

February 15, 2013

Financial Report for the Seventeenth Fiscal Period (July 1, 2012 to December 31, 2012)

Frontier Real Estate Investment Corporation is listed on the Tokyo Stock Exchange with the securities code number 8964. (URL: <http://www.frontier-reit.co.jp/eng/>)

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Board of Directors' Meeting for the Approval of Financial Results : February 15, 2013
Planned Commencement of Cash Distribution Payment : March 11, 2013

1. PERFORMANCE FOR THE SEVENTEENTH FISCAL PERIOD

(July 1, 2012 to December 31, 2012)

(1) Business Results

(Millions of yen rounded down, unless otherwise stated)

	Operating Revenue		Operating Income		Ordinary Income		Net Income	
17th Fiscal Period	9,026	6.5%	4,718	8.3%	4,274	10.2%	4,273	10.2%
16th Fiscal Period	8,472	5.6%	4,355	6.8%	3,877	7.4%	3,876	7.4%

	Net Income per Unit	ROE (Note5)	Ordinary Income to Total Assets	Ordinary income to Operating Revenue
17th Fiscal Period	¥18,952	3.5%	1.8%	47.4%
16th Fiscal Period	¥19,982	3.4%	1.7%	45.8%

Notes:

1. For accounting purposes, the seventeenth fiscal period is from July 1, 2012 through December 31, 2012, a period of 184 days. The sixteenth fiscal period is from January 1, 2012 through June 30, 2012, a period of 182 days.
2. Net income per unit is calculated utilizing the average number of investment units for the period. The average number of investment units for the seventeenth fiscal period was 227,500 units. The average number of investment units for the sixteenth fiscal period was 194,000 units.
3. Changes in accounting policies: None
4. Percentages for operating revenue, operating income, ordinary income and net income represent the percentage increase or decrease from the previous fiscal period.
5. $ROE = \text{Net income} / ((\text{Net assets at the beginning of the period} + \text{Net assets at the end of the period})/2)$

(2) Distributions

(Millions of yen rounded down, unless otherwise stated)

	Distribution per Unit (Note1)	Total Distributions	Distribution in Excess of Earnings per Unit	Total Distributions in Excess of Earnings	Payout Ratio (Note2) (Note3)	Distribution Ratio to Net Assets (Note2)
17th Fiscal Period	¥18,382	4,181	¥0	¥0	97.8%	3.1%
16th Fiscal Period	¥19,982	3,876	¥0	¥0	100.0%	3.4%

Notes:

1. The number of investment units outstanding as of December 31, 2012 totaled 227,500 units. The number of investment units outstanding as of June 30, 2012 totaled 194,000 units.
2. The payout ratio and distribution ratio to net assets are rounded down to the first decimal place.
3. The payout ratio = Total Distributions / Net Income
As of December 31, 2012, part of unappropriated retained earnings is internally reserved.

(3) Financial Position

(Millions of yen rounded down, unless otherwise stated)

	Total Assets	Net Assets	Equity Ratio (Note1)	Net Assets per Unit (Note2)
As of the end of 17th Fiscal Period (December 31, 2012)	243,813	133,603	54.8%	¥587,267
As of the end of 16th Fiscal Period (June 30, 2012)	235,481	112,736	47.9%	¥581,114

Notes:

1. Equity Ratio = Net assets / Total assets
Equity ratio is rounded down to the first decimal place.
2. The number of investment units outstanding as of December 31, 2012 totaled 227,500 units. The number of investment units outstanding as of June 30, 2012 totaled 194,000 units.

(4) Cash Flows

(Millions of yen rounded down, unless otherwise stated)

	Net Cash Provided by (used in) Operating Activities	Net Cash Provided by (used in) Investment Activities	Net Cash Provided by (used in) Financing Activities	Cash and Cash Equivalents at the End of Period
As of the end of 17th Fiscal Period (December 31, 2012)	6,488	△10,066	4,193	12,162
As of the end of 16th Fiscal Period (June 30, 2012)	5,842	△11,674	9,732	11,546

FORECAST OF RESULTS FOR THE EIGHTEENTH FISCAL PERIOD

(January 1, 2013 to June 30, 2013)

Outlook

For the eighteenth fiscal period (January 1, 2013 to June 30, 2013) the Investment Corporation is forecasting operating revenue of ¥9,658 million, operating income of ¥5,022 million, ordinary income of ¥4,504 million, net income of ¥4,503 million and a cash distribution per unit of ¥18,100.

(Millions of yen rounded down, unless otherwise stated)

	Operating Revenue	Operating Income	Ordinary Income	Net Income	Distribution per Unit	Distribution in Excess of Earnings per Unit
18th Fiscal Period	9,658 (7.0%)	5,022 (6.4%)	4,507 (5.5%)	4,506 (5.5%)	¥18,100	¥0

(Reference) Estimated net income per unit for the eighteenth fiscal period: ¥18,100

Notes:

1. The aforementioned forecasts is based on the "Pre-Conditions and Assumptions for Operating Forecasts for 18th Fiscal Period ending June 30, 2013" on Page 4.
2. Percentages for operating revenue, operating income, ordinary income and net income represent the percentage increase or decrease from the previous fiscal period.
3. Forecasts for the eighteenth fiscal period may differ significantly from actual results due to changes in operating conditions and a variety of factors. Accordingly, the Investment Corporation does not guarantee the payment of the forecast distribution amount.
4. Regarding estimated net income per unit for the eighteenth fiscal period, ¥18,100 is calculated utilizing estimated average number of investment units, which is 248,000 units.

Pre-Conditions and Assumptions for Operating Forecasts
for 18th Fiscal Period ending June 30, 2013

	Pre-Conditions & Assumptions
Investment Assets	<ul style="list-style-type: none"> • The pre-condition assumes the total of 29 properties including Mitsui Shopping Park ALPARK(East Building) that is to be acquired on February 19, 2013 (“New Property”) in addition to the properties the Investment Corporation owns as of February 15, 2013 (total of 28 properties, “Existing Properties”). It is assumed that there will be no change in the number of the investment assets, due to acquisitions excluding the New Property and/or disposals of Existing Properties, until the end of the 18th fiscal period (June 30, 2013). • Actual numbers may change due to the future acquisitions and/or disposals of existing properties, if any.
Investment Units Issued	<ul style="list-style-type: none"> • The number of units issued and outstanding as of February 15, 2013 is 227,500 units. Following the Board of Directors meeting held on February 15, 2013, the Board of Directors has resolved an additional issue of 19,500 units and a third-party allotment (over-allotment) of maximum of 1,000 units. Accordingly, the pre-condition assumes that the number of units issued and outstanding is 248,000 total. In addition, the number of units by a third-party allotment is based on the assumption that all of maximum 1,000 units are issued.
Liabilities	<ul style="list-style-type: none"> • The balance of borrowings as of February 15, 2013 is ¥ 86,400 million. In addition, part of the short-term borrowings (¥ 2,000 Million) will be repayed on February 19, 2013. Though the funds by the additionally issued units is appropriated for the repayment of new borrowings (4,000 million) executed on February 19, 2013 for the payment of the acquisition cost of New Property, remaining funds will be appropriated for the repayment of the other borrowings. • It is assumed that refinancing and self-financing (partial) will be executed for the repayment of borrowings due by June 30, 2013. • The loan to value ratio (LTV) as of June 30, 2013 is expected to be approximately 42%. <ul style="list-style-type: none"> * $LTV = \frac{\text{Borrowings} + \text{Security deposits} - \text{Unrestricted cash and deposits}}{\text{Total assets} - \text{Unrestricted cash and deposits}}$
Operating Revenues	<ul style="list-style-type: none"> • This assumes lease business revenue from the total of 29 properties, adding New Property to the Existing Properties. For Existing Properties, it is calculated based on the individual lease contracts which is valid as of February 15, 2013 and estimated fluctuating factors. For New Property, it is calculated based on the individual lease contract that is expected to be valid on New Property acquisition date and information provided by the current owner of the New Property.

	Pre-Conditions & Assumptions
Operating Expenses	<ul style="list-style-type: none"> • The leasing business expenses (subcontracting expenses, etc.) are major operating expenses. For Existing Properties, it is calculated based on actual figures and estimated fluctuating factors. For New Property, it is calculated based on the individual lease contract that is expected to be valid on New Property acquisition date and information provided by the current owner of the New Property. • Regarding repair expenses, the amount estimated based on planned construction projects during the 18th fiscal period is budgeted as expenses. • Regarding property tax, city planning tax and other imposts relating to the properties owned by the Investment Corporation, the portion allocated to the 18th fiscal period, which is ¥ 985 million, will be posted to leasing business expenses. However, should properties be newly acquired during the 18th fiscal period and municipal property tax and other monies for settlement occur between the Investment Corporation and the seller, the aforementioned monies will be included in its acquisition cost. For New Properties, municipal property tax and other monies for settlement are not calculated as operating expenses but are included in their acquisition cost. • Depreciation expenses are calculated using the straight-line method. It includes ancillary expenses and additional future capital expenses (¥ 2,231 million for the 18th fiscal period).
Non-operating Expenses	<ul style="list-style-type: none"> • It is assumed that non-operating expenses, which include interests charged on borrowings, security deposits, investment corporation bonds and so on, will be ¥ 476 million for the 18th period. • It is assumed that there will be ¥ 42 million temporary expenses as expenses associated with the issuance of new units resolved in Board of Directors meeting held on February 15, 2013.
Distribution per Unit	<ul style="list-style-type: none"> • Cash dividends (distribution per unit) are calculated according to the Investment Corporation's distribution policy described in its Articles of Incorporation. • Cash distribution per unit may change for a variety of reasons including changes in the Investment Corporation's investment assets, changes in leasing revenues due to tenant movements, etc. and/or the incidence of unforeseen repairs and maintenance.
Distribution in Excess of Earnings per Unit	<ul style="list-style-type: none"> • The Investment Corporation does not currently anticipate cash distributions in excess of earnings per unit.
Others	<ul style="list-style-type: none"> • Calculations and operating forecasts are based on the assumption that there will be no changes in legislation, taxation, accounting standards, regulations applying to publicly listed companies, rules and requirements imposed by the Investment Trusts Association, Japan, which would impact the aforementioned forecasts. • Calculations and operating forecasts are also based on the assumption that there will be no material changes in general economic and real estate market conditions in Japan.

Balance Sheets <Consistent with Japanese GAAP>

Frontier Real Estate Investment Corporation as of June 30, 2012 and December 31, 2012.

	(Millions of Yen rounded down)		
	16th Fiscal Period	17th Fiscal Period	
	As of June 30, 2012	As of December 31, 2012	Change
ASSETS			
Current assets:			
Cash and deposits (including those in trust accounts)	12,976	14,694	
Operating accounts receivable	119	132	
Prepaid expenses	35	31	
Deferred tax assets	0	0	
Other	36	21	
Total current assets	13,168	14,881	1,712
Noncurrent assets:			
Property, plant and equipment (including those in trust accounts)			
Buildings	96,501	100,114	
Structures	2,092	2,104	
Machinery and equipment	376	376	
Tools, furniture and fixtures	49	50	
Land	142,625	147,703	
Less: accumulated depreciation	△19,369	△21,463	
Total property, plant and equipment	222,276	228,886	6,610
Intangible assets			
Intangible assets, net of amortization	1	1	
Total intangible assets	1	1	△0
Investments and other assets			
Securities deposited	10	10	
Long-term prepaid expenses	2	14	
Total investments and other assets	12	25	12
Total noncurrent assets	222,290	228,913	6,622
Deferred assets:			
Investment corporation bond issuance costs	22	19	
Total deferred assets	22	19	△3
TOTAL ASSETS	235,481	243,813	8,332

(Millions of Yen rounded down)

	16th Fiscal Period	17th Fiscal Period	Change
	As of June 30, 2012	As of December 31, 2012	
LIABILITIES			
Current liabilities:			
Operating accounts payable	752	577	
Short-term loans payable	25,700	11,200	
Current portion of long-term loans payable	4,020	6,020	
Accounts payable	61	25	
Accrued expenses	237	260	
Income taxes payable	0	0	
Accrued consumption taxes	50	37	
Advances received	927	967	
Deposits received	2	6	
Total current liabilities	31,753	19,097	△12,656
Noncurrent liabilities:			
Investment corporation bond	5,000	5,000	
Long-term loans payable	45,040	45,180	
Deferred tax liabilities	0	0	
Tenant leasehold and security deposits (including those in trust accounts)	40,905	40,889	
Other	46	44	
Total noncurrent liabilities	90,991	91,113	121
TOTAL LIABILITIES	122,745	110,210	△12,535
NET ASSETS			
Unitholders' equity:			
Unitholders' capital	108,857	129,327	20,470
Units authorized : 2,000,000 units			
Units issued and outstanding : 227,500 units			
Surplus			
Reserve for reduction entry	2	2	
Total voluntary reserve	2	2	
Unappropriated retained earnings	3,876	4,273	
Total surplus	3,878	4,275	396
Total unitholders' equity	112,735	133,603	20,867
Valuation and translation adjustments			
Valuation difference on available-for-sale securities	0	0	
Total valuation and translation adjustments	0	0	△0
TOTAL NET ASSETS	112,736	133,603	20,867
TOTAL LIABILITIES AND NET ASSETS	235,481	243,813	8,332

Statements of Income <Consistent with Japanese GAAP>

Frontier Real Estate Investment Corporation for the six-month ended June 30, 2012 and December 31, 2012

(Millions of Yen rounded down)

	<For the six months ended>		Change
	16th Fiscal Period	17th Fiscal Period	
	June 30, 2012	December 31, 2012	
Operating revenue:			
Lease business revenue	8,444	8,868	
Other lease business revenue	28	52	
Gain on sale investment properties	-	104	
Total operating revenue	8,472	9,026	553
Operating expenses:			
Expenses related to rent business	3,647	3,816	
Asset management fee	354	381	
Asset custody fee	11	11	
Administrative service fees	22	21	
Directors' compensations	6	6	
Other operating expenses	74	69	
Total operating expenses	4,117	4,307	190
OPERATING INCOME	4,355	4,718	362
Non-operating income:			
Interest income	3	3	
Other	8	21	
Total non-operating income	11	25	13
Non-operating expenses:			
Interest expenses	438	424	
Other	51	44	
Total non-operating expenses	489	469	△20
ORDINARY INCOME	3,877	4,274	396
INCOME BEFORE INCOME TAXES	3,877	4,274	396
Current and deferred income taxes	1	0	△0
NET INCOME	3,876	4,273	396
UNAPPROPRIATED RETAINED EARNINGS	3,876	4,273	396

Statements of Cash Flows <Consistent with Japanese GAAP>

Frontier Real Estate Investment Corporation for the six-month ended June 30, 2012 and December 31, 2012.

(Millions of Yen rounded down)

	<For the six months ended>	
	16th Fiscal Period	17th Fiscal Period
	June 30, 2012	December 31, 2012
Net Cash Provided by (used in) Operating Activities:		
Income before income taxes	3,877	4,274
Depreciation	1,997	2,095
Amortization of bond issue costs	3	3
New investment unit issue costs	—	23
Interest income	△3	△3
Interest expense	438	424
Decrease (Increase) in operating accounts receivable	△93	△13
Decrease (Increase) in prepaid expenses	12	△8
Increase (Decrease) in operating accounts payable	288	△200
Increase (Decrease) in accrued expenses	10	11
Increase (Decrease) in accrued consumption taxes	△253	△12
Increase (Decrease) in advances received	24	38
Decrease in investment properties in trust due to sale	—	266
Other	△24	△0
Subtotal	<u>6,277</u>	<u>6,899</u>
Interest income received	4	3
Interest expenses paid	△438	△413
Income taxes paid	△1	△0
Net Cash Provided by (used in) Operating Activities	<u>5,842</u>	<u>6,488</u>
Net Cash Provided by (used in) Investment Activities:		
Proceeds from repayments of time deposits	4,000	—
Payments for purchases of short-term investment securities	△1,300	△3,800
Proceeds from redemption of securities	1,300	3,800
Payments for purchases of property, plant and equipment (including those in trust)	△16,171	△8,947
Payments for purchases of intangible assets	△1	—
Repayments of lease and guarantee deposits received (including those in trust)	△511	△1,219
Proceeds from lease and guarantee deposits received (including those in trust)	1,059	1,202
Deposits for repayments of tenant leasehold and security deposits in trust	△52	△1,102
Proceeds from repayments of tenant leasehold and security deposits in trust	4	—
Net Cash Provided by (used in) Investment Activities	<u>△11,674</u>	<u>△10,066</u>

(Millions of Yen rounded down)

	<For the six months ended>	
	16th Fiscal Period	17th Fiscal Period
	June 30, 2012	December 31, 2012
Net Cash Provided by (used in) Financing Activities:		
Increase in short-term loans payable	33,200	33,800
Decrease in short-term loans payable	△21,700	△48,300
Proceeds from long-term loans payable	10,000	3,800
Repayment of long-term loans payable	△8,160	△1,660
Payments for investment corporation bond issuance costs	—	20,427
Dividends paid	△3,607	△3,874
Net Cash Provided by (used in) Financing Activities	9,732	4,193
Net Increase (Decrease) in Cash and Cash Equivalents	3,900	616
Cash and cash equivalents at the beginning of period	7,645	11,546
Cash and cash equivalents at the Ending of period (Note)	11,546	12,162

Note: Please note that there are restricted cash ¥ 1,429 million (16th) and ¥ 2,532 million (17th) for repayments of lease and guarantee deposits received.