

January 30, 2020

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Notice on Continuation and Partial Revision of Performance-Based Stock Reward System

ES-CON JAPAN Ltd. (ES-CON JAPAN) announces that a decision was made to submit a proposal (the “Proposal”) on the continuation and partial revision of the performance-based stock reward system (the “System”) for ES-CON JAPAN’s directors (excluding outside directors and auditors) (the “Directors.” Hereinafter referred to as the same unless otherwise specified) introduced from fiscal 2015 to the 25th Regular General Meeting of Shareholders (the “General Meeting of Shareholders”) scheduled to be held on March 26, 2020, as follows.

1. Continuation of the System

ES-CON JAPAN has made a decision to partially revise and continue the System, which was introduced with an aim to further clarify remuneration for company directors and the relationship between ES-CON JAPAN’s performance and stock price, with directors not only benefiting from a rise in stock price but also sharing the same risks as shareholders in relation to a fall in stock price, thereby increasing awareness of contribution to the medium- to long-term improvement of performance and enhancement of corporate value, on the condition that approval from all its shareholders is obtained. ES-CON JAPAN will submit the Proposal to the General Meeting of Shareholders.

The System is an incentive system by which ES-CON JAPAN contributes money to a trust (the “Trust”) (the upper limit of which is as per section 2. (2) below) with the Trust acquiring shares of ES-CON JAPAN with the applicable money as capital, and shares of ES-CON JAPAN and the fair market value of shares of ES-CON JAPAN (“shares, etc. of ES-CON JAPAN”) are granted to ES-CON JAPAN’s directors through the Trust in accordance with the performance achievement rate, etc. For details of the previous system, please refer to “Notice on Introduction of Performance-Based Stock Reward System” announced on February 13, 2015.

2. Partial Revision to the System

Upon continuing the System, the content of the System will be partially revised as follows on the condition that approval is obtained at the General Meeting of Shareholders.

(1) Target period after the continuation of the System

ES-CON JAPAN obtained approval for the introduction of the System with a target period of five fiscal years from the fiscal year closing at the end of December 2015 until the fiscal year closing at the end of December 2019 at the 20th Regular General Meeting of Shareholders held on March 20, 2015, and again obtained approval for the System at the 21st Regular General Meeting of Shareholders held on March 25, 2016, coinciding with ES-CON JAPAN’s transition to a company with an audit committee.

ES-CON JAPAN will implement the System in a continuous manner by contributing additional money on the condition that approval is obtained at the General Meeting of Shareholders. In the System, the target period of ES-CON JAPAN’s third medium-term management plan “IDEAL to REAL 2022” (the “third medium-term management plan”) comprised of the period lasting three fiscal years from the fiscal year closing at the end of December 2020 until the fiscal year closing at the end of December 2022, as well as each subsequent period of three fiscal years (hereinafter respectively referred to as “target periods”), has been set as the target period.

(2) Amount of money contributed to the Trust

ES-CON JAPAN will contribute money with an upper limit of 330 million yen (Note), calculated by multiplying 110 million yen per fiscal year by the target period, to the Trust as funds for acquisition of shares of ES-CON JAPAN to grant shares, etc. of ES-CON JAPAN to ES-CON JAPAN's directors, on the condition that approval is obtained at the General Meeting of Shareholders.

Moreover, after the expiration of the first target period and until the end of the System, ES-CON JAPAN shall make additional contributions not exceeding the amount calculated by multiplying 110 million yen per fiscal year by the target period in each target period.

However, when making contributions or additional contributions, when there are residual company shares (excluding items for which granting to ES-CON JAPAN's directors has not been completed with shares of ES-CON JAPAN in proportion to the number of points assigned to ES-CON JAPAN's directors in each target period) and money (hereinafter collectively referred to as "residual shares, etc. immediately before the start of the target period"), the total amount of the residual shares, etc. immediately before the start of the target period and the amount of the trust money which will be additionally contributed shall be within the range of the upper limit of the trust money approved at the General Meeting of Shareholders.

(Note) The money to be allocated to trust expenses for the Trust and expenses for system operation such as trust fee will not be included in 330 million yen, which is the upper limit of the funds for acquisition of shares of ES-CON JAPAN mentioned above, and additional contribution of necessary money can be made.

(3) Calculation method and upper limit of number of shares to be granted to ES-CON JAPAN's directors

After the continuation of the System, consolidated operating income and total shareholder return (TSR) shall be adopted as the method for calculating the number of shares of ES-CON JAPAN to be granted to ES-CON JAPAN's directors, with an aim to provide incentive for business execution conscious of sustainable growth and setting as clear indicators from the viewpoint of shareholders the return of profits to shareholders and enhancement of corporate value. Specifically, ES-CON JAPAN will assign points (the "annually assigned points") in accordance with the status of achievement of the goal on consolidated operating income (the "performance-based coefficient (1) (*1)") based on the number of standard shares for each position stipulated at the beginning of the fiscal year in the third medium-term management plan, and the annually assigned points assigned to the subject parties will be accumulated (the "cumulative assigned points during the target period") in the performance for the fiscal year ending December 2022, the final fiscal year in the third medium-term management plan. The obtained points (the "assigned points ultimately decided") will be calculated by multiplying the cumulative assigned points during the target period by the rate of deviation between ES-CON JAPAN's TSR and the growth rate of the TSE First Section Real Estate TOPIX (the "performance-based coefficient (2) (*2)") during the period of the third medium-term management plan. The points are converted at a rate of one company share for every 10 points when granting shares. However, when a stock split, free stock allocation or reverse stock split, etc. has been carried out with regards to the shares of ES-CON JAPAN after the approval of this proposal, the conversion rate shall be adjusted appropriately in accordance with the relevant rate, etc. The upper limit per fiscal year of the number of cumulative points assigned to ES-CON JAPAN's directors shall be 1,100,000 points (110,000 shares). The upper limit of the number of shares of ES-CON JAPAN acquired by the Trust in each target period is 3,300,000 points (330,000 shares), which is equivalent to the number calculated by multiplying the upper limit of the number of annually assigned points by three, the number of fiscal years during the target period.

(*1) Performance-based coefficient (1) will be determined within the range between 0.0 and 1.5 in accordance with the achievement rate of the forecast operating income on a consolidated basis.

(*2) Performance-based coefficient (2) will be determined within the range between 0.5 and 1.0 by comparing ES-CON JAPAN's TSR with the TSE First Section Real Estate TOPIX during the target period and based on the rate of deviation between them.

(4) Method of share acquisition by means of the Trust

The acquisition of shares of ES-CON JAPAN by the Trust is scheduled to be made through the disposal of treasury shares or from the stock market within the range of the upper limit of the amount of trust money and the number of acquired shares in 2. (2) and (3) above.

(5) Granting of shares of ES-CON JAPAN to ES-CON JAPAN's directors

When the directors of ES-CON JAPAN fulfill beneficiary requirements, payment of money will also be made as follows in addition to the granting of shares made previously.

Accordingly, shares of ES-CON JAPAN equivalent to 70% of the total number of points assigned based on the System before the revision and the number of assigned points ultimately decided assigned based on the System after the revision will be granted to ES-CON JAPAN's directors. As for shares of ES-CON JAPAN equivalent to 30% of the total points, the money equivalent to the fair market value of shares of ES-CON JAPAN will be granted instead of shares of ES-CON JAPAN from the perspective of securing funds for tax payment. In addition, as for the total amount of shares of ES-CON JAPAN equivalent to the total number of points assigned based on the System before the revision and the number of assigned points ultimately decided assigned based on the System after the revision, money equivalent to the fair market value of shares of ES-CON JAPAN will be granted instead of shares of ES-CON JAPAN to the heir in the case the director of ES-CON JAPAN passes away during the trust term. Furthermore, the total amount of shares of ES-CON JAPAN equivalent to the total number of points assigned based on the System before the revision and the number of assigned points ultimately decided assigned based on the System after the revision will be granted to directors who will retire at their own convenience.

3. Overview of the System after Revision

(1) Overview of the System

The System is an incentive system in which ES-CON JAPAN contributes money to the Trust (the upper limit of which is as per section 2. (2) below), with the Trust acquiring shares of ES-CON JAPAN with the applicable money as capital, and shares, etc. of ES-CON JAPAN being granted to ES-CON JAPAN's directors through the Trust in accordance with the performance achievement rate, etc.

Moreover, the shares, etc. will be granted to the director of ES-CON JAPAN when the said director retires from the position of director.

(2) System beneficiaries

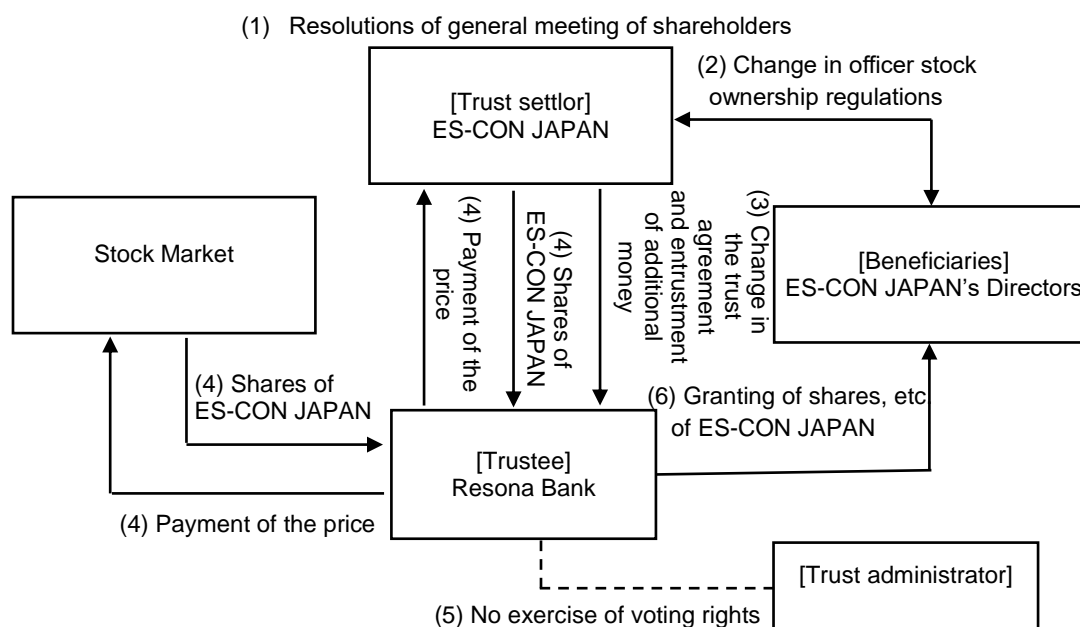
Directors of ES-CON JAPAN (excluding outside directors and auditors)

(3) Target period

Three fiscal years from the fiscal year closing at the end of December 2020 until the fiscal year closing at the end of December 2022 and each subsequent period of three fiscal years.

(4) Establishment of the trust associated with operation of the System

ES-CON JAPAN shall establish and operate the following trust for operating the System based on mutual agreement with the trustee.



- (1) ES-CON JAPAN shall obtain a resolution for approval at the General Meeting of Shareholders concerning continuation and partial revision of the System.
- (2) ES-CON JAPAN shall change officer stock ownership regulations within the scope approved by the General Meeting of Shareholders.
- (3) ES-CON JAPAN shall change the existing trust agreement and entrust additional money within the scope approved by the General Meeting of Shareholders.
- (4) The Trust shall acquire shares of ES-CON JAPAN through the stock market, etc. or by the method of underwriting ES-CON JAPAN's disposal of treasury shares by using money entrusted in (3) above.
- (5) Voting rights shall not be exercised during the trust term with regard to shares of ES-CON JAPAN under the Trust.
- (6) During the trust term, the beneficiaries will be assigned points in accordance with the position and the performance achievement rate of the beneficiaries based on the stipulations of the officer stock ownership regulations in (2) above. Shares, etc. of ES-CON JAPAN will be granted to directors who have fulfilled the beneficiary requirements stipulated in the officer stock ownership regulations to a certain degree, including when a director resigns, at the number in accordance with the number of points assigned.

(5) Trust term

From April 1, 2015, to the closing of the Trust (No specific closing date is determined for the trust term of the Trust and the Trust shall continue as long as the System continues. The System shall end due to delisting of shares of ES-CON JAPAN or abolishment, etc. of the officer stock ownership regulations.)

(6) Upper limit of money and the number of shares to be contributed by ES-CON JAPAN

As described in 2. (2) and (3) above.

- (7) Method of acquisition of shares of ES-CON JAPAN by the Trust
The Trust shall acquire shares of ES-CON JAPAN through financial instrument exchange markets, etc. or by the method of underwriting ES-CON JAPAN's disposal of treasury shares within the upper limit of the amount of money to be contributed in to the Trust in (6) above.
- (8) Calculation method and upper limit of number of shares of ES-CON JAPAN to be granted to beneficiaries
As described in 2. (3) above.
- (9) Timing of granting of shares of ES-CON JAPAN to beneficiaries
When a director of ES-CON JAPAN resigns and has fulfilled the beneficiary requirements, there shall be granting of the number of shares, etc. of ES-CON JAPAN in accordance with the total number of the points assigned based on the System before the revision and the number of assigned points ultimately decided assigned based on the System after the revision, at the time of retirement by means of the prescribed beneficiary definition procedure.
- (10) Exercise of voting right of shares of ES-CON JAPAN within the Trust
Voting rights pertaining to shares of ES-CON JAPAN within the Trust shall not be exercised without any exception in order to secure independence of ES-CON JAPAN's management from the Trust.
- (11) Handling of dividends of shares of ES-CON JAPAN within the Trust
Dividends pertaining to shares of ES-CON JAPAN within the Trust shall be received by the Trust, and used for trust-related expenses such as acquisition of shares of ES-CON JAPAN and trust fees, etc. Moreover, when the Trust closes, it is planned that the dividends remaining in the Trust are to be granted to beneficiaries of the System who are in office at that point in time by proportionally dividing the dividends in accordance with the accumulated points of each individual or donated to public interest corporations.
- (12) Handling at the closing of the Trust
The Trust shall be closed in the event the shares of ES-CON JAPAN are delisted or the officer stock ownership regulations are abolished, etc.
Of the residual assets of the Trust when it is closed (excluding shares planned to be granted to directors in office at the time of the closing of the Trust with the possibility of fulfilling the beneficiary requirements), shares of ES-CON JAPAN shall be cancelled or donated to public interest corporations based on a resolution of the board of directors, after all of the shares of ES-CON JAPAN having been acquired by ES-CON JAPAN at no cost. Of the residual assets of the Trust when it is closed, money shall be paid to the beneficiaries of the System who are in office at that point in time by proportionally dividing the money in accordance with the accumulated points of each individual or donated to public interest corporations.

[Reference]

<Content of trust agreement>

1. Name: Board benefit trust for executives
2. Entrusting party: ES-CON JAPAN
3. Trustee: Resona Bank, Limited
4. Beneficiaries: Directors (excluding outside directors and auditors) who fulfill the prescribed requirements
5. Trust administrator: Third party having no interest in ES-CON JAPAN
6. Date of conclusion of trust agreement: April 1, 2015 (an amendment agreement is scheduled to be concluded in May 2020)
7. Trust term: From April 1, 2015, to the closing of the Trust