



Summary of Accounts for First Three Quarters of Fiscal Year Ending December 2022 (Japanese GAAP) (Consolidated)

October 26, 2022

Name of listed company: ES-CON JAPAN Ltd. Listing exchange: Tokyo Stock Exchange
 Code: 8892 URL: <https://www.es-conjapan.co.jp/english/>
 Representative: (Name) Takatoshi Ito (Position) President & Representative Director
 Contact for inquiries: (Name) Minoru Nakanishi (Position) Senior Managing Director TEL: 06 (6223) 8055
 Scheduled date for submission of periodic securities report: October 26, 2022
 Scheduled date for start of dividend payment: —
 Supplementary explanatory materials created for accounts? Yes/No: No
 Accounts briefing meeting held? Yes/No: No

(Amounts are rounded down to the nearest million yen)

1. Consolidated results for first three quarters of fiscal year ending December 2022 (from January 1, 2022 to September 30, 2022)

(1) Consolidated operating results

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

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent	
	million yen	%	million yen	%	million yen	%	million yen	%
First three quarters of fiscal year ending Dec. 2022	50,582	16.0	6,212	28.1	5,319	32.5	3,393	16.7
First three quarters of fiscal year ended Dec. 2021	43,620	(32.8)	4,849	(57.0)	4,015	(61.7)	2,907	(59.9)

Note: Comprehensive income

First three quarters of fiscal year ending Dec. 2022: 3,112 million yen [16.1%] First three quarters of fiscal year ended Dec. 2021: 2,680 million yen [-62.0%]

	Basic earnings per share	Diluted earnings per share
	yen	yen
First three quarters of fiscal year ending Dec. 2022	35.56	35.50
First three quarters of fiscal year ended Dec. 2021	33.80	33.71

(Note) "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29; March 31, 2020), etc. have been applied from the beginning of the first quarter of the fiscal year ending December 2022, and the figures for the first three quarters of the fiscal year ending December 2022 are the figures after applying the accounting standard, etc.

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Book value per share
	million yen	million yen	%	yen
First three quarters of fiscal year ending Dec. 2022	275,806	61,789	22.5	651.14
Fiscal year ended Dec. 2021	252,771	62,628	24.8	657.50

Reference: Equity

First three quarters of fiscal year ending Dec. 2022: 61,955 million yen Fiscal year ended Dec. 2021: 62,780 million yen

(Note) "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29; March 31, 2020), etc. have been applied from the beginning of the first quarter of the fiscal year ending December 2022, and the figures for the first three quarters of the fiscal year ending December 2022 are the figures after applying the accounting standard, etc.

2. Dividends

	Annual dividend				
	End of first quarter	End of second quarter	End of third quarter	Year-end	Total
	yen	yen	yen	yen	yen
Fiscal year ended Dec. 2021	—	0.00	—	38.00	38.00
Fiscal year ending Dec. 2022	—	0.00	—		
Fiscal year ending Dec. 2022 (Forecast)				38.00	38.00

(Note) Revisions from the latest dividends forecast: None

3. Consolidated earnings forecast for fiscal year ending December 2022 (from January 1, 2022 to December 31, 2022)

(% figures for the full fiscal year show the rate of increase (decrease) compared with the previous period)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent		Basic earnings per share
	million yen	%	million yen	%	million yen	%	million yen	%	yen
Full fiscal year	100,000	26.6	14,000	34.9	12,200	34.1	8,300	39.2	86.99

(Note) Revisions from the latest dividends forecast: None

* Explanatory notes

(1) Changes in significant subsidiaries during the first three quarters

(Changes in specified subsidiaries resulting in change in scope of consolidation): None

Newly included — companies (Company name) —

Excluded: — companies (Company name) —

(2) Application of accounting treatments specific to preparation of quarterly consolidated financial statements: None

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

1) Changes in accounting policies due to amendment of accounting standards, etc.: Yes

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

3) Changes in accounting estimates: None

4) Restatement: None

(Note) For details, please see “Attachment; 2. Quarterly Consolidated Financial Statements and Key Notes; (3) Notes to Quarterly Consolidated Financial Statements (Changes in Accounting Policies)” on page 20.

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

1) Number of shares issued and outstanding (including treasury shares) at end of period	First three quarters of fiscal year ending Dec. 2022	98,580,887 shares	Fiscal year ended Dec. 2021	98,580,887 shares
2) Number of treasury shares at end of period	First three quarters of fiscal year ending Dec. 2022	3,431,700 shares	Fiscal year ended Dec. 2021	3,096,900 shares
3) Average number of shares during period	First three quarters of fiscal year ending Dec. 2022	95,416,293 shares	First three quarters of fiscal year ended Dec. 2021	86,001,808 shares

(Note) The number of treasury shares at end of period includes shares of ES-CON JAPAN held in a share-based payment benefits trust for executives and a share-based payment benefits-type ESOP trust (first three quarters of fiscal year ending December 2022: 851,000 shares in the share-based payment benefits trust for executives and 574,000 shares in the share-based payment benefits-type ESOP trust). In the calculation of the average number of shares during period (cumulative total of first three quarters), the treasury shares to be subtracted in that calculation includes shares of ES-CON JAPAN held in the share-based payment benefits trust for executives and the share-based payment benefits-type ESOP trust (first three quarters of fiscal year ending December 2022: 1,153,032 shares).

* This quarterly summary of accounts is not subject to quarterly review of certified public accountant or audit corporation.

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

The earnings outlook and other forward-looking statements contained in this document are based on information currently available to and certain assumptions that are thought to be reasonable by ES-CON JAPAN. Accordingly, actual business performance and other results may differ materially due to various reasons. For the conditions forming the assumptions on which earnings forecasts are based and explanatory notes for use of earnings forecasts, etc., please see “Attachment; 1. Qualitative Information on Quarterly Results; (4) Explanation of Consolidated Earnings Forecast and Other Forward-Looking Information” on page 15.

○ Contents of Attachment

1. Qualitative Information on Quarterly Results.....	2
(1) Business Risks	2
(2) Explanation of Operating Results	3
(3) Explanation of Financial Position	14
(4) Explanation of Consolidated Earnings Forecast and Other Forward-Looking Information.....	15
2. Quarterly Consolidated Financial Statements and Key Notes	16
(1) Quarterly Consolidated Balance Sheet	16
(2) Quarterly Consolidated Statement of Income and Quarterly Consolidated Statement of Comprehensive Income..	18
(Quarterly Consolidated Statement of Income).....	18
(Quarterly Consolidated Statement of Comprehensive Income).....	19
(3) Notes to Quarterly Consolidated Financial Statements	20
(Notes on Going Concern Assumption).....	20
(Notes on Substantial Changes in the Amount of Shareholders' Equity)	20
(Changes in Accounting Policies)	20
(Additional Information).....	20
(Segment Information, Etc.).....	22
(Significant Subsequent Events).....	23
3. Other	24
Status of Contracts and Sales	24

1. Qualitative Information on Quarterly Results

(1) Business Risks

In the first three quarters of the fiscal year ending Dec. 2022, business risks that newly arose or changed from those described in “2. Business Conditions; 2. Business Risks” in the previous fiscal year’s securities report are as follows: Statements concerning future matters are based on the judgments of the Group (ES-CON JAPAN and its consolidated subsidiaries) as of the end of the third quarter of the fiscal year ending December 2022.

The following item numbers attached to each heading correspond to those described in “2. Business Conditions; 2. Business Risks” in the previous year’s securities report. Regarding “(8) Legal Violation Risks,” they arose after the financial statements for the previous fiscal year were submitted.

(2) Legal Restrictions, Etc.

In addition to the restrictions of the Companies Act and the Financial Instruments and Exchange Act, the real estate industry to which the ES-CON Japan Group belongs is subject to the restrictions of the National Land Use Planning Act, Real Estate Brokerage Act, Building Standards Act, Act on Maintenance of Sanitation in Buildings, Act on Specified Joint Real Estate Ventures, Act on Securitization of Assets, Trust Business Act, and Money Lending Business Act, etc.

In addition, the ES-CON Japan Group conducts real estate sales and related business as a real estate company licensed under the Real Estate Brokerage Act and the Act on Advancement of Proper Condominium Management, etc., but the abolition of these or creation of new legal restrictions could affect the Group’s business performance.

In January 2022, ES-CON JAPAN acquired shares of FUEL Inc. (hereinafter “FUEL”), which manages online funds and provides systems to specified joint real estate venture-type crowdfunding businesses, to make it a subsidiary. The details of approval and licenses obtained by FUEL are as follows.

(FUEL Inc.)

Name of approval, license, etc.	Governing agency, etc.	Details of approval, license, etc.	Period of validity	Legal violation requirements and main reasons for revocation of approvals and licenses
Building Lots and Building Transactions Business	Tokyo Metropolitan Government	Governor of Tokyo (1) No. 108078	From July 16, 2022, to July 15, 2027	In case of license by unauthorized means, or violation of disqualification clause for officers, etc., the license may be revoked (Article 66 of the Building Lots and Buildings Transaction Business Act)
Financial Instruments Business (Type 2 Financial Instruments Business)	Financial Services Agency	Director-General of the Kanto Local Finance Bureau (Financial Instruments Business) No. 2123	Obtained on January 26, 2009. No provision for the period of validity	In case of registration by unauthorized means, capital shortage, or potential insolvency in the context of business or asset conditions, the registration may be revoked (Article 52 of the Financial Instruments and Exchange Act).

(5) Personal Information Leakage and Information System Risks

As a business operator handling personal information under the Act on the Protection of Personal Information, the Group receives personal information of customers and clients in each of its businesses when developing in a multidimensional way. This includes customers who purchase or consider purchasing condominiums or detached houses through the condominium sales business or reside in rental apartments as well as customers who purchase or consider purchasing permanent use rights in the columbarium business or are looking for jobs in the employment placement business. The Group has set rules for the handling of personal information (basic policy, regulations, and manual) to establish a system and keeps files containing personal information under strict safekeeping with monitoring software and restricts access authority on the system in a bid to enhance the system as a whole and also manage information other than personal information.

ES-CON JAPAN outsources part of the sale of condominiums to sales companies and these companies are required to use part of ES-CON JAPAN's management system to prevent customer information from being leaked to third parties and handle customer information within the scope to ensure confidentiality.

As malware (Emotet)^(*) infection spreads rapidly in Japan, the Group's information system has been exposed to cybersecurity threats, including cyberattacks or fraudulent access, in recent months. To minimize system risk, ES-CON JAPAN has revamped its security environment, including enhancing employee training and conducting security training programs periodically.

Should personal information be leaked due to unforeseen circumstances, however, the Group's sales could fall due to its ruined credibility or compensation for damages may arise, and such may affect the Group's business performance.

*1 Malware is a general term for malicious software, combining these two words. Emotet is malware that downloads a variety of malicious software in addition to stealing information. It is found to be attached to suspicious emails by malicious people, which accelerates the spread of infection.

(7) Climate Change Risks

A society where there is increasing climate damage is assumed for the future, and the increasing risk on business continuity caused by climate change may have an impact on ES-CON JAPAN's management results and financial position.

In June 2022, ES-CON JAPAN endorsed the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) which assess the financial impact of risks and opportunities from climate change on management and encourages companies to issue relevant disclosures. We disclose information on the impact of climate change on our business based on the TCFD framework.

For details, please see (2) Explanation of Operating Results; 8) Endorsement of TCFD recommendations and information disclosure.

(8) Legal Violation Risks

Should an employee or officer of the Group or ES-CON JAPAN violate any relevant laws as the Group conducts business (including the Companies Act, Real Estate Brokerage Act, Construction Industry Act, Licensed Architect Act, Financial Instruments and Exchange Act, Act on the Protection of Personal Information, Money Lending Business Act, Act on Advancement of Proper Condominium Management, Labor Standards Act, and Employment Security Act), administrative discipline may be imposed by the authorities concerned. In this case, due to the Group's ruined social credibility and compensation for damages, its financial position, business performance, and reputation in the market may be affected.

(2) Explanation of Operating Results

In the first three quarters of the fiscal year ending December 2022, despite the remaining effect of COVID-19 infections, economic and social activities invigorated and returned to normal increasingly and mild economic recovery continued due to the easing of movement restrictions, etc.

In the real estate industry to which the ES-CON JAPAN Group belongs, the real estate market remained robust and investors' appetite for investment remained strong both domestically and abroad with housing demand being pushed up by work-style reform and new lifestyles such as working from home, partly due to the supportive effect of the continuation of monetary easing measures. On the other 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, the intensifying competition over property acquisition and increasing acquisition prices and the like, and the situation still requires close attention to the effect of these on the market.

Regarding prospects, there exist many downside factors to the economy, including the supply shortage of resources and other materials on the back of the deteriorated situation in Ukraine, the surging prices due to the weaker yen, the lockdown of major Chinese cities due to the country's the zero-COVID policy, and the upward trend of interest rates with the U.S. and many countries pursuing a tight monetary policy. The future trend of the real estate market remains uncertain and we need to continue developing the real estate business prudently.

Amid these highly unpredictable business circumstances, ES-CON JAPAN aims for sustainable growth by building a firm management base that can withstand any economic environment to maximize its corporate value under the fourth medium-term management plan "IDEAL to REAL 2023" (the 3-year period from fiscal year ended Dec. 2021 to fiscal year ending December 2023) formulated in February 2021, with the basic policy: "Transformation and Rapid Progress."

In fiscal 2021, the first year of the fourth medium-term management plan, ES-CON JAPAN implemented a capital increase through third-party allotment with Chubu Electric Power Co., Inc. (hereinafter “Chubu Electric Power”) as the allottee and became a consolidated subsidiary of Chubu Electric Power. This has realized various synergistic effects, such as the progress of cooperation and collaboration with Chubu Electric Power Group companies in development of condominiums and vertical farms. In October 2021, ES-CON JAPAN made Picasso Co., Ltd., which owns numerous prime revenue-generating properties, and its seven group companies (hereinafter “Picasso Group”), its subsidiaries. Through this and other initiatives, we steadily promoted the enhancement of our financial base and transformation to a sustainable and stable revenue structure.

As a result of these, we received credit ratings of “A-” (stable) from Rating and Investment Information, Inc. in July 2021, and “A+” (stable) from Japan Credit Rating Agency, Ltd. in September 2022, which is an upgrade from “A” (stable) in July 2021. We were also selected as a constituent of JPX-Nikkei Index 400 for FY2022 (August 31, 2022 to August 30, 2023) continuing from FY2021. Against the backdrop of obtaining this evaluation, we are establishing a system enabling active and flexible consideration of a variety of investment opportunities, such as entering into commitment line agreements with financial institutions and registering the issuance of bonds.

Through these measures, in the fiscal year under review, the second year of the fourth medium-term management plan, ES-CON JAPAN is performing well for the achievement of the plan to post a record profit.

We are also continuing to work on initiatives in which we can contribute to regional revitalization through business, while also focusing on the enhancement of our organizational strength.

“ES CON FIELD HOKKAIDO,” the new stadium for the Hokkaido Nippon-Ham Fighters under construction in Kitahiroshima City, Hokkaido, will be completed in December 2022, and is scheduled to commence operation in March 2023. ES-CON JAPAN is participating in the urban development scheme for 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 a condominium for sale “Le JADE Hokkaido Ballpark” (Kitahiroshima City, Hokkaido Prefecture; 118 units in total) and senior residences. Furthermore, as a project partner for the JR Kitahiroshima Station “Train Station West Exit Area Revitalization Project,” we are also conducting development around the station which is garnering further attention as an important point of access to F VILLAGE. We will continue working on the project to create bustle throughout Kitahiroshima City.

Recognizing the importance of further enhancement of human capital—that is, our employees and their knowledge, skills, talents, and the like—for the realization of sustainable growth and improved corporate value, we have established a policy on human resource development and started preparation for disclosure on human capital-related matters. At the same time, we will focus on improving our essential corporate value that cannot be measured solely by financial information through the production of effects of our initiatives such as the general business operator action plan under the Act on the Promotion of Female Participation and Career Advancement in the Workplace formulated in December 2021 (target period: January 1, 2022 to December 31, 2024) and the establishment of the Health & Culture Fostering Team for further promotion of health management.

We will continue making efforts with everyone united as one aiming for “Rapid Progress” in the fiscal year under review and fiscal 2023, the final year of the fourth medium-term management plan, and will strive for achieving further growth in fiscal 2024 and beyond.

1) Progress of the Fourth Medium-term Management Plan “IDEAL to REAL 2023”

As mentioned above, in fiscal 2021, the first year of the fourth medium-term management plan, ES-CON JAPAN made the Picasso Group its subsidiaries. This helped the ES-CON JAPAN's investment plan make progress at a pace exceeding that in the initial plan, thereby “transforming” the revenue structure with a single stroke by ensuring stable rental revenues. Consequently, ES-CON JAPAN modified part of management index for the final year of the medium-term management plan, fiscal year ending Dec. 2023, including the share of profits from leasing. The details of the modification are described in the following “5. Management Targets.”

By achieving this “Transformation,” ES-CON JAPAN hopes to post a record profit during the current and next fiscal years, thereby aiming for further “Rapid Progress.”

The details of the fourth medium-term management plan are as follows.

1. Basic Management Strategy Policies

- Establishing business foundations able to withstand unexpected changes in economic conditions
Establish a solid business and financial base that can maintain its fund-raising ability under any economic environment.
- Simultaneously change the revenue structure and expand business domains
Transform the revenue structure from one based on flows to one based on stock by strengthening the real estate leasing business. At the same time, diversify the business and expand the regions of operation.

2. Basic Policy: Transformation and Rapid Progress

Transformation

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

Rapid Progress

- Demonstrating synergies in 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)

3. Management Strategies

- Transformation to a stable and sustainable revenue structure
- Stable growth of existing core businesses through business diversification and area strategies
- Growing new businesses into core businesses through business diversification and area strategies
- Take on the challenge of new business domains
- Enhancing synergies within the ES-CON JAPAN Group
- Expanding business bases, primarily in the five major urban areas
- Enhancing synergies with the Chubu Electric Power Group
- Promoting ESG initiatives

4. Performance Plan

(Unit: million yen)

	Fiscal year ended Dec. 2021	Fiscal year ending Dec. 2022		Fiscal year ending Dec. 2023
	Actual	First three quarters Actual	Full fiscal year Plan	Plan
Net sales	79,017	50,582	100,000	110,000
Operating income	10,381	6,212	14,000	16,000

5. Management Targets

	Fiscal year ended Dec. 2021	Fiscal year ending Dec. 2022	Fiscal year ending Dec. 2023		
	Actual	Plan	Revised plan ^{*4}	Initial plan	Percentage change from initial plan
Share of profits from leasing ^{*1}	21.2%	26.0%	30.0%	26.0%	4.0%
Return on equity (ROE)	11.8%	13.0%	13.0%	13.0%	—
Return on invested capital (ROIC) ^{*2}	3.2%	4.0%	4.0%	4.0%	—
Equity ratio	24.8%	23.0%	21.0%	23.0%	(2.0%)
Share of long-term earnings from real estate ^{*3}	20.6%	21.0%	23.0%	18.0%	5.0%
Net assets	62.6 billion yen	67.3 billion yen	72.0 billion yen	72.0 billion yen	—

- *1. Share of profits for leasing: Leasing segment profits / Total segment profits (excluding adjustments)
- *2. Return on invested capital (ROIC): After-tax operating income / (Shareholders' equity + Interest-bearing liabilities)
- *3. Share of long-term earnings from real estate: Real estate generating leasing revenues recorded as non-current assets / Total assets
- *4. In the first fiscal year of the fourth medium-term management plan, ES-CON JAPAN rapidly realized "transformation" of the revenue structure by accelerating progress on investment plans ahead of schedule and securing stable leasing income, and "share of profits from leasing," "equity ratio," and "share of long-term earnings from real estate" for the fiscal year ending December 2023 were revised on March 25, 2022.

6. Investment Plan

(Unit: million yen)

	Fiscal year ended Dec. 2021	Fiscal year ending Dec. 2022	Fiscal year ending Dec. 2023	Three-year cumulative total
	Actual	Plan	Plan	Plan
Investment in revenue-generating real estate	76,799	40,000	60,000	130,000
Investment in other development	19,191	30,000	35,000	90,000
Gross investment	95,990	70,000	95,000	220,000

2) Status of Demonstration of Synergy Effect with Chubu Electric Power Group

In April 2021, ES-CON JAPAN became a consolidated subsidiary of Chubu Electric Power, and a variety of synergies have been created, such as the proactive conducting of business in the Chubu area.

As joint projects with Chuden Real Estate Co., Inc., we are engaged in condominium/commercial facility development projects in Shirakabe, Higashi Ward, Nagoya City; Ichinomiya City, Aichi Prefecture; Kakegawa City, Shizuoka Prefecture; and Suita City, Osaka Prefecture.

In August 2022, a consortium of businesses led by Chubu Electric Power of which ES-CON JAPAN is a member (hereinafter "Consortium") concluded a basic plan agreement on a project organized by Aichi Prefecture and the city of Nagoya concerning utilization of the site of the 20th Asian Games Aichi-Nagoya 2026 Athletes' Village after the games as a joint project with Chubu Electric Power. In addition, the consortium submitted a plan to utilize wood produced in Aichi Prefecture for "ideas for projects/plans for the realization of carbon neutrality" sought by Aichi Prefecture and concluded an agreement on the promotion of the utilization of wood in public buildings with Aichi Prefecture, the first of its kind in the prefecture, in September 2022.

Furthermore, we established TSUNAGU Community Farm LLC with Chubu Electric Power and Spread Co., Ltd. (hereinafter "Spread"), and are building 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. By combining Chubu Electric Power's knowledge in energy management with our real estate development capabilities and Spread's cultivation technology, we will efficiently and stably strive to produce "safe and secure" lettuce with the aim of commencing production in January 2024.

We will continue to strengthen our partnership with the Chubu Electric Power Group and actively work to achieve large-scale urban development and a "new form of community."

3) Progress of Projects in Hokkaido

As mentioned above, ES-CON JAPAN is participating in the urban development scheme for Hokkaido Ballpark F Village centered on "ES CON FIELD HOKKAIDO," the new stadium for the Hokkaido Nippon-Ham Fighters scheduled to commence operation in March 2023 and has entered into a naming rights agreement for the new stadium.

In February 2022, as the first project in the F VILLAGE urban development concept, and the only condominium development project in the F VILLAGE, we commenced sales of “Le JADE Hokkaido Ballpark” (Kitahiroshima City, Hokkaido Prefecture; 118 units in total). 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 visits to the condominium gallery exceeds 700, and both the first and second phases of sales sold out immediately, with contracts progressing for 108 of the 118 units, indicating a high level of interest from within and outside Hokkaido. The property has attracted attention from media within and outside Hokkaido and received many information requests and visits from around Japan. It was contracted to sell out early in September 2022.

Furthermore, in February 2022, we began development of a senior residence in the southeastern corner of F VILLAGE. It is 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, contributing to the health maintenance of people of all ages from the young to the elderly, and to regional healthcare.

In addition, we are advancing development of the JR Kitahiroshima Station “Train Station West Exit Area Revitalization Project” in Kitahiroshima City as a partner of the project, which is gaining increased attention as an important access point for F VILLAGE. We acquired part of the development site for the project in November 2021, and it is 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 steadily conducting development in front of the station.

Beyond Kitahiroshima City, in January 2022, we began sales of “Le JADE Sapporo Motomachi” (Higashi Ward, Sapporo City; 39 units in total), our first condominium within Sapporo City, and are also making steady progress with projects in Hokkaido, such as condominium development, etc. in Higashi Ward, Sapporo City.

We will continue to cooperate in the promotion of sports and culture and contribute to the revitalization and development of Kitahiroshima City and by extension the entire Hokkaido region for the happiness of its residents.

4) Initiatives Aimed at Regional Revitalization through Real Estate Development

Setting a goal of development that integrates “retail, office, and residential” in front of the station, we opened “tonarie CREO” at “tonarie Tsukuba Square,” a redevelopment project consisting of commercial facilities and offices in front of Tsukuba Station in Ibaraki Prefecture, in phases. On the land adjacent to it, we have developed the condominium “Le JADE Tsukuba Station Front (Tsukuba City, Ibaraki Prefecture; 218 units in total),” and sold all units with delivery scheduled for November 2022.

In February 2022, we also launched construction of the “Namiki no Mori City” development project, a mixed-use facility of residential, commercial and parking lot buildings in Iwaki City, Fukushima Prefecture, together with the Iwaki Station Namiki-dori District Urban Redevelopment Association and Hoosiers Corporation. This project will carry out redevelopment to create a further bustling atmosphere around the station. For the residential building, the plan is to develop a next-generation condominium that anticipates multi-generation residences under measures such as establishing residential units with barrier-free specifications (55 units), as the highest seismic isolation structure tower condominium in Iwaki City named “MID TOWER IWAKI.”

In March 2022, we entered into a basic agreement with Omura City regarding the “Shin-Omura Ekimae City Owned Land Development Project” in Omura City, Nagasaki Prefecture, together with Daiwa House Industry Co., Ltd., and Izumi Co., Ltd., as a member of a business group composed of the three companies. With Shin-Omura Station on the Nishi-Kyushu Shinkansen line opening in September 2022, the project is to develop condominiums, commercial facilities, etc. where residents and visitors from outside the city can interact with each other in line with the town development policy of Omura City. ES CON JAPAN is scheduled to be engaged in development of condominiums in two blocks.

In March 2022, we started development of a community-based shopping center “tonarie Hoshida (tentative name)” (Katano City, Osaka Prefecture) with Takara Leben Co., Ltd. (present MIRARTH HOLDINGS, Inc.). This facility is scheduled to open in the spring of 2023 as the tenth facility in our commercial facility brand “tonarie” series.

In June 2022, at a project site on the Itoshima Peninsula in the western part of Fukuoka Prefecture, which is surrounded by nature and enjoys access to a variety of activities such as swimming and surfing, we commenced the first hotel development in the area with LANDIC Hotel & Resort Co., Ltd.

Also in August 2022, we started the development of a clinic mall including seven medical treatment subjects (scheduled) at a location in Himeji City, Hyogo Prefecture, where the development of welfare facilities centered on a new hospital, which is scheduled to be opened in early 2023, is planned as a “medical/nursing care zone.” As represented by this example, as a general developer we are working on development of diverse real estate properties that are closely associated with their local communities.

5) Efforts to Promote Diverse Condominium Development and Provide Secure Housing

We are not simply expanding the number of units, but also providing a diverse range centered on product plans that draw out the full value of sites purchased.

In October 2022, “Ost Residence Karuizawa” (Karuizawa-machi, Kitasaku-gun, Nagano Prefecture; 33 units in total), which we developed on a location surrounded by the abundant nature of Karuizawa, won the Good Design Award for fiscal year 2022 for the recognition of its high-quality product planning. As another example, we have acquired two project sites in Hayama-machi, Miura-gun, Kanagawa in an effort to develop condominiums that fully utilize the abundant natural environment such as the Morito Coast. In this way, we have been promoting product planning with high added value leveraging locational characteristics.

Furthermore, we are engaged in diverse projects in rare locations in central Tokyo such as the acquisition of a project site (Minato Ward, Tokyo, “Repro Shimbashi Project” (tentative name)) located near JR Shimbashi Station in August 2021, development of “Le JADE Cross Chiyoda Jimbocho” (Chiyoda Ward, Tokyo; 50 units in total) adjacent to the Toho Gakkai Building designated as an historic building as an important building for the scenic development of Chiyoda-ku, Tokyo, and promotion of a condominium project (with partial ordinary leasehold rights) at a project site (“Minato-ku Nishiazabu 2-chome Project (tentative name)”) located in Nishiazabu, Minato-ku, Tokyo.

In addition, in December 2021, we formulated the IDEAL COMPASS quality management guideline clarifying our uncompromising attitude to improving quality related to condominium development to date as a company creating “lifelong items” in the form of housing. Furthermore, in May 2022, we began providing the Escon Premium After Support long-term after-sales service supporting the lifestyles of people living in condominiums, and will continue to provide housing that makes our customers feel safer, more secure and more comfortable.

6) Implementation of Strategic M&As

As mentioned above, ES-CON JAPAN made the Picasso Group engaged in the real estate leasing and other businesses its subsidiaries in October 2021. Picasso Co., Ltd. was founded in 1991 in Osaka City, and along with its group companies, it is engaged in the real estate leasing business mainly in the Kansai region. It owns numerous high-quality revenue-generating assets such as rental apartments and office buildings. The acquisition of subsidiaries will rapidly progress the “transformation” of the revenue structure in the fourth medium-term management plan by enhancing the real estate leasing business and securing stable revenues, and thus we believe it will contribute dramatically to the sustained growth of the ES-CON JAPAN Group.

In January 2022, ES-CON JAPAN acquired shares of FUEL Inc., which manages online funds and provides computer systems to specified joint real estate venture-type crowdfunding businesses, to make it a subsidiary. ES-CON JAPAN will expand its business domain, and also make possible the rapid establishment of a system that will enable it to take on the challenge of new real estate digital transformation (DX) businesses (such as ST and CF⁽²⁾) 5 to 10 years in the future.

We will continue to discuss positively with companies, etc. that are thinking of business succession, and will continue to actively consider M&A projects that do not appear in the market, with an aim to enhance the Group’s businesses and expand its domain.

^{*2} ST (Security Token) refers to investment management through the issuance of digital securities using blockchain technology.

CF (Crowdfunding) is a method of calling for funding from a large number of unspecified people via the Internet and raising funds from those who agree with the purpose.

7) Taking on the Challenges of New Business Domains

We are promoting diversification of business contents by stating “growing new businesses into core businesses” and “taking on the challenges of new business domains” in the fourth medium-term management plan. In January 2022, we established the Strategic Business Division, and by this, we are accelerating efforts for future generations.

ES-CON JAPAN has been promoting sales of permanent use rights of Ryomon, an urban-type columbarium in Minato Ward, Tokyo, since March 2021 in an effort to solve a problem facing modern society, namely the difficulty in obtaining graves particularly in inner-city areas, while aiming for developing into a new area of real estate business.

In December 2021, we entered into a basic agreement on the world's most advanced housing development with Serendix Inc., a company that aims to develop "Sphere," the world's most advanced house using 3D printing technology originating from Japan, and invested in the company. We will cooperate in research toward the development of Sphere and, in the future, apply the Sphere technology to fields other than housing such as stores, offices, and warehouses.

In addition, we are also engaged in multiple businesses overseas while carefully assessing the impact of the spread of COVID-19. Most recently, in March 2022, we invested in Agya Ventures Fund L.P., a fund that makes specialized investment in real estate-related venture companies and managed by Agya Ventures Fund (GP) LLC of the U.S. Through this investment, we will strengthen information collection of promising real estate tech^(*) companies overseas, and strive to build partnerships and develop joint ventures with promising overseas real estate companies that have not yet entered Japan. The purpose is to lead these into the further expansion of the Group's business domain and the creation of innovation.

We will continue to focus on initiatives in new business fields with a view to the next era and implement a multifaceted real estate business.

^{*}3 Real estate tech indicates efforts to use technology to solve problems in the real estate industry and change traditional business practices.

8) Declaration of Support for TCFD Recommendations and Disclosures

Based on the goal of achieving a carbon-neutral society by 2050, we are seeking to create new value for the environment through next-generation urban development and related efforts.

As a key management strategy to address climate change, we have selected members from management and each department to create the ESG Promotion Group, which has worked on disclosing information based on the TCFD framework recommendations calling for analyzing risks and opportunities presented by climate change and promoting disclosure on them. The ES-CON JAPAN Group declared its endorsement of the TCFD in June 2022.

Please visit our website (<https://www.es-conjapan.co.jp/esg/environment.html>) for more information disclosures based on the TCFD Recommendations (governance, strategies, risk management, indicators and targets on climate change risks and opportunities).

Risks and opportunities of the 1.5°C scenario (in which decarbonization will advance further) and the 3°C scenario (in which decarbonization will not progress from the current level), financial implications looking toward 2030, and an overview of strategies based on each scenario are detailed below.

- Risks and opportunities in the 1.5°C and 3°C scenarios, and the financial implications looking toward 2030

Classification		Risks/Opportunities relating to ES-CON JAPAN	Financial impact	Assessment of Financial Impact	
				3°C Scenario	1.5°C Scenario
Transition Risks	Policy and Regulations	Procurement prices for steel, cement, and other highly carbon-intensive construction materials rise; costs increase due to taxing of CO ₂ emissions from property construction and owned properties.	<ul style="list-style-type: none"> - Increase in procurement costs for materials - Increase in costs related to CO₂ emissions 	Low	Moderate
		Costs increase for low-carbon measures such as investments in energy-saving equipment. Operational and renovation costs for owned properties also rise.	<ul style="list-style-type: none"> - Increase in costs for capital investment and renovations, etc. 	Low	High
	Market	Properties that do not comply with ZEH or ZEB standards are no longer chosen by customers, resulting in higher vacancy rates, lower closing rates, rents, and sales prices.	<ul style="list-style-type: none"> - Decrease in sales due to lower rents and sales prices 	Low	Moderate
	Reputation	Lack of decarbonization efforts at real estate held and real estate for sale increases finance costs. Failure to meet investor expectations with regard to decarbonization activities affects ES-CON JAPAN's share price.	<ul style="list-style-type: none"> - Increase in financing costs 	Low	High
Physical Risks	Urgent	On-site construction of properties under development is disrupted; construction schedules are delayed.	<ul style="list-style-type: none"> - Increase in construction costs 	High	
		Owned properties located in disaster-prone areas may see property damage, equipment failure, and other functional issues resulting from disasters. This could lead to the need for repair costs and reduced property reputation that may result in increased vacancy rates. In addition, ES-CON JAPAN may be held liable for human casualties attributable to disasters at commercial facilities.	<ul style="list-style-type: none"> - Repair costs required - Decrease in sales due to higher vacancy rates - Compensation obligations 	High	
Opportunities	Products/ Services	Competitiveness of properties with low CO ₂ emissions grows. The reputation of buildings with environmental certification increases.	<ul style="list-style-type: none"> - Increase in sales due to improved competitiveness of properties 	Low	Moderate
	Market	Compact cities contribute to reduced travel distances and expand opportunities for mixed-use urban area development, allowing energy to be produced locally for local consumption and a wide range of generations to coexist and enjoy a high quality of life.	<ul style="list-style-type: none"> - Increase in sales due to increased opportunities for mixed-use development 	Low	High
		Decarbonization efforts are recognized by financial institutions; the acquisition of environmentally friendly loans reduces financing costs. The improved reputation of ES-CON JAPAN for decarbonization boosts share prices.	<ul style="list-style-type: none"> - Lower financing costs 	Low	High
	Resilience	Sales opportunities for disaster-resistant properties expand in disaster-prone areas. The ability to serve as a local recovery center in the event of disasters helps gain the support of local residents and customers, leading to lower vacancy rates.	<ul style="list-style-type: none"> - Increase in sales due to expanded property sales opportunities and lower tenant vacancy rates 	Moderate	

- Strategies based on scenario analysis

We plan to further consider measures for risks/opportunities that pose especially significant impact on our business based on the results of scenario analysis and financial impact assessments.

<Examples of response measures>

- Increase percentage of electricity use from renewable energy sources.
- Promote installation of LED lighting and other energy-saving equipment/devices among commercial facilities.
- Further promote ZEH-M development.
- Promote improvement of environmental performance evaluation by acquiring DBJ Green Building certification and CASBEE for Real Estate Certification.

9) Status of ESG Initiatives

One of our key management strategies is addressing social issues through ESG promotion. The “ESG Promotion Group,” and the “Health & Culture Fostering Team” for further promotion of health management, lead ESG initiatives.

The contents of the most recent major initiatives are as follows.

1. Environment (E)

• Acquisition of Various Certifications

In May 2020, ES-CON JAPAN acquired EcoAction 21 Certification, a Japanese environmental management system (EMS) established by the Ministry of the Environment. Furthermore, “tonarie Fujimino,” a commercial facility owned by ES-CON JAPAN, obtained “Rank S,” the highest rank of the Certification for CASBEE⁽⁴⁾ for Real Estate from a CASBEE accreditation body authorized by the Institute for Building Environment and Energy Conservation. Also, “tonarie Yamato-Takada,” “tonarie Toga-Mikita,” “tonarie Minamisenri,” “tonarie Seiwadai,” and “Asumigaoka Brand New Mall,” which are commercial facilities owned by ESCON JAPAN REIT Investment Corporation, obtained DBJ Green Building Certification from Development Bank of Japan Inc. Our group as a whole is working to improve the value of the facilities, and the above six properties are being operated and managed by our subsidiary ES-CON PROPERTY Ltd.

^{*4} CASBEE (Comprehensive Assessment System for Built Environment Efficiency) is a system to comprehensively assess the quality of a building, which evaluates and ranks the environmental performance of the building by taking into account not only environmental considerations such as energy savings and use of environmentally friendly materials, but also comfort in the building and its visual impact on the area.

• Continuous and Proactive Development of Environmentally Friendly ZEH-compatible Housing

In August 2022, ES-CON JAPAN acquired ZEH⁽⁵⁾-M Oriented certification for its condominium, “Le JADE Honkawagoe Koedo Terrace” (Kawagoe City, Saitama Prefecture; 102 units in total). The property features excellent heat insulation performance and helps reduce annual primary energy consumption. This is our third ZEH condominium following “Le JADE Okurayama” (Kohoku Ward, Yokohama City; 25 units in total), which won the Good Design Award for fiscal year 2021, and “Le JADE Yao Sakuragaoka” (Yao City, Osaka Prefecture; 72 units in total) which was contracted to sell out in June 2022.

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 that are appreciated by our customers.

Moreover, in November 2020, ES-CON Home Co., Ltd. and ES-CON Craft Co., Ltd., which are consolidated subsidiaries of ES-CON JAPAN, were registered for ZEH Builder Certification.

^{*5} 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.

• 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 Use of Wood in the Project Concerning Utilization of the Site of the 20th Asian Games Aichi-Nagoya 2026 Athletes’ Village

As mentioned above, 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 for the Company to win 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.

2. Social (S)

- Support for Kitahiroshima City, Hokkaido Prefecture by Utilizing “Corporate Version of Hometown Tax”

ES-CON JAPAN donated 300 million yen to Kitahiroshima City, Hokkaido Prefecture, in March 2022 by utilizing the “Corporate Version of Hometown Tax” under the hope that further progress in urban development and its spread to various fields such as transportation, tourism, sports and education, etc. will contribute to the further development of the city. In July, we received a letter of gratitude from the city. The funds will be utilized to maintain a vibrant city into the future.

- Contributing to Healthcare

Since 2020, we have been donating to the Kyoto University “iPS Cell Research Fund” to support activities realizing provision of early and inexpensive treatment using iPS cells for people suffering from diseases and accidents.

We have also been providing monetary donations to Osaka University’s Graduate School of Medicine since 2019 to support clinical trials for cancer vaccines showing promise for the treatment of cancer. In May 2022, we donated funds for the establishment of an endowed cancer immunology course, on which the school has been working, for the purpose of research of cancer immune therapy.

- Contribution to Sports Promotion

In April 2021, we invested in Ryukyu Football Club Co., Ltd. (hereinafter “Ryukyu FC”) which operates FC Ryukyu, a professional soccer team. With this investment, we will contribute to the local community through sports promotion by securing a foothold for the creation of business opportunities in Okinawa while at the same time supporting Ryukyu FC’s regional revitalization activities in Okinawa Prefecture.

3. Governance (G)

- Establishment of Voluntary Committee on Nomination and Remuneration of Directors

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 secured impartiality and transparency concerning director election and remuneration.

- Nurturing Successors

We also launched initiatives for a succession plan called the candidate successor system. We appointed a total of eight employed executive officers in January 2022.

- Diversity of the Board of Directors

In order to secure diversity of the board of directors, four independent directors (of which, one is female), which is half of the number of directors, are appointed. In addition, we have created a diverse board composition of a certified public accountant, tax accountant and attorney, a director experienced in corporate management and a securities analyst.

- Establishment of Compliance Office

In October 2022 ES-CON JAPAN established the Compliance Office directly under the President, taking the administrative disposition on ES-CON ASSET MANAGEMENT Ltd. (hereinafter “EAM”) with utmost seriousness. The purpose of the Compliance Office is to strengthen legal compliance and internal control systems and to monitor every aspect of transactions with related parties, as well as establish a framework for managing any conflicts of interest that arise, in order to prevent the recurrence of such incidents. The newly established Compliance Office is led by a Compliance Officer (Kenji Fujita, Director and Head of President’s Office), and will work to clarify management’s stance on legal compliance at ES-CON JAPAN and the ES-CON JAPAN Group as a whole and to strengthen awareness of compliance management issues.

4. Other

We have been participating in the Global ESG Benchmark for Real Assets (GRESB), which is an annual benchmark assessment measuring ESG consideration in the real estate sector, every year since 2018 with an aim to continuously improve the assessment results. In October 2022, we acquired “2 Stars” in the GRESB Rating, a five-grade evaluation system that reflects the applicant’s relative evaluation based on the overall score, for efforts on environmental consideration and sustainability in the “Development Benchmark” (reporting period: January 1, 2021 to December 31, 2021). In addition, we acquired the “Green Star”^(*6) rating for the fourth consecutive year.

*6 “Green Star” in the “Development Benchmark” is given to participants whose score is 50% or more in the absolute assessment based on the two main points, which are “Management Component” and “Development Component.”

10) Administrative Disposition for ES-CON Asset Management Ltd.

On July 15, 2022, the Commissioner of the Financial Services Agency implemented an administrative disposition, which consists of injunctions to suspend business operations and to institute improved practices targeting our consolidated subsidiary EAM. In response, EAM formulated a report on improved practices, which was submitted to and accepted by the Commissioner of the Financial Services Agency on August 15, 2022. For more information on the report on improved practices, please refer to the press release “Notice Concerning Submission of Business Improvement Plan by ES-CON ASSET MANAGEMENT Ltd.” announced on August 15, 2022.

ES-CON JAPAN, which is EAM’s parent company and the main sponsor of ES-CON JAPAN REIT Investment Corporation, for which EAM serves as asset manager, took this administrative disposition on EAM seriously and recognized it as an important issue for our group as a whole, and established the Compliance Office as mentioned above. In addition, we also plan to formulate “regulations on purchase and sale with stakeholders” to rectify the inadequacies of the system for managing conflicts of interest. Understanding the background to and root causes of this matter, we will continue to exert 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 as the parent company of EAM and the main sponsor of ESCON JAPAN REIT.

11) Business Development by Segment

In the real estate sales business, our core business, we are selling revenue-generating real estate and other properties, in addition to achieving steady progress in condominium sales.

In the condominium sales business, we have commenced selling of new sales projects including “Le JADE Sapporo Motomachi” (Higashi Ward, Sapporo City; 39 units in total), “Le JADE Shitennoji Yuhigaoka” (Tennoji Ward, Osaka City; 52 units in total), “Le JIAS Ohashi” (Minami Ward, Fukuoka City; 140 units in total), “Le JADE Takatsuki Minami Matsubara Bright” (Takatsuki City, Osaka Prefecture; 81 units in total), “Le JADE Matsudo Station Front” (Matsudo City, Chiba Prefecture; 44 units in total), “Le JADE Fushimi Momoyama” (Fushimi Ward, Kyoto City; 73 units in total), “Le JADE Cross Chiyoda Jimbocho” (Chiyoda Ward, Tokyo; 50 units in total), “Le JADE Midoribashi Ekimae” (Higashinari Ward, Osaka City; 48 units in total), “Le JADE Kanayama” (Naka Ward, Nagoya City; 43 units in total), “Le JADE Nagai Park Avenue” (Sumiyoshi Ward, Osaka City; 52 units in total), “Le JADE Kyoto Higashinotoin” (Shimogyo Ward, Kyoto City; 42 units in total), “Le JADE Honkawagoe Koedo Terrace” (Kawagoe City, Saitama Prefecture; 102 units in total) and “Le JADE Itabashi Honcho” (Itabashi Ward, Tokyo; 55 units in total).

Regarding the progress of sales, nine properties, namely “Le JADE Uehonmachi” (Tennoji Ward, Osaka City; 56 units in total), “Le JADE Nishinomiya Kitaguchi Hinokuchicho” (Nishinomiya City, Hyogo Prefecture; 94 units in total), “Le JADE Tennoji Katsuyama” (Tennoji Ward, Osaka City; 39 units in total), “Le JADE Senri Furuetai” (Suita City, Osaka Prefecture; 71 units in total), “Le JADE Suma Myohoji Ekimae” (Suma Ward, Kobe City; 40 units in total), “Le JADE bio Makuhari Hongo” (Hanamigawa Ward, Chiba City; 70 units in total), “Le JADE Takatsuki Nishimakami” (Takatsuki City, Osaka Prefecture; 43 units in total), “Mirakita City Himeji” (Himeji City, Hyogo Prefecture; 143 units in total), “Le JADE Senri Aoyamadai” (Suita City, Osaka Prefecture; 152 units in total) were sold out and “Le JADE Yao Sakuragaoka” (Yao City, Osaka Prefecture; 72 units in total) and “Le JADE Hokkaido Ballpark” (Kitahiroshima City, Hokkaido Prefecture; 118 units in total) were contracted to sell out, and sales and delivery have been smoothly progressing.

In addition, we are expanding our business area by steadily establishing business foundations in the five major urban areas of Kanto, Kansai, Chubu, Kyushu, and Hokkaido, including the progress of the condominium business in Hokkaido, and the sales of our first condominium in Kyushu “Le JIAS Ohashi” (Minami Ward, Fukuoka City; 140 units in total).

In the real estate leasing business, we made the Picasso Group our subsidiaries as mentioned above, thereby securing stable earnings by strengthening the leasing business.

In other areas, a pop-up store of “MUJI” in “tonarie Minami-Senri Annex” opened in November 2021 became the store boasting the largest sales floor area in the Kansai region in April 2022. We also acquired “Aisai Plaza” (Aisai City, Aichi Prefecture), “Selection Aobadai” (Kashiwa City, Chiba Prefecture), and a commercial leasehold land located in Tochigi City, Tochigi Prefecture. As such, we are making steady progress in strengthening our leasing business. In addition, aiming to transform to a stable and sustainable revenue structure, we are also working to develop and acquire commercial facilities and secure stable rent income from and improve the asset value of our commercial facilities, as represented by the promotion of renewal in “tonarie Utsunomiya” (Utsunomiya City, Tochigi Prefecture) through tenant replacement and the development of the aforementioned “tonarie Hoshida (tentative name).”

In the real estate planning agency and consulting business, we have started selling permanent use rights for columbaria. Leveraging our strength in planning, we are focusing on non-asset, high-margin businesses, such as the commissioning business and the planning agency and consulting business.

As a result, ES-CON JAPAN achieved net sales of 50,582 million yen (up 16.0%), operating income of 6,212 million yen (up 28.1%), ordinary income of 5,319 million yen (up 32.5%) and profit attributable to owners of parent of 3,393 million yen (up 16.7%) for the first three quarters, all compared with the same period of the previous fiscal year.

The following describes the operating results by each segment (comparisons are with the same period of the previous fiscal year).

1) Real estate sales business

In the real estate sales business, activities included selling condominiums and revenue-generating real estate resulted in net sales of 41,719 million yen (up 9.3%) and segment income of 7,560 million yen (up 8.6%).

2) Real estate leasing business

In the 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 8,489 million yen (up 65.6%) and segment income of 3,250 million yen (up 52.9%).

3) Real estate planning agency and consulting business

In the real estate planning agency and consulting business, proactive efforts were made in such aspects as entrustment with planning, consulting and other services by making the best use of planning and abilities in multifaceted business development, resulting in net sales of 372 million yen (up 10.0%) and segment income of 31 million yen (segment loss of 446 million yen in the same period of the previous fiscal year).

(3) Explanation of Financial Position

Assets at the end of the third quarter increased by 23,035 million yen compared with the end of the previous fiscal year to 275,806 million yen. This was mainly attributable to cash and deposits and property, plant and equipment decreasing by 2,001 million yen and 542 million yen, respectively, and inventories increasing by 25,130 million yen. In the third quarter of the fiscal year ending December 2022, a part of property, plant and equipment amounting to 1,405 million yen (buildings and structures and land) was transferred to real estate for sale in process due to the change in the purpose of holding.

Liabilities increased by 23,873 million yen compared with the end of the previous fiscal year to 214,016 million yen. This was mainly attributable to long-term loans payable and short-term loans payable increasing by 23,284 million yen.

Net assets decreased by 838 million yen compared with the end of the previous fiscal year to 61,789 million yen. This was mainly attributable to cash dividends paid of 3,669 million yen, while recording profit attributable to owners of parent of 3,393 million yen. As a result, the equity ratio was 22.5% (24.8% at the end of the previous fiscal year).

(4) Explanation of Consolidated Earnings Forecast and Other Forward-Looking Information

The consolidated earnings forecast remains unchanged from the forecast announced on January 27, 2022.

In addition, we are promoting our business under the fourth medium-term management plan, which is for the three-year period from the fiscal year ended December 2021 through the fiscal year ending December 2023. The management targets for the fiscal year ending December 2023, which is the final fiscal year of the fourth medium-term management plan, was partially revised in March 2022, and details such as the contents of the plan are as presented earlier in this document.

2. Quarterly Consolidated Financial Statements and Key Notes

(1) Quarterly Consolidated Balance Sheet

(Unit: million yen)

	Fiscal year ended Dec. 2021 (as of Dec. 31, 2021)	Third quarter of fiscal year ending Dec. 2022 (as of Sept. 30, 2022)
Assets		
Current assets		
Cash and deposits	33,667	31,665
Notes and accounts receivable - trade	835	—
Notes and accounts receivable - trade and contract assets	—	913
Real estate for sale	7,541	3,734
Real estate for sale in process	123,419	152,355
Other	11,396	11,601
Allowance for doubtful accounts	(0)	(0)
Total current assets	176,859	200,271
Non-current assets		
Property, plant and equipment		
Buildings and structures	23,312	22,617
Accumulated depreciation	(1,516)	(2,067)
Buildings and structures, net	21,795	20,550
Land	30,840	31,535
Other	387	430
Accumulated depreciation	(244)	(279)
Other, net	142	150
Total property, plant and equipment	52,778	52,236
Intangible assets		
Goodwill	8,217	7,827
Other	57	84
Total intangible assets	8,275	7,911
Investments and other assets		
Other	14,814	15,371
Allowance for doubtful accounts	(37)	(38)
Total investments and other assets	14,776	15,333
Total non-current assets	75,830	75,480
Deferred assets		
Share issuance cost	81	54
Total deferred assets	81	54
Total assets	252,771	275,806

(Unit: million yen)

	Fiscal year ended Dec. 2021 (as of Dec. 31, 2021)	Third quarter of fiscal year ending Dec. 2022 (as of Sept. 30, 2022)
Liabilities		
Current liabilities		
Short-term loans payable	3,589	3,380
Current portion of long-term loans payable	82,912	82,476
Income taxes payable	1,653	361
Other	14,368	16,275
Total current liabilities	102,523	102,494
Non-current liabilities		
Long-term loans payable	76,533	100,461
Provision for directors' share-based benefits	135	167
Provision for share-based benefits	57	98
Asset retirement obligations	270	271
Other	10,622	10,522
Total non-current liabilities	87,619	111,522
Total liabilities	190,143	214,016
Net assets		
Shareholders' equity		
Capital stock	16,519	16,519
Capital surplus	12,396	12,399
Retained earnings	34,745	34,469
Treasury shares	(1,216)	(1,501)
Total shareholders' equity	62,445	61,887
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	371	19
Foreign currency translation adjustment	(36)	48
Total accumulated other comprehensive income	334	68
Subscription rights to shares	0	0
Non-controlling interests	(152)	(166)
Total net assets	62,628	61,789
Total liabilities and net assets	252,771	275,806

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

(Unit: million yen)

	First three quarters of fiscal year ended Dec. 2021 (from Jan. 1, 2021, to Sept. 30, 2021)	First three quarters of fiscal year ending Dec. 2022 (from Jan. 1, 2022, to Sept. 30, 2022)
Net sales	43,620	50,582
Cost of sales	32,414	37,118
Gross profit	11,206	13,463
Selling, general and administrative expenses	6,357	7,251
Operating income	4,849	6,212
Non-operating income		
Interest income	10	0
Dividend income	52	68
Penalty income	17	37
Foreign exchange gains	15	451
Share of profit of entities accounted for using equity method	106	—
Other	13	8
Total non-operating income	215	567
Non-operating expenses		
Interest expenses	989	1,396
Share of loss of entities accounted for using equity method	—	28
Amortization of share issuance cost	18	27
Other	41	8
Total non-operating expenses	1,049	1,460
Ordinary income	4,015	5,319
Extraordinary income		
Gain on reversal of subscription rights to shares	0	0
Total extraordinary income	0	0
Extraordinary losses		
Loss on retirement of non-current assets	0	0
Total extraordinary losses	0	0
Profit before income taxes	4,015	5,318
Income taxes - current	1,333	1,766
Income taxes - deferred	180	172
Total income taxes	1,513	1,939
Profit	2,501	3,379
Loss attributable to non-controlling interests	(405)	(13)
Profit attributable to owners of parent	2,907	3,393

(Quarterly Consolidated Statement of Comprehensive Income)

(Unit: million yen)

	First three quarters of fiscal year ended Dec. 2021 (from Jan. 1, 2021, to Sept. 30, 2021)	First three quarters of fiscal year ending Dec. 2022 (from Jan. 1, 2022, to Sept. 30, 2022)
Profit	2,501	3,379
Other comprehensive income		
Valuation difference on available-for-sale securities	148	(352)
Foreign currency translation adjustment	17	(0)
Share of other comprehensive income of entities accounted for using equity method	12	85
Total other comprehensive income	178	(266)
Comprehensive income	2,680	3,112
Comprehensive income attributable to:		
Comprehensive income attributable to owners of parent	3,085	3,126
Comprehensive income attributable to non-controlling interests	(405)	(13)

(3) Notes to Quarterly Consolidated Financial Statements

(Notes on Going Concern Assumption)

Not applicable.

(Notes on Substantial Changes in the Amount of Shareholders' Equity)

Not applicable.

(Changes in Accounting Policies)

(Application of accounting standard for revenue recognition, etc.)

"Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 31, 2020; hereinafter "Revenue Recognition Accounting Standard"), etc. have been applied from the beginning of the first quarter of the fiscal year ending December 2022, and we decided to recognize as the amount expected to be received in exchange for goods or services at the time when control of promised goods or services is transferred to customers. As a result, although the total amount of consideration received from customers was previously recognized as revenue in some transactions, we decided to recognize the net amount arrived at by subtracting the amount paid to the supplier from the amount received from the customer as revenue for transactions in which the company or its domestic consolidated subsidiaries play the role of agents in provision of goods or services to customers.

Regarding the application of Revenue Recognition Accounting Standard, etc., in accordance with the transitional treatment stipulated in the proviso of paragraph 84 of the Revenue Recognition Accounting Standard, the cumulative effects of retrospective application of the new accounting policy, assuming it has been applied to periods prior to the beginning of the first quarter of the fiscal year ending December 2022, has been added to or subtracted from retained earnings at the beginning of the first quarter of the fiscal year ending December 2022, and the new accounting policy is applied from said balance. As a result, there was no impact on the balance of retained earnings at the beginning of the first quarter of the fiscal year ending December 2022. Furthermore, the impact of the application of the accounting standard on the quarterly consolidated financial statements is minimal.

Due to the application of Revenue Recognition Accounting Standard, etc., "Notes and accounts receivable - trade" indicated under "Current assets" in the consolidated balance sheet for the previous fiscal year ended December 2021 have been decided to be included in "Notes and accounts receivable - trade and contract assets" from the first quarter of the fiscal year ending December 2022. In accordance with the transitional treatment stipulated in paragraph 89-2 of the Revenue Recognition Accounting Standard, figures for the previous fiscal year have not been reclassified in accordance with the new approach to presentation. Furthermore, in accordance with the transitional treatment stipulated in paragraph 28-15 of "Accounting Standard for Quarterly Financial Reporting" (ASBJ Statement No. 12, March 31, 2020), information on the breakdown of revenue generated from contracts with customers for the first three quarters of the fiscal year ended December 2021 is not shown.

(Application of accounting standard for fair value measurement, etc.)

"Accounting Standard for Fair Value Measurement" (ASBJ Statement No. 30, July 4, 2019; hereinafter "Fair Value Measurement Accounting Standard"), etc., have been applied since the beginning of the first quarter of the fiscal year ending December 2022. In accordance with the transitional treatment stipulated in paragraph 19 of the Fair Value Measurement Accounting Standard and paragraph 44-2 of "Accounting Standard for Financial Instruments" (ASBJ Statement No. 10, July 4, 2019), we decided to apply the new accounting policies set forth by the Fair Value Measurement Accounting Standard, etc. in the future. There was no impact on the quarterly consolidated financial statements.

(Additional Information)

(Accounting estimates in line with the spread of COVID-19)

There are no significant changes in the assumptions concerning the impact of the COVID-19 pandemic stated in the previous fiscal year's securities report.

However, there are many factors of uncertainty concerning the impact of the COVID-19 pandemic, and thus if the real estate market deteriorates further, the operating results, financial position, and status of cash flow of ES-CON JAPAN Group may be materially impacted due to posting of appraisal loss of inventories and impairment loss, etc.

(Board Benefit Trust for Executives)

(1) Overview of the transaction

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

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

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

- 2) Total number of shares to be granted to the Directors, etc.
 - Resolution passed at the Regular General Meeting of Shareholders held on March 20, 2015
Upper limit of funds for acquisition of shares (for the five fiscal years from the fiscal year ended December 2015 to the fiscal year ended December 2019): 240 million yen
 - Resolution passed at the Regular General Meeting of Shareholders held on March 26, 2020
Upper limit of funds for acquisition of shares (for the three fiscal years from the fiscal year ended December 2020 to the fiscal year ending December 2022, and each subsequent period of three fiscal years): 330 million yen
 - Resolution passed at the Regular General Meeting of Shareholders held on March 26, 2021
Upper limit of funds for acquisition of shares (for the three fiscal years from the fiscal year ended December 2021 to the fiscal year ending December 2023 and each subsequent period of three fiscal years): 330 million yen
- 3) Scope of persons who are eligible to receive beneficiary rights and other rights under the System
The Directors, etc. of ES-CON JAPAN who have acquired the right to receive shares based on the officer stock ownership regulations.

(2) Residual Shares of ES-CON JAPAN in the Trust

Residual shares of ES-CON JAPAN in the trust are recorded as treasury shares under net assets using the book value in the trust (excluding the amount of incidental expenses). The book value of the treasury shares and the number of shares is 347 million yen and 851,000 shares for the previous fiscal year, and 347 million yen and 851,000 shares for the third quarter of the fiscal year ending December 2022.

(Share-Based Payment Benefits Type ESOP Trust)

(1) Overview of the transaction

ES-CON JAPAN passed a resolution to introduce a share-based payment benefits-type ESOP (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, ES-CON JAPAN 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 ES-CON JAPAN contributes money to a trust for a new period of seven fiscal years from the fiscal year ending 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 ES-CON JAPAN with the said money as capital, and shares of ES-CON JAPAN are granted to ES-CON JAPAN Group's employees who have satisfied certain requirements through the trust, pursuant to the stock ownership regulations set by ES-CON JAPAN.

(2) Residual Shares of ES-CON JAPAN in the Trust

Residual shares of ES-CON JAPAN in the trust are recorded as treasury shares under net assets using the book value in the trust (excluding the amount of incidental expenses). The book value of the treasury shares and the number of shares is 57 million yen and 225,700 shares for the previous fiscal year ended December 2021, and 347 million yen and 574,000 shares for the third quarter of the fiscal year ending December 2022.

(Changes in purpose of holding)

In the third quarter of the fiscal year ending December 2022, 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) has been transferred to real estate for sale in process due to the change in the purpose of holding.

(Segment Information, Etc.)

[Segment Information]

I. First Three Quarters of Fiscal Year Ended December 2021 (from January 1, 2021 to September 30, 2021)

1. Information on Net Sales and Income or Loss Amounts by Reporting Segment

(Unit: million yen)

	Reporting segment			Total	Reconciliation (Note 1)	Amount on quarterly consolidated statement of income (Note 2)
	Real estate sales business	Real estate leasing business	Real estate planning agency and consulting business			
Net sales						
Net sales to external customers	38,156	5,125	338	43,620	—	43,620
Intersegment net sales or transfers	—	—	—	—	—	—
Total	38,156	5,125	338	43,620	—	43,620
Segment income (loss)	6,959	2,125	(446)	8,638	(3,788)	4,849

(Note 1) The reconciliation of segment income (loss) of -3,788 million yen is corporate expenses not attributable to any reporting segment. Corporate expenses are general and administrative expenses not attributable to reporting segments.

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

2. Information on Impairment Loss on Non-Current Assets or Goodwill, Etc. by Reporting Segment
Not applicable.

II. First Three Quarters of Fiscal Year Ending December 2022 (from January 1, 2022 to September 30, 2022)

1. Information on Net Sales and Income or Loss Amounts by Reporting Segment and Information on Breakdown of Revenue

(Unit: million yen)

	Reporting segment			Total	Reconciliation (Note 1)	Amount on quarterly consolidated statement of income (Note 2)
	Real estate sales business	Real estate leasing business	Real estate planning agency and consulting business			
Net sales						
Revenue from contracts with customers	41,719	786	372	42,879	—	42,879
Other items (Note 3)	—	7,702	—	7,702	—	7,702
Net sales to external customers	41,719	8,489	372	50,582	—	50,582
Intersegment net sales or transfers	—	—	—	—	—	—
Total	41,719	8,489	372	50,582	—	50,582
Segment income	7,560	3,250	31	10,841	(4,629)	6,212

(Note 1) The reconciliation of segment income of -4,629 million yen is corporate expenses not attributable to any reporting segment. Corporate expenses are general and administrative expenses not attributable to reporting segments.

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

(Note 3) "Other revenue" is rental income, etc. based on "Accounting Standard for Lease Transactions."

2. Information on Impairment Loss on Non-Current Assets or Goodwill, Etc. by Reporting Segment
Not applicable.

(Significant Subsequent Events)

Not applicable.

3. Other

Status of Contracts and Sales

The performance of contracts in the real estate sales business for the third quarter is as follows:

Classification	Third quarter of fiscal year ending Dec. 2022 (from Jul. 1, 2022 to Sept. 30, 2022)			
	Contract amount during the period		Balance of contracts at the end of the period	
	Number of units (units)	Amount (million yen)	Number of units (units)	Amount (million yen)
Mid- to high-rise housing, etc.	292	15,545	1,031	59,828
Other	—	1,260	—	18,781
Total	292	16,806	1,031	78,610

The main performance of sales by segment for the first three quarters is as follows:

Name of segment	First three quarters of fiscal year ending Dec. 2022 (from Jan. 1, 2022 to Sept. 30, 2022)		
	Property name	Number of units (units)	Amount (million yen)
Real estate sales business	Condominiums	630	29,678
	Genboen Block 6, Koga-shi	—	5,479
	Chiba Research Park	—	3,001
	Nishi-Kunitachi	—	373
	Tsuruma Station Front	—	323
	Nishi-Tokorozawa	—	268
	Other	—	2,597
	Subtotal	630	41,719
Real estate leasing business			8,489
Real estate planning agency and consulting business			372
	Total		50,582

(Note) There are no transactions between segments.

Note: This document has been translated from a part of the Japanese original for reference purposes only. In the event of any discrepancy between this translated document and the Japanese original, the original shall prevail.