

August 15, 2022

Company name: ES-CON JAPAN Ltd.
Representative: Takatoshi Ito, President &
Representative Director
(TSE Prime Market, code: 8892)

Notice Concerning Submission of Business Improvement Plan by ES-CON ASSET MANAGEMENT Ltd.

As announced in the July 15, 2022 news release “Notice Concerning Administrative Disposition Against ES-CON ASSET MANAGEMENT Ltd.,” the Commissioner of the Financial Services Agency has implemented an administrative disposition, which consist of injunctions to suspend business operations and to institute improved practices targeting ES-CON ASSET MANAGEMENT Ltd. (hereinafter, “EAM”), a subsidiary of ES-CON JAPAN Ltd. In response, EAM began formulating a report on improved practices (hereinafter, “Business Improvement Report”). The completed report was submitted today to and accepted by the Commissioner of the Financial Services Agency.

ES-CON JAPAN would like to express its sincere apologies to investors and to all other affected parties for the considerable concern and inconvenience caused by this matter.

As the parent company of EAM and the main sponsor of ESCON JAPAN REIT Investment Corporation, for which EAM serves as asset manager, we take this administrative disposition on EAM very seriously. We intend to make every effort to prevent the recurrence of such events based on thorough enhancement of our approaches to compliance and internal control of all members of the ES-CON JAPAN Group, not just at EAM, as well as the steadfast implementation of improvements.

* For more information of the report on improved practices prepared by the asset manager, please refer to the press release “Notice Concerning Submission of Business Improvement Report by the Asset Manager” (attached), released today by ESCON JAPAN REIT Investment Corporation.

<Inquiries Concerning this Press Release>

Administration Group PR/IR Manager Tel: +81-3-6230-9308

August 15, 2022

To All Concerned Parties

Investment Corporation

ESCON JAPAN REIT Investment Corporation

Representative: Atsumu Sasaki, Executive Director
(Securities Code: 2971)

Asset Management Company

ES-CON ASSET MANAGEMENT Ltd.

Representative: Takeharu Kagiya
President and Representative Director

Inquiries: Yuki Yoshida
General Manager of the Department of
Finance and Control

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Notice Concerning Submission of Business Improvement Report by the Asset Manager

ES-CON ASSET MANAGEMENT Ltd. (hereinafter, the "Asset Manager"), to which ESCON JAPAN REIT Investment Corporation (hereinafter, "ESCON REIT") entrusts the management of its assets, received Business Suspension Order and Business Improvement Order on July 15, 2022, as announced on the same day in the Notice Concerning Administrative Action against the Asset Manager, and is working to improve its operations under the consultation and guidance of the supervisory authorities.

The Business Improvement Order mentioned above requires that we report on the status of our response by August 15, and we announce that a report summarizing the status of our business improvement measures (hereinafter, the "Business Improvement Report") was submitted to the Commissioner of the Financial Services Agency today and was accepted.

We deeply apologize to our unitholders and all other concerned parties for the great concern and inconvenience we have caused.

A summary of the Business Improvement Report submitted today is shown in an attachment. However, there are also matters regarding countermeasures that are currently under consideration and those that will be further examined in the future. Therefore, we will work on them as soon as possible in consultation with the Asset Manager's parent company, ESCON JAPAN Ltd. (hereinafter, "Parent Company"), and its ultimate parent company, Chubu Electric Power Co., Inc. (hereinafter, "Chubu Electric Power").

Through these business improvements, the Asset Manager and Parent Company will continue to 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 parties concerned.

【URL of ESCON REIT: <https://www.escon-reit.jp/en/index.html>】

[Appendix]

Summary of the Business Improvement Report

(1) To provide a satisfactory explanation of the details of this administrative action to the unitholders of ESCON REIT and carry out appropriate measures.

The details of the administrative action were announced on July 15, 2022, as a timely disclosure by ESCON REIT in order to explain the matter to the unitholders of ESCON REIT. The details are included in the Notice Concerning Administrative Disposition Against the Asset Manager, dated July 15, 2022.

(2) In order to realize fair and appropriate business operations as an investment corporation asset manager, to clarify its management stance regarding compliance with laws and regulations, etc., to establish responsible compliance and internal control systems run by the management team, and to review its business operation methods to soundly achieve these objectives.

The Asset Manager will implement the following measures based on the belief that the management team's taking the initiative in demonstrating and practicing a strong attitude toward compliance both internally and externally and reorganizing decision-making bodies are essential as the fundamental management stance in order to work on improvement for fair and appropriate business operations.

(2-1) Clarification of the Management Stance on Compliance with Laws and Regulations

- a. In order to clarify its management stance on compliance with laws and regulations internally and externally, the Asset Manager plans to adopt and announce the "Compliance Declaration."
- b. In regard to the highest priorities for the interests of investors, prevention of conflicts of interest, implementation of proper governance, and fair and appropriate business operations, etc., we plan to make institutional decisions at the Board of Directors and publicize them externally in a "Management Philosophy" and other forms.
- c. Regarding this administrative action and the business improvement plan in response to it, the management team will issue a clear message internally and conduct comprehensive training sessions.

(2-2) Establishment of responsible legal compliance and internal control systems by management

We will establish an internal control system by strengthening the compliance system as below.

(1) Organizational changes

a. Changes in the composition of the Board of Directors

In order to make the governance system adequate to prevent influence from the Sponsor and prevent conflicts of interest, as of March 24, 2022, the Representative Director of the Parent Company resigned as a director of the Asset Manager, and the number of directors dedicated to the Asset Manager was increased from one to two. In addition, Hiroshi Tokunaga, a compliance officer, was appointed as a new director to further strengthen compliance practices, emphasizing its importance as one of the essential management issues. Takeharu Kagiya, who has experience as the head of the real estate brokerage and real estate custody division at Mizuho Trust & Banking and has a thorough knowledge of the real estate business, has been newly appointed as Representative Director, replacing Satoshi Omori.

Minoru Nakanishi, who concurrently serves as Senior Managing Director of the parent company, is scheduled to resign from the Asset Manager's director position as of September 26, 2022.

b. Transition to a company with Audit and Supervisory Committee

In order to ensure that the governance function of the Board of Directors is properly exercised and to strengthen

the auditing function by adding an outside director with voting rights, we have shifted from a system with one Corporate Auditor to an Audit and Supervisory Committee system, as of June 28, 2022. Of the three directors who are members of the Audit and Supervisory Committee, two are outside directors, one of whom is a lawyer from the Ministry of Finance, and another is a certified public accountant and a former partner of KPMG AZSA LLC.

【Previous Directors and Auditors】

Representative Director (full time)	Takeharu Kagiya
Director (full time)	Hiroshi Tokunaga
Director (part time)	Minoru Nakanishi
Auditor (part time)	Hiroyuki Suzuki*1

【Current Directors】 (As of June 28, 2022)

Representative Director (full time)	Takeharu Kagiya (Reappointed)
Director (full time)	Hiroshi Tokunaga (Reappointed)
Director (part time)	Minoru Nakanishi (Reappointed)
Director who is a member of the Audit and Supervisory Committee (part time, external director)	Masaki Sakamoto (New)
Director who is a member of the Audit and Supervisory Committee (part time, external director)	Hiroshi Matsumoto (New)
Director who is a member of the Audit and Supervisory Committee (part time)	Megumi Nakadozono*2 (New)

*1 Hiroyuki Suzuki, who concurrently served as the head of the internal audit office and the head of the audit committee office of the Sponsor, resigned as an auditor of the Asset Manager on June 28, 2022.

*2 Megumi Nakadozono concurrently serves as Executive Officer and General Manager of the Administration Department of the Parent Company.

c. Internal Audit Department has been reorganized into a subordinate organization of the Audit and Supervisory Committee

In order to enhance the independence of internal audits, strengthen its check-and-balance function, and give appropriate support to the operations of the Audit and Supervisory Committee, as of June 28, 2022, the Internal Audit Department was changed from a department directly under the Representative Director to an organization under the Audit and Supervisory Committee. This change enables the Audit and Supervisory Committee to ascertain the implementation status of internal audits in a timely manner and report to the Board of Directors. Through this system change, we will ensure the effectiveness of internal audits and soundly implement solutions and improvements that arise from audit results.

d. Change of Members of the Investment Committee and Compliance Committee

In order to ensure the fairness, objectivity, and propriety of the Investment Committee's and Compliance Committee's decision-making, as well as strengthen checks and balances regarding conflicts-of-interest transactions and ensure the propriety of the Asset Manager's operations regarding real estate appraisals, the members of the Investment Committee and the Compliance Committee have been reviewed and changed.

After reviewing the system, we changed the composition of the Investment Committee, adding one new external member with extensive investment management experience and knowledge of real estate investment management decisions, in addition to the long-serving external member who is a real estate appraiser. And we appointed the new external member as chairperson. The chairperson of the Investment Committee (external member) has veto power, and any resolution at the committee meeting requires the approval of the two external members. An additional change has been made in order to create a more compliance-conscious structure, adding a new Deputy

General Manager of the Compliance Department dedicated to the Asset Manager as a member of the Investment Committee and the Compliance Committee.

【Previous Members of the Investment Committee】

Chairperson (Representative Director)	Takeharu Kagiyama
Member (External member as real estate appraiser)	Etsuto Kimura
Member (General Manager of Reit Asset Management Dept.)	Atsumu Sasaki ^{*1}
Member (General Manager of Fund Asset Management Dept.)	Yuji Ogawa ^{*2*4}
Member (Division Director of Finance and Control Dept.)	Katsushi Wakayama
Member (General Manager of Finance and Control Dept.)	Yuki Yoshida
Member (Compliance Officer)	Hiroshi Tokunaga ^{*3}

【Current Members of the Investment Committee】 (As of June 1, 2022)

Chairperson (External member as chairperson)	Tetsuya Saito
Member (External member as real estate appraiser)	Etsuto Kimura
Member (Representative Director)	Takeharu Kagiyama
Member (General Manager of Reit Asset Management Dept.)	Atsumu Sasaki ^{*1}
Member (General Manager of Fund Asset Management Dept.)	Yuji Ogawa ^{*2*4}
Member (Division Director of Finance and Control Dept.)	Katsushi Wakayama
Member (General Manager of Finance and Control Dept.)	Yuki Yoshida
Member (Compliance Officer)	Hiroshi Tokunaga ^{*3}
Member (Deputy General Manager of Compliance Dept.)	Noboru Kohara ^{*3}

*1 For the purpose of information compartmentalization, the General Manager of Reit Asset Management Department is excluded from the Committee for matters proposed by the Fund Asset Management Department, and the General Manager of Reit Asset Management Department does not have voting rights on matters proposed by the Fund Asset Management Department.

*2 For the purpose of information compartmentalization, the General Manager of Fund Asset Management Department is excluded from the Committee for matters proposed by the Reit Asset Management Department, and the General Manager of Fund Asset Management Department does not have voting rights on matters proposed by the Reit Asset Management Department.

*3 Hiroshi Tokunaga is obligated to attend the meetings but does not have voting rights. Noboru Kohara has no voting rights.

*4 Yuji Ogawa retired on August 8, 2022 and was replaced by Maya Ikematsu as General Manager of Fund Asset Management Department.

【Previous Members of the Compliance Committee】

Chairperson (Compliance Officer)	Hiroshi Tokunaga
Member (External member as attorney)	Yusuke Aso
Member (Representative Director)	Takeharu Kagiyama

【Current Members of the Compliance Committee】 (As of May 30, 2022)

Chairperson (Compliance Officer)	Hiroshi Tokunaga
Member (External member as attorney)	Yusuke Aso
Member (Representative Director)	Takeharu Kagiyama
Member (Deputy General Manager of Compliance Dept.)	Noboru Kohara

(2-3) Review of Business Operation Methods

After the organizational changes, we will put the following operations into practice in the new organization.

- a. Board of Directors
 - Formulate a business improvement plan in response to the administrative action, and soundly implement and monitor the plan.
 - Formulate the necessary rules.
 - Make specific property acquisitions a matter to be decided by the Board of Directors.

- b. Audit and Supervisory Committee
 - Take responsibility for auditing the directors' execution of duties, and monitor whether the directors are properly executing their duties with regard to the formulation of a business improvement plan in response to the administrative action, as well as the sound execution and monitoring of the plan.
 - Cooperate with the Internal Audit Department and the Compliance Department to monitor whether the business improvement plan is being properly implemented internally.
 - Attend meetings of the Investment Committee and the Compliance Committee as observers as necessary, and audit the status of the directors' execution of their duties in relation to the sound implementation of the business improvement plan.

- c. Improvements to the management of the Compliance Committee, Investment Committee, and ESCON REIT Board of Directors
 - With regard to decisions on property acquisitions, provide sufficient explanations prior to the stage of considering an acquisition, and prepare and store the minutes of meetings with more appropriate content.

(3) To investigate the causes of this incident and then formulate concrete measures to prevent a recurrence, including establishing an adequate framework for managing conflicts of interest, such as clarifying internal processes for verifying the appropriateness of decision-making related to the investment management business.

(3-1) Causes of this incident

The direct cause of this incident is that until now, the Asset Manager and the Parent Company have had an extremely low level of awareness regarding the fulfillment of their duty of loyalty to give top priority to the interests of their investors. As a result, the Asset Manager failed to eliminate the influence of the Parent Company, and gave top priority to acquiring properties at the purchase price desired by the Parent Company, thereby engaging in improper conduct. We also recognize the following things as causes. Governance did not function adequately in the Asset Manager's organization. The system for monitoring and supervising transactions with interested parties was inadequate. The Asset Manager's executives and staff, including its management team, lacked awareness regarding compliance with laws and regulations. And its human resources were insufficient.

Based on the causes of this incident, we will take the following measures to prevent a recurrence.

(3-2) Measures to Prevent a Recurrence

- a. Changes to the ordering work rules of real estate appraisal services
 - The department directly responsible for ordering real estate appraisals will prepare the business rules in the form of an operations manual for property acquisitions and add new rules.

- b. Strengthen monitoring of operations for the ordering of real estate appraisals by the Compliance Department
 - In order to strengthen the function of the Compliance Department to check and supervise the department responsible for ordering real estate appraisals, we will stipulate the monitoring by the Compliance Department in the internal rules (Property Acquisition Business Manual).

- c. Clarification of internal processes for verifying the appropriateness of decision-making related to the investment management business
 - In order to grasp, adequately check, and supervise the actual status of the operations of the department that carries

out property acquisitions, we will clarify the matters to be deliberated at the meetings of the Compliance Committee and the Investment Committee.

d. Establishment of a new interested party transaction system for real estate transactions with the Parent Company

To ensure a place for equal negotiations and prevent the influence of the Parent Company in negotiations with the Parent Company, we will discuss with the Parent Company and establish common negotiation rules for real estate transactions pertaining to the Parent Company and other interested parties in the ESCON Group.

e. Securing Human Resources

To ensure the retention of human resources, the management team will internally express and promote an emphasis on operational efficiency, education, and training.

f. Further investigation of the cause of the incident and enhancing measures to prevent recurrence in cooperation with Chubu Electric Power and the Parent Company

We will work on clarifying the facts and further investigating the cause of this incident in cooperation with Chubu Electric Power and the Parent Company, using the knowledge of outside experts. And based on the results, we will further enhance our internal control systems and measures to prevent a recurrence.

g. Maximize the use of the Chubu Electric Power Group's joint helpline

By making all executives and employees of the Asset Manager thoroughly aware of the Chubu Electric Power Group Joint Helpline once again, we will work to maximize the use of this system so that the executives and employees can use it without hesitation and thereby prevent illegal and improper acts.

h. Training and awareness-raising for ongoing improvement of the conflict-of-interest management system

We will conduct various training programs to continuously improve our conflict-of-interest management system. We will conduct proficiency tests as appropriate to measure the effectiveness of training.

(4) To clarify where responsibility lies, including that of management, based on the results of this inspection.

Of the three previous directors, Representative Director Satoshi Omori and Director Takatoshi Ito, who concurrently serves as Representative Director of the Parent Company, resigned on March 24, 2022. In addition, Minoru Nakanishi, Senior Managing Director of the Parent Company, is scheduled to resign from the Asset Manager's Director position on September 26, 2022. Successor candidates are yet to be determined.

Atsumu Sasaki, Senior Executive Officer and General Manager of the Reit Asset Management Department, is scheduled to resign from his position as an Employee Specified by a Cabinet Order (Supervisor of Investment Decision Making Operations) by September 2022, once a successor who fulfills the requirements is in office.