

August 14, 2012

## Financial Report for the Sixteenth Fiscal Period (January 1, 2012 to June 30, 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 : August 15, 2012  
Planned Commencement of Cash Distribution Payment : September 10, 2012

### 1. PERFORMANCE FOR THE SIXTEENTH FISCAL PERIOD

(January 1, 2012 to June 30, 2012)

#### (1) Business Results

(Millions of yen rounded down, unless otherwise stated)

	Operating Revenue		Operating Income		Ordinary Income		Net Income	
16th Fiscal Period	8,472	5.6%	4,355	6.8%	3,877	7.4%	3,876	7.4%
15th Fiscal Period	8,023	2.8%	4,079	0.6%	3,609	△0.4%	3,608	0.7%

	Net Income per Unit	ROE (Note5)	Ordinary Income to Total Assets	Ordinary income to Operating Revenue
16th Fiscal Period	¥19,982	3.4%	1.7%	45.8%
15th Fiscal Period	¥18,598	3.2%	1.6%	45.0%

Notes:

1. For accounting purposes, the sixteenth fiscal period is from January 1, 2012 through June 30, 2012, a period of 182 days. The fifteenth fiscal period is from July 1, 2011 through December 31, 2011, a period of 184 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 sixteenth fiscal period was 194,000 units. The average number of investment units for the fifteenth 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 = 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
16th Fiscal Period	¥19,982	3,876	¥0	¥0	100.0%	3.4%
15th Fiscal Period	¥18,599	3,608	¥0	¥0	100.0%	3.2%

Notes:

1. The number of investment units outstanding as of June 30, 2012 totaled 194,000 units. The number of investment units outstanding as of December 31, 2011 totaled 194,000 units.
2. The payout ratio and distribution ratio to net assets are rounded down to the first decimal place.

## (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 16th Fiscal Period (June 30, 2012)	235,481	112,736	47.9%	¥581,114
As of the end of 15th Fiscal Period (December 31, 2011)	221,209	112,467	50.8%	¥579,731

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, 2012 totaled 194,000 units. The number of investment units outstanding as of December 31, 2011 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 16th Fiscal Period (June 30, 2012)	5,842	△11,674	9,732	11,546
As of the end of 15th Fiscal Period (December 31, 2011)	5,742	△5,061	△3,247	7,645

## FORECAST OF RESULTS FOR THE SEVENTEENTH FISCAL PERIOD

(July 1, 2012 to December 31, 2012)

### Outlook

For the seventeenth fiscal period (July 1, 2012 to December 31, 2012) the Investment Corporation is forecasting operating revenue of ¥8,915 million, operating income of ¥4,573 million, ordinary income of ¥4,101 million, net income of ¥4,100 million and a cash distribution per unit of ¥18,000.

(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
17th Fiscal Period	8,915 (5.2%)	4,573 (5.0%)	4,101 (5.8%)	4,100 (5.8%)	¥18,000	¥0

(Reference) Estimated net income per unit for the seventeenth fiscal period: ¥18,000

Notes:

1. The aforementioned forecasts is based on the "Pre-Conditions and Assumptions for Operating Forecasts for 17th Fiscal Period ending December 31, 2012" 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 seventeenth 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 seventeenth fiscal period, ¥18,000 is calculated utilizing estimated average number of investment units, which is 227,500 units.

**Pre-Conditions and Assumptions for Operating Forecasts**  
**for 17th Fiscal Period ending December 31, 2012**

	<b>Pre-Conditions &amp; Assumptions</b>
<b>Investment Assets</b>	<ul style="list-style-type: none"> <li>• The Investment Corporation owns total 27 properties as of August 14, 2012.</li> <li>• 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 17th fiscal period (December 31, 2012).</li> <li>• Actual numbers may change due to the future acquisitions and/or disposals of existing properties, if any.</li> </ul>
<b>Investment Units Issued</b>	<ul style="list-style-type: none"> <li>• The number of the outstanding investment units is based on the number as of August 14, 2012, which are 227,500 units.</li> </ul>
<b>Liabilities</b>	<ul style="list-style-type: none"> <li>• The balance of borrowings, etc. as of August 14, 2012 is ¥ 68,760 million.</li> <li>• It is assumed that refinancing will be executed for the repayment of borrowings due by December 31, 2012.</li> <li>• The loan to value ratio (LTV*) as of December 31, 2012 is expected to be approximately 43%.  * LTV = (Borrowings, etc. + Security deposits – Unrestricted cash and deposits)  / (Total assets – Unrestricted cash and deposits)</li> </ul>
<b>Operating Revenues</b>	<ul style="list-style-type: none"> <li>• This assumes lease business revenue from existing portfolio assets of 27 properties. It is calculated based on the individual lease contracts which are valid as of June 25, 2012, the lease contract of QANAT Rakuhoku acquired on July 4, 2012 and estimated fluctuating factors.</li> <li>• Since the partial land sale of UT STORE HARAJUKU and the relocation of UNIQLO CO., LTD, the tenant of UT STORE HARAJUKU, have little impact on the asset management status, there is no change in the pre-conditions and assumptions for operating forecasts for 17th fiscal period ending December 31, 2012.</li> </ul>
<b>Operating Expenses</b>	<ul style="list-style-type: none"> <li>• The leasing business expenses (subcontracting expenses, etc.), which are major operating expenses, is calculated based on actual figures and estimated fluctuating factors.</li> <li>• Regarding repair expenses, the amount estimated based on planned construction projects during the 17th fiscal period is budgeted as expenses.</li> <li>• Regarding property tax, city planning tax and other imposts relating to the properties owned by the Investment Corporation, the portion allocated to the 17th fiscal period, which is ¥ 899 million, will be posted to leasing business expenses. However, should properties be newly acquired during the 17th 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.</li> <li>• Depreciation expenses are calculated using the straight-line method. It includes ancillary expenses and additional future capital expenses (¥ 2,093 million for the 17th fiscal period).</li> </ul>

	<b>Pre-Conditions &amp; Assumptions</b>
<b>Non-operating Expenses</b>	<ul style="list-style-type: none"> <li>• It is assumed that non-operating expenses, which include interests charged on borrowings, security deposits, investment corporation bonds and so on, will be ¥456 million for the 17th period.</li> <li>• It is assumed that there will be ¥18 million temporary expenses as part of expenses associated with the issuance of new units resolved in Board of Directors meeting held on June 25, 2012.</li> </ul>
<b>Distribution per Unit</b>	<ul style="list-style-type: none"> <li>• Cash dividends (distribution per unit) are calculated according to the Investment Corporation's distribution policy described in its Articles of Incorporation.</li> <li>• 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.</li> </ul>
<b>Distribution in Excess of Earnings per Unit</b>	<ul style="list-style-type: none"> <li>• The Investment Corporation does not currently anticipate cash distributions in excess of earnings per unit.</li> </ul>
<b>Others</b>	<ul style="list-style-type: none"> <li>• 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.</li> <li>• 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.</li> </ul>

## Balance Sheets &lt;Consistent with Japanese GAAP&gt;

Frontier Real Estate Investment Corporation as of December 31, 2011 and June 30, 2012.

(Millions of Yen rounded down)

	15th Fiscal Period As of December 31, 2011	16th Fiscal Period As of June 30, 2012	Change
<b>ASSETS</b>			
Current assets:			
Cash and deposits (including those in trust accounts)	13,026	12,976	
Operating accounts receivable	26	119	
Prepaid expenses	40	35	
Deferred tax assets	0	0	
Other	1	36	
<b>Total current assets</b>	<b>13,094</b>	<b>13,168</b>	<b>73</b>
Noncurrent assets:			
Property, plant and equipment (including those in trust accounts)			
Buildings	94,389	96,501	
Structures	2,066	2,092	
Machinery and equipment	376	376	
Tools, furniture and fixtures	49	49	
Land	128,558	142,625	
Less: accumulated depreciation	△17,372	△19,369	
<b>Total property, plant and equipment</b>	<b>208,068</b>	<b>222,276</b>	<b>14,208</b>
Intangible assets			
Intangible assets, net of amortization	0	1	
<b>Total intangible assets</b>	<b>0</b>	<b>1</b>	<b>1</b>
Investments and other assets			
Securities deposited	10	10	
Long-term prepaid expenses	10	2	
<b>Total investments and other assets</b>	<b>20</b>	<b>12</b>	<b>△8</b>
<b>Total noncurrent assets</b>	<b>208,089</b>	<b>222,290</b>	<b>14,201</b>
Deferred assets:			
Investment corporation bond issuance costs	25	22	
<b>Total deferred assets</b>	<b>25</b>	<b>22</b>	<b>△3</b>
<b>TOTAL ASSETS</b>	<b>221,209</b>	<b>235,481</b>	<b>14,272</b>

(Millions of Yen rounded down)

	15th Fiscal Period	16th Fiscal Period	Change
	As of December 31, 2011	As of June 30, 2012	
<b>LIABILITIES</b>			
Current liabilities:			
Operating accounts payable	434	752	
Short-term loans payable	14,200	25,700	
Current portion of long-term loans payable	9,820	4,020	
Accounts payable	29	61	
Accrued expenses	227	237	
Income taxes payable	0	0	
Accrued consumption taxes	303	50	
Advances received	900	927	
Deposits received	3	2	
<b>Total current liabilities</b>	<b>25,919</b>	<b>31,753</b>	<b>5,833</b>
Noncurrent liabilities:			
Investment corporation bond	5,000	5,000	
Long-term loans payable	37,400	45,040	
Deferred tax liabilities	0	0	
Tenant leasehold and security deposits (including those in trust accounts)	40,372	40,905	
Other	49	46	
<b>Total noncurrent liabilities</b>	<b>82,821</b>	<b>90,991</b>	<b>8,169</b>
<b>TOTAL LIABILITIES</b>	<b>108,741</b>	<b>122,745</b>	<b>14,003</b>
<b>NET ASSETS</b>			
Unitholders' equity:			
Unitholders' capital	108,857	108,857	—
Units authorized : 2,000,000 units			
Units issued and outstanding : 194,000 units			
Surplus			
Reserve for reduction entry	2	2	
Total voluntary reserve	2	2	
Unappropriated retained earnings	3,608	3,876	
Total surplus	3,610	3,878	268
Total unitholders' equity	112,467	112,735	268
Valuation and translation adjustments			
Valuation difference on available-for-sale securities	0	0	
Total valuation and translation adjustments	0	0	△0
<b>TOTAL NET ASSETS</b>	<b>112,467</b>	<b>112,736</b>	<b>268</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>221,209</b>	<b>235,481</b>	<b>14,272</b>

## Statements of Income &lt;Consistent with Japanese GAAP&gt;

Frontier Real Estate Investment Corporation for the six-month ended December 31, 2011 and June 30, 2012

(Millions of Yen rounded down)

	<For the six months ended>		
	15th Fiscal Period	16th Fiscal Period	Change
	December 31, 2011	June 30, 2012	
Operating revenue:			
Lease business revenue	7,967	8,444	
Other lease business revenue	56	28	
Total operating revenue	8,023	8,472	449
Operating expenses:			
Expenses related to rent business	3,490	3,647	
Asset management fee	350	354	
Asset custody fee	11	11	
Administrative service fees	19	22	
Directors' compensations	6	6	
Other operating expenses	66	74	
Total operating expenses	3,943	4,117	173
<b>OPERATING INCOME</b>	<b>4,079</b>	<b>4,355</b>	<b>275</b>
Non-operating income:			
Interest income	3	3	
Other	2	8	
Total non-operating income	6	11	5
Non-operating expenses:			
Interest expenses	462	438	
Other	14	51	
Total non-operating expenses	477	489	12
<b>ORDINARY INCOME</b>	<b>3,609</b>	<b>3,877</b>	<b>268</b>
<b>INCOME BEFORE INCOME TAXES</b>	<b>3,609</b>	<b>3,877</b>	<b>268</b>
Current and deferred income taxes	0	1	0
<b>NET INCOME</b>	<b>3,608</b>	<b>3,876</b>	<b>268</b>
<b>UNAPPROPRIATED RETAINED EARNINGS</b>	<b>3,608</b>	<b>3,876</b>	<b>268</b>



## Statements of Cash Flows &lt;Consistent with Japanese GAAP&gt;

Frontier Real Estate Investment Corporation for the six-month ended December 31, 2011 and June 30, 2012.

(Millions of Yen rounded down)

	<For the six months ended>	
	15th Fiscal Period	16th Fiscal Period
	December 31, 2011	June 30, 2012
<b>Net Cash Provided by (used in) Operating Activities:</b>		
Income before income taxes	3,609	3,877
Depreciation	1,959	1,997
Amortization of bond issue costs	3	3
Provision for loss disaster	△11	—
Interest income	△3	△3
Interest expense	462	438
Decrease (Increase) in operating accounts receivable	14	△93
Decrease (Increase) in prepaid expenses	0	12
Increase (Decrease) in operating accounts payable	△141	288
Increase (Decrease) in accrued expenses	△1	10
Increase (Decrease) in accrued consumption taxes	303	△253
Increase (Decrease) in advances received	4	24
Other	3	△24
Subtotal	6,200	6,277
Interest income received	3	4
Interest expenses paid	△461	△438
Income taxes paid	△0	△1
<b>Net Cash Provided by (used in) Operating Activities</b>	<b>5,742</b>	<b>5,842</b>
<b>Net Cash Provided by (used in) Investment Activities:</b>		
Payments into time deposits	△4,000	—
Proceeds from repayments of time deposits	—	△4,000
Payments for purchases of short-term investment securities	△1,300	△1,300
Proceeds from redemption of securities	1,300	1,300
Payments for purchases of property, plant and equipment (including those in trust)	△565	△16,171
Payments for purchases of intangible assets	—	△1
Repayments of lease and guarantee deposits received (including those in trust)	△497	△511
Proceeds from lease and guarantee deposits received (including those in trust)	1	1,059
Deposits for repayments of tenant leasehold and security deposits in trust	—	△52
Proceeds from repayments of tenant leasehold and security deposits in trust	—	4
<b>Net Cash Provided by (used in) Investment Activities</b>	<b>△5,061</b>	<b>△11,674</b>

(Millions of Yen rounded down)

	<For the six months ended>	
	15th Fiscal Period	16th Fiscal Period
	December 31, 2011	June 30, 2012
<b>Net Cash Provided by (used in) Financing Activities:</b>		
Increase in short-term loans payable	34,100	33,200
Decrease in short-term loans payable	△34,600	△21,700
Proceeds from long-term loans payable	3,200	10,000
Repayment of long-term loans payable	△2,360	△8,160
Payments for investment corporation bond issuance costs	△2	—
Dividends paid	△3,585	△3,607
<b>Net Cash Provided by (used in) Financing Activities</b>	<b>△3,247</b>	<b>9,732</b>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>△2,566</b>	<b>3,900</b>
Cash and cash equivalents at the beginning of period	10,211	7,645
<b>Cash and cash equivalents at the Ending of period (Note)</b>	<b>7,645</b>	<b>11,546</b>

Note: Please note that there are restricted cash ¥ 1,381 million (15th) and ¥ 1,429 million (16th) for repayments of lease and guarantee deposits received. In addition, there are time deposits ¥ 4,000 million (15th).