

August 14, 2013

Financial Report for the Eighteenth Fiscal Period (January 1, 2013 to June 30, 2013)

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 : August 14, 2013
 Planned Commencement of Cash Distribution Payment : September 10, 2013

1. PERFORMANCE FOR THE EIGHTEENTH FISCAL PERIOD

(January 1, 2013 to June 30, 2013)

(1) Business Results

(Millions of yen rounded down, unless otherwise stated)

	Operating Revenue		Operating Income		Ordinary Income		Net Income	
18th Fiscal Period	9,676	7.2%	5,054	7.1%	4,551	6.5%	4,550	6.5%
17th Fiscal Period	9,026	6.5%	4,718	8.3%	4,274	10.2%	4,273	10.2%

	Net Income per Unit	ROE (Note5)	Ordinary Income to Total Assets	Ordinary income to Operating Revenue
18th Fiscal Period	¥18,897	3.2%	1.8%	47.0%
17th Fiscal Period	¥18,952	3.5%	1.8%	47.4%

Notes:

- For accounting purposes, the eighteenth fiscal period is from January 1, 2013 through June 30, 2013, a period of 181 days. The seventeenth fiscal period is from July 1, 2012 through December 31, 2012, a period of 184 days.
- Net income per unit is calculated utilizing the average number of investment units for the period. The average number of investment units for the eighteenth fiscal period was 240,776 units. The average number of investment units for the seventeenth fiscal period was 225,467 units.
- Changes in accounting policies: None
- Percentages for operating revenue, operating income, ordinary income and net income represent the percentage increase or decrease from the previous fiscal period.
- ROE = Net income / ((Net assets at the beginning of the period + 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)	Distribution Ratio to Net Assets
18th Fiscal Period	¥18,347	4,550	¥0	¥0	99.9%	3.0%
17th Fiscal Period	¥18,382	4,181	¥0	¥0	97.8%	3.1%

Notes:

1. The number of investment units outstanding as of June 30, 2013 totaled 248,000 units. The number of investment units outstanding as of December 31, 2012 totaled 227,500 units.
2. The payout ratio and distribution ratio to net assets are rounded down to the first decimal place.
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 18th Fiscal Period (June 30, 2013)	267,178	151,234	56.6%	¥609,816
As of the end of 17th Fiscal Period (December 31, 2012)	243,813	133,603	54.8%	¥587,267

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 June 30, 2013 totaled 248,000 units. The number of investment units outstanding as of December 31, 2012 totaled 227,500 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 18th Fiscal Period (June 30, 2013)	6,987	△25,511	17,690	11,328
As of the end of 17th Fiscal Period (December 31, 2012)	6,488	△10,066	4,193	12,162

FORECAST OF RESULTS FOR THE NINETEENTH FISCAL PERIOD

(July 1, 2013 to December 31, 2013)

Outlook

For the nineteenth fiscal period (July 1, 2013 to December 31, 2013) the Investment Corporation is forecasting operating revenue of ¥9,916 million, operating income of ¥5,055 million, ordinary income of ¥4,579 million, net income of ¥4,578 million and a cash distribution per unit of ¥18,400.

(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
19th Fiscal Period	9,916 (2.5%)	5,055 (0.0%)	4,579 (0.6%)	4,578 (0.6%)	¥18,400	¥0

(Reference) Estimated net income per unit for the nineteenth fiscal period: ¥18,400

Notes:

1. The aforementioned forecasts is based on the "Pre-Conditions and Assumptions for Operating Forecasts for 19th Fiscal Period ending December 31, 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 nineteenth 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 nineteenth fiscal period, ¥18,400 is calculated utilizing estimated average number of investment units, which is 248,000 units.

Pre-Conditions and Assumptions for Operating Forecasts
for 19th Fiscal Period ending December 31, 2013

	Pre-Conditions & Assumptions
Investment Assets	<ul style="list-style-type: none"> • The Investment Corporation owns total 29 properties as of August 14, 2013. • It is assumed that there will be no change in the number of the investment assets, due to acquisitions and/or disposals, until the end of the 19th fiscal period (December 31, 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 the outstanding investment units is based on the number as of August 14, 2013, which are 248,000 units.
Liabilities	<ul style="list-style-type: none"> • The balance of borrowings, etc. as of August 14, 2013 is ¥ 72,040 million. • It is assumed that refinancing and self-financing (partial) will be executed for the repayment of borrowings due by December 31, 2013. • The loan to value ratio (LTV*) as of December 31, 2013 is expected to be approximately 41%. * LTV = (Borrowings, etc. + Security deposits – Unrestricted cash and deposits) / (Total assets – Unrestricted cash and deposits)
Operating Revenues	<ul style="list-style-type: none"> • This assumes lease business revenue from existing portfolio assets of 29 properties. It is calculated based on the individual lease contracts which is valid as of August 14, 2013 and estimated fluctuating factors.
Operating Expenses	<ul style="list-style-type: none"> • The leasing business expenses (subcontracting expenses, etc.), which are major operating expenses, is calculated based on actual figures and estimated fluctuating factors. • Regarding repair expenses, the amount estimated based on planned construction projects during the 19th 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 19th fiscal period, which is ¥ 978 million, will be posted to leasing business expenses. However, should properties be newly acquired during the 19th 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. • Depreciation expenses are calculated using the straight-line method. It includes ancillary expenses and additional future capital expenses (¥ 2,279 million for the 19th fiscal period).

	Pre-Conditions & Assumptions
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 ¥ 480 million for the 19th period.
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 December 31, 2012 and June 30, 2013.

(Millions of Yen rounded down)

	17th Fiscal Period As of December 31, 2012	18th Fiscal Period As of June 30, 2013	Change
ASSETS			
Current assets:			
Cash and deposits (including those in trust accounts)	14,694	13,861	
Operating accounts receivable	132	172	
Prepaid expenses	31	31	
Deferred tax assets	0	0	
Other	21	177	
Total current assets	14,881	14,243	△637
Noncurrent assets:			
Property, plant and equipment (including those in trust accounts)			
Buildings	100,114	107,845	
Structures	2,104	2,184	
Machinery and equipment	376	738	
Tools, furniture and fixtures	50	75	
Land	147,703	165,749	
Less: accumulated depreciation	△21,463	△23,704	
Total property, plant and equipment	228,886	252,889	24,002
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	14	17	
Total investments and other assets	25	27	2
Total noncurrent assets	228,913	252,918	24,005
Deferred assets:			
Investment corporation bond issuance costs	19	16	
Total deferred assets	19	16	△3
TOTAL ASSETS	243,813	267,178	23,364

(Millions of Yen rounded down)

	17th Fiscal Period	18th Fiscal Period	Change
	As of December 31, 2012	As of June 30, 2013	
LIABILITIES			
Current liabilities:			
Operating accounts payable	577	842	
Short-term loans payable	11,200	6,700	
Current portion of long-term loans payable	6,020	5,420	
Accounts payable	25	42	
Accrued expenses	260	289	
Income taxes payable	0	0	
Accrued consumption taxes	37	30	
Advances received	967	1,080	
Deposits received	6	3	
Other	—	0	
Total current liabilities	19,097	14,409	△4,687
Noncurrent liabilities:			
Investment corporation bond	5,000	5,000	
Long-term loans payable	45,180	54,920	
Deferred tax liabilities	0	0	
Tenant leasehold and security deposits (including those in trust accounts)	40,889	41,573	
Other	44	40	
Total noncurrent liabilities	91,113	101,534	10,420
TOTAL LIABILITIES	110,210	115,943	5,733
NET ASSETS			
Unitholders' equity:			
Unitholders' capital	129,327	146,590	17,263
Units authorized : 2,000,000 units			
Units issued and outstanding : 248,000 units			
Surplus			
Reserve for reduction entry	2	93	
Total voluntary reserve	2	93	
Unappropriated retained earnings	4,273	4,550	
Total surplus	4,275	4,643	368
Total unitholders' equity	133,603	151,234	17,631
Valuation and translation adjustments			
Valuation difference on available-for-sale securities	0	0	
Total valuation and translation adjustments	0	0	△0
TOTAL NET ASSETS	133,603	151,234	17,631
TOTAL LIABILITIES AND NET ASSETS	243,813	267,178	23,364

Statements of Income <Consistent with Japanese GAAP>

Frontier Real Estate Investment Corporation for the six-month ended December 31, 2012 and June 30, 2013

(Millions of Yen rounded down)

	<For the six months ended>		
	17th Fiscal Period	18th Fiscal Period	Change
	December 31, 2012	June 30, 2013	
Operating revenue:			
Lease business revenue	8,868	9,646	
Other lease business revenue	52	29	
Gain on sale of investment properties	104	—	
Total operating revenue	9,026	9,676	649
Operating expenses:			
Expenses related to rent business	3,816	4,110	
Asset management fee	381	395	
Asset custody fee	11	12	
Administrative service fees	21	23	
Directors' compensations	6	6	
Other operating expenses	69	72	
Total operating expenses	4,307	4,621	313
OPERATING INCOME	4,718	5,054	336
Non-operating income:			
Interest income	3	2	
Other	21	7	
Total non-operating income	25	9	△15
Non-operating expenses:			
Interest expenses	424	453	
Other	44	60	
Total non-operating expenses	469	513	44
ORDINARY INCOME	4,274	4,551	276
INCOME BEFORE INCOME TAXES	4,274	4,551	276
Current and deferred income taxes	0	0	△0
NET INCOME	4,273	4,550	276
UNAPPROPRIATED RETAINED EARNINGS	4,273	4,550	276

Statements of Cash Flows <Consistent with Japanese GAAP>

Frontier Real Estate Investment Corporation for the six-month ended December 31, 2012 and June 30, 2013.

(Millions of Yen rounded down)

	<For the six months ended>	
	17th Fiscal Period	18th Fiscal Period
	December 31, 2012	June 30, 2013
Net Cash Provided by (used in) Operating Activities:		
Income before income taxes	4,274	4,551
Depreciation	2,095	2,241
Amortization of bond issue costs	3	3
New investment unit issue costs	23	41
Interest income	△3	△2
Interest expense	424	453
Decrease (Increase) in operating accounts receivable	△13	△39
Decrease (Increase) in prepaid expenses	△8	△3
Increase (Decrease) in operating accounts payable	△200	225
Increase (Decrease) in accrued expenses	11	9
Increase (Decrease) in accrued consumption taxes	△12	△7
Increase (Decrease) in advances received	38	109
Decrease in investment properties in trust due to sale	266	—
Other	△0	△161
Subtotal	6,899	7,419
Interest income received	3	2
Interest expenses paid	△413	△434
Income taxes paid	△0	△0
Net Cash Provided by (used in) Operating Activities	6,488	6,987
Net Cash Provided by (used in) Investment Activities:		
Payments for purchases of short-term investment securities	△3,800	△300
Proceeds from redemption of securities	3,800	300
Payments for purchases of property, plant and equipment (including those in trust)	△8,947	△26,196
Repayments of lease and guarantee deposits received (including those in trust)	△1,219	△526
Proceeds from lease and guarantee deposits received (including those in trust)	1,202	1,210
Deposits for repayments of tenant leasehold and security deposits in trust	△1,102	—
Net Cash Provided by (used in) Investment Activities	△10,066	△25,511

(Millions of Yen rounded down)

	<For the six months ended>	
	17th Fiscal Period	18th Fiscal Period
	December 31, 2012	June 30, 2013
Net Cash Provided by (used in) Financing Activities:		
Increase in short-term loans payable	33,800	42,800
Decrease in short-term loans payable	△48,300	△47,300
Proceeds from long-term loans payable	3,800	11,500
Repayment of long-term loans payable	△1,660	△2,360
Payments for investment corporation bond issuance costs	20,427	17,231
Dividends paid	△3,874	△4,180
Net Cash Provided by (used in) Financing Activities	4,193	17,690
Net Increase (Decrease) in Cash and Cash Equivalents	616	△833
Cash and cash equivalents at the beginning of period	11,546	12,162
Cash and cash equivalents at the Ending of period (Note)	12,162	11,328

Note: Please note that there are restricted cash ¥ 2,532 million (17th,18th) for repayments of lease and guarantee deposits received.