

The following is a report on the state of corporate governance at ES-CON JAPAN Ltd.:

I. Basic thinking regarding corporate governance, capital structure, corporate attributes, and other basic information

1. Basic thinking

We recognize corporate governance, both in its implementation and continued reinforcement, as critical in becoming a necessary component of society, lastingly and sustainably improving our corporate value, and enhancing our health and transparency based on our corporate philosophy, management policy, corporate slogan, vision and mission.

<Corporate Philosophy>

How should we live each day? How should we participate in society? And through this participation, what fruits can we bear for society that translate into the happiness we each pursue? To answer these questions, our management style seeks to provide a foundation upon which employees can earnestly build toward individual self-realization while aiding and encouraging one another.

<Management Policy>

1. We will use our information networks, planning ability and product development expertise to tap the unlimited potential of real estate and create new value that thoroughly satisfies our clients.
2. We will rely on our strong defense of operations management revolving around ROA and thorough management of cashflow and risk to achieve a strong offense in management that is always one step ahead.
3. We will become an elite team of professionals with an unchanging ability to swiftly and deftly respond to a rapidly-changing society.
4. We will always show respect and gratitude to our colleagues, whether inside or outside of the company, and build and maintain excellent collaborative relations.
5. We will prioritize compliance and governance, bolstering our internal auditing system, and form an organization with great bottom-up communication.

<Corporate Slogan>

IDEAL to REAL

Ideals are the very best of what can be made real, and what we seek to be is a company that brings ideals into reality to create a new future. Whether the ideal city, ideal residence, or ideal living environment, we use real estate development to give form to our customers' wishes. From residence to retail, asset management to operational management, we propose and develop spaces where people naturally gather, want to go home to, and take pride in. From ideal to real – real estate.

<Corporate Vision>

To Be A Life Developer

To develop not only the buildings but also the lives of those who live in them, thinking of their happiness – this is the kind of life developer we seek to be. Through solutions proposed by cross-departmental teams made up of the best and brightest, we create richness unprecedented in the real estate industry, connecting people with people and communities with the future.

<Corporate Mission>

To Develop "New Norm Neighborhoods"

To create community-rooted value and continue to add to it over time, building 'small-town communities' that are not rural but neighborhoods that residents nevertheless take pride in, love and care for.

To create not just buildings but lifestyles, not just towns but interactions, that get more attractive the longer people live there – these are the kinds of places we want to spread across Japan.

The Corporate Governance Report and Securities Report published on our website present our basic corporate governance policies (<https://www.es-conjapan.co.jp/english/ir/governance.php>).

Our corporate governance structure is outlined below.

The Company is a company with an audit and supervisory committee. Together with the board of directors, the Auditors Committee manages, supervises, and audits business execution.

The board of directors consists of eight members: three executive directors, two non-executive directors, and three directors who are members of the Auditors Committee. To enhance management oversight functions, all five directors of non-executive directors and directors who are members of the Auditors Committee are external directors, of whom four are independent external directors. In principle, the board of directors meets at least once a month for thoroughgoing reporting and deliberations on all important matters, in addition to reporting on the state of execution of its decisions, to ensure the timely and accurate ascertainment of management information and effective controls.

In principle, the Auditors Committee meets once a month. To enhance its independence, as described above, all Committee members are external directors. In addition, members of the Auditors Committee attend important periodic meetings and engage in an exchange of perspectives with the President and Representative Director. They interview core personnel in business divisions, review important documents such as circulars for approval, and collaborate with the accounting auditor and the internal auditing department to audit the legality and validity of the directors' performance of duties. In addition, it strengthens governance by selecting one full-time Auditors Committee member and making that person the chief Auditors Committee member.

The Nomination and Remuneration Advisory Committee has been established as an advisory body to the board of directors to strengthen the independence, objectivity, and accountability of board functions related to matters such as the nomination and remuneration of directors.

The Nomination and Remuneration Advisory Committee is described in greater detail under 3 and 4 of Principle 3-1 [Full Disclosure], [Optional Committee], and Supplementary Principle 4-10-1 of Principle 4-10 [Use of Optional Approach].

[Reasons for Not Implementing the Principles of the Corporate Governance Code]

The Company implements all principles of the Corporate Governance Code.

[Disclosure Based on the Principles of the Corporate Governance Code] Updated

[Supplementary Principle 1-2-4. Exercise of Shareholder Rights at General Meetings of Shareholders]

We make it easier for shareholders to exercise their voting rights through the adoption of an Internet-based electronic voting system and use of the Electronic Voting Platform. We also provide English translations of announcements of regular general meetings of shareholders for foreign investors.

[Principle 1-3. Basic Strategy for Capital Policy]

Our management philosophy regards as essential our position as a company needed by society. This management philosophy also guides our capital policy.

To help improve corporate value on a sustained basis, we deploy a capital policy based on the pillars of management with a focus on ROE, management that seeks to strike the ideal balance between stable returns to shareholders and corporate soundness, and investment choices that make it possible to realize stable growth strategies.

In the area of management with a focus on ROE, we maintain and realize ROE in excess of capital costs over the medium to long term.

In the area of returns to shareholders, we realize maximum and stable returns to shareholders while strengthening corporate financial soundness.

In the area of investment choices, we make investment choices to realize sustained and stable growth while maintaining investment efficiency and an optimal capital structure that accounts for ROE and returns to shareholders at all times and diversifying procurement.

[1-4. Cross-shareholdings]

(1) Policy on cross-shareholdings

We may choose to hold shares of stock in publicly traded firms as cross-shareholdings when the management policies of such publicly traded firms mesh with our management strategies and we believe these shareholdings contribute to improving corporate value over the medium to long term. Each year, we verify the effect of these shareholdings and report the result to the board of directors. In principle, we sell such shares if we determine, at the point in time three years after we began holding the shares, that we cannot achieve the initially expected effect.

(2) Details of verification of effect of holding cross-shareholdings

Every year, based on the above policy on cross-shareholdings, we confirm our progress toward the goals of cross-shareholdings. We determine whether to continue holding these cross-shareholdings based on comparison to capital costs and other measures.

(3) Standards for exercising voting rights on cross-shareholdings

In principle, we exercise all voting rights on cross-shareholdings. A decision to support or oppose resolutions is made based on the perspectives of medium- to long-term increases in value and sustained growth of both our Company and the companies in which we invest, as well as enhancements in the governance structures of these companies.

[1-7. Related Party Transactions]

All proposed conflict of interest transactions with directors including officers of important subsidiaries, non-director executive officers, or executive officers are submitted to the board of directors for deliberations. We respect the opinions of external directors in aspects such as the reasonability, appropriateness, and soundness of such transactions to determine whether or not to proceed. In addition, any transactions with major shareholders are determined after careful consideration to ensure they will not deviate from the standards governing transactions with third parties.

[2-4. Ensuring internal diversity, including promoting the active participation of women]

Supplementary Principle 2-4-1 (Ensuring Diversity of Core Human Resources)

In addition to developing workplace environments in which employees can demonstrate their abilities to the fullest through rewarding work, we promote diversity to enable diverse human resources to thrive.

We hire human resources and promote core human resources on an individual basis with an emphasis on their abilities and track record, regardless of gender, nationality, form of employment, age, or other factors. In this way, we promote the proactive hiring and promotion to core positions of diverse human resources, thereby realizing sustainable growth and growth in corporate value.

(1) Initiatives to secure diversity

① Percentage of women among new hires (total for new graduates and midcareer hires)

Pursuant to the Act on the Promotion of Female Participation and Career Advancement in the Workplace, we have formulated an action plan to maintain the percentage of women among new hires at an average of 35% or higher over three years.

- 2020: 60 new hires, of whom 19 (32%) were women
- 2021: 56 new hires, of whom 26 (46%) were women

② Promotion of women employees to managerial and management positions (end of December 2021)

- Women directors: 1 person
- Women Executive Officers: 1 person
- Women in managerial positions: 3 persons

③ Hiring of a certain number of midcareer hires each year to serve as immediate assets to the organization and their promotion to managerial and management positions

- 2020: 39 midcareer hires, of whom eight were in managerial positions
- 2021: 36 midcareer hires, of whom seven were in managerial positions and one was an Executive Officer

- ④ We have formulated plans to reduce overtime work by improving business efficiency, including no-overtime days intended to reduce working hours.
 - ⑤ We hire non-Japanese workers, regardless of nationality, and provide them opportunities to thrive in each section.
 - ⑥ We provide highly experienced senior employees with opportunities to thrive through a reemployment program for those past the mandatory retirement age of 65 years.
- (2) Internal environmental improvements
- ① In promoting active participation and career advancement of diverse human resources, we have introduced a broad range of modes of employment, including staggered working hours, shortened working hours, and programs for working from home. We survey all employees annually concerning their workplace environments as part of activities to build better workplace environments.
 - ② To promote health management, we have established a Health & Culture Fostering Team as an organization under the direct supervision of the President's Office.
 - ③ We strive proactively to hire people with disabilities and to improve working environments for them. Some people with disabilities hired by the Company who reside in rural districts work at an indoor farm (Cordiale Farm), assigned to work centered on hydroponic farming.

[2-6. Roles of Corporate Pension Funds as Asset Owners]

At this time, we have adopted only a defined-contribution pension plan. We do not play an active role in the investment of a reserve fund. As such, we have not implemented specific measures regarding this principle.

[3-1. Full Disclosure]

1. Matters such as Company objectives (e.g., corporate philosophy), management strategies, management plans, management philosophy, and management policies are described under "1. Basic thinking regarding corporate governance" in this Report, in the Securities Report, and on the Company website (<https://www.es-conjapan.co.jp/english/ir/governance.php>). The Company has published "IDEAL to REAL 2023", its fourth medium-term management plan, covering the FY2021-2023 three-year period. The fourth medium-term management plan is described in the Securities Report and on the Company website (https://www.es-conjapan.co.jp/english/about_us/plan.php).
2. Basic thinking and basic policies on corporate governance based on each of the principles of the Code
Our basic thinking and basic policies regarding corporate governance are described under "1. Basic thinking regarding corporate governance" in this Report, in the Securities Report, and on our website (<https://www.es-conjapan.co.jp/english/ir/governance.php>).
3. Board of directors policies and procedures for determining the remuneration of senior management and directors
The Company has established the Nomination and Remuneration Advisory Committee as an advisory body to the board of directors to strengthen the independence, objectivity, and accountability of board functions related to matters such as nomination and remuneration of directors. This Committee makes decisions on proposed remuneration amounts for individual directors who are not members of the Auditors Committee and deliberates on policies governing remuneration decisions, including the establishment of and revisions to officers' remuneration systems, remuneration levels, and evaluation systems, and makes decisions on related proposals. Policies and procedures for remuneration decisions are described below under "Disclosure of policies for decision-making on remuneration amounts or their calculation method."
4. Board of directors policies and procedures for the appointment/dismissal of senior management and nomination of candidate directors
We appoint members of senior management after deliberations in the Nomination and Remuneration Advisory Committee to select proposed candidates followed by comprehensive assessments by the board of directors of the candidates' track record, reputation, experience, and so forth.
Senior management members recognized to have failed to satisfy the conditions of the appointment policies described above and presenting no indication that they may do otherwise in the future are dismissed by the board of directors following deliberations in the Nomination and Remuneration Advisory Committee. Senior management members, including the CEO, are subject to annual performance evaluations by the Nomination and Remuneration Advisory Committee. Reappointment decisions are made based on these evaluations.
Candidates for directors who will not serve as members of the Auditors Committee are nominated based on comprehensive assessments of their familiarity with Company management and businesses and the knowledge, experience, track record, character, discernment, and so forth needed to contribute to Company growth. The Nomination and Remuneration Advisory Committee deliberates on and selects proposed candidates; this is followed by decisions by the board of directors after deliberations in the Auditors Committee.
Candidates for directors who will serve as members of the Auditors Committee are nominated based on comprehensive assessments of matters such as specialized knowledge and experience in management, law, accounting, finance, or other areas and recognition of outstanding character and discernment.
5. Explanations with respect to individual appointments/dismissals of senior management and nominations of directors based on 4 above
Explanations of individual appointments of senior management and nominations of candidate directors are provided in the announcements of regular general meetings of shareholders. These provide brief career histories of the candidates and the reasons for their selection as candidate directors. The appointment and nomination of independent external directors is based on comprehensive assessments of each candidate's knowledge, experience, and other factors, in accordance with the Company's own criteria for evaluating independence, in addition to the independence requirements established by the Tokyo Stock Exchange.

Supplementary Principle 3-1-3 (Sustainability Initiatives, Disclosure under the TCFD Framework)

(1) Sustainability initiatives

Under our IDEAL to REAL corporate message, we seek to realize a sustainable society and our sustained growth by responding to social issues by promoting ESG management as a life developer committed to creating ideal lifestyles in response to the changing needs of the times. Based on our ESG management principles, our ESG Promotion Group, which is led by the director responsible for the President's Office and whose personnel are drawn from each section, is divided into three teams—an E

team (environment), an S team (social), and a G team (governance)—and sets annual targets in each of the fields of the environment, social issues, and governance to advance initiatives.

See ESG Initiatives on our website (https://www.es-conjapan.co.jp/english/about_us/esg.php) for more information on our sustainability initiatives.

(2) Investing in human capital and intellectual property

① Human resource development

In addition to training provided to all new employees when they join the organization, we provide level-specific training for specific posts and roles.

Given the nature of our businesses, which require specialized knowledge of real estate, construction, and other fields, we provide subsidies and support for acquiring various qualifications, including registered real estate transaction specialist, first-class registered architect, and real estate securitization master. We are strong supporters of employee self-improvement efforts.

At managerial levels, we have established opportunities to enhance management abilities and strengthen awareness from managerial perspectives through external off-the-job training and coaching based on 360-degree evaluations. These are part of efforts to develop future management human resources.

② Intellectual property management

Since, in light of the nature of our businesses, managing intellectual property focuses on trademarks and similar rights, we strive to ensure thorough management with support from outside experts.

(3) Disclosure under the TCFD framework

We are moving ahead with efforts according to the following timetable to disclose information on how climate-related risks and opportunities may impact our business activities, earnings, and other factors, based on the framework of the Task Force on Climate-related Financial Disclosures (TCFD).

- December 2021: Implemented capacity-building activities to improve TCFD-related knowledge
- March 2022: Evaluating the importance of business risks and opportunities, choosing outside scenarios, and establishing our own scenarios
- June 2022: Considering the disclosure of information on the potential financial impact of important climate-related risks and opportunities on our businesses

[4-1. Roles and Responsibilities of the Board of Directors (1)]

Supplementary Principle 4-1-1

The Company's Articles of Association specify that decisions on important business execution may be delegated, in whole or in part, to directors. Directors to whom such authority has been delegated based on decisions by the board of directors are tasked with making decisions on individual matters of business execution, thereby accelerating the decision-making process and enhancing the oversight functions of the board of directors.

The board of directors formulates management strategies and objectives and oversees the status of their execution.

In addition, the status of the execution of individual business matters is reported to the board of directors without delay. A system is maintained whereby the board of directors can monitor related progress.

Rules on internal authority and other provisions specify standard amounts of money for respective duties used to determine the matters submitted to the board of directors for deliberations and the scope of delegation to directors. Management proceeds in strict compliance with these rules.

Supplementary Principle 4-1-3

To train the next generation of corporate management, we are striving to develop Executive Officers as candidates for future successors to senior management. The Company has delegated Executive Officers and employee Executive Officers and specifies terms of office for Executive Officers. Through everyday business execution, the Representative Director and directors strive to communicate and to pass on to managerial candidates the management philosophy and corporate values based on the management philosophy. The Company provides support for self-improvement by providing opportunities for external training. Efforts seek to train future managerial candidates in on-the-job training by assigning missions on important topics related to Company growth and missions leading to the acquisition of the Company's human resource requirements (skills and abilities needed by the Company). The state of their understanding of, implementation of, and succession to the ES-CON JAPAN DNA and their mastery of the Company's human resource requirements for management are confirmed through annual evaluations by the Nomination and Remuneration Advisory Committee and the results of external evaluations. These, in turn, are applied in the selection of candidate directors and in on-the-job training in the next fiscal year.

[4-8. Effective Use of Independent External Directors]

Four of the Company's eight directors are independent external directors. We plan to continue to appoint independent external directors who possess qualities that will contribute to sustained growth in the Company's corporate value.

[4-9. Criteria for Evaluating Independence and Qualification for Independent External Directors]

As criteria for evaluating the independence of independent external directors, based on the requirements for the independence of external directors as specified by the Tokyo Stock Exchange and other domestic financial instruments exchanges, we evaluate the independence of individual directors by checking to ensure that they currently and in all of the past three fiscal years satisfy the following requirements:

- (1) Not an important trading partner (*1) of the Company or person who executes business thereof (*2)
- (2) Not an important lender (*3) of the Company or a person who executes business thereof
- (3) Not a consultant, accounting specialist, or legal specialist receiving significant sums of money or other property from the Company other than executive compensation (However, if the recipient of such property is a corporation, association, or other organization, this shall refer to a person affiliated with such organization.)
- (4) Not a major shareholder (*5) of the Company or a person who executes business thereof
- (5) Not a recipient of a large sum (*4) of donations from the Company (However, if the recipient of such donations is a corporation, association, or other organization, this shall refer to a person affiliated with such organization.)
- (6) None of the following is true for the individual's spouse and relatives within the second degree of consanguinity:
 - ① Those under (1)-(5) above

- ② Person who executes business or non-executive director or auditor of the Company or Company subsidiary
 ③ A representative employee or other employee of the Company's accounting auditor
- *1 An "important trading partner" refers to a trading partner with whom annual trade exceeds 2% of its consolidated net sales in the most recent fiscal year if paid by the Company or 2% of the Company's consolidated net sales in the most recent fiscal year if paid to the Company.
 *2 A "person who executes business" refers to a person who executes business as stipulated in Article 2, Paragraph 3, Item 6 of the Ordinance for Enforcement of the Companies Act.
 *3 An "important lender" refers to a lender of more than 2% of the Company's consolidated total assets.
 *4 A "large sum" refers to a sum of more than 10 million yen per year for an individual or more than 2% of the organization's annual gross income in the most recent fiscal year for a person affiliated with a corporation, association, or other organization.
 *5 A "major shareholder" refers to a holder of at least 10% of voting rights, whether directly or indirectly.

[4-10. Use of Optional Approach]

Supplementary Principle 4-10-1

As described under Principle 3-1 [Full Disclosure], 3 and 4 above, the Company has established the Nomination and Remuneration Advisory Committee as an advisory body to the board of directors to strengthen the independence, objectivity, and accountability of board functions related to matters such as nomination and remuneration of directors. This Committee consists of three or more members, a majority of whom must be external directors. Its membership is appointed by resolution of the board of directors. Members of the Committee are listed below.

Takatoshi Ito (President and Representative Director, Chairperson of the Committee)

Masayoshi Nishitake (external director, member of the Auditors Committee)

Hiroto Mizobata (independent external director, member of the Auditors Committee)

Tadashi Fukuda (independent external director, member of the Auditors Committee)

The Management Department assists in the duties of the Nomination and Remuneration Advisory Committee as its secretariat.

[4-11. Preconditions for Ensuring Effectiveness of Board of Directors and Auditors Committee]

Supplementary Principle 4-11-1

The Company board of directors consists of directors who are not members of the Auditors Committee, selected based on factors such as past experience and track record, and directors who are members of the Auditors Committee, appointed based on qualifications and experience as specialists in law, accounting, or taxation as well as auditing experience. As shown in the officers' skills matrix below, this structure ensures a well-balanced and diverse board in terms of knowledge, experience, and ability. The Articles of Association call for the board of directors to include no more than 10 directors who are not members of the Auditors Committee and no more than five directors who are members of the Auditors Committee. The Company considers the current size of the board of directors to be appropriate.

Officer Skills Matrix (◎: outstanding skills; ○: high skills)

Name		Takatoshi Ito	Minoru Nakanishi	Kenji Fujita	Atsushi Kawashima *1	Keiko Otsuki *1	Masayoshi Nishitake	Hiroto Mizobata *1	Tadashi Fukuda *1	Tomohiko Egashira *2	
Position		President and Representative Director	Senior Managing Director Head of Management Division	Director Head of President's Office	External director (Independent officer)	External director (Independent officer)	External director Auditors Committee member	External director Auditors Committee member (Independent officer)	External director Auditors Committee member (Independent officer)	Managing Executive Officer Head of Development Division	
Duties		General management	HR, PR, systems, general affairs, finance	Matters specifically assigned by the President, ESG, IT			Audits, Nomination and Remuneration Advisory Committee, internal audits			Development operations in general	
Skills	Corporate management	Discernment of top management	◎		◎						
		Discernment of executive management	◎	◎	◎	○				◎	
		Management auditing skills						◎	◎	◎	
	Related to real estate business	Business skills	◎	○		◎					◎
		Industry knowledge	◎	○		◎	○				◎
	Finance, securities			○		○	◎	○	○		
	Financial accounting		○	○				○	◎		
	Accounting							○	◎		
	Legal affairs	General legal affairs	○	○				○		◎	
		Risk management	○	○	○			○		○	
	ESG		○	○	◎						
	HR, labor		○	○	○			○			
IT				○							

<Notes>

*1 The Tokyo Stock Exchange has been notified that this director serves as an independent officer.

*2 Delegated Executive Officer

Supplementary Principle 4-11-2

The state of concurrent duties of directors is reported in the Securities Report and announcements of regular general meetings of shareholders.

One of the Company's external directors who are members of the Auditors Committee is a full-time director. This structure enables effective utilization of external directors.

Supplementary Principle 4-11-3

Each year, the Company undertakes a survey in which respondents grade, on a five-point scale, the following eight items: the composition of the board of directors; the management of the board of directors; risk management; efficacy improvements; evaluations and remuneration of senior management; stakeholder engagement; officer training; and the overall efficacy of the board of directors.

With respect to the overall efficacy of the board of directors, the results of this survey in 2021 showed that the board is regarded to be generally effective. Nevertheless, improvements are underway on the following points identified as issues based on survey results:

- Composition of the board of directors: Ensuring diversity (promoting women directors, promoting directors with management experience)

In March 2021, in response to this issue, we appointed a woman (Keiko Otsuki) and a candidate with management experience (Atsushi Kawashima) as new external directors. New external director Keiko Otsuki possesses strong insights into securities and finance. New external director Atsushi Kawashima brings a wealth of experience and knowledge in corporate management. We believe their appointments enhanced the diversity of the board of directors.

We will continue promoting efforts to ensure diversity.

In addition, the eight currently appointed Executive Officers (employees) include one woman.

(See the Securities Report for career histories of directors.)(Japanese Only)

[4-14. Director and Auditor Training]

Supplementary Principle 4-14-2

While the Company strives to create training opportunities to enable directors to effectively fulfill their roles and responsibilities, including provision of information on various seminars and distribution of training materials, we intend to focus even more efforts on this area to enhance training methods still further and to increase training opportunities.

[5-1. Policy for Constructive Dialogue with Shareholders]

The Company promotes constructive dialogue with shareholders through proactive IR activities.

The practice of IR activities is overseen by the Representative Director and the director in charge of management planning.

The Company employs an approach open to reasonable requests for interviews from shareholders.

The Company has established departments in charge of public relations, finance, accounting, general affairs, and legal affairs within the Management Division, maintaining an organizational structure that ensures the organic coordination of functions to help promote dialogue and to make it possible to ascertain the composition of shareholders. Feedback is provided to the board of directors as appropriate regarding matters such as shareholder opinions ascertained through dialogue.

In addition, the Company appropriately manages insider information through rigorous control of material facts not yet announced publicly based on insider trading control rules.

2. Capital structure

Percentage of foreign shareholders

Less than 10%

[Major Shareholders]

Updated

Name	Number of shares owned	Ownership ratio (%)
Chubu Electric Power Co., Inc.	49,599,000	51.37
Nissei Build Kogyo Co., Ltd.	6,500,000	6.73
The Master Trust Bank of Japan, Ltd. (account in trust)	4,274,800	4.43
Tenma Seiryu Co., Ltd.	3,610,000	3.74
Kouryu Oh	2,100,000	2.17
Custody Bank of Japan, Ltd. (account in trust)	1,981,900	2.05
Takatoshi Ito	1,280,200	1.33
Keiko Akashi	531,000	0.55
NS Corporation	500,300	0.52
Ark Real Estate Co., Ltd.	449,000	0.46

Controlling shareholder (other than parent company)

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Parent company

Chubu Electric Power Co., Inc. (listed on Tokyo Stock Exchange and Nagoya Stock Exchange) (Securities code) 9502

Supplemental explanation

Updated

- (1) The above table of major shareholders presents ownership ratios based on shares owned as of December 31, 2021.
- (2) Of the shares held by Custody Bank of Japan, Ltd. (account in trust), 851,000 shares are shares of Company stock owned by the share-based payment benefits trust for officers adopted by the Company, while 225,700 shares are shares of Company stock owned by the share-based payment benefits type employee-stock ownership plan (ESOP) trust adopted by the Company. These shares of Company stock are recorded on the consolidated and nonconsolidated financial statements as treasury stock.
- (3) In addition to the above, the Company owns 2,020,200 shares of treasury stock.
- (4) Ownership ratios of major shareholders exclude treasury stock (2,020,200 shares).

3. Corporate attributes

Listed exchange and market category	First Section, Tokyo Stock Exchange
Fiscal year ends	December
Category of industry	Real estate
(Consolidated) number of employees at the end of the most recent fiscal year	100 or more but less than 500
(Consolidated) net sales at the end of the most recent fiscal year	10 billion or more but less than 100 billion yen
Number of consolidated subsidiaries at the end of the most recent fiscal year	Less than 10 companies

4. Guidelines on policies for the protection of minority shareholders in cases such as transactions with controlling shareholders Updated

- (1) Chubu Electric Power qualifies as a parent company holding 51.37% of voting rights of the Company. Five of the Company's eight directors are external directors, four of whom are independent external directors; this structure reflects consideration to ensure a certain degree of independence from the parent company and thereby protect minority shareholders.
- (2) Matters related to transactions with parent company
 - ① Matters borne in mind to avoid harming the interests of the Company in conducting said transactions
As in cases in which we engage in transactions with other companies, our policy is to determine the transaction conditions with the parent company on a rational basis while examining contractual terms and market prices and to engage in said transactions only after fully examining the pros and cons of the transactions, their conditions, and other factors to ensure that they are not unfairly detrimental to the interests of minority shareholders.
 - ② Judgment of board of directors on whether or not said transactions will harm the Company interests and reasons therefor
With respect to the transactions with the parent company under ① above, the board of directors of the Company, bearing in mind the need for said transactions, has determined that they will not harm the interests of the Company because fair and appropriate conditions have been determined in accordance with rational assessments.
 - ③ The judgment of the board of directors accords with the opinions of external directors in all cases assessed.

5. Other specific conditions that could have significant impact on corporate governance

[5-2. Establishing and Disclosing Management Strategies and Management Plans]

The Company has published "IDEAL to REAL 2023", its fourth medium-term management plan covering the three-year period of FY2021-2023. The fourth medium-term management plan is described in the Securities Report and on the Company website (https://www.es-conjapan.co.jp/english/about_us/plan.php).

// Status of corporate governance structure of management control organizations related to managerial decision-making, execution, and oversight and other related matters

1. Matters related to institutional structure, organizational management, etc.

Organizational form	Company with an audit and supervisory committee
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[Directors]

Number of directors specified in the Articles of Association	15
Term of office of director specified in the Articles of Association	1 year
Chairperson of the board of directors	President
Number of directors	8
External directors appointed?	Y
Number of external directors	5
Number of external directors designated as independent officers	4

Relationship to the Company (1)

Name	Attribute	Relationship to the Company*												
		a	b	c	d	e	f	g	h	i	j	k		
Masayoshi Nishitake	From another company													
Hiroto Mizobata	Certified public accountant													
Tadashi Fukuda	Attorney at law													
Atsushi Kawashima	From another company													
Keiko Otsuki	From another company													

* Categories of relationships to the Company

* ○: the individual currently has or recently had such a relationship; △: the individual had such a relationship in the past.

* ●: a close relative of the individual currently has or recently had such a relationship; ▲: a close relative of the individual had such a relationship in the past.

- Person who executes business of a listed company or subsidiary thereof
- Person who executes business of a parent company of a listed company or non-executive director thereof
- Person who executes business of a sister company of a listed company
- Person for whom a listed company is an important trading partner or person who executes business thereof
- Important trading partner of a listed company or person who executes business thereof
- Consultant, accounting specialist, or legal specialist receiving a large sum of money or other property from a listed company, other than executive compensation
- Major shareholder of a listed company (or person who executes business of the shareholder if said major shareholder is a corporate person)
- Person who executes business of a trading partner (not falling under d, e, or f) of a listed company (the individual concerned only)
- Person who executes business of a company that shares external directors with the Company (the individual concerned only)
- Person who executes business of a recipient of donations from a listed company (the individual concerned only)
- Other

Relations to the Company (2) Updated

Name	Auditors Committee member	Independent officer	Supplemental explanation related to applicable item	Reasons for appointment
Masayoshi Nishitake	○		—	Mr. Nishitake has been appointed as an external director. He is judged fit for the post in light of his remarkable discernment, his abundant experience, and his strong track record at financial institutions.
Hiroto Mizobata	○	○	Mr. Mizobata satisfies the Company's criteria for evaluating the independence of its independent external directors.	Mr. Mizobata possesses a wealth of experience and a wide range of knowledge as certified public accountant, certified tax accountant, and manager. He has been appointed external director to take advantage of his experience and knowledge in Company management. He has been named an independent officer because he satisfies the requirements for independence and neutrality and because his appointment poses

				no risk of conflicts of interest between him and ordinary shareholders.
Tadashi Fukuda	○	○	Mr. Fukuda satisfies the Company's criteria for evaluating the independence of its independent external directors.	Mr. Fukuda possesses a wealth of corporate legal experience and a wide range of knowledge as attorney at law. He has been appointed external director to take advantage of his experience and knowledge in Company management. He has been named an independent officer because he satisfies the requirements for independence and neutrality and because his appointment poses no risk of conflicts of interest between him and ordinary shareholders.
Atsushi Kawashima		○	Mr. Kawashima satisfies the Company's criteria for evaluating the independence of its independent external directors.	Mr. Kawashima possesses a wealth of experience and a strong track record of achievements over many years as a leading manager at Kenedix, Inc. He has been appointed external director to allow the Company to draw fully on his experience and knowledge. He has been named an independent officer because he satisfies the requirements for independence and neutrality and because his appointment poses no risk of conflicts of interest between him and ordinary shareholders.
Keiko Otsuki		○	Ms. Otsuki satisfies the Company's criteria for evaluating the independence of its independent external directors.	Ms. Otsuki possesses a wealth of experience and a strong track record of achievements, including work as a securities analyst overseas. She has been appointed an external director to apply her deep insights, gained through this experience and knowledge, to Company management. She has been named an independent officer because she satisfies the requirements for independence and neutrality and her appointment poses no risk of conflict of interest between her and ordinary shareholders.

[Auditors Committee]

Auditors Committee membership and attributes of chairperson

	Total membership (persons)	Full-time member(s) (person[s])	Internal director(s) (person[s])	External director(s) (person[s])	Chairperson
Auditors Committee	3	1	0	3	External director
Director(s) and employees assigned to assist in the duties of the Auditors Committee?	Y				

Matters related to independence of such director(s) and employees from executive directors

While these director(s) and employees are assigned to assist in the duties of the Auditors Committee in the form of concurrent assignment of personnel in charge of internal auditing, since the department in charge of internal auditing is an organization under the Auditors Committee, decisions by and the consent of the Auditors Committee are required for the transfer and personnel evaluations of such employees. As such, their independence is secured through a structure whereby the command and control authority of executive directors does not extend to duties related to the Auditors Committee.

State of cooperation among the Auditors Committee, accounting auditor, and internal auditing department

<Cooperation between the Auditors Committee and the accounting auditor>

In principle, the Auditors Committee quarterly receives an explanation of matters such as the state of accounting auditing and internal control auditing from the accounting auditor and exchanges information with the accounting auditor.

<Cooperation between the Auditors Committee and the internal auditing department>

In principle, the internal auditing department attends each meeting of the Auditors Committee, reporting on the formulation of internal auditing plans, the state of their implementation, and their results.

[Optional Committee]

Optional committee corresponding to a nomination committee or a remuneration committee established?

Y

State of establishment of optional committee, its membership, and attributes of its chairperson

	Name of committee	Total membership (persons)	Full-time member(s) (person[s])	Internal director(s) (person[s])	External director(s) (person[s])	Outside expert(s) (person[s])	Other (person[s])	Chairperson
Optional committee corresponding to a nomination committee	Nomination and Remuneration Advisory Committee	4	0	1	3	0	0	Internal director
Optional committee corresponding to a remuneration committee	Nomination and Remuneration Advisory Committee	4	0	1	3	0	0	Internal director

Supplemental explanation

Remuneration and nomination procedures

The Company has established the Nomination and Remuneration Advisory Committee as an advisory body to the board of directors for the purpose of strengthening the independence, objectivity, and accountability of board functions with regard to matters such as the nomination and remuneration of directors. This Committee consists of three or more members, a majority of whom must be external directors. Its membership is appointed by resolution of the board of directors.

In the nomination process, the Nomination and Remuneration Advisory Committee makes decisions on draft resolutions for regular general meetings of shareholders regarding the appointment and dismissal of directors who are not members of the Auditors Committee and directors who are members of the Auditors Committee; proposals for the appointment and dismissal of the Representative Director, managing directors, and Executive Officers; the proposed assignment of duties of executive directors; and proposed related basic policies. It also deliberates on matters such as those related to succession plans. Members of senior management, including the CEO, are subject to annual performance evaluations regarding matters such as the status of achievement of business performance objectives and deliberations on reappointment by the Nomination and Remuneration Advisory Committee.

With regard to remuneration, the Nomination and Remuneration Advisory Committee makes decisions on proposed remuneration amounts for individual directors who are not members of the Auditors Committee and deliberates on policies governing remuneration decisions, including the establishment of and revisions to officers' remuneration systems, remuneration levels, and evaluation systems, and makes decisions on related proposals.

The current membership of the Committee is as described under 4-10 [Use of Optional Approach], Supplementary Principle 4-10-1.

[Independent External Directors]

Number of independent external directors

4

Other matters related to independent external directors

[Criteria for evaluating the independence of its independent external directors]

Section / 1. Basic thinking: [Disclosure Based on the Principles of the Corporate Governance Code]: [4-9. Criteria for Evaluating Independence and Qualification for Independent External Directors] of this Report describes the criteria established by the Company for evaluating the independence of external directors.

[Incentives]

Status of implementation of measures related to providing incentives to directors

Adoption of performance-based reward system and stock option system

Supplemental explanation related to this item Updated

In December 2017, we issued stock options to Company directors and employees and to employees of subsidiaries. The purpose in doing so was to strengthen morale and motivation of Company directors and employees to improve Company business performance into the future, to further improve profitability and corporate value over the long term, and to enhance solidarity within the Company.

In addition, under a resolution of the regular general meeting of shareholders held March 20, 2015, as part of revisions of the remuneration system for directors, we abolished the existing retirement benefits system for directors and adopted a performance-based stock award system for directors (excluding directors who are members of the Auditors Committee, external directors, and

non-executive directors) for the purpose of strengthening the awareness of directors of the responsibility to contribute to medium- to long-term business performance and corporate value. Performance-based rewards are determined based on degree of contribution to accounting results and business performance in the fiscal year, with consideration for degree of responsibility according to job title.

On January 30, 2020, we established an optional Nomination and Remuneration Advisory Committee as an advisory body to the board of directors to strengthen independence, objectivity, and accountability in decisions concerning director remuneration. The remuneration system for officers consists of a base remuneration component in the form of fixed monthly remuneration; an annual incentive remuneration component based on yearly business performance; and a medium-term incentive remuneration component based on business performance during the period of the medium-term management plan. This system is intended to contribute to continuing progress toward performance targets and increases in corporate value.

Recipients of stock options

Internal directors, external directors, Company employees, and employees of subsidiaries

Supplemental explanation related to this item **Updated**

Sixth stock options

Date of resolution on issue: December 1, 2017

Number of stock options: 9,024 (as of December 31, 2021)

Class of shares subject to stock options: common stock

Pay-in amount on stock options: 1 yen per stock option

Pay-in amount on exercise of stock options: 627 yen per share

Period for exercise of stock options: April 1, 2021 through December 26, 2025

Holdings as of December 31, 2021

Internal directors: 250 stock options held by one person

External directors (including former external directors):

250 stock options held by two persons

Company employees: 8,429 stock options held by 87 persons

Employees of Company subsidiaries: 95 stock options held by four persons

[Director Remuneration]

State of disclosure (of individual director remuneration)

Individually disclosed for only some directors

Supplemental explanation related to this item **Updated**

Directors whose total remuneration exceeds 100 million yen

None

Shown below is director remuneration in the 27th term (January 1 – December 31, 2021).

Directors (excluding external directors)	180 million yen	5 persons
External directors	33 million yen	5 persons

In addition to the above amounts paid, performance-based stock awards for officers have been paid to four directors and (delegated) Executive Officers (excluding directors who are members of the Auditors Committee, external directors, and non-executive directors). The 21st regular general meeting of shareholders held on March 25, 2016, the 25th general meeting of shareholders held on March 25, 2020, and the 26th regular general meeting of shareholders held on March 26, 2021 resolved to establish this performance-based stock award system for officers as a framework apart from the system of remuneration described above.

Policies established for decision-making on remuneration amounts or their calculation method? **Updated**

Y

Disclosure of policies for decision-making on remuneration amounts or their calculation method

<<Policies and procedures for board of directors decision-making on remuneration for senior management and directors>>

The Company applies the following policies and procedures to determine amounts of remuneration for directors who are or are not members of the Auditors Committee:

<<Basic policies for decision-making on remuneration for directors who are not members of the Auditors Committee>>

1. Basic policies for decision-making on officers' remuneration

(1) Basic policies for decision-making on remuneration

The basic policies call for appropriate remuneration for directors who are not members of the Auditors Committee to be determined by confirmation of business results and comparisons to other firms within the same industry by the Nomination and Remuneration Advisory Committee. This structure is also intended to increase the rate of annual and medium-term incentive remuneration and maintain and increase management motivation in light of the inherent volatility of the Company's businesses. In addition, a stock allocation system has been established as a system of nonmonetary remuneration for medium-term incentive remuneration. Remuneration decisions under this system are based on the perspective of considering total

shareholder return (TSR) as an indicator that reflects shareholder perspectives and sets as clear objectives returns to shareholders and increased corporate value.

(2) Content and structure of remuneration and constituent ratios, timing, etc.

Three types of remuneration are available for directors who are not member of the Auditors Committee (excluding external directors): fixed monthly base remuneration; annual incentive remuneration based on annual performance; and medium-term incentive remuneration based on performance during the period of the medium-term management plan. The ratios of these constituent elements are determined based on each director's post and responsibilities.

Remuneration for external directors consists only of base remuneration in fixed monthly amounts.

The fixed monthly base remuneration is paid each month; annual incentive remuneration is paid after the end of each business year; and medium-term incentive remuneration is paid by awarding points after the end of the business year. The number of points awarded is finalized in the final business year of the medium-term management plan using TSR (total shareholder return) as the basis for calculations. Shares are paid in accordance with the total number of points when the director retires.

Provided below is an overview of a case of payment of target amounts of incentive remuneration.

Remuneration item	Representative director	Vice president and director	Senior managing director	Managing director	Director	Purposes and overview of payment
Base remuneration	55%	54%	52%	55%	55%	Remuneration reflecting differences in roles in management oversight and business execution and differences in scope of responsibilities for each post. Amounts are determined based on officer category and post.
Annual incentive remuneration	30%	29%	29%	30%	27%	Annual incentive remuneration is paid in amounts corresponding to each period's performance, using consolidated net income and consolidated operating income as indicators, to incentivize business execution to achieve the goals set in business plans; determined based on evaluations of progress with business measures over the course of the fiscal year and progress toward goals set in business plans.
Medium-term incentive remuneration	15%	17%	19%	15%	18%	Medium-term incentive remuneration is paid in the form of Company shares based on evaluations of progress toward goals set in the medium-term management plan and fluctuations in corporate value, using consolidated operating income and total returns to shareholders as stipulated in the medium-term management plan as indicators. This remuneration seeks to incentivize business execution with sustained growth in mind. Rights to receive Company shares obtained in accordance with performance in each year of the medium-term management plan are evaluated, from an external perspective, for each period of the medium-term management plan. Rights are finalized based on the results thereof.

2. Method for calculating annual incentive remuneration

Annual incentive remuneration is funded from a fixed percentage of profits. Funds are allocated based on the specific post and progress toward goals set in business plans.

Remuneration funds = consolidated net income × coefficient A × coefficient B based on achievement of consolidated operating income targets

Remuneration amount = remuneration funds × (individual points ÷ total points)

Coefficient A: The coefficient is set to realize the target remuneration amount upon achievement of goals set in business plans for the initial fiscal year of the medium-term management plan. This value is revised for each period of the medium-term management plan.

Coefficient B: Set to zero if less than 80% of the consolidated operating income target is achieved. The maximum is a multiple of 1.5 (i.e., +50%).

Individual points: Post-specific points + performance points (achievement of consolidated operating income target and President's commitment evaluation)

3. Method for calculating medium-term incentive remuneration

The base number of shares for each post, determined in the initial fiscal year of the medium-term management plan, is awarded tentatively after conversion to points in accordance with achievement of each year's consolidated operating income target. The number of shares awarded is based on the rate of divergence between the Company's TSR and that of TOPIX real estate shares on the First Section of the Tokyo Stock Exchange.

Shares awarded = tentatively awarded points for the medium-term management plan period × coefficient based on TSR divergence rate

Tentatively awarded points = base points for each post × coefficient based on achievement of consolidated operating income target

[Coefficient based on performance]

Consolidated operating income target achievement rate	Coefficient
Less than 100%	0
100% or more but less than 110%	1.0
110% or more but less than 120%	1.2

[Coefficient based on rate of divergence between TSR and that of TOPIX real estate shares on the TSE First Section]

Rate of divergence from TOPIX real estate shares on the TSE First Section	Final coefficient for determining number of shares awarded
Less than 0.6	0.5
0.6 or more but less than 0.8	0.7
0.8 or more but less than 0.9	0.9

120% or more	1.5	0.9 or more	1.0
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4. Resolutions of the regular general meeting of shareholders concerning officers' remuneration
The 21st regular general meeting of shareholders held March 25, 2016 passed a resolution capping remuneration for directors who are not members of the Auditors Committee to no more than 400 million yen annually (excluding the employee salary portion for directors concurrently serving in employee positions). On March 28, 2022, when the Securities Report was submitted, this resolution applied to five officers.

The 21st regular general meeting of shareholders held March 25, 2016 passed a resolution capping remuneration for directors who are members of the Auditors Committee to no more than 50 million yen annually. On March 28, 2022, when the Securities Report was submitted, this resolution applied to three officers.

5. Decisions on amounts of individual remuneration for directors who are not members of the Auditors Committee

(1) Decision-making policy

We strive to ensure transparency with regard to officer remuneration through Nomination and Remuneration Advisory Committee deliberations. The Committee consists of one internal director and three external directors (two of whom are independent external directors). As an advisory body to the board of directors, the Nomination and Remuneration Advisory Committee decides on proposed individual remuneration amounts for directors who are not members of the Auditors Committee; deliberates on policies for decision-making on remuneration-related matters, such as the establishment of and revisions to officers' remuneration systems, remuneration levels, and evaluation systems; and decides on related proposals.

(2) Remuneration decision-making process

The secretariat of the Nomination and Remuneration Advisory Committee prepares materials related to revisions to remuneration. The Representative Director prepares a rough draft of individual remuneration reflecting evaluations of each director's commitment. Based on the decision-making policies, the Nomination and Remuneration Advisory Committee evaluates business results and key performance indicators (KPIs) as well as procedures and evaluation results, then makes decisions on the proposed individual remuneration amounts. The final decision is made by the board of directors.

(3) Results of activities of the Nomination and Remuneration Advisory Committee (January 2021 – February 2022)

The Committee met six times from January 2021 through February 2022 and deliberated on the following matters:

Meeting Date	Matters Considered
February 8, 2021	Appointment and retirement of directors
	FY2021 officers' remuneration
	Proposed revision of annual incentive remuneration for officers
	Revision of the rules on the stock award system for officers
	Annual schedule of the Committee for FY2021
May 25, 2021	Plan for this fiscal year under the succession plan
July 29, 2021	Appointment of Executive Officers
	Officer report on results for First Half of 27th Term
September 29, 2021	2021 survey results
	Verification of nomination and appointment policy for directors and Executive Officers
December 21, 2021	Director results for this fiscal year
	Proposal to appoint directors and reappointment of existing directors for FY2022
	Proposal to appoint Executive Officers (new appointment candidates and demotions) for FY2022
January 27, 2022	Appointment of directors
	FY2022 officers' remuneration
	Annual incentive remuneration for officers
	Annual schedule of the Committee for FY2022

(4) Stock options and performance-based stock award system

Under a resolution passed by the board of directors at its meeting held December 1, 2017, stock options are issued to directors at fair prices to those eligible to receive them. These stock options are issued and allocated to eligible directors within the scope of conditions that would not be unduly advantageous.

The board of directors determines the numbers of shares to be allocated through comprehensive consideration of matters such as the post of each director and his or her performance and contributions. (This decision is entrusted by the board to the President and Representative Director.)

<<Remuneration for directors who are members of the Auditors Committee>>

(1) This consists of fixed based remuneration in amounts determined within the range of the total amount approved through a resolution in the March 2016 regular general meeting of shareholders.

(2) The policy on base remuneration calls for base remuneration to be determined in light of the results of audits of legality and propriety in business execution contributing to sustained increases in corporate value and in light of job responsibilities.

(3) Draft policies governing remuneration and related issues for individual directors who are members of the Auditors Committee are determined by the Nomination and Remuneration Advisory Committee. Decisions on base remuneration are made through consultation among directors who are members of the Auditors Committee.

(4) In its December 1, 2017 meeting, the board of directors resolved to award stock options to directors who are members of the Auditors Committee at a premium. These premium stock options are issued to recipients at fair value in a manner that accords no undue advantages to the eligible directors who are members of the Auditors Committee.

Decisions on numbers of stock options to be allocated are made through consultation among directors who are members of the Auditors Committee, based on comprehensive consideration of matters such as individual posts and individual contributions.

[Support Structure for External Directors]

To make it possible to share management-related information with executive directors and to enable dynamic management, full-time external directors attend important meetings held periodically with executive directors and core personnel of business, financial, and management departments.

Other activities include exchange of perspectives between external directors and the Representative Director and interviews with executive directors and core personnel of business departments. This structure enables information sharing on matters such as the state of business execution and issues within each section.

Documents related to board of directors meetings are distributed by the secretariat in advance to ensure sufficient time for thorough deliberations on and study of proposals and reports.

[Presidents and Representative Directors and other officers who have left office]

Names of former Presidents and Representative Directors and other officers serving as consultants, advisors, etc.

Not applicable

2. Matters related to functions such as business execution, auditing and oversight, nomination, and decision-making on remuneration (overview of current corporate governance structure)

<Overview of the Company's corporate governance structure>

The Company is a company with an audit and supervisory committee. Business execution is managed and supervised by the board of directors and the Auditors Committee.

- (1) Board of directors (eight directors, five of whom are external directors; includes four independent external directors; the chair assumed by the President and Representative Director)
 - The board of directors in principle meets at least once a month to enhance management oversight functions through thorough deliberation and review of important matters.
 - To secure speed and dynamism in business execution, the Articles of Association require the delegation of decision-making on important matters of business execution to executive directors. The scope of such delegation is strictly managed in accordance with monetary and other standards established by the board of directors. The state of the execution of important delegated business matters is reported to the board of directors without delay.
- (2) Auditors Committee (three members, all of whom are external directors; includes two independent external directors and one full-time member)
 - The Auditors Committee in principle meets once a month. If required by Auditors Committee members, the accounting auditor and internal auditing staff, as well as members of senior management, including executive directors, attend these meetings to provide timely and appropriate reports.
 - Auditors Committee members engage in the periodic exchange of perspectives with the President and Representative Director and, if necessary, interviews with members of senior management, including executive directors, striving to ascertain the state of business execution and related issues in individual business departments.
 - The full-time Auditors Committee member attends important Company meetings, such as periodic meetings of the management committee, of which main members are executive directors, as well as head office meetings attended by executive directors and core personnel of individual business departments, to share information on the state of management and progress with business plans.
- (3) Internal auditing system
The internal auditing office is a subsidiary organization of the Auditors Committee. In meetings of the Auditors Committee (held monthly in principle), the internal auditing office reports on the status of internal audits and audit results and exchanges information with Auditors Committee members. The office strives to ensure effective audits.
- (4) Nomination and Remuneration Advisory Committee
As an advisory body to the board of directors, the Nomination and Remuneration Advisory Committee deliberates and makes decisions on matters such as director nomination and remuneration.
A majority of its membership consists of external directors to enhance the independence and transparency of nomination and remuneration.

3. Reasons for selection of the current corporate governance structure

- (1) The supervision and effectiveness of the board of directors are strengthened by having directors who are members of the Auditors Committee possess voting rights at board of directors meetings.
- (2) Delegation of important business to executive directors ensures promptness, mobility, and flexibility in execution, preventing loss of business opportunities.
- (3) Directors who are members of the Auditors Committee are involved in decision-making regarding nomination and remuneration of other directors based on their right to state their opinions on the process, enhancing its transparency.
- (4) The Nomination and Remuneration Advisory Committee, an advisory body to the board of directors, deliberates and makes proposed decisions on matters related to the nomination and remuneration of directors who are not members of the Auditors Committee (decisions on individual proposed remuneration amounts, proposed remuneration policies, and proposed nominations and reappointments). A majority of its membership consists of external directors. This is intended to strengthen further independence and objectivity in matters such as director nomination and remuneration.
- (5) Close mutual cooperation is maintained among the Auditors Committee, the internal auditing department, and the accounting auditor to ensure the efficacy of audits.

For the above reasons, we believe that the Company's current system for contributing to sustained growth in corporate value is an optimal one.

III.State of implementation of measures involving shareholders and other stakeholders

1. State of initiatives to invigorate discussion at regular general meetings of shareholders and facilitate the exercise of voting rights

	Supplemental explanation
Exercise of voting rights through electromagnetic means	To make it easier for shareholders to exercise their voting rights, we have adopted an infrastructure to allow electronic voting via the Internet and the Electronic Voting Platform.
Use of the Electronic Voting Platform and other initiatives to improve the environment for exercise of voting rights by institutional investors	Same as above
Provision of English translations of announcements of regular general meetings of shareholders (summaries)	We prepare English translations of announcements of regular general meetings of shareholders (from which business reports are omitted) and post them to our website (https://www.es-conjapan.co.jp/english/).
Other	<ul style="list-style-type: none"> • The regular general meeting of shareholders was held on March 25, 2022. • The announcement to convene the 2022 regular general meeting of shareholders was posted to the Company website on March 3, 2022. • During the general meeting of shareholders, the chair presents a business report and explains the resolutions, in addition to engaging in a question-and-answer session with shareholders.

2. State of IR-related activities

	Supplemental explanation	Explanation provided by representative?
Preparation and publication of disclosure policy	It is posted on our website and included in the Securities Report.	
Holding periodic briefings for individual investors	Not held at present	N
Holding periodic briefings for analysts and institutional investors	<p>These meetings are held regularly twice a year: in mid-February after the announcement of financial results and in mid-August after the closing of the second quarter. Each briefing is approximately one hour and includes presentations of business specifics and an overview of financial results, business strategies, and other matters by a representative, followed by a Q&A session for participants.</p> <p>Some 30 people participate in these events, including analysts and fund managers from Japan and overseas.</p>	Y
Holding periodic briefings for foreign investors	<p>Every quarter, we engage in overseas IR activities and individual IR activities through web conferencing, as requested.</p> <p>Last year, in response to COVID-19, we conducted all individual IR activities through web conferencing.</p>	N
Posting of IR materials to the website	<p>Information on financial results and other materials subject to timely disclosure, Securities Reports, company briefing materials, information on the state of corporate governance, announcements of regular general meetings of shareholders, the medium-term management plan, and other financial materials, materials describing projects, and videos and slides from semiannual briefings on financial results are posted to the Company website (https://www.es-conjapan.co.jp/)(Partially in Japanese only). In addition, IR staff accept questions concerning IR directly via the Internet (https://www.es-conjapan.co.jp/inquiry/ir/).</p> <p>To enhance disclosure and provision of information to overseas investors and other parties, we post to our English website translations of financial highlights (summaries), major press releases, and business information. (https://www.es-conjapan.co.jp/english/)</p>	
Establishing an IR section (person in charge)	The Management Department in the Management Division serves as the section in charge of IR. The CIO serves as the director in charge of IR. The head of the Management Department serves as the IR administration contact point.	
Other	The Company website includes an IR site for overseas investors. Here we publish English versions of summaries of accounts, announcements of regular general meetings of shareholders, and materials from briefings on financial results.	

3. State of efforts concerning respect for stakeholder position Updated

	Supplemental explanation
Provisions on respect for the position of stakeholders in internal rules, etc.	<p>As stated in our management philosophy, we constantly aim for management that makes a lasting and necessary contribution to society. Through the following activities based on this management philosophy, we will improve the value of every stakeholder.</p> <ol style="list-style-type: none"> (1) Based on our Corporate Ethics and Conduct Charter, we carry out business with an awareness of all stakeholders. (2) Based on the Employee Rulebook, we train personnel to enable sustainable improvement of corporate value. (3) Based on the Compliance Code of Conduct, we respond to all stakeholders fairly, impartially, and honestly. (4) We disclose management information including non-financial information in a timely manner, improve corporate value, and make proactive returns to shareholders.
Implementation of environmental protection activities, CSR activities, and related efforts	<p>Our ESG initiatives involve a wide range of activities, including the following:</p> <ol style="list-style-type: none"> (1) GRESB Real Estate Developer Assessment Since 2018, we have participated in Global ESG, an annual benchmark assessment that considers ESG considerations in the real estate sector, with the goal of continuously improving assessment results. In October 2021, we achieved a "2 Stars" rating in the GRESB Rating, a five-grade relative evaluation system, for efforts on environmental consideration and sustainability in the developer benchmark. In addition, we acquired a "Green Star (*4)" rating based on high marks in both the Management Component and Development Component for three consecutive years. (2) Fundraising through ESG/SDGs evaluation finance Our fundraising efforts were based on an A* rating, the third of seven ranks, earned on effective ESG/SDGs initiatives and disclosure in ESG/SDGs assessments by Sumitomo Mitsui Banking Corporation and the Japan Research Institute, Ltd. (3) DBJ Green Building certification In 2021, tonarie Minamisenri, tonarie Seiwadai, Asumigaoka Brand-New Mall, tonarie Yamato-Takada, and tonarie Toga-Mikita, all community-based commercial facilities owned by ESCON JAPAN REIT Investment Corporation in whose development we were involved, achieved DBJ Green Building certification. This certification system was created by Development Bank of Japan Inc. to promote environmentally and socially conscious real estate (Green Building). (4) Rank S Certification for CASBEE for Real Estate In July 2020, tonarie Fujimino, a commercial facility owned by the Company, obtained Rank S, the highest certification for CASBEE for Real Estate, from a CASBEE accreditation body authorized by the Institute for Building Environment and Energy Conservation. (5) EcoAction21 certification Since 2020, we have achieved Eco Action 21 certification for two consecutive years from a Japanese environmental management system (EMS) certification program established by the Ministry of the Environment of Japan. (6) Efforts to Promote Eco-Friendly ZEH-compatible Housing In November 2021, we obtained ZEH-M Oriented certification for Le JADE Yao Sakuragaoka, our new condominium. Featuring outstanding heat insulation performance, the property helps reduce annual primary energy consumption. This is our second ZEH condominium after Le JADE Okurayama, which won the Good Design Award for fiscal year 2021. We will continue to develop ZEH condominiums, based on a one per year timetable. Additionally, ES-CON Home Ltd. and ES-CON Craft Ltd., which are consolidated Company subsidiaries, were registered for ZEH Builder Certification. (7) Supporting those with cognitive impairments All tenants at the Group-operated tonarie Seiwadai undergo training to support people with cognitive impairments. The Hanshin Kita Branch Office of Hyogo Prefectural Government has recognized the facility as a business that supports those with cognitive impairments. (8) Contributions to Healthcare Since 2020, we have contributed to the Kyoto University iPS Cell Research Fund, which supports early and inexpensive treatments based on iPS cells for those suffering disease and injury. Since 2019, we have contributed to the Osaka University Graduate School of Medicine to support clinical trials for promising cancer vaccines.

(9) Contributing to Athletics

In April 2021, we invested in Ryukyu Football Club Co., Ltd. ("Ryukyu FC" hereinafter), which operates FC Ryukyu, a professional soccer team. This investment contributes to sports and to the local community. It also secures a foothold for creating business opportunities in Okinawa and supports Ryukyu FC's regional revitalization activities in Okinawa Prefecture.

Formulation of policies related to the provision of information to stakeholders

The Corporate Ethics and Conduct Charter and Compliance Code of Conduct stipulate efforts toward transparency and openness to stakeholders.

IV. Matters related to internal control systems

1. Basic outlook on internal control systems and their development status

[Basic policies on development of internal control systems]

In accordance with the Companies Act and the Ordinance for Enforcement of the Companies Act, the Company develops the following systems to ensure the propriety of its business operations (“internal control systems” hereinafter).

1. Systems for ensuring that the execution of duties by directors and employees complies with laws, regulations, and the Articles of Association

Based on our Corporate Ethics and Conduct Charter, which clearly express commitment to practicing corporate ethics and fulfilling corporate social responsibilities (CSR), the Company has established the Compliance Code of Conduct as a code of conduct under which officers and employees act in strict compliance with laws, regulations, the Articles of Association, and social norms, and the Compliance Manual. The Company has also stipulated systems in Compliance Rules to ensure thorough implementation of the Compliance Code of Conduct.

The section in charge of internal auditing is responsible for auditing compliance. This section reports its findings to the Representative Director and to the Auditors Committee. It also reports on important matters to the board of directors.

The Company has established and operates a hotline to allow officers and employees to directly report information concerning actions that may be in violation of laws and regulations and other concerns.

2. Systems related to retention and management of information related to the execution of duties of directors (information retention and management systems)

In accordance with the Document and Information Management Rules established by the board of directors, information related to the execution of duties of officers and employees is recorded in documents or electromagnetic media (“documents, etc.” hereinafter) and duly retained and managed.

3. Rules and other systems related to managing risk of loss (risk management systems)

The Company’s basic risk management policies are established in the Risk Management Rules. Procedures for responding to materialized risks are stipulated in the Crisis Management Rules.

For risks related to business projects, study meetings (e.g., head office meetings) held periodically by directors, persons responsible in related departments, and others examine in detail risks related to all initiatives and determine policies for response.

The Risk Management Committee holds periodic meetings to monitor cross-sectional risks and ensure Companywide sharing of related information.

Companywide response to matters posing the risk of serious impact on management are studied and implemented by convening crisis task forces headed by the President and Representative Director.

In addition, to secure the accuracy and reliability of financial reporting, Company identifies, assesses, and documents risks in operational processes and elsewhere based on the Internal Control Rules and periodically checks on the status of implementation of control activities.

4. Systems for ensuring efficient execution of the duties of directors (efficient job execution systems)

- (1) The board of directors establishes Companywide targets shared by officers and employees based on management policies that reflect trends in business conditions. The board presents specific action guidelines for related departments as necessary to achieve these targets. Directors and individual departments carry out practical activities to realize these plans.
- (2) In everyday business execution, an efficient execution structure that makes responsibilities clear is secured based on the Job Authority Rules. In addition, efforts to ascertain information in a timely manner and ensure effective controls are made, such as reporting on the state of execution in board of directors meetings as well as reporting on the state of business execution in study meetings (e.g., head office meetings) held periodically by directors and persons responsible in related departments.
- (3) Budgets are controlled through monthly reporting to the board of directors by the section in charge of business administration on the status of budget execution and performance.
- (4) The section in charge of internal auditing monitors and reports to the board of directors to indicate whether business execution is effectively implemented.

5. Systems for ensuring appropriate operations in the Group consisting of the Company and its subsidiaries

- (1) Systems for reporting to the Company on matters related to the execution of duties of subsidiary directors and others
Important matters concerning Group member companies to be deliberated by or reported to the board of directors are stipulated in the Affiliate Management Rules. These rules also identify matters to be reported to the section in charge of business administration. Liaison councils are convened as necessary.
- (2) Rules and other systems related to managing risk of loss at subsidiaries
The Risk Management Rules call for information sharing and consideration of countermeasures by the Risk Management Committee on risk of loss at Group member companies. In addition, the President and Representative Director of each Group member company serves as its chief risk officer and is responsible for checking on the progress of risk management, reporting to the board of directors, implementing risk management training, and promoting risk management awareness.
- (3) Systems for ensuring that the duties of subsidiary directors and others are executed efficiently
Under the Affiliate Management Rules, medium- to long-term and annual management plans and reports on budgets, monthly management conditions, and financial results are submitted by Group member companies and management analysis and guidance implemented on that basis. In addition, basic policies are established on the guidance and development of Group member companies; efforts are made to strengthen ties between Group member companies; and liaison councils are convened as necessary.

- (4) Systems for ensuring that the execution of duties by directors and employees of subsidiaries complies with laws, regulations, and the Articles of Incorporation
The Compliance Rules call for the presidents and representative directors of Group member companies to participate as members in Group compliance systems as the individuals with ultimate responsibility for compliance within their companies. The section in charge of internal auditing implements internal audits of Group member companies under the Internal Audit Rules.
6. Matters related to directors and employees assigned to assist with the duties of the Auditors Committee
In principle, the Company assigns employees to assist with the duties of the Auditors Committee.
7. Matters related to the independence of directors and employees assigned to assist with the duties of the Auditors Committee from other directors (excluding directors who are members of the Auditors Committee)
Employees assisting with the duties of the Auditors Committee work under the direction and supervision of the Auditors Committee. Any organizational changes, human-resource evaluations, or personnel transfers of such employees require prior consultation with the Auditors Committee.
8. Matters related to ensuring the efficacy of instructions to directors and employees assigned to assist with the duties of the Auditors Committee
To ensure the efficacy of instructions to employees assigned to assist with the duties the Auditors Committee, the full-time Auditors Committee member performs human resource evaluations of these employees.
9. Systems involving in reporting to the Auditors Committee
- (1) Systems for reporting by Company directors (excluding directors who are members of the Auditors Committee) and employees to the Auditors Committee
The Company maintains a system whereby officers and employees report to the Auditors Committee not just the matters provided for in laws and regulations, but other matters with serious potential impact on the Company and Group member companies; status of internal audits; and the status of reports to the compliance hotline and the nature of these reports.
- (2) Systems for reporting to the Auditors Committee by officers and employees of subsidiaries and persons receiving reports from them
Officers and employees of Group member companies are required to promptly provide appropriate reports when asked by the Auditors Committee to report on matters related to business execution.
Officers and employees of Group member companies who discover matters posing serious potential harm to Group member companies, such as violations of laws and regulations, are required to report immediately to the section in charge of business administration or the whistleblowing hotline.
The Company maintains systems to allow reporting to the Company Auditors Committee on the status of reports from officers and employees of Group member companies and the nature of these reports.
10. Systems for ensuring that persons who report information to the Auditors Committee are not treated disadvantageously due to their reports
The Company prohibits unfavorable or disadvantageous treatment of officers and employees of Group member companies who report to the Auditors Committee due to their reports. Officers and employees of Group member companies are made thoroughly aware of this prohibition.
11. Procedures for prepayment or reimbursement of costs for execution of Auditors Committee duties and other matters related to policies on processing of costs or obligations arising from the execution of such duties
Requests from the Auditors Committee for the prepayment or reimbursement of costs for execution of its duties shall be processed swiftly unless it can be demonstrated that such costs or obligations are not necessary to the execution of such duties. A fixed amount is budgeted each year for payment of costs arising from the execution of Auditors Committee duties.
12. Other systems for ensuring that auditing by the Auditors Committee is conducted effectively
- (1) The Auditors Committee holds periodic meetings to exchange perspectives with the President and Representative Director and with the accounting auditor.
- (2) The Company has established a system to make audits performed by the Auditors Committee more effective by placing the section in charge of internal auditing under the direction of the Auditors Committee as its subsidiary organization.

2. Basic thinking on exclusion of antisocial forces and state of initiatives therefor

- (1) Basic thinking on exclusion of antisocial forces

As part of our compliance initiatives related to antisocial forces, under the Corporate Ethics and Conduct Charter, we categorically renounce all ties to antisocial forces or groups. In addition, the Compliance Code of Conduct calls for a resolute attitude against antisocial forces, a policy of strict noninvolvement in illegal or antisocial actions, and refusal to provide or receive economic gains or any other benefits related to antisocial forces.

Furthermore, the Company's Manual on Responding to Antisocial Forces ensures thorough understanding of related matters within the Company and helps maintain a resolute stance on excluding antisocial forces across the organization.

To maintain the efficacy of these systems, before engaging in transactions, the Company has all new trade partners screened by an independent agency regarding their integrity and verifies that the potential trade partner is entirely free of ties to antisocial forces.

(2) State of initiatives toward exclusion of antisocial forces

We have completed the following initiatives for excluding antisocial forces:

- a. We have established sections responsible for response and officers responsible for guarding against inappropriate demands.
- b. We work with external specialists (attorneys, police departments with jurisdiction, Centers for Removal of Criminal Organizations, compliance consultants).
- c. We gather information on antisocial forces through external specialists and implement screening by independent agencies regarding integrity.
- d. We maintain manuals on responding to antisocial forces and manuals for staff in charge of such response.
- e. We implement compliance training.

V. Other

1. Measures to defend against takeover bids

Measures adopted to defend against takeover bids?

N

Supplemental explanation related to this item

2. Other matters related to corporate governance structure, etc.

Status of internal controls related to the timely disclosure of Company information

(1) Handling of material facts

Material facts related to important decisions are submitted to the board of directors for approval. Material facts related to important decisions requiring approval are reported in advance by each department to the PR/IR section and legal section in the Management Division, which is in charge of disclosure. These reports are submitted to the officer in charge of disclosure and concurrently to the Risk Management Committee which monitors risks and related conditions across the organization and ensures Companywide information sharing.

The emergence of material facts is reported by the sections in charge to the directors and the officer in charge of disclosure and reported to the PR/IR section, legal section, and Risk Management Committee.

The PR/IR section considers and confirms whether disclosure is necessary. The findings are reported to the officer in charge of disclosure via the legal section for purposes related to checks, balances, and confirmation from the perspective of compliance with laws, regulations, and other requirements. The officer in charge of disclosure makes final decisions on whether to disclose the information. If he or she determines that such disclosure is necessary, the information is disclosed in a timely and appropriate matter.

(2) Handling of financial results information

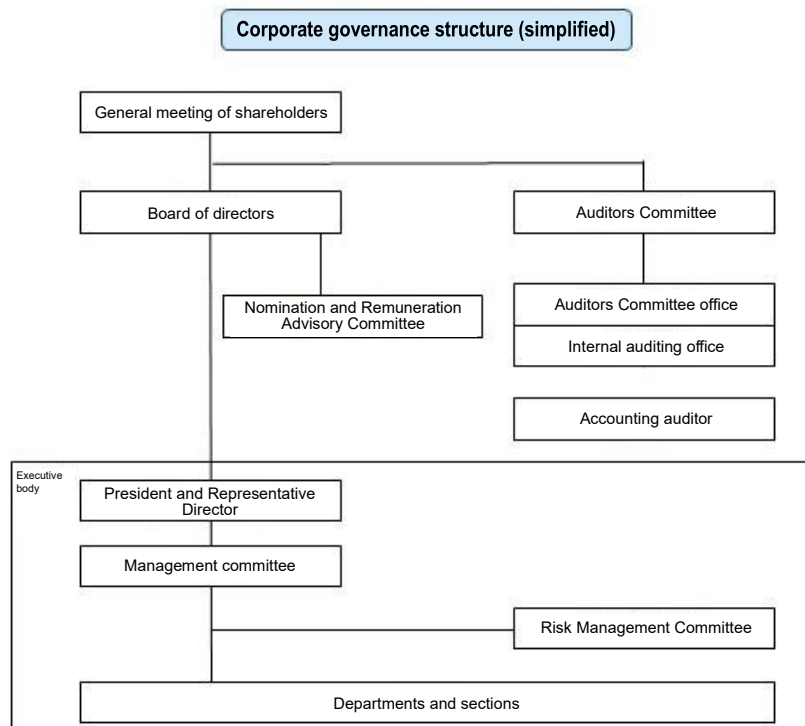
Financial results are disclosed swiftly following preparation of disclosure documents, such as summaries of accounts, by the section in charge of financial accounting; review of these documents by the PR/IR section; and approval by the board of directors for information on the status of financial results.

(3) Handling of subsidiary information

Facts related to decisions by and occurrences at subsidiaries and subsidiary financial results information are disclosed in a timely and appropriate manner if disclosure is deemed necessary by the procedures described above. Such disclosures are handled via the Company section in charge of the subsidiary.

(4) Handling of important information

To prevent insider trading and related purposes, the Insider Trading Control Rules specify the measures to prevent leakage of insider information and related notes or restrictions. In addition, persons responsible for handling of information are appointed. Such information is managed strictly in accordance with these rules.



Overview of system for timely disclosure (schematic)

