

February 14, 2014

Financial Report for the Nineteenth Fiscal Period (July 1, 2013 to December 31, 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/>)

Representative : Hirohiko Kamei, Executive Director
Head Office : Tokyo
Inquiries : Mitsui Fudosan Frontier REIT Management Inc.
(Asset Management Company)
Tatsu Makino, Vice President, Finance Division and Director
TEL: +81-3-3289-0440

Board of Directors' Meeting for the Approval of Financial Results : February 14, 2014
Planned Commencement of Cash Distribution Payment : March 11, 2014

1. PERFORMANCE FOR THE NINETEENTH FISCAL PERIOD

(July 1, 2013 to December 31, 2013)

(1) Business Results

(Millions of yen rounded down, unless otherwise stated)

	Operating Revenue		Operating Income		Ordinary Income		Net Income	
19th Fiscal Period	9,960	2.9%	5,118	1.3%	4,665	2.5%	4,664	2.5%
18th Fiscal Period	9,676	7.2%	5,054	7.1%	4,551	6.5%	4,550	6.5%

	Net Income per Unit	ROE (Note5)	Ordinary Income to Total Assets	Ordinary income to Operating Revenue
19th Fiscal Period	¥9,405	3.1%	1.8%	46.8%
18th Fiscal Period	¥9,448	3.2%	1.8%	47.0%

Notes:

- For accounting purposes, the nineteenth fiscal period is from July 1, 2013 through December 31, 2013, a period of 184 days. The eighteenth fiscal period is from January 1, 2013 through June 30, 2013, a period of 181 days.
- As of December 31, 2013(December 30, 2013 in substance) as record date, each of the investment units have been divided on a two-for-one basis, January 1, 2014 as the effective date. Net income per unit is calculated based on the assumption that the investment unit had been split at the beginning of the previous fiscal period.
- Net income per unit is calculated utilizing the average number of investment units for the period. The average number of investment units for the nineteenth fiscal period was 496,000 units. The average number of investment units for the eighteenth fiscal period was 481,552 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.
- $ROE = \text{Net income} / ((\text{Net assets at the beginning of the period} + \text{Net assets at the end of the period})/2)$

(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)	Distribution Ratio to Net Assets
19th Fiscal Period	¥18,810	4,664	¥0	¥0	99.9%	3.0%
18th Fiscal Period	¥18,347	4,550	¥0	¥0	99.9%	3.0%

Notes:

- The number of investment units outstanding as of December 31, 2013 totaled 248,000 units. The number of investment units outstanding as of June 30, 2013 totaled 248,000 units.
- The payout ratio and distribution ratio to net assets are rounded down to the first decimal place.
The payout ratio = Total Distributions / Net Income

(3) Financial Position

(Millions of yen rounded down, unless otherwise stated)

	Total Assets	Net Assets	Equity Ratio (Note1)	Net Assets per Unit (Note2,3)
As of the end of 19th Fiscal Period (December 31, 2013)	264,073	151,349	57.3%	¥305,139
As of the end of 18th Fiscal Period (June 30, 2013)	267,178	151,234	56.6%	¥304,908

Notes:

- Equity Ratio = Net assets / Total assets
Equity ratio is rounded down to the first decimal place.
- The number of investment units outstanding as of December 31, 2013 totaled 248,000 units. The number of investment units outstanding as of June 30, 2013 totaled 248,000 units.
- As of December 31, 2013(December 30, 2013 in substance) as record date, each of the investment units have been divided on a two-for-one basis, January 1, 2014 as the effective date. Net income per unit is calculated based on the assumption that the investment unit had been split at the beginning of the previous fiscal period.

(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 19th Fiscal Period (December 31, 2013)	18,842	△1,762	△6,406	22,002
As of the end of 18th Fiscal Period (June 30, 2013)	6,987	△25,511	17,690	11,328

FORECAST OF RESULTS FOR THE TWENTIETH FISCAL PERIOD

(January 1, 2014 to June 30, 2014)

Outlook

For the twentieth fiscal period (January 1, 2014 to June 30, 2014) the Investment Corporation is forecasting operating revenue of ¥10,536 million, operating income of ¥5,621 million, ordinary income of ¥5,171 million, net income of ¥5,170 million and a cash distribution per unit of ¥9,900.

(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
20th Fiscal Period	10,536 (5.8%)	5,621 (9.8%)	5,171 (10.8%)	5,170 (10.8%)	¥9,900	¥0

(Reference) Estimated net income per unit for the twentieth fiscal period: ¥10,424

Notes:

1. The aforementioned forecast is based on the "Pre-Conditions and Assumptions for Operating Forecasts for 20th Fiscal Period ending June 30, 2014" 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. Forecast for the twentieth 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 twentieth fiscal period, ¥10,424 is calculated utilizing estimated average number of investment units, which is 496,000 units.

Pre-Conditions and Assumptions for Operating Forecasts
for 20th Fiscal Period ending June 30, 2014

	Pre-Conditions & Assumptions
Investment Assets	<ul style="list-style-type: none"> • The pre-condition assumes a total of 30 properties including Mitsui Shopping Park LaLaport SHIN-MISATO Annex that is to be acquired on March 25, 2014 (“New Property”) in addition to the properties the Investment Corporation owns as of February 14, 2014 (total of 29 properties, “Existing Properties”). As for AEON Hadano Shopping Center, it is assumed that 25% of the property is to be disposed on June 20, 2014. • It is assumed that there will be no change in the number of the investment assets, due to acquisitions and/or disposals excluding above-mentioned acquisition and disposal, until the end of the 20th fiscal period (June 30, 2014). • 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 February 14, 2014, which are 496,000 units.
Liabilities	<ul style="list-style-type: none"> • The balance of borrowings, etc. as of February 14, 2014 is ¥ 70,180 million. • It is assumed that refinancing and self-financing (partial) will be executed for the repayment of borrowings due by June 30, 2014. • The loan to value ratio (LTV*) as of June 30, 2014 is expected to be approximately 39%. * 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 the total of 30 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 14, 2014 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. • As for AEON Hadano Shopping Center, it is assumed that 25% of the property is to be disposed on June 20, 2014.

	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 20th 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 20th fiscal period, which is ¥1,039 million, will be posted to leasing business expenses. However, should properties be newly acquired during the 20th 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 the '(Provisional name)Kohnan Kawasaki-minami(Land Interest)', which acquired on January 31, 2014 and 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 (¥ 2,205 million for the 20th 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 ¥ 455 million for the 20th 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. • As profits from sale of "AEON Hadano Shopping Center" is expected to be the amount of ¥ 968million (anticipated), the Investment Corporation intends to retain ¥ 240million (anticipated) as reserve for reduction by applying the "Special Provisions on Taxation in the case of advance acquisition of land and such in 2009" in the Article 66-2 of the Act on Special Measures Law and the "Special Provisions of Taxation for Investment Corporations" in the Article 67-15 of the Act on Special Measures Law. Actual numbers may change • It is assumed that there will be no withdraw of reserve for reduction.
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.

	Pre-Conditions & Assumptions
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, 2013 and December 31, 2013.

	(Millions of Yen rounded down)		
	18th Fiscal Period	19th Fiscal Period	Change
	As of June 30, 2013	As of December 31, 2013	
ASSETS			
Current assets:			
Cash and deposits (including those in trust accounts)	13,861	24,234	
Operating accounts receivable	172	164	
Prepaid expenses	31	43	
Deferred tax assets	0	0	
Other	177	9	
Total current assets	14,243	24,453	10,210
Noncurrent assets:			
Property, plant and equipment			
(including those in trust accounts)			
Buildings	107,845	103,195	
Structures	2,184	2,092	
Machinery and equipment	738	669	
Tools, furniture and fixtures	75	76	
Land	165,749	157,777	
Less: accumulated depreciation	△23,704	△24,335	
Total property, plant and equipment	252,889	239,501	△13,387
Intangible assets			
Intangible assets, net of amortization	1	1	

Total intangible assets	1	1	△0
Investments and other assets			
Securities deposited	10	30	
Long-term prepaid expenses	17	73	
Total investments and other assets	27	104	76
Total noncurrent assets	252,918	239,607	△13,311
Deferred assets:			
Investment corporation bond issuance costs	16	13	
Total deferred assets	16	13	△3
TOTAL ASSETS	267,178	264,073	△3,104

(Millions of Yen rounded down)

	18th Fiscal Period	19th Fiscal Period	Change
	As of June 30, 2013	As of December 31, 2013	
LIABILITIES			
Current liabilities:			
Operating accounts payable	842	728	
Short-term loans payable	6,700	3,500	
Current portion of long-term loans payable	5,420	8,180	
Accounts payable	42	29	
Accrued expenses	289	275	
Income taxes payable	0	0	
Accrued consumption taxes	30	635	
Advances received	1,080	1,011	
Deposits received	3	5	
Other	0	7	
Total current liabilities	14,409	14,374	△35
Noncurrent liabilities:			
Investment corporation bond	5,000	5,000	
Long-term loans payable	54,920	53,500	
Deferred tax liabilities	0	0	
Tenant leasehold and security deposits	41,573	39,812	
(including those in trust accounts)			
Other	40	37	
Total noncurrent liabilities	101,534	98,350	△3,184
TOTAL LIABILITIES	115,943	112,724	△3,219

NET ASSETS

Unitholders' equity:

Unitholders' capital	146,590	146,590	—
----------------------	---------	---------	---

Units authorized : 2,000,000 units

Units issued and outstanding : 248,000 units

Surplus

Reserve for reduction entry	93	93	
-----------------------------	----	----	--

Total voluntary reserve	93	93	
-------------------------	----	----	--

Unappropriated retained earnings	4,550	4,665	
----------------------------------	-------	-------	--

Total surplus	4,643	4,758	114
---------------	-------	-------	-----

Total unitholders' equity	151,234	151,349	114
---------------------------	---------	---------	-----

Valuation and translation adjustments

Valuation difference on available-for-sale securities	0	0	
---	---	---	--

Total valuation and translation adjustments	0	0	△0
---	---	---	----

TOTAL NET ASSETS	151,234	151,349	114
-------------------------	----------------	----------------	------------

TOTAL LIABILITIES AND NET ASSETS	267,178	264,073	△3,104
---	----------------	----------------	---------------

Statements of Income <Consistent with Japanese GAAP>

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

(Millions of Yen rounded down)

	<For the six months ended>		
	18th Fiscal Period	19th Fiscal Period	Change
	June 30, 2013	December 31, 2013	
Operating revenue:			
Lease business revenue	9,646	9,777	
Other lease business revenue	29	96	
Gain on sale of investment properties	—	86	
Total operating revenue	9,676	9,960	284
Operating expenses:			
Expenses related to rent business	4,110	4,291	
Asset management fee	395	425	
Asset custody fee	12	13	
Administrative service fees	23	23	
Directors' compensations	6	6	
Other operating expenses	72	81	
Total operating expenses	4,621	4,841	220
OPERATING INCOME	5,054	5,118	63
Non-operating income:			
Interest income	2	2	
Other	7	16	
Total non-operating income	9	19	9
Non-operating expenses:			

Interest expenses	453	435	
Other	60	36	
	<hr/>		
Total non-operating expenses	513	471	△41
	<hr/>		
ORDINARY INCOME	4,551	4,665	114
	<hr/>		
INCOME BEFORE INCOME TAXES	4,551	4,665	114
	<hr/>		
Current and deferred income taxes	0	0	0
	<hr/>		
NET INCOME	4,550	4,664	114
	<hr/>		
UNAPPROPRIATED RETAINED EARNINGS	4,550	4,665	114
	<hr/> <hr/>		

Statements of Cash Flows <Consistent with Japanese GAAP>

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

(Millions of Yen rounded down)

	<For the six months ended>	
	18th Fiscal Period	19th Fiscal Period
	June 30, 2013	December 31, 2013
Net Cash Provided by (used in) Operating Activities:		
Income before income taxes	4,551	4,665
Depreciation	2,241	2,265
Amortization of bond issue costs	3	3
New investment unit issue costs	41	—
Interest income	△2	△2
Interest expense	453	435
Decrease (Increase) in operating accounts receivable	△39	7
Decrease (Increase) in prepaid expenses	△3	△67
Increase (Decrease) in operating accounts payable	225	△78
Increase (Decrease) in accrued expenses	9	5
Increase (Decrease) in accrued consumption taxes	△7	605
Increase (Decrease) in advances received	109	△72
Decrease in investment properties in trust due to sale	—	11,356
Other	△161	173
Subtotal	7,419	19,297
Interest income received	2	2
Interest expenses paid	△434	△456
Income taxes paid	△0	△0

Net Cash Provided by (used in) Operating Activities	6,987	18,842
Net Cash Provided by (used in) Investment Activities:		
Payments for purchases of short-term investment securities	△300	△400
Proceeds from redemption of securities	300	400
Payments for purchases of property, plant and equipment (including those in trust)	△26,196	△281
Repayments of lease and guarantee deposits received (including those in trust)	△526	△1,872
Proceeds from lease and guarantee deposits received (including those in trust)	1,210	112
Proceeds from repayments of tenant leasehold and security deposits in trust	—	300
Payments of lease deposits in trust	—	△20
Net Cash Provided by (used in) Investment Activities	△25,511	△1,762

	<For the six months ended>	
	18th Fiscal Period	19th Fiscal Period
	June 30, 2013	December 31, 2013
Net Cash Provided by (used in) Financing Activities:		
Increase in short-term loans payable	42,800	24,700
Decrease in short-term loans payable	△47,300	△27,900
Proceeds from long-term loans payable	11,500	5,000
Repayment of long-term loans payable	△2,360	△3,660
Payments for investment corporation bond issuance costs	17,231	—
Dividends paid	△4,180	△4,546
Net Cash Provided by (used in) Financing Activities	17,690	△6,406
Net Increase (Decrease) in Cash and Cash Equivalents	△833	10,673
Cash and cash equivalents at the beginning of period	12,162	11,328
Cash and cash equivalents at the Ending of period (Note)	11,328	22,002

Note: Please note that there are restricted cash ¥ 2,532 million (18th) and ¥ 2,232 million (19th) for repayments of lease and guarantee deposits received.