



Summary of Accounts for Term Ended December 2017 (Japanese GAAP) (Consolidated)

February 8, 2018

Name of listed company: ES-CON JAPAN Ltd. Listing exchange: Tokyo Stock Exchange
 Code: 8892 URL: <https://www.es-conjapan.co.jp>
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 Scheduled date for next regular general meeting of shareholders: March 23, 2018
 Scheduled date for submission of periodic securities report: March 26, 2018
 Scheduled date for start of dividend payment: March 26, 2018
 Supplementary explanatory materials created for accounts? Yes/No: No
 Accounts briefing meeting held? Yes/No: Yes (for institutional investors and analysts)

(Amounts are rounded down to the nearest million yen)

1. Consolidated results for term ended December 2017 (from January 1, 2017 to December 31, 2017)

(1) Consolidated operating results (% figures show the rate of increase (decrease) compared with the previous term)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent	
	million yen	%	million yen	%	million yen	%	million yen	%
Term ended Dec. 2017	44,724	30.2	7,042	50.5	5,988	67.5	5,456	38.6
Term ended Dec. 2016	34,347	24.0	4,680	16.6	3,575	14.4	3,936	29.5

Note: Comprehensive income
 Term ended Dec. 2017: 5,453 million yen [37.8%] Term ended Dec. 2016: 3,958 million yen [30.3%]

	Basic earnings per share	Diluted earnings per share	Return on equity	Return on assets	Operating margin
	yen	yen	%	%	%
Term ended Dec. 2017	81.77	79.81	28.1	7.5	15.7
Term ended Dec. 2016	58.76	57.41	25.1	5.4	13.6

Reference: Share of profit (loss) of entities accounted for using equity method

Term ended Dec. 2017: — million yen Term ended Dec. 2016: — million yen

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Book value per share
	million yen	million yen	%	yen
Term ended Dec. 2017	86,435	21,433	24.8	315.14
Term ended Dec. 2016	73,703	17,363	23.6	259.07

Reference: Equity

Term ended Dec. 2017: 21,432 million yen Term ended Dec. 2016: 17,360 million yen

(3) Consolidated cash flows

	Net cash provided by (used in) operating activities	Net cash provided by (used in) investing activities	Net cash provided by (used in) financing activities	Cash and cash equivalents at end of period
	million yen	million yen	million yen	million yen
Term ended Dec. 2017	(10,694)	9,167	3,979	10,644
Term ended Dec. 2016	(14,684)	7,656	11,003	8,191

2. Dividends

	Annual dividend					Total dividend amount (Total)	Dividend payout ratio (Consolidated)	Dividend on equity (Consolidated)
	End of first quarter	End of second quarter	End of third quarter	Year-end	Total			
Term ended Dec. 2016	—	0.00	—	15.00	15.00	1,017	25.5	6.4
Term ended Dec. 2017	—	0.00	—	18.00	18.00	1,238	22.0	6.3
Term ending Dec. 2018 (Forecast)	—	0.00	—	20.00	20.00		22.7	

3. Consolidated earnings forecast for term ending December 2018 (from January 1, 2018 to December 31, 2018)

(% figures for the full term show the rate of increase (decrease) compared with the previous term, and

% figures for the first two quarters show the rate of increase (decrease) compared with the same period of the previous year)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent		Basic earnings per share
	million yen	%	million yen	%	million yen	%	million yen	%	yen
First two quarters	24,400	108.5	2,950	24.5	2,400	27.7	1,650	(12.2)	24.26
Full term	55,700	24.5	9,900	40.6	8,700	45.3	6,000	10.0	88.22

* Explanatory notes

(1) Changes in significant subsidiaries during term

(Changes in specified subsidiaries resulting in change in scope of consolidation):

Yes

Newly included: — companies (Company name) —

Excluded: 1 company (Company name) Es-Con Japan REIT

(2) Changes in accounting policies, changes in accounting estimates, and restatement

1) Changes in accounting policies due to amendment of accounting standards, etc.: None

2) Changes in accounting policies other than 1): None

3) Changes in accounting estimates: None

4) Restatement: None

(3) Number of shares issued and outstanding (common shares)

1) Number of shares issued and outstanding (including treasury shares) at end of term

Term ended	71,203,387	Term ended	70,594,887
Dec. 2017	shares	Dec. 2016	shares

2) Number of treasury shares at end of term

Term ended	3,195,300	Term ended	3,583,600
Dec. 2017	shares	Dec. 2016	shares

3) Average number of shares during term

Term ended	66,724,613	Term ended	66,988,398
Dec. 2017	shares	Dec. 2016	shares

Note: The number of treasury shares at end of term includes ES-CON JAPAN shares held in a share-based payment benefits trust for directors and a share-based payment benefits type ESOP trust (term ended December 2017: 543,200 shares in the share-based payment benefits trust for directors and 235,200 shares in the share-based payment benefits type ESOP trust). In the calculation of the average number of shares during term, the treasury shares to be subtracted in that calculation includes ES-CON JAPAN shares held in the share-based payment benefits trust for directors and the share-based payment benefits type ESOP trust (term ended December 2017: 781,062 shares).

* Presentation regarding implementation of audit procedures

This summary of accounts is not subject to the audit procedures pursuant to the Financial Instruments and Exchange Act, and audit procedures have not been completed for consolidated financial statements at the time of disclosure of this summary of accounts.

* Explanation regarding appropriate use of earnings forecasts, and other notes

The earnings outlook and other forward-looking statements contained in this document are based on information currently available to and certain assumptions that are thought to be reasonable by ES-CON JAPAN. Accordingly, actual business performance and other results may differ materially due to various reasons. For the conditions forming the assumptions on which earnings forecasts are based and explanatory notes for use of earnings forecasts, etc., please see "Attachment 1; 1. Analysis of Operating Results and Financial Position; (1) Analysis of Operating Results" on page 3.

1. Overview of Operating Results, etc.

(1) Analysis of Operating Results

In the consolidated fiscal year under review (term ended December 2017), the Japanese economy showed potential to keep making moderate recovery due in part to various governmental measures amid ongoing improvement in the employment and income situation, but was also in a state of clouded outlook as it is necessary to pay attention to the increasing geopolitical risks, uncertainty in overseas economies and the effects of fluctuations in the financial and capital markets.

The real estate industry in which the ES-CON JAPAN Group operates held resilient and firm due in part to low interest rates from monetary easing policies, but rise in land prices, intensification of competition over land acquisitions and other factors make it a state that warrants no optimism.

In the business environment described above, we proactively developed multifaceted businesses based on the second medium-term management plan "IDEAL to REAL 2019" which started from the term ending December 2017.

In the real estate sales business, which is the core business, revenue-generating real estate sales, etc. were conducted, and steady progress was made in condominium sales, too.

In for-sale projects, projects with construction completed in the term ended December 2017 "Le JADE Sakurajosui Tiara (Setagaya Ward, Tokyo; 42 units in total)" and "Le JADE Takatsuki The Marks" (Takatsuki City, Osaka Prefecture; 95 units in total) were completely sold out and delivered, and steady progress was made in sales of "Le JADE Yokohama Hananoki (Yokohama City, Kanagawa Prefecture; 69 units in total)," "Le JADE Takatsuki Cross (Takatsuki City, Osaka Prefecture; 80 units in total)," "Le JADE Otsu Nagisa-koen (Otsu City, Shiga Prefecture; 44 units in total)," "Le JADE Fushimi Chushojima (Fushimi Ward, Kyoto Prefecture; 83 units in total)," etc. while projects scheduled for completion in the next term (term ending December 2018) "Feel Garden Minami-Senri (Suita City, Osaka Prefecture; 214 units in total)," "Le JADE Southern Gate Toyoda (Hino City, Tokyo; 51 units in total)," "Le JADE Minamimorimachi (Kita Ward, Osaka City; 29 units in total)" and "Grand Le JADE Okamoto (Higashi-Nada Ward, Kobe City; 18 units in total)" contracted to sell out.

In the commercial development business, along with acquiring retail properties in Sakai City in Osaka Prefecture, Omihachiman City in Shiga Prefecture, Kurashiki City in Okayama Prefecture, Nagoya City in Aichi Prefecture, Muko City in Kyoto Prefecture, Chiba City in Chiba Prefecture, and others as well as sokochi (land with land leasehold rights) of retail properties, ES-CON JAPAN has steadily promoted diversification of the business through the acquisition of a business site for a logistics facility as a new business field, the participation in a land readjustment project and such.

Furthermore, with focus placed on hotel development projects incorporating inbound tourism needs, 15 projects (1,963 guestrooms) in Sapporo, Kanazawa, Tokyo and Osaka are already under progress, and 4 projects started business during this term.

In this manner, with 11 projects in the Tokyo metropolitan area, 10 projects in the Kinki area and 2 projects in other areas in acquisitions of new business sites as the site for future for-sale, retail, renovation business, hotel, logistics development and other multifaceted development in the term ended December 2017, steady and proactive operations are underway.

In the real estate leasing business, efforts are being made to secure stable rental income from and enhance asset value of retail properties held by ES-CON JAPAN.

In the real estate planning agency and consulting business, focus is being placed as a business achieving high profit margins through subcontracting, planning agency and consulting and other non-assets by leveraging the planning and other strengths of ES-CON JAPAN.

In December 2017, Es-Con Japan REIT became a private REIT with an asset size of approximately 11 billion yen by completing capital increase and started preparing for its listing.

In this manner, efforts are being made for further business development and enhancement of corporate value by engaging in multifaceted business operations.

As a result, business performance for the term ended December 2017 was net sales of 44,724 million yen (up 30.2% compared with the previous term), operating income of 7,042 million yen (up 50.5% compared with the previous term), ordinary income of 5,988 million yen (up 67.5% compared with the previous term) and profit attributable to owners of parent of 5,456 million yen (up 38.6% compared with the previous term).

In addition, profit attributable to owners of parent marked a record-high by exceeding the 4,473 million yen recorded in the term ended December 2007.

The following is the business performance by segment.

1) Real estate sales business

In the real estate sales business, activities included promoting condominium sales and selling real estate for sale and real estate for sale in process, resulting in net sales of 41,168 million yen (up 34.2% compared with the previous term) and segment income of 7,978 million yen (up 66.3% compared with the previous term).

2) Real estate leasing business

In the real estate leasing business, although focus was placed on leasing activities and the property management business in view of enhancement of asset value, including increase in rental income of owned revenue-generating real estate, the result was net sales of 3,459 million yen (down 3.8% compared with the previous term) and segment income of 1,761 million yen (down 14.4% compared with the previous term) due in part to sales of revenue-generating real estate owned as fixed asset.

3) Real estate planning agency and consulting business

In the real estate planning agency and consulting business, proactive efforts were made in such aspects as entrustment with planning, consulting and other services by making best use of planning and multifaceted business building abilities, resulting in net sales of 96 million yen (up 47.8% compared with the previous term) and segment income of 85 million yen (up 31.2% compared with the previous term).

(Earnings Outlook for the Next Term and Progress of Medium-Term Management Plan)

The second medium-term management plan "IDEAL to REAL 2019," which is for the three-year period from the term ended December 2017 to the term ending December 2019, is progressing smoothly and more profits were achieved than originally planned in the term ended December 2017, which is the first term. For an outline of the second medium-term management plan, please see "Attachment 2; Management Policy; (2) Medium- to Long-Term Corporate Management Strategy and Management Indicator Targets" on page 20.

In light of the above, the consolidated earnings forecast for the term ending December 2018 is net sales of 55,700 million yen, operating income of 9,900 million yen, ordinary income of 8,900 million yen and profit attributable to owners of parent of 6,000 million yen.

Please note that the earnings forecast or outlook and other forward-looking statements contained in this document are an analysis or judgment based on information available as of the date of this document. Accordingly, actual business performance and other results may differ materially due to changes in the management environment and other various reasons.

(2) Analysis of Financial Position

1) Assets, liabilities and net assets

Assets at the end of the term ended December 2017 increased by 12,732 million yen compared with the end of the previous term to 86,435 million yen. This was mainly attributable to cash and deposits increasing by 2,463 million yen, inventories increasing by 18,765 million yen and investments in securities increasing by 1,674 million yen, and property, plant and equipment decreasing by 11,418 million yen due to sales and other factors.

Liabilities increased by 8,662 million yen compared with the end of the previous term to 65,002 million yen. This was mainly attributable to long-term loans payable, short-term loans payable and bonds payable increasing by 5,444 million yen.

Net assets increased by 4,069 million yen compared with the end of the previous term to 21,433 million yen. This is due to the recording of 5,456 million yen to profit attributable to owners of parent even though there was 1,017 million yen for cash dividends paid and 748 million yen for the purchase of treasury shares. As a result, equity ratio was 24.8% (23.6% at the end of the previous term).

2) Cash flows

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

(Cash flows from operating activities)

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

(Cash flows from investing activities)

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

(Cash flows from financing activities)

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

Reference: Changes in cash flow indicators

	Term ended Dec. 2013	Term ended Dec. 2014	Term ended Dec. 2015	Term ended Dec. 2016	Term ended Dec. 2017
Equity ratio (%)	21.9	23.2	24.1	23.6	24.8
Equity ratio on market capitalization basis (%)	25.5	26.5	31.7	41.9	54.0
Ratio of interest-bearing liabilities to cash flows (%)	773.7	—	—	—	—
Interest coverage ratio (times)	6.1	—	—	—	—

Equity ratio: $\text{Equity} \div \text{Total assets}$

Equity ratio on market capitalization basis: $\text{Market capitalization} \div \text{Total assets}$

Ratio of interest-bearing liabilities to cash flows: $\text{Interest-bearing liabilities} \div \text{Operating cash flows}$

Interest coverage ratio: $\text{Operating cash flows} \div \text{Interest paid}$

Notes: 1. Each is calculated using consolidated financial figures.

2. Market capitalization is calculated by multiplying the closing share price at end of term by the number of shares issued and outstanding at end of term.
3. Operating cash flows are the cash flows from operating activities on the consolidated statement of cash flows.
4. Interest-bearing liabilities are all of those liabilities recorded on the consolidated balance sheet of which are liabilities on which interest is payable.
5. Interest paid is the interest expenses paid on the consolidated statement of cash flows.
6. Ratio of interest-bearing liabilities to cash flows and interest coverage ratio are not stated for fiscal years that have negative operating cash flows.

(3) Basic Policy on Distribution of Profit, and Dividend for the Current Term and Next Term

Positioning the return of profit to shareholders as a key management task, ES-CON JAPAN makes it a basic policy to strive for uninterrupted and stable return of profit in line with corporate growth potential based on decisions that take into account the status of business performance, availability of internal reserves, dividend payout ratio and other factors in a comprehensive manner.

For the year-end dividend for the term ended December 2017, with a 3 yen increase from the initial forecast of 15 yen per share, payment of 18 yen per share is scheduled. In addition, the total return ratio is 30.9% and the dividend payout ratio is 22.0%.

For the term ended December 2017 and subsequent terms, in order to realize further stable return to shareholders, a progressive dividend policy is adopted for the dividend per share (DPS) during the period of the second medium-term management plan (from the term ended December 2017 to the term ending December 2019) based on which the dividend amount will either be maintained to not fall below the previous term's DPS or increased depending on business performance growth ("not decrease the dividend amount" in principle).

By adopting this progressive dividend policy that makes it a clear policy to "not decrease the dividend amount, but rather only maintain or increase the dividend amount" in principle, efforts will be made to realize stable dividends and raise the transparency of future dividend levels to increasingly strengthen return to shareholders and for sustainable corporate value enhancement.

For the term ending December 2018, the dividend forecast is 20 yen per share.

2. Consolidated Financial Statements

(1) Consolidated Balance Sheet

(Unit: million yen)

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

(Unit: million yen)

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

(2) Consolidated Statement of Income and Consolidated Statement of Comprehensive Income
(Consolidated Statement of Income)

(Unit: million yen)

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

(Consolidated Statement of Comprehensive Income)

(Unit: million yen)

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

(3) Consolidated Statement of Changes in Equity

Term ended December 2016 (from January 1, 2016 to December 31, 2016)

(Unit: million yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	6,029	1,758	7,024	(821)	13,989
Changes of items during period					
Issuance of new shares	5	5			10
Dividends of surplus			(543)		(543)
Profit attributable to owners of parent			3,936		3,936
Purchase of treasury shares				(54)	(54)
Disposal of treasury shares				0	0
Net changes of items other than shareholders' equity					
Total changes of items during period	5	5	3,392	(54)	3,348
Balance at end of current period	6,034	1,763	10,417	(876)	17,338

(Unit: million yen)

	Accumulated other comprehensive income		Subscription rights to shares	Total net assets
	Valuation difference on available-for-sale securities	Total accumulated other comprehensive income		
Balance at beginning of current period	—	—	4	13,994
Changes of items during period				
Issuance of new shares				10
Dividends of surplus				(543)
Profit attributable to owners of parent				3,936
Purchase of treasury shares				(54)
Disposal of treasury shares				0
Net changes of items other than shareholders' equity	22	22	(1)	21
Total changes of items during period	22	22	(1)	3,369
Balance at end of current period	22	22	3	17,363

Term ended December 2017 (from January 1, 2017 to December 31, 2017)

(Unit: million yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	6,034	1,763	10,417	(876)	17,338
Changes of items during period					
Issuance of new shares	190	190			380
Dividends of surplus			(1,017)		(1,017)
Profit attributable to owners of parent			5,456		5,456
Purchase of treasury shares				(748)	(748)
Disposal of treasury shares				2	2
Retirement of treasury shares			(533)	533	—
Net changes of items other than shareholders' equity					
Total changes of items during period	190	190	3,905	(212)	4,073
Balance at end of current period	6,224	1,953	14,322	(1,089)	21,411

(Unit: million yen)

	Accumulated other comprehensive income		Subscription rights to shares	Total net assets
	Valuation difference on available-for-sale securities	Total accumulated other comprehensive income		
Balance at beginning of current period	22	22	3	17,363
Changes of items during period				
Issuance of new shares				380
Dividends of surplus				(1,017)
Profit attributable to owners of parent				5,456
Purchase of treasury shares				(748)
Disposal of treasury shares				2
Retirement of treasury shares				—
Net changes of items other than shareholders' equity	(2)	(2)	(1)	(3)
Total changes of items during period	(2)	(2)	(1)	4,069
Balance at end of current period	20	20	1	21,433

(4) Consolidated Statement of Cash Flows

(Unit: million yen)

	Term ended Dec. 2016 (from Jan. 1, 2016 to Dec. 31, 2016)	Term ended Dec. 2017 (from Jan. 1, 2017 to Dec. 31, 2017)
Cash flows from operating activities		
Profit before income taxes	2,628	6,232
Depreciation	229	186
Impairment loss	1,042	150
Increase (decrease) in allowance for doubtful accounts	74	(73)
Increase (decrease) in provision for directors' share-based benefits	24	28
Increase (decrease) in provision for share-based benefits	7	5
Interest and dividend income	(1)	(2)
Interest expenses	999	1,093
Share issuance cost	26	—
Loss (gain) on sales of non-current assets	(136)	(372)
Loss on retirement of non-current assets	0	0
Loss (gain) on valuation of investment securities	42	—
Loss (gain) on sales of shares of subsidiaries and associates	—	(22)
Decrease (increase) in notes and accounts receivable - trade	(200)	(211)
Decrease (increase) in inventories	(17,033)	(18,943)
Decrease (increase) in prepaid expenses	199	(529)
Increase (decrease) in accounts payable - other	162	532
Decrease/increase in consumption taxes receivable/payable	(385)	368
Increase (decrease) in advances received	11	110
Increase (decrease) in deposits received	258	2,597
Decrease (increase) in other assets	(1,462)	(614)
Increase (decrease) in other liabilities	165	54
Subtotal	(13,349)	(9,409)
Interest and dividend income received	1	2
Interest expenses paid	(1,060)	(1,148)
Income taxes (paid) refund	(275)	(139)
Net cash provided by (used in) operating activities	(14,684)	(10,694)
Cash flows from investing activities		
Payments into time deposits	(18)	(18)
Proceeds from withdrawal of time deposits	18	18
Purchase of investment securities	(110)	(1,711)
Proceeds from withdrawal of investment securities	10	14
Purchase of non-current assets	(223)	(200)
Proceeds from sales of non-current assets	7,343	11,651
Payments for asset retirement obligations	(3)	(0)
Proceeds from sales of shares of subsidiaries resulting in change in scope of consolidation	—	34
Collection of loans receivable	0	0
Proceeds from guarantee deposits received	1,120	615
Repayments of guarantee deposits received	(440)	(1,232)
Payments for investments in capital	(41)	(4)
Net cash provided by (used in) investing activities	7,656	9,167

(Unit: million yen)

	Term ended Dec. 2016 (from Jan. 1, 2016 to Dec. 31, 2016)	Term ended Dec. 2017 (from Jan. 1, 2017 to Dec. 31, 2017)
Cash flows from financing activities		
Increase in short-term loans payable	11,887	10,830
Decrease in short-term loans payable	(8,846)	(13,184)
Proceeds from long-term loans payable	28,915	45,348
Repayments of long-term loans payable	(20,284)	(37,549)
Proceeds from issuance of bonds	200	—
Redemption of bonds	(567)	(40)
Repayments of lease obligations	(4)	(4)
Repayments of installment payables	(2)	(32)
Proceeds from issuance of common shares	9	378
Purchase of treasury shares	(54)	(748)
Cash dividends paid	(541)	(1,016)
Proceeds from release of deposits as collateral	293	—
Net cash provided by (used in) financing activities	11,003	3,979
Net increase (decrease) in cash and cash equivalents	3,976	2,453
Cash and cash equivalents at beginning of period	4,214	8,191
Cash and cash equivalents at end of period	8,191	10,644

(5) Notes to Consolidated Financial Statements
 (Notes on Going Concern Assumption)
 Not applicable.

(Segment Information, etc.)

I. Term Ended December 2016 (from January 1, 2016 to December 31, 2016)

1. Information on Net Sales, Income or Loss, Assets and Other Item Amounts by Reporting Segment

(Unit: million yen)

	Reporting 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	30,687	3,594	65	34,347	—	34,347
Intersegment net sales or transfers	—	—	—	—	—	—
Total	30,687	3,594	65	34,347	—	34,347
Segment income	4,798	2,058	65	6,921	(2,241)	4,680
Segment assets	48,004	14,673	0	62,678	11,024	73,703
Other items						
Depreciation	—	192	—	192	37	229
Increase in property, plant and equipment and intangible assets	—	193	—	193	19	213

(Note 1) Reconciliations are as follows:

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

(Note 2) Segment income is reconciled with operating income on the consolidated statement of income.

2. Information on Impairment Loss on Non-Current Assets by Reporting Segment

(Unit: million yen)

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

II. Term Ended December 2017 (from January 1, 2017 to December 31, 2017)

1. Information on Net Sales, Income or Loss, Assets and Other Item Amounts by Reporting Segment

(Unit: million yen)

	Reporting 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	41,168	3,459	96	44,724	—	44,724
Intersegment net sales or transfers	—	—	—	—	—	—
Total	41,168	3,459	96	44,724	—	44,724
Segment income	7,978	1,761	85	9,825	(2,782)	7,042
Segment assets	68,045	5,043	3	73,092	13,342	86,435
Other items						
Depreciation	—	146	—	146	39	186
Amount of investment in entities accounted for using equity method	—	1,007	—	1,007	—	1,007
Increase in property, plant and equipment and intangible assets	—	10	—	10	83	93

(Note 1) Reconciliations are as follows:

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

(Note 2) Segment income is reconciled with operating income on the consolidated statement of income.

2. Information on Impairment Loss on Non-Current Assets by Reporting Segment

(Unit: million yen)

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

3. Other

Status of Contracts and Sales

The performance of contracts in the real estate sales business for the term ended December 2017 is as follows:

Classification	Term ended Dec. 2017 (from Jan. 1, 2017 to Dec. 31, 2017)			
	Contract amount during the period		Balance of contracts at the end of the period	
	Number of units (units)	Amount (million yen)	Number of units (units)	Amount (million yen)
Mid- to high-rise housing, etc.	597	25,259	329	14,471
Other	—	13,389	—	5,135
Total	597	38,648	329	19,606

(Note) The above amounts do not include consumption tax, etc.

The main performance of sales for the most recent two terms is as follows:

Name of segment	Term ended Dec. 2016 (from Jan. 1, 2016 to Dec. 31, 2016)			Term ended Dec. 2017 (from Jan. 1, 2017 to Dec. 31, 2017)		
	Property name	Number of units (units)	Amount (million yen)	Property name	Number of units (units)	Amount (million yen)
Real estate sales business	Condominiums	469	19,625	Condominiums	476	19,500
	Fukuoka Kasuga District 7	—	3,079	Tonarie Minamisenri	—	4,026
	Shimamachi, Chuo-ku	—	2,223	Tonarie Seiwadai	—	3,290
	Otsukadai, Nishi-ku, Kobe-shi	—	2,130	Nihonbashi-kayabacho	—	2,200
	Detached housing	22	1,240	Minami 7-jo, Chuo-ku, Sapporo-shi	—	2,200
	Tsuchiura-shi, Ibaraki	—	969	Oimatsucho, Kurashiki-shi	—	2,121
	Sunadabashi, Nagoya	—	480	Oyamamachi, Kanazawa-shi	—	1,800
	Kikyogaoka, Nabari-shi	—	477	Hiranomachi, Chuo-ku	—	1,650
	Toyoda, Nikko-shi	—	352	Nihonbashi-bakurocho	—	1,520
	Misumicho, Chigasaki-shi	—	81	Kitatsumori, Nishinari-ku	—	1,270
	Josaicho, Takatsuki-shi	—	28	Honkomagome, Bunkuo-ku	—	750
				2-chome, Kawaguchi, Nishi-ku	—	389
				Fukuoka Kasuga	—	231
			5-chome, Sendagaya, Shibuya-ku	—	91	
			Fukuoka Kasuga District 7	—	46	
			Other	—	81	
	Subtotal	491	30,687	Subtotal	476	41,168
Real estate leasing business			3,594			3,459
Real estate planning agency and consulting business			65			96
	Total		34,347	Total		44,724

(Note 1) There are no transactions between segments.

(Note 2) The above amounts do not include consumption tax, etc.

Management Policy

(1) Basic Policy on Corporate Management

How should we live each day and participate in society, how can we contribute to society, and how can we achieve the happiness we seek as individual human beings through the benefits that our contribution brings to society? The ES-CON JAPAN Group strives to answer these questions by continually providing meaningful opportunities to its employees to help and encourage each other in the achievement of their full potential as individuals while experiencing the joy of contribution to society through their work. This is the management philosophy of the ES-CON JAPAN Group, the realization of which is pursued by setting and striving to realize the following management policy.

- 1) To create new value that will truly satisfy customers by unleashing the infinite possibilities of real estate through information, planning and product development abilities.
- 2) To constantly strive to remain ahead of the competition through aggressive management combined with strong defensive strategies centering on in-depth control of ROA, cash flows and risk.
- 3) To aim to be small teams of highly skilled professionals in order to maintain the ability to adapt quickly and flexibly in today's rapidly changing social environment.
- 4) To build and maintain good cooperative relationships, both internally and externally, based on respect for and gratitude to colleagues and those in other organizations.
- 5) To form an open organizational structure in which ideas can flow freely from front-line staff to senior management, while also enhancing the internal audit system, with compliance and governance in mind.

(Corporate Branding Concept)

IDEAL to REAL ~Making the ideal real, and creating a new future~

Our aim as a life developer is not only to develop tangible properties, but also to imagine and develop happy living for the people who will live there. With new unprecedented and think-outside-the-box approaches, we aim to create new wealth and connect people, communities and the future. We will strive to make the ideal real by exploring the infinite possibilities of real estate.

(2) Medium- to Long-Term Corporate Management Strategy and Management Indicator Targets

In such an environment, as a challenge for the next stage, the ES-CON JAPAN Group is promoting the second medium-term management plan "IDEAL to REAL 2019," which is for the three-year period from the term ended December 2017 to the term ending December 2019.

1. Basic Policy of "IDEAL to REAL 2019": Making the ideal real, and creating a new future

To continue to evolve and grow as a corporate entity required by society by following the basic philosophy of placing customers first and ensuring accomplishment of the mission as a "life developer" of developing living itself.

Corporate Strategy

- (1) Maximization of corporate value and giving back to shareholders
- (2) Establishment of firm management foundation that can withstand any kind of economic environment
- (3) Establishment of business diversity for ongoing and stable growth
- (4) Building of firm business foundation (quality) rather than expansion of corporate size (quantity)
- (5) Fulfillment of corporate social responsibilities to give back to not only shareholders but also all sorts of stakeholders and society

2. Growth Action Plan

- (1) Further strengthening of the core business
- (2) Enhancement of corporate value through establishment of diversity by having several core businesses
- (3) Securing of long-term, stable stock earnings through proactive real estate leasing business operations
- (4) Expansion of the real estate sales business through stable supply of quality properties as the main sponsor in forming a listed REIT
- (5) Expansion of the range and depth of real estate development abilities through enrichment of the real estate operation business
- (6) Enhancement of corporate brand power

3. Management Targets

	Term ended Dec. 2016 Actual	Term ended Dec. 2017 Actual	Term ending Dec. 2019 Plan
Equity ratio	23.6%	24.8%	Between 33.0% and 35.0%
Return on equity (ROE)	25.1%	28.1%	Between 18.0% and 21.0%
Return on assets (ROA)	6.0%	6.8%	Between 6.0% and 7.0%
Return on invested capital (ROIC) (Note)	6.5%	8.4%	Between 7.0% and 9.0%
Earnings per share (EPS)	58.76 yen	81.77 yen	Between 75 yen and 85 yen

(Note) Return on invested capital (ROIC): After-tax operating income ÷ (Shareholders' equity + Interest-bearing liabilities)

4. Performance Targets

(Unit: million yen)

	Term ended Dec. 2016	Term ended Dec. 2017			Term ending Dec. 2018	Term ending Dec. 2019
	Actual	Plan	Actual	Compared with plan	Plan	Plan
Net sales	34,347	45,500	44,724	-775	55,700	Between 60,000 and 62,000
Real estate sales business	30,687	42,700	41,168	-1,531	52,600	Between 57,800 and 59,700
Real estate leasing business	3,594	2,600	3,459	+859	2,900	Between 2,000 and 2,100
Real estate planning agency and consulting business	65	200	96	-103	200	200
Operating income	4,680	5,700	7,042	+1,342	9,900	Between 8,200 and 9,500
Ordinary income	3,575	4,800	5,988	+1,188	8,700	Between 7,200 and 8,500