

ESR Kendall Square REIT Co., Ltd. and Subsidiaries

**Consolidated Interim Financial Statements
August 31, 2022 and February 28, 2022**

ESR Kendall Square REIT Co., Ltd. and Subsidiaries

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Report on Review of Interim Financial Statements

(English Translation of a Report Originally Issued in Korean)

To the Shareholders and Board of Directors of
ESR Kendall Square REIT Co., Ltd.

Reviewed Financial Statements

We have reviewed the accompanying consolidated interim financial statements of ESR Kendall Square REIT Co., Ltd. and its subsidiaries (collectively referred to as the "Group"). These financial statements consist of the consolidated interim statement of financial position of the Group as at August 31, 2022, and the related consolidated interim statements of comprehensive income, changes in equity and cash flows for the three-month periods ended August 31, 2022 and February 28, 2022, and a summary of significant accounting policies and other explanatory notes, expressed in Korean won.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated interim financial statements in accordance with International Financial Reporting Standards as adopted by the Republic of Korea (Korean IFRS) 1034 *Interim Financial Reporting*, and for such internal control as management determines is necessary to enable the preparation of consolidated interim financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to issue a report on these consolidated interim financial statements based on our review.

We conducted our review in accordance with quarterly or semi-annual review standards established by the Securities and Futures Commission of the Republic of Korea. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Korean Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe the accompanying consolidated interim financial statements are not presented fairly, in all material respects, in accordance with Korean IFRS 1034 *Interim Financial Reporting*.

Other Matters

We have audited the consolidated statement of financial position of the Group as at May 31, 2022, and the related consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, in accordance with Korean Standards on Auditing. We expressed an unqualified opinion on those financial statements, not presented herein, in our audit report dated August 10, 2022. The consolidated statement of financial position as at May 31, 2022, presented herein for comparative purposes, is consistent, in all material respects, with the above audited statement of financial position as at May 31, 2022.

Review standards and their application in practice vary among countries. The procedures and practices used in the Republic of Korea to review such financial statements may differ from those generally accepted and applied in other countries.

Seoul, Korea

October 14, 2022

This report is effective as of October 14, 2022, the review report date. Certain subsequent events or circumstances, which may occur between the review report date and the time of reading this report, could have a material impact on the accompanying consolidated interim financial statements and notes thereto. Accordingly, the readers of the review report should understand that there is a possibility that the above review report may have to be revised to reflect the impact of such subsequent events or circumstances, if any.

ESR Kendall Square REIT Co., Ltd. and its Subsidiaries
Consolidated Interim Statements of Financial Position
August 31, 2022 and May 31, 2022

<i>(in Korean won)</i>	Notes	August 31, 2022 (Unaudited)		May 31, 2022
Assets				
Current assets				
Cash and cash equivalents	4,22,23	₩	44,028,480,762	₩ 33,920,832,610
Short-term financial assets	5,6,22,23		-	63,408,806
Other financial assets	7,22,23		16,527,495,322	20,678,104,812
Other current assets	8		2,590,795,236	1,885,114,620
Current tax assets			1,026,768,026	166,231,040
			<u>64,173,539,346</u>	<u>56,713,691,888</u>
Non-current assets				
Long-term financial assets	6,22,23		42,218,793,453	42,218,512,733
Investments in associates	9		206,824,916,745	204,689,464,276
Investment properties	10		1,954,478,371,888	1,960,977,509,297
Property and equipment			91,827,945	96,969,863
Intangible assets			4,058,026	4,058,026
Other non-current financial assets	7,22,23		3,641,330,571	3,343,417,795
			<u>2,207,259,298,628</u>	<u>2,211,329,931,990</u>
Total assets		₩	<u>2,271,432,837,974</u>	₩ <u>2,268,043,623,878</u>
Liabilities				
Current liabilities				
Other financial liabilities	11,22,23	₩	41,544,865,570	₩ 13,107,188,659
Other current liabilities	12		2,838,790,617	2,648,305,413
			<u>44,383,656,187</u>	<u>15,755,494,072</u>
Non-current liabilities				
Long-term borrowings	13,22,23		1,061,290,620,244	1,060,285,280,740
Other non-current financial liabilities	11,22,23		35,134,870,807	37,609,993,805
Other non-current liabilities	12		3,577,522,340	3,807,743,027
			<u>1,100,003,013,391</u>	<u>1,101,703,017,572</u>
Total liabilities			<u>1,144,386,669,578</u>	<u>1,117,458,511,644</u>
Equity				
Share capital	14		213,089,000,000	213,089,000,000
Other paid-in-capital	14		900,186,631,606	900,186,631,606
Retained earnings	15		13,770,536,790	37,309,480,628
Equity attributable to equity holders of the Parent Company			<u>1,127,046,168,396</u>	<u>1,150,585,112,234</u>
Total equity			<u>1,127,046,168,396</u>	<u>1,150,585,112,234</u>
Total liabilities and equity		₩	<u>2,271,432,837,974</u>	₩ <u>2,268,043,623,878</u>

The above consolidated interim statements of financial position should be read in conjunction with the accompanying notes.

ESR Kendall Square REIT Co., Ltd. and its Subsidiaries
Consolidated Interim Statements of Comprehensive Income
Three-Month Periods Ended August 31, 2022 and February 28, 2022

<i>(in Korean won)</i>	Notes	August 31, 2022 (Unaudited)	February 28, 2022 (Unaudited)
Operating revenues	18	₩ 24,504,916,107	₩ 22,227,306,046
Operating expenses	19	<u>14,415,730,949</u>	<u>11,075,427,924</u>
Operating profit		<u>10,089,185,158</u>	<u>11,151,878,122</u>
Non-operating income			
Financial income	20	381,546,837	115,497,051
Other income	21	277,068,832	22,732,598
Gains on valuation using equity method	9	<u>2,135,452,469</u>	<u>2,488,992,894</u>
		<u>2,794,068,138</u>	<u>2,627,222,543</u>
Non-operating expense			
Financial costs	20	7,868,165,669	7,738,698,040
Other expenses	21	<u>105,465</u>	<u>7</u>
Other non-current financial assets		<u>7,868,271,134</u>	<u>7,738,698,047</u>
Profit before income tax		5,014,982,162	6,040,402,618
Income tax expense	16	<u>-</u>	<u>-</u>
Profit for the period		<u>₩ 5,014,982,162</u>	<u>₩ 6,040,402,618</u>
Other comprehensive income		<u>-</u>	<u>-</u>
Total comprehensive income for the period		<u>₩ 5,014,982,162</u>	<u>₩ 6,040,402,618</u>
Owners of the Parent Company		5,014,982,162	6,040,402,618
Earnings per share			
Basic and diluted earnings per share	17	₩ 24	₩ 30

The above consolidated interim statements of comprehensive income should be read in conjunction with the accompanying notes.

ESR Kendall Square REIT Co., Ltd. and its Subsidiaries
Consolidated Interim Statements of Changes in Equity
Three-Month Periods Ended August 31, 2022 and February 28, 2022

(in Korean won)

	<u>Equity attributable to equity holders of the Parent Company</u>			<u>Non-controlling interests</u>	<u>Total</u>
	<u>Share capital</u>	<u>Other paid-in-capital</u>	<u>Retained earnings</u>		
Balance at December 1, 2021	₩ 143,259,000,000	₩ 541,103,130,210	₩ 16,494,915,146	₩ 3,500,010,000	₩ 704,357,055,356
Increase in issued capital	69,830,000,000	372,193,900,000	-	-	442,023,900,000
Stock issuance fee	-	(3,277,201,630)	-	-	(3,277,201,630)
Transfer of other paid-in-capital to retained earnings	-	(9,836,000,000)	9,836,000,000	-	-
Dividends	-	-	(19,196,706,000)	-	(19,196,706,000)
Profit for the period	-	-	6,040,402,618	-	6,040,402,618
Transaction with non-controlling interests	-	-	-	(3,500,010,000)	(3,500,010,000)
Balance at February 28, 2022 (Unaudited)	₩ 213,089,000,000	₩ 900,183,828,580	₩ 13,174,611,764	₩ -	₩ 1,126,447,440,344
Balance at June 1, 2022	₩ 213,089,000,000	₩ 900,186,631,606	₩ 37,309,480,628	₩ -	₩ 1,150,585,112,234
Dividends	-	-	(28,553,926,000)	-	(28,553,926,000)
Profit for the period	-	-	5,014,982,162	-	5,014,982,162
Balance at August 31, 2022 (Unaudited)	₩ 213,089,000,000	₩ 900,186,631,606	₩ 13,770,536,790	₩ -	₩ 1,127,046,168,396

The above consolidated interim statements of changes in equity should be read in conjunction with the accompanying notes.

ESR Kendall Square REIT Co., Ltd. and its Subsidiaries
Consolidated Interim Statements of Cash Flows
Three-Month Periods Ended August 31, 2022 and February 28, 2022

<i>(in Korean won)</i>	August 31, 2022 (Unaudited)	February 28, 2022 (Unaudited)
Cash flows from operating activities		
Profit for the period	₩ 5,014,982,162	₩ 6,040,402,618
Adjustments for:		
Depreciation	6,925,866,459	6,163,709,983
Interest expense	7,868,165,669	7,738,698,040
Interest income	(381,546,837)	(115,497,051)
Other income	(257,976,096)	(232,531,763)
Gains on valuation using equity method	(2,135,452,469)	(2,488,992,894)
	<u>12,019,056,726</u>	<u>11,065,386,315</u>
Changes in operating assets and liabilities:		
Increase in account receivables	(43,872,578)	(123,952,280)
Increase in accrued income	(297,912,776)	(498,681,197)
Increase in prepaid expenses	(705,680,616)	(1,211,286,646)
Decrease in prepaid value added tax	-	4,188,153,404
Increase in unearned revenue	-	1,105,063,535
Decrease in trade payables	(2,837,352,160)	(5,266,952,275)
Decrease in accrued expenses	(451,000)	-
Increase (decrease) in withholdings	(120,451,750)	112,859,498
Increase in value added tax withheld	544,369,076	392,639,469
	<u>(3,461,351,804)</u>	<u>(1,302,156,492)</u>
	<u>13,572,687,084</u>	<u>15,803,632,441</u>
Interest received	68,997,288	12,091,746
Income taxes paid	(860,536,986)	(163,783,330)
Interest paid	(6,616,395,092)	(12,295,269,039)
Dividends received	4,298,398,455	1,057,134,286
Net cash inflow from operating activities	<u>10,463,150,749</u>	<u>4,413,806,104</u>
Cash flows from investing activities		
Decrease in other deposits	-	643,300,000
Decrease in short-term financial instruments	66,084,535	-
Increase in long-term financial instruments	-	(15,502,258,800)
Increase in short-term financial instruments	-	(53,214,107,524)
Acquisition of investments in associates	-	(5,258,158,846)
Acquisition of investment properties (Land)	-	(204,442,834,776)
Acquisition of investment properties (Building)	(277,061,000)	(557,759,422,816)
Acquisition of investment properties (Construction in progress)	(144,526,132)	(10,516,924,557)
Increase in other deposits	-	(543,000,000)
Net cash outflow from investing activities	<u>(355,502,597)</u>	<u>(846,593,407,319)</u>
Cash flows from financing activities		
Increase in issued capital	-	442,023,900,000
Increase in short-term borrowings	-	52,771,182,957
Increase in long-term borrowings	-	418,000,000,000
Increase in leasehold deposits received	-	14,478,555,180
Repayment in short-term borrowings	-	(28,143,530,519)
Repayment for of long-term borrowings	-	(20,000,000,000)
Stock issuance fee	-	(3,277,201,630)
Decrease in non-controlling interests	-	(3,500,010,000)
Net cash inflow from financing activities	<u>-</u>	<u>872,352,895,988</u>
Net increase in cash and cash equivalents	10,107,648,152	30,173,294,773
Cash and cash equivalents at the beginning of period	33,920,832,610	23,518,984,130
Cash and cash equivalents at the end of period	<u>₩ 44,028,480,762</u>	<u>₩ 53,692,278,903</u>

The above consolidated interim statements of cash flows should be read in conjunction with the accompanying notes.

ESR Kendall Square REIT Co., Ltd. and Subsidiaries

Notes to the Consolidated Interim Financial Statements

August 31, 2022 and February 28, 2022 (Unaudited) and May 31, 2022

1. Reporting Entity

In accordance with Korean IFRS 1110 *Consolidated Financial Statements*, the consolidated financial statements were prepared for ESR Kendall Square REIT Co., Ltd., the controlling company, and its subsidiaries ESR Kendall Square Asset No.1 Reit Co., LTD and ESR Kendall Square Asset No.2 Reit Co., LTD. included in consolidation (collectively referred to as the “Group”).

1.1 Controlling Company

ESR Kendall Square REIT Co., Ltd. (the “Parent company”) was established on February 20, 2020 under the Real Estate Investment Companies Act of the Republic of Korea. The Parent company obtained approval of the business authorization from the Ministry of Land, Infrastructure and Transport of the Republic of Korea on August 24, 2020. The Parent company is mainly engaged in providing its shareholder with returns earned from investing and managing investment properties, including real estate acquisition, maintenance, improvement and disposal, development, and trade of real estate lease securities. The Parent company’s head office is located on the 35th floor, Gukjegeumyung-ro 10, Yeongdeungpo-Gu, Seoul.

The Group’s major shareholders and their respective shareholdings as at February 28, 2022, are as follows:

Shareholders	Number of shares	Percentage of ownership
ESR Kendall Square REIT Holding Pte. Ltd.	13,684,437	6.42%
ESR Kendall Square Co., Ltd.	5,949,755	2.79%
Kendall Square REIT Management, Inc.	1,487,438	0.70%
CPP Investment Board Real Estate Holdings Inc.	52,952,822	24.85%
Others	139,014,548	65.24%
	213,089,000	100.00%

1.2 Subsidiaries

Details of subsidiaries as at August 31, 2022 and May 31, 2022, are as follows:

	Country of domicile	Business type	Percentage of ownership	
			August 31, 2022	May 31, 2022
ESR Kendall Square Asset No.1 Reit Co., LTD.	Korea	Real estate	100%	100%
ESR Kendall Square Asset No.2 Reit Co., LTD.	Korea	Real estate	100%	100%

ESR Kendall Square REIT Co., Ltd. and Subsidiaries
Notes to the Consolidated Interim Financial Statements
August 31, 2022 and February 28, 2022 (Unaudited) and May 31, 2022

Financial information of subsidiaries as at August 31, 2022 and May 31, 2022 and for the three-month periods ended August 31, 2022 and February 28, 2022, are as follows:

(in thousands of Korean won)	August 31, 2022			Three-month period ended August 31, 2022		
	Assets	Liabilities	Equity	Operating revenues	Profit (loss) for the period	Total comprehensive income (loss)
ESR Kendall Square Asset No.1 Reit Co., LTD.	₩ 1,160,790,391	₩ 648,720,581	₩ 512,069,810	₩ 15,140,227	₩ 2,722,804	₩ 2,722,804
ESR Kendall Square Asset No.2 Reit Co., LTD.	867,458,900	467,019,928	400,438,973	9,364,689	308,058	308,058
	May 31, 2022			Three-month period ended February 28, 2022		
(in thousands of Korean won)	Assets	Liabilities	Equity	Operating revenues	Profit (loss) for the period	Total comprehensive income (loss)
ESR Kendall Square Asset No.1 Reit Co., LTD.	₩ 1,176,259,150	₩ 649,687,452	₩ 526,571,698	₩ 15,045,916	₩ 4,663,965	₩ 4,663,965
ESR Kendall Square Asset No.2 Reit Co., LTD.	875,860,018	467,632,244	408,227,774	7,544,915	(302,860)	(302,860)

2. Significant Accounting Policies

The principal accounting policies applied in the preparation of these consolidated interim financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

2.1 Basis of Preparation

The Group maintains its accounting records in Korean won and prepares statutory financial statements in the Korean language (Hangeul) in accordance with International Financial Reporting Standards as adopted by the Republic of Korea (Korean IFRS). The accompanying consolidated interim financial statements have been condensed, restructured and translated into English from the Korean language financial statements.

Certain information attached to the Korean language financial statements, but not required for a fair presentation of the Group's financial position, financial performance or cash flows, is not presented in the accompanying consolidated interim financial statements.

The Group's condensed consolidated interim financial statements for the three-month period ended August 31, 2022, have been prepared in accordance with Korean IFRS 1034 *Interim Financial Reporting*. These condensed consolidated interim financial statements have been prepared in accordance with Korean IFRS which is effective or early adopted as at August 31, 2022.

ESR Kendall Square REIT Co., Ltd. and Subsidiaries

Notes to the Consolidated Interim Financial Statements

August 31, 2022 and February 28, 2022 (Unaudited) and May 31, 2022

2.1.1 New and amended standards adopted by the Group

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing June 1, 2022.

(a) Amendment to Korean IFRS 1116 Leases - Covid-19 - Related Rent Concessions beyond June 30, 2021

The application of the practical expedient, a lessee may elect not to assess whether a rent concession occurring as a direct consequence of the COVID-19 pandemic is a lease modification, is extended to lease payments originally due on or before June 30, 2022. A lessee shall apply the practical expedient consistently to eligible contracts with similar characteristics and in similar circumstances. The amendment does not have a significant impact on the consolidated financial statements.

(b) Amendments to Korean IFRS 1103 Business Combination – Reference to the Conceptual Framework

The amendments update a reference of definition of assets and liabilities to be recognized in a business combination in revised Conceptual Framework for Financial Reporting. However, the amendments add an exception for the recognition of liabilities and contingent liabilities within the scope of Korea IFRS 1037 *Provisions, Contingent Liabilities and Contingent Assets*, and Korean IFRS 2121 *Levies*. The amendments also clarify that contingent assets should not be recognized at the acquisition date. The amendment does not have a significant impact on the consolidated financial statements.

(c) Amendments to Korean IFRS 1016 Property, Plant and Equipment - Proceeds before intended use

The amendments prohibit an entity from deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while the entity is preparing the asset for its intended use. Instead, the entity will recognize the proceeds from selling such items, and the costs of producing those items, in profit or loss. The amendment does not have a significant impact on the consolidated financial statements.

(d) Amendments to Korean IFRS 1037 Provisions, Contingent Liabilities and Contingent Assets - Onerous Contracts : Cost of Fulfilling a Contract

The amendments clarify that the direct costs of fulfilling a contract include both the incremental costs of fulfilling the contract and an allocation of other costs directly related to fulfilling contracts when assessing whether the contract is onerous. The amendment does not have a significant impact on the consolidated financial statements.

(e) Annual improvements to Korean IFRS 2018-2020

Annual improvements of Korean IFRS 2018-2020 Cycle should be applied for annual periods beginning on or after January 1, 2022, and earlier application is permitted. The amendment does not have a significant impact on the consolidated financial statements.

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Notes to the Consolidated Interim Financial Statements

August 31, 2022 and February 28, 2022 (Unaudited) and May 31, 2022

- Korean IFRS 1101 First time Adoption of Korean International Financial Reporting Standards – Subsidiaries that are first-time adopters
- Korean IFRS 1109 Financial Instruments – Fees related to the 10% test for derecognition of financial liabilities
- Korean IFRS 1041 Agriculture – Measuring fair value

2.1.2 New standards and interpretations not yet adopted by the Group

The following new accounting standards and interpretations that have been published that are not mandatory for August 31, 2022 reporting periods and have not been early adopted by the Group.

(a) Amendments to Korean IFRS 1001 Presentation of Financial Statements - Classification of Liabilities as Current or Non-current

The amendments clarify that liabilities are classified as either current or non-current, depending on the substantive rights that exist at the end of the reporting period. Classification is unaffected by the likelihood that an entity will exercise right to defer settlement of the liability or the expectations of management. Also, the settlement of liability includes the transfer of the entity's own equity instruments, however, it would be excluded if an option to settle them by the entity's own equity instruments if compound financial instruments is met the definition of equity instruments and recognized separately from the liability. The amendments should be applied for annual periods beginning on or after January 1, 2023, and earlier application is permitted. The Group is in review for the impact of these amendments on the consolidated financial statements.

(b) Korean IFRS 1001 Presentation of Financial Statements - Disclosure of Accounting Policies

The amendments to Korean IFRS 1001 define and require entities to disclose their material accounting policies. The amendments should be applied for annual periods beginning on or after January 1, 2023, and earlier application is permitted. The Group is in review for the impact of these amendments on the consolidated financial statements

(c) Korean IFRS 1008 Accounting policies, changes in accounting estimates and errors - Definition of Accounting Estimates

The amendments define accounting estimates and clarify how to distinguish them from changes in accounting policies. The amendments should be applied for annual periods beginning on or after January 1, 2023, and earlier application is permitted. The Group does not expect that these amendments have a significant impact on the consolidated financial statements.

(d) Korean IFRS 1012 Income Taxes - Deferred Tax related to Assets and Liabilities arising from a Single Transaction

The amendments include an additional condition to the exemption to initial recognition of an asset or liability that a transaction does not give rise to equal taxable and deductible temporary differences at the time of the transaction. The amendments should be applied for annual periods

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beginning on or after January 1, 2023, and earlier application is permitted. The Group does not expect that these amendments have a significant impact on the consolidated financial statements

(e) New Standard: Korean IFRS 1117 Insurance Contract

Korean IFRS 1117 *Insurance Contracts* replaces Korean IFRS 1104 *Insurance Contracts*. This Standard estimates future cash flows of an insurance contract and measures insurance liabilities using discount rates applied with assumptions and risks at the measurement date. The entity recognizes insurance revenue on an accrual basis including services (insurance coverage) provided to the policyholder by each annual period. In addition, investment components (Refunds due to termination/maturity) repaid to a policyholder even if an insured event does not occur, are excluded from insurance revenue, and insurance financial income or expense and the investment income or expense are presented separately to enable users of the information to understand the sources of income or expenses. This Standard should be applied for annual periods beginning on or after January 1, 2023, and earlier application is permitted for entities that applied Korean IFRS 1109 Financial Instruments. The Group does not expect that these amendments have a significant impact on the consolidated financial statements.

2.2 Significant Accounting Policies

Significant accounting policies and method of computation used in the preparation of the condensed consolidated interim financial statements are consistent with those of the consolidated financial statements for the period ended May 31, 2022, except for the changes due to the application of amendment and enactments of standards described in Note 2.1.1.

3. Critical Accounting Estimates and Assumptions

The preparation of financial statements requires the Group to make estimates and assumptions concerning the future. Management also needs to exercise judgement in applying the Group's accounting policies. Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. As the resulting accounting estimates will, by definition, seldom equal the related actual results, it can contain a significant risk of causing a material adjustment.

The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below. Additional information of significant judgement and assumptions of certain items are included in relevant notes.

The spread of Coronavirus disease 2019 ("COVID-19") has a material impact on the global economy. It may have a negative impact; such as, decrease in productivity, decrease or delay in sales, collection of existing receivables and others. Accordingly, it may have a negative impact on the financial position and financial performance of the Group.

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Significant accounting estimates and assumptions applied in the preparation of the consolidated financial statements can be adjusted depending on changes in the uncertainty from COVID-19. Also, the ultimate effect of COVID-19 to the Group's business, financial position and financial performance cannot presently be determined.

4. Cash and Cash Equivalents

Cash and cash equivalents as at August 31, 2022 and May 31, 2022, are as follows:

<i>(in thousands of Korean won)</i>	August 31, 2022		May 31, 2022	
Bank deposits	₩	44,028,481	₩	33,920,833

5. Short-term Financial Assets

Short-term financial assets as at August 31, 2022 and May 31, 2022, are as follows:

<i>(in thousands of Korean won)</i>	August 31, 2022		May 31, 2022	
Bank deposits ¹	₩	-	₩	63,409

¹ As the pledge was terminated during the three-month period ended August 31, 2022, it was reclassified as cash and cash equivalents.

6. Financial Instruments Restricted in Use

Financial instruments that are restricted in use as at August 31, 2022 and May 31, 2022, are as follows:

<i>(in thousands of Korean won)</i>	August 31, 2022		May 31, 2022	
Short-term financial assets ¹	₩	-	₩	63,409
Long-term financial assets ²		42,218,793		42,218,513
	₩	42,218,793	₩	42,281,922

¹ As the pledge was terminated during the three-month period ended August 31, 2022, it was reclassified as cash and cash equivalents.

² Consist of bank deposit and time deposit and are pledged on the leasehold deposits.

ESR Kendall Square REIT Co., Ltd. and Subsidiaries
Notes to the Consolidated Interim Financial Statements
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7. Other Financial Assets

Other financial assets as at August 31, 2022 and May 31, 2022, are as follows:

<i>(in thousands of Korean won)</i>	August 31, 2022		May 31, 2022	
Current assets				
Accounts receivables	₩	1,115,526	₩	1,071,653
Accrued income		411,969		4,606,451
Short-term loans		15,000,000		15,000,000
	₩	<u>16,527,495</u>	₩	<u>20,678,104</u>
Non-current assets				
Other leasehold deposits	₩	543,000	₩	543,000
Accrued income		3,098,331		2,800,418
	₩	<u>3,641,331</u>	₩	<u>3,343,418</u>

8. Other Assets

Other assets as at August 31, 2022 and May 31, 2022, are as follows:

<i>(in thousands of Korean won)</i>	August 31, 2022		May 31, 2022	
Prepaid expenses	₩	2,590,795	₩	1,885,115

9. Investment in Associates

Investment in associates as at August 31, 2022 and February 28, 2022, are as follows:

<i>(in thousands of Korean won)</i>	August 31, 2022						
	Country of domicile	Percentage of ownership	Number of shares invested	Beginning balance	Share of profit or loss	Ending balance	
Beneficiary certificates:							
KendallSquare Professional Investment Type Real Estate Investment Fund #6	Korea	99.20%	37,264,025,475	₩ 46,128,366	₩ 480,810	₩	46,609,177
KendallSquare Professional Investment Type Real Estate Investment Fund #7	Korea	99.28%	41,126,694,806	41,218,197	568,973		41,787,171
KendallSquare Professional Investment Type Real Estate Investment Fund #8	Korea	99.21%	37,743,009,474	43,242,069	542,056		43,784,124
KendallSquare Professional Investment Type Real Estate Investment Fund #11	Korea	99.29%	42,104,284,981	43,789,196	350,063		44,139,259
KendallSquare Professional Investment Type Real Estate Investment Fund #18	Korea	97.78%	30,898,138,840	30,311,636	193,550		30,505,186
				₩ 204,689,464	₩ 2,135,452	₩	<u>206,824,917</u>

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(in thousands of Korean won)

	Country of domicile	Percentage of ownership	Number of shares invested	February 28, 2022			
				Beginning balance	Acquisitions	Share of profit or loss	Ending balance
Beneficiary certificates:							
KendallSquare Professional Investment Type Real Estate Investment Fund #6	Korea	99.20%	37,264,025,475	₩ 37,050,880	₩ -	₩ 217,549	₩ 37,268,429
KendallSquare Professional Investment Type Real Estate Investment Fund #7	Korea	99.28%	41,126,694,806	40,866,148	-	678,226	41,544,373
KendallSquare Professional Investment Type Real Estate Investment Fund #8	Korea	99.21%	37,743,009,474	37,350,998	-	572,563	37,923,561
KendallSquare Professional Investment Type Real Estate Investment Fund #11	Korea	99.29%	42,104,284,981	41,737,311	-	670,088	42,407,399
KendallSquare Professional Investment Type Real Estate Investment Fund #18	Korea	83.54%	26,398,138,840	25,604,482	4,610,418	350,567	30,565,467
				₩ 182,609,819	₩ 4,610,418	₩ 2,488,993	₩ 189,709,229

Although percentage of ownership of the above beneficiary certificates exceed 50%, the beneficiary certificates are classified as associates because they are trust type beneficiary certificates that are determined to have no de facto control in accordance with the Capital Market Act and trust contract.

10. Investment Properties

Investment properties as at August 31, 2022 and May 31, 2022, are as follows:

(in thousands of Korean won)

	August 31, 2022			May 31, 2022		
	Acquisition cost	Accumulated depreciation	Book amount	Acquisition cost	Accumulated depreciation	Book amount
Land	₩ 607,327,301	₩ -	₩ 607,327,301	₩ 607,327,301	₩ -	₩ 607,327,301
Buildings	1,368,358,377	(33,576,703)	1,334,781,675	1,368,081,316	(26,655,978)	1,341,425,339
Construction in progress	12,369,396	-	12,369,396	12,224,870	-	12,224,870
	₩ 1,988,055,074	₩ (33,576,703)	₩ 1,954,478,372	₩ 1,987,633,487	₩ (26,655,978)	₩ 1,960,977,510

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Changes in investment properties for the three-month periods ended August 31, 2022 and February 28, 2022, are as follows:

(in thousands of Korean won)

	August 31, 2022			
	Land	Building	Construction in progress	Total
Beginning balance	₩ 607,327,301	₩ 1,341,425,339	₩ 12,224,870	₩ 1,960,977,510
Acquisitions/transfers	-	277,061	144,526	421,587
Depreciation	-	(6,920,725)	-	(6,920,725)
Ending balance	<u>₩ 607,327,301</u>	<u>₩ 1,334,781,675</u>	<u>₩ 12,369,396</u>	<u>₩ 1,954,478,372</u>

(in thousands of Korean won)

	February 28, 2022			
	Land	Building	Construction in progress	Total
Beginning balance	₩ 403,120,961	₩ 796,304,435	₩ -	₩ 1,199,425,396
Acquisitions/transfers	204,206,340	557,142,679	10,516,925	771,865,944
Depreciation	-	(6,163,710)	-	(6,163,710)
Ending balance	<u>₩ 607,327,301</u>	<u>₩ 1,347,283,404</u>	<u>₩ 10,516,925</u>	<u>₩ 1,965,127,630</u>

Revenues and expenses related to investment properties for the three-month periods ended August 31, 2022 and February 28, 2022, are as follows:

<i>(in thousands of Korean won)</i>	August 31, 2022	February 28, 2022
Operating revenues ¹	₩ 24,244,540	₩ 21,984,022
Operating expenses ²	11,494,634	9,921,975

¹ Operating revenues consist of rental income and management income.

² Operating expenses consist of insurance expense, depreciation expense, real estate management consignment fees, facility maintenance & administrative expenses, taxes and due, utilities expenses, deemed rent and rental brokerage fees.

Fair value of investment properties as at August 31, 2022 has no significant difference with the book amount.

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The Group has provided collateral rights for the underlying mortgage on land and buildings and the insurance coverage rights of the property all risks insurance in relation to long-term borrowings and details are as follows:

<i>(in thousands of Korean won)</i>	Book value of the assets provided as collateral	Contract amount & Loan amount	Maximum amount of bonds (120%)
Tranche A&B&C	₩ 1,188,332,312	₩ 653,500,000	₩ 784,200,000
Tranche C1-1	74,457,406	41,800,000	50,160,000
Tranche C1-2	339,389,208	187,900,000	225,480,000
Tranche C1-3	132,624,096	73,800,000	88,560,000
Tranche C2	207,305,955	114,500,000	137,400,000
	<u>₩ 1,942,108,977</u>	<u>₩ 1,071,500,000</u>	<u>₩ 1,285,800,000</u>

The Group subscribes to the property all risks insurance (insured amount: ₩ 794,554 million) in relation to investment property.

11. Other Financial Liabilities

Other financial liabilities as at August 31, 2022 and May 31, 2022, are as follows:

<i>(in thousands of Korean won)</i>	August 31, 2022	May 31, 2022
Current liabilities		
Non-trade payables	₩ 31,289,750	₩ 5,573,176
Accrued expense	5,336,427	5,336,878
Leasehold deposits	5,010,968	2,245,881
Discount account on present value	(92,280)	(48,747)
	<u>₩ 41,544,865</u>	<u>₩ 13,107,188</u>
Non-current liabilities		
Leasehold deposits	₩ 39,682,499	₩ 42,447,586
Discount account on present value	(4,547,628)	(4,837,592)
	<u>₩ 35,134,871</u>	<u>₩ 37,609,994</u>

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12. Other Liabilities

Other liabilities as at August 31, 2022 and May 31, 2022, are as follows:

<i>(in thousands of Korean won)</i>	August 31, 2022	May 31, 2022
Current liabilities		
Withholdings	₩ 315	₩ 120,767
Value added tax withholdings	1,522,680	978,311
Unearned revenue	1,315,795	1,549,227
	<u>2,838,790</u>	<u>2,648,305</u>
Non-current liabilities		
Unearned revenue	3,577,522	3,807,743
	<u>₩ 3,577,522</u>	<u>₩ 3,807,743</u>

13. Long-term Borrowings

Details of long-term borrowings as at August 31, 2022 and May 31, 2022, are as follows:

<i>(in thousands of Korean won)</i>	Annual interest rate at August 31, 2022	Maturity date	August 31, 2022	May 31, 2022
	Financial institution			
	Hanwha General Insurance Co., Ltd.	2.22%	December 14, 2023	₩ 50,000,000
	Bank of China	2.22%	December 14, 2023	₩ 50,000,000
Tranche A ¹	Shinhan Bank	2.22%	December 14, 2023	₩ 50,000,000
	Industrial Bank of Korea	2.22%	December 14, 2023	₩ 105,000,000
	KB Insurance Co., Ltd	2.50%	November 30, 2024	₩ 34,300,000
Tranche B ¹	Industrial Bank of Korea	2.50%	December 14, 2025	₩ 155,500,000
	NongHyup Life Insurance Co., Ltd.	2.50%	December 14, 2025	₩ 40,000,000
	Industrial Bank of Korea	2.50%	December 14, 2025	₩ 28,700,000
Tranche C ¹	Hanwha General Insurance Co., Ltd.	2.50%	December 14, 2025	₩ 50,000,000
	NongHyup Life Insurance Co., Ltd.	2.50%	December 14, 2025	₩ 40,000,000
	TONGYANG LIFE INSURANCE CO.,LTD.	2.50%	December 14, 2025	₩ 50,000,000
Tranche C1-1 ¹	Kookmin Bank	2.50%	December 20, 2024	₩ 32,751,000
	KB Insurance Co., Ltd	2.50%	December 20, 2024	₩ 9,049,000

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<i>(in thousands of Korean won)</i>	Financial institution	Annual interest rate at August 31, 2022	Maturity date	August 31, 2022	May 31, 2022
Tranche C1-2 ¹	Kookmin Bank	2.50%	December 20, 2024	147,225,000	147,225,000
	KB Insurance Co., Ltd	2.50%	December 20, 2024	40,675,000	40,675,000
Tranche C1-3 ¹	Kookmin Bank	2.50%	December 20, 2024	57,824,000	57,824,000
	KB Insurance Co., Ltd	2.50%	December 20, 2024	15,976,000	15,976,000
Tranche C-2 ¹	Kookmin Bank	2.70%	December 20, 2026	114,500,000	114,500,000
				<u>1,071,500,000</u>	<u>1,071,500,000</u>
	Less: discount account on present value			<u>(10,209,380)</u>	<u>(11,214,719)</u>
				<u>₩ 1,061,290,620</u>	<u>₩ 1,060,285,281</u>

¹ The Group provided the investment properties and leasehold deposits as collateral for the borrowings (Note 27).

14. Share Capital and Other Paid-in-Capital

Details of share capital as at August 31, 2022, are as follows:

<i>(in Korean won)</i>	Total number of authorized shares	Total number of issued shares	Par value per share	Share capital
Common shares	2,000,000,000 shares	213,089,000 shares	₩ 1,000	₩ 213,089,000,000

Details of other paid-in-capital as at August 31, 2022 and May 31, 2022, are as follows:

<i>(in thousands of Korean won)</i>	August 31, 2022	May 31, 2021
Additional paid-in-capital	₩ 900,186,632	₩ 900,186,632

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15.Retained Earnings

Details of retained earnings as at August 31, 2022 and May 31, 2022, are as follows:

<i>(in thousands of Korean won)</i>	August 31, 2022		May 31, 2021	
Retained earnings	₩	13,770,537	₩	37,309,481

Changes in retained earnings for the three-month periods ended August 31, 2022 and, February 28, 2022, are as follows:

<i>(in thousands of Korean won)</i>	August 31, 2022		February 28, 2022	
Beginning balance	₩	37,309,481	₩	16,494,915
Transfer of other paid-in-capital to retained earnings		-		9,836,000
Dividends		(28,553,926)		(19,196,706)
Profit for the period		5,014,982		6,040,403
Ending balance	₩	<u>13,770,537</u>	₩	<u>13,174,612</u>

Dividends per share and total dividends for the fiscal year ended May 31, 2022 are ₩134 and ₩ 28,533,926 thousand, respectively, and were proposed and resolved at the shareholder's meeting on August 26, 2022. The financial statements at August 31, 2022 include the unpaid dividends.

16.Income Tax Expense

Income tax expense is the sum of income tax calculated at the amount expected to be paid to the taxation authorities under the Corporate Tax Laws and adding or subtracting the changes in deferred tax in the current period.

Under the Article 51-2 of Corporate Tax Law of the Republic of Korea, Income Deduction for Special Purpose Companies, etc., if the Group pay-outs 90% or more of its profit available for dividends as dividends, the Group shall be entitled to deduct such amount from its taxable income for the fiscal year. Since there was no corporate tax to be paid, the Group has not recognized any income tax expenses.

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17. Earnings per Share

Basic earnings per share for the three-month periods ended August 31, 2022 and February 28, 2022, are as follows:

<i>(in Korean won)</i>	August 31, 2022	February 28, 2022
Profit for the period attributable to owners of the Parent Company	₩ 5,014,982,162	₩ 6,040,402,618
Weighted average number of common shares outstanding	213,089,000 shares	200,674,778 shares
Basic earnings per share	₩ 24	₩ 30

Weighted average number of common shares outstanding for the three-month periods ended August 31, 2022 and February 28, 2022, are calculated as follows:

<i>(in shares)</i>	August 31, 2022		
	Number of shares	Accumulated number of days	Accumulated number of common shares outstanding
Beginning	213,089,000	91	19,391,099,000
Weighted average number of common shares outstanding			213,089,000

<i>(in shares)</i>	February 28, 2022		
	Number of shares	Accumulated number of days	Accumulated number of common shares outstanding
Beginning	143,259,000	16	2,292,144,000
Increased in issued capital	213,089,000	74	15,768,586,000
Weighted average number of common shares outstanding			200,674,778

Diluted earnings per share

The Group did not issue any potential ordinary shares, therefore, diluted earnings per share are identical to basic earnings per share for the three-month period ended August 31, 2022, and February 28, 2022.

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18. Operating Revenues

Operating revenues for the three-month periods ended August 31, 2022, and February 28, 2022, are as follows:

<i>(in thousands of Korean won)</i>	August 31, 2022		February 28, 2022	
Rental income	₩	23,544,234	₩	21,358,054
Management income		700,306		625,968
Other income		260,376		243,284
	₩	<u>24,504,916</u>	₩	<u>22,227,306</u>

The future minimum lease payments expected to be received in relation to the operating lease agreement as at August 31, 2022 and February 28, 2022, are as follows:

<i>(in thousands of Korean won)</i>	August 31, 2022		February 28, 2022	
Within one year	₩	90,733,176	₩	93,884,892
Between 1 and 2 years		82,589,651		91,562,533
Between 2 and 3 years		76,424,270		82,591,233
Between 3 and 4 years		61,136,209		67,329,280
Between 4 and 5 years		43,484,095		43,539,448
Later than five years		62,388,053		79,688,135
	₩	<u>416,755,454</u>	₩	<u>458,595,521</u>

19. Operating Expenses

Operating expenses for the three-month periods ended August 31, 2022 and February 28, 2022, are as follows:

<i>(in thousands of Korean won)</i>	August 31, 2022		February 28, 2022	
Depreciation	₩	6,925,866	₩	6,163,710
Asset management consignment fees		2,488,164		2,235,929
Other fees		288,806		975,858
Insurance expenses		921,097		767,889
Real estate management consignment fees		809,845		678,746
Utilities expenses		1,852		3,805
Advertising expenses		-		99,000
General affairs consignment fees		63,821		60,449
Salaries		45,000		45,000
Asset custody consignment fees		30,164		29,670
Deemed rent		9,598		8,349
Taxes and due		2,810,231		4,171
Facility maintenance & administrative expenses		21,287		2,852
	₩	<u>14,415,731</u>	₩	<u>11,075,428</u>

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20. Finance Income and Costs

Financial income and expenses for the three-month periods ended August 31, 2022, and February 28, 2022, are as follows:

<i>(in thousands of Korean won)</i>	August 31, 2022	February 28, 2022
Financial income		
Interest income	₩ 381,547	₩ 115,497
Financial costs		
Interest costs	₩ 7,868,166	₩ 7,738,698

21. Other Income and Expenses

Other income and expenses for the three-month periods ended August 31, 2022 and February 28, 2022, are as follows:

<i>(in thousands of Korean won)</i>	August 31, 2022	February 28, 2022
Other income		
Gain on assets contributed	₩ 277,061	₩ -
Miscellaneous income	8	22,733
	<u>₩ 277,069</u>	<u>₩ 22,733</u>
Other expenses		
Miscellaneous expenses	₩ 105	₩ -

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22. Financial Risk Management

22.1 Capital risk management

The primary objective of The Group's capital management is to maintain its ability to continuously provide return to its shareholders and stakeholders and to optimize its capital structure to reduce capital expenses.

The Group adopted debt-to-equity ratio for the capital management index, which is calculated by dividing total liabilities over total capital.

Debt-to-equity ratio as at August 31, 2022 and May 31, 2022, are as follows:

<i>(in thousands of Korean won)</i>		August 31, 2022		May 31, 2022
Liabilities	₩	1,144,386,670	₩	1,117,458,512
Equity		1,127,046,168		1,150,585,112
Debt-to-equity ratio		101.54%		97.12%

22.2 Financial risk factors

The Group's financial assets and liabilities are exposed to various risks including market risk, credit risk and liquidity risk. The Group's financial risk management focuses on identifying the potential risks that may arise from operating activities and eliminating or minimizing these risks to an acceptable level.

(a) Market risk

The Group has no assets or liabilities that are exposed to changes in foreign currency exchange rates or risk of interest rate fluctuations.

(b) Credit risk

Credit risk refers to the risk that the customer or the counterparty will suffer financial losses due to failure to fulfil their contractual obligations in our ordinary transactions and investment activities.

- Level of exposure to credit risk

The carrying amount of the financial asset represents the maximum exposure to credit risk. The degree of exposure to credit risk as at August 31, 2022 and May 31, 2022, are as follows:

<i>(in thousands of Korean won)</i>		August 31, 2022		May 31, 2022
Cash and cash equivalents	₩	44,028,481	₩	33,920,833
Short-term financial instruments		-		63,409
Long-term financial instruments		42,218,793		42,218,513
Other financial assets		20,168,826		24,021,523

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(c) *Liquidity risk*

The Group has established a liquidity risk management framework for the management of the Group's short- and medium-term financial assets and liabilities and continuously monitors forecasts and actual cash flows to respond to the maturity profiles of these financial assets and liabilities. Management assesses that financial liabilities can be repaid through cash flows from operating activities and cash inflows from financial assets.

Analysis of liquidity risk as at August 31, 2022 and May 31, 2022, are as follows:

(in thousands of Korean won)

	August 31, 2022					
	Book amount	Contractual cash flows	Within 1 year	1 year ~ 2 years	2 years ~ 5 years	Over 5 years
Non-trade payables	₩ 31,289,750	₩ 31,289,750	₩ 31,289,750	₩ -	₩ -	₩ -
Accrued expenses	5,336,427	5,336,427	5,336,427	-	-	-
Long-term borrowings	1,061,290,620	1,141,441,127	26,302,500	277,270,007	837,868,621	-
Leasehold deposits	40,053,559	44,693,467	5,010,968	1,145,730	21,940,802	16,595,967
	<u>₩ 1,137,970,356</u>	<u>₩ 1,222,760,771</u>	<u>₩ 67,939,645</u>	<u>₩ 278,415,737</u>	<u>₩ 859,809,423</u>	<u>₩ 16,595,967</u>

(in thousands of Korean won)

	May 31, 2022					
	Book amount	Contractual cash flows	Within 1 year	1 year ~ 2 years	2 years ~ 5 years	Over 5 years
Non-trade payables	₩ 5,573,176	₩ 5,573,176	₩ 5,573,176	₩ -	₩ -	₩ -
Accrued expenses	5,336,878	5,336,878	5,336,878	-	-	-
Long-term borrowings	1,060,285,281	1,148,070,799	26,302,500	278,696,889	843,071,410	-
Leasehold deposits	39,807,128	44,693,467	2,245,881	3,693,509	22,158,110	16,595,967
	<u>₩ 1,111,002,463</u>	<u>₩ 1,203,674,320</u>	<u>₩ 39,458,435</u>	<u>₩ 282,390,398</u>	<u>₩ 865,229,520</u>	<u>₩ 16,595,967</u>

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23. Financial Instruments by Category and Fair Value

Financial instruments by category and fair value as at August 31, 2022 and May 31, 2022, are as follows:

(in thousands of Korean won)

	August 31, 2022		May 31, 2022	
	Book amount	Fair value	Book amount	Fair value
Financial assets				
Cash and cash equivalents	₩ 44,028,481	₩ 44,028,481	₩ 33,920,833	₩ 33,920,833
Short-term financial instruments	-	-	63,409	63,409
Long-term financial instruments	42,218,793	42,218,793	42,218,513	42,218,513
Other financial assets	20,168,826	20,168,826	24,021,523	24,021,523
	<u>₩ 106,416,100</u>	<u>₩ 106,416,100</u>	<u>₩ 100,224,278</u>	<u>₩ 100,224,278</u>
Financial liabilities				
Long-term borrowings	₩ 1,061,290,620	₩ 1,061,290,620	₩ 1,060,285,281	₩ 1,060,285,281
Other financial liabilities	76,679,736	76,679,736	50,717,182	50,717,182
	<u>₩ 1,137,970,356</u>	<u>₩ 1,137,970,356</u>	<u>₩ 1,111,002,463</u>	<u>₩ 1,111,002,463</u>

Net gains or losses on each category of financial instruments for the three-month periods ended August 31, 2022 and February 28, 2022, are as follows:

(in thousands of Korean won)

	August 31, 2022	February 28, 2022
Financial assets at amortized cost		
Interest income	₩ 381,547	₩ 115,497
Financial liabilities at amortized cost		
Interest expenses	7,868,166	7,738,698

24. Cash flow

The significant non-cash transactions for the three-month periods ended August 31, 2022 and February 28, 2022, are as follows:

(in thousands of Korean won)

	August 31, 2022	February 28, 2022
Transfer of other paid-in-capital to retained earnings	₩ -	₩ 9,836,000
Dividends	28,553,926	19,196,706
Reclassification to current portion of leasehold deposits received	2,765,087	-
Reclassification to current portion of unearned revenues	82,894	998,778

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Changes in liabilities arising from financial activities for the three-month period ended August 31, 2022, are as follows:

<i>(in thousands of Korean won)</i>	Beginning balance	Cash flow from financial activities	Changes in non-cash transactions¹	Ending balance
Unpaid dividends	₩ -	₩ -	₩ 28,553,926	₩ 28,553,926
Long-term borrowings	1,060,285,281	-	1,005,340	1,061,290,621
Leasehold deposits	39,807,128	-	246,432	40,053,560

¹ Changes in non-cash transactions include non-cash movements and interest payments which are presented as operating cash flows in the statement of cash flows when paid.

25. Related Party Transactions

Related parties as at August 31, 2022 and May 31, 2022, are as follows:

	August 31, 2022	May 31, 2022
Associates	KendallSquare Professional Investment Type Real Estate Investment Fund #6 KendallSquare Professional Investment Type Real Estate Investment Fund #7 KendallSquare Professional Investment Type Real Estate Investment Fund #8 KendallSquare Professional Investment Type Real Estate Investment Fund #11 KendallSquare Professional Investment Type Real Estate Investment Fund #18	KendallSquare Professional Investment Type Real Estate Investment Fund #6 KendallSquare Professional Investment Type Real Estate Investment Fund #7 KendallSquare Professional Investment Type Real Estate Investment Fund #8 KendallSquare Professional Investment Type Real Estate Investment Fund #11 KendallSquare Professional Investment Type Real Estate Investment Fund #18
Other related party ¹	Kendall Square REIT Management, Inc. CPP Investment Board Real Estate Holdings Inc. ESR Kendall Square REIT Holding PTE, LTD.	Kendall Square REIT Management, Inc. CPP Investment Board Real Estate Holdings Inc. ESR Kendall Square REIT Holding PTE, LTD.

¹ Rights to appoint a director based on shareholders' agreement of the Company which was granted to ESR KENDALL SQUARE REIT HOLDING PTE, LTD., CPP INVESTMENT BOARD REAL ESTATE HOLDINGS INC. are terminated due to termination of the agreement, and the appointed directors as at August 31, 2022 are those who have been appointed by the parties within the term of the agreement.

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Transactions with related parties for the three-month periods ended August 31, 2022 and February 28, 2022, are as follows:

<i>(in thousands of Korean won)</i>			<u>August 31, 2022</u>	
	Related party		Asset management consignment fees¹	Consignment service fee
Other related party	Kendall Square REIT Management, Inc.	₩	2,488,164	₩ 10,681

<i>(in thousands of Korean won)</i>			<u>February 28, 2022</u>	
	Related party		Asset management consignment fees¹	
Other related party	Kendall Square REIT Management, Inc.	₩		7,763,885

¹ Asset management consignment fees for Kendall Square REIT Management, Inc. includes asset purchase fee amounting to ₩ 110 million, which is included in the acquisition cost of investments in associates, and asset purchase fee amounting to ₩ 5,552 million, which is included in the acquisition cost of investment properties.

Outstanding balances to related parties as at August 31, 2022 and May 31, 2022, are as follows:

<i>(in thousands of Korean won)</i>			<u>August 31, 2022</u>		<u>May 31, 2022</u>	
	Related party		Non-trade payables	Accrued income	Non-trade payables	
Associates	KendallSquare Professional Investment Type Real Estate Investment Fund #6	₩	-	₩ 793,611	₩	-
	KendallSquare Professional Investment Type Real Estate Investment Fund #7		-	1,389,862		-
	KendallSquare Professional Investment Type Real Estate Investment Fund #8		-	347,240		-
	KendallSquare Professional Investment Type Real Estate Investment Fund #11		-	1,141,864		-
	KendallSquare Professional Investment Type Real Estate Investment Fund #18		-	625,822		-
Other related party	Kendall Square REIT Management Co., Ltd.		2,687,481	-		5,196,502
	CPP Investment Board Real Estate Holdings Inc.		7,095,678	-		-
	ESR Kendall Square REIT Holding PTE, LTD.		1,833,715	-		-
		₩	<u>11,616,874</u>	<u>₩ 4,298,399</u>	₩	<u>5,196,502</u>

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Fund transactions with related parties for the three-month periods ended August 31, 2022 and February 28, 2022, are as follows:

(in thousands of Korean won)	Related party	August 31, 2022		February 28, 2022		Capital decrease (Acquisition of non-controlling interest)
		Dividends received	Acquisition of shares	Dividends received		
Associates	KendallSquare Professional Investment Type Real Estate Investment Fund #6	₩ 793,611	₩ -	₩ 267,844	₩ -	-
	KendallSquare Professional Investment Type Real Estate Investment Fund #7	1,389,862	-	317,683	-	-
	KendallSquare Professional Investment Type Real Estate Investment Fund #8	347,240	-	-	-	-
	KendallSquare Professional Investment Type Real Estate Investment Fund #11	1,141,864	-	129,080	-	-
	KendallSquare Professional Investment Type Real Estate Investment Fund #18	625,822	4,610,418	342,528	-	-
	Other related party Kendall Square REIT Management, Inc.	-	-	-	-	3,500,010
		₩ 4,298,399	₩ 4,610,418	₩ 1,057,135	₩ 3,500,010	

Compensation for key management of the Group for the three-month periods ended August 31, 2022 and February 28, 2022, are as follows:

(in thousands of Korean won)	August 31, 2022	February 28, 2022
Short-term employee benefits	₩ 28,500	₩ 28,500

26. Operating Segments

The Group operates as a single reporting segment, considering the nature of the services that generate operating profits. Therefore, disclosure of operating income, profit before income tax expense, and total assets and liabilities by reporting sector was omitted in these reports.

Revenues of approximately ₩ 18,041 million (February 28, 2022: ₩ 16,162 million), over 10% of the Group's revenue, are derived from a single external customer who leases Buchon cold logistics park and 6 others.

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27. Commitments

(a) Contract for the asset management services

The Group entered into a contract of the asset management services such as acquisition, management, development, improvement and disposal of real estate, lease, and sales of securities with ESR Kendall Square REIT Management Co., Ltd. Details of fees as follows:

	Details
Management fees	<p>a. Real estates:</p> <p>(Purchase price + additional cost related to purchase) X 0.5% (Annual Percentage Rate)</p> <p>b. Assets except real estate such as collective investment securities and equity securities:</p> <p>(The amount of real estate that is the underlying asset at the time the consigner purchase + additional cost related to purchase) X 0.5% X consigner's ratio of shareholding</p>
Operation performance fees	<p>(Amounts of dividends before deduction of operating performance fee per share for the current year + the maximum amounts of dividends before deducting operating performance fees per share in the past) X Weighted average total number of shares issued for the current year X 25%</p> <p>(However, if the calculated amount is negative (-) or no dividend for the previous year (clearly, if the current year is the year in which the first dividend was incurred), the operation performance fee would not be paid.)</p>
Purchase fee	<p>a. Real estates:</p> <p>Purchase price X 1.0%</p> <p>(*) 0.75%, in the case of real estate held by the asset manager's affiliated company is a collective investment business operator that is a collective investment scheme or a project finance investment company that is an asset management company pursuant to Article 51-2 of the Corporate Tax Act and Article 86-2 of the Enforcement Decree of the Corporate Tax Act.</p> <p>b. Assets except real estate such as collective investment securities and equity securities:</p> <p>The amount of real estate that is the underlying asset of assets for purchase X 1.0% (*) X Consigner's ratio of shareholding</p> <p>(*) 0.75%, in the cases of (i) the assets for purchased are shares of a real estate investment company under the Real Estate Investment Company Act and the asset manager or an affiliate of the asset manager is an asset management company of the relevant real estate investment company, (ii) the assets for purchased are collective investment securities issued by a real estate collective investment scheme and the asset manager's affiliated company is a collective investment business operator that is a collective investment scheme.</p>

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	Details
Basic sales commission	0.5% of the sales amount calculated when each asset is sold
Development fee	5% of the amounts that included acquisition tax (excluding land-related expenses, financial expenses, and operating expenses) and all expenses incurred from the completion date of land purchase to the date of approval of the building (temporary) use included in the acquisition tax table

In consultation with the asset management company, the consigner decides to calculate and pay the fees based on the total estimated amount of development fees reasonably determined. And also, it is decided to settle according to the difference between the estimated total development fee and the actual total development fee for the fiscal year in which the date of approval of the building (temporary) use belongs.

(b) General affairs consignment contract

The Group entered a general affairs consignment contract with Shinhan AITAS Co., Ltd. for affairs related to the issuance of shares, the operation, accounting and disclosure of the Group, and the board of directors and shareholder's meetings. Fees are paid ₩ 105 million per every fiscal year. In addition, for the assets that the Group additionally purchase, the defined fee rate (0.005%~0.01%) of the weighted average purchase price of the additionally acquired assets is paid.

(c) Asset custody consignment contract

The Group entered a consignment contract for custody and management of assets such as real estate, securities, and cash with Shinhan Bank. Fees are paid ₩ 45 million per every fiscal year. The Group entered a consignment contract for custody and management of securities, cash and other assets except for real estate with Woori Bank. Fees are paid ₩ 15 million per every fiscal year. The Group entered a consignment contract for custody and management of real estate with KB Real Estate Trust Co., Ltd. Separate fees are determined according to the "real estate collateral trust contract", and the trust fee amounts to ₩ 200 million for 5 assets.

(d) Loan agreement

Details of the loan agreement as at August 31, 2022, are as follows:

<i>(in thousands of Korean won)</i>	Contract amount	Loan amount
Tranche A (Hanwha General Insurance Co., Ltd., etc. and 4 others)	₩ 289,300,000	₩ 289,300,000
Tranche B&C (Industrial Bank of Korea, etc. and 5 others)	782,200,000	782,200,000
Tranche D (Industrial Bank of Korea)	20,000,000	-
Tranche D (Kookmin Bank)	30,000,000	-
	₩ 1,121,500,000	₩ 1,071,500,000

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Regarding the loan agreements, the Group provided the investment property as collateral and details are as follows:

<i>(in thousands of Korean won)</i>	Collateral	Book value	Secured amount	Related borrowings	Financial institutions
Investment properties	Buchon cold logistics park and 4 others	₩ 465,669,074	₩ 306,000,000	Tranche A	Industrial Bank of Korea, etc. and 3 others
	Goyang logistics park	495,163,726	437,040,000	Tranche B&C	Industrial Bank of Korea, etc. and 3 others
	Anseong logistics park	165,543,615			
	Anseong logistics park 4	61,955,897	41,160,000	Tranche A	KB Insurance Co., Ltd
	Gimhae logistics park 2	74,457,406	50,160,000	Tranche C1-1	KB Insurance Co., Ltd, Kookmin Bank
	Anseong logistics park 2	339,389,208	225,480,000	Tranche C1-2	KB Insurance Co., Ltd, Kookmin Bank
	Anseong logistics park 3	132,624,096	88,560,000	Tranche C1-3	KB Insurance Co., Ltd, Kookmin Bank
	Icheon logistics park 5	207,305,955	137,400,000	Tranche C-2	Kookmin Bank
		<u>₩ 1,942,108,977</u>	<u>₩ 1,285,800,000</u>		

Among the Tranche A, the leasehold deposits of ₩ 310,684 thousand and ₩ 353,897 thousand are reserved as leasehold rights and senior collateral, respectively.

As at August 31, 2022, the Group has been provided a performance guarantee of ₩ 450 million from Seoul Guarantee Insurance Company in relation to the payment of electricity bills.

As at August 31, 2022, the Group has entered into sales contract for the acquisition of Icheon logistics park and others and the total purchase amount excluding incidental fees is ₩ 252.4 billion and unpaid amount was ₩ 240.4 billion. The Group recognized the costs paid for the acquisition of logistics park as construction in progress.