

12th Fiscal Period Semi-Annual Report

From: August 1, 2022
To: January 31, 2023

ESCON JAPAN REIT Investment Corporation

The Okura Prestige Tower 20F,
2-10-4 Toranomom, Minato-ku, Tokyo

To Our Unitholders

It is our sincere hope that this message finds all our unitholders well and prosperous.

ESCON JAPAN REIT Investment Corporation (hereinafter, "ESCON REIT") was listed on the Tokyo Stock Exchange on February 13, 2019, as an REIT that primarily invests in lifestyle-focused commercial facilities and the leasehold land of those facilities. Thanks to the understanding and support of all our unitholders, ESCON REIT have been able to expand its' asset scale, however, as we have already notified our unitholders and all other concerned parties, ES-CON ASSET MANAGEMENT Ltd. (hereinafter, the "Asset Manager"), which ESCON REIT entrusts the management of its assets, received Business Suspension Order and Business Improvement Order on July 15, 2022, as an administrative disposition from the Financial Services Agency.

In response to the above administrative disposition, the Asset Manager submitted a report to the Commissioner of the Financial Services Agency on August 15, 2022 summarizing the status of its business improvement measures. Under the guidance of the supervisory authorities and the support of its parent company ES-CON JAPAN Ltd. (hereinafter "ES-CON JAPAN") and its ultimate parent company Chubu Electric Power Co., Inc. (hereinafter, "Chubu Electric Power"), the Asset Manager has endeavored to realize fair and appropriate business operations by reviewing its business management methods to establish a responsible legal compliance and internal control systems for its management team.

In addition, since ESCON REIT received a request from one individual unitholder to file an action to enforce liability against the Asset Manager, ESCON REIT commissioned an investigation by an independent law firm that has no conflict of interest in the Asset Manager, into whether damages were caused by the Asset Manager for the acquisition of all properties held by ESCON REIT. After the completion of the investigation, it was discovered that ESCON REIT suffered 666 million yen in total monetary damages, and ESCON REIT received the full amount from the Asset Manager.

In the future, ESCON REIT will strive to operate its business fairly and appropriately so that it can regain the trust of unitholders and other stakeholders by supervising the progress of business improvement at the Asset Manager and further strengthening its legal compliance and internal control systems, and will also implement measures that contribute to the growth of ESCON REIT and further enhance unitholder value.

We would appreciate the continued support and encouragement of our unitholders and other stakeholders.

I Asset Management Report

Overview of Asset Management

1. Trends in ESCON REIT's Management Status

Fiscal period		8th fiscal period From August 1, 2020 to January 31, 2021	9th fiscal period From February 1, 2021 to July 31, 2021	10th fiscal period From August 1, 2021 to January 31, 2022	11th fiscal period From February 1, 2022 to July 31, 2022	12th fiscal period From August 1, 2022 to January 31, 2023
Operating revenues	Thousand yen	1,922,505	1,910,829	2,476,628	2,706,455	2,541,179
which consists of real estate lease revenues	Thousand yen	1,922,505	1,910,829	2,476,628	2,706,455	2,541,179
Operating expenses	Thousand yen	810,973	816,259	970,061	1,324,211	1,178,915
which consists of real estate lease expenses	Thousand yen	653,550	655,322	794,032	1,118,503	969,223
Operating income	Thousand yen	1,111,531	1,094,570	1,506,567	1,382,243	1,362,264
Ordinary income	Thousand yen	1,019,510	1,001,852	1,265,888	1,269,199	1,194,644
Net income	Thousand yen	1,018,571	1,001,039	1,264,729	1,268,369	1,859,454
Total assets	Thousand yen	56,132,273	56,061,549	75,840,468	76,014,351	76,300,452
Period-on- period changes	%	0.1	(0.1)	35.3	0.2	0.4
Net assets	Thousand yen	29,458,203	29,440,790	39,371,956	39,375,708	39,966,674
Period-on- period changes	%	0.2	(0.1)	33.7	0.0	1.5
Interest-bearing debt	Thousand yen	24,430,000	24,430,000	33,445,000	33,091,000	33,091,000
Total amount of investment	Thousand yen	28,439,581	28,439,581	38,107,208	38,107,208	38,107,208
Total number of investment units issued and outstanding	Units	282,982	282,982	351,967	351,967	351,967
Net assets per unit* ³	Yen	104,099	104,037	111,862	111,873	113,552
Net income per unit* ¹	Yen	3,599	3,537	3,601	3,604	5,283
Total distributions	Thousand yen	1,018,452	1,001,190	1,264,617	1,268,489	1,859,441
Distribution per unit	Yen	3,599	3,538	3,593	3,604	5,283
which consists of earnings distribution per unit	Yen	3,599	3,538	3,593	3,604	5,283
which consists of distribution in excess of earnings per unit	Yen	-	-	-	-	-
Ordinary income to total assets ratio* ³	%	1.8	1.8	1.9	1.7	1.6
Annualized	%	3.6	3.6	3.8	3.4	3.1
Return on equity* ³	%	3.5	3.4	3.7	3.2	4.7
Annualized	%	6.9	6.9	7.3	6.5	9.3
Equity ratio* ³	%	52.5	52.5	51.9	51.8	52.4
Period-on- period changes		0.0	0.0	(0.6)	(0.1)	0.6
Payout ratio* ³	%	100.0	100.0	100.0	100.0	100.0
[Other reference information]						
Days of operation	Days	184	181	184	181	184
Number of investment properties at end of period	Properties	28	28	38	38	38
Depreciation	Thousand yen	125,041	126,341	174,386	175,603	179,839
Capital expenditures	Thousand yen	25,158	44,298	27,651	127,856	104,647

Fiscal period		8th fiscal period From August 1, 2020 to January 31, 2021	9th fiscal period From February 1, 2021 to July 31, 2021	10th fiscal period From August 1, 2021 to January 31, 2022	11th fiscal period From February 1, 2022 to July 31, 2022	12th fiscal period From August 1, 2022 to January 31, 2023
Lease NOI (Net Operating Income) *3	Thousand yen	1,393,996	1,381,849	1,856,982	1,763,555	1,751,795
FFO (Funds from Operations) *3	Thousand yen	1,143,612	1,127,381	1,439,115	1,443,972	1,373,294
FFO per unit*3	Yen	4,041	3,983	4,088	4,102	3,901
Loan to Value (LTV) at end of period*3	%	43.5	43.6	44.1	43.5	43.4

*1 "Net income per unit" is the amount obtained by dividing net income by the weighted average number of investment units based on the number of days and rounding to the nearest whole number.

*2 Unless otherwise stated, all figures are truncated, and percentages are rounded to the nearest first decimal place.

*3 Calculations are based on the following formulas:

Net assets per unit	Net assets / Total number of investment units issued and outstanding
Ordinary income to total assets ratio	Ordinary income / {(Total assets at beginning of period + Total assets at end of period) / 2} × 100
Return on equity	Net income / {(Net assets at beginning of period + Net assets at end of period) / 2} × 100
Equity ratio	Net assets at end of period / Total assets at end of period × 100
Payout ratio	Distribution per unit (excluding distribution in excess of earnings) / Net income per unit × 100 The payout ratios for the 10th fiscal periods are calculated based on the following formula, as the number of investment units changed due to the capital increase during those periods. Total distributions (excluding distributions in excess of earnings) / Net income × 100
Lease NOI (Net Operating Income)	Real estate lease revenues - Real estate lease expenses + Depreciation
FFO (Funds from Operation)	Net income + Depreciation - Gain/loss on sales of real estate In the 12th fiscal period, ESCON REIT received compensation for damages from the Asset Manager due to the Asset Manager's breach of fiduciary duty of loyalty, and such compensation for damages received was recorded as extraordinary income, which is calculated by the following formula. Net income + Depreciation - gain or loss on sale of real estate - Compensation for damages received
FFO per unit	FFO / Total number of investment units issued and outstanding
Loan to Value (LTV) at end of period	Balance of interest-bearing debt at end of period / Total assets at end of period × 100

2. Status in Asset Management during the Current Fiscal Period

(1) Brief background of the REIT

ESCON REIT was established on August 26, 2016, with 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 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).

ESCON REIT will continue to pursue long-term stability and earnings growth by building a portfolio focused on investments in commercial facilities^{*1} and leasehold land^{*2} deeply rooted in local communities in the Four Major Metropolitan Areas^{*3} where the concentrated population is expected to last. ESCON REIT now owns 38 properties with a total acquisition price of 69,604 million yen as of the end of the current fiscal period.

ESCON REIT shares the same Vision Concept^{*4} as ES-CON JAPAN in becoming a Lifestyle Developer^{*5} that develops not only buildings but also the lives of those who live in the buildings 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}, and we aim to maximize unitholder value through consistently expanding our assets under management.

As the parent company of the Asset Manager, ES-CON JAPAN is a consolidated subsidiary of 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 Chuden Real Estate Co., Inc. (hereinafter “Chuden Real Estate”).

^{*1} A “Commercial ‘Facility’” refers to real estate occupied chiefly by commercial tenants, such as 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 hereinafter.

^{*2} “Leasehold Land” refers to land leased by a third party on which a building is owned by the said third party. The same applies hereinafter.

^{*3} The “Four Major Metropolitan Areas” refers to the Tokyo Metropolitan Area, the Kinki Metropolitan Area, the Chukyo Metropolitan Area and the Fukuoka Metropolitan Area. The Tokyo Metropolitan Area refers to Tokyo, Kanagawa, Saitama, Chiba, Ibaraki, Tochigi and Gunma Prefectures, the Kinki Metropolitan Area refers to Osaka, Kyoto, Hyogo, Nara and Shiga Prefectures, the Chukyo Metropolitan Area refers to Aichi, Shizuoka, Mie and Gifu Prefectures, and the Fukuoka Metropolitan Area refers to Fukuoka Prefecture.

^{*4} ESCON REIT’s “Vision Concept” is creating the ideal community that residents love and enjoy with pride. 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. The term “Vision Concept” has been coined by combining the words “Vision”, which refers to a state in which an entity hopes to be in the future, and “Concept”, which refers to an idea or notion. This term is used in this document to signify how ESCON REIT aims to be, and the basic concept.

^{*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 while thinking of their happiness, creating richness unprecedented in the real estate industry, and 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; i.e., a developer with a comprehensive approach to all aspects of development as a business.

(2) Operating environment and Management performance

During the current fiscal period, the Japanese economy has been gradually picked up, with the real GDP growth rate in October-December period of 2022 (first preliminary report) was positive at 0.2% (0.6% annualized), the first positive growth in two quarters, due in part to various policies related to coexistence with the coronavirus. However, prices of natural resources and grains have generally declined after peaking around the middle of last year, but there is a risk that they may rise again depending on developments in the situation in Ukraine, etc. In an environment where inflationary pressures remain worldwide, it is difficult to be optimistic, as there are still concerns about the risk of a downturn in overseas economies putting downward pressure on the Japanese economy and the impact of rising prices on households and businesses, as well as supply-side constraints.

In the J-REIT market during the current fiscal period, the TSE REIT Index temporarily fell below 1,800 points and showed slightly declining due to concerns about the Bank of Japan’s increased tolerance for fluctuations in long-term interest rates and changes in interest rate policy as it transitions to a new regime, including a change in the Bank of Japan’s Governor. In commercial facilities, tenants that handle daily necessities such as supermarkets, drug stores and DIY stores are performing relatively well.

Under such an environment, ESCON REIT continued to focus on ensuring the safety of customers and tenant employees at its retail facilities, while working to secure stable income by appropriately managing assets under management and implementing measures to increase income, such as attracting tenants to vacant properties and by replacing tenants when their contracts expire.

As a result of the measures described above, the occupancy rate of the 38 assets under management as of the end of the current fiscal period was 100.0%^{*1}. For the third floor of Yoshizuya Y Store Nishiharu, which remains vacant as of the end of the fiscal period, since fixed rent per tsubo based on the contracted floor area is added as tenants move in, we will continue to focus on leasing.

In the October 2022 GRESB Real Estate Assessment, ESCON REIT received a “2 Stars” GRESB Rating, which is a five-level rating based on the global ranking of the overall score. ESCON REIT also won a “Green Star” designation for the second year in a row by achieving high performance both in “Management Component” that evaluates policies and organizational structure for promoting ESG, and “Performance Component” that assesses environmental performance and tenant engagement of owned properties. ESCON REIT and the Asset Manager continues to promote efforts to reduce environmental impact and revitalize local communities.

^{*1} The occupancy rate is calculated by the calculation formula below based on data as of the end of the fiscal period and rounded off to the nearest first decimal point.
Occupancy rate = Leased area / Leasable area * 100

Yoshizuya Y Store Nishiharu consists of a commercial building and a residential building. The commercial building is subleased to YOSHIZUYA COMPANY LIMITED by master lessee ES-CON JAPAN, and the occupancy rate is calculated including the “leased area” on the third floor, which was vacant as of the end of the fiscal period.

Taking into account the fact that the floor is vacant, the occupancy rate after deducting the “leased area” would be 98.8%.

(3) Procurement of funds

During the current fiscal period, ESCON REIT refinanced 9,860 million yen in loans maturing on January 31, 2023, and borrowed the same amount of 9,860 million yen on the same date. The balance of interest-bearing debt as of the end of the current fiscal

period became 33,091 million yen, and the ratio of interest-bearing debt to total assets (hereinafter, "LTV") was 43.4%.

ESCON REIT received an issuer rating of "A-" (Stable) from Rating and Investment Information, Inc. (R&I). ESCON REIT shall aim to improve further credibility while maintaining the flexibility of fund procurement and stable financial management.

(4) Performance and distributions

As a result of the management actions described above, ESCON REIT posted operating revenue of 2,541 million yen, operating income of 1,362 million yen, ordinary income of 1,194 million yen and net income of 1,859 million yen for the current fiscal period. In the current fiscal period, ESCON REIT received 666 million yen from the Asset Manager as compensation for damages due to the Asset Manager's breach of fiduciary duty of loyalty, and such compensation for damages received was recorded as extraordinary income in the current fiscal period.

For distribution, ESCON REIT has decided to distribute an amount of 1,859 million yen as earnings distributions, which is almost equal 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 5,283 yen.

3. Capital Increase

Changes in the Unitholders' capital and the total number of investment units issued and outstanding for ESCON REIT since its establishment through January 31, 2023 are as follows:

Date	Summary	Total number of investment units issued and outstanding (units)		Unitholders' capital (Million yen)		Remarks
		Increase (decrease)	Balance	Increase (decrease)	Balance	
February 12, 2019	Capital increase through public offering	188,351	237,000	18,319	22,941	*1
February 3, 2020	Capital increase through public offering	43,792	280,792	5,236	28,177	*2
February 26, 2020	Capital increase through third-party allotment	2,190	282,982	261	28,439	*3
August 2, 2021	Capital increase through public offering	65,700	348,682	9,207	37,646	*4
August 24, 2021	Capital increase through third-party allotment	3,285	351,967	460	38,107	*5

*1. 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.

*2. ESCON REIT issued new investment units through a public offering with offer price per unit 124,029 yen (issue price of 119,576 yen) for the purpose of raising funds to acquire specified assets.

*3. ESCON REIT issued new investment units through a third-party allotment with issue price per unit 119,576 yen, for the purpose of raising funds for the future acquisition of specific assets or repayment of loans.

*4. ESCON REIT issued new investment units through a public offering with offer price per unit 145,282 yen (issue price of 140,141 yen) for the purpose of raising funds to acquire specified assets.

*5. ESCON REIT issued new investment units through a third-party allotment with issue price per unit 140,141 yen, for the purpose of raising funds for the future acquisition of specific assets or repayment of loans.

<Changes in exchange prices for investment securities>

The following table shows the highest and lowest prices (closing prices) by fiscal period on the Real Estate Investment Trust Securities Market of the Tokyo Stock Exchange, where ESCON REIT's investment securities are listed.

Fiscal period	8th fiscal period	9th fiscal period	10th fiscal period	11th fiscal period	12th fiscal period
End of period	January 2021	July 2021	January 2022	July 2022	January 2023
Highest (Yen)	124,000	156,500	150,500	137,500	121,800
Lowest (Yen)	97,500	120,000	134,200	112,800	107,600

4. Distributions

During the current fiscal period, ESCON REIT decided to distribute a substantial amount of unappropriated retained earnings of 1,859 million yen in accordance with the distribution policy stipulated in the Articles of Incorporation of ESCON REIT. As a result, distribution per investment unit amounted to 5,283 yen.

Fiscal period	8th fiscal period From August 1, 2020 to January 31, 2021	9th fiscal period From February 1, 2021 to July 31, 2021	10th fiscal period From August 1, 2021 to January 31, 2022	11th fiscal period From February 1, 2022 to July 31, 2022	12th fiscal period From August 1, 2022 to January 31, 2023
Total amount of unappropriated retained earnings (Thousand yen)	1,018,621	1,001,208	1,264,747	1,268,499	1,859,465
Retained earnings brought forward (Thousand yen)	169	18	130	10	24
Total cash distributions (Thousand yen)	1,018,452	1,001,190	1,264,617	1,268,489	1,859,441
Distribution per unit (Yen)	3,599	3,538	3,593	3,604	5,283
Consisting of total earnings distributions (Thousand yen)	1,018,452	1,001,190	1,264,617	1,268,489	1,859,441
Earnings distribution per unit (Yen)	3,599	3,538	3,593	3,604	5,283
Consisting of total contribution refunds (Thousand yen)	-	-	-	-	-
Contribution refund per unit (Yen)	-	-	-	-	-
Total distributions from allowance for temporary difference adjustments out of total contribution refunds (Thousand yen)	-	-	-	-	-
Distribution from allowance for temporary difference adjustments per unit out of per-unit contribution refund (Yen)	-	-	-	-	-
Total distributions from capital reduction for tax purposes out of total contribution refunds (Thousand yen)	-	-	-	-	-
Distribution from capital reduction for tax purposes per unit out of per-unit contribution refund (Yen)	-	-	-	-	-

5. Future Management Policies and Issues to be Addressed

(1) Outlook for the overall management environment

On the outlook for the Japanese economy, although the economy is expected to pick up, partly due to the effects of various policies related to coexistence with the coronavirus, ESCON REIT needs to pay close attention to the risk of a downturn in overseas economies, particularly the Chinese economy, and the risk of downward pressure on Japanese economy due to rising prices and supply-side constraints.

Regarding the Japanese real estate investment market, although the domestic economy is expected to be revitalized by the expected increase in inbound consumption that has been underway since the end of last year, we need to continue to monitor market trends and the impact on the tenants of commercial facilities over the medium to long term.

Under these circumstances, ESCON REIT will continue to appropriately manage the assets and ensure stable and sound financial operations are in place to secure strong revenues and steadily increase asset values over the medium to long term.

(2) Internal growth

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

a. Maintaining and increasing lease revenue

ESCON REIT will assess the 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. In addition, we will aim to contribute to local revitalization and community formation by holding various events and social contribution activities with the participation of local residents and tenants at commercial facilities closely related to daily life. According to these measures, ESCON REIT will aim to secure stable revenues by maintaining and increasing lease revenue and preventing cancellations.

For new tenant leasing, ESCON REIT will make efforts to maximize the rent generation period and 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 in charge of new tenant leasing.

b. Streamlining of 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. For operating and managing properties, ESCON REIT will efficiently manage the assets by strengthening the relationship with the property management company.

(3) 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 (Chubu Electric Power and its subsidiaries and affiliates. The same applies hereinafter.), will act as a supporter. ESCON REIT will make maximum use of sponsor support, such as the granting of preferential negotiation rights for real estate properties owned by ES-CON JAPAN, redevelopment support for assets under management, and fulfill the support provided by the Chubu Electric Power Group, which is primarily represented by the provision of environmentally friendly technologies and know-how on energy cost reduction, while stringently managing conflicts of interest. In addition, going forward ESCON REIT will strive to collect information from a wide range of new sources other than sponsors and supporters, to broaden business opportunities and endeavor to expand the size of ESCON REIT's assets and improve the quality of its portfolio.

(4) Financial policy

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

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

When making 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 acquired real estates. Specifically, we will examine the financing methods (loans, investment corporate bonds), the ratio of long-term debt, ratio of loans with fixed interest rates, the diversification of repayment dates and the need to provide security, among others.

For the LTV, we will set 50% as the upper limit, in principle, based on our policy of maintaining a conservative threshold.

We will also efficiently and appropriately manage cash by accurately assessing the financing needs of our portfolio through constant monitoring.

(5) Compliance with laws and regulations

The Asset Manager received a business suspension order and a business improvement order on July 15, 2022 and submitted a report to the Commissioner of the Financial Services Agency on August 15, 2022, summarizing the status of its business improvement measures. Under the guidance of the supervisory authorities and the support of its parent company ES-CON JAPAN and its ultimate parent company Chubu Electric Power, the Asset Manager has been making company-wide efforts to clarify our management stance regarding compliance with laws and regulations, to establish responsible compliance and internal control frameworks headed by our management team, and to review our operation methods in order to achieve fair and appropriate business.

Specifically, the Asset Manager has implemented various measures, such as the adoption of the Declaration of Compliance, establishment of a management philosophy, changes to the operational flow including property acquisition to further strengthen our governance system, acceptance of the dispatch of directors from Chubu Electric Power, changes to the rules for ordering real estate appraisals, revision of various rules and manuals, strengthening the monitoring of real estate appraisal order process by the Compliance Department, and the implementation of various training programs and proficiency tests to continuously improve our compliance practices regarding conflicts of interest.

In addition, ESCON REIT commissioned an investigation by an independent law firm that has no conflict of interest in the Asset Manager, into whether damages were caused by the Asset Manager's breach of fiduciary duty of loyalty for the acquisition of all properties held by ESCON REIT, and the investigation found that monetary damages of 666 million yen had been incurred by ESCON REIT. After entering into an agreement regarding the compensation with the Asset Manager on January 16, 2023, the Asset Manager has paid in full for the total monetary damages. The effect of the compensation received has been excluded from the calculation of management fees to be paid to the Asset Manager.

Based on the establishment of the compliance and internal control systems mentioned above, ESCON REIT and the Asset Manager will continue to position the maintenance and improvement of these systems as the most important management issue, and will endeavor to implement fair and appropriate business operations.

6. Significant subsequent events

Not applicable.

Overview of *ESCON REIT*

1. Investment Status

	8th fiscal period ended January 31, 2021	9th fiscal period ended July 31, 2021	10th fiscal period ended January 31, 2022	11th fiscal period ended July 31, 2022	12th fiscal period ended January 31, 2023
Total number of investment units authorized (units)	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000
Total number of investment units issued and outstanding (units)	282,982	282,982	351,967	351,967	351,967
Total amount of investment (Million yen)	28,439	28,439	38,107	38,107	38,107
Number of unitholders (people)	12,024	11,727	13,493	14,639	15,754

2. Matters Concerning Investment Units

The major unitholders as of January 31, 2023 are as follows:

Company name	Number of investment units held (units)	Ratio to total number of investment units issued and outstanding (%) *
The Master Trust Bank of Japan, Ltd. (Trust Account)	32,400	9.2
Custody Bank of Japan, Ltd. (Trust Account)	28,770	8.2
Osaka Co-sei Shinkin Bank	20,940	5.9
ES-CON JAPAN Ltd.	16,894	4.8
The Nomura Trust and Banking Co., Ltd. (Investment Trust Account)	12,225	3.5
NISSEI BUILD KOGYO CO., LTD.	9,190	2.6
Daido Shinkumi Bank	6,415	1.8
Kinkisangyo Shinkumi Bank	6,226	1.8
Osaka Shoko Shinkin Bank	5,487	1.6
THE SAIKYO BANK, LTD.	4,950	1.4
Total	143,497	40.8

* The "ratio to total number of investment units issued and outstanding" is rounded to the nearest first decimal place.

3. Matters Concerning Officers

(1) The Executive Director, Supervisory Director and Accounting Auditor for the current fiscal period are as follows:

Title	Name	Major concurrent positions	Total remuneration for each officer during the current fiscal period (Thousand yen)*2 *3
Executive Director*1	Atsumu Sasaki	ES-CON ASSET MANAGEMENT Ltd. Senior Manager of REIT Asset Management Dept.	—
Supervisory Director*1	Satoshi Ugajin	JBA Holdings Co., Ltd. Japan Business Assurance Co., Ltd. JBA HR Solution Co., Ltd. Info Cubic Japan Co., Ltd. Scala, Inc.	2,700
	Rin Moriguchi	Momo-o, Matsuo & Namba Law Firm Partner Attorney	
Audit Firm	BDO Sanyu & Co.	—	9,800

*1 Neither the Executive Director nor the Supervisory Director owns investment units of ESCON REIT in their own name, or in the name of others. In addition, the Supervisory Directors may be directors of corporations other than those listed above, but none of them, including those listed above, have any interest in ESCON REIT.

*2 The executive directors did not receive any remuneration from ESCON REIT during the current fiscal period. For supervisory directors, the amounts paid

for the current fiscal period, and for the fees paid to the audit firm, the amounts to be paid for the financial statement audit during the current fiscal period (estimated amount) have been disclosed.

*3 Fees paid to the audit firm includes remuneration for auditing English financial statements.

(2) Policy on dismissal and non-reappointment of audit firm.

The dismissal of the audit firm shall be made in accordance with the provisions of the Investment Trust Act, and the non-reappointment of the audit firm shall be considered at a meeting of the Board of Directors of ESCON REIT, comprehensively taking into account the quality of the audit, audit fees, and other various circumstances.

4. Matters Concerning Liability insurance policies for directors and officers

Liability insurance policies for directors and officers that ESCON REIT has in place are as follows:

Scope of the Insured Persons	Summary of Contract
All executive and supervisory directors	<p><Summary of Accidents Covered by Insurance> ESCON REIT has entered into a liability insurance policy for directors and officers with an insurance company as stipulated in Article 116-3, Paragraph 1 of the Investment Trust Law, and the policy will cover certain damages to be borne by the insured person due to claims for damages arising from actions taken by the insured person based on his or her role as a director of ESCON REIT.</p> <p><Premium contribution ratio> The premiums for all insured persons are fully paid by ESCON REIT.</p> <p><Measures to ensure that the appropriate execution of duties is not compromised> Damages incurred by the insured person due to breach of trust, criminal or fraudulent acts, or acts committed with knowledge of violation of laws and regulations are not covered.</p>

5. Asset Management Company, Asset Custodian, and Administrative Agents

As of January 31, 2023, the Asset Management Company, Asset Custodian, and Administrative Agents for ESCON REIT are as follows:

Classification	Company name
Asset Management Company	ES-CON ASSET MANAGEMENT Ltd.
Asset Custodian	Sumitomo Mitsui Trust Bank, Ltd.
Administrative Agent (Administrator of the Investors' Registry)	Sumitomo Mitsui Trust Bank, Ltd.
Administrative Agent (Institutional Management)	Sumitomo Mitsui Trust Bank, Ltd.
Administrative Agent (Accounting Services)	Tokyo Kyodo Accounting Office Co., Ltd.

Status of Portfolio Assets

1. Composition of Assets

Asset type	Region	11 th fiscal period As of July 31, 2022		12 th fiscal period As of January 31, 2023	
		Total holdings (Million yen) * ¹	Ratio to total assets (%) * ²	Total holdings (Million yen) * ¹	Ratio to total assets (%) * ²
Real estate	Chukyo metropolitan area	6	0.0	6	0.0
Total real estate		6	0.0	6	0.0
Real estate in trust	Tokyo metropolitan area	7,771	10.2	7,757	10.2
	Kinki metropolitan area	34,360	45.2	34,319	45.0
	Chukyo metropolitan area	5,053	6.6	5,062	6.6
	Fukuoka metropolitan area	10,537	13.9	10,537	13.8
	Other area	12,012	15.8	11,984	15.7
Total real estate in trust		69,735	91.7	69,660	91.3
Deposits and other assets		6,271	8.3	6,633	8.7
Total assets		76,014	100.0	76,300	100.0

*1 "Total Holdings" is based on the balance sheet amount as of the end of each fiscal period, truncated to the nearest million yen.

*2 The "Ratio to total assets" is rounded to the nearest first decimal place.

2. Major Assets

The following is a summary of the major assets (top 10 properties by book value) held by ESCON REIT as of January 31, 2023:

Property number * ¹	Property name	Book value (Million yen) * ²	Leasable area (m ²) * ³	Leased area (m ²) * ³	Occupancy rate (%) * ³ * ⁴	Ratio to total real estate leasing revenue (%)	Primary use
KT-1	tonarie Minami-senri	7,230	7,598.31	7,598.31	100.0	13.9	Commercial facility
KT-4	tonarie Toga・Mikita	6,898	8,471.24	8,471.24	100.0	10.5	Commercial facility
OT-1	Suroy Mall Nagamine	4,609	12,622.98	12,622.98	100.0	7.0	Commercial facility
TT-1	Yoshizuya Y Store Nishiharu	4,585	26,432.58	26,397.85	99.9	4.5	Commercial facility
KT-3	tonarie Yamatotakada (50% ownership)	4,084	14,414.67	14,295.13	99.2	7.2	Commercial facility
OT-2	Fuji Grand Natalie	3,928	28,543.96	28,543.96	100.0	Not disclosed * ⁵	Commercial facility
FS-1	MrMax Kasuga (Leasehold land)	3,428	38,113.27	38,113.27	100.0	3.3	Commercial facility
ST-1	Asumigaoka Brand-New Mall	3,190	22,516.59	22,489.85	99.9	11.0	Commercial facility
	Asumigaoka Brand-New Mall (Leasehold land)		2,672.67	2,672.67	100.0		
KT-2	tonarie Seiwadai	3,187	8,798.01	8,798.01	100.0	7.8	Commercial facility
KS-5	LIFE Daisen Store (Leasehold land)	2,758	9,264.48	9,264.48	100.0	2.8	Commercial facility
	Total	43,901	179,448.76	179,267.75	99.9	Not disclosed * ⁵	

*1 The "Property Number" is a code given to a portfolio asset according to the region which the asset is located and whether the asset is leasehold land or land and buildings. For the Tokyo Metropolitan Area: ST- (Tokyo Metropolitan Area's land and buildings) and SS- (Tokyo Metropolitan Area's leasehold land); for the Kinki Metropolitan Area: KT- (Kinki Metropolitan Area's land and buildings) and KS- (Kinki Metropolitan Area's leasehold land); for the Chukyo Metropolitan Area: TT- (Chukyo Metropolitan Area's land and buildings) and TS- (Chukyo Metropolitan Area's leasehold land); for the Fukuoka Metropolitan Area, FT- (Fukuoka Metropolitan Area's land and buildings) and FS- (Fukuoka Metropolitan Area's leasehold land); and for areas outside the Four Major Metropolitan Areas: OT- (Other land and buildings) and OS- (Other leasehold land). The same applies hereinafter.

*2 The "Book Value" is truncated to the stated value. The same applies hereinafter.

*3 "Leasable area" is the total area considered available for lease in the acquired assets (if the acquired asset is leasehold lands, such lands) as of January 31, 2023 based on the various lease agreements, reports prepared by property management companies, or building plans. The Leasable area for Yoshizuya Y Store Nishiharu is based on the lease property layout document, "Leased area" represents total leasable area, which is disclosed in each lease agreement as of the closing date. In addition, the Leased Area for assets for which a master lease agreement has been concluded is the total area that has been leased to end tenants

with sublease agreements. For the "Fuji Grand Natalie" facility, Fuji Corporation has entered into a lease agreement for the whole building and is covered by the "leased area". The amounts are rounded off to the second decimal point. Although ESCON REIT owns a 50% quasi-co-ownership interest in the trust beneficiary rights for tonarie Yamatotakada, the above table shows the figures for the entire properties.

*4 The occupancy rate is calculated by the calculation formula below based on data as of the closing date and rounded off to the nearest first decimal place.

Occupancy rate = Leased area / Leasable area × 100

Yoshizuya Y Store Nishiharu consists of a commercial building and a residential building. The commercial building is subleased to YOSHIKUYA COMPANY LIMITED by master lessee ES-CON JAPAN, and the leased area in the table above includes the 4,485.14 m² leased area on the third floor, which was vacant as of the end of the fiscal period.

For the third floor, a fixed rent per tsubo will be added according to the contracted floor area as tenants move in, but taking into account the fact that the floor is vacant, the occupancy rate after deducting the leased area of the third floor is 82.9%. The overall occupancy rate after taking this into account would be 98.8%.

*5 The figure is not disclosed as consent has not been obtained from the lessee or other parties.

3. Real Estate Assets in the Portfolio

The following is a summary of assets held by ESCON REIT as of January 31, 2023:

Property number	Property name	Location	Type of ownership *1	Book value (Million yen)	Appraisal value at end of period (Million yen) *2
ST-1	Asumigaoka Brand-New Mall	Chiba City, Chiba Prefecture	Trust beneficiary interest	3,190	3,310
	Asumigaoka Brand-New Mall (Leasehold land)				298
ST-2	Nishi-shiroi Ekimae Plaza	Shiroi City, Chiba Prefecture	Trust beneficiary interest	453	468
SS-1	K's Denki Oyumino Store (Leasehold land)	Chiba City, Chiba Prefecture	Trust beneficiary interest	2,737	2,880
SS-2	Nitori Tsuchiura Store (Leasehold land)	Tsuchiura City, Ibaraki Prefecture	Trust beneficiary interest	1,007	1,090
SS-3	Nitori Imaichi Store (Leasehold land)	Nikko City, Tochigi Prefecture	Trust beneficiary interest	368	409
KT-1	tonarie Minami-senri	Suita City, Osaka Prefecture	Trust beneficiary interest	7,230	8,060
KT-2	tonarie Seiwadai	Kawanishi City, Hyogo Prefecture	Trust beneficiary interest	3,187	3,390
KT-3	tonarie Yamatotakada (50% ownership)	Yamatotakada City, Nara Prefecture	Trust beneficiary interest	4,084	4,035
KT-4	tonarie Toga・Mikita	Sakai City, Osaka Prefecture	Trust beneficiary interest	6,898	7,060
KS-1	LAMU Kitatsumori Store (Leasehold land)	Osaka City, Osaka Prefecture	Trust beneficiary interest	1,284	1,480
KS-2	K's Denki Nishi-kobe Store (Leasehold land)	Kobe City, Hyogo Prefecture	Trust beneficiary interest	2,154	2,470
KS-3	Sanyo Marunaka Mitani Store (Leasehold land)	Kobe City, Hyogo Prefecture	Trust beneficiary interest	1,443	1,540
KS-4	TSUTAYA Sakai-minami Store (Leasehold land)	Sakai City, Osaka Prefecture	Trust beneficiary interest	955	1,030
KS-5	LIFE Daisen Store (Leasehold land)	Sakai City, Osaka Prefecture	Trust beneficiary interest	2,758	3,060
KS-6	Trial Omihachiman Store (Leasehold land)	Omihachiman City, Shiga Prefecture	Trust beneficiary interest	1,019	1,100
KS-7	Kusuri No Aoki Ikaruga Store (Leasehold land) *3	Ikoma District, Nara Prefecture	Trust beneficiary interest	718	(1) 702 (2) 28
KS-8	Drug Yutaka Muko Kamiueno Store (Leasehold land)	Muko City, Kyoto Prefecture	Trust beneficiary interest	464	477
KS-9	Welcia Amagasaki Muko-Motomachi Store (Leasehold land)	Amagasaki City, Hyogo Prefecture	Trust beneficiary interest	571	577
KS-10	Cocokarafine Neyagawa Park Store (Leasehold land)	Neyagawa City, Osaka Prefecture	Trust beneficiary interest	709	717
KS-11	ENEOS Ikawadani Service Station (Leasehold land)	Kobe City, Hyogo Prefecture	Trust beneficiary interest	535	531
KS-12	GEO Hikone Takamiya Store (Leasehold land)	Hikone City, Shiga Prefecture	Trust beneficiary interest	304	306
TT-1	Yoshizuya Y Store Nishiharu*4	Kitanagoya City, Aichi Prefecture	Trust beneficiary interest and additional facilities	4,585	2,330
TS-1	MaxValu Kikyogaoka-higashi Store (Leasehold land)	Nabari City, Mie Prefecture	Trust beneficiary interest	483	541
FS-1	MrMax Kasuga (Leasehold land)	Kasuga City, Fukuoka Prefecture	Trust beneficiary interest	3,428	3,940
FS-2	Uniqlo Kasuga (Leasehold land)	Kasuga City, Fukuoka Prefecture	Trust beneficiary interest	601	672
FS-3	Avail SHIMAMURA Kasuga (Leasehold land)	Kasuga City, Fukuoka Prefecture	Trust beneficiary interest	874	1,110
FS-4	au-SoftBank Kasuga (Leasehold land)	Kasuga City, Fukuoka Prefecture	Trust beneficiary interest	145	160
FS-5	Kura Sushi Kasuga (Leasehold land)	Kasuga City, Fukuoka Prefecture	Trust beneficiary interest	264	304
FS-6	Docomo Shop Kasuga (Leasehold land)	Kasuga City, Fukuoka Prefecture	Trust beneficiary interest	163	182

Property number	Property name	Location	Type of ownership *1	Book value (Million yen)	Appraisal value at end of period (Million yen) *2
FS-7	Konpiramaru Kasuga (Leasehold land)	Kasuga City, Fukuoka Prefecture	Trust beneficiary interest	239	265
FS-8	One Karubi Kasuga (Leasehold land)	Kasuga City, Fukuoka Prefecture	Trust beneficiary interest	239	264
FS-9	Suke-san Kasuga (Leasehold land)	Kasuga City, Fukuoka Prefecture	Trust beneficiary interest	405	420
FS-10	Nafco Kasuga (Leasehold land)	Kasuga City, Fukuoka Prefecture	Trust beneficiary interest	2,666	3,440
FS-11	K's Denki Kasuga (Leasehold land)	Kasuga City, Fukuoka Prefecture	Trust beneficiary interest	1,506	1,860
OT-1	Suroy Mall Nagamine	Kumamoto City, Kumamoto Prefecture	Trust beneficiary interest	4,609	4,620
OT-2	Fuji Grand Natalie	Hatsukaichi City, Hiroshima Prefecture	Trust beneficiary interest	3,928	4,120
OS-1	K's Denki Kurashiki Store (Leasehold land)	Kurashiki City, Okayama Prefecture	Trust beneficiary interest	2,136	2,450
OS-2	Yamada Denki Tecc.Land Sapporo Shiroishi Store (Leasehold land)	Sapporo City, Hokkaido	Trust beneficiary interest	1,310	1,330
	Total			69,667	73,026

*1 "Trust beneficiary interest" refers to a trust beneficiary interest which real estate is the primary trust asset.

*2 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.

*3 A fixed-term business-use land lease agreement has been concluded for this property with two lessees, KUSURI NO AOKI HOLDINGS Co., Ltd, and Ikaritombo Co., Ltd. The book value is the sum of the amounts for the two lessees. In addition, the Appraisal value at end of period shows the portion pertaining to KUSURI NO AOKI HOLDINGS Co., Ltd. as (1) and the portion pertaining to Ikaritombo Co., Ltd. as (2).

*4 The book value of Yoshizuya Y Store Nishiharu includes the book value of auxiliary facilities associated with the commercial facility.

The following is a summary of the leasing business of the real estate properties owned by ESCON REIT.

Property number	Property name	11th fiscal period From February 1, 2022 to July 31, 2022				12th fiscal period From August 1, 2022 to January 31, 2023			
		Total number of tenants	Occupancy rate	Real estate leasing business revenue	Percentage of total real estate leasing revenue	Total number of tenants	Occupancy rate	Real estate leasing business revenue	Percentage of total real estate leasing revenue
		(As of the end of the fiscal period) *1	(As of the end of the fiscal period) (%) *2	(During the fiscal period) (Million yen) *3	(%) *4	(As of the end of the fiscal period) *1	(As of the end of the fiscal period) (%) *2	(During the fiscal period) (Million yen) *3	(%) *4
ST-1	Asumigaoka Brand-New Mall	30	99.7	237	8.8	32	99.9	278	11.0
	Asumigaoka Brand-New Mall (Leasehold land)	2	100.0			2	100.0		
ST-2	Nishi-shiroi Ekimae Plaza	4	100.0	20	0.8	4	100.0	21	0.8
SS-1	K's Denki Oyumino Store (Leasehold land)	1	100.0	70	2.6	1	100.0	70	2.8
SS-2	Nitori Tsuchiura Store (Leasehold land)	1	100.0	Not disclosed *5	Not disclosed *5	1	100.0	Not disclosed *5	Not disclosed *5
SS-3	Nitori Imaichi Store (Leasehold land)	1	100.0	Not disclosed *5	Not disclosed *5	1	100.0	Not disclosed *5	Not disclosed *5
KT-1	tonarie Minami-senri	46	99.9	331	12.3	47	100.0	354	13.9
KT-2	tonarie Seiwadai	33	100.0	193	7.1	33	100.0	198	7.8
KT-3	tonarie Yamatotakada (50% ownership)	67	100.0	168	6.2	66	99.2	182	7.2
KT-4	tonarie Toga・Mikita	32	100.0	259	9.6	32	100.0	265	10.5
KS-1	LAMU Kitatsumori Store (Leasehold land)	1	100.0	38	1.4	1	100.0	41	1.6
KS-2	K's Denki Nishi-kobe Store (Leasehold land)	1	100.0	62	2.3	1	100.0	62	2.4
KS-3	Sanyo Marunaka Mitani Store (Leasehold land)	1	100.0	Not disclosed *5	Not disclosed *5	1	100.0	Not disclosed *5	Not disclosed *5
KS-4	TSUTAYA Sakai-minami Store (Leasehold land)	1	100.0	21	0.8	1	100.0	21	0.8
KS-5	LIFE Daisen Store (Leasehold land)	1	100.0	72	2.7	1	100.0	72	2.8
KS-6	Trial Omihachiman Store (Leasehold land)	1	100.0	Not disclosed *5	Not disclosed *5	1	100.0	Not disclosed *5	Not disclosed *5
KS-7	Kusuri No Aoki Ikaruga *4	2	100.0	Not disclosed *5	Not disclosed *5	2	100.0	Not disclosed *5	Not disclosed *5
KS-8	Drug Yutaka Muko Kamiueno Store (Leasehold land)	1	100.0	Not disclosed *5	Not disclosed *5	1	100.0	Not disclosed *5	Not disclosed *5
KS-9	Welcia Amagasaki Muko-Motomachi Store (Leasehold land)	1	100.0	Not disclosed *5	Not disclosed *5	1	100.0	Not disclosed *5	Not disclosed *5
KS-10	Cocokarafine Neyagawa Park Store (Leasehold land)	1	100.0	Not disclosed *5	Not disclosed *5	1	100.0	Not disclosed *5	Not disclosed *5
KS-11	ENEOS Ikawadani Service Station (Leasehold land)	1	100.0	Not disclosed *5	Not disclosed *5	1	100.0	Not disclosed *5	Not disclosed *5
KS-12	GEO Hikone Takamiya Store (Leasehold land)	1	100.0	Not disclosed *5	Not disclosed *5	1	100.0	Not disclosed *5	Not disclosed *5
TT-1	Yoshizuya Y Store Nishiharu	55	99.6	378	14.0	56	99.9	115	4.5

Property number	Property name	11th fiscal period From February 1, 2022 to July 31, 2022				12th fiscal period From August 1, 2022 to January 31, 2023			
		Total number of tenants	Occupancy rate	Real estate leasing business revenue	Percentage of total real estate leasing revenue	Total number of tenants	Occupancy rate	Real estate leasing business revenue	Percentage of total real estate leasing revenue
		(As of the end of the fiscal period) *1	(As of the end of the fiscal period) (%) *2	(During the fiscal period) (Million yen) *3	(%) *5	(As of the end of the fiscal period) *1	(As of the end of the fiscal period) (%) *2	(During the fiscal period) (Million yen) *3	(%) *5
TS-1	MaxValu Kikyogaoka-higashi Store (Leasehold land)	1	100.0	Not disclosed *5	Not disclosed *5	1	100.0	Not disclosed *5	Not disclosed *5
FS-1	MrMax Kasuga (Leasehold land)	1	100.0	84	3.1	1	100.0	84	3.3
FS-2	Uniqlo Kasuga (Leasehold land)	1	100.0	13	0.5	1	100.0	13	0.5
FS-3	Avail SHIMAMURA Kasuga (Leasehold land)	1	100.0	23	0.9	1	100.0	23	0.9
FS-4	au-SoftBank Kasuga (Leasehold land)	1	100.0	3	0.1	1	100.0	3	0.2
FS-5	Kura Sushi Kasuga (Leasehold land)	1	100.0	7	0.3	1	100.0	7	0.3
FS-6	Docomo Shop Kasuga (Leasehold land)	1	100.0	4	0.2	1	100.0	4	0.2
FS-7	Konpiramaru Kasuga (Leasehold land)	1	100.0	6	0.2	1	100.0	6	0.3
FS-8	One Karubi Kasuga (Leasehold land)	1	100.0	6	0.2	1	100.0	6	0.3
FS-9	Suke-san Kasuga (Leasehold land)	1	100.0	10	0.4	1	100.0	10	0.4
FS-10	Nafco Kasuga (Leasehold land)	1	100.0	Not disclosed *5	Not disclosed *5	1	100.0	Not disclosed *5	Not disclosed *5
FS-11	K's Denki Kasuga (Leasehold land)	1	100.0	37	1.4	1	100.0	37	1.5
OT-1	Suroy Mall Nagamine	25	98.2	173	6.4	26	100.0	178	7.0
OT-2	Fuji Grand Natalie	1	100.0	Not disclosed *5	Not disclosed *5	1	100.0	Not disclosed *5	Not disclosed *5
OS-1	K's Denki Kurashiki Store (Leasehold land)	1	100.0	Not disclosed *5	Not disclosed *5	1	100.0	Not disclosed *5	Not disclosed *5
OS-2	Yamada Denki Tecc.Land Sapporo Shiroishi Store (Leasehold land)	1	100.0	Not disclosed *5	Not disclosed *5	1	100.0	Not disclosed *5	Not disclosed *5
	Total	325	99.9	2,706	100.0	329	100.0	2,541	100.0

*1 The total number of tenants is based on the data as of the respective closing dates. The total number of lease agreements with end-tenants is shown for properties with pass-through master lease agreements. Number of end-tenants for "Fuji Grand Natalie," whose master leasing company is Fuji Co., Ltd., is not stated, and only the number of master lease companies is stated.

*2 The occupancy rate is calculated by the formula below based on data as of the end of each fiscal period and rounded off to the nearest first decimal point.

Occupancy rate = Leased area / Leasable area × 100

Yoshizuya Y Store Nishiharu consists of a commercial building and a residential building. The commercial building is subleased to YOSHIZUYA COMPANY LIMITED by master lessee ES-CON Japan, and the leased area in the table above includes the 4,485.14m² leased area on the third floor, which was vacant as of the end of the fiscal period.

For the third floor, a fixed rent per tsubo will be added according to the contracted floor area as tenants move in, but taking into account the fact that the floor is vacant, the occupancy rate after deducting the leased area of the third floor is 82.9%. The overall occupancy rate after taking this into account would be 98.8%.

*3 The real estate leasing business revenue is truncated to the stated value.

*4 A fixed-term business-use land lease agreement was entered into for this property with two lessees, KUSURI NO AOKI HOLDINGS Co., Ltd. and Ikaritombo Co., Ltd. Each figure is the sum of the figures for the two lessees.

*5 The figure is not disclosed as consent has not been obtained from the lessee or other parties.

4. Description of Renewable Energy Power Generation Facilities

Not applicable.

5. Description of Operating Rights of Public Facilities

Not applicable.

6. Description of Portfolio in securities

Not applicable.

7. Summary of Outstanding Contracted Amount and Fair Value of Specified Transactions

Not applicable.

8. Status of Other Assets

The trust beneficiary interests in real estate held by ESCON REIT are collectively listed in “3. Real Estate Assets in the Portfolio”.

9. Asset Holdings by Country and Region

There are no applicable items for countries and regions other than Japan.

Capital Expenditures on Real Estate Holdings

1. Planned Capital Expenditures

A schedule of major capital expenditures for renovation work, etc. currently planned for the assets held as of January 31, 2023 is shown below.

Please note that the projected construction amounts below include the portion to be treated as expenses for accounting purposes.

Property name	Location	Purpose of Construction	Scheduled construction period	Estimated construction cost (Million yen)		
				Total	Current fiscal period Amount paid	Total amount of already paid
tonarie Minami-senri	Suita City, Osaka Prefecture	Escalator renewal construction work	From March, 2023 to October, 2023	89	–	–

2. Capital Expenditures During the Fiscal Period

There are no major constructions that fall under the category of capital expenditures conducted during the current fiscal period for the assets held as of January 31, 2023.

3. Money Set Aside for Long-Term Repair Projects

Based on the long-term repair plans for each property, ESCON REIT has set aside the following reserve for repairs, which is intended to be used for future medium to long-term repairs.

Business period	8th fiscal period From August 1, 2020 to January 31, 2021	9th fiscal period From February 1, 2021 to July 31, 2021	10th fiscal period From August 1, 2021 to January 31, 2022	11th fiscal period From February 1, 2022 to July 31, 2022	12th fiscal period From August 1, 2022 to January 31, 2023
Reserve balance at start of fiscal period (Million yen)	64	80	95	124	152
Amount accumulated during the fiscal period (Million yen)	15	15	28	27	11
Amount reversed during the fiscal period (Million yen)	–	–	–	–	41
Amount carried over to the next fiscal period (Million yen)	80	95	124	152	121

Expenses and Liabilities

1. Breakdown of Operational Expenses

(Unit: Thousand yen)

Item	11th fiscal period From February 1, 2022 to July 31, 2022	12th fiscal period From August 1, 2022 to January 31, 2023
Asset management fees	138,050	140,176
Asset custody fees	3,667	3,654
Administrative agent fees	11,097	11,372
Directors' remuneration	2,700	2,700
Taxes and public dues	8,435	11,495
Other expenses	41,758	40,291
Total	205,708	209,691

2. Status of Borrowings

The status of borrowings as of January 31, 2023 is as follows:

Classification	Lender	Date of borrowing	Balance at beginning of fiscal period (Thousand yen)	Balance at end of fiscal period (Thousand yen)	Average interest rate *2 (%)	Date of Repayment	Repayment Method	Use of funds	Summary
Long-term borrowings*1	Sumitomo Mitsui Banking Corporation	February 13, 2019	1,765,000	-	0.567	January 31, 2023	Bullet repayment	*3	Unsecured/ Unguaranteed
	Mizuho Bank, Ltd.		1,665,000	-					
	The Bank of Fukuoka, Ltd.		1,430,000	-					
	Sumitomo Mitsui Trust Bank, Limited		1,000,000	-					
	AEON Bank, Ltd.		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	-					
	Mizuho Bank, Ltd.	February 4, 2020	1,210,000	1,210,000	0.410	January 31, 2024	Bullet repayment	*3	Unsecured/ Unguaranteed
	The Bank of Fukuoka, Ltd.		500,000	500,000					
	The Hyakugo Bank, Ltd.		500,000	500,000					
	AEON Bank, Ltd.		400,000	400,000					
	Sumitomo Mitsui Trust Bank, Limited		300,000	300,000					
	Resona Bank, Limited		300,000	300,000					
	The Minato Bank, Ltd.		300,000	300,000					
	The Chukyo Bank, Limited		300,000	300,000					
	The Aichi Bank, Ltd.		300,000	300,000					
	Mizuho Trust & Banking Co., Limited		300,000	300,000					
	The Senshu Ikeda Bank, Ltd.		200,000	200,000					

Classification	Lender	Date of borrowing	Balance at beginning of fiscal period (Thousand yen)	Balance at end of fiscal period (Thousand yen)	Average interest rate *2 (%)	Date of Repayment	Repayment Method	Use of funds	Summary
Long-term borrowings*1	Mizuho Bank, Ltd.	August 3, 2021	687,000	687,000	0.410	July 31, 2025	Bullet repayment	*3	Unsecured/Unguaranteed
	The Bank of Yokohama, Ltd.		450,000	450,000					
	Sumitomo Mitsui Banking Corporation		400,000	400,000					
	Sumitomo Mitsui Trust Bank, Limited		400,000	400,000					
	The Aichi Bank, Ltd.		300,000	300,000					
	Resona Bank, Limited		250,000	250,000					
	The Minato Bank, Ltd.		200,000	200,000					
	Mizuho Trust & Banking Co., Ltd.		200,000	200,000					
	Sumitomo Mitsui Banking Corporation	August 3, 2021	500,000	500,000	0.510	July 31, 2026	Bullet repayment	*3	Unsecured/Unguaranteed
	Sumitomo Mitsui Trust Bank, Limited		400,000	400,000					
	MUFG Bank, Ltd.		400,000	400,000					
	The Yamaguchi Bank, Ltd.		400,000	400,000					
	Resona Bank, Limited		350,000	350,000					
	Mizuho Bank, Ltd.		337,000	337,000					
	The Hyakugo Bank, Ltd.		300,000	300,000					
	The Minato Bank, Ltd.		200,000	200,000					
	Mizuho Bank, Ltd.	August 3, 2021	737,000	737,000	0.560	July 31, 2027	Bullet repayment	*3	Unsecured/Unguaranteed
	The Chukyo Bank, Ltd.		500,000	500,000					
	AEON Bank, Ltd.		400,000	400,000					
	The Yamaguchi Bank, Ltd.		400,000	400,000					
	The Bank of Yokohama, Ltd.		350,000	350,000					
	The Minato Bank, Ltd.		300,000	300,000					
	MUFG Bank, Ltd.		200,000	200,000					
	The Bank of Fukuoka, Ltd.	January 31, 2022	990,000	990,000	0.360	January 31, 2025	Bullet repayment	*4	Unsecured/Unguaranteed
	Resona Bank, Limited		750,000	750,000					
	Mizuho Bank, Ltd.		271,000	271,000					
	The Chiba Bank, Ltd.		250,000	250,000					
	The Minato Bank, Ltd.		125,000	125,000					
	Sumitomo Mitsui Banking Corporation	January 31, 2022	882,500	882,500	0.410	January 31, 2026	Bullet repayment	*4	Unsecured/Unguaranteed
	The Bank of Fukuoka, Ltd.		540,000	540,000					
	Sumitomo Mitsui Trust Bank, Limited		500,000	500,000					
	AEON Bank, Ltd.		500,000	500,000					
	MUFG Bank, Ltd.		500,000	500,000					
	Mizuho Bank, Ltd.		177,000	177,000					
	The Minato Bank, Ltd.		125,000	125,000					

Classification	Lender	Date of borrowing	Balance at beginning of fiscal period (Thousand yen)	Balance at end of fiscal period (Thousand yen)	Average interest rate *2 (%)	Date of Repayment	Repayment Method	Use of funds	Summary
Long-term borrowings*1	Sumitomo Mitsui Banking Corporation	January 31, 2022	882,500	882,500	0.510	January 31, 2027	Bullet repayment	*4	Unsecured/ Unguaranteed
	Sumitomo Mitsui Trust Bank, Limited		500,000	500,000					
	AEON Bank, Ltd.		500,000	500,000					
	MUFG Bank, Ltd.		500,000	500,000					
	The Senshu Ikeda Bank, Ltd.		250,000	250,000					
	Mizuho Bank, Ltd.		217,000	217,000					
	Mizuho Bank, Ltd.	January 31, 2022	1,000,000	1,000,000	0.560	January 31, 2028	Bullet repayment	*4	Unsecured/ Unguaranteed
	The Yamaguchi Bank, Ltd.		500,000	500,000					
	AEON Bank, Ltd.	January 31, 2023	-	1,000,000	0.475	January 31, 2026	Bullet repayment	*5	Unsecured/ Unguaranteed
	MUFG Bank, Ltd.		-	1,000,000					
	Resona Bank, Limited		-	750,000					
	The Bank of Fukuoka, Ltd.		-	715,000					
	Sumitomo Mitsui Banking Corporation		-	441,250					
	Mizuho Bank, Ltd.		-	416,250					
	Sumitomo Mitsui Trust Bank, Limited		-	250,000					
	The Bank of Fukuoka, Ltd.	January 31, 2023	-	715,000	0.525	January 31, 2027	Bullet repayment	*5	Unsecured/ Unguaranteed
	Sumitomo Mitsui Banking Corporation		-	441,250					
	Mizuho Bank, Ltd.		-	416,250					
	Sumitomo Mitsui Trust Bank, Limited		-	250,000					
	Sumitomo Mitsui Banking Corporation	January 31, 2023	-	882,500	0.625	January 31, 2028	Bullet repayment	*5	Unsecured/ Unguaranteed
	Mizuho Bank, Ltd.		-	832,500					
	The Minato Bank, Ltd.		-	750,000					
	Sumitomo Mitsui Trust Bank, Limited		-	500,000					
	The Yamaguchi Bank, Ltd.		-	250,000					
	The Senshu Ikeda Bank, Ltd.		-	250,000					
	Total of Long-term borrowings			33,091,000	33,091,000				
Total borrowings			33,091,000	33,091,000					

*1 “Long-term borrowings” includes debts which are scheduled for repayment within one year.

*2 The “average interest rate” is the weighted average for the fiscal period, rounded to the nearest third decimal place.

*3 The funds will be used to purchase trust beneficiary interests in real estate (including incidental expenses)

*4 The funds have been used to refinance long-term borrowings of 9,960,000 thousand yen with a repayment date of January 31, 2022.

*5 The funds have been used to refinance long-term borrowings of 9,860,000 thousand yen with a repayment date of January 31, 2023.

3. Status of Investment Corporation Bonds

Not applicable.

4. Status of Short-term Investment Corporation Bonds

Not applicable.

5. Status of New Investment Unit Acquisition Rights

Not applicable

Status of Acquisition and Sale during the Period

1. Status of Acquisition and Disposition of Properties and Asset-Backed Securities, Infrastructure Assets, and Infrastructure Related

Asset

Not applicable.

2. Transactions Other Assets

Not applicable.

3. Review on Value of Specified Assets Properties

(1) Real estate

Not applicable.

(2) Other

Not applicable.

4. Transactions with interested parties

(1) Sales transactions with interested parties

Not applicable.

(2) Fees and expenses

Classification	Total amount of fees (A) (Thousand yen)	Breakdown of transactions with interested parties		Percentage of total amount paid (B/A) (%)
		Payment recipient	Amount paid (B) (Thousand yen)	
Administrative expenses	209,954	ES-CON PROPERTY Ltd. *2	153,952	73.3

*1 The term "Interested Parties" refers to parties that have entered into an asset management agreement with ESCON REIT as defined in Article 123 of the Enforcement Order for the Act on Investment Trusts and Investment Corporations and Article 26, Paragraph 1, Item 27 of the Regulations Concerning Management Reports for Investment Trusts and Investment Corporations of the Investment Trusts Association, Japan.

*2 In addition to the amount described above, 2,361 thousand yen of construction management fee and other related costs were recorded as assets.

5. Transactions with the Asset Management Company Concerning Businesses Operated Concurrently by the Asset Management Company

The asset management company has operations to perform transactions classified as Type II Financial Instruments Business, Building Lots and Buildings Transaction Business, and Investment Advisory and Agency Business under the Financial Instruments and Exchange Act (Law No. 25 of 1948, including subsequent amendments) as of January 31, 2023, however, was not involved in any applicable transactions. In addition, the asset management company has no operations to perform transactions classified as Type I Financial Instruments Business.

Accounting Status

1. Status of Assets, Liabilities, Capital, and Profit/Loss

Please refer to “II Balance Sheets”, “III Statements of Income and Retained Earnings”, “IV Statements of Unitholders' Equity”, “V Statements of Cash Dividend Distributions”, “VI Statements of Cash Flows” and “VII Notes”.

2. Changes in Method to Calculate Depreciation Expenses

Not applicable.

3. Changes in Method to Evaluate Properties and Infrastructure Assets Expenses

Not applicable.

4. Status of Beneficiary Certificates of Investment Trust Established by ESCON REIT

Not applicable.

Others

1. Notices

(1) General Meeting of Unitholders

Not applicable.

(2) Board of Directors of Investment Corporation

The following is a summary of the major agreements and amendments approved by Board of Directors of ESCON REIT during current fiscal period.

Date of approval	Item	Description
January 24, 2023	Conclusion of Memorandum of Understanding for Amendment to Asset Management Agreement	The asset management agreement consummated between the ESCON REIT and the Asset Manager, in calculating Management Fees I (for the 13th fiscal period) and Management Fees II (for the 12th fiscal period), was agreed that the amount of compensation received by ESCON REIT from the Asset Manager shall be deducted.

(3) Other information deemed to be important

Since ESCON REIT received a written request dated October 12, 2022 from one individual unitholder to file an action to enforce liability against the Asset Manager, ESCON REIT commissioned an investigation (hereinafter, the “investigation”) by an independent law firm that has no conflict of interest in the Asset Manager, into whether to pursue liability against the Asset Manager.

The investigation discovered that the Asset Manager's fiduciary duty of loyalty was breached, which undermined the real estate appraisers' independence and caused monetary damages of 666 million yen to ESCON REIT. Upon receiving a declaration from the Asset Manager of its intention to fully compensate for the amount of damages identified in the investigation, ESCON REIT, under the measures to ensure fairness *, has discussed the matter at its Board of Directors' meeting and determined that it is in the best interest of ESCON REIT not to file a lawsuit against the Asset Manager to pursue its responsibility, and has made a decision to that effect. In addition, ESCON REIT concluded an agreement with the Asset Manager on January 16, 2023, regarding compensation, and the Asset Manager has paid in full for the total monetary damages of 666 million yen incurred by ESCON REIT.

* Overview of Measures to Ensure Fairness

Among the directors of ESCON REIT, Atsumu Sasaki, who is Executive Director, is also an employee of the Asset Manager. Therefore, it was decided that the decision on whether to take action to hold the Asset Manager liable would be made solely by the two supervisory directors, who are independent directors and have no conflict of interest in the Asset Manager, and that Executive Director Atsumu Sasaki was not involved in the decision-making process.

2. Other

In this document, unless otherwise stated, figures are truncated to the nearest whole unit and percentages are rounded off.

3. Disclosures Regarding Overseas Real Estate Holding Companies

Not applicable.

4. Disclosures Regarding Real Estate Held by Overseas Real Estate Holding Companies

Not applicable.

II Balance Sheets

(Unit: thousand yen)

	Previous fiscal period (reference) As of July 31, 2022	Current fiscal period As of January 31, 2023
Assets		
Current assets		
Cash and deposits	2,628,014	2,852,651
Cash and deposits in trust	3,424,810	3,506,168
Operating accounts receivable	64,514	55,606
Prepaid expenses	54,126	64,974
Total current assets	6,171,466	6,479,401
Non-current assets		
Property, plant and equipment		
Buildings	7,063	7,063
Accumulated depreciation	(282)	(646)
Buildings, net	6,781	6,417
Buildings in trust	12,565,139	12,661,970
Accumulated depreciation	(885,961)	(1,058,360)
Buildings in trust, net	11,679,178	11,603,609
Structures in trust	146,110	146,110
Accumulated depreciation	(27,951)	(31,507)
Structures in trust, net	118,159	114,603
Tools, furniture and fixtures in trust	34,338	42,155
Accumulated depreciation	(9,910)	(13,430)
Tools, furniture and fixtures in trust, net	24,427	28,725
Land in trust	57,914,000	57,914,000
Total property, plant and equipment	69,742,547	69,667,355
Intangible assets		
Trademarks	610	556
Other	2,615	1,799
Total intangible assets	3,226	2,355
Investments and other assets		
Leasehold and guarantee deposits	10,000	10,000
Long-term prepaid expenses	87,101	141,311
Deferred tax assets	10	28
Total investments and other assets	97,111	151,339
Total noncurrent assets	69,842,885	69,821,050
Total assets	76,014,351	76,300,452

(Unit: thousand yen)

	Previous fiscal period (reference) As of July 31, 2022	Current fiscal period As of January 31, 2023
Liabilities		
Current liabilities		
Operating accounts payable	441,832	139,448
Current portion of long-term borrowings	9,860,000	4,610,000
Accounts payable - other	12,775	73,461
Accrued expenses	164,445	166,257
Income taxes payable	816	1,203
Accrued consumption taxes	88,948	19,688
Advances received	332,701	332,029
Deposits received	772	267
Total current liabilities	10,902,292	5,342,357
Non-current liabilities		
Long-term borrowings	23,231,000	28,481,000
Tenant lease and guarantee deposits in the trusts	2,505,350	2,510,420
Total non-current liabilities	25,736,350	30,991,420
Total liabilities	36,638,643	36,333,778
Net assets		
Unitholders' equity		
Unitholders' capital	38,107,208	38,107,208
Surplus		
Unappropriated retained earnings (undisposed loss)	1,268,499	1,859,465
Total surplus	1,268,499	1,859,465
Total unitholders' equity	39,375,708	39,966,674
Total net assets	*1 39,375,708	39,966,674
Total liabilities and net assets	76,014,351	76,300,452

III Statements of Income and Retained Earnings

(Unit: thousand yen)

		Previous fiscal period (reference) From February 1, 2022 To July 31, 2022	Current fiscal period From August 1, 2022 To January 31, 2023
Operating revenue			
Leasing business revenue	*1	2,196,062	2,203,845
Other leasing business revenue	*1	510,392	337,333
Total operating revenue		2,706,455	2,541,179
Operating expenses			
Expenses related to leasing business	*1	1,118,503	969,223
Asset management fees		138,050	140,176
Asset custodian fees		3,667	3,654
Administrative service fees		11,097	11,372
Remuneration for director (and other officers)		2,700	2,700
Taxes and public dues		8,435	11,495
Other operating expenses		41,758	40,291
Total operating expenses		1,324,211	1,178,915
Operating income		1,382,243	1,362,264
Non-operating income			
Interest income		25	28
Gain on forfeiture of unclaimed dividends		-	1,171
Interest on tax refund		121	-
Total non-operating income		147	1,199
Non-operating expenses			
Interest expenses		82,282	82,003
Financing fees		29,678	85,494
Other		1,230	1,323
Total non-operating expenses		113,191	168,820
Ordinary income		1,269,199	1,194,644
Extraordinary income			
Compensation for damages received		-	666,000
Total extraordinary income		-	666,000
Income before income taxes		1,269,199	1,860,644
Income taxes - current		820	1,207
Income taxes - deferred		9	(18)
Total income taxes		829	1,189
Net income		1,268,369	1,859,454
Retained earnings brought forward		130	10
Unappropriated retained earnings (undisposed loss)		1,268,499	1,859,465

IV Statements of Unitholders' Equity

Previous fiscal period (reference) (From February 1, 2022 to July 31, 2022)

(Unit: thousand yen)

	Unitholders' equity				Total net assets
	Unitholders' capital	Surplus		Total unitholders' equity	
		Unappropriated retained earnings (or undisposed loss)	Total surplus		
Balance at the beginning of the period	38,107,208	1,264,747	1,264,747	39,371,956	39,371,956
Changes of items during the period					
Dividends from surplus	-	(1,264,617)	(1,264,617)	(1,264,617)	(1,264,617)
Net income	-	1,268,369	1,268,369	1,268,369	1,268,369
Total changes of items during the period	-	3,752	3,752	3,752	3,752
Balance at the end of the period	*1 38,107,208	1,268,499	1,268,499	39,375,708	39,375,708

Current fiscal period (From August 1, 2022 to January 31, 2023)

(Unit: thousand yen)

	Unitholders' equity				Total net assets
	Unitholders' capital	Surplus		Total unitholders' equity	
		Unappropriated retained earnings (or undisposed loss)	Total surplus		
Balance at the beginning of the period	38,107,208	1,268,499	1,268,499	39,375,708	39,375,708
Changes of items during the period					
Dividends from surplus	-	(1,268,489)	(1,268,489)	(1,268,489)	(1,268,489)
Net income	-	1,859,454	1,859,454	1,859,454	1,859,454
Total changes of items during the period	-	590,965	590,965	590,965	590,965
Balance at the end of the period	*1 38,107,208	1,859,465	1,859,465	39,966,674	39,966,674

V Statements of Cash Dividend Distributions

	Previous fiscal period (reference) From February 1, 2022 to July 31, 2022	Current fiscal period From August 1, 2022 to January 31, 2023
I . Unappropriated retained earnings	1,268,499,888	1,859,465,760
II . Distributions	1,268,489,068	1,859,441,661
(Distributions per unit)	(3,604)	(5,283)
III . Retained earnings carried forward	10,820	24,099
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 of equivalent to 90% of profit available for distribution as provided for in Article 67-15 of the Act on Special Measures Concerning Taxation.</p> <p>Based on this policy, ESCON REIT has decided to distribute 1,268,489,068 yen, which approximates the full amount of revenue stipulated in Article 136, Paragraph 1 of the Investment Trust Act.</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 of equivalent to 90% of profit available for distribution as provided for in Article 67-15 of the Act on Special Measures Concerning Taxation.</p> <p>Based on this policy, ESCON REIT has decided to distribute 1,859,441,661 yen, which is approximates the full amount of revenue stipulated in Article 136, Paragraph 1 of the Investment Trust Act.</p>

VI Statements of Cash Flows

(Unit: thousand yen)

	Previous fiscal period From February 1, 2022 to July 31, 2022	Current fiscal period From August 1, 2022 to January 31, 2023
Cash Flows from Operating Activities		
Income before income taxes	1,269,199	1,860,644
Depreciation	176,473	180,710
Interest income	(25)	(28)
Interest expenses	82,282	82,003
Compensation for damages received	-	(666,000)
Decrease (increase) in operating accounts receivable	(19,075)	8,907
Decrease (increase) in consumption taxes refund receivable	315,296	-
Decrease (increase) in prepaid expenses	5,995	(10,847)
Decrease (increase) in long-term prepaid expenses	18,092	(54,209)
Increase (decrease) in operating accounts payable	349,202	(302,384)
Increase (decrease) in accounts payable - other	(50,288)	61,392
Increase (decrease) in accrued expenses	35,314	2,568
Increase (decrease) in accrued consumption taxes	88,948	(69,259)
Increase (decrease) in advances received	(7,974)	(671)
Others, net	(6,607)	(505)
Subtotal	2,256,832	1,092,321
Interest received	25	28
Interest paid	(81,379)	(82,760)
Compensation for damages received	-	666,000
Income taxes paid	(1,015)	(820)
Net cash provided by operating activities	2,174,463	1,674,768
Cash Flows from Investing Activities		
Purchase of property, plant and equipment in trust	(120,792)	(104,647)
Proceeds from tenant lease and guarantee deposits in the trusts	177,142	15,894
Refund of tenant lease and guarantee deposits in the trusts	(69,742)	(10,824)
Net cash used in investing activities	(13,392)	(99,577)
Cash Flows from Financing Activities		
Repayments of short-term borrowings	(354,000)	-
Proceeds from long-term borrowings	-	9,860,000
Repayments of long-term borrowings	-	(9,860,000)
Distributions paid	(1,262,673)	(1,269,195)
Net cash provided by (used in) financing activities	(1,616,673)	(1,269,195)
Net increase (decrease) in cash and cash equivalents	544,397	305,995
Cash and cash equivalents at the beginning of period	5,508,428	6,052,825
Cash and cash equivalents at the end of period	6,052,825	6,358,820

*1

VII Notes

[Basis of presenting financial statements]

The accompanying financial statements have been prepared in accordance with the provisions set forth in the Investment Trusts Act, the Financial Instruments and Exchange Act of Japan and other related accounting regulations, and in conformity with accounting principles generally accepted in Japan (hereinafter, “Japanese GAAP”), which are different in certain aspects as to the application and disclosure requirements from International Financial Reporting Standards or accounting principles generally accepted in the United States of America.

The accompanying financial statements are the translation of the financial statements presented in the securities report of ESCON REIT submitted to the Kanto local Finance Bureau, which have been prepared in compliance with Japanese GAAP, translated into English. Amounts less than one thousand yen have been omitted. As a result, the totals presented in the accompanying financial statements in yen do not necessarily agree with the sums of the individual amounts. ESCON REIT does not have subsidiaries and thus does not prepare consolidated financial statements.

The accounting periods of ESCON REIT are six-month periods ending at the end of January and the end of July of each year.

[Notes on going concern assumption]

Not applicable.

[Notes on matters concerning significant accounting policies]

1. Method of depreciation and amortization of non-current 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>3 to 64 years</td></tr> <tr> <td>Structures</td><td>12 to 63 years</td></tr> <tr> <td>Furniture and fixtures</td><td>3 to 10 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 64 years	Structures	12 to 63 years	Furniture and fixtures	3 to 10 years
Buildings	3 to 64 years						
Structures	12 to 63 years						
Furniture and fixtures	3 to 10 years						
2. Accounting standards for revenues and expenses	<p>(1) Standards for revenue recognition The following is a description of the ESCON REIT’s main performance obligations with respect to revenues arising from contracts with customers and the normal time at which such performance obligations are satisfied (i.e., the normal time at which revenue is recognized).</p> <p>i. Sales of real estate. For sales of real estate, revenue is recognized when the customer (i.e., the buyer) obtains control of the real estate as a result of our fulfillment of the delivery obligations stipulated in the sales contract for the real estate.</p> <p>ii. Utility charges received Utility charges received are recorded as revenues according to the supply of electricity, water to the lessee as a customer, based on the lease contract of the real estate and other related agreements.</p> <p>(2) Accounting for property taxes For property taxes, city planning taxes, depreciable asset taxes on real estate holdings, the amounts corresponding to the current fiscal period are treated as expenses related to the leasing business. Consistent with the acquisition of real estate or trust beneficiary interests in real estate, the amount equivalent to property taxes for the first year paid to the transferor as a settlement payment is not recorded as an expense and is included in the acquisition cost for the purchased real estate property. No amount equivalent to property taxes was included in the acquisition costs for real estate during the previous fiscal period and current fiscal periods.</p>						

3. Scope of funds in the statements of cash flows	Funds (cash and cash equivalents) in the statements 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.
4. Other Items Forming the Basis for the Preparation of Financial Statements	<p>(1) Accounting for trust beneficial interests in real estate as trust asset</p> <p>For 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 sheets and Statements of Income and Retained Earnings.</p> <p>Included in the trust assets are items accounted for under the respective accounts, and the following significant items are separately classified on the balance sheets.</p> <ul style="list-style-type: none"> i. Cash in trust and deposits in trust ii. Buildings in trust and structures in trust <ul style="list-style-type: none"> Tools, furniture and fixtures in trust and land in trust iii. Tenant lease and guarantee deposits in the trusts <p>(2) Accounting for non-deductible consumption taxes</p> <p>Non-deductible consumption taxes on non-current assets are included in the acquisition cost of individual assets.</p>

[Notes concerning significant accounting estimates]

Impairment of non-current assets

1. Amount recorded in financial statements

(Unit: thousand yen)

	Previous fiscal period As of and for the 6 months ended July 31, 2022	Current fiscal period As of and for the 6 months ended January 31, 2023
Property, plant and equipment	69,742,547	69,667,355
Intangible assets	3,226	2,355
Impairment losses	-	-

2. Information concerning significant accounting estimates related to identified items

In accordance with accounting standards for impairment of non-current assets, ESCON REIT applies an accounting method to reduce the book value of non-current assets to the recoverable amount when recovery of the amount invested is not expected due to a decline in profitability. In applying the accounting treatment, each property owned by ESCON REIT is considered as one asset group, and when there is an indication of impairment due to continuous operating losses, significant decline in market price, or significant deterioration of the business environment, it is determined whether to have to recognize an impairment loss.

Estimated future cash flows are used to determine whether an impairment loss should be recognized. When recognition of an impairment loss is deemed necessary, the book value of the asset is reduced to its recoverable amount based on an external real estate appraisal, etc., and the amount of the reduction is recognized as an impairment loss.

Future cash flows are determined through an overall consideration of market trends, examples of transactions involving similar properties, and other factors regarding rents, occupancy rates, leasing business expenses, as well as other factors that are taken into account when estimating future cash flows.

Rent, occupancy rates, leasing business expenses, etc. for each property may be affected by trends in the real estate leasing market, etc. Therefore, any changes in the assumptions used for estimates, including these, may affect ESCON REIT's asset and profit and loss status in the following fiscal period.

[Note to Balance Sheets]

(Unit: thousand yen)

	Previous fiscal period As of July 31, 2022	Current fiscal period As of January 31, 2023
*1 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 Statements of Income and Retained Earnings]

(Unit: thousand yen)

	Previous fiscal period From February 1, 2022 to July 31, 2022	Current fiscal period From August 1, 2022 to January 31, 2023
*1 Description of income from real estate leasing operations		
A. Real estate leasing business revenue		
Leasing business revenue		
Lease revenue	1,045,773	1,069,940
Land lease revenue received	824,893	824,893
Common service fees	122,315	122,088
Other lease revenues	203,080	186,923
Total	2,196,062	2,203,845
Other leasing business revenues		
Utility charges received	236,861	281,775
Other revenues	273,531	55,558
Total	510,392	337,333
Total real estate leasing business revenue	2,706,455	2,541,179
B. Real estate leasing business expenses		
Expenses related to leasing business		
Administrative expenses	206,219	209,954
Trust fees	9,225	9,212
Utility charges	241,940	303,222
Non-life insurance premiums	4,492	4,557
Repair expenses	240,434	35,425
Taxes and public dues	214,171	212,314
Depreciation	175,603	179,839
Other leasing business expenses	26,415	14,697
Total expenses related to leasing business	1,118,503	969,223
C. Income from real estate leasing business (A - B)	1,587,952	1,571,956
(Changes in presentation methods)		
“Restoration revenue,” which was presented separately in the previous fiscal period, is included in “Other revenues” in the current fiscal period due to the amount being insignificant.		
Accordingly, 250,068 thousand yen, which was included in “Restoration revenue” in the previous fiscal period, has been reclassified as “Other revenues”.		

[Notes to Statements of Unitholders' Equity]

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

	Previous fiscal period From February 1, 2022 to July 31, 2022	Current fiscal period From August 1, 2022 to January 31, 2023
Total number of investment units authorized	10,000,000units	10,000,000units
Total number of investment units issued and outstanding	351,967units	351,967units

[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 sheets

(Unit: thousand yen)

	Previous fiscal period From February 1, 2022 to July 31, 2022	Current fiscal period From August 1, 2022 to January 31, 2023
Cash and deposits	2,628,014	2,852,651
Cash and deposits in trust	3,424,810	3,506,168
Cash and cash equivalents	6,052,825	6,358,820

[Notes to Lease Transactions]

Operating lease transactions (Lessor)

Future minimum lease revenues under existing non-cancelable lease agreements

(Unit: thousand yen)

	Previous fiscal period As of July 31, 2022	Current fiscal period As of January 31, 2023
Within a year	2,347,253	2,305,767
Over a year	10,123,195	9,791,909
Total	12,470,449	12,097,676

[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 corporate bonds and investment units to contribute to the steady growth of assets under management as well as implementing an efficient and stable management style.

When taking out borrowings from financial institutions and issuing investment corporate bonds, ESCON REIT will take into account the balance between the flexibility of financing, the financial stability and the nature of the acquired real estate assets. 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 based on the assessment of the current financial environment and taking into consideration the LTV, the dilution of rights of the existing unitholders and potential decline 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 current fiscal period, ESCON REIT did not enter into any derivative transactions.

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

Borrowings are taken out mainly for the purpose of raising funds to acquire assets and repay the borrowings. While the Company is exposed to risk of increasing interest rates on the borrowings upon refinancing and may not be able to refinance the borrowings, ESCON REIT manages to mitigate the risks by diversifying the lenders, due dates and taking a balanced financing approach 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 of financial instruments

Certain assumptions and other factors were used in calculating the fair value of financial instruments, and the results may differ due to different assumptions and other factors used in valuing the financial instruments.

2. Matters concerning the fair value of financial instruments

Balance sheets amount, fair value and their differences as of July 31, 2022 are as follows: Notes to Cash and deposits and Cash and deposits in trust are not disclosed since the fair value of these instruments approximates book value due to short term nature of these instruments. Fair value for tenant lease and guarantee deposits in the trusts have been omitted since the balances are not material to the financial statements.

(Unit: thousand yen)

	Carrying value	Fair value *1	Difference
(1) Current portion of long-term borrowings	9,860,000	9,860,000	-
(2) Long-term borrowings	23,231,000	23,231,000	-
Total liabilities	33,091,000	33,091,000	-

Balance sheets amount, fair value and their differences as of January 31, 2023 are as follows: Notes to Cash and deposits and Cash and deposits in trust are not disclosed since the fair value of these instruments approximates book value due to short term nature of these instruments. Fair value for tenant lease and guarantee deposits in the trusts have been omitted since the balances are not material to the financial statements.

(Unit: thousand yen)

	Carrying value	Fair value *1	Difference
(1) Current portion of long-term borrowings	4,610,000	4,610,000	-
(2) Long-term borrowings	28,481,000	28,481,000	-
Total liabilities	33,091,000	33,091,000	-

*1 The method used in calculating the fair value of the financial instruments

(1) Current portion of long-term borrowings, (2) Long-term borrowings

The borrowings have variable interest rates and interest is adjusted to the current market rates and accordingly, the fair value of the borrowings should approximate the carrying value of the borrowings.

*2 Scheduled redemption of loans after the closing date (July 31, 2022)

(Unit: thousand yen)

	Within 1 year	1-2 years	2-3 years	3-4 years	4-5 years	Over 5 years
Long-term borrowings	9,860,000	4,610,000	5,273,000	6,111,500	5,736,500	1,500,000
Total	9,860,000	4,610,000	5,273,000	6,111,500	5,736,500	1,500,000

Scheduled redemption of loans after the closing date (January 31, 2023)

(Unit: thousand yen)

	Within 1 year	1-2 years	2-3 years	3-4 years	4-5 years	Over 5 years
Long-term borrowings	4,610,000	2,386,000	10,684,000	7,559,000	7,852,000	-
Total	4,610,000	2,386,000	10,684,000	7,559,000	7,852,000	-

[Notes to Securities]

Previous fiscal period From February 1, 2022 to July 31, 2022	Current fiscal period From August 1, 2022 to January 31, 2023
Not applicable.	Not applicable.

[Notes to Derivative transactions]

Previous fiscal period From February 1, 2022 to July 31, 2022	Current fiscal period From August 1, 2022 to January 31, 2023
Not applicable.	Not applicable.

[Notes to Retirement benefits]

Previous fiscal period From February 1, 2022 to July 31, 2022	Current fiscal period From August 1, 2022 to January 31, 2023
Not applicable.	Not applicable.

[Notes to Deferred Income Taxes]

1. Significant components of the deferred tax assets and deferred tax liabilities are as follows:

(Unit: thousand yen)

	Previous fiscal period As of July 31, 2022	Current fiscal period As of January 31, 2023
(Deferred tax assets)		
Unpaid business tax not included in deductible expenses	10	28
Total deferred tax assets	10	28
(Net deferred tax assets)	10	28

2. Reconciliation of Significant Differences Between the Statutory Tax Rate and the Effective Tax Rate After Applying Deferred Income Tax Accounting

(Unit: %)

	Previous fiscal period As of July 31, 2022	Current fiscal period As of January 31, 2023
Statutory tax rate	31.46	31.46
(adjustments)		
Tax-deductible cash distributions paid	(31.44)	(31.44)
Other	0.05	0.04
Effective tax rate	0.07	0.06

[Notes to Equity Gains (Losses) of Affiliated Companies]

Previous fiscal period From February 1, 2022 to July 31, 2022	Current fiscal period From August 1, 2022 to January 31, 2023
Not applicable.	Not applicable.

[Notes to Transactions with Related Parties]

1. Parent company and major institutional investors

Previous fiscal period (From February 1, 2022 to July 31, 2022)

Not applicable.

Current fiscal period (From August 1, 2022 to January 31, 2023)

Not applicable.

2. Affiliated companies

Previous fiscal period (From February 1, 2022 to July 31, 2022)

Not applicable.

Current fiscal period (From August 1, 2022 to January 31, 2023)

Not applicable.

3. Sibling companies

Previous fiscal period (From February 1, 2022 to July 31, 2022)

Not applicable.

Current fiscal period (From August 1, 2022 to January 31, 2023)

Not applicable.

4. Directors and major individual unitholders

Previous fiscal period (From February 1, 2022 to July 31, 2022)

Not applicable.

Current fiscal period (From August 1, 2022 to January 31, 2023)

Not applicable.

[Notes to Asset Retirement Obligations]

Previous fiscal period From February 1, 2022 to July 31, 2022	Current fiscal period From August 1, 2022 to January 31, 2023
Not applicable.	Not applicable.

[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: thousand yen)

		Previous fiscal period From February 1, 2022 to July 31, 2022	Current fiscal period From August 1, 2022 to January 31, 2023
Carrying value*1	Balance at the beginning of the period	69,790,294	69,742,547
	Changes during the period*2	(47,747)	(75,191)
	Balance at the end of the period	69,742,547	69,667,355
Fair value at the end of the period *3		73,077,400	73,026,700

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

*2 For the changes during the period, the increase in the previous fiscal period was mainly due to capital expenditures for 7 properties, including tonarie Minami-senri (127,856 thousand yen in total), while the decrease was mainly due to depreciation (175,603 thousand yen). The increase in the current fiscal period was mainly due to capital expenditures for 6 properties, including Yoshizuya Y Store Nishiharu (104,647 thousand yen in total), while the decrease was mainly due to depreciation (179,839 thousand yen).

*3 The fair value at the end of the period was determined by outside real estate appraisers.

Profit and loss of real estate for lease are as described in "Notes to Statements of Income and Retained Earnings"

[Notes to Revenue Recognition]

1. Breakdown of revenue from contracts with customers

Previous fiscal period (From February 1, 2022 to July 31, 2022)

(Unit: thousand yen)

	Revenue from contracts with customers*1	Sales to external customers
Income from sales of real estate	—	—
Utility charges received*2	236,861	236,861
Other	—	2,469,594
Total	236,861	2,706,455

*1 Leasing business income subject to Accounting Standards Board of Japan (ASBJ) Statement No. 13 "Accounting Standard for Lease Transactions" is not included in "Revenue from contracts with customers", since the accounting standard for revenue recognition does not apply to such income. Revenues from contracts with customers mainly include revenues from sales of real estate and utility charges.

*2 Utility charges received are recorded as revenues based on the use of electricity, water and other utilities by the lessee and is in accordance with agreements with the lessee.

Current fiscal period (From August 1, 2022 to January 31, 2023)

(Unit: thousand yen)

	Revenue from contracts with customers*1	Sales to external customers
Income from sales of real estate	-	-
Utility charges received*2	281,775	281,775
Other	-	2,259,404
Total	281,775	2,541,179

*1 Leasing business income subject to ASBJ Statement No. 13 "Accounting Standard for Lease Transactions" is not included in "Revenue from contracts with customers", since the accounting standard for revenue recognition does not apply to such income. Revenues from contracts with customers mainly include revenues from sales of real estate and utility charges.

*2 Utility charges received are recorded as revenues based on the use of electricity, water and other utilities by the lessee and is in accordance with agreements with the lessee.

2. Underlying information to understand the revenue from contracts with customers

Previous fiscal period (From February 1, 2022 to July 31, 2022)

As described in the Notes on matters concerning significant accounting policies.

Current fiscal period (From August 1, 2022 to January 31, 2023)

As described in the Notes on matters concerning significant accounting policies.

3. Information about the relationship between the satisfaction of performance obligations under contracts with customers and cash flows from such contracts, and the amount and timing of revenue expected to be recognized in subsequent periods from the contracts with customers that exist at the end of the current fiscal period

(1) Balance of contract assets and contract liabilities

(Unit: thousand yen)

	Previous fiscal Period From February 1, 2022 to July 31, 2022	Current fiscal Period From August 1, 2022 to January 31, 2023
Receivables from contracts with a customer (at the beginning of the period)	34,272	45,923
Receivables from contracts with a customer (at the end of the period)	45,923	41,492
Contract assets (balance at the beginning of period)	-	-
Contract assets (balance at the end of period)	-	-
Contract liabilities (balance at the beginning of period)	-	-
Contract liabilities (balance at the end of period)	-	-

(2) Transaction prices allocated to remaining performance obligations

Not applicable.

For utility charges income, the Company recognizes revenues at the amount it is entitled to charge the customer in accordance with paragraph 19 of the Guidance on Accounting Standard for Revenue Recognition as the Company is entitled to receive from the customers (lessees) the amount of consideration that directly corresponds to the value to the customers for the portion of performance completed by the end of the period. Therefore, the provisions of paragraph 80-22(2) of the Accounting Standard for Revenue Recognition have been applied and the transaction price allocated to the remaining performance obligations has not been included in the notes to transaction prices.

[Note to Segment Information]

(Segment information)

This information is omitted since ESCON REIT operates in a single segment of the real estate leasing business.

(Relevant information)

Previous fiscal period (From February 1, 2022 to July 31, 2022)

1. Information by product and service

This information is omitted since the same information is disclosed in the segment information.

2. Information by Region

(1) Net sales

Not applicable since there are no sales to external customers outside Japan.

(2) Property, plant, and equipment

Not applicable since there is no property, plant and equipment located outside Japan.

3. Information by major customer

(Unit: thousand yen)

Customer Name	Operating revenue	Related Segment Name
ES-CON JAPAN Ltd.*	1,796,776	Real estate leasing business

* ESCON REIT leases Asumigaoka Brand-New Mall, Nishi-Shiroi Ekimae Plaza, tonarie Minami-senri, tonarie Seiwadai, tonarie Yamatotakada (50% ownership), tonarie Toga・Mikita Yoshizuya Y Store Nishiharu and SUROY MALL Nagamine to ES-CON Japan under pass-through master lease agreement, and ES-CON Japan subleases these to sublessees.

Current fiscal period (From August 1, 2022 to January 31, 2023)

1. Information by product and service

This information is omitted since the same information is disclosed in the segment information.

2. Information by Region

(1) Net sales

Not applicable since there are no sales to external customers outside Japan.

(2) Property, plant, and equipment

Not applicable since there is no property, plant and equipment located outside Japan.

3. Information by major customer

(Unit: Thousand yen)

Customer Name	Operating revenue	Related Segment Name
ES-CON JAPAN Ltd.*	1,628,708	Real estate leasing business

* ESCON REIT leases Asumigaoka Brand-New Mall, Nishi-Shiroi Ekimae Plaza, tonarie Minami-senri, tonarie Seiwadai, tonarie Yamatotakada (50% ownership), tonarie Toga Mikita, Yoshizuya Y Store Nishiharu and Suroy Mall Nagamine to ES-CON Japan Ltd. which are under a pass-through master lease agreement.

[Notes to Per Unit Information]

	Previous fiscal Period From February 1, 2022 to July 31, 2022	Current fiscal Period From August 1, 2022 to January 31, 2023
Net assets per unit	111,873yen	113,552yen
Net income per unit	3,604yen	5,283yen

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 and rounded to the nearest whole number.

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

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

	Previous fiscal Period From February 1, 2022 to July 31, 2022	Current fiscal Period From August 1, 2022 to January 31, 2023
Net income (thousand yen)	1,268,369	1,859,454
Amount not attributable to common unitholders (thousand yen)	-	-
Net income for common investment units (thousand yen)	1,268,369	1,859,454
Average number of investment units during the period (units)	351,967	351,967

[Notes to Significant Subsequent Events]

Not applicable.

Independent Auditor's Report

To the Board of Directors
ESCON JAPAN REIT Investment Corporation

Opinion

We have audited the accompanying financial statements of ESCON JAPAN REIT Investment Corporation (the Company), which comprise the balance sheet as of January 31, 2023, and the statements of income and retained earnings, unitholders' equity, cash dividend distributions, and cash flows for the six-month period then ended, and notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of January 31, 2023, and its financial performance and its cash flows for the six-month period then ended in accordance with accounting principles generally accepted in Japan.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

The other information comprises information included in the Semiannual Report and excludes the financial statements and our auditor's report thereon. Management is responsible for the preparation and presentation of the other information. The Supervisory Directors are responsible for overseeing the Executive Director's performance of their duties with regard to the design, implementation and monitoring of the reporting process in preparing the other information.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge based on our audit, or otherwise appears to be materially misstated.

If, based on our procedures, we conclude that there is a material misstatement in the other information, we are required to report any findings.

We have no findings to report on the other information.

Responsibilities of Management and Supervisory Directors for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern and disclosing matters related to going concern, as required by accounting principles generally accepted in Japan.

The Supervisory Directors are responsible for overseeing the Executive Director's performance regarding the design, implementation and maintenance of the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of our audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- Consider internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances for our risk assessments, while the purpose of the audit of the financial statements is not expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation in accordance with accounting principles generally accepted in Japan.

We communicate with the Executive Director regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Executive Director with a statement that we have complied with the ethical requirements regarding independence that are relevant to our audit of the financial statements in Japan, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Interest Required to Be Disclosed by the Certified Public Accountants Act of Japan

Our firm and its designated engagement partners do not have any interest in the Company which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

BDO Sanyu & Co.
Osaka, Japan

April 27, 2023

米崎 直人

Naoto Komezaki
Designated Engagement Partner
Certified Public Accountant

古嶋 雅弘

Masahiro Furushima
Designated Engagement Partner
Certified Public Accountant