



Summary of Accounts for Fiscal Year Ended December 2018 (Japanese GAAP) (Consolidated)

February 8, 2019

Name of listed company: ES-CON JAPAN Ltd. Listing exchange: Tokyo Stock Exchange
 Code: 8892 URL: <https://www.es-conjapan.co.jp>
 Representative: (Name) Takatoshi Ito (Position) President & Representative Director
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 Scheduled date for next regular general meeting of shareholders: March 26, 2019
 Scheduled date for submission of periodic securities report: March 27, 2019
 Scheduled date for start of dividend payment: March 27, 2019
 Supplementary explanatory materials created for accounts? Yes/No: No
 Accounts briefing meeting held? Yes/No: Yes (for institutional investors and analysts)

(Amounts are rounded down to the nearest million yen)

1. Consolidated results for fiscal year ended December 2018 (from January 1, 2018 to December 31, 2018)

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

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent	
	million yen	%	million yen	%	million yen	%	million yen	%
Fiscal year ended Dec. 2018	54,325	21.5	11,561	64.2	10,498	75.3	7,226	32.4
Fiscal year ended Dec. 2017	44,724	30.2	7,042	50.5	5,988	67.5	5,456	38.6

Note: Comprehensive income

Fiscal year ended Dec. 2018: 7,211 million yen [32.2%] Fiscal year ended Dec. 2017: 5,453 million yen [37.8%]

	Basic earnings per share	Diluted earnings per share	Return on equity	Return on assets	Operating margin
	yen	yen	%	%	%
Fiscal year ended Dec. 2018	105.98	105.48	29.6	10.7	21.3
Fiscal year ended Dec. 2017	81.77	79.81	28.1	7.5	15.7

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

Fiscal year ended Dec. 2018: —million yen Fiscal year ended Dec. 2017: —million yen

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Book value per share
	million yen	million yen	%	yen
Fiscal year ended Dec. 2018	109,747	27,359	24.9	400.47
Fiscal year ended Dec. 2017	86,435	21,433	24.8	315.14

Reference: Equity

Fiscal year ended Dec. 2018: 27,358 million yen Fiscal year ended Dec. 2017: 21,432 million yen

(3) Consolidated cash flows

	Net cash provided by (used in) operating activities	Net cash provided by (used in) investing activities	Net cash provided by (used in) financing activities	Cash and cash equivalents at end of period
	million yen	million yen	million yen	million yen
Fiscal year ended Dec. 2018	(7,123)	223	12,818	16,563
Fiscal year ended Dec. 2017	(10,694)	9,167	3,979	10,644

2. Dividends

	Annual dividend					Total dividend amount (Total)	Dividend payout ratio (Consolidated)	Dividend on equity (Consolidated)
	End of first quarter	End of second quarter	End of third quarter	Year-end	Total			
Fiscal year ended Dec. 2017	—	0.00	—	18.00	18.00	1,238	22.0	6.3
Fiscal year ended Dec. 2018	—	0.00	—	32.00	32.00	2,209	30.2	8.9
Fiscal year ending Dec. 2019 (Forecast)	—	0.00	—	35.00	35.00		30.4	

3. Consolidated earnings forecast for fiscal year ending December 2019 (from January 1, 2019 to December 31, 2019)
 (% figures for the full fiscal year show the rate of increase (decrease) compared with the previous fiscal year, and
 % figures for the first two quarters show the rate of increase (decrease) compared with the same period of the previous year)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent		Basic earnings per share
	million yen	%	million yen	%	million yen	%	million yen	%	yen
First two quarters	30,500	23.8	6,200	68.2	5,600	76.2	3,800	76.9	55.63
Full fiscal year	74,800	37.7	12,500	8.1	11,200	6.7	7,800	7.9	115.10

* Explanatory notes

- (1) Changes in significant subsidiaries during fiscal year
 (Changes in specified subsidiaries resulting in change in scope of consolidation): None
 Newly included: — companies (Company name) —
 Excluded: — companies (Company name) —

- (2) 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

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

1) Number of shares issued and outstanding (including treasury shares) at end of fiscal year	Fiscal year ended Dec. 2018	71,649,387 shares	Fiscal year ended Dec. 2017	71,203,387 shares
2) Number of treasury shares at end of fiscal year	Fiscal year ended Dec. 2018	3,334,900 shares	Fiscal year ended Dec. 2017	3,195,300 shares
3) Average number of shares during fiscal year	Fiscal year ended Dec. 2018	68,185,053 shares	Fiscal year ended Dec. 2017	66,724,613 shares

Note: The number of treasury shares at end of fiscal year includes ES-CON JAPAN shares held in a share-based payment benefits trust for directors and a share-based payment benefits type ESOP trust (fiscal year ended December 2018: 487,200 shares in the share-based payment benefits trust for directors and 234,300 shares in the share-based payment benefits type ESOP trust). In the calculation of the average number of shares during fiscal year, the treasury shares to be subtracted in that calculation includes ES-CON JAPAN shares held in the share-based payment benefits trust for directors and the share-based payment benefits type ESOP trust (fiscal year ended December 2018: 768,063 shares).

* Presentation regarding implementation of audit procedures

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

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

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

Attachment 1

1. Overview of Operating Results, etc.

(1) Analysis of Operating Results

ES-CON JAPAN Ltd. (ES-CON JAPAN or the Company) concluded a business partnership agreement (“Business Partnership”) with Chubu Electric Power Co., Inc. (Chubu Electric Power) as of August 28, 2018, based on the resolution made at the Company's board of directors meeting held on the same day.

The agreement is aimed at maximizing the corporate value of both companies, as it can generate synergistic effects by taking advantage of our strengths regarding planning and operational expertise, etc. in the real estate business, and utilizing the strengths of the Chubu Electric Power Group in energy supply, customer bases in the Chubu region and know-how in facility construction works it has fostered through its electric power business, etc.

In terms of capital structure, ESCON-JAPAN became an equity-method affiliate of Chubu Electric Power, as the latter acquired 22,980,000 shares of the former from Mr. Kouryu Oh, the former largest shareholder and a major shareholder, Tenma Seiryu Co., Ltd., a former major shareholder, and two other shareholders of the Company.

Furthermore, ESCON-JAPAN plans to establish a Nagoya branch on March 1, 2019. ES-CON Japan intends to promote businesses to satisfy local customers and contribute to regional revitalization of the Chubu region as a core business area comparable to the Tokyo metropolitan area and the Kansai region by mutually utilizing the overwhelmingly wide customer base of Chubu Electric Power and Chuden Real Estate Co., Inc. of the Chubu Electric Power Group in the Chubu region along with the real estate development capabilities of ES-CON Japan.

ES-CON JAPAN will focus on the following initiatives through the business partnership with Chubu Electric Power.

1. Initiatives on businesses that should make significant social contributions, such as urban development and regional revitalization

Taking advantage of the Company's planning and operational expertise in its real estate business combined with Chubu Electric Power's deep relationship with local residents should allow the Chubu Electric Power Group to conduct urban development and create new communities for local residents.

2. Reinforcement of business foundation and enhancement of corporate value by mutually complementing business areas and real estate business domains

In terms of the real estate business, the Chubu Electric Power Group is involved mainly in real estate leasing primarily in the Chubu region, while ES-CON JAPAN mainly conducts sales of for-sale condominiums and real estate for lease in major cities in the Tokyo metropolitan area, Kansai region and Fukuoka. Making the utmost of the high complementarity in their business areas and real estate business domains, the two companies will jointly conduct real estate operations as well as endeavor to expand their business domains and reinforce their business foundation in an effort to further enhance respective corporate value.

ES-CON Asset Management Ltd., the consolidated subsidiary of ES-CON JAPAN, obtained approval from the Tokyo Stock Exchange, Inc. on December 25, 2018 to list investment units issued by ESCON JAPAN REIT Investment Corporation (hereinafter “ESCON REIT”), of which asset management is entrusted to ES-CON Asset Management Ltd., on the Tokyo Stock Exchange Real Estate Investment Trust Securities Market, and the listing is scheduled to take place on February 13, 2019.

ESCON REIT is a diversified J-REIT which mainly invests in “everyday life-based” commercial facilities closely associated with their local communities and in land with leasehold interest for such commercial facilities located in the four major metropolitan areas (*).

ES-CON Japan Group intends to fully support enhancement of earnings and stable growth of ESCON REIT as a sponsor and aims for further growth. In addition, Chubu Electric Power has become a support company of ESCON REIT.

*Four major metropolitan areas are Tokyo metropolitan area, Kinki metropolitan area, Chukyo metropolitan area and Fukuoka metropolitan area. Tokyo metropolitan area refers to Tokyo, Kanagawa, Saitama, Chiba, Ibaraki, Tochigi and Gunma prefectures; Kinki metropolitan area to Osaka, Kyoto, Hyogo, Nara and Shiga prefectures; Chukyo metropolitan area to Aichi, Shizuoka, Mie and Gifu prefectures; and Fukuoka metropolitan area to Fukuoka prefecture.

In the consolidated fiscal year under review (fiscal year ended December 2018), the Japanese economy showed potential to maintain a moderate recovery due in part to various governmental measures proving effective amid ongoing improvement in the employment and income situation. The economic outlook remains clouded, however, as the situation calls for attention to the impact of U.S.-China trade issues on the world economy, uncertainties in overseas economies including the Brexit issues, the effects of fluctuations in the financial and capital markets and the impact of natural disasters, among other factors.

The real estate industry in which the ES-CON JAPAN Group operates held resilient and firm due in part to low interest rates from monetary easing policies, but the situation warrants no optimism because of such factors as a rise in land prices, intensified competition over land acquisitions, the risk of higher interest rates and the consumption tax rate hike.

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

In the real estate sales business, which is our core business, we conducted income-generating real estate sales, etc., and made steady progress in condominium sales, too.

In for-sale projects, construction completed in the fiscal year under review for “Feel Garden MinamiSenri (Suita City, Osaka Prefecture; 214 units in total),” “Le JADE Southern Gate Toyoda (Hino City, Tokyo; 51 units in total),” “Le JADE Kawasaki (Saiwai Ward, Kawasaki City; 79 units in total),” “Le JADE Minamimorimachi (Kita Ward, Osaka City; 29 units in total),” “Grand Le JADE Okamoto (Higashi-Nada Ward, Kobe City; 18 units in total)” and “Le JADE Nagaokakyo (Nagaokakyo City, Kyoto; 35 units in total), which were sold out upon completion. Progress continues steadily for such for-sale projects as “Grand Le JADE Jiyugaoka (Meguro Ward, Tokyo; 23 units in total),” “Le JADE Nakano (Nakano Ward, Tokyo; 25 units in total)” and “Le JADE Bio Funabashi Kitanarashino (Funabashi City, Chiba Prefecture; 50 units in total).”

In the commercial development business, tonarie Yamato-Takada, a retail property in Yamato-Takada City, Nara Prefecture, opened in November 2018 and has been visited by many customers including residents from surrounding areas, serving as a new local facility for the community.

In addition, ES-CON JAPAN acquired two retail properties (Tsukuba Q't and Tsukuba MOG) in Tsukuba City, Ibaraki in December 2018. ES-CON JAPAN intends to further revitalize the town by promoting Tsukuba Station-front development.

Furthermore, to promote diversification of for-sale projects, ES-CON JAPAN has participated in a reconstruction project of “Le JADE Kuzuha (Hirakata City, Osaka Prefecture; 78 units in total)” as a member of condominium reconstruction association and has started sales. Moreover, ES-CON JAPAN has launched a land readjustment project to develop a distribution and industrial center (Koga City, Fukuoka Prefecture; total development area of approximately 80,000 tsubo) as well as a logistics project to develop a logistics facility (Kato City, Hyogo Prefecture; building area of approximately 13,000 tsubo; scheduled to be completed in September 2019).

Moreover, we have placed our focus on hotel development projects incorporating inbound tourism needs. In the period under review, 12 projects are underway in Tokyo, Osaka, Kanazawa and Fukuoka, 8 projects started operations in Chuo Ward, Osaka City, Chiyoda Ward, Tokyo and Kanazawa City, Ishikawa Prefecture, sales contracts were newly concluded for 7 projects, and sales completed for 7 projects. We also have launched development of an exclusively-for-student residence in Sugunami Ward, Tokyo eyeing on the increase of foreign students from abroad.

As such, ES-CON JAPAN conducted business operations in a steady and proactive manner, acquiring new business sites for 8 projects in the Tokyo metropolitan area, 16 projects in the Kinki metropolitan area and 3 projects in other areas as well as retail properties in the consolidated fiscal year under review (fiscal year ended December 2018), to be used as the site for for-sale, commercial and other multifaceted development.

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

In the real estate planning agency and consulting business, we are focusing on non-asset and profitable businesses such as entrustment and planning agency consulting services by utilizing planning abilities as our strength.

We have set a new goal to “realize the creation of new value and sustainable growth with the promotion of ESG” in our growth strategy in the second medium-term management plan “IDEAL to REAL 2019,” and endeavor to reinforce our activities related to ESG awareness. As part of such activities, we have started initiatives to apply the environmentally-friendly Net Zero Energy House (ZEH) concept to the for-sale condominiums we develop, and

commenced joint research with Tokyo University of Science regarding environmental design systems. With these efforts, we will work to enhance our corporate value from the criteria of “environment, society and governance” awareness.

As a result, business performance for the fiscal year ended December 2018 was net sales of 54,325 million yen (up 21.5% compared with the previous fiscal year), operating income of 11,561 million yen (up 64.2% compared with the previous fiscal year), ordinary income of 10,498 million yen (up 75.3% compared with the previous fiscal year) and profit attributable to owners of parent of 7,226 million yen (up 32.4% compared with the previous fiscal year).

The following is the business performance by segment.

1) Real estate sales business

In the real estate sales business, activities included promoting condominium sales and selling real estate for sale and real estate for sale in process, resulting in net sales of 50,519 million yen (up 22.7% compared with the previous fiscal year) and segment income of 12,341 million yen (up 54.7% compared with the previous fiscal year).

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 3,400 million yen (down 1.7%) and segment income of 2,128 million yen (up 20.8%).

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 multifaceted business building abilities, resulting in net sales of 405 million yen (up 321.4% compared with the previous fiscal year) and segment income of 369 million yen (up 332.3% compared with the previous fiscal year).

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

The second medium-term management plan “IDEAL to REAL 2019” for the three-year period from the fiscal year ended December 2017 to the fiscal year ending December 2019 is progressing smoothly and more profits were achieved than originally planned in the fiscal year ended December 2017 and the fiscal year ended December 2018, the first and second fiscal years. For an outline of the second medium-term management plan, please see “Attachment 2; Management Policy; (2) Medium- to Long-Term Corporate Management Strategy and Management Indicator Targets” on page 20.

In light of the above, the consolidated earnings forecast for the fiscal year ending December 2019 is net sales of 74,800 million yen, operating income of 12,500 million yen, ordinary income of 11,200 million yen and profit attributable to owners of parent of 7,800 million yen.

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

(2) Analysis of Financial Position

1) Assets, liabilities and net assets

Assets at the end of the fiscal year ended December 2018 increased by 23,311 million yen compared with the end of the previous fiscal year to 109,747 million yen. This was mainly attributable to cash and deposits increasing by 5,930 million yen and inventories increasing by 16,978 million yen, respectively.

Liabilities increased by 17,385 million yen in comparison with the end of the previous fiscal year to 82,387 million yen. This was mainly attributable to long-term loans payable and short-term loans payable increasing by 14,152 million yen.

Net assets and bonds increased by 5,926 million yen in comparison with the end of the previous fiscal year to 27,359 million yen. This was attributable to recording profit attributable to owners of parent of 7,226 million yen against dividends of surplus paid of 1,238 million yen and purchase of treasury shares of 131 million yen. As a result, the equity ratio was 24.9% (24.8% at the end of the previous fiscal year).

2) Cash flows

Cash and cash equivalents ("net cash") in the fiscal year ended December 2018 increased by 5,918 million yen compared with the end of the previous fiscal year to 16,563 million yen (10,644 million yen at the end of the previous fiscal year). The following outlines the cash flows and the factors of changes in cash flows in the fiscal year ended December 2018.

(Cash flows from operating activities)

Cash flows from operating activities in the fiscal year ended December 2018 amounted to net cash used in operating activities of 7,123 million yen (net cash used in operating activities of 10,694 million yen in the previous fiscal year). This was mainly attributable to recording profit before income taxes of 10,445 million yen and increase in inventories of 16,489 million yen.

(Cash flows from investing activities)

Cash flows from investing activities in the fiscal year ended December 2018 amounted to net cash provided by investing activities of 223 million yen (net cash provided by investing activities of 9,167 million yen in the previous fiscal year). This was mainly attributable to proceeds from and repayments of guarantee deposits received amounting to net proceeds of 796 million yen.

(Cash flows from financing activities)

Cash flows from financing activities in the fiscal year ended December 2018 amounted to net cash provided by financing activities of 12,818 million yen (net cash provided by financing activities of 3,979 million yen in the previous fiscal year). This was mainly attributable to proceeds from and repayments of long-term loans payable and short-term loans payable amounting to net proceeds of 14,152 million yen, cash dividends paid of 1,237 million yen and payments due to purchase of treasury shares of 131 million yen.

Reference: Changes in cash flow indicators

	Fiscal year ended Dec. 2014	Fiscal year ended Dec. 2015	Fiscal year ended Dec. 2016	Fiscal year ended Dec. 2017	Fiscal year ended Dec. 2018
Equity ratio (%)	23.2	24.1	23.6	24.8	24.9
Equity ratio on market capitalization basis (%)	26.5	31.7	41.9	54.0	42.2
Ratio of interest-bearing liabilities to cash flows (%)	—	—	—	—	—
Interest coverage ratio (times)	—	—	—	—	—

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

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

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

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

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

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

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

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

For the year-end dividend for the fiscal year ended December 2018, with a 12 yen increase from the initial forecast of 20 yen per share, payment of 32 yen per share is scheduled. In addition, the dividend payout ratio is 30.2%.

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

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

For the fiscal year ending December 2019, the dividend forecast is 35 yen per share.

2. Consolidated Financial Statements

(1) Consolidated Balance Sheet

(Unit: million yen)

	Fiscal year ended Dec. 2017 (as of Dec. 31, 2017)	Fiscal year ended Dec. 2018 (as of Dec. 31, 2018)
Assets		
Current assets		
Cash and deposits	10,667	16,598
Notes and accounts receivable - trade	497	491
Real estate for sale	4,162	15,308
Real estate for sale in process	60,057	65,890
Deferred tax assets	298	247
Other	4,819	6,353
Total current assets	80,504	104,890
Non-current assets		
Property, plant and equipment		
Buildings and structures	1,476	1,459
Accumulated depreciation	(410)	(462)
Buildings and structures, net	1,066	997
Land	623	623
Leased assets	18	9
Accumulated depreciation	(13)	(6)
Leased assets, net	4	2
Other	129	142
Accumulated depreciation	(93)	(107)
Other, net	35	35
Total property, plant and equipment	1,729	1,658
Intangible assets		
Other	28	30
Total intangible assets	28	30
Investments and other assets		
Investment securities	1,901	2,077
Deferred tax assets	1,675	111
Other	600	1,016
Allowance for doubtful accounts	(4)	(37)
Total investments and other assets	4,173	3,167
Total non-current assets	5,930	4,856
Total assets	86,435	109,747

(Unit: million yen)

	Fiscal year ended Dec. 2017 (as of Dec. 31, 2017)	Fiscal year ended Dec. 2018 (as of Dec. 31, 2018)
Liabilities		
Current liabilities		
Short-term loans payable	1,953	1,720
Current portion of long-term loans payable	22,462	23,993
Current portion of bonds	40	40
Lease obligations	1	0
Accounts payable - other	1,615	1,731
Income taxes payable	467	1,448
Advances received	1,467	3,051
Deposits received	4,368	4,933
Asset retirement obligations	—	33
Other	287	255
Total current liabilities	32,664	37,210
Non-current liabilities		
Bonds payable	110	270
Long-term loans payable	31,874	44,568
Lease obligations	2	1
Provision for directors' share-based benefits	82	97
Provision for share-based benefits	18	30
Asset retirement obligations	93	77
Other	155	130
Total non-current liabilities	32,337	45,176
Total liabilities	65,002	82,387
Net assets		
Shareholders' equity		
Capital stock	6,224	6,259
Capital surplus	1,953	1,988
Retained earnings	14,322	20,310
Treasury shares	(1,089)	(1,207)
Total shareholders' equity	21,411	27,352
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	20	6
Total accumulated other comprehensive income	20	6
Subscription rights to shares	1	1
Total net assets	21,433	27,359
Total liabilities and net assets	86,435	109,747

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

(Unit: million yen)

	Fiscal year ended Dec. 2017 (from Jan. 1, 2017 to Dec. 31, 2017)	Fiscal year ended Dec. 2018 (from Jan. 1, 2018 to Dec. 31, 2018)
Net sales	44,724	54,325
Cost of sales	33,164	37,397
Gross profit	11,559	16,927
Selling, general and administrative expenses		
Advertising expenses	1,501	1,965
Sales commission	515	459
Directors' compensations	175	190
Salaries and allowances	963	1,126
Provision for directors' share-based benefits	30	28
Provision for share-based benefits	5	12
Commission fee	224	373
Taxes and dues	351	328
Other	749	881
Total selling, general and administrative expenses	4,517	5,366
Operating income	7,042	11,561
Non-operating income		
Interest income	0	0
Dividend income	2	2
Cancellation income	24	12
Reversal of allowance for doubtful accounts	29	—
Other	1	2
Total non-operating income	58	17
Non-operating expenses		
Interest expenses	1,093	1,020
Other	18	60
Total non-operating expenses	1,112	1,080
Ordinary income	5,988	10,498
Extraordinary income		
Gain on sales of non-current assets	372	—
Gain on sales of shares of subsidiaries and associates	22	—
Gain on reversal of subscription rights to shares	—	0
Total extraordinary income	395	0
Extraordinary losses		
Loss on retirement of non-current assets	0	5
Impairment loss	150	47
Total extraordinary losses	150	52
Profit before income taxes	6,232	10,445
Income taxes - current	497	1,604
Income taxes - deferred	279	1,615
Total income taxes	776	3,219
Profit	5,456	7,226
Profit attributable to owners of parent	5,456	7,226

(Consolidated Statement of Comprehensive Income)

(Unit: million yen)

	Fiscal year ended Dec. 2017 (from Jan. 1, 2017 to Dec. 31, 2017)	Fiscal year ended Dec. 2018 (from Jan. 1, 2018 to Dec. 31, 2018)
Profit	5,456	7,226
Other comprehensive income		
Valuation difference on available-for-sale securities	(2)	(14)
Total other comprehensive income	(2)	(14)
Comprehensive income	5,453	7,211
Comprehensive income attributable to:		
Comprehensive income attributable to owners of parent	5,453	7,211
Comprehensive income attributable to non-controlling interests	—	—

(3) Consolidated Statement of Changes in Equity

Fiscal year ended December 2017 (from January 1, 2017 to December 31, 2017)

(Unit: million yen)

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

(Unit: million yen)

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

Fiscal year ended December 2018 (from January 1, 2018 to December 31, 2018)

(Unit: million yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	6,224	1,953	14,322	(1,089)	21,411
Changes of items during period					
Issuance of new shares	35	35			70
Dividends of surplus			(1,238)		(1,238)
Profit attributable to owners of parent			7,226		7,226
Purchase of treasury shares				(131)	(131)
Disposal of treasury shares				13	13
Net changes of items other than shareholders' equity					
Total changes of items during period	35	35	5,987	(117)	5,940
Balance at end of current period	6,259	1,988	20,310	(1,207)	27,352

(Unit: million yen)

	Accumulated other comprehensive income		Subscription rights to shares	Total net assets
	Valuation difference on available-for-sale securities	Total accumulated other comprehensive income		
Balance at beginning of current period	20	20	1	21,433
Changes of items during period				
Issuance of new shares				70
Dividends of surplus				(1,238)
Profit attributable to owners of parent				7,226
Purchase of treasury shares				(131)
Disposal of treasury shares				13
Net changes of items other than shareholders' equity	(14)	(14)	0	(14)
Total changes of items during period	(14)	(14)	0	5,926
Balance at end of current period	6	6	1	27,359

(4) Consolidated Statement of Cash Flows

(Unit: million yen)

	Fiscal year ended Dec. 2017 (from Jan. 1, 2017 to Dec. 31, 2017)	Fiscal year ended Dec. 2018 (from Jan. 1, 2018 to Dec. 31, 2018)
Cash flows from operating activities		
Profit before income taxes	6,232	10,445
Depreciation	186	80
Impairment loss	150	47
Increase (decrease) in allowance for doubtful accounts	(73)	33
Increase (decrease) in provision for directors' share-based benefits	28	15
Increase (decrease) in provision for share-based benefits	5	12
Interest and dividend income	(2)	(2)
Interest expenses	1,093	1,020
Loss (gain) on sales of non-current assets	(372)	—
Loss on retirement of non-current assets	0	5
Loss (gain) on sales of shares of subsidiaries and associates	(22)	—
Decrease (increase) in notes and accounts receivable - trade	(211)	5
Decrease (increase) in inventories	(18,943)	(16,489)
Decrease (increase) in prepaid expenses	(529)	(475)
Increase (decrease) in accounts payable - other	532	111
Decrease/increase in consumption taxes receivable/payable	368	(45)
Increase (decrease) in advances received	110	1,584
Increase (decrease) in deposits received	2,597	(220)
Decrease (increase) in other assets	(614)	(1,548)
Increase (decrease) in other liabilities	54	(1)
Subtotal	(9,409)	(5,421)
Interest and dividend income received	2	2
Interest expenses paid	(1,148)	(1,085)
Income taxes (paid) refund	(139)	(619)
Net cash provided by (used in) operating activities	(10,694)	(7,123)
Cash flows from investing activities		
Payments into time deposits	(18)	(18)
Proceeds from withdrawal of time deposits	18	18
Purchase of investment securities	(1,711)	(180)
Proceeds from withdrawal of investment securities	14	21
Purchase of non-current assets	(200)	(443)
Proceeds from sales of non-current assets	11,651	83
Payments for asset retirement obligations	(0)	—
Proceeds from sales of shares of subsidiaries resulting in change in scope of consolidation	34	—
Payments of loans receivable	—	(37)
Collection of loans receivable	0	0
Proceeds from guarantee deposits received	615	1,578
Repayments of guarantee deposits received	(1,232)	(782)
Payments for investments in capital	(4)	(17)
Net cash provided by (used in) investing activities	9,167	223

(Unit: million yen)

	Fiscal year ended Dec. 2017 (from Jan. 1, 2017 to Dec. 31, 2017)	Fiscal year ended Dec. 2018 (from Jan. 1, 2018 to Dec. 31, 2018)
Cash flows from financing activities		
Increase in short-term loans payable	10,830	7,581
Decrease in short-term loans payable	(13,184)	(7,814)
Proceeds from long-term loans payable	45,348	38,884
Repayments of long-term loans payable	(37,549)	(24,659)
Proceeds from issuance of bonds	—	200
Redemption of bonds	(40)	(40)
Repayments of lease obligations	(4)	(1)
Repayments of installment payables	(32)	(33)
Proceeds from issuance of common shares	378	70
Purchase of treasury shares	(748)	(131)
Cash dividends paid	(1,016)	(1,237)
Net cash provided by (used in) financing activities	3,979	12,818
Net increase (decrease) in cash and cash equivalents	2,453	5,918
Cash and cash equivalents at beginning of period	8,191	10,644
Cash and cash equivalents at end of period	10,644	16,563

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

(Segment Information, etc.)

I. Fiscal Year Ended December 2017 (from January 1, 2017 to December 31, 2017)

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

(Unit: million yen)

	Reporting segment			Total	Reconciliation (Note 1)	Amount on consolidated financial statements (Note 2)
	Real estate sales business	Real estate leasing business	Real estate planning agency and consulting business			
Net sales						
Net sales to external customers	41,168	3,459	96	44,724	—	44,724
Intersegment net sales or transfers	—	—	—	—	—	—
Total	41,168	3,459	96	44,724	—	44,724
Segment income	7,978	1,761	85	9,825	(2,782)	7,042
Segment assets	68,045	5,043	3	73,092	13,342	86,435
Other items						
Depreciation	—	146	—	146	39	186
Amount of investment in entities accounted for using equity method	—	1,007	—	1,007	—	1,007
Increase in property, plant and equipment and intangible assets	—	10	—	10	83	93

(Note 1) Reconciliations are as follows:

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

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

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

(Unit: million yen)

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

II. Fiscal Year Ended December 2018 (from January 1, 2018 to December 31, 2018)

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

(Unit: million yen)

	Reporting segment			Total	Reconciliation (Note 1)	Amount on consolidated financial statements (Note 2)
	Real estate sales business	Real estate leasing business	Real estate planning agency and consulting business			
Net sales						
Net sales to external customers	50,519	3,400	405	54,325	—	54,325
Intersegment net sales or transfers	—	—	—	—	—	—
Total	50,519	3,400	405	54,325	—	54,325
Segment income	12,341	2,128	369	14,839	(3,277)	11,561
Segment assets	85,641	6,265	17	91,924	17,822	109,747
Other items						
Depreciation	—	36	—	36	43	80
Amount of investment in entities accounted for using equity method	—	1,039	—	1,039	—	1,039
Increase in property, plant and equipment and intangible assets	—	5	—	5	43	49

(Note 1) Reconciliations are as follows:

- (1) The reconciliation of segment income of -3,277 million yen is corporate expenses not attributable to any reporting segment. Corporate expenses are general and administrative expenses not attributable to reporting segments.
- (2) The reconciliation of segment assets of 17,822 million yen is mainly surplus operating funds (cash and deposits), administrative assets, etc. not attributable to reporting segments.
- (3) The reconciliation of depreciation of 43 million yen is depreciation on corporate assets not attributable to reporting segments.
- (4) The reconciliation of increase in property, plant and equipment and intangible assets of 43 million yen is increase in corporate assets not attributable to reporting segments.

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

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

(Unit: million yen)

	Real estate sales business	Real estate leasing business	Real estate planning agency and consulting business	Elimination and/or corporate	Total
Impairment loss	—	—	—	47	47

3. Other

Status of Contracts and Sales

The performance of contracts in the real estate sales business for the fiscal year ended December 2018 is as follows:

Classification	Fiscal year ended Dec. 2018 (from Jan. 1, 2018 to Dec. 31, 2018)			
	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.	655	29,200	445	18,582
Other	—	51,051	—	30,757
Total	655	80,252	445	49,340

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

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

Name of segment	Fiscal year ended Dec. 2017 (from Jan. 1, 2017 to Dec. 31, 2017)			Fiscal year ended Dec. 2018 (from Jan. 1, 2018 to Dec. 31, 2018)		
	Property name	Number of units (units)	Amount (million yen)	Property name	Number of units (units)	Amount (million yen)
Real estate sales business	Condominiums	476	19,500	Condominiums	539	25,089
	Tonarie Minamisenri	—	4,026	Hayabusa-cho, Chiyoda-ku	—	4,600
	Tonarie Seiwadai	—	3,290	Kitakyuhojimachi, Chuo-ku	—	3,450
	Nihonbashi-kayabacho	—	2,200	Awajicho, Chuo-ku I	—	3,420
	Minami 7-jo, Chuo-ku, Sapporo-shi	—	2,200	Awajicho, Chuo-ku II	—	3,420
	Oimatsucho, Kurashiki-shi	—	2,121	Tsurunocho, Kita-ku, Osaka-shi	—	2,910
	Oyamamachi, Kanazawa-shi	—	1,800	Horikawashinmachi, Kanazawa-shi	—	2,030
	Hiranomachi, Chuo-ku	—	1,650	Wakamatsucho 31, Shinjuku-ku	—	1,968
	Nihonbashi-bakurocho	—	1,520	Minamisenba, Chuo-ku III	—	1,850
	Kitatsumori, Nishinari-ku	—	1,270	5-chome, Sendagaya, Shibuya-ku	—	1,317
	Honkomagome, Bunkuo-ku	—	750	Fukuoka Kasuga	—	413
	2-chome, Kawaguchi, Nishi-ku	—	389	Other	—	50
	Fukuoka Kasuga	—	231		—	
	5-chome, Sendagaya, Shibuya-ku	—	91		—	
	Fukuoka Kasuga District 7	—	46		—	
Other	—	81		—		
	Subtotal	476	41,168	Subtotal	539	50,519
Real estate leasing business			3,459			3,400
Real estate planning agency and consulting business			96			405
	Total		44,724	Total		54,325

(Note 1) There are no transactions between segments.

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

Attachment 2

Management Policy

(1) Basic Policy on Corporate Management

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

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

(Corporate Branding Concept)

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

Our aim as a life developer is to develop tangible properties as well as imagine and develop happy living for the people who will live there. With new unprecedented and think-outside-the-box approaches, we aim to create new wealth and connect people, communities and the future. We will strive to make the ideal real by exploring the infinite possibilities of real estate.

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

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

For the fiscal year ending December 2019, the last fiscal year of the plan, the initial plans have been revised upward to expect sales and profits that are well above the initial plans, as shown below.

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

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

Corporate Strategy

- (1) Maximization of corporate value and giving back to shareholders
- (2) Establishment of firm management foundation that can withstand any kind of economic environment
- (3) Establishment of business diversity for ongoing and stable growth
- (4) Building of firm business foundation (quality) rather than expansion of corporate size (quantity)
- (5) Fulfillment of corporate social responsibilities to give back to shareholders as well as a variety of stakeholders and society

2. Growth Action Plan

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

(6) Enhancement of corporate brand power

(7) Realization of the creation of new value and sustainable growth with the promotion of ESG

3. Management Targets

	Fiscal year ended Dec. 2017 Actual	Fiscal year ended Dec. 2018 Actual	Fiscal year ending Dec. 2019 Plan
Equity ratio	24.8%	24.9%	22.6%
Return on equity (ROE)	28.1%	29.6%	25.9%
Return on assets (ROA)	6.8%	7.4%	6.1%
Return on invested capital (ROIC) (Note)	8.4%	10.2%	6.9%
Earnings per share (EPS)	81.77 yen	105.98 yen	115.10 yen

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

4. Performance Targets

(Unit: million yen)

	Fiscal year ended Dec. 2017 Actual	Fiscal year ended Dec. 2018			Fiscal year ending Dec. 2019 Plan
		Plan	Actual	Compared with plan	
Net sales	44,724	55,700	54,325	-1,374	74,800
Real estate sales business	41,168	52,600	50,519	-2,080	70,250
Real estate leasing business	3,459	2,900	3,400	+500	4,300
Real estate planning agency and consulting business	96	200	405	+205	250
Operating income	7,042	9,900	11,561	+1,661	12,500
Ordinary income	5,988	8,700	10,498	+1,798	11,200