

February 13, 2015

Financial Report for the 21st Fiscal Period (July 1, 2014 to December 31, 2014)

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 13, 2015
 Planned Commencement of Cash Distribution Payment : March 10, 2015

(Millions of yen rounded down, Ratios rounded off, unless otherwise stated)

1. Performance for the 21st Fiscal Period (July 1, 2014 to December 31, 2014)

(1) Business Results

(% show period-on-period changes)

	Operating Revenue		Operating Income		Ordinary Income		Net Income	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Period ended, December 31, 2014	10,390	(2.3)	5,451	(5.2)	5,008	(5.6)	5,007	(5.7)
June 30, 2014	10,633	6.8	5,748	12.3	5,308	13.8	5,307	13.8

	Net Income per Unit	Return on Equity (Note)	Ordinary Income to Total Assets	Ordinary income to Operating Revenue
	yen	%	%	%
Period ended, December 31, 2014	10,095	3.3	1.9	48.2
June 30, 2014	10,700	3.5	2.0	49.9

Note: Return on Equity = Net income / ((Net assets at the beginning of the period + Net assets at the end of the period)/2) × 100

(2) Distributions

(Ratios rounded down)

	Distribution per Unit	Total Distributions	Distribution in Excess of Earnings per Unit	Total Distributions in Excess of Earnings	Payout Ratio (Note2)	Distribution Ratio to Net Assets
	yen	Millions of yen	yen	yen	%	%
Period ended, December 31, 2014	9,707	4,814	0	0	96.1	3.1
June 30, 2014	10,211	5,064	0	0	95.4	3.3

Notes:

- Part of unappropriated retained earnings, 242million yen for the 20th fiscal period ended June 30, 2014 and 192million yen for the 21st period ended December 31, 2014, is internally reserved.
- Payout ratio = Total Distributions / Net Income × 100

(3) Financial Position

	Total Assets	Net Assets	Equity Ratio (Note)	Net Assets per Unit
Period ended,	Millions of yen	Millions of yen	%	yen
December 31, 2014	263,035	151,934	57.8	306,320
June 30, 2014	264,946	151,991	57.4	306,435

Note: Equity Ratio = Net assets / Total assets × 100

(4) Cash Flows

	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
Period ended,	Millions of yen	Millions of yen	Millions of yen	Millions of yen
December 31, 2014	8,660	225	(5,683)	19,056
June 30, 2014	9,192	(11,416)	(3,924)	15,854

2. Forecast of Results for the 22nd Fiscal Period (January 1, 2015 to June 30, 2015)

(Percentages show period-on-period changes)

	Operating Revenue		Operating Income		Ordinary Income		Net Income		Distribution per Unit	Distribution in Excess of Earnings per Unit
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	yen	yen
Period ended,										
June 30, 2015	9,839	(5.3)	5,010	(8.1)	4,575	(8.7)	4,574	(8.7)	9,200	0

(Reference) Estimated net income per unit for the 22nd fiscal period: 9,221yen

Notes:

1. The aforementioned forecast is based on the "Pre-Conditions and Assumptions for Operating Forecasts for 22nd Fiscal Period ending June 30, 2015" on Page 3.
2. Forecast for the 22nd 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.

Pre-Conditions and Assumptions for Operating Forecasts
for 22nd Fiscal Period ending June 30, 2015

	Pre-Conditions & Assumptions
Investment Assets	<ul style="list-style-type: none"> • The pre-condition assumes a total of 32 properties including Shinsaibashi Square that is to be acquired on March 2, 2015 and, Mitsui Shopping Park LaLaport SHIN-MISATO (main building) (Co-ownership 16%) and Costco Wholesale Warehouse Shinmisato (Land interest) those are to be acquired on April 1, 2015, (total of 3 properties, "New Properties") in addition to the properties the Investment Corporation owns as of February 13, 2015 (total of 29 properties, "Existing Properties"). • 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 22nd fiscal period (June 30, 2015). • 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 13, 2015, which are 496,000 units.
Liabilities	<ul style="list-style-type: none"> • The balance of borrowings, etc. as of February 13, 2015 is ¥ 70,300 million. • It is assumed that refinancing and self-financing (partial) will be executed for the repayment of borrowings due by June 30, 2015. • The loan to value ratio (LTV*) as of June 30, 2015 is expected to be approximately 42%. * 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 32 properties, adding New Properties to the Existing Properties. For Existing Properties, it is calculated based on the individual lease contracts which is valid as of February 13, 2015 and estimated fluctuating factors. For New Properties, it is calculated based on the individual lease contracts which is expected to be valid on New Properties acquisition date and information provided by the current owner of the New Properties.

	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 Properties, it is calculated based on the individual lease contracts which is expected to be valid on New Properties acquisition date and information provided by the current owner of the New Properties. • Regarding repair expenses, the amount estimated based on planned construction projects during the 22nd 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 22nd fiscal period, which is ¥1,040 million, will be posted to leasing business expenses. However, should properties be newly acquired during the 22nd 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 (¥2,165 million for the 22nd 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 ¥439 million for the 22nd 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. • 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.
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>

(Unit: Millions of Yen)

	20th Fiscal Period As of June 30, 2014	21st Fiscal Period As of December 31, 2014
ASSETS		
Current assets:		
Cash and deposits (including those in trust)	17,904	19,523
Operating accounts receivable	157	161
Prepaid expenses	45	40
Deferred tax assets	0	0
Other	59	23
Total current assets	18,166	19,749
Noncurrent assets:		
Property, plant and equipment (including those in trust)		
Buildings	103,481	102,701
Structures	2,079	2,053
Machinery and equipment	669	669
Tools, furniture and fixtures	85	96
Land	166,031	165,201
Less: accumulated depreciation	(25,929)	(27,577)
Construction in progress (including those in trust)	259	54
Total property, plant and equipment	246,676	243,200
Intangible assets		
Intangible assets, net of amortization	1	0
Total intangible assets	1	0
Investments and other assets		
Securities deposited, Tenant leasehold and security deposits	30	30
Long-term prepaid expenses	60	47
Total investments and other assets	91	77
Total noncurrent assets	246,768	243,279
Deferred assets:		
Investment corporation bond issuance costs	10	7
Total deferred assets	10	7
TOTAL ASSETS	264,946	263,035

(Unit: Millions of Yen)

	20th Fiscal Period As of June 30, 2014	21st Fiscal Period As of December 31, 2014
LIABILITIES		
Current liabilities:		
Operating accounts payable	864	648
Short-term loans payable	2,000	2,500
Current portion of long-term loans payable	9,540	10,240
Accounts payable	39	37
Accrued expenses	308	277
Income taxes payable	0	0
Accrued consumption taxes	105	269
Advances received	1,075	1,046
Deposits received	2	2
Other	1	1
Total current liabilities	13,939	15,023
Noncurrent liabilities:		
Investment corporation bond	5,000	5,000
Long-term loans payable	54,380	52,560
Tenant leasehold and security deposits (including those in trust)	39,601	38,487
Other	33	30
Total noncurrent liabilities	99,015	96,077
TOTAL LIABILITIES	112,954	111,100
NET ASSETS		
Unitholders' equity:		
Unitholders' capital	146,590	146,590
Surplus		
Reserve for reduction entry	93	336
Total voluntary reserve	93	336
Unappropriated retained earnings	5,307	5,007
Total surplus	5,400	5,343
Total unitholders' equity	151,991	151,934
TOTAL NET ASSETS	151,991	151,934
TOTAL LIABILITIES AND NET ASSETS	264,946	263,035

Statements of Income <Consistent with Japanese GAAP>

(Unit: Millions of Yen)

	<For the six months ended>	
	20th Fiscal Period	21st Fiscal Period
	June 30, 2014	December 31, 2014
Operating revenue:		
Lease business revenue	9,500	9,549
Other lease business revenue	167	48
Gain on sale of investment properties	965	791
Total operating revenue	10,633	10,390
Operating expenses:		
Expenses related to rent business	4,315	4,381
Asset management fee	429	427
Asset custody fee	13	13
Administrative service fees	26	20
Directors' compensations	6	6
Other operating expenses	93	89
Total operating expenses	4,884	4,938
OPERATING INCOME	5,748	5,451
Non-operating income:		
Interest income	3	3
Other	5	3
Total non-operating income	8	6
Non-operating expenses:		
Interest expenses	421	423
Other	27	25
Total non-operating expenses	449	449
ORDINARY INCOME	5,308	5,008
INCOME BEFORE INCOME TAXES	5,308	5,008
Current and deferred income taxes	0	1
NET INCOME	5,307	5,007
UNAPPROPRIATED RETAINED EARNINGS	5,307	5,007

Statements of Cash Flows <Consistent with Japanese GAAP>

(Unit: Millions of Yen)

	<For the six months ended>	
	20th Fiscal Period	21st Fiscal Period
	June 30, 2014	December 31, 2014
Net Cash Provided by (used in) Operating Activities:		
Income before income taxes	5,308	5,008
Depreciation	2,208	2,159
Amortization of bond issue costs	3	3
Interest income	(3)	(3)
Interest expense	421	423
Decrease (Increase) in operating accounts receivable	7	(3)
Decrease (Increase) in prepaid expenses	11	18
Increase (Decrease) in operating accounts payable	170	(212)
Increase (Decrease) in accrued expenses	19	(11)
Increase (Decrease) in accrued consumption taxes	(529)	163
Increase (Decrease) in advances received	60	(32)
Decrease in investment properties in trust due to sale	1,969	1,556
Other	(49)	32
Subtotal	9,597	9,101
Interest income received	4	3
Interest expenses paid	(407)	(443)
Income taxes paid	(1)	(0)
Net Cash Provided by (used in) Operating Activities	9,192	8,660
Net Cash Provided by (used in) Investment Activities:		
Payments for purchases of short-term investment securities	(400)	(400)
Proceeds from redemption of securities	400	400
Payments for purchases of property, plant and equipment (including those in trust)	(11,387)	(243)
Repayments of lease and guarantee deposits received (including those in trust)	(827)	(1,146)
Proceeds from lease and guarantee deposits received (including those in trust)	616	32
Proceeds from repayments of tenant leasehold and security deposits in trust	181	1,582
Proceeds from redemption of investment securities	10	—
Payments for lease and guarantee deposits	(10)	—
Net Cash Provided by (used in) Investment Activities	(11,416)	225
Net Cash Provided by (used in) Financing Activities:		
Increase in short-term loans payable	13,500	6,500
Decrease in short-term loans payable	(15,000)	(6,000)
Proceeds from long-term loans payable	4,000	5,300
Repayment of long-term loans payable	(1,760)	(6,420)
Dividends paid	(4,664)	(5,063)
Net Cash Provided by (used in) Financing Activities	(3,924)	(5,683)
Net Increase (Decrease) in Cash and Cash Equivalents	(6,147)	3,202
Cash and cash equivalents at the beginning of period	22,002	15,854
Cash and cash equivalents at the Ending of period (Note)	15,854	19,056

Note: Please note that there are restricted cash 2,050 million yen (20th) and 467 million yen (21st) for repayments of lease and guarantee deposits received.