



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

July 26, 2022

Name of listed company: ES-CON JAPAN Ltd. Listing exchange: Tokyo Stock Exchange
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 Scheduled date for start of dividend payment: —
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 Accounts briefing meeting held? Yes/No: Yes (for analysts)

(Amounts are rounded down to the nearest million yen)

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

(1) Consolidated operating results

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

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent	
	million yen	%	million yen	%	million yen	%	million yen	%
First two quarters of fiscal year ending Dec. 2022	40,876	63.6	5,641	120.2	5,136	165.6	3,296	137.4
First two quarters of fiscal year ended Dec. 2021	24,980	(54.6)	2,561	(75.8)	1,934	(80.8)	1,388	(80.1)

Note: Comprehensive income
 First two quarters of fiscal year ending Dec. 2022: 3,090 million yen [126.9%] First two quarters of fiscal year ended Dec. 2021: 1,361 million yen [-79.9%]

	Basic earnings per share	Diluted earnings per share
	yen	yen
First two quarters of fiscal year ending Dec. 2022	34.52	34.46
First two quarters of fiscal year ended Dec. 2021	17.07	17.02

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

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Book value per share
	million yen	million yen	%	yen
First two quarters of fiscal year ending Dec. 2022	275,945	62,059	22.6	651.54
Fiscal year ended Dec. 2021	252,771	62,628	24.8	657.50

Reference: Equity
 First two quarters of fiscal year ending Dec. 2022: 62,226 million yen Fiscal year ended Dec. 2021: 62,780 million yen

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

2. Dividends

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

(Note) Revisions from the latest dividends forecast: None

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

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

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent		Basic earnings per share
	million yen	%	million yen	%	million yen	%	million yen	%	yen
Full fiscal year	100,000	26.6	14,000	34.9	12,200	34.1	8,300	39.2	86.92

(Note) Revisions from the latest earnings forecast: None

* Explanatory notes

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

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

Newly included: — companies (Company name) —

Excluded: — companies (Company name) —

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

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

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

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

3) Changes in accounting estimates: None

4) Restatement: None

(Note) For details, please see “Attachment; 2. Quarterly Consolidated Financial Statements and Key Notes; (4) Notes to Quarterly Consolidated Financial Statements (Changes in Accounting Policies)” on page 20.

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

1) Number of shares issued and outstanding (including treasury shares) at end of period	First two quarters of fiscal year ending Dec. 2022	98,580,887 shares	Fiscal year ended Dec. 2021	98,580,887 shares
2) Number of treasury shares at end of period	First two quarters of fiscal year ending Dec. 2022	3,074,800 shares	Fiscal year ended Dec. 2021	3,096,900 shares
3) Average number of shares during period	First two quarters of fiscal year ending Dec. 2022	95,494,503 shares	First two quarters of fiscal year ended Dec. 2021	81,333,676 shares

Note: The number of treasury shares at end of period includes shares of ES-CON JAPAN held in a board benefit trust for executives and a share-based payment benefits-type ESOP trust (first two quarters of fiscal year ending December 2022: 851,000 shares in the board benefit trust for executives and 214,100 shares in the share-based payment benefits-type ESOP trust). In the calculation of the average number of shares during period (cumulative total of first two quarters), the treasury shares to be subtracted in that calculation includes shares of ES-CON JAPAN held in the board benefit trust for executives and the share-based payment benefits-type ESOP trust (first two quarters of fiscal year ending December 2022: 1,073,860 shares).

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

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

The earnings outlook and other forward-looking statements contained in this document are based on information currently available to and certain assumptions that are thought to be reasonable by ES-CON JAPAN. Accordingly, actual business performance and other results may differ materially due to various reasons. For the conditions forming the assumptions on which earnings forecasts are based and explanatory notes for use of earnings forecasts, etc., please see “Attachment; 1. Qualitative Information on Quarterly Results; (4) Explanation of Consolidated Earnings Forecast and Other Forward-Looking Information” on page 14.

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Attachment

1. Qualitative Information on Quarterly Results

(1) Business Risks

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

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

(2) Legal Restrictions, Etc.

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

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

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

(FUEL Inc.)

Name of approval, license, etc.	Governing agency, etc.	Details of approval, license, etc.	Term of validity	Legal violation requirements and main reasons for revocation of approval and license
Financial Instruments Business (Type 2 Financial Instruments Business)	Financial Services Agency	Director-General of the Kanto Local Finance Bureau (Financial Instruments Business) No. 2123	Obtained on January 26, 2009. No provision for the period of validity	In case of registration by unauthorized means, capital shortage, or potential insolvency in the context of business or asset conditions, the registration may be revoked (Article 52 of the Financial Instruments and Exchange Act).

(5) Personal Information Leakage and Information System Risks

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

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

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

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

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

(7) Climate Change Risks

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

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

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

(8) Legal Violation Risks

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

(2) Explanation of Operating Results

In the first two quarters of the fiscal year ending December 2022, the number of COVID-19 cases surged but subsided after March 2022 and normalization of economic and social activities and economic recovery progressed due to the easing of movement restrictions, etc.

In the real estate industry to which the ES-CON JAPAN Group belongs, the real estate market remained robust and investors' appetite for investment remained strong both domestically and abroad with housing demand being pushed up by work-style reform and new lifestyles such as working from home, partly due to the supportive effect of the continuation of monetary easing measures.

On the other hand, regarding prospects, downside risks to the economy have increased as prices of materials are surging on the back of the deteriorating situation in Ukraine, inflation is accelerating due to the yen's sharp depreciation, many countries, including the U.S., have switched over to a tight monetary policy, and an upward trend for interest rates is gaining force. The future trend of the real estate market remains uncertain and we need to develop the real estate business prudently.

Amid these highly unpredictable business circumstances, ES-CON JAPAN strives to post a record profit this year, the second year of the fourth medium-term management plan "IDEAL to REAL 2023" (the 3-year period from fiscal year ended December 2021 to fiscal year ending December 2023) formulated in February 2021, with the basic policy: "Transformation and Rapid Progress."

Regarding the Group's business performance in the first two quarters of fiscal year ending December 2022, sales of condominiums in the real estate sales business grew steadily and both sales and profit surpassed the initial estimates.

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

Fiscal 2022, the second year of the fourth medium-term management plan, is performing well as the year of “Rapid Progress.”

In fiscal 2021, the first year of the fourth medium-term management plan, ES-CON JAPAN acquired all shares of Picasso Co., Ltd., which owns numerous prime revenue-generating properties, and its seven group companies (hereinafter “Picasso and seven Group companies”), making all these companies its subsidiaries. This helped ES-CON JAPAN’s investment plan progress at a pace exceeding that of the initial plan, thereby “transforming” the revenue structure with a single stroke by ensuring stable rental revenues. Consequently, ES-CON JAPAN modified part of management index for the final year of the medium-term management plan, fiscal year ending December 2023, including the share of profits from leasing. The details of the modification are described in the following “5. Management Targets.”

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

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

1. Basic Management Strategy Policies

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

2. Basic Policy: Transformation and Rapid Progress

Transformation

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

Rapid Progress

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

3. Management Strategies

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

4. Performance Plan

(Unit: million yen)

	Fiscal year ended Dec. 2021	Fiscal year ending Dec. 2022		Fiscal year ending Dec. 2023
	Actual	First two quarters Actual	Full fiscal year Plan	Plan
Net sales	79,017	40,876	100,000	110,000
Operating income	10,381	5,641	14,000	16,000

5. Management Targets

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

*1 Share of profits for leasing: Leasing segment profits / Total segment profits (excluding adjustments)

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

*3 Share of long-term earnings from real estate: Real estate generating leasing revenues recorded as non-current assets / Total assets

*4 In the first fiscal year of the fourth medium-term management plan, ES-CON JAPAN rapidly realized “transformation” of the revenue structure by accelerating progress on investment plans ahead of schedule and securing stable leasing income, and “share of profits from leasing,” “equity ratio,” and “share of long-term earnings from real estate” for the fiscal year ending December 2023 were revised on March 25, 2022.

6. Investment Plan

(Unit: million yen)

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

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

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

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

In February 2022, a consortium of businesses led by Chubu Electric Power of which ES-CON JAPAN is a member concluded a basic agreement on a project organized by Aichi Prefecture and the city of Nagoya concerning utilization of the site of the 20th Asian Games Aichi-Nagoya 2026 Athletes' Village after the games as a joint project with Chubu Electric Power.

Furthermore, we established TSUNAGU Community Farm LLC with Chubu Electric Power and Spread Co., Ltd. (hereinafter “Spread”) to build Techno Farm Fukuroi, which will be the world's largest vertical farm utilizing fully artificial light and capable of producing 10 tons of lettuce per day. By combining Chubu Electric Power's knowledge in energy management with our real estate development capabilities and Spread's cultivation technology, we will strive to produce “safe and clean” lettuce efficiently and stably with the aim of commencing production in January 2024.

Furthermore, ES-CON JAPAN received a rating of "A-" (stable) from Rating and Investment Information, Inc. and "A" (stable) from Japan Credit Rating Agency, Ltd. in July 2021, and was selected as a constituent of the JPX-Nikkei Index 400 for FY2021 (August 31, 2021 to August 30, 2022). Against the backdrop of obtaining this evaluation, we are establishing a system enabling it to consider a variety of investment opportunities flexibly and actively, such as entering into commitment line agreements with financial institutions and registering the issuance of bonds.

We will continue to strengthen our partnership with the Chubu Electric Power Group and actively work to achieve large-scale urban development and realize a "new form of community" while utilizing our real estate development know-how and conducting investment to raise our enterprise value.

3) Progress of Projects in Hokkaido

"ES CON FIELD HOKKAIDO," the new baseball stadium of the Hokkaido Nippon-Ham Fighters under construction in Kitahiroshima City, Hokkaido, will be completed in December 2022, and just over half a year remains until its scheduled commencement of operation in March 2023. ES-CON JAPAN is participating in the urban development scheme for Hokkaido Ballpark F Village (total development area: 36.7 ha; hereinafter "F VILLAGE") centered on the stadium, and has entered into a naming rights agreement for the new stadium.

In February 2022, as the first project in the F VILLAGE urban development concept, we commenced sales of a new condominium for sale in Hokkaido, "Le JADE Hokkaido Ballpark." The property is a project in a rare location approximately 80 meters from the outfield stands of the new stadium and also allows enjoyment of Hokkaido's rich nature. The number of visits to the condominium gallery exceeds 700, and both the first and second phases of sales sold out immediately, with contracts progressing for 108 of the 118 units, indicating a high level of interest from within and outside Hokkaido.

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

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

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

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

4) Initiatives Aimed at Regional Revitalization through Real Estate Development

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

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

We are opening "tonarie CREO" at "tonarie Tsukuba Square," a redevelopment project consisting of commercial facilities and offices in front of Tsukuba Station in Ibaraki Prefecture, in phases, and proceeding with tenant leasing activities, etc. On the adjacent land, we developed the condominium "Le JADE Tsukuba Station Front (218 units in total)," promoting development that integrates "retail, office, and residential" in front of the station, and sold all units with delivery scheduled for November 2022.

In March 2022, we started development of a community-based shopping center "tonarie Hoshida (tentative name) (Katano City, Osaka Prefecture)" with Takara Leben Co., Ltd. The construction site is within the "Hoshida Station North Land Readjustment Project" (implementation area of approx. 26.4 ha) area where development of condominiums, detached houses, and industrial facilities such as business establishments is planned nearby, leading to the expectation for future prosperity. This facility is scheduled to open in the spring of 2023 as the tenth facility in our commercial facility brand "tonarie" series.

In June 2022, we acquired a project site on the Itoshima Peninsular in the western part of Fukuoka Prefecture with LANDIC Hotel & Resort Co., Ltd. and commenced development of our first resort hotel. The project site is in a tourist area surrounded by nature and enjoys access to a variety of activities such as swimming and surfing. Through the development, we will work to contribute to stimulating the region in cooperation with local governments and surrounding business operators.

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

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

Recently, we have been promoting product planning with high added value in resort areas such as development of "Ost Residence Karuizawa" (Karuizawa Town, Kitasaku District, Nagano Prefecture; 33 units in total) surrounded by the abundant nature of Karuizawa, and acquisition of two project sites in Hayamamachi, Miura-gun, Kanagawa Prefecture, in an effort to develop condominiums that fully utilize the abundant natural environment such as the Morito Coast.

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

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

6) Implementation of Strategic M&As

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

In addition, in January 2022, we made FUEL, whose businesses include managing online funds and providing computer systems to crowdfunding businesses in accordance with the Act on Specified Joint Real Estate Ventures of Japan, a subsidiary for the purpose of strengthening and enhancing the ES-CON JAPAN Group's asset management business and also initiating participation in future real estate financing business. Taking this opportunity, the Group will be able to enhance the quality and quantity of its existing businesses and expand its domain in terms of human resources, functions, and systems. It will also make possible the rapid establishment of a system that will enable it to take on the challenge of new real estate digital transformation (DX) businesses (such as ST and CF (*2)) 5 to 10 years in the future.

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

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

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

7) Take on the Challenges of New Business Domains

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

ES-CON JAPAN has been promoting sales of permanent use rights of Ryomon, an urban-type columbarium in Minato Ward, Tokyo, since March 2021 in an effort to solve problems facing modern society such as the fact that obtaining graves is considerably difficult, particularly in inner-city areas.

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

In addition, we are also engaged in multiple businesses overseas while carefully assessing the impact of the spread of COVID-19. Most recently, in March 2022, we invested in Agya Ventures Fund L.P., a fund that makes specialized investment in real estate-related venture companies and managed by Agya Ventures Fund (GP) LLC of the U.S. Through this investment, we will strengthen information collection of promising real estate tech(*3) companies overseas, and strive to build partnerships and develop joint ventures with promising overseas real estate companies that have not yet entered Japan. The purpose is to lead these into the further expansion of the Group's business domain and the creation of innovation.

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

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

8) Declaration of Support for TCFD Recommendations and Disclosures

Based on the goal of achieving a carbon-neutral society by 2050, we are seeking to create new value for the environment through next-generation urban development and related efforts. As a key management strategy to address climate change, we have selected members from management and each department to create the ESG Promotion Group, which has worked on disclosing information based on the TCFD framework recommendations. The ES-CON JAPAN Group announced its endorsement of the TCFD in June 2022.

Please visit our website for more information disclosures based on the TCFD recommendations (related to climate risks/opportunities under the themes of Governance, Strategy, Risk Management, and Metrics and Targets) (<https://www.es-conjapan.co.jp/esg/environment.html>).

Risks and opportunities of the 1.5°C and 3°C scenarios, financial implications looking toward 2030, and strategies based on each scenario are detailed below.

-Risks and opportunities under the 1.5°C and 3°C scenarios and implications looking toward 2030

Category		Risks/Opportunities relating to ES-CON JAPAN	Financial Impact	Assessment of Financial Impact	
				3°C Scenario	1.5°C Scenario
Transition Risks	Policy and Regulations	Procurement prices for steel, cement, and other highly carbon-intensive construction materials rise; costs increase due to taxing of CO ₂ emissions from property construction and owned properties.	- Increase in procurement costs for materials - Increase in costs related to CO ₂ emissions	Low	Moderate
		Costs increase for low-carbon measures such as investments in energy-saving equipment. Operational and renovation costs for owned properties also rise.	- Increase in costs for capital investment and renovations, etc.	Low	High
	Market	Properties that do not comply with ZEH or ZEB standards are no longer chosen by customers, resulting in higher vacancy rates, lower closing rates, rents, and sales prices.	- Decrease in sales due to lower rents and sales prices	Low	Moderate
	Reputation	Lack of decarbonization efforts at real estate held and real estate for sale increases finance costs. Failure to meet investor expectations with regard to decarbonization activities affects ES-CON JAPAN's share price.	- Increase in financing costs	Low	High
Physical Risks	Urgent	On-site construction of properties under development is disrupted; construction schedules are delayed.	- Increase in construction costs	High	
		Owned properties located in disaster-prone areas may see property damage, equipment failure, and other functional issues resulting from disasters. This could lead to the need for repair costs and reduced property reputation that may result in increased vacancy rates. In addition, ES-CON JAPAN may be held liable for human casualties attributable to disasters at commercial facilities.	- Repair costs required - Decrease in sales due to higher vacancy rates - Compensation obligations	High	
Opportunities	Products/ Services	Competitiveness of properties with low CO ₂ emissions grows. The reputation of buildings with environmental certification increases.	- Increase in sales due to improved competitiveness of properties	Low	Moderate
	Market	Compact cities contribute to reduced travel distances and expand opportunities for mixed-use urban area development, allowing energy to be produced locally for local consumption and a wide range of generations to coexist and enjoy a high quality of life.	- Increase in sales due to increased opportunities for mixed-use development	Low	High
		Decarbonization efforts are recognized by financial institutions; the acquisition of environmentally friendly loans reduces financing costs. The improved reputation of ES-CON JAPAN for decarbonization boosts share prices.	- Lower financing costs	Low	High
	Resilience	Sales opportunities for disaster-resistant properties expand in disaster-prone areas. The ability to serve as a local recovery center in the event of disasters helps gain the support of local residents and customers, leading to lower vacancy rates.	- Increase in sales due to expanded property sales opportunities and lower tenant vacancy rates	Moderate	

- Strategies based on scenario analysis

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

<Examples of response measures>

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

9) Status of ESG Initiatives

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

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

1. Environment (E)

• Acquisition of Various Certifications

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

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

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

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

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

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

*5 ZEH (Net Zero Energy House) is a house aiming to make the annual primary energy consumption zero by introducing renewable energy after realizing significant conservation of energy while maintaining the quality of the indoor environment with significant improvement in the thermal insulation performance of the outer building skin as well as the introduction of a highly efficient equipment system.

• Construction and Operation of “Techno Farm Fukuroi,” a Vertical Farm Utilizing Fully Artificial Light

As previously mentioned, we are collaborating with Chubu Electric Power and Spread to develop Techno Farm Fukuroi, which will be the world’s largest vertical farm utilizing fully artificial light and capable of producing 10 tons of lettuce per day. The three companies including ES-CON JAPAN will solve issues in food and agricultural fields through the plant factory business while also contributing to the realization of a sustainable and livable society and the achievement of SDGs by making efforts towards decarbonization such as the proactive use of green energy and effective use of CO₂ in the process of cultivation.

- Awarded Osaka Eco-Friendly Construction Award, Residential Section

In January 2022, the condominium “Le JADE Senri Aoyamadai (Suita City, Osaka Prefecture; 152 units in total)” won the Osaka Eco-Friendly Construction Award, Residential Section for the fiscal year 2021 (hosted by Osaka Prefecture and Osaka City). This was the first time for ES-CON JAPAN to win the award which recognizes clients and designers of construction projects that are exemplary in terms of environmental consideration of buildings under the aim of promoting the spread of environmentally friendly buildings and raising awareness among residents of Osaka Prefecture.

2. Social (S)

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

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

- Contributing to Healthcare

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

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

- Contribution to Sports Promotion

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

3. Governance (G)

- Establishment of Voluntary Committee on Nomination and Remuneration of Directors

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

- Nurturing Successors

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

- Diversity of the Board of Directors

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

4. Other

We have been participating in the Global ESG Benchmark for Real Assets (GRESB), which is an annual benchmark assessment measuring ESG consideration in the real estate sector, every year since 2018 with an aim to continuously improve the assessment results. In October 2021, we acquired “2 Stars” in the GRESB Rating, a five-grade evaluation system that reflects the applicant’s relative evaluation based on the overall score, for efforts on environmental consideration and sustainability in the “Development Benchmark” (applicable period: January 1, 2020 to December 31, 2020). In addition, we acquired the “Green Star” (*6) rating for three consecutive years.

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

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

As a result of inspection by the Securities and Exchange Surveillance Commission from the middle of January 2022, ES-CON Asset Management Ltd. (hereinafter "EAM"), ES-CON JAPAN's consolidated subsidiary, was issued administrative discipline by the Financial Services Agency on July 15, 2022, as the commission recommended that the Prime Minister and the Commissioner of the Agency adopt administrative measures.

At EAM, ES-CON JAPAN regards the strengthening of the system to comply with laws and regulations and the internal control system as a top priority and has already made organizational changes, including to the board structure, improved personnel, set standards for property acquisition, and prepared a business manual for property acquisition. It will formulate specific measures further and carry them out steadily.

ES-CON JAPAN, which is EAM's parent company and the main sponsor of ESCON JAPAN REIT Investment Corporation, for which EAM is entrusted with asset management, took this incident seriously, and based on the essence of the findings and the root cause, not only EAM but the entire Group will strive to enhance the system for compliance.

11) Business Development by Segment

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

In the condominium sales business, we have commenced selling of new sales projects including "Le JADE Sapporo Motomachi" (Higashi Ward, Sapporo City; 39 units in total), "Le JADE Hokkaido Ballpark" (Kitahiroshima City, Hokkaido Prefecture; 118 units in total), "Le JADE Shitennoji Yuhigaoka" (Tennoji Ward, Osaka City; 52 units in total), "Le JIAS Ohashi" (Minami Ward, Fukuoka City; 140 units in total), "Le JADE Takatsuki Minami Matsubara Bright" (Takatsuki City, Osaka Prefecture; 81 units in total), "Le JADE Matsudo Station Front" (Matsudo City, Chiba Prefecture; 44 units in total), "Le JADE Fushimi Momoyama" (Fushimi Ward, Kyoto City; 73 units in total), "Le JADE Cross Chiyoda Jimbocho" (Chiyoda Ward, Tokyo; 50 units in total). Nine properties, namely "Le JADE Uehonmachi" (Tennoji Ward, Osaka City; 56 units in total), "Le JADE Nishinomiya Kitaguchi Hinokuchicho" (Nishinomiya City, Hyogo Prefecture; 94 units in total), "Le JADE Tennoji Katsuyama" (Tennoji Ward, Osaka City; 39 units in total), "Le JADE Senri Furuedai" (Suita City, Osaka Prefecture; 71 units in total), "Le JADE Suma Myohoji Ekimae" (Suma Ward, Kobe City; 40 units in total), "Le JADE Bio Makuhari Hongo" (Hanamigawa Ward, Chiba City; 70 units in total), "Le JADE Takatsuki Nishimakami" (Takatsuki City, Osaka Prefecture; 43 units in total), "Mirakita City Himeji" (Himeji City, Hyogo Prefecture; 143 units in total) and "Le JADE Senri Aoyamadai" (Suita City, Osaka Prefecture; 152 units in total) were sold out. "Le JADE Yao Sakuragaoka" (Yao City, Osaka Prefecture; 72 units in total) was contracted to sell out. The number of units sold is larger than the initial plan, and sales have been smoothly progressing.

In addition, we are steadily expanding our business area, including the progress of the condominium business in Hokkaido, the development of our first condominium in Kyushu "Le JIAS Ohashi" (Minami Ward, Fukuoka City; 140 units in total), and the acquisition of land for business use located in Chuo Ward, Kumamoto City ("Kumamoto-shi Chuo-ku Minamitsuboimachi Project (tentative name)."

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

In other areas, a pop-up store of "MUJI" in "tonarie Minami-Senri Annex" opened in November 2021 and became the store boasting the largest sales floor area in the Kansai region in April 2022, and development of the aforementioned community-based shopping center "tonarie Hoshida (tentative name)" launched. We also acquired "Aisai Plaza" (Aisai City, Aichi Prefecture). As such, we are working to develop and acquire commercial facilities and secure stable rent income from and improve the asset value of our commercial facilities.

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

As a result, ES-CON JAPAN achieved net sales of 40,876 million yen (up 63.6%), operating income of 5,641 million yen (up 120.2%), ordinary income of 5,136 million yen (up 165.6%) and profit attributable to owners of parent of 3,296 million yen (up 137.4%) for the first two quarters, all compared with the same period of the previous year.

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

1) Real estate sales business

In the real estate sales business, activities included selling condominiums and revenue-generating real estate resulted in net sales of 35,056 million yen (up 64.9%) and segment income of 6,570 million yen (up 71.8%).

2) Real estate leasing business

In the real estate leasing business, focus was placed on leasing activities and the property management business in view of enhancement of asset value, including increase in rental income of owned revenue-generating real estate, resulting in net sales of 5,515 million yen (up 60.9%) and segment income of 2,132 million yen (up 41.7%).

3) Real estate planning agency and consulting business

In the real estate planning agency and consulting business, proactive efforts were made in such aspects as entrustment with planning, consulting and other services by making the best use of planning and abilities in multifaceted business development, resulting in net sales of 304 million yen (up 2.8%) and segment income of 19 million yen (segment loss of 309 million yen in the same period of the previous year).

(3) Explanation of Financial Position

1) Financial position

Assets at the end of the second quarter increased by 23,174 million yen compared with the end of the previous fiscal year to 275,945 million yen. This was mainly attributable to cash and deposits, property, plant and equipment, and inventories increasing by 1,158 million yen, 1,090 million yen and 21,761 million yen, respectively.

Liabilities increased by 23,743 million yen compared with the end of the previous fiscal year to 213,886 million yen. This was mainly attributable to long-term loans payable and short-term loans payable increasing by 22,526 million yen.

Net assets decreased by 569 million yen compared with the end of the previous fiscal year to 62,059 million yen. This was mainly attributable to cash dividends paid of 3,669 million yen, while recording profit attributable to owners of parent of 3,296 million yen. As a result, the equity ratio was 22.6% (24.8% at the end of the previous fiscal year).

2) Cash flows

Cash and cash equivalents ("net cash") at the end of the first two quarters increased by 1,117 million yen compared with the beginning of the fiscal year to 34,677 million yen (37,220 million yen at the end of the same period of the previous fiscal year).

The following outlines the cash flows and the factors of change in cash flows in the first two quarters.

(Cash flows from operating activities)

Net cash used in operating activities was 16,204 million yen (net cash used in operating activities was 15,119 million yen in the same period of the previous fiscal year). This was mainly attributable to profit before income taxes of 5,135 million yen, increase in inventories of 20,995 million yen and income taxes paid of 1,219 million yen.

(Cash flows from investing activities)

Net cash used in investing activities was 1,556 million yen (net cash used in investing activities was 2,008 million yen in the same period of the previous fiscal year). This was mainly attributable to purchase of non-current assets of 1,818 million yen.

(Cash flows from financing activities)

Net cash provided by financing activities was 18,866 million yen (net cash provided by financing activities was 30,549 million yen in the same period of the previous fiscal year). This was mainly attributable to expenditure from and repayments of long-term loans payable and short-term loans payable amounting to net proceeds of 22,526 million yen and payment of cash dividends of 3,666 million yen.

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

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

Regarding the Group's business performance in the first two quarters of fiscal year ending December 2022, sales of condominiums in the real estate sales business grew steadily and both sales and profit surpassed the initial estimates.

Overview of results for the first two quarters of fiscal year ending December 2022

	First two quarters of fiscal year ending December 2022			
	Actual	Initial plan	Percentage change from initial plan	Increase/decrease (%)
Net sales (million yen)	40,876	36,300	4,576	12.6
Operating income (million yen)	5,641	4,700	941	20.0
Ordinary income (million yen)	5,136	3,800	1,336	35.2
Profit attributable to owners of parent (million yen)	3,296	2,600	696	26.8
Basic earnings per share (yen)	34.52	29.43	5.1	17.3

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

2. Quarterly Consolidated Financial Statements and Key Notes

(1) Quarterly Consolidated Balance Sheet

(Unit: million yen)

	Fiscal year ended Dec. 2021 (as of Dec. 31, 2021)	Second quarter of fiscal year ending Dec. 2022 (as of Jun. 30, 2022)
Assets		
Current assets		
Cash and deposits	33,667	34,826
Notes and accounts receivable - trade	835	—
Notes and accounts receivable - trade and contract assets	—	882
Real estate for sale	7,541	6,283
Real estate for sale in process	123,419	146,438
Other	11,396	10,322
Allowance for doubtful accounts	(0)	(0)
Total current assets	176,859	198,753
Non-current assets		
Property, plant and equipment		
Buildings and structures	23,312	23,682
Accumulated depreciation	(1,516)	(2,099)
Buildings and structures, net	21,795	21,582
Land	30,840	32,157
Other	387	395
Accumulated depreciation	(244)	(266)
Other, net	142	129
Total property, plant and equipment	52,778	53,869
Intangible assets		
Goodwill	8,217	7,957
Other	57	86
Total intangible assets	8,275	8,043
Investments and other assets		
Other	14,814	15,253
Allowance for doubtful accounts	(37)	(37)
Total investments and other assets	14,776	15,215
Total non-current assets	75,830	77,128
Deferred assets		
Share issuance cost	81	63
Total deferred assets	81	63
Total assets	252,771	275,945

(Unit: million yen)

	Fiscal year ended Dec. 2021 (as of Dec. 31, 2021)	Second quarter of fiscal year ending Dec. 2022 (as of Jun. 30, 2022)
Liabilities		
Current liabilities		
Short-term loans payable	3,589	4,340
Current portion of long-term loans payable	82,912	88,892
Income taxes payable	1,653	1,787
Other	14,368	15,379
Total current liabilities	102,523	110,400
Non-current liabilities		
Long-term loans payable	76,533	92,328
Provision for directors' share-based benefits	135	167
Provision for share-based benefits	57	54
Asset retirement obligations	270	271
Other	10,622	10,664
Total non-current liabilities	87,619	103,486
Total liabilities	190,143	213,886
Net assets		
Shareholders' equity		
Capital stock	16,519	16,519
Capital surplus	12,396	12,399
Retained earnings	34,745	34,372
Treasury shares	(1,216)	(1,209)
Total shareholders' equity	62,445	62,082
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	371	138
Foreign currency translation adjustment	(36)	5
Total accumulated other comprehensive income	334	143
Subscription rights to shares	0	0
Non-controlling interests	(152)	(168)
Total net assets	62,628	62,059
Total liabilities and net assets	252,771	275,945

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

(Unit: million yen)

	First two quarters of fiscal year ended Dec. 2021 (from Jan. 1, 2021 to Jun. 30, 2021)	First two quarters of fiscal year ending Dec. 2022 (from Jan. 1, 2022 to Jun. 30, 2022)
Net sales	24,980	40,876
Cost of sales	17,860	29,979
Gross profit	7,119	10,896
Selling, general and administrative expenses	4,557	5,255
Operating income	2,561	5,641
Non-operating income		
Interest income	7	0
Dividend income	52	68
Penalty income	13	27
Foreign exchange gains	29	348
Other	7	7
Total non-operating income	110	452
Non-operating expenses		
Interest expenses	641	925
Amortization of share issuance cost	9	18
Share of loss of entities accounted for using equity method	45	11
Other	41	2
Total non-operating expenses	738	957
Ordinary income	1,934	5,136
Extraordinary income		
Gain on reversal of subscription rights to shares	0	0
Total extraordinary income	0	0
Extraordinary losses		
Loss on retirement of non-current assets	0	0
Total extraordinary losses	0	0
Profit before income taxes	1,933	5,135
Income taxes - current	746	1,665
Income taxes - deferred	79	188
Total income taxes	826	1,854
Profit	1,106	3,281
Loss attributable to non-controlling interests	(281)	(15)
Profit attributable to owners of parent	1,388	3,296

(Quarterly Consolidated Statement of Comprehensive Income)

(Unit: million yen)

	First two quarters of fiscal year ended Dec. 2021 (from Jan. 1, 2021 to Jun. 30, 2021)	First two quarters of fiscal year ending Dec. 2022 (from Jan. 1, 2022 to Jun. 30, 2022)
Profit	1,106	3,281
Other comprehensive income		
Valuation difference on available-for-sale securities	215	(233)
Foreign currency translation adjustment	13	(17)
Share of other comprehensive income of entities accounted for using equity method	26	59
Total other comprehensive income	254	(191)
Comprehensive income	1,361	3,090
Comprehensive income attributable to:		
Comprehensive income attributable to owners of parent	1,643	3,105
Comprehensive income attributable to non-controlling interests	(281)	(15)

(3) Quarterly Consolidated Statement of Cash Flows

(Unit: million yen)

	First two quarters of fiscal year ended Dec. 2021 (from Jan. 1, 2021 to Jun. 30, 2021)	First two quarters of fiscal year ending Dec. 2022 (from Jan. 1, 2022 to Jun. 30, 2022)
Cash flows from operating activities		
Profit before income taxes	1,933	5,135
Depreciation	238	629
Amortization of goodwill	48	262
Amortization of long-term prepaid expenses	18	16
Amortization of share issuance cost	9	18
Increase (decrease) in allowance for doubtful accounts	0	0
Increase (decrease) in provision for directors' share-based benefits	—	31
Increase (decrease) in provision for share-based benefits	3	(2)
Interest and dividend income	(60)	(69)
Interest expenses	641	925
Foreign exchange losses (gains)	(29)	(348)
Share of loss (profit) of entities accounted for using equity method	45	11
Loss on retirement of non-current assets	0	0
Decrease (increase) in notes and accounts receivable - trade	(127)	—
Decrease (increase) in notes and accounts receivable - trade and contract assets	—	(46)
Decrease (increase) in inventories	(14,918)	(20,995)
Decrease (increase) in prepaid expenses	(697)	(44)
Increase (decrease) in accounts payable - other	766	752
Decrease/increase in consumption taxes receivable/payable	(311)	476
Increase (decrease) in advances received	1,811	(67)
Increase (decrease) in deposits received	(328)	(611)
Decrease (increase) in other assets	(2,267)	(95)
Increase (decrease) in other liabilities	88	(121)
Subtotal	(13,133)	(14,144)
Interest and dividend income received	52	69
Interest expenses paid	(656)	(910)
Income taxes (paid) refund	(1,383)	(1,219)
Net cash provided by (used in) operating activities	(15,119)	(16,204)
Cash flows from investing activities		
Payments into time deposits	(9)	(1)
Purchase of investment securities	(776)	(368)
Proceeds from withdrawal of investment securities	0	2
Purchase of non-current assets	(2,290)	(1,818)
Proceeds from sales of non-current assets	107	(30)
Proceeds from purchase of shares of subsidiaries resulting in change in scope of consolidation	—	316
Payments of loans receivable	—	(0)
Collection of loans receivable	0	0
Repayments of guarantee deposits received	(90)	(423)
Proceeds from guarantee deposits received	1,050	767
Payments for investments in capital	(0)	—
Proceeds from divestments	—	0
Net cash provided by (used in) investing activities	(2,008)	(1,556)
Cash flows from financing activities		
Increase in short-term loans payable	3,872	2,666
Decrease in short-term loans payable	(2,475)	(1,803)
Proceeds from long-term loans payable	24,385	40,186
Repayments of long-term loans payable	(12,738)	(18,523)
Redemption of bonds	(220)	—
Repayments of lease obligations	(0)	(0)
Proceeds from issuance of common shares	20,361	—
Proceeds from disposal of treasury shares	8	6
Cash dividends paid	(2,643)	(3,666)
Net cash provided by (used in) financing activities	30,549	18,866
Effect of exchange rate change on cash and cash equivalents	0	12
Net increase (decrease) in cash and cash equivalents	13,422	1,117
Cash and cash equivalents at beginning of period	23,798	33,559
Cash and cash equivalents at end of period	37,220	34,677

(4) Notes to Quarterly Consolidated Financial Statements

(Notes on Going Concern Assumption)

Not applicable.

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

Not applicable.

(Changes in Accounting Policies)

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

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

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

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

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

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

(Additional Information)

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

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

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

(Board Benefit Trust for Executives)

(1) Overview of the transaction

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

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

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

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

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

Residual shares of ES-CON JAPAN in the trust are recorded as treasury shares under net assets using the book value in the trust (excluding the amount of incidental expenses). The book value of the treasury shares and the number of shares are 347 million yen and 851,000 shares for the fiscal year ended December 2021, and 347 million yen and 851,000 shares for the second quarter of the fiscal year ending December 2022.

(Share-Based Payment Benefits-Type ESOP Trust)

(1) Overview of the Transaction

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

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

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

Residual shares of ES-CON JAPAN in the trust are recorded as treasury shares under net assets using the book value in the trust (excluding the amount of incidental expenses). The book value of the treasury shares and the number of shares are 57 million yen and 225,700 shares for the fiscal year ended December 2021, and 54 million yen and 214,100 shares for the second quarter of the fiscal year ending December 2022.

(Segment Information, Etc.)

[Segment Information]

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

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

(Unit: million yen)

	Reporting segment			Total	Reconciliation (Note 1)	Amount on quarterly consolidated statement of income (Note 2)
	Real estate sales business	Real estate leasing business	Real estate planning agency and consulting business			
Net sales						
Net sales to external customers	21,256	3,427	296	24,980	—	24,980
Intersegment net sales or transfers	—	—	—	—	—	—
Total	21,256	3,427	296	24,980	—	24,980
Segment income (loss)	3,824	1,504	(309)	5,019	(2,457)	2,561

(Note 1) The reconciliation of segment income (loss) of -2,457 million yen is corporate expenses not attributable to any reporting segment. Corporate expenses are general and administrative expenses not attributable to reporting segments.

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

2. Information on Impairment Loss on Non-Current Assets or Goodwill, Etc. by Reporting Segment

Not applicable.

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

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

(Unit: million yen)

	Reporting segment			Total	Reconciliation (Note 1)	Amount on quarterly consolidated statement of income (Note 2)
	Real estate sales business	Real estate leasing business	Real estate planning agency and consulting business			
Net sales						
Revenue from contracts with customers	35,056	519	304	35,880	—	35,880
Other items (Note 3)	—	4,996	—	4,996	—	4,996
Net sales to external customers	35,056	5,515	304	40,876	—	40,876
Intersegment net sales or transfers	—	—	—	—	—	—
Total	35,056	5,515	304	40,876	—	40,876
Segment income	6,570	2,132	19	8,722	(3,081)	5,641

(Note 1) The reconciliation of segment income of -3,081 million yen is corporate expenses not attributable to any reporting segment. Corporate expenses are general and administrative expenses not attributable to reporting segments.

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

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

2. Information on Impairment Loss on Non-Current Assets or Goodwill, Etc. by Reporting Segment

Not applicable.

(Significant Subsequent Events)

Not applicable.

3. Other

Status of Contracts and Sales

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

Classification	Second quarter of fiscal year ending Dec. 2022 (from Apr. 1, 2022 to Jun. 30, 2022)			
	Contract amount during the period		Balance of contracts at the end of the period	
	Number of units (units)	Amount (million yen)	Number of units (units)	Amount (million yen)
Mid- to high-rise housing, etc.	245	11,457	852	49,648
Other	—	10,972	—	18,818
Total	245	22,430	852	68,467

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

Name of segment	First two quarters of fiscal year ending Dec. 2022 (from Jan. 1, 2022 to Jun. 30, 2022)		
	Property name	Number of units (units)	Amount (million yen)
Real estate sales business	Condominiums	517	24,312
	Genboen Block 6, Koga-shi	—	5,479
	Chiba Research Park	—	3,001
	Tsuruma Station Front	—	323
	Other	—	1,940
	Subtotal	517	35,056
Real estate leasing business			5,515
Real estate planning agency and consulting business			304
	Total		40,876

(Note) There are no transactions between segments.