2H 2023 Earnings Call & Investor Day

ESR KENDALL SQUARE REIT
Supplemental Information

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Financial Information

ESR KENDALLSQUARE REIT

Consolidated Balance Sheets (K-IFRS)

Unit. KRW bn	FY 8 (2023.11.30)	FY 7 (2023.05.31)	FY 6 (2022.11.30)
Assets:			
Current Assets	79	52	57
Cash and cash equivalents	61	25	31
Other current assets	18	27	26
Non-Current assets	2,264	2,325	2,196
Investment properties	2,052	2,067	1,948
Investments in associates	169	218	206
Other non-current assets	43	40	43
Total assets	**2,343**	2,377	2,253
Liabilities and Equity:			
Current liabilities	270	282	18
Non-current liabilities	957	962	1,101
Total liabilities	1,227	1,244	1,119
Share capital	213	213	213
Other paid-in-capital	900	900	900
Retained earnings	3	20	21
Total equity	1,116	1,133	1,134
Total liabilities and equity	**2,343**	2,377	2,253

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ESR KENDALLSQUARE REIT

Consolidated Income Statements (K-IFRS)

	Six Months Ended November.30		Twelve Months Ended November.30	
Unit. KRW bn, except for earnings per share	2H2023 (FY8)	2H2022 (FY6)	2023 (FY8+FY7)	2022 (FY6+FY5)
Operating revenues	53.0	49.0	102.4	95.7
Operating expenses	28.8	26.5	52.2	49.4
Operating expenses related to investment properties(1)	22.5	20.7	40.0	37.2
Other operating expenses(2)	6.3	5.8	12.2	12.2
Operating Income	**24.2**	22.5	50.3	46.3
Non-operating income	6.5	5.9	24.4	28.0
Financial income	0.9	0.6	1.9	0.9
Other income	-	0.3	-	0.4
Profits of associates accounted for using equity method	5.6	5.0	22.5	26.8
Non-operating expense	18.8	15.7	34.8	31.4
Financial expenses	18.8	15.7	34.8	31.4
Other expenses	-	-	-	-
Profit before income tax expenses	11.9	12.7	39.9	42.9
Income tax expenses	-	-	-	-
Profit for the period	**11.9**	12.7	39.9	42.9
Owners of the Parent Company	11.9	12.7	39.9	42.9
Earnings per share*	56	60	187	206

Note : *Unit. KRW
1)Includes depreciation, taxes and dues, insurance premiums, utility expenses, facility maintenance costs, and imputed rent
2)Includes commission, agent bank, asset custody, general affairs, management fees and depreciation

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ESR KENDALL SQUARE REIT

Reconciliations of Gross Revenues to Net Operating Income (NOI)

	Six Months Ended November.30		Twelve Months Ended November.30	
Unit. KRW bn	2H2023 (FY8)	2H2022 (FY6)	2023(FY8+FY7)	2022(FY6+FY5)
Gross Revenues*	62.6	60.7	124.5	119.6
Sub REIT No.1 + Sub REIT No.2	53.0	49.0	102.4	95.7
REFs	9.6	11.6	22.1	23.9
Property OpEx	10.9	10.1	18.5	16.5
Real estate management fees	4.7	4.2	10.5	8.7
Taxes and due	4.2	4.1	4.2	4.0
Other operating expenses(1)	2.0	1.8	3.9	3.8
NOI (Net Operating Income)*	51.7	50.5	105.9	103.1

Note :*As a Non-GAAP financial metric, it includes the total revenue and expenses of the investment properties held by the REIT (taking into account REF's ownership percentage), which may differ from the figures in the financial statements.
Net profit converted into annualized basis for the corresponding fiscal period financial statements(K-IFRS)
1)Includes Insurance premiums, facility maintenance and management costs

Financial Information

ESR KENDALL SQUARE REIT

Reconciliations of Profit to Funds From Operation (FFO) & Adjusted Funds From Operation (AFFO)

	Six Months Ended November.30		Twelve Months Ended November.30	
Unit. KRW bn	2H2023 (FY8)	2H2022 (FY6)	2023(FY8+FY7)	2022(FY6+FY5)
Profit for the period (IFRS)	11.9	12.8	39.9	42.9
Adjustment for depreciation of investment properties	14.8	13.8	28.6	26.8
Adjustment for investments in associates	0.1	-	(12.2)	(16.8)
Adjustment for deferred tax effects	-	-	-	
Funds From Operation (FFO)*	**26.8**	26.5	**56.3**	52.9
One-off acquisition related expenses(1)	7.9	-	7.9	-
Reconciling of distribution related to depreciation	8.1		8.1	
Other adjustments (Straight-lined rent, Capex, Maintenance)	(3.0)		(3.0)	
Adjusted Funds From Operation (AFFO)*	**39.8**	26.5	**69.3**	52.9

Note :*As a Non-GAAP financial metric, it includes the total revenue and expenses of the investment properties held by the REIT (taking into account REF's ownership percentage), which may differ from the figures in the financial statements.
Net profit converted into annualized basis for the corresponding fiscal period financial statements(K-IFRS)
1)Includes Due diligence, registration, trust, acquisition fees

Financial Information

ESR KENDALLSQUARE REIT

EBITDA in accordance with accounting principles

Unit. KRW bn	Six Months Ended November.30		Twelve Months Ended November.30	
	2H2023 (FY8)	2H2022 (FY6)	2023(FY8+FY7)	2022(FY6+FY5)
Operating Profit (IFRS)	24.2	22.5	50.3	46.3
1) Adjustment for depreciation of investment properties	14.8	13.8	28.7	26.8
2) Adjustment for depreciation of other assets	0	0	0	0
EBITDA	39.0	36.3	79.0	73.2

EBITDA in accordance with Non-GAAP Measures

Unit. KRW bn	Six Months Ended November.30		Twelve Months Ended November.30	
	2H2023 (FY8)	2H2022 (FY6)	2023(FY8+FY7)	2022(FY6+FY5)
Operating Profit (Non-GAAP)*	32.3	30.4	65.8	62.2
1) Adjustment for depreciation of investment properties	14.8	13.8	28.7	26.8
2) Adjustment for depreciation of other assets	0	0	0	0
EBITDA	47.1	44.2	94.5	89.0

Note :
*As a Non-GAAP financial metric, it includes the total revenue and expenses of the investment properties held by the REIT (taking into account REF's ownership percentage), which may differ from the figures in the financial statements.
Net profit converted into annualized basis for the corresponding fiscal period financial statements(K-IFRS). In the FY7 consolidated financial statements, goodwill impairment for REF #18 and the differential between fair value and book value of net assets for REF #6 marked for sale were distinctly recorded as consolidated adjustments. Furthermore, gains from the revaluation of investment properties within REFs were recognized as non-operating income, enhancing the professional presentation and clarity of the financial reporting.

Details of long-term Borrowings

ESR KENDALLSQUARE REIT

In accordance with disclosed Consolidated Financial Statements

Unit. KRW bn	Borrowing Amount	Collateral Amount	Weighted Avg. Interest rate
Maturity year			
CY 2023	255	306	2.22%
CY 2024	348	405	2.57%
CY 2025	384	437	2.57%
CY 2026	187	225	3.65%
Total	1,174	1,373	
(Discount)	(7)		
Net borrowings	1,167		

REFs consolidated

Unit. KRW bn	Borrowing Amount	Collateral Amount	Weighted Avg. Interest rate
Maturity year			
CY 2023	335	403	2.22%
CY 2024	348	405	2.57%
CY 2025	455	522	2.69%
CY 2026	229	275	3.93%
Total	1,367	1,605	
(Discount)	(7)		
Net borrowings	1,360		

Note : As of 2023/11/30

Lease Deposit Maturity

ESR KENDALL SQUARE REIT

In accordance with disclosed Consolidated Financial Statements

Unit. KRW	Lease Deposit Amount
Maturity year	
CY 2024	995,730,000
CY 2025	5,369,209,000
CY 2026	10,450,717,000
CY 2027	9,590,180,000
CY 2028	7,294,780,000
CY 2029	13,210,000,000
Total	46,910,616,000
(Discount)	(4,493,886,000)
Net lease deposits	42,416,730,000

REFs consolidated

Unit. KRW	Lease Deposit Amount
Maturity year	
CY 2024	1,030,290,000
CY 2025	8,010,432,000
CY 2026	11,709,392,000
CY 2027	10,713,703,000
CY 2028	8,488,708,000
CY 2029	13,210,000,000
Total	53,162,526,000
(Discount)	(4,493,886,000)
Net lease deposits	48,668,640,000

Note : As of 2023/11/30

Appendix

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For additional information about our company and its operations, please refer to our financial statements by fiscal period submitted to the Financial Services Commission and the Korea Exchange. This report format has been reclassified from the submitted financial statements to meet the needs of information users.

Consolidated Financial Statements (Balance Sheet, Income Statement)

The consolidated financial statements of our company included in this report, comprising the Balance Sheet and Income Statement, have been prepared in accordance with the Korean International Financial Reporting Standards (K-IFRS) adopted in the Republic of Korea. In compliance with K-IFRS, we have classified ESR Kendall Square Asset Management Real Estate Investment Trust No. 1 and ESR Kendall Square Asset Management Real Estate Investment Trust No. 2 as subsidiaries due to our exercise of control. Conversely, Kendall Square Private Equity Real Estate Investment Trust No. 7, Kendall Square Private Equity Real Estate Investment Trust No. 8, Kendall Square Private Equity Real Estate Investment Trust No. 11, and Kendall Square Private Equity Real Estate Investment Trust No. 18 have been classified as associates due to our ownership interest exceeding 50% but without the ability to exercise substantial control.

Our investment properties, aimed at generating rental income, capital gains, or both, include the acquisition costs of land and buildings, directly attributable transaction costs, due diligence expenses, and other capital expenditures incurred at the time of acquisition. Subsequent to initial recognition, land is not depreciated, while buildings are depreciated on a straight-line basis over their useful life of 50 years, with any capital expenditures that enhance their value being added to the cost of the investment property.

Furthermore, our company periodically obtains independent appraisals to assess the fair value of these investment properties. Investments in non-consolidated entities are accounted for by applying our ownership percentage to the financial statement line items of the associated entities, deriving our share of each item, which is then aggregated to determine our interest in these associates.

For purposes of balance sheet presentation, we utilize the ownership interest held at the end of the reporting period. For the statement of profit and loss, the net income attributable to the period of operation is based on the weighted-average ownership interest during the period of holding.

Our company does not exert control over the decision-making of our associates, in accordance with K-IFRS, nor do we have control over the determination and reporting of the assets, liabilities, revenue, and expenses.

The disposition of assets, including sales, refinancing, or liquidation, falls within the ambit of operational deposits available to investors and is governed by the stipulations of the respective operating agreements. The allocation of assets, whether in the form of cash dividends or distributions upon liquidation, varies in accordance with each investor's contributed capital and the stipulated priority of their contributions.

Liabilities, comprising both borrowings and lease deposit liabilities, are categorized based on the contracting party. The disclosures provided herein accurately represent the company's obligations as of the reporting period end.

For detailed information regarding the maturity structure and interest rate commitments of our liabilities, we invite stakeholders to review the detailed notes on our debt instruments provided in the financial statements.

Appendix

ESR KENDALLSQUARE REIT

FFO(Funds From Operations)

Ⅰ) Funds From Operations(FFO)

Our Funds From Operations (FFO) begin with the net income attributable to the controlling shareholders as reported on the consolidated income statement. To accurately reflect the manner in which our management plans and executes business strategies, adjustments are made to the FFO calculation. The items subject to adjustment may vary depending on the company's operational status. While these items can have a significant impact on our operations and are reflected in the financial statements, adjusting for them aids in providing a clearer understanding of our operational performance. Our company analyzes operational performance based on revenues derived from real estate leasing activities, excluding operating, administrative, and financial costs. For the purpose of calculating FFO, the following adjustments are made:

① Depreciation of Investment Properties: We adjust for the depreciation expense of our investment properties, as this represents a non-cash expense that does not affect our cash flows.

② Equity Method Investments Adjustments: We adjust for gains or losses reported under equity method accounting related to the revaluation or disposal of investment properties held by our associates

③ Deferred Tax Adjustments: We adjust for the effects of deferred income taxes, which represent future corporate income tax burdens or savings. This includes adjusting for revenues or expenses that will arise from the settlement of deferred corporate income taxes.

④ Non-controlling Interest Adjustments: To reflect only our company's operating performance, we adjust for the effects of the ownership interests held by non-controlling interests

AFFO(Adjusted Funds From Operations)

Adjusted Funds From Operations (AFFO) further refines FFO by adjusting for items that showcase our company's true cash-generating ability and capacity for distributions. These items include recurring capital expenditures that sustain property performance, straight-lined rents and recurring tenant improvement allowances, among others that affect the cash flows from our real estate investments.

① One-Time Expenses (Acquisition of Icheon 7): Costs associated with the purchase, such as acquisition taxes and due diligence expenses

② Cash Retention Amount: Allocated reserves for the underestimation of non-cash depreciation expense

③ Rent Revenue Adjustment (Straight-Lining): Adjusting fixed rent revenue recognized under accounting standards to performance-based revenue realization.

④ Capital Expenditures: Recurring capital expenditures that enhance the value of our investment properties

⑤ Property Maintenance Costs: Routine and recurring maintenance expenses for our investment properties

NOI(Net Operating Income)

Our company owns more than 50% of Beneficiary Real Estate Funds(Kendall Square Private REITs No. 6, 7, 8, 11, and 18). Including operational revenues from these investments and ESR REITs No. 1 and No. 2, we have recalculated our total gross revenues, comprising both rental and management fee income. After accounting for necessary operating expenses (Opex) such as property management fees, taxes, utilities, and insurance, we determine the Net Operating Income (NOI) by subtracting these costs from the total gross revenue

Appendix

EBITDA

EBITDA is calculated by adjusting net income attributable to our common shareholders for interest, taxes, depreciation, amortization, impairment losses, and gains or losses from real estate disposals. We calculate EBITDA from operating profit, which excludes interest, taxes, and valuation changes in physical assets, then add back depreciation and amortization. This metric is crucial for investors, illustrating operational performance, ability to meet interest obligations, and dividend distribution capacity. To provide accurate information, we compute EBITDA in two ways due to the Korean International Financial Reporting Standards (K-IFRS), where associates' results are shown as equity method earnings, affecting EBITDA's representation. For a more accurate operational view, we've recalculated EBITDA by reclassifying associates as subsidiaries in our consolidated income statements, offering a clearer picture of our financial health and performance.

① EBITDA in Accordance with accounting principles

EBITDA in accordance with Korean International Financial Reporting Standards (K-IFRS). The EBITDA, based on the consolidated income statement, aggregates the financial performance of subsidiaries classified under K-IFRS, including ESR Kendall Square Asset Management REIT No. 1 and ESR Kendall Square Asset Management REIT No. 2.

② EBITDA in accordance with Non-GAAP Measures

This EBITDA reflects the combined financial outcomes from our majority-held(99%) beneficiary real estate funds(REFs) in Kendall Square Private REITs No. 7, 8, 11, and 18, based on a consolidated income statement that aggregates their individual income statements.

Long-term borrowings and lease deposits

By providing EBITDA information, we aim to offer insights into our revenue-generating capabilities and furnish details regarding our outstanding liabilities, thereby assisting investors in their decision-making process.

In both accordance with GAAP and Non-GAAP measures

GAAP measures derived from accounting for entities as associates, and Non-GAAP reclassifying these associates as subsidiaries. We also provide details on our liquidity, including future debt service schedules and cash flow projections, by reflecting the specific terms of borrowings and lease deposit liabilities held by our entities.