

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 2022

For the year ended December 31, 2022

<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.

In Fiscal 2022, the third year since the outbreak of the novel coronavirus (COVID-19) pandemic, Japanese people were forced to live a lifestyle different from before, and disadvantages were seen both in terms of living and economy. However, as people’s efforts to cope with changes brought about by the virus have borne fruits and the virus rampage has gradually subsided, society is returning to a normal state.

Among such circumstances, in 2022, with fund raising through a third-party allotment of new shares to Chubu Electric Power Co., Inc. (“Chubu Electric Power”) in April 2022, we became a consolidated subsidiary of Chubu Electric Power. This provided flexibility to our financing options by improving our creditworthiness and generated various other synergies.

With the basic policy of “Transformation” and “Rapid Progress” stated in our Fourth Medium-Term Management Plan “IDEAL to REAL 2023” (Fiscal 2021 - Fiscal 2023), which we formulated in February 2021, the ES-CON JAPAN Group pursued establishment of business foundations able to withstand unexpected changes in economic conditions and simultaneously aimed to diversify and expand business domains. As a result, Fiscal 2022 was a year in which our business steadily evolved primarily in the sales of condominiums, logistics facilities and revenue-generating real estate.

In Fiscal 2023, the final fiscal year of the Fourth Medium-Term Management Plan, ES-CON JAPAN will aim to achieve “Rapid Progress” through Group-wide efforts and by further accelerating the urban development centered on ES CON FIELD HOKKAIDO, the new stadium of Hokkaido Nippon Ham Fighters opened in March, as well as the development of the surrounding area of Kita-Hiroshima Station West Exit, the closest station to the stadium, by taking advantage of the increased recognition of ES-CON JAPAN.

We will continue to develop our business in a multifaceted manner, while meeting the expectations of all stakeholders and contributing to the revitalization of regional society as the “life developer.”

We ask for your continued support.

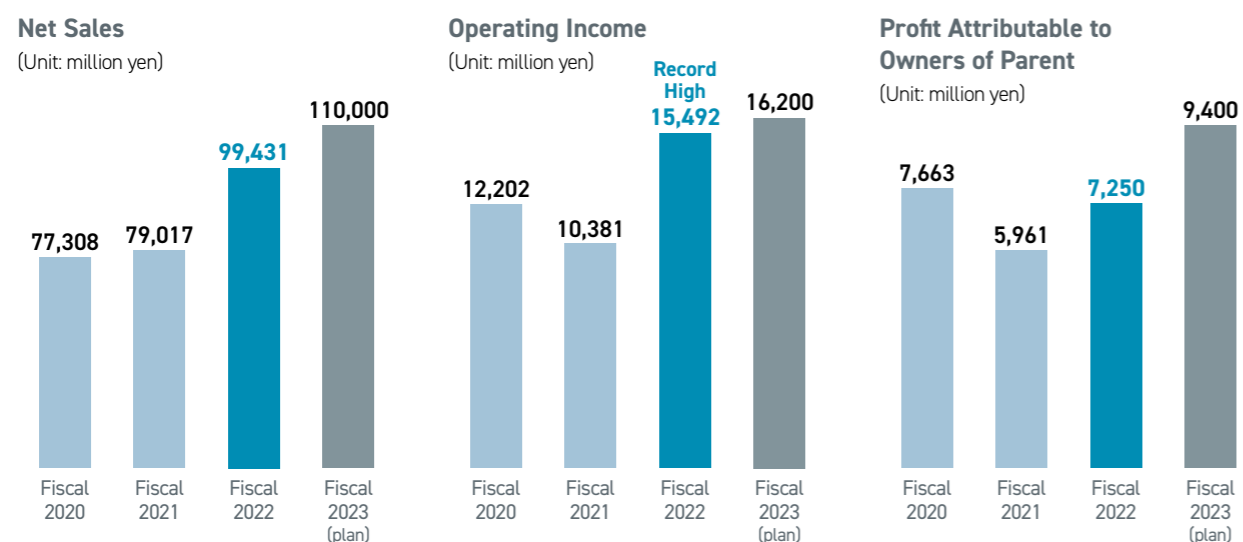


Takatoshi Ito

President and
Representative Director
ES-CON JAPAN Ltd.

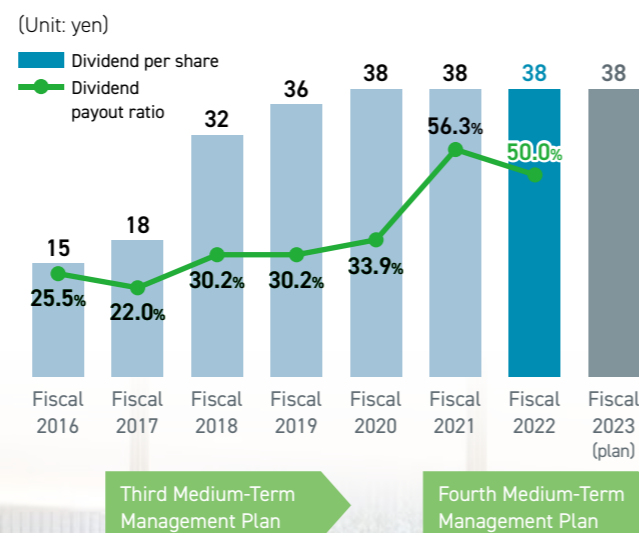
Financial Highlights

We achieved increases in sales and profit year on year due to steady progress in condominium sales business and other factors. We will aim to achieve record-high profits and steady improvement of performance in Fiscal 2023 as a term for “Rapid Progress.”



Dividend Policy

ES-CON JAPAN views the returning of profits to its shareholders as one of its main tasks, and makes it a basic policy to continuously return profits to shareholders in a stable manner corresponding to its growth potential after comprehensively taking into consideration performance, replenishment of internal reserves, and dividend trends, etc. We introduced the progressive dividend policy* in the Second Medium-Term Management Plan and has continued to implement it in the Fourth Medium-Term Management Plan.



*A dividend policy that sets the dividend per share (DPS) for the previous fiscal year as the lower limit and "does not decrease the dividend amount, but maintain or increase the dividend amount" in principle.

Segment Overview

Real Estate Sales Business	Real Estate Leasing Business	Real Estate Planning Agency and Consulting Business
Net Sales 86,531 million yen	Net Sales 11,824 million yen	Net Sales 1,074 million yen
Segment Income 17,006 million yen	Segment Income 4,716 million yen	Segment Income 228 million yen

Within the real estate sales business, the number of delivered units in the condominium business increased by 165 units year on year to 1,185 units (record-high) due to the favorable progress in sales, and net sales increased by 13.4 billion yen year on year to 58.5 billion yen.

Other than the condominium business, we sold various properties including sales of logistics facilities, as well as sales of detached houses at its subsidiary ES-CON Home, contributing to the business results.

As a result, in the real estate sales business, net sales were 86,531 million yen (up 23.0% year-on-year) and segment income was 17,006 million yen (up 30.4% year-on-year).

In the real estate leasing business, we focused on leasing activities and the property management business toward a more stable revenue structure, and through factors such as the full-year contribution to profit by the Picasso Group, which we made a subsidiary in October 2021, as well as the opening of “MUJI” store in “tonarie Minami-Senri Annex” in April 2022 as the store boasting the largest sales floor area in the Kansai region, we achieved net sales of 11.8 billion yen and segment income of 4.7 billion yen.

As a result, net sales were 11,824 million yen (up 46.2% year-on-year) and segment income was 4,716 million yen (up 39.9% year-on-year).

In the real estate planning agency and consulting business, proactive efforts were made in such aspects as selling permanent use rights of Ryomon columbarium and entrustment with planning, consulting and other services by making the best use of planning and multifaceted business-building abilities, resulting in net sales of 1,074 million yen (up 81.4% year-on-year) and segment income of 288 million yen (segment income of 516 million yen in the previous fiscal year).



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 Policy

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



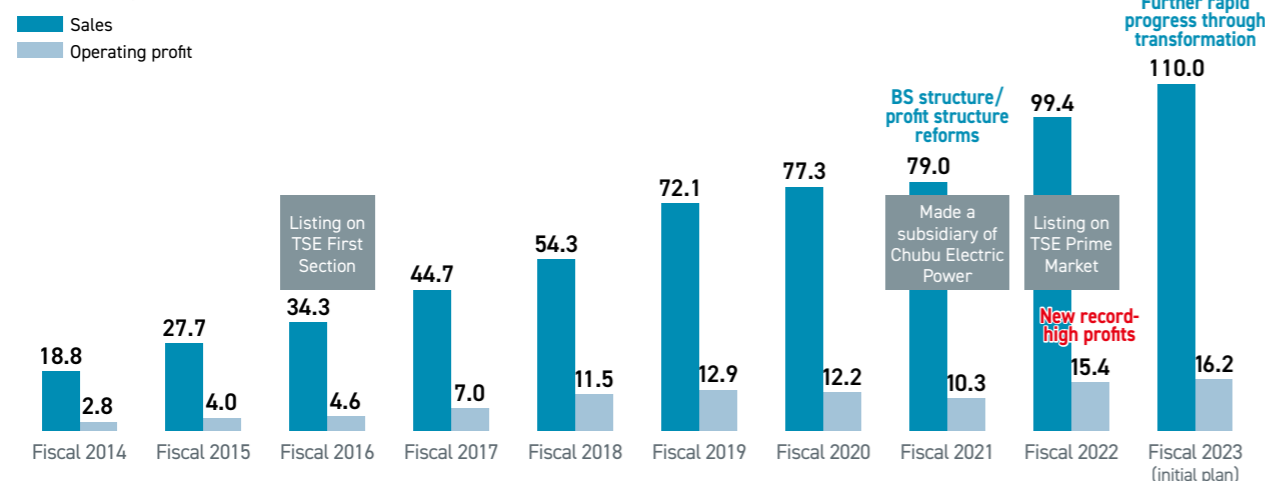
Rapid Progress

- 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 pursue establishment of robust business foundations capable of withstanding any economic conditions and simultaneously aim to maximize corporate value and further increase returns to shareholders. In addition, we will further enhance organizational capabilities to achieve sustainable growth in 2024 and beyond.

(Unit: Billion yen)



Performance Plan

In the first fiscal year, Fiscal 2021, we secured stable revenue by reinforcing real estate leasing business through efforts such as making the Picasso Group our subsidiaries. However, in Fiscal 2022, despite sales and profit increases, as a result of steady progress in the real estate sales business and other factors, profit was lower than planned when compared with the previous fiscal year.

We plan to achieve our highest goals of 110 billion yen in sales and 16.2 billion yen in operating income in Fiscal 2023, the final fiscal year of the medium-term management plan.

(Unit: Million yen)

	Fiscal 2021	Fiscal 2022			Fiscal 2023		
	Actual results	Actual results	Initial plan (full year) (announced Jan. 2022)	vs. initial plan	Percentage	Initial plan (Q2)	Initial plan (full year)
Sales	79,017	99,431	100,000	-569	-0.6%	46,000	110,000
Real estate sales business	70,334	86,531	87,300	-769	-0.9%	—	94,800
Condominium sales	45,050	58,532	59,300	-768	-1.3%	—	61,900
Condominium units sold	1,020	1,185	1,200	-15	-1.3%	—	1,164
Other sales	25,283	27,999	28,000	-1	0.0%	—	32,900
Real estate leasing business	8,090	11,824	11,600	224	1.9%	—	14,200
Real estate planning agency and consulting business	592	1,074	1,100	-26	-2.4%	—	1,000
Operating income	10,381	15,492	14,000	1,492	10.7%	6,000	16,200
Ordinary income	9,099	14,012	12,200	1,812	14.9%	5,200	14,200
Profit attributable to owners of parent	5,961	7,250	8,300	-1,050	-12.7%	3,400	9,400
		BS and profit structural reforms		New record-high profits		Rapid progress	
Dividend per share	38 yen	38 yen	38 yen	—	—	38 yen (plan)	
		Policy of gradually increasing dividends to continue					

Management Targets

In Fiscal 2021, the first fiscal year of the medium-term management plan, progress was made ahead of schedule in transforming the revenue structure, by making the Picasso Group a subsidiary, as described above.

The share of profits from leasing in FY2022 reached 21.5% (4.5 points lower than initially planned), thanks to strong progress in the real estate sales business. ①

This transformation of the revenue structure will continue in FY2023.

	Fiscal 2020	Fiscal 2021	Fiscal 2022		Fiscal 2023	
	Actual results	Actual results	Actual results	Initial plan	vs. Initial plan	Plan (Announced Mar. 2022)
Share of profits from leasing *1	14.2%	21.2%	① 21.5%	26.0%	-4.5%	30.0%
Return on equity (ROE)	21.2%	11.8%	11.3%	13.0%	-1.7%	13.0%
Return on invested capital (ROIC)	6.6%	3.2%	4.6%	4.0%	0.6%	4.0%
Equity ratio	25.8%	24.8%	25.0%	23.0%	2.0%	21.0%
Share of long-term earnings from real estate *2	9.5%	20.6%	19.5%	21.0%	-1.5%	23.0%
Net assets [billion yen]	38.6	62.6	64.1	67.3	-3.1	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

Investment Plan

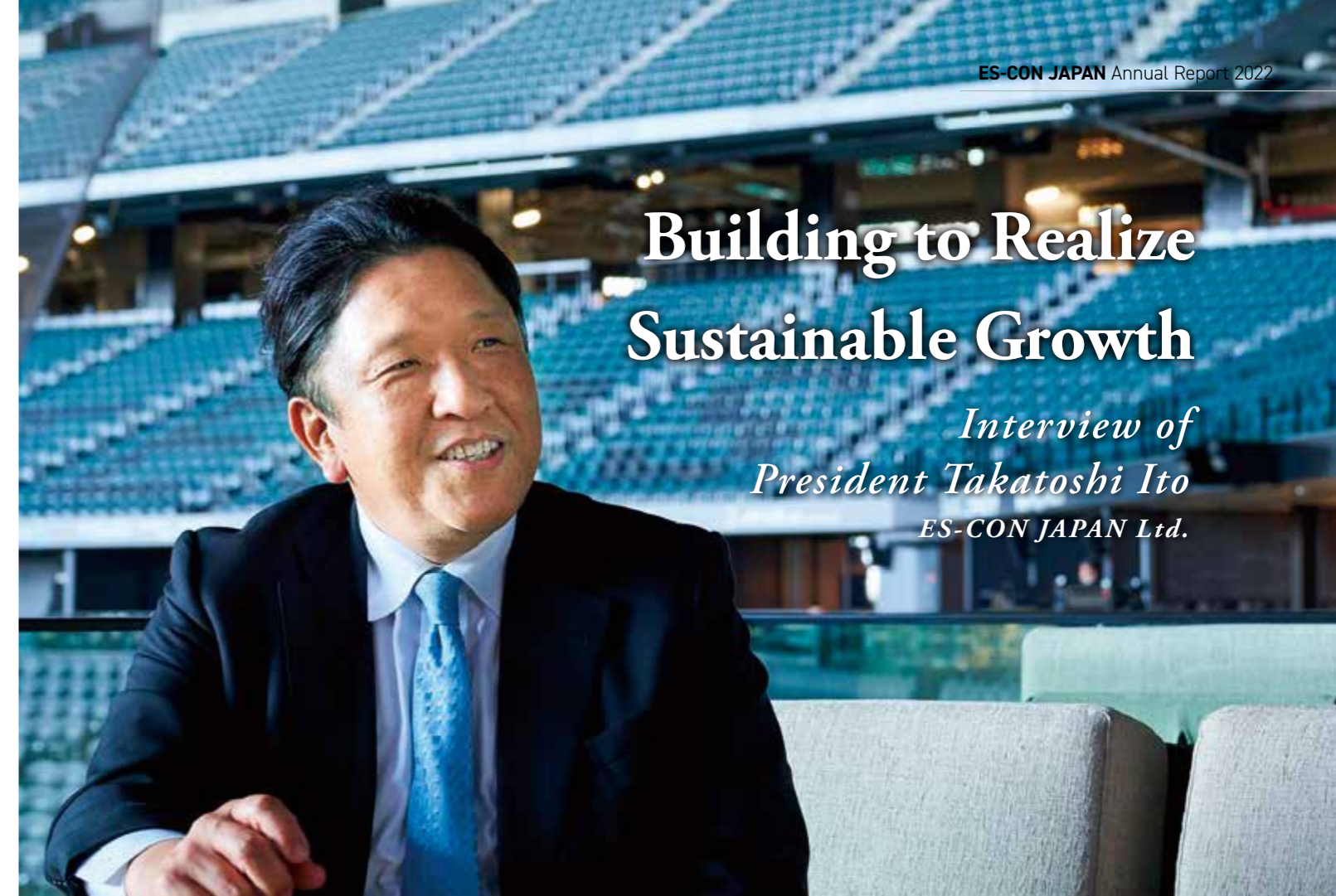
- Gross investment of over 220 billion yen during three-year period of the medium-term management plan. ①
- Cumulative investments in 2021-2022 progressed almost as initially planned, due to making the Picasso Group a subsidiary and other factors. ②
- Investment of 88 billion yen in 2023, the final fiscal year of the medium-term management plan. ③

Three-Year Cumulative Investment (2021-2023)

(Unit: billion yen)

	Fiscal		Cumulative				Fiscal	Three-year cumulative (1)+(2)
	2021	2022	Fiscal 2021 to Fiscal 2022			2023		
	Actual results	Actual results	Actual results (1)	Plan	vs. Plan	Percentage	Initial plan (2) (Announced Jan. 2023)	
Gross investment	95.9	36.9 ②	132.9	125.0	7.9	6.3%	③ 88.0	① 220.9
Investment in revenue-generating real estate	76.7	10.8	87.6	70.0	17.6	25.2%	65.7	153.3
Investment in development of revenue-generating real estate	5.6	3.6	9.3	15.0	-5.6	-37.6%	10.0	19.3
Investment in medium-term revenue-generating real estate*	33.7	5.6	39.4	35.0	4.4	12.7%	33.7	73.1
Investment in long-term revenue-generating real estate	37.3	1.5	38.8	20.0	18.8	94.1%	22.0	60.8
Investment in other development	19.1	26.1	45.2	55.0	-9.7	-17.6%	22.3	67.5
Amount recovered	4.8	6.5	11.3	11.3	0	0.3%	18.7	30.0
Net investment amount	91.1	30.4	121.6	113.7	7.8	6.9%	69.3	190.8

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



Building to Realize Sustainable Growth

*Interview of
President Takatoshi Ito
ES-CON JAPAN Ltd.*

Q What was the impact of COVID-19 on ES-CON JAPAN in 2022 and what are the potential prospects for the Company in the future?

Given the minimal impact from the outset, the effects of COVID-19 on our housing business have been largely contained. The hard-hit hotel market is also recovering. Looking ahead, we anticipate the housing business, which had been shifting to the suburbs, will see gradual a return to city centers. This is as the surge in land acquisition prices and rising construction costs continue and COVID-19 is brought under control.

Q Is the return to city centers due to demand from buyers who are willing to pay higher prices for housing?

Indeed, we feel that is the trend. Presently, the

contracting rate for higher priced housing remains high. However, the progress of property sales in city centers is easier to predict compared to that in the suburbs.

Q Having mentioned contract rate, what is the current status of the Fourth Medium-Term Management Plan "IDEAL to REAL 2023" in this fiscal year, the final fiscal year of the plan?

In our initial plan for Fiscal 2023 (ending December 2023), we announced net sales of 110.0 billion yen and operating income of 16.2 billion yen. As of April 2023, we have achieved approximately 75% of contracts against the sales plan for the condominium sales business in Fiscal 2023. Other business areas are also steadily progressing with the achievement of targets in the current fiscal year. Moreover, to some extent, we have already completed the purchase of sites that will contribute to Fiscal 2024 sales and we have

started purchasing properties linked to Fiscal 2025 and Fiscal 2026.

Under the Fourth Medium-Term Management Plan revenue structure, the set themes are “transformation” and “rapid progress.” We will increase investment in stable revenue-generating real estate by leveraging our great advantages in corporate credit standing, including the increased ability to procure capital, gained from becoming a consolidated subsidiary of Chubu Electric Power Co., Inc., (hereinafter “Chubu Electric Power”) in April 2021.

The progress of the investment plan for the three-year period of the Fourth Medium-Term Management Plan, set at 220.0 billion yen, is close to 90% at present. This progress is largely attributable to Picasso Co., Ltd. and its group companies (hereinafter the “Picasso Group”) becoming our subsidiaries in October 2021. Furthermore, as announced in February 2023, Shijo Omiya Building Co., Ltd. (hereinafter “Shijo Omiya Building”), which is mainly engaged in the real estate leasing business, will become our subsidiary in July 2023. All this means progress in the investment plan.

We have established a stable revenue base by acquiring assets valued at approximately 100.0 billion yen through M&As, bringing us closer to realizing the “transformation” of our revenue structure from a flow business to a stock business. With this, we can increase the number of development projects we handle and connect this to accelerating progress in the future.

We intend to solidly continue on this path of sustainable growth.

Q Can you provide some examples of the synergy achieved between Chubu Electric Power and ES-CON JAPAN from ES-CON JAPAN becoming a consolidated subsidiary?

We have demonstrated synergy through various projects. For instance, we established TSUNAGU Community Farm LLC with Chubu Electric Power

and Spread Co., Ltd. This new company has started construction of Techno Farm Fukuroi, which will be the world’s largest vertical farm fully utilizing artificial light and capable of producing 10 tons of lettuce per day, in Fukuroi City, Shizuoka Prefecture. The farm is set to begin production in January 2024. The plan is to first make this project in Fukuroi City a success, then expand the business with second and third projects.

Additionally, a consortium of businesses led by Chubu Electric Power which included ES-CON JAPAN, entered into a basic agreement for the development of the former site of Nagoya Racecourse in August 2022. We hope to continue our collaboration with Chubu Electric Power to realize new urban development and promote regional revitalization.

Q The real estate industry can be divided into building projects that are “dots” and urban projects that are “planes” that are key to advancing regional development and revitalization. An example of a successful “planes” development is the mixed-use development in Tsukuba City, but can you provide some insight into how the city has responded to this project and how you view the future of real estate development?

We believe that conducting integrated commercial, office and residential development in the mixed-use development project in front of the Tsukuba Express Tsukuba Station has served to facilitate regional revitalization and regeneration. The facilities previously constructed in the high economic growth period were rebuilt to meet the needs of today.

In terms of land readjustment projects, we are participating as project agent in the “Ibaraki City Saito East District Zone C Land Readjustment Project” in Ibaraki City, Osaka Prefecture, and the “Kawachinagano City Uwahara-Tako Land Readjustment Project” in Kawachinagano City, Osaka Prefecture. We also have several projects nearing the establishment of land readjustment

associations. While it is true that land readjustment projects take time before generating revenue, we have been working on certain projects that involve logistics facilities, attracting new industries to the projects, the return of domestic manufacturers and such for about seven or so years. These projects are now at last leading up to association approval.

Furthermore, in terms of developing “dots” with high added value leveraging locational characteristics, such as “OST RESIDENCE KARUIZAWA” (completed in December 2021; with 33 units in total) sold in units in Nagano Prefecture’s Karuizawa, we plan to roll out new developments in other areas, such as Kanagawa Prefecture’s Hayama, going forward. We intend to keep strengthening our ability to engage in both projects that are “dots” and “planes” in this manner, making us an even more formidable corporate entity.

Q What is the current state of the for-sale housing market?

In the real estate industry, supply and demand are well-balanced, with supply not necessarily growing in volume. However, in the current situation, with issues like surging land costs and rising construction costs as mentioned earlier, there will no longer be satisfied buyers unless products with high added value can be provided.

Under such circumstances, rather than unduly increasing supply volume, we are focusing on product planning, being particularly mindful of quality, as we have always done. We intend to continue upholding this policy.

Q How is the expansion of the “tonarie” brand of commercial facilities progressing, particularly in the Kansai region?

On March 28, 2023, we opened “tonarie Hoshida,” a neighborhood shopping center, in front of Hoshida

Station in Katano City, Osaka Prefecture. The development was carried out jointly by us and MIRARTH HOLDINGS, Inc., with the acquisition of approximately 3,000 tsubos (approximately 9,900 m²) of land in front of the station, as part of Toda Corporation’s land readjustment project. This commercial facility offers a range of stores for everyday use by locals, such as a medical mall, 100-yen shop (“dollar store”) and drugstore, in addition to the Kansai-based supermarket “Mandai” which serves as an anchor tenant, and is the tenth facility in our commercial facility brand “tonarie” series.

We develop commercial facilities under the concept of “Close to the community in order to develop together with the community. Always a good neighbor.” We will continue to develop lifestyle-focused commercial facilities deep-rooted in local communities.

Also, we have a strong track record of promoting regional revitalization projects that apply the strength of the private sector to projects while cooperating with local governments and administrations rather than relying on government subsidies in undertaking development.

We intend to continue expanding development of community-based commercial facilities across Japan as our engine of growth by leveraging such strengths.

Q How have you been able to successfully expand the logistics development business as discussed over the past several years?

We are steadily expanding our logistics development business to meet the needs of the growing e-commerce market. In particular, our efforts include expanding our “LOGITRES” brand to meet the increasing need for logistics facilities that also address changes in the environment for those working at the facilities.

Rather than participating in competitive bids when land costs are rising—considering that any expensive acquisition of sites would just lead to a

situation where warehouse rent would have to be raised—we have been focusing on producing land suitable for logistics facility development from scratch through land readjustment projects. Our strategy is to purchase land at appropriate prices and work on projects where we can fully demonstrate our site sourcing ability as a developer. We will continue to select suitable land for development, while emphasizing communicating and working closely with existing and prospective tenants.

Q Are there any future plans to jointly develop logistics properties with other companies?

Well, the construction of a two-tier warehouse on the site of approximately 10,000 tsubos (approximately 33,000 m²) is currently underway, and in the summer of 2023, “LOGITRES Tojo II” will be completed in Kato City, Hyogo Prefecture. While we have still not developed large-expensive five or six-tier facilities, we do remain open to the opportunity to work on logistics development of that kind. We are also open to possibly carrying out such a project jointly with a company that has a proven track record with these facilities.

Q Will ES-CON JAPAN continue to expand its revenue and business based on M&As like that of the acquisition of Picasso Group?

To date, we have consistently placed importance on the relationships with the owners of the companies we acquire and not pursued the M&As if the owners cannot be convinced of the advantages gained through the M&A. Rather than participating in bidding wars based solely on price, we will consider M&As with companies that share our vision and principles and can bring about synergies.

In fact, we acquired the Picasso Group as a subsidiary, and plan to make Shijo Omiya Building a

subsidiary in July 2023. These companies have management policies that have thus far aligned with our own and we have found ease and value in merging with these companies and working with their employees.

Q Will the ES-CON Group continue to expand into cafe, columbarium and other businesses?

We intend to continue to sustainably and solidly expand the business as a comprehensive building developer, not merely just as a housing developer but also creating the lifestyles for those who live in our properties as a “life developer.”

In Fiscal 2022 (ended December 2022), the columbarium permanent use rights sales and management business operated by our subsidiary Ryomon Co., Ltd. (“Ryomon”) failed to achieve the initially planned sales target. We thus recorded an impairment loss when we made a conservative revision after reviewing the plan.

Ryomon, located in an area with extremely high potential, near Hiro-o Station in Minato Ward, Tokyo, began sales in 2021, and is entering its third year in 2023. Unfortunately, launching sales right in the midst of the COVID-19 pandemic hindered achievements of the planned sales targets. Nonetheless, we will continue to not only conduct various forms of advertising, but also keep providing high-quality support services to customers who have already made purchases with the hope to receive new referrals from customers. We intend to continue to keep steadily driving the business forward while further enhancing its value.

In the cafe business, we opened “Cafe Apartment TSUKUBA” in December 2022 on the premises of “Le JADE Tsukuba Station Front,” a for-sale condominium we developed in Tsukuba City, Ibaraki Prefecture. This marks the second such project following on from “Cafe Apartment 183,” which opened on the first floor of “Le JADE Setagaya Kinuta” in

2016. We work in a concerted effort as a corporate group toward regional revitalization by having a group company operate a cafe on the premises and going beyond just developing the building, to also creating the local community.

We hope the residents of our for-sale condominiums will use the cafes on the premises to hold family birthday parties, lounge on the terrace seats during pleasant weather in the spring, summer, or fall, and as a place to interact.

We hope our cafe business provides our condominium residents enhanced living ideals by providing a second living room. We have not set a growth target for the cafe business at present, but looking ahead five years or ten years, we see boosting such cafe development and operation capabilities as essential to enhancing the value of real estate.

Q How has ES-CON JAPAN and the real estate industry changed since you assumed the office of President and Representative Director over a decade ago?

The Great East Japan Earthquake struck soon after I became president in March 2011. The following year saw political power returning from the Democratic Party of Japan to the Liberal Democratic Party, and then Prime Minister Abe launched “Abenomics,” as well as “bold monetary easing.” The aim of these measures and policies was to break the economy out of deflationary trends, but, in combination with other factors, they helped boost the real estate market.

However, it is presumed that the monetary easing, continued till now, will become limited in the future with the Bank of Japan’s governor change. Given this the real estate industry as a whole will likely enter a new phase, where capital strength will be increasingly put to the test. We intend to proactively promote for-sale condominiums, commercial facilities, logistics facilities, rental apartments, office and other development businesses by combining our strong capital procurement and financing base that has been

enhanced by becoming a consolidated subsidiary of Chubu Electric Power, and our multifaceted development capabilities reinforced over these twelve years.

With the opening of “ES CON FIELD HOKKAIDO” in Kitahiroshima City, Hokkaido, in March 2023, the new baseball stadium of the Hokkaido Nippon-Ham Fighters, we expect to raise our name recognition dramatically nationwide. We aim to pursue business expansion at an even higher stage in the future. Our goal is to become a representative developer of Japan over the next ten years and are confident that we have the potential to achieve this.

Q Can you share your perspective on how companies can effectively address ESG, given the increasing importance of ESG in driving sustainable growth and the establishment of initiatives such as the “ESG Promotion Group” by ES-CON JAPAN in recent years?

We established the ESG Promotion Group directly under the President’s Office and have company-wide initiatives underway. In terms of environmental efforts, initiatives center on developing of Net Zero Energy House (ZEH) condominiums and adopting standard practices in the real estate industry. Looking forward, we aim to explore environmental initiatives that combine our parent company, Chubu Electric Power’s, energy management capabilities with our real estate business. For example, the earlier-mentioned vertical farm in Fukuroi City, Shizuoka Prefecture, planned to operate 24 hours a day, is expected to provide organic produce, local job creation and disaster-resilient business planning.

Currently, what needs to be done is being done, but we have yet to be able to take any action that would significantly change the times. In the future, we intend to take on projects of a large scale while being more conscious of ESG from the conceptual stages in places where there are urban development needs in a manner that would be a model case for the industry.

Meanwhile, the unstable state of material prices caused by the Russian invasion of Ukraine continue. A stable supply of energy is fundamental to people's lives. So, while there are limits to what we can do, we are engaging in corporate activities and business, always keeping in mind how we can address the matter. We intend to continue to work diligently to create a significant impact on society through development projects.

Q What guiding principles are emphasized in carrying out the several projects now mentioned?

Our corporate slogan “IDEAL to REAL” reflects the aspirations of the local community—“what would be great to have in the area”—and our commitment as a “life developer” to improve the lives of the people.

Recently, we had the pleasure of seeing many customers come on the opening of “tonarie Hoshida,” a neighborhood shopping center we developed, and receiving positive feedback such as “it’s really great to have a facility like this open.” Customer satisfaction is a key guiding principle in carrying out our projects.

Additionally, like with the opening of “ES CON FIELD HOKKAIDO,” we believe the Company should place the greatest importance on being involved in projects that impress people. On top of that, we aim to maintain a cycle of valuable projects that generate adequate profit and solid returns to our investors.

Q Congratulations on the recent opening of “ES CON FIELD HOKKAIDO.” Please update us on the development projects in the vicinity of the new baseball stadium and revitalization of the JR Kitahiroshima Station West Exit Area?

The projects in the new baseball stadium’s vicinity

and revitalization of the JR Kitahiroshima Station West Exit Area are making steady progress. Since “ES CON FIELD HOKKAIDO” was opened it has been noticed not only by baseball fans but also people from all over the country. The new baseball stadium has changed the flow of people into Kitahiroshima City, and the commercial facilities we are developing in front of Kitahiroshima Station are attracting attention from potential tenants. We expect these facilities to contribute greatly to creating a lively atmosphere in the area after opening.

In other words, the completion of “ES CON FIELD HOKKAIDO,” as the core, is attracting more exciting projects and companies to Kitahiroshima City. We believe that the number of supporters for co-creation spaces will continue to increase, drawing us closer to realizing the concept of the “ballpark the world has never seen before.”

The JR Kitahiroshima Station West Exit Area Revitalization Project is a long-term project spanning over ten years. We see the opening of the new baseball stadium in March 2023 as the start of urban development. We do not think of the opening of the stadium as the end of the project; instead, we will continue contributing to the development of Kitahiroshima City and Hokkaido through various projects.

Q How has the weak yen and high-interest rates overseas impacted overseas business?

Our overseas business has thus far primarily focused on capital investment rather than development. As for the impact of exchange rates, which were approximately 100 yen to 110 yen to the dollar at the time of investment, we have still managed to generate foreign exchange gains. However, due to the nature of the investment activities, not much revenue is being made.

The recent rise in U.S. interest rates is actually working in favor of Japanese companies that are making overseas investments and investment-grade

revenue-generating real estate is on the increase. The rising U.S. interest rates are leading to real estate price adjustments and facilitating the release of bargain revenue-generating real estate into the market. As a result, we do not necessarily take a pessimistic view of the circumstances in any way but rather see many emerging opportunities.

Notably, we formed an extremely beneficial relationship with BlackSand Capital, LLC, a local real estate firm in Hawaii. Despite rising interest rates, we have found that our attractive properties have consistently led to successful contracts with owners who intend to make actual use of their properties. So, the plan is for us to keep securing attractive properties that align with our business by identifying strong opportunities.

In this manner, expanding from just investment into development is viewed as the next theme for the overseas business.

Q How is ES-CON JAPAN responding to the administrative disposition imposed on ES CON ASSET MANAGEMENT Ltd. (“EAM”) in July 2022?

First, we sincerely apologize to all shareholders and investors for the concern and inconvenience caused by the administrative disposition from the Financial Services Agency imposed on EAM. In addition to promptly responding to the matters the Financial Services Agency pointed out, the organizational structure has also been revamped to fundamentally resolve the issues.

One of the main causes of the issues pointed out about related-party transactions with ES-CON JAPAN, EAM’s parent company, was EAM’s limited options when buying properties, as they could only select from their parent company at the time. To address this, Wataru Orii has assumed the office of EAM’s president. In addition to EAM building a greater capacity to acquire properties, earnest efforts are being made to form a framework for products developed by ES-CON JAPAN to be supplied at a

fair price while carefully considering the elements of related-party transactions with ES-CON JAPAN.

To further promote improvements in the matters pointed out in this administrative disposition, ES-CON JAPAN has established a Compliance Office. The office will report directly to the president, and will continually conduct compliance training and clarify the management stance on legal compliance throughout the Company and group. The aim is to thoroughly strengthen the promotion of compliance management and ensure that there are no further matters are called into question ever again.

We will continue to support the sustainable growth of ESCON JAPAN REIT Investment Corporation (“EJR”) as its sponsor company.

Q Lastly, the current fiscal year is the final fiscal year of the Fourth Medium-Term Management Plan. What sort of content is envisioned for the next plan that will probably be announced during the current fiscal year?

While the business environment is one where it is extremely difficult to provide a future outlook, the business of a developer is developing products over two or three years and selling them. As for the “transformation” and “rapid evolution” of the revenue structure, the themes of the Fourth Medium-Term Management Plan, we have managed to secure a certain amount of revenue from stock and so the task ahead is how to further expand this.

Strengthening organizational power is key to realizing sustainable growth. Rather than aim for immediate rapid growth, it is important to increasingly enrich “human capital”—that is, employees or the knowledge, skills, qualities and such possessed by employees.

We would like to become a company where employees’ growth firmly links to the Company’s growth within the next ten years. To that end, we will formulate a medium-term management plan that emphasizes investment in human capital.

Regional Projects Bearing Fruit

ES CON FIELD HOKKAIDO Opened in March 2023!



ES-CON JAPAN sympathize with the urban development plan “ball-park concept” in HOKKAIDO BALLPARK F VILLAGE (“F VILLAGE”) which centers on a new stadium, and is the partner that realize a space for cocreation together with the Hokkaido Nippon-Ham Fighters. Furthermore, we acquired the naming rights for the new stadium.

As a company that implements developments of a condominium in the F VILLAGE “Le JADE Hokkaido Ballpark,” senior residences, and surrounding area of Kita-Hiroshima Station West Exit, which is the closest station of the F VILLAGE, we will contribute to the regional revitalization by further accelerating urban development that look ahead 10 years and 20 years, by taking the opening of the new stadium as an advantage.



For-Sale Condominium “Le JADE Hokkaido Ballpark”

The first project in the F VILLAGE urban development concept and the only condominium in F VILLAGE. The property is a project in a rare location approximately 80 meters from the outfield stands of the new stadium and also allows enjoyment of Hokkaido’s rich nature, while bringing the ideal of “living in a ballpark” into reality.

The number of inquiries it received reached 6,000 and all 118 units were sold out soon after the sales commenced.



Le JADE Hokkaido Ballpark

Senior Residence

Scheduled for completion in spring of 2024 as a residence for active seniors constructed alongside a medical mall. This initiative is part of sustainable urban development to create places for multigenerational interaction and will create housing that is blessed with nature and enables full enjoyment of sports and activities, with an aim to contribute to the health maintenance of people of all ages from the young to the elderly and to regional healthcare.

Access Base to the Ballpark JR Kitahiroshima Station “West Exit Area Revitalization Project”

We are advancing development of the JR Kitahiroshima Station, garnering further attention as an important point of access to F VILLAGE, “Train Station West Exit Area Revitalization Project” in Kitahiroshima City as a partner of the project. We acquired part of the development site for the project in November 2021, and it is being used for 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. Of the development projects on the site, we aim to complete the commercial facilities, etc. in FY2024 and are pushing forward with the development in front of the station.



Senior Residence



JR Kitahiroshima Station “West Exit Area Revitalization Project”

Promotion of Multipurpose Development and Urban Development

Multipurpose Development Integrating Commercial, Employment, and Residential Facilities

Tsukuba City, Ibaraki Prefecture

- In front of Tsukuba Station, Ibaraki Prefecture, we are working to create a bustling atmosphere through the integrated development of a complex where commerce, work, and residences intersect, consisting of “tonarie Tsukuba Square” comprising commercial facilities and offices, and the condominium “Le JADE Tsukuba Station Front” (Tsukuba City, Ibaraki Prefecture; 218 units in total).
- Phase 1 of “tonarie CREO” opened in May 2021, contributing to profits throughout FY2022.
- In December 2022, Cafe Apartment TSUKUBA, the second cafe/dining restaurant developed and operated by the Group, opened on the site of out-for-sale condominium “Le JADE Tsukuba Station Front.”



Le JADE Tsukuba Station Front (condominium)

Delivery of 218 units of condominium in Nov. 2022



Cafe Apartment TSUKUBA (cafe/dining restaurant)

Condominium Development

Iwaki City, Fukushima Prefecture

- The “Namiki no Mori City” development project, a mixed-use facility of residential, commercial and parking lot buildings together with Hoosiers Corporation (Headquarters: Chiyoda Ward, Tokyo; President and Representative Director: Eiichi Ogawa).
- For the residential building, development of “MID TOWER IWAKI” (216 units in total), the tallest seismic isolation structure tower condominium in the city, is underway. The project which will carry out redevelopment to create a further bustling atmosphere around the Iwaki Station. The plan for the residential building, 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 tallest seismic isolation structure tower condominium in Iwaki City named “MID TOWER IWAKI.”

*Joint project with Hoosiers Corporation



Started sales in Nov. 2022

Condominium Development

Omura City, Nagasaki Prefecture

- Participate in “Shin-Omura Ekimae City Owned Land Development Project” ES-CON JAPAN is to be engaged in development of condominiums in two blocks (174 units in total).
- 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 in March 2022. With Shin-Omura Station on the Nishi-Kyushu Shinkansen line opening in September 2022, the project entails developing 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. ES-CON JAPAN is scheduled to be engaged in development of condominiums in two blocks.



Construction to start in Fall 2024
Shin-Omura Station on the West Kyushu Shinkansen Line opened in September 2022

Large-Scale Urban Development

Suita City, Osaka Prefecture

- Urban development project to develop residences, commercial facilities, etc. on the former site of National Cerebral and Cardiovascular Center (approximately 66,000 m²).
- Joint project with Chuden Real Estate.

Development Project at the Former Site of Nagoya Horse Racing Track

Nagoya City, Aichi Prefecture

- In August 2022, a consortium of businesses led by Chubu Electric Power, of which ES-CON JAPAN is a member, entered into a basic planning agreement for the development project.
- ES-CON JAPAN is scheduled to be engaged in the development of a complex commercial facility.



Start common use subsequently in fiscal 2027 and after

Multifaceted Development Business Operation as a Comprehensive Developer

Real estate development and urban development rooted in local communities in major cities across Japan



- Newly opened a community-based shopping center “tonarie Hoshida” (Katano City, Osaka) in front of Hoshida Station on the JR Gakkentoshi Line.
- It is within the “Hoshida Station North Land Readjustment Project” (implementation area of approx. 26.4 ha) area, where development of condominiums, detached houses, medical facilities, park and more are in progress, leading to the expectation for future prosperity. The locational convenience of the commercial facility is especially high in the area which originally boasts high convenience, as it is in front of Hoshida Station. Furthermore, as a community-based commercial facility with tenants including a supermarket, 100-yen shop and medical complex, aim to contribute to the regional development and take root in the community.



- TOPAZ is a new brand of rental residence, implying the gem TOPAZ that has been the symbol of the sun, designed to deliver an enriched environment by making the life of the residents shine beautifully. It associates the wish for residents to enjoy the current moment of life as yourself.

TOPAZ

Residence to express your identity and enjoy the current moment of your life

TOPAZ is well loved as a symbol of the sun with its clear golden color. We desire the life at the residence to shine beautifully like TOPAZ. Furthermore, it also implies the Spanish word PAZ meaning peace, with the desire to create an enriched environment that allows everyone to live a satisfying daily life. While lifestyles becoming even more diversified, we desire to enable each person to enjoy the current moment of life as yourself. TOPAZ was designed as a residence that makes such desire come true.

Stable Growth of Condominium Business

For the core business of condominium development, ES-CON JAPAN targets stable supply not just increasing the number of condominium units. Recently, it has developed a wide variety of product plans that maximize the value of the land for rare locations.

Development at Rare Locations in Central Tokyo

Park Le JADE Shirokane Residence

- Facing the beautiful row of ginkgo trees that provides the sense of the changing seasons which is beyond the historic Sankozaka Slope, it is located in Shirokane 4-chome with peaceful and quiet surroundings that make you forget it is in central Tokyo.
- All 55 units sold out (delivery in March 2023).



Le JADE Cross Chiyoda Jimbocho

- It is in a location with good traffic convenience being a four-minute walk from Jimbocho Station on the Tokyo Metro Hanzomon, Toei Mita and Toei Shinjuku Lines as well as in walking distance from Kudanshita Station and Suidobashi Station.
- Toho Gakkai Main Building is still used as the main building of Toho Gakkai, founded in 1947 under the supervision of the Ministry of Foreign Affairs with an aim to develop academic studies of Eastern



culture in Japan, growth of cultures of Eastern countries and international cultural exchange. It is designated as a historically important building for the scenic development of Chiyoda Ward, Tokyo. Le JADE Cross Chiyoda Jimbocho is a property developed in an integrated manner with Toho Gakkai Main Building in an adjacent site of the former Tokyo Gakkai New Building (demolished in September 2021) together with an office.

- Through this mix-use development, while succeeding the historical value that Toho Gakkai Main Building has, it will realize an ideal life distinctive in Central Tokyo.

Minato-ku Nishi-Azabu Project (tentative name)

- It is located in the vicinity of several areas in Tokyo such as Minami-Aoyama, Omotesando, Hiroo and Roppongi.



Area Development Status

Le JIAS Ohashi

- First condominium in Kyushu area.
- It has access to Nishitetsu Fukuoka (Tenjin) Station in a six-minute train ride (the quickest) and is in a location with high traffic convenience with bus transportation to Hakata and Fukuoka Airport.
- With 140 units, it was developed with the concept of living with nature in a city.



Grand Le JADE Shirakabe Getsuronotei/Rinzenotei

- The first and second properties in Chubu area.
- Joint projects with Chuden Real Estate Co., Inc., a subsidiary of Chubu Electric Power Co., Inc.
- A location with rare value along Shirakabe-cho Suji Street, a main street of the area designated as Shirakabe/Chikara/Shumoku Townscape Preservation Area. An area where modern Western-style buildings and Japanese-style buildings remain together, with the remnants of former samurai residences inherited from Edo Period, creating an excellent townscape.

Product Plan with High Added Value Utilizing the Locational Characteristics

OST Residence Karuizawa

- While being in a highly convenient location in terms of access, with an approximate eight-minute car drive from Karuizawa Station on the JR Hokuriku Shinkansen, which can be accessed from Tokyo in about an hour, it is surrounded by nature with a view of Mt. Asama.
- Won FY2022 Good Design Award.
- All 33 units in total have already been delivered.



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

- A development project in a location with an expansive view of Morito Kaigan Beach.
- Product planning with highly added value fully utilizing the natural environment.

Overseas Business

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 led 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 sectors 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.

Participation in the Detached Houses Development Project in Thailand

Invested and participated in a project to develop detached houses (the "Project") promoted by Britania Public Company Limited, a subsidiary of Thai real estate developer Origin Property Public Company Limited (the "Origin"). We will continue to globally implement a multifaceted real estate business that can contribute to society.



ESG Initiatives

One of our key management strategies is addressing social issues through the promotion of ESG initiatives. Centered on the “ESG Promotion Group” and the “Health & Culture Fostering Team” designed to promote healthy management further, we will promote company-wide efforts and focus on enhancing essential company value that cannot be measured by financial information alone.

ESG Management Philosophy

Under our corporate slogan of “IDEAL to REAL” (bringing ideals into reality to create a new future), we seek to realize a sustainable society and sustainable growth by addressing social issues through the promotion of ESG initiatives as a life developer creating ideal living, in response to changing needs over time.

Basic Policy on ESG

We strive to grow as a company that meets the requirements set by society, in compliance with laws and regulations regarding environment, social and governance (ESG), and remain committed to our promises and through the promotion of ESG initiatives.

Environment	Social	Governance
 <ul style="list-style-type: none"> ① Creating new environmental value through next generation urban development and other initiatives aimed at realizing a carbon-neutral society by 2050. ② Promoting real estate development and business activities that account for the environment above all else. ③ 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"> ① Contributing to regional revitalization and promoting the creation of local communities through urban development to create a new and brighter future. ② 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. ③ 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. ④ Promoting business development to realize the SDGs globally through the development of overseas business. 	 <ul style="list-style-type: none"> ① Enhancing timely, appropriate, and fair disclosure of management information. ② Promoting a governance system to secure stability, soundness, and transparency of management. ③ Aiming to strengthen risk management in order to respond to increasing risks due to the expansion and diversity of businesses. ④ Engaging in business activities based on a respect for the human rights of all in accordance with the Corporate Ethics Charter.

Contribution to the realization of a sustainable society



Environment

Continuous and Proactive Development of Environmentally Friendly ZEH-Compatible Housing

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.

*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.



Le JADE Okurayama, which won the Good Design Award for Fiscal 2021
 Le JADE Yao Sakuragaoka
 Le JADE Honkawagoe Koedo Terrace NEW

Acquisition of Environmental Certifications

GRESB Developer Assessment

We have been participating in GRESB, an annual benchmark assessment measuring ESG consideration in the real estate sector, every year since 2018. In fiscal 2022 (January 1 – December 31, 2021), we received a rating of 2 Stars for the GRESB Real Estate Assessment Development Benchmark as well as a Green Star distinction for the fourth consecutive year. We will keep up proactive activities to boost ratings.



DBJ Green Building Certification

DBJ Green Building Certification is a certification system established by the Development Bank of Japan (DBJ) in April 2011 to support environmentally and socially conscious real estate properties (“Green Buildings”). It supports these initiatives by evaluating and certifying socially and economically desirable properties based on a comprehensive assessment, which includes not only their environmental performance but also their responsiveness to various stakeholder needs, such as disaster preparedness and consideration of the community. Two of the five properties in total that have acquired certification were developed by us, while the operation and management of all five are handled by our subsidiary ES-CON Property.



CASBEE Real Estate Certification

We received the highest rank of “S” in CASBEE Real Estate Certification for “tonarie Fujimino (former Soyoca Fujimino) (Fujimino City, Saitama),” a retail facility we own, from an assessment and certification organization of CASBEE certified by the Institute for Building Environment and Energy Conservation. Comprehensive Assessment System for Built

Environment Efficiency (CASBEE) evaluates and ranks the environmental performance of buildings. It is a system that comprehensively assesses the quality of a building, considering factors such as comfort, visual impact on the area, energy savings, and the use of environmentally friendly materials and equipment. CASBEE Real Estate Assessment was developed for the purpose of utilizing the results of the environmental assessments of buildings in CASBEE in real estate assessments. Buildings are scored in the five assessment items of “1. Energy and greenhouse gas,” “2. Water,” “3. Use of resources and safety,” “4. Biodiversity and site,” and “5. Indoor environment,” and one of the four ratings of “S,” “A,” “B+,” and “B” is given based on such score.



tonarie Fujimino

“EcoAction 21” Certification

EcoAction 21 is an environmental management system for proactively and effectively engaging in environmental management such as the reduction of CO₂ emissions. It aims for continuous actions based on a PDCA cycle. By continuously conducting environmentally friendly management through EcoAction 21 activities, we can expect benefits on the management front, including reduction of costs and improvement in productivity, as well as enhanced corporate value, while fulfilling our social responsibility to reduce environmental burden.

Construction and Operation of “Techno Farm Fukuroi,” a Vertical Farm Utilizing Fully Artificial Light

As previously mentioned, we are collaborating with Chubu Electric Power and Spread to develop 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. The three companies including ES-CON JAPAN will solve issues in food and agricultural fields through the plant factory business while also contributing to the realization of a sustainable and livable society and the achievement of SDGs by making efforts towards decarbonization such as the proactive use of green energy and effective use of CO₂ in the process of cultivation.



Efforts to Promote the Use of Wood in 20th Asian Games Aichi-Nagoya 2026 Athletes’ Village site post- Games Project

Village site post- Games Project

The consortium has entered into the “Agreement on the Promotion of the Utilization of Wood in Public Buildings” with Aichi Prefecture. We will make efforts to contribute to decarbonization through the project, such as active utilization of wood produced in Aichi Prefecture.

Awarded Osaka Eco-Friendly Construction Award, Residential Section

In January 2022, the condominium “Le JADE Senri Aoyamadai (Suita City, Osaka Prefecture; 152 units in total)” won the Osaka Eco-Friendly Construction Award, Residential Section for the fiscal year 2021 (hosted



by Osaka Prefecture and Osaka City). This was the first time we won the award, which recognizes clients and designers of construction projects that are exemplary in terms of environmental consideration of buildings under the aim of promoting the spread of environmentally friendly buildings and raising awareness among residents of Osaka Prefecture.

Social

Development and Operation of Community-Based Commercial Facilities

We develop and operate the “tonarie” series of community-based commercial facilities in the form of neighborhood shopping centers, such as “tonarie Yamato-Takada,” “tonarie Toga-Mikita,” “tonarie Seiwadai,” “tonarie Minamisenri,” “tonarie Utsunomiya,” and “tonarie Yokkaichi.” We will continue to engage in community-based commercial development that would be loved by the local people and become the pride of the area in the hope of contributing to community-building and regional revitalization.

Events Involving Locals and Tenants



Blue Sky Concert (tonarie Seiwadai)



Furumai rice cake event (tonarie Yamato-Takada)



Music festival (tonarie Yamato-Takada)

Society-Enhancing Activities



International refugee support campaign (tonarie Yamato-Takada)



Bicycle theft prevention day campaign (tonarie Yamato-Takada)



Installation of AEDs in facilities (tonarie Minamisenri, tonarie Seiwadai, tonarie Toga-Mikita, tonarie Yamato-Takada)



Free bus service for local residents operated by a nearby social welfare corporation (tonarie Seiwadai)



Letter of appreciation from Kawanishi City’s (Hyogo Prefecture) Blood Donation Promotion Council for regular blood donation promotion activities (tonarie Seiwadai)



Monthly “Hitoyasumi Café” for caregivers and receivers offering consultation with a comprehensive regional center (tonarie Seiwadai)

Received Certification as an “Excellent Health Management Corporation 2023”

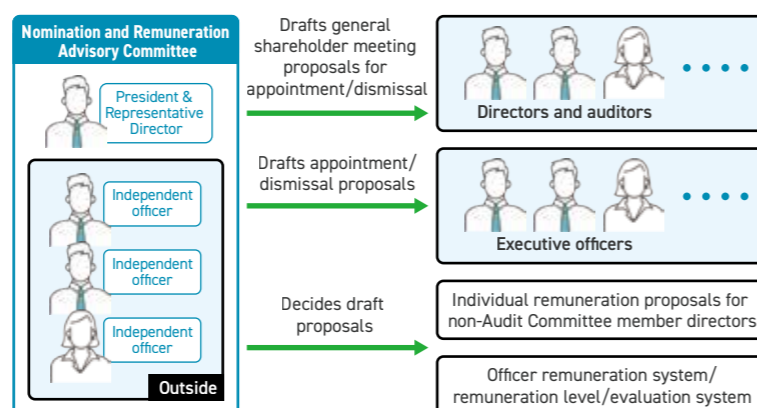
We are promoting health management, believing that the health of our employees is the cornerstone of our business activities and an essential element for our sustainable growth. As a result, in March 2023, ES-CON JAPAN was certified as an “Excellent Health Management Corporation” mainly for its efforts to promote and enhance employee health, improve work comfort, and diversity.



Governance

Establishment of Nomination and Remuneration Advisory Committee

In January 2020, we established the “Nomination and Remuneration Advisory Committee” for the purpose of strengthening the independence and objectivity of functions as well as the accountability of the Board of Directors with regard to nomination and remuneration of directors and other matters. We have ensured fairness and transparency in selecting directors and their compensation.



Nurturing Successors

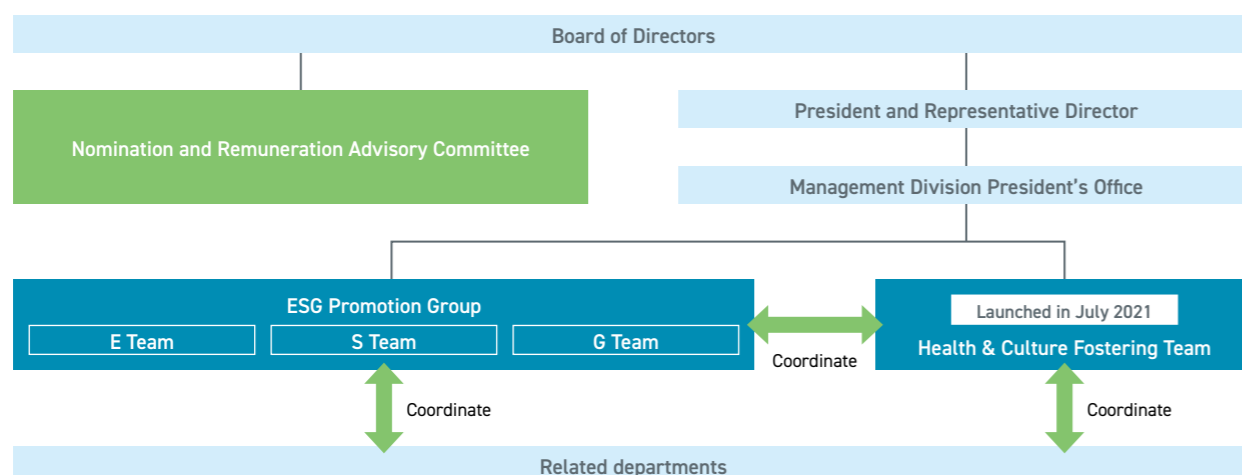
We also launched initiatives for a succession plan called the candidate successor system. We appointed a total of seven employed executive officers in January 2023.

Diversity of the Board of Directors

ES-CON JAPAN’s Board of Directors consists of ten members: three executive directors, three non-executive directors, and four directors who are also members of the Audit Committee. In order to improve management supervisory functions, the three directors who are non-executive directors or three directors that are also members of the Audit Committee are outside directors, of which five are independent outside directors. The President and Representative Director serves as the Board chair.

Establishment of Compliance Office

In October 2022 ES-CON JAPAN established the Compliance Office directly under the President. The Compliance Office is directly under the President and led by a Compliance Officer (Kenji Fujita, Director and Head of Management Division), and will work to clarify management’s stance on legal compliance throughout the Company and the Group and to thoroughly strengthen promotion of compliance management.



Business Improvement Order Issued to ES-CON ASSET MANAGEMENT

ES-CON ASSET MANAGEMENT Ltd. (hereinafter, “EAM”), a group company of ES-CON JAPAN, received injunctions to suspend business operations and to institute improved practices from the Financial Services Agency on July 15, 2022. EAM submitted a report on improved practices to and accepted by the Financial Services Agency on August 15, 2022.

EAM will, in consultation with its parent company ES-CON JAPAN and ES-CON JAPAN’s parent company Chubu Electric Power, further strengthen their legal compliance and internal control systems, as described in the business improvement report, and endeavor to realize fair and appropriate business operations in order to regain the trust of all stakeholders.

Background and Details of Administrative Disposition

Business Suspension Order

Prohibition of entering into new asset management agreements and prohibition of giving management instructions concerning the acquisition of real estate (including real estate trust beneficial interests) (from July 15, 2022 to October 14, 2022)

Business Improvement Order

- (i) To fully explain the details of this administrative disposition to the Investment Corporation’s unitholders concerning this matter and take appropriate measures.
- (ii) In order to realize fair and appropriate business operations as a management company of investment corporation asset, to clarify its management stance regarding compliance with laws and regulations, etc., to establish a responsible compliance system and internal control system run by its management team, and to review its methods of business operation to steadily achieve these objectives.
- (iii) To investigate the cause of this incident and then formulate concrete measures to prevent recurrences, including establishing an adequate framework for managing conflicts of interest, such as clarifying the internal processes for verifying the appropriateness of decision-making concerning the investment management business.
- (iv) To clarify where responsibility lies, including that of management, based on the results of this inspection.
- (v) To report in writing by August 15, 2022 on the state of response regarding items (i) through (iv) above and to provide written reports as required until all the responses have been completed.

Facts Leading to the Administrative Disposition

- Improper attempts to undermine the independence of a real estate appraiser
- Improper real estate appraiser selection process

These were found to be in violation of the “duty of loyalty” stipulated in Article 42, Paragraph 1 of the Financial Instruments and Exchange Act.

Accordingly, the following measures are taken.

- Change in the composition of the Board of Directors
- Transition to a company with Audit and Supervisory Committee
- Internal Audit Department has been reorganized into a subordinate organization of the Audit and Supervisory Committee
- Change of members of the Investment Committee and Compliance Committee

Management: Directors, Auditors and Executive Officers



Tomohiko Egashira Hiroto Mizobata Masayoshi Nishitake Keiko Otsuki Kenji Fujita



Takatoshi Ito Minoru Nakanishi Atsushi Kawashima Hiroaki Hattori Tomohiko Wakayama 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
July	2018	Appointed Director at ES-CON PROPERTY
July	2019	Appointed Director at One's Own House Co., Ltd. (currently ES-CON HOME) Appointed Director at Rise Home Co., Ltd. (currently ES-CON CRAFT)
December	2019	Appointed Director at ES-CON GLOBAL WORKS
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.

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
August	2013	Appointed Head of Management Division at ES-CON JAPAN
July	2014	Appointed Director at ES-CON ASSET MANAGEMENT
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
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
October	2020	Appointed Director at Ryomon Co., Ltd. (present post)
October	2021	Appointed Director at Picasso Co., Ltd. (present post)
January	2023	Appointed Head of Management Planning Division at ES-CON JAPAN 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
January	2023	Appointed Head of Management Division (present post)
March	2023	Appointed Director at ES-CON GLOBAL WORKS (present post)

Atsushi Kawashima Director

March	2021	Appointed Outside Director at ES-CON JAPAN (present post)
March	2023	Appointed member of Nomination and Remuneration Advisory Committee (present post)

Keiko Otsuki Director

March	2021	Appointed Outside Director at ES-CON JAPAN (present post)
March	2023	Appointed member of Nomination and Remuneration Advisory Committee (present post)

Hiroaki Hattori Director

March	2023	Appointed Outside Director at ES-CON JAPAN (present post) Appointed member of Nomination and Remuneration Advisory Committee (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
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Tomohiko Wakayama Auditor [Director]

March	2023	Appointed Director (Auditor) at ES-CON JAPAN (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

Tadashi Fukuda Auditor [Director]

March	2020	Appointed Outside Director (Auditor) at ES-CON JAPAN (present post) Appointed member of Nomination and Remuneration Advisory Committee
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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
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*	Yoshiro Kato	Akira Mizunoya
Minoru Nakanishi*	Tadashi Tanaka	Tomohito Nakata
Tomohiko Egashira	Katsushi Wakayama	Hiroyuki Yamato
Kenji Fujita*	Megumi Nakadozono	

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 ten members: three executive directors, three non-executive directors, and four directors who are members of the Audit Committee. (To enhance management oversight functions, six directors of the non-executive directors and directors who are members of the Audit Committee are external directors, of which five are independent external directors. The Board is chaired by the President and Representative Director.)

- In principle, the Board of Directors meets at least once a month to enhance management oversight functions through thorough deliberation and review of important matters.
- To secure speed and dynamism in business execution, the Articles of Incorporation require the delegation of decision-making on important matters of business execution to executive directors. The scope of such delegation is strictly managed in accordance with monetary and other standards established by the Board of Directors. The state of the execution of important delegated business matters is reported to the Board of Directors without delay.

(2) Audit Committee

To enhance management oversight functions and its independence, the Audit Committee consists of four members, three of which are external directors. (Two of them are independent external directors and two are full-time members.)

- In principle, the Audit Committee meets once a month.
- Audit Committee members engage in the periodic exchange of perspectives with the President and Representative Director and, if necessary, conducts interviews with members of senior management, including executive directors, striving to ascertain the state of business execution and related issues in individual business departments.
- The full-time Audit Committee member attends important Company meetings, such as periodic meetings of the Management Committee, of which main members are executive directors, as well as head office meetings attended by executive directors and core personnel of individual business departments, to share information on the state of management and progress with business plans.
- They review important documents such as circulars for approval, and collaborate with the Accounting Auditor and the Internal Auditing Office to audit the legality and validity of the directors' performance of duties. In addition, it strengthens governance by selecting two full-time Audit Committee members and making one of them 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.

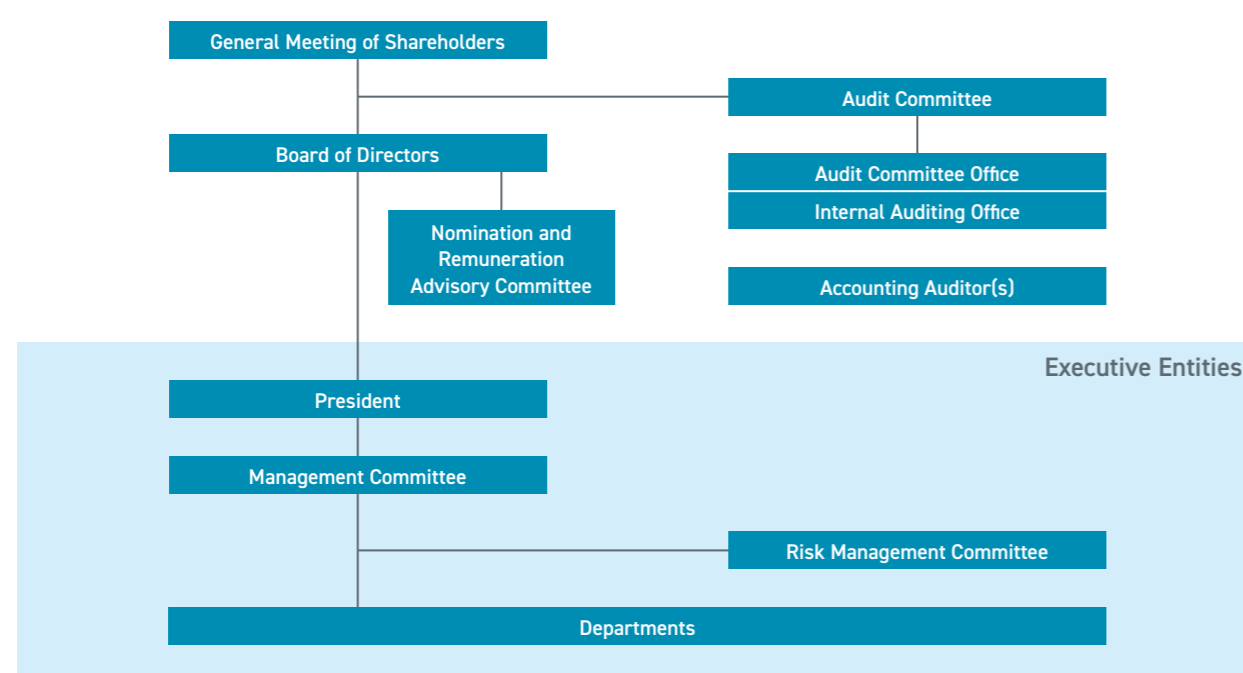
Reasons for the Corporate Governance Structure

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 2022)

Revenue: 99,431 million yen (consolidated; fiscal year ended December 2022)

Number of Employees: 398 (consolidated; as of end of 2022)
 255 (non-consolidated; as of end of 2022)

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

Property Lineup



Le JADE Tsukuba Station Front
(Tsukuba City, Ibaraki Prefecture) (218 units in total)
[Condominium]

- To realize a compact city that integrates "retail, office, and residential" in the block in front of Tsukuba Station, it was developed in a uniform manner with the adjacent "tonarie Tsukuba Square," comprised of the community-based shopping center "tonarie Q't," "tonarie MOG" and "tonarie CREO" (office floors on 4F to 6F), developed by ES-CON JAPAN.
- In a location that is a three-minute walk to Tsukuba Station, the starting station of Tsukuba Express, via directly-connected pedestrian deck allowing direct access to Tokyo.
- Cafe Apartment TSUKUBA, the second dining café developed and operated by the Group, newly opened within the site.



Grand Le JADE Shirakabe Rinzennotei (Higashi-ku, Nagoya City) (34 units in total)
[Condominium]

- A location with rare value along Shirakabechosuji street which is a main street of the area designated as "Shirakabe, Chikara and Shumokucho Townscape Preservation District," where modern Western-style buildings and Japanese-style buildings remain together with the remnant of former samurai residences inherited from Edo Period and excellent townscape is created.
- For a private area, it is designed to have a comfortable space by measures such as using natural stones in its entrance and indoor corridors as well as making the ceiling height of the living and dining spaces 2,550mm and installing ceiling mounted air conditioners. The superior and comfortable living environment appropriate for the quiet residence by preparing parking spaces equivalent to 150% of the number of units in addition to concierge counter in the common area.



Le JADE Kyoto Horikawa
(Shimogyo-ku, Kyoto City) (60 units in total)
[Condominium]

- While having high living convenience being in the center of Kyoto with mix-use commercial facilities, public facilities and other city functions, it is in a satisfying location that adds a zest to the life with the familiar historic sites of Kyoto, etc.
- It produces a peaceful space by incorporating a design that has a unique sense of Kyoto. Also, it is an open living space full of light and ventilation.



Le JADE Uehonmachi (Tennoji-ku, Osaka City) (56 units in total)
[Condominium]

- In a location that has high transportation convenience that can directly access the major areas of Osaka, such as Namba and Tennoji, within five minutes by train.
- While the entrance approach and entrance hall adopt a chic and relaxing design, it is a living space suitable for urban hideout securing privacy.

Le JADE bio Makuhari Hongo
(Hanamigawa-ku, Chiba City) (70 units in total)
[Renovated Condominium]

- In a location with high transportation convenience in terms of commuting and traveling.
- Reformed to a bright and open residence by renovating the whole condominium, including the common area to provide comfortability and functionality similar to newly-built condominiums.



Le JADE Hirano
(Hirano-ku, Osaka City) (58 units in total)
[Condominium]

- In a location with high transportation convenience that allows direct access to the center of Osaka such as Tennoji Station and Higashi-Umeda Station.
- A relaxing living space pursuing ease of living including factors with a residential plan, having all residences facing the south, four units on one floor, and placing green-rich plantations.



Le JADE Gifu Kogane Koen
(Gifu City, Gifu Prefecture) (38 units in total)
[Condominium]

- It is in a location that combines convenience with natural environment with green-rich Kogane Koen Park, undergoing a large-scale renovation, in front of the site as well as various retail stores and medical, educational and public facilities within walking distance.
- The superior living environment with a sense of freedom full of rich views with all residences facing the Kogane Koen Park with three residences on one floor and adopting an out-pole design that keeps pillars out of the rooms as well as a wide-span design.



Le JADE Kyoto Shijo Omiya
(Shimogyo-ku, Kyoto City) (43 units in total)
[Condominium]

- In a location with excellent transportation convenience for access to the center of Kyoto.
- It has an urban open exterior design by brightening the surrounding area by adopting a glass wall and white color-based exterior. In addition, it is a high-class living space by establishing rooftop terrace as common area in addition to creating spacial room for indoor space by adopting a design without a balcony.



Le JADE Takatsuki Nishimakami
(Takatsuki City, Osaka Prefecture) (43 units in total)
[Condominium]

- In a location with high transportation convenience allowing direct access to centers of both Osaka and Kyoto within 15 minutes.
- It creates a comfortable living space in harmony with nature, having a play lot where residents can easily interact with each other in its common area, all residences facing south, preparing 19 types of plans including such with exclusive terrace and more.



Le JADE Urawa
(Urawa-ku, Saitama City) (44 units in total)
[Condominium]

- It is in a location suitable for child rearing with commercial and traditional educational facilities nearby.
- It provides a rich life by introducing equipment and facilities that reflect the time such as a study with booths for remote working and bicycle sharing.



Le JADE Gifu
(Gifu City, Gifu Prefecture)
(54 units in total)
[Condominium]

- It is located in a place with high transportation convenience with high rarity being within five-minute walk from Gifu Station on the JR Tokaido Main Line and Takayama Main Line, which is a main terminal station in Gifu Prefecture, as well as Meitetsu Gifu Station on the Meitetsu Nagoya Main Line and Kakamigahara Line.
- The surrounding area falls under an urgent urban renewal area, and is an area where further development is expected in the future as station front redevelopment and other redevelopments of the block are planned in the future.

Le JADE Kyoto Higashinotoin
(Shimogyo-ku, Kyoto City) (42 units in total)
[Condominium]

- In an attractive living environment fully providing Kyoto's flavor.
- The living space with strong preference that creates a sense of exclusivity to live in Kyoto by adopting lattices and split curtains in gate approach to create Japanese taste.



Le JADE Takatsuki Minamimatsubara The Front
(Takatsuki City, Osaka Prefecture) (74 units in total)
[Condominium]

- In a location with high transportation convenience that allows direct access to centers of both Osaka and Kyoto.
- Convenient living space with a rich common area such as a conversation lounge that can be used as a workspace, a play lot with artificial grass that can be used for exercise by children and a pleasant chat between residents.



Le JADE Kakegawa Ekimae
(Kakegawa City, Shizuoka Prefecture)
(83 units in total)
[Condominium]

- In a favorable location with excellent transportation convenience using train as well as car allowing smooth access to Nagoya and Tokyo in addition to area within Shizuoka.
- The living space with a strong preference for adopting spacious designs in which furniture can be easily allocated by out-pole design that keeps pillars out of all unit rooms.



Le JADE Yao Sakuragaoka
(Yao City, Osaka Prefecture) (72 units in total)
[Condominium]

- In a living environment suitable for child rearing with facilities such as educational and medical institutions and parks nearby in addition to the large commercial facility being within a one-minute walking distance.
- It has acquired ZEH-M Oriented certification for excellent heat insulation and reduction of annual primary energy consumption, and realizes reduction of utilities fee in an environmentally friendly manner.

Le JADE Takatsuki Bessho
(Takatsuki City, Osaka Prefecture) (49 units in total)
[Condominium]

- In a location with high transportation convenience allowing smooth access to the centers of Osaka and Kyoto.
- It is in a favorable location that combines urban convenience and rich nature.



Grand Clare Ichinomiya
(Ichinomiya City, Aichi Prefecture)
(41 units in total)
[Condominium]

- In a living environment suitable for child rearing with various commercial facilities including large commercial facility, supermarket, home improvement store and low-price volume seller as well as elementary and junior high schools, cram school, park, sports facilities and more nearby.
- The exterior view and entrance represents high quality with subdued coloring. The comfortable living space pursuing ease of living by efforts such as realizing abundant lighting and ventilation by adopting allocation plan of having all residences facing the south as well as wide-span design (with some exceptions).



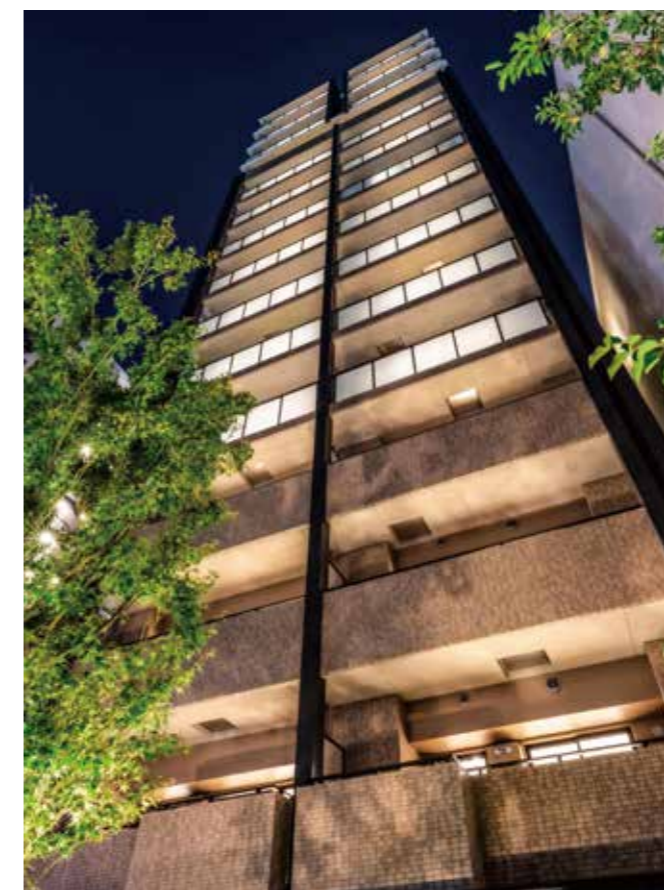
Le JADE Kawagoe The Residence
(Kawagoe City, Saitama Prefecture) (23 units in total)
[Condominium]

- In a location with excellent transportation convenience to various directions allowing direct access to major stations in central Tokyo such as Shinjuku and Shibuya, as well as being a five-minute drive by car to Kawagoe Interchange of the Kan-Etsu Expressway.
- In a favorable living environment that enjoys extraordinary view being close to kura storehouse townscape with the remnant of Edo Period while having high living convenience with large commercial facilities and other supermarkets and drug stores in the surrounding area.



Le JADE Times Core Kawagoe
(Kawagoe City, Saitama Prefecture) (56 units in total)
[Condominium]

- In a location with high transportation convenience suitable for access to major stations in Tokyo.
- The living space with strong preference even in details of various places including realization of spacial room and sense of freedom with residential plan of having four residences on one floor and all residences being corner units.



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 ended December 2022 (Fiscal 2022), despite concerns over the impacts of the spread of COVID-19, thanks in part to the easing of movement restrictions and the development of anti-COVID-19 measures, the Japanese economy saw steady progress towards the normalization of economic and social activities and has been on a mild recovery trend centered on domestic demand.

In the real estate industry, as work-style reform and new ways of living, including teleworking, become widespread, the market remains robust thanks to stable housing demand as well as the effect of underlying support, including the continuation of monetary easing policy. On the hand, we continue to clearly see rising construction costs due to soaring raw material prices, delivery delays of materials due to the shortage of components, intensifying competition over acquisition of properties and increasing acquisition costs, etc., and the situation still requires close attention to the effect of these on the market.

Amid highly unpredictable business circumstances, we aim for sustainable growth by building a firm management base that can withstand any economic environment to maximize corporate value under the fourth medium-term management plan "IDEAL to REAL 2023" (the three-year period from Fiscal 2021 to Fiscal 2023) formulated in February 2021 with the theme of "Transformation and Rapid Progress."

As to business performance for Fiscal 2022, the second year of the fourth medium-term management plan, sales were generally as planned due in part to strong sales of condominiums in the mainstay condominium business with net sales standing at 99,431 million yen (down 0.6%), operating income at 15,492 million yen (up 10.7%), and ordinary income at 14,012 million yen (up 14.9%), all compared with the initial plan. However, due in part to an extraordinary loss recorded in relation to Ryomon Co., Ltd., profit attributable to owners of parent was 7,250 million yen (down 12.6%), failing to meet the target.

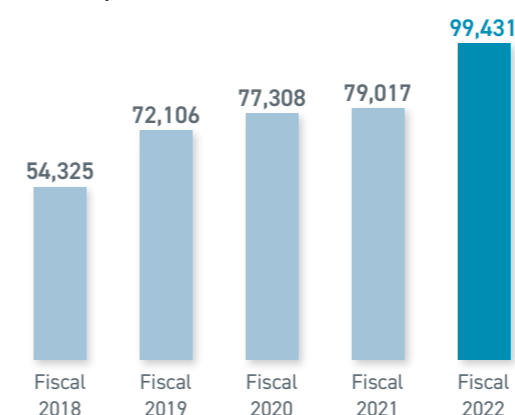
ES CON FIELD HOKKAIDO, the new stadium for the Hokkaido Nippon-Ham Fighters in Kitahiroshima City, Hokkaido, commenced operations in March 2023. ES-CON JAPAN is participating in the urban development concept in the large-scale development area called HOKKAIDO BALLPARK F VILLAGE (total development area: approx. 36.7 ha; hereinafter "F VILLAGE") centered on the stadium, and has been working on the development of "Le JADE Hokkaido Ballpark" condominium (Kitahiroshima City, Hokkaido Prefecture; 118 units in total have been sold out early), which is due to be delivered in the same month upon launch of the stadium, and senior residences. Furthermore, we are also conducting development as a project partner for the "Train Station West Exit Area Revitalization Project" in the area around JR Kitahiroshima Station to create a gateway to F VILLAGE, including a rotary in front of the station. We will continue to contribute to regional revitalization through our business, thereby achieving sustainable growth.

Operating Results

In the real estate sales business, we achieved steady progress in condominium sales while selling revenue-generating real estate, etc. In the real estate leasing business, we made the Picasso Group our subsidiaries to secure stable earnings by strengthening the leasing business. In the real estate planning agency and consulting business, we leveraged our strength in planning to focus on non-asset, high-margin businesses.

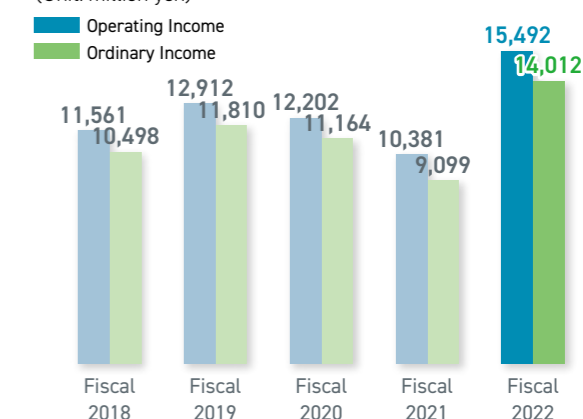
Sales

(Unit: million yen)



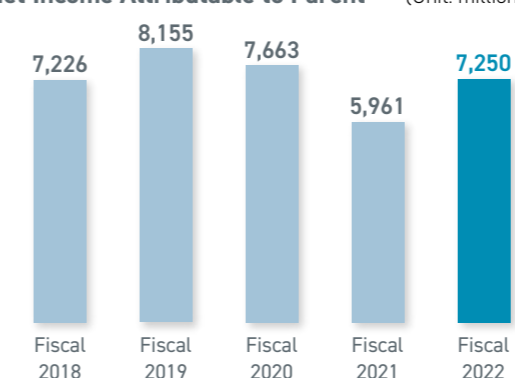
Operating Income/Ordinary Income

(Unit: million yen)



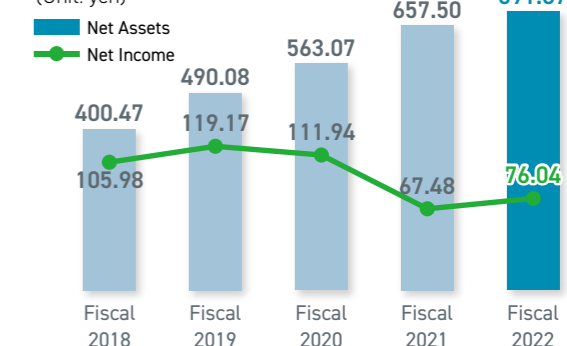
Net Income Attributable to Parent

(Unit: million yen)



Per Share Information

(Unit: yen)



Results by Segment

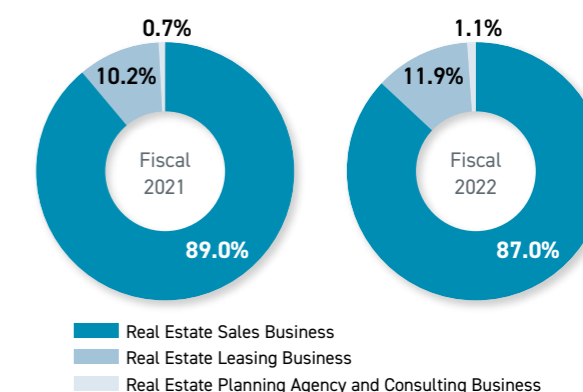
Real estate sales business

Activities including selling condominiums and revenue-generating real estate resulted in net sales of 86,531 million yen (up 23.0%) and segment income of 17,006 million yen (up 30.4%), all compared with the previous fiscal year.

Real estate leasing business

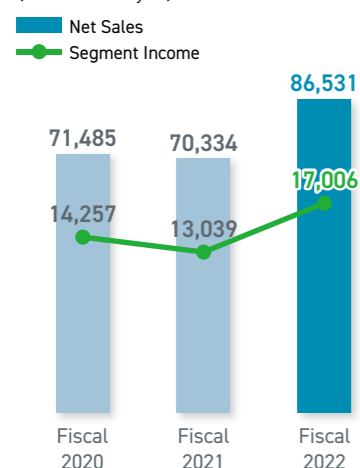
Focus was placed on leasing activities and the property management business in view of enhancement of asset value, including increase in rental income of owned revenue-generating real estate, resulting in net sales of 11,824 million yen (up 46.1%) and segment income of 4,716 million yen (up 39.8%), all compared with the previous fiscal year.

Sales Distribution Ratio by Segment

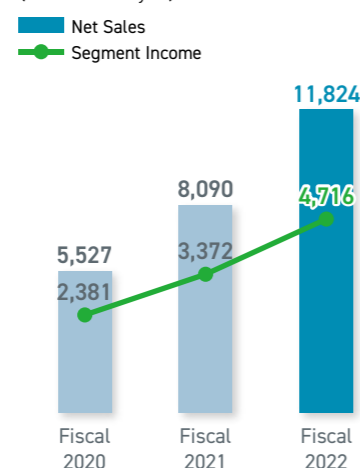


Real Estate Sales Business

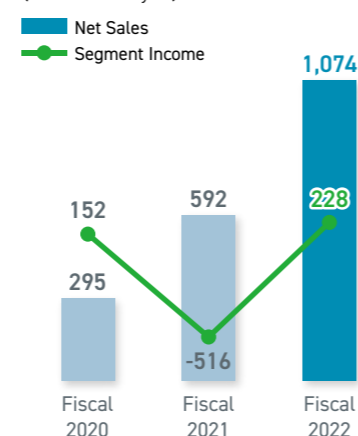
(Unit: million yen)

**Real Estate Leasing Business**

(Unit: million yen)

**Real Estate Planning Agency and Consulting Business**

(Unit: million yen)

**Real estate planning agency and consulting business**

Proactive efforts were made in such aspects as entrustment with planning, consulting and other services by making the best use of planning and multifaceted business-building abilities, resulting in net sales of 1,074 million yen (81.3% from the previous fiscal year) and segment income of 228 million yen (segment loss of 516 million yen in the previous fiscal year).

Analysis of Financial Position**Assets, Liabilities and Net Assets**

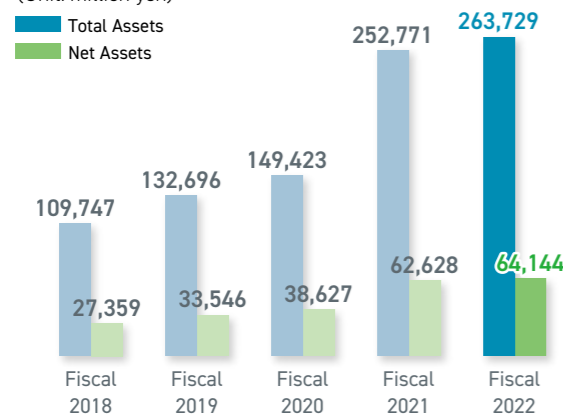
Assets at the end of Fiscal 2022 increased by 10,958 million yen compared with the end of Fiscal 2021 to 263,729 million yen. This was mainly attributable to cash and deposits and inventories increasing by 2,054 million yen and 12,813 million yen, respectively, and property, plant and equipment decreasing by 3,502 million yen.

Liabilities increased by 9,441 million yen compared with the end of Fiscal 2021 to 199,585 million yen. This was mainly attributable to long-term loans payable and short-term loans payable increasing by 6,030 million yen.

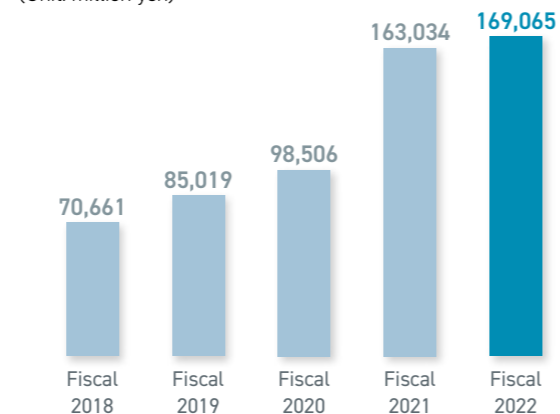
Net assets increased by 1,516 million yen compared with the end of Fiscal 2021 to 64,144 million yen. This was mainly attributable to cash dividends paid of 3,669 million yen, while recording profit attributable to owners of parent of 7,250 million yen. As a result, the equity ratio was 25.0% (in contrast to 24.8% at the end of Fiscal 2021).

Total Assets/Net Assets

(Unit: million yen)

**Interest-bearing Liabilities**

(Unit: million yen)

**Overview of Consolidated Balance Sheet**

(Unit: 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	Current liabilities: 102,523
		Short-term loans payable: 3,589
		Current portion of long-term loans payable: 82,912
		Current portion of bonds: —

Total assets increased by 10,958 million yen**Fiscal 2022 (as of December 31, 2022) Total assets: 263,729**

Assets:	Non-current assets: 72,327	Current assets: 191,357
Property, plant and equipment:	52,139	Cash and deposits: 35,721
Intangible assets:	7,774	Real estate for sale: 4,804
Investments and other assets:	12,413	Real estate for sale in process: 138,968
Liabilities and net assets:	Net assets: 64,144	Non-current liabilities: 143,894
Shareholders' equity: 65,813	Long-term loans payable: 132,810	Current liabilities: 55,690
		Short-term loans payable: 10,061
		Current portion of long-term loans payable: 26,193
		Current portion of bonds: —

Status of Cash Flows

Cash and cash equivalents ("net cash") in Fiscal 2022 increased by 2,045 million yen compared with the end of the previous fiscal year to 35,604 million yen (33,559 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 2022.

Cash flows from operating activities

Cash flows from operating activities in Fiscal 2022 amounted to net cash provided by operating activities of 1,501 million yen (net cash used in operating activities of 10,810 million yen in the previous fiscal year). This was mainly attributable to the recording of profit before income taxes of 10,290 million yen, despite the increase in inventories of 11,104 million yen and income taxes paid of 3,040 million yen.

Cash flows from investing activities

Cash flows from investing activities in Fiscal 2022 amounted to net cash used in investing activities of 1,620 million yen (net cash used in investing activities of 29,721 million yen in the previous fiscal year). This was mainly attributable to purchase of investment securities of 513 million yen and purchase of non-current assets of 2,033 million yen.

Cash flows from financing activities

Cash flows from financing activities in Fiscal 2022 amounted to net cash provided by financing activities of 2,144 million yen (net cash provided by financing activities of 50,293 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 6,030 million yen and payment of cash dividends of 3,668 million yen.

Consolidated Balance Sheet

(Unit: million yen)

	Fiscal 2021 (as of December 31, 2021)	Fiscal 2022 (as of December 31, 2022)
Assets		
Current assets		
Cash and deposits	33,667	35,721
Notes and accounts receivable - trade	835	—
Notes and accounts receivable - trade, and contract assets	—	1,096
Real estate for sale	7,541	4,804
Real estate for sale in process	123,419	138,968
Other	11,396	10,766
Allowance for doubtful accounts	(0)	(1)
Total current assets	176,859	191,357
Non-current assets		
Property, plant and equipment		
Buildings and structures	23,312	22,734
Accumulated depreciation	(1,516)	(2,353)
Buildings and structures, net	21,795	20,380
Vehicles	6	9
Accumulated depreciation	(6)	(9)
Vehicles, net	0	0
Land	30,840	31,535
Leased assets	2	2
Accumulated depreciation	(0)	(1)
Leased assets, net	2	1
Construction in progress	—	109
Other	377	395
Accumulated depreciation	(238)	(283)
Other, net	139	112
Total property, plant and equipment	52,778	52,139
Intangible assets		
Goodwill	8,217	7,696
Other	57	77
Total intangible assets	8,275	7,774
Investments and other assets		
Investment securities	6,186	6,279
Long-term loans receivable	2,467	2,475
Deferred tax assets	227	352
Other	5,932	4,827
Allowance for doubtful accounts	(37)	(1,521)
Total investments and other assets	14,776	12,413
Total non-current assets	75,830	72,327
Deferred assets		
Share issuance cost	81	45
Total deferred assets	81	45
Total assets	252,771	263,729

(Unit: million yen)

	Fiscal 2021 (as of December 31, 2021)	Fiscal 2022 (as of December 31, 2022)
Liabilities		
Current liabilities		
Short-term loans payable	3,589	10,061
Current portion of long-term loans payable	82,912	26,193
Lease obligations	0	0
Accounts payable - other	2,468	4,702
Income taxes payable	1,653	3,258
Advances received	6,058	5,201
Deposits received	5,634	5,416
Other	205	856
Total current liabilities	102,523	55,690
Non-current liabilities		
Long-term loans payable	76,533	132,810
Lease obligations	2	1
Deferred tax liabilities	8,056	7,916
Provision for directors' share-based benefits	135	186
Provision for share-based benefits	57	109
Asset retirement obligations	270	271
Other	2,564	2,598
Total non-current liabilities	87,619	143,894
Total liabilities	190,143	199,585
Net assets		
Shareholders' equity		
Capital stock	16,519	16,519
Capital surplus	12,396	12,424
Retained earnings	34,745	38,326
Treasury shares	(1,216)	(1,457)
Total shareholders' equity	62,445	65,813
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	371	79
Foreign currency translation adjustment	(36)	13
Total accumulated other comprehensive income	334	93
Subscription rights to shares	0	0
Non-controlling interests	(152)	(1,761)
Total net assets	62,628	64,144
Total liabilities and net assets	252,771	263,729

Consolidated Statement of Income and Consolidated Statement of Comprehensive Income

Consolidated Statement of Income

(Unit: million yen)

	Fiscal 2021 (from January 1, 2021 to December 31, 2021)	Fiscal 2022 (from January 1, 2022 to December 31, 2022)
Net sales	79,017	99,431
Cost of sales	58,429	72,823
Gross profit	20,588	26,607
Selling, general and administrative expenses		
Advertising expenses	3,498	3,180
Sales commission	1,091	1,110
Directors' compensations	271	256
Salaries and allowances	2,146	2,574
Provision for directors' share-based benefits	—	50
Provision for share-based benefits	12	55
Commission fee	540	620
Taxes and dues	801	874
Other	1,843	2,393
Total selling, general and administrative expenses	10,206	11,115
Operating income	10,381	15,492
Non-operating income		
Interest income	10	1
Dividend income	101	130
Cancellation income	37	48
Foreign exchange gains	73	287
Share of profit of entities accounted for using equity method	54	—
Other	25	9
Total non-operating income	303	478
Non-operating expenses		
Interest expenses	1,463	1,895
Amortization of share issuance cost	27	36
Share of loss of entities accounted for using equity method	—	16
Other	95	9
Total non-operating expenses	1,585	1,957
Ordinary income	9,099	14,012
Extraordinary income		
Gain on sales of non-current assets	0	—
Gain on reversal of subscription rights to shares	0	0
Gain on sale of shares of subsidiaries and associates	—	205
Total extraordinary income	0	205
Extraordinary losses		
Loss on retirement of non-current assets	0	0
Loss on compensation for damage	—	682
Provision of allowance for doubtful accounts	—	1,483
Impairment losses	—	1,760
Total extraordinary losses	0	3,927
Profit before income taxes	9,099	10,290
Income taxes - current	3,147	4,782
Income taxes - deferred	180	(133)
Total income taxes	3,328	4,648
Profit	5,770	5,641
Loss attributable to non-controlling interests	(190)	(1,608)
Profit attributable to owners of parent	5,961	7,250

Consolidated Statement of Comprehensive Income

(Unit: million yen)

	Fiscal 2021 (from January 1, 2021 to December 31, 2021)	Fiscal 2022 (from January 1, 2022 to December 31, 2022)
Profit	5,770	5,641
Other comprehensive income		
Valuation difference on available-for-sale securities	218	(292)
Foreign currency translation adjustment	(8)	22
Share of other comprehensive income of entities accounted for using equity method	(9)	27
Total other comprehensive income	199	(241)
Comprehensive income	5,970	5,399
Comprehensive income attributable to:		
Comprehensive income attributable to owners of parent	6,161	7,008
Comprehensive income attributable to non-controlling interests	(190)	(1,608)

Consolidated Statement of Changes in Equity

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

(Unit: million yen)

	Shareholders' equity					Accumulated other comprehensive income					Total net assets
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Total accumulated other comprehensive income	Sub- scription rights to shares	Non- controlling interests	
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

Fiscal year ended December 2022 (from January 1, 2022 to December 31, 2022)

(Unit: million yen)

	Shareholders' equity					Accumulated other comprehensive income					Total net assets
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Total accumulated other comprehensive income	Sub- scription rights to shares	Non- controlling interests	
Balance at beginning of current period	16,519	12,396	34,745	(1,216)	62,445	371	(36)	334	0	(152)	62,628
Changes of items during period											
Dividends of surplus			(3,669)		(3,669)						(3,669)
Profit attributable to owners of parent			7,250		7,250						7,250
Disposal of treasury shares		27		52	79						79
Purchase of treasury shares by the share-based payment benefits trust				(293)	(293)						(293)
Net changes of items other than shareholders' equity						(292)	50	(241)	(0)	(1,608)	(1,851)
Total changes of items during period	—	27	3,581	(241)	3,367	(292)	50	(241)	(0)	(1,608)	1,516
Balance at end of current period	16,519	12,424	38,326	(1,457)	65,813	79	13	93	0	(1,761)	64,144

Consolidated Statement of Cash Flows

(Unit: million yen)

	Fiscal 2021 (from January 1, 2021 to December 31, 2021)	Fiscal 2022 (from January 1, 2022 to December 31, 2022)
Cash flows from operating activities		
Profit before income taxes	9,099	10,290
Depreciation	706	1,256
Impairment losses	—	1,760
Amortization of goodwill	237	522
Amortization of long-term prepaid expenses	27	24
Amortization of share issuance cost	27	36
Increase (decrease) in allowance for doubtful accounts	(0)	1,484
Increase (decrease) in provision for directors' share-based benefits	—	50
Increase (decrease) in provision for share-based benefits	10	52
Interest and dividend income	(111)	(132)
Interest expenses	1,463	1,895
Foreign exchange losses (gains)	(73)	(287)
Share of loss (profit) of entities accounted for using equity method	(54)	16
Loss (gain) on sale of shares of subsidiaries and associates	—	(205)
Loss on compensation for damage	—	682
Loss (gain) on sales of non-current assets	(0)	—
Loss on retirement of non-current assets	0	0
Decrease (increase) in notes and accounts receivable - trade	107	—
Decrease (increase) in trade receivables and contract assets	—	(259)
Decrease (increase) in inventories	(19,306)	(11,104)
Decrease (increase) in prepaid expenses	(894)	(16)
Increase (decrease) in accounts payable - other	366	1,408
Decrease/increase in consumption taxes receivable/payable	(416)	859
Increase (decrease) in advances received	3,575	(857)
Increase (decrease) in deposits received	439	(840)
Decrease (increase) in other assets	(1,221)	59
Increase (decrease) in other liabilities	169	39
Subtotal	(5,848)	6,737
Interest and dividend income received	181	133
Interest expenses paid	(1,723)	(2,328)
Income taxes (paid) refund	(3,419)	(3,040)
Net cash provided by (used in) operating activities	(10,810)	1,501
Cash flows from investing activities		
Payments into time deposits	(15)	(4)
Proceeds from withdrawal of time deposits	18	2
Purchase of investment securities	(2,265)	(513)
Proceeds from withdrawal of investment securities	0	294
Purchase of shares of subsidiaries and associates	—	(603)
Proceeds from sale of shares of subsidiaries and associates	—	699
Purchase of non-current assets	(4,763)	(2,033)
Proceeds from sales of non-current assets	121	46
Proceeds from purchase of shares of subsidiaries resulting in change in scope of consolidation	—	316
Purchase of shares of subsidiaries resulting in change in scope of consolidation	(24,070)	—
Payments of loans receivable	(8)	(117)
Collection of loans receivable	647	1
Repayments of guarantee deposits received	(1,120)	(769)
Proceeds from guarantee deposits received	1,732	1,060
Proceeds from divestments	—	1
Net cash provided by (used in) investing activities	(29,721)	(1,620)
Cash flows from financing activities		
Increase in short-term loans payable	6,539	11,929
Decrease in short-term loans payable	(5,857)	(2,956)
Proceeds from long-term loans payable	111,250	110,273
Repayments of long-term loans payable	(79,320)	(113,215)
Redemption of bonds	(230)	—
Repayments of lease obligations	(1)	(0)
Repayments of installment payables	(5)	—
Proceeds from issuance of common shares	20,361	—
Proceeds from disposal of treasury shares	203	76
Purchase of treasury shares	—	(293)
Cash dividends paid	(2,645)	(3,668)
Net cash provided by (used in) financing activities	50,293	2,144
Translation differences on cash and cash equivalents	(1)	19
Net increase (decrease) in cash and cash equivalents	9,760	2,045
Cash and cash equivalents at beginning of period	23,798	33,559
Cash and cash equivalents at end of period	33,559	35,604

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 eleven consolidated subsidiaries as of December 31, 2022, 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.
Picasso Co., Ltd.
Yuki Sangyo Co., Ltd.
FUEL Inc.
Ryomon Co., Ltd.
ESCON JAPAN THAILAND CO.,LTD.

FUEL Inc., which the Company made its subsidiary by acquiring its shares in the fiscal year ended December 2022, was included in the scope of consolidation. Meanwhile, the six companies of Venus Corporation Co., Ltd., Cubic Co., Ltd., Santa Co., Ltd., Hirano Bussan Co., Ltd., Aria Co., Ltd. and Eikaku Y.K. are no longer consolidated subsidiaries

due to an absorption-type merger conducted with Picasso Co., Ltd. as the surviving company and the six companies as absorbed companies.

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, ESCON USA III LLC and ESCON USA IV 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:

BRITANIA BANGNA KM.39 CO.,LTD.

TSUNAGU Community Farm LLC

BRITANIA BANGNA KM.39 CO.,LTD., of which shares the Company acquired in the fiscal year ended December 2022, was included in the scope of equity-method accounting.

ORIGIN KNIGHTSBRIDGE THEPHARAK CO., LTD., which had been an equity-method affiliate in the fiscal year ended December 2021, has been excluded from the scope of equity-method accounting as the Company transferred its shares.

Furthermore, ESCON USA LLC, ESCON USA II LLC, ESCON USA III LLC, ESCON USA IV LLC, and Nishiguchi Building Management Co., Ltd. are not included in the scope of equity-method accounting as their net income or 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 other than shares, etc. without fair value are stated using the market price method (valuation difference is directly charged to shareholders' equity, and selling costs are calculated by using the moving-average method).

Shares, etc. 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) Recognition of material revenues and expenses

Standards for revenue recognition

The details of main performance obligations in major businesses concerning revenues generated from contracts between the Company and its customers and the ordinary time to fulfil said performance obligations (ordinary time to recognize revenues) are as follows.

[Real estate sales business]

In the Real estate sales business, the Company has the obligation to deliver the relevant properties based on real estate sales contracts with its customers. As the performance obligation is satisfied at a certain time when the property is delivered, the Company recognizes revenues at the time of the said delivery.

[Real estate leasing business]

For real estate lease revenues, the Company recognizes revenues pursuant to the Accounting Standard for Lease Transactions (ASBJ Statement No. 13). With regard to the

performance obligations to provide services, including property management services, attached to lease contracts, the Company recognizes revenues at the time when the provision of services is completed or throughout the contract period, depending on the details of respective contracts.

[Real estate planning agency and consulting business]

Of the Real estate planning agency and consulting business, the real estate planning agency business has the obligation regarding conclusion of contracts and delivery of the relevant properties based on the agency contracts with the customers. As the performance obligation is satisfied at a certain time when the property is delivered, the Company recognizes revenues at the time of the said delivery.

(7) **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.

(8) **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.

(9) **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.

(10) **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
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.

[Significant Accounting Estimates]

1. Inventory Valuation

(1) Amount recorded on the financial statements for the fiscal year ended December 2022 (Unit: million yen)

	Fiscal 2021 (as of December 2021)	Fiscal 2022 (as of December 2022)
Real estate for sale	7,541	4,804
Real estate for sale in process	123,419	138,968
Valuation loss	—	322

(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 2022 (Unit: million yen)

	Fiscal 2021 (as of December 2021)	Fiscal 2022 (as of December 2022)
Investments and other assets, Other (long-term prepaid expenses)	3,968	2,183
Impairment losses	—	1,760
Long-term loans receivable	2,400	2,400
Allowance for doubtful accounts	—	1,483
Provision of allowance for doubtful accounts	—	1,483

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

With regard to the sales of permanent use of columbarium conducted by Ryomon Co., Ltd., a consolidated subsidiary, the business continued to post an operating loss due to the impact of the spread of COVID-19 infection, 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 considered that future cash flows before discount will fall below the book value of non-current assets. Accordingly, the Company reduced the book value to a collectible amount and recorded the reduced amount as impairment losses. The collectible amount is based on the use value, and is calculated by discounting future cash flows to the present value. In addition, cash-flow plans of the

borrowers have been investigated based on the said business plans, and the Company recorded the estimated uncollectible amount as allowance for doubtful accounts.

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 additional recording of impairment loss and allowance for doubtful accounts.

(Changes in Accounting Policies)

(Application of Accounting Standard for Revenue Recognition, etc.)

The Company has applied the “Accounting Standard for Revenue Recognition” (Accounting Standards Board of Japan [ASBJ] Statement No. 29, issued on March 31, 2020), etc. from the beginning of the fiscal year ended December 2022, and decided to recognize revenue at the amount expected to be received in exchange for the promised goods or services when control of the goods or services is transferred to the customer. Accordingly, the Company has changed the method to recognize revenues for certain transactions in which the Company or its domestic consolidated subsidiaries are deemed to be an agent in providing goods and services to customers. While the Company previously recognized the gross amount of consideration received from the customer as revenues, it now recognizes revenues at the net amount after deducting the amount paid to suppliers from the amount received from the customer.

The Company has applied the Accounting Standard for Revenue Recognition, etc. in accordance with the transitional treatment stipulated in the proviso of Paragraph 84 of the said Standard. The cumulative effect amount, when applying the new accounting policy retrospectively prior to the beginning of the fiscal year ended December 2022, was adjusted to retained earnings at the beginning of the fiscal year under review, and the Company has applied the new accounting policy to the balance at the beginning of the fiscal year. The arrangement has not affected the balance of retained earnings at the beginning of the fiscal year under review. The impact of the adoption of the Accounting Standard on financial statements is immaterial.

Pursuant to the application of the Accounting Standard for Revenue Recognition, etc., “Notes and accounts receivable - trade,” which were presented under “Current assets” on the consolidated balance sheet for the previous fiscal year, have been included in “Notes and accounts receivable - trade, and contract assets” from the fiscal year ended December 2022. Furthermore, in accordance with the transitional treatment stipulated in Paragraph 89-2 of the Accounting Standard for Revenue Recognition, amounts for the previous fiscal year have not been reclassified based on the new presentation method. Moreover, in accordance with the transitional treatment stipulated in Paragraph 89-3 of the Accounting Standard for Revenue Recognition, the note related to Revenue Recognition for the previous fiscal year is not shown.

(Application of Accounting Standard for Fair Value Measurement, etc.)

The Company has applied the “Accounting Standard for Fair Value Measurement” (ASBJ Statement No. 30, July 4, 2019), etc. from the beginning of the fiscal year ended December 2022, and decided to adopt the new accounting policies set forth by the said Accounting Standard, etc. going forward in accordance with the transitional treatment as stipulated in Paragraph 19 of the Accounting Standard for Fair Value Measurement and Paragraph 44-2 of the “Accounting Standard for Financial Instruments” (ASBJ Statement No. 10, July 4, 2019). Note that the application has not affected the consolidated financial statements.

In addition, in the notes to “Financial Instruments,” the Company has decided to provide notes on matters related to breakdown of fair values of financial instruments by level. However, in accordance with the transitional treatment as stipulated in Paragraph 7-4 of the Implementation Guidance on Disclosures about Fair Value of Financial Instruments (ASBJ Guidance No. 19, July 4, 2019), the notes related to the previous fiscal year are not described.

[Unapplied Accounting Standard and Implementation Guidance]

Implementation Guidance on Accounting Standard for Fair Value Measurement (ASBJ Guidance No. 31, June 17, 2021)

(1) Overview

The Implementation Guidance has determined the handling of the fair value measurement for mutual funds and its notes, as well as the handling of the notes on the fair value of equity investment in associations, etc. that are recorded on the balance sheet at the net amount equivalent to equity interest.

(2) Scheduled date of adoption

The Company will adopt the Implementation Guidance from the beginning of the fiscal year ending December 2023.

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

The adoption of the Implementation Guidance on Accounting Standard for Fair Value Measurement poses no impact on the consolidated financial statements.

(Additional Information)

(Board Benefit Trust for Executives)

(1) Overview of the transaction

1) The Company 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 Annual General Meeting of Shareholders held on March 20, 2015, with an aim to further clarify the relationship between remuneration for the Company’s directors (excluding directors who are Audit and Supervisory Committee Members, external directors and nonexecutive directors) and (authorized) executive managing officers (the “Directors, etc.”; hereinafter referred to as the same unless otherwise specified) and the Company’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, the Company passed a resolution for continuation and partial revision of the System for the Directors, etc. at the Annual General Meetings of Shareholders held on March 26, 2020 and March 26, 2021.

The System after the revision is an incentive system by which the Company contributes money to a trust with the trust acquiring shares of the Company with the said money as capital, and shares of the Company and the fair market value of shares of the Company are granted to the Company’s Directors, etc. through the trust in accordance with the operating results achievement rate, etc. pursuant to the officer stock ownership regulations set by the Company. The shares of the Company will be granted to the Director, etc. of the Company when 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, the Company 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 Annual 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 Annual 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 ended December 2022, and each subsequent period of three fiscal years): 330 million yen
- Resolution passed at the Annual 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 the Company who have acquired the right to receive shares based on the officer stock ownership regulations.

(2) Residual shares of the Company in the trust
Residual shares of the Company 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 ended December 2022.

(Share-Based Payment Benefits Type ESOP Trust)

(1) Overview of the transaction

The Company passed a resolution to introduce a share-based payment benefits-type ESOP (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 benefits-type ESOP trust”) at the board of directors meeting 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. Furthermore, the Company passed a resolution for continuation and partial revision of the share-based payment benefits-type ESOP trust for employees at the board of directors meeting held on June 30, 2022.

The System after the revision is a system by which the Company contributes money to a trust for a new period of seven fiscal years from the fiscal year ended December 2022 to the fiscal year ending December 2028 and the period of the seven fiscal years after the elapse of the period, with the trust acquiring shares of the Company with the said money as capital, and shares of the Company are granted to the ES-CON JAPAN Group’s employees who have satisfied certain requirements through the trust, pursuant to the stock ownership regulations set by the Company.

(2) Residual shares of the Company in the trust

Residual shares of the Company 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 57 million yen and 225,700 shares for the previous fiscal year, and 347 million yen and 573,400 shares for the fiscal year ended December 2022.

(Changes in Purpose of Holding)

Due to change in the purpose of holding, a part of property, plant and equipment amounting to 1,405 million yen (782 million yen in buildings and structures and 623 million yen in land) was transferred to real estate for sale in process during the fiscal year ended December 2022.

4. Notes to Consolidated Balance Sheet

(1) Of Notes and Accounts Receivable - Trade, and Contract Assets, the Amount of Claims Accrued From Contracts With Customers

(Unit: million yen)

	Fiscal 2022 (as of December 31, 2022)
Accounts receivable - trade	353

(2) Of Advances Received, the Amount of Contract Liabilities

(Unit: million yen)

	Fiscal 2022 (as of December 31, 2022)
Contract liabilities	4,795

(3) Unconsolidated Subsidiaries and Affiliates

(Unit: million yen)

	Fiscal 2021 (as of December 31, 2021)	Fiscal 2022 (as of December 31, 2022)
Investment securities (equity capital)	1,261	1,872
Investment securities (shares)	1,281	1,326

(4) Pledged Assets and Secured Debts

Assets provided as collateral are as follows: (Unit: million yen)

	Fiscal 2021 (as of December 31, 2021)	Fiscal 2022 (as of December 31, 2022)
Cash and deposits	40	40
Real estate for sale	5,204	1,729
Real estate for sale in process	89,640	124,835
Buildings and structures	5,156	19,842
Land	13,214	31,483
Property, plant and equipment (Other)	37	109
Cancelled shares of consolidated subsidiaries	30,539	—
Total	143,832	178,041

Debts secured by the above assets provided as collateral are as follows: (Unit: million yen)

	Fiscal 2021 (as of December 31, 2021)	Fiscal 2022 (as of December 31, 2022)
Short-term loans payable	2,429	8,689
Current portion of long-term loans payable	77,220	22,658
Long-term loans payable	68,310	121,536
Total	147,960	152,884

(5) Guarantee Obligations

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

(Unit: million yen)

	Fiscal 2021 (as of December 31, 2021)	Fiscal 2022 (as of December 31, 2022)
TSUNAGU Community Farm LLC	387	2,376

(6) 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 2021 (as of December 31, 2021)	Fiscal 2022 (as of December 31, 2022)
Credit limit	15,500	25,500
Balance of used commitment line	3,550	2,706
Difference	11,950	22,794

5. Notes to Consolidated Statement of Income**(1) Net sales are not separately presented for revenues arising from contracts with customers and other revenues.**

The amounts of revenues arising from contracts with customers are presented in the “Notes (Segment Information)” section of the Consolidated Financial Statements.

(2) The value of inventories at the end of the fiscal year is the amount after reducing book value due to a decline in profitability, and the following valuation loss of inventories are included in cost of sales.

(Unit: million yen)

	Fiscal 2021 (from January 1, 2021 to December 31, 2021)	Fiscal 2022 (from January 1, 2022 to December 31, 2022)
Cost of sales	—	322

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

(Unit: million yen)

	Fiscal 2021 (from January 1, 2021 to December 31, 2021)	Fiscal 2022 (from January 1, 2022 to December 31, 2022)
Vehicles	0	—
Total	0	—

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

(Unit: million yen)

	Fiscal 2021 (from January 1, 2021 to December 31, 2021)	Fiscal 2022 (from January 1, 2022 to December 31, 2022)
Buildings and structures	—	0
Property, plant and equipment (Other)	0	0
Intangible assets (Other)	0	—
Total	0	0

(5) Impairment Losses

The ES-CON Japan Group recorded impairment losses for the following asset group.

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

Not applicable

Fiscal 2022 (from January 1, 2022 to December 31, 2022)

Location	Use	Type	Impairment losses
Minato Ward, Tokyo	Assets related to related to columbarium sales business	Long-term prepaid expenses and others	1,760 million yen

(Note) The ES-CON JAPAN Group categorizes its assets into groups according to the smallest unit generating cash flows that are generally independent of the cash flows of other assets or asset groups.

In the fiscal year ended December 2022, the Company reduced the book value of the asset group that has continuously posted losses from operating activities to a collectible amount, and recorded the reduced amount as impairment losses (1,760 million yen) under extraordinary losses, which consist 1,759 million yen in long-term prepaid expenses and 0 million yen in others.

The collectible amount of the asset group has been measured by use value, which is calculated by discounting future cash flows by 3.18.

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 2021 (from January 1, 2021 to December 31, 2021)	Fiscal 2022 (from January 1, 2022 to December 31, 2022)
Valuation difference on available-for-sale securities:		
Amounts arising during the fiscal year	314	(423)
Reclassification adjustments	—	—
Subtotal before tax effect adjustments	314	(423)
Tax effect	(96)	131
Valuation difference on available-for-sale securities	218	(292)
Foreign currency translation adjustment:		
Amounts arising during the fiscal year	(8)	22
Share of other comprehensive income/(loss) of equity-method affiliate:		
Amounts arising during the fiscal year	(9)	27
Total other comprehensive income	199	(241)

7. Notes to Consolidated Statement of Changes in Equity

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.

Fiscal 2022 (from January 1, 2022 to December 31, 2022)

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

	Number of shares at beginning of Fiscal 2022	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 2022
Issued shares				
Common shares	98,580,887	—	—	98,580,887
Total	98,580,887	—	—	98,580,887
Treasury shares				
Common shares (Note 1) (Note 2) (Note 3)	3,096,900	360,000	134,100	3,322,800
Total	3,096,900	360,000	134,100	3,322,800

(Notes) 1. The increase in the number of treasury shares in common shares (360,000 shares) is due to acquisition from the market into the share-based payment benefits type ESOP trust.
 2. The decrease in the number of treasury shares in common shares (134,100 shares) is due to provision of shares for exercise of the sixth offer of subscription rights to shares (121,800 shares) and provision of shares to the qualifying employees by the share-based payment benefits type ESOP trust (12,300 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 2022 and 851,000 shares at the end of Fiscal 2022; the share-based payment benefits type ESOP trust: 225,700 shares at the beginning of Fiscal 2022 and 573,400 shares at the end of Fiscal 2022).

(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 2022 (million yen)	
			Beginning of Fiscal 2022	Increase during the fiscal year	Decrease during the fiscal year		End of Fiscal 2022
Reporting company (parent company)	Sixth offer of subscription rights to shares (Note)	Common shares	902,400	—	172,300	730,100	0
Total			902,400	—	172,300	730,100	0

(Note) The decrease in the number of common shares subject to the sixth offer of subscription rights to shares (172,300 shares) is due to exercise of subscription rights to shares (121,800 shares) and due to expiration of the offer of subscription rights to shares (50,500 shares).

(3) Dividends

1) Dividends paid

(Resolution)	Type of shares	Total dividends (million yen)	Dividend per share (yen)	Record date	Effective date
March 25, 2022 Annual General Meeting of Shareholders	Common shares	3,669	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.

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

(Resolution)	Type of shares	Total dividends (million yen)	Source of dividends	Dividend per share (yen)	Record date	Effective date
March 24, 2023 Annual General Meeting of Shareholders	Common shares	3,673	Retained earnings	38.00	December 31, 2022	March 27, 2023

(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 21 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 2021 (from January 1, 2021 to December 31, 2021)	Fiscal 2022 (from January 1, 2022 to December 31, 2022)
Cash and deposits	33,667	35,721
Time deposits with maturities of more than 3 months	(40)	(42)
Deposits of share-based payment benefits trust	(68)	(75)
Cash and cash equivalents	33,559	35,604

(2) Major Breakdown of Assets and Liabilities of the Companies That Were Newly Consolidated in the Fiscal Year Ended December 31, 2021 Through Acquisition of Their 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

(3) Major Breakdown of Assets and Liabilities of the Company That Was Newly Consolidated in the Fiscal Year Ended December 31, 2022 Through Acquisition of its Shares

In association with the new consolidation of FUEL Inc. 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	395
Non-current assets	50
Goodwill	1
Current liabilities	(377)
Acquisition price of newly consolidated subsidiary	70
Cash and cash equivalents of newly consolidated subsidiary	(386)
Difference: income from acquisition of shares of the subsidiary accompanying changes in the scope of consolidation	316

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 Internet security equipment used at the offices of the Company's 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 2021 (as of December 31, 2021)	Fiscal 2022 (as of December 31, 2022)
Due within one year	332	496
Due after one year	836	1,084
Total	1,169	1,581

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

Unearned lease payments for non-cancellable operating lease transactions

(Unit: million yen)

	Fiscal 2021 (as of December 31, 2021)	Fiscal 2022 (as of December 31, 2022)
Due within one year	2,101	2,249
Due after one year	6,994	9,848
Total	9,096	12,098

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, and contract assets 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, short-term loans 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 fund procurement 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 shares, etc. and silent partnership equity investment, etc. for which there is no market price. Furthermore, notes on “Cash and deposits,” “Notes and accounts receivable - trade, and contract assets,” “Accounts payable - other,” “Deposits received” and “Short-term loans payable” are omitted as these are settled within a short period of time and thus the fair value approximates the book value.

Fiscal 2021 (as of December 31, 2021)

(Unit: million yen)

	Book value recorded on the balance sheet	Fair value	Difference
(1) Investment securities			—
Other securities	2,481	2,481	—
Total of assets	2,481	2,481	—
(1) Long-term loans payable*1	159,445	159,357	(87)
Total of liabilities	159,445	159,357	(87)

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

(Note) Financial instruments for which discerning fair value is recognized to be extremely difficult.

(Unit: million yen)

Category	Amount recorded on the balance sheet
1) Non-listed shares	2,154
2) Silent partnership equity investment, etc.	1,550

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.

Fiscal 2022 (as of December 31, 2022)

(Unit: million yen)

	Book value recorded on the balance sheet	Fair value	Difference
(1) Investment securities			—
Other securities	2,058	2,058	—
Total of assets	2,058	2,058	—
(1) Long-term loans payable*1	159,003	158,237	(765)
Total of liabilities	159,003	158,237	(765)

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

(Notes) 1. Amount of shares, etc. without market price and silent partnership equity investment, etc. recorded on the balance sheet.

(Unit: million yen)

Category	Amount recorded on the balance sheet
1) Non-listed shares	2,324
2) Silent partnership equity investment, etc.	1,896

1) Non-listed shares are not subject to disclosure of fair value pursuant to Paragraph 5 of the Implementation Guidance on Disclosures about Fair Value of Financial Instruments (ASBJ Guidance No. 19, March 31, 2020).

2) Silent partnership equity investment, etc. is not subject to disclosure of fair value pursuant to Paragraph 27 of the Implementation Guidance on Accounting Standard for Fair Value Measurement (ASBJ Guidance No. 31, July 4, 2019).

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

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	—	—	—

Fiscal 2022 (as of December 31, 2022)

(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	35,721	—	—	—
Notes and accounts receivable - trade, and contract assets	1,096	—	—	—
Total	36,818	—	—	—

3. Scheduled repayment amount of long-term loans payable and lease obligations after closing of accounts.

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	27,540	16,101	7,392	6,795	18,705

Fiscal 2022 (as of December 31, 2022) (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	10,061	—	—	—	—	—
Long-term loans payable	26,193	28,607	19,597	9,537	34,151	40,916
Lease obligations	0	0	0	0	—	—
Total	36,255	28,607	19,598	9,537	34,151	40,916

4. Matters related to breakdown of fair values of financial instruments by level.

The fair values of financial instruments are classified into the following three levels based on the observability and materiality of the inputs used to calculate the fair values.

Level 1 fair value: Among the inputs for the calculation of observable fair value, the fair value calculated based on quoted prices in active markets for the assets or liabilities for which such fair value is calculated

Level 2 fair value: Among the inputs for the calculation of observable fair value, the fair value calculated using inputs for calculating fair value other than the inputs for level 1 fair value

Level 3 fair value: Fair value calculated using inputs for calculating unobservable fair value

When multiple inputs that have a significant impact on the calculation of fair value are used, the fair value is classified to the level with the lowest priority in the calculation of fair value among the levels to which each of such inputs belongs.

(1) Financial instruments carried on the consolidated balance sheet at fair value

Fiscal 2022 (as of December 31, 2022) (Unit: million yen)

Category	Fair value			
	Level 1	Level 2	Level 3	Total
Investment securities				
Other securities				
Shares	2,058	—	—	2,058
Total of assets	2,058	—	—	2,058

(2) Financial instruments other than those carried on the consolidated balance sheets at fair value

Fiscal 2022 (as of December 31, 2022) (Unit: million yen)

Category	Fair value			
	Level 1	Level 2	Level 3	Total
Long-term loans payable	—	158,237	—	158,237
Total of liabilities	—	158,237	—	158,237

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

Explanation of valuation methods used for calculating fair value and inputs related to the calculation of fair value

Investment securities
Listed shares, etc. are based on the stock exchange prices. As listed shares, etc. are traded in active markets, their fair value is classified as Level 1 fair value.

Long-term loans payable
The total amount of principal and interest is calculated by the discounted present value method using the interest rate assumed for similar borrowings, and its fair value is classified as Level 2 fair value.

11. Notes to Securities

(1) Other Securities

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.

Fiscal 2022 (from January 1, 2022 to December 31, 2022) (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	30	27	3
	(2) Other	2,027	1,917	109
Securities with book values on the consolidated balance sheet not exceeding acquisition cost	(1) Shares	—	—	—
	(2) Other	0	0	(0)
Total		2,058	1,945	112

(Note) The table above does not include non-listed shares and silent partnership equity investment, etc. (book value recorded on the consolidated balance sheet: 4,221 million yen) as Other securities, because they are shares, etc. for which there is no market price.

12. Notes to Derivative Transactions

Not applicable

13. Notes to Retirement Benefits

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.

Fiscal 2022 (from January 1, 2022 to December 31, 2022)

(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 22 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 ended December 2020 is submitted, if the Company's operating income for all the fiscal years ended 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 ended December 2019 exceeds 9,500 million yen

3) If the operating income for the fiscal year ended 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 2022 ended December 31, 2022. 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	—
Granted	—
Expired	—
Right allotment	—
Balance of unexercised options	—
After right allotment (shares)	
Balance of unexercised options at the end of the previous fiscal year	902,400
Right allotment	—
Exercise of right	121,800
Expired	50,500
Balance of unexercised options	730,100

2) Unit price information

(Unit: yen)

Exercise price	627
Average share price upon exercise	818

2. Overview of the Adopted Accounting Treatment

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

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

15. Notes to Tax Effect Accounting

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

(Unit: million yen)

	Fiscal 2021 (as of December 31, 2021)	Fiscal 2022 (as of December 31, 2022)
Deferred tax assets		
Net operating loss carried forward (Note 2)	291	496
Loss on valuation of inventories	143	208
Enterprise tax payable	119	192
Impairment loss	24	610
Asset retirement obligations	82	83
Loss on valuation of investment securities	35	35
Allowance for doubtful accounts	11	509
Other	397	672
Subtotal of deferred tax assets	1,105	2,810
Valuation allowance for net operating loss carried forward for tax purposes (Note 2)	(243)	(496)
Valuation allowance for total deductible temporary difference	(337)	(1,638)
Valuation allowance (Note 1)	(580)	(2,134)
Total of deferred tax assets	525	675
Deferred tax liabilities		
Asset retirement expenses	(55)	(50)
Valuation difference on fair value of consolidated subsidiaries	(7,921)	(7,785)
Loss on valuation of other securities	(164)	(33)
Other	(211)	(368)
Total of deferred tax liabilities	(8,353)	(8,239)
Deferred tax assets (liabilities), net	(7,828)	(7,563)

(Notes) 1. Valuation allowance increased by 1,554 million yen. The increase is mainly due to the additional recognition of valuation allowances in accordance with the accrual of impairment losses, allowance for doubtful accounts, and net operating loss carried forward for tax purposes at consolidated subsidiaries for which it has been determined that their deferred tax assets are not fully collectible.

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

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.

Fiscal year ended December 2022 (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	—	—	—	4	—	491	496
Valuation allowance	—	—	—	(4)	—	(491)	(496)
Deferred tax assets	—	—	—	—	—	—	—

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

(Changes in presentation methods)

"Allowance for doubtful accounts," which was included in "Other" in Deferred tax assets in the previous fiscal year, is separately presented in the fiscal year ended December 2022 due to its increased monetary materiality. To reflect this change in the presentation method, the notes for the previous fiscal year have been reclassified. As a result, 408 million yen presented as "Other" in Deferred tax assets in the previous fiscal year has been reclassified as 11 million yen in "Allowance for doubtful accounts" and 397 million yen in "Other" in this report.

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

(Unit: %)

	Fiscal 2021 (as of December 31, 2021)	Fiscal 2022 (as of December 31, 2022)
Effective statutory tax rate	30.7	30.7
(Adjustments)		
Expenses like entertainment expenses not qualifying for deduction permanently	0.3	0.5
Inhabitant tax on a per capita basis	0.2	0.1
Amortization of goodwill	0.8	1.6
Valuation allowance	3.5	13.4
Other	1.1	(1.1)
Effective tax rate after applying tax effect accounting	36.6	45.2

16. Notes to Business Combination, Etc.

(Business Combination Through Acquisition)

Common control transaction

(Absorption-type merger among consolidated subsidiaries)

The Company made a resolution at its Board of Directors' meeting held on April 27, 2022 to conduct an absorption-type merger with Picasso Co., Ltd., a consolidated subsidiary of the Company, as the absorbing and surviving company, and Venus Corporation Co., Ltd., Cubic Co., Ltd., Santa Co., Ltd., Hirano Bussan Co., Ltd., Aria Co., Ltd. and Eikaku Y.K. as the extinct companies by absorption. The absorption-type merger was conducted on July 1, 2022.

1. Overview of Transaction

(1) Name and business description of the combining companies

	Name of the combining company	Business description
Absorbing and surviving company	Picasso Co., Ltd.	Real estate leasing, real estate management, real estate investment, etc.
	Venus Corporation Co., Ltd.	Real estate management
	Cubic Co., Ltd.	Real estate leasing, management, brokerage services
Extinct company by absorption	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) Date of business combination

July 1, 2022

(3) Legal format of business combination

Absorption-type merger with Picasso Co., Ltd. as the absorbing and surviving company and Venus Corporation Co., Ltd., Cubic Co., Ltd., Santa Co., Ltd., Hirano Bussan Co., Ltd., Aria Co., Ltd. and Eikaku Y.K. as the extinct companies by absorption

(4) Company name after business combination

Picasso Co., Ltd.

(5) Other matters related to the overview of transaction

The business combination is aimed at consolidating management resources and enhancing operational efficiency within the ES-CON JAPAN Group.

2. Summary of Accounting Procedures

The transaction has been treated as a common control transaction for accounting purposes pursuant to the Accounting Standard for Business Combinations (ASBJ Statement No.21, January 16, 2019) and the Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures (ASBJ Guidance No.10, January 16, 2019).

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 4 years to 18 years.

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

(Unit: million yen)

	Fiscal 2021 (from January 1, 2021 to December 31, 2021)	Fiscal 2022 (from January 1, 2022 to December 31, 2022)
Balance at beginning of fiscal year	260	270
Increase due to acquisition of property, plant and equipment	8	—
Adjustments over passage of time	1	1
Balance at end of fiscal year	270	271

18. Notes to Rental Real Estate

The Company and some of its consolidated subsidiaries own retail properties, rental condominiums and other properties. 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). Income or loss from leasing these rental properties during Fiscal 2022 totaled 1,520 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 2021 (from January 1, 2021 to December 31, 2021)	Fiscal 2022 (from January 1, 2022 to December 31, 2022)
Book value recorded on the consolidated balance sheet		
Balance at beginning of fiscal year	14,135	52,082
Increase/decrease during fiscal year	37,946	(636)
Balance at end of fiscal year	52,082	51,445
Fair value at end of fiscal year	52,402	52,228

(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 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). The amount of increase during Fiscal 2022 is primarily attributable to acquisition of rental real estate (1,579 million yen), and the amount of decrease is primarily attributable to depreciation (1,103 million yen) and transfer to real estate for sale in process due to a change in the holding purpose (1,405 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. Revenue Recognition

(1) Breakdown Information on Revenues from Contracts with Customers

For the breakdown information on revenues from contracts with customers, refer to 19. Segment Information in Notes to Financial Statements. Furthermore, net sales in the relevant notes include revenues in accordance with the Accounting Standard for Lease Transactions (ASBJ Statement No.13), etc. on top of revenues from contracts with customers.

(2) Information Utilized as the Base for Understanding Revenues from Contracts with Customers

The information utilized as the base for understanding revenues is omitted, as the same is described in 3. Summary of Significant Accounting Policies, (6) Recognition of material revenues and expenses in Notes to Financial Statements.

(3) Information on Relationship between Fulfillment of Performance Obligations Based on Contracts with Customers and Cash Flows Generated from Said Contracts, and on Amount and Period of Revenues Expected to be Recognized in the Following Fiscal Year or Thereafter from Contracts with Customers Existing at the End of the Current Fiscal Year

1) Balance, etc. of contract assets and contract liabilities (Unit: million yen)

	Balance at beginning of Fiscal 2022	Balance at end of Fiscal 2022
Claims from contracts with customers	272	353
Contract liabilities	5,699	4,795

The contract liabilities consist mainly of deposits received from customers based on sales contracts of for-sale condominiums, and are included in advances received on the consolidated balance sheet. The contract liabilities are reversed upon recognition of revenues. The amount of revenues recognized in Fiscal 2022 that were included in the balance of contract liabilities at the beginning of the fiscal year was 4,457 million yen.

2) Transaction value allocated to remaining performance obligations

The aggregate transaction price allocated to the remaining performance obligations and the period over which revenues are expected to be recognized are as follows.

Fiscal year ended December 2022	(Unit: million yen)
1 year or less	60,745
Over 1 year	3,980
Total	64,725

The aggregate transaction price allocated to performance obligations that have not been satisfied as of the end of the fiscal year mainly relates to sales of for-sale condominiums and income-generating real estate projects in the Real estate sales business segment. There are no material amounts of consideration arising from contracts with customers that are not included in the transaction price.

Property management services and other services incidental to lease agreements for which revenues arising from satisfaction of performance obligations are recognized in accordance with Paragraph 19 of the Implementation Guidance on Accounting Standard for Revenue Recognition are not included in the notes on remaining performance obligations, in application of the provisions of Paragraph 80-22 (2) of the Accounting Standard for Revenue Recognition.

20. 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."

As described in Changes in Accounting Policies, the Company has adopted the Accounting Standard for Revenue Recognition, etc. from the beginning of Fiscal 2022 and has changed its accounting method for revenue recognition. In accordance with this, the measuring methods of income or loss by business segment has been changed in the same manner.

The impact of the change on net sales and segment income of the reportable segments is immaterial.

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

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/loss 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/loss 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 2022 (from January 1, 2022 to December 31, 2022)

(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						
Revenues from contracts with customers	86,531	1,156	1,074	88,763	—	88,763
Other revenues (Note 4)	—	10,667	—	10,667	—	10,667
Net sales to external customers	86,531	11,824	1,074	99,431	—	99,431
Intersegment net sales or transfers	—	—	—	—	—	—
Total	86,531	11,824	1,074	99,431	—	99,431
Segment income	17,006	4,716	228	21,951	(6,459)	15,492
Segment assets	152,412	67,721	3,966	224,100	39,629	263,729
Other items						
Depreciation (Note 3)	—	1,140	30	1,171	110	1,281
Amortization of goodwill	97	425	—	522	—	522
Investment in equity method affiliates	603	—	688	1,292	—	1,292
Increase in property, plant and equipment and intangible assets (Note 3)	77	1,929	1	2,009	36	2,045

(Notes) 1. Reconciliations are as follows:

- (1) The reconciliation of segment income of -6,459 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 39,629 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 110 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 36 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.
 4. Other revenues are rental income, etc. based on the Accounting Standard for Lease Transactions.

21. Related Information

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

Fiscal 2022 (from January 1, 2022 to December 31, 2022)

(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

Not applicable

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

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

Not applicable

Fiscal 2022 (from January 1, 2022 to December 31, 2022)

(Unit: million yen)

	Real estate sales business	Real estate leasing business	Real estate planning agency and consulting business	Eliminations or corporate	Total
Impairment losses	—	—	1,760	—	1,760

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

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

Fiscal 2022 (from January 1, 2022 to December 31, 2022)

(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	425	—	—	522
Balance at the end of the fiscal year	145	7,551	—	—	7,696

24. Information on Gain on Negative Goodwill by Reportable Segment

Not applicable

25. 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 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.

Fiscal 2022 (from January 1, 2022 to December 31, 2022)

Not applicable

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

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

Not applicable

Fiscal 2022 (from January 1, 2022 to December 31, 2022)

Not applicable

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

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)	43	—	—
Director	Minoru Nakanishi	—	—	Senior Managing Director	(Ownership) Direct 0.2	—	Exercise of subscription rights to shares (Note)	18	—	—
Officer	Tomohiko Egashira	—	—	Managing Executive Officer	(Ownership) Direct 0.2	—	Exercise of subscription rights to shares (Note)	16	—	—

(Note) 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.

Fiscal 2022 (from January 1, 2022 to December 31, 2022)

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	Minoru Nakanishi	—	—	Senior Managing Director	(Ownership) Direct 0.2	—	Transfer of for-sale real estate (Note 1)	41	—	—
Officer	Tomohiko Egashira	—	—	Managing Executive Officer	(Ownership) Direct 0.2	—	Exercise of subscription rights to shares (Note 2)	10	—	—

(Notes) 1. The transaction is related to the sale of a for-sale condominium unit and the price is determined in the same manner as other units in the same property.

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 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)

Fiscal 2022 (from January 1, 2022 to December 31, 2022)

Parent company information

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

26. Per Share Information

(Unit: yen)

	Fiscal 2021 (from January 1, 2021 to December 31, 2021)	Fiscal 2022 (from January 1, 2022 to December 31, 2022)
Net assets per share	657.50	691.87
Basic earnings per share	67.48	76.04
Diluted earnings per share	67.30	75.89

(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 2021 and 851,000 shares for Fiscal 2022; the share-based payment benefits type ESOP trust: 225,700 shares for Fiscal 2021 and 573,400 shares for Fiscal 2022) 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 (1,078,783 shares for Fiscal 2021 and 1,221,448 shares for Fiscal 2022) 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 2021 (from January 1, 2021 to December 31, 2021)	Fiscal 2022 (from January 1, 2022 to December 31, 2022)
Basic earnings per share		
Profit attributable to owners of parent (million yen)	5,961	7,250
Profit not attributable to common shareholders (million yen)	—	—
Profit attributable to owners of parent for common shares (million yen)	5,961	7,250
Period-average number of common shares (shares)	88,346,828	95,356,315
Diluted earnings per share		
Adjustments to profit attributable to owners of parent (million yen)	—	—
Increase in common shares (shares)	236,481	176,154
(Of which, subscription rights to shares)	(236,481)	(176,154)
Description of dilutive shares without dilutive effect and not included in the calculation of diluted earnings per share	—	—

27. Significant Subsequent Events

Business Combination through Acquisition

The Company resolved at its Board of Directors' meeting held on February 28, 2023 to acquire all the shares of Shijo Omiya Building Co., Ltd. and make it a subsidiary, and concluded a share transfer agreement as of the same date. Based on the agreement, the Company plans to acquire all of the relevant shares with July 31, 2023 set as the date of share transfer.

(1) Overview of business combination

1) Name and description of the acquired company

Name of acquired company:	Shijo Omiya Building Co., Ltd.
Description of business:	Real estate leasing

2) Main reasons for conducting the business combination

The Company chose to acquire all the shares of Shijo Omiya Building, which is active in real estate leasing primarily in Kyoto City, after Shijo Omiya Building implemented the procedures required to establish a new company through an incorporation-type corporate split. The goal is to secure a stable revenue stream from rental properties.

Shijo Omiya Building is active in real estate leasing, primarily in Kyoto City. It owns numerous prime revenue-generating properties, including rental condominiums and commercial facilities.

The Company is currently promoting business under the basic policy of Transformation and Rapid Progress based on its fourth medium-term management plan, "IDEAL to REAL 2023" (covering the three-year period from FY2021 to FY2023), aiming for a more sustainable and stable revenue structure by shifting from one based on flows to one based on stock.

The Company made Picasso Co., Ltd. and its group companies, which are active in real estate leasing primarily in the Kansai region and own a number of prime revenue-generating assets, its subsidiaries in October 2021, and it is steadily promoting a shift to a stable revenue structure. The conversion of Shijo Omiya Building into a subsidiary is believed to further promote the transformation of the revenue structure and contribute to the sustainable growth and enhancement of corporate value of the ES-CON JAPAN group.

3) Date of business combination

July 31, 2023 (scheduled)

4) Legal format of business combination

Acquisition of shares for a cash consideration

5) Company name after business combination

No change is made.

6) Percentage of voting rights acquired

100%

7) Main basis for determining the acquiring company

The Company will acquire the shares of the subsidiary for a cash consideration.

(2) Acquisition cost and consideration paid, by type, for the acquired company

Consideration for acquisition	Cash	30,000 million yen (planned)
Acquisition cost		30,000 million yen (planned)

(3) Main items and amounts related to the acquisition

Due diligence expenses, etc. (estimate)	71 million yen
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(4) Goodwill generated by acquisition, reason, amortization method and period

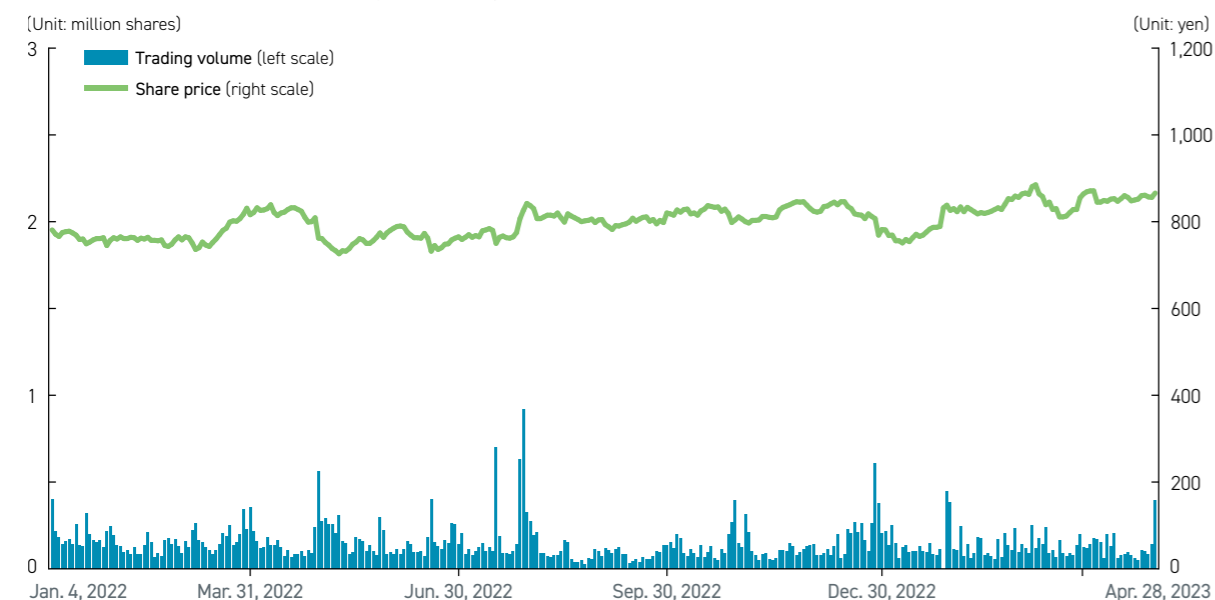
Yet to be finalized at present.

(5) Amount of assets and liabilities to be accepted on the date of business combination and their major breakdown

Yet to be finalized at present.

Investor Information

Status of Share Price (from January 4, 2022 to April 28, 2023)



Major Shareholders (as of December 31, 2022)

	Name	No. of shares owned	Ownership ratio (%)
1	CHUBU Electric Power Co., Inc.	49,599,000	51.3
2	Nissei Build Kogyo Co., Ltd.	6,500,000	6.7
3	The Master Trust Bank of Japan, Ltd. (trust account)	5,071,000	5.2
4	Tenma Seiryu Co., Ltd.	3,610,000	3.7
5	Custody Bank of Japan, Ltd. (trust account)	2,905,400	3.0
6	Kouryu Oh	2,100,000	2.2
7	Takatoshi Ito	1,283,200	1.3
8	Keiko Akashi	531,000	0.5
9	Yutaka Tonami	433,000	0.4
10	NS Corporation Co., Ltd.	400,000	0.4

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

2. Of shares owned by Custody Bank of Japan, Ltd. (trust account), 851,000 shares are owned by a share-based payment benefits trust for directors ES-CON JAPAN has introduced and 573,400 shares are owned by a share-based payment benefits-type ESOP trust ES-CON JAPAN has introduced. These shares are recorded as treasury shares on the consolidated balance sheet and financial statements.

3. Other than the above, ES-CON JAPAN owns 1,898,400 treasury shares.

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: 98,580,887 shares (as of December 31, 2022)

Total number of shareholders: 17,313 shareholders (as of December 31, 2022)

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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English terms for Japanese legal, accounting, tax and business concepts used herein may not be identical to the equivalent Japanese terms. If there are any discrepancies between the original Japanese documents and English translation, the Japanese documents will always govern the meaning and interpretation. Neither ES-CON JAPAN nor any of its directors, officers, employees, partners, shareholders, agents, affiliates or their advisors will be responsible or liable for the completeness, appropriateness or accuracy of English translations contained herein.