



Summary of Accounts for Fiscal Year Ended December 2021 (Japanese GAAP) (Consolidated)

January 27, 2022

Name of listed company: ES-CON JAPAN Ltd.	Listing exchange: Tokyo Stock Exchange
Code: 8892	URL: https://www.es-conjapan.co.jp
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Scheduled date for next regular general meeting of shareholders:	March 25, 2022
Scheduled date for submission of periodic securities report:	March 28, 2022
Scheduled date for start of dividend payment:	March 28, 2022
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 2021 (from January 1, 2021 to December 31, 2021)

(1) Consolidated operating results (% 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	
	million yen	%	million yen	%	million yen	%	million yen	%
Fiscal year ended Dec. 2021	79,017	2.2	10,381	(14.9)	9,099	(18.5)	5,961	(22.2)
Fiscal year ended Dec. 2020	77,308	7.2	12,202	(5.5)	11,164	(5.5)	7,663	(6.0)

Note: Comprehensive income

Fiscal year ended Dec. 2021: 5,970 million yen (-20.7%) Fiscal year ended Dec. 2020: 7,533 million yen (-10.4%)

	Basic earnings per share	Diluted earnings per share	Return on equity	Return on assets	Operating margin
	yen	yen	%	%	%
Fiscal year ended Dec. 2021	67.48	67.30	11.8	4.5	13.1
Fiscal year ended Dec. 2020	111.94	111.37	21.2	7.9	15.8

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

Fiscal year ended Dec. 2021: 54 million yen Fiscal year ended Dec. 2020: -109 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. 2021	252,771	62,628	24.8	657.50
Fiscal year ended Dec. 2020	149,423	38,627	25.8	563.07

Reference: Equity

Fiscal year ended Dec. 2021: 62,780 million yen Fiscal year ended Dec. 2020: 38,589 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. 2021	(10,810)	(29,721)	50,293	33,559
Fiscal year ended Dec. 2020	119	(9,732)	11,007	23,798

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			
	yen	yen	yen	yen	yen	million yen	%	%
Fiscal year ended Dec. 2020	—	0.00	—	38.00	38.00	2,645	33.9	7.2
Fiscal year ended Dec. 2021	—	0.00	—	38.00	38.00	3,669	56.3	6.2
Fiscal year ending Dec. 2022 (Forecast)	—	0.00	—	38.00	38.00	—	—	—

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

	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	36,300	45.3	4,700	83.5	3,800	96.5	2,600	87.3	29.43
Full fiscal year	100,000	26.6	14,000	34.9	12,200	34.1	8,300	39.2	93.95

* 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.: None

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. 2021	98,580,887 shares	Fiscal year ended Dec. 2020	71,961,887 shares
2) Number of treasury shares at end of fiscal year	Fiscal year ended Dec. 2021	3,096,900 shares	Fiscal year ended Dec. 2020	3,428,400 shares
3) Average number of shares during fiscal year	Fiscal year ended Dec. 2021	88,346,828 shares	Fiscal year ended Dec. 2020	68,459,909 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 2021: 851,000 shares in the share-based payment benefits trust for directors and 225,700 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 2021: 1,078,783 shares).

(Reference) Non-consolidated results

1. Non-consolidated results for fiscal year ended December 2021 (from January 1, 2021 to December 31, 2021)

(1) Non-consolidated operating results

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

	Net sales		Operating income		Ordinary income		Profit	
	million yen	%	million yen	%	million yen	%	million yen	%
Fiscal year ended Dec. 2021	73,407	(0.7)	10,213	(14.7)	9,312	(16.3)	6,434	(16.6)
Fiscal year ended Dec. 2020	73,903	5.4	11,980	(5.3)	11,121	(4.1)	7,718	(4.2)

	Basic earnings per share	Diluted earnings per share
	yen	yen
Fiscal year ended Dec. 2021	72.83	72.64
Fiscal year ended Dec. 2020	112.75	112.18

(2) Non-consolidated financial position

	Total assets	Net assets	Equity ratio	Book value per share
	million yen	million yen	%	yen
Fiscal year ended Dec. 2021	233,860	63,206	27.0	661.95
Fiscal year ended Dec. 2020	139,940	38,527	27.5	562.15

Reference: Equity

Fiscal year ended Dec. 2021: 63,205 million yen

Fiscal year ended Dec. 2020: 38,526 million yen

- * 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.
- * 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 5.

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1. Overview of Operating Results, Etc.

(1) Analysis of Operating Results

In the fiscal year under review (fiscal year ended December 2021), despite concerns over the sixth wave of COVID-19, the Japanese economy saw progress towards the normalization of social and economic activities such as the recovery trend of consumer spending. Due to concerns over the spread of COVID-19 variants in Japan and abroad, careful attention should be paid to the fluctuation of the Japanese economy and overseas economies through supply chains as well as the financial and capital markets and the impact of currency movement.

In the real estate industry in which the ES-CON JAPAN Group operates, the real estate market remained strong as the policies and measures related to tackling COVID-19 and monetary easing measures continued. However, depending on the status of the spread of infection by COVID-19 variants, it is extremely difficult to forecast the future trend of real estate market when assuming that corporate performance and consumer spending trends will change, and it is necessary to carefully develop real estate business.

Despite such business environment in which the future outlook is extremely uncertain, we formulated "IDEAL to REAL 2023," the fourth medium-term management plan, for the three-year period from the fiscal year ended December 2021 through the fiscal year ending December 2023, and will promote businesses by setting "Establishing business foundations able to withstand unexpected changes in economic conditions" and "Simultaneously changing the revenue structure and expanding business domains" as management strategies based on the theme of "Transformation and Rapid Progress."

We implemented a capital increase through third-party allotment with Chubu Electric Power Co., Inc. (hereinafter "Chubu Electric Power") as the allottee on April 5, 2021, and ES-CON JAPAN became a consolidated subsidiary of Chubu Electric Power. As a result, we dramatically increased our corporate credit standing, acquired credit ratings of "A-" (stable) from Rating and Investment Information, Inc. and "A" (stable) from Japan Credit Rating Agency, Ltd., and established a stable fundraising base.

Against the backdrop of such creditworthiness, we acquired all shares of Picasso Co., Ltd., which owns numerous outstanding revenue-generating properties, and its seven group companies in October 2021 in order to rapidly move ahead with the strategy of "changing the revenue structure" = "securing stable leasing income." Furthermore, we sought to strengthen the asset management business in the ES-CON JAPAN Group as well as concluded a contract on the acquisition of the entire share of FUEL Inc., whose businesses include managing online funds and providing computer systems to crowdfunding businesses in accordance with the Act on Specified Joint Real Estate Ventures of Japan, and made it a subsidiary on January 21, 2022, with an aim to significantly contribute to the expansion of the ES-CON JAPAN Group's business domain as preparation for future participation in real estate financial business.

As for the business performance for the fiscal year under review, although sales increased and profits decreased year on year, the above "change in revenue structure" was realized. In the next fiscal year and the fiscal year ending December 2023, we will proactively implement business development with the intent to improve performance and with an aim to achieve record-high profits, as a period of "Rapid Progress."

The purchase of sites scheduled to be sold in fiscal 2022 and fiscal 2023 are in progress at a pace exceeding the plan.

The business performance for the fiscal year under review, which is the first fiscal year of the fourth medium-term management plan, was generally as planned with net sales standing at 79,017 million yen (down 1.2% from initial plan) and operating income at 10,381 million yen (down 3.9% from initial plan), but ordinary income was 9,099 million yen (down 3.2% from initial plan) as a result of the recording of 516 million yen of segment loss in the real estate planning agency and consulting business due to the burden of prior expenditure of advertising expenses in the columbarium sales business. Management targets were almost as planned with ROE standing at 11.8%, ROIC at 3.2%, equity ratio at 24.8%, net assets at 62.6 billion yen, share of profits from leasing at 21.2%, and share of long-term earnings from real estate at 20.6%.

In addition, due to the acquisition of many outstanding revenue-generating properties after making Picasso Co., Ltd. and its seven group companies subsidiaries, investment plans in the medium-term management plan are in progress at a pace exceeding the plan.

Concerning the transition to the new market segments scheduled for April 4, 2022, at Tokyo Stock Exchange, Inc., we have decided to make a transition to the Prime Market.

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

1) Overview of the Fourth Medium-Term Management Plan

1. Basic Management Strategy Policies

- 1) Establish business foundations able to withstand unexpected changes in economic conditions
Establish a sound business and financial standing that can maintain its fund-raising abilities under any economic environment.
- 2) 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 while the same time realizing business diversification and expanding business territories.

2. Basic Policy: Transformation and Rapid Progress

Transformation

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

Rapid Progress

- Demonstrating synergies within the Chubu Electric Power Group
- Achieving net sales of 110 billion yen and operating income of 16 billion yen (in the final fiscal year of the medium-term management plan)

3. Management Strategies

- 1) Transformation to a structure of sustained and stable profit revenues
- 2) Stable growth in existing core businesses through business diversification and area strategies
- 3) Growing new businesses into core businesses through area strategies
- 4) Taking on the challenge of new business domains
- 5) Enhancing synergies with the ES-CON JAPAN Group
- 6) Expanding business bases, primarily in the five major urban areas
- 7) Enhancing synergies with the Chubu Electric Power Group
- 8) Promoting ESG initiatives

4. Performance Plan

(Unit: million yen)

	Fiscal year ended Dec. 2020	Fiscal year ended Dec. 2021				Fiscal year ending Dec. 2022				Fiscal year ended Dec. 2023
	Actual	Actual	Plan	Difference from plan	Increase/decrease	Plan	Initial plan	Difference from initial plan	Increase/decrease	Plan
Net sales	77,308	79,017	80,000	(982)	(1.2%)	100,000	98,000	2,000	2.0%	110,000
Operating income	12,202	10,381	10,800	(418)	(3.9%)	14,000	14,000	—	—	16,000

5. Management Targets

	Fiscal year ended Dec. 2020	Fiscal year ended Dec. 2021		Fiscal year ending Dec. 2022		Fiscal year ending Dec. 2023
	Actual	Actual	Plan	Plan	Initial plan	Plan
Share of profits from leasing ^{*1}	14.2%	21.2%	23.0%	26.0%	24.0%	26.0%
Return on equity (ROE)	21.2%	11.8%	12.0%	13.0%	13.0%	13.0%
Return on invested capital (ROIC) ^{*2}	6.6%	3.2%	4.0%	4.0%	4.0%	4.0%
Equity ratio	25.8%	24.8%	29.0%	23.0%	26.0%	23.0%
Share of long-term earnings from real estate ^{*3}	9.5%	20.6%	12.0%	21.0%	14.0%	18.0%
Net assets	38.6 billion yen	62.6 billion yen	61.0 billion yen	67.3 billion yen	66.0 billion yen	72.0 billion yen

- Notes: 1 Share of profits from 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

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	Difference from plan	Increase/decrease	Plan	Plan	Plan
Investment in revenue-generating real estate	76,799	30,000	46,799	156.0%	40,000	60,000	130,000
Investment in other development	19,191	25,000	(5,809)	(23.2%)	30,000	35,000	90,000
Gross investment	95,990	55,000	40,990	74.5%	70,000	95,000	220,000

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

As previously mentioned, we became a consolidated subsidiary of Chubu Electric Power Co., Inc. in April 2021, and we are aggressively developing our business in the Chubu area.

In a joint venture with Chuden Real Estate Co., Inc. (hereinafter "Chuden Real Estate"), we are undertaking the development of condominiums and commercial facilities in Shirakabe, Higashi Ward, Nagoya City, Ichinomiya City, Aichi Prefecture, Kakegawa City, Shizuoka Prefecture, and Suita City, Osaka Prefecture. In Higashi Ward, Nagoya City, the Company is promoting sales of "Grand Le JADE Shirakabe Getsuronotei" (24 units in total) and "Grand Le JADE Shirakabe Rinzennotei" (34 units in total) in the Shirakabe area, which is a particularly rare and valuable area. Synergistic effects are being stably generated, as evidenced by having sold out the contract for "Le JADE Kakegawa Ekimae" (Kakegawa City, Shizuoka Prefecture; 83 units in total) within four months of the start of sales.

In June 2021, a consortium of businesses led by Chubu Electric Power of which ES-CON JAPAN is a member was selected as the preferred candidate contractor in bidding organized by Aichi Prefecture and the city of Nagoya. The winning bidder will operate the site of the 20th Asian Games Aichi-Nagoya 2026 Athletes' Village after the games. In this project, we aim to create a next-generation community which connects diverse people who help each other to solve various issues facing society and foster happiness together. Plans call for ES-CON JAPAN to develop retail complexes as part of this community development project.

In addition, in July 2021, Chubu Electric Power and Spread Co., Ltd. (hereinafter "Spread") established TSUNAGU Community Farm LLC (hereinafter "new company"), which will construct and operate completely artificial vertical farms. In October 2021, the new company started construction of 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, in Fukuroi City, Shizuoka Prefecture. The aim is to launch production in January 2024. By combining Chubu Electric Power's capital power and knowledge in energy management with our development know-how, we will make efforts toward decarbonization and cost reduction and contribute to the production of cheaper vegetables at plants. At the same time, in collaboration with Spread - which has a track record in cultivation and logistics - we will strive to produce "safe and clean" lettuce efficiently and stably.

We will continue to strengthen our partnership with the Chubu Electric Power Group and actively work to achieve large-scale urban development and realize a "new form of community" not only in the Chubu area, but across Japan.

3) Efforts to Establish a Flexible Fundraising System

Based on our having received a certain level of recognition from external agencies and financial institutions since we became a consolidated subsidiary of Chubu Electric Power, we are now in a position to flexibly and stably procure funds necessary for the future growth of our group.

Specifically, as previously mentioned, the Company received a rating of "A-" (stable) from Rating and Investment Information, Inc. and "A" (stable) from Japan Credit Rating Agency, Ltd. in July 2021, and was newly selected as a constituent of the JPX-Nikkei Index 400 for FY2021 (August 31, 2021 to August 30, 2022).

Given the recognition and other factors, the Company concluded a commitment line agreement with The Nishi-Nippon City Bank, Ltd. in September 2021 with a maximum borrowing amount of 10 billion yen, and a syndication-type commitment line agreement in November 2021 for a maximum borrowing amount of 5.5 billion yen with The Shiga Bank, Ltd. serving as the arranger.

Furthermore, in December 2021, we submitted a shelf registration statement for issuance of corporate bonds to secure a more flexible means of fundraising in addition to indirect financing from financial institutions. The Company has the capacity to issue 50 billion yen in bonds and will continue to do so in a flexible and agile manner while considering the market environment.

By establishing these flexible fundraising systems, we will proactively consider various investment opportunities to further raise our corporate value.

4) Progress of Projects under Hokkaido Ballpark Concept

In January 2020, we concluded a ballpark naming rights agreement with Hokkaido Nippon-Ham Fighters Baseball Club Co., Ltd. and Fighters Sports & Entertainment Co., Ltd. for the new Hokkaido Nippon Ham Fighters stadium, "ES CON FIELD HOKKAIDO," scheduled to open in March 2023 in Kitahiroshima City, Hokkaido.

The area surrounding the new stadium is a large-scale development area called HOKKAIDO BALLPARK F VILLAGE (total development area: approx. 36.7 ha; hereinafter "F VILLAGE") with construction of a new station also planned. We are involved in various real estate development projects in this area on approximately 9,400 m² of land adjoining the ballpark. We are involved in urban development of which the new stadium will serve as the centerpiece.

In August 2021, as part of the F VILLAGE urban development concept, we opened to the public our first new condominium in Hokkaido, "Le JADE Hokkaido Ballpark." The project is located in a rare location in close proximity to the new baseball stadium, about 80 meters from the outfield stands of the new stadium. This will allow enjoyment of the rich nature of Hokkaido. The concept of the project is to provide a new lifestyle ("living in a ballpark"). Media reporting on the project has been extensive - including newspapers and TV programs - and has attracted a great deal of attention. Sales activities are progressing smoothly, with the number of requests for information exceeding 4,600 as of January 7, 2022.

In addition, in March 2021, we concluded a partnership agreement with the city of Kitahiroshima for the JR Kitahiroshima Station "Train Station West Exit Area Revitalization Project." In November 2021, we acquired a portion of the development site for the project. The site will be 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 this site, the commercial facilities are scheduled for completion in 2024.

JR Kitahiroshima Station is conveniently situated between JR Sapporo Station and New Chitose Airport Station – approximately 20 minutes from the airport and approximately 16 minutes from Sapporo by train - and is expected to become a key access point to the ballpark. In addition to the development of the ballpark area, we will also develop the area around JR Kitahiroshima Station, the gateway to the ball park, to promote community-based urban development that will create a bustling atmosphere throughout Kitahiroshima.

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

5) Status of Implementation of Growth Strategy of ESCON JAPAN REIT Investment Corporation

In August 2021, ESCON JAPAN REIT Investment Corporation (hereinafter “EJR”) conducted the second public offering, following the first in February 2020, with ESCON Asset Management Ltd. (hereinafter “EAM”), a consolidated subsidiary, as the Company entrusted with asset management. Asset size steadily expanded, from 41.6 billion yen at the time of listing to 69.6 billion yen after the capital increase. As the sponsor of EJR, the ESCON JAPAN Group transferred the following seven properties and has supported the enhancement of EJR’s income and stable growth.

The details of the assets in the second transfer from the Company to EJR are as follows, with a total transfer price of 11,947 million yen.

Location	Type	Site area (total floor area)	Transfer price (million yen)
(1) Kumamoto City, Kumamoto Prefecture (Suroy Mall Nagamine)	Commercial facility (land, building)	28,546.00 m ² (13,130.23 m ²)	4,600
(2) Hatsukaichi City, Hiroshima Prefecture (Fuji Grand Natalie)	Commercial facility (land, building)	21,083.66 m ² (28,543.96 m ²)	3,950
(3) Sapporo City, Hokkaido Prefecture	Commercial facility (land)	8,154.00 m ²	1,300
(4) Neyagawa City, Osaka Prefecture	Commercial facility (land)	2,743.65 m ²	702
(5) Amagasaki City, Hyogo Prefecture	Commercial facility (land)	1,491.47 m ²	565
(6) Kobe City, Hyogo Prefecture	Commercial facility (land)	2,634.83 m ²	530
(7) Hikone City, Shiga Prefecture	Commercial facility (land)	2,012.30 m ²	300
Total			11,947

6) Initiatives for Formation of Private REIT

In addition to the public REIT business of EJR, we plan to form and commence operation of a private real estate investment trust, with EAM as the Company entrusted with asset management. Starting with rental apartments in Higashiyamato City, Tokyo, and Fujisawa City, Kanagawa Prefecture, in 2020, we have formed private funds operating a total of 10 buildings in metropolitan areas of Tokyo, Kanagawa, and Saitama, respectively.

The market for rental apartments has been strong even amidst the COVID-19 pandemic, and stable needs are expected in the future. As such, we will be preparing for the formation of a private REIT by leveraging the Group’s expertise in condominium development.

7) Acquisition of Shares of Picasso Co., Ltd. and Seven Group Companies (Making Them Our Subsidiaries)

On October 29, 2021, ES-CON JAPAN acquired all shares of Picasso Co., Ltd. (“Picasso”), a company engaged in the real estate leasing business, and seven of its group companies (“Group Companies”), and made them subsidiaries.

Picasso, founded in 1991 in Osaka City, along with its group companies is engaged in the real estate leasing business mainly in the Kansai region. It owns numerous outstanding revenue-generating assets such as rental apartments and office buildings.

This acquisition of subsidiaries will rapidly progress the abovementioned basic management strategic policy of “Transforming the focus from flows to stock” in the fourth medium-term management plan by enhancing the leasing business and securing stable revenues, and thus we believe it will contribute dramatically to the sustained growth of the ES-CON JAPAN Group.

8) Acquisition of Shares of FUEL Inc. (Making It Our Subsidiary)

On January 21, 2022, the Company acquired all shares of FUEL Inc. (hereinafter "FUEL") and made it a subsidiary, with the aim of strengthening and expanding the Group's asset management business and paving the way for future participation in the real estate finance business.

FUEL is engaged in the operation of online funds that provide opportunities for retail investors to easily invest in real estate or real estate businesses in small units over the Internet, as well as the provision of systems for crowdfunding businesses based on the Real Estate Specified Joint Enterprise Act.

Making FUEL a subsidiary will enable the Group to enhance the quality and quantity of its existing businesses and expand its domain in terms of human resources, functions, and systems. It will 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^{*1}) 5 to 10 years in the future.

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

CF (Crowdfunding) refers to a crowdfunding business.

9) Take on the Challenges of New Business Domains

In October 2020, with an eye toward resolving issues facing modern society such as the shortage of burial grounds in a society with a large number of deaths due to the aging of the population, the current situation where there is no one to look after graves due to small families with the declining birthrate, and the considerable difficulty in obtaining graves - particularly in urban areas - we acquired shares of Ryomon Co., Ltd., a company engaged in the management of an urban columbarium in Minato Ward, Tokyo. We began selling permanent use rights for the Ryomon columbarium in March 2021.

We are also active in business overseas while carefully assessing the impact of the spread of COVID-19. In August 2021, the Company, through its subsidiary ESCON USA III LLC, invested and participated in Waikiki Galleria Tower, a retail and office complex value-add project located in Honolulu, Hawaii. The project is primarily being carried out by BlackSand Capital, LLC, a real estate investment advisory company. Furthermore, in October 2021, we invested in Crow Holdings Realty Partners IX, L.P., a real estate investment fund formed by Crow Holdings Capital, a real estate company in Texas, U.S.A., through our subsidiary ESCON USA II LLC.

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

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

10) Status of ESG Initiatives

One of our key management strategies is addressing social issues through promotion of ESG initiatives. The "ESG Promotion Group," comprising members selected from each department and headed by the director in charge of the President's Office, leads ESG initiatives. In July 2021, we established the Health & Culture Fostering Team for further promotion of health management.

1. Environment (E)

• EcoAction 21 Certification

In May 2020, ES-CON JAPAN acquired EcoAction 21 Certification, a Japanese environmental management system (EMS) established by the Ministry of the Environment. By continuing to conduct environmentally friendly management through EcoAction 21 initiatives, companies are expected to fulfill their social responsibilities to reduce their environmental burden. This is also expected to provide management benefits such as cost reduction and improved productivity, as well as enhancement of corporate value.

- **Green Building**
 In April 2011, “tonarie Yamato-Takada,” “tonarie Toga-Mikita,” “tonarie Minamisenri,” “tonarie Seiwadai,” and “Asumigaoka Brand New Mall,” which are commercial facilities owned by EJRC, obtained DBJ Green Building Certification (a certification system created by Development Bank of Japan Inc. (hereinafter “DBJ”) to support environmentally and socially conscious real estate (Green Building)). Our group as a whole is working to improve the value of the facilities, and the five properties that have obtained the certification are being operated and managed by our subsidiary ES-CON PROPERTY Ltd.
 - **“Rank S” Certification for CASBEE for Real Estate**
 In July 2020, “tonarie Fujimino,” a commercial facility owned by ES-CON JAPAN, obtained “Rank S,” the highest rank of the Certification for CASBEE^{(*)2} for Real Estate from a CASBEE accreditation body authorized by the Institute for Building Environment and Energy Conservation.
^{(*)2} 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.
 - **Efforts to Promote Environmentally Friendly ZEH-compatible Housing**
 In November 2021, ES-CON JAPAN obtained ZEH^{(*)3}-M Oriented certification for its new condominium, “Le JADE Yao Sakuragaoka” (Yao City, Osaka Prefecture; 72 units in total). The property features excellent heat insulation performance and helps reduce annual primary energy consumption. This is our second ZEH condominium following “Le JADE Okurayama” (Kohoku Ward, Yokohama City; 25 units in total), which won the Good Design Award for fiscal year 2021.
 We will continue to develop ZEH condominiums with the goal of building one per year.
 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.
 - ^{(*)3} 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.
 - **Received Award for Excellence in the Environmental Human Resource Development Corporate Awards**
 In March 2021, we received the Award for Excellence in the Environmental Human Resource Development Corporate Awards 2020 (recognizing companies leading the way in developing environment-related human resources) hosted by the Ministry of the Environment and the Environmental Consortium for Leadership Development (EcoLead).
 - **Construction and Operation of “Techno Farm Fukuroi,” a Vertical Farm Utilizing Fully Artificial Light**
 As mentioned above, 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 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.
2. **Social (S)**
- **Contributing to Healthcare**
 Since 2020, we have been providing monetary donations 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.
 - **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 as well as 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" with the aim to strengthen 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 election and remuneration of directors.

- Nurturing Successors

We also launched initiatives for a succession plan called the candidate successor system. We appointed a total of eight employed executive officers; seven in January 2021 and one in September 2021.

- Diversity of the Board of Directors

In order to secure diversity of the board of directors, two independent directors were appointed at the 26th Regular General Meeting of Shareholders held on March 26, 2021, and the number of independent directors was increased to four. In addition to the traditional certified public accountant, tax accountant and attorney, a director experienced in corporate management and a female independent director who is also a securities analyst have been newly added for a diverse board composition.

- New Disclosure Items in Accordance with the Revised Corporate Governance Code

In June 2021, Tokyo Stock Exchange, Inc. revised its Corporate Governance Code. This code requires companies, especially those transitioning to the Prime Market, to be more proactive in disclosing information on items such as fulfillment of the functions of the board of directors, ensuring diversity in core corporate personnel, and addressing sustainability-related issues. ES-CON JAPAN revised its corporate governance report in December 2021. The report newly discloses the proportion of female employees in its workforce, the results of appointing female employees to managerial and executive positions, and the Company's efforts to cultivate human resources and comprehensively manage intellectual property. This includes efforts for disclosure based on the framework of the Task Force on Climate-related Financial Information Disclosure (TCFD).

4. Other

We have been participating in Global ESG, 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. As a result, in October 2021, 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." (applicable period: January 1, 2020 to December 31, 2020) In addition, we acquired the "Green Star"⁽⁴⁾ rating upon receiving high marks in both "Management Component" and "Development Component" for three consecutive years.

*4 The "Green Star" in the "Development Benchmark" is awarded to participants who score 50% or more in the absolute assessment based on the two main points, "Management Component" and "Development Component."

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 progress in condominium sales.

In the condominium sales business, we have commenced selling of new sales projects including "Le JADE bio Makuhari Hongo" (Hanamigawa Ward, Chiba City; 70 units in total), "Le JADE Kyoto Shijo Omiya" (Shimogyo Ward, Kyoto City; 43 units in total), "Le JADE Yao Sakuragaoka" (Yao City, Osaka Prefecture; 72 units in total), "Le JADE Kamishinjo" (Higashiyodogawa Ward, Osaka City; 60 units in total), "Le JADE Takatsuki Minami Matsubara The Front" (Takatsuki City, Osaka Prefecture; 74 units in total), "Le JADE Times Core Kawagoe" (Kawagoe City, Saitama Prefecture; 56 units in total), and "Le JADE Kawagoe The Residence" (Kawagoe City, Saitama Prefecture; 23 units in total).

As for the progress of sales, "Le JADE Nagaikoendori" (Sumiyoshi Ward, Osaka City; 108 units in total), "Le JADE Neyagawa Koen" (Neyagawa City, Osaka Prefecture; 60 units in total), "Le JADE Mukonosohonmachi" (Amagasaki City, Hyogo Prefecture; 33 units in total), "Le JADE Yamato-Takada Ekimae" (Yamato-Takada City, Nara Prefecture; 205 units in total), "Ost Residence Karuizawa" (Karuizawa Town, Kitasaku District, Nagano Prefecture; 33 units in total), were sold after completion in the fiscal year under review. "Le JADE Hirano (Hirano Ward, Osaka City; 58 units in total), "Le JADE Tsukuba Station Front (Tsukuba City, Ibaraki Prefecture; 218 units in total), "Le JADE Kakegawa Ekimae" (Kakegawa City, Shizuoka Prefecture; 83 units in total), "Le JADE Urawa" (Urawa Ward, Saitama City; 44 units in total), "Le JADE Takatsuki Bessho" (Takatsuki City, Osaka Prefecture; 49 units in total), which are scheduled for completion in the following fiscal year, and "Park Le JADE Residence Shirokane" (Minato Ward, Tokyo; 55 units in total), which is scheduled to be completed in 2023, have been sold out.

In addition to acquiring its first new land for sale in the Kyushu and Hokkaido areas (Minami Ward, Fukuoka City and Higashi Ward, Sapporo City), ES-CON JAPAN also started development of its first logistics facility sites in the Kanto area, including "Chiba Research Park" (Wakaba Ward, Chiba City), "LOGITRES Narashino Shibazono" (tentative name) (Narashino City, Chiba Prefecture), and "LOGITRES Sano" (tentative name) (Sano City, Tochigi Prefecture). Furthermore, we are expanding and diversifying our business areas by acquiring land for business use ("Repro Shimbashi Project" (tentative name) in Minato Ward, Tokyo), which is located near JR Shimbashi Station, eyeing rental and development business over the medium to long term.

In the real estate leasing business, we acquired shares of Picasso and seven other group companies (making them our subsidiaries) that own numerous outstanding revenue-generating assets such as rental apartments and office buildings, thereby securing stable earnings by strengthening the leasing business.

In other areas, we acquired a new community-based shopping center, "tonarie Yokkaichi" (Yokkaichi City, Mie Prefecture), opened "tonarie Fujimino" (former name: Soyoca Fujimino, Fujimino City, Saitama Prefecture), and opened "tonarie CREO" at "tonarie Tsukuba Square" (Tsukuba City, Ibaraki Prefecture), a redevelopment project in front of Tsukuba Station, Ibaraki Prefecture, in phases. We also reopened "tonarie Minami Senri Annex," a commercial facility in Suita City, Osaka Prefecture, where only the upper floors had been open due to the closure of the AEON Minami Senri Store. We are working to secure stable rent income and improve the asset value of our commercial facilities.

Furthermore, the ES-CON JAPAN Group is actively pursuing the acquisition of outstanding revenue-generating assets as evidenced by the acquisition of three rental apartment properties: "Sol Plaza Sakai" (Sakai Ward, Sakai City; 168 units in total), "Tomei Apartments Esaka" (Suita City, Osaka Prefecture; 66 units in total), and "Amity Tsukaguchi" (Amagasaki City, Hyogo Prefecture; 60 units in total).

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 business, such as the commissioning business and the planning agency and consulting business.

As a result, for the consolidated fiscal year under review, ES-CON JAPAN achieved net sales of 79,017 million yen (up 2.2% from the previous consolidated fiscal year), operating income of 10,381 million yen (down 14.9%), ordinary income of 9,099 million yen (down 18.5%), and profit attributable to owners of parent of 5,961 million yen (down 22.2%).

Operating results by segment are as follows.

1. Real Estate Sales Business

In the real estate sales business, activities including selling of condominiums and revenue-generating real estate, resulting in net sales of 70,334 million yen (down 1.6% from the previous fiscal year) and segment income of 13,039 million yen (down 8.5%).

2. Real Estate Leasing Business

In the real estate leasing business, we secured rental income of revenue-generating real estate by making Picasso and seven other group companies our subsidiaries and focused on leasing activities and the property management business in view of enhancement of asset value of owned revenue-generating real estate. As a result, net sales were 8,090 million yen (up 46.4%) and segment income was 3,372 million yen (up 41.6%).

3. Real estate planning agency and consulting business

In the real estate planning agency and consulting business, we took full advantage of our planning and multifaceted business development capabilities to actively engage in planning, consulting, and other services on consignment. However, due to the delay in the sales plan mainly caused by the impact of the spread of COVID-19 in the columbarium business and upfront advertising expenditures, net sales were 592 million yen (up 100.6%) and segment loss was 516 million yen (segment income of 152 million yen in the previous fiscal year).

(Earnings outlook for the next fiscal year and progress of the medium-term management plan)

Based on the fourth medium-term management plan, "IDEAL to REAL 2023," ES-CON JAPAN is promoting its business toward achieving the plan under the management strategies of "Establishing business foundations able to withstand unexpected changes in economic conditions" and "Simultaneously changing the revenue structure and expanding business domains."

For details on the results for the fiscal year under review and the plan for the next fiscal year and beyond, please see "1. Overview of Operating Results, (1) Analysis of Operating Results, 1) Overview of Fourth Medium-Term Management Plan."

(Dividend for the next fiscal year)

For the next fiscal year, the dividend forecast is 38 yen per share.

(2) Analysis of Financial Position

1) Assets, Liabilities and Net Assets

Assets at the end of the fiscal year under review increased by 103,348 million yen compared with the end of the previous fiscal year to 252,771 million yen. This was mainly attributable to cash and deposits, inventories and non-current assets increasing by 9,796 million yen, 42,381 million yen and 48,523 million yen, respectively.

Liabilities increased by 79,347 million yen compared with the end of the previous fiscal year to 190,143 million yen. This was mainly attributable to long-term loans payable, short-term loans payable and bonds increasing by 64,529 million yen.

Net assets increased by 24,000 million yen compared with the end of the previous fiscal year to 62,628 million yen. This was attributable to cash dividends paid of 2,645 million yen, while recording profit attributable to owners of parent of 5,961 million yen as well as the increase in capital and capital reserve by 10,235 million yen each with the capital increase through third-party allotment. As a result, the equity ratio was 24.8% (25.8% at the end of the previous fiscal year).

2) Cash Flows

Cash and cash equivalents ("net cash") in the fiscal year under review increased by 9,760 million yen compared with the end of the previous fiscal year to 33,559 million yen (23,798 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 under review.

(Cash flows from operating activities)

Cash flows from operating activities in the fiscal year under review amounted to net cash used in operating activities of 10,810 million yen (net cash provided by operating activities of 119 million yen in the previous fiscal year). This was mainly attributable to the increase in inventories of 19,306 million yen and income taxes paid of 3,419 million yen, despite the recording of profit before income taxes of 9,099 million yen, increase in advanced received of 3,419 million yen.

(Cash flows from investing activities)

Cash flows from investing activities in the fiscal year under review amounted to net cash used in investing activities of 29,721 million yen (net cash used in investing activities of 9,732 million yen in the previous fiscal year). This was mainly attributable to purchase of investment securities of 2,265 million yen, purchase of non-current assets of 4,763 million yen and purchase of shares of subsidiaries resulting in change in scope of consolidation of 24,070 million yen.

(Cash flows from financing activities)

Cash flows from financing activities in the fiscal year under review amounted to net cash provided by financing activities of 50,293 million yen (net cash provided by financing activities of 11,007 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 32,611 million yen, proceeds from issuance of shares of 20,361 million yen and payment of cash dividends of 2,645 million yen.

Reference: Changes in cash flow indicators

	Fiscal year ended Dec. 2017	Fiscal year ended Dec. 2018	Fiscal year ended Dec. 2019	Fiscal year ended Dec. 2020	Fiscal year ended Dec. 2021
Equity ratio (%)	24.8	24.9	25.3	25.8	24.8
Equity ratio on market capitalization basis (%)	54.0	42.2	50.7	39.3	30.5

Equity ratio: Equity / Total assets

Equity ratio on market capitalization basis: Market capitalization / Total assets

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) Basic Policy on Distribution of Profit, and Dividend for the Fiscal Year Under Review 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.

ES-CON JAPAN has introduced a progressive dividend policy to “not decrease the dividend amount, but rather only maintain or increase the dividend amount” in principle with DPS of the previous fiscal year as the lower limit, from the second medium-term management plan, and continues to implement the progressive dividend policy in the fourth medium-term management plan.

For the fiscal year under review, the year-end dividend forecast will remain unchanged at 38 yen per share as initially scheduled. The dividend payout ratio is 56.3%.

For the fiscal year ending December 2022, the dividend forecast is 38 yen per share.

(4) Business Risks

The main risks that could impact the ES-CON JAPAN Group’s operating results, share prices, financial status, etc., are listed below. Statements concerning future matters are based on the judgements of the ES-CON JAPAN Group as of the end of the fiscal year under review.

1) Impact of Change in Business Environment Including the Spread of COVID-19

There are concerns over the resurgence of COVID-19 caused by variants, and careful attention should continue to be paid to the future real estate market trend. If the pandemic resurges or continues over a long term, the economy is expected to deteriorate from a recovery trend. In such a case, the operating results, financial position, and status of cash flow of the ES-CON JAPAN Group may be materially impacted due to posting of appraisal loss of inventories and impairment loss, etc.

a. Condominium sales

In the condominium sales business, the actual demand for housing is high and remains strong even amid the spread of infection. However, sales may become stagnant due to the decline in consumer sentiment on purchase resulting from concerns over the resurgence of infection by variants as well as the reduction of borrowing limit and deduction rate of housing loan caused by the amendment of tax system for fiscal 2022.

b. Real estate (other) sales business

There is a risk of possible decrease in real estate prices due to a reduced appetite for investment among investors, the worsening of the financing environment resulting from financial contraction, and other factors.

c. Retail properties

The ES-CON JAPAN Group owns and manages retail properties centering on community-based shopping centers with supermarkets as the core tenant. Retail properties continue to be operated even amid the COVID-19 pandemic as facilities supporting daily lives, and supermarkets, drug stores, etc. maintain strong sales while the customers of tenants including restaurants, apparel stores, sports clubs, etc. which had struggled are gradually returning. On the other hand, depending on the situation of the resurgence of variants, there may be a risk of decrease in the planned real estate leasing income such as the difficulty in soliciting new tenants.

d. Hotels

ES-CON JAPAN has been promoting hotel development projects in recent years, and has completed sales for 15 out of its 17 projects. As to the 2 properties owned (Fukuoka City Project opened in March 2020 and Osaka City Project opened in January 2021), there is a risk of possible delay in the sales period or decrease in sales prices due to the sluggish occupancy rate and difficulty in predicting the time needed for recovery.

e. Columbarium Business

ES-CON JAPAN has started to sell permanent use rights of Ryomon, a columbarium, in March 2021 in an effort to solve problems facing modern society such as the fact that it is particularly difficult to obtain graves in central Tokyo. There are delay in the sales plan with purchasers refraining from going outside and other factors and depending on the situation of the spread of COVID-19 variants, there is a possibility that the sales to slow down.

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 ES-CON JAPAN Group's business performance.

3) Dependence on Interest-Bearing Liabilities

The Group procures funds for land acquisition, etc. related to its real estate business primarily through borrowings from financial institutions involved in project finance. In our condominium sale business, it takes time to get from land acquisition to commercialization or sale, so the ratio of interest-bearing liabilities to total assets is relatively high. We are committed to building and maintaining good business relationships with financial institutions including the main banks and strengthening and stabilizing our financial foundation, but raising insufficient or unreliable capital due to increased interest rates or a significant deterioration of the financial environment could affect the Group's business performance and financial condition.

4) Human Resources

Rather than vertical integration, the Group seeks to build an organizational structure that is closely linked horizontally, oriented toward efficiency and agile management, able to flexibly promote business and manifest the greatest value and performance with the smallest number of people. Our real estate-related business requires diverse expertise, making personnel an extremely important business resource. In order to conduct reliable business and grow as a Group, it is indispensable that we strive to share expertise and information and continue to improve employees' abilities as well as secure highly specialized personnel and employ, nurture and educate executives and young employees who will be the leaders of the next generation. However, failing to secure or nurture the human resources sought by the Group or losing outstanding personnel could affect the Group's business performance and future business development.

5) Management of Personal Information

In the course of the Group's business, we receive the personal information of customers and clients in each business when developing businesses in a multidimensional way, including customers who have purchased condominiums or detached houses, have considered doing so, or reside in rental apartments as well as customers who have purchased permanent use rights in the columbarium business, have considered doing so, or those who are looking for jobs in the employment placement business, as a business operator handling personal information under the Act on the Protection of Personal Information. We have established rules (a basic policy, regulations and a manual) on the handling of personal information to improve the process and, regarding the system, we have implemented strict storage of personal information, introduced an OA system monitoring software, and restricted access in order to refine our handling of both personal and non-personal information.

In addition, upon the sale of condominiums, we are partially entrusting the sale of such condominiums to reliable distributors, and intend to maintain confidentiality through efforts such as letting those distributors use part of ES-CON JAPAN's management system and handling customer information within such scope in order to avoid the leakage of the personal information of customers.

However, in the event of unforeseen circumstances causing personal information to be leaked, sales could fall due to a loss of trust in the Group or costs could be incurred due to compensation for damages, which in turn could affect the Group's business performance.

6) Important Litigation

Regarding the risk of becoming subject to litigation, the Risk Management Committee consisting of directors and risk management members from each division monitors risks and shares information across the Group. Important litigation could affect the Group's business performance and financial condition.

7) Risks Related to Climate Change

A society with increasing climate damage is assumed to be seen in 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.

Therefore, we are proceeding with the initiatives according to the following schedule to disclose the impact of the risks and opportunities related to climate change on the Company's business activities and revenue, etc. based on the framework of TCFD.

- December 2021 Implement capacity building with an aim to improve the knowledge related to TCFD
- March 2022 Assess the importance of business risks and opportunities, select external scenarios and set ES-CON JAPAN's scenario
- June 2022 Consider disclosing the assessment of the financial impact of important risks and opportunities on climate change on ES-CON JAPAN's business

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

We formulated "IDEAL to REAL 2023," the fourth medium-term management plan, in February 2021. The new medium-term management plan sets "Establishing business foundations able to withstand unexpected changes in economic conditions" and "Simultaneously changing the revenue structure and expanding business domains" as management strategies, and we are promoting businesses towards the achievement of the plan.

For an outline of the fourth medium-term management plan, "IDEAL to REAL 2023," please see "1. Overview of Operating Results, Etc. (1) Analysis of Operating Results 1) Overview of Fourth Medium-Term Management Plan".

(3) Business and Financial Issues to Be Addressed on a Priority Basis

Our business environment is causing a serious impact on the Japanese economy and overseas economies due to the rapid spread of COVID-19 since 2020. Although the situation settled down from October 2021 due to the progress of vaccination and measures taken by countries, there are concerns over the resurgence of COVID-19 with the appearance of new variants, and it will still be difficult to make forecasts in the future. Therefore, COVID-19 infection prevention measures as well as countermeasures eyeing post-COVID-19 and with-COVID-19 societies under the development and spread of effective medicine have become an urgent issue. In addition to various social issues including global warming, the declining birthrate and aging population, decrease in population, gender issues and issues of disparity, DX is being pursued in various fields with progress in digital technology such as IoT and AI, and we are in a business environment in which competition is further intensifying and sustainable growth of companies is constantly questioned with competition intensifying such as cross-industry competition, change in customer behavior, and change in values.

In order to sustainably improve corporate value and contribute to society under this environment of rapid diversification and change, we, as the ES-CON JAPAN Group, need to adopt a new flexible idea not bound by precedent and established concepts, implementing a policy of consistently supplying excellent products, maintaining a firm financial base, conducting stable management, growing surely and steadily through the satisfaction of our customers, and aiming to be a "life developer" bringing the ideal into reality and creating a lifestyle with the happiness of those living it as our top priority.

Through a multifaceted real estate business that includes residential development, commercial development, logistics development, leasing business, office development, hotel development, overseas business, planning/consulting, facility operation management, asset management, columbarium business, and real estate crowdfunding, our goal is to become a one-of-a-kind company that always strikes the optimal balance of businesses in its operations, builds a firm management base that can withstand any economic environment, maximizes its corporate value, and increases shareholder returns.

Our specific endeavors are the following:

(1) Business Management Structure

Naturally, there is a limit to land prices that can fetch certain profit, so purchasing at appropriate prices is one of our most important tasks. In order to purchase good-quality land, we must secure and nurture talented personnel, constantly expand information channels, seek alliance with other companies and make quick, bold but also careful decisions.

Based on the industry characteristic of a tendency toward larger balances of borrowings, we expect a disparity with planned income to arise amid increased interest rates, so we need to reduce procurement costs, diversify procurement methods, improve cashflow and continue building a stronger financial standing. We will continue to focus on strengthening our financial standing to ensure steady management in any economic environment.

(2) Internal Organizational Reinforcement

We are working to become a "life developer" that shapes the very lives of residents. In our condominiums, our strength is taking the perspective of the customer, especially families, and embarking on projects that not only meet their needs in the present but also conduct layout and design matching the location and environment, creating customer needs, in pursuit of livability for the future.

As for commercial development, we are mainly developing everyday life-based retail facilities that are closely associated with their local communities.

In the most recent period, we are also focusing on the development of rental apartments as well as planning and development of luxury apartments in resorts by utilizing the planning ability and know-how cultivated in the planning and development of condominiums.

No two properties are alike in form or location. Our mission is to propose and provide not only forms and locations but also the ideal housing, ideal areas and ideal living environments in the eyes of those who live in the area as well as in our residences, etc. and those who use facilities, etc., so to us, we do not merely create spaces in which we live and spaces for facilities, propose and live richer lives. The ES-CON JAPAN Group aims to become a "life developer" that proposes better, richer living.

Our development concept is to not only provide specifications and designs that can easily be customized but also constantly ask ourselves, "What is the best plan for this project?" instead of focusing on the size of the project or number of units at the land acquisition stage or even the basic planning stage.

For this reason, when promoting condominium development projects, our system unites those in charge of purchasing, planning and sale as one in a project from start to finish. This system is our strength and we will preserve a sense of crisis in order to maintain and enhance the system so that it can retain dominance in any business environment.

(3) New Initiatives

We have set and comply with NOI standards that enable possession of our acquisitions and developments regardless of economic changes.

Our real estate development business is not limited to development of condominiums and commercial facilities. In recent years, we are working on logistics facility development in light of the growth of the e-commerce market, office development and land planning business that revitalizes communities as well as rental apartment business which remains strong even amid the COVID-19 pandemic, overseas investment business, columbarium business and real estate crowdfunding business. We will aim for the diversification of business eyeing the next generation.

In our real estate securitization business, our consolidated subsidiary ES-CON Asset Management is managing a public REIT (EJR) whose main assets are land with leasehold rights and everyday life-based retail facilities. In the most recent period, we formed multiple private funds whose main assets are rental apartments, and are also conducting initiatives with the intent to form private REITs.

In the real estate leasing business, focus will continue to be placed on the stabilization of rent structure, including the implementation of M&As of companies positioning leasing business as the main business, to prioritize leasing business for “Transforming the focus from flows to stock,” which is the basic management strategy policy in the fourth medium-term management plan.

Furthermore, after becoming a consolidated subsidiary of Chubu Electric Power in April 2021, our creditworthiness improved and the diversification of financing method and reduction of financing cost became possible. We are steadily demonstrating synergy effects, such as further business expansion in the Chubu region and the commencement of multiple joint businesses with the Chubu Electric Power Group. We aim to realize a “new form of community” by combining our know-how on urban development and Chubu Electric Power Group’s knowledge on energy management, and will also be engaged in large-scale redevelopments in central Tokyo and near stations and large-scale urban developments.

In addition to developing real estate, ES-CON PROPERTY, a consolidated subsidiary, focuses on property management business to further add value to real estate, and, in order to solidify our position as the only general developer with the operational capability suited to the function of the real estate, our consolidated subsidiary ES-CON Living Service will expand the breadth and depth of our development capabilities by enhancing real estate operation.

As an initiative eyeing the next generation, we promoted overseas investment business and sales business of the permanent use rights of urban columbarium as well as implemented M&A of companies engaged in real estate crowdfunding business in the most recent period.

(4) Medium- to Long-Term Initiatives

We will strengthen “Promotion of ESG” which is one of the management strategies in “IDEAL to REAL 2023,” the fourth medium-term management plan that is currently being promoted. We believe that nation-wide initiatives on climate change, such as the new target for greenhouse gas emission reduction for 2030 and carbon neutrality in 2050, are important issues in terms of management also for the ES-CON JAPAN Group. In addition, we aim to enhance management transparency and fairness and become a company performing reliable governance as well as contribute also to society through efforts such as regional revitalization.

We will also implement initiatives on SDGs, which are sustainable development targets, with a strong will.

The ES-CON JAPAN Group, which provides cities, residences and space where people live, promotes a vibrant environment where various people can select many kinds of lifestyles, work styles and way of living and safely live a lively life as well as sustainable urban development with high environmental performance. We will also create a working environment respecting human rights and where various personnel can succeed as well as strengthen health management, fulfill the social responsibilities of companies, and aim to realize a sustainable society.

3. Basic Policy on Selection of Accounting Standard

The ES-CON JAPAN Group uses Japanese GAAP for the preparation of its consolidated financial statements in view of comparability for the period covered by the consolidated financial statements and inter-company comparability.

The Group’s policy is to respond to the application of IFRS in an appropriate manner, taking into account a variety of circumstances inside and outside Japan.

Attachment 3

4. Consolidated Financial Statements

(1) Consolidated Balance Sheet

(Unit: million yen)

	Fiscal year ended Dec. 2020 (as of Dec. 31, 2020)	Fiscal year ended Dec. 2021 (as of Dec. 31, 2021)
Assets		
Current assets		
Cash and deposits	23,870	33,667
Notes and accounts receivable - trade	927	835
Real estate for sale	6,262	7,541
Real estate for sale in process	82,316	123,419
Other	8,739	11,396
Allowance for doubtful accounts	(0)	(0)
Total current assets	122,117	176,859
Non-current assets		
Property, plant and equipment		
Buildings and structures	4,359	23,312
Accumulated depreciation	(889)	(1,516)
Buildings and structures, net	3,470	21,795
Vehicles	6	6
Accumulated depreciation	(6)	(6)
Vehicles, net	0	0
Land	11,262	30,840
Leased assets	4	2
Accumulated depreciation	(4)	(0)
Leased assets, net	0	2
Construction in progress	1	—
Other	321	377
Accumulated depreciation	(180)	(238)
Other, net	141	139
Total property, plant and equipment	14,876	52,778
Intangible assets		
Goodwill	339	8,217
Other	63	57
Total intangible assets	403	8,275
Investments and other assets		
Investment securities	3,556	6,186
Long-term loans receivable	2,468	2,467
Deferred tax assets	406	227
Other	5,633	5,932
Allowance for doubtful accounts	(37)	(37)
Total investments and other assets	12,026	14,776
Total non-current assets	27,306	75,830
Deferred assets		
Share issuance cost	—	81
Total deferred assets	—	81
Total assets	149,423	252,771

(Unit: million yen)

	Fiscal year ended Dec. 2020 (as of Dec. 31, 2020)	Fiscal year ended Dec. 2021 (as of Dec. 31, 2021)
Liabilities		
Current liabilities		
Short-term loans payable	2,907	3,589
Current portion of long-term loans payable	26,093	82,912
Current portion of bonds	230	—
Lease obligations	0	0
Accounts payable - other	1,590	2,468
Income taxes payable	1,460	1,653
Advances received	2,233	6,058
Deposits received	4,583	5,634
Other	713	205
Total current liabilities	39,813	102,523
Non-current liabilities		
Long-term loans payable	69,274	76,533
Lease obligations	—	2
Deferred tax liabilities	2	8,056
Provision for directors' share-based benefits	135	135
Provision for share-based benefits	46	57
Asset retirement obligations	260	270
Other	1,262	2,564
Total non-current liabilities	70,982	87,619
Total liabilities	110,795	190,143
Net assets		
Shareholders' equity		
Capital stock	6,284	16,519
Capital surplus	2,088	12,396
Retained earnings	31,429	34,745
Treasury shares	(1,348)	(1,216)
Total shareholders' equity	38,454	62,445
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	153	371
Foreign currency translation adjustment	(18)	(36)
Total accumulated other comprehensive income	134	334
Subscription rights to shares	1	0
Non-controlling interests	37	(152)
Total net assets	38,627	62,628
Total liabilities and net assets	149,423	252,771

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

(Unit: million yen)

	Fiscal year ended Dec. 2020 (from Jan. 1, 2020 to Dec. 31, 2020)	Fiscal year ended Dec. 2021 (from Jan. 1, 2021 to Dec. 31, 2021)
Net sales	77,308	79,017
Cost of sales	57,628	58,429
Gross profit	19,679	20,588
Selling, general and administrative expenses		
Advertising expenses	2,524	3,498
Sales commission	502	1,091
Directors' compensations	308	271
Salaries and allowances	1,723	2,146
Provision for directors' share-based benefits	21	—
Provision for share-based benefits	10	12
Commission fee	333	540
Taxes and dues	559	801
Other	1,492	1,843
Total selling, general and administrative expenses	7,477	10,206
Operating income	12,202	10,381
Non-operating income		
Interest income	16	10
Dividend income	93	101
Cancellation income	19	37
Foreign exchange gains	—	73
Share of profit of entities accounted for using equity method	—	54
Other	26	25
Total non-operating income	155	303
Non-operating expenses		
Interest expenses	1,047	1,463
Amortization of share issuance cost	—	27
Share of loss of entities accounted for using equity method	109	—
Other	37	95
Total non-operating expenses	1,194	1,585
Ordinary income	11,164	9,099
Extraordinary income		
Gain on sales of non-current assets	0	0
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	11,164	9,099
Income taxes - current	3,212	3,147
Income taxes - deferred	297	180
Total income taxes	3,509	3,328
Profit	7,654	5,770
Loss attributable to non-controlling interests	(8)	(190)
Profit attributable to owners of parent	7,663	5,961

(Consolidated Statement of Comprehensive Income)

(Unit: million yen)

	Fiscal year ended Dec. 2020 (from Jan. 1, 2020 to Dec. 31, 2020)	Fiscal year ended Dec. 2021 (from Jan. 1, 2021 to Dec. 31, 2021)
Profit	7,654	5,770
Other comprehensive income		
Valuation difference on available-for-sale securities	(103)	218
Foreign currency translation adjustment	0	(8)
Share of other comprehensive income of entities accounted for using equity method	(18)	(9)
Total other comprehensive income	(121)	199
Comprehensive income	7,533	5,970
Comprehensive income attributable to:		
Comprehensive income attributable to owners of parent	7,541	6,161
Comprehensive income attributable to non-controlling interests	(8)	(190)

(3) Consolidated Statement of Changes in Equity
Fiscal year ended December 2020 (from January 1, 2020 to December 31, 2020)

(Unit: million yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	6,275	2,004	26,256	(1,247)	33,288
Changes of items during period					
Issuance of new shares	9	9			18
Dividends of surplus			(2,490)		(2,490)
Profit attributable to owners of parent			7,663		7,663
Disposal of treasury shares		74		132	207
Purchase of treasury shares by the share-based payment benefits trust for directors				(233)	(233)
Net changes of items other than shareholders' equity					
Total changes of items during period	9	84	5,173	(101)	5,165
Balance at end of current period	6,284	2,088	31,429	(1,348)	38,454

	Accumulated other comprehensive income			Subscription rights to shares	Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Total accumulated other comprehensive income			
Balance at beginning of current period	256	(0)	256	1	0	33,546
Changes of items during period						
Issuance of new shares						18
Dividends of surplus						(2,490)
Profit attributable to owners of parent						7,663
Disposal of treasury shares						207
Purchase of treasury shares by the share-based payment benefits trust for directors						(233)
Net changes of items other than shareholders' equity	(103)	(17)	(121)	(0)	36	(84)
Total changes of items during period	(103)	(17)	(121)	(0)	36	5,080
Balance at end of current period	153	(18)	134	1	37	38,627

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

(Unit: million yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	6,284	2,088	31,429	(1,348)	38,454
Changes of items during period					
Issuance of new shares	10,235	10,235			20,470
Dividends of surplus			(2,645)		(2,645)
Profit attributable to owners of parent			5,961		5,961
Disposal of treasury shares		73		132	205
Net changes of items other than shareholders' equity					
Total changes of items during period	10,235	10,308	3,316	132	23,991
Balance at end of current period	16,519	12,396	34,745	(1,216)	62,445

	Accumulated other comprehensive income			Subscription rights to shares	Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Total accumulated other comprehensive income			
Balance at beginning of current period	153	(18)	134	1	37	38,627
Changes of items during period						
Issuance of new shares						20,470
Dividends of surplus						(2,645)
Profit attributable to owners of parent						5,961
Disposal of treasury shares						205
Net changes of items other than shareholders' equity	218	(18)	199	(0)	(190)	9
Total changes of items during period	218	(18)	199	(0)	(190)	24,000
Balance at end of current period	371	(36)	334	0	(152)	62,628

(4) Consolidated Statement of Cash Flows

(Unit: million yen)

	Fiscal year ended Dec. 2020 (from Jan. 1, 2020 to Dec. 31, 2020)	Fiscal year ended Dec. 2021 (from Jan. 1, 2021 to Dec. 31, 2021)
Net cash provided by (used in) operating activities		
Profit before income taxes	11,164	9,099
Depreciation	399	706
Amortization of goodwill	100	237
Amortization of long-term prepaid expenses	4	27
Amortization of share issuance cost	—	27
Increase (decrease) in allowance for doubtful accounts	0	(0)
Increase (decrease) in provision for directors' share-based benefits	21	—
Increase (decrease) in provision for share-based benefits	10	10
Interest and dividend income	(109)	(111)
Interest expenses	1,047	1,463
Foreign exchange losses (gains)	31	(73)
Share of loss (profit) of entities accounted for using equity method	109	(54)
Loss (gain) on sales of non-current assets	(0)	(0)
Loss on retirement of non-current assets	0	0
Decrease (increase) in notes and accounts receivable - trade	(329)	107
Decrease (increase) in inventories	(4,370)	(19,306)
Decrease (increase) in prepaid expenses	(381)	(894)
Increase (decrease) in accounts payable - other	(358)	366
Decrease/increase in consumption taxes receivable/payable	192	(416)
Increase (decrease) in advances received	(576)	3,575
Increase (decrease) in deposits received	187	439
Decrease (increase) in other assets	(805)	(1,221)
Increase (decrease) in other liabilities	(45)	169
Subtotal	6,291	(5,848)
Interest and dividend income received	95	181
Interest expenses paid	(1,195)	(1,723)
Income taxes (paid) refund	(5,072)	(3,419)
Net cash provided by (used in) operating activities	119	(10,810)
Net cash provided by (used in) investing activities		
Payments into time deposits	(18)	(15)
Proceeds from withdrawal of time deposits	19	18
Purchase of investment securities	(1,913)	(2,265)
Proceeds from sales of investment securities	9	—
Proceeds from withdrawal of investment securities	717	0
Purchase of non-current assets	(6,555)	(4,763)
Proceeds from sales of non-current assets	86	121
Proceeds from purchase of shares of subsidiaries resulting in change in scope of consolidation	91	—
Purchase of shares of subsidiaries resulting in change in scope of consolidation	—	(24,070)
Payments of loans receivable	(2,930)	(8)
Collection of loans receivable	500	647
Repayments of guarantee deposits received	(983)	(1,120)
Proceeds from guarantee deposits received	1,244	1,732
Payments for investments in capital	(2)	—
Net cash provided by (used in) investing activities	(9,732)	(29,721)

(Unit: million yen)

	Fiscal year ended Dec. 2020 (from Jan. 1, 2020 to Dec. 31, 2020)	Fiscal year ended Dec. 2021 (from Jan. 1, 2021 to Dec. 31, 2021)
Net cash provided by (used in) financing activities		
Increase in short-term loans payable	8,018	6,539
Decrease in short-term loans payable	(9,690)	(5,857)
Proceeds from long-term loans payable	62,166	111,250
Repayments of long-term loans payable	(46,917)	(79,320)
Redemption of bonds	(40)	(230)
Repayments of lease obligations	(1)	(1)
Repayments of installment payables	(31)	(5)
Proceeds from issuance of common shares	18	20,361
Proceeds from disposal of treasury shares	207	203
Purchase of treasury shares	(233)	—
Cash dividends paid	(2,488)	(2,645)
Net cash provided by (used in) financing activities	11,007	50,293
Translation differences on cash and cash equivalents	(8)	(1)
Net increase (decrease) in cash and cash equivalents	1,385	9,760
Cash and cash equivalents at beginning of period	22,413	23,798
Cash and cash equivalents at end of period	23,798	33,559

(5) Notes to Consolidated Financial Statements

(Notes on Going Concern Assumption)

Not applicable.

(Changes in Accounting Policies)

Not applicable.

(Additional Information)

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

Due to the recent spread of COVID-19 infections and strong uncertainty about the timing of the end of the pandemic, the impact is assumed to continue for a certain period of time in 2022 onward albeit limited. Accounting estimates for appraisal of inventories, impairment loss on non-current assets, appraisal of investment securities, etc. are made based on such assumption.

However, there are many factors of uncertainty concerning the impact of the COVID-19 pandemic, and thus if the real estate market deteriorates, 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 company directors (excluding outside directors, auditors 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 the 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 the 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 fiscal year under review.

(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 trust (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 ESOP") at the Regular General Meeting of Shareholders 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.

The System is a system by which ES-CON JAPAN contributes money to a trust 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 59 million yen and 233,000 shares for the previous fiscal year, and 57 million yen and 225,700 shares for the fiscal year under review.

(Segment Information, Etc.)

[Segment Information]

1. Overview of the Reporting Segments

The reporting segments of the ES-CON JAPAN Group are, among the units constituting the ES-CON JAPAN Group, segments that have available separate financial information and are subject to periodical review for determining allocation of management resources and evaluation of performance by the board of directors and other meetings.

The ES-CON JAPAN Group has consolidated independent projects that have similar products, services, etc. and formed three reporting segments of "real estate sales business," "real estate leasing business" and "real estate planning agency and consulting business."

The following are the main descriptions of each reporting segment.

Real estate sales business: Development/sale of condominiums, commercial facilities, etc., sale of land and such

Real estate leasing business: Leasing of real estate and such

Real estate planning agency and consulting business: Subcontracting of real estate-related businesses, brokerage, sales agency and such

2. Calculation Method of Net Sales, Income or Loss, Assets and Other Item Amounts by Reporting Segment

The method of accounting treatments of the reported business segments is the same as that described in "Important Matters Serving as the Base for Preparation of Consolidated Financial Statements."

3. Information on Net Sales, Income or Loss, Assets and Other Item Amounts by Reporting Segment
Fiscal year ended December 2020 (from January 1, 2020 to December 31, 2020)

(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	71,485	5,527	295	77,308	—	77,308
Intersegment net sales or transfers	—	—	—	—	—	—
Total	71,485	5,527	295	77,308	—	77,308
Segment income	14,257	2,381	152	16,791	(4,588)	12,202
Segment assets	95,146	20,521	6,598	122,266	27,156	149,423
Other items						
Depreciation (Note 3)	—	283	4	287	116	403
Amortization of goodwill	97	—	3	100	—	100
Amount of investment in entities accounted for using equity method	455	—	—	455	—	455
Increase in property, plant and equipment and intangible assets (Note 3)	—	1,761	4,003	5,765	79	5,845

(Note 1) Reconciliations are as follows:

- (1) The reconciliation of segment income of -4,588 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 27,156 million yen is mainly surplus operating funds (cash and deposits), administrative assets, etc. not attributable to reporting segments.
- (3) The reconciliation of depreciation of 116 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 79 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.

(Note 3) Increase in depreciation, property, plant and equipment and intangible assets includes long-term prepaid expenses and the amortization amount of such expenses.

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

(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	70,334	8,090	592	79,017	—	79,017
Intersegment net sales or transfers	—	—	—	—	—	—
Total	70,334	8,090	592	79,017	—	79,017
Segment income (loss)	13,039	3,372	(516)	15,895	(5,514)	10,381
Segment assets	139,310	68,808	7,320	215,439	37,332	252,771
Other items						
Depreciation (Note 3)	—	584	35	619	114	733
Amortization of goodwill	97	140	—	237	—	237
Amount of investment in entities accounted for using equity method	536	—	710	1,247	—	1,247
Increase in property, plant and equipment and intangible assets (Note 3)	—	46,652	15	46,667	42	46,710

(Note 1) Reconciliations are as follows:

- (1) The reconciliation of segment income (loss) of -5,514 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 37,332 million yen is mainly surplus operating funds (cash and deposits), administrative assets, etc. not attributable to reporting segments.
- (3) The reconciliation of depreciation of 114 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 42 million yen is increase in corporate assets not attributable to reporting segments.

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

(Note 3) Increase in depreciation, property, plant and equipment and intangible assets includes long-term prepaid expenses and the amortization amount of such expenses.

5. Other

(1) Status of Contracts and Sales

The performance of contracts in the real estate sales business for the fiscal year ended December 2021 is as follows:

Classification	Fiscal year ended Dec. 2021 (from Jan. 1, 2021 to Dec. 31, 2021)			
	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.	1,338	70,925	834	48,067
Other	—	36,276	—	16,860
Total	1,338	107,202	834	64,927

(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. 2020 (from Jan. 1, 2020 to Dec. 31, 2020)			Fiscal year ended Dec. 2021 (from Jan. 1, 2021 to Dec. 31, 2021)		
	Property name	Number of units (units)	Amount (million yen)	Property name	Number of units (units)	Amount (million yen)
Real estate sales business	Condominiums tonarie Yamatotakada	652	30,677	Condominiums Suroy Mall Nagamine	1,020	45,050
	LOGITRES Tojo tonarie Toga-Mikita	—	8,175	Genboen, Koga-shi, Fukuoka Prefecture	—	4,600
	Toshima-ku Minamiotsuka	—	8,120	Fuji Grand Natalie	—	4,039
	Commercial leasehold land in Sakai-shi Daikyocho, Shinjuku-ku	—	6,875	KoLuTeNa I	—	3,950
	Detached house Matsubara, Setagaya-ku	—	2,900	Detached house	—	3,500
	Honjo-Nishi, Kita-ku	—	2,733	Fukuroi-shi, Shizuoka Prefecture	—	2,784
	Commercial leasehold land in Omihachiman-shi	—	2,562	Commercial leasehold land in Sapporo-shi Kandacho, Higashiosaka-shi	—	1,442
	Commercial leasehold land in Ikoma-gun	—	2,316	Commercial leasehold land in Neyagawa-shi	—	1,300
	Commercial leasehold land in Muko-shi	—	2,167	Commercial leasehold land in Amagasaki-shi	—	1,090
	Genboen, Koga-shi, Fukuoka Prefecture	—	1,967	Commercial leasehold land in Kobe-shi	—	702
	Other	—	970	Commercial leasehold land in Hikone-shi	—	565
		—	765	3-chome, Aoyamadai, Suita-shi	—	530
		—	445	Uchiagetakatsukacho, Neyagawa-shi	—	300
		—	392	Other	—	226
		—	417		—	52
					—	201
	Subtotal	652	71,485	Subtotal	1,020	70,334
Real estate leasing business			5,527			8,090
Real estate planning agency and consulting business			295			592
	Total		77,308	Total		79,017

(Note 1) There are no transactions between segments.

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