



Summary of Accounts for Fiscal Year Ended December 2022 (Japanese GAAP) (Consolidated)

January 27, 2023

Name of listed company: ES-CON JAPAN Ltd.	Listing exchange: Tokyo Stock Exchange
Code: 8892	URL: https://www.es-conjapan.co.jp/english/
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Scheduled date for next regular general meeting of shareholders:	March 24, 2023
Scheduled date for submission of periodic securities report:	March 27, 2023
Scheduled date for start of dividend payment:	March 27, 2023
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 2022 (from January 1, 2022 to December 31, 2022)

(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. 2022	99,431	25.8	15,492	49.2	14,012	54.0	7,250	21.6
Fiscal year ended Dec. 2021	79,017	2.2	10,381	(14.9)	9,099	(18.5)	5,961	(22.2)

Note: Comprehensive income

Fiscal year ended Dec. 2022: 5,399 million yen [-9.6%] Fiscal year ended Dec. 2021: 5,970 million yen [-20.7%]

	Basic earnings per share	Diluted earnings per share	Return on equity	Return on assets	Operating margin
	yen	yen	%	%	%
Fiscal year ended Dec. 2022	76.04	75.89	11.3	5.4	15.6
Fiscal year ended Dec. 2021	67.48	67.30	11.8	4.5	13.1

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

Fiscal year ended Dec. 2022: -16 million yen Fiscal year ended Dec. 2021: 54 million yen

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

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Book value per share
	million yen	million yen	%	yen
Fiscal year ended Dec. 2022	263,729	64,144	25.0	691.87
Fiscal year ended Dec. 2021	252,771	62,628	24.8	657.50

Reference: Equity

Fiscal year ended Dec. 2022: 65,906 million yen Fiscal year ended Dec. 2021: 62,780 million yen

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

(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. 2022	1,501	(1,620)	2,144	35,604
Fiscal year ended Dec. 2021	(10,810)	(29,721)	50,293	33,559

2. Dividends

	Annual dividend					Total dividend amount (Total) million yen	Dividend payout ratio (Consolidated) %	Dividend on equity (Consolidated) %
	End of first quarter	End of second quarter	End of third quarter	Year-end	Total			
Fiscal year ended Dec. 2021	yen —	yen 0.00	yen —	yen 38.00	yen 38.00	3,669	56.3	6.2
Fiscal year ended Dec. 2022	—	0.00	—	38.00	38.00	3,673	50.0	5.6
Fiscal year ending Dec. 2023 (Forecast)	—	0.00	—	38.00	38.00		—	

3. Consolidated earnings forecast for fiscal year ending December 2023 (from January 1, 2023 to December 31, 2023)

	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	46,000	12.5	6,000	6.4	5,200	1.2	3,400	3.1	35.69
Full fiscal year	110,000	10.6	16,200	4.6	14,200	1.3	9,400	29.6	98.68

Note: Revisions from the latest dividends forecast: None

* Explanatory notes

(1) Changes in significant subsidiaries during fiscal year

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

Newly included: — companies (Company name)

Excluded: — companies (Company name)

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

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

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

3) Changes in accounting estimates: None

4) Restatement: None

(Note) For details, please see "Attachment; 4. Consolidated Financial Statements and Key Notes; (5) Notes to Consolidated Financial Statements (Changes in Accounting Policies)" on page 31.

(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. 2022	98,580,887 shares	Fiscal year ended Dec. 2021	98,580,887 shares
2) Number of treasury shares at end of fiscal year	Fiscal year ended Dec. 2022	3,322,800 shares	Fiscal year ended Dec. 2021	3,096,900 shares
3) Average number of shares during fiscal year	Fiscal year ended Dec. 2022	95,356,315 shares	Fiscal year ended Dec. 2021	88,346,828 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 2022: 851,000 shares in the share-based payment benefits trust for directors and 573,400 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 2022: 1,221,448 shares).

(Reference) Non-consolidated results

1. Non-consolidated results for fiscal year ended December 2022 (from January 1, 2022 to December 31, 2022)

(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. 2022	89,999	22.6	13,854	35.7	13,068	40.3	7,100	10.4
Fiscal year ended Dec. 2021	73,407	(0.7)	10,213	(14.7)	9,312	(16.3)	6,434	(16.6)

	Basic earnings per share		Diluted earnings per share	
	yen		yen	
Fiscal year ended Dec. 2022	74.47		74.33	
Fiscal year ended Dec. 2021	72.83		72.64	

(2) Non-consolidated financial position

	Total assets	Net assets	Equity ratio	Book value per share
	million yen	million yen	%	yen
Fiscal year ended Dec. 2022	245,466	66,135	26.9	694.27
Fiscal year ended Dec. 2021	233,860	63,206	27.0	661.95

Reference: Equity

Fiscal year ended Dec. 2022: 66,134 million yen

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

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

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

The earnings outlook and other forward-looking statements contained in this document are based on information currently available to and certain assumptions that are thought to be reasonable by ES-CON JAPAN. Accordingly, actual business performance and other results may differ materially due to various reasons. For the conditions forming the assumptions on which earnings forecasts are based and explanatory notes for use of earnings forecasts, etc., please see "Attachment 1; 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 2022), despite concerns over the impacts of the spread of COVID-19, thanks in part to the easing of movement restrictions and the development of anti-COVID-19 measures, the Japanese economy saw steady progress towards the normalization of economic and social activities and has been on a mild recovery trend centered on domestic demand.

In the real estate industry in which the ES-CON JAPAN Group operates, as work-style reform and new ways of living, including teleworking, become widespread, the market remains robust thanks to stable housing demand as well as the effect of underlying support, including the continuation of monetary easing policy. On the hand, we continue to clearly see rising construction costs due to soaring raw material prices, delivery delays of materials due to the shortage of components, intensifying competition over acquisition of properties and increasing acquisition costs, etc., and the situation still requires close attention to the effect of these on the market.

Regarding prospects, there exist many downside factors to the economy, including the shortage in supply of resources and other materials on the back of the deteriorated situation in Ukraine, surging prices due to the weaker yen, and the upward trend of interest rates with the U.S. and other countries continuing tight monetary policies and Japan practically moving away from years of ultra-loose monetary policy. The future trend of the real estate market remains uncertain, and we need to continue developing our real estate business prudently.

Amid these highly unpredictable business circumstances, we aim for sustainable growth by building a firm management base that can withstand any economic environment to maximize corporate value under the fourth medium-term management plan "IDEAL to REAL 2023" (the three-year period from the fiscal year ended December 2021 to fiscal year ending December 2023) formulated in February 2021 with the theme of "Transformation and Rapid Progress."

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

As a result of the above, we acquired credit ratings of "A+" (stable) from Japan Credit Rating Agency, Ltd. in September 2022, upgraded from "A" acquired in July 2021. We were also selected as a constituent of JPX-Nikkei Index 400 for FY2022 (August 31, 2022 to August 30, 2023), continuing from FY2021. Against the backdrop of obtaining this evaluation, we established a system enabling it to flexibly and actively consider a variety of investment opportunities such as entering into commitment line agreements with financial institutions and registering the issuance of bonds.

As to business performance for the fiscal year under review, the second year of the fourth medium-term management plan, sales were generally as planned due in part to strong sales of condominiums in the mainstay condominium business with net sales standing at 99,431 million yen (down 0.6%), operating income at 15,492 million yen (up 10.7%), and ordinary income at 14,012 million yen (up 14.9%), all compared with the initial plan. However, as separately announced today, due in part to an extraordinary loss recorded in relation to Ryomon Co., Ltd., profit attributable to owners of parent was 7,250 million yen (down 12.6%), failing to meet the target.

In FY2023, the final fiscal year of the fourth medium-term management plan, ES-CON JAPAN will push forward toward "Rapid Progress" through concerted efforts.

ES CON FIELD HOKKAIDO, the new stadium for the Hokkaido Nippon-Ham Fighters in Kitahiroshima City, Hokkaido, will commence operations in March 2023. ES-CON JAPAN is participating in the urban development concept in the large-scale development area called HOKKAIDO BALLPARK F VILLAGE (total development area: approx. 36.7 ha; hereinafter "F VILLAGE") centered on the stadium, and has been working on the development of "Le JADE Hokkaido Ballpark" condominium (Kitahiroshima City, Hokkaido Prefecture; 118 units in total have been sold out early), which is due to be delivered in the same month upon launch of the stadium, and senior residences. Furthermore, we are also conducting development as a project partner for the "Train Station West Exit Area Revitalization Project" in the area around JR Kitahiroshima Station to create a gateway to F VILLAGE, including a rotary in front of the station.

We will continue to contribute to regional revitalization through our business, thereby achieving sustainable growth.

1) Progress of Fourth Medium-term Management Plan "IDEAL to REAL 2023"

As mentioned above, in fiscal 2021, the first fiscal year of the medium-term management plan, we made the Picasso Group subsidiaries. This allowed us to "transform" the revenue structure with a single stroke by ensuring stable rental income, and we modified part of the management index, including the share of profits from leasing, for the fiscal year ending December 2023, the final fiscal year of the plan. The details of the modification are described in the following "5. Management Targets."

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

1. Basic Management Strategy Policies

- Establish business foundations able to withstand unexpected changes in economic conditions
Establish a solid business and financial standing that can maintain fund-raising ability under any economic environment.
- Simultaneously change the revenue structure and expand business domains
Transform the revenue structure from one based on flows to one based on stock by strengthening the real estate leasing business while simultaneously 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

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

4. Performance Plan

(Unit: million yen)

	Fiscal year ended Dec. 2021	Fiscal year ended Dec. 2022				Fiscal year ending Dec. 2023
	Actual	Actual	Initial plan	Difference from initial plan	Increase/decrease	Plan
Net sales	79,017	99,431	100,000	(568)	(0.6%)	110,000
Operating income	10,381	15,492	14,000	1,492	10.7%	16,200

5. Management Targets

	Fiscal year ended Dec. 2021	Fiscal year ended Dec. 2022			Fiscal year ending Dec. 2023		
	Actual	Actual	Plan	Percentage change from plan	Revised plan ⁴	Initial plan	Percentage change from initial plan
Share of profits from leasing ¹	21.2%	21.5%	26.0%	(4.5%)	30.0%	26.0%	4.0%
Return on equity (ROE)	11.8%	11.3%	13.0%	(1.7%)	13.0%	13.0%	—
Return on invested capital (ROIC) ²	3.2%	4.6%	4.0%	0.6%	4.0%	4.0%	—
Equity ratio	24.8%	25.0%	23.0%	2.0%	21.0%	23.0%	(2.0%)
Share of long-term earnings from real estate ³	20.6%	19.5%	21.0%	(1.5%)	23.0%	18.0%	5.0%
Net assets	62.6 billion yen	64.1 billion yen	67.3 billion yen	(31 billion yen)	72.0 billion yen	72.0 billion yen	—

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

6. Investment Plan

(Unit: million yen)

	Fiscal year ended Dec. 2021	Fiscal year ended Dec. 2022	Cumulative total for 2021 and 2022				Fiscal year ending Dec. 2023		Three-year cumulative total
	Actual	Actual	Actual	Plan	Difference from plan	Increase/decrease	Revised plan	Initial plan	Plan
Investment in revenue-generating real estate	76,799	10,808	87,607	70,000	17,607	25.2%	65,700	60,000	130,000
Investment in other development	19,191	26,103	45,294	55,000	(9,705)	(17.6%)	22,300	35,000	90,000
Gross investment	95,990	36,911	132,902	125,000	7,902	6.3%	88,000	95,000	220,000

- 2) Status of Demonstration of Synergy Effect with the Chubu Electric Power Group
In April 2021, ES-CON JAPAN became a consolidated subsidiary of Chubu Electric Power, and a variety of synergies have been created, such as the more aggressive development of our business in the Chubu area.

As a joint project with Chubu Electric Power, a consortium of businesses led by Chubu Electric Power of which ES-CON JAPAN is a member (hereinafter “Consortium”) entered into a basic agreement in August 2022 for the project organized by Aichi Prefecture and the city of Nagoya to operate the site of the 20th Asian Games Aichi-Nagoya 2026 Athletes’ Village after the games. In addition, the Consortium submitted a plan to utilize wood produced in Aichi Prefecture for “Ideas for Projects/Plans for the Realization of Carbon Neutrality” solicited by Aichi Prefecture and entered into an “Agreement on the Promotion of the Utilization of Wood in Public Buildings” with Aichi Prefecture, the first of its kind in the prefecture, in September 2022.

Furthermore, we established TSUNAGU Community Farm LLC with Chubu Electric Power and Spread Co., Ltd. (hereinafter “Spread”), and 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. By combining Chubu Electric Power’s know-how in energy management, ES-CON JAPAN’s real estate development capabilities, and Spread’s cultivation technology, we are working on the efficient and stable production of “safe and secure” lettuce with the aim of launching production in January 2024.

We have undertaken a joint project with Chuden Real Estate Co., Inc. to develop condominiums and commercial facilities centered on the Chubu area. Regarding the first and second joint projects in Shirakabe, Higashi Ward, Nagoya City, “Grand Le JADE Shirakabe Getsuronotei” (24 units in total) and “Grand Le JADE Shirakabe Rinzenotei” (34 units in total), all the units were sold out in November 2022.

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.”

3) Progress of Projects in Hokkaido

As mentioned above, ES-CON JAPAN participated in the F VILLAGE urban development concept centered on ES CON FIELD HOKKAIDO, the new Hokkaido Nippon Ham Fighters stadium scheduled to open in March 2023, and has concluded a ballpark naming rights agreement.

In February 2022, we commenced sales of the first project in the F VILLAGE urban development concept and the only condominium in F VILLAGE “Le JADE Hokkaido Ballpark” (Kitahiroshima City, Hokkaido Prefecture; 118 units in total). The property is a project in a rare location approximately 80 meters from the outfield stands of the new stadium and also allows enjoyment of Hokkaido’s rich nature, while bringing the ideal of “living in a ballpark” into reality. The property has attracted attention from media within and outside Hokkaido and received many information requests and visits from around Japan. It was contracted to sell out early in September 2022.

Furthermore, in February 2022, we began development of a senior residence in the southeastern corner of F VILLAGE. It is scheduled for completion in spring of 2024 as a residence for active seniors constructed alongside a medical mall. This initiative is part of sustainable urban development to create places for multigenerational interaction and will create housing that is blessed with nature and enables full enjoyment of sports and activities, contributing to the health maintenance of people of all ages from the young to the elderly and to regional healthcare.

In addition, we are advancing development of the JR Kitahiroshima Station “Train Station West Exit Area Revitalization Project” in Kitahiroshima City as a partner of the project. The train station is garnering further attention as an important point of access to F VILLAGE. We acquired part of the development site for the project in November 2021, and it is being used for three development projects: a station square in front of JR Kitahiroshima Station, an exchange center complex comprising commercial facilities and a hotel, and a three-dimensional indoor/outdoor plaza and park. Of the development projects on the site, we aim to complete the commercial facilities, etc. in FY2024 and are steadily conducting development in front of the station.

Beyond Kitahiroshima City, in November 2022, we sold out “Le JADE Sapporo Motomachi” (Higashi Ward, Sapporo City; 39 units in total), our first condominium in Sapporo City, and are also making steady progress with projects in Hokkaido, such as condominium development for Le JADE Sapporo Naebo (Higashi Ward, Sapporo City; 42 units in total).

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

4) Initiatives Aimed at Regional and Area Revitalization through Real Estate Development

In front of Tsukuba Station, Ibaraki Prefecture, we are working to create a bustling atmosphere through the integrated development of a complex where commerce, work, and residences intersect, consisting of “tonarie Tsukuba Square” comprising commercial facilities and offices, and the condominium Le JADE Tsukuba Station Front (Tsukuba City, Ibaraki Prefecture; 218 units in total). In November 2022, the delivery of all units of the condominium was completed. In the following month, we opened Cafe Apartment TSUKUBA, the second cafe & dining establishment developed and run by the ES-CON JAPAN Group, on the premises.

In February 2022, we also conducted redevelopment to create a bustling atmosphere around the station through the “Namiki no Mori City” development project, a mixed-use facility of residential, commercial and parking lot buildings in Iwaki City, Fukushima Prefecture, together with the Iwaki Station Namiki-dori District Urban Redevelopment Association and Hoosiers Corporation. For the residential building, in November 2022, we commenced unit sales for MID TOWER IWAKI, the tallest seismic isolation structure tower condominium in the city.

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

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

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

Also in August 2022, we started the development of a clinic mall handling about seven medical treatment subjects (scheduled) at a location in Himeji City, Hyogo Prefecture, where the development of welfare facilities centered on a new hospital, which is scheduled to be opened in early 2023, is planned as a “medical/nursing care zone.”

As a general developer we are working on development of diverse real estate properties, including mixed-use development, that are closely associated with their local communities.

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

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

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

Beside this, as for Le JADE Cross Chiyoda Jimbocho (Chiyoda Ward, Tokyo; 50 units in total) under development in a site adjacent to the Toho Gakkai Main Building, which is designated as an important building for the scenic development of Chiyoda Ward, Tokyo all units were sold out in December 2022 ahead of schedule, showing our business has progressed smoothly in scarce locations in the heart of Tokyo.

Furthermore, as a company creating “lifelong items” in the form of housing, we formulated the IDEAL COMPASS quality management guideline and provide the Escon Premium After Support long-term after-sales service supporting the lifestyles of people living in condominiums. We will continue to provide housing that makes our customers feel safer, more secure and more comfortable.

6) Implementation of Strategic M&As

As mentioned above, ES-CON JAPAN made the Picasso Group engaged in the real estate leasing and other businesses its subsidiaries in October 2021, reinforced the real estate leasing business, and secured stable revenues, thereby rapidly promoting the “transformation” of the revenue structure in the fourth medium-term management plan and contributing dramatically to the sustained growth of the ES-CON JAPAN Group.

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

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

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

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

7) Taking on the Challenges of New Business Domains

We are promoting efforts to diversify business contents with the next generation in view by stating "growing new businesses into core businesses" and "taking on the challenges of new business domains" in the fourth medium-term management plan.

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

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

In addition, we are also engaged in multiple businesses overseas while carefully assessing the impact of the spread of COVID-19. Most recently, in December 2022, we invested and participated in a detached house development project by Britania Public Company Limited, a subsidiary of Thai real estate developer Origin Property Public Company Limited. This is our first overseas detached house development project.

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

8) Declaration of Support for TCFD Recommendations and Disclosures

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

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

Please visit our website (https://www.es-conjapan.co.jp/english/about_us/environment.php) for details of disclosures based on the TCFD recommendations (governance, strategies, risk management, indicators and targets on climate change risks and opportunities).

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

Risks and Opportunities in the 1.5°C and 3°C Scenarios and Financial Implications Looking Toward 2030

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

- Strategies based on scenario analysis

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

<Examples of response measures>

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

9) Status of ESG Initiatives

One of our key management strategies is addressing social issues through ESG promotion. Centered on the “ESG Promotion Group” and the “Health & Culture Fostering Team” designed to promote healthy management further, we will promote company-wide efforts and focus on enhancing essential company value that cannot be measured by financial information alone.

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

1. Environment (E)

• Acquisition of Various Certifications

In May 2020, ES-CON JAPAN acquired EcoAction 21 Certification, a Japanese environmental management system (EMS) established by the Ministry of the Environment. Furthermore, “tonarie Fujimino,” a commercial facility owned by ES-CON JAPAN, obtained “Rank S,” the highest rank of the Certification for CASBEE⁽²⁾ for Real Estate from a CASBEE accreditation body authorized by the Institute for Building Environment and Energy Conservation. Also, “tonarie Yamato-Takada,” “tonarie Toga-Mikita,” “tonarie Minamisenri,” “tonarie Seiwadai,” and “Asumigaoka Brand New Mall,” which are commercial facilities owned by ESCON JAPAN REIT Investment Corporation (hereinafter “EJR”), obtained DBJ Green Building Certification from Development Bank of Japan Inc. Our group as a whole is working to improve the value of the facilities, and the above six properties are being operated and managed by our subsidiary ES-CON PROPERTY Ltd.

*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.

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

In August 2022, ES-CON JAPAN acquired ZEH⁽³⁾-M Oriented certification for its condominium “Le JADE Honkawagoe Koedo Terrace” (Kawagoe City, Saitama Prefecture; 102 units in total). The property features excellent heat insulation performance and helps reduce annual primary energy consumption. This is our third ZEH condominium following “Le JADE Okurayama” (Kohoku Ward, Yokohama City; 25 units in total), which won the Good Design Award for fiscal year 2021, and “Le JADE Yao Sakuragaoka” (Yao City, Osaka Prefecture; 72 units in total) which was contracted to sell out in June 2022.

We will continue to make the most of the development know-how of a general developer and proactively work on the development of environmentally friendly ZEH condominiums that are appreciated by our customers.

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

*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.

- Construction and Operation of “Techno Farm Fukuroi,” a Vertical Farm Utilizing Fully Artificial Light
As previously mentioned, we are collaborating with Chubu Electric Power and Spread to develop Techno Farm Fukuroi, which will be the world’s largest vertical farm utilizing fully artificial light and capable of producing 10 tons of lettuce per day. The three companies including ES-CON JAPAN will solve issues in food and agricultural fields through the plant factory business while also contributing to the realization of a sustainable and livable society and the achievement of SDGs by making efforts towards decarbonization such as the proactive use of green energy and effective use of CO₂ in the process of cultivation.
- Efforts to Promote Use of Wood in the Project Concerning Utilization of the Site of the 20th Asian Games Aichi-Nagoya 2026 Athletes’ Village
As mentioned above, the Consortium has entered into the “Agreement on the Promotion of the Utilization of Wood in Public Buildings” with Aichi Prefecture. We will make efforts to contribute to decarbonization through the project, such as active utilization of wood produced in Aichi Prefecture.
- Awarded Osaka Eco-Friendly Construction Award, Residential Section
In January 2022, the condominium “Le JADE Senri Aoyamadai (Suita City, Osaka Prefecture; 152 units in total)” won the Osaka Eco-Friendly Construction Award, Residential Section for the fiscal year 2021 (hosted by Osaka Prefecture and Osaka City). This was the first time we won the award, which recognizes clients and designers of construction projects that are exemplary in terms of environmental consideration of buildings under the aim of promoting the spread of environmentally friendly buildings and raising awareness among residents of Osaka Prefecture.

2. Social (S)

- Formulating General Employer Action Plans
In December 2022, ES-CON JAPAN formulated and published general employer action plans (action period: January 1, 2023 to December 31, 2024) in accordance with the Act on Advancement of Measures to Support Raising Next-Generation Children and the Act on the Promotion of Women’s Active Engagement in Professional Life in order to help employees juggle career and family and create a workplace where human resources, including women, can continue to be in employment and succeed.
- Support for Kitahiroshima City, Hokkaido Prefecture, by Utilizing “Corporate Version of Hometown Tax”
ES-CON JAPAN donated 300 million yen to Kitahiroshima City, Hokkaido Prefecture, in March 2022 by utilizing the “Corporate Version of Hometown Tax” under the hope that further progress in urban development and its spread to various fields such as transportation, tourism, sports and education, etc. will contribute to the further development of the city. In July, we received a letter of gratitude from the city. The funds will be utilized to maintain a vibrant city into the future.
- Contributing to Healthcare
Since 2020, we have been donating to the Kyoto University “iPS Cell Research Fund” to support activities realizing provision of early and inexpensive treatment using iPS cells for people suffering from diseases and injuries.
We have also been providing monetary donations to Osaka University’s Graduate School of Medicine since 2019 to support clinical trials for cancer vaccines showing promise for the treatment of cancer. In May 2022, we donated funds for the establishment of an endowed cancer immunology course the school is developing, for the purpose of research of cancer immune therapy.
In November 2022, we co-sponsored the Osaka Great Santa Run 2022 charity running event (hosted by the Great Santa Organization in Osaka Akaru Club). The event is designed to give a part of participation fees to children who are battling disease as presents.
- Contribution to Sports Promotion
In April 2021, we invested in Ryukyu Football Club Co., Ltd., which operates FC Ryukyu, a professional soccer team. With this investment, we will contribute to the local community through sports promotion by securing a foothold for the creation of business opportunities in Okinawa while at the same time supporting FC Ryukyu’s regional revitalization activities deeply rooted in Okinawa Prefecture.

3. Governance (G)

- Establishment of Voluntary Committee on Nomination and Remuneration of Directors

In January 2020, we established the “Nomination and Remuneration Advisory Committee” for the purpose of strengthening the independence and objectivity of functions as well as the accountability of the board of directors with regard to nomination and remuneration of directors and other matters. We have secured impartiality and transparency concerning director election and remuneration.

- Nurturing Successors

We also launched initiatives for a succession plan called the candidate successor system. We appointed a total of seven employed executive officers in January 2023.

- Diversity of the Board of Directors

ES-CON Japan’s board of directors consists of eight members: three executive directors, two outside directors, and three directors who are also members of the audit committee, and half of the board members, namely four (including one woman) are independent directors. Further, a resolution passed to the effect that one candidate each for an outside director and an auditor shall be elected be submitted to the twenty-eighth annual general meeting of shareholders slated for March 24, 2023, in order to ensure the diversity of the board and corporate governance.

- Establishment of Compliance Office

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

4. Other

We have been participating in the Global ESG Benchmark for Real Assets (GRESB), which is an annual benchmark assessment measuring ESG consideration in the real estate sector, every year since 2018 with an aim to continuously improve the assessment results. In October 2022, we acquired “2 Stars” in the GRESB Rating, a five-grade evaluation system that reflects the applicant’s relative evaluation based on the overall score, for efforts on environmental consideration and sustainability in the “Development Benchmark” (reporting period: January 1, 2021 to December 31, 2021). In addition, we acquired the “Green Star”⁽⁴⁾ rating for the fourth consecutive year.

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

10) Administrative Disposition against EAM

On July 15, 2022, the Commissioner of the Financial Services Agency has implemented an administrative disposition, which consists of injunctions to suspend business operations and to institute improved practices targeting our consolidated subsidiary EAM. In response, EAM formulated a business improvement report, which was submitted to and accepted by the Commissioner of the Financial Services Agency on August 15, 2022. Furthermore, it was determined that EAM would pay 666 million yen in damages to ES-CON JAPAN REIT Investment Corporation (“EJR”) due to a violation of duty of loyalty by an approach to harm a real estate appraiser’s independence. As for the damages, EAM accepts the fact that it made an inappropriate approach to a real estate appraiser and acknowledges the determination that EJR suffered damage despite the assumption that the appraisal value indicated in the real estate appraisal report is appropriate.

ES-CON JAPAN, the parent company of EAM and main sponsor of EJR, for which EAM is entrusted with asset management, took this administrative disposition on EAM with utmost seriousness and recognized this as an important issue for our group as a whole. In order to build a system for managing conflicts of interest such as those mentioned above, we established the Compliance Office. Moreover, President & Representative Director Takatoshi Ito offered to return 30% of his monthly remuneration (for three months from January 2023 to March 2023) and Senior Managing Director Minoru Nakanishi and Managing Executive Officer Tomohiko Egashira each offered to return 20% of his monthly remuneration (for the same three months), which was accepted.

Understanding the background to and root causes of this matter, we will continue to exert every effort to prevent the recurrence of such events based on thorough enhancement of our approaches to compliance and internal control of all members of the ES-CON JAPAN Group, not just at EAM, as well as the steadfast implementation of improvements.

11) Business Development by Segment

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

In the condominium sales business, we have commenced selling 16 properties, including “Le JADE Shitennoji Yuhigaoka” (Tennoji Ward, Osaka City; 52 units in total) and “Le JIAS OHASHI” (Minami Ward, Fukuoka City; 140 units in total).

Regarding the progress of sales, 14 properties, including “Le JADE Uehonmachi” (Tennoji Ward, Osaka City; 56 units in total) were sold out and 6 properties including “Le JADE Hokkaido Ballpark” (Kitahiroshima City, Hokkaido; 118 units in total) and “Le JADE Kamishinjo” (Higashi Yodogawa Ward, Osaka City; 60 units in total) scheduled for completion in the fiscal year ending December 2023 are contracted to sell out. Thus, 20 properties in total have sold out and sales and delivery are smoothly progressing.

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

In the real estate leasing business, we made the Picasso Group our subsidiaries as mentioned above, thereby securing stable earnings by strengthening the leasing business. Furthermore, a pop-up store of “MUJI” in “tonarie Minami-Senri Annex” opened in November 2021 became the store boasting the largest sales floor area in the Kansai region in April 2022. As such, we have bolstered the leasing business steadily.

In addition, aiming to transform to a stable and sustainable revenue structure, we are also working to develop and acquire commercial facilities and secure stable rent income from and improve the asset value of our commercial facilities, as represented by the promotion of renewal in “tonarie Utsunomiya” (Utsunomiya City, Tochigi Prefecture) through tenant replacement and the development of aforementioned “tonarie Hoshida (tentative name).”

In the real estate planning agency and consulting business, leveraging our strength in planning, we are focusing on non-asset, high-margin businesses, such as the commissioning business and the planning agency and consulting business.

As a result, ES-CON JAPAN achieved net sales of 99,431 million yen (up 25.8%), operating income of 15,492 million yen (up 49.2%), ordinary income of 14,012 million yen (up 54.0%) and profit attributable to owners of parent of 7,250 million yen (up 21.6%) for the fiscal year under review, all compared with the previous year.

Compared with the initial plan, sales went generally as planned, albeit down 0.6%. Sales of condominiums and revenue-generating real estate remained strong, and as a result operating income and ordinary income were up 10.7% and 14.9%, respectively, all compared with the initial plan. However, considering the operating results of Ryomon, which were impacted by the slow progress of sales for FY2022, we revisited the future revenue plan and recorded impairment loss of 1,760 million yen and provision for allowance for doubtful accounts of 1,483 million yen, as well as recorded 682 million yen of loss on compensation for damages including damages expected to be paid to EJRB by EAM as extraordinary loss. As a result, profit attributable to owners of parent fell 12.6% over the initial plan, failing to meet the target.

The following describes the operating results per segment (comparisons are with the previous fiscal year).

1. Real estate sales business

In the real estate sales business, activities including selling condominiums and revenue-generating real estate resulted in net sales of 86,531 million yen (up 23.0%) and segment income of 17,006 million yen (up 30.4%), all compared with the previous fiscal year.

2. Real estate leasing business

In the real estate leasing business, focus was placed on leasing activities and the property management business in view of enhancement of asset value, including increase in rental income of owned revenue-generating real estate, resulting in net sales of 11,824 million yen (up 46.1%) and segment income of 4,716 million yen (up 39.8%), all compared with the previous fiscal year.

3. Real estate planning agency and consulting business

In the real estate planning agency and consulting business, proactive efforts were made in such aspects as entrustment with planning, consulting and other services by making the best use of planning and multifaceted business-building abilities, resulting in net sales of 1,074 million yen (81.3% from the previous fiscal year) and segment income of 228 million yen (segment loss of 516 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, Etc., (1) Analysis of Operating Results, 1) Progress of Fourth Medium-term Management Plan "IDEAL to REAL 2023".

(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 10,958 million yen compared with the end of the previous fiscal year to 263,729 million yen. This was mainly attributable to cash and deposits and inventories increasing by 2,054 million yen and 12,813 million yen, respectively, and property, plant and equipment decreasing by 3,502 million yen.

Liabilities increased by 9,441 million yen compared with the end of the previous fiscal year to 199,585 million yen. This was mainly attributable to long-term loans payable and short-term loans payable increasing by 6,030 million yen.

Net assets increased by 1,516 million yen compared with the end of the previous fiscal year to 64,144 million yen. This was mainly attributable to cash dividends paid of 3,669 million yen, while recording profit attributable to owners of parent of 7,250 million yen. As a result, the equity ratio was 25.0% (24.8% 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 2,045 million yen compared with the end of the previous fiscal year to 35,604 million yen (33,559 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 provided by operating activities of 1,501 million yen (net cash used in operating activities of 10,810 million yen in the previous fiscal year). This was mainly attributable to the increase in inventories of 11,104 million yen and income taxes paid of 3,040 million yen, despite the recording of profit before income taxes of 10,290 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 1,620 million yen (net cash used in investing activities of 29,721 million yen in the previous fiscal year). This was mainly attributable to purchase of investment securities of 513 million yen and purchase of non-current assets of 2,033 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 2,144 million yen (net cash provided by financing activities of 50,293 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 6,030 million yen and payment of cash dividends of 3,668 million yen.

Reference: Changes in cash flow indicators

	Fiscal year ended Dec. 2018	Fiscal year ended Dec. 2019	Fiscal year ended Dec. 2020	Fiscal year ended Dec. 2021	Fiscal year ended Dec. 2022
Equity ratio (%)	24.9	25.3	25.8	24.8	25.0
Equity ratio on market capitalization basis (%)	42.2	50.7	39.3	30.5	29.2

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. Furthermore, the dividend payout ratio is 50.0%.

For the fiscal year ending December 2023, the dividend forecast is 38 yen per share.

(4) Business Risks

The main risks that could impact the 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) Impacts of Changes in Economic Conditions, Interest Rate Trends, Real Estate Market Conditions, Etc.

In the real estate sales business, we selectively acquire good-quality land for business, develop it making the best use of its locational characteristics, and provide attractive products including advantageous pricing. Upon the sale of properties, we take into account various factors in individual business plans by property and carefully consider price range. However, when sale at the price determined in the business plan fails to progress as planned due to worsening supply-demand balance caused by rising construction costs, economic trends, economic conditions, trends in interest rates, tax systems and land prices and other factors, or when delay in delivery or unexpected cost burden arises due to various factors, including unexpected defects such as underground obstacles, disorder in construction at the construction stage, the business performance of the ES-CON JAPAN Group may be impacted.

Likewise, in the real estate leasing business, depending on the effects of economic trends or conditions, or moving out of main tenants or usage situations at commercial facilities, rents or occupancy rates of assets owned may decline, which can have an impact on the Group's operating results.

Amid periodic recurrent waves of COVID-19, whereas social and economic activities have been normalizing steadily, if the infectious disease spreads further, the economic environment is expected to take a sharp turn for the worse. In such case, investor appetite may be dampened, leasing of commercial facilities by new tenants may fall behind, sales in the columbarium business may weaken, and loss on valuation of inventory or impairment loss associated with real estate we own may be recorded, which could have a material impact on the Group's financial position, operating results, or cash flows.

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, Money Lending Business Act, and Act on Prevention of Transfer of Criminal Proceeds, etc.

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

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 ensuring an expeditious financing environment after becoming a consolidated subsidiary of Chubu Electric Power Company, but if financing ends up being insufficient or unsatisfactory due to higher interest rates or a significant deterioration of the financial environment, it could affect the Group's business performance and financial position.

4) Human Resources

As opposed to vertical integration, the Group seeks to build an efficient and agile organizational structure that is closely linked horizontally so that it can flexibly promote business and produce 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) Personal Information Leakage and Information System Risks

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

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

As malware (Emotet)^(*5) infection spreads rapidly in Japan, the Group's information system has been exposed to cybersecurity threats, including cyberattacks or fraudulent access, in recent months. To minimize system risk, ES-CON JAPAN has revamped its security environment, including enhancing employee training and conducting security training programs periodically. Should personal information be leaked due to unforeseen circumstances, however, the Group's sales could fall due to its ruined credibility or compensation for damages may arise, and such may affect the Group's business performance.

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

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.

In June 2022, the Company endorsed the Task Force on Climate-related Financial Disclosures (TCFD) recommendations, which assess the financial impact of risks and opportunities from climate change on management and encourage companies to make disclosures about it. We disclose information on the impact from climate change on our business based on TCFD's framework.

For details, please see the "(1) Analysis of Operating Results, 8) Declaration of Support for TCFD Recommendations and Disclosures."

8) Legal Violation Risks

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

2. 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, 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) The progress of the fourth medium-term management plan "IDEAL to REAL 2023"".

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

As the COVID-19 pandemic has effected change on people's lifestyles and corporate activities significantly since 2020, our business environment, too, has been changing rapidly and dramatically in the age of the "new normal." Thanks in part to progress of vaccination and measures taken by various countries, movement restrictions have been relaxed and social and economic activities have been normalizing. On the other hand, we have witnessed a streak of incidents that will significantly influence future economic trends, such as the worsening of the Ukraine situation, the weakening of the yen, and rising prices. Furthermore, we are called on to urgently address various social problems ranging from global warming to the declining birthrate and aging population, decrease in population, gender issues, economic gap issues, and geopolitical risks, on top of digital transformation (DX) in various fields and fiercer competition that goes beyond industry boundaries. Moreover, the consumption behavior and values of customers are constantly and swiftly changing, and in order to achieve sustainable growth, businesses find themselves in an environment where they must provide true value to customers and society through business activities.

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 new, flexible ideas not bound by precedent or established concepts, carry out business activities, and contribute to revitalizing the local community. Concurrently, we should strive to conduct stable management based on the solid financial foundation and grow surely and steadily through the satisfaction of our customers with the ultimate aim of being a “life developer” bringing the ideal into reality, building a future, and developing a lifestyle per se by envisioning the happiness of those living there.

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, we must constantly strike the optimal balance of businesses in our operations and establish a firm management base that can withstand any economic environment. In addition, to achieve sustainable growth, recognizing the further enhancement of organizational power, human capital—that is, our employees or their knowledge, skills, talents, and the like—is our top priority, we have started preparations to formulate our policy on human resources development, build an educational and training system, and disclose information on matters related to human capital.

We will continue to maximize corporate value and increase shareholder returns, thereby aiming to become a one-of-a-kind company.

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 quality land, we must secure and nurture talented personnel, constantly enhance and expand information channels, seek alliances with other companies, and make quick, bold, and yet careful decisions. Given the industry characteristic of a tendency toward larger balances of borrowings due to purchases of land, etc., we anticipate a disparity between revenue plans in the phase in which interest rates are rising, so we need to continue building a strong financial standing while reducing financing costs, diversifying ways of financing, and improving cash flows.

As mentioned above, in July 2022, our consolidated subsidiary EAM received an administrative disposition, which consists of injunctions to suspend business operations and to institute improved practices, from the Commissioner of the Financial Services Agency. Based on the recognition that shoring up the legal compliance and internal control system and promoting compliance management further by the Group as a whole is our priority, the Group will bolster the system steadily.

(2) Internal Organizational Reinforcement

No two properties are alike in form or location. We believe that the Group’s mission is to make the best use of locational characteristics and propose and provide ideal housing, towns, and ideal living environments in the eyes of those who live in the area as well as in our residences, and those who use facilities. Thus, the ES-CON JAPAN Group is working to fulfill its mission with the aim of being a “life developer” that not only creates spaces, such as houses and facilities, but also proposes better, more affluent lifestyles as well.

As we promote condominium development, we put in place the tripartite system in which those in charge of purchasing, planning, and sales are involved, working on a single project from start to finish. From the standpoint of customers centered on families who buy real estate to meet actual demand, we pursue comfortable places to live in into the future and aim for creating not one-size-fits-all products but those that meet individual customer needs according to locational features, thereby setting us apart from the competition. Most recently, we are focusing on developing properties with high added value, including rental condominiums, in central Tokyo or rare locations richly endowed with nature.

As for commercial development, we are mainly developing everyday life-based retail facilities that are closely associated with local communities in an effort to contribute to revitalizing those communities.

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?” This is done in place of focusing on the size of the project or number of units at the land acquisition stage or even the basic planning stage. The Group will maintain this system, which is our forte, bolster it further to ensure a competitive edge regardless of business environment, and always keep a sense of impending crisis.

(3) New Initiatives

We have set and comply with NOI standards that enable possession of our acquisitions and developments regardless of economic changes, and set out aggressive initiatives eyeing the next generation, thereby expanding our business domain.

In the real estate sales business, centered on the development of condominiums and commercial facilities, we develop diversified projects, including logistics facilities, offices, hotels, and land readjustment to revitalize the downtown area, according to market trends.

In the real estate leasing business, we continue to focus on the leasing business in accordance with “Transforming the focus from flows to stock,” which is the basic management strategy policy in the fourth medium-term management plan, and acquired the Picasso Group, which owns a wealth of prime rental income-generating properties, in 2021. We will also continue to focus on stabilizing the profit-earning structure by handling M&A cases that do not appear in the market through discussions with businesses who face issues, including no successor to take over the business.

Furthermore, since the Group became a consolidated subsidiary of Chubu Electric Power Co., Inc. in April 2021, we have been able to expand operations in the Chubu region and launched several joint projects with the Chubu Electric Power Group that have demonstrated synergistic effects steadily. We aim to realize a “new form of community” by combining our know-how in urban development and Chubu Electric Power Group’s knowledge in 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 steadily and sales of the permanent use rights to our urban columbarium as well as implemented M&A for companies engaged in real estate crowdfunding in January 2022, enhancing the breadth and quality of our business domain.

(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 nationwide initiatives on climate change, such as the new target for greenhouse gas emissions reduction for 2030 and carbon neutrality in 2050, are important issues in terms of management also for the ES-CON JAPAN Group. Furthermore, we will also contribute to meeting SDGs (Sustainable Development Goals) step by step through our business activities.

The ES-CON JAPAN Group, which provides cities, residences and spaces where people live, promotes a vibrant environment where various people can select from many kinds of lifestyles, working styles and ways of living and safely live active lives as well as sustainable urban development with high environmental performance.

We also aim to be a company that can boast transparent management, high integrity, and trustworthy governance alongside respecting human rights, accelerating human capital management so that various personnel can succeed, strengthening health management to fulfill our corporate social responsibility, and realizing 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. 2021 (as of Dec. 31, 2021)	Fiscal year ended Dec. 2022 (as of Dec. 31, 2022)
Assets		
Current assets		
Cash and deposits	*233,667	*235,721
Notes and accounts receivable - trade	835	—
Notes and accounts receivable - trade and contract assets	—	1,096
Real estate for sale	*27,541	*24,804
Real estate for sale in process	*2123,419	*2138,968
Other	11,396	10,766
Allowance for doubtful accounts	(0)	(1)
Total current assets	176,859	191,357
Non-current assets		
Property, plant and equipment		
Buildings and structures	23,312	22,734
Accumulated depreciation	(1,516)	(2,353)
Buildings and structures, net	*221,795	*220,380
Vehicles	6	9
Accumulated depreciation	(6)	(9)
Vehicles, net	0	0
Land	*230,840	*231,535
Leased assets	2	2
Accumulated depreciation	(0)	(1)
Leased assets, net	2	1
Construction in progress	—	109
Other	377	395
Accumulated depreciation	(238)	(283)
Other, net	*2139	*2112
Total property, plant and equipment	52,778	52,139
Intangible assets		
Goodwill	8,217	7,696
Other	57	77
Total intangible assets	8,275	7,774
Investments and other assets		
Investment securities	*16,186	*16,279
Long-term loans receivable	2,467	2,475
Deferred tax assets	227	352
Other	5,932	4,827
Allowance for doubtful accounts	(37)	(1,521)
Total investments and other assets	14,776	12,413
Total non-current assets	75,830	72,327
Deferred assets		
Share issuance cost	81	45
Total deferred assets	81	45
Total assets	252,771	263,729

(Unit: million yen)

	Fiscal year ended Dec. 2021 (as of Dec. 31, 2021)	Fiscal year ended Dec. 2022 (as of Dec. 31, 2022)
Liabilities		
Current liabilities		
Short-term loans payable	*23,589	*210,061
Current portion of long-term loans payable	*2, *482,912	*2, *426,193
Lease obligations	0	0
Accounts payable - other	2,468	4,702
Income taxes payable	1,653	3,258
Advances received	6,058	5,201
Deposits received	5,634	5,416
Other	205	856
Total current liabilities	102,523	55,690
Non-current liabilities		
Long-term loans payable	*276,533	*2132,810
Lease obligations	2	1
Deferred tax liabilities	8,056	7,916
Provision for directors' share-based benefits	135	186
Provision for share-based benefits	57	109
Asset retirement obligations	270	271
Other	2,564	2,598
Total non-current liabilities	87,619	143,894
Total liabilities	190,143	199,585
Net assets		
Shareholders' equity		
Capital stock	16,519	16,519
Capital surplus	12,396	12,424
Retained earnings	34,745	38,326
Treasury shares	(1,216)	(1,457)
Total shareholders' equity	62,445	65,813
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	371	79
Foreign currency translation adjustment	(36)	13
Total accumulated other comprehensive income	334	93
Subscription rights to shares	0	0
Non-controlling interests	(152)	(1,761)
Total net assets	62,628	64,144
Total liabilities and net assets	252,771	263,729

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

(Unit: million yen)

	Fiscal year ended Dec. 2021 (from Jan. 1, 2021 to Dec. 31, 2021)	Fiscal year ended Dec. 2022 (from Jan. 1, 2022 to Dec. 31, 2022)
Net sales	79,017	99,431
Cost of sales	58,429	*172,823
Gross profit	20,588	26,607
Selling, general and administrative expenses		
Advertising expenses	3,498	3,180
Sales commission	1,091	1,110
Directors' compensations	271	256
Salaries and allowances	2,146	2,574
Provision for directors' share-based benefits	—	50
Provision for share-based benefits	12	55
Commission fee	540	620
Taxes and dues	801	874
Other	1,843	2,393
Total selling, general and administrative expenses	10,206	11,115
Operating income	10,381	15,492
Non-operating income		
Interest income	10	1
Dividend income	101	130
Cancellation income	37	48
Foreign exchange gains	73	287
Share of profit of entities accounted for using equity method	54	—
Other	25	9
Total non-operating income	303	478
Non-operating expenses		
Interest expenses	1,463	1,895
Amortization of share issuance cost	27	36
Share of loss of entities accounted for using equity method	—	16
Other	95	9
Total non-operating expenses	1,585	1,957
Ordinary income	9,099	14,012
Extraordinary income		
Gain on sales of non-current assets	*20	—
Gain on reversal of subscription rights to shares	0	0
Gain on sales of shares of subsidiaries and associates	—	205
Total extraordinary income	0	205
Extraordinary losses		
Loss on retirement of non-current assets	*30	*30
Loss on compensation for damage	—	682
Provision of allowance for doubtful accounts	—	1,483
Impairment loss	—	*41,760
Total extraordinary losses	0	3,927
Profit before income taxes	9,099	10,290
Income taxes - current	3,147	4,782
Income taxes - deferred	180	(133)
Total income taxes	3,328	4,648
Profit	5,770	5,641
Loss attributable to non-controlling interests	(190)	(1,608)
Profit attributable to owners of parent	5,961	7,250

(Consolidated Statement of Comprehensive Income)

(Unit: million yen)

	Fiscal year ended Dec. 2021 (from Jan. 1, 2021 to Dec. 31, 2021)	Fiscal year ended Dec. 2022 (from Jan. 1, 2022 to Dec. 31, 2022)
Profit	5,770	5,641
Other comprehensive income		
Valuation difference on available-for-sale securities	218	(292)
Foreign currency translation adjustment	(8)	22
Share of other comprehensive income of entities accounted for using equity method	(9)	27
Total other comprehensive income	199	(241)
Comprehensive income	5,970	5,399
Comprehensive income attributable to:		
Comprehensive income attributable to owners of parent	6,161	7,008
Comprehensive income attributable to non-controlling interests	(190)	(1,608)

(3) Consolidated Statement of Changes in Equity
Fiscal year ended Dec. 2021 (from Jan. 1, 2021 to Dec. 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

Fiscal year ended December 2022 (from Jan. 1, 2022 to Dec. 31, 2022)

(Unit: million yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	16,519	12,396	34,745	(1,216)	62,445
Changes of items during period					
Dividends of surplus			(3,669)		(3,669)
Profit attributable to owners of parent			7,250		7,250
Disposal of treasury shares		27		52	79
Purchase of treasury shares by the share-based payment benefits trust				(293)	(293)
Net changes of items other than shareholders' equity					
Total changes of items during period	—	27	3,581	(241)	3,367
Balance at end of current period	16,519	12,424	38,326	(1,457)	65,813

	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	371	(36)	334	0	(152)	62,628
Changes of items during period						
Dividends of surplus						(3,669)
Profit attributable to owners of parent						7,250
Disposal of treasury shares						79
Purchase of treasury shares by the share-based payment benefits trust						(293)
Net changes of items other than shareholders' equity	(292)	50	(241)	(0)	(1,608)	(1,851)
Total changes of items during period	(292)	50	(241)	(0)	(1,608)	1,516
Balance at end of current period	79	13	93	0	(1,761)	64,144

(4) Consolidated Statement of Cash Flows

(Unit: million yen)

	Fiscal year ended Dec. 2021 (from Jan. 1, 2021 to Dec. 31, 2021)	Fiscal year ended Dec. 2022 (from Jan. 1, 2022 to Dec. 31, 2022)
Net cash provided by (used in) operating activities		
Profit before income taxes	9,099	10,290
Depreciation	706	1,256
Impairment loss	—	1,760
Amortization of goodwill	237	522
Amortization of long-term prepaid expenses	27	24
Amortization of share issuance cost	27	36
Increase (decrease) in allowance for doubtful accounts	(0)	1,484
Increase (decrease) in provision for directors' share-based benefits	—	50
Increase (decrease) in provision for share-based benefits	10	52
Interest and dividend income	(111)	(132)
Interest expenses	1,463	1,895
Foreign exchange losses (gains)	(73)	(287)
Share of loss (profit) of entities accounted for using equity method	(54)	16
Loss (gain) on sales of shares of subsidiaries and associates	—	(205)
Loss on compensation for damage	—	682
Loss (gain) on sales of non-current assets	(0)	—
Loss on retirement of non-current assets	0	0
Decrease (increase) in notes and accounts receivable - trade	107	—
Decrease (increase) in notes and accounts receivable - trade and contract assets	—	(259)
Decrease (increase) in inventories	(19,306)	(11,104)
Decrease (increase) in prepaid expenses	(894)	(16)
Increase (decrease) in accounts payable - other	366	1,408
Decrease/increase in consumption taxes receivable/payable	(416)	859
Increase (decrease) in advances received	3,575	(857)
Increase (decrease) in deposits received	439	(840)
Decrease (increase) in other assets	(1,221)	59
Increase (decrease) in other liabilities	169	39
Subtotal	(5,848)	6,737
Interest and dividend income received	181	133
Interest expenses paid	(1,723)	(2,328)
Income taxes (paid) refund	(3,419)	(3,040)
Net cash provided by (used in) operating activities	(10,810)	1,501
Net cash provided by (used in) investing activities		
Payments into time deposits	(15)	(4)
Proceeds from withdrawal of time deposits	18	2
Purchase of investment securities	(2,265)	(513)
Proceeds from withdrawal of investment securities	0	294
Purchase of shares of subsidiaries and associates	—	(603)
Proceeds from sales of shares of subsidiaries and associates	—	699
Purchase of non-current assets	(4,763)	(2,033)
Proceeds from sales of non-current assets	121	46
Proceeds from purchase of shares of subsidiaries resulting in change in scope of consolidation	—	*316

(Unit: million yen)

	Fiscal year ended Dec. 2021 (from Jan. 1, 2021 to Dec. 31, 2021)	Fiscal year ended Dec. 2022 (from Jan. 1, 2022 to Dec. 31, 2022)
Purchase of shares of subsidiaries resulting in change in scope of consolidation	*2 (24,070)	—
Payments of loans receivable	(8)	(117)
Collection of loans receivable	647	1
Repayments of guarantee deposits received	(1,120)	(769)
Proceeds from guarantee deposits received	1,732	1,060
Proceeds from divestments	—	1
Net cash provided by (used in) investing activities	(29,721)	(1,620)
Net cash provided by (used in) financing activities		
Increase in short-term loans payable	6,539	11,929
Decrease in short-term loans payable	(5,857)	(2,956)
Proceeds from long-term loans payable	111,250	110,273
Repayments of long-term loans payable	(79,320)	(113,215)
Redemption of bonds	(230)	—
Repayments of lease obligations	(1)	(0)
Repayments of installment payables	(5)	—
Proceeds from issuance of common shares	20,361	—
Proceeds from disposal of treasury shares	203	76
Purchase of treasury shares	—	(293)
Cash dividends paid	(2,645)	(3,668)
Net cash provided by (used in) financing activities	50,293	2,144
Translation differences on cash and cash equivalents	(1)	19
Net increase (decrease) in cash and cash equivalents	9,760	2,045
Cash and cash equivalents at beginning of period	23,798	33,559
Cash and cash equivalents at end of period	*133,559	*135,604

(5) Notes to Consolidated Financial Statements

(Notes on Going Concern Assumption)

Not applicable.

(Changes in Accounting Policies)

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

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

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

Due to the application of the Accounting Standard for Revenue Recognition, it was decided that "Notes and accounts receivable - trade," indicated under "Current assets" in the consolidated balance sheet in the previous fiscal year ended December 2021, will be included in "Notes and accounts receivable - trade and contract assets" from the fiscal year ended December 2022. In accordance with the transitional treatment stipulated in paragraph 89-2 of the Revenue Recognition Accounting Standard, figures for the previous fiscal year have not been reclassified in accordance with the new approach to presentation. Furthermore, in accordance with the transitional treatment stipulated in paragraph 89-3 of the Accounting Standard for Revenue Recognition, information on the breakdown of revenue from contracts with customers for the previous fiscal year is not shown.

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

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

(Additional Information)

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

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

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

(Board Benefit Trust for Executives)

(1) Overview of the transaction

- 1) ES-CON JAPAN passed a resolution to introduce the performance-based stock reward system (the "System"; The trust established based on the trust agreement concluded with Resona Bank, Limited for the System is referred to as "board benefit trust for executives") at the Annual General Meeting of Shareholders held on March 20, 2015, with an aim to further clarify the relationship between remuneration for ES-CON JAPAN's directors (excluding directors who are Audit and Supervisory Committee Members, external directors and nonexecutive 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 Annual 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 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 Annual 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 Annual 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 ended December 2022, and each subsequent period of three fiscal years): 330 million yen
- Resolution passed at the Annual 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 ended December 2022.

(Share-Based Payment Benefits-Type ESOP Trust)

(1) Overview of the transaction

ES-CON JAPAN passed a resolution to introduce a share-based payment benefits-type ESOP (the “System”; the trust established based on the trust agreement concluded with Resona Bank, Limited for the System is referred to as “share-based payment benefits-type ESOP trust”) at the board of directors meeting held on March 20, 2015, with an aim to further enhance the benefit program for its employees and raise their motivation and morale for improving the share price and operating results. Furthermore, ES-CON JAPAN passed a resolution for continuation and partial revision of the share-based payment benefits-type ESOP trust for employees at the board of directors meeting held on June 30, 2022.

The System after the revision is a system by which ES-CON JAPAN contributes money to a trust for a new period of seven fiscal years from the fiscal year ended December 2022 to the fiscal year ending December 2028 and the period of the seven fiscal years after the elapse of the period, with the trust acquiring shares of ES-CON JAPAN with the said money as capital, and shares of ES-CON JAPAN are granted to ES-CON JAPAN Group’s employees who have satisfied certain requirements through the trust, pursuant to the stock ownership regulations set by ES-CON JAPAN.

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

Residual shares of ES-CON JAPAN in the trust are recorded as treasury shares under net assets using the book value in the trust (excluding the amount of incidental expenses). The book value of the treasury shares and the number of shares is 57 million yen and 225,700 shares for the previous fiscal year, and 347 million yen and 573,400 shares for the fiscal year ended December 2022.

(Changes in Purpose of Holding)

Due to change in the purpose of holding, a part of property, plant and equipment amounting to 1,405 million yen (782 million yen in buildings and structures and 623 million yen in land) was transferred to real estate for sale in process during the fiscal year ended December 2022.

(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 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.

Fiscal year ended December 2022 (from January 1, 2022 to December 31, 2022)

(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						
Revenue from contracts with customers	86,531	1,156	1,074	88,763	—	88,763
Other items (Note 4)	—	10,667	—	10,667	—	10,667
Net sales to external customers	86,531	11,824	1,074	99,431	—	99,431
Intersegment net sales or transfers	—	—	—	—	—	—
Total	86,531	11,824	1,074	99,431	—	99,431
Segment income (loss)	17,006	4,716	228	21,951	(6,459)	15,492
Segment assets	152,412	67,721	3,966	224,100	39,629	263,729
Other items						
Depreciation (Note 3)	—	1,140	30	1,171	110	1,281
Amortization of goodwill	97	425	—	522	—	522
Amount of investment in entities accounted for using equity method	603	—	688	1,292	—	1,292
Increase in property, plant and equipment and intangible assets (Note 3)	77	1,929	1	2,009	36	2,045

(Note 1) Reconciliations are as follows:

- (1) The reconciliation of segment income of -6,459 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 39,629 million yen is mainly surplus operating funds (cash and deposits), administrative assets, etc. not attributable to reporting segments.
- (3) The reconciliation of depreciation of 110 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 36 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.

(Note 4) "Other revenue" is rental income, etc. based on "Accounting Standard for Lease Transactions."

5. Other

(1) Status of Contracts and Sales

The performance of contracts in the real estate sales business for the fiscal year ended December 2022 is as follows:

Category	Fiscal year ended Dec. 2022 (from Jan. 1, 2022 to Dec. 31, 2022)			
	Contract amount during the period		Balance of contracts at the end of the period	
	Number of units (units)	Amount (million yen)	Number of units (units)	Amount (million yen)
Mid- to high-rise housing, etc.	1,094	55,334	743	44,869
Other	—	30,347	—	19,478
Total	1,094	85,682	743	64,348

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

Name of segment	Fiscal year ended Dec. 2021 (from Jan. 1, 2021 to Dec. 31, 2021)			Fiscal year ended Dec. 2022 (from Jan. 1, 2022 to Dec. 31, 2022)		
	Property name	Number of units (units)	Amount (million yen)	Property name	Number of units (units)	Amount (million yen)
Real estate sales business	Condominiums	1,020	45,050	Condominiums	1,185	58,532
	SUROY MALL Nagamine	—	4,600	Koga Genboen Land Readjustment Project 6	—	5,479
	Genboen, Koga-shi, Fukuoka Prefecture	—	4,039	LIONS SQUARE KAWAGUCHI	—	4,000
	Fuji Grand Natalie	—	3,950	Solprasa Sakai	—	3,300
	KoLuTeNa I	—	3,500	Kuzuhahanazono	—	3,275
	Detached house	—	2,784	Chiba Research Park	—	3,001
	Fukuroi-shi, Shizuoka	—	1,442	4-chome Sakae, Naka-ku, Nagoya-shi	—	1,794
	Commercial leasehold land in Sapporo-shi	—	1,300	5-chome Fujishirodai, Suita-shi (completed residence land)	—	1,439
	Kandacho, Higashiosaka-shi	—	1,090	Selection Aobadai	—	800
	Commercial leasehold land in Neyagawa-shi	—	702	Nishi-Kunitachi	—	373
	Commercial leasehold land in Amagasaki-shi	—	565	Tsuruma station front	—	323
	Commercial leasehold land in Kobe-shi	—	530	Shijo Omiya station front	—	296
	Commercial leasehold land in Hikone-shi	—	300	Nishi-Tokorozawa	—	268
	3-chome, Aoyamadai, Suita-shi	—	226	Other	—	3,650
	Uchiagetakatsukacho, Neyagawa-shi	—	52			
Other	—	201				
	Subtotal	1,020	70,334	Subtotal	1,185	86,531
Real estate leasing business			8,090			11,824
Real estate planning agency and consulting business			592			1,074
	Total		79,017	Total		99,431

(Note) There are no transactions between segments.