

Financial Report for the Fiscal Period Ended January 31, 2020 (REIT)

March 16, 2020

REIT Issuer: ESCON JAPAN REIT Investment Corporation
 Securities Code: 2971
 Representative: (Title) Executive Director

Stock Exchange Listing: TSE
 URL: <https://www.escon-reit.jp/>
 (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) Yuki Yoshida
 TEL: +81-3-6230-9338

Scheduled date of submission of periodic securities report (*yuka shoken hokokusho*): April 28, 2020

Scheduled date of commencement of distribution payments: April 20, 2020

Supplementary materials: Yes

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, 2020 (from August 1, 2019 to January 31, 2020)

(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	%
FP2020/1	1,544	7.6	963	(2.5)	883	31.5	882	31.5
FP2019/7	1,434	127.8	987	219.3	672	155.0	671	155.5

	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	%	%	%
FP2020/1	3,725	3.7	1.9	57.2
FP2019/7	2,976	4.7	2.4	46.8

* Net income per unit is calculated by dividing net income by the weighted average number of investment units based on the number of days (225,553 units for the fiscal period ended July 31, 2019, and 237,000 units for the fiscal period ended January 31, 2020).

(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	%	%
FP2020/1	3,728	883	0	0	100.1	3.7
FP2019/7	2,835	671	0	0	100.1	2.8

*The payout ratio for the fiscal period ended July 31, 2019 is calculated using the following formula and rounded off to one decimal place due to changes in the number of investment units during the period following issuance of new investment units during the period.

Payout ratio = Total distributions (excluding distribution in excess of earnings) ÷ Net income × 100

(3) Financial Position

	Total assets	Net assets	Ratio of unitholders' equity to total assets	Net assets per unit
	million yen	million yen	%	yen
FP2020/1	45,486	23,824	52.4	100,527
FP2019/7	45,346	23,613	52.1	99,636

(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
FP2020/1	1,004	(110)	(669)	3,398
FP2019/7	1,004	(30,296)	31,517	3,172

2. Management Status Forecasts for the Fiscal Period Ending July 31, 2020 (from February 1, 2020 to July 31, 2020), and the Fiscal Period Ending January 31, 2021 (from August 1, 2020 to January 31, 2021).

[% 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)	Distribution in excess of earnings per unit
	million yen	%	million yen	%	million yen	%	million yen	%	yen	yen
FP2020/7	1,901	23.1	1,078	12.0	929	5.2	928	5.1	3,279	0
FP2021/1	1,930	1.5	1,078	(0.0)	983	5.9	982	5.9	3,474	0

(Reference) Estimated net income per unit:

FP2020/7: 3,279 yen

FP2021/1: 3,473 yen

*** Others**

(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):

FP2020/1:	237,000 units	FP2019/7:	237,000 units
FP2020/1:	0 units	FP2019/7:	0 units

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

*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.

(3) Rounding processing

Unless otherwise specified in this document, monetary figures are rounded down to the nearest whole unit and ratios are rounded off to the first decimal place.

*This financial report has not been subjected to audit procedures by a certified public accountant or audit firm.

* 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, 2020 (from February 1, 2020 to July 31, 2020), and the Fiscal Period ending January 31, 2021 (August 1, 2020 to January 31, 2021) on page 8.

Table of Contents

1 . Operations.....	2
(1) Operations.....	2
(2) Investment Risk.....	9
2 . Financial Statement.....	10
(1) Balance Sheet.....	10
(2) Profit and Loss Statement.....	12
(3) Statements of Changes in Net Assets (Unitholders' Equity)	13
(4) Statement 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 to Financial Statements.....	17
(9) Changes in total number of investment units issued and outstanding.....	23
3 . Reference Information.....	24
(1) Portfolio information.....	24
(2) Capital expenditures.....	28

1. Operations

(1) Operations

i Overview of the Fiscal Period ended January 31, 2020

A. Brief background of the REIT

ESCON REIT was established on August 26, 2016, 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, hereinafter “the Investment Trust Act”), and was listed 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). As of the end of the fiscal period under review, ESCON REIT owns 25 properties with a total acquisition price of 41,607 million yen.

ESCON REIT invests intensively in commercial facilities deeply rooted in local communities ^{*1} in four major metropolitan areas^{*2} where the concentration of population is expected to continue as well as in their leasehold land^{*3} to construct a portfolio in pursuit of long-term stability and growth of returns.

ESCON REIT shares the same Vision Concept^{*4} as ES-CON Japan Ltd. (hereinafter “ES-CON JAPAN”) of becoming a Lifestyle Developer^{*5} 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^{*6}, we aim to maximize unitholder value through consistently expanding our assets under management.

As the parent company of Asset Manager, ES-CON JAPAN is an equity-method affiliate of Chubu Electric Power Co., Inc. (hereinafter “Chubu Electric Power”). ES-CON JAPAN and Chubu Electric Power are in a business and capital partnership to bolster the Group’s real estate business. ESCON REIT and the Asset Manager have signed a sponsor support agreement with ES-CON JAPAN and support agreements with Chubu Electric Power and with Chuden Real Estate Co., Inc. (hereinafter “Chuden Real Estate”).

Notes:

^{*1} A commercial facility refers to a real estate occupied chiefly by commercial tenants, such as goods retailers, restaurants, cafes, service providers and amusement facility operators. A lifestyle-focused commercial facility, which is the type of property that ESCON REIT mainly invests in, refers to a commercial facility supplying goods and services needed for daily life that is directly connected to a railway station or located in a densely populated area or on an arterial road or in other areas of daily life. The same applies hereafter.

^{*2} The four major metropolitan areas refers to Tokyo metropolitan area, Kinki metropolitan area, Chukyo metropolitan area and Fukuoka metropolitan area. The Tokyo metropolitan area refers to Tokyo, Kanagawa, Saitama, Chiba, Ibaraki, Tochigi and Gunma Prefectures, The Kinki metropolitan areas refers to Osaka, Kyoto, Hyogo, Nara and Shiga Prefectures, Chukyo metropolitan area refers to Aichi, Shizuoka, Mie and Gifu Prefectures, and Fukuoka metropolitan area refers to Fukuoka Prefectures.

^{*3} Leasehold land refers to land leased by a third party on which a building is owned by the said third party. The same applies hereafter.

^{*4} ESCON REIT’s Vision Concept is creating the ideal community that is loved and is prided by residents. ESCON REIT conducts asset management while sharing this Vision Concept with ES-CON JAPAN, sponsor of ESCON REIT and a lifestyle developer engaging in the development of people’s lives. Vision Concept has been coined by combining the Vision, which refers to a state in which an entity hopes to be in the future, with the Concept, or notion. This term is used in this document to signify how ESCON REIT aims to be and a basic idea for it.

^{*5} Lifestyle Developer refers to the corporate branding concept of ES-CON JAPAN which is to be a developer of not only the buildings but also the lifestyles of those who live in them, thinking of their happiness, create richness unprecedented in the real estate industry, connecting people with communities in the future.

^{*6} As used in this document, a general developer means a developer conducting a wide variety of real estate development projects such as condominiums, detached residential houses, commercial facilities, hotels and logistical facilities, or a development with a stance of dealing comprehensively with all kinds of development as a business.

B. Operating environment and Management performance

During the fiscal period under review, the Japanese economy showed a moderate turnaround despite intensifying weakness, chiefly among manufacturers in a situation where exports remained sluggish. The real gross domestic product (GDP) growth rate for the October-December quarter of 2019 declined 1.8 percentage points from the previous quarter according to the second preliminary estimates as private consumption, private non-residential investment and private residential investment served as negative factors. The nominal GDP growth rate fell 1.5 percentage points from the preceding quarter.

In the same period, the J-REIT market saw a shift of funds based on solid fundamentals. The Tokyo Stock Exchange REIT Index rose to exceed 2,200. However, a sense of vigilance against the spread of the COVID-19 coronavirus is increasing the mood of risk avoidance all over the world. The circumstances are expected to remain uncertain.

In this environment, ESCON REIT carried out appropriate measures for asset management and revenue improvement, including the invitation of tenants to vacant spaces and the replacement of tenants on the occasion of contract expiration in an effort to secure stable revenue over the medium to long term.

As result of the measures above, the occupancy rate of the 25 assets under management as of the end of the fiscal period under

review was 99.9%.

C. Procurement of funds

ESCON REIT acquired an issuer rating 「A-」 (Stable) by Rating and Investment Information Inc.(R&I) on November 26, 2019. ESCON REIT shall aim to improve further credibility while maintaining the flexibility of fund procurement and stable financial management.

The balance of interest-bearing debt of ESCON REIT as of the end of the fiscal period under review was 19,820 million yen, and the ratio of interest-bearing debt to total assets (hereinafter “LTV”) was 43.6%.

D. Performance and distributions

As a result of the management above, ESCON REIT posted operating revenue of 1,544 million yen, operating income of 963 million yen, ordinary income of 883 million yen and net income of 882 million yen for the fiscal period under review.

With regard to distribution, ESCON REIT has decided to distribute the amount of 883,536,000 yen, which is roughly equivalent to the full revenue stipulated in Article 136, Paragraph 1 of the Investment Trust Act 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) in accordance with the distribution policy set forth in the Articles of Incorporation of ESCON REIT. As a result, distribution per investment unit amounted to 3,728 yen.

ii. Outlook for next period

A. Outlook for the overall management environment

Announced by the Cabinet Office, the Economy Watchers Survey showed that the diffusion index (DI) for future economic conditions in February 2020 went down by 17.2 points from the previous month to 24.6. Business confidence has sharply deteriorated from the economic slowdown following the coronavirus outbreak, quick strengthening of the Japanese yen and an abrupt plunge in share prices.

In the real estate investment market, real estate transactions are expected to remain in the 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, despite concern in some quarters that excessive decline in investment return will cause the market to reach its peak. However, it is necessary to closely monitor the impact of the coronavirus on tenants.

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 grasp 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 and will improve the satisfaction of tenants and build and strengthen relationships of trust with them by actively taking measures to build relations and implementing appropriate and prompt measures.

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 work to achieve steady external growth by actively using the solid sponsor pipeline based on the real estate development capabilities of ES-CON JAPAN as a sponsor and as a general developer and in collaboration with the Chubu Electric Power Group, which refers to Chubu Electric Power and its subsidiaries and affiliates, as a supporter. By making the maximum use of sponsor support from ES-CON JAPAN in the forms of granting preferential rights to purchase, preferential negotiation rights and providing support for the redevelopment of assets under management as well as support from Chuden Real Estate centering on offering of warehousing functions, ESCON REIT will seek to expand the scale of its assets and to improve its portfolio quality.

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.

iii. Significant subsequent events

A. Issuance of new investment units

ESCON REIT issued new investment units as follows in accordance with the approval of the Board of Directors on January 10, 2020 and on January 22, 2020. Payments for new investment units issued through a public offering were completed on February 3, 2020 and those through third-party allotment were completed on February 26, 2020. As a consequence, the total amount of investment stood at 28,439,581,945 yen and the total number of investment units issued and outstanding came to 282,982 units as of the date of this document.

Issuance of new investment units through public offering (primary offering)

Number of new investment units issued	43,792 units
Issue price (offer price)	124,029 yen per unit
Total issue price (total offer price)	5,431,477,968 yen
Amount (issue amount)	119,576 yen per unit
Total amount paid in (total issue amount)	5,236,472,192 yen
Payment date	February 3, 2020
Distribution start day	February 1, 2020

Use of proceeds

The funds raised by the public offering mentioned above partly financed the acquisition of real estate beneficiary interests mentioned in C. Acquisition of Assets below.

Secondary offering of the Investment Units (secondary offering through over-allotment)

Number of new investment units issued	2,190 units
Amount paid in (issue amount)	119,576 yen per unit
Total amount paid in (total issue amount)	261,871,440 yen
Payment date	February 26, 2020
Allottee	Mitsubishi UFJ Morgan Stanley Securities Co., Ltd
Distribution start day	February 1, 2020

Use of proceeds

The funds raised by the secondary offering through over-allotment mentioned above will be used for the acquisition of the specified assets in the future or repayment of borrowings.

B.Borrowings

ESCON REIT borrowed funds as follows to partly finance the acquisition of the real estate beneficiary interests mentioned in

C.Acquisition of Assets below and the incidental costs associated with the acquisition.

Term	Lenders	Borrowing amount (thousand yen)	Interest rate	Scheduled drawdown date	Maturity date	Repayment method	Remarks
Short-term borrowings	Mizuho Bank, Ltd.	373,000	Base rate (the three-month Japanese yen Tokyo Interbank Offered Rate) +0.20%	February 4, 2020	January 29 2021	Bullet repayment	Secured / Unguaranteed
Long-term borrowings	Mizuho Bank, Ltd.	1,461,000	Base rate (the three-month Japanese yen Tokyo Interbank Offered Rate) +0.35%	February 4, 2020	January 31, 2024		
	The Bank of Fukuoka, Ltd.	500,000					
	The Hyakugo Bank, Ltd.	500,000					
	AEON Bank, Ltd.	400,000					
	Sumitomo Mitsui Trust Bank, Limited	300,000					
	Resona Bank, Limited	300,000					
	The Minato Bank, Ltd.	300,000					
	The Aichi Bank, Ltd.	300,000					
	The Chukyo Bank, Ltd.	300,000					
	Mizuho Trust & Banking Co., Ltd.	300,000					
	The Senshu Ikeda Bank, Ltd.	200,000					
Total amount of borrowings		5,234,000					

C.Acquisition of assets

ESCON REIT acquired the real estate trust beneficial interests as specified below on February 4, 2020. The acquisition price is an amount (sales price stated in the sales contract for trust beneficial interests) not including expenses required for the acquisition of real estate (sales intermediary fees, taxes and public dues).

	Property name	Location	Acquisition Price (thousand yen)
Assets to be Acquired	tonarie Yamatotakada (ownership 50%)	Yamatotakada-shi, Nara	4,150,000
	tonarie Toga ・ Mikita (ownership 50%)	Sakai-shi, Osaka	3,490,000
	LIFE Daisen (leasehold land)	Sakai-shi, Osaka	2,733,000
	Total (3 properties, Assets to be Acquired)	-	10,373,000

iv. Outlook for the management status

ESCON REIT expects the management status for the fiscal periods ending July 31, 2020 and January 31, 2021 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, 2020 (from February 1, 2020 to July 31, 2020) and the Fiscal Period Underlying January 31, 2021 (from August 1, 2020 to January 31, 2021)” on page 8.

	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)
7 th fiscal period ending July 31, 2020	1,901 million yen	1,078 million yen	929 million yen	928 million yen	3,279 yen	-	3,279 yen
8 th fiscal period ending January 31, 2021	1,930 million yen	1,078 million yen	983 million yen	982 million yen	3,474 yen	-	3,474 yen

*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.

Underlying Assumptions of the Operating Forecasts for the Fiscal Period ending July 31, 2020 and Fiscal Period ending January 31, 2021

Item	Assumptions
Calculation period	<ul style="list-style-type: none"> ◆ 7th fiscal period: February 1, 2020 to July 31, 2020 (182 days) ◆ 8th fiscal period: August 1, 2020 to January 31, 2021 (184 days)
Assets under management	<ul style="list-style-type: none"> ◆ For the forecast of financial results, it is assumed that ESCON REIT will continue to own the real estate beneficiary interests in 25 properties (hereinafter "acquired assets") already acquired up to the fiscal period ended January 31, 2020 and 3 properties (hereinafter "assets to be acquired") on February 4, 2020 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 January 31, 2021. ◆ 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 acquired assets is calculated based on the actual revenue after their acquisition, and revenue from leasing of assets to be acquired for the fiscal period ending July 31, 2020, based on the details of lease agreements taken over from their previous beneficiaries, that is the previous owners, past tenants, market trends and details of lease agreements that are effective as of the date of acquisition. Both take into consideration the estimated occupancy rates, rent change projections and others based on estimation of incoming and outgoing tenants and the forecast on rent levels. ◆ 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"> ◆ Leasing business expenses constitute the principal part of operating expenses. These expenses for acquired assets, excluding depreciation, are calculated based on actual expenses after acquisition, which those for assets to be acquired for the fiscal period ending July 31, 2020 based on past actual expenses figures received from their previous beneficiaries, that is, the previous owners. Both take into consideration factors that cause fluctuations of expenditures. The amount of property taxes and city planning taxes on the acquired assets is expected to be 138 million yen for the fiscal period ending July 31, 2020, and for each subsequent fiscal period. Generally, in connection with real estate transaction, property taxes and city planning taxes are apportioned proportionally between the previous and new beneficiaries to their respective durations of ownership and settled at the time of acquiring the property. However, ESCON REIT includes the amount of the settlement in the acquisition cost. Therefore, property taxes and city planning taxes on assets to be acquired in the fiscal period ending July 31, 2020 will not be expensed in the fiscal periods ending July 31, 2020 and January 31, 2021. They are set to be expensed from the fiscal period ending July 2021 onwards.. When the amount of property taxes and city planning taxes on assets to be acquired is expensed from fiscal period ending July 31, 2021, its impact amount will be expected to be 23 million yen in every fiscal period. The total amount of property taxes and city planning taxes on assets to be acquired in the fiscal period ending July 31, 2020, which will be included in the acquisition cost, is expected to be 42 million yen. ◆ As expenses for repairing buildings, the amount estimated based on the medium- and long-term repair plan created by the Asset Manager is accounted for. The actual repair expenses during a specific financial period may differ significantly from the expected amount, given that damage to buildings for unexpected reasons may give rise to emergency repair expenses, the amount generally varies considerably from fiscal period to fiscal period, and repair expenses do not fall under expenses that are regularly incurred. ◆ Depreciation is calculated using the straight-line method inclusive of incidental expenses, etc. and is expected to amount to 123 million yen in the fiscal period ending July 31, 2020 and 124 million yen in the fiscal period ending January 31, 2021.
Non-operating expenses	<ul style="list-style-type: none"> ◆ Non-operating expenses for the fiscal period ending July 31, 2020 is estimated to be 149 million yen, of which 118 million yen is for interest expenses and other borrowing cost, 24 million yen for expenses related to issuance of new investment units through public offering and third-party allocation and to sales of investment units, and 6 million yen for amortization of organization expenses. They are made under the assumption that the portion of the borrowing cost that may be accounted for as expenses in a lump under accounting and taxation rules will all be treated as such for the fiscal period of July 31, 2020. Expenses related to the issuance of new investment units through public offering and third-party allocation and to sales of investment units will all be amortized in the fiscal period ending July 31, 2020. ◆ Non-operating expenses for the period ending January 31, 2021 are estimated to be 94 million yen, of which 87 million yen is for interest expenses and other borrowing cost and 6 million yen is for amortization of organization expenses and others.

Borrowings	<ul style="list-style-type: none"> ◆ It is assumed that interest-bearing liabilities at the end of period ending July 31, 2020 will be 24,803 million yen and at the end of period ending January 31, 2021 will be 24,430 million yen. ◆ LTV ratio is expected to be approximately 44.0% at the end of the period ending July 31, 2020 (7th fiscal period), and approximately 43.6% at the end of the period ending January 31, 2021 (8th fiscal period). The following formula was used to calculate LTV ratio: $\text{LTV ratio} = \text{Total interest-bearing liabilities} \div \text{Total assets} \times 100$
Number of investment units	<ul style="list-style-type: none"> ◆ It is assumed that, in addition to the 282,982 units, no additional investment units will be issued before the end of the period ending January 31, 2021. ◆ DPU (excluding distribution in excess of earnings) per unit for the period ending July 31, 2020 and period ending January 31, 2021 is calculated based on the anticipated number of investment units issued and outstanding totaling 282,982 units at the end of the period ending July 31, 2020 and period ending January 31, 2021.
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.

(2) Investment Risk

No disclosure necessary, since there have been no material changes from “Investment risk” in the most recent Annual Securities Report (submitted January 10, 2020).

2. Financial Statements

(1) Balance Sheet

(Unit: 1,000 yen)

	Previous fiscal period (As of July 31, 2019)	Current fiscal period (As of January 31, 2020)
Assets		
Current assets		
Cash and deposits	1,130,148	1,362,862
Cash and deposits in trust	※ 1 2,042,721	※ 1 2,035,286
Operating accounts receivable	29,468	24,539
Prepaid expenses	40,415	38,315
Other	129	63
Total current assets	3,242,882	3,461,066
Noncurrent assets		
Property, plant and equipment		
Buildings in trust	5,148,577	5,171,132
Accumulated depreciation	△ 106,999	△ 187,549
Buildings, net	※ 1 5,041,578	※ 1 4,983,582
Structures in trust	128,715	128,715
Accumulated depreciation	△ 7,240	△ 10,635
Structures, net	※ 1 121,475	※ 1 118,080
Tools, furniture and fixtures in trust	-	5,368
Accumulated depreciation	-	△ 417
Tools, furniture and fixtures in trust, net	-	※ 1 4,951
Land in trust	※ 1 36,837,448	※ 1 36,837,448
Total property, plant and equipment	42,000,502	41,944,061
Intangible assets		
Trademarks	933	879
Other	7,517	6,700
Total intangible assets	8,450	7,579
Investment and other assets		
Lease and guarantee deposits	10,000	10,000
Long-term prepaid expenses	62,012	46,686
Deferred tax assets	-	1
Total investments and other assets	72,012	56,687
Total noncurrent assets	42,080,965	42,008,328
Deferred assets		
Organization expenses	22,745	17,059
Total deferred assets	22,745	17,059
Total assets	45,346,593	45,486,454

(Unit: 1,000 yen)

	Previous fiscal period (As of July 31, 2019)	Current fiscal period (As of January 31, 2020)
Liabilities		
Current liabilities		
Operating accounts payable	55,705	60,331
Accounts payable - other	110,722	47,695
Accrued expenses	35,350	100,334
Income taxes payable	605	624
Accrued consumption tax, etc.	13,691	13,343
Advances received	209,823	214,590
Deposits received	72	72
Total current liabilities	425,971	436,993
Noncurrent liabilities		
Long-term borrowings	※ 1 19,820,000	※ 1 19,820,000
Tenant lease and guarantee deposits in trust	1,486,733	1,404,497
Total noncurrent liabilities	21,306,733	21,224,497
Total liabilities	21,732,705	21,661,490
Net assets		
Unitholders' equity		
Unitholders' capital	22,941,238	22,941,238
Surplus		
Unappropriated retained earnings (undisposed loss)	672,649	883,725
Total surplus	672,649	883,725
Total unitholders' equity	23,613,887	23,824,964
Total net assets	※ 2 23,613,887	※ 2 23,824,964
Total liabilities and net assets	45,346,593	45,486,454

(2) Profit and Loss Statement

(Unit: 1,000 yen)

	Previous fiscal period (February 1, 2019 – July 31, 2019)	Current fiscal period (August 1, 2019 – January 31, 2020)
Operating revenues		
Rent revenue-real estate	※ 1 1,299,519	※ 1 1,381,840
Other lease business revenue	※ 1 135,030	※ 1 162,247
Total operating revenue	1,434,550	1,544,087
Operating expenses		
Expenses related to rent business	※ 1 384,663	※ 1 434,141
Asset management fee	23,681	84,482
Asset custody fee	1,987	2,269
Administrative service fees	7,626	9,945
Directors' compensation	3,000	3,000
Taxes and public dues	11,281	7,324
Other operating expenses	14,622	39,451
Total operating expenses	446,863	580,615
Operating income	987,686	963,472
Non-operating income		
Interest income	8	12
Interest on tax refund	306	-
Total non-operating income	315	12
Non-operating expenses		
Interest expenses	47,883	52,123
Interest expenses on investment corporation bonds	430	-
Borrowing related expenses	202,635	20,919
Amortization of organization expenses	5,686	5,686
Investment unit issuance expenses	58,358	-
Investment corporation bond issuance costs	966	1,159
Total non-operating expenses	315,962	79,888
Ordinary income	672,040	883,596
Ordinary income	672,040	883,596
Income before income taxes	605	626
Income taxes adjustment	-	△ 1
Total income taxes	605	625
Net income	671,435	882,971
Retained earnings bought forward	1,214	754
Unappropriated retained earnings (undisposed loss)	672,649	883,725

(3) Statements of Changes in Net Assets (Unitholders' Equity)
Previous fiscal period (February 1, 2019 – July 31, 2019)

(Unit: 1,000 yen)

(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	264,989	264,989	4,886,644	4,886,644
Changes of items during the period					
Issuance of new investment unit	18,319,583	-	-	18,319,583	18,319,583
Dividends from surplus	-	△263,774	△263,774	△263,774	△263,774
Net income	-	671,435	671,435	671,435	671,435
Total changes of items during the period	18,319,583	407,660	407,660	18,727,243	18,727,243
Balance at the end of the period	※ 1 22,941,238	672,649	672,649	23,613,887	23,613,887

Current fiscal period (August 1, 2019 – January 31, 2020)

(Unit: 1,000 yen)

(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	22,941,238	672,649	672,649	23,613,887	23,613,887
Changes of items during the period					
Dividends from surplus	-	△671,895	△671,895	△671,895	△671,895
Net income	-	882,971	882,971	882,971	882,971
Total changes of items during the period	-	211,076	211,076	211,076	211,076
Balance at the end of the period	※ 1 22,941,238	883,725	883,725	23,824,964	23,824,964

(4) Statements of Cash Dividend Distributions

(Unit: yen)

	Previous fiscal period (February 1, 2019 – July 31, 2019)	Current fiscal period (August 1, 2019 – January 31, 2020)
I . Unappropriated retained earnings	672,649,557	883,725,887
II . Distributions	671,895,000	883,536,000
Distributions per unit (excluding distributions in excess of earnings)	(2,835)	(3,728)
III . Retained earnings carried forward	754,557	189,887
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 671,895,000 yen (2,835 yen 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, 237,000 units, up to the maximum amount to which profit distribution will be included in tax deductible expenses.</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 883,536,000 yen. It is roughly the full amount of revenue stipulated in Article 136, Paragraph 1 of the Investment Trust Act.</p>	

(5) Cash Flow Statement

(Unit: 1,000 yen)

	Previous fiscal period (February 1, 2019 – July 31, 2019)	Current fiscal period (August 1, 2019 – January 31, 2020)
Cash Flows from Operating Activities		
Income before income taxes	672,040	883,596
Depreciation	83,797	85,233
Amortization of organization expenses	5,686	5,686
Investment unit issuance expenses	58,358	-
Interest income	△8	△12
Interest expenses	48,314	52,123
Decrease (increase) of operating accounts receivable	△17,590	4,928
Decrease (increase) in prepared expenses	△21,548	2,100
Decrease (increase) of long-term prepaid expenses	△62,012	15,326
Increase (decrease) in operating accounts payable	31,523	4,626
Increase (decrease) in accounts payable - other	110,701	△65,634
Increase (decrease) in accrued expenses	△18,817	64,984
Increase (decrease) in accrued consumption tax, etc.)	11,809	△347
Increase (decrease) in advances received	158,240	4,766
Others	△205	65
Subtotal	1,060,287	1,057,443
Interest income received	8	12
Interest expenses paid	△54,998	△52,123
Income taxes (paid) refund	△712	△606
Net cash provided by (used in) operating activities	1,004,585	1,004,726
Cash Flows from Investing Activities		
Purchase of property, plant and equipment in trust	△31,432,695	△27,922
Purchase of intangible assets	△8,168	-
Proceeds from tenant lease and guarantee deposits in trust	1,174,160	3,582
Repayments of tenant lease and guarantee deposits in trust	△29,628	△85,818
Net cash provided by (used in) investing activities	△30,296,332	△110,159
Cash Flows from Financing Activities		
Proceeds from short-term borrowings	351,000	-
Decrease in short-term borrowings	△351,000	-
Proceeds from long-term borrowings	19,820,000	-
Decrease in long-term borrowings	△6,000,000	-
Payments for redemption of investment corporation bonds	△300,000	-
Proceeds from issuance of investment units	18,261,224	-
Distributions paid	△263,774	△669,287
Net cash provided by (used in) financing activities	31,517,449	△669,287
Increase (decrease) in cash and cash equivalents	2,225,702	225,279
Cash and cash equivalents at the beginning of period	947,166	3,172,869
Cash and cash equivalents at the end of period	※ 1 3,172,869	※ 1 3,398,148

(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><tr><td>Buildings</td><td>3 to 63 years</td></tr><tr><td>Structures</td><td>12 to 39 years</td></tr><tr><td>Furniture and fixtures</td><td>3 to 6 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	3 to 63 years	Structures	12 to 39 years	Furniture and fixtures	3 to 6 years
Buildings	3 to 63 years						
Structures	12 to 39 years						
Furniture and fixtures	3 to 6 years						
2. Accounting for deferred assets	<p>Organization expenses Organization expenses are amortized equally over a period of five years.</p> <p>Investment unit issuance costs Issuance costs are expensed when incurred.</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 195,039 thousand yen. 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.</p> <p>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">Cash in trust and deposits in trustBuildings in trust and structures in trust Tools, furniture and fixtures in trust and land in trustTenant 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 July 31, 2019)	Current fiscal period (As of January 31, 2020)
*1. Assets offered as security and liabilities on which security is established		
Assets offered as security are as follows.		
Cash and deposits in trust	2,042,721	2,035,286
Buildings in trust	5,041,578	4,983,582
Structures in trust	121,475	118,080
Tools, furniture and fixtures in trust	-	4,951
Land in trust	36,837,448	36,837,448
Total	44,043,223	43,979,348
Liabilities on which security is established are as follows.		
Long-term borrowings	19,820,000	19,820,000
Total	19,820,000	19,820,000
*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

[Notes to Profit and Loss Statements]

(Unit: 1,000 yen)

	Previous fiscal period (February 1, 2019 – July 31, 2019)	Current fiscal period (August 1, 2019 – January 31, 2020)
*1 Breakdown of income from real estate rent business		
A. Real estate rent business revenue		
Rent business revenue		
Rent revenue	504,957	539,485
Land rents received	573,631	612,052
Common service fees	65,840	68,847
Other rent revenues	155,089	161,455
Total	1,299,519	1,381,840
Other rent business revenues		
Utilities charges received	131,343	159,215
Other revenues	3,686	3,031
Total	135,030	162,247
Total real estate rent business revenue	1,434,550	1,544,087
B. Real estate rent business expenses		
Rent business expenses		
Administrative expenses	110,614	123,111
Trust fees	4,596	5,825
Utilities charges	132,628	150,964
Non-life insurance premiums	2,215	2,352
Repair expenses	10,371	25,067
Taxes and public dues	32,250	32,246
Depreciation	83,091	84,363
Other rent business expenses	8,894	10,210
Total real estate rent business expenses	384,663	434,141
C. Income from real estate rent business (A - B)	1,049,886	1,109,946

[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 (February 1, 2019 – July 31, 2019)	Current fiscal period (August 1, 2019 – January 31, 2020)
Total number of investment units authorized	10,000,000 units	10,000,000 units
Total number of investment units issued and outstanding	237,000 units	237,000 units

[Notes to Statement 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 (February 1, 2019 – July 31, 2019)	Current fiscal period (August 1, 2019 – January 31, 2020)
Cash and deposits	1,130,148	1,362,862
Cash and deposits in trust	2,042,721	2,035,286
Cash and cash equivalents	3,172,869	3,398,148

[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 current period, 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 July 31, 2019 are as follows. Financial instruments, the fair value of which is deemed extremely difficult to be determined, are not included (see *2).

(Unit: 1,000 yen)

	Carrying value	Fair value (Note 1)	Difference
(1) Cash and deposits	1,130,148	1,130,148	-
(2) Cash and deposits in trust	2,042,721	2,042,721	-
Total assets	3,172,869	3,172,869	-
(3) Long-term borrowings	19,820,000	19,820,000	-
Total liabilities	19,820,000	19,820,000	-

The carrying value, fair value, and difference between the carrying value and fair value as of January 31, 2020 are as follows. Financial instruments, the fair value of which is deemed extremely difficult to be determined, are not included (see *2).

(Unit: 1,000 yen)

	Carrying value	Fair value (*1)	Difference
(1) Cash and deposits	1,362,862	1,362,862	-
(2) Cash and deposits in trust	2,035,286	2,035,286	-
Total assets	3,398,148	3,398,148	-
(3) Long-term borrowings	19,820,000	19,820,000	-
Total liabilities	19,820,000	19,820,000	-

Notes:

*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) Long-term borrowings

Given that this item is based on variable interest rates, it will reflect the market interest rates over a short period of time, and it might be said that its fair value is nearly equal to its carrying value. Therefore, the carrying value is used as the fair value.

*2 The carrying value of financial instruments, the fair value of which is deemed extremely difficult to be determined.

(Unit: 1,000 yen)

	5th fiscal period (July 31, 2019)	6th fiscal period (January 31, 2020)
Tenant lease and guarantee deposits in trust	1,486,733	1,404,497

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.

*Scheduled redemption of monetary claims after the closing date (July 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	1,130,148	—	—	—	—	—
Cash and deposits in trust	2,042,721	—	—	—	—	—
Total	3,172,869	—	—	—	—	—

Scheduled redemption of monetary claims after the closing date (January 31, 2020)

(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	1,362,862	—	—	—	—	—
Cash and deposits in trust	2,035,286	—	—	—	—	—
Total	3,398,148	—	—	—	—	—

*Scheduled redemption of loans after the closing date (July 31, 2019)

(Unit: 1,000 yen)

	Within 1 year	1-2 years	2-3 years	3-4 years	4-5 years	Over 5 years
Long-term borrowings	—	—	9,960,000	9,860,000	—	—
Total	—	—	9,960,000	9,860,000	—	—

Scheduled redemption of loans after the closing date (January 31, 2020)

(Unit: 1,000 yen)

	Within 1 year	1-2 years	2-3 years	3-4 years	4-5 years	Over 5 years
Long-term borrowings	—	9,960,000	9,860,000	—	—	—
Total	—	9,960,000	9,860,000	—	—	—

[Notes to Tax Effect Accounting]

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

(Unit: 1,000yen)

	Previous fiscal period (As of July 31, 2019)	Current fiscal period (As of January 31, 2020)
(Deferred tax assets)		
Unpaid business tax not included in deductible expenses	—	1
Total deferred tax assets	—	1
(Net deferred tax assets)	—	1

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 July 31, 2019)	Current fiscal period (As of January 31, 2020)
Effective statutory tax rate	31.51	31.51
(Adjustments)		
Distribution payments included in tax deductible expenses	(31.50)	(31.51)
Others	0.08	0.07
Burden rate of corporate taxes after applying tax effect accounting	0.09	0.07

[Notes to Real Estate for Lease]

ESCON REIT owns commercial facilities 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 (February 1, 2019 – July 31, 2019)	Current fiscal period (August 1, 2019 – January 31, 2020)
Carrying value *1	Balance at the beginning of the period	10,650,898	42,000,502
	Changes during the period *2	31,349,604	(56,440)
	Balance at the end of the period	42,000,502	41,944,061
Fair value at the end of the period *3		45,988,000	46,161,000

Notes:

*1 The carrying value includes the acquisition cost and incidental costs associated with the acquisition.

*2 Of the changes during the period, the amount of increase in previous fiscal period was due to the acquisition of Pare Marche Nishiharu and others of 22 properties (31,423,805 thousand yen) and the amount of decrease was due to depreciation (83,091 thousand yen). The amount of increase in current fiscal period was due to the capital expenditure of tonarie Seiwadai and others of 4 properties (27,922 thousand yen) and the amount of decrease was due to depreciation (84,363 thousand yen).

*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 (February 1, 2019 – July 31, 2019)	Current fiscal period (August 1, 2019 – January 31, 2020)
Net assets per unit	99,636 yen	100,527 yen
Net income per unit	2,976 yen	3,725 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.

*The basis for calculating net income per unit is as follows.

		Previous fiscal period (February 1, 2019 – July 31, 2019)	Current fiscal period (August 1, 2019 – January 31, 2020)
Net income	(1,000 yen)	671,435	882,971
Amount not attributable to common unitholders	(1,000 yen)	–	–
Net income for common investment units	(1,000 yen)	671,435	882,971
Average number of investment units during the period	(Units)	225,553	237,000

[Notes to Significant Subsequent Events]

A. Issuance of new investment units

ESCON REIT issued new investment units as follows in accordance with the approval of the Board of Directors on January 10, 2020 and on January 22, 2020. Payments for new investment units issued through a public offering were completed on February 3, 2020 and those through third-party allotment were completed on February 26, 2020. As a consequence, the total amount of investment stood at 28,439,581,945 yen and the total number of investment units issued and outstanding came to 282,982 units as of the date of this document.

Issuance of new investment units through public offering (primary offering)

Number of new investment units issued	43,792 units
Issue price (offer price)	124,029 yen per unit
Total issue price (total offer price)	5,431,477,968 yen
Amount (issue amount)	119,576 yen per unit
Total amount paid in (total issue amount)	5,236,472,192 yen
Payment date	February 3, 2020
Distribution start day	February 1, 2020

Use of proceeds

The funds raised by the public offering mentioned above partly financed the acquisition of real estate beneficiary interests mentioned in C. Acquisition of Assets below.

Secondary offering of the Investment Units (secondary offering through over-allotment)

Number of new investment units issued	2,190 units
Amount paid in (issue amount)	119,576 yen per unit
Total amount paid in (total issue amount)	261,871,440 yen
Payment date	February 26, 2020
Allottee	Mitsubishi UFJ Morgan Stanley Securities Co., Ltd
Distribution start day	February 1, 2020

Use of proceeds

The funds raised by the secondary offering through over-allotment mentioned above will be used for the acquisition of the specified assets in the future or repayment of borrowings.

B.Borrowings

ESCON REIT borrowed funds as follows to partly finance the acquisition of the real estate beneficiary interests mentioned in

C.Acquisition of Assets below and the incidental costs associated with the acquisition.

C.Acquisition of Assets below and the incidental costs associated with the acquisition.							
Term	Lenders	Borrowing amount (thousand yen)	Interest rate	Scheduled drawdown date	Maturity date	Repayment method	Remarks
Short-term borrowings	Mizuho Bank, Ltd.	373,000	Base rate (the three-month Japanese yen Tokyo Interbank Offered Rate) +0.20%	February 4, 2020	January 29 2021	Bullet repayment	Secured / Unguaranteed
Long-term borrowings	Mizuho Bank, Ltd.	1,461,000	Base rate (the three-month Japanese yen Tokyo Interbank Offered Rate) +0.35%	February 4, 2020	January 31, 2024		
	The Bank of Fukuoka, Ltd.	500,000					
	The Hyakugo Bank, Ltd.	500,000					
	AEON Bank, Ltd.	400,000					
	Sumitomo Mitsui Trust Bank, Limited	300,000					
	Resona Bank, Limited	300,000					
	The Minato Bank, Ltd.	300,000					
	The Aichi Bank, Ltd.	300,000					
	The Chukyo Bank, Ltd.	300,000					
	Mizuho Trust & Banking Co., Ltd.	300,000					
	The Senshu Ikeda Bank, Ltd.	200,000					
Total amount of borrowings		5,234,000					

C.Acquisition of assets

ESCON REIT acquired the real estate trust beneficial interests as specified below on February 4, 2020. The acquisition price is an amount (sales price stated in the sales contract for trust beneficial interests) not including expenses required for the acquisition of real estate (sales intermediary fees, taxes and public dues).

	Property name	Location	Acquisition Price (thousand yen)
Assets to be Acquired	tonarie Yamatotakada (ownership 50%)	Yamatotakada-shi, Nara	4,150,000
	tonarie Toga ・ Mikita (ownership 50%)	Sakai-shi, Osaka	3,490,000
	LIFE Daisen (leasehold land)	Sakai-shi, Osaka	2,733,000
	Total (3 properties, Assets to beAcquired)	-	10,373,000

(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, 2020, are as follows.

Date	Summary	Total number of investment units Issued and outstanding(units)		Total amount of investment (thousand yen)		Remarks
		Increase	Balance	Increase	Balance	
August 26, 2016	Establishment through private placement	2,000	2,000	200,000	200,000	*1
February 13, 2017	Capital increase through private placement	7,500	9,500	750,000	950,000	*2
October 13, 2017	Investment unit split	500	10,000	-	950,000	*3
December 1, 2017	Capital increase through private placement	38,649	48,649	3,671,655	4,621,655	*4
February 12, 2019	Capital increase through public offering	188,351	237,000	18,319,583	22,941,238	*5

Notes:

*1 ESCON REIT was established through private placement of investment units with the offer price per unit of 100,000yen.

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

*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.

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

*5 ESCON REIT issued new investment units through a public offering with the offer price per unit of 101,000 yen per unit (issue price of 97,263 yen) for the purpose of raising funds to acquire specified assets.

3. Reference Information

(1) Portfolio information

i .Status of investment

Asset type	Region	5 th fiscal period As of July 31, 2019		6 th fiscal period As of January 31, 2020	
		Total amount owned (million yen) *1	Ratio to total assets (%) *2	Total amount owned (million yen) *1	Ratio to total assets (%) *2
Real estate in trust	Tokyo metropolitan area	7,819	17.2	7,811	17.2
	Kinki metropolitan area	16,364	36.1	16,341	35.9
	Chukyo metropolitan area	5,143	11.3	5,117	11.3
	Fukuoka metropolitan area	10,537	23.2	10,537	23.2
	Other area	2,136	4.7	2,136	4.7
Total real estate in trust		42,000	92.6	41,944	92.2
Deposits and other assets		3,346	7.4	3,542	7.8
Total assets		45,346	100.0	45,486	100.0

	Amount (million yen)	Ratio to total assets (%) *2	Amount (million yen)	Ratio to total assets (%) *2
Total liabilities	21,732	47.9	21,661	47.6
Total net assets	23,613	52.1	23,824	52.4

Notes:

*1 The total amount owned is based on the amount on the balance sheets as of the end of the fiscal period and rounded down to the nearest million yen.

*2 The ratio to total assets is rounded off to the nearest first decimal place.

ii . Investment assets

A. Major investment securities

Not applicable

B. Investment properties

Not applicable.

C. 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, 2020 is as follows.

(As of January 31, 2020)

Property number *1	Property name	Location	Acquisition price (million yen) *2	Book value (million yen) *3	Appraisal value at the end of the period (million yen) *4	Appraiser
ST-1	Asumigaoka Brand-New Mall (including Asumigaoka (Leasehold land))	Chiba-shi, Chiba	3,200	3,243	3,596	The Tanizawa Sogo Appraisal Co., Ltd.
ST-2	Nishi-shiroi Ekimae Plaza	Shiroi-shi, Chiba	451	455	460	Daiwa Real Estate Appraisal Co., Ltd.
SS-1	K's Denki Oyumino (Leasehold land)	Chiba-shi, Chiba	2,710	2,737	2,860	JLL Morii Valuation & Advisory KK
SS-2	Nitori Tsuchiura (Leasehold land)	Tsuchiura-shi, Ibaraki	999	1,007	1,080	JLL Morii Valuation & Advisory KK
SS-3	Nitori Imaichi (Leasehold land)	Nikko-shi, Tochigi	363	368	405	JLL Morii Valuation & Advisory KK
KT-1	tonarie Minami-senri	Suita-shi, Osaka	7,200	7,204	7,870	The Tanizawa Sogo Appraisal Co., Ltd.
KT-2	tonarie Seiwadai	Kawanishi-shi, Hyogo	3,290	3,299	3,400	Daiwa Real Estate Appraisal Co., Ltd.
KS-1	LAMU Kitatsumori (Leasehold land)	Osaka-shi, Osaka	1,270	1,284	1,480	JLL Morii Valuation & Advisory KK
KS-2	K's Denki Nishi-kobe (Leasehold land)	Kobe-shi, Hyogo	2,133	2,154	2,470	JLL Morii Valuation & Advisory KK
KS-3	Sanyo Marunaka Mitani (Leasehold land)	Kobe-shi, Hyogo	1,430	1,443	1,510	Daiwa Real Estate Appraisal Co., Ltd.
KS-4	Tsutaya Sakai-minami (Leasehold land)	Sakai-shi, Osaka	946	955	1,010	The Tanizawa Sogo Appraisal Co., Ltd.
TT-1	Pare Marche Nishiharu	Kitanagoya-shi, Aichi	4,610	4,633	4,670	Daiwa Real Estate Appraisal Co., Ltd.
TS-1	MaxValu Kikyogaoka-higashi (Leasehold land)	Nabari-shi, Mie	477	483	534	JLL Morii Valuation & Advisory KK
FS-1	MrMAX Kasuga (Leasehold land)	Kasuga-shi, Fukuoka	3,387	3,428	3,870	The Tanizawa Sogo Appraisal Co., Ltd.
FS-2	UNIQLO Kasuga (Leasehold land)	Kasuga-shi, Fukuoka	595	601	654	The Tanizawa Sogo Appraisal Co., Ltd.
FS-3	Avail.Shimamura Kasuga (Leasehold land)	Kasuga-shi, Fukuoka	863	874	1,090	The Tanizawa Sogo Appraisal Co., Ltd.
FS-4	au-Softbank Kasuga (Leasehold land)	Kasuga-shi, Fukuoka	143	145	160	The Tanizawa Sogo Appraisal Co., Ltd.
FS-5	Kura Sushi Kasuga (Leasehold land)	Kasuga-shi, Fukuoka	261	264	301	The Tanizawa Sogo Appraisal Co., Ltd.
FS-6	docomo Shop Kasuga (Leasehold land)	Kasuga-shi, Fukuoka	160	163	181	The Tanizawa Sogo Appraisal Co., Ltd.
FS-7	Konpira Maru Kasuga (Leasehold land)	Kasuga-shi, Fukuoka	236	239	264	The Tanizawa Sogo Appraisal Co., Ltd.
FS-8	One-Karubi Kasuga (Leasehold land)	Kasuga-shi, Fukuoka	236	239	265	The Tanizawa Sogo Appraisal Co., Ltd.
FS-9	Suke-san Kasuga (Leasehold land)	Kasuga-shi, Fukuoka	401	405	421	The Tanizawa Sogo Appraisal Co., Ltd.
FS-10	NAFCO Kasuga (Leasehold land)	Kasuga-shi, Fukuoka	2,631	2,666	3,360	The Tanizawa Sogo Appraisal Co., Ltd.
FS-11	K's Denki Kasuga (Leasehold land)	Kasuga-shi, Fukuoka	1,487	1,506	1,820	The Tanizawa Sogo Appraisal Co., Ltd.

OS- 1	K's Denki Kurashiki (Leasehold land)	Kurashiki-shi, Okayama	2,121	2,136	2,430	Daiwa Real Estate Appraisal Co., Ltd.
	Total		41,607	41,944	46,161	

Notes:

*1 Property number is a code or number given to a portfolio asset according to the region in which it is located and whether it is leasehold land or land + building. Property numbers have the following meanings: ST (Tokyo metropolitan area, land + building); SS (Tokyo metropolitan area, leasehold land); KT (Kinki metropolitan area, land + building); KS (Kinki metropolitan area, leasehold land); TT (Chukyo metropolitan area, land + building); TS (Chukyo metropolitan area, leasehold land); FT (Fukuoka metropolitan area, land + building); FS (Fukuoka metropolitan area, leasehold land); OS (Other region besides the top four metropolitan areas, leasehold land).

*2 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.).

*3 The book value is rounded down to the stated value.

*4 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, 2020)

Property number	Property name	Total number of tenants *1	Rentable area (m ²) *2	Leased area (m ²) *2	Occupancy rate (%) *3	Real estate rent business revenue (million yen) *4	Ratio to total rent revenue (%)
ST-1	Asumigaoka Brand-New Mall	28	22,444.01	22,118.03	98.5	236	15.3
	Asumigaoka Brand-New Mall(Leasehold land)	2	2,672.67	2,672.67	100.0		
ST-2	Nishi-shiroi Ekimae Plaza	4	969.72	969.72	100.0	20	1.3
SS-1	K's Denki Oyumino (Leasehold land)	1	23,379.50	23,379.50	100.0	70	4.6
SS-2	Nitori Tsuchiura (Leasehold land)	1	10,312.00	10,312.00	100.0	Not disclosed *5	Not disclosed *5
SS-3	Nitori Imaichi (Leasehold land)	1	10,236.00	10,236.00	100.0	Not disclosed *5	Not disclosed *5
KT-1	tonarie Minami-senri	45	7,535.16	7,535.16	100.0	322	20.9
KT-2	tonarie Seiwadai	34	8,798.01	8,798.01	100.0	188	12.2
KS-1	LAMU Kitatsumori (Leasehold land)	1	11,677.03	11,677.03	100.0	38	2.5
KS-2	K's Denki Nishi-kobe (Leasehold land)	1	9,787.68	9,787.68	100.0	62	4.0
KS-3	Sanyo Marunaka Mitani (Leasehold land)	1	9,610.80	9,610.80	100.0	Not disclosed *5	Not disclosed *5
KS-4	Tsutaya Sakai-minami (Leasehold land)	1	4,406.04	4,406.04	100.0	21	1.4
TT-1	Pare Marche Nishiharu	57	26,433.55	26,433.55	100.0	171	11.1
TS-1	MaxValu Kikyogaoka-higashi (Leasehold land)	1	9,025.88	9,025.88	100.0	Not disclosed *5	Not disclosed *5
FS-1	MrMAX Kasuga (Leasehold land)	1	38,113.27	38,113.27	100.0	84	5.5
FS-2	UNIQLO Kasuga (Leasehold land)	1	5,426.59	5,426.59	100.0	13	0.9
FS-3	Avail.Shimamura Kasuga (Leasehold land)	1	8,752.57	8,752.57	100.0	23	1.5
FS-4	au-Softbank Kasuga (Leasehold land)	1	1,200.84	1,200.84	100.0	3	0.3
FS-5	Kura Sushi Kasuga (Leasehold land)	1	2,257.85	2,257.85	100.0	7	0.5
FS-6	docomo Shop Kasuga (Leasehold land)	1	1,358.76	1,358.76	100.0	4	0.3
FS-7	Konpira Maru Kasuga (Leasehold land)	1	1,983.48	1,983.48	100.0	6	0.4
FS-8	One-Karubi Kasuga (Leasehold land)	1	1,983.48	1,983.48	100.0	6	0.4
FS-9	Suke-san Kasuga (Leasehold land)	1	3,126.16	3,126.16	100.0	10	0.7
FS-10	NAFCO Kasuga (Leasehold land)	1	33,928.37	33,928.37	100.0	Not disclosed *5	Not disclosed *5
FS-11	K's Denki Kasuga (Leasehold land)	1	16,961.48	16,961.48	100.0	37	2.4
OS-1	K's Denki Kurashiki (Leasehold land)	1	11,433.38	11,433.38	100.0	Not disclosed *5	Not disclosed *5
	Total	190	283,814.28	283,488.30	99.9	1,544	100.0

Notes:

*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.

* 2 The rentable area and the leased area rate are stated based on data as of the closing date.

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

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

* 4 The real estate rent business revenue is rounded off to the stated value.

* 5 The figure is not disclosed because no consent to disclosure is obtained from tenants and other parties.

(2) Capital expenditures

① Schedule of capital expenditures

There is no current plan of repair work applicable to the capital expenditure on the assets owned as of January 31, 2020.

② Capital expenditures during the period

There is no repair work applicable to the capital expenditure in current fiscal period on the assets owned as of January 31, 2020.