

ESR Kendall Square REIT Co., Ltd.

Separate Financial Statements

November 30, 2021 and May 31, 2021

ESR Kendall Square REIT Co., Ltd.

Index

November 30, 2021 and May 31, 2021

	Page(s)
Independent Auditor's Report	1 - 4
 Separate Financial Statements	
Separate Statements of Financial Position	5
Separate Statements of Comprehensive Income	6
Separate Statements of Changes in Equity	7
Separate Statements of Cash Flows	8
Notes to the Separate Financial Statements	9 - 36



Independent Auditor's Report

(English Translation of a Report Originally Issued in Korean)

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

Opinion

We have audited the accompanying separate financial statements of ESR Kendall Square REIT Co., Ltd. (the Company) which comprise the separate statements of financial position as at November 30 and May 31, 2021, and the separate statements of comprehensive income, separates statement of changes in equity and separate statements of cash flows for the six-month periods then ended, and notes to the separate financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying separate financial statements present fairly, in all material respects, the separate financial position of ESR Kendall Square REIT Co., Ltd. as at November 30 and May 31, 2021, and its separate financial performance and its separate cash flows for the six-month periods then ended in accordance with International Financial Reporting Standards as adopted by the Republic of Korea (Korean IFRS).

Basis for Opinion

We conducted our audits in accordance with Korean Standards on Auditing. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the separate Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements of the Republic of Korea that are relevant to our audit of the separate financial statements and we have fulfilled our other ethical responsibilities in accordance with the ethical requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the separate financial statements of the current period. These matters were addressed in the context of our audit of the separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

(1) Occurrence of the Dividend Income

Why we determined this matter as Key Audit Matter

As described in Note 15 to the separate financial statements, the Company's operating revenues represent dividend income received from subsidiaries and associates. As a result, we focused on this area because we determined that there is a significant risk in relation to the occurrence of the dividend income.

How our audit addressed the key audit matter

To address the key audit matter, we performed the following audit procedures.

- Assessed of reasonableness of the Group's revenue recognition policies and accounting policies relevant to revenue cut-off
- Confirmed dividend payment notice and dividend deposit details for individual dividend income
- Performed external confirmation procedure over dividend amounts arising from associates.

Emphasis of Matter

Without modifying our opinion, we draw attention to Note 3 to the separate financial statements of the Group. As discussed in Note to the separate financial statements, the world including South Korea is facing uncertainty for severe economic conditions and prolonged situation due to the spread of Coronavirus disease 2019 (COVID-19) since the beginning of 2020. However, the ultimate effect of the recession on the financial position of the Company cannot presently be determined and, accordingly, no adjustments related to such uncertainties have been reflected in the accompanying separate financial statements.

Other Matter

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

Responsibilities of Management and Those Charged with Governance for the Separate Financial Statements

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

In preparing the separate financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Separate Financial Statements

Our objectives are to obtain reasonable assurance about whether the separate 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. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Korean Standards on Auditing will always detect a material misstatement when it exists. 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 separate financial statements.

As part of an audit in accordance with Korean Standards on Auditing, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatements of the separate 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. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity'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 Group'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 separate 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 Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the separate financial statements, including the disclosures, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance 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 those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, 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.

From the matters communicated with those charged with governance, we determine those matters

that were of most significance in the audit of the separate financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Heung-Su Lee, Certified Public Accountant.

Samil PricewaterhouseCoopers

Seoul, Korea

February 14, 2022

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

ESR Kendall Square REIT Co., Ltd.
Separate Statements of Financial Position
November 30 and May 31, 2021

<i>(in Korean won)</i>	Notes	November 30, 2021	May 31, 2021
Assets			
Current assets			
Cash and cash equivalents	4,19,20	₩ 1,706,287,357	₩ 8,289,912,266
Other financial assets	5,19,20	1,058,636,957	4,311,171,447
Current tax assets		925,631,630	6,934,990
		<u>3,690,555,944</u>	<u>12,608,018,703</u>
Non-current assets			
Investments in subsidiaries	6	536,549,000,000	534,049,000,000
Investments in associates and joint ventures	7	185,085,755,449	158,238,014,736
		<u>721,634,755,449</u>	<u>692,287,014,736</u>
Total assets		<u>₩ 725,325,311,393</u>	<u>₩ 704,895,033,439</u>
Liabilities			
Current liabilities			
Other financial liabilities	8,19,20	₩ 921,583,109	₩ 69,758,000
Other current liabilities	9	788,700	788,700
		<u>922,371,809</u>	<u>70,546,700</u>
Non-current liabilities			
Long-term borrowings	10,19,20	20,000,000,000	-
		<u>20,000,000,000</u>	<u>-</u>
Total liabilities		<u>20,922,371,809</u>	<u>70,546,700</u>
Equity			
Share capital	11	143,259,000,000	143,259,000,000
Other paid-in-capital	11	541,103,130,210	541,850,342,670
Retained earnings	12	20,040,809,374	19,715,144,069
Total equity		<u>704,402,939,584</u>	<u>704,824,486,739</u>
Total liabilities and equity		<u>₩ 725,325,311,393</u>	<u>₩ 704,895,033,439</u>

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

ESR Kendall Square REIT Co., Ltd.
Separate Statements of Comprehensive Income
Six-Month Periods Ended November 30 and May 31, 2021

<i>(in Korean won)</i>	Notes	November 30, 2021		May 31, 2021	
Operating revenues	15	₩	19,680,322,901	₩	4,307,171,829
Operating expenses	16		<u>430,840,192</u>		<u>5,512,323,574</u>
Operating profit (loss)			<u>19,249,482,709</u>		<u>(1,205,151,745)</u>
Non-operating income					
Financial income	17,20		2,006,419		708,921,779
Other income	18		<u>13,684</u>		<u>-</u>
			<u>2,020,103</u>		<u>708,921,779</u>
Non-operating expense					
Financial expenses	17,20		362,301,369		-
Other expenses	18		<u>-</u>		<u>-</u>
			<u>362,301,369</u>		<u>-</u>
Profit (loss) before income tax expenses			18,889,201,443		(496,229,966)
Income tax expenses	13		<u>-</u>		<u>-</u>
Profit (loss) for the period		₩	<u>18,889,201,443</u>	₩	<u>(496,229,966)</u>
Other comprehensive income			<u>-</u>		<u>-</u>
Total comprehensive income (loss) for the period		₩	<u>18,889,201,443</u>	₩	<u>(496,229,966)</u>
Earnings (losses) per share					
Basic earnings (losses) per share	14	₩	132	₩	(4)
Diluted earnings (losses) per share	14	₩	132	₩	(8)

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

ESR Kendall Square REIT Co., Ltd.
Separate Statements of Changes in Equity
Six- Month Periods Ended November 30 and May 31, 2021

(in Korean won)

	Share capital	Other paid-in-capital	Retained earnings	Total
Balance at December 1, 2020	₩ 48,200,000,000	₩ 192,541,961,760	₩ (1,446,625,965)	₩ 239,295,335,795
Increase in issued capital	71,459,000,000	277,064,431,350	-	348,523,431,350
Conversion of convertible bonds	23,600,000,000	93,901,949,560	-	117,501,949,560
Integrity of deficit	-	(21,658,000,000)	21,658,000,000	-
Loss for the period	-	-	(496,229,966)	(496,229,966)
Balance at May 31, 2021	₩ 143,259,000,000	₩ 541,850,342,670	₩ 19,715,144,069	₩ 704,824,486,739
Balance at June 1, 2021	₩ 143,259,000,000	₩ 541,850,342,670	₩ 19,715,144,069	₩ 704,824,486,739
Transfer of other paid-in-capital to retained earnings	-	(700,000,000)	700,000,000	-
Stock issuance fee	-	(47,212,460)	-	(47,212,460)
Dividends	-	-	-	-
Profit for the period	-	-	(19,263,536,138)	(19,263,536,138)
Balance at November 30, 2021	₩ 143,259,000,000	₩ 541,103,130,210	₩ 18,889,201,443	₩ 18,889,201,443
	-	-	20,040,809,374	₩ 704,402,939,584

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

ESR Kendall Square REIT Co., Ltd.
Separate Statements of Cash Flows
Six-Month Periods Ended November 30 and May 31, 2021

<i>(in Korean won)</i>	November 30, 2021	May 31, 2021
Cash flows from operating activities		
Profit (loss) for the period	₩ 18,889,201,443	₩ (496,229,966)
Adjustments for:		
Interest income	(2,006,419)	(48,593,779)
Dividend income	(19,680,322,901)	(4,307,171,829)
Gains on valuation of financial liabilities at fair value through profit or loss	-	(660,328,000)
Interest expense	362,301,369	-
	<u>(19,320,027,951)</u>	<u>(5,016,093,608)</u>
Changes in operating assets and liabilities:		
Increase (decrease) in trade payables	33,344,670	(274,873,711)
Increase in withholdings	-	637,400
	<u>33,344,670</u>	<u>(274,236,311)</u>
	<u>(397,481,838)</u>	<u>(5,786,559,885)</u>
Interest received	4,616,242	44,919,785
Interest paid	(191,561,643)	-
Income taxes paid	(918,696,640)	(6,079,690)
Dividends received	22,930,247,568	112,876
Net cash inflow (outflow) from operating activities	<u>21,427,123,689</u>	<u>(5,747,606,914)</u>
Cash flows from investing activities		
Acquisition of investments in subsidiaries	(2,500,000,000)	(533,549,000,000)
Acquisition of investments in associates	(26,200,000,000)	(158,238,014,736)
Net cash outflow from investing activities	<u>(28,700,000,000)</u>	<u>(691,787,014,736)</u>
Cash flows from financing activities		
Increase in issued capital	-	357,295,000,000
Increase in long-term borrowings	20,000,000,000	-
Dividend paid	(19,263,536,138)	-
Stock issuance fee	(47,212,460)	(9,269,619,090)
Net cash inflow from financing activities	<u>689,251,402</u>	<u>348,025,380,910</u>
Net decrease in cash and cash equivalents	<u>(6,583,624,909)</u>	<u>(349,509,240,740)</u>
Cash and cash equivalents at the beginning of period	<u>8,289,912,266</u>	<u>357,799,153,006</u>
Cash and cash equivalents at the end of period	<u>₩ 1,706,287,357</u>	<u>₩ 8,289,912,266</u>

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

ESR Kendall Square REIT Co., Ltd.
Notes to the Separate Financial Statements
November 30 and May 31, 2021

1. General Information

ESR Kendall Square REIT Co., Ltd. (the "Company") was established on February 20, 2020 under the Real Estate Investment Companies Act of the Republic of Korea. The 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 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 Company's head office is located on the 35th floor, Gukjegeumyung-ro 10, Yeongdeungpo-Gu, Seoul.

The Company's major shareholders and their respective shareholdings as at November 30, 2021, are as follows:

Shareholders	Number of shares	Percentage of ownership
ESR Kendall Square REIT Holding Pte. Ltd.	9,200,000	6.42%
ESR Kendall Square Co., Ltd.	4,000,000	2.79%
Kendall Square REIT Management Co., Inc.	1,000,000	0.70%
CPP Investment Board Real Estate Holdings Inc.	35,600,000	24.85%
Others	93,459,000	65.24%
	143,259,000	100.00%

2. Significant Accounting Policies

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

2.1 Basis of Preparation

The Company maintains its accounting records in Korean won and prepares statutory financial statements in the Korean language (Hangul) in accordance with International Financial Reporting Standards as adopted by the Republic of Korea (Korean IFRS). The accompanying separate 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 Company's financial position, financial performance or cash flows, is not presented in the accompanying separate financial statements.

The separate financial statements of the Company have been prepared in accordance with Korean IFRS. These are the standards, subsequent amendments and related interpretations issued by the International Accounting Standards Board (IASB) that have been adopted by the Republic of Korea. The financial statements have been prepared on a historical cost basis, except for the following:

- Certain financial assets and liabilities (including derivative instruments), certain classes of

ESR Kendall Square REIT Co., Ltd.

Notes to the Separate Financial Statements

November 30 and May 31, 2021

investment property – measured at fair value

- assets held for sale – measured at fair value less costs to sell, and
- defined benefit pension plans – plan assets measured at fair value

The preparation of financial statements requires the use of critical accounting estimates. Management also needs to exercise judgement in applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the separate financial statements are disclosed in Note 3.

2.2 Changes in Accounting Policies and Disclosures

2.2.1 New and amended standards adopted by the Company

The Company has applied the following standards and amendments for the first time for their annual reporting period commencing June 1, 2021.

(a) Amendments to Korean IFRS 1116 Lease – Practical expedient for COVID-19 - Related Rent Concessions

As a 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. A lessee that makes this election shall account for any change in lease payments resulting from the rent concession the same way it would account for the change applying this Standard if the change were not a lease modification. The amendment does not have a significant impact on the financial statements.

(b) Amendments to Korean IFRS 1109 Financial Instruments, Korean IFRS 1039 Financial Instruments: Recognition and Measurement, Korean IFRS 1107 Financial Instruments: Disclosure, Korean IFRS 1104 Insurance Contracts and Korean IFRS 1116 Lease – Interest Rate Benchmark Reform (Phase 2 amendments)

In relation to interest rate benchmark reform, the amendments provide exceptions including adjust effective interest rate instead of book amounts when interest rate benchmark of financial instruments at amortized costs is replaced, and apply hedge accounting without discontinuance although the interest rate benchmark is replaced in hedging relationship. The amendment does not have a significant impact on the financial statements.

2.2.2 New standards and interpretations not yet adopted by the Company

(a) 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

ESR Kendall Square REIT Co., Ltd.
Notes to the Separate Financial Statements
November 30 and May 31, 2021

at the acquisition date. The amendments should be applied for annual periods beginning on or after January 1, 2022, and earlier application is permitted. The Company does not expect that these amendments have a significant impact on the financial statements.

(b) 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 amendments should be applied for annual periods beginning on or after January 1, 2022, and earlier application is permitted. The Company is in review for the impact of these amendments on the financial statements.

(c) 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 amendments should be applied for annual periods beginning on or after January 1, 2022, and earlier application is permitted. The Company does not expect that these amendments have a significant impact on the financial statements.

(d) 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 Company is in review for the impact of these amendments on the 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

ESR Kendall Square REIT Co., Ltd.
Notes to the Separate Financial Statements
November 30 and May 31, 2021

or after January 1, 2023, and earlier application is permitted for entities that applied Korean IFRS 1109 Financial Instruments. The Company is in review for the impact of this new standard on the financial statements.

(f) 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 IASB amended IFRS Practice Statement 2 *Disclosure of Accounting Policies* to provide guidance on how to apply the concept of materiality to accounting policy disclosures.

The amendments should be applied for annual periods beginning on or after January 1, 2023, and earlier application is permitted. The Company is in review for the impact of these amendments on the financial statements.

(g) 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 Company does not expect that these amendments have a significant impact on the financial statements.

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

(i) Amendment to Korean IFRS 1116 - 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. The amendment should be applied for annual periods beginning on or after April 1, 2021, and earlier application is permitted. The Company does not expect that these amendments have a significant impact on the financial statements.

(j) 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 Company does not expect that these amendments have a significant impact on the financial statements.

ESR Kendall Square REIT Co., Ltd.

Notes to the Separate Financial Statements

November 30 and May 31, 2021

- 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 1116 *Leases* – Lease incentives
- Korean IFRS 1041 *Agriculture* – Measuring fair value

2.3 Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value, and are used by the Company in the management of its short-term commitments. Equity investments are excluded from cash equivalents unless they are, in substance, cash equivalents, for example in the case of preferred shares when they have a short maturity with a specified redemption date.

2.4 Subsidiaries and Associates

The financial statements of the Company are the separate financial statements prepared in accordance with Korean IFRS 1027 *Separate Financial Statements*. Investments in subsidiaries and associates are recognized at cost. The Company recognizes dividend income from subsidiaries, joint ventures and associates in profit or loss when its right to receive the dividend is established.

2.5 Financial Assets

The Company classifies its financial assets in the following measurement categories:

- Those to be measured at fair value through profit or loss.
- Those to be measured at fair value through other comprehensive income, and
- Those to be measured at amortized cost

(a) Classification

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

For financial assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income. For investments in debt instruments, this will depend on the business model in which the investment is held. The Company reclassifies debt investments when and only when its business model for managing those assets changes. For investments in equity instruments that are not held for trading, this will depend on whether the Company has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income. In case of investments in equity instruments for which the Company has not elected to present changes in fair value in other comprehensive income, the changes in fair value are recognized in profit or loss.

ESR Kendall Square REIT Co., Ltd.
Notes to the Separate Financial Statements
November 30 and May 31, 2021

(b) Measurement

At initial recognition, the Company measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payments of principal and interest.

- Debt instruments

Subsequent measurement of debt instruments depends on the Company's business model for managing the asset and the cash flow characteristics of the asset. The Company classifies its debt instruments into one of the following three measurement categories:

- Financial assets measured at Amortized cost

Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost. A gain or loss on a debt investment that is subsequently measured at amortized cost and is not part of a hedging relationship is recognized in profit or loss when the asset is derecognized or impaired. Interest income from these financial assets is included in 'financial income' using the effective interest rate method.

- Financial assets measured at Fair value through other comprehensive income (FVOCI)

Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at fair value through other comprehensive income. Movements in the carrying amount are taken through other comprehensive income, except for the recognition of impairment loss (reversal of impairment loss), interest income and foreign exchange gains and losses which are recognized in profit or loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss. Interest income from these financial assets is included in 'financial income' using the effective interest rate method. Foreign exchange gains and losses are presented in 'other income or other expenses' and impairment loss in 'other expenses'.

- Financial assets measured at Fair value through profit and loss (FVTPL)

Assets that do not meet the criteria for amortized cost or fair value through other comprehensive income are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognized in profit or loss and presented net in the separate statements of comprehensive income within 'other income or other expenses' in the period in which it arises.

(c) Impairment

The Company assesses on a forward-looking basis the expected credit loss associated with its debt instruments carried at amortized cost and fair value through other comprehensive income. The impairment methodology applied depends on whether there has been a significant increase in

ESR Kendall Square REIT Co., Ltd.

Notes to the Separate Financial Statements

November 30 and May 31, 2021

credit risk. For trade and other receivables, the Company applies the simplified approach, which requires expected lifetime losses to be recognized from initial recognition of the receivables.

- Trade receivables

The Company applies the simplified approach for trade receivables which requires the expected lifetime losses to be recognized from initial recognition of the receivables.

- Financial assets measured at amortized cost

Financial assets measured at amortized costs are considered to have low credit risk if the risk of default is low and the issuer has sufficient ability to pay contractual cash flows in a short period of time. Therefore, any loss allowance is recognized as 12-month expected credit losses.

- Debt instruments measured at fair value through other comprehensive income

Debt instruments measured at fair value through other comprehensive income include government bonds, corporate bonds and trade receivables subject to discount. Loss allowances for debt instruments measured at fair value through other comprehensive income are recognized in profit or loss and reduces the amount that would have been recognized in other comprehensive income due to fair value valuation losses.

(d) Recognition and Derecognition

Purchases or sales of financial assets in an active market are recognized or derecognized on trade date, the date on which the Company commits to purchase or sell the asset. Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or have been transferred and the Company has transferred substantially all the risks and rewards of ownership. If a transfer does not result in derecognition because the Company has retained substantially all the risks and rewards of ownership of the transferred asset, the Company continues to recognize the transferred asset in its entirety and recognizes a financial liability for the consideration received. The Company classified the financial liability as "borrowings" in the separate statements of financial position.

(e) Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount is reported in the separate statements of financial position where there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the assets and settle the liabilities simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Company or the counterparty.

2.6 Impairment of non-financial assets

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when an annual impairment testing for an asset is required, the Company makes an estimate of the asset's recoverable amount.

An asset's recoverable is estimated for each individual asset or for each cash-generating unit to which the asset belongs if the recoverable amount cannot be estimated. The recoverable amount

ESR Kendall Square REIT Co., Ltd.
Notes to the Separate Financial Statements
November 30 and May 31, 2021

is the higher of the asset's or cash-generating unit's value in use or fair value less costs of disposal. Value in use is determined by discounting the future cash flows expected to be generated by the asset or cash-generating unit at an appropriate discount rate that reflects the current market assessment of the unadjusted asset's specific risk when estimating the time value of money and future cash flows.

Where the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. Impairment losses are recognized in profit or loss.

2.7 Financial liabilities

(a) Classification and measurement

The Company classifies non-derivative financial liabilities, except for financial liabilities at fair value through profit or loss, financial guarantee contracts and financial liabilities that arise when a transfer of financial assets does not qualify for derecognition, as financial liabilities carried at amortized cost in the separate statements of financial position.

(b) Derecognition

Financial liabilities are removed from the separate statement of financial position when they are extinguished; for example, when the obligation specified in the contract is discharged or cancelled or expired or when the terms of an existing financial liability are substantially modified. The difference between the carrying amount of a financial liability extinguished or transferred to another party and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognized in profit or loss.

2.8 Financial liabilities measured at Fair value through profit and loss (FVTPL)

Financial liabilities are classified as at FVTPL when a financial liability is (i) a contingent consideration of an acquirer in a business combination, (ii) held for trading or (iii) is designated as at FVTPL.

A financial liability is classified as held for trading if:

- it has been acquired principally for the purpose of repurchasing in the near term;
- on initial recognition, it is part of a portfolio of identified financial instruments that the Company manages together and has a recent actual pattern of short-term profit taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading or a contingent consideration of an acquirer in a business combination may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise;
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis in accordance with the

ESR Kendall Square REIT Co., Ltd.

Notes to the Separate Financial Statements

November 30 and May 31, 2021

Company's documented risk management or investment strategy, and information about the Companying is provided internally on that basis; or

- it forms part of a contract containing one or more embedded derivatives, and Korean IFRS 1109 permits the entire combined contract to be designated as at FVTPL.

Financial liabilities at FVTPL are measured at fair value, with any gains or losses arising on changes in fair value recognized in profit or loss to the extent that they are not part of a designated hedging relationship (see hedge accounting policy). The net gain or loss recognized in profit or loss incorporates any interest paid on the financial liability and is included in the 'financial income and expenses' line item.

However, for financial liabilities that are designated as at FVTPL, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognized in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. The remaining amount of change in the fair value of liability is recognized in profit or loss. Changes in fair value attributable to a financial liability's credit risk that are recognized in other comprehensive income are not subsequently reclassified to profit or loss; instead, they are transferred to retained earnings upon derecognition of the financial liability.

Gains or losses on financial guarantee contracts issued by the Company that are designated by the Company as at FVTPL are recognized in profit or loss.

2.9 Capital stock and share issuance expenses

Proceeds from issuance of common shares are classified as capital stock in equity. Incremental costs directly attributable to the issuance of common shares are deducted against capital stock net of tax.

2.10 Revenue

The Company recognizes dividend income from subsidiaries and associates in profit or loss when its right to receive the dividend is established as shareholders.

2.11 Financial income and financial costs

Financial income comprises of interest income. Interest income is recognized as it accrues in profit or loss, using the effective interest method.

Financial costs comprise of interest expenses on borrowings and losses on valuation of financial liabilities measured at FVTPL. Interest expenses are recognized in profit or loss as incurred using the effective interest method.

2.12 Income tax

Income tax expense for the period consists of current and deferred tax and is recognized in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity.

Under the Article 51-2 of Corporate Tax Law of the Republic of Korea, Income Deduction for

ESR Kendall Square REIT Co., Ltd.
Notes to the Separate Financial Statements
November 30 and May 31, 2021

Special Purpose Companies, etc., if the Company payouts 90% and more of its profit available for dividends as dividends, the Company shall be entitled to deduct such amount from its taxable income for the fiscal year.

2.13 Approval of Issuance of the separate financial statements

The Company's separate financial statements as at and for the periods ended November 30, 2021 are to be approved at the Annual General Meeting scheduled on February 25, 2022.

2.13 Approval of Issuance of the separate financial statements

The Company's separate financial statements as at and for the periods ended November 30, 2021 were approved for issue by the Board of Directors on January 12, 2022 and are to be approved at the Annual General Meeting scheduled on February 25, 2022.

3. Critical Accounting Estimates and Assumptions

The preparation of financial statements requires the Company to make estimates and assumptions concerning the future. Management also needs to exercise judgement in applying the Company'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.

During 2020, 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 Company.

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

ESR Kendall Square REIT Co., Ltd.
Notes to the Separate Financial Statements
November 30 and May 31, 2021

4. Cash and Cash Equivalents

Cash and cash equivalents as at November 30 and May 31, 2021, are as follows:

<i>(in thousands of Korean won)</i>	November 30, 2021		May 31, 2021	
Bank deposits	₩	1,706,287	₩	8,289,912

5. Financial Instruments Restricted in Use

Financial instruments that are restricted in use as at November 30 and May 31, 2021, are as follows:

<i>(in thousands of Korean won)</i>	November 30, 2021		May 31, 2021	
Accrued income	₩	1,058,637	₩	4,311,171

6. Investment in Subsidiaries

Investment in subsidiaries as at November 30 and May 31, 2021, are as follows:

<i>(in thousands of Korean won)</i>	Country of domicile	Main business	Percentage of ownership		Book amount	
			November 30, 2021	May 31, 2021	November 30, 2021	May 31, 2021
ESR Kendall Square Asset No. 1 REIT Co., Ltd.	Korea	Real estate	100%	100%	₩ 534,049,000	₩ 534,049,000
ESR Kendall Square Asset No. 2 REIT Co., Ltd. ¹	Korea	Real estate	86.38%	-	2,500,000	-
					<u>₩ 536,549,000</u>	<u>₩ 534,049,000</u>

¹ It was newly established during the current period and although percentage of ownership of ESR Kendall Square Asset No. 2 REIT Co., Ltd. is 86.38%, as the class shares held by non-controlling shareholders are non-voting stock, the percentage of voting rights of ESR Kendall Square Asset No. 2 REIT Co., Ltd. is 100%.

ESR Kendall Square REIT Co., Ltd.
Notes to the Separate Financial Statements
November 30 and May 31, 2021

Changes in investment properties for the periods ended November 30 and May 31, 2021, are as follows:

(in thousands of Korean won)

	November 30, 2021			
	Beginning balance	Acquisitions	Disposal	Ending balance
ESR Kendall Square Asset No. 1 REIT Co., Ltd.	₩ 534,049,000	₩ -	₩ -	₩ 534,049,000
ESR Kendall Square Asset No. 2 REIT Co., Ltd.	-	2,500,000	-	2,500,000
	<u>₩ 534,049,000</u>	<u>₩ 2,500,000</u>	<u>₩ -</u>	<u>₩ 536,549,000</u>

(in thousands of Korean won)

	May 31, 2021			
	Beginning balance	Acquisitions	Disposal	Ending balance
ESR Kendall Square Asset No. 1 REIT Co., Ltd.	₩ 500,000	₩ 533,549,000	₩ -	₩ 534,049,000

7. Investment in Associates

Investment in associates as at November 30 and May 31, 2021, are as follows:

(in thousands of Korean won)

	Country of domicile	Percentage of ownership	Number of shares invested	Beginning balance	Acquisitions /Transfer	Disposal	Ending balance
Beneficiary certificates:							
KendallSquare Professional Investment Type Real Estate Investment Fund #6	Korea	99.20%	37,264,025,475	₩ 37,264,026	₩ -	₩ -	₩ 37,264,026
KendallSquare Professional Investment Type Real Estate Investment Fund #7	Korea	99.28%	41,126,694,806	41,126,695	-	-	41,126,695
KendallSquare Professional Investment Type Real Estate Investment Fund #8	Korea	99.21%	37,743,009,474	37,743,009	-	-	37,743,009
KendallSquare Professional Investment Type Real Estate Investment Fund #11	Korea	99.29%	42,104,284,981	42,104,285	-	-	42,104,285
KendallSquare Professional Investment Type Real Estate Investment Fund #18	Korea	83.54%	26,398,138,840	-	26,847,740	-	26,847,740
				<u>₩ 158,238,015</u>	<u>₩ 26,847,740</u>	<u>₩ -</u>	<u>₩ 185,085,755</u>

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.

ESR Kendall Square REIT Co., Ltd.
Notes to the Separate Financial Statements
November 30 and May 31, 2021

8. Other Financial Liabilities

Other financial liabilities as at November 30 and May 31, 2021, are as follows:

<i>(in thousands of Korean won)</i>	November 30, 2021		May 31, 2021	
Current liabilities				
Trade payables	₩	750,843	₩	69,758
Accrued expense		170,740		-
	₩	<u>921,583</u>	₩	<u>69,758</u>

9. Other Liabilities

Other liabilities as at November 30 and May 31, 2021, are as follows:

<i>(in thousands of Korean won)</i>	November 30, 2021		May 31, 2021	
Withholdings	₩	789	₩	789

10. Long-term Borrowings

Details of long-term borrowings as at November 30 and May 31, 2021, are as follows:

<i>(in thousands of Korean won)</i>	Financial institution	Annual interest rate	Maturity date	November 30, 2021		May 31, 2021	
Tranche D	Industrial Bank of Korea	3.80%	December 14, 2025	₩	20,000,000	₩	-

11. Share Capital and Other Paid-in-Capital

Details of share capital as at November 30, 2021, 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	143,259,000 shares	₩ 1,000	₩ 143,259,000,000

Details of other paid-in-capital as at November 30 and May 31, 2021, are as follows:

<i>(in thousands of Korean won)</i>	November 30, 2021		May 31, 2021	
Additional paid-in-capital	₩	541,103,130	₩	541,850,343

Changes in share capital for the periods ended November 30 and May 31, 2021, are as follows:

ESR Kendall Square REIT Co., Ltd.
Notes to the Separate Financial Statements
November 30 and May 31, 2021

<i>(in thousands of Korean won)</i>	November 30, 2021		May 31, 2021	
	Number of shares	Amount	Number of shares	Amount
Beginning balance	143,259,000	₩ 143,259,000	48,200,000	₩ 48,200,000
Increase in issued capital	-	-	71,459,000	71,459,000
Conversion of convertible bonds	-	-	23,600,000	23,600,000
Ending balance	143,259,000	₩ 143,259,000	143,259,000	₩ 143,259,000

12. Retained Earnings

Details of retained earnings as at November 30 and May 31, 2021, are as follows:

<i>(in thousands of Korean won)</i>	November 30, 2021	May 31, 2021
Retained earnings	₩ 20,040,809	₩ 19,715,144

Changes in retained earnings for the periods ended November 30 and May 31, 2021, are as follows:

<i>(in thousands of Korean won)</i>	November 30, 2021	May 31, 2021
Beginning balance	₩ 19,715,144	₩ (1,446,626)
Integrity of deficit	-	21,658,000
Transfer of other paid-in-capital to retained earnings	700,000	-
Dividends	(19,263,536)	-
Profit (loss) for the period	18,889,201	(496,230)
Ending balance	₩ 20,040,809	₩ 19,715,144

The appropriation of retained earnings for the periods ended November 30 and May 31, 2021, is as follows:

<i>(in thousands of Korean won)</i>	November 30, 2021	May 31, 2021
Unappropriated retained earnings carried over from prior year	₩ 1,151,607,931	₩ 20,211,374,035
Profit (loss) for the period	18,889,201,443	(496,229,966)
Retained earnings available for appropriation	20,040,809,374	19,715,144,069
Transfers from other paid-in-capital		
Transfers from share premium	9,836,000,000	700,000,000
Appropriation of retained earnings		
Dividends for common shares ¹	19,196,706,000	19,263,536,138
Unappropriated retained earnings to be carried forward	₩ 10,680,103,374	₩ 1,151,607,931

ESR Kendall Square REIT Co., Ltd.
Notes to the Separate Financial Statements
November 30 and May 31, 2021

¹ In accordance with relevant laws and regulations, the Company may distribute dividends in excess of the distributable income under the Commercial Act up to the depreciation expenses for the current period.

Dividends for the period ended November 30, 2021, are calculated as follows:

<i>(in Korean won)</i>	Common shares	
1. Dividends	₩	19,196,706,000
2. Total number of shares issued		143,259,000
3. Dividend per share (1./2.)	₩	134
4. Par value	₩	1,000
5. Dividend rate per share (3./4.)		13.40%

13. 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 Company pay-outs 90% and more of its profit available for dividends as dividends, the Company 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 Company has not recognized any income tax expenses.

14. Earnings (Losses) per Share

Basic earnings (losses) per share for the periods ended November 30 and May 31, 2021, are as follows:

<i>(in Korean won)</i>	November 30, 2021		May 31, 2021	
Profit (loss) for the period	₩	18,889,201,443	₩	(496,229,966)
Weighted average number of common shares outstanding		143,259,000 shares		138,298,940 shares
Basic earnings (losses) per share	₩	132	₩	(4)

ESR Kendall Square REIT Co., Ltd.
Notes to the Separate Financial Statements
November 30 and May 31, 2021

Weighted average number of common shares outstanding for the periods ended November 30 and May 31, 2021, are calculated as follows:

<i>(in shares)</i>	November 30, 2021		
	Number of shares	Accumulated number of days	Accumulated number of common shares outstanding
Beginning	143,259,000	183	26,216,397,000
Weighted average number of common shares outstanding			<u>143,259,000</u>

<i>(in shares)</i>	May 31, 2021		
	Number of shares	Accumulated number of days	Accumulated number of common shares outstanding
Beginning	48,200,000	9	433,800,000
Increase in issued capital	119,659,000	2	239,318,000
Conversion of convertible bonds	143,259,000	171	24,497,289,000
Weighted average number of common shares outstanding			<u>138,298,940</u>

Diluted earnings (losses) per share

As at November 30, 2021, the Company did not issue any potential ordinary shares. Therefore, basic earnings per share is identical to diluted earnings per share.

Diluted losses per share for the period ended November 30, 2021 is as follows:

<i>(in Korean won)</i>	November 30, 2021	
Loss for the period	₩	(496,229,966)
Loss on convertible bond (net of tax)		(660,328,000)
Loss used to determine diluted earnings per share		(1,156,557,966)
Weighted average number of ordinary shares for diluted earnings per share		<u>139,725,313</u>
Diluted losses per share:	₩	<u>(8)</u>

ESR Kendall Square REIT Co., Ltd.
Notes to the Separate Financial Statements
November 30 and May 31, 2021

15. Operating Revenues

Operating revenues for the periods ended November 30 and May 31, 2021, are as follows:

<i>(in thousands of Korean won)</i>	November 30, 2021		May 31, 2021	
Dividend income	₩	19,680,323	₩	4,307,172

16. Operating Expenses

Operating expenses for the periods ended November 30 and May 31, 2021, are as follows:

<i>(in thousands of Korean won)</i>	November 30, 2021		May 31, 2021	
Other fees	₩	226,110	₩	2,880,407
Advertising expenses		99,000		-
Salaries		57,000		57,000
General affairs consignment fees		43,730		39,780
Asset custody consignment fees		5,000		4,979
Asset management consignment fees		-		2,530,091
Taxes and due		-		67
	₩	430,840	₩	5,512,324

17. Finance Income and Expenses

Financial income and expenses for the periods ended November 30 and May 31, 2021, are as follows:

<i>(in thousands of Korean won)</i>	November 30, 2021		May 31, 2021	
Financial income				
Interest income	₩	2,006	₩	48,594
Gains on valuation of financial liabilities at fair value through profit or loss		-		660,328
	₩	2,006	₩	708,922
Financial expenses				
Interest expenses	₩	362,301	₩	-

ESR Kendall Square REIT Co., Ltd.
Notes to the Separate Financial Statements
November 30 and May 31, 2021

18. Other Income and Expenses

Other income and expenses for the periods ended November 30 and May 31, 2021, are as follows:

<i>(in thousands of Korean won)</i>	November 30, 2021	May 31, 2021
Other income		
Miscellaneous income	₩ 14	₩ -

19. Financial Risk Management

19.1 Capital risk management

The primary objective of The Company'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 Company 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 November 30 and May 31, 2021, are as follows:

<i>(in thousands of Korean won)</i>	November 30, 2021	May 31, 2021
Liabilities	₩ 20,922,372	₩ 70,547
Equity	704,402,940	704,824,487
Debt-to-equity ratio	2.97%	0.01%

19.2 Financial risk factors

The Company's financial assets and liabilities are exposed to various risks including market risk, credit risk and liquidity risk. The Company'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 Company 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 November 30 and May 31, 2021, are as follows:

ESR Kendall Square REIT Co., Ltd.
Notes to the Separate Financial Statements
November 30 and May 31, 2021

<i>(in thousands of Korean won)</i>		November 30, 2021	May 31, 2021
Cash and cash equivalents	₩	1,706,287	₩ 8,289,912
Other financial assets		1,058,637	4,311,171

(c) Liquidity risk

The Company has established a liquidity risk management framework for the management of The Company'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 November 30 and May 31, 2021, are as follows:

(in thousands of Korean won)

	November 30, 2021				
	Book amount	Contractual cash flows	Within 1 year	1 year ~ 2 years	2 years ~ 5 years
Trade payables	₩ 750,843	₩ 750,843	₩ 750,843	₩ -	₩ -
Accrued expenses	170,740	170,740	170,740	-	-
Long-term borrowings	20,000,000	23,069,151	760,000	760,000	21,549,151
	<u>₩ 20,921,583</u>	<u>₩ 23,990,734</u>	<u>₩ 1,681,583</u>	<u>₩ 760,000</u>	<u>₩ 21,549,151</u>

(in thousands of Korean won)

	May 31, 2021		
	Book amount	Contractual cash flows	Within 1 year
Trade payables	₩ 69,758	₩ 69,758	₩ 69,758

ESR Kendall Square REIT Co., Ltd.
Notes to the Separate Financial Statements
November 30 and May 31, 2021

20. Financial Instruments by Category and Fair Value

(a) Financial instruments by category and fair value as at November 30 and May 31, 2021, are as follows:

(in thousands of Korean won)

	November 30, 2021		May 31, 2021	
	Book amount	Fair value	Book amount	Fair value
Financial assets				
Cash and cash equivalents	₩ 1,706,287	₩ 1,706,287	₩ 8,289,912	₩ 8,289,912
Other financial assets	1,058,637	1,058,637	4,311,171	4,311,171
	₩ 2,764,924	₩ 2,764,924	₩ 12,601,083	₩ 12,601,083
Financial liabilities				
Other financial liabilities	₩ 921,583	921,583	₩ 69,758	₩ 69,758
Long-term borrowings	20,000,000	20,000,000	-	-
	₩ 20,921,583	20,921,583	₩ 69,758	₩ 69,758

(b) Net gains or losses on each category of financial instruments for the periods ended November 30 and May 31, 2021, are as follows:

(in thousands of Korean won)

	November 30, 2021	May 31, 2021
Financial assets at amortized cost		
Interest income	₩ 2,006	₩ 48,594
Interest expenses	362,301	-
Financial liabilities at fair value through profit or loss		
Gains on valuation of financial liabilities at fair value through profit or loss	-	660,328

ESR Kendall Square REIT Co., Ltd.
Notes to the Separate Financial Statements
November 30 and May 31, 2021

21. Cash flow

The significant non-cash transactions for the periods ended November 30 and May 31, 2021, are as follows:

<i>(in thousands of Korean won)</i>	November 30, 2021	May 31, 2021
Conversion of convertible bonds	₩ -	₩ 118,000,000
Deficit set-off	-	21,658,000
Transfer of other paid-in-capital to retained earnings	700,000	-
Transfer of trade payables into investments in associates	647,741	

Changes in liabilities arising from financial activities for the period ended November 30, 2021, are as follows:

<i>(in thousands of Korean won)</i>	Beginning balance	Cash flow from financial activities	Ending balance
Borrowings	₩ -	₩ 20,000,000	₩ 20,000,000

ESR Kendall Square REIT Co., Ltd.
Notes to the Separate Financial Statements
November 30 and May 31, 2021

22. Related Party Transactions

Related parties as at November 30 and May 31, 2021, are as follows:

	November 30, 2021	May 31, 2021
Subsidiaries	ESR Kendall Square Asset No. 1 REIT Co., Ltd. ESR Kendall Square Asset No. 2 REIT Co., Ltd.	ESR Kendall Square Asset No. 1 REIT Co., Ltd. -
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 -
Other related party ¹	Kendall Square REIT Management Co., Ltd. CPP Investment Board Real Estate Holdings Inc. ESR Kendall Square REIT Holding PTE, LTD.	Kendall Square REIT Management Co., Ltd. CPP Investment Board Real Estate Holdings Inc. ESR Kendall Square REIT Holding PTE, LTD.

¹ As the shareholders agreement of the Company was terminated, the right to appoint a director granted to ESR KENDALL SQUARE REIT HOLDING PTE, LTD., CPP INVESTMENT BOARD REAL ESTATE HOLDINGS INC. and the parties (3 persons in total) with the largest amount of share capital has expired, however, the directors have been appointed as at November 30, 2021 according to the right to nominate a director.

ESR Kendall Square REIT Co., Ltd.
Notes to the Separate Financial Statements
November 30 and May 31, 2021

Transactions with related parties for the periods ended November 30 and May 31, 2021, are as follows:

(in thousands of Korean won)

		November 30, 2021	
		Asset management consignment fees ¹	Dividend income
Subsidiaries	ESR Kendall Square Asset No. 1 REIT Co., Ltd.	₩ -	₩ 15,280,202
	ESR Kendall Square Asset No. 2 REIT Co., Ltd.	-	-
Associates	KendallSquare Professional Investment Type Real Estate Investment Fund #6	-	962,253
	KendallSquare Professional Investment Type Real Estate Investment Fund #7	-	1,111,889
	KendallSquare Professional Investment Type Real Estate Investment Fund #8	-	843,297
	KendallSquare Professional Investment Type Real Estate Investment Fund #11	-	973,067
	KendallSquare Professional Investment Type Real Estate Investment Fund #18	-	509,614
	Kendall Square REIT Management Co., Ltd.	647,741	-
Other related party	CPP Investment Board Real Estate Holdings Inc.	-	-
		₩ 647,741	₩ 19,680,322

¹ Asset management consignment fees for ESR Kendall Square REIT Management Co., Ltd. includes asset purchase fee which is included in the acquisition cost of investment in associates¹. Dividends of ₩6,830,898 thousands were paid to ESR KENDALL SQUARE REIT HOLDING PTE, LTD., CPP INVESTMENT BOARD REAL ESTATE HOLDINGS INC. and the parties (3 persons in total) with the largest amount of share capital who appointed directors as at November 30, 2021 according to the right to appoint a director granted under the shareholders agreement.

ESR Kendall Square REIT Co., Ltd.
Notes to the Separate Financial Statements
November 30 and May 31, 2021

(in thousands of
Korean won)

		May 31, 2021				
		Asset management consignment fees	Gains on valuation of financial liabilities at fair value through profit or loss	Dividend income		
Related party						
Associates	KendallSquare Professional Investment Type Real Estate Investment Fund #6	₩	-	₩	-	₩ 1,021,801
	KendallSquare Professional Investment Type Real Estate Investment Fund #7		-		-	1,350,181
	KendallSquare Professional Investment Type Real Estate Investment Fund #8		-		-	1,309,618
	KendallSquare Professional Investment Type Real Estate Investment Fund #11		-		-	625,573
	Other related party CPP Investment Board Real Estate Holdings Inc.		-	660,328		-
	Kendall Square REIT Management Co., Ltd.		2,530,091		-	-
		₩	2,530,091	₩	660,328	₩ 4,307,173

Outstanding balances to related parties as at November 30 and May 31, 2021, are as follows:

(in thousands of
Korean won)

		November 30, 2021		May 31, 2021		
		Accrued income	Trade payables	Accrued income		
Related party						
Associates	KendallSquare Professional Investment Type Real Estate Investment Fund #6	₩	267,844	₩	-	₩ 1,021,774
	KendallSquare Professional Investment Type Real Estate Investment Fund #7		317,683		-	1,350,151
	KendallSquare Professional Investment Type Real Estate Investment Fund #8		-		-	1,309,591
	KendallSquare Professional Investment Type Real Estate Investment Fund #11		129,080		-	625,543
	KendallSquare Professional Investment Type Real Estate Investment Fund #18		342,528		-	-
Other related party Kendall Square REIT Management Co., Ltd.		-	647,741		-	
		₩	1,057,135	₩	647,741	₩ 4,307,059

ESR Kendall Square REIT Co., Ltd.
Notes to the Separate Financial Statements
November 30 and May 31, 2021

Fund transactions with related parties for the periods ended November 30 and May 31, 2021, are as follows:

(in thousands of Korean won)	Related party	November 30, 2021			May 31, 2021	
		Contributions in cash	Dividends received	Dividends paid	Contributions in cash	Dividends received
Subsidiaries	ESR Kendall Square Asset No. 1 REIT Co., Ltd.	₩ -	₩ 15,280,202	₩ -	₩ 533,549,000	₩ -
	ESR Kendall Square Asset No. 2 REIT Co., Ltd.	2,500,000	-	-	-	-
Associates	KendallSquare Professional Investment Type Real Estate Investment Fund #6	-	1,716,184	-	11,700,000	27
	KendallSquare Professional Investment Type Real Estate Investment Fund #7	-	2,144,358	-	9,600,000	29
	KendallSquare Professional Investment Type Real Estate Investment Fund #8	-	2,152,888	-	12,100,000	27
	KendallSquare Professional Investment Type Real Estate Investment Fund #11	-	1,469,529	-	7,800,000	30
	KendallSquare Professional Investment Type Real Estate Investment Fund #18	26,200,000	167,087	-	-	-
Other related party ¹	Kendall Square REIT Management Co., Ltd.	-	-	134,466	-	-
	CPP Investment Board Real Estate Holdings Inc.	-	-	4,787,007	-	-
	ESR Kendall Square REIT Holding PTE, LTD.	-	-	1,237,092	-	-
		₩ 28,700,000	₩ 22,930,248	₩ 6,158,565	₩ 574,749,000	₩ 113

¹ Dividends of ₩6,830,898 thousands were paid to ESR KENDALL SQUARE REIT HOLDING PTE, LTD., CPP INVESTMENT BOARD REAL ESTATE HOLDINGS INC. and the parties (3 persons in total) with the largest amount of share capital who appointed directors as at November 30, 2021 according to the right to appoint a director granted under the shareholders agreement.

Compensation for key management of the Company for the periods ended November 30 and May 31, 2021, consists of:

(in thousands of Korean won)	November 30, 2021	May 31, 2021
Short-term employee benefits	₩ 57,000	₩ 57,000

ESR Kendall Square REIT Co., Ltd.
Notes to the Separate Financial Statements
November 30 and May 31, 2021

23. Commitments

(a) Contract for the asset management services

The Company 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 Kendall Square REIT Management Co., Ltd. Details of fees as follows:

Details

Management fees	a. Real estates: (Purchase price + additional cost related to purchase) X 0.5% (Annual Percentage Rate) b. Assets except real estate such as collective investment securities and equity securities: (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
Operation performance fees	(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% (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.)
Purchase fee	a. Real estates: Purchase price X 1.0% (*) 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. b. Assets except real estate such as collective investment securities and equity securities: The amount of real estate that is the underlying asset of assets for purchase X 1.0% (*) X Consigner's ratio of shareholding (*) 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.

ESR Kendall Square REIT Co., Ltd.
Notes to the Separate Financial Statements
November 30 and May 31, 2021

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 Company 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 ₩ 42.5 million per every fiscal year. In addition, for the assets that the Company 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 Company entered a consignment contract for custody and management of assets such as real estate, securities, and cash with Shinhan Bank. Fees are paid ₩ 5 million per every fiscal year.

(d) Loan agreement

Details of the loan agreement as at November 30, 2021, are as follows:

<i>(in thousands of Korean won)</i>	Contract amount	Loan amount
Tranche D (Industrial Bank of Korea)	₩ 20,000,000	₩ 20,000,000
Tranche D (Kookmin Bank)	30,000,000	-

ESR Kendall Square REIT Co., Ltd.
Notes to the Separate Financial Statements
November 30 and May 31, 2021

24.Events After the Reporting Period

(a) Decision on increase in issued capital

After the reporting period, the Company increased its capital amounting to ₩ 442,023,900 thousand after the reporting period and acquired shares of ESR Kendall Square Asset No. 2 REIT Co., Ltd., a subsidiary, and beneficiary certificates of Kendall Square Professional Investment Type Real Estate Investment Fund #18.

(b) Repayment of Borrowings

The Group fully repaid Tranche D borrowings amounting to ₩ 20 billion after the reporting period.