely high potential demand for the business in which we provide “after-life residences” beyond real estate such as residences and commercial facilities, in other words, residences after life is over, as a “life developer.” This is an initiative eyeing the development of additional businesses as a developer by utilizing the characteristics of the area with many high-net-worth individuals. We will steadily accumulate our know-how in the columbarium business, and intend to get this business off the ground.

Q ES-CON JAPAN invested and participated in a project promoted by Black Sand Capital in Hawaii, but what is your overseas business strategy?

This project is to enhance the value of “Waikiki Galleria Tower,” which is a mixed-use facility in Hawaii, as well as replace the tenants of the commercial facility (1st and 2nd floors) and convert the office (6th to 16th floors) into a timeshare hotel, and we participated in it in August 2021.

The potential of Hawaii is stable even amid the COVID-19 pandemic, and we would like to jointly implement projects such as condominium sales by further deepening the cooperation with Black Sand Capital and continue implementing various projects to serve as a sales channel in Japan.

Q Could you tell us about your participation in the project of “Creating the World’s Most Advanced House Sphere with 3D Printers” through the business alliance with Serendix?

Building methods using 3D printers have just become popular especially in the U.S. However, in Japan, we are at the stage of considering how to realize residential development using 3D printers under regulations such as the Building Standards Law.

Serendix aims to create “Sphere,” the world’s most advanced house, based on the concepts of “30 tsubo/3 million yen or less in total,” “the most earthquake-resistant and wind-resistant house in the world” and “24-hour construction period.” We invested in the project it by empathizing with the point that cooperation with Serendix will lead to the expansion of the potential of development by our company as well as contribute to urban development and regional revitalization in Japan. It will take a little more time to commercialize the

business, but we have formed a business alliance with the intention of creating new value.

Q We believe that the organization is growing at an accelerating pace, but what enable ES-CON JAPAN to grow further going forward?

The members of our directors, executive officers and management-level department heads consist of members who have been active at ES-CON JAPAN from before and new members who joined us with high expectations for the future potential of our company, and we feel that we have many good human resources. We resumed hiring new graduates about 8 years ago, and now approximately 100 employees, which account for about 30% of all employees, are new graduates. We will make efforts to build an organization by eyeing the success of such generation as core members of our company after 10 years from now.

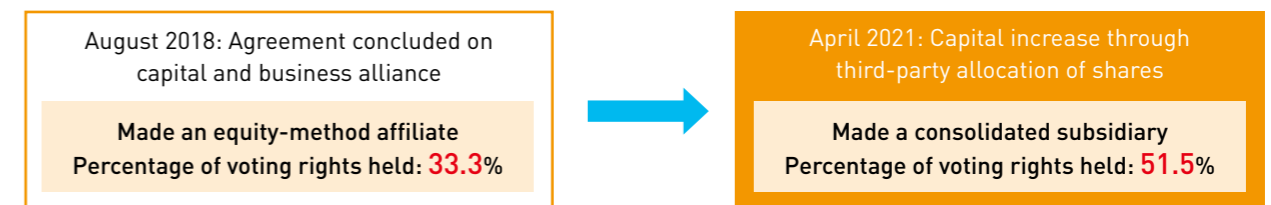
We are still a growing company and need to further foster and develop our corporate culture and strengthen our organizational capabilities. Over the next 10 years, we would like to foster a culture of teaching and learning from each other and training human resources in order to grow into a developer representing Japan, and become a company like a “precious tree” rather than a “big tree” with strong organizational capabilities. We have just started, but my mission is to enhance the organizational capabilities while achieving sustainable growth over the next decade.

Chuden Synergy

TOPICS: Status of Demonstration of Chubu Electric Power Group’s Synergy Effects

ES-CON JAPAN entered into a capital and business alliance agreement with Chubu Electric Power Co., Inc., in 2018 and since becoming its equity-method affiliate, we have proactively developed our business by positioning the Chubu region as a priority business area along with the Tokyo metropolitan area and the Kinki region.

As a result of considering various options and seeking effective means of further growth of business and enhancement of management stability, ES-CON JAPAN conducted a capital increase by third-party allotment with Chubu Electric Power, with its strong corporate credit standing, as the allottee, and became its consolidated subsidiary in April 2021. This was conducted with the aim to strengthen the financial base of ES-CON JAPAN and it raised approximately 20.4 billion yen of funds. ES-CON JAPAN will further demonstrate synergy effects with Chubu Electric Power Group and work on various projects going forward.



Concluded new capital and business alliance agreement with Chubu Electric Power (as of February 24, 2021)

1. Enhancing joint efforts related to energy supply and facility construction
2. Joint research and joint implementation in businesses related to next-generation smart houses, connected homes, and so forth
3. Further enhancing the partnership with Chuden Real Estate, a member of the Chubu Electric Power Group
4. Enhancing partnerships related to the effective utilization and development of unused or underused land belonging to the Chubu Electric Power Group
5. Joint initiatives in businesses that constitute to society, including urban development

Demonstrate Additional Synergies by Becoming a Consolidated Subsidiary



Major Actions

July 2021: Establishment of GK TSUNAGU Community Farm

Construction of “Techno Farm Fukuroi,” the world’s largest plant factory producing 10 tons per day, started in October 2021. Production is scheduled to start in January 2024.



Artist's conception of the completed Techno Farm Fukuroi
*The artist's conception is for illustrative purposes only and is subject to change.



Ceremonial prayer for safety before start of construction (October 2021)



Efficient and stable production of 'pesticide-free, safe and clean' lettuce

February 2022: Concluded basic agreement for the “20th Asian Games Aichi-Nagoya 2026 Athletes’ Village Site Post-Games Project”

A group of operators, with Chubu Electric Power Company as the representative corporation and in which ES-CON JAPAN participates as a member, concluded a basic agreement for the project. The city is scheduled to open around 2028, and we plan to develop a mixed-use commercial facility.



Overview illustration of the 20th Asian Games Aichi-Nagoya 2026 Athletes’ Village project (Overall site area: 15ha)

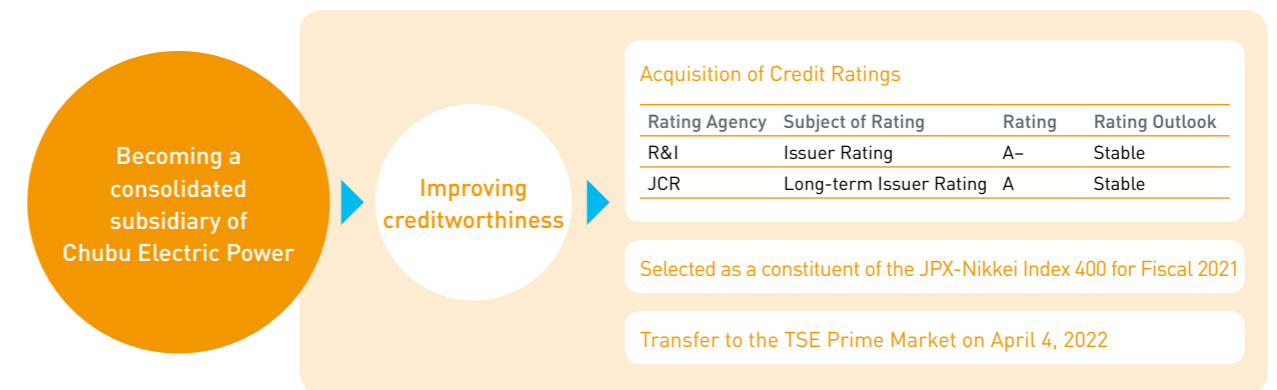
Progress in joint business for a total of five projects with Chuden Real Estate

The company is promoting sales of “Grand Le JADE Shirakabe” in the Shirakabe area in Higashi-ku, Nagoya City, which is a particularly rare and valuable area. Synergistic effects are being generated, as evidenced by having sold out the contract for “Le JADE Kakegawa Ekimae” (Kakegawa City, Shizuoka Prefecture) within four months of the start of sales.

Increasing Creditworthiness due to Becoming Consolidated Subsidiary of Chubu Electric Power

Expansion of ES-CON JAPAN Group’s System

Since becoming a consolidated subsidiary of Chubu Electric Power, ES-CON JAPAN’s corporate credit has increased dramatically, and we received external ratings of “A-” (stable) from Rating and Investment Information, Inc. and “A” (stable) from Japan Credit Rating Agency, Ltd. and established a stable financing base.



Backed by this creditworthiness

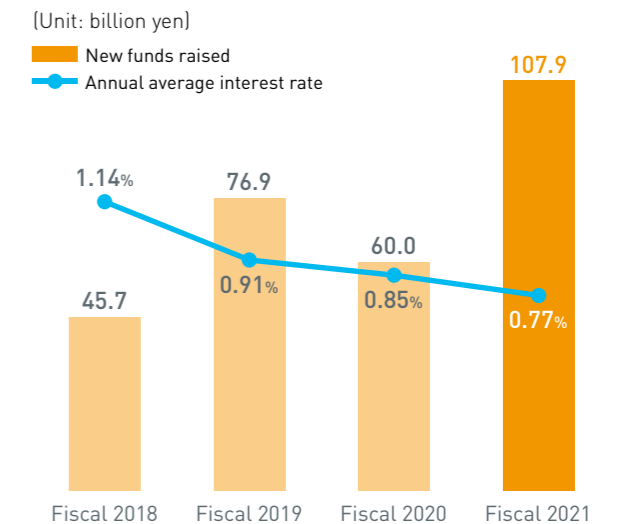
Build a dynamic and stable fundraising system

September 2021
Commitment line of credit agreement concluded with the Nishi-Nippon City Bank, Ltd.
Credit line: 10 billion yen

November 2021
Commitment line of credit agreement concluded with the Shiga Bank, Ltd. as the arranger
Credit line: 5.5 billion yen

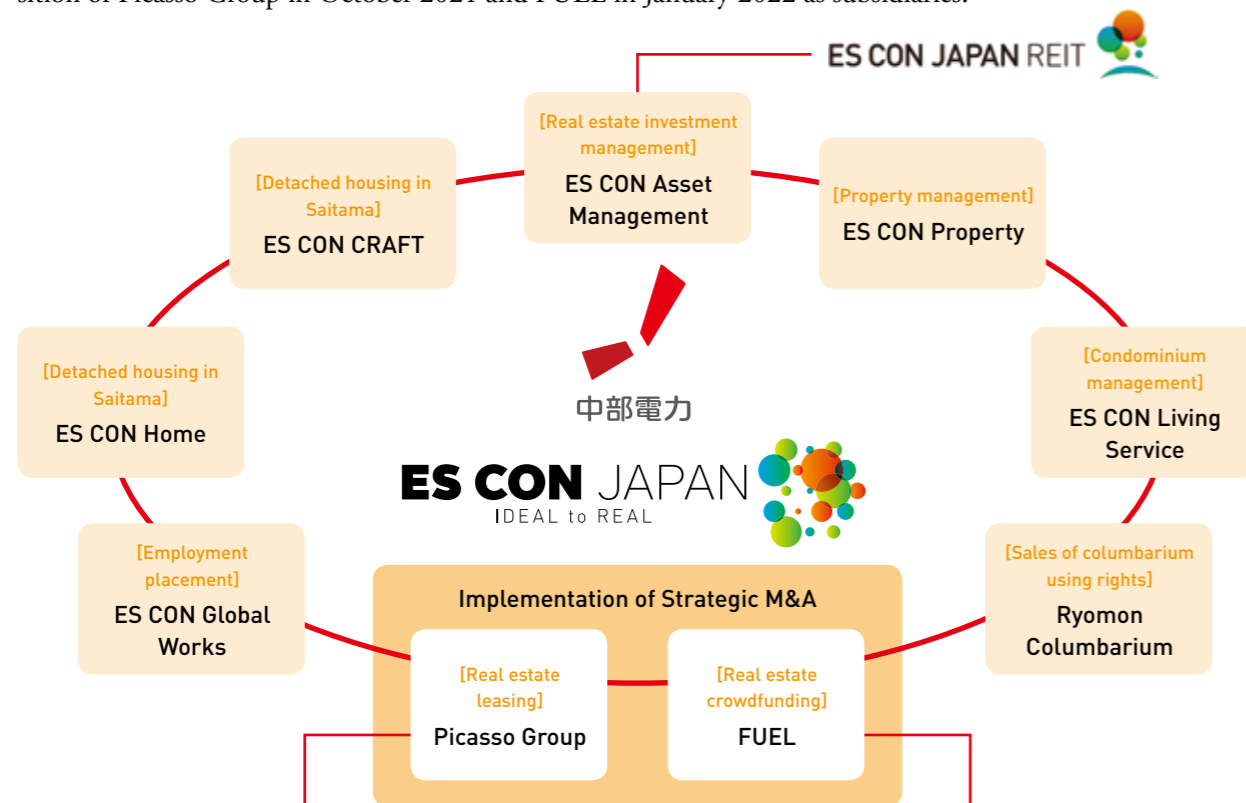
December 2021
Registered as an issuer of corporate bonds
Planned issue amount: 50 billion yen
Use of funds: Capital investment, investment and finance funding, working funds, loan repayments

Trends in new funds raised and annual average interest rate



Expansion of Group System

ES-CON JAPAN is steadily expanding its group structure and business areas through efforts such as the acquisition of Picasso Group in October 2021 and FUEL in January 2022 as subsidiaries.



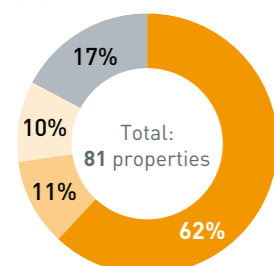
Making the Picasso Group a subsidiary (October 2021)

Rapid progress on transforming revenue structure to secure stable leasing revenues

- Total value of stock acquired: 30.5 billion yen
- Employees: 18 vs. ES-CON JAPAN Group total 344 (as of December 31, 2021)
- Total of 50 billion yen raised through syndicated loan to fund the acquisition of stock and refinance existing loans

Picasso Group real estate portfolio

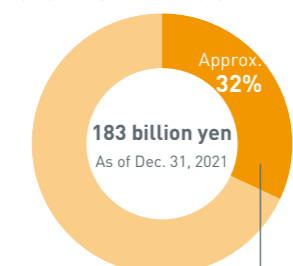
(Based on total number of properties)



- Rental condominiums, etc. 50 properties
- Offices, etc. 9 properties
- Stores 8 properties
- Others 14 properties

Value of real estate held by ES-CON JAPAN Group

(Total of inventory assets and property, plant and equipment)

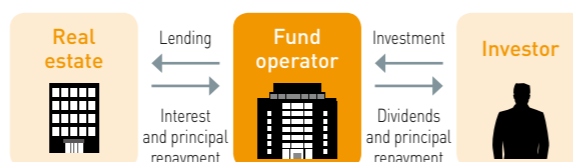


Picasso-related (Approx. 59.1 billion yen)

Making FUEL a subsidiary (January 2022)

Enhancing the asset management business and laying the groundwork for future ventures into real estate finance

- Involved in various businesses, including the operation of online investment funds that provide opportunities for individual investors to invest in real estate or real estate businesses in small investment units
- Alongside efforts to expand our business domains, rapidly realizing the structures needed to allow us to tackle the challenge of new businesses related to the digital transformation (DX) of real estate (e.g., use of security tokens and crowdfunding*) five to ten years in the future



*Security tokens: Used to manage investments through issue of digital securities using blockchain technology
Crowdfunding: Crowdfunding businesses

Initiatives for Regional Revitalization

Progress of Projects in Hokkaido

ES-CON JAPAN is participating in the urban development plan (ballpark plan) in “HOKKAIDO BALLPARK F VILLAGE,” a large-scale development area around “ES CON FIELD HOKKAIDO” (Kitahiroshima City, Hokkaido), which is the new baseball stadium of the Hokkaido Nippon-Ham Fighters scheduled to open in 2023. Furthermore, we acquired the naming rights for the new stadium, and the name of the new stadium will be “ES CON FIELD HOKKAIDO.”

With the participation in this ballpark plan, the Hokkaido branch started operation in 2020. We will contribute to the revitalization and development of the entire region by cooperating in the promotion of sports and culture.

For-sale condominium “Le JADE Hokkaido Ballpark”

A project in a location which is approximately 80 m from the new stadium. Media reporting on the project has been extensive - including newspaper articles and TV programs - and the number of visits to the condominium gallery exceeded 600. The first stage of sales saw all units receive application the day of its commencement.



Senior residence

As a residence for active seniors with a medical mall in F VILLAGE, it is scheduled to be completed in the spring of 2024. It will contribute to health maintenance and local healthcare for people of all ages, from young people to the elderly, as part of the sustainable urban development that creates a place for multi-generational exchange.



Access base to the ballpark JR Kitahiroshima Station “West Exit Area Revitalization Project”

Redevelopment of the west exit of Kitahiroshima Station. We acquired the city-owned site in front of the station in November 2021, and promote three development projects: a station square in front of JR Kitahiroshima Station, an exchange center complex comprising commercial facilities and a hotel, and a three-dimensional indoor/outdoor plaza and park.



Progress of Projects in Iwaki, Nagasaki

Participation in the “Iwaki Station Namiki Street District Category I Urban Redevelopment Project” (Iwaki City, Fukushima Prefecture)

Started the “Namiki no Mori City” development project, an integrated project of a residential building, commercial building and parking lot building, in February 2022.

This project will carry out redevelopment to create a further bustling atmosphere around the station. For the residential building, the plan is to develop a next-generation condominium that anticipates multi-generation residences under measures such as establishing residential units with barrier-free specifications (55 units), as the highest seismic isolation structure tower condominium in Iwaki City named “Mid Tower Iwaki.”

*Joint business with Hoosiers Holdings



Shin-Omura Ekimae City Owned Land Development Project (Omura City, Nagasaki Prefecture)

In March 2022, we concluded a basic agreement with Omura City, together with Daiwa House Industry Co., Ltd., and Izumi Co., Ltd., as a member of a business group composed of the three companies.

As Shin-Omura Station on the Nishi-Kyushu Shinkansen line is scheduled to open in September 2022, the project is to develop condominiums, commercial facilities, etc. where residents and visitors from outside the city can interact with each other in line with the town development policy of Omura City. The Company is scheduled to be engaged in development of condominiums in two blocks.



Development of Community-Based Commercial Facility “tonarie Hoshida (tentative name)” (Hirakata City, Osaka Prefecture)

The construction site is within the “Hoshida Station North Land Readjustment Project” (implementation area of approx. 26.4 ha) area, where development of condominiums, detached houses, and industrial facilities such as business establishments is planned in the vicinity, leading to the expectation for future prosperity. Development started in March 2022 and the facility is scheduled to open in the spring of 2023 as the tenth facility in our commercial facility brand “tonarie” series.

Take on the Challenges of New Business Domains

ES-CON JAPAN is promoting diversification of business contents by stating “growing new businesses into core businesses” and “taking on the challenges of new business domains” in the Fourth Medium-Term Management Plan. In January 2022, we established the Strategic Business Division, and by this, we are accelerating efforts for future generations.

Overseas Business Development

August 2021: Waikiki Galleria Tower, a Mixed-Use Facility in Waikiki, Hawaii

Participation and investment in value enhancement business

Invested and participated in the value enhancement business of the property that was done mainly by Black Sand Capital, LLC, a real estate investment advisory company. Furthermore, as a business advisor to the project, we provide advice and support on the development, design, and operation and management of the entire property.



September 2021: Investment in Crow Holdings Realty Partners IX, L.P.

Invested in a real estate investment fund that invests in a wide variety of real estate fields across the U.S. centering on rental apartments and logistics facilities.

March 2022: Investment in Agya Ventures Fund L.P.

To further expand ES-CON JAPAN Group’s business domain and create innovation through efforts such as strengthening information gathering on promising overseas real estate tech companies.

Fiscal 2021: Participated in Joint Condominium Development Projects in Bangkok, Thailand and California, U.S.

Participation in the Project of “Creating the World’s Most Advanced House Sphere with 3D Printer”

In December 2021, we entered into a business alliance with Serendix Inc., a company that aims to develop “Sphere,” the world’s most advanced house using 3D printing technology originating from Japan, and invested in the company. We intend to apply Sphere’s technology to other fields besides residence such as retail, office and warehouse in the future.



Columbarium “Ryomon” - Providing After Life Residence -

ES-CON JAPAN has been promoting sales of permanent use rights of Ryomon, an urban-type columbarium in Minato Ward, Tokyo, since March 2021 in an effort to solve problems facing modern society such as the fact that obtaining graves is considerably difficult, particularly in urban areas.



Promotion of Development of Various Condominiums in Rare Locations

In the condominium business, instead of simply expanding the number of units for sale, ES-CON JAPAN has carried out various developments using the product planning ability that maximizes the value of purchased land. Recently, we are actively promoting development in rare locations in particular, such as central Tokyo and resort areas.

Development Cases

Ost Residence Karuizawa (Karuizawa-machi, Kitasaku-gun, Nagano) (33 units in total)

A development project taking advantage of a wide location surrounded by the rich nature of Karuizawa and having an area of over 15,000 m². Contracted and sold out in November 2021.



Kanagawa Prefecture Miura-gun Hayama-machi Project (tentative name)

We have acquired two project sites in the area, and are promoting the development of condominiums that make the most of the rich natural environment such as Morito Beach.

Repro Shinbashi Project (tentative name) (Minato-ku, Tokyo)

A project in which a business site located near JR Shinbashi Station was acquired by eyeing the medium- to long-term leasing and development business.

Le JADE Cross Chiyoda Jimbocho (Chiyoda-ku, Tokyo) (50 units in total)

New condominium with fixed-term leasehold to be developed on the land adjacent to the “Toho Gakkai Main Building,” a historical building designated as an important property for scenic urban development in Chiyoda-ku, Tokyo. Mixed-use project of residence and office in combination with the building.



Tokyo Minato Ward Nishiazabu 2-chome Project (tentative name)

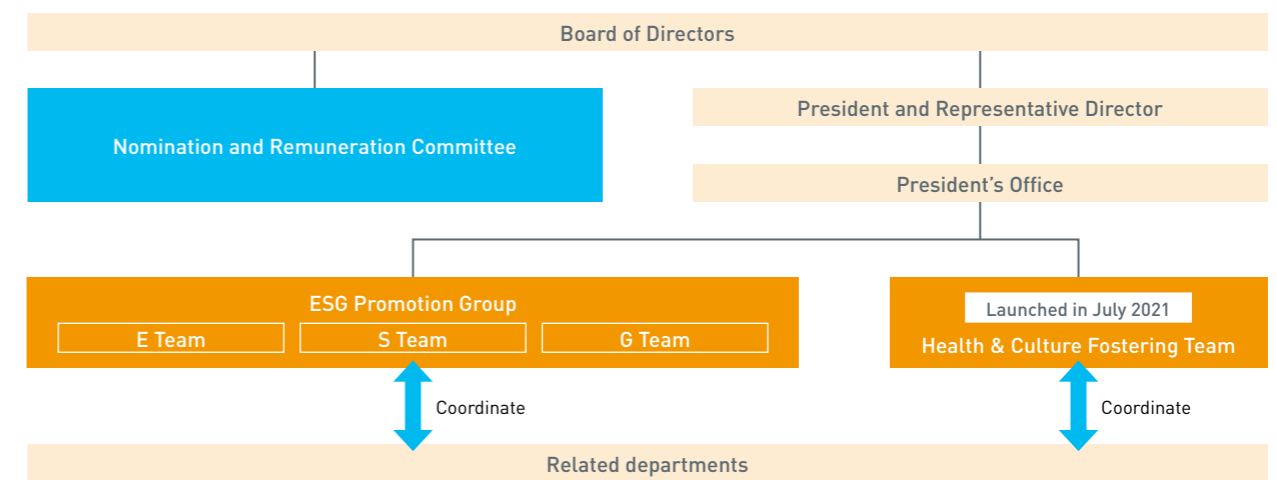
Condominium business (with some ordinary leasehold right) is being promoted at a location surrounded by areas representing Tokyo such as Minami-Aoyama, Omotesando, Hiroo and Roppongi.

ESG Initiatives

Proactively Promote Initiatives to Solve Social Issues

One of our key management strategies is addressing social issues through promotion of ESG initiatives. The “ESG Promotion Group,” comprising members selected from each department and headed by the director in charge of the President’s Office, and the “Health & Culture Fostering Team” for further promotion of health management, lead ESG initiatives.

ESG Management Promotion Structure



Basic Policy on Promoting ESG

Environment	Social	Governance
<ul style="list-style-type: none"> Creating new environmental value through next generation urban development and other initiatives aimed at realizing a carbon-neutral society by 2050 Promoting real estate development and business activities that account for the environment above all else Creating environmental value and business value through taking on the challenges of new business domains based on environmental themes 	<ul style="list-style-type: none"> Contributing to regional revitalization and promoting the creation of local communities through urban development to create a new and brighter future Creating working environments in which employees can demonstrate the best of their abilities while engaging in rewarding work and promoting diversity so that all human resources can thrive Contributing to solutions to social issues in areas such as medical care and welfare in response to declining birthrates and an aging population; and supporting safe and comfortable living in local areas Promoting business development to realize the SDGs globally through the development of overseas business 	<ul style="list-style-type: none"> Enhancing timely, appropriate, and fair disclosure of management information Promoting a governance system to secure stability, soundness, and transparency of management Aiming to strengthen risk management in order to respond to increasing risks due to the expansion and diversity of businesses Engaging in business activities based on a respect for the human rights of all in accordance with the Corporate Ethics Charter

Contributing to a sustainable society

Most Recent Major Topics

Continuous and Proactive Development of Environmentally Friendly ZEH*-Compatible Housing

In November 2021, “Le JADE Yao Sakuragaoka,” a new condominium, received the certification of “ZEH-M Oriented” boasting excellent heat insulation performance and contributing to the reduction of annual primary energy consumption. This is our second ZEH condominium following “Le JADE Okurayama,” which won the Good Design Award for Fiscal 2021.

We will continue to make the most of the development know-how of a general developer and proactively work on the development of environmentally friendly ZEH condominiums.



Le JADE Yao Sakuragaoka

*ZEH (Net Zero Energy House) is a house aiming to make the annual primary energy consumption zero by introducing renewable energy after realizing significant conservation of energy while maintaining the quality of the indoor environment with significant improvement in the thermal insulation performance of the outer building skin as well as the introduction of a highly efficient equipment system.

Disclosure Based on the Framework of the Task Force on Climate-Related Financial Information Disclosures (TCFD)

After carrying out capacity building for management and all heads of departments and divisions by regarding issues on climate change as one of the core strategies in management, we have discussed the risks and opportunities associated with climate change in the condominium sales business and the commercial facilities/revenue-generating real estate management business, mainly among heads of departments and divisions and ESG Promotion Group members.

Based on the current significant risks and opportunities in our business, we plan to incorporate them as important factors in our future business strategy.

Implementation schedule

- December 2021 Implemented capacity building intended to increase knowledge concerning TCFD
- March 2022 Assess the importance of business risks and opportunities
- April 2022 Select external scenarios and set ES-CON JAPAN's scenarios
- June 2022 Disclose assessment of the financial impacts of important risks and opportunities on climate change on ES-CON JAPAN's business (planned)

Formulated the General Employer Action Plan Based on the Act on Promotion of Women's Participation and Advancement in the Workplace (2022-2024)

In March 2021, we received the Award for Excellence in the Environmental Human Resource Development Corporate Awards 2020 (recognizing companies leading the way in developing environment-related human resources) hosted by the Ministry of the Environment and the Environmental Consortium for Leadership Development (EcoLeaD).

Received “2 Stars” and “Green Star” in GRESB in 2021

[Details of the evaluated initiatives (review comments)]

- The initiative of “Dementia Support Shopping Street” for training dementia supporters involving tenants and employees (at tonarie Seiwadai) is excellent.
- ZEH leads to the reduction of environmental burden.



tonarie Seiwadai

Specific Initiatives Implemented Until Now

Environment

- Joint research with the Kozo Takase's lab team of the Tokyo University of Science
- Earned DBJ Green Building certification tonarie Yamato-Takada/tonarie Toga-Mikita/tonarie Seiwadai/tonarie Minamisenri/Asumigaoka Brand-New Mall
- CASBEE real estate assessment earned tonarie Fujimino
- Eco Action 21 certification earned
- Development of detached houses with abundant natural blessings and condominiums open to the community
- Le JADE Senri Aoyamadai wins Osaka eco-friendly construction award in the residential section

Social

- Contribute to regional revitalization and creation of communities through development of community-based retail facilities “tonarie”
- Promoting use of diverse human resources, including female and people with disabilities
- Training of people to support those with cognitive disabilities
- Support for placement of workers from overseas (ES-CON Global Works)
- Contributing to Healthcare Support for WT1 cancer vaccine research, iPS cell research, etc.
- Investment in Ryukyu Football Club, which operates the FC Ryukyu J2 professional soccer team
- Utilizing the “Corporate Version of Hometown Tax” to support Kitahiroshima City, Hokkaido

Governance

- Timely disclosure of business activities and conditions
- Secure diversity of the board of directors
Appointment of four independent directors (one of them is female)
- Establishment of nomination and remuneration advisory committee
- Initiatives for a succession plan called the candidate successor system
Appointment of eight employed executive officers in total
- Establishment of CS Committee
- Establishment of Health & Culture Fostering Team
- Establishment of new disclosure items in accordance with the amended Corporate Governance Code

Management: Directors, Auditors and Executive Officers



Tomohiko Egashira

Hiroto Mizobata

Keiko Otsuki

Kenji Fujita

Takatoshi Ito



Minoru Nakanishi

Atsushi Kawashima

Masayoshi Nishitake

Tadashi Fukuda

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 and Representative Director (present post)
January	2012	Appointed Head of Tokyo Office
May	2013	Appointed President and Representative Director at ES-CON PROPERTY
August	2013	Appointed Head of Development Division
July	2014	Appointed Director at ES-CON ASSET MANAGEMENT
November	2014	Appointed President and Executive 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)
July	2019	Appointed Director at One's Own House Co., Ltd. (currently ES-CON HOME) (present post) Appointed Director at Rise Home Co., Ltd. (currently ES-CON CRAFT) (present post)
December	2019	Appointed Director at ES-CON GLOBAL WORKS (present post)
January	2020	Appointed member of Nomination and Remuneration Advisory Committee at ES-CON JAPAN (present post)
October	2020	Appointed Director at Ryomon Co., Ltd. (present post)
October	2021	Appointed Director at Picasso Co., Ltd. (present post)
January	2022	Appointed Director of FUEL Co., Ltd. (present post)

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 Director at ES-CON JAPAN Appointed Managing Executive Officer
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 Executive Officer (present post)
December	2019	Appointed Director at ES-CON GLOBAL WORKS (present post)
October	2020	Appointed Director at Ryomon Co., Ltd. (present post)
October	2021	Appointed Director at Picasso Co., Ltd. (present post)

Kenji Fujita Director

March	2019	Appointed Director at ES-CON JAPAN (present post) Appointed Executive Officer (present post) Appointed Head of General Affairs Department
January	2020	Appointed Head of President's Office (present post)

Atsushi Kawashima Director

March	2021	Appointed Outside Director at ES-CON JAPAN (present post)
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Keiko Otsuki Director

March	2021	Appointed Outside Director at ES-CON JAPAN (present post)
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Masayoshi Nishitake Full-Time Auditor [Director]

March	2020	Appointed Outside Director (Full-Time Auditor) at ES-CON JAPAN (present post) Appointed member of Nomination and Remuneration Advisory Committee (present post)
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Hiroto Mizobata Auditor [Director]

March	2015	Appointed Outside Auditor at ES-CON JAPAN
March	2016	Appointed Outside Director (Auditor) (present post)
January	2020	Appointed member of Nomination and Remuneration Advisory Committee (present post)

Tadashi Fukuda Auditor [Director]

March	2020	Appointed Outside Director (Auditor) at ES-CON JAPAN (present post) Appointed member of Nomination and Remuneration Advisory Committee (present post)
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Tomohiko Egashira Managing Executive Officer

April	2002	Joined ES-CON JAPAN
January	2016	Appointed Head of Development Division (present post)
March	2017	Appointed Managing Executive Officer (present post) Appointed Managing Director
July	2018	Appointed Director at ES-CON PROPERTY (present post)
October	2021	Appointed Director at Picasso Co., Ltd. (present post)
March	2022	Appointed Director at Ryomon Co., Ltd. (present post)

Executive Officers (*indicates concurrent with directorship)

Takatoshi Ito*

Minoru Nakanishi*

Tomohiko Egashira

Kenji Fujita*

Wataru Orii

Yoshiro Kato

Tadashi Tanaka

Katsushi Wakayama

Megumi Nakadozono

Akira Mizunoya

Tomohito Nakata

Hiroyuki Yamato

Management Policy

1. We will use our information networks, planning ability and product development expertise to tap the unlimited potential of real estate and create new value that thoroughly satisfies our clients.
2. We will rely on our strong defense of operations management revolving around ROA and thorough management of cash flow and risk to achieve a strong offense in management that is always one step ahead.
3. We will become an elite team of professionals with an unchanging ability to swiftly and deftly respond to a rapidly-changing society.
4. We will always show respect and gratitude to our colleagues, whether inside or outside of the company, and build and maintain excellent collaborative relations.
5. We will prioritize compliance and governance, bolstering our internal auditing system, and form an organization with great bottom-up communication.

Direction and Corporate Governance

Corporate Slogan

IDEAL to REAL

Ideals are the very best of what can be made real, and what we seek to be is a company that brings ideals into reality to create a new future. Whether the ideal city, ideal residence, or ideal living environment, we use real estate development to give form to our customers' wishes. From residence to retail, asset management to operational management, we propose and develop spaces where people naturally gather, want to go home to, and take pride in. From ideal to real – real estate.

Corporate Philosophy

How should we live each day? How should we participate in society? And through this participation, what fruits can we bear for society that translate into the happiness we each pursue? To answer these questions, our management style seeks to provide a foundation upon which employees can earnestly build toward individual self-realization while aiding and encouraging one another.

Corporate Vision

To Be A Life Developer

To develop not only the buildings but also the lives of those who live in them, thinking of their happiness – this is the kind of life developer we seek to be. Through solutions proposed by cross-departmental teams made up of the best and brightest, we create richness unprecedented in the real estate industry, connecting people with people and communities with the future.

Corporate Mission

To Develop “New Norm Neighborhoods”

To create community-rooted value and continue to add to it over time, building ‘small-town communities’ that are not rural but neighborhoods that residents nevertheless take pride in, love and care for.

To create not just buildings but lifestyles, not just towns but interactions, that get more attractive the longer people live there – these are the kinds of places we want to spread across Japan.

System of Corporate Governance

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

(1) Board of Directors

The board of directors consists of eight members: three executive directors, two non-executive directors, and three directors who are also members of the audit committee. (In order to improve management supervisory functions, the five directors who are non-executive directors or directors that are also members of the audit committee are all outside directors, of which four are independent outside directors. The president and representative director serves as the board chair.)

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

(2) Audit Committee

The audit committee consists of three members, all outside directors to enhance management supervision and its independence. Two are independent directors and one is the full-time auditor.

- In principle, the committee meets once a month, and members of management such as accounting auditors, internal auditors, and executive directors attend at the request of committee members to report on manners in a timely and appropriate manner.
- Members of the audit committee regularly exchange opinions with the president and, if necessary, interview members of management such as the executive directors to understand the status of business execution and issues in each segment.
- Members such as the full-time auditor attend important, regularly-held meetings such as management committee meetings, led by executive directors, and head office meetings, attended by executive directors and the members of management of each segment, to share the status of management and progress on business plans.
- The committee reviews important documents such as circulars for approval and collaborates with accounting auditors and the internal auditing department to audit the legality and validity of the directors' performance of duties. In addition, it strengthens governance by selecting one full-time audit committee member and making that person the chief audit committee member.

(3) Nomination and Remuneration Advisory Committee

The Nomination and Remuneration Advisory Committee deliberates and determines the nomination and remuneration of directors as an advisory body of the board of directors.

The committee shall be composed of members, of which at least more than half shall be outside directors, and thus strengthen the independence and transparency concerning nominations and remuneration.

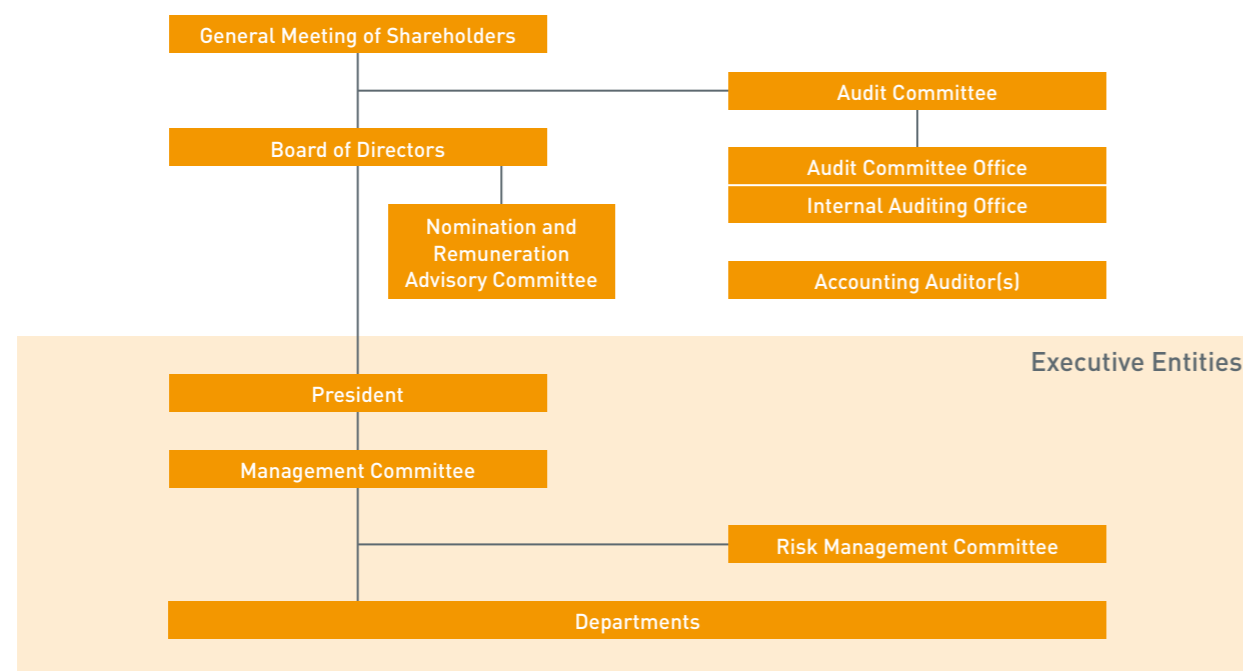
Reasons for the Corporate Governance Structure

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. The supervision and effectiveness of the board of directors are strengthened by having directors who are members of the audit committee possess voting rights at board of directors' meetings.
2. Delegation of important business to executive directors ensures promptness, mobility, and flexibility in execution, preventing loss of business opportunities.
3. Directors who are members of the audit committee are involved in decision-making regarding nomination and remuneration of other directors based on their right to state their opinions on the process, enhancing its transparency.

Through the above, we believe that the current structure is optimal for contributing to sustainably increasing our corporate value.

Diagram of Corporate Governance Structure



Company Overview: ES-CON JAPAN Ltd.



Tokyo Head Office

20F The Okura Prestige Tower
 2-10-4 Toranomon, Minato-ku, Tokyo, 105-0001 Japan
 TEL: +81-3-6230-9303
 FAX: +81-3-6230-9304



Osaka Head Office

13F Meiji Yasuda Life Insurance Osaka Midosuji Building
 4-1-1 Fushimimachi, Chuo-ku, Osaka, 541-0044 Japan
 TEL: +81-6-6223-8050
 FAX: +81-6-6223-8051



Nagoya Office

5F Hirokoji Sakae Building
 2-4-1 Sakae, Naka-ku, Nagoya-shi, Aichi, 460-0008 Japan
 TEL: +81-52-218-4820
 FAX: +81-52-218-4821



Kyushu Office

9F Yasuda No. 7 Building
 13-15 Kamikawabatamachi, Hakata-ku, Fukuoka, 812-0026 Japan
 TEL: +81-92-283-1531
 FAX: +81-92-283-1532



Hokkaido Office

13F Nissay Sapporo Building
 4-1-1 Kita 3-jo Nishi, Chuo-ku, Sapporo-shi, Hokkaido, 060-0003 Japan
 TEL: +81-11-211-1928
 FAX: +81-11-211-1936

Established: April 18, 1995

Capital: 16,519 million yen (as of end of 2021)

Revenue: 79,017 million yen (consolidated; fiscal year ended December 2021)

Number of Employees: 344 (consolidated; as of end of 2021)
 221 (non-consolidated; as of end of 2021)

Businesses: Real estate sale
 Real estate leasing
 Real estate planning, brokerage and consultation

Property Spotlight

Le JADE Nishi-Akashi ▶ (Akashi City, Hyogo Prefecture) (77 units in total) [Condominium]

- Favorable location enabling excellent access to Kobe, Osaka, Tokyo, Kyushu and other areas. Accessible to "Hayashizaki Matsue Beach" with a beautiful sandy beach by bicycle
- A new landmark residence in Nishi-Akashi adopting an exterior design with a motif of the railroad that symbolizes Nishi-Akashi and the Akashi Kaikyo Bridge overlooking the east side.



Le JADE Senri Furuedai ▲ (Suita City, Osaka Prefecture) (71 units in total) [Condominium]

- Enabling direct access to "Osaka Umeda" Station. The surrounding area is a location suitable for raising children as it is within a ten-minute walk from "Senri Chuo Park" and "Banpaku Memorial Park" with rich nature.
- A comfortable living space adopting a wide span with all residences facing the south and bringing sufficient sunlight into the rooms



Le JADE Senri Aoyamadai ▲ (Suita City, Osaka Prefecture) (152 units in total) [Condominium]

- A location with high transportation convenience enabling smooth access to the center of Osaka such as Tennoji, Namba and Umeda. The surrounding area is a location blessed with rich nature and a variety of activities
- Realized an open view with full of greenery by making all residences face the south and overlook a green space.
- Received the "2021 Osaka Environmentally Friendly Architecture Award Residential Category" (sponsored by Osaka Prefecture and Osaka City) for the first time for ES-CON JAPAN



Le JADE Yamatotakada Ekimae ◀ (Yamatotakada City, Nara Prefecture) (205 units in total) [Condominium]

- Directly connected to "tonarie Yamatotakada," a community-based commercial facility which we developed, and the nearest station with a pedestrian deck.
- A living space with a variety of common use spaces and soft services such as party rooms, kids' rooms, guest-rooms, study rooms, trunk rooms and concierge counters.



Le JADE Suma Myohoji Ekimae ▲ (Kobe City, Hyogo Prefecture) (40 units in total) [Condominium]

- Located only a one-minute walk from the nearest station. The surrounding area offers a residential environment suitable for raising children and where commercial, medical, cultural and educational facilities concentrate compactly.
- Realized a residential plan of having all residences facing the south at a site with open spaces on four sides, offering abundant independence.

Le JADE Mukonosu Honmachi ▶ (Amagasaki City, Hyogo Prefecture) (33 units in total) [Condominium]

- Location with high transportation convenience enabling direct access to both Osaka and Kobe. The surrounding area is close to the Mukonosu residential district, which was developed by using the urban planning in the U.K. as a model.
- High-quality living space with a long-lasting aesthetic design realized by using custom-made bricks focusing on materials for the exterior and entrance hall



Le JADE Nagai Koen Dori ▶ (Sumiyoshi-ku, Osaka City) (108 units in total) [Condominium]

- Favorable location enabling direct access to major stations in Osaka and Kyoto Prefectures. The surrounding area has various convenient facilities for daily life such as commercial facilities, restaurants, medical facilities and financial institutions.
- Approximately 57% of the site is forest area (vacant land), and seasonal plants are arranged to create a space where people can relax and enjoy the greenery.



Le JADE Neyagawa Koen ▶
(Neyagawa City, Osaka Prefecture) (60 units in total)
 [Condominium]

- Enabling smooth access to major stations in Osaka. The surrounding area is within the "Eastern Osaka Urban Planning Project Uchiagetakatsukacho Land Readjustment Project" area, and a location in which further development is expected.
- A living space with abundant lighting and ventilation, excellent views and a feeling of openness, pursuing a comfortable living environment



Le JADE Tennoji Katsuyama ▲
(Tennoji-ku, Osaka City) (39 units in total)
 [Condominium]

- Enabling direct access to major central areas such as Tennoji, Kyobashi and Osaka Stations. The surrounding area is an attractive location enabling people to live in a major commercial zone in Osaka
- Pursuing a comfortable life for residents by making all residences face the south and having three residences on each floor.



Le JADE City Hyotanyama ▲
(Higashiosaka City, Osaka Prefecture)
(232 units in total)
 [Condominium]

- A location enabling smooth access to major stations in Osaka. It is a large-scale integrated residential and commercial development project, and supermarket "mandai" has been established on the adjacent site.
- A landmark residence that will become a new base of bustling activities as an integrated residential and commercial development, befitting the name "Le JADE City" which includes the meaning of "town."



Le JADE Ibaraki Higashichujo ▼
(Ibaraki City, Osaka Prefecture) (40 units in total)
 [Condominium]

- Enabling direct access to both "Osaka" and "Kyoto" within 20 minutes. The area surrounding the nearest station is the core area in Ibaraki City with a concentration of commercial, cultural and administrative facilities.
- Making all residences face the south towards an open plaza and adopting an out-pole design that keeps pillars out of the rooms.



Grand Le JADE Shirakabe Getsuronotei ▶
(Nagoya City, Aichi Prefecture)
(24 units in total)
 [Condominium]

- A historically rare and valuable residential district facing "Shirakabechosuji," a street in the "Nagoya City Shirakabe, Chikara and Shumokucho Townscape Preservation District" which flourished as a samurai residence district since the Edo period and where a favorable landscape was inherited.
- A dignified design with a style of both samurai residences and modern architecture that blends into the landscape of the "Shirakabechosuji."



Ost Residence Karuizawa ▲
(Karuizawa-machi, Kitasaku-gun, Nagano Prefecture)
(33 units in total)
 [Condominium]

- Although it is located in a resort area blessed with rich nature, it is only an eight-minute drive to Karuizawa Station, which is accessible in about an hour from Tokyo. The surrounding area is located in the "Minami-Karuizawa area," and is surrounded by rich nature with a view of Mount Asama.
- Adopting a space design that enables residents to enjoy the universal beauty of nature itself, aiming to enhance the common areas such as the "Garden Terrace," "Chef's Kitchen" and "Library Lounge" and providing high-quality living space for residents to spend a precious time.



tonarie CREO ▲
(Tsukuba City, Ibaraki Prefecture)
 [Commercial Facilities]

- A community-based commercial facility that opened after converting the first to third floors into a commercial facility and the fourth to sixth floors into offices.
- The facility is directly connected to Tsukuba Station and has a structure that maximizes the value of its location in front of the station, attracting people for the first time in approximately five years and contributing to the revitalization of the Tsukuba Station area.
- 218 units of "Le JADE Tsukuba station Front," a condominium directly connected with a pedestrian deck, were contracted and sold out at an early stage in four months after the start of sales (scheduled to be delivered in November 2022).



tonarie Minami-Senri Annex ◀
(Suita City, Osaka Prefecture)
 [Commercial Facilities]

- Reopened commercial facility "AEON Minami-Senri Store" as a community-based shopping center "tonarie Minami-Senri Annex" by utilizing the development know-how of commercial facilities, etc. in which we have strengths based on the fact that there are many residences in the surrounding area and that commercial facilities with stores that handle daily necessities such as food and daily goods are required by the people in the neighborhood.
- Operated as a facility that can be used by local residents on a daily basis, with a variety of stores including food supermarkets, clothing and household goods stores, cafes, home appliance stores and clothing stores.

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 fiscal year under review (fiscal year ended December 2021, or Fiscal 2021), despite concerns over the sixth wave of COVID-19, the Japanese economy saw progress towards the normalization of social and economic activities such as the recovery trend of consumer spending. Due to concerns over the spread of COVID-19 variants in Japan and abroad, careful attention should be paid to the fluctuation of the Japanese economy and overseas economies through supply chains as well as the financial and capital markets and the impact of currency movement.

In the real estate industry, the real estate market remained strong as the policies and measures related to tackling COVID-19 and monetary easing measures continued. However, depending on the status of the spread of infection by COVID-19 variants, it is extremely difficult to forecast the future trend of real estate market when assuming that corporate performance and consumer spending trends will change.

Despite such business environment, we formulated “IDEAL to REAL 2023,” the fourth medium-term management plan, for the three-year period from the fiscal year ended December 2021 through the fiscal year ending December 2023, and will promote businesses by setting “Establishing business foundations able to withstand unexpected changes in economic conditions” and “Simultaneously changing the revenue structure and expanding business domains” as management strategies based on the theme of “Transformation and Rapid Progress.”

We implemented a capital increase through third-party allotment with Chubu Electric Power Co., Inc. (hereinafter “Chubu Electric Power”) as the allottee on April 5, 2021, and ES-CON JAPAN became a consolidated subsidiary of Chubu Electric Power. As a result, we dramatically increased our corporate credit standing, acquired credit ratings of “A-” (stable) from Rating and Investment Information, Inc. and “A” (stable) from Japan Credit Rating Agency, Ltd., and established a stable fundraising base.

Against the backdrop of such creditworthiness, we acquired all shares of Picasso Co., Ltd., which owns numerous outstanding income-generating properties, and its seven group companies in October 2021 in order to rapidly move ahead with the strategy of “changing the revenue structure” = “securing stable leasing income.” Furthermore, we concluded a contract on the acquisition of the entire share of FUEL Inc., whose businesses include managing online funds and providing computer systems to crowdfunding businesses, and made it a subsidiary on January 21, 2022, with an aim to significantly contribute to the expansion of the ES-CON JAPAN Group’s business domain as preparation for future participation in real estate financial business.

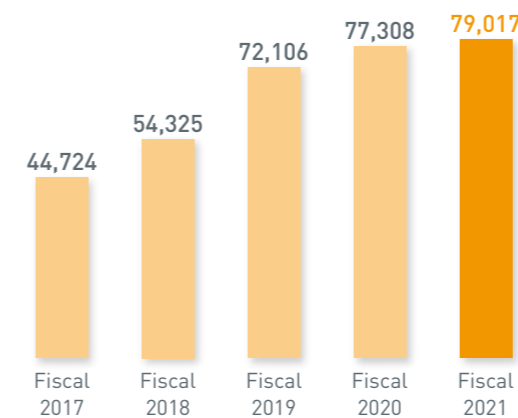
As for the business performance for Fiscal 2021, although profits decreased year on year mainly as a result of recording segment loss in the real estate planning agency and consulting business due to the burden of prior expenditure of advertising expenses in the columbarium sales business, the above “change in revenue structure” was realized.

Operating Results

For Fiscal 2021, ES-CON JAPAN achieved net sales of 79,017 million yen (up 2.2% from the previous consolidated fiscal year), operating income of 10,381 million yen (down 14.9%), ordinary income of 9,099 million yen (down 18.5%), and profit attributable to owners of parent of 5,961 million yen (down 22.2%).

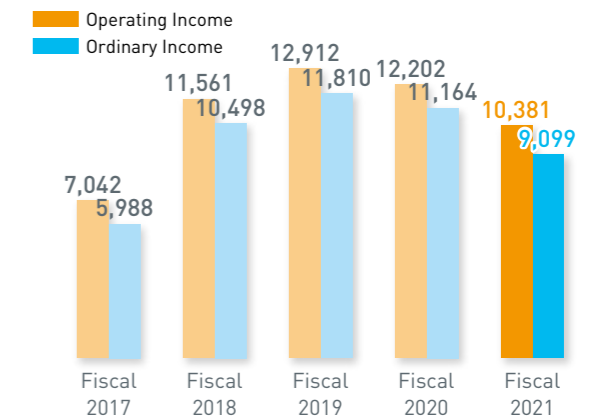
Sales

(Unit: million yen)



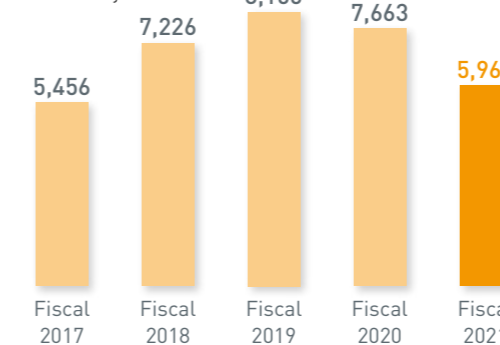
Operating Income/Ordinary Income

(Unit: million yen)



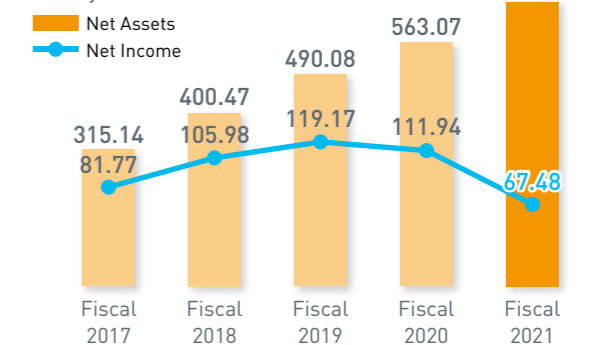
Net Income Attributable to Parent

(Unit: million yen)



Per Share Information

(Unit: yen)



Results by Segment

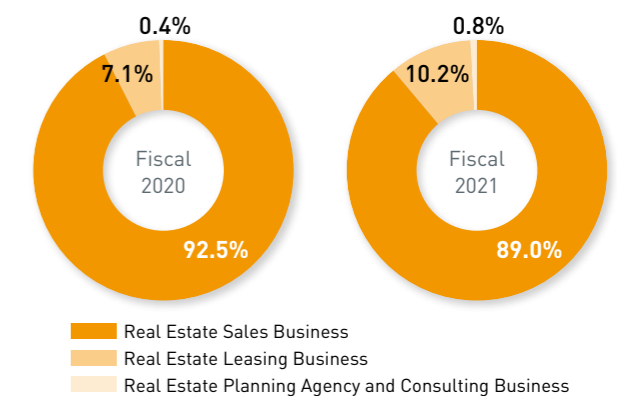
Real estate sales business

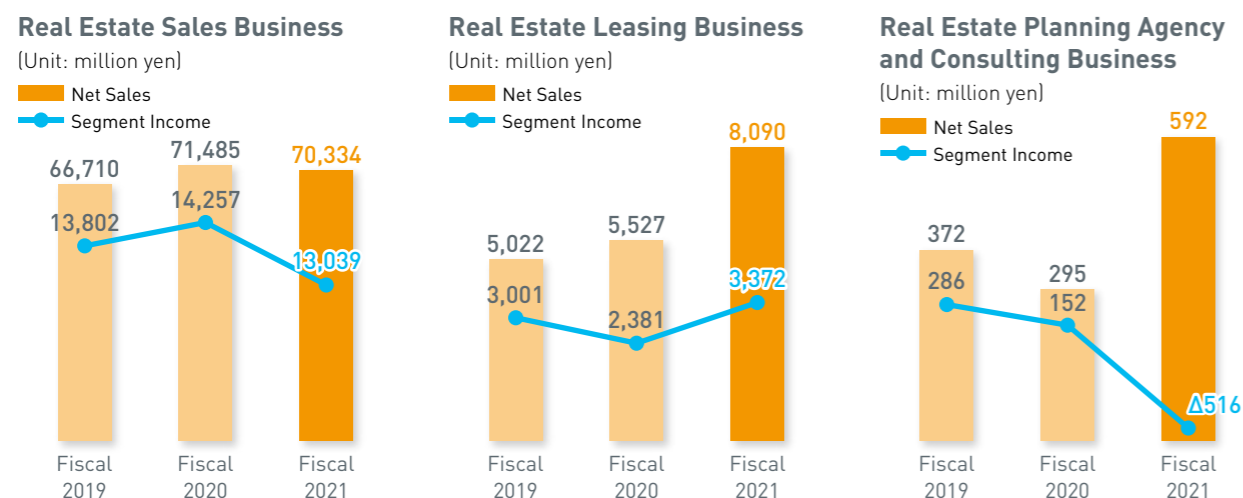
In the real estate sales business, activities including selling of condominiums and revenue-generating real estate resulted in net sales of 70,334 million yen (down 1.6% from the previous fiscal year) and segment income of 13,039 million yen (down 8.5%).

Real estate leasing business

In the real estate leasing business, we secured rental income of revenue-generating real estate by making Picasso and seven other group companies our subsidiaries and focused on leasing activities and the property management business in view of enhancement of asset value of owned revenue-generating real estate. As a result, net sales were 8,090 million yen (up 46.4%) and segment income was 3,372 million yen (up 41.6%).

Sales Distribution Ratio by Segment





Real estate planning agency and consulting business

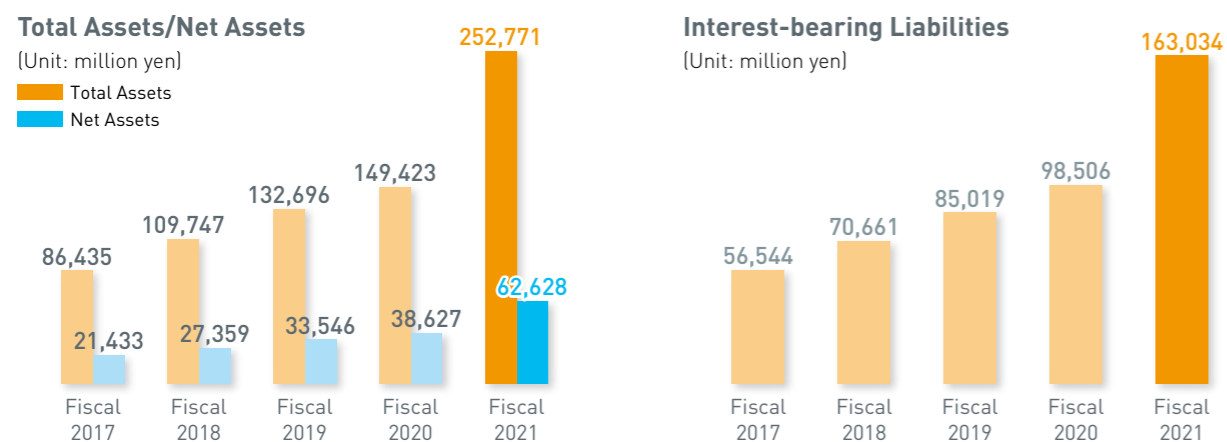
In the real estate planning agency and consulting business, we took full advantage of our planning and multifaceted business development capabilities to actively engage in planning, consulting, and other services on consignment. However, due to the delay in the sales plan mainly caused by the impact of the spread of COVID-19 in the columbarium business and upfront advertising expenditures, net sales were 592 million yen (up 100.6%) and segment loss was 516 million yen (segment income of 152 million yen in the previous fiscal year).

Analysis of Financial Position

Assets, Liabilities and Net Assets

Assets at the end of Fiscal 2021 increased by 103,348 million yen compared with the end of the previous fiscal year to 252,771 million yen. This was mainly attributable to cash and deposits, inventories and non-current assets increasing by 9,796 million yen, 42,381 million yen and 48,523 million yen, respectively.

Liabilities increased by 79,347 million yen compared with the end of the previous fiscal year to 190,143 million yen. This was mainly attributable to long-term loans payable, short-term loans payable and bonds increasing by 64,529 million yen. Net assets increased by 24,000 million yen compared with the end of the previous fiscal year to 62,628 million yen. This was attributable to cash dividends paid of 2,645 million yen, while recording profit attributable to owners of parent of 5,961 million yen as well as the increase in capital and capital reserve by 10,235 million yen each with the capital increase through third-party allotment. As a result, the equity ratio was 24.8% (25.8% at the end of the previous fiscal year).



Overview of Consolidated Balance Sheet

(Unit: million yen)

Fiscal 2020 (as of December 31, 2020) Total assets: 149,423

Assets:		Non-current assets: 27,306	Current assets: 122,117
Property, plant and equipment:	14,876	Cash and deposits:	23,870
Intangible assets:	403	Real estate for sale:	6,262
Investments and other assets:	12,026	Real estate for sale in process:	82,316
Liabilities and net assets:		Net assets: 38,627	Non-current liabilities: 70,982
Shareholders' equity:	38,454	Long-term loans payable:	69,274
		Short-term loans payable:	2,907
		Current portion of long-term loans payable:	26,093
		Current portion of bonds:	230

Total assets increased by 103,348 million yen

Fiscal 2021 (as of December 31, 2021) Total assets: 252,771

Assets:		Non-current assets: 75,830	Current assets: 176,859
Property, plant and equipment:	52,778	Cash and deposits:	33,667
Intangible assets:	8,275	Real estate for sale:	7,541
Investments and other assets:	14,776	Real estate for sale in process:	123,419
Liabilities and net assets:		Net assets: 62,628	Non-current liabilities: 87,619
Shareholders' equity:	62,445	Long-term loans payable:	76,533
		Short-term loans payable:	3,589
		Current portion of long-term loans payable:	82,912
		Current portion of bonds:	—

Status of Cash Flows

Cash and cash equivalents ("net cash") in Fiscal 2021 increased by 9,760 million yen compared with the end of the previous fiscal year to 33,559 million yen (23,798 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 Fiscal 2021.

Cash flows from operating activities

Cash flows from operating activities in Fiscal 2021 amounted to net cash used in operating activities of 10,810 million yen (net cash provided by operating activities of 119 million yen in the previous fiscal year). This was mainly attributable to the increase in inventories of 19,306 million yen and income taxes paid of 3,419 million yen, despite the recording of profit before income taxes of 9,099 million yen, increase in advanced received of 3,419 million yen.

Cash flows from investing activities

Cash flows from investing activities in Fiscal 2021 amounted to net cash used in investing activities of 29,721 million yen (net cash used in investing activities of 9,732 million yen in the previous fiscal year). This was mainly attributable to purchase of investment securities of 2,265 million yen, purchase of non-current assets of 4,763 million yen and purchase of shares of subsidiaries resulting in change in scope of consolidation of 24,070 million yen.

Cash flows from financing activities

Cash flows from financing activities in Fiscal 2021 amounted to net cash provided by financing activities of 50,293 million yen (net cash provided by financing activities of 11,007 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 32,611 million yen, proceeds from issuance of shares of 20,361 million yen and payment of cash dividends of 2,645 million yen.

Consolidated Balance Sheet

(Unit: million yen)

	Fiscal 2020 (as of December 31, 2020)	Fiscal 2021 (as of December 31, 2021)
Assets		
Current assets		
Cash and deposits	23,870	33,667
Notes and accounts receivable - trade	927	835
Real estate for sale	6,262	7,541
Real estate for sale in process	82,316	123,419
Other	8,739	11,396
Allowance for doubtful accounts	(0)	(0)
Total current assets	122,117	176,859
Non-current assets		
Property, plant and equipment		
Buildings and structures	4,359	23,312
Accumulated depreciation	(889)	(1,516)
Buildings and structures, net	3,470	21,795
Vehicles	6	6
Accumulated depreciation	(6)	(6)
Vehicles, net	0	0
Land	11,262	30,840
Leased assets	4	2
Accumulated depreciation	(4)	(0)
Leased assets, net	0	2
Construction in progress	1	—
Other	321	377
Accumulated depreciation	(180)	(238)
Other, net	141	139
Total property, plant and equipment	14,876	52,778
Intangible assets		
Goodwill	339	8,217
Other	63	57
Total intangible assets	403	8,275
Investments and other assets		
Investment securities	3,556	6,186
Long-term loans receivable	2,468	2,467
Deferred tax assets	406	227
Other	5,633	5,932
Allowance for doubtful accounts	(37)	(37)
Total investments and other assets	12,026	14,776
Total non-current assets	27,306	75,830
Deferred assets		
Share issuance cost	—	81
Total deferred assets	—	81
Total assets	149,423	252,771

(Unit: million yen)

	Fiscal 2020 (as of December 31, 2020)	Fiscal 2021 (as of December 31, 2021)
Liabilities		
Current liabilities		
Short-term loans payable	2,907	3,589
Current portion of long-term loans payable	26,093	82,912
Current portion of bonds	230	—
Lease obligations	0	0
Accounts payable - other	1,590	2,468
Income taxes payable	1,460	1,653
Advances received	2,233	6,058
Deposits received	4,583	5,634
Other	713	205
Total current liabilities	39,813	102,523
Non-current liabilities		
Long-term loans payable	69,274	76,533
Lease obligations	—	2
Deferred tax liabilities	2	8,056
Provision for directors' share-based benefits	135	135
Provision for share-based benefits	46	57
Asset retirement obligations	260	270
Other	1,262	2,564
Total non-current liabilities	70,982	87,619
Total liabilities	110,795	190,143
Net assets		
Shareholders' equity		
Capital stock	6,284	16,519
Capital surplus	2,088	12,396
Retained earnings	31,429	34,745
Treasury shares	(1,348)	(1,216)
Total shareholders' equity	38,454	62,445
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	153	371
Foreign currency translation adjustment	(18)	(36)
Total accumulated other comprehensive income	134	334
Subscription rights to shares	1	0
Non-controlling interests	37	(152)
Total net assets	38,627	62,628
Total liabilities and net assets	149,423	252,771

Consolidated Statement of Income and Consolidated Statement of Comprehensive Income

Consolidated Statement of Income

(Unit: million yen)

	Fiscal 2020 (from January 1, 2020 to December 31, 2020)	Fiscal 2021 (from January 1, 2021 to December 31, 2021)
Net sales	77,308	79,017
Cost of sales	57,628	58,429
Gross profit	19,679	20,588
Selling, general and administrative expenses		
Advertising expenses	2,524	3,498
Sales commission	502	1,091
Directors' compensations	308	271
Salaries and allowances	1,723	2,146
Provision for directors' share-based benefits	21	—
Provision for share-based benefits	10	12
Commission fee	333	540
Taxes and dues	559	801
Other	1,492	1,843
Total selling, general and administrative expenses	7,477	10,206
Operating income	12,202	10,381
Non-operating income		
Interest income	16	10
Dividend income	93	101
Cancellation income	19	37
Foreign exchange gains	—	73
Share of profit of entities accounted for using equity method	—	54
Other	26	25
Total non-operating income	155	303
Non-operating expenses		
Interest expenses	1,047	1,463
Amortization of share issuance cost	—	27
Share of loss of entities accounted for using equity method	109	—
Other	37	95
Total non-operating expenses	1,194	1,585
Ordinary income	11,164	9,099
Extraordinary income		
Gain on sales of non-current assets	0	0
Gain on reversal of subscription rights to shares	0	0
Total extraordinary income	0	0
Extraordinary losses		
Loss on retirement of non-current assets	0	0
Total extraordinary losses	0	0
Profit before income taxes	11,164	9,099
Income taxes - current	3,212	3,147
Income taxes - deferred	297	180
Total income taxes	3,509	3,328
Profit	7,654	5,770
Loss attributable to non-controlling interests	(8)	(190)
Profit attributable to owners of parent	7,663	5,961

Consolidated Statement of Comprehensive Income

(Unit: million yen)

	Fiscal 2020 (from January 1, 2020 to December 31, 2020)	Fiscal 2021 (from January 1, 2021 to December 31, 2021)
Profit	7,654	5,770
Other comprehensive income		
Valuation difference on available-for-sale securities	(103)	218
Foreign currency translation adjustment	0	(8)
Share of other comprehensive income of entities accounted for using equity method	(18)	(9)
Total other comprehensive income	(121)	199
Comprehensive income	7,533	5,970
Comprehensive income attributable to:		
Comprehensive income attributable to owners of parent	7,541	6,161
Comprehensive income attributable to non-controlling interests	(8)	(190)

Consolidated Statement of Changes in Equity

Fiscal year ended December 2020 (from January 1, 2020 to December 31, 2020)

(Unit: million yen)

	Shareholders' equity					Accumulated other comprehensive income					Sub- scription rights to shares	Non- controlling interests	Total net assets
	Capital stock	Capital surplus	Retained earnings	Trea- sury shares	Total share- holders' equity	Valuation difference on avail- able-for- sale securities	Foreign currency transla- tion adjust- ment	Total accumu- lated other compre- hensive income					
Balance at beginning of current period	6,275	2,004	26,256	(1,247)	33,288	256	(0)	256	1	0	33,546		
Changes of items during period													
Issuance of new shares	9	9			18						18		
Dividends of surplus			(2,490)		(2,490)						(2,490)		
Profit attributable to owners of parent			7,663		7,663						7,663		
Disposal of treasury shares		74		132	207						207		
Purchase of treasury shares by the share-based payment benefits trust for directors				(233)	(233)						(233)		
Net changes of items other than shareholders' equity						(103)	(17)	(121)	(0)	36	(84)		
Total changes of items during period	9	84	5,173	(101)	5,165	(103)	(17)	(121)	(0)	36	5,080		
Balance at end of current period	6,284	2,088	31,429	(1,348)	38,454	153	(18)	134	1	37	38,627		

Fiscal year ended December 2021 (from January 1, 2021 to December 31, 2021)

(Unit: million yen)

	Shareholders' equity					Accumulated other comprehensive income					Sub- scription rights to shares	Non- controlling interests	Total net assets
	Capital stock	Capital surplus	Retained earnings	Trea- sury shares	Total share- holders' equity	Valuation difference on avail- able-for- sale securities	Foreign currency transla- tion adjust- ment	Total accumu- lated other compre- hensive income					
Balance at beginning of current period	6,284	2,088	31,429	(1,348)	38,454	153	(18)	134	1	37	38,627		
Changes of items during period													
Issuance of new shares	10,235	10,235			20,470						20,470		
Dividends of surplus			(2,645)		(2,645)						(2,645)		
Profit attributable to owners of parent			5,961		5,961						5,961		
Disposal of treasury shares		73		132	205						205		
Net changes of items other than shareholders' equity						218	(18)	199	(0)	(190)	9		
Total changes of items during period	10,235	10,308	3,316	132	23,991	218	(18)	199	(0)	(190)	24,000		
Balance at end of current period	16,519	12,396	34,745	(1,216)	62,445	371	(36)	334	0	(152)	62,628		

Consolidated Statement of Cash Flows

(Unit: million yen)

	Fiscal 2020 (from January 1, 2020 to December 31, 2020)	Fiscal 2021 (from January 1, 2021 to December 31, 2021)
Cash flows from operating activities		
Profit before income taxes	11,164	9,099
Depreciation	399	706
Amortization of goodwill	100	237
Amortization of long-term prepaid expenses	4	27
Amortization of share issuance cost	—	27
Increase (decrease) in allowance for doubtful accounts	0	(0)
Increase (decrease) in provision for directors' share-based benefits	21	—
Increase (decrease) in provision for share-based benefits	10	10
Interest and dividend income	(109)	(111)
Interest expenses	1,047	1,463
Foreign exchange losses (gains)	31	(73)
Share of loss (profit) of entities accounted for using equity method	109	(54)
Loss (gain) on sales of non-current assets	(0)	(0)
Loss on retirement of non-current assets	0	0
Decrease (increase) in notes and accounts receivable - trade	(329)	107
Decrease (increase) in inventories	(4,370)	(19,306)
Decrease (increase) in prepaid expenses	(381)	(894)
Increase (decrease) in accounts payable - other	(358)	366
Decrease/increase in consumption taxes receivable/payable	192	(416)
Increase (decrease) in advances received	(576)	3,575
Increase (decrease) in deposits received	187	439
Decrease (increase) in other assets	(805)	(1,221)
Increase (decrease) in other liabilities	(45)	169
Subtotal	6,291	(5,848)
Interest and dividend income received	95	181
Interest expenses paid	(1,195)	(1,723)
Income taxes (paid) refund	(5,072)	(3,419)
Net cash provided by (used in) operating activities	119	(10,810)
Cash flows from investing activities		
Payments into time deposits	(18)	(15)
Proceeds from withdrawal of time deposits	19	18
Purchase of investment securities	(1,913)	(2,265)
Proceeds from sales of investment securities	9	—
Proceeds from withdrawal of investment securities	717	0
Purchase of non-current assets	(6,555)	(4,763)
Proceeds from sales of non-current assets	86	121
Proceeds from purchase of shares of subsidiaries resulting in change in scope of consolidation	91	—
Purchase of shares of subsidiaries resulting in change in scope of consolidation	—	(24,070)
Payments of loans receivable	(2,930)	(8)
Collection of loans receivable	500	647
Repayments of guarantee deposits received	(983)	(1,120)
Proceeds from guarantee deposits received	1,244	1,732
Payments for investments in capital	(2)	—
Net cash provided by (used in) investing activities	(9,732)	(29,721)
Cash flows from financing activities		
Increase in short-term loans payable	8,018	6,539
Decrease in short-term loans payable	(9,690)	(5,857)
Proceeds from long-term loans payable	62,166	111,250
Repayments of long-term loans payable	(46,917)	(79,320)
Redemption of bonds	(40)	(230)
Repayments of lease obligations	(1)	(1)
Repayments of installment payables	(31)	(5)
Proceeds from issuance of common shares	18	20,361
Proceeds from disposal of treasury shares	207	203
Purchase of treasury shares	(233)	—
Cash dividends paid	(2,488)	(2,645)
Net cash provided by (used in) financing activities	11,007	50,293
Translation differences on cash and cash equivalents	(8)	(1)
Net increase (decrease) in cash and cash equivalents	1,385	9,760
Cash and cash equivalents at beginning of period	22,413	23,798
Cash and cash equivalents at end of period	23,798	33,559

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 properties 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. With a capital increase implemented through third-party allotment with Chubu Electric Power Co., Inc. (hereinafter “Chubu Electric Power”) as the allottee on April 5, 2021, ES CON JAPAN became a consolidated subsidiary of Chubu Electric Power. Concerning the transition to the new market segments scheduled for April 4, 2022, at Tokyo Stock Exchange, Inc., the Company has decided to make a transition to the Prime Market.

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 million 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 sixteen consolidated subsidiaries as of December 31, 2021, as follows:
	ES-CON Property Ltd.
	ES-CON Asset Management Ltd.
	ES-CON Living Service Ltd.
	ES-CON Home Ltd.
	ES-CON Craft Ltd.
	ES-CON Global Works Ltd.
	Ryomon Co., Ltd.
	Picasso Co., Ltd.
	Yuki Sangyo Co., Ltd.
	Venus Corporation Co., Ltd.
	Cubic Co., Ltd.
	Santa Co., Ltd.
	Hirano Bussan Co., Ltd.
	Aria Co., Ltd.
	Eikaku Y.K.
	ESCON JAPAN (Thailand) CO., LTD.

Picasso Co., Ltd., Yuki Sangyo Co., Ltd., Venus Corporation Co., Ltd., Cubic Co., Ltd., Santa Co., Ltd., Hirano Bussan Co., Ltd., Aria Co., Ltd. and Eikaku Y.K., which the Company made its subsidiaries by acquiring their shares in the fiscal year ended December 2021, were included in the scope of consolidation.

Of these consolidated subsidiaries, the accounting period of ESCON JAPAN (Thailand) CO., LTD. ends on November 30. In preparing the accompanying financial statements, its financial statements as of the date are used, while making necessary adjustments for material transactions that took place between December 1 and December 31, the day for settlement of consolidated accounts.

Furthermore, ESCON USA LLC, ESCON USA II LLC and ESCON USA III LLC are not included in the scope of consolidation as they are small companies and their total assets, net sales, net income/loss (equivalent to the Company's equity interest) and retained earnings (equivalent to the Company's equity interest), etc. do not pose any material impact on the consolidated financial statements.

(2) Equity-method affiliates

The Company has two equity-method affiliates, as follows:
ORIGIN KNIGHTSBRIDGE THEPHARAK CO., LTD.
TSUNAGU Community Farm LLC

TSUNAGU Community Farm LLC, which had been newly established in the fiscal year ended December 2021, was included in the scope of equity-method accounting.

Furthermore, ESCON USA LLC, ESCON USA II LLC, ESCON USA III LLC and Nishiguchi Building Management Co., Ltd. are not included in the scope of equity-method accounting as their net loss (equivalent to the Company's equity interest) and retained earnings (equivalent to the Company's equity interest), etc. do not pose any material impact on the consolidated financial statements and they are of little importance as a whole.

(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, equity interests in silent partnership, etc. are stated at their net asset value. As for income and losses from silent partnership, etc., 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) Standards for conversion of significant assets or liabilities denominated in foreign currencies into Japanese yen

Monetary claims and monetary liabilities denominated in foreign currencies are translated into Japanese yen at the spot exchange rate on the date of closing of accounts, with translation differences included in the statements of income. As for the consolidated overseas subsidiaries, etc., assets and liabilities are translated into Japanese yen at the spot exchange rate on the date of their closing of accounts, while revenues and expenses are translated into Japanese yen at the average period-average exchange rate. The translation differences are included in foreign currency translation adjustment and non-controlling interests under net assets on the balance sheet.

(7) Method and period of amortization of goodwill

Goodwill is amortized regularly for over a reasonable period of up to 20 years, with the useful life estimated individually.

(8) 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.

(9) Other significant items fundamental to preparing the financial statements

- 1) Share issuance costs
Share issuance costs are amortized utilizing the straight-line method over three years.
- 2) Accounting for consumption taxes
Consumption taxes are excluded from the transaction amounts. Non-deductible consumption taxes are recorded as expenses for the relevant consolidated fiscal year.
- 3) Accounting principles and procedures adopted in cases when provisions of relevant accounting standards are not clear
With regard to recording of advertising expenses, etc., selling expenses including advertising expenses that accrued before delivery of products in the condominium sales business shall be recorded as prepaid expenses, to be expensed in a lump-sum at the time of delivery, in order to appropriately match cost with revenue in the condominium sales business.
- (Additional information)
The Company adopted the Accounting Standard for Accounting Policy Disclosures, Accounting Changes and Error Corrections (ASBJ Statement No. 24 (revised 2020) issued by ASBJ on March 31, 2020, starting with the consolidated financial statements as of the end of the fiscal year ended December 2021, and disclosed the “accounting principles and procedures adopted in cases when provisions of relevant accounting standards are not clear.”

[Significant Accounting Estimates]**1. Inventory Valuation**

(1) Amount recorded on the financial statements for the fiscal year ended December 2021 (Unit: million yen)

	Fiscal 2021 (as of December 2021)
Real estate for sale	7,541
Real estate for sale in process	123,419

(2) Information on the nature of significant accounting estimates for identified items

Real estate for sale, etc. is estimated using the specific identification method under the cost approach (the method to reduce the book value due to lower profitability). Valuation loss of inventories are recorded when the net realizable value calculated based on sales plans, etc. falls below the acquisition cost. The net realizable value is obtained by deducting estimated additional construction cost and estimated direct selling expenses from anticipated sales value.

The important assumptions in estimating the net realizable value are the estimates of sale price, cost of completed work and direct selling expenses in for-sale condominium projects, and the estimates of NOI (Net Operating Income) and capitalization rate in income-generating real estate projects. As for the impact of the COVID-19 pandemic, the Company anticipates that the impact on the real estate market conditions is limited, although it will continue over a long term.

Furthermore, if the net realizable value of for-sale real estate, etc. drops significantly due to such factors as future economic trends, interest rate trends and worsening of the real estate market conditions, it may cause a material impact on the financial statements of the following fiscal year and thereafter through recording of valuation loss of inventories.

2. Valuation of Assets Related to Columbarium Business

(1) Amount recorded on the financial statements for the fiscal year ended December 2021 (Unit: million yen)

	Fiscal 2021 (as of December 2021)
Long-term prepaid expenses (exclusive sales right of permanent use rights)	3,968
Long-term loans receivable related to columbarium business	2,400

(2) Information on the nature of significant accounting estimates for identified items

Ryomon Co., Ltd., a consolidated subsidiary, started sales of permanent use of columbarium in the fiscal year ended December 2021. Impacted by the spread of COVID-19 infection, the business posted an operating loss, and there are signs of impairment for non-current assets and delays in collection of long-term loans receivable at the company. Judgement whether to recognize impairment loss has been made based on the future cash flows in accordance with the business plans prepared on the premise of the current business environment, and the Company considers that there is no need to recognize any impairment loss as future cash flows before discount surpasses the book value of non-current assets. In addition, cash-flow plans of the borrowers have been investigated based on the said business plans, and the Company considers that long-term loans receivable are also collectible. Anticipated sales volume and the sale price have been estimated on the premise that, as a material assumption of the said business plans, the impact of the spread of COVID-19 will continue going forward.

Furthermore, the estimated future cash flows based on the business plans are highly uncertain, and if they need to be revised due to such factors as future economic trends, interest rate trends and changes in the business environment, it may cause a material impact on the financial statements of the following fiscal year and thereafter through recording of impairment loss and allowance for doubtful accounts.

(Changes in Accounting Policies)

Not applicable

[Unapplied Accounting Standard and Implementation Guidance]**1. Accounting Standard for Revenue Recognition, etc.**

- Accounting Standard for Revenue Recognition (ASBJ Statement No. 29 (revised 2020); March 31, 2020)
- Implementation Guidance on Accounting Standard for Revenue Recognition (ASBJ Guidance No. 30 (revised 2020); March 31, 2020)
- Implementation Guidance on Disclosures about Fair Value of Financial Instruments (ASBJ Guidance No. 19 (revised 2020); March 31, 2020)

(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 for Revenue Recognition, etc. from the beginning of the fiscal year ending December 31, 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 for Revenue Recognition, etc. is currently being assessed.

2. Accounting Standard for Fair Value Measurement, etc.

- Accounting Standard for Fair Value Measurement (ASBJ Statement No. 30; July 4, 2019)
- Implementation Guidance on Accounting Standard for Fair Value Measurement (ASBJ Guidance No. 31; July 4, 2019)
- Accounting Standard for Measurement of Inventories (ASBJ Statement No. 9; July 4, 2019)
- Accounting Standard for Financial Instruments (ASBJ Statement No. 10; July 4, 2019)
- Implementation Guidance on Disclosures about Fair Value of Financial Instruments (ASBJ Guidance No. 19; March 31, 2020)

(1) Overview

IASB and FASB have established detailed guidance for fair value measurement (IFRS 13 “Fair Value Measurement” under the International Financial Reporting Standards and Topic 820 “Fair Value Measurement” of the Accounting Standards Codification under the U.S. accounting standards) containing almost the same content. In light of this, the ASBJ worked to secure consistency of the Japanese accounting standards with the international accounting standards, mainly in terms of the guidance on and disclosure of the fair value of financial instruments, and announced the Accounting Standard for Fair Value Measurement, etc.

The basic policy of ASBJ for the development of the Accounting Standard for Fair Value Measurement was to adopt all provisions of the IFRS 13 as a rule by using a unified calculation method, from the viewpoint of improving the comparability between the financial statements of the Japanese and foreign companies. Moreover, in consideration of the practices conducted in Japan to date, ASBJ determined to establish other treatments for individual items, to the extent that they do not greatly harm the comparability between the financial statements.

(2) Scheduled date of adoption

The Company will adopt the Accounting Standard for Fair Value Measurement, etc. from the beginning of the fiscal year ending December 31, 2022.

(3) Impact of the application of the accounting standard, etc.

The impact on the consolidated financial statements from adoption of the Accounting Standard Fair Value Measurement, etc. is currently being assessed.

[Changes in Presentation]

(Adoption of Accounting Standard for Disclosure of Accounting Estimates)

The Company adopted the Accounting Standard for Disclosure of Accounting Estimates (ASBJ Statement No. 31; March 31, 2020), starting with the consolidated financial statements as of the end of the fiscal year ended December 2021, and

provides notes on [Significant Accounting Estimates] in the financial statements.

However, in accordance with the transitional treatment stipulated in the Proviso of Paragraph 11 of the Accounting, the note on the matter for the previous fiscal year is not provided.

[Additional Information]

(Board Benefit Trust for Executives)

(1) Overview of the transaction

1) ES-CON JAPAN passed a resolution to introduce the performance-based stock reward system (the “System”; The trust established based on the trust agreement concluded with Resona Bank, Limited for the System is referred to as “board benefit trust for executives”) at the Regular General Meeting of Shareholders held on March 20, 2015, with an aim to further clarify the relationship between remuneration for company directors (excluding outside directors, auditors and non-executive directors) and (authorized) executive managing officers (the “Directors, etc.”; Hereinafter referred to as the same unless otherwise specified) and ES-CON JAPAN’s operating results and share price, with the Directors, etc. not only benefiting from a rise in share price but also sharing the same risks as shareholders in relation to a fall in share price, thereby increasing awareness of contribution to the medium- to long-term improvement of operating results and enhancement of corporate value. Furthermore, ES-CON JAPAN passed a resolution for continuation and partial revision of the System for the Directors, etc. at the Regular General Meetings of Shareholders held on March 26, 2020 and March 26, 2021.

The System after the revision is an incentive system by which ES-CON JAPAN contributes money to a trust with the trust acquiring shares of ES-CON JAPAN with the said money as capital, and shares of ES-CON JAPAN and the fair market value of shares of ES-CON JAPAN are granted to ES-CON JAPAN’s Directors, etc. through the trust in accordance with the operating results achievement rate, etc. pursuant to the officer stock ownership regulations set by ES-CON JAPAN. The shares of ES-CON JAPAN will be granted to the Director, etc. of ES-CON JAPAN when the said Director, etc. retires from all positions such as director in principle.

Under the System, for a set period of three fiscal years from the fiscal year ended December 2021 to the fiscal year ending December 2023 as well as each subsequent period of three fiscal years, ES-CON JAPAN will contribute money up to 330 million yen (110 million yen per fiscal year multiplied by the number of target fiscal years) to the trust.

2) Total number of shares to be granted to the Directors, etc.

- Resolution passed at the Regular General Meeting of Shareholders held on March 20, 2015
Upper limit of funds for acquisition of shares (for the five fiscal years from the fiscal year ended December 2015 to the fiscal year ended December 2019): 240 million yen
- Resolution passed at the Regular General Meeting of Shareholders held on March 26, 2020
Upper limit of funds for acquisition of shares (for the three fiscal years from the fiscal year ended December 2020 to the fiscal year ending December 2022, and each subsequent period of three fiscal years): 330 million yen
- Resolution passed at the Regular General Meeting of Shareholders held on March 26, 2021
Upper limit of funds for acquisition of shares (for the three fiscal years from the fiscal year ended December 2021 to the fiscal year ending December 2023, and each subsequent period of three fiscal years): 330 million yen

3) Scope of persons who are eligible to receive beneficiary rights and other rights under the System

The Directors, etc. of ES-CON JAPAN who have acquired the right to receive shares based on the officer stock ownership regulations.

(2) Residual shares of ES-CON JAPAN in the trust

Residual shares of ES-CON JAPAN in the trust are recorded as treasury shares under net assets using the book value in

the trust (excluding the amount of incidental expenses). The book value of the treasury shares and the number of shares is 347 million yen and 851,000 shares for the previous fiscal year, and 347 million yen and 851,000 shares for the fiscal year under review.

(Share-Based Payment Benefits Type ESOP Trust)

(1) Overview of the transaction

ES-CON JAPAN passed a resolution to introduce a share-based payment benefits-type ESOP trust (the "System"; The trust established based on the trust agreement concluded with Resona Bank, Limited for the System is referred to as "Share-Based Payment ESOP") at the Regular General Meeting of Shareholders held on March 20, 2015, with an aim to further enhance the benefit program for its employees and raise their motivation and morale for improving the share price and operating results.

The System is a system by which ES-CON JAPAN contributes money to a trust with the trust acquiring shares of ES-CON JAPAN with the said money as capital, and shares of ES-CON JAPAN are granted to ES-CON JAPAN Group's employees who have satisfied certain requirements through the trust, pursuant to the stock ownership regulations set by ES-CON JAPAN.

(2) Residual shares of ES-CON JAPAN in the trust

Residual shares of ES-CON JAPAN in the trust are recorded as treasury shares under net assets using the book value in the trust (excluding the amount of incidental expenses). The book value of the treasury shares and the number of shares is 59 million yen and 233,000 shares for the previous fiscal year, and 57 million yen and 225,700 shares for the fiscal year under review.

4. Notes to Consolidated Balance Sheet

(1) Unconsolidated Subsidiaries and Affiliates

(Unit: million yen)

	Fiscal 2020 (as of December 31, 2020)	Fiscal 2021 (as of December 31, 2021)
Investment securities (equity capital)	491	1,261
Investment securities (shares)	484	1,281

(2) Pledged Assets and Secured Debts

Assets provided as collateral are as follows:

(Unit: million yen)

	Fiscal 2020 (as of December 31, 2020)	Fiscal 2021 (as of December 31, 2021)
Cash and deposits	20	40
Real estate for sale	4,745	5,204
Real estate for sale in process	78,546	89,640
Buildings and structures	2,856	5,156
Land	11,261	13,214
Property, plant and equipment (Other)	16	37
Cancelled shares of consolidated subsidiaries	—	30,539
Total	97,446	143,832

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

(Unit: million yen)

	Fiscal 2020 (as of December 31, 2020)	Fiscal 2021 (as of December 31, 2021)
Short-term loans payable	2,269	2,429
Current portion of long-term loans payable	24,241	77,220
Long-term loans payable	61,135	68,310
Total	87,646	147,960

(3) Guarantee Obligations

The Company guarantees obligations of the following affiliate for its borrowings from financial institutions.

(Unit: million yen)

	Fiscal 2020 (as of December 31, 2020)	Fiscal 2021 (as of December 31, 2021)
TSUNAGU Community Farm LLC	—	387

(4) Commitment Line Agreement

The Company has executed a commitment line agreement with three banks in order to conduct financing in a flexible manner as needed while securing financing stability. The balance of unused commitment line based on this agreement is as follows.

(Unit: million yen)

	Fiscal 2020 (as of December 31, 2020)	Fiscal 2021 (as of December 31, 2021)
Credit limit	—	15,500
Balance of used commitment line	—	3,550
Difference	—	11,950

5. Notes to Consolidated Statement of Income

(1) Breakdown of Gain on Sale of Non-Current Assets

(Unit: million yen)

	Fiscal 2020 (from January 1, 2020 to December 31, 2020)	Fiscal 2021 (from January 1, 2021 to December 31, 2021)
Vehicles	0	0
Total	0	0

(2) Breakdown of Loss on Retirement of Non-Current Assets

(Unit: million yen)

	Fiscal 2020 (from January 1, 2020 to December 31, 2020)	Fiscal 2021 (from January 1, 2021 to December 31, 2021)
Property, plant and equipment (Other)	0	0
Intangible assets (Other)	—	0
Total	0	0

6. Notes to Consolidated Statement of Comprehensive Income

(1) Reclassification Adjustments and Tax Effects to Each Component of Other Comprehensive Income

(Unit: million yen)

	Fiscal 2020 (from January 1, 2020 to December 31, 2020)	Fiscal 2021 (from January 1, 2021 to December 31, 2021)
Valuation difference on available-for-sale securities:		
Amounts arising during the fiscal year	(145)	314
Reclassification adjustments	—	—
Subtotal before tax effect adjustments	(145)	314
Tax effect	41	(96)
Valuation difference on available-for-sale securities	(103)	218
Foreign currency translation adjustment:		
Amounts arising during the fiscal year	(0)	(8)
Share of other comprehensive income/(loss) of equity-method affiliate:		
Amounts arising during the fiscal year	(18)	(9)
Total other comprehensive income	(121)	199

7. Notes to Consolidated Statement of Changes in Equity

Fiscal 2020 (from January 1, 2020 to December 31, 2020)

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

	Number of shares at beginning of Fiscal 2020	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 2020
Issued shares				
Common shares (Note 1)	71,841,887	120,000	—	71,961,887
Total	71,841,887	120,000	—	71,961,887
Treasury shares				
Common shares (Note 2)(Note 3)	3,394,700	363,800	330,100	3,428,400
Total	3,394,700	363,800	330,100	3,428,400

(Notes) 1. The increase in the number of common shares issued and outstanding (120,000 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 (363,800 shares) is due to transfer of shares to the share-based payment benefits trust for directors by the Company (330,000 shares) and acquisition of shares on the market by the share-based payment benefits trust for directors (33,800 shares).
 3. The decrease in the number of treasury shares in common shares (330,100 shares) is due to transfer of shares to the share-based payment benefits trust for directors by the Company (330,000 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: 487,200 shares at the beginning of Fiscal 2020 and 851,000 shares at the end of Fiscal 2020; the share-based payment benefits type ESOP trust: 233,100 shares at the beginning of Fiscal 2020 and 233,000 shares at the end of Fiscal 2020).

(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)			End of Fiscal 2020	Balance at end of Fiscal 2020 (million yen)
			Beginning of Fiscal 2020	Increase during the fiscal year	Decrease during the fiscal year		
Reporting company (parent company)	Fifth offer of subscription rights to shares (Note 1)	Common shares	120,000	—	120,000	—	—
	Sixth offer of subscription rights to shares (Note 2)	Common shares	1,261,500	—	17,000	1,244,500	1
Total		—	1,381,500	—	137,000	1,244,500	1

(Notes) 1. The decrease in the number of common shares issued and outstanding (120,000 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 (17,000 shares) is due to expiration of the sixth offer 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 26, 2020 Annual General Meeting of Shareholders	Common shares	2,490	36.00	December 31, 2019	March 27, 2020

(Note) The total amount of dividends includes 17 million yen of dividends to the Company's shares owned by the share-based payment benefits trust for directors and 8 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, 2021 Annual General Meeting of Shareholders	Common shares	2,645	Retained earnings	38.00	December 31, 2020	March 29, 2021

(Note) The total amount of dividends includes 32 million yen of dividends to the Company's shares owned by the share-based payment benefits trust for directors and 8 million yen of dividends to the Company's shares owned by the share-based payment benefits type ESOP trust.

Fiscal 2021 (from January 1, 2021 to December 31, 2021)

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

	Number of shares at beginning of Fiscal 2021	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 2021
Issued shares				
Common shares (Note 1)	71,961,887	26,619,000	—	98,580,887
Total	71,961,887	26,619,000	—	98,580,887
Treasury shares				
Common shares (Note 2)(Note 3)	3,428,400	—	331,500	3,096,900
Total	3,428,400	—	331,500	3,096,900

(Notes) 1. The increase in the number of common shares issued and outstanding (26,619,000 shares) is due to issuance of new shares through third-party allotment with April 5, 2021 as the payment date.
2. The decrease in the number of treasury shares in common shares (331,500 shares) is due to provision of shares for exercise of the sixth offer of subscription rights to shares (324,200 shares) and provision of shares to the qualifying employees by the share-based payment benefits type ESOP trust (7,300 shares).
3. 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: 851,000 shares at the beginning of Fiscal 2021 and 851,000 shares at the end of Fiscal 2021; the share-based payment benefits type ESOP trust: 233,000 shares at the beginning of Fiscal 2021 and 225,700 shares at the end of Fiscal 2021).

(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 2021 (million yen)
			Beginning of Fiscal 2021	Increase during the fiscal year	Decrease during the fiscal year	End of Fiscal 2021	
Reporting company (parent company)	Sixth offer of subscription rights to shares (Note)	Common shares	1,244,500	—	342,100	902,400	0
Total			1,244,500	—	342,100	902,400	0

(Note) The decrease in the number of common shares subject to the sixth offer of subscription rights to shares (342,100 shares) is due to exercise of subscription rights to shares (324,200 shares) and due to expiration of the offer of subscription rights to shares (17,900 shares).

(3) Dividends

1) Dividends paid

(Resolution)	Type of shares	Total dividends (million yen)	Dividend per share (yen)	Record date	Effective date
March 26, 2021 Annual General Meeting of Shareholders	Common shares	2,645	38.00	December 31, 2020	March 29, 2021

(Note) The total amount of dividends includes 32 million yen of dividends to the Company's shares owned by the share-based payment benefits trust for directors and 8 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 25, 2022 Annual General Meeting of Shareholders	Common shares	3,669	Retained earnings	38.00	December 31, 2021	March 28, 2022

(Note) The total amount of dividends includes 32 million yen of dividends to the Company's shares owned by the share-based payment benefits trust for directors and 8 million yen of dividends to the Company's shares owned by the share-based payment benefits type ESOP trust.

8. Notes to Consolidated Statement of Cash Flows

(1) Relationship Between the Year-End Balance of Cash and Cash Equivalents and the Amounts of Accounts on the Consolidated Balance Sheet

(Unit: million yen)

	Fiscal 2020 (from January 1, 2020 to December 31, 2020)	Fiscal 2021 (from January 1, 2021 to December 31, 2021)
Cash and deposits	23,870	33,667
Time deposits with maturities of more than 3 months	(43)	(40)
Deposits of share-based payment benefits trust	(28)	(68)
Cash and cash equivalents	23,798	33,559

(2) Major Breakdown of Assets and Liabilities of the Company that was Newly Consolidated in the Fiscal Year Ended December 31, 2020 Through Acquisition of its Shares

In association with the new consolidation of Ryomon Co., Ltd. through acquisition of its shares, the following table indicates the breakdown of the assets and liabilities and the relationship between the acquisition price and income from acquisition (net) at the beginning of consolidation.

(Unit: million yen)

Current assets	143
Non-current assets	0
Goodwill	3
Current liabilities	(51)
Non-controlling interests	(45)
Acquisition price of newly consolidated subsidiary	51
Cash and cash equivalents of newly consolidated subsidiary	(142)
Difference: income from acquisition of shares of the subsidiary accompanying changes in the scope of consolidation	91

(3) Major Breakdown of Assets and Liabilities of the Company that was Newly Consolidated in the Fiscal Year Ended December 31, 2021 Through Acquisition of its Shares

In association with the new consolidation of Picasso Co., Ltd. and the seven companies that are its group companies through acquisition of their shares, the following table indicates the breakdown of the assets and liabilities and the relationship between the acquisition price and income from acquisition (net) at the beginning of consolidation.

	(Unit: million yen)
Current assets	30,473
Non-current assets	34,233
Goodwill	8,115
Current liabilities	(1,552)
Non-controlling interests	(40,825)
Acquisition price of newly consolidated subsidiaries	30,445
Cash and cash equivalents of newly consolidated subsidiaries	(6,375)
Difference: expenditures for acquisition of shares of the subsidiaries accompanying changes in the scope of consolidation	24,070

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 used by the Company and Internet security equipment, etc. used at the offices of subsidiary companies

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 2020 (as of December 31, 2020)	Fiscal 2021 (as of December 31, 2021)
Due within one year	460	332
Due after one year	1,078	836
Total	1,538	1,169

(Lessor)

(1) Operating Lease Transactions

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

	Fiscal 2020 (as of December 31, 2020)	Fiscal 2021 (as of December 31, 2021)
Due within one year	1,302	2,101
Due after one year	5,652	6,994
Total	6,955	9,096

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 silent partnership, etc. Listed shares, etc. are exposed to market price fluctuation risks, but the Company periodically checks their fair value. Non-listed shares and silent partnership, etc. have the risks from worsening financial conditions, etc. of the issuer companies and silent partnership, etc., 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 2020 (as of December 31, 2020) (Unit: million yen)

	Book value recorded on the balance sheet	Fair value	Difference
(1) Cash and deposits	23,870	23,870	—
(2) Notes and accounts receivable - trade	927	927	—
(3) Investment securities Other securities	1,670	1,670	—
Total of assets	26,468	26,468	—
(1) Accounts payable - other	1,590	1,590	—
(2) Deposits received	4,583	4,583	—
(3) Short-term loans payable	2,907	2,907	—
(4) Long-term loans payable*1	95,368	95,302	(65)
(5) Bonds payable*2	230	230	—
Total of liabilities	104,679	104,614	(65)

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

*2 Bonds payable includes current portion of bonds payable.

Fiscal 2021 (as of December 31, 2021) (Unit: million yen)

	Book value recorded on the balance sheet	Fair value	Difference
(1) Cash and deposits	33,667	33,667	—
(2) Notes and accounts receivable - trade	835	835	—
(3) Investment securities Other securities	2,481	2,481	—
Total of assets	36,984	36,984	—
(1) Accounts payable - other	2,468	2,468	—
(2) Deposits received	5,634	5,634	—
(3) Short-term loans payable	3,589	3,589	—
(4) Long-term loans payable*1	159,445	159,357	(87)
Total of liabilities	171,137	171,049	(87)

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

The fair value of long-term loans payable 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 by the Company.

2. Financial instruments for which discerning fair value is recognized to be extremely difficult. (Unit: million yen)

Category	Fiscal 2020 (as of December 31, 2020)	Fiscal 2021 (as of December 31, 2021)
1) Non-listed shares	1,294	2,154
2) Silent partnership equity investment, etc.	591	1,550
Total	1,886	3,704

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 2020 (as of December 31, 2020) (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	23,870	—	—	—
Notes and accounts receivable - trade	927	—	—	—
Total	24,798	—	—	—

Fiscal 2021 (as of December 31, 2021) (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	33,667	—	—	—
Notes and accounts receivable - trade	835	—	—	—
Total	34,503	—	—	—

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

Fiscal 2020 (as of December 31, 2020) (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	2,907	—	—	—	—	—
Long-term loans payable	26,093	22,719	15,521	5,380	3,776	21,876
Bonds payable	230	—	—	—	—	—
Total	29,231	22,719	15,521	5,380	3,776	21,876

Fiscal 2021 (as of December 31, 2021) (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	3,589	—	—	—	—	—
Long-term loans payable	82,912	27,539	16,101	7,391	6,795	18,705
Lease obligations	0	0	0	0	0	0
Total	86,502	27,539	16,101	7,391	6,795	18,705

11. Notes to Securities

(1) Other Securities

Fiscal 2020 (from January 1, 2020 to December 31, 2020) (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	—	—	—
	(2) Other	1,643	1,420	223
Securities with book values on the consolidated balance sheet not exceeding acquisition cost	(1) Shares	25	27	(1)
	(2) Other	0	0	(0)
Total		1,670	1,448	221

(Note) The table above does not include non-listed shares and silent partnership equity investment, etc. (book value recorded on the consolidated balance sheet: 1,886 million yen) as Other securities, because discerning fair value is recognized to be extremely difficult as there is no market price.

Fiscal 2021 (from January 1, 2021 to December 31, 2021)

(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	—	—	—
	(2) Other	2,455	1,917	537
Securities with book values on the consolidated balance sheet not exceeding acquisition cost	(1) Shares	26	27	(1)
	(2) Other	0	0	(0)
Total		2,481	1,945	536

(Note) The table above does not include non-listed shares and silent partnership equity investment, etc. (book value recorded on the consolidated balance sheet: 3,704 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 2020 (from January 1, 2020 to December 31, 2020)

(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 16 million yen for the defined contribution pension plan.

Fiscal 2021 (from January 1, 2021 to December 31, 2021)

(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 18 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 (PITF) 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

6th subscription rights to shares	
Category and number of eligible persons	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: 1,400,000 shares
Date of grant of options	December 27, 2017
Vesting conditions	(Note 2)
Covered period of work	Not specified
Exercise period	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 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 2021 ended December 31, 2021. The number of stock options indicates the number of shares when the stock options are exercised.

1) Number of stock options

6th subscription rights to shares	
Before right allotment (shares)	
Balance of unexercised options at the end of the previous fiscal year	1,244,500
Granted	—
Expired	3,000
Right allotment	1,241,500
Balance of unexercised options	—
After right allotment (shares)	
Balance of unexercised options at the end of the previous fiscal year	—
Right allotment	1,241,500
Exercise of right	324,200
Expired	14,900
Balance of unexercised options	902,400

2) Unit price information	(Unit: yen)
Exercise price	627
Average share price upon exercise	805

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

	Fiscal 2020 (as of December 31, 2020)	Fiscal 2021 (as of December 31, 2021)
Deferred tax assets		
Net operating loss carried forward (Note 3)	16	291
Loss on valuation of inventories	229	143
Enterprise tax payable	104	119
Impairment loss	28	24
Asset retirement obligations	79	82
Loss on valuation of investment securities	40	35
Other	266	408
Subtotal of deferred tax assets	766	1,105
Valuation allowance for net operating loss carried forward for tax purposes (Note 3)	(13)	(243)
Valuation allowance for total deductible temporary difference	(218)	(337)
Valuation allowance (Note 2)	(231)	(580)
Total of deferred tax assets	534	525
Deferred tax liabilities		
Asset retirement expenses	(57)	(55)
Valuation difference on fair value of consolidated subsidiaries	—	(7,921)
Loss on valuation of other securities	(68)	(164)
Other	(4)	(211)
Total of deferred tax liabilities	(130)	(8,353)
Deferred tax assets (liabilities), net	403	(7,828)

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

	Fiscal 2020 (as of December 31, 2020)	Fiscal 2021 (as of December 31, 2021)
Effective statutory tax rate	—	30.7
(Adjustments)		
Expenses like entertainment expenses not qualifying for deduction permanently	—	0.3
Inhabitant tax on a per capita basis	—	0.2
Amortization of goodwill	—	0.8
Valuation allowance	—	3.5
Other	—	1.1
Effective tax rate after applying tax effect accounting	—	36.6

(Notes) 1. The note for the fiscal year ended December 2020 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.

2. Valuation allowance increased by 348 million yen. The increase is mainly attributable to the additional recognition of valuation allowance in accordance with the accrual of net operating loss carried forward for tax purposes, etc. at certain consolidated companies that determined that their deferred tax assets are uncollectible for the entire amount.

3. Amount of net operating loss carried forward for tax purposes and deferred tax assets by carry-over period

Fiscal year ended December 2020 (Unit: million yen)

	Less than 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years	Total
Net operating loss carried forward for tax purposes*1	—	—	—	1	7	6	16
Valuation allowance	—	—	—	(1)	(7)	(4)	(13)
Deferred tax assets	—	—	—	—	—	2	*2 2

*1 Net operating loss carried forward for tax purposes is the amount multiplied by effective statutory tax rate.

*2 Deferred tax assets of 2 million yen was recorded for 16 million yen in net operating loss carried forward for tax purposes (the amount multiplied by effective statutory tax rate). For the net operating loss carried forward for tax purposes, valuation allowance is not recognized for the portions determined to be collectible due to expected future taxable income.

Fiscal year ended December 2021 (Unit: million yen)

	Less than 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years	Total
Net operating loss carried forward for tax purposes*1	—	—	1	7	8	273	291
Valuation allowance	—	—	(1)	(7)	(8)	(225)	(243)
Deferred tax assets	—	—	—	—	—	48	*2 48

*1 Net operating loss carried forward for tax purposes is the amount multiplied by effective statutory tax rate.

*2 Deferred tax assets of 48 million yen was recorded for 291 million yen in net operating loss carried forward for tax purposes (the amount multiplied by effective statutory tax rate). For the net operating loss carried forward for tax purposes, valuation allowance is not recognized for the portions determined to be collectible due to expected future taxable income.

16. Notes to Business Combination, Etc.

(Business Combination Through Acquisition)

The Company made a resolution at its Board of Directors' meeting held on August 31, 2021 to acquire all shares of Picasso Co., Ltd. and the seven companies that are its group companies (Yuki Sangyo Co., Ltd., Venus Corporation Co., Ltd., Cubic Co., Ltd., Santa Co., Ltd., Hirano Bussan Co., Ltd., Aria Co., Ltd. and Eikaku Y.K.) and make them subsidiaries, and concluded a share transfer agreement as of the same date. Based on the agreement, the Company completed acquisition of the entire shares of Picasso Co., Ltd. and its seven group companies on October 29, 2021, making them subsidiaries.

1. Overview of Business Combination

(1) Name and business description of the acquired companies

Name of the acquired company	Business description
Picasso Co., Ltd.	Real estate leasing, real estate management, real estate investment, etc.
Yuki Sangyo Co., Ltd.	Real estate leasing, management, brokerage services
Venus Corporation Co., Ltd.	Real estate management
Cubic Co., Ltd.	Real estate leasing, management, brokerage services
Santa Co., Ltd.	Real estate leasing, management, brokerage services
Hirano Bussan Co., Ltd.	Real estate leasing, management, brokerage services
Aria Co., Ltd.	Real estate leasing, management, brokerage services
Eikaku Y.K.	Real estate leasing, management, brokerage services

(2) Major reason of conducting business combination

On October 29, 2021, the Company acquired all shares of Picasso Co., Ltd., a company engaged in the real estate leasing business mainly in the Kansai region, and seven of its group companies, and made them subsidiaries, with the purpose of securing stable earnings through income-generating real estate.

Picasso Co., Ltd., founded in 1991 in Osaka City, along with its seven group companies is engaged in the real estate leasing business mainly in the Kansai region. It owns numerous outstanding income-generating assets such as rental apartments and office buildings.

Currently, the Company conducts business operations based on “IDEAL to REAL 2023,” its fourth medium-term management plan (for the three years from the fiscal year ending December 2021 to the fiscal year ending December 2023). One of its business strategies is shifting from “flow-focused management” to “stock-focused management” in pursuit of “Transformation and Rapid Progress” to a sustained and stable revenue structure.

The companies that have newly become subsidiaries should reinforce the Company’s leasing business, secure stable earnings and drive the shift of the revenue structure. As such, they should contribute dramatically to the sustained growth of the ES-CON JAPAN Group.

(3) Date of business combination

October 29, 2021 (deemed acquisition date: August 31, 2021)

(4) Legal format of business combination

Acquisition of shares with considerations paid by cash

(5) Company name after business combination

No company name is changed after business combination.

(6) Ratio of acquired voting rights

100%

(7) Major grounds for deciding on the company to be acquired

By acquiring the shares of the companies with considerations paid by cash

2. Period During Which the Performance of the Acquired Companies is Included in the Company’s Consolidated Financial Statements

From September 1, 2021 to December 31, 2021

3. Acquisition Cost of the Acquired Companies (total of the above-mentioned eight companies) and Breakdown of Considerations by Type

Considerations of the acquisition: Cash	30,445 million yen
Acquisition cost:	30,445 million yen

4. Item and Amount of Major Acquisition-Related Expenses

Due diligence expenses, etc.	93 million yen
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5. Amount of Generated Goodwill, Grounds for Generation, Amortization Method and Amortization Period

(1) Amount of goodwill generated

8,115 million yen

(2) Grounds for generation

Picasso Co., Ltd., founded in 1991 in Osaka City, along with its seven group companies is engaged in the real estate leasing business mainly in the Kansai region. It owns numerous outstanding income-generating assets such as rental apartments and office buildings.

The companies that have newly become subsidiaries should reinforce the Company’s leasing business, secure stable earnings and drive the shift of the revenue structure. As such, they should contribute dramatically to the sustained growth of the ES-CON JAPAN Group. The generated goodwill reflects the excess earning power that is expected to arise through the business implementation in the future.

(3) Amortization method and amortization period

To be amortized evenly using the straight-line method over the period (up to 20 years) in which it is reasonably deemed that investment effects will arise.

6. Amounts and Major Breakdown of Assets Acquired and Liabilities Assumed on the Date of Business Combination (total of the above-mentioned eight companies)

Current assets	30,473 million yen
Non-current assets	34,233 million yen
Total assets	64,707 million yen
Current liabilities	1,552 million yen
Non-current liabilities	40,825 million yen
Total liabilities	42,377 million yen

7. Estimate Amount of the Impact on the Consolidated Statement of Income of the Fiscal Year Ended December 2019 on the Supposition that the Business Combination Completed on the Beginning Day of the Fiscal Year, and its Calculation Method

Net sales	2,469 million yen
Operating income	321 million yen

(Calculation method of the estimate amount)

The estimate amount of the impact indicates the difference between net sales as well as income information calculated on the supposition that the business combination completed on the beginning day of the fiscal year and net income as well as income information on the consolidated statement of income of the fiscal year of the acquired companies.

In addition, the estimate amount of impact takes into account the amortization amount of goodwill, etc. deemed to have been generated on the beginning date of the fiscal period ended December 2021.

Furthermore, no audit certificate has been given to these notes.

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 mainly obliged to restore its Tokyo Head Office, Osaka Head Office, Nagoya Office, Kyushu Office and Hokkaido 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 2020 (from January 1, 2020 to December 31, 2020)	Fiscal 2021 (from January 1, 2021 to December 31, 2021)
Balance at beginning of fiscal year	249	260
Increase due to acquisition of property, plant and equipment	9	8
Adjustments over passage of time	1	1
Balance at end of fiscal year	260	270

18. Notes to Rental Real Estate

The Company and some of its consolidated subsidiaries own retail properties, medical facilities, rental condominiums and other properties. Income or loss from leasing these rental properties during Fiscal 2020 totaled 641 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 2021 totaled 1,018 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 2020 (from January 1, 2020 to December 31, 2020)	Fiscal 2021 (from January 1, 2021 to December 31, 2021)
Book value recorded on the consolidated balance sheet		
Balance at beginning of fiscal year	12,657	14,135
Increase/decrease during fiscal year	1,478	37,946
Balance at end of fiscal year	14,135	52,082
Fair value at end of fiscal year	14,180	52,402

(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 increase during Fiscal 2020 is primarily attributable to acquisition of rental real estate (1,660 million yen), and the amount of decrease is primarily attributable to depreciation (281 million yen). The amount of increase during Fiscal 2021 is primarily attributable to acquisition of subsidiaries that own rental real estate, etc. (33,886 million yen) and acquisition of rental real estate (3,617 million yen), and the amount of decrease is primarily attributable to depreciation (584 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 properties, 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 2020 (from January 1, 2020 to December 31, 2020)

(Unit: million yen)

	Reportable segment			Total	Reconcilia- tion (Note 1)	Amount on consoli- dated financial statements (Note 2)
	Real estate sales business	Real estate leasing business	Real estate planning agency and consulting business			
Net sales						
Net sales to external customers	71,485	5,527	295	77,308	—	77,308
Intersegment net sales or transfers	—	—	—	—	—	—
Total	71,485	5,527	295	77,308	—	77,308
Segment income	14,257	2,381	152	16,791	(4,588)	12,202
Segment assets	95,146	20,521	6,598	122,266	27,156	149,423
Other items						
Depreciation (Note 3)	—	283	4	287	116	403
Amortization of goodwill	97	—	3	100	—	100
Investment in equity method affiliates	455	—	—	455	—	455
Increase in property, plant and equipment and intangible assets (Note 3)	—	1,761	4,003	5,765	79	5,845

(Notes) 1. Reconciliations are as follows:

- (1) The reconciliation of segment income of -4,588 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 27,156 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 116 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 79 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.
 3. Depreciation and increase in property, plant and equipment and intangible assets includes long-term prepaid expenses and their amortization.

Fiscal 2021 (from January 1, 2021 to December 31, 2021)

(Unit: million yen)

	Reportable segment			Total	Reconciliation (Note 1)	Amount on consolidated financial statements (Note 2)
	Real estate sales business	Real estate leasing business	Real estate planning agency and consulting business			
Net sales						
Net sales to external customers	70,334	8,090	592	79,017	—	79,017
Intersegment net sales or transfers	—	—	—	—	—	—
Total	70,334	8,090	592	79,017	—	79,017
Segment income (segment loss)	13,039	3,372	(516)	15,895	(5,514)	10,381
Segment assets	139,310	68,808	7,320	215,439	37,332	252,771
Other items						
Depreciation (Note 3)	—	584	35	619	114	733
Amortization of goodwill	97	140	—	237	—	237
Investment in equity method affiliates	536	—	710	1,247	—	1,247
Increase in property, plant and equipment and intangible assets (Note 3)	—	46,652	15	46,667	42	46,710

(Notes) 1. Reconciliations are as follows:

- (1) The reconciliation of segment income of -5,514 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 37,332 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 114 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 42 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.
 3. Depreciation and increase in property, plant and equipment and intangible assets includes long-term prepaid expenses and their amortization.

20. Related Information

Fiscal 2020 (from January 1, 2020 to December 31, 2020)

(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	10,797	Real estate sales business Real estate leasing business
Chuden Real Estate Co., Inc.	9,605	Real estate sales business Real estate leasing business
Hyogo Logistics TMK	7,740	Real estate sales business

Fiscal 2021 (from January 1, 2021 to December 31, 2021)

(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	12,456	Real estate sales business Real estate leasing business

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

Fiscal 2020 (from January 1, 2020 to December 31, 2020)

Not applicable

Fiscal 2021 (from January 1, 2021 to December 31, 2021)

Not applicable

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

Fiscal 2020 (from January 1, 2020 to December 31, 2020)

(Unit: million yen)

	Real estate sales business	Real estate leasing business	Real estate planning agency and consulting business	Eliminations or corporate	Total
Amortization amount during the fiscal year	97	—	3	—	100
Balance at the end of the fiscal year	339	—	—	—	339

Fiscal 2021 (from January 1, 2021 to December 31, 2021)

(Unit: million yen)

	Real estate sales business	Real estate leasing business	Real estate planning agency and consulting business	Eliminations or corporate	Total
Amortization amount during the fiscal year	97	140	—	—	237
Balance at the end of the fiscal year	242	7,975	—	—	8,217

23. Information on Gain on Negative Goodwill by Reportable Segment

Not applicable

24. Information on Related Parties

(1) Transactions with Related Parties

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

a. Between the parent company of the filing party of these consolidated financial statements and major shareholders (limited to companies, etc.), etc.

Fiscal 2020 (from January 1, 2020 to December 31, 2020)

Not applicable

Fiscal 2021 (from January 1, 2021 to December 31, 2021)

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)
Parent company	Chubu Electric Power Co., Inc.	Higashi-ku, Nagoya-shi	430,777	Electricity business and businesses incidental to the electricity business	(Ownership) Direct 51.4%	Capital and business partnership	Capital increase through third-party allotment [Note 2]	20,470	—	—

(Notes) 1. The figure does not include consumption taxes.

2. The capital increase through third-party allotment was conducted based on the resolution made at the Company's board of directors' meeting held on February 24, 2021 and the approval made at the 26th Regular General Meeting of Shareholders held on March 26, 2021. The Company issued shares through third-party allotment (26,619,000 shares) and Chubu Electric Power Co., Inc. underwrote them at 769 yen per share. With the transaction, the type of Chubu Electric Power has been changed from other affiliate to parent company. Furthermore, the issue price per share was reasonably determined in consideration of the share price on the business day (February 22, 2021) immediately preceding the day when the said resolution by the board of directors was made.

b. Between the subsidiaries of the other affiliates of the filing party of these consolidated financial statements

Fiscal 2020 (from January 1, 2020 to December 31, 2020)

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)
Subsidiary of other affiliates	Chuden Real Estate Co., Inc.	Naka-ku, Nagoya-shi	100	Real estate business	—	Transfer of real estate	Transfer of real estate for sale [Note 2]	9,515	—	—

(Notes) 1. The figure does not include consumption taxes.

2. The Company sold retail properties and lands for retail properties. The transaction amount has been reasonably determined in consideration of the real estate appraisal value. Payment terms require payment of the amount equivalent to 5% upon contracting and the rest upon implementation of the transaction.

Fiscal 2021 (from January 1, 2021 to December 31, 2021)

Not applicable

c. Between the directors of the filing party of these consolidated financial statements and major shareholders (limited to individuals), etc.

Fiscal 2020 (from January 1, 2020 to December 31, 2020)

Not applicable

Fiscal 2021 (from January 1, 2021 to December 31, 2021)

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)
Director	Takatoshi Ito	—	—	President & Representative Director	(Ownership) Direct 1.3	—	Exercise of subscription rights to shares [Note 2]	43	—	—
Director	Minoru Nakanishi	—	—	Senior Managing Director	(Ownership) Direct 0.2	—	Exercise of subscription rights to shares [Note 2]	18	—	—
Officer	Tomohiko Egashira	—	—	Managing Executive Officer	(Ownership) Direct 0.2	—	Exercise of subscription rights to shares [Note 2]	16	—	—

(Notes) 1. The figure does not include consumption taxes.

2. The figure indicates the paid-in amount from exercise of subscription rights to shares, which came into effect due to the resolution made at the board of directors' meeting held on December 1, 2017.

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

Fiscal 2020 (from January 1, 2020 to December 31, 2020)

Parent company information

Not applicable

Fiscal 2021 (from January 1, 2021 to December 31, 2021)

Parent company information

Chubu Electric Power Co., Inc. (listed on the Tokyo Stock Exchange and Nagoya Stock Exchange)

25. Per Share Information

(Unit: yen)

	Fiscal 2020 (from January 1, 2020 to December 31, 2020)	Fiscal 2021 (from January 1, 2021 to December 31, 2021)
Net assets per share	563.07	657.50
Basic earnings per share	111.94	67.48
Diluted earnings per share	111.37	67.30

(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: 851,000 shares for Fiscal 2020 and 851,000 shares for Fiscal 2021; the share-based payment benefits type ESOP trust: 233,000 shares for Fiscal 2020 and 225,700 shares for Fiscal 2021) 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 (950,138 shares for Fiscal 2020 and 1,078,783 shares for Fiscal 2021) 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:

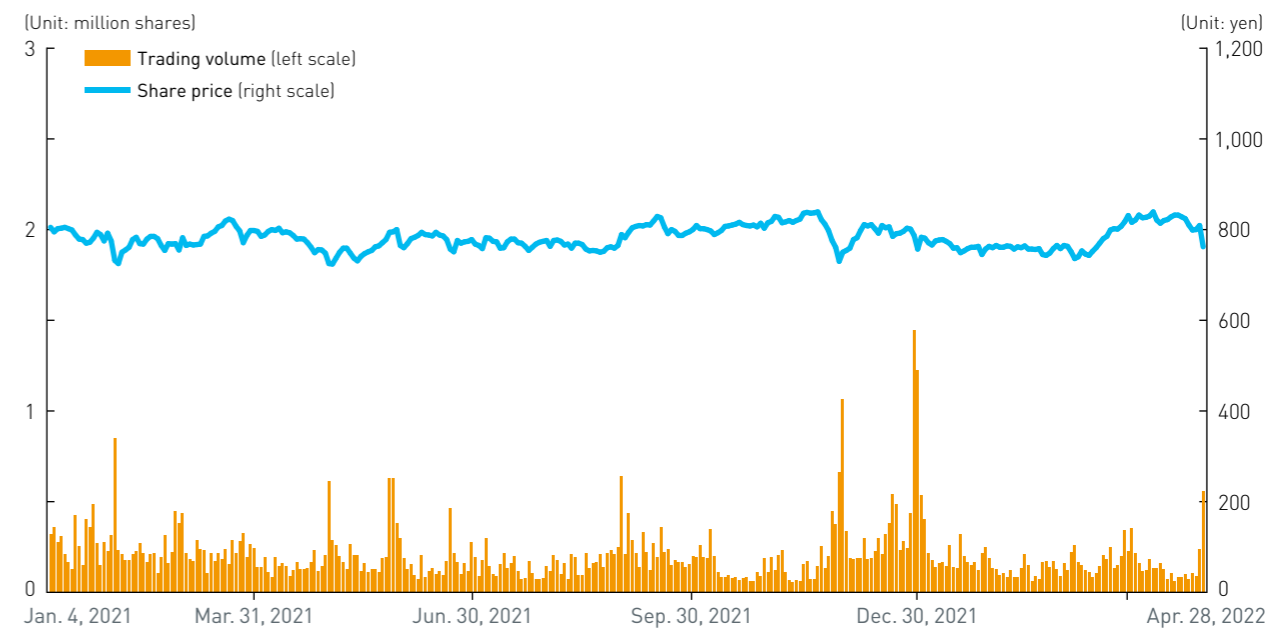
	Fiscal 2020 (from January 1, 2020 to December 31, 2020)	Fiscal 2021 (from January 1, 2021 to December 31, 2021)
Basic earnings per share		
Profit attributable to owners of parent (million yen)	7,663	5,961
Profit not attributable to common shareholders (million yen)	—	—
Profit attributable to owners of parent for common shares (million yen)	7,663	5,961
Period-average number of common shares (shares)	68,459,909	88,346,828
Diluted earnings per share		
Adjustments to profit attributable to owners of parent (million yen)	—	—
Increase in common shares (shares)	349,477	236,481
Description of dilutive shares without dilutive effect and not included in the calculation of diluted earnings per share	—	—

26. Significant Subsequent Events

Not applicable

Investor Information

Status of Share Price (from January 4, 2021 to April 28, 2022)



Major Shareholders (as of December 31, 2021)

	Name	No. of shares owned	Ownership ratio (%)
1	CHUBU Electric Power Co., Inc.	49,599,000	50.3
2	Nissei Build Kogyo Co., Ltd.	6,500,000	6.6
3	The Master Trust Bank of Japan, Ltd. (trust account)	4,274,800	4.3
4	Tenma Seiryu Co., Ltd.	3,610,000	3.7
5	Kouryu Oh	2,100,000	2.1
6	ES-CON JAPAN Ltd.	2,020,200	2.0
7	Custody Bank of Japan, Ltd. (trust account)	1,981,900	2.0
8	Takatoshi Ito	1,280,200	1.3
9	Keiko Akashi	531,000	0.5
10	NS Corporation Co., Ltd.	500,300	0.5

(Notes) 1. The table indicates the top 10 major shareholders.

2. 1,076,700 shares owned by Japan Trustee Services Bank, Ltd. (trust account) through a share-based payment benefits trust for directors and a share-based payment benefits type ESOP trust are not included in the treasury shares.

3. Ownership ratio is rounded 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: 71,961,887 shares (as of March 31, 2021)

Total number of shareholders: 13,280 shareholders (as of March 31, 2021)

Share units: 100 shares

Institution managing the Shareholder Register Manager's Extraordinary Account:

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

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

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

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

Notification of address change, etc.:

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

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

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

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

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

Disclaimer

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