

Financial Report for the Fiscal Period Ended January 31, 2019 (REIT)

March 12, 2019

REIT Issuer:	ESCON JAPAN REIT Investment Corporation	Stock Exchange Listing: TSE
Securities Code:	2971	URL: https://www.escon-reit.jp/
Representative:	(Title) Executive Director	(Name) Satoshi Omori
Asset Management Company:	ES-CON ASSET MANAGEMENT Ltd.	
Representative:	(Title) President & Representative Director	(Name) Satoshi Omori
Inquiries:	(Title) General Manager of the Department of Finance and Control	(Name) Atsumu Sasaki
	TEL: +81-3-6853-6161	

Scheduled date of submission of periodic securities report (*yuka shoken hokokusho*): April 24, 2019
 Scheduled date of commencement of distribution payments: April 18, 2019
 Supplementary materials: No
 IR Conference: No

[Amounts are rounded down to the nearest million yen]

1. Status of Management and Assets for the Fiscal Period Ended January 31, 2019 (from May 1, 2018 to January 31, 2019)

(1) Management [% figures show the period-on-period increase (decrease)]

	Operating revenue		Operating income		Ordinary income		Net income	
	million yen	%	million yen	%	million yen	%	million yen	%
FP2019/1	629	81.6	309	46.4	263	61.3	262	61.5
FP2018/4	346	381.6	211	377.1	163	448.9	162	778.2

	Net income per unit	Ratio of net income to unitholders' equity	Ratio of ordinary income to total assets	Ratio of ordinary income to operating revenue
	yen	%	%	%
FP2019/1	5,402	5.4	2.3	41.9
FP2018/4	3,853	5.7	2.3	47.1

(Note 1) ESCON JAPAN REIT Investment Corporation (hereinafter "ESCON REIT") changed the end of its fiscal period from the last day in April and the last day in October of each year to the last day in January and the last day in July of each year by resolution at the general meeting of unitholders held on October 30, 2018. As a result, the fiscal period ended January 31, 2019 has become a nine-month period, from May 1, 2018 to January 31, 2019.

(Note 2) Net income per unit is calculated by dividing net income by the weighted average number of investment units based on the number of days (42,243 units for the fiscal period ended April 30, 2018, and 48,649 units for the fiscal period ended January 31, 2019).

(2) Distributions

	Distribution per unit (excluding distribution in excess of earnings)	Total distributions (excluding distribution in excess of earnings)	Distribution in excess of earnings per unit	Total distributions in excess of earnings	Payout ratio	Ratio of distributions to net assets
	yen	million yen	yen	million yen	%	%
FP2019/1	5,422	263	0	0	100.4	5.5
FP2018/4	3,301	160	0	0	98.7	3.4

(3) Financial Position

	Total assets	Net assets	Ratio of unitholders' equity to total assets	Net assets per unit
	million yen	million yen	%	yen
FP2019/1	11,668	4,886	41.9	100,446
FP2018/4	11,547	4,784	41.4	98,345

(4) Cash Flows

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at end of period
	million yen	million yen	million yen	million yen
FP2019/1	341	(23)	(160)	947
FP2018/4	2,680	(10,418)	8,240	789

2. Management Status Forecasts for the Fiscal Period Ending July 31, 2019 (from February 1, 2019 to July 31, 2019), the Fiscal Period Ending January 31, 2020 (from August 1, 2019 to January 31, 2020), and the Fiscal Period Ending July 31, 2020 (February 1, 2020 to July 31, 2020)

[% figures show the period-on-period increase (decrease)]

	Operating revenue		Operating income		Ordinary income		Net income		Distribution per unit (excluding distribution in excess of earnings) (Note)	Distribution in excess of earnings per unit
	million yen	%	million yen	%	million yen	%	million yen	%	yen	yen
FP2019/7	1,442	129.1	960	210.5	624	136.9	623	137.1	2,629	0
FP2020/1	1,530	6.1	945	(1.6)	866	38.9	865	38.9	3,653	0
FP2020/7	1,524	(0.4)	841	(11.0)	763	(11.9)	762	(11.9)	3,218	0

(Reference) Estimated net income per unit:

FP2019/7: 2,629 yen

FP2020/1: 3,652 yen

FP2020/7: 3,217 yen

*** Other**

(1) Changes in Accounting Policies, Changes in Accounting Estimates, Restatements

- | | |
|---|----|
| (i) Changes in accounting policies accompanying amendments to accounting standards, etc.: | No |
| (ii) Changes in accounting policies other than (i): | No |
| (iii) Changes in accounting estimates: | No |
| (iv) Restatements | No |

(2) Total Number of Investment Units Issued and Outstanding

(i) Total number of investment units issued and outstanding at end of period (including own investment units):

FP2019/1:	48,649 units	FP2018/4:	48,649 units
FP2019/1:	0 units	FP2018/4:	0 units

(ii) Number of own investment units at end of period:

(Note) For the number of investment units serving as the basis of calculation for net income per unit, refer to "Notes to Per Unit Information" on page 21.

*** Statement on Status of Review Procedures**

This financial report is not subject to the audit procedures under the Financial Instruments and Exchange Act (Act No. 25 of 1948, as amended), and the audit procedures for financial statements under the Financial Instruments and Exchange Act have not been completed at the time of the disclosure of this financial report.

*** Explanation on the Appropriate Use of the Management Status Forecasts, and Other Matters of Special Note**

(Caution Concerning Forward-Looking Statements, Etc.)

The outlook for management status and other forward-looking statements contained in this document are based on information currently available to and certain assumptions that are deemed reasonable by ESCON REIT. Accordingly, actual management status and other results may differ materially from these forward-looking statements due to a variety of factors. In addition, these forecasts do not intend to guarantee the amount of distribution.

For details on assumptions for the forecast figures above, refer to "Underlying Assumptions of the Operating Forecasts for the Fiscal Period Ending July 31, 2019 (from February 1, 2019 to July 31, 2019), the Fiscal Period Ending January 31, 2020 (from August 1, 2019 to January 31, 2020), and the Fiscal Period Ending July 31, 2020 (February 1, 2020 to July 31, 2020)" on page 7.

Table of Contents

1. Related Corporations of the REIT	2
2. Operating Policies and Operations	2
(1) Operating Policies	2
(2) Operations	2
i. Overview of the Fiscal Period ended January 31, 2019	2
A. Brief background of the REIT	2
B. Operating environment and management performance	2
C. Procurement of funds	2
D. Performance and distributions	2
ii. Outlook for next period	3
A. Outlook for the overall management environment	3
B. Internal growth	3
a. Maintaining and increasing rent revenue	3
b. Streamlining management expenses	3
C. External growth	3
D. Financial policy	3
E. Outlook for the management status	3
iii. Significant subsequent events	4
A. Issuance of new investment units	4
B. Borrowings	4
C. Asset acquisitions	5
(3) Investment Risk	9
3. Financial Statements	10
(1) Balance Sheet	10
(2) Profit and Loss Statement	12
(3) Statements of Changes in Net Assets (Unitholders' Equity)	13
(4) Statements of Cash Dividend Distributions	14
(5) Cash Flow Statement	15
(6) Notes on Going Concern Assumptions	16
(7) Notes on Matters Concerning Significant Accounting Policies	16
(8) Notes on Financial Statements	17
(9) Changes in total number of investment units issued and outstanding	24
4. Changes in Directors	24
(1) Changes in Directors of ESCON REIT	24
(2) Changes in Directors of the Asset Manager	24
5. Reference Information	24
(1) Status of investment	24
(2) Investment assets	24
i. Major investment securities	24
ii. Investment properties	24
iii. Other major investment assets	25
A. Overview of assets owned	25
B. Overview of lease	25

1. Related Corporations of the REIT

Structure of the REIT

No disclosure necessary, since there have been no material changes from “Structure of the REIT” in the most recent Annual Securities Report (submitted December 25, 2018, as amended).

2. Operating Policies and Operations

(1) Operating Policies

No disclosure is necessary since there have been no material changes to the “Investment policies,” “Targets of investments” and “Distributions policy” in the most recent Annual Securities Report (submitted December 25, 2018, as amended).

(2) Operations

i. Overview of the Fiscal Period ended January 31, 2019

A. Brief background of the REIT

ESCON REIT was established on August 26, 2016, with the total amount of investment at ¥200 million (2,000 units), with ES-CON ASSET MANAGEMENT Ltd. (hereinafter the “Asset Manager”) as the organizer, based on the Act on Investment Trusts and Investment Corporations (Act No. 198 of 1951, as amended). After that, ESCON REIT began managing assets by acquiring properties with funds raised by issuing new investment units through private placement with February 13, 2017 as the payment date. In addition, ESCON REIT split the investment units with October 13, 2017 as the effective date and increased capital through private placement with December 1, 2017 as the payment date. As a result, the total number of investment units issued and outstanding as of the end of the fiscal period under review amounted to 48,649 units (Note 1).

ESCON REIT shares the same “Vision Concept” as ES-CON Japan Ltd. (Note 2) (hereinafter “ES-CON JAPAN”) of becoming a “Life Developer” that develops not only buildings but also the lives of those who live in them while thinking of their happiness. By drawing on property development and management expertise that ES-CON JAPAN has cultivated as a General Real Estate developer, we aim to maximize unitholder value through consistently expanding our assets under management.

(Note 1) ESCON REIT issued new investment units (188,351 units) through public offering with February 12, 2019 as the payment date and listed its investments units on the Real Estate Investment Trust Securities Market of Tokyo Stock Exchange, Inc. (hereinafter the “Tokyo Stock Exchange”) on February 13, 2019 (securities code: 2971).

(Note 2) ES-CON JAPAN, the sponsor of ESCON REIT, announced a capital and business alliance with Chubu Electric Power Co., Inc. on August 28, 2018, and has become an equity-method affiliate of Chubu Electric Power Co., Inc.

B. Operating environment and Management performance

During the fiscal period under review, the Japanese economy experienced negative growth in the July-September quarter of 2018, with the gross domestic product (GDP) declining 0.6% from the previous quarter (second preliminary estimate announced on December 10, 2018), because both domestic and overseas demand decreased, affected by the natural disasters that occurred all over the country. In the October-December quarter of 2018, however, the Japanese economy enjoyed positive growth (second preliminary estimate announced on March 8, 2019) for the first time in two quarters, thanks to the contribution of domestic demand to the improvement in the overall growth rate and the elimination of fallen consumer spending caused by natural disasters in summer.

In the J-REIT market, the Tokyo Stock Exchange REIT Index remained firm since the beginning of 2018, and sales transactions of real estate by J-REITs were also invigorated, reflecting the continued inflow of a substantial amount of capital from foreign investors on the back of the strong real estate market in Japan and low interest rates due to the easing of the monetary policy by the Bank of Japan.

In this environment, ESCON REIT worked to secure stable revenue over the medium to long term by taking measures to appropriately manage assets in the portfolio and improve revenue, such as building close relationships with the tenants of leasehold land and improving the profitability of the parking space of tonarie Minami-senri.

As a result of the measures above, the occupancy rate of the three assets under management as of the end of the fiscal period under review was 100%.

C. Procurement of funds

The balance of interest-bearing debt of ESCON REIT as of the end of the fiscal period under review was ¥6,300 million, and the ratio of interest-bearing debt to total assets (hereinafter “LTV”) was 54.0%.

D. Performance and distributions

As a result of the management above, ESCON REIT posted operating revenue of ¥629 million, operating income of ¥309 million, ordinary income of ¥263 million and net income of ¥262 million for the fiscal period under review.

With respect to distribution, ESCON REIT has decided to distribute an amount that is an integral multiple of the total number of investment units issued and outstanding up to the maximum amount to the extent that profit distribution will be included in tax deductible expenses by applying the special measure of taxation for investment corporations (Article 67-15, Paragraph 1 of the Act on Special Measures Concerning Taxation (Act No. 26 of 1957, as amended)) based on the distribution policy set forth in the Articles of Incorporation of ESCON REIT. As a result, distribution per investment unit came to ¥5,422.

ii. Outlook for next period

A. Outlook for the overall management environment

The Japanese economy is expected to remain on a moderate recovery trend, given the effects of various policies amid the continued improvement of employment and income conditions. However, attention must be paid to the impact of the development of trade issues between countries on the global economy, the outlook of the Chinese economy, uncertainties over trends and policies in overseas economies and the impact of fluctuations in the financial and capital markets.

In the real estate investment market, real estate transactions are expected to remain at a high price zone due to low interest rates driven by the continuation of the easing of the monetary policy and the inflow of funds from overseas investors.

In this environment, ESCON REIT will conduct appropriate asset management and stable and sound financial operations to secure solid revenue and steadily increase the asset value over the medium to long term.

B. Internal growth

To maintain and grow stable revenue over the medium to long term, ESCON REIT will take measures for maintaining and increasing rent revenue and streamlining management expenses.

a. Maintaining and increasing rent revenue

ESCON REIT will improve the satisfaction of tenants and build and strengthen relationships of trust with them by actively taking measures to build relations with the existing tenants (regular visit, customer satisfaction survey, etc.) and implementing appropriate and prompt measures by determining trends and needs of tenants (factors for customer dissatisfaction and their potential needs in both hardware and software of facilities) through the periodic exchange of information with the property management company. According to these measures, ESCON REIT will aim to secure stable revenue by maintaining and increasing rent revenue and preventing cancellations.

In new tenant leasing, ESCON REIT will make efforts to maximize the rent generation period and the rent level through leasing activities based on controlling market trends, by making maximum use of the networks of the Asset Manager and the ES-CON Group (ES-CON JAPAN and its subsidiaries and affiliated companies) and periodically exchanging information with the property management company that takes charge of the new tenant leasing.

b. Streamlining management expenses

ESCON REIT will formulate the operation and management plan of individual properties to streamline management expenses and improve their efficiency while maintaining and increasing tenant satisfaction and the competitiveness of properties. When operating and managing properties, ESCON REIT will manage them efficiently by strengthening close cooperation with the property management company.

C. External growth

ESCON REIT will strive to achieve steady external growth based on the real estate development capabilities of ES-CON JAPAN, the sponsor and General Real Estate developer. ESCON REIT will aim to expand the scale of its assets and improve the portfolio quality, making maximum use of sponsor support, such as granting the right to purchase at a fixed price and the preferential negotiation right to real estate properties owned as well as support for the redevelopment of assets under management.

D. Financial policy

ESCON REIT will raise funds to realize stable and sound financial operation for the purpose of securing stable revenue and steadily improving the asset value over the medium to long term.

The issuance of new investment units will be determined in light of the financial environment, taking into consideration LTV, the dilution of rights of the existing unitholders and the resulting fall in the transaction price of investment units, with the aim of expanding the scale of assets under management and improving their profitability.

When borrowing loans and issuing investment corporation bonds (including short-term investment corporation bonds), ESCON REIT will raise funds in consideration of the balance between the mobility of financing and financial stability as well as the characteristics of real estate to acquire. Specifically, we will examine the financing methods (loans, investment corporate bonds), the ratio of long-term debt, the diversification of repayment dates and the need to provide security, among others.

With regard to LTV, we will set 50% as the upper limit, in principle, based on our policy of maintaining the conservative level.

We will also conduct efficient and appropriate cash management by accurately figuring out the financing needs of our portfolio through constant monitoring.

E. Outlook for the management status

ESCON REIT expects the management status for the fiscal periods ending July 31, 2019, January 31, 2020, and July 31, 2020, as shown below. For the assumptions about the management status, refer to “Underlying Assumptions of the Operating Forecasts for the Fiscal Period Underlying July 31, 2019 (from February 1, 2019 to July 31, 2019), the Fiscal Period Underlying January 31, 2020 (from August 1, 2019 to January 31, 2020), and the Fiscal Period Underlying July 31, 2020 (February 1, 2020 to July 31, 2020)” on page 7.

	Operating revenues	Operating income	Ordinary income	Net income	DPU (excluding distributions in excess of earnings)	Distributions in excess of earnings per unit	DPU (including distributions in excess of earnings)
5 th fiscal period ending July 31, 2019	1,442 million yen	960 million yen	624 million yen	623 million yen	2,629 yen	0 yen	2,629 yen
6 th fiscal period ending January 31, 2020	1,530 million yen	945 million yen	866 million yen	865 million yen	3,653 yen	0 yen	3,653 yen
7 th fiscal period ending July 31, 2020	1,524 million yen	841 million yen	763 million yen	762 million yen	3,218 yen	0 yen	3,218 yen

(Note) The forecast values above are calculated based on certain assumptions. Accordingly, actual operating revenue, operating income, ordinary income, net income, distribution per unit and distribution in excess of earnings per unit may change due to the future acquisition or sale of real estate, trends in the real estate market, and fluctuations in interest rates and changes in other circumstances surrounding ESCON REIT. The forecasts do not intend to guarantee the amount of these items.

iii. Significant subsequent events

A. Issuance of new investment units

ESCON REIT issued new investment unit as described below based on the approval at the meetings of the Board of Directors held on December 25, 2018 and February 4, 2019, and the payment was completed on February 12, 2019. As a result, the total amount of investment and the total number of investment units issued and outstanding came to ¥22,941,238,313 and 237,000 units, respectively, as of February 12, 2019.

(Issuance of new investment units through public offering)

Number of new investment units issued	188,351 units
Offer price	101,000 yen per unit
Total offer price	19,023,451,000 yen
Issue value	97,263 yen per unit
Total issue value	18,319,583,313 yen
Payment date	February 12, 2019
Accrual date of distributions	February 1, 2019

(Use of proceeds)

Proceeds from the public offering above were appropriated for funds to acquire real estate trust beneficial interests stated in “C. Asset Acquisitions” below.

B. Borrowings

ESCON REIT borrowed loans as described below to appropriate for funds to acquire real estate trust beneficial interests stated in “C. Asset Acquisitions” below and their incidental costs and funds to repay existing loans and retire existing investment corporation bonds.

(Unit: 1,000 yen)

Type*1	Lender	Balance	Interest rate	Drawdown date	Method of borrowings	Repayment date	Repayment Method	Remarks
Short	Sumitomo Mitsui Banking Corporation	175,500	Base rate (JBA 1 month JPY TIBOR)+0.2%	February 13, 2019	Borrowings under individual loan agreements concluded as of February	January 31, 2020	Bullet repayment	secured/Unguaranteed
	Mizuho Bank, Ltd.	175,500						
Long	Sumitomo Mitsui Banking Corporation	1,765,000	Base rate (JBA 1	February 13, 2019		January 31, 2022		

			month JPY TIBOR) +0.40%	8, 2019		
Mizuho Bank, Ltd.	1,665,000					
The Bank of Fukuoka, Ltd.	1,530,000					
AEON Bank, Ltd.	1,000,000					
Sumitomo Mitsui Trust Bank , Limited	1,000,000					
MUFG Bank, Ltd.	1,000,000					
Resona Bank, Limited.	750,000					
The Minato Bank, Ltd.	750,000					
The Senshu Ikeda Bank, Ltd.	250,000					
The Chiba Bank, Ltd.	250,000					
Sumitomo Mitsui Banking Corporation	1,765,000		Base rate (JBA 1 month JPY TIBOR) +0.50%	February 13, 2019	January 31, 2023	
Mizuho Bank, Ltd.	1,665,000					
The Bank of Fukuoka, Ltd.	1,430,000					
AEON Bank, Ltd.	1,000,000					
Sumitomo Mitsui Trust Bank , Limited	1,000,000					
MUFG Bank, Ltd.	1,000,000					
Resona Bank, Limited.	750,000					
The Minato Bank, Ltd.	750,000					
The Senshu Ikeda Bank, Ltd.	250,000					
The Chiba Bank, Ltd.	250,000					
Total	20,171,000					

C. Asset acquisitions

ESCON REIT acquired real estate trust beneficial interests in the following properties on February 13, 2019. The acquisition price is the amount (sales price stated in the sales contract of trust beneficial interests, etc.) excluding expenses required for the acquisition (sales intermediary fees, taxes and public dues, etc.).

(Unit: 1,000 yen)

Property name	Location	Acquisition price
Asumigaoka Brand-New Mall	Chiba-shi, Chiba	3,200,000
Nishi-shiroi Ekimae Plaza	Shiroi-shi, Chiba	451,000
K' s Denki Oyumino (Leasehold land)	Chiba-shi, Chiba	2,710,000
Nitori Tsuchiura (Leasehold land)	Tsuchiura-shi, Ibaraki	999,477
Nitori Imaichi (Leasehold land)	Nikko-shi, Tochigi	363,362
tonarie Seiwadai	Kawanishi-shi, Hyogo	3,290,759
K' s Denki Nishi-kobe (Leasehold land)	Kobe-shi, Hyogo	2,133,429
Sanyo Marunaka Mitani (Leasehold land)	Kobe-shi, Hyogo	1,430,000
Tsutaya Sakai-minami (Leasehold land)	Sakai-shi, Osaka	946,000
Pare Marche Nishiharu	Kitanagoya-shi, Aichi	4,610,000

Property name	Location	Acquisition price
MaxValu Kikyogaoka-higashi (Leasehold land)	Nabari-shi, Mie	477,767
MrMAX Kasuga (Leasehold land)	Kasuga-shi, Fukuoka	3,387,444
UNIQLO Kasuga (Leasehold land)	Kasuga-shi, Fukuoka	595,000
Avail.Shimamura Kasuga (Leasehold land)	Kasuga-shi, Fukuoka	863,387
au-Softbank Kasuga (Leasehold land)	Kasuga-shi, Fukuoka	143,560
Kura Sushi Kasuga (Leasehold land)	Kasuga-shi, Fukuoka	261,340
docomo Shop Kasuga (Leasehold land)	Kasuga-shi, Fukuoka	160,900
Konpira Maru Kasuga (Leasehold land)	Kasuga-shi, Fukuoka	236,360
One-Karubi Kasuga (Leasehold land)	Kasuga-shi, Fukuoka	236,360
Suke-san Kasuga (Leasehold land)	Kasuga-shi, Fukuoka	401,000
NAFCO Kasuga (Leasehold land)	Kasuga-shi, Fukuoka	2,631,500
K' s Denki Kasuga (Leasehold land)	Kasuga-shi, Fukuoka	1,487,390
Total acquisition price (22 properties)	-	31,016,038

Underlying Assumptions of the Operating Forecasts for the Fiscal Period Ending January 31, 2019, Fiscal Period Ending July 31, 2019, Fiscal Period Ending January 31, 2020, and Fiscal Period Ending July 31, 2020

Item	Assumptions																																													
Calculation period	<ul style="list-style-type: none"> • 4th fiscal period: May 1, 2018 to January 31, 2019 (276 days) • 5th fiscal period: February 1, 2019 to July 31, 2019 (181 days) • 6th fiscal period: August 1, 2019 to January 31, 2020 (184 days) ➤ 7th fiscal period: February 1, 2020 to July 31, 2020 (182 days) 																																													
Assets under management	<ul style="list-style-type: none"> ➤ In addition to the real estate beneficiary interests in 3 properties that are in the portfolio (hereinafter, the “Acquired Assets”), ESCON REIT will acquire real estate beneficiary interests in 22 properties (hereinafter, the “Intended Acquisition Assets”) on today after the issuance of new investment units for which the resolution was made at the meeting of the Board of Directors of ESCON REIT held on December 25, 2018, and February 4, 2019 as well as fundraising by new borrowing as stated in (Borrowings) below. For the forecast of financial results, it is assumed that there will be no changes made to the assets under management such as acquisition of new properties and/or disposition of portfolio properties, etc. until the end of the period ending July 31, 2020 (7th fiscal period). ➤ Changes may arise due to the acquisition of new properties other than the Intended Acquisition Assets, disposition of portfolio properties, etc. 																																													
Operating revenue	<ul style="list-style-type: none"> • Leasing revenue from the Acquired Assets is calculated based on actual performance. Leasing revenue from Intended Acquisition Assets is calculated based on information on the leasing agreement provided by the current owners of each property, past tenants, market trends, and terms and conditions of the new leasing agreement that will take effect on the scheduled acquisition date. Moreover, other factors taken into account are the expected occupancy rate and estimated rent fluctuation based on projections of post-acquisition tenant move-in/move-out and rent projections. • Operating revenue is based on the assumption that tenants will pay their rents without delinquency. ➤ Operating revenue is based on the assumption that no gain/loss on sale of real estate will occur. 																																													
Operating expenses	<ul style="list-style-type: none"> ➤ Main components of the operating expenses are as follows: <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th></th> <th>4th fiscal period ending January 31, 2019</th> <th>5th fiscal period ending July 31, 2019</th> <th>6th fiscal period ending January 31, 2020</th> <th>7th fiscal period ending July 31, 2020</th> </tr> </thead> <tbody> <tr> <td>Total leasing business expenses</td> <td align="right">232 million yen</td> <td align="right">322 million yen</td> <td align="right">343 million yen</td> <td align="right">440 million yen</td> </tr> <tr> <td>Management fee</td> <td align="right">28 million yen</td> <td align="right">43 million yen</td> <td align="right">44 million yen</td> <td align="right">45 million yen</td> </tr> <tr> <td>Utilities</td> <td align="right">79 million yen</td> <td align="right">146 million yen</td> <td align="right">161 million yen</td> <td align="right">154 million yen</td> </tr> <tr> <td>Repairs</td> <td align="right">8 million yen</td> <td align="right">11 million yen</td> <td align="right">11 million yen</td> <td align="right">12 million yen</td> </tr> <tr> <td>Taxes and public dues</td> <td align="right">60 million yen</td> <td align="right">32 million yen</td> <td align="right">32 million yen</td> <td align="right">136 million yen</td> </tr> <tr> <td>Depreciation</td> <td align="right">20 million yen</td> <td align="right">88 million yen</td> <td align="right">89 million yen</td> <td align="right">90 million yen</td> </tr> <tr> <td>Total general and administrative expenses</td> <td align="right">67 million yen</td> <td align="right">70 million yen</td> <td align="right">152 million yen</td> <td align="right">152 million yen</td> </tr> <tr> <td>Asset management fee</td> <td align="right">47 million yen</td> <td align="right">23 million yen</td> <td align="right">83 million yen</td> <td align="right">82 million yen</td> </tr> </tbody> </table> <ul style="list-style-type: none"> ➤ Leasing business expenses are the principle expenditures of the operating expenses. Leasing business expenses (excluding depreciation) for Acquired Assets are based on actual expenditures after acquisition and reflecting factors that cause fluctuation in expenditures. Leasing business expenses (excluding depreciation) for Intended Acquisition Assets are based on information on actual expenditures provided by the current owners of each property and reflecting factors that cause fluctuation in expenditures. The total amount of property taxes and city planning taxes for the Acquired Assets is expected to be 32 million yen for each subsequent 		4 th fiscal period ending January 31, 2019	5 th fiscal period ending July 31, 2019	6 th fiscal period ending January 31, 2020	7 th fiscal period ending July 31, 2020	Total leasing business expenses	232 million yen	322 million yen	343 million yen	440 million yen	Management fee	28 million yen	43 million yen	44 million yen	45 million yen	Utilities	79 million yen	146 million yen	161 million yen	154 million yen	Repairs	8 million yen	11 million yen	11 million yen	12 million yen	Taxes and public dues	60 million yen	32 million yen	32 million yen	136 million yen	Depreciation	20 million yen	88 million yen	89 million yen	90 million yen	Total general and administrative expenses	67 million yen	70 million yen	152 million yen	152 million yen	Asset management fee	47 million yen	23 million yen	83 million yen	82 million yen
	4 th fiscal period ending January 31, 2019	5 th fiscal period ending July 31, 2019	6 th fiscal period ending January 31, 2020	7 th fiscal period ending July 31, 2020																																										
Total leasing business expenses	232 million yen	322 million yen	343 million yen	440 million yen																																										
Management fee	28 million yen	43 million yen	44 million yen	45 million yen																																										
Utilities	79 million yen	146 million yen	161 million yen	154 million yen																																										
Repairs	8 million yen	11 million yen	11 million yen	12 million yen																																										
Taxes and public dues	60 million yen	32 million yen	32 million yen	136 million yen																																										
Depreciation	20 million yen	88 million yen	89 million yen	90 million yen																																										
Total general and administrative expenses	67 million yen	70 million yen	152 million yen	152 million yen																																										
Asset management fee	47 million yen	23 million yen	83 million yen	82 million yen																																										

	<p>fiscal period after the period ending July 31, 2019. Although property taxes and city planning taxes are generally calculated on a pro-rata basis with the former owners and settled at the time of acquisition, the amount equivalent to the settlement money is not expensed in the period when the assets are acquired, as it is included in the acquisition cost. Therefore, in the case of the Intended Acquisition Assets, the property taxes and city planning taxes for the period ending July 31, 2019 and January 31, 2020 are not accounted for as an expense, while the property taxes and city planning taxes for FY2020 are expensed from the period ending July 31, 2020. In the case of the Intended Acquisition Assets, the expensable amount of property and city planning taxes for the period ending July 31, 2020 is expected to be 104 million yen for each subsequent fiscal period after the period ending July 31, 2020. Moreover, the total amount of property and city planning taxes to be included in the acquisition cost for the Intended Acquisition Assets is expected to be 189 million yen.</p> <ul style="list-style-type: none"> ➤ With respect to building repair expenses, the amount assumed to be necessary for each business period is expensed based on a medium- to long-term repair plan prepared by ES-CON Asset Management Ltd. However, repair expenses in each business period may be substantially different from the expected amount for reasons including: (i) repair expenses could suddenly arise due to damage to buildings, etc. from certain unexpected factors; (ii) the amount of repair expenses generally varies considerably from year to year; and (iii) repair expenses are not incurred regularly. ➤ Depreciation is calculated using the straight-line method inclusive of incidental expenses, etc.
<p style="text-align: center;">Non-operating expenses</p>	<ul style="list-style-type: none"> • Non-operating expenses for the period ending January 31, 2019 are estimated to be 45 million yen, of which 37 million yen is for interest expenses and other borrowing cost, and 8 million yen is for deferred organization expenses. • Non-operating expenses for the period ending July 31, 2019 are estimated to be 336 million yen, of which 252 million yen is for interest expenses and other borrowing costs, 78 million yen for expenses associated with the issuance of new investment units, listing of investment units and public offering, and 5 million yen is for deferred organization expenses. Of the borrowing costs, non-operating expenses that can be expensed in lump sum are expected to be accounted for in the period ending July 31, 2019. Expenses associated with the issuance of new investment units, listing of investment units and public offering are expected to be amortized in lump sum in the period ending July 31, 2019. • Non-operating expenses for the period ending January 31, 2020 are estimated to be 78 million yen, of which 72 million yen is for interest expenses and other borrowing cost, and 5 million yen is for deferred organization expenses. ➤ Non-operating expenses for the period ending July 31, 2020 are estimated to be 77 million yen, of which 71 million yen is for interest expenses and other borrowing cost, and 5 million yen is for deferred organization expenses.
<p style="text-align: center;">Borrowings</p>	<ul style="list-style-type: none"> • It is assumed that interest-bearing liabilities at the end of period ending January 31, 2019 will be 6.3 billion yen, 19.8 billion yen at the end of period ending July 31, 2019, 19.8 billion yen at the end of period ending January 31, 2020, and 19.1 billion yen at the end of period ending July 31, 2020. • It is assumed that on February 13, 2019, a total of 20,171 million yen will be drawn from qualified institutional investors as defined in Article 2, Paragraph 3, Item 1 of the Financial Instruments and Exchange Act while interest-bearing liabilities totaling 6.3 billion yen will be repaid. • Given that a consumption tax refund is scheduled to take place during the period ending July 31, 2019, it is assumed that a portion of the loans will be repaid during the period ending July 31, 2019 using such tax refund as the source of funds for repayment. • LTV ratio is expected to be approximately 54.0% at the end of the period ending January 31, 2019 (4th fiscal period), approximately 44.1% at the end of the period ending July 31, 2019 (5th fiscal period), approximately 43.8% at the end of the period ending January 31, 2020 (6th fiscal period), and approximately 43.9% at the end of the period ending July 31, 2020 (7th fiscal period). The following formula

	<p>was used to calculate LTV ratio: $\text{LTV ratio} = \text{Total interest-bearing liabilities} \div \text{Total assets} \times 100$</p>
Number of investment units	<ul style="list-style-type: none"> ➤ It is assumed that, in addition to the 237,000 no additional investment units will be issued before the end of the period ending July 31, 2020. ➤ DPU (excluding distribution in excess of earnings) and Distributions in excess of earnings per unit for the period ending July 31, 2019, period ending January 31, 2020, and period ending July 31, 2020 is calculated based on the anticipated number of investment units issued and outstanding totaling 237,000 units at the end of the period ending July 31, 2019, period ending January 31, 2020, and period ending July 31, 2020.
DPU (excluding distributions in excess of earnings)	<ul style="list-style-type: none"> • DPU (excluding distribution in excess of earnings) is calculated based on the assumption that distributions will be conducted in accordance with the cash distribution policy provided in ESCON REIT's Articles of Incorporation. ➤ DPU (excluding distribution in excess of earnings) may vary due to various factors, such as fluctuation in rent revenue accompanying changes in assets under management, changes in tenants, etc. or incurrence of unexpected repairs.
Distributions in excess of earnings per unit	<ul style="list-style-type: none"> ➤ Even though it is possible for ESCON REIT to make cash distributions in excess of earnings in accordance with the Articles of Incorporation, ESCON REIT does not intend to make such cash distributions at this point in time when factoring in the ratio of capital expenditures to depreciation expenses and in order to maintain conservative financial management.
Others	<ul style="list-style-type: none"> • It is assumed that there will be no revision of laws and regulations, tax systems, accounting standards, listing rules of the Tokyo Stock Exchange, Inc., and rules of The Investment Trusts Association, Japan, etc. that will impact the forecasted figures above. ➤ It is assumed that there will be no unforeseen material change in general economic trends, real estate market conditions, etc.

(3) Investment Risk

No disclosure necessary, since there have been no material changes from "Investment risk" in the most recent Annual Securities Report (submitted December 25, 2018, as amended).

3. Financial Statements

(1) Balance Sheet

(Unit: 1,000 yen)

	Previous fiscal period (As of April 30, 2018)	Fiscal period under review (As of January 31, 2019)
Assets		
Current assets		
Cash and deposits	248,753	424,421
Cash and deposits in trust	*1 540,972	*1 522,745
Operating accounts receivable	14,846	11,877
Prepaid expenses	16,946	18,888
Total current assets	821,519	977,933
Noncurrent assets		
Property, plant and equipment		
Buildings in trust	738,786	738,786
Accumulated depreciation	(9,699)	(27,303)
Buildings, net	*1 729,086	*1 711,482
Structures in trust	60,427	63,089
Accumulated depreciation	(1,359)	(3,844)
Structures, net	*1 59,068	*1 59,245
Land in trust	*1 9,880,169	*1 9,880,169
Total property, plant and equipment	10,668,324	10,650,898
Intangible assets		
Trademarks	1,068	987
Total intangible assets	1,068	987
Investment and other assets		
Lease and guarantee deposits	10,000	10,000
Long-term prepaid expenses	9,404	–
Total investments and other assets	19,404	10,000
Total noncurrent assets	10,688,797	10,661,885
Deferred assets		
Organization expenses	36,961	28,431
Total deferred assets	36,961	28,431
Total assets	11,547,278	11,668,251

(Unit: 1,000 yen)

	Previous fiscal period (As of April 30, 2018)	Fiscal period under review (As of January 31, 2019)
Liabilities		
Current liabilities		
Operating accounts payable	20,199	24,181
Current portion of investment corporation bonds	–	300,000
Current portion of long-term borrowings	–	*1 6,000,000
Accounts payable - other	2,418	20
Accrued expenses	17,709	60,852
Income taxes payable	475	712
Accrued consumption tax, etc.	3,507	1,882
Advances received	52,350	51,583
Deposits received	2,711	172
Total current liabilities	99,371	6,439,405
Noncurrent liabilities		
Investment corporation bonds	300,000	–
Long-term borrowings	*1 6,000,000	–
Tenant lease and guarantee deposits in trust	363,482	342,201
Total noncurrent liabilities	6,663,482	342,201
Total liabilities	6,762,854	6,781,607
Net assets		
Unitholders' equity		
Unitholders' capital	4,621,655	4,621,655
Surplus		
Unappropriated retained earnings (undisposed loss)	162,769	264,989
Total surplus	162,769	264,989
Total unitholders' equity	4,784,424	4,886,644
Total net assets	*2 4,784,424	*2 4,886,644
Total liabilities and net assets	11,547,278	11,668,251

(2) Profit and Loss Statement

(Unit: 1,000 yen)

	Previous fiscal period (November 1, 2017 – April 30, 2018)		Fiscal period under review (May 1, 2018 – January 31, 2019)	
Operating revenues				
Rent revenue-real estate	*1	303,379	*1	537,190
Other lease business revenue	*1	43,077	*1	92,487
Gain on sales of real estate properties	*2, *3	292		–
Total operating revenue		346,749		629,678
Operating expenses				
Expenses related to rent business	*1	103,013	*1	254,944
Asset management fee		11,391		47,478
Asset custody fee		600		900
Administrative service fees		1,428		2,437
Directors' compensation		3,000		4,500
Taxes and public dues		1,803		1,233
Other operating expenses		14,174		8,817
Total operating expenses		135,411		320,310
Operating income		211,338		309,367
Non-operating income				
Interest income		2		3
Interest on tax refund		105		–
Total non-operating income		107		3
Non-operating expenses				
Interest expenses		10,342		16,178
Interest expenses on investment corporation bonds		4,972		9,049
Borrowing related expenses		11,709		12,091
Amortization of organization expenses		5,686		8,529
Investment unit issuance expenses		9,900		–
Investment corporation bond issuance costs		5,444		–
Total non-operating expenses		48,054		45,849
Ordinary income		163,390		263,522
Income before income taxes		163,390		263,522
Income taxes-current		476		712
Income taxes - deferred		150		–
Total income taxes		626		712
Net income		162,763		262,810
Retained earnings brought forward		5		2,179
Unappropriated retained earnings (undisposed loss)		162,769		264,989

(3) Statements of Changes in Net Assets (Unitholders' Equity)
 Previous fiscal period (November 1, 2017 – April 30, 2018)

(Unit: 1,000 yen)

	Unitholders' equity				Total net assets
	Unitholders' capital / Total capital	Surplus		Total unitholders' equity	
		Unappropriated retained earnings (or undisposed loss)	Total surplus		
Balance at the beginning of the period	950,000	23,525	23,525	973,525	973,525
Changes of items during the period					
Issuance of new investment units	3,671,655	–	–	3,671,655	3,671,655
Dividends from surplus	–	(23,520)	(23,520)	(23,520)	(23,520)
Net income	–	162,763	162,763	162,763	162,763
Total changes of items during the period	3,671,655	139,243	139,243	3,810,898	3,810,898
Balance at the end of the period	4,621,655	162,769	162,769	4,784,424	4,784,424

Fiscal period under review (May 1, 2018 – January 31, 2019)

(Unit: 1,000 yen)

	Unitholders' equity				Total net assets
	Unitholders' capital / Total capital	Surplus		Total unitholders' equity	
		Unappropriated retained earnings (or undisposed loss)	Total surplus		
Balance at the beginning of the period	4,621,655	162,769	162,769	4,784,424	4,784,424
Changes of items during the period					
Dividends from surplus	–	(160,590)	(160,590)	(160,590)	(160,590)
Net income	–	262,810	262,810	262,810	262,810
Total changes of items during the period	–	102,219	102,219	102,219	102,219
Balance at the end of the period	4,621,655	264,989	264,989	4,886,644	4,886,644

(4) Statements of Cash Dividend Distributions

(Unit: yen)

	Previous fiscal period (November 1, 2017 – April 30, 2018)	Fiscal period under review (May 1, 2018 – January 31, 2019)
I. Unappropriated retained earnings	162,769,524	264,989,385
II. Distributions	160,590,349	263,774,878
Distributions per unit (excluding distributions in excess of earnings)	(3,301)	(5,422)
III. Retained earnings carried forward	2,179,175	1,214,507
How distributions were calculated	<p>The cash distribution policy set out in Article 36, Paragraph 1 of the Articles of Incorporation of ESCON REIT stipulates that the amount of distributions shall not exceed the amount of profit and shall exceed the amount equivalent to 90% of profit available for distribution as provided for in Article 67-15 of the Act on Special Measures Concerning Taxation. Based on this policy, ESCON REIT has decided to distribute ¥160,590,349 (¥3,301 per investment unit), which does not exceed unappropriated retained earnings and is the maximum amount to which the distribution of profits will be included in tax deductible expenses, excluding the fraction where distribution per investment unit becomes less than ¥1.</p>	<p>The cash distribution policy set out in Article 36, Paragraph 1 of the Articles of Incorporation of ESCON REIT stipulates that the amount of distributions shall not exceed the amount of profit and shall exceed the amount equivalent to 90% of profit available for distribution as provided for in Article 67-15 of the Act on Special Measures Concerning Taxation. Based on this policy, ESCON REIT has decided to distribute ¥263,774,878 (¥5,422 per investment unit), which does not exceed unappropriated retained earnings and is an amount that is the integral multiple of the total number of investment units issued and outstanding, 48,649 units, up to the maximum amount to which profit distribution will be included in tax deductible expenses.</p>

(5) Cash Flow Statement

(Unit: 1,000 yen)

	Previous fiscal period (November 1, 2017 – April 30, 2018)	Fiscal period under review (May 1, 2018 – January 31, 2019)
Cash Flows from Operating Activities		
Income before income taxes	163,390	263,522
Depreciation	11,068	20,169
Amortization of organization expenses	5,686	8,529
Investment unit issuance expenses	9,900	–
Investment corporation bond issuance costs	5,444	–
Interest income	(2)	(3)
Interest expenses	15,314	25,228
Decrease (increase) of operating accounts receivable	(14,846)	2,968
Decrease (increase) in prepaid expenses	(16,946)	(1,941)
Decrease (increase) of long-term prepaid expenses	(9,404)	9,404
Increase (decrease) in operating accounts payable	20,145	3,982
Increase (decrease) in accounts payable - other	(18,211)	(2,397)
Increase (decrease) in accrued expenses	12,826	40,034
Increase (decrease) in accrued consumption tax, etc.	3,507	(1,624)
Increase (decrease) in advances received	40,350	(767)
Increase (decrease) in deposits received	478	(2,538)
Decrease in property, plant and equipment in trust due to sale	2,472,787	–
Others	1,754	–
Subtotal	2,703,242	364,566
Interest income received	2	3
Interest expenses paid	(11,738)	(22,119)
Income taxes (paid) refund	(11,189)	(476)
Net cash provided by (used in) operating activities	2,680,316	341,974
Cash Flows from Investing Activities		
Purchase of property, plant and equipment in trust	(10,668,248)	(2,662)
Purchase of intangible assets	(1,077)	–
Proceeds from tenant lease and guarantee deposits in trust	370,700	–
Repayments of tenant lease and guarantee deposits in trust	(120,218)	(21,281)
Net cash provided by (used in) investing activities	(10,418,843)	(23,943)
Cash Flows from Financing Activities		
Proceeds from short-term borrowings	63,360	–
Decrease in short-term borrowings	(1,755,496)	–
Proceeds from long-term borrowings	6,000,000	–
Proceeds from issuance of investment corporation bonds	294,555	–
Proceeds from issuance of investment units	3,661,755	–
Distributions paid	(23,520)	(160,590)
Net cash provided by (used in) financing activities	8,240,654	(160,590)
Increase (decrease) in cash and cash equivalents	502,127	157,440
Cash and cash equivalents at the beginning of period	287,598	789,726
Cash and cash equivalents at the end of period	*1 789,726	*1 947,166

(6) Notes on Going Concern Assumptions
Not applicable.

(7) Notes on Matters Concerning Significant Accounting Policies

1. Method of depreciation of noncurrent assets	<p>(1) Property, plant and equipment (including assets in trust) The straight-line method is used. The useful lives of property, plant and equipment are as follows.</p> <table border="0"> <tr> <td>Buildings</td> <td>4 to 47 years</td> </tr> <tr> <td>Structures</td> <td>19 to 20 years</td> </tr> </table> <p>(2) Intangible assets The straight-line method is used.</p> <p>(3) Long-term prepaid expenses The straight-line method is used.</p>	Buildings	4 to 47 years	Structures	19 to 20 years
Buildings	4 to 47 years				
Structures	19 to 20 years				
2. Accounting for deferred assets	<p>Organization expenses Organization expenses are amortized equally over a period of five years.</p>				
3. Accounting standards for revenues and expenses	<p>Accounting for property taxes property tax, city planning tax, depreciable asset tax and the like levied on real estate owned are accounted for as expenses related to rent business for the amounts corresponding to the fiscal period under review of the amount of taxes that were assessed and decided.</p> <p>An amount equivalent to property taxes, etc. for the first fiscal year paid to the sellers as settlement money associated with the acquisition of real estate or trust beneficial interests in real estate as trust asset is not accounted for as an expense, but included in the acquisition cost of the relevant real estate, etc. In the previous fiscal period, the amount equivalent to property taxes, etc. included in the acquisition cost of real estate, etc. was ¥5,235 thousand. In the fiscal period under review, there was no amount equivalent to property taxes, etc. included in the acquisition cost of real estate, etc.</p>				
4. Scope of funds in the statement of cash flows	<p>Funds (cash and cash equivalents) in the statement of cash flows consist of cash on hand, cash in trust, deposits and deposits in trust that can be withdrawn at any time, and short-term investments that are readily convertible into cash, with low risk of price fluctuations and with a maturity of less than three months.</p>				
5. Other significant bases for preparing financial statements	<p>(1) Accounting for trust beneficial interests in real estate as trust asset With regard to trust beneficial interests in real estate held as trust assets, all assets and liabilities as well as all revenue and expense items associated with trust assets are accounted for under the respective account items of the balance sheet and the profit and loss statement. Of the trust assets accounted for under the respective account items, the following items of significance are separately indicated on the balance sheet.</p> <ol style="list-style-type: none"> i. Cash in trust and deposits in trust ii. Buildings in trust, structures in trust and land in trust iii. Tenant lease and guarantee deposits in trust <p>(2) Accounting for consumption taxes The accounting for consumption taxes and local consumption taxes is tax exclusive. However, non-deductible consumption taxes on noncurrent assets are included in the acquisition cost of individual assets.</p>				

(8) Notes to Financial Statements
 [Note to Balance Sheets]

(Unit: 1,000 yen)

	Previous fiscal period (As of April 30, 2018)	Fiscal period under review (As of January 31, 2019)
*1. Assets offered as security and liabilities on which security is established		
Assets offered as security are as follows.		
Cash and deposits in trust	540,972	522,745
Buildings in trust	729,086	711,482
Structures in trust	59,068	59,245
Land in trust	9,880,169	9,880,169
Total	11,209,297	11,173,644
Liabilities on which security is established are as follows.		
Current portion of long-term borrowings	–	6,000,000
Long-term borrowings	6,000,000	–
Total	6,000,000	6,000,000
*2. Minimum amount of net assets provided for in Article 67, Paragraph 4 of the Act on Investment Trusts and Investment Corporations	50,000	50,000

	Previous fiscal period (November 1, 2017 – April 30, 2018)	Fiscal period under review (May 1, 2018 – January 31, 2019)
*1 Breakdown of income from real estate rent business		
A. Real estate rent business revenue		
Rent business revenue		
Rent revenue	126,428	229,241
Land rents received	90,140	142,093
Common service fees	22,351	40,232
Other rent revenues	64,459	125,623
Total	<u>303,379</u>	<u>537,190</u>
Other rent business revenues		
Utilities charges received	42,255	88,033
Other revenues	822	4,454
Total	<u>43,077</u>	<u>92,487</u>
Total real estate rent business revenue	346,456	629,678
B. Real estate rent business expenses		
Rent business expenses		
Administrative expenses	16,366	28,678
Trust fees	572	1,350
Utilities charges	39,474	81,581
Non-life insurance premiums	295	538
Repair expenses	561	8,946
Taxes and public dues	4,420	60,153
Depreciation	11,059	20,088
Other rent business expenses	30,263	53,607
Total real estate rent business expenses	<u>103,013</u>	<u>254,944</u>
C. Income from real estate rent business (A - B)	<u>243,443</u>	<u>374,734</u>
*2 Transactions with major unitholders		
Income from business transactions		
Gain on sales of real estate	292	–
*3 Breakdown of gain on sales of real estate		
Life Daisen Store (leasehold land)		Not applicable.
Proceeds from sales of real estate	2,473,580	
Cost of sales of real estate	2,472,787	
Other costs of sales	500	
Gain on sales of real estate	<u>292</u>	

[Notes to Statements of Changes in Net Assets (Unitholders' Equity)]

*1. Total number of investment units authorized and total number of investment units issued and outstanding

	Previous fiscal period (November 1, 2017 – April 30, 2018)	Fiscal period under review (May 1, 2018 – January 31, 2019)
Total number of investment units authorized	10,000,000 units	10,000,000 units
Total number of investment units issued and outstanding	48,649 units	48,649 units

[Notes to Statements of Cash Flows]

*1. Relationship between the ending balance of cash and cash equivalents and the amounts of items posted in the balance sheet

(Unit: 1,000 yen)

	Previous fiscal period (November 1, 2017 – April 30, 2018)	Fiscal period under review (May 1, 2018 – January 31, 2019)
Cash and deposits	248,753	424,421
Cash and deposits in trust	540,972	522,745
Cash and cash equivalents	<u>789,726</u>	<u>947,166</u>

[Notes to Financial Instruments]

1. Matters concerning the status of financial instruments

(1) Policies on financial instruments

ESCON REIT takes a balanced approach to raising funds through borrowings from financial institutions and the issuance of investment corporation bonds and investment units to contribute to the steady growth of assets under management as well as efficient management and management stability.

When taking out borrowings from financial institutions and issuing investment corporation bonds, ESCON REIT will take into account the balance between the flexibility of financing and the financial stability and the characteristics of real estate to acquire. Specifically, ESCON REIT will examine the financing methods, the ratio of long-term loans, the ratio of fixed interest rates, the diversification of repayment dates and the need to provide security, among other factors. When borrowing funds, lenders will be limited to the qualified institutional investors specified in the Financial Instruments and Exchange Act (however, limited to the institutional investors specified in Article 67-15 of the Act on Special Measures Concerning Taxation).

The issuance of new investment units will be determined in light of the financial environment, taking into consideration LTV, the dilution of rights of the existing unitholders and a resulting fall in the transaction price of investment units, with the aim of expanding the scale of assets under management and improving their profitability.

ESCON REIT may engage in derivative transactions to hedge the interest volatility and other risks arising from its liabilities. In the fiscal period under review, ESCON REIT did not conduct derivative transactions.

(2) Description of financial instruments and associated risks, and the risk management system

Loans are taken out mainly for the purpose of raising funds to acquire assets and repay debts. While loans are exposed to the risk that they will be unable to be refinanced when they are due and the risk that interest rates paid will rise, ESCON REIT works to reduce the risks by diversifying the lenders and due dates and examining balanced financing including the issuance of investment units. ESCON REIT also manages risks to its operation from rising interest rates through the close monitoring of fluctuations in interest rates and the appropriate control of LTV.

(3) Supplementary explanation on matters concerning the fair value, etc. of financial instruments

The fair value of financial instruments includes values based on reasonable calculation when there is no market value, in addition to values based on market value. Certain assumptions are used in the calculation of the values. Accordingly, there may be cases where the values will vary when different assumptions are used.

2. Matters concerning the fair value, etc. of financial instruments

The carrying value, fair value, and difference between the carrying value and fair value as of April 30, 2018 are as follows. Financial instruments, the fair value of which is deemed extremely difficult to be determined, are not included (see (Note 2)).

(Unit: 1,000 yen)

	Carrying value	Fair value (Note 1)	Difference
(1) Cash and deposits	248,753	248,753	–
(2) Cash and deposits in trust	540,972	540,972	–
Total assets	789,726	789,726	–
(3) Current portion of investment corporation bonds	–	–	–
(4) Current portion of long-term borrowings	–	–	–
(5) Investment corporation bonds	300,000	300,364	364
(6) Long-term borrowings	6,000,000	6,000,000	–
Total liabilities	6,300,000	6,300,364	364

The carrying value, fair value, and difference between the carrying value and fair value as of January 31, 2019 are as follows. Financial instruments, the fair value of which is deemed extremely difficult to be determined, are not included (see (Note 2)).

(Unit: 1,000 yen)

	Carrying value	Fair value (Note 1)	Difference
(1) Cash and deposits	424,421	424,421	–
(2) Cash and deposits in trust	522,745	522,745	–
Total assets	947,166	947,166	–
(3) Current portion of investment corporation bonds	300,000	300,137	137
(4) Current portion of long-term borrowings	6,000,000	6,000,000	–
(5) Investment corporation bonds	–	–	–
(6) Long-term borrowings	–	–	–
Total liabilities	6,300,000	6,300,137	137

(Note 1) The method of determining the fair value of financial instruments

(1) Cash and deposits and (2) Cash in trust and deposits in trust

Given that these items are settled within a short period of time, their fair values are nearly equal to their carrying values. Therefore, the carrying value is used as the fair value.

(3) Current portion of investment corporation bonds and (5) Investment corporation bonds

The fair values of these items are determined by the present value that is calculated by discounting the total amount of principal and interest by an interest rate that takes into account the remaining period and the credit risk of the investment corporation bonds.

(4) Current portion of long-term borrowings and (6) Long-term borrowings

Given that these items are based on variable interest rates, they will reflect the market interest rates over a short period of time, and it might be said that their fair values are nearly equal to their carrying values. Therefore, the carrying value is used as the fair value.

(Note 2) The carrying value of financial instruments, the fair value of which is deemed extremely difficult to be determined

(Unit: 1,000 yen)

	3rd fiscal period (April 30, 2018)	4th fiscal period (January 31, 2019)
Tenant lease and guarantee deposits in trust	363,482	342,201

Tenant lease and guarantee deposits in trust

Tenant lease and guarantee deposits in trust deposited by tenants do not have a market price, and the lease contract could be terminated, renewed or re-signed even if there is a provision concerning the term of contract. For this reason, a substantive deposit period is unable to be determined, and it is deemed difficult to estimate reasonable future cash flows. Accordingly, tenant lease and guarantee deposits in trust are not subject to disclosure at fair value.

(Note 3) Scheduled redemption of monetary claims after the closing date (April 30, 2018)

(Unit: 1,000 yen)

Category	Within 1 year	1-2 years	2-3 years	3-4 years	4-5 years	Over 5 years
Cash and deposits	248,753	–	–	–	–	–
Cash and deposits in trust	540,972	–	–	–	–	–
Total	789,726	–	–	–	–	–

Scheduled redemption of monetary claims after the closing date (January 31, 2019)

(Unit: 1,000 yen)

Category	Within 1 year	1-2 years	2-3 years	3-4 years	4-5 years	Over 5 years
Cash and deposits	424,421	–	–	–	–	–
Cash and deposits in trust	522,745	–	–	–	–	–
Total	947,166	–	–	–	–	–

(Note 4) Scheduled redemption of investment corporation bonds and loans after the closing date (April 30, 2018)

(Unit: 1,000 yen)

	Within 1 year	1-2 years	2-3 years	3-4 years	4-5 years	Over 5 years
Investment corporation bonds	–	300,000	–	–	–	–
Long-term borrowings	–	6,000,000	–	–	–	–
Total	–	6,300,000	–	–	–	–

Scheduled redemption of investment corporation bonds and loans after the closing date (January 31, 2019)

(Unit: 1,000 yen)

	Within 1 year	1-2 years	2-3 years	3-4 years	4-5 years	Over 5 years
Investment corporation bonds	300,000	–	–	–	–	–
Long-term borrowings	6,000,000	–	–	–	–	–
Total	6,300,000	–	–	–	–	–

[Notes to Tax Effect Accounting]

1. Breakdown of major causes for deferred tax assets and deferred tax liabilities

Previous fiscal period (November 1, 2017 – April 30, 2018)	Fiscal period under review (May 1, 2018 – January 31, 2019)
Not applicable.	Not applicable.

2. Breakdown of major causes for material difference between the effective statutory tax rate and the burden rate after applying tax effect accounting

(Unit: %)

	Previous fiscal period (As of April 30, 2018)	Fiscal period under review (As of January 31, 2019)
Effective statutory tax rate	31.74	31.51
(Adjustments)		
Distribution payments included in tax deductible expenses	(31.19)	(31.54)
Changes in valuation reserve	–	–
Others	(0.17)	0.30
Burden rate of corporate taxes after applying tax effect accounting	0.38	0.27

[Notes to Real Estate for Lease]

ESCON REIT owns commercial properties and real estate for lease, the principal use of which is leasehold land. The carrying value, changes during the period and fair value at the end of the period of these properties are as follows.

(Unit: 1,000 yen)

	Previous fiscal period (November 1, 2017 – April 30, 2018)	Fiscal period under review (May 1, 2018 – January 31, 2019)
Carrying value (Note 1)	Balance at the beginning of the period	2,472,787
	Changes during the period (Note 2)	8,195,537
	Balance at the end of the period	10,668,324
Fair value at the end of the period (Note 3)	11,480,000	11,500,000

(Note 1) The carrying value includes the acquisition cost and incidental costs associated with the acquisition.

(Note 2) Of the changes during the period, the amount of increase in the previous fiscal period was due to the acquisition of LAMU Kitatsumori (leasehold land) (¥1,284,444 thousand), K's Denki Kurashiki Store (leasehold land) (¥2,136,105 thousand) and tonarie Minami-senri (¥7,258,833 thousand), and the amount of decrease was due to the transfer of Life Daisen Store (leasehold land) (¥2,472,787 thousand) and depreciation (¥11,059 thousand). The amount of decrease in the fiscal period under review was due to depreciation (¥20,088 thousand).

(Note 3) The fair value at the end of the period is an appraisal value by an outside real estate appraiser.

Profit and loss of real estate for lease are as described in “Notes to Profit and Loss Statements.”

[Notes to Per Unit Information]

	Previous fiscal period (November 1, 2017 – April 30, 2018)	Fiscal period under review (May 1, 2018 – January 31, 2019)
Net assets per unit	98,345 yen	100,446 yen
Net income per unit	3,853 yen	5,402 yen

Net income per unit is calculated by dividing net income by the weighted average number of investment units based on the number of days during the period.

Diluted net income per unit is not stated because there are no dilutive investment units.

(Note) The basis for calculating net income per unit is as follows.

	Previous fiscal period (November 1, 2017 – April 30, 2018)	Fiscal period under review (May 1, 2018 – January 31, 2019)
Net income (1,000 yen)	162,763	262,810
Amount not attributable to common unitholders (1,000 yen)	–	–
Net income for common investment units (1,000 yen)	162,763	262,810
Average number of investment units during the period (Units)	42,243	48,649

[Notes to Significant Subsequent Events]

Previous fiscal period (November 1, 2017 – April 30, 2018)

Not applicable.

Fiscal period under review (May 1, 2018 – January 31, 2019)

1. Issuance of new investment units

ESCON REIT issued new investment unit as described below based on the approval at the meetings of the Board of Directors held on December 25, 2018 and February 4, 2019, and the payment was completed on February 12, 2019. As a result, the total amount of investment and the total number of investment units issued and outstanding came to ¥22,941,238,313 and 237,000 units, respectively, as of February 12, 2019.

(Issuance of new investment units through public offering)

Number of new investment units issued	188,351 units
Offer price	101,000 yen per unit
Total offer price	19,023,451,000 yen
Issue value	97,263 yen per unit
Total issue value	18,319,583,313 yen
Payment date	February 12, 2019
Accrual date of distributions	February 1, 2019

(Use of proceeds)

Proceeds from the public offering above were appropriated for some funds to acquire real estate trust beneficial interests stated in “3. Asset Acquisitions” page 23.

2. Borrowings

ESCON REIT borrowed loans as described below to appropriate for funds to acquire real estate trust beneficial interests stated in “3. Asset Acquisitions” below and their incidental costs and funds to repay existing borrowings and retire existing investment corporation bonds.

(Unit: 1,000 yen)

Type*1	Lender	Balance	Interest rate	Drawdown date	Method of borrowings	Repayment date	Repayment Method	Remarks						
Short	Sumitomo Mitsui Banking Corporation	175,500	Base rate (JBA 1 month JPY TIBOR)+0.2 %	February 13, 2019		January 31, 2020								
	Mizuho Bank, Ltd.	175,500												
Long	Sumitomo Mitsui Banking Corporation	1,765,000	Base rate (JBA 1 month JPY TIBOR) +0.40%	February 13, 2019	Borrowings under individual loan agreements concluded as of February 8, 2019	January 31, 2022	Bullet repayment	secured/ Unguaranteed						
	Mizuho Bank, Ltd.	1,665,000												
	The Bank of Fukuoka, Ltd.	1,530,000												
	AEON Bank, Ltd.	1,000,000												
	Sumitomo Mitsui Trust Bank, Limited	1,000,000												
	MUFG Bank, Ltd.	1,000,000												
	Resona Bank, Limited.	750,000												
	The Minato Bank, Ltd.	750,000												
	The Senshu Ikeda Bank, Ltd.	250,000												
	The Chiba Bank, Ltd.	250,000												
	Sumitomo Mitsui Banking Corporation	1,765,000							Base rate (JBA 1 month JPY TIBOR) +0.50%	February 13, 2019		January 31, 2023		
	Mizuho Bank, Ltd.	1,665,000												
The Bank of Fukuoka, Ltd.	1,430,000													
AEON Bank, Ltd.	1,000,000													
Sumitomo Mitsui Trust Bank, Limited	1,000,000													
MUFG Bank, Ltd.	1,000,000													

Resona Bank, Limited.	750,000					
The Minato Bank, Ltd.	750,000					
The Senshu Ikeda Bank, Ltd.	250,000					
The Chiba Bank, Ltd.	250,000					
Total	20,171,000					

3. Asset Acquisitions

ESCON REIT acquired real estate trust beneficial interests in the following properties on February 13, 2019. The acquisition price is the amount (sales price stated in the sales contract of real estate trust beneficial interests, etc.) excluding expenses required for the acquisition (sales intermediary fees, taxes and public dues, etc.).

(Unit: 1,000 yen)

Property name	Location	Acquisition price
Asumigaoka Brand-New Mall	Chiba-shi, Chiba	3,200,000
Nishi-shiroi Ekimae Plaza	Shiroi-shi, Chiba	451,000
K' s Denki Oyumino (Leasehold land)	Chiba-shi, Chiba	2,710,000
Nitori Tsuchiura (Leasehold land)	Tsuchiura-shi, Ibaraki	999,477
Nitori Imaichi (Leasehold land)	Nikko-shi, Tochigi	363,362
tonarie Seiwadai	Kawanishi-shi, Hyogo	3,290,759
K' s Denki Nishi-kobe (Leasehold land)	Kobe-shi, Hyogo	2,133,429
Sanyo Marunaka Mitani (Leasehold land)	Kobe-shi, Hyogo	1,430,000
Tsutaya Sakai-minami (Leasehold land)	Sakai-shi, Osaka	946,000
Pare Marche Nishiharu	Kitanagoya-shi, Aichi	4,610,000
MaxValu Kikyogaoka-higashi (Leasehold land)	Nabari-shi, Mie	477,767
MrMAX Kasuga (Leasehold land)	Kasuga-shi, Fukuoka	3,387,444
UNIQLO Kasuga (Leasehold land)	Kasuga-shi, Fukuoka	595,000
Avail.Shimamura Kasuga (Leasehold land)	Kasuga-shi, Fukuoka	863,387
au-Softbank Kasuga (Leasehold land)	Kasuga-shi, Fukuoka	143,560
Kura Sushi Kasuga (Leasehold land)	Kasuga-shi, Fukuoka	261,340
docomo Shop Kasuga (Leasehold land)	Kasuga-shi, Fukuoka	160,900
Konpira Maru Kasuga (Leasehold land)	Kasuga-shi, Fukuoka	236,360
One-Karubi Kasuga (Leasehold land)	Kasuga-shi, Fukuoka	236,360
Suke-san Kasuga (Leasehold land)	Kasuga-shi, Fukuoka	401,000

Property name	Location	Acquisition price
NAFCO Kasuga (Leasehold land)	Kasuga-shi, Fukuoka	2,631,500
K' s Denki Kasuga (Leasehold land)	Kasuga-shi, Fukuoka	1,487,390
Total acquisition price (22 properties)	-	31,016,038

(9) Changes in total number of investment units issued and outstanding

Changes in the total amount of investment and the total number of investment units issued and outstanding for ESCON REIT since its establishment to January 31, 2019, are as follows.

Date	Summary	Total amount of investment (thousand yen)		Total number of investment units issued and outstanding (units)		Remarks
		Increase	Balance	Increase	Balance	
August 26, 2016	Establishment through private placement	200,000	200,000	20,000	20,000	(Note 1)
February 13, 2017	Capital increase through private placement	750,000	950,000	7,500	9,500	(Note 2)
October 13, 2017	Investment unit split	-	950,000	500	10,000	(Note 3)
December 1, 2017	Capital increase through private placement	3,671,655	4,621,655	38,649	48,649	(Note 4)

(Note 1) ESCON REIT was established through private placement of investment units with the offer price per unit of ¥100,000.

(Note 2) ESCON REIT issued new investment units through private placement with the offer price per unit of ¥100,000 for the purpose of raising funds to acquire specified assets.

(Note 3) ESCON REIT split investment units at a rate of 1.05264 units for one investment unit, with October 13, 2017 as the effective date.

(Note 4) ESCON REIT issued new investment units through private placement with the offer price per unit of ¥95,000 for the purpose of raising funds to acquire specified assets.

4. Changes in Directors

(1) Changes in Directors of ESCON REIT

Changes in Directors will be disclosed in a timely manner when they are decided.

(2) Changes in Directors of the Asset Manager

Changes in Directors will be disclosed in a timely manner when they are decided.

5. Reference Information

(1) Status of investment

Asset type	Region (Note 1)	Fiscal period under review As of January 31, 2019	
		Total amount owned (million yen) (Note 2)	Ratio to total assets (%) (Note 3)
Real estate in trust	Kinki region	8,514	73.0
	Other regions	2,136	18.3
	Total real estate in trust	10,650	91.3
Deposits and other assets		1,017	8.7
Total assets		11,668	100.0

	Amount (million yen)	Ratio to total assets (%) (Note 3)
Total liabilities	6,781	58.1
Total net assets	4,886	41.9

(Note 1) The Kinki region refers to Osaka, Kyoto, Hyogo, Nara and Shiga Prefectures.

(Note 2) The total amount owned is based on the amount on the balance sheets as of the end of the fiscal period and rounded off to the nearest million yen.

(Note 3) The ratio to total assets is rounded off to the nearest first decimal place.

(2) Investment assets

i. Major investment securities

Not applicable.

ii. Investment properties

Not applicable.

iii. Other major investment assets

A. Overview of assets owned

The overview of real estate, which is the trust asset of trust beneficial interests owned by ESCON REIT as of January 31, 2019, is as follows.

(As of January 31, 2019)

Property name	Location	Acquisition price (million yen) (Note 1)	Book value (million yen) (Note 2)	Appraisal value at the end of the period (million yen) (Note 3)	Appraiser
tonarie Mimami-senri	Suita-shi, Osaka	7,200	7,230	7,640	The Tanizawa Sogo Appraisal Co., Ltd.
LAMU Kitatsumori (leasehold land)	Osaka-shi, Osaka	1,270	1,284	1,440	JLL Morii Valuation & Advisory KK
K's Denki Kurashiki Store (leasehold land)	Kurashiki-shi, Okayama	2,121	2,136	2,420	Daiwa Real Estate Appraisal Co., Ltd.
Total		10,591	10,650	11,500	

(Note 1) The acquisition price is an amount (sales price stated in the sales contract) not including expenses required for the acquisition of real estate (sales intermediary fees, taxes and public dues, etc.).

(Note 2) The book value is rounded off to the stated value.

(Note 3) The appraisal value at the end of the period is an appraisal value by a real estate appraiser based on the Articles of Incorporation of ESCON REIT and rules set by the Investment Trusts Association, Japan, with the end of the fiscal period as the date of investigation.

B. Overview of lease

The total number of tenants, rentable area, leased area, occupancy rate and real estate rent business revenue of the real estate owned are as follows.

(As of January 31, 2019)

Property name	Total number of tenants (Note 1)	Rentable area (m ²) (Note 2)	Leased area (m ²) (Note 2)	Occupancy rate (%) (Note 2) (Note 3)	Real estate rent business revenue (million yen) (Note 4)	Ratio to total rent revenue (%)
tonarie Mimami-senri	45	7,535.16	7,535.16	100.0	487	77.4
LAMU Kitatsumori (leasehold land)	1	11,677.03	11,677.03	100.0	57	9.1
K's Denki Kurashiki Store (leasehold land)	1	11,433.38	11,433.38	100.0	84	13.5
Total	47	30,645.57	30,645.57	100.0	629	100.0

(Note 1) The total number of tenants is stated based on data as of the closing date. For properties for which a pass-through type master lease contract is concluded, the total number of tenants and the occupancy rate calculated based on end tenants are stated.

(Note 2) The rentable area, the leased area and the occupancy rate are stated based on data as of the closing date.

(Note 3) The occupancy rate is calculated by the calculation formula below based on data as of the closing date.

$$\text{Occupancy rate} = \text{Leased area} \div \text{Rentable area} \times 100$$

(Note 4) The real estate rent business revenue is rounded off to the stated value.