# Creating Value through Change

ANNUAL REPORT 2013

For the Year Ended March 31, 2013

Bringing Tomorrow Today — NOMURA REAL ESTATE GROUP

NOMURA REAL ESTATE HOLDINGS

# The Next Growth Stage

**The Nomura Real Estate Group is aiming to provide highly innovative products and services by constantly asking how it can respond to diversifying social needs.**

Bringing Tomorrow Today — NOMURA REAL ESTATE GROUP

NOMURA REAL ESTATE HOLDINGS

# Overview of the Nomura Real Estate Group

## Group Philosophy of the Nomura Real Estate Group

The Group Philosophy is a commitment to both ourselves and to our customers and society.
By showing this commitment and continuously delivering a level of customer satisfaction at least commensurate with it, we are determined to be a group that people can count on even more than in the past.

## Group Message

Bringing Tomorrow Today

The Group Message crystallizes the philosophy of the Nomura Real Estate Group.

## Group Mission

We hold each and every meeting in high esteem and are grateful for the fruit it has born. Our enthusiasm due to the dynamism of group effort and highly creative individuals enables us to produce the best quality services and products. Giving back to the customers and society is also a high priority for us.

The Group Mission is positioned at the core of the philosophy of the Nomura Real Estate Group.
It expresses the shared mission, sense of identity and goals for which the Nomura Real Estate Group everlastingly works.

## Group Spirit

Aim to be a unique business group with creativity
The spirit of placing customers first
To the future with a youthful spirit and enthusiasm
Pursuit of a trustworthy brand
Corporate citizenship

The Group Spirit is the Group's attitude toward achieving its mission, and represents the value that all members of the Nomura Real Estate Group should continually share and treasure.

# Nomura Real Estate Holdings Profile

The Nomura Real Estate Group comprises Nomura Real Estate Development and other Group companies, and operates in the Residential Development Business, Leasing Business, Investment Management Business, Property Brokerage & CRE Business, Property & Facility Management Business, and Other Business. Nomura Real Estate Holdings strategically manages the overall Group as its holding company, and works to improve the corporate value of the overall Group by providing products and services matched to markets in each area in which Group companies operate.

## Residential Development Business

The Residential Development Business Segment is engaged in development and sales of condominiums and detached housing. By taking advantage of our integrated development and sales operation, we are developing the "PROUD" brand primarily in the Tokyo Metropolitan area, offering condominiums and detached housing. In addition, we launched a new brand named "OHANA" in August, 2011 for operations in the suburbs of the Tokyo Metropolitan area.

- Nomura Real Estate Reform Co., Ltd.
- PRIME X. Co., Ltd.

NOMURA REAL ESTATE HOLDINGS

- Nomura Real Estate Urban Net Co., Ltd.

## Property Brokerage & CRE Business

In property brokerage services for individual customers, the Property Brokerage and CRE Business Segment is satisfying its customers' needs for relocation by having enhanced its website and the network of branch offices in the Tokyo Metropolitan area. For corporate property brokerage, this business segment has taken advantage of direct networks with more than 5,000 corporate clients which have so far been developed to find and conclude deals.

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## Leasing Business

The Leasing Business Segment owns and leases office buildings such as Shinjuku Nomura Building and Hamamatsucho Building (Toshiba Building), and commercial facilities such as Lazona Kawasaki Plaza and bono Sagamiono Shopping Center. This business segment is also engaged in the development of profit-generating properties including office buildings, commercial facilities, and logistics facilities for investors.

- NREG TOSHIBA BUILDING Co., Ltd.
- Yokohama Business Park Heating and Cooling Supply Co., Ltd.
- Geo-Akamatsu Co., Ltd.
- NREG TOSHIBA BUILDING FACILITIES Co., Ltd.

## Investment Management Business

The Investment Management Business Segment is engaged in investment management under the consignment by investment corporations and private funds. In October, 2011, the Nomura Real Estate Group's three investment management companies merged to form one of the largest single real estate investment management company in Japan with over ¥1 trillion in assets under management.

- Nomura Real Estate Asset Management Co., Ltd.

## Nomura Real Estate Development Co., Ltd.

Nomura Real Estate Development conducts a range of businesses. The residential development business provides quality residential accommodation under the PROUD and OHANA brands. Meanwhile, the building business, the commercial facility business, and the logistics facility business plan, develop, lease and manage commercial, logistics and other facilities, including office buildings such as PMO, and GEMS urban-type commercial facilities. In addition, the corporate real estate (CRE) strategic support and corporate brokerage business helps maximize the value of real estate.

- Nomura Building Management Co., Ltd.
- Nomura Living Support Co., Ltd.
- Nomura Amenity Service Co., Ltd.

## Property & Facility Management Business

The Property & Facility Management Business Segment is engaged in property management of housing and office buildings by utilizing the know-how elaborated through long years of operation and strives to increase the asset value and profit of buildings.

- MEGALOS Co., Ltd.

## Other Business

The Other Business Segment mainly operates fitness clubs, running 27 establishments primarily in the Tokyo Metropolitan area.


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### Forward-looking Statements:

This annual report contains forward-looking statements about the future plans, strategies and performance of Nomura Real Estate Holdings, Inc. ("the Company") and its consolidated subsidiaries ("the Group"). These forward-looking statements are not historical facts. They are estimates, forecasts and projections based on information currently available to the Company and are subject to a number of risks and uncertainties, which include economic trends, intensification of competition in the real estate industry, the legal and taxation systems, and other regulations. As such, actual results may differ from those projected.

# Major Completed Properties in Fiscal 2012

In fiscal 2012, we completed large-scale projects

## PROUD Funabashi

PROUD Funabashi is one of the Tokyo metropolitan area's largest condominium projects, consisting of 1,497 units in total. The project was developed jointly with Mitsubishi Corporation.

Based on the "Smart & Share Town Concept," the project was advanced with emphasis on next-generation town development.

OHANA Hiratsuka-Momohama

PROUD TOWER Sumiyoshi

PROUD SEASON Higashifunabashi Garden Avenue

PROUD Uehara

PROUD Kitasenri

such as PROUD Funabashi and a Class 1 urban redevelopment project in the west block of Sagamiono Station.

## PROUD Tower Sagamiono bono Sagamiono Shopping Center

(Class 1 urban redevelopment project in the west block of Sagamiono Station)

The Nomura Real Estate Group has developed a large-scale mixed-use redevelopment project covering a total development area of approximately 3.1 hectares in front of Sagamiono Station on the Odakyu Odawara Line. The project consists of residential properties such as PROUD Tower Sagamiono; large-scale commercial facilities such as bono Sagamiono Shopping Center; and public facilities.

PMO Nihonbashi Muromachi

Lazona Kawasaki TOSHIBA Building

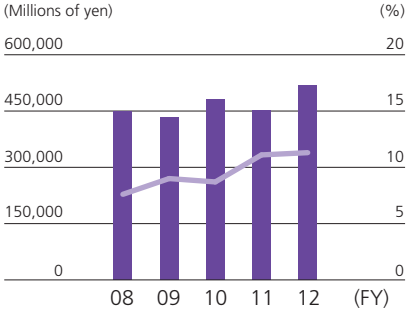
# Consolidated Financial Highlights

Nomura Real Estate Holdings, Inc. and its subsidiaries
Fiscal year

| | 2007 | 2008 | 2009 | 2010 |
|---|---|---|---|---|
| For the Year: | | | | |
| Operating revenue | ¥411,493 | ¥ 448,656 | ¥ 434,226 | ¥ 480,983 |
| Gross profit | 130,391 | 100,764 | 105,576 | 107,222 |
| Operating income | 69,822 | 34,013 | 39,275 | 42,083 |
| Ordinary profit | 60,292 | 23,702 | 23,967 | 26,149 |
| Net income | 35,255 | 13,770 | 4,660 | 5,472 |
| Cash flows from operating activities | 7,639 | (108,031) | 19,266 | 33,948 |
| Cash flows from investing activities | (13,348) | (141,789) | (24,571) | (33,731) |
| Cash flows from financing activities | 8,791 | 295,508 | 13,098 | (7,486) |
| Capital investment*1 | 18,174 | 56,663 | 26,796 | 37,571 |
| Depreciation*2 | 4,892 | 7,149 | 10,758 | 12,836 |
| Per Share Data (yen): | | | | |
| Net income | ¥ 236.09 | ¥ 92.21 | ¥ 25.69 | ¥ 28.74 |
| Cash dividends | 30.00 | 40.00 | 25.00 | 25.00 |
| Balance Sheet Data (as of March 31): | | | | |
| Total assets | ¥891,700 | ¥1,385,532 | ¥1,405,424 | ¥1,474,331 |
| Total net assets | 235,551 | 281,376 | 349,437 | 357,366 |
| Interest-bearing debt | 408,016 | 778,074 | 759,637 | 816,910 |
| Ratios (%): | | | | |
| ROA*3 | 7.9 | 2.5 | 2.8 | 2.9 |
| ROE*4 | 15.8 | 5.9 | 1.7 | 1.8 |
| Operating margin | 17.0 | 7.6 | 9.0 | 8.7 |
| Dividend payout ratio | 12.7 | 43.4 | 97.3 | 87.0 |
| Equity ratio | 26.1 | 17.0 | 21.4 | 20.7 |
| D/E ratio (times) | 1.8 | 3.3 | 2.5 | 2.7 |
| Number of Employees (people) | 4,347 | 4,998 | 5,195 | 5,300 |

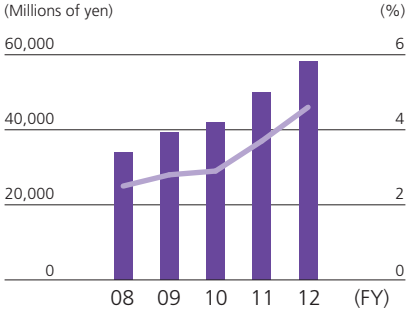
Notes: 1. Capital investment represents the amount shown for "Purchase of property, plant and equipment and intangible assets" on the consolidated statements of cash flows.
2. Depreciation and amortization represents the amount shown for "Depreciation and amortization" on the consolidated statements of cash flows.
3. ROA = (Operating income + Non-operating income) / Total assets at end of fiscal year
4. ROE = Net income / Equity (as average over the fiscal year)
5. The translation of Japanese yen amounts into U.S. dollar amounts is included solely for the convenience of the reader, using the rate of exchange prevailing on the Tokyo Foreign Exchange Market on March 31, 2013, which was ¥94.05 = U.S.$1.

### Operating Revenue and Operating Margin



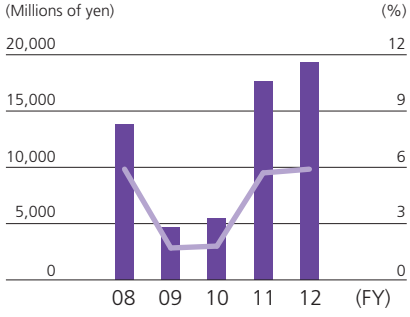

Operating revenue (left axis)
Operating margin (right axis)

### Operating Income and ROA




Operating income (left axis)
ROA (right axis)

### Net Income and ROE




Net income (left axis)
ROE (right axis)

FY2012: Year ended March 31, 2013

| | (Millions of yen) | | (Thousands of U.S. dollars) (Note 5) |
|---|---|---|---|
| | 2011 | 2012 | 2012 |
| | ¥ 450,807 | ¥ 517,741 | $ 5,504,951 |
| | 114,910 | 134,571 | 1,430,850 |
| | 49,939 | 58,308 | 619,969 |
| | 34,174 | 45,807 | 487,046 |
| | 17,591 | 19,357 | 205,821 |
| | 43,877 | 89,295 | 949,447 |
| | 7,809 | (2,588) | (27,520) |
| | (63,296) | (94,666) | (1,006,556) |
| | 14,098 | 18,963 | 201,631 |
| | 13,535 | 13,514 | 143,687 |
| | ¥ 92.38 | ¥ 101.61 | 1.08 |
| | 25.00 | 30.00 | 0.32 |
| | ¥1,402,624 | ¥1,369,949 | $14,566,183 |
| | 376,486 | 398,276 | 4,234,729 |
| | 758,562 | 669,269 | 7,116,096 |
| | 3.7 | 4.6 | |
| | 5.7 | 5.9 | |
| | 11.1 | 11.3 | |
| | 27.1 | 29.5 | |
| | 22.6 | 24.5 | |
| | 2.4 | 2.0 | |
| | 5,399 | 5,581 | |

## Key Points of Operating Results

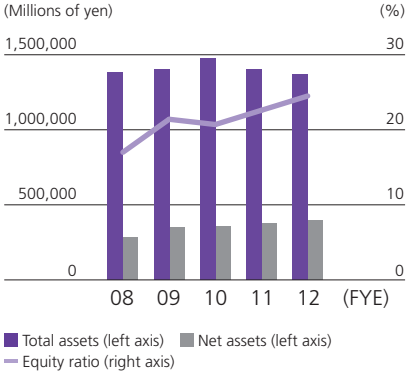
### Overview of Results

The Nomura Real Estate Group achieved higher earnings on higher revenue mainly due to a large increase in the number of units sold in the mainstay Residential Development Business. Consolidated operating revenue increased 14.8% year on year to ¥517.7 billion, operating income rose 16.8% to ¥58.3 billion, ordinary income rose 34.0% to ¥45.8 billion, and net income rose 10.0% to ¥19.3 billion.

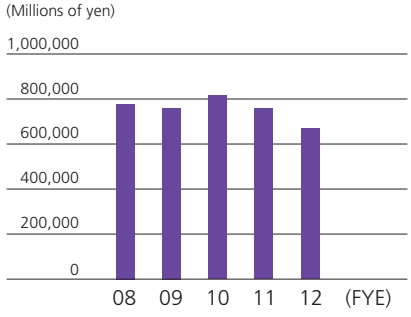
### Dividends

The annual dividend per share for fiscal 2012 was ¥30, which was ¥5 higher than for fiscal 2011. We plan to pay a ¥30 per share annual dividend for fiscal 2013 as well.

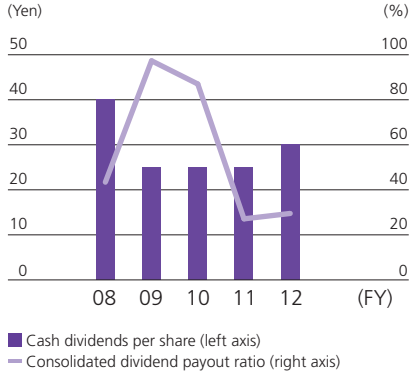
Total Assets, Net Assets and Equity Ratio




Interest-bearing Debt




Consolidated Cash Dividends and Dividend Payout Ratio



# Message from the President

## Continuing to create value through change

President Kenichi Nakai

## Fiscal 2012 Highlights

**Our mainstay Residential Development Business posted higher operating revenue and earnings on the back of record-high sales of 5,749 condominium and detached housing unit. We also captured the top spot* in Japan for the first time ever in the number of condominium units supplied.**

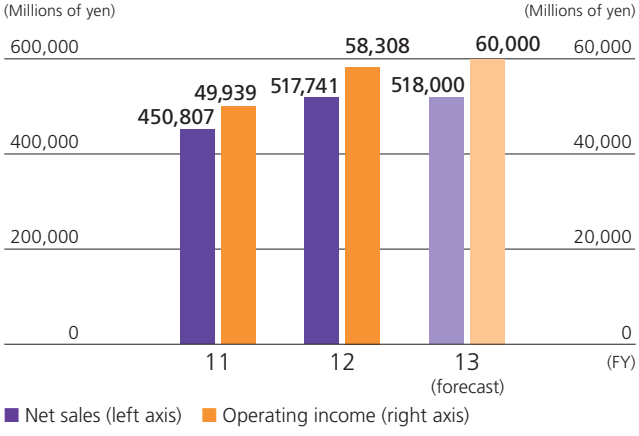
Our mainstay Residential Development Business sold 5,749 condominium and detached housing units in fiscal 2012. This was approximately 1,700 units more than in fiscal 2011 and a record. Another highlight of the past year was this business' topping the unit rankings for condominiums sold in major cities in Japan in 2012. This was a great way to mark a milestone, the 10th anniversary of the PROUD condominium brand. For a company that has set its sights on being the No. 1 residential brand, the past year was very meaningful indeed.

For our Leasing Business, it was a year in which our efforts over many years bore fruit. We completed the LAZONA Kawasaki TOSHIBA Building, a trophy office building which the Toshiba Group plans to tenant; and we opened the bono Sagamiono Shopping Center in the multifaceted redevelopment project area in front of the Sagamiono Station in Japan's Kanagawa Prefecture. This was developed in cooperation with Nomura Real Estate Group companies.

The past year was also significant in terms of our capital structure. Our parent company, Nomura Holdings, Inc., sold some of its Nomura Real Estate shares, which resulted in our becoming an equity-method affiliate rather than a consolidated subsidiary. Going forward, we will maintain cooperative business relationships with the Nomura Group as we strive for mutual growth.

*According to research by Real Estate Economic Institute Co., Ltd.

Net Sales/Operating Income




## Fiscal 2013 Outlook

**Our Residential Development Business is projecting a further year-on-year increase in condominium and detached housing sales to 6,200 units. We are also projecting higher operating revenue and earnings due to growth in all our businesses.**

For fiscal 2013, we are projecting higher operating revenue and earnings on a consolidated basis than in fiscal 2012. We are projecting operating income of ¥60.0 billion and net income of ¥21.0 billion on operating revenue of ¥518.0 billion.

In the Residential Development Business, we expect the business environment to remain favorable. We are forecasting sales of 6,200 condominium and detached housing units for fiscal 2013, which would be a record for the second straight year. Of the units we expect to sell in fiscal 2013, approximately 80% have already been contracted as of the start of the term. This makes it more likely than in past fiscal years that we will achieve our forecast for fiscal 2013.

Continuing to acquire prime land will be a key point for maintaining strong performance in the Residential Development Business going forward. It has become more difficult to acquire land due to the number of developers that are looking to do so as well. Even so, in fiscal 2012, we acquired land for approximately 7,500 units, which has enabled us to build up our inventory of land for fiscal 2013 and beyond to approximately 22,500 units. I believe that this is the result of our successful efforts to develop various products, namely PROUD, OHANA, and detached housing, while building up expertise for capturing business opportunities in, among other areas, the redevelopment and rebuilding businesses.

In our Leasing Business, there are signs of recovery in the business environment highlighted by a decline in the office vacancy rate. We have maintained a low vacancy rate of 2.2% for our offices and commercial facilities combined. In our property development operations, we have placed a priority on recovering funds from properties acquired before the Lehman Shock. Going forward, however, we will adopt a more aggressive management stance. To support this we will step up development of logistics and commercial facilities in tandem with the development of our office brand, Premium Midsize Office (PMO).

In the Investment Management Business, meanwhile, the fund procurement environment remains favorable, and J-REIT

fund prices have recovered. In June 2013, we publicly listed Nomura Real Estate Master Fund, Inc., which targets investment in logistics and retail properties. We plan to leverage this achievement for Investment Management Business growth and work to develop new products that match investor needs.

## Mid- to Long-term Business Plan

**In October 2012, we unveiled our Mid- to Long-term Business Plan through 2022/3—"Creating Value through Change."**

In fiscal 2012, under a new management structure, we launched the Nomura Real Estate Group's Mid- to Long-term Business Plan through 2022/3. The theme of the plan is "Creating Value through Change." The key concepts in this plan are, as its name implies, Change and Creating Value.

Looking ahead, the Group's operating environment is expected to remain uncertain and unstable. Moreover, changes in the social structure caused by a declining birthrate and aging society, and the changing composition of households along with diversifying customer needs and other factors will likely have a major impact on the Group's business environment over the long term.

Based on our recognition of the operating environment we made being an enterprise group that continues to create high value through sustainable change the concept of our long-term vision. In addition to staying in step with change, we plan to create value through change and the development of markets. We believe that this stance is imperative for maintaining our customer appeal. We will, therefore, constantly accept new challenges and continue to create high value that meets the increasingly diverse needs of the customers and society we serve.

## Management Indices and Stepwise Growth Plan

**We have set 3 management indices for our medium- to long-term plan over the next 10 years: shareholders' equity of over 30%, ROA* of over 5.5%, and an earnings base for ¥100.0 billion in terms of operating income. And we have also devised a plan for achieving growth in steps.**

This plan covers a period of 10 years. We have set 3 management indices for our 10-year medium- to long-term plan: a shareholders' equity ratio of over 30%, an ROA* of over 5.5%, and an earnings base for ¥100.0 billion in terms of operating income. We have also devised a plan for achieving stepwise growth.

We chose a 10-year period because we believe it is important for management to have a long-term perspective based on the long-term nature of the real estate business and the need to look squarely at changes in our business environment. This 10-year plan is split into 3 phases of roughly 3 years each. In this way, we have devised a growth scenario in which management targets are to be achieved in progressive stages.

There are three management indices in this plan: a shareholders' equity ratio of over 30%, an ROA of over 5.5%, and an earnings base for ¥100.0 billion in terms of operating income.

In phase 1 of the plan through fiscal 2015, we aim to increase the shareholders' equity ratio to 30%. By achieving this, we will be able to actively and flexibly make investments for future growth. We will also build a financial base that will enable us to continue stably procuring funds and conducting business activities even if there is a sharp downturn in the business or financial environment.

We will also aim to achieve operating income of ¥65.0 billion by steadily expanding earnings in existing businesses while taking up the challenge of creating new businesses to lay the foundation for future growth.

The goal of phase 2, through fiscal 2018, is to strengthen our earnings power through the efficient growth of existing business fields. There is still room to grow and innovate in our five existing business fields; and by pursuing this growth and enhancing our earnings power, we believe we can achieve an ROA of over 5.5%, one of the management indices of our plan.

Simply speaking, ROA, operating income divided by total assets, is an indicator of how efficiently capital is being used to generate earnings. We intend to build a uniquely balanced business portfolio by pursuing growth in our Residential Development Business and property development operations as well as in businesses that do not use our assets, businesses such as investment management, brokerage and management. At the same time, we will work on improving asset efficiency.

In the third and final phase, through fiscal 2021, our aim is to generate operating income of ¥100.0 billion as the final target of the Mid- to Long-term Business Plan. This would be double the earnings posted in fiscal 2011, when we completed our previous medium-term business plan.

### Three Management Indices

**Shareholders' Equity Ratio: Over 30%**

- To secure financial foundation for new investments and challenges toward the company's sustainable growth.
- To attain a level at which business activities can be continued stably even amid the turbulence of an unstable economic and business environment.

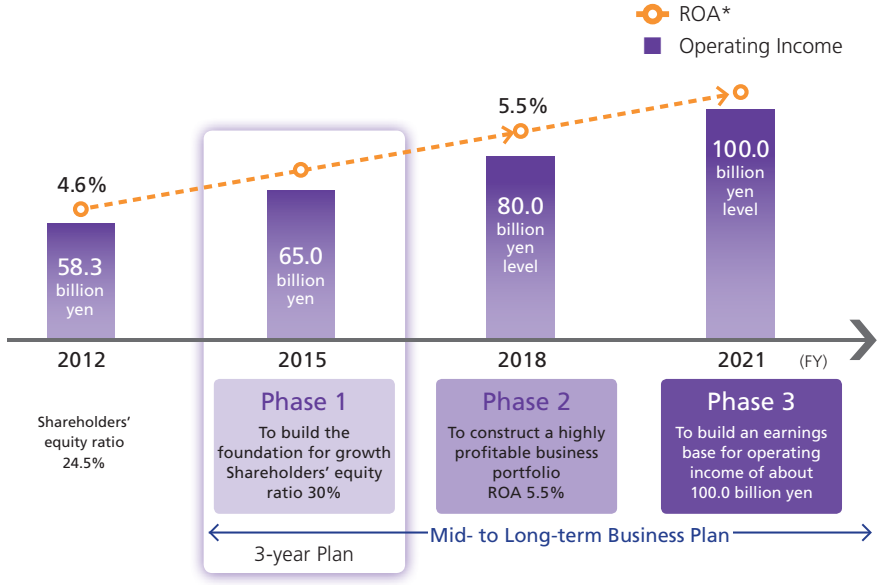
**ROA: Over 5.5%**

- To construct a business portfolio that promotes improvement of asset efficiency and is characterized by high profit efficiency.
- To increase the earning power by aggressive expansion in service and management areas in addition to development areas.

**Operating Income: Earnings base for 100.0 billion yen**

- To become a corporate group with a strong presence as a comprehensive real estate enterprise.
- To realize further earnings growth by expanding existing business domain and creating a new business model.

### Stepwise Growth Plan




*ROA = (Operating income + Non-operating income) / Total assets at the end of fiscal year

## Business Portfolio Construction

**We aim to construct a unique business portfolio that facilitates continuous growth.**

Let me now discuss the main points of our targeted business portfolio and new initiatives for accelerating growth. These will be key to achieving the management targets I just mentioned.

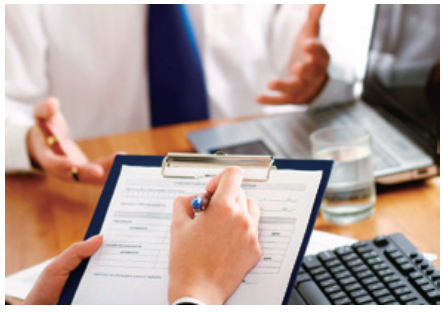
In the Residential Development Business, we aim to ensure steady and stable growth as a core business of the Group by building brand equity in PROUD and our other brands. Our goal is to build a structure that can ensure a stable supply of 7,000 units by fiscal 2015. Furthermore, we will work to raise customer satisfaction by enhancing various services for residents of our condominiums after they move in, services that match owners' needs at the time, so that we build permanent relationships with them.

In the Leasing Business, we plan to increase the earnings power of leased assets. At the same time, we intend to step up the establishment of property development operations for property sales to investors as well as for lease to customers who intend to own. These efforts will leverage our expertise as a developer.

Finally, we are determined to promote faster growth in businesses that we have designated as service and management areas. These businesses, which do not use our assets, are investment management, property brokerage & CRE, and property & facility management. We view the service and management areas as harboring major business opportunities in an increasingly borderless real estate market where the stock of social assets is increasing.

Our goal after 10 years is to add service and management areas as a third major business alongside the Residential Development and Leasing businesses to provide a business portfolio in which these three businesses each account for a share of around one-third.



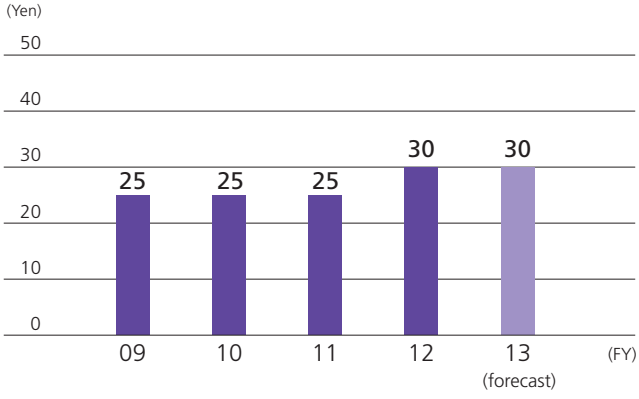



## Profit Distribution and Dividend Policy

**We plan to pay an annual dividend per share of ¥30 for fiscal 2013 based on our performance forecasts.**

Nomura Real Estate Holdings' basic policy on the distribution of profits to shareholders is to aim for a payout ratio of approximately 30% over the medium- to long-term in line with business performance while comprehensively considering the operating environment, capital investment plans, internal reserve levels and other relevant factors. The annual dividend for fiscal 2012 was ¥30 as forecast, which was ¥5 higher than for fiscal 2011. We plan to also pay a ¥30 per share annual dividend for fiscal 2013.

Annual Dividend Per Share



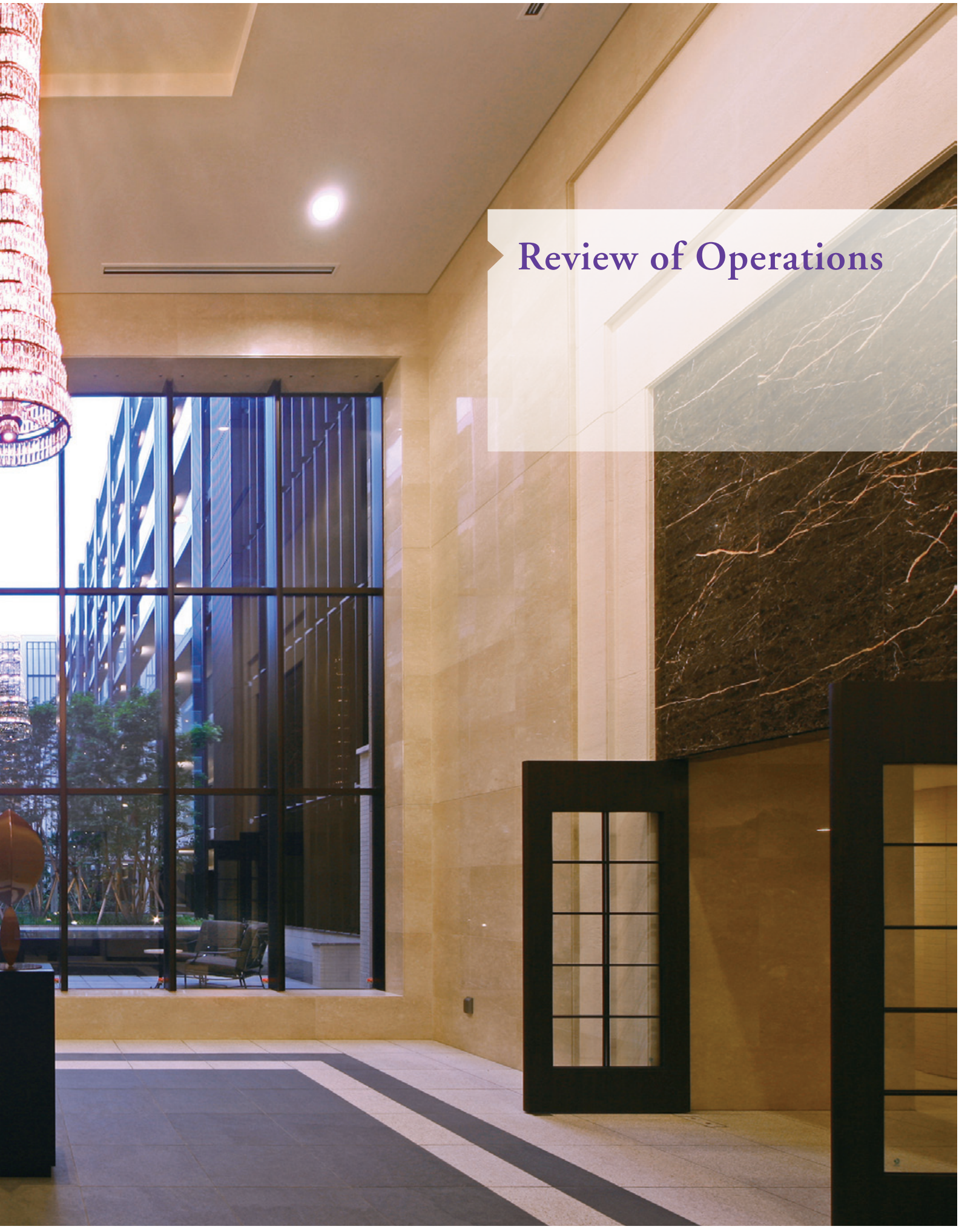

## Message to Shareholders and Investors

**The Nomura Real Estate Group is endeavoring to create new value by responding to relentless change. We are pursuing even higher corporate value as a real estate group that stays ahead of the curve.**

As I've said, we view the ever-changing needs the customers and society we serve as new business opportunities. By continuing to change, we aim to create new value and grow as a corporation. We will implement activities as a cohesive group to raise our corporate value and achieve the management vision and targets in our Mid- to Long-term Business Plan.

I would like to thank all our shareholders and investors for their continuing support.

President



# Review of Operations

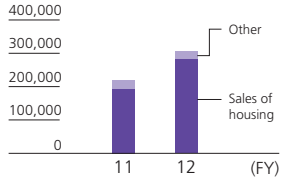
# Segments at a Glance

## Residential Development Business

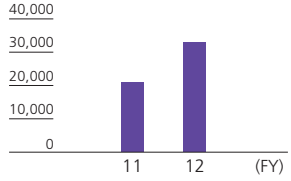
**Main Business**

- Sales of housing

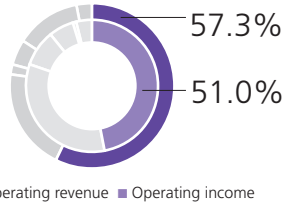
**Operating revenue** (Millions of yen)




**Operating income** (Millions of yen)




**Composition of operating revenue and operating income** (%)




**Fiscal 2012 topics**

The mainstay Residential Development Business segment implemented strategies to boost the value of the PROUD brand while striving to further strengthen site selection, product planning, and sales capabilities by leveraging the strengths of its integrated development, sales, and management system. In fiscal 2012, the segment booked sales of PROUD Funabashi, PROUD Komaba, PROUD SEASON Hibarigaoka Garden Terrace and other properties.

Furthermore, the segment reported steady sales of the newly launched OHANA brand, with sales of 275 condominium units booked at 2 properties: OHANA Yasaka-Hagiyama-Cho and OHANA Hiratsuka Momohama.

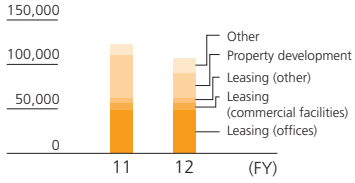
As a result, the combined number of condominiums and detached houses sold reached a record-high 5,749 units.

## Leasing Business

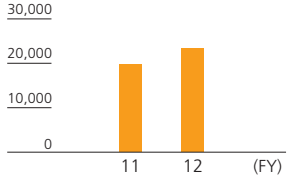
**Main Business**

- Leasing (offices)
- Leasing (other)
- Leasing (commercial facilities)
- Property development

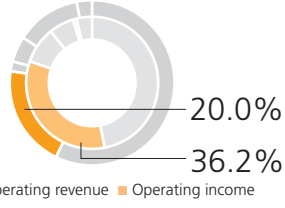
**Operating revenue** (Millions of yen)




**Operating income** (Millions of yen)




**Composition of operating revenue and operating income** (%)




**Fiscal 2012 topics**

The Leasing Business segment strove to improve utilization rates by expanding marketing activities closely tailored to tenant needs. As a result, the vacancy rate was 2.2% as of March 31, 2013, remaining at a low level.

Furthermore, the segment completed bono Sagamiono Shopping Center, a redevelopment project in the west block of Sagamiono Station, and LAZONA Kawasaki TOSHIBA Building, a large-scale office building with floor space of over 100,000 m$^2$.

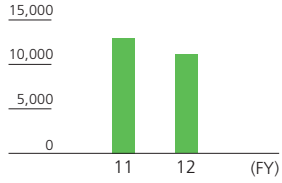
Property development operations promoted the development business and product sales. In fiscal 2012, sales of two properties were booked, namely PMO Akihabara II and PMO Nihonbashi 2chome.

## Investment Management Business

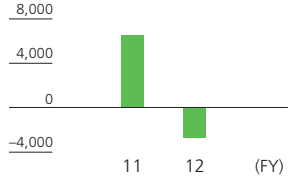
**Main Business**

- Investment management

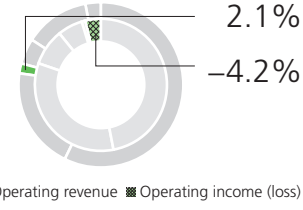
**Operating revenue** (Millions of yen)




**Operating income** (Millions of yen)




**Composition of operating revenue and operating income (loss)** (%)




**Fiscal 2012 topics**

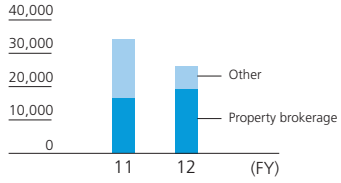
The Investment Management Business segment focused on the stable management of the various funds operated by the Nomura Real Estate Group. In listed REITs, the segment strove to maintain and improve the performance of properties held. In private funds, the segment focused on steadily executing exit strategies for projects arranged in the past.

## Property Brokerage & CRE Business

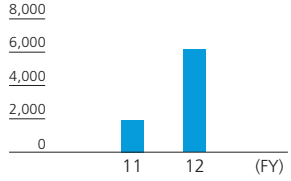
**Main Business**

- Property brokerage

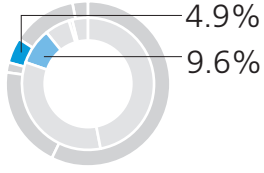
**Operating revenue** (Millions of yen)




**Operating income** (Millions of yen)




**Composition of operating revenue and operating income** (%)



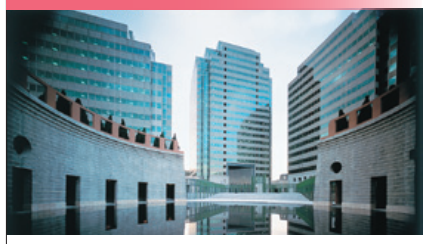

■ Operating revenue ■ Operating income

**Fiscal 2012 topics**

Wholesale operations focused on building relationships with customers by providing CRE solutions that accurately respond to their needs.

Retail operations strengthened marketing activities by utilizing Internet media while actively developing new branches closely tied to local communities. In fiscal 2012, six branches were opened, including Aobadai Center and Myogadani Center.

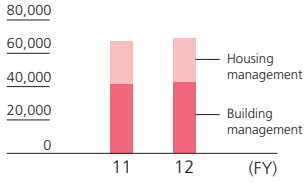
## Property & Facility Management Business



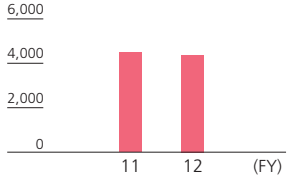
**Main Business**

- Building management
- Housing management

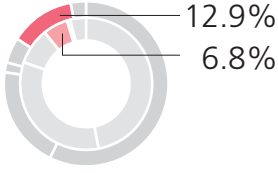
**Operating revenue** (Millions of yen)




**Operating income** (Millions of yen)




**Composition of operating revenue and operating income** (%)




■ Operating revenue ■ Operating income

**Fiscal 2012 topics**

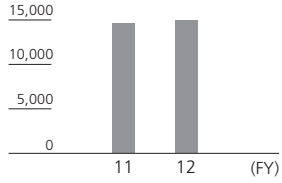
Building management operations focused on expanding various properties under management centered on office buildings, while actively working to receive orders for interior renovations from tenants and improve management quality.

Housing management operations worked to further improve customer satisfaction through enhancement of service lineups for tenanted areas and other measures.

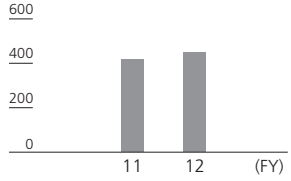
As a result, the number of properties and buildings under management, which represent a steady source of earnings, steadily expanded in both the housing management and building management operations.

## Other Business

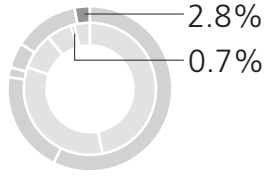
**Operating revenue** (Millions of yen)




**Operating income** (Millions of yen)




**Composition of operating revenue and operating income** (%)




■ Operating revenue ■ Operating income

**Fiscal 2012 topics**

The fitness club business segment implemented various campaigns and events to recruit new members and improve members' satisfaction. Furthermore, the segment worked to improve the quality of fitness clubs by revamping training equipment and other facilities by conducting renovation work at MEGALOS Tachikawa and other locations.

# Residential Development Business

The Residential Development Business achieved record-high performance in condominium and detached housing unit sales, operating revenue and operating income in Fiscal 2012. Sales of our core brand, PROUD, were strong; however, growth in OHANA brand condominiums for suburban areas, detached housing and our redevelopment business also contributed to this segment's impressive results. With our sights set firmly on becoming the No. 1 residential brand, we will strive to further increase customer satisfaction by taking full advantage of our integrated development, sales and management structure.

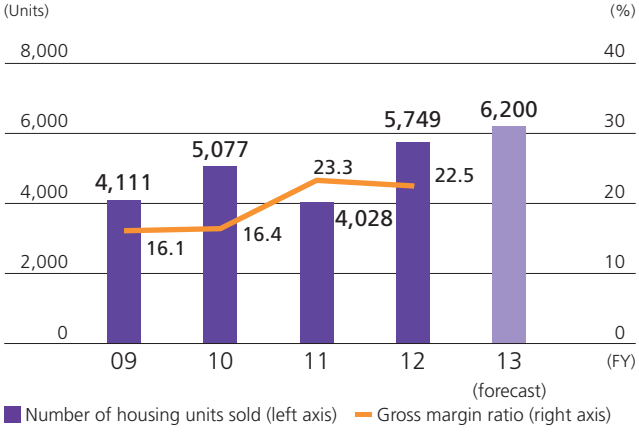
Seiichi Miyajima
Executive Officer
Responsible for Residential Development Business

## QUESTION 01

### Please tell us about your initiatives in fiscal 2012.

Our Residential Development Business has had a set sales goal of 5,000 condominium and detached housing units per year. In fiscal 2012, we surpassed this goal with a record-breaking 5,749 condominium and detached housing sales, and achieved operating revenue of ¥305.7 billion and an operating income of ¥32.9 billion, also records. I believe this stellar performance was due partly to our having acquired a significant number of prime properties by continuing to actively purchase land even after the Lehman Crisis, and in doing so acquiring many prime properties, as other companies held back. Another factor was that our core brand, PROUD, continued to do well, as did the OHANA brand of suburban condominium and the PROUD SEASON brand of detached housing. Combining properties developed by our redevelopment and rebuilding businesses also increased condominium and detached housing sales. Thanks to this performance, we climbed to the top of the 2012 unit rankings for private condominiums sold in major cities in Japan (according to research by Real Estate Economic Institute Co., Ltd.).

Changes in Housing Sales and Gross Margin Ratio




## QUESTION 02

### What impact have recent changes hand on the business environment of the Residential Development Business?

I saw the scheduled consumption tax hike in Japan as a major risk that could catalyze a change in the sales environment. Actually, at the beginning of fall 2012, many potential buyers were adopting a wait-and-see attitude on purchases because the government hadn't decided on what, if any, forms of relief it would offer to offset the increase in consumption tax, and this resulted in a temporary drop in demand. Since the beginning of 2013, however, the launch of relief measures, such as extension of the framework for tax credits on housing loans, and growing anticipation of higher mortgage interest rates and property prices following the Abe administration's announcement of its inflation target have more and more people thinking that now is a good time to buy.

Indeed, we are seeing an increase in the number of prospective homebuyers. Since the start of this year, for example, the number of visitors to showrooms is up around 20% year on year. I am confident going forward, therefore, that the sales market will remain healthy.

1 PROUD Komaba (Meguro-ku, Tokyo)
2 PROUD SEASON Hibarigaoka Garden Terrace (Higashikurume City, Tokyo)
3 OHANA Hiratsuka-Momohama (Hiratsuka City, Kanagawa Prefecture)

## QUESTION 03

### One of the goals of the Mid- to Long-term Business Plan is to "achieve steady growth as our core business." Please explain your strategy here.

Quantitative growth and higher quality are the pillars of our strategy for achieving steady growth as a core business.

In terms of quantitative growth, our 3-year plan calls for the creation of a structure that can achieve a stable supply of 7,000 units in our Residential Development Business. We have already made a steady start toward establishing such a structure. In fiscal 2012, we acquired land for 7,500 units and signed contracts for 7,150 units. We will pursue quantitative growth by leveraging our unrivaled development know-how in the above-mentioned OHANA, redevelopment and rebuilding, and detached housing businesses and our strong sales capabilities.

Our quality enhancement strategy extends to product appeal, quality and customer service. With PROUD, we remain very particular about location, building and quality. With a structure that integrates development, sales and management, we can draw on customer needs identified by our frontline sales and management personnel to provide products sought by customers and increase satisfaction with those products. We will also strive to further increase brand value by satisfying existing owners. In addition, fiscal 2013 will see the launch of some advanced initiatives. One example is NEXT PASS 10, the industry's first maintenance service that provides maintenance for private spaces in condominiums for 10 years after move-in.

SMART & GROWING is another example. This is an action plan for the acceleration of energy management and community building, areas that have seen heightened interest in the wake of the Great East Japan Earthquake. Along with the above, we will continue to pursue still other means of realizing quantitative growth and quality enhancement to achieve steady growth as a core business.

Major Projects Upcoming

PROUD TOWER Chiyoda-Fujimi Residence
(Chiyoda-ku, Tokyo: 137 units)

PROUD TOWER Shinonome Canal Court
(Koto-ku, Tokyo: 600 units)

PROUD CITY Motosumiyoshi
(Nakahara-ku, Kawasaki City, Kanagawa Prefecture: 296 units)

# Leveraging Collective Strengths to Develop the PROUD Brand

## Continuing to provide valued services to PROUD owners

It goes without saying that owners wish to preserve the convenience and comfort of their condominiums, and we are introducing various services that we hope will satisfy that desire.

The first is NEXT PASS 10, which will be offered to PROUD owners. After-sales service in Japan for private spaces in the past has typically involved the provision of repair and equipment warranty services for just two years after a resident moves into a new condominium. However, NEXT PASS 10 extends this period to 10 years for private areas, and provides equipment warranty extensions, emergency response and repair services, and long-term maintenance support for a fee. In fiscal 2012, we launched our Relocation Service, through which we rent and lease homes from individuals who are vacating due to transfer or other reasons. By renting such homes directly, we avoid concern associated with renting out vacant residences.

We have also formulated SMART & GROWING, the PROUD smart design environmental vision for next-generation condominiums. This represents the evolutionary development of the PROUD ECO Vision announced in 2010. Guided by the phrase *Smart Design*, we develop various environmental initiatives for future implementation as we create a new energy management framework and standardize equipment specifications for solar power generation, compact storage batteries and other equipment to provide a stronger environmental response. When one adds to this *Growing Design* for improved common area comfort, community building, and safe and secure living, it can be seen that we are creating an even higher level of PROUD brand value.

These actions are aimed at creating a *Residential Value Chain* that provides value over an extended lifecycle by strengthening relationships with customers. By providing solutions such as repairs, remodeling, moving, upgrading and leasing according to owner needs at the time, we build relationships with customers that last a lifetime.

# Redevelopments Create Urban Areas


PROUD TOWER Oizumi-Gakuen


PROUD TOWER Musashikosugi

## Our redevelopment business fulfills our social mission by rejuvenating communities as well as in various other ways

Our redevelopment business requires informed consent from many different stakeholders. This demands proposal and solution capabilities as well as time, all of which test a developer's abilities. It's not unheard of for the entire process from development to opening to take 10 years. But I am proud to say that we boast one of the industry's best track records in the redevelopment business. We have been involved in this business for more than 10 years and we are using the know-how we have built up in residential development to good effect.

Our basic role in the redevelopment business is to promote the creation of urban areas as a developer. A large number of our projects are near train stations, so they become community symbols. Indeed, the redevelopment business can upgrade the functions of a community and breathe new life into it. We provide wide-ranging business expertise related to housing, office buildings, commercial facilities and other properties to support the types of redevelopment projects that reinvigorate communities. Given its considerable social significance, this is a business area in which we fulfill our mission as a developer.

The redevelopment business is also very important for our growth. With the increasing difficulty in acquiring the sites we need, this business has a very important role to play in securing a stable medium- to long-term stock of sites to create the stable supply structure I mentioned earlier. This is why we will channel a number of resources into the redevelopment business, with the aim of achieving greater growth.

| Name | Address | Total units to be sold | Our share | Completion |
|---|---|---|---|---|
| PROUD TOWER Otsu | Otsu-shi, Shiga | 161 | 128 | FY14/3 |
| THE SENDAI TOWER Ichibancho Residence | Aoba-ku, Sendai-shi | 118 | 59 | FY14/3 |
| PROUD TOWER Oizumigakuen | Nerima-ku, Tokyo | 165 | 165 | FY15/3 |
| PROUD TOWER Musashikosugi | Nakahara-ku, Kawasaki-shi | 433 | 303 | FY15/3 |
| CAPITAL GATE PLACE | Chuo-ku, Tokyo | 495 | 247 | FY16/3 |
| Tomihisa Cross Comfort Tower | Shinjuku-ku,Tokyo | 993 | 407 | FY16/3 |
| Tachikawa Sta. North Gate Redevelopment Project | Tachikawa-shi, Tokyo | 292 | 292 | FY17/3 |
| Fuchu Sta. South Gate Redevelopment Project | Fuchu-shi, Tokyo | 130 | 130 | FY17/3 |
| Keikyu Kamata Sta. West Gate Redevelopment Project | Ota-ku, Tokyo | 160 | 160 | FY17/3 |

# Leasing Business

In fiscal 2012, both office leasing and commercial facility leasing performed steadily, with both maintaining low vacancy rates. During this time, we worked to develop a broad range of businesses. In the office business, we promoted the Premium Midsize Office (PMO) business, and we also completed the LAZONA Kawasaki TOSHIBA Building. In commercial facilities, we successfully opened the bono Sagamiono Shopping Center and launched a GEMS urban-type commercial facility.

Tadashi Nakajima
Executive Officer
Responsible for Leasing Business

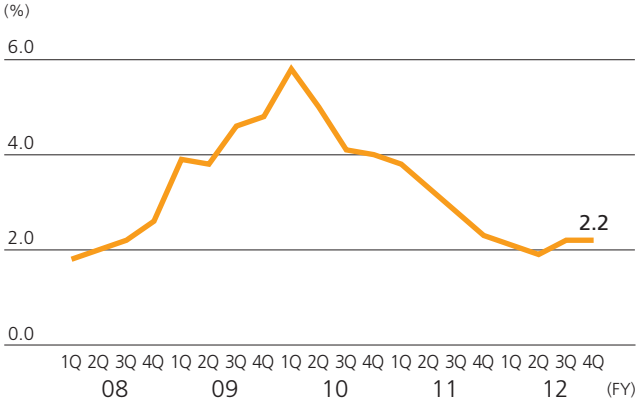
## QUESTION 01

### Please tell us about your Leasing Business initiatives in fiscal 2012.

The major highlights of the past year were completion of the LAZONA Kawasaki TOSHIBA Building, the opening of the bono Sagamiono Shopping Center, and the accelerated development of our office building PMO business.

The LAZONA Kawasaki TOSHIBA Building is a flagship project in our cooperation with the Toshiba Group. It is a large-scale office building with a floor space exceeding 100,000 m$^2$. For this reason we see the LAZONA Kawasaki TOSHIBA Building as one of our core assets. The Toshiba Group will lease the entire building as the base for its Smart Community business. However, because approximately 59,400 m$^2$ of floor space will become vacant at our Hamamatsucho building as a result of this move, one of our major tasks in fiscal 2013 will be to fill this space as soon as possible.

Changes in Vacancy Rates (Office/Commercial Facilities)




The bono Sagamiono Shopping Center is a large commercial facility that connects directly with Sagamiono Station, a terminal station on the Odakyu Line. Opened on March 15, 2013, it has made a strong start as a community-centered shopping center, attracting more than 300,000 shoppers in its first 3 days of operation. For us, it represents our first involvement with a large-scale shopping center and harnesses the collective strengths of a host of Nomura Real Estate Group companies, including Nomura Real Estate Development, Geo-Akamatsu Co., Ltd., Nomura Building Management Co., Ltd., Nomura Living Support Co., Ltd., and MEGALOS Co., Ltd. The successful completion of this shopping center is a significant first step that will serve as a springboard for future efforts.

In our PMO business, we acquired sites for the development of four buildings in fiscal 2012. Our PMO business answers the needs of companies that want about 330 m$^2$ of floor space on the same floor, and this "product" has earned high praise from tenants and building owners. Coupled with greater recognition in the market, this has all the signs of becoming a high-growth business. Capitalizing on this momentum, we will accelerate the pace of business development with the target of developing six buildings per year going forward.

1 Lazona Kawasaki TOSHIBA Building (Saiwai-ku, Kawasaki City, Kanagawa Prefecture)
2 bono Sagamiono Shopping Center (Minami-ku, Sagamihara City, Kanagawa Prefecture)

## QUESTION 02

### What is your outlook for the market environment?

Positive signs are slowly emerging in the office building market after a period of sluggishness. The vacancy rate is improving following the end of a cycle of many new office buildings being supplied. Under these market conditions, we are maintaining a low vacancy rate of 2.2%. In terms of office rents, negotiations to lower office rents with tenants that have continued since the Lehman Crisis are being handled without too much impact. Indeed, the majority of our tenants that we were in discussions with agreed to renew their contracts without downward rent revisions in fiscal 2012, suggesting rents are bottoming out. Looking ahead, if Abenomics produces a clear recovery in corporate earnings, demand from companies for more office floor space should increase, which in turn could very well push rents up.

## QUESTION 03

### What is your growth strategy?

In fiscal 2013, our office building, commercial facility and logistics facility businesses will acquire and develop sites focusing on their areas of specialization.

As a long-term target, our PMO business aims to develop up to 50 buildings, to make PMO into a core brand alongside PROUD in the future. Since the Great East Japan Earthquake in particular, many building owners have been considering how to deal with aging buildings out of concerns about their seismic resistance. We will acquire these sorts of buildings and develop them under the PMO brand. In addition, we are looking at ways to provide our PMO expertise by offering a suite of services from rebuilding to building management, as well as joint businesses with building owners.

In the commercial facility business, we plan to utilize the expertise we amassed from the bono Sagamiono Shopping Center among large-scale redevelopment projects that are centered on our strong suit of housing to develop more large-scale shopping centers.

We intend to develop 3 to 4 GEMS facilities per year going forward. We launched the GEMS brand as an urban-type commercial facility focused on sites in front of train stations. Having already acquired sites for our next developments, we have made a steady start toward expanding the scale of this business. In addition, we are planning to develop a commercial facility which UNIQLO will lease on a site only a 3-minute walk from the JR Kichijoji Station. We aim to expand these urban-type commercial facilities going forward.

In terms of logistics facilities, to date, we have developed and managed a total of 6 facilities with approximately 330,000 m2 of space under the Land Port brand. As a result, we have amassed more expertise in this area than peer companies. We plan to actively develop more logistics facilities to meet fast-growing distribution needs accompanying burgeoning Internet shopping. We hope to develop 2 to 3 facilities per year.

# PMO Business Development

## We aim to establish a unique presence in the market with the PMO brand.

We have been developing the PMO brand in midsize office buildings since starting this business in 2008 with the PMO Nihonbashi Honcho building. The brand was launched to respond to customer demand for midsize office buildings with quality equivalent to that of a large-scale office building. By accurately responding to market needs, PMO has carved out a certain position in the market.

Going forward, we will redouble efforts to develop the PMO business to grow this brand into a cornerstone of the Company. Besides quantitative expansion, we will also work to enhance quality. Regarding the latter, we will provide new value in terms of services that support tenants' corporate activities, going beyond physical aspects such as building location, size and quality.

One example of this approach is the opening of N-FORT in the PMO Nihonbashi Muromachi building for meeting corporate business continuity planning (BCP), welfare and other needs that have increased in the wake of the Great East Japan Earthquake. N-FORT can be used as a common space by companies that are tenants in PMO buildings. It has presentation rooms, meeting rooms and other spaces, as well as a service desk for our various tenants. However, it also has a storehouse for emergency supplies and can be used as an emergency response base. We are confident that the provision of this sort of new value in our PMO business, value will translate into higher tenant satisfaction and increased brand value. In terms of quantitative expansion, we plan to branch out from the three central city wards where the PMO business is concentrated to the Shibuya and Shinjuku areas. We aim to develop around six buildings a year.


PMO Nihonbashi Muromachi

| | Name | Address | Leased floor area | Completion | Status |
|---|---|---|---|---|---|
| 1 | PMO Nihonbashi Honcho | Nihonbashi Honcho, Chuo-ku | 2,450 m² | 2008/6 | Sold |
| 2 | PMO Hatchobori | Hatchobori, Chuo-ku | 2,074 m² | 2009/5 | Sold |
| 3 | PMO Iwamotocho | Iwamotocho, Chiyoda-ku | 1,041 m² | 2009/5 | Sold |
| 4 | PMO Higashi-Nihonbashi | Higashi-Nihonbashi, Chuo-ku | 1,859 m² | 2009/10 | Sold |
| 5 | PMO Akihabara | Iwamotocho, Chiyoda-ku | 3,037 m² | 2010/1 | Sold |
| 6 | PMO Nihonbashi Odenmacho | Nihonbashi Odenmacho, Chuo-ku | 2,054 m² | 2010/3 | Sold |
| 7 | PMO Hatchobori II | Hatchobori, Chuo-ku | 3,174 m² | 2010/6 | Sold |
| 8 | PMO Akihabara II | Higashi-kanda, Chiyoda-ku | 2,700 m² | 2011/1 | Sold |
| 9 | PMO Nihonbashi 2chome | Nihonbashi, Chuo-ku | 1,341 m² | 2011/7 | Sold |
| 10 | PMO Nihonbashi Muromachi | Nihonbashi Muromachi, Chuo-ku | 3,857 m²* | 2013/1 | In operation |
| 11 | PMO Yaesu-dori | Hatchobori, Chuo-ku | 5,003 m² | 2013/5 | In operation |
| 12 | PMO Tamachi | Shiba, Minato-ku | About 4,000 m² | 2014/1 (planned) | In construction |
| 13 | PMO Kanda-Tsukasacho | Kanda-Tsukasacho, Chiyoda-ku | About 3,400 m² | 2013/9 (planned) | In construction |
| 14 | PMO Ginza 8chome | Ginza, Chuo-ku | About 2,000 m² | 2014/3 (planned) | In construction |
| 15 | PMO Nihonbashi Kayabacho | Nihombashi Kayabacho, Chuo-ku | About 3,400 m² | 2014/8 (planned) | In construction |
| 16 | PMO Shibakoen | Shibakoen, Minato-ku | About 2,600 m² | 2014/7 (planned) | In construction |
| 17 | PMO Shibadaimon | Shibadaimon, Minato-ku | About 1,700 m² | 2014/12 (planned) | In planning |
| 18 | PMO Nihonbashi Edo-dori | Nihonbashi Kodenmacho, Chuo-ku | About 1,300 m²* | 2015/10 (planned) | In planning |

* our share

(2013/7)

## Developing Commercial and Logistics Facilities

We are redoubling our efforts to develop urban-type commercial facilities and highly functional logistics facilities.

GEMS Shibuya

We are developing GEMS urban-type commercial facilities based on the concept of providing facilities that adults can use regularly with ease and where they can enjoy quality food, time and space. GEMS Shibuya, our first GEMS property, which is located in front of the new south exit of the JR Shibuya Station, held its grand opening in October 2012. To fully cater to the needs of office workers in the vicinity of the facility, we hand-picked tenant stores, including inviting stores new to Shibuya, rather than the normal chain stores found in many buildings. However, our involvement doesn't stop at simply leasing the facility to tenants. We also work with tenants on everything from operating the entire facility and attracting customers to implementing measures to raise sales. Our aim is to enhance the facility as a whole. We believe that enhancing the operational capabilities and increasing the satisfaction of the customers who patronize the stores in this way will lead to stable earnings for the facility.

With our logistics facilities, which we are developing under the Land Port brand, we are distinguishing ourselves from warehouses. The rapid growth of Internet shopping in recent years has created demand for highly functional facilities that can deliver products speedily to consumers. Land Port answers these needs. Since 2007, we have developed six facilities to date under this brand. Our strength in this field lies in our ability to plan facilities that accurately reflect tenant needs, drawing on the relationships we already have with quality tenants from development and management activities thus far. We believe that we can leverage this advantage to further differentiate our facilities from those of others.

In April 2013, we established a division focused on these facilities to expand the scale of our business further.


Land Port Kawagoe

# Investment Management Business

In fiscal 2012, this segment recorded lower operating revenue and earnings amid a sluggish market environment. Nevertheless, we laid the stepping stones to our next stage of growth. Assets under management topped ¥1 trillion, making us one of the largest real estate investment management companies in Japan. In this capacity, we will push ahead with a major organizational overhaul to build an efficient business structure that will enable us to demonstrate an even better level of performance.

Yasuaki Fukui
Executive Officer
Responsible for Investment Management Business

## QUESTION 01

### Please summarize fiscal 2012 and give us your outlook.

In fiscal 2012, we put a priority on maintaining and improving the performance of owned properties rather than expanding scale at listed REITs. In private equity funds, we focused on executing exit strategies for projects formed in the past. As a result, we were unable to increase assets under management. Even in this environment, however, we put in place the structures for our next stage of growth and pushed ahead with initiatives to develop new products. In terms of the former, we analyzed our past investment management results and used this as the basis for a rigorous debate about what we should do to deliver better performance. We subsequently initiated efforts to create an organization that can manage investments more efficiently by reforming our business structure.

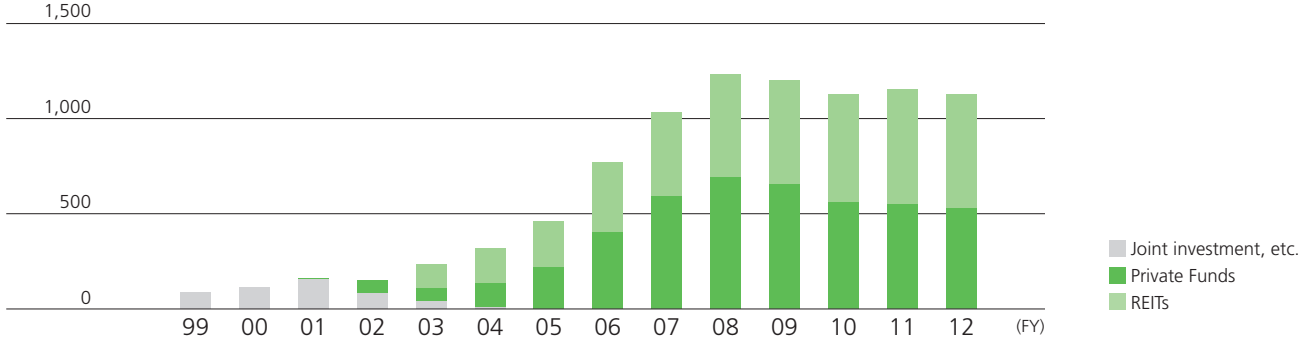
From the standpoint of product development, the mood in the market was utterly transformed at the end of 2012 by the impact of the so-called "Abenomics." Suddenly, we were in an environment in which we could make some aggressive moves for growth. These included listing Nomura Real Estate Master Fund, Inc. in June 2013. I believe we are now well positioned to spring ahead with our next stage of growth without missing the opportunity to capitalize on this upbeat market mood.

## QUESTION 02

### What is your basic concept for the next stage of growth?

Essentially, for an investment management company to achieve better performance, it needs the ability to research investees and the timing of investments. In addition, to fulfill its responsibilities to investors, it is important to clarify how its investment

Trend in Assets Under Management
(Billions of yen)

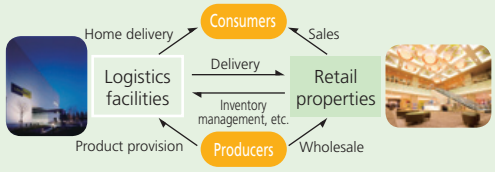


NOMURA MASTER FUND

## Nomura Real Estate Master Fund Basic Philosophy

### Investment Philosophy

Focused on consumer demand stability




Logistics facilities and retail properties are both essential infrastructure for the economy and industry to support consumer demand

Investment in logistics facilities and retail properties will create stable income backed by consumer demand

### Investment Strategy

**A balanced portfolio that produces stable income returns**

1. Concentrate investment on greater Tokyo (target portfolio share of 80% or more in principle; acquisition price basis) focused on a sizeable population that can support consumer demand
2. Balanced investment in logistics facilities and retail properties
3. Development and management capabilities for supporting external growth and stable operations

**Portfolio building**

Logistics facilities | Retail properties

**Nomura Real Estate Group Value Chain**

- Planning, development and operational capabilities in logistics facilities and retail properties
- Management support from the Nomura Real Estate Group
- Investment management track record in private funds and J-REITs
- Promotion of external growth via Sponsor's pipeline

Aims to generate stable income over the medium- and long-terms by investing in logistics facilities and retail properties mainly in greater Tokyo

performance will be evaluated. If we fail to have a philosophy or house opinion on this research and evaluation method, we cannot hope to prevail as an investment management company in an increasingly global market. That's why we have established a research office to support the formulation of investment strategy. And that's also why we have established an investment performance office with the aim of strengthening our investment performance evaluation and other functions. In the future, by putting in place an organizational structure that can facilitate the formation of a house opinion, we hope to make the decision-making process more visible.

### QUESTION 03

### Please tell us more about the Nomura Real Estate Master Fund.

The Nomura Real Estate Group actively invests in logistics and commercial facilities as real estate businesses with growth potential. These properties can be expected to deliver stable returns as investment management targets. This was the reason we pushed ahead with preparations to establish the Nomura Real Estate Master Fund to manage logistics and commercial facilities, ultimately achieving a public listing as our third REIT in June 2013. This REIT had an anticipated initial portfolio of 54 properties at its initial public offering (IPO). With the aggregate purchase price for these properties estimated at approximately ¥227.0 billion, it was one of the largest IPOs in J-REIT history. Investors were clearly impressed, with subscriptions exceeding estimates. Looking ahead, we will continue to harness the collective strengths of the Nomura Real Estate Group to develop various real estate investment management products and in doing so answer investor needs of the times.


Morisia Tsudanuma


Land Port Urayasu

# Property Brokerage & CRE Business

The property brokerage operations posted record highs in terms of total transaction value and the number of transactions in fiscal 2012. One of our main initiatives was to expand our area network in retail operations at Nomura Real Estate Urban Net Co., Ltd. In wholesale operations, meanwhile, we worked hard on consulting activities and solutions proposals for companies and investors.

Seishi Miyajima
Executive Officer
Responsible for Property Brokerage & CRE Business

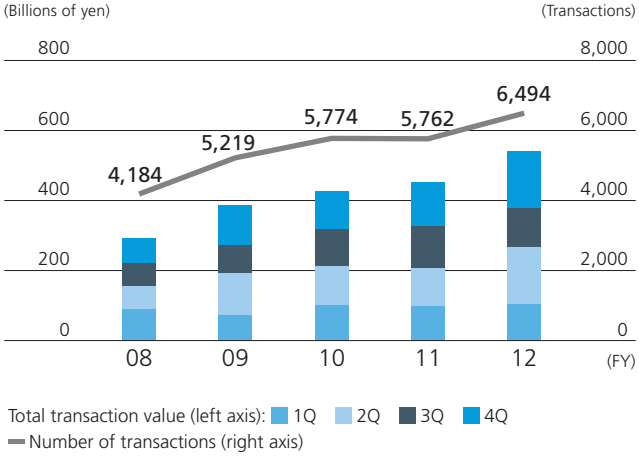
## QUESTION 01

### What initiatives did you implement in retail and wholesale operations in fiscal 2012?

In retail operations, we redoubled our efforts to expand our branch network. During fiscal 2012, we opened 6 branches, bringing our branch network to 48, and we also made progress in our search for more potential sites. The feature of branch development at Nomura Real Estate Urban Net is that the company is pouring its energy into creating an area network based in central Tokyo with the aim of expanding high-value transactions. Furthermore, in order to increase personnel both in terms of quantity and quality, we continued to actively employee mid-career professionals as well as university graduates, and at the same time revamped our training system. Indeed, we worked at establishing a unique program for the upgrading of employee skills, and as part of this opened the Nomura Dynamo College (NODYC) as a permanent training center in April 2013.

In our wholesale operations, we provide consulting services, and propose and execute solutions for increasing value by effectively utilizing corporate real estate (CRE). We are also engaged in real estate brokering between corporate customers such as for funds and developers. These operations boast high productivity, as we finally see the results of our efforts to develop human resources and bolster our organization.

Number of Transactions / Total Transaction Value




## QUESTION 02

### What is your business strategy going forward?

I believe that our retail operations can expand business opportunities as the stock of quality housing builds. Moreover, as companies in the industry as a whole battle to establish a dominant presence, competition among major players is expected to intensify. With this understanding, in order to emerge as a winner in the market, I believe that enhancing our information and area networks as well as securing and developing human resources will be essential.

In terms of human resources, we will continue proactive recruitment and enhance training and development programs that lead to increased levels of customer satisfaction. In the future, we aim to have a 1,000-strong sales force, approximately double the current size. In terms of the information network, Nomura Real Estate Urban Net's nomu.com was launched ahead of other companies as a real estate information site and has garnered strong market support. We continue to see nomu.com

## Retail Operations

- Expand branch network to 100 stores in 10 years

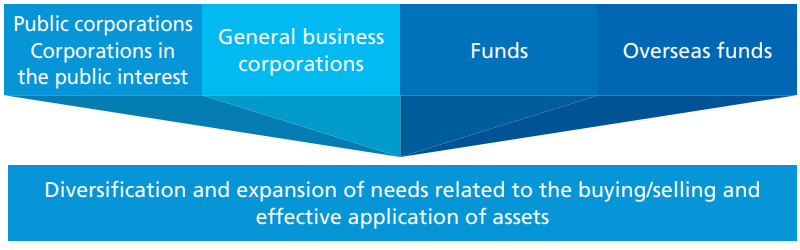

(2013/7)

- Enhance the nomu.com real estate portal site, which boasts the industry's highest access numbers


as the fulcrum of our information network. We intend, therefore, to continue increasing and enhancing the available content and investing in the system to keep ahead of rivals. With our branch network, our plan is to nearly double our current network to 100 branches, centered on the areas where PROUD and other Nomura Real Estate Development properties are concentrated, and the central Tokyo area where many high-value properties are located.

In our wholesale operations, meanwhile, we believe that we can grow further based on firm demand for effective utilization of real estate in the corporate sector and an expected increase in demand from professional real estate investors. Essential to medium- to long-term growth in this field will be having employees that have the skills to deal with the target customers and refining their ability to make and execute proposals as a group of professionals. At present, we are lacking in these two areas in comparison to the number of target customers, so we will push on with the building of this sales force. In the wholesale market, there is no obvious major frontrunner. This means that it is possible to emerge as the number-one brand by leveraging the functions of the Nomura Real Estate Group and strengthening information sharing with the Nomura Securities Group to engage in activities that increase investor satisfaction and enhance corporate value through the CRE strategy.

## Wholesale Operations




- Strengthening of customer relationships from a long-term perspective and abilities to identify needs
- Business recommendations (development, asset management, property management) applying the capabilities of Group companies
- Strengthening of ties to the Nomura Group

# Property & Facility Management Business

In fiscal 2012, this segment posted higher operating revenue mainly on account of higher management revenues, reflecting the increase in managed properties. I believe that the high marks we have earned for various initiatives will also propel our business forward. These include Nomura Building Management Co., Ltd. obtaining ISO 20000 certification, and Nomura Living Support Co., Ltd. topping customer satisfaction ratings for four consecutive years.

Toshiaki Seki
Executive Officer
Responsible for Property & Facility Management Business

## QUESTION 01

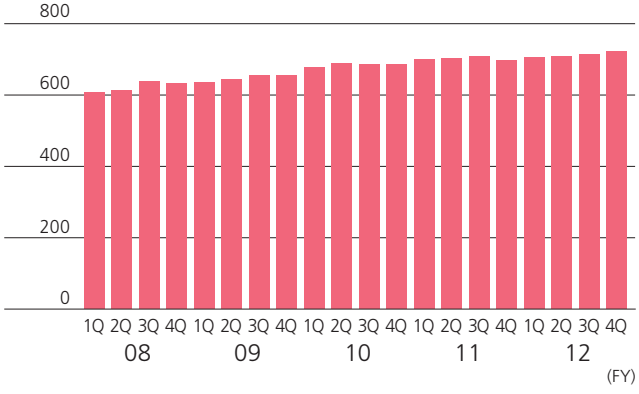
### Please tell us some of the highlights of fiscal 2012.

This segment was newly established following an overhaul of management classifications when we formulated our Mid- to Long-Term Business Plan. Our strength lies in the management of a wide range of properties, extending from office buildings and condominiums to logistics centers, data centers, universities, and public facilities. Leveraging this strength, we posted higher operating revenue in fiscal 2012 as we increased both the number of buildings and condominiums under management. Nomura Building Management is involved in the management of many data centers as well as office buildings. In fiscal 2012, it became the first company in the building management industry in Japan to obtain ISO 20000 certification, the international standard for service management.

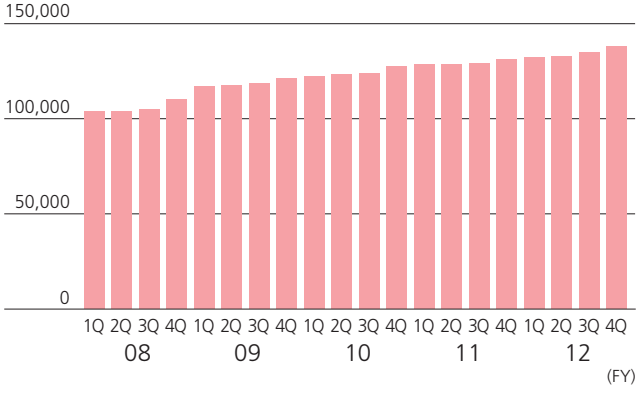
Looking ahead by widely utilizing the high-quality management standards prescribed by ISO 20000, Nomura Building Management is aiming to enhance its ability to provide high-quality management services. Nomura Living Support, meanwhile, secured the No. 1 ranking* in customer satisfaction for the fourth year running in a survey of tenant satisfaction. Nomura Living Support has also won plaudits for its Living Q Call service, a call-out service for private areas which it rolled out three years ago. Following the Great East Japan Earthquake, Nomura Living Support anticipated changes in the safety and security awareness of residents and responded by supporting community-building efforts as a means of lessening the impact of disasters. I believe that this proactive initiative has helped to boost the level of satisfaction. Nomura Living Support has also produced a guidebook to help foster an environment of self and mutual support in times of trouble, which has been proposed for condominium associations contracted for management. In this way, we are enhancing our ability to make and create measures that put customer satisfaction front and center.

*Survey by Attractors Lab Co., Ltd., a real estate marketing company

Buildings under Management
(Number of transactions)




Condominiums under Management
(Units)



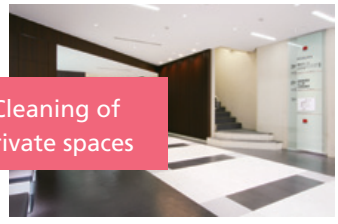
## Business Base Expansion



- Condominiums
- Office buildings
- Data centers
- Educational facilities
- Logistics facilities
- Sports commercial facilities
- Public facilities

Expansion of ancillary businesses through leveraging the stock of properties

Large-scale repair and maintenance | Renovation and facility upgrades | Tenant move-in/ move-out work | Cleaning of private spaces



### QUESTION 02

### What is your growth strategy going forward?

We view Nomura Living Support's Living Q Call as an important service platform in the context of our growth strategy in the Property & Facility Management Business in an era of declining births and a growing population of elderly. We plan to introduce Living Q Call at all properties that Nomura Real Estate develops. By providing this sort of highly satisfying service, we will maintain the relationship of trust we currently have with customers into the future, and this will be the foundation of a residential value chain.

The continuous increase in properties under management is leading to new business opportunities as well. With condominiums, large-scale repair work is required every 12 years. Office buildings must be repaired once every 10 or so years. We intend to work hard to win contracts for this type of work. Furthermore, we see the provision of total solutions proposals for office buildings as a growth engine. This includes proposals to building owners for improvements such as remodeling to increase the occupancy rate and facility upgrades to comply with the revised Japanese Energy Conservation Law, as well as work associated with tenant layout changes and when tenants move in and out of buildings.

Creating synergies between Nomura Building Management and Nomura Living Support is also an important theme for our growth strategy. Standardizing systems should benefit our earnings, and sharing each company's know-how in the fields in which they excel should translate into a better ability to make proposals and back them up. In short, it should strengthen the collective capabilities of the entire Group.

## About Living Q Call

Living Q Call responds to the increasing demand from condominium residents for services for private areas. It has been introduced for all condominium units sold by Nomura Real Estate Development and managed by Nomura Living Support.

With Living Q Call, we offer an emergency on-call service through which dedicated service staff respond quickly to requests for everything from changing burned out light bulbs to fixing waste disposers and other equipment that has broken down. In addition, it provides consultation regarding PC use and other matters, and housekeeping-related services as well as a housing service, which introduces home repair and remodeling vendors, house cleaning and other services.

Going forward, we aim to increase the range of services provided by Living Q Call as we work to increase customer satisfaction and build relationships of trust.


# Corporate Social Responsibility (CSR)

# Corporate Social Responsibility (CSR)

## Four Key CSR Themes

Based on our Group message of "Bringing Tomorrow Today," the Nomura Real Estate Group promotes CSR activities centered on four key CSR themes with emphasis on the spirit of corporate citizenship that has been handed down since our founding. We will create new value for society by addressing social issues through our daily business activities, with the aim of fulfilling our obligations to all stakeholders.

- Raising Quality and Service Levels
- Engaging in Environmental Initiatives
- Ensuring Compliance
- Developing Human Resources

## Stakeholder Relations

### Together with Customers

Based on a customer-first approach, the Nomura Real Estate Group is involved in a range of initiatives designed to reflect customer feedback and society's demands in its products and services. We strive to achieve the highest levels of safety, security and quality in these as we create new value for society.

#### Disaster Preparedness at Managed Properties

Nomura Living Support provides support for disaster preparedness measures, helping condominium associations formulate and implement disaster preparedness drills and earthquake response manuals. The company has also created the *Disaster Preparedness Guidebook*, a set of guidelines for dealing with earthquakes and power outages, and distributes it free of charge to all condominium associations contracted for management.


*Disaster Preparedness Guidebook*

#### Launching of the Kayabuki-no-sato Project

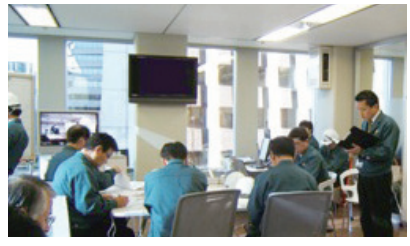
The Kayabuki-sato Project was launched in the Tai District of Tsukuba City in Ibaraki Prefecture. The thinking behind this project is to create a mechanism by which the rural residents of the region, who face such problems as an increase in deserted arable land and also devastated mountain forests, can work together with urban residents for everyone's mutual and sustainable benefit. Nomura Real Estate Development sponsors a group established to promote this project, mainly made up of local residents and NPOs, and obtained the cooperation of Tsukuba City and the University of Tsukuba in order to push forward with relevant initiatives.

Targeting both people who live in PROUD condominiums and employees, the company has started to offer them the opportunity to directly experience life in a rural community. In the project's region, people can try their hand at rice-planting, indigo dyeing, and harvesting. The Group is thus providing people who normally live in urban areas with the means to contribute to preserving the natural environment, to interact with rural residents, and to learn local history and culture, thereby aiding the revitalization of the region.

Kayabuki-no-sato Project

#### Disaster Response Drills

The Nomura Real Estate Group holds regular disaster preparedness drills with tenants to ensure their safety and security, and that of their visitors. Nomura Building Management Co., Ltd. provides assistance for the development of earthquake and fire response manuals, and runs basic lifesaving certification classes for building managers. In addition, disaster communication drills are held every month between the head office of Nomura Building Management and local sites, and once a year a widespread disaster response drill is held. The drill involves identifying, assessing and communicating damage levels, and building a system that uses wireless devices and teleconferencing.



Widespread Disaster Response Drill

### Holding the PROUD BOX Thanksgiving

The year 2013 is a milestone year marking 10 years since the start of sales of the PROUD brand of properties. As an expression of our gratitude to all concerned, the Nomura Real Estate Group held the PROUD BOX Thanksgiving for the owners of PROUD condominiums, for members of the PROUD Club who are considering purchasing a condominium, and for all others who have supported the PROUD brand over the years. The Thanksgiving comprised a wide variety of events, including presentations of the life services available, talks by invited guests, lifestyle proposals, and workshops.

This was the first large-scale Thanksgiving to be held by the Group, and the approximate 16,000 visitors over the two days were well satisfied.


PROUD BOX Thanksgiving

### Measures to Enhance Quality

- **Winning Good Design Awards in 2012**

The "enecoQ" smart condominium energy management system, PROUD CITY Inage-Kaigan Season Block + Residence Block, PROUD Itamiwagamachi Residence, and Geo Itami The Residence, which were developed by Nomura Real Estate Development, all won Good Design Awards in 2012. Nomura Real Estate Development has now taken home Good Design Awards for 11 consecutive years.

- **Features of Award-winning Systems and Properties**

#### "enecoQ" Smart Condominium Energy Management System

The system was recognized as Japan's first epoch-making mechanism for identifying how to shift peak-time electricity consumption. Based on electricity usage, the system can reduce the electricity demand of the entire condominium, and also make visible patterns of electricity consumption.

#### PROUD CITY Inage-Kaigan Season Block + Residence Block

This project was lauded as contributing to creating a well-loved town comprising residences, commercial facilities, assembly halls, parks and other amenities, and as fostering awareness of the natural environment and of community building for all residents.

#### PROUD Itamiwagamachi Residence, Geo Itami The Residence

This project was praised as creating a new kind of attractiveness and atmosphere through creative design that blends in with a town featuring the historical beauty of sake breweries, temples and suchlike, by means of integrated real estate development in a historical town with many townscape regulations.

## Together with Employees

The Nomura Real Estate Group believes that the growth of employees, the people directly involved in carrying out the Group's business, is essential to earning the trust of stakeholders and developing in a sustained manner. We focus on pleasant working conditions and human resource development to ensure that the diverse values of Group employees are respected by all, and that individuals can maximize their abilities.

### Launching Team Tomorrow 2013 to Promote Diversity

As an initiative to promote diversity management, in June 2013 the Nomura Real Estate Group launched Team Tomorrow 2013 aimed at promoting diversity. The objective of this initiative is to foster diversity by creating a company in which a wide variety of employees can demonstrate their capabilities to the full, irrespective of age, gender or other personal characteristics.

Team Tomorrow 2013

### Dynamo Camp

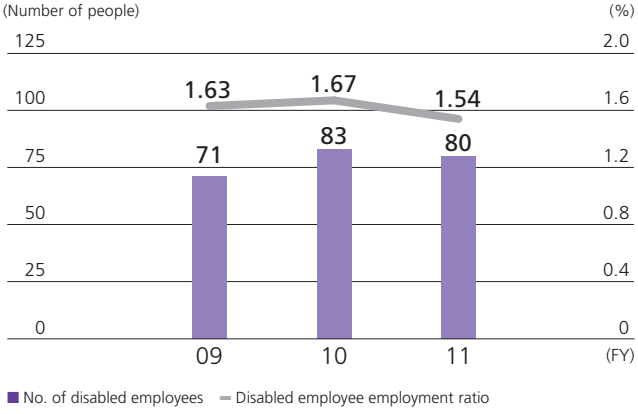
Nomura Real Estate Development's "Dynamo Camp" is a cross-divisional, employee interaction program designed to spur an understanding of the company's current status and an awareness of each individual's importance as part of the whole. The name "Dynamo" symbolizes human resources that can take the initiative to spark innovation. The camp brings together employees from across various job titles, divisions and age brackets to consider and discuss the company's future in terms of new business and other themes.

### Hiring Diverse Personnel

The Nomura Real Estate Group hires people with disabilities and seniors based on the conviction that when diverse personnel acknowledge one another's values it raises organizational capabilities, and this leads to increased corporate value. As of March 31, 2012, the Group employed 80 people with disabilities, representing 1.54% of the total workforce. We will continue promoting these hiring practices and working to create pleasant and convenient working conditions for people with disabilities.

In addition, Nomura Living Support employed 1,936 senior citizens as "Smile" supporters (building managers) and in other positions (as of September 30, 2012).

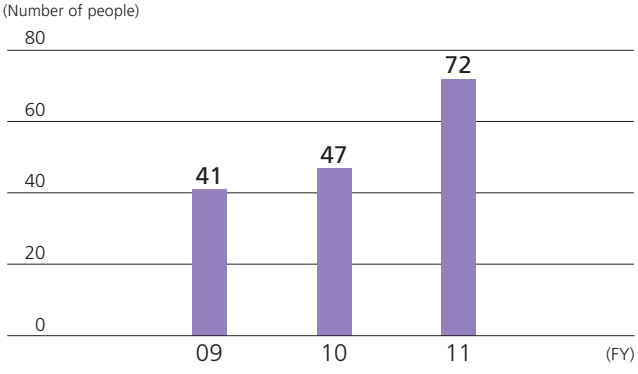
No. of Disabled Employees/Disabled Employee Employment Ratio




### Support for Childcare and Nursing Care

The Nomura Real Estate Group has instituted childcare leave, shortened working hours for childcare, and nursing care leave programs in order to promote a workplace where every employee can choose an optimal working arrangement to demonstrate his or her abilities. These programs are intended to help prevent employees from having to relinquish their jobs due to childcare and nursing care responsibilities.

No. of Childcare Leave Takers




Furthermore, information on using the programs is communicated on the Company intranet, while promoting efforts in the workplace to ensure the programs are easy to actually use. In fiscal 2011, 72 employees, including 3 male employees, took childcare leave.

Looking ahead, the Nomura Real Estate Group will continue to actively familiarize employees with these programs and encourage employees to make use of them.

## In Harmony with the Environment

The Nomura Real Estate Group promotes environmental initiatives in various areas of business, looking to the Nomura Real Estate Group Environmental Philosophy for guidance. The Group sees reducing environmental impact and helping bring about a sustainable society as one of its social missions as a corporation.

### The Exhibit of Urban Design for Firefly Habitats Recognized at the Kanagawa Global Environment Awards

At Yokohama Business Park (YBP), the Nomura Real Estate Group has been holding "The Exhibit of Urban Design for Firefly Habitats" since 2008. This exhibit has continued to attract both tenants and local residents, and it has now been recognized at the Kanagawa Global Environment Awards by the Kanagawa Prefectural Government and the Kanagawa Conference for Preserving the Global Environment. The exhibit provides an opportunity for everyone to consider the importance of nature and living things through the observation of fireflies. The event is held together with many groups, including local residents and members of Yokohama National University.

In addition, YBP also actively supports interactions with local children and the creation of a safe and secure town through such events as biotope tours and rice-harvesting lessons.

The Exhibit of Urban Design for Firefly Habitats

### The LAZONA Kawasaki TOSHIBA Building was Awarded a DBJ Green Building Platinum Ranking and an S Ranking by CASBEE Kawasaki

The LAZONA Kawasaki TOSHIBA Building in Kawasaki City, in Kanagawa Prefecture, was completed in March 2013. It has been awarded a Platinum ranking, the highest ranking under the DBJ Green Building certification program, and an S ranking by CASBEE Kawasaki.

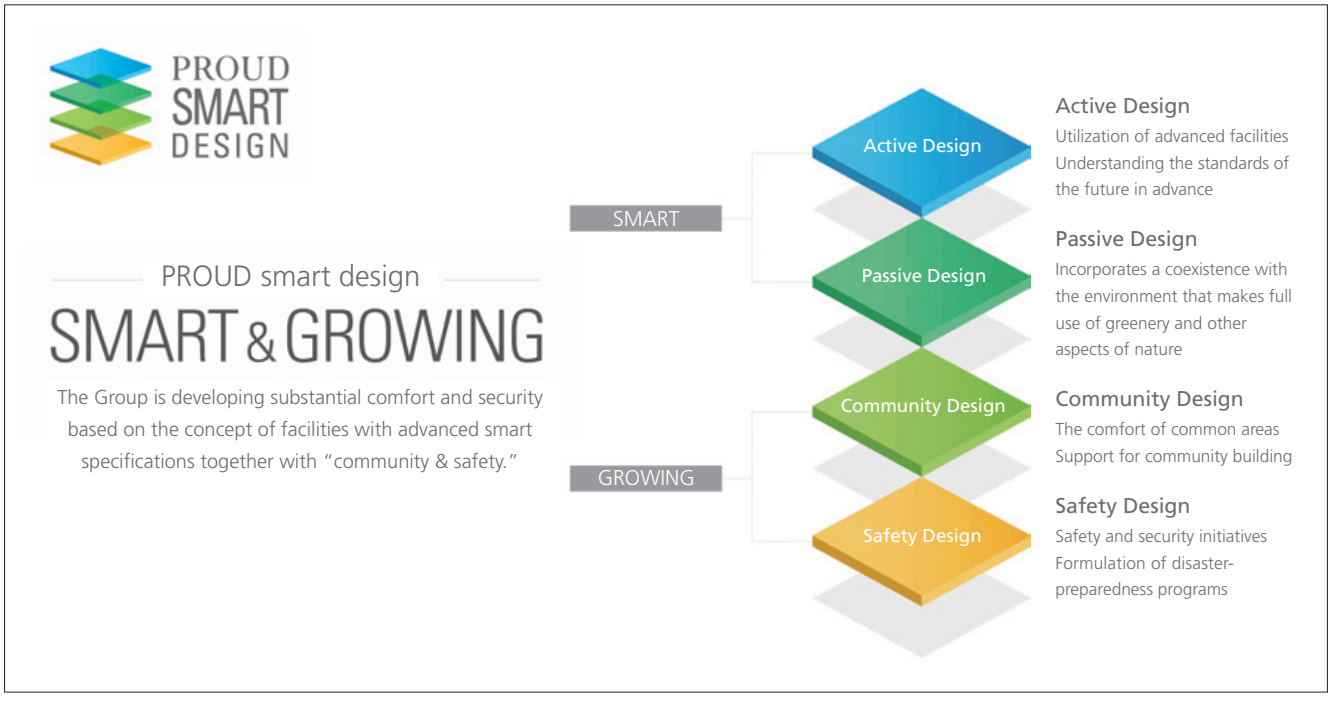
The LAZONA Kawasaki TOSHIBA Building is a next-generation office building that employs the latest energy-saving technology to reduce $CO_2$ emissions by over 50% compared to a conventional office building. It was recognized as being in the top class in Japan as regards considering the environment and society, and for satisfying BCP criteria.

The LAZONA Kawasaki TOSHIBA Building

### Formulation of "SMART & GROWING" PROUD smart design

Nomura Real Estate Development has also formulated "SMART & GROWING" PROUD smart design as an environmental vision for the next-generation condominiums that are being developed in the PROUD series. The "SMART & GROWING" PROUD smart design represents an evolutionary development of the PROUD ECO Vision we announced in 2010, and is a new action plan to accelerate initiatives for next-generation smart condominiums. It broadly comprises the two concepts of "smart design," based on the theme of advanced facilities and coexistence with the environment, and of "growing design," based on the theme of a sustainability that aims to preserve condominium value through the provision of comfortable and secure living.

Conceptual diagram of the "SMART & GROWING" PROUD smart design



# Corporate Governance

# Corporate Governance

## Basic Viewpoints Regarding Corporate Governance

The Company believes that it must be governed in a way that continuously maximizes corporate value over the long term, while consideration is given to the interest of shareholders and all other stakeholders related to the Nomura Real Estate Group. Furthermore, we aim to enhance the earning power of the entire Group, and while acting as a holding company in managing and supervising the business activities of our subsidiaries, we will strive to build a highly transparent management organization.

## Corporate Governance System

The Company's Board of Directors comprises five directors (of which 1 is an external director). The Board of Directors with the executive officers in attendance decides important corporate matters and supervises the execution of business operations by directors and executive officers. The Company has accepted an external director in order to strengthen the supervisory function of the Board of Directors and realize highly fair and transparent management. Audit & Supervisory Board Members attend meetings of the Board of Directors and provide their opinions as the need arises. Furthermore, the Company has introduced a system of executive officers with an aim to strengthen Group management, to separate and enhance the business execution function from the decision-making and supervisory functions of the Board of Directors. Each executive officer appointed by the Board of Directors is delegated management authority based on the Company's internal rules and other stipulations to execute business under the direction of the president & CEO and policies approved by the Board of Directors of the Company.

Audit & Supervisory Board Members comprises five Audit & Supervisory Board Members, three of whom are external Audit & Supervisory Board Members. The Board formulates such matters as audit policies and the division of auditing roles, and receives reports and conducts discussions regarding important matters relating to audits carried out on the basis of those policies and divided roles.

The Company has adopted Audit & Supervisory Board Member system. The Company believes that management supervision should be conducted primarily by Audit & Supervisory Board Members. The Company enhances the effectiveness of its audit activities through measures that include the establishment of an Office of Audit & Supervisory Board Members and the assignment of specialized staff to assist the Audit & Supervisory Board Members. Furthermore, the majority of Audit & Supervisory Board Members are external Audit & Supervisory Board Members, which preserves their independence from management and creates a structure that enables them to perform operational audits appropriately. Furthermore, in addition to accepting an external director in order to strengthen the supervisory function of the Board of Directors and realize highly fair and transparent management, the Company has also established risk management, compliance and internal audit systems, each of which report regularly to the Board of Directors. Such reports enable the Board to effectively supervise directors' execution of duties.

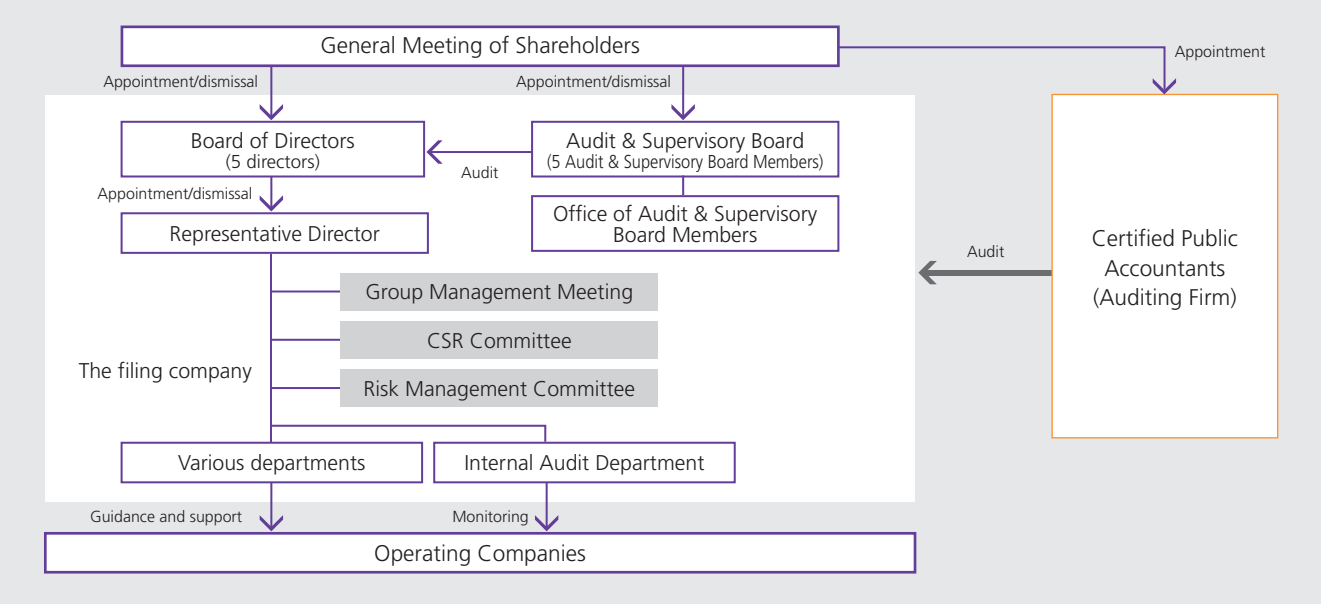
As a holding company, the Company convenes Group Management Meetings, comprised of the Company's directors and the presidents of major subsidiaries as members. The purpose of these meetings is to unify intentions to promote group management and verify the progress of the budgets of each operating company and the execution status of other business operations.

## Internal Audit System and Audit & Supervisory Board Member System

### ■ Internal Audit System

The Nomura Real Estate Group has established an internal audit

Corporate Governance System



department at each group company, with the exception of some small companies. Each department is supervised under the direct jurisdiction of the Group company president or an officer who does not hold an additional office in a business operations division, which allows the department to maintain organizational independence.

In addition, we have established the Internal Audit Department in the Company that, in collaboration with the auditing firm, supervises the internal audit functions of the entire Group and performs monitoring, evaluation and auditing in each division within the Company.

### ■ Audit & Supervisory Board Member Audit System

The Company has appointed full-time staff in the Office of Audit & Supervisory Board Members to support Audit & Supervisory Board Member audits. Each Audit & Supervisory Board Member attends meetings of the Board of Directors and other important meetings and audits the execution of the duties of directors while cooperating with the Internal Audit Department and the auditing firm as needed.

Audit & Supervisory Board Member Shigeki Fujitani has experience in finance and audit work over many years and Audit & Supervisory Board Member Akira Yamate possesses a qualification as a Certified Public Accountant. Both individuals thus have a considerable degree of professional insight regarding finance and accounting.

### ■ Accounting Audits

The Company has concluded an auditing contract with Ernst & Young ShinNihon LLC (the auditing firm). In addition to regular accounting audits by the auditing firm, the Company discusses and verifies accounting issues with the auditing firm as needed and strives to follow appropriate accounting procedures.

All of the certified public accountants that carry out work of the auditing firm have no more than seven years of continued experience in auditing the Company, and the auditing firm has adopted autonomous measures to ensure that its employees who carry out work do not participate for longer than a designated period in the Company's account auditing.

Assistants associated with accounting audit operations comprise eight certified public accountants, nine assistant certified public accountants, etc., and seven other staff.

## Compensation of Directors and Audit & Supervisory Board Members

### ■ Policy and Decision-making Method Regarding the Amount and Calculation of Compensation and Other Remuneration for Directors and Audit & Supervisory Board Members

It was resolved that the maximum annual compensation limit for directors and Audit & Supervisory Board Members would be ¥650 million and ¥150 million, respectively.

The Company's compensation of directors and Audit & Supervisory Board Members consists of fixed monthly compensation and variable compensation, comprising bonuses and stock-related compensation. Bonuses are determined according to the Company's business performance during the relevant fiscal year, as well as to individual contribution to that performance. Stock-related compensation, in the form of stock options, is designed to align executives' interests with those of the Company's shareholders, and to further enhance corporate value. Stock options are either market-value stock options, on which the exercise price (the amount payable when the right is exercised) is determined on the basis of market prices, or share compensation stock options, which have exercise prices of ¥1 per share. Stock-related compensation is not provided for Audit & Supervisory Board Members.

### Total Compensation of Directors and Audit & Supervisory Board Members by Type of Remuneration (Fiscal 2012)

| | Total compensation (¥ million) | Total compensation by type of remuneration (¥ million) | | | | Headcount |
|---|---|---|---|---|---|---|
| | | Basic compensation | Stock option | Bonus | Retirement benefits | |
| Directors | 280 | 160 | 45 | 74 | — | 5 |
| Audit & Supervisory Board Members (excluding external Audit & Supervisory Board Members) | 67 | 51 | — | 16 | — | 3 |
| External directors and Audit & Supervisory Board Members | 22 | 22 | — | 0 | — | 3 |
| Total | 370 | 234 | 45 | 90 | — | 11 |

Notes: 1. The annual General Meeting of Shareholders on June 27, 2013 resolved that the maximum annual compensation limit for Audit & Supervisory Board Members is ¥150 million.
2. External Audit & Supervisory Board Member Mitsuru Nakajima, who resigned on June 27, 2013, received compensation in fiscal 2012 in the amount of ¥27 million as a corporate officer from NOMURA LAND AND BUILDING Co., Ltd., a former parent company of the Company. NOMURA LAND AND BUILDING ceased to be a parent company of the Company on March 21, 2013.

## Compensation of Accounting Auditors

### ■ Policy for Deciding the Compensation of Accounting Auditors

The Company takes factors such as the days spent performing accounting audits, and the scale and business characteristics of the Company comprehensively into consideration in reaching an appropriate decision regarding the compensation of its auditing firm's certified public accountants and other accounting audit personnel.

Compensation paid to the auditing firm's certified public accountants for fiscal 2012 was as follows.

### Compensation of Certified Public Accountants in Detail (Fiscal 2012)

| | Compensation paid for audit certification activities (¥ million) | Compensation paid for non-audit activities (¥ million) |
|---|---|---|
| The Company | 62 | — |
| Consolidated subsidiaries | 111 | 29 |
| Total | 173 | 29 |

## Risk Management

### ■ Risk Management System

The Company has established a Risk Management Committee whose members include officers in charge of administrative operations at the Company and Group companies, for the purpose of promoting risk management activities within the Group. The Committee deliberates matters relating to risk management, compliance, and information security for the entire Group, and also cooperates and provides guidance with regard to countermeasures when risks occur.

The Group's businesses handle large quantities of personal information in various operations due to business requirements. They endeavor to comply with various laws and regulations pertaining to this personal information, such as the Law Concerning Protection of Personal Information, and also handle information in the proper manner. Moreover, the Group has established internal rules, such as "Information Security Provisions," and "Rules for Handling Personal Information," which set forth guidelines on handling personal information and appointing information security managers, among other matters. In these ways, the Group strives to train and educate employees.

### ■ Formulation of Risk Management Regulations

The Nomura Real Estate Group believes that ensuring sound management by properly addressing risks is fundamental to corporations. Accordingly, the Group has established Risk Management Regulations as its fundamental risk management guidelines. Risk management is predicated on the crucial task of understanding risk. The Group has thus established timely and proper reporting rules, including prompt escalation of situational reports to management after unforeseen incidents have occurred, in addition to regularly monitoring risks.

## Compliance

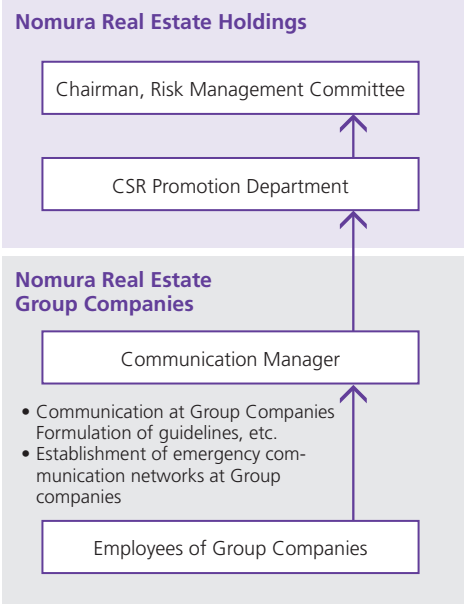
### ■ Compliance Systems

The Nomura Real Estate Group regards compliance, including the observance of laws and regulations and corporate ethics, as one of the most important management issues. As a set of relevant guidelines, it has formulated the Nomura Real Estate Group Code of Action. To promote continuous educational and awareness activities for executives and employees of the entire Group, we have established a CSR Committee and CSR Promotion Department in the Company. It provides advice, guidance and support to Group companies. In addition, Compliance Officers and Compliance Leaders have been appointed at Group companies in an effort to ensure that compliance pervades throughout the Group.

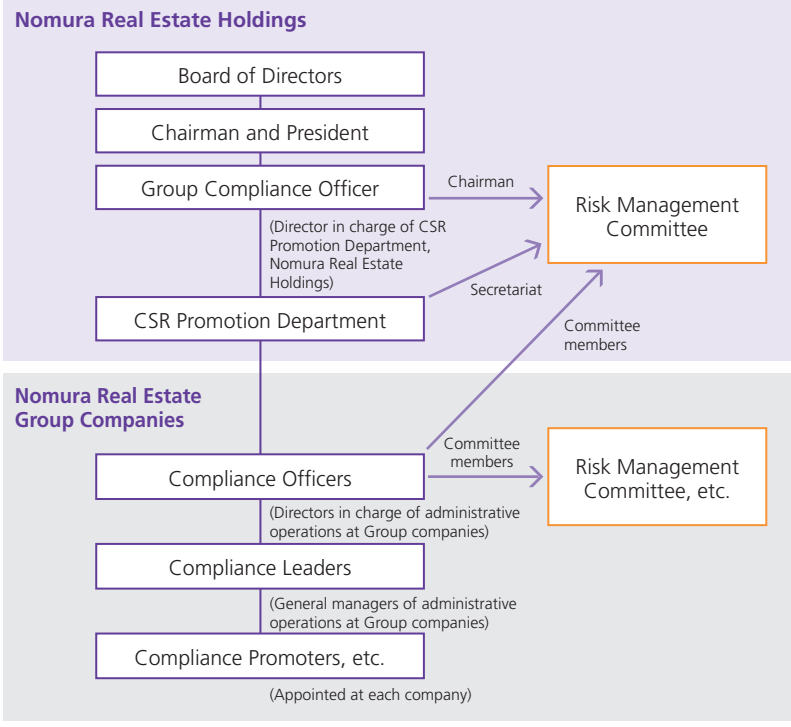
### ■ Nomura Real Estate Group Risk Hotline

The Nomura Real Estate Group Risk Hotline serves as a point of contact for whistle-blowing by Group employees. Two internal reporting channels are available: one to internal directors and the other to outside legal counsel. In the event that a compliance issue cannot be resolved in the workplace or in other related circumstances, employees may choose to consult with either point of contact.

Flow of Communication




Nomura Real Estate Group Compliance Promotion Framework



## Disclosure System Concerning Timely Disclosure

### ■ Corporate Information Collection

Corporate information of the Company is aggregated by the person responsible for information handling (the corporate officer in charge of the Corporate Communications & Investor Relations Department) through the department responsible for information collection (Corporate Planning Department) from responsible individuals in each department within the Company. Regarding Nomura Real Estate Group companies, corporate information is aggregated by the person responsible for information handling (the corporate officer in charge of the Corporate Communications & Investor Relations Department) through the department responsible for information collection (Corporate Planning Department) from responsible individuals in each Group company. Information on incidents with significant urgency is aggregated by the person responsible for information handling (the corporate officer in charge of the Corporate Communications & Investor Relations Department) through the Chairman of the Risk Management Committee.

### ■ Decisions on Timely Disclosure of Corporate Information

The person responsible for information handling (the corporate officer in charge of the Corporate Communications & Investor Relations Department) forms an Information Disclosure Screening Team, which is made up, as needed, of general managers, corporate officers and others responsible for related departments, if a decision is required on whether or not to disclose corporate information aggregated by the aforementioned system. This team decides whether or not to disclose information after looking at the necessity for timely disclosure, the disclosure details and other matters, and at the same time reports to the president.

### ■ Timely Disclosure

Corporate information that must be disclosed in accordance with the timely disclosure rules of the Tokyo Stock Exchange and corporate information that the Company decides needs to be disclosed in a timely manner is disclosed by the department responsible for timely disclosure (Corporate Communications & Investor Relations Department) under the direction of the person responsible for information handling (the corporate officer in charge of the Corporate Communications & Investor Relations Department). The department responsible for timely disclosure (Corporate Communications & Investor Relations Department) prepares the materials for disclosure and makes them public after receiving the approval of the person responsible for information handling (the corporate officer in charge of the Corporate Communications & Investor Relations Department).

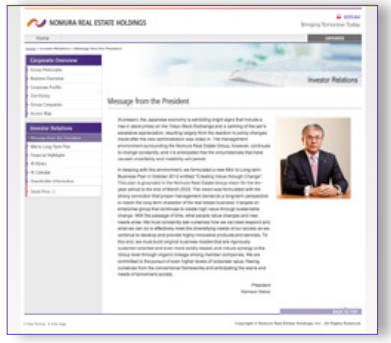
## Investor Relations Activities

### ■ Communication with Analysts and Institutional Investors

The Company holds earnings briefings twice a year (at around the time of announcing annual and semi-annual results) where it explains business results and forward-looking matters such as management policies. The Company also communicates actively with institutional investors overseas through the overseas investor relations (IR) activities it conducts periodically.

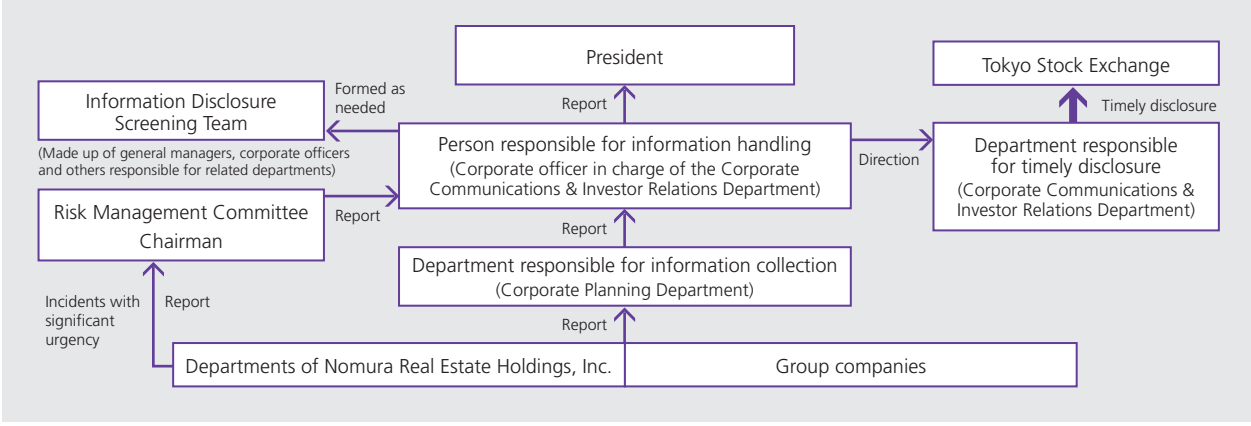
### ■ Information Transmitted via the IR Website

The Nomura Real Estate Holdings' IR website was upgraded in April 2012. The Company's consolidated financial statements, earnings briefing materials, annual reports and other IR-related information are provided through this website. In June 2013, the Company refreshed its webpage for individual investors (Japanese only) in the hope that this will foster a deeper understanding of the Company.




Nomura Real Estate Holdings IR Website:
http://www.nomura-re-hd.co.jp/english/ir/index.html

Timely Disclosure System



# Corporate Officers

(As of June 27, 2013)

President (Representative Director) &
Chief Executive Officer
**Kamezo Nakai**

Director (Representative Director) &
Executive Vice President
**Seiji Matsumoto**

Executive Officer
**Seiichi Miyajima**

Executive Officer
**Seishi Miyajima**

Executive Officer
**Takashi Kaku**

Executive Officer
**Toshiaki Seki**

Executive Officer
**Yasuaki Fukui**

Director & Executive Officer
**Takao Orihara**

Executive Officer
**Tadashi Nakajima**

Executive Officer
**Shigeyuki Yamamoto**

*1 Shigeru Matsushima is an external director as provided for in Article 2, Item 15 of the Companies Act.
*2 Shigeki Fujitani, Satoshi Ogishi and Akira Yamate are external Audit & Supervisory Board Menbers as provided for in Article 2, Item 16 of the Companies Act.

Executive Officer
Kouzou Ise

Executive Officer
Hiroyuki Kimura

Director & Executive Officer
Yukoh Yoshida

Executive Officer
Makoto Haga

Director*1
Shigeru Matsushima

Audit & Supervisory Board Member
(Full-time)
Youji Kurihara

Audit & Supervisory Board Member
(Full-time)
Shigeaki Yoshioka

Audit & Supervisory Board Member*2
(Full-time)
Shigeki Fujitani

Audit & Supervisory Board Member*2
Satoshi Ogishi

Audit & Supervisory Board Member*2
Akira Yamate

# Management's Discussion and Analysis

## Trends in the Real Estate Industry

The condominium market in the Tokyo metropolitan area during calendar year 2012 saw sales increase 2.5% year on year, to 45,602 units. Contract rates at average first month were down 1.5 percentage points to 76.3%. Despite these marginal declines, the market remained at a high level. This primarily reflected solid real demand centered on first-time condominium purchases, against the backdrop of low interest rates.

In the office market, although rent levels remained soft, the sharp increase in the supply of new office buildings has run its course. As a result, the market has begun showing signs of a recovery. The office building vacancy rate in the five wards of central Tokyo declined 0.48 of a percentage point from a year earlier to 8.56% as of March 31, 2013, signaling an improvement.

In the real estate investment market, the fund procurement environment has remained strong, with rising investment unit prices for J-REITs supported by increased demand for J-REIT purchases from investors. Consequently, new REIT listings by investment corporations and capital increases through public offerings have gathered pace, along with growth in property acquisitions. These and other developments have led to a recovery in the business environment.

## Analysis of Operating Results

The Nomura Real Estate Group recorded a ¥11,405 million impairment loss, reflecting the fact that some leased assets in property, plant and equipment saw a decline in profitability. However, the Group's mainstay Residential Development Business achieved a year-on-year increase in revenue and earnings mainly due to a large increase in the number of units sold. As a result, consolidated operating revenue increased ¥66,933 million, or 14.8%, to ¥517,741 million, operating income rose ¥8,368 million, or 16.8%, to ¥58,308 million, ordinary income rose ¥11,633 million, or 34.0%, to ¥45,807 million, and net income rose ¥1,765 million, or 10.0%, to ¥19,357 million.

## Operating Results by Segment

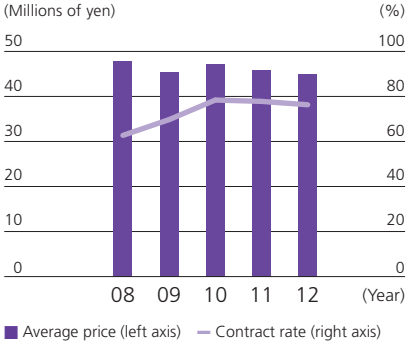
### ■ Residential Development Business

Condominium sales during the fiscal year under review included PROUD CITY Urawa (Urawa-ku, Saitama City, Saitama Prefecture), PROUD Komaba (Meguro-ku, Tokyo), OHANA Yasaka-Hagiyama-Cho (Higashimurayama City, Tokyo), PROUD TOWER Sumiyoshi (Higashinada-ku, Kobe City, Hyogo Prefecture), while sales of detached houses included PROUD SEASON Inagekaigan (Mihama-ku, Chiba City, Chiba Prefecture), and PROUD SEASON Higashi-Funabashi Garden Avenue (Funabashi City, Chiba Prefecture).

The inventory of completed units at the end of the fiscal year declined 72 units from a year earlier, to 42 units, while concluded housing contracts not yet posted as sold rose 1,431 units, to 5,400 units on the same basis.

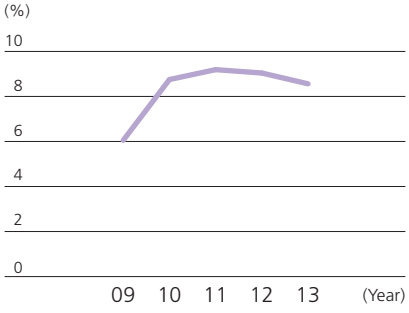
Residential Development Business segment operating revenue increased ¥88,182 million, or 40.5%, year on year, to ¥305,760 million, while operating income rose ¥11,977 million, or 57.2%, to ¥32,917 million. This strong growth was mainly attributable to a large increase in the number of units sold accompanying a change in recognition of operating revenue for some properties from fiscal 2011 to fiscal 2012 because of the Great East Japan Earthquake. Another contributing factor was the segment's favorable sales performance.

Average Prices and Contract Rates for Condominiums in the Tokyo Metropolitan Area (For the calendar years)



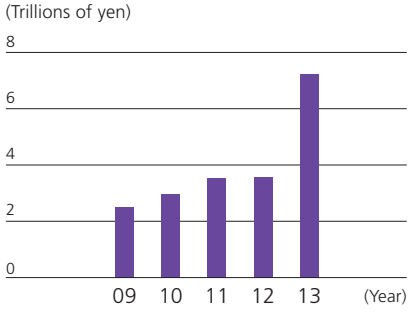

Source: Real Estate Economic Institute Co., Ltd.

Vacancy Rates in the Five Wards of Central Tokyo (As of March 31)




Source: Miki Shoji Co., Ltd.

J-REIT Market Capitalization (As of March 31)




Source: The Association for Real Estate Securitization

The number of units, sales, and housing contracts not yet posted as sold for the joint-venture projects are calculated based on the Company's allotments.

## Leasing Business

In the Leasing Business segment, we worked to increase utilization rates of buildings we own by stepping up sales activities to meet tenant needs.

bono Sagamiono Shopping Center (Minami-ku, Sagamihara City, Kanagawa Prefecture), which we developed, began operations with full occupancy from March 2013.

As a result of these and other factors, the vacancy rate for our Leasing Business has stayed at a low level. It was 2.2% as of March 31, 2013.

Furthermore, LAZONA Kawasaki TOSHIBA Building (Saiwai-ku, Kawasaki City, Kanagawa Prefecture), a large-scale office building with floor space of over 100,000 $m^2$, was completed at the end of March 2013.

In property development operations, the Company promoted the development business and product sales. We also actively developed the Premium Midsize Office (PMO) brand of mid size office buildings with the quality of large-scale buildings. In fiscal 2012, we booked sales of two properties, namely PMO Akihabara II (Chiyoda-ku, Tokyo) and PMO Nihonbashi 2chome (Chuo-ku, Tokyo).

As a result, Leasing Business segment operating revenue decreased ¥16,751 million, or 13.6%, year on year, to ¥106,666 million, while operating income rose ¥3,645 million, or 18.5%, to ¥23,336 million. The higher earnings on lower operating revenue were mainly attributable to a decrease in product sales in property development operations.

## Investment Management Business

In the Investment Management Business segment, we focused on the stable management of the various funds operated by the Nomura Real Estate Group.

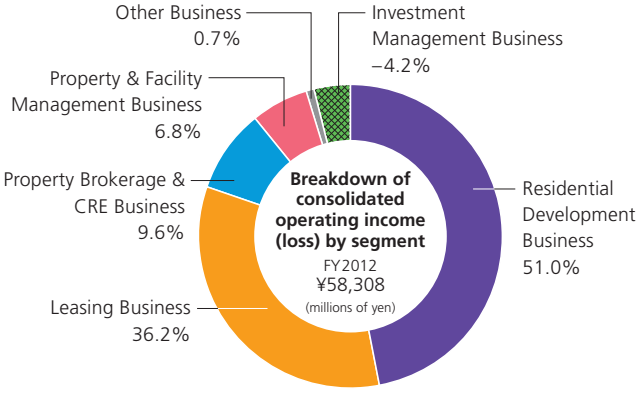
Investment Management Business segment operating revenue decreased ¥1,830 million, or 14.1%, year on year, to ¥11,133 million, while the operating loss was ¥2,724 million, compared to operating income of ¥6,552 million in the previous fiscal year. This decrease in sales and profits was mostly due to the absence of dividend income from sales of properties at SPCs recorded in fiscal 2011 and the posting of loss on valuation of equity investments in fiscal 2012.

## Property Brokerage & CRE Business

In wholesale operations, we focused on building relationships with customers by providing CRE solutions that accurately respond to their needs.

In retail operations, the Company strengthened marketing activities by utilizing Internet media while actively developing new branches. We opened 6 branches during the fiscal year under review: Aobadai Center, Myogadani Center, Tsurumi Center, Akasaka Center and Motoyawata Center in the Tokyo metropolitan area, and Nishinomiya Kitaguchi Center in the Kansai area.

Property Brokerage & CRE Business segment operating revenue decreased ¥8,209 million, or 23.9%, year on year, to ¥26,094 million, while operating income rose ¥4,250 million, or 220.7%, to ¥6,176 million. The higher earnings on lower operating revenue were mainly attributable to the transfer of some real property to other segments in fiscal 2011 and large increases




**Breakdown of Consolidated Operating Income (Loss) by Segment (FY2012)**

| | (Millions of yen) | |
|---|---|---|
| Residential Development Business | 32,917 | (51.0%) |
| Leasing Business | 23,336 | (36.2%) |
| Investment Management Business | –2,724 | (–4.2%) |
| Property Brokerage & CRE Business | 6,176 | (9.6%) |
| Property & Facility Management Business | 4,378 | (6.8%) |
| Other Business | 448 | (0.7%) |

Note: Since operating income for each business does not include "eliminations or corporate" in segment information, the sum of operating income of the businesses presented in the pie chart differs from the total amount shown in the center of the pie chart. The shares of consolidated operating income by business have been calculated based on operating income for each segment.

in the number of transactions and the transaction value in property brokerage operations.

### Property & Facility Management Business

In building management operations, we focused on expanding various properties under management centered on office buildings, while working actively to receive tenant orders for interior works and to improve management quality.

In housing management operations, we worked to steadily increase condominiums under management by receiving consignment orders for managing condominiums from within the Group. Also we stepped up measures to further improve customer satisfaction by enhancing service lineups for tenanted areas.

Property & Facility Management Business segment operating revenue increased ¥1,693 million, or 2.5%, year on year, to ¥69,064 million, while operating income decreased ¥109 million, or 2.4%, to ¥4,378 million.

### Other Business

In the fitness club business segment, the Company implemented various campaigns and events to recruit new members and improve members' satisfaction.

Other Business segment operating revenue increased ¥370 million, or 2.5%, year on year, to ¥14,962 million, while operating income rose ¥29 million, or 7.1%, to ¥448 million.

Major operating-related indices for each business are shown in the table below.

| Fiscal year | 2008 | 2009 | 2010 | 2011 | 2012 |
|---|---|---|---|---|---|
| **Residential Development Business:** | | | | | |
| Condominium sales (units) | 3,135 | 3,696 | 4,497 | 3,397 | 5,111 |
| Detached housing sales (units) | 255 | 415 | 580 | 631 | 638 |
| Gross margin ratio of housing sales (%) | 21.8 | 16.1 | 16.4 | 23.3 | 22.5 |
| Completed housing units held in inventories (units) | 265 | 535 | 113 | 114 | 42 |
| Rental condominium sales for investors (units) | 621 | 248 | 138 | 739 | 534 |
| **Leasing Business:** | | | | | |
| Vacancy rate at year-end (Offices, commercial facilities) (%)* | 2.6 | 4.8 | 4.0 | 2.3 | 2.2 |
| **Investment Management Business:** | | | | | |
| Assets under management (millions of yen) | 1,235,611 | 1,204,546 | 1,126,601 | 1,153,898 | 1,127,495 |
| **Property Brokerage & CRE Business:** | | | | | |
| Brokerage (number of transactions) | 4,184 | 5,219 | 5,774 | 5,762 | 6,494 |
| Brokerage-total transaction value (millions of yen) | 293,047 | 386,446 | 425,274 | 452,950 | 540,698 |
| **Property & Facility Management Business:** | | | | | |
| Buildings under management (number of transactions) | 631 | 655 | 684 | 696 | 723 |
| Condominiums under management (units) | 110,365 | 121,212 | 127,567 | 130,987 | 137,745 |
| **Other Business:** | | | | | |
| Members of MEGALOS (people) | 129,944 | 128,365 | 127,707 | 133,033 | 132,196 |

* Accompanying the change in segments, some items have also been changed from fiscal 2011.

## Analysis of Financial Position

As of March 31, 2013, total assets stood at ¥1,369,949 million, down ¥32,675 million from a year earlier. This was mostly because equity investments (down ¥12,316 million), lease and guarantee deposits (down ¥5,912 million) and investment securities (down ¥5,000 million) declined.

Total liabilities decreased ¥54,464 million to ¥971,673 million. This was mostly because while there were increases in short-term loans payable (up ¥19,342 million) and notes payable (up ¥12,996 million), there was a decrease in long-term loans payable (down ¥108,635 million).

Net assets rose ¥21,789 million year on year to ¥398,276 million. This was mostly because retained earnings increased ¥13,520 million.

The equity ratio was 24.5%, up 1.9 percentage points from the end of the previous fiscal year.

## Cash Flows

### ■ Cash flows from operating activities

Net cash provided by operating activities amounted to ¥89,295 million, an increase of ¥45,418 million from the previous fiscal year. This was primarily due to income before income taxes and minority interests of ¥34,994 million, depreciation and amortization of ¥13,514 million and an increase in notes and accounts payable—trade.

### ■ Cash flows from investing activities

Net cash used in investing activities amounted to ¥2,588 million, a change of ¥10,397 million from the net cash provided by investing activities in the previous fiscal year. This mostly reflected purchase of property, plant and equipment and intangible assets, which was partly offset by proceeds from sales of property, plant and equipment and intangible assets and proceeds from collection of lease and guarantee deposits.

### ■ Cash flows from financing activities

Net cash used in financing activities amounted to ¥94,666 million, an increase of ¥31,370 million from the previous fiscal year. This mostly reflected repayments of long-term loans payable.

## Basic Policy Concerning Profit Distribution, and Dividends for Fiscal 2012 and Fiscal 2013

The Company's basic policy regarding the distribution of profits to shareholders is to aim at a payout ratio of approximately 30% over the medium to long term, in accordance with annual business performance, comprehensively considering the operating environment, capital investment plans, retained earnings, and other relevant factors. In fiscal 2012, we paid a year-end dividend of ¥15 per share, as forecast. Combined with the interim dividend paid previously, the total annual dividend was ¥30.00 per share.

For fiscal 2013, ending March 31, 2014, the Company intends to pay interim and year-end dividends of ¥15.00, for a total annual dividend of ¥30.00.

## Consolidated Performance Outlook for Fiscal 2013

In fiscal 2013, the Company projects ¥518,000 million in operating revenue, ¥60,000 million in operating income, ¥48,000 million in ordinary income, and ¥21,000 million in net income.

## Risks Affecting the Business of Nomura Real Estate Group

We believe that the following matters related to the Group's business, accounting and other conditions could have a material impact on the decision-making of investors.

It should be noted that matters concerning the future in this document have been determined based on information available to the Group as of March 31, 2013.

### (1) Trends in the real estate market

The Group's performance for the fiscal year under review resulted in increased revenues and profit compared to the previous fiscal year. However, fears over the impact of the European debt crisis and stagnation in overseas economies continue to create uncertainty.

In the future, certain events could still cause a decline in purchasing sentiment among customers of the Residential Development Business, the Property Brokerage & CRE Business and other businesses. These events include the current economic slowdown, an associated deterioration in corporate earnings, a decline in consumer spending, a rise in interest rates, or an excess supply in the real estate market. There may also be falls in selling prices or increases in inventories due to the decline in purchasing sentiment, or losses on valuation of inventories. For the Leasing Business and the Investment Management Business, moreover, such events could also spark declines in office rents, increases in vacancy rates, falls in asset values, or drops in profit ratios, and an accompanying valuation loss on assets owned by the Group. In addition, declining investment unit price and weakening demand for investment funds are possibilities in the REIT market. Such events could have an adverse impact on the Group's business performance.

### (2) Changes to real estate-related legislation or the tax system

A number of laws and regulations apply to the various businesses of the Nomura Real Estate Group, which will be subject to new regulations as it expands its operational scope in the future. Going forward, the Group may face new obligations and expense burdens if the Building Standards Law, the Building Lots and Buildings Transaction Business Law, the Financial Instruments and Exchange Law, or other real estate-related laws are revised, or if new legislation is implemented. Such events could adversely affect the Group's business performance.

Furthermore, if revisions to the tax system that impact the Real Estate Development Business are implemented, this could lead to an increase in expenses for holding, acquisition, and sales of assets, or a decline in the purchasing sentiment of customers. It could also prompt a change in the facility strategies of companies and revisions of their investment plans. Such events could have an adverse impact on the Group's business performance.

### (3) Licenses and permits for major businesses

The Group obtains licenses and permits, such as real estate brokerage and construction licenses, when carrying out business activities.

Currently, there are no reasons for any of these licenses or permits to be cancelled. However, in the future, if such licenses or permits are cancelled for whatever reason, this could adversely affect the Group's business performance.

### (4) Impact of interest-bearing debt

The balance of interest-bearing debt at March 31, 2013 stood at ¥669,269 million, down ¥89,293 million from a year earlier (equivalent to 48.9% of total assets, 5.2 percentage points less than at the end of the previous fiscal year). When raising funds by borrowing, the Group attempts to deal with the risk of a short-term rise in interest rates mainly by taking out long-term, fixed-rate loans. However, an increase in borrowing costs due to a rise in market interest rates could have a negative impact on the Group's business performance and financial condition.

### (5) M&A

The Company has positioned M&A as an important strategy for long-term growth, and aims at boosting Group enterprise value by implementing M&A that can be expected to generate synergies while making the most of the advantages offered by the holding company system.

However, in the event of changes in the operating environment, the expected growth of the acquired company, or the synergy expected from the acquisition, may not be realized. This could have an adverse impact on the Group's business performance.

### (6) Natural disasters

Natural disasters, such as earthquakes and wind and flood damage, as well as sudden accidents, could lead to damage or destruction of real estate owned or managed by the Group. Such incidents could have a negative impact on the Group's business performance and financial condition.

### (7) Personal information

In the course of carrying out its operations, the various businesses of the Group handle large quantities of personal information. The Group endeavors to comply with various laws and regulations pertaining to personal information, such as the Law Concerning Protection of Personal Information, and also handle information in the proper manner. Moreover, Group companies have produced various documents, such as "Information Security Provisions," "Rules for Handling Personal Information" and "Guidelines for Entrusting the Handling of Personal Information." In these ways, the Group strives to train and educate employees and protect the interests of customers.

In the event of external leakage of personal information due to unforeseen circumstances, however, confidence in the Group could be lost, leading to a decrease in sales and the incurrence of expenses to pay compensation for damages. This could have an adverse impact on the Group's business performance.

### (8) Soil pollution

Under the Soil Contamination Countermeasures law, owners of land are obliged to evaluate and report on the soil pollution status of their properties with respect to the presence of specific harmful substances, and also to take measures to remove such polluting substances.

When considering purchases of land for business use, the Group conducts historical and pollution assessments in advance. If the presence of pollution is confirmed, the Group either cancels the acquisition or engages specialists to remove such pollution. However, it is possible that the aforementioned assessments fail to confirm the full extent of soil pollution, or that the seller is unable to fulfill his or her guarantee against defects even if soil pollution is detected.

Detection of soil pollution on land purchased by the Group, therefore, could lead to changes in the Group's original business schedules or to the incurrence of the additional expenses, which could have a negative impact on its business performance or financial condition.

### (9) Asbestos

Some of the buildings owned by the Group have been sprayed with materials that include asbestos. The Group has engaged third-party organizations to assess such buildings. According to the results of those assessments, the said materials are showing no signs of age-related degradation and are in stable condition. In the future, however, it is possible that asbestos may be scattered if age-related degradation occurs. Such an event could require removal or containment of the asbestos in question, resulting in the incurrence of additional costs that could have an adverse effect on the Group's business performance or financial condition.

### (10) Concentration of revenues in fourth quarter

In the Residential Development Business, which accounts for more than 50% of the group's revenues, housing sales are registered as sales when properties are handed over to the customers. In many cases, however, the completion and handover occur in February or March of each year, in accordance with the requirements of customers taking up residence. For this reason, a large proportion of the group's revenues is concentrated in the fourth quarter of each fiscal year.

### (11) Capital relationship with other affiliates

The Company's other affiliates are Nomura Land and Building Co., Ltd. and its parent company Nomura Holdings, Inc. As of March 31, 2013, Nomura Land and Building owned 34.0% of the Company's shares. This holding percentage could change in the event of a sale of the Company's shares by Nomura Land and Building or a capital increase of the Company.

# Consolidated Balance Sheet

Nomura Real Estate Holdings, Inc. and its subsidiaries
March 31, 2012 and 2013

| | (Millions of yen) | | (Thousands of U.S. dollars) (Note 1) |
|---|---|---|---|
| ASSETS | 2012 | 2013 | 2013 |
| **Current Assets:** | | | |
| Cash and deposits (Notes 2(3) and 3) | ¥ 45,458 | ¥ 42,499 | $ 451,876 |
| Notes and accounts receivable–trade | 13,187 | 13,259 | 140,983 |
| Short-term investment securities (Notes 2(3), 3 and 4) | 25,000 | 20,000 | 212,653 |
| Real estate for sale (Note 6) | 124,840 | 61,291 | 651,680 |
| Real estate for sale in process | 197,638 | 224,409 | 2,386,061 |
| Land held for development | 74,131 | 83,603 | 888,923 |
| Equity investments (Notes 3 and 4) | 41,895 | 29,578 | 314,500 |
| Deferred tax assets (Note 11) | 18,505 | 16,293 | 173,235 |
| Other | 44,868 | 44,374 | 471,809 |
| Allowance for doubtful accounts | (190) | (202) | (2,152) |
| Total current assets | 585,332 | 535,104 | 5,689,568 |
| **Investments and Other Assets:** | | | |
| Investment securities (Notes 3 and 4) | 45,949 | 46,185 | 491,067 |
| Lease and guarantee deposits (Note 3) | 23,622 | 17,709 | 188,297 |
| Deferred tax assets (Note 11) | 24,698 | 21,031 | 223,612 |
| Other | 3,468 | 3,116 | 33,136 |
| Allowance for doubtful accounts | (19) | (1) | (15) |
| Total investments and other assets | 97,718 | 88,040 | 936,097 |
| **Property, Plant and Equipment:** | | | |
| Land (Notes 6 and 16) | 471,901 | 483,759 | 5,143,640 |
| Buildings and structures (Notes 6 and 16) | 318,068 | 354,525 | 3,769,535 |
| Construction in progress (Note 6) | 11,369 | 910 | 9,671 |
| Machinery and equipment (Note 6) | 8,453 | 9,460 | 100,581 |
| Other | 1,607 | 1,691 | 17,986 |
| | 811,398 | 850,345 | 9,041,413 |
| Accumulated depreciation | (101,682) | (112,946) | (1,200,911) |
| Net property, plant and equipment | 709,716 | 737,399 | 7,840,502 |
| **Intangible Assets** | 9,858 | 9,406 | 100,016 |
| **Total Assets** | ¥1,402,624 | ¥1,369,949 | $14,566,183 |

See notes to consolidated financial statements.

| LIABILITIES AND NET ASSETS | (Millions of yen) 2012 | 2013 | (Thousands of U.S. dollars) (Note 1) 2013 |
|---|---|---|---|
| **Current Liabilities:** | | | |
| Notes and accounts payable–trade | ¥ 36,352 | ¥ 49,348 | $ 524,700 |
| Short-term loans payable (Notes 3, 5 and 6) | 148,243 | 167,585 | 1,781,873 |
| Income taxes payable (Note 11) | 6,109 | 6,448 | 68,564 |
| Deposits received | 14,475 | 21,252 | 225,961 |
| Provision for bonuses | 4,336 | 4,952 | 52,648 |
| Provision for directors' bonuses | 268 | 434 | 4,620 |
| Provision for loss on business liquidation | 77 | 149 | 1,589 |
| Provision for loss on disaster | 413 | 303 | 3,224 |
| Accounts payable–other | 4,946 | 17,147 | 182,321 |
| Accrued interest | 2,318 | 2,010 | 21,372 |
| Accrued consumption taxes | 3,353 | 1,438 | 15,288 |
| Advances received | 27,734 | 35,976 | 382,510 |
| Other | 8,725 | 7,813 | 83,073 |
| Total current liabilities | 257,349 | 314,855 | 3,347,743 |
| **Noncurrent Liabilities:** | | | |
| Bonds payable | 33,000 | 33,000 | 350,877 |
| Long-term loans payable (Notes 3, 5 and 6) | 577,319 | 468,684 | 4,983,345 |
| Lease and guarantee deposits received (Note 6) | 55,643 | 55,189 | 586,807 |
| Deferred tax liabilities (Note 11) | 72,318 | 70,618 | 750,852 |
| Deferred tax liabilities for land revaluation | 4,370 | 4,537 | 48,242 |
| Provision for retirement benefits (Note 7) | 15,619 | 15,291 | 162,588 |
| Provision for loss on subleasing business | 1,583 | 1,115 | 11,855 |
| Other | 8,937 | 8,384 | 89,145 |
| Total noncurrent liabilities | 768,789 | 656,818 | 6,983,711 |
| Total Liabilities | 1,026,138 | 971,673 | 10,331,454 |
| **Net Assets:** | | | |
| Shareholders' equity (Note 12): | | | |
| Capital stock | 115,626 | 115,728 | 1,230,496 |
| Capital surplus | 92,955 | 93,057 | 989,449 |
| Retained earnings | 104,328 | 117,848 | 1,253,044 |
| Treasury stock | (2) | (2) | (25) |
| Total shareholders' equity | 312,907 | 326,631 | 3,472,964 |
| Accumulated other comprehensive income: | | | |
| Valuation difference on available-for-sale securities | (2,040) | 2,116 | 22,498 |
| Deferred gains or losses on hedges | 405 | 238 | 2,531 |
| Revaluation reserve for land | 6,625 | 7,224 | 76,812 |
| Foreign currency translation adjustments | (831) | 9 | 88 |
| Total accumulated other comprehensive income | 4,159 | 9,587 | 101,929 |
| Subscription rights to shares | 713 | 952 | 10,117 |
| Minority interests | 58,707 | 61,106 | 649,719 |
| Total Net Assets | 376,486 | 398,276 | 4,234,729 |
| **Total Liabilities and Net Assets** | ¥1,402,624 | ¥1,369,949 | $14,566,183 |

See notes to consolidated financial statements.

# Consolidated Statement of Income

Nomura Real Estate Holdings, Inc. and its subsidiaries
Years Ended March 31, 2012 and 2013

| | (Millions of yen) | | (Thousands of U.S. dollars) (Note 1) |
|---|---|---|---|
| | 2012 | 2013 | 2013 |
| **Operating Revenue:** | ¥450,807 | ¥517,741 | $5,504,951 |
| Operating revenue | 450,807 | 517,741 | 5,504,951 |
| **Operating Expenses:** | 400,868 | 459,433 | 4,884,982 |
| Operating cost | 335,897 | 383,169 | 4,074,101 |
| Selling, general and administrative expenses | 64,971 | 76,264 | 810,881 |
| **Operating Income** | 49,939 | 58,308 | 619,969 |
| **Other Income and Expenses:** | (24,971) | (23,314) | (247,892) |
| Interest income | 63 | 82 | 870 |
| Dividends income | 1,093 | 3,461 | 36,803 |
| Equity in earnings of affiliates | 5 | 2 | 26 |
| Gain on sales of property and equipment (Note 9) | 218 | 336 | 3,569 |
| Gain on reversal of asset retirement obligations | — | 257 | 2,728 |
| Reversal of provision for loss on disaster | 300 | — | — |
| Interest expenses | (14,329) | (12,542) | (133,350) |
| Impairment loss (Note 10) | (9,723) | (11,405) | (121,266) |
| Other, net | (2,598) | (3,505) | (37,272) |
| **Income before Income Taxes and Minority Interests** | 24,968 | 34,994 | 372,077 |
| **Income Taxes** (Note 11): | | | |
| Income taxes–current | 10,918 | 11,546 | 122,767 |
| Income taxes–deferred | (10,091) | 1,685 | 17,918 |
| Total income taxes | 827 | 13,231 | 140,685 |
| Income before minority interests | 24,141 | 21,763 | 231,392 |
| Minority interests in income | 6,550 | 2,406 | 25,571 |
| **Net Income** | ¥ 17,591 | ¥ 19,357 | $ 205,821 |

See notes to consolidated financial statements.

# Consolidated Statement of Comprehensive Income

Nomura Real Estate Holdings, Inc. and its subsidiaries
Years Ended March 31, 2012 and 2013

| | (Millions of yen) | | (Thousands of U.S. dollars) (Note 1) |
|---|---|---|---|
| | 2012 | 2013 | 2013 |
| **Income before Minority Interests** | ¥24,141 | ¥21,762 | $231,392 |
| **Other Comprehensive Income** (Note 19): | | | |
| Valuation difference on available-for-sale securities | (961) | 4,161 | 44,242 |
| Deferred gains or losses on hedges | 50 | (167) | (1,779) |
| Revaluation reserve for land | 663 | (0) | (1) |
| Share of other comprehensive income of affiliates accounted for using the equity method | (154) | 839 | 8,929 |
| Total other comprehensive income | (402) | 4,833 | 51,391 |
| **Comprehensive Income** (Note 19) | ¥23,739 | ¥26,595 | $282,783 |
| (Breakdown) | | | |
| Comprehensive income attributable to shareholders of the parent | ¥17,187 | ¥24,185 | $257,159 |
| Comprehensive income attributable to minority interests | 6,552 | 2,410 | 25,624 |

See notes to consolidated financial statements.

# Consolidated Statement of Changes in Net Assets

Nomura Real Estate Holdings, Inc. and its subsidiaries
Years Ended March 31, 2012 and 2013

| | | Millions of yen | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Number of shares issued | Capital stock | Capital surplus | Retained earnings | Treasury stock | Valuation difference on available-for-sale securities | Deferred gains or losses on hedges | Revaluation reserve for land | Foreign currency translation adjustments | Subscription rights to shares | Minority interests | Total net assets |
| Balance at April 1, 2011 | 190,387,000 | ¥115,574 | ¥92,904 | ¥ 91,497 | ¥(2) | ¥(1,076) | ¥ 355 | ¥5,962 | ¥(677) | ¥646 | ¥52,183 | ¥357,366 |
| Issuance of new shares | 69,900 | 52 | 51 | — | — | — | — | — | — | — | — | 104 |
| Dividends from surplus | — | — | — | (4,760) | — | — | — | — | — | — | — | (4,760) |
| Net income | — | — | — | 17,591 | — | — | — | — | — | — | — | 17,591 |
| Purchases of treasury stock | — | — | — | — | (0) | — | — | — | — | — | — | (0) |
| Net changes of items other than shareholders' equity | — | — | — | — | — | (964) | 50 | 663 | (154) | 67 | 6,524 | 6,186 |
| Balance at March 31, 2012 | 190,456,900 | ¥115,626 | ¥92,955 | ¥104,328 | ¥(2) | ¥(2,040) | ¥ 405 | ¥6,625 | ¥(831) | ¥713 | ¥58,707 | ¥376,486 |
| Balance at April 1, 2012 | 190,456,900 | ¥115,626 | ¥92,955 | ¥104,328 | ¥(2) | ¥(2,040) | ¥ 405 | ¥6,625 | ¥(831) | ¥713 | ¥58,707 | ¥376,486 |
| Issuance of new shares | 138,600 | 102 | 102 | — | — | — | — | — | — | — | — | 204 |
| Dividends from surplus | — | — | — | (5,238) | — | — | — | — | — | — | — | (5,238) |
| Net income | — | — | — | 19,357 | — | — | — | — | — | — | — | 19,357 |
| Purchases of treasury stock | — | — | — | — | (0) | — | — | — | — | — | — | (0) |
| Reversal of revaluation reserve for land | — | — | — | (599) | — | — | — | — | — | — | — | (599) |
| Net changes of items other than shareholders' equity | — | — | — | — | — | 4,156 | (167) | 599 | 840 | 239 | 2,399 | 8,066 |
| Balance at March 31, 2013 | 190,595,500 | ¥115,728 | ¥93,057 | ¥117,848 | ¥(2) | ¥ 2,116 | ¥ 238 | ¥7,224 | ¥ 9 | ¥952 | ¥61,106 | ¥398,276 |

| | (Thousands of U.S. dollars) (Note 1) | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Capital stock | Capital surplus | Retained earnings | Treasury stock | Valuation difference on available-for-sale securities | Deferred gains or losses on hedges | Revaluation reserve for land | Foreign currency translation adjustments | Subscription rights to shares | Minority interests | Total net assets |
| Balance at April 1, 2012 | $1,229,409 | $988,362 | $1,109,290 | $(23) | $(21,690) | $ 4,310 | $70,443 | $(8,841) | $ 7,582 | $624,208 | $4,003,050 |
| Issuance of new shares | 1,087 | 1,087 | — | — | — | — | — | — | — | — | 2,174 |
| Dividends from surplus | — | — | (55,698) | — | — | — | — | — | — | — | (55,698) |
| Net income | — | — | 205,821 | — | — | — | — | — | — | — | 205,821 |
| Purchases of treasury stock | — | — | — | (2) | — | — | — | — | — | — | (2) |
| Reversal of revaluation reserve for land | — | — | (6,369) | — | — | — | — | — | — | — | (6,369) |
| Net changes of items other than shareholders' equity | — | — | — | — | 44,188 | (1,779) | 6,369 | 8,929 | 2,535 | 25,511 | 85,753 |
| Balance at March 31, 2013 | $1,230,496 | $989,449 | $1,253,044 | $(25) | $ 22,498 | $ 2,531 | $76,812 | $ 88 | $10,117 | $649,719 | $4,234,729 |

See notes to consolidated financial statements.

Note: The number of issued shares outstanding increased by 69,900 shares and 138,600 shares in the years ended March 31, 2012 and 2013, respectively, due to the exercise of stock options.

# Consolidated Statement of Cash Flows

Nomura Real Estate Holdings, Inc. and its subsidiaries
Years Ended March 31, 2012 and 2013

| | (Millions of yen) | | (Thousands of U.S. dollars) (Note 1) |
|---|---|---|---|
| | 2012 | 2013 | 2013 |
| **Cash Flows from Operating Activities:** | | | |
| Income before income taxes and minority interests | ¥ 24,968 | ¥ 34,994 | $ 372,077 |
| Depreciation and amortization | 13,535 | 13,514 | 143,687 |
| Impairment loss | 9,723 | 11,405 | 121,266 |
| Gain on sales of property, plant and equipment | (218) | (336) | (3,569) |
| Equity in earnings of affiliates | (5) | (2) | (26) |
| Increase (decrease) in allowance for doubtful accounts | 101 | (6) | (59) |
| Decrease in provision for retirement benefits | (230) | (328) | (3,483) |
| Increase (decrease) in provision for loss on business liquidation | (37) | 72 | 771 |
| Decrease in provision for loss on subleasing business | (419) | (468) | (4,979) |
| Decrease in provision for loss on disaster | (2,195) | (110) | (1,170) |
| Interest and dividends income | (1,156) | (3,543) | (37,673) |
| Interest expenses | 14,329 | 12,542 | 133,350 |
| Decrease (increase) in notes and accounts receivable–trade | 1,084 | (72) | (770) |
| Decrease (increase) in inventories | 36,529 | (2,315) | (24,611) |
| Decrease in equity investments | 6,700 | 12,317 | 130,959 |
| Increase (decrease) in notes and accounts payable–trade | (6,730) | 12,996 | 138,187 |
| Increase (decrease) in deposits received | (14,813) | 6,776 | 72,051 |
| Other, net | (9,002) | 13,592 | 144,520 |
| **Subtotal** | 72,164 | 111,028 | 1,180,528 |
| Interest and dividends income received | 1,396 | 2,557 | 27,189 |
| Interest expenses paid | (14,327) | (12,837) | (136,495) |
| Income taxes paid | (15,356) | (11,453) | (121,775) |
| **Net cash provided by operating activities** | 43,877 | 89,295 | 949,447 |
| **Cash Flows from Investing Activities:** | | | |
| Purchase of investment securities | (81) | (371) | (3,947) |
| Proceeds from sales and liquidation of investment securities | 3,846 | 393 | 4,179 |
| Purchase of property, plant and equipment and intangible assets | (14,098) | (18,963) | (201,631) |
| Proceeds from sales of property, plant and equipment and intangible assets | 15,070 | 7,832 | 83,275 |
| Payments for loans receivable | (4) | (8) | (87) |
| Collection of loans receivable | 18 | 25 | 262 |
| Payments for lease and guarantee deposits | (1,995) | (996) | (10,588) |
| Proceeds from collection of lease and guarantee deposits | 3,614 | 6,830 | 72,626 |
| Repayments of lease and guarantee deposits received | (4,102) | (4,792) | (50,954) |
| Proceeds from lease and guarantee deposits received | 2,515 | 3,893 | 41,394 |
| Other, net | 3,026 | 3,569 | 37,951 |
| **Net cash provided by (used in) investing activities** | 7,809 | (2,588) | (27,520) |
| **Cash Flows from Financing Activities:** | | | |
| Net increase (decrease) in short-term loans payable | (20,500) | 7,000 | 74,428 |
| Decrease in commercial papers | (20,000) | — | — |
| Repayments of finance lease obligations | (162) | (196) | (2,080) |
| Proceeds from long-term loans payable | 98,392 | 39,900 | 424,242 |
| Repayments of long-term loans payable | (116,240) | (136,193) | (1,448,095) |
| Proceeds from issuance of common stock | 0 | 85 | 902 |
| Proceeds from issuance of common stock to minority shareholders | — | 6 | 63 |
| Purchase of treasury stock | (0) | 0 | (1) |
| Cash dividends paid | (4,760) | (5,238) | (55,697) |
| Cash dividends paid to minority shareholders | (26) | (30) | (318) |
| **Net cash used in financing activities** | (63,296) | (94,666) | (1,006,556) |
| **Net Decrease in Cash and Cash Equivalents** | (11,610) | (7,959) | (84,629) |
| **Cash and Cash Equivalents at Beginning of the Fiscal Year** | 82,066 | 70,456 | 749,136 |
| **Cash and Cash Equivalents at End of the Fiscal Year** (Note 2(3)) | ¥ 70,456 | ¥ 62,497 | $ 664,507 |

See notes to consolidated financial statements.

# Notes to Consolidated Financial Statements

Nomura Real Estate Holdings, Inc. and its subsidiaries
March 31, 2012 and 2013

## 1. Basis of Presentation of Consolidated Financial Statements

The accompanying consolidated financial statements of Nomura Real Estate Holdings, Inc. (the "Company") and its subsidiaries (collectively, the "Group") have been prepared in accordance with the provisions set forth in the Financial Instruments and Exchange Act of Japan and its related accounting regulations, and accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards.

The accompanying consolidated financial statements have been compiled from the consolidated financial statements of the Company prepared in accordance with Japanese GAAP, and translated into English for the benefit of readers outside Japan. In addition, the notes to the consolidated financial statements include information which may not be required under Japanese GAAP but is presented herein as additional information.

The translations of the Japanese yen amounts into U.S. dollars are included solely for the convenience of readers using the prevailing exchange rate at March 31, 2013 of ¥94.05=U.S.$1. The approximate rate of exchange prevailing at June 27, 2013 was ¥97.64=U.S.$1. These translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

## 2. Significant Accounting Policies

### (1) Principles of Consolidation and Accounting for Investments in Affiliates

The accompanying consolidated financial statements include the accounts of the Group that the Company controls directly or indirectly. Investments in companies over which the Company exercises significant influence in terms of their operating and financial policies have been accounted for using the equity method.

All significant intercompany balances and transactions have been eliminated in consolidation. All material unrealized profit included in the assets resulting from transactions among the consolidated companies has been eliminated.

### (2) Foreign Currency Translation

All current and non-current accounts denominated in foreign currencies are translated into Japanese yen at the spot exchange rates in effect at the consolidated balance sheet date. Differences arising from such translation are recognized as gain or loss.

The asset and liability accounts of the overseas subsidiaries and affiliates are translated into Japanese yen at the exchange rates prevailing at the respective balance sheet dates of the subsidiaries and affiliates and the revenue and expense accounts are translated into Japanese yen at the average rates of exchange for the year. Differences arising from such translation are presented as "Foreign currency translation adjustments" in Net Assets.

### (3) Cash and Cash Equivalents

In preparing the Consolidated Statement of Cash Flows, cash on hand, readily-available deposits and short-term, highly-liquid investments with a maturity of three months or less at the time of purchase and with an insignificant risk of market value fluctuation are considered to be cash and cash equivalents.

A reconciliation between cash and deposits in the Consolidated Balance Sheet and cash and cash equivalents is presented in Note 13.

### (4) Recognition of Revenues and Related Costs

The percentage-of-completion method is applied when the outcome of the construction activity during the fiscal year is deemed certain in the course of the activity (percentage of completion is calculated by dividing the related cost incurred by the estimated total cost), otherwise the completed-contract method is applied.

### (5) Inventories

Inventories are mainly stated at cost, determined by the specific identification cost method (the amounts of inventories in the accompanying Consolidated Balance Sheet are computed based on the write-down method reflecting decreased profitability).

Write-downs of inventories as a result of a decrease in profitability for the years ended March 31, 2012 and 2013 were ¥8,382 million and ¥2,964 million ($31,515 thousand), respectively and recognized in operating cost.

### (6) Short-term Investments and Investment Securities

Held-to-maturity debt securities are stated at amortized cost by the straight-line method.

Available-for-sale securities with market value are stated at fair market value based on market quotations at the balance sheet date.

Unrealized gains and losses are reported, net of the applicable taxes, as a separate component of Net Assets. Cost of securities sold is determined by the moving-average method. Available-for-sale securities without market value are stated at cost by the moving-average method.

### (7) Property and Equipment (except for leased assets)

Depreciation of property and equipment is computed mainly by the straight-line method.

Estimated useful lives used in the computation of depreciation are generally as follows:

Buildings and structures 2 to 65 years

### (8) Software (except for leased assets)

Costs of software for internal use are amortized using the straight-line method over an estimated useful life of five years.

### (9) Leased Assets

Leased assets are depreciated using the straight-line method, assuming the lease period to be the useful life and the residual value to be zero.

Finance leases, other than those that transfer ownership, that started on or before March 31, 2008, are accounted for as operating leases.

### (10) Amortization of Goodwill

Goodwill is amortized using the straight-line method over a period of 14 to 20 years.

### (11) Allowance for Doubtful Accounts

In order to prepare for possible bad debt losses on notes and accounts receivable and loans, allowance for doubtful accounts is provided at an amount calculated on the basis of a historical bad debt ratio for a certain reference period for normal claims, plus an estimated uncollectible amount determined on the basis of individual assessments for specific claims with potential losses.

### (12) Income Taxes

Current income taxes are stated at the estimated amount payable during each fiscal year for corporation, enterprise and inhabitants' taxes in the Consolidated Statement of Income.

The tax effect of temporary differences between the carrying amounts of assets and liabilities for financial reporting and income tax purposes is recognized as deferred income taxes.

### (13) Provision for Retirement Benefits

In order to provide for employees' retirement benefits, the Group account for the liability for retirement benefits based on the estimated amounts of projected benefit obligation and plan assets at the end of the fiscal year.

Prior service cost is accounted for as an expense calculated using the straight-line method based on a certain number of years (i.e., 10 years), which is equal to or less than the average remaining service period of the employees in service during the period in which it arises.

Actuarial gain or loss is recognized in the Consolidated Statement of Income from the year following the fiscal year in which it arises. The gain or loss recognized in each fiscal year is calculated using the straight-line method based on a certain number of years (i.e. 10 years), which is equal to or less than the average remaining service period of the eligible employees.

### (14) Per Share Information

Basic net income per share is computed by dividing the net income available for distribution to shareholders of common stock by the weighted-average number of shares of common stock outstanding during each fiscal year. Diluted net income per share is computed by dividing the net income available for distribution to the shareholders by the weighted-average number of shares of common stock outstanding during each fiscal year assuming full conversion of convertible bonds and full execution of warrants.

Net assets per share for the years ended March 31, 2012 and 2013 were ¥1,664.78 and ¥1,764.05 ($18.76), respectively.

Net income per share for the years ended March 31, 2012 and 2013 was ¥92.38 and ¥101.61 ($1.08), respectively.

Diluted net income per share for the years ended March 31, 2012 and 2013 was ¥92.29 and ¥101.44 ($1.08), respectively.

### (15) Land Revaluation

Under the "Law Concerning Revaluation Reserve for Land" promulgated on March 31, 1998, the Company revalued its land held for business use. The tax amount for the difference between the appraisal value and the carrying amount is accounted for as "Deferred tax liabilities for land revaluation" in Noncurrent Liabilities and the difference net of such tax amount is recorded as "Revaluation reserve for land" in Net Assets.

Method of revaluation:
The value of land is determined based on a reasonable adjustment to the assessed value of the fixed assets as stipulated in Item 3, Article 2 of the "Enforcement Ordinance Concerning Land Revaluation" (Ordinance No. 119 enacted on March 31, 1998).
Date of revaluation: March 31, 2002

At March 31, 2012 and 2013, market value was not less than book value after revaluation.

### (16) Derivative Financial Instruments

Net assets and liabilities arising from derivative financial instruments are measured at fair value, with any changes in unrealized gain or loss credited or charged to income. Hedging transactions are accounted for using deferral hedge accounting, which requires the unrealized gains or losses to be deferred as assets or liabilities until the losses or gains on the underlying hedged items are recognized.

For interest rate swaps that meet certain hedging criteria, the Group applies exceptional treatment where the Group does not record these instruments at fair value but charges or credits the net cash flows from these instruments to the interest arising from the hedged borrowings and corporate bonds. However, for currency swaps that meet certain hedging criteria, the currency swap contracts (the "Contracts") and the securities denominated in foreign currencies (the "Hedged items") are accounted for in the following manner:

***(a) If the Contracts are executed to hedge an existing the Hedged items,***

(i) the difference, if any, between:

- the Japanese yen amount of the Hedged items translated using the spot rate at the inception date of the Contracts and
- the book value of the Hedged items

is recognized in the Consolidated Statement of Income in the period which includes the inception date, and

(ii) the discount or premium on the Contracts (that is, the difference between:

- the Japanese yen amount of the Contracts translated using the contracted swap rate and
- the Japanese yen amount of the Contracts translated using the spot rate at the inception date of the Contracts)

is recognized over the term of the Contracts.

***(b) If the Contracts are executed to hedge a future transaction denominated in a foreign currency, the swap transaction will be recorded using the contracted swap rate, and no gains or losses on the Contracts are recognized.***

### (17) Provision for Loss on Disaster

In order to provide for the expected expenditure for recovery costs, etc. related to the Great East Japan Earthquake, the Company recognized a provision for loss on disaster at an estimated amount as of the end of the fiscal year.

### (18) Accounting Standards Not Applied

"Accounting Standard for Retirement Benefits" (Accounting Standards Board of Japan (ASBJ) Statement No. 26 issued on May 17, 2012) and "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No. 25 issued on May 17, 2012)

*(a) Outline*

Under the revised accounting standards, actuarial gains and losses and prior service costs shall be recognized within net assets on the consolidated balance sheet net of tax effects, and the accumulated deficit or surplus shall be recognized as a liability or asset. Also, regarding the estimated amount of retirement benefits and the method of attributing them to accounting periods, in addition to the straight-line method, the plan's benefit formula may be used and the method of calculating the discount rate has been revised.

*(b) Scheduled date of adoption*

These accounting standards will be adopted for the consolidated financial statements effective to the end of the fiscal year ending March 31, 2014. However, the revision of the period attribution method of the projected amount of retirement benefits will be applied from the beginning of the fiscal year ending March 31, 2015. As the transitional treatment is set forth in the accounting standards, they will not be applied retroactively to consolidated financial statements of prior periods.

*(c) Impact of adoption of the new accounting standards*

The impact on the consolidated financial statements as a result of the adoption of these accounting standards is currently under review.

## 3. Financial Instruments

### (1) Policies on Financial Instruments

It is the policy of the Group to limit its fund management to safe and highly liquid deposits while raising funds primarily through loans from financial institutions and the issuance of corporate bonds. Derivatives are utilized for hedging against the risks described below not for speculative purposes.

### (2) Details of Financial Instruments and Risks

Short-term investment securities comprise safe and highly liquid negotiable deposits held for the purpose of managing temporary surplus funds.

Equity investments and investment securities primarily consist of stocks, investment units, units in an investment trust, preferred investments and investments in silent partnerships held for the purpose of business promotion, all of which are exposed to market price fluctuation and issuer credit risk. Currency swaps and forward exchange contracts are used to hedge risks from exchange rate fluctuations on securities in foreign currencies. Interest rate swaps are used to hedge risks arising from fluctuations in interest rates on long-term borrowings.

Derivative transactions used by the Company are as follows:

| Hedging instruments | Hedged items |
|---|---|
| Interest rate swap contracts | Borrowings |
| Currency swaps and foreign exchange forward contracts | Securities denominated in foreign currencies |

The Group evaluate hedge effectiveness by comparing the cumulative changes in market fluctuations or in cash flows of the Hedged items to the corresponding changes in the hedging derivative instruments. However, the Group does not evaluate hedge effectiveness of interest rate swaps for which the Group applies the exceptional treatment.

### (3) Policies and Systems for Risk Management

The Company regularly checks the market value of equity investments and investment securities, as well as the financial conditions of their issuers.

The Finance Department conducts execution of derivative transactions and risk management based on the risk management policies and operational plan determined by the Director in charge of Finance. The Finance Department also reports the status of transactions and risk information to the Director on a regular basis. The consolidated subsidiaries conduct execution of derivative transactions and risk management in accordance with internal policies. The Company considers there is no substantial credit risk associated with these transactions because of the transactions being conducted only with highly creditworthy financial institutions.

Based on the reports from each division of the Group, the Finance Department of the Company creates and updates cash flow plans in a timely manner, managing liquidity risk through such methods as ensuring that a specific amount of on-hand liquidity is always available.

### (4) Supplemental Information on Fair Values

The fair values of financial instruments are based on their market prices. The fair values of financial instruments with no available market prices are determined by using prices calculated in a reasonable manner. However, as various factors are incorporated into these calculations, the resulting values may vary if different assumptions are provided. The contract amount shown in Note 14. Derivative Financial Instruments does not represent the market risk regarding the derivative transactions.

### (5) Fair Values of Financial Instruments

The book values, fair values and differences of financial instruments as of March 31, 2012 and 2013 are as follows. Items for which fair value is extremely difficult to determine have not been included.

| | Book value | Fair value | Difference |
|---|---|---|---|
| 2012 | (Millions of yen) | (Millions of yen) | (Millions of yen) |
| (1) Cash and deposits | ¥ 45,458 | ¥ 45,458 | ¥ — |
| (2) Short-term investment securities | 25,000 | 25,000 | — |
| (3) Investment securities [1] | 31,075 | 31,093 | 18 |
| Total assets | 101,533 | 101,551 | 18 |
| (1) Short-term loans payable [2] | 34,500 | 34,500 | — |
| (2) Bonds payable | 33,000 | 34,133 | 1,133 |
| (3) Long-term loans payable [2] | 691,062 | 705,713 | 14,650 |
| Total liabilities | 758,562 | 774,346 | 15,783 |
| Derivative transactions [3] | ¥ 11 | ¥ 11 | ¥ — |

| | Book value | | Fair value | | Difference | |
|---|---|---|---|---|---|---|
| 2013 | (Millions of yen) | (Thousands of U.S. dollars) | (Millions of yen) | (Thousands of U.S. dollars) | (Millions of yen) | (Thousands of U.S. dollars) |
| (1) Cash and deposits | ¥ 42,499 | $ 451,876 | ¥ 42,499 | $ 451,876 | ¥ — | $ — |
| (2) Short-term investment securities | 20,000 | 212,653 | 20,000 | 212,653 | — | — |
| (3) Investment securities [1] | 31,264 | 332,419 | 31,294 | 332,734 | 30 | 315 |
| Total assets | 93,763 | 996,948 | 93,793 | 997,263 | 30 | 315 |
| (1) Short-term loans payable [2] | 41,500 | 441,255 | 41,500 | 441,255 | — | — |
| (2) Bonds payable | 33,000 | 350,877 | 34,426 | 366,035 | 1,426 | 15,158 |
| (3) Long-term loans payable [2] | 594,769 | 6,323,964 | 609,261 | 6,478,057 | 14,492 | 154,093 |
| Total liabilities | 669,269 | 7,116,096 | 685,187 | 7,285,347 | 15,918 | 169,251 |
| Derivative transactions [3] | ¥ 2 | $ 20 | ¥ 2 | $ 20 | ¥ — | $ — |

Notes: 1. Includes government bonds, etc. presented as lease and guarantee deposits on the Consolidated Balance Sheet.
2. Current portion of long-term loans payable is included in (3) Long-term loans payable.
3. For derivative transactions, stated values are the net amounts of receivables and payables arising from the transactions. Figures in parentheses are liability amounts.

### Notes:

1. *Investments in non-consolidated subsidiaries and affiliates are as follows:*

Investment securities (investments in silent partnership, etc.)

¥23,339 million as of March 31, 2012

¥20,249 million ($215,300 thousand) as of March 31, 2013

2. *Method of measuring the fair value of financial instruments*

Assets

(1) Cash and deposits

As these instruments are settled within a short term and their fair values and book values are nearly identical, their book values are assumed as their fair values.

(2) Short-term investment securities
As these instruments, primarily comprising negotiable deposits, are settled within a short term and their fair values and book values are nearly identical, their book values are assumed as their fair values.
(3) Investment securities
For stocks and investment units, fair values are determined mainly at the price quoted on an exchange. For investment trusts, fair values are determined at an amount reasonably calculated based on a reasonable estimate of the management. Please see Note 4. Securities for information on those securities in (2) and (3).

Liabilities
(1) Short-term loans payable
As these instruments are settled within a short term and their fair values and book values are nearly identical, their book values are assumed as their fair values.
(2) Bonds payable
Market prices of the bonds issued by the Company.
(3) Long-term loans payable
For long-term loans payable, fair value is determined by discounting the total amount of principal and interest at the assumed interest rate on new loans of the same type. Long-term loans with floating interest rates are hedged by interest rate swaps subject to the exceptional treatment, and, therefore, the fair value is determined by discounting the total amount of interest and principal together with cash flow generated by the interest rate swap at the interest rate assumed in a reasonable manner for new loans of the same type.

Derivatives
Please see Note 14. Derivative Financial Instruments for information on derivative transactions.

### *3. Financial instruments for which fair value is extremely difficult to determine*

| | Book value |
|---|---|
| 2012 | (Millions of yen) |
| Investment in silent partnership | ¥57,570 |

| | Book value | |
|---|---|---|
| 2013 | (Millions of yen) | (Thousands of U.S. dollars) |
| Investment in silent partnership | ¥45,419 | $482,921 |

Financial instruments for which there is no fair value and for which the fair value is extremely difficult to determine are not included in (3) Investment securities.

### *4. Redemption schedule for financial assets with maturities*

| | Within 1 year | 1–5 years | 5–10 years | Over 10 years |
|---|---|---|---|---|
| 2012 | (Millions of yen) | (Millions of yen) | (Millions of yen) | (Millions of yen) |
| Cash and deposits | ¥45,367 | ¥ — | ¥ — | ¥— |
| Short-term investment securities | — | — | — | — |
| Held-to-maturity debt securities | — | — | — | — |
| Government and municipal bonds, etc. | 5 | 297 | 498 | — |
| Corporate bonds | — | — | — | — |
| Available-for-sale securities with maturities | — | — | — | — |
| Debt securities | — | — | — | — |
| Others | 25,000 | — | — | — |
| Total | ¥70,372 | ¥297 | ¥498 | ¥— |

| 2013 | Within 1 year (Millions of yen) | Within 1 year (Thousands of U.S. dollars) | 1–5 years (Millions of yen) | 1–5 years (Thousands of U.S. dollars) | 5–10 years (Millions of yen) | 5–10 years (Thousands of U.S. dollars) | Over 10 years (Millions of yen) | Over 10 years (Thousands of U.S. dollars) |
|---|---|---|---|---|---|---|---|---|
| Cash and deposits | ¥42,416 | $450,990 | ¥ — | $ — | ¥ — | $ — | ¥— | $— |
| Short-term investment securities and investment securities | — | — | — | — | — | — | — | — |
| Held-to-maturity debt securities | — | — | — | — | — | — | — | — |
| Government and municipal bonds, etc. | — | — | 320 | 3,402 | 604 | 6,426 | — | — |
| Corporate bonds | — | — | — | — | — | — | — | — |
| Available-for-sale securities with maturities | | | | | | | | |
| Debt securities | — | — | — | — | — | — | — | — |
| Others | 20,000 | 212,653 | — | — | — | — | — | — |
| Total | ¥62,416 | $663,643 | ¥320 | $3,402 | ¥604 | $6,426 | ¥— | $— |

*5. Repayment schedule for bonds payable and long-term loans payable at March 31, 2012 and 2013*

| 2012 | Within 1 year (Millions of yen) | 1–2 years (Millions of yen) | 2–3 years (Millions of yen) | 3–4 years (Millions of yen) |
|---|---|---|---|---|
| Short-term loans payable | ¥ 34,500 | ¥ — | ¥ — | ¥ — |
| Bonds payable | — | — | 10,000 | 3,000 |
| Long-term loans payable | 113,743 | 138,459 | 110,409 | 112,878 |
| Total | ¥148,243 | ¥138,459 | ¥120,409 | ¥115,878 |

| | 4–5 years (Millions of yen) | Over 5 years (Millions of yen) |
|---|---|---|
| Short-term loans payable | ¥ — | ¥ — |
| Bonds payable | — | 20,000 |
| Long-term loans payable | 94,473 | 121,100 |
| Total | ¥94,473 | ¥141,100 |

| 2013 | Within 1 year (Millions of yen) | Within 1 year (Thousands of U.S. dollars) | 1–2 years (Millions of yen) | 1–2 years (Thousands of U.S. dollars) | 2–3 years (Millions of yen) | 2–3 years (Thousands of U.S. dollars) | 3–4 years (Millions of yen) | 3–4 years (Thousands of U.S. dollars) |
|---|---|---|---|---|---|---|---|---|
| Short-term loans payable | ¥ 41,500 | $ 441,254 | ¥ — | $ — | ¥ — | $ — | ¥ — | $ — |
| Bonds payable | — | — | 10,000 | 106,326 | 3,000 | 31,898 | — | — |
| Long-term loans payable | 126,085 | 1,340,619 | 106,135 | 1,128,498 | 115,748 | 1,230,711 | 88,700 | 943,115 |
| Total | ¥167,585 | $1,781,873 | ¥116,135 | $1,234,824 | ¥118,748 | $1,262,609 | ¥88,700 | $943,115 |

| | 4–5 years (Millions of yen) | 4–5 years (Thousands of U.S. dollars) | Over 5 years (Millions of yen) | Over 5 years (Thousands of U.S. dollars) |
|---|---|---|---|---|
| Short-term loans payable | ¥ — | $ — | ¥ — | $ — |
| Bonds payable | 10,000 | 106,326 | 10,000 | 106,326 |
| Long-term loans payable | 59,300 | 630,516 | 98,800 | 1,050,505 |
| Total | ¥69,300 | $736,842 | ¥108,800 | $1,156,831 |

## 4. Securities

The following tables summarize the acquisition cost, book value and fair value of securities held by the Group as of March 31, 2012 and 2013.

### (1) Held-to-maturity Debt Securities with Fair Value

| | (Millions of yen) | | |
|---|---|---|---|
| 2012 | Book value | Fair value | Difference |
| Securities whose fair value exceeds book value: | | | |
| Government and municipal bonds, etc. | ¥729 | ¥747 | ¥18 |
| Subtotal | 729 | 747 | 18 |
| Securities whose fair value does not exceed book value: | | | |
| Government and municipal bonds, etc. | 76 | 76 | 0 |
| Subtotal | 76 | 76 | 0 |
| Total | ¥805 | ¥823 | ¥18 |

| | (Millions of yen) | | | (Thousands of U.S. dollars) | | |
|---|---|---|---|---|---|---|
| 2013 | Book value | Fair value | Difference | Book value | Fair value | Difference |
| Securities whose fair value exceeds book value: | | | | | | |
| Government and municipal bonds, etc. | ¥720 | ¥752 | ¥32 | $7,658 | $ 7,998 | $340 |
| Subtotal | 720 | 752 | 32 | 7,658 | 7,998 | 340 |
| Securities whose fair value does not exceed book value: | | | | | | |
| Government and municipal bonds, etc. | 214 | 212 | (2) | 2,274 | 2,250 | (24) |
| Subtotal | 214 | 212 | (2) | 2,274 | 2,250 | (24) |
| Total | ¥934 | ¥964 | ¥30 | $9,932 | $10,248 | $316 |

### (2) Available-for-sale Securities with Fair Value

| | (Millions of yen) | | |
|---|---|---|---|
| 2012 | Acquisition cost | Book value | Difference |
| Securities whose book value exceeds acquisition cost: | | | |
| Stocks | ¥ 136 | ¥ 482 | ¥ 346 |
| Other | 3,144 | 3,244 | 100 |
| Subtotal | 3,280 | 3,726 | 446 |
| Securities whose book value does not exceed acquisition cost: | | | |
| Stocks | 507 | 376 | (131) |
| Other | 47,790 | 43,992 | (3,798) |
| Subtotal | 48,297 | 44,368 | (3,929) |
| Total | ¥51,577 | ¥48,094 | ¥(3,483) |

| | (Millions of yen) | | | (Thousands of U.S. dollars) | | |
|---|---|---|---|---|---|---|
| 2013 | Acquisition cost | Book value | Difference | Acquisition cost | Book value | Difference |
| Securities whose book value exceeds acquisition cost: | | | | | | |
| Stocks | ¥ 637 | ¥ 1,234 | ¥ 597 | $ 6,773 | $ 13,122 | $ 6,349 |
| Other | 20,480 | 23,686 | 3,206 | 217,751 | 251,842 | 34,091 |
| Subtotal | 21,117 | 24,920 | 3,803 | 224,524 | 264,964 | 40,440 |
| Securities whose book value does not exceed acquisition cost: | | | | | | |
| Stocks | 6 | 5 | (1) | 63 | 51 | (12) |
| Other | 20,469 | 20,362 | (107) | 217,640 | 216,504 | (1,136) |
| Subtotal | 20,475 | 20,367 | (108) | 217,703 | 216,555 | (1,148) |
| Total | ¥41,592 | ¥45,287 | ¥3,695 | $442,227 | $481,519 | $39,292 |

### (3) Sales of Available-for-sale Securities

The table below presents sales of available-for-sale securities and corresponding aggregate gains and aggregate losses for the year ended March 31, 2012. There were no sales of available-for-sale securities during the year ended March 31, 2013.

| | 2012 | | |
|---|---|---|---|
| | (Millions of yen) | | |
| Type | Sales amount | Aggregate gains | Aggregate losses |
| Stocks | ¥ 38 | ¥0 | ¥29 |
| Other | 5,000 | 0 | 0 |
| Total | ¥5,038 | ¥0 | ¥29 |

## 5. Short-term Loans Payable and Long-term Loans Payable

Short-term loans payable as of March 31, 2012 and 2013 mainly consisted of borrowings from banks with a weighted-average interest rate of 0.4% in 2012 and 2013.

Long-term loans payable and bonds payable as of March 31, 2012 and 2013 are summarized as follows:

| | (Millions of yen) | | (Thousands of U.S. dollars) |
|---|---|---|---|
| | 2012 | 2013 | 2013 |
| Unsecured bonds (1.7%), due 2014 | ¥ 10,000 | ¥ 10,000 | $ 106,327 |
| Unsecured bonds (2.1%), due 2017 | 10,000 | 10,000 | 106,327 |
| Unsecured bonds (2.0%), due 2020 | 10,000 | 10,000 | 106,327 |
| Secured bonds (1.8%), due 2016 | 3,000 | 3,000 | 31,898 |
| Long-term loans payable [1] | | | |
| Secured | 41,301 | 18,080 | 192,241 |
| Unsecured | 649,761 | 576,689 | 6,131,722 |
| Lease obligations [2] | 1,385 | 1,278 | 13,586 |
| Subtotal | 725,447 | 629,047 | 6,688,428 |
| Less amounts due within one year | (113,929) | (126,252) | (1,342,389) |
| | ¥ 611,518 | ¥ 502,795 | $ 5,346,039 |

Notes: 1. Long-term loans payable as of March 31, 2012 and 2013 mainly consisted of borrowings from domestic Japanese banks and life insurance companies with weighted-average interest rates of 1.1% in 2012 and 1.0% in 2013.
2. The weighted-average interest rate for lease obligations is not shown because for some consolidated subsidiaries the lease obligations recorded in the Consolidated Balance Sheet are the amounts before deducting the interest equivalents included in the total lease commitments.

The following table shows the maturities of long-term loans payable subsequent to March 31, 2013.

| Years ending March 31 | (Millions of yen) | (Thousands of U.S. dollars) |
|---|---|---|
| 2014 | ¥126,085 | $1,340,619 |
| 2015 | 106,135 | 1,128,498 |
| 2016 | 115,748 | 1,230,711 |
| 2017 | 88,700 | 943,115 |
| 2018 and thereafter | 158,100 | 1,681,021 |
| | ¥594,768 | $6,323,964 |

The following table shows the maturities of lease obligations subsequent to March 31, 2013.

| Years ending March 31 | (Millions of yen) | (Thousands of U.S. dollars) |
|---|---|---|
| 2014 | ¥ 167 | $ 1,769 |
| 2015 | 117 | 1,249 |
| 2016 | 90 | 960 |
| 2017 | 59 | 626 |
| 2018 and thereafter | 845 | 8,982 |
| | ¥1,278 | $13,586 |

## 6. Pledged Assets and Secured Liabilities

Pledged assets and secured liabilities at March 31, 2012 and 2013 are summarized as follows:

### (1) Pledged Assets and Secured Liabilities

| | (Millions of yen) | | (Thousands of U.S. dollars) |
|---|---|---|---|
| | 2012 | 2013 | 2013 |
| Pledged assets: | | | |
| Buildings and structures | ¥ 8,758 | ¥ 8,612 | $ 91,571 |
| Land | 7,455 | 7,455 | 79,265 |
| Other property and equipment | 37 | 28 | 302 |
| | ¥16,250 | ¥16,095 | $171,138 |
| Secured liabilities: | | | |
| Short-term loans payable (Including the current portion of long-term loans payable) | ¥ 537 | ¥293 | $ 3,110 |
| Long-term loans payable (Repayment periods of more than one year) | 350 | 57 | 606 |
| Lease and guarantee deposits received | 74 | 67 | 719 |
| Total | ¥ 961 | ¥ 417 | $ 4,435 |

### (2) Pledged Assets and Secured Liabilities for Non-recourse Loans

| | (Millions of yen) | | (Thousands of U.S. dollars) |
|---|---|---|---|
| | 2012 | 2013 | 2013 |
| Pledged assets: | | | |
| Real estate for sale | ¥ 4,484 | ¥ — | $ — |
| Buildings and structures | 10,346 | 5,893 | 62,660 |
| Land | 61,377 | 21,376 | 227,281 |
| Other property and equipment | 43 | 48 | 514 |
| Total | ¥76,250 | ¥27,317 | $290,455 |
| Secured liabilities: | | | |
| Short-term loans payable | ¥ 233 | ¥ 4,359 | $ 46,350 |
| Long-term loans payable | 40,181 | 13,372 | 142,175 |
| Total | ¥40,414 | ¥17,731 | $188,525 |

These liabilities have arisen in relation to Flagship Building Co., Ltd. and Metro Hongo, LLC, and the repayment obligations of these liabilities are limited to the assets of said companies including the pledged assets stated above. TJ Properties Special Purpose Company, Ltd. has, pursuant to the provisions of Article 128 of the Act on Securitization of Assets (Act No. 105 of 1998), pledged its assets as general security for specified corporate bonds of ¥3,000 million ($31,898 thousand) and the repayment obligations of said company are limited to these pledged assets.

(3) As of March 31, 2013, cash and deposits in the amount of ¥2 million ($21 thousand) and investment securities in the amount of ¥2 million ($21 thousand) are pledged as collateral for trade payables and a portion of liabilities of investee companies, respectively.

## 7. Retirement Benefits

### (1) Outline of Retirement Benefit Plans

The Company does not have a retirement benefit plan. Among its consolidated subsidiaries that have adopted defined benefit plans, two subsidiaries have a lump-sum pension plan and a defined benefit corporate pension plan and one of them has also established a retirement benefit trust. Six subsidiaries have adopted only a lump-sum pension plan. Also, one consolidated subsidiary has a defined benefit lump-sum pension plan as well as a defined contribution pension plan. In certain cases, additional retirement benefit payments may be made. In order to provide for employees' retirement benefits, the Group account for the liability for retirement benefits based on the estimated amounts of projected benefit obligation and plan assets at the end of the fiscal year. The retirement benefit obligation is allocated to each period by using the straight-line method over the estimated service periods of the employees. Prior service cost is accounted for as an expense calculated by using the straight-line method based on a certain number of years (i.e., 10 years), which is equal to or less than the average remaining service period of the employees in service during the period in which it arises. Actuarial gains and losses are accounted for as an expense allocated to each period by using the straight-line method based on a certain number of years (mainly 10 years), which is equal to or less than the average remaining service period of the employees in service during the fiscal year in which it arises, starting from the following fiscal year.

### (2) Details of Retirement Benefit Obligation

| | (Millions of yen) | | (Thousands of U.S. dollars) |
|---|---|---|---|
| | 2012 | 2013 | 2013 |
| (1) Projected benefit obligation | ¥(21,822) | ¥(26,800) | $(284,960) |
| (2) Plan assets at fair value | 9,214 | 11,614 | 123,491 |
| (3) Unfunded retirement benefit obligation (1)+(2) | (12,608) | (15,186) | (161,469) |
| (4) Unrecognized actuarial gain or loss | 352 | 2,862 | 30,430 |
| (5) Unrecognized prior service cost | (3,363) | (2,967) | (31,549) |
| (6) Provision for retirement benefits (3)+(4)+(5) | ¥(15,619) | ¥(15,291) | $(162,588) |

Note: Certain consolidated subsidiaries applied a simplified method to calculate their projected benefit obligation.

### (3) Details of Retirement Benefit Expenses

| | (Millions of yen) | | (Thousands of U.S. dollars) |
|---|---|---|---|
| | 2012 | 2013 | 2013 |
| (1) Service cost | ¥1,307 | ¥1,346 | $14,316 |
| (2) Interest cost | 389 | 404 | 4,292 |
| (3) Less: Expected return on plan assets | (157) | (183) | (1,949) |
| (4) Amortization of actuarial gain or loss | 635 | 344 | 3,656 |
| (5) Amortization of prior service cost | (396) | (396) | (4,207) |
| (6) Additional retirement benefit payments | 71 | 37 | 393 |
| (7) Other | 160 | 171 | 1,819 |
| Retirement benefit expenses | ¥2,009 | ¥1,723 | $18,320 |

Notes: 1. Retirement benefit expenses of consolidated subsidiaries applying a simplified method are included in "(1) Service cost."
2. "(7) Other" shows the contributions paid to defined contribution pension plans. Certain consolidated subsidiaries use a simplified method to calculate their projected benefit obligation.

Assumptions used in accounting for the retirement benefit plans are summarized as follows:

| | 2012 | 2013 |
|---|---|---|
| Discount rate | 2.00% | 1.0~1.3% |
| Expected rate of return on plan assets | 2.00% | 2.00% |

## 8. Reclassification of Assets

As a result of a review of asset classification during the fiscal year ended March 31, 2013, ¥29,504 million ($313,708 thousand) of inventories was reclassified as property, plant and equipment. There was no reclassification of assets in the fiscal year ended March 31, 2012.

## 9. Gain on Sales of Property and Equipment

The breakdown of gain on sales of property and equipment for the fiscal years ended March 31, 2012 and 2013 is as follows:

| | Gain on sales | | |
|---|---|---|---|
| | (Millions of yen) | | (Thousands of U.S. dollars) |
| | 2012 | 2013 | 2013 |
| Land | ¥1,029 | ¥158 | $1,677 |
| Buildings | (811) | 178 | 1,892 |
| Total | ¥ 218 | ¥336 | $3,569 |

## 10. Impairment Loss

The Group recognized impairment loss on the following groups of assets for the fiscal years ended March 31, 2012 and 2013:

| 2012 Primary use | Type | Location |
|---|---|---|
| Leased assets | Buildings | Fukuoka-shi, Fukuoka Prefecture and other locations |
| Others | Land | |
| (16 locations in total) | Tangible fixed assets–others | |

Assets of the Group are grouped into the smallest unit that generates identifiable cash flows that are largely independent of cash flows from other assets or groups of assets. The headquarters building and certain other assets are considered to be shared assets. As a result, with respect to sixteen groups of assets that the Group plans to sell or with negative operating profit for several consecutive periods, the carrying amount has been reduced to the recoverable amount and the amount of reduction has been recognized as an impairment loss of ¥9,723 million in extraordinary loss for the fiscal year under review. The impairment loss is broken down into an impairment loss of ¥6,640 million on land and an impairment loss of ¥3,083 million on buildings and tangible fixed assets–others. The recoverable amount of these groups of assets is measured at the net realizable value or value in use and the net realizable value is, in turn, determined based on the expected sales price and the appraisal value provided by real estate appraisers. Value in use of the assets is calculated by discounting future cash flows at a rate of 4.8%.

| 2013 Primary use | Type | Location |
|---|---|---|
| Leased assets | Buildings | Osaka-shi, Osaka Prefecture and other locations |
| Others | Land | |
| (7 locations in total) | Tangible fixed assets–others | |

Assets of the Group are grouped into the smallest unit that generates identifiable cash flows that are largely independent of cash flows from other assets or groups of assets. The headquarters building and certain other assets are considered to be shared assets. As a result, with respect to seven groups of assets the profitability of which has dropped significantly due to the deterioration of the market conditions and the decline in rent level or that the Group plans to sell, the carrying amount has been reduced to the recoverable amount and the amount of reduction has been recognized as an extraordinary loss of ¥11,405 million ($121,266 thousand) for the fiscal year ended March 31, 2013. The impairment loss is broken down into an impairment loss of ¥10,407 million ($110,652 thousand) on land and an impairment loss of ¥998 million ($10,614 thousand) on buildings and tangible fixed assets–others. The recoverable amount of these groups of assets is measured at the net realizable value and the net realizable value is determined based on the expected sales price and the appraisal value provided by real estate appraisers.

## 11. Income Taxes

The statutory tax rate in Japan for the Company and its domestic subsidiaries was 40.7% for the year ended March 31, 2012, and 38.0% for the year ended March 31, 2013.

The table below presents an itemized breakdown of factors generating differences between the statutory tax rate and the effective tax rates of the Group for the years ended March 31, 2012 and 2013:

Significant differences between the statutory tax rate and the effective tax rate

| | 2012 | 2013 |
|---|---|---|
| Statutory tax rate | 40.7% | (Note) |
| Adjustments: | | |
| Permanent differences including entertainment expenses | 1.7 | |
| Effect of tax rate change | (32.6) | |
| Valuation allowance | (7.6) | |
| Other | 1.1 | |
| Effective tax rate | 3.3% | |

Note: Disclosure has been omitted because the difference between the statutory tax rate and the effective tax rate is less than 5% of the statutory tax rate.

The table below presents an itemized breakdown of deferred tax assets and liabilities as of March 31, 2012 and 2013:

Significant components of the Group's deferred tax assets and liabilities

| | (Millions of yen) | | (Thousands of U.S. dollars) |
|---|---|---|---|
| | 2012 | 2013 | 2013 |
| Deferred tax assets: | | | |
| Unrealized profits | ¥ 14,133 | ¥ 14,182 | $ 150,795 |
| Impairment loss | 3,145 | 8,224 | 87,445 |
| Loss on valuation of equity investments | 9,536 | 7,974 | 84,782 |
| Inventory write-downs | 9,450 | 5,928 | 63,033 |
| Provision for retirement benefits | 5,666 | 5,529 | 58,785 |
| Revaluation of assets on consolidation | 2,912 | 2,452 | 26,065 |
| Excess of depreciation | 2,333 | 1,963 | 20,873 |
| Provision for bonuses | 1,587 | 1,795 | 19,090 |
| Provision for loss on subleasing business | 800 | 620 | 6,595 |
| Other | 9,737 | 6,513 | 69,246 |
| Gross deferred tax assets | 59,299 | 55,180 | 586,709 |
| Valuation allowance | (5,188) | (5,286) | (56,206) |
| Total deferred tax assets | 54,111 | 49,894 | 530,503 |
| Deferred tax liabilities: | | | |
| Revaluation of assets on consolidation | (57,366) | (56,618) | (602,003) |
| Reserve for deferred income taxes | (24,135) | (23,874) | (253,849) |
| Other | (1,725) | (2,696) | (28,656) |
| Total deferred tax liabilities | (83,226) | (83,188) | (884,508) |
| Net deferred tax liabilities | ¥(29,115) | (33,294) | (354,005) |

## 12. Shareholders' Equity

Under the Companies Act of Japan (the "Act"), all funds obtained through the issuance of common stock must be treated as common stock and, by resolution of the board of directors, an amount equivalent to less than half of those funds may be appropriated to the capital reserve (a component of capital surplus).

The Act provides that an amount equal to 10% of the amount to be distributed as distributions of capital surplus (other than the capital reserve) and retained earnings (other than the legal reserve) be transferred to the capital reserve and the legal reserve, respectively, until the sum of the capital reserve and the legal reserve equals 25% of the capital stock account.

As of March 31, 2013, the Group's capital reserve amounted to ¥93,057 million ($989,449 thousand), and no legal reserve was recorded.

## 13. Supplementary Cash Flow Information

A reconciliation of cash and deposits in the Consolidated Balance Sheet and cash and cash equivalents in the Consolidated Statement of Cash Flows is as follows:

| | (Millions of yen) | | (Thousands of U.S. dollars) |
|---|---|---|---|
| | 2012 | 2013 | 2013 |
| Cash and deposits | ¥45,458 | ¥42,499 | $451,876 |
| Short-term investment securities | 25,000 | 20,000 | 212,653 |
| Time deposits with maturities of more than three months | (2) | (2) | (21) |
| Cash and cash equivalents | ¥70,456 | ¥62,497 | $664,507 |

## 14. Derivative Financial Instruments

### (1) Derivatives to which hedge accounting is not applied

There are no derivative transactions to which hedge accounting is not applied.

### (2) Derivatives to which hedge accounting is applied

*(a) Currency-related derivatives*

| 2012 | | | Contract amount | Contract amount due after one year | Fair value |
|---|---|---|---|---|---|
| Hedge accounting method | Type of derivatives | Major hedged items | (Millions of yen) | (Millions of yen) | (Millions of yen) |
| Deferral hedge accounting | Currency swaps | Securities denominated in foreign currencies | ¥1,779 | ¥— | ¥11 |
| Total | | | ¥1,779 | ¥— | ¥11 |

| 2013 | | | Contract amount | | Contract amount due after one year | | Fair value | |
|---|---|---|---|---|---|---|---|---|
| Hedge accounting method | Type of derivatives | Major hedged items | (Millions of yen) | (Thousands of U.S. dollars) | (Millions of yen) | (Thousands of U.S. dollars) | (Millions of yen) | (Thousands of U.S. dollars) |
| Deferral hedge accounting | Currency swaps | Securities denominated in foreign currencies | ¥1,610 | $17,121 | ¥— | $— | ¥2 | $20 |
| Total | | | ¥1,610 | $17,121 | ¥— | $— | ¥2 | $20 |

Note: The fair value is determined based on the quoted price obtained from the counterparty financial institutions to the derivatives transactions.

*(b) Interest rate-related derivatives*

| 2012 | | | Contract amount | Contract amount due after one year | Fair value |
|---|---|---|---|---|---|
| Hedge accounting method | Type of derivatives | Major hedged items | (Millions of yen) | (Millions of yen) | (Millions of yen) |
| Exceptional treatment for interest rate swaps | Interest rate swaps Receive floating rate/ Pay fixed rate | Long-term debt | ¥546,443 | ¥453,570 | (Note) |
| Total | | | ¥546,443 | ¥453,570 | — |

| 2013 | | | Contract amount | | Contract amount due after one year | | Fair value | |
|---|---|---|---|---|---|---|---|---|
| Hedge accounting method | Type of derivatives | Major hedged items | (Millions of yen) | (Thousands of U.S. dollars) | (Millions of yen) | (Thousands of U.S. dollars) | (Millions of yen) | (Thousands of U.S. dollars) |
| Exceptional treatment for interest rate swaps | Interest rate swaps Receive floating rate/ Pay fixed rate | Long-term debt | ¥478,970 | $5,092,715 | ¥370,097 | $3,935,105 | (Note) | (Note) |
| Total | | | ¥478,970 | $5,092,715 | ¥370,097 | $3,935,105 | — | — |

Note: The fair value of the interest rate swaps which qualify for exceptional treatment for interest rate swaps is considered to be included in the fair value of the long-term debt.

## 15. Leases

Details of significant lease transactions are as follows:

The table below presents the future lease payments and receipts of operating leases subsequent to March 31, 2012 and 2013.

| | (Millions of yen) | | (Thousands of U.S. dollars) |
|---|---|---|---|
| Operating leases | 2012 | 2013 | 2013 |
| Future lease payments: | | | |
| Due within 1 year | ¥ 4,842 | ¥ 3,559 | $ 37,839 |
| Due after 1 year | 14,599 | 12,870 | 136,850 |
| Total | ¥19,441 | ¥ 16,429 | $ 174,689 |
| Future lease receipts: | | | |
| Due within 1 year | ¥12,295 | ¥ 13,652 | $ 145,156 |
| Due after 1 year | 62,175 | 89,105 | 947,427 |
| Total | ¥74,470 | ¥102,757 | $1,092,583 |

Note: The note for finance leases has been omitted due to lack of materiality.

## 16. Real Estate for Rent

Some of the Company's subsidiaries own rental office buildings and rental facilities (including land) in Tokyo and other regions.

The book values in the Consolidated Balance Sheet, changes during the fiscal year ended March 31, 2013, and fair values of real estate, of which some portions are used as rental property, are determined as follows:

### (1) Fair value of rental and other properties in the fiscal years ended March 31, 2012 and 2013

| | Book value | | | Fair value |
|---|---|---|---|---|
| | March 31, 2011 | Increase/Decrease | March 31, 2012 | March 31, 2012 |
| 2012 | (Millions of yen) | (Millions of yen) | (Millions of yen) | (Millions of yen) |
| Rental properties | ¥691,968 | ¥(21,956) | ¥670,012 | ¥679,413 |
| Other properties used as rental properties | 25,028 | (243) | 24,785 | 48,500 |

| | Book value | | | | | | Fair value | |
|---|---|---|---|---|---|---|---|---|
| | March 31, 2012 | | Increase/Decrease | | March 31, 2013 | | March 31, 2013 | |
| 2013 | (Millions of yen) | (Thousands of U.S. dollars) | (Millions of yen) | (Thousands of U.S. dollars) | (Millions of yen) | (Thousands of U.S. dollars) | (Millions of yen) | (Thousands of U.S. dollars) |
| Rental properties | ¥670,012 | $7,123,988 | ¥28,621 | $304,320 | ¥698,632 | $7,428,308 | ¥714,150 | $7,593,304 |
| Other properties used as rental properties | 24,785 | 263,525 | 84 | 897 | 24,869 | 264,421 | 46,600 | 495,481 |

Notes: 1. Book values in the Consolidated Balance Sheet are the amounts determined by deducting accumulated depreciation and accumulated impairment losses from the acquisition cost.

2. Fair values as of March 31, 2012 and 2013 are determined by the Group (including adjustments based on certain indexes) based primarily on their values according to real estate appraisal standards. However, if there have been no fluctuations in appraisal values or indexes considered to appropriately reflect market values, the Group uses the appraisal values or amounts derived from the indexes of the recent appraisal or acquisition from third parties as the fair values at March 31, 2012 and 2013.

3. In the above table, Other properties used as rental properties includes portions used by the Company and certain consolidated subsidiaries.

### (2) Income and loss on rental properties in the fiscal years ended March 31, 2012 and 2013

| 2012 | Operating income (Millions of yen) | Others (gains (losses) on sale of property, etc.) (Millions of yen) |
|---|---|---|
| Rental properties | ¥27,571 | ¥(8,393) |
| Other properties used as rental properties | 1,112 | — |

| 2013 | Operating income (Millions of yen) | Operating income (Thousands of U.S. dollars) | Others (gains (losses) on sale of property, etc.) (Millions of yen) | Others (gains (losses) on sale of property, etc.) (Thousands of U.S. dollars) |
|---|---|---|---|---|
| Rental properties | ¥26,060 | $277,089 | ¥(10,739) | $(114,185) |
| Other properties used as rental properties | 1,120 | 11,907 | — | — |

Notes: 1. As real estate of which some portions are used as rental property includes portions used by the Company and certain consolidated subsidiaries for providing services as well as management and administration, operating income for this type of real estate is not recorded.
2. Others include gain on sales of noncurrent assets (¥218 million) and impairment loss (¥8,826 million) in the fiscal year ended March 31, 2012, and gain on sales of noncurrent assets (¥336 million ($3,569 thousand)) and impairment loss (¥11,331 million ($120,482 thousand)) in the fiscal year ended March 31, 2013.

## 17. Segment Information

### (1) Segment summary

The reportable segments of the Group comprise those business units for which separate financial information is available, and which are subject to a regular review conducted by the Company's Board of Directors in order to determine the allocation of management resources and evaluate their performance.

With the Company, as a pure holding company the Group consists of business companies and divisions, such as Nomura Real Estate Development Co., Ltd. The business companies (or business divisions within Nomura Real Estate Development) formulate comprehensive strategies on respective products and services handled by them and conduct business activities based on such strategies.

Therefore, business segments of the Group are distinguished by products and services, primarily by business companies (or by business divisions within Nomura Real Estate Development).

Business segments have been changed following a revision of segmentation that was developed as part of the Mid- to Long-term Business Plan in the second quarter of the fiscal year ended March 31, 2013.

The Group mainly operate in six business segments: (1) Residential Development, (2) Leasing, (3) Investment Management, (4) Property Brokerage & CRE, (5) Property & Facility Management, and (6) Other.

The segment information for the fiscal year ended March 31, 2012 has been prepared based on business segmentation after the change.

### (2) Methods for calculating net sales, income (loss), assets, liabilities and other items by reportable segment

The accounting method for reportable segments is almost equivalent to that specified in "Significant Accounting Policies". Reportable segment income is presented based on operating income. Intersegment sales and transfer amounts are presented based on market prices.

Results by segment for the fiscal years ended March 31, 2012 and 2013 were as follows:

Results by segment as of and for the fiscal year ended March 31, 2012

(Millions of yen)

| | Residential Development | Leasing | Investment Management | Property Brokerage & CRE | Property & Facility Management | Other [1] | Total | Eliminations or corporate [2] | Consolidated [3] |
|---|---|---|---|---|---|---|---|---|---|
| Operating revenue and operating income | | | | | | | | | |
| Operating revenue: | | | | | | | | | |
| External customers | ¥217,130 | ¥121,293 | ¥ 12,664 | ¥25,897 | ¥59,243 | ¥14,580 | ¥ 450,807 | ¥ — | ¥ 450,807 |
| Inter-segment | 448 | 2,125 | 300 | 8,406 | 8,128 | 12 | 19,419 | (19,419) | — |
| Subtotal | 217,578 | 123,418 | 12,964 | 34,303 | 67,371 | 14,592 | 470,226 | (19,419) | 450,807 |
| Segment income (loss) | 20,939 | 19,690 | 6,552 | 1,926 | 4,488 | 418 | 54,013 | (4,074) | 49,939 |
| Segment assets | 315,429 | 813,965 | 114,499 | 19,787 | 28,008 | 37,769 | 1,329,457 | 73,168 | 1,402,625 |
| Other items | | | | | | | | | |
| Depreciation | ¥ 139 | ¥ 11,063 | ¥ 509 | ¥ 218 | ¥ 311 | ¥ 1,094 | ¥ 13,334 | ¥ 201 | ¥ 13,535 |
| Amortization of goodwill | — | 236 | — | — | 29 | — | 265 | — | 265 |
| Investment in affiliates accounted for using equity method | 12 | 3,409 | — | 20 | — | — | 3,441 | — | 3,441 |
| Increase in property, plant and equipment and intangible assets | 244 | 11,536 | 456 | 254 | 260 | 2,195 | 14,945 | 193 | 15,138 |

Notes: 1. The "Other" category, which represents operating segments that are not included in reportable segments, includes fitness club and other businesses.

2. (1) The deduction of ¥4,074 million shown in the eliminations or corporate column for segment income includes an addition of ¥1,425 million for the elimination of inter-segment transactions and a deduction of ¥5,499 million for corporate expenses not allocated to reportable segments. These corporate expenses mainly consist of general and administrative expenses not attributable to reportable segments.

(2) The addition of ¥73,168 million shown in the eliminations or corporate column for segment assets includes a deduction of ¥32,442 million for the elimination of inter-segment transactions and an addition of ¥105,610 million for corporate assets not allocated to reportable segments.

3. The segment income is reconciled to the operating income stated in the consolidated financial statements.

Results by segment as of and for the fiscal year ended March 31, 2013

(Millions of yen)

| | Residential Development | Leasing | Investment Management | Property Brokerage & CRE | Property & Facility Management | Other [1] | Total | Eliminations or corporate [2] | Consolidated [3] |
|---|---|---|---|---|---|---|---|---|---|
| Operating revenue and operating income | | | | | | | | | |
| Operating revenue: | | | | | | | | | |
| External customers | ¥305,125 | ¥103,827 | ¥10,880 | ¥23,842 | ¥59,110 | ¥14,957 | ¥ 517,741 | ¥ — | ¥ 517,741 |
| Inter-segment | 635 | 2,839 | 253 | 2,252 | 9,954 | 6 | 15,939 | (15,939) | — |
| Subtotal | 305,760 | 106,666 | 11,133 | 26,094 | 69,064 | 14,963 | 533,680 | (15,939) | 517,741 |
| Segment income (loss) | 32,917 | 23,336 | (2,724) | 6,176 | 4,378 | 448 | 64,531 | (6,223) | 58,308 |
| Segment assets | 336,802 | 790,735 | 91,854 | 26,904 | 30,710 | 37,168 | 1,314,173 | 55,776 | 1,369,949 |
| Other items | | | | | | | | | |
| Depreciation | ¥ 149 | ¥ 11,216 | ¥ 342 | ¥ 226 | ¥ 267 | ¥ 1,094 | ¥ 13,294 | ¥ 220 | ¥ 13,514 |
| Amortization of goodwill | — | 236 | — | — | 29 | — | 265 | — | 265 |
| Investment in affiliates accounted for using equity method | 12 | 842 | — | — | — | — | 854 | — | 854 |
| Increase in property, plant and equipment and intangible assets | 134 | 29,231 | 146 | 459 | 221 | 944 | 31,135 | 204 | 31,339 |

| | (Thousands of U.S. dollars) | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Residential Development | Leasing | Investment Management | Property Brokerage & CRE | Property & Facility Management | Other [1] | Total | Eliminations or corporate [2] | Consolidated [3] |
| Operating revenue and operating income | | | | | | | | | |
| Operating revenue: | | | | | | | | | |
| External customers | $3,244,290 | $1,103,958 | $115,681 | $253,501 | $628,497 | $159,024 | $ 5,504,951 | $ — | $ 5,504,951 |
| Inter-segment | 6,748 | 30,183 | 2,693 | 23,943 | 105,840 | 67 | 169,474 | (169,474) | — |
| Subtotal | 3,251,038 | 1,134,141 | 118,374 | 277,444 | 734,337 | 159,091 | 5,674,425 | (169,474) | 5,504,951 |
| Segment income (loss) | 349,996 | 248,122 | (28,970) | 65,671 | 46,552 | 4,760 | 686,131 | (66,162) | 619,969 |
| Segment assets | 3,581,097 | 8,407,607 | 976,648 | 286,056 | 326,525 | 395,199 | 13,973,132 | 593,051 | 14,566,183 |
| Other items | | | | | | | | | |
| Depreciation | $ 1,579 | $ 119,262 | $ 3,632 | $ 2,406 | $ 2,839 | $ 11,631 | $ 141,349 | $ 2,338 | $ 143,687 |
| Amortization of goodwill | — | 2,505 | — | — | 311 | — | 2,816 | — | 2,816 |
| Investment in affiliates accounted for using equity method | 127 | 8,952 | — | — | — | — | 9,079 | — | 9,079 |
| Increase in property, plant and equipment and intangible assets | 1,423 | 310,807 | 1,557 | 4,874 | 2,346 | 10,035 | 331,042 | 2,171 | 332,213 |

Notes: 1. The "Other" category, which represents operating segments that are not included in reportable segments, includes fitness club and other businesses.

2. (1) The deduction of ¥6,223 million ($66,162 thousand) shown in the eliminations or corporate column for segment income includes an addition of ¥508 million ($5,403 thousand) for the elimination of inter-segment transactions and a deduction of ¥6,731 million ($71,565 thousand) for corporate expenses not allocated to reportable segments. These corporate expenses mainly consist of general and administrative expenses not attributable to reportable segments.

(2) The addition of ¥55,776 million ($593,051 thousand) shown in the eliminations or corporate column for segment assets includes a deduction of ¥44,101 million ($468,905 thousand) for the elimination of inter-segment transactions and an addition of ¥99,877 million ($1,061,956 thousand) for corporate assets not allocated to reportable segments.

3. The segment income is reconciled to the operating income stated in the consolidated financial statements.

Impairment loss on noncurrent assets by reportable segments for the years ended March 31, 2012 and 2013 is summarized as follows:

| | (Millions of yen) | | | | | | |
|---|---|---|---|---|---|---|---|
| 2012 | Residential Development | Leasing | Investment Management | Property Brokerage & CRE | Property & Facility Management | Other (Note) | Total |
| Impairment loss | ¥— | ¥5,929 | ¥2,897 | ¥— | ¥— | ¥897 | ¥9,723 |

| | (Millions of yen) | | | | | | |
|---|---|---|---|---|---|---|---|
| 2013 | Residential Development | Leasing | Investment Management | Property Brokerage & CRE | Property & Facility Management | Other (Note) | Total |
| Impairment loss | ¥— | ¥8,598 | ¥2,733 | ¥— | ¥— | ¥74 | ¥11,405 |

| | (Thousands of U.S. dollars) | | | | | | |
|---|---|---|---|---|---|---|---|
| 2013 | Residential Development | Leasing | Investment Management | Property Brokerage & CRE | Property & Facility Management | Other (Note) | Total |
| Impairment loss | $— | $91,426 | $29,056 | $— | $— | $784 | $121,266 |

Note: The amount shown in the "Other" column relates to fitness club business.

The following table presents the amortization and balance of goodwill as of and for the years ended March 31, 2012 and 2013 by reportable segments:

| | (Millions of yen) | | | | | |
|---|---|---|---|---|---|---|
| 2012 | Residential Development | Leasing | Investment Management | Property Brokerage & CRE | Property & Facility Management | Total |
| Amortization | — | ¥ 236 | ¥— | ¥— | ¥ 29 | ¥ 265 |
| Balance at March 31, 2012 | — | 3,946 | — | — | 322 | 4,268 |

| | (Millions of yen) | | | | | |
|---|---|---|---|---|---|---|
| 2013 | Residential Development | Leasing | Investment Management | Property Brokerage & CRE | Property & Facility Management | Total |
| Amortization | ¥— | ¥ 236 | ¥— | ¥— | ¥ 29 | ¥ 265 |
| Balance at March 31, 2013 | ¥— | ¥3,710 | ¥— | ¥— | ¥293 | ¥4,003 |

| | (Thousands of U.S. dollars) | | | | | |
|---|---|---|---|---|---|---|
| 2013 | Residential Development | Leasing | Investment Management | Property Brokerage & CRE | Property & Facility Management | Total |
| Amortization | $— | $ 2,505 | $— | $— | $ 311 | $ 2,816 |
| Balance at March 31, 2013 | $— | $39,453 | $— | $— | $3,114 | $42,567 |

## 18. Contingent Liabilities

Contingent liabilities as of March 31, 2012 and 2013 were as follows:

| | (Millions of yen) | | (Thousands of U.S. dollars) |
|---|---|---|---|
| | 2012 | 2013 | 2013 |
| Guarantees for home loans of house purchasers from banks and other | ¥48,897 | ¥67,720 | $720,041 |
| Guarantees for loans to business partners in the business of commercial buildings for rent | 881 | 813 | 8,643 |
| | ¥49,778 | ¥68,533 | $728,684 |

## 19. Consolidated Statement of Comprehensive Income

The amount of recycling and amount of income tax effects associated with other comprehensive income for the years ended March 31, 2012 and 2013 are as follows:

| | (Millions of yen) | | (Thousands of U.S. dollars) |
|---|---|---|---|
| | 2012 | 2013 | 2013 |
| Valuation difference on available-for-sale securities: | | | |
| Amount recognized during the year | ¥(2,346) | ¥ 7,472 | $ 79,446 |
| Amount of recycling | 998 | (1,019) | (10,838) |
| Before income tax effect | (1,348) | 6,453 | 68,608 |
| Income tax effect | 387 | (2,292) | (24,366) |
| Valuation difference on available-for-sale securities | (961) | 4,161 | 44,242 |
| Deferred gains or losses on hedges: | | | |
| Amount recognized during the year | 145 | (181) | (1,925) |
| Amount of recycling | (114) | (78) | (837) |
| Before income tax effect | 31 | (259) | (2,762) |
| Income tax effect | 19 | 92 | 983 |
| Deferred gains or losses on hedges | 50 | (167) | (1,779) |
| Revaluation reserve for land: | | | |
| Income tax effect | 633 | (0) | (1) |
| Share of other comprehensive income of affiliates accounted for using the equity method: | | | |
| Amount recognized during the year | (149) | 8 | 90 |
| Amount of recycling | — | 1,291 | 13,728 |
| Before income tax effect | (149) | 1,299 | 13,818 |
| Income tax effect | (5) | (460) | (4,889) |
| Share of other comprehensive income of affiliates accounted for using the equity method | (154) | 839 | 8,929 |
| Total other comprehensive income | ¥ (402) | ¥ 4,833 | $ 51,391 |

## 20. Schedule of Asset Retirement Obligations

A presentation of this schedule is omitted pursuant to the provisions of Article 92-2 of the Consolidated Financial Statements Regulations as the amount of asset retirement obligations is not more than 1% of the total amount of liabilities and net assets as of March 31, 2012 and 2013.

## 21. Stock Options

In accordance with the Act on November 30, 2007, the Group granted certain stock options to certain directors, executive officers and employees of the Group.

Information regarding the Group's stock option plans is summarized as follows:

### 1. Amount and account title of costs related to stock options

| | (Millions of yen) | | (Thousands of U.S. dollars) |
|---|---|---|---|
| | 2012 | 2013 | 2013 |
| Selling, general and administrative expenses | ¥195 | ¥384 | $4,087 |

## 2. Description

Nomura Real Estate Holdings, Inc.

| FY2007 | 2nd issue of stock options | 3rd issue of stock options |
|---|---|---|
| Recipients | Directors of the Company's subsidiaries (43 persons) | Directors of the Company (5 persons)<br>Directors of the Company's subsidiaries (45 persons)<br>Employees of the Company's subsidiaries (116 persons) |
| Type and number of shares subject to the stock acquisition rights (see Note) | Common stock: 52,300 shares | Common stock: 180,400 shares |
| Grant date | November 30, 2007 | November 30, 2007 |
| Vesting conditions | No conditions attached | No conditions attached |
| Service period | No period specified | No period specified |
| Exercisable period | November 30, 2008 – November 29, 2013 | November 30, 2009 – November 29, 2014 |

Nomura Real Estate Holdings, Inc.

| FY2008 | 2nd issue of stock options | 3rd issue of stock options |
|---|---|---|
| Recipients | Directors and executive officers of the Company's subsidiaries (51 persons) | Directors of the Company (5 persons)<br>Directors and executive officers of the Company's subsidiaries (52 persons)<br>Employees of the Company's subsidiaries (122 persons) |
| Type and number of shares subject to the stock acquisition rights (see Note) | Common stock: 61,300 shares | Common stock: 191,200 shares |
| Grant date | August 11, 2008 | August 11, 2008 |
| Vesting conditions | No conditions attached | No conditions attached |
| Service period | No period specified | No period specified |
| Exercisable period | August 11, 2009 – August 10, 2014 | August 11, 2010 – August 10, 2015 |

Nomura Real Estate Holdings, Inc.

| FY2009 | 2nd issue of stock options | 3rd issue of stock options |
|---|---|---|
| Recipients | Directors and executive officers of the Company's subsidiaries (51 persons) | Directors of the Company (8 persons)<br>Directors and executive officers of the Company's subsidiaries (51 persons)<br>Employees of the Company's subsidiaries (129 persons) |
| Type and number of shares subject to the stock acquisition rights (see Note) | Common stock: 59,500 shares | Common stock: 202,700 shares |
| Grant date | August 11, 2009 | August 11, 2009 |
| Vesting conditions | No conditions attached | No conditions attached |
| Service period | No period specified | No period specified |
| Exercisable period | August 11, 2010 – August 10, 2015 | August 11, 2011 – August 10, 2016 |

Nomura Real Estate Holdings, Inc.

| FY2010 | 1st issue of stock options | 2nd issue of stock options | 3rd issue of stock options |
|---|---|---|---|
| Recipients | Directors of the Company (7 persons) | Directors and executive officers of the Company's subsidiaries (57 persons) | Directors of the Company (7 persons)<br>Directors and executive officers of the Company's subsidiaries (57 persons)<br>Employees of the Company's subsidiaries (147 persons) |
| Type and number of shares subject to the stock acquisition rights (see Note) | Common stock: 20,000 shares | Common stock: 66,100 shares | Common stock: 226,400 shares |
| Grant date | August 23, 2010 | August 23, 2010 | August 23, 2010 |
| Vesting conditions | No conditions attached | No conditions attached | No conditions attached |
| Service period | No period specified | No period specified | No period specified |
| Exercisable period | August 23, 2011 – August 22, 2016 | August 23, 2011 – August 22, 2016 | August 23, 2012 – August 22, 2017 |

Nomura Real Estate Holdings, Inc.

| FY2011 | 1st issue of stock options | 2nd issue of stock options | 3rd issue of stock options |
|---|---|---|---|
| Recipients | Directors of the Company (6 persons) | Directors and executive officers of the Company's subsidiaries (57 persons) | Directors of the Company (6 persons)<br>Directors and executive officers of the Company's subsidiaries (57 persons)<br>Employees of the Company's subsidiaries (152 persons) |
| Type and number of shares subject to the stock acquisition rights (see Note) | Common stock: 17,900 shares | Common stock: 66,700 shares | Common stock: 227,800 shares |
| Grant date | August 23, 2011 | August 23, 2011 | August 23, 2011 |
| Vesting conditions | No conditions attached | No conditions attached | No conditions attached |
| Service period | No period specified | No period specified | No period specified |
| Exercisable period | August 23, 2012 – August 22, 2017 | August 23, 2012 – August 22, 2017 | August 23, 2013 – August 22, 2018 |

Nomura Real Estate Holdings, Inc.

| FY2012 | 1st issue of stock options | 2nd issue of stock options | 3rd issue of stock options |
|---|---|---|---|
| Recipients | Directors of the Company (5 persons) | Directors and executive officers of the Company's subsidiaries (64 persons) | Directors of the Company (5 persons)<br>Directors and executive officers of the Company's subsidiaries (64 persons)<br>Employees of the Company's subsidiaries (152 persons) |
| Type and number of shares subject to the stock acquisition rights (see Note) | Common stock: 31,500 shares | Common stock: 188,900 shares | Common stock: 242,700 shares |
| Grant date | August 23, 2012 | August 23, 2012 | August 23, 2012 |
| Vesting conditions | No conditions attached | No conditions attached | No conditions attached |
| Service period | No period specified | No period specified | No period specified |
| Exercisable period | August 23, 2014 – August 22, 2019 | August 23, 2014 – August 22, 2019 | August 23, 2014 – August 22, 2019 |

MEGALOS CO., LTD.

| FY2008 | 2nd issue of stock options |
|---|---|
| Recipients | Directors (3 persons)<br>Employees (14 persons) |
| Type and number of shares subject to the stock acquisition rights (see Note) | Common stock:<br>32,000 shares |
| Grant date | December 1, 2008 |
| Vesting conditions | No conditions attached |
| Service period | No period specified |
| Exercisable period | December 1, 2010 –<br>November 30, 2015 |

MEGALOS CO., LTD.

| FY2009 | 2nd issue of stock options |
|---|---|
| Recipients | Directors (3 persons)<br>Employees (12 persons) |
| Type and number of shares subject to the stock acquisition rights (see Note) | Common stock:<br>27,000 shares |
| Grant date | August 3, 2009 |
| Vesting conditions | No conditions attached |
| Service period | No period specified |
| Exercisable period | August 3, 2011 –<br>August 2, 2016 |

MEGALOS CO., LTD.

| FY2010 | 1st issue of stock options | 2nd issue of stock options |
|---|---|---|
| Recipients | Directors (3 persons) | Directors (3 persons)<br>Employees (12 persons) |
| Type and number of shares subject to the stock acquisition rights (see Note) | Common stock:<br>7,900 shares | Common stock:<br>28,000 shares |
| Grant date | August 23, 2010 | August 23, 2010 |
| Vesting conditions | No conditions attached | No conditions attached |
| Service period | No period specified | No period specified |
| Exercisable period | August 23, 2011 –<br>August 22, 2016 | August 23, 2012 –<br>August 22, 2017 |

MEGALOS CO., LTD.

| FY2011 | 1st issue of stock options | 2nd issue of stock options |
|---|---|---|
| Recipients | Directors (3 persons) | Directors (3 persons)<br>Employees (11 persons) |
| Type and number of shares subject to the stock acquisition rights (see Note) | Common stock:<br>7,900 shares | Common stock:<br>26,000 shares |
| Grant date | August 22, 2011 | August 22, 2011 |
| Vesting conditions | No conditions attached | No conditions attached |
| Service period | No period specified | No period specified |
| Exercisable period | August 22, 2012 –<br>August 21, 2017 | August 22, 2013 –<br>August 21, 2018 |

MEGALOS CO., LTD.

| FY2012 | 1st issue of stock options | 2nd issue of stock options |
|---|---|---|
| Recipients | Directors (3 persons) | Directors (3 persons)<br>Employees (13 persons) |
| Type and number of shares subject to the stock acquisition rights (see Note) | Common stock:<br>7,900 shares | Common stock:<br>28,000 shares |
| Grant date | August 20, 2012 | August 20, 2012 |
| Vesting conditions | No conditions attached | No conditions attached |
| Service period | No period specified | No period specified |
| Exercisable period | August 20, 2013 –<br>August 19, 2018 | August 20, 2014 –<br>August 19, 2019 |

## 3. Scale of offer and status of changes

### *(1) Number of stock options*

Nomura Real Estate Holdings, Inc.

| FY2007 | 2nd issue of stock options | 3rd issue of stock options |
|---|---|---|
| Non-vested: (shares) | | |
| Previous fiscal year end | — | — |
| Granted | — | — |
| Forfeited | — | — |
| Vested | — | — |
| End of the year | — | — |
| Vested: (shares) | | |
| Previous fiscal year end | 4,400 | 160,100 |
| Vested | — | — |
| Exercised | 2,600 | — |
| Forfeited | — | 3,500 |
| End of the year | 1,800 | 156,600 |

Nomura Real Estate Holdings, Inc.

| FY2008 | 2nd issue of stock options | 3rd issue of stock options |
|---|---|---|
| Non-vested: (shares) | | |
| Previous fiscal year end | — | — |
| Granted | — | — |
| Forfeited | — | — |
| Vested | — | — |
| End of the year | — | — |
| Vested: (shares) | | |
| Previous fiscal year end | 9,200 | 173,400 |
| Vested | — | — |
| Exercised | 3,100 | — |
| Forfeited | — | 3,500 |
| End of the year | 6,100 | 169,900 |

Nomura Real Estate Holdings, Inc.

| FY2009 | 2nd issue of stock options | 3rd issue of stock options |
|---|---|---|
| Non-vested: (shares) | | |
| Previous fiscal year end | — | — |
| Granted | — | — |
| Forfeited | — | — |
| Vested | — | — |
| End of the year | — | — |
| Vested: (shares) | | |
| Previous fiscal year end | 22,500 | 202,000 |
| Vested | — | — |
| Exercised | 7,900 | 10,500 |
| Forfeited | — | 15,900 |
| End of the year | 14,600 | 175,600 |

Nomura Real Estate Holdings, Inc.

| FY2010 | 1st issue of stock options | 2nd issue of stock options | 3rd issue of stock options |
|---|---|---|---|
| Non-vested: (shares) | | | |
| Previous fiscal year end | — | — | 215,300 |
| Granted | — | — | — |
| Forfeited | — | — | 10,000 |
| Vested | — | — | 214,300 |
| End of the year | — | — | — |
| Vested: (shares) | | | |
| Previous fiscal year end | 2,900 | 39,100 | 10,400 |
| Vested | — | — | 214,300 |
| Exercised | — | 15,800 | 56,400 |
| Forfeited | — | — | — |
| End of the year | 2,900 | 23,300 | 168,300 |

Nomura Real Estate Holdings, Inc.

| FY2011 | 1st issue of stock options | 2nd issue of stock options | 3rd issue of stock options |
|---|---|---|---|
| Non-vested: (shares) | | | |
| Previous fiscal year end | — | — | 227,100 |
| Granted | — | — | — |
| Forfeited | — | — | 1,000 |
| Vested | — | — | 11,600 |
| End of the year | — | — | 214,500 |
| Vested: (shares) | | | |
| Previous fiscal year end | 17,900 | 66,700 | — |
| Vested | — | — | 11,600 |
| Exercised | 13,200 | 29,100 | — |
| Forfeited | — | — | — |
| End of the year | 4,700 | 37,600 | 11,600 |

Nomura Real Estate Holdings, Inc.

| FY2012 | 1st issue of stock options | 2nd issue of stock options | 3rd issue of stock options |
|---|---|---|---|
| Non-vested: (shares) | | | |
| Previous fiscal year end | — | — | — |
| Granted | 31,500 | 188,900 | 242,700 |
| Forfeited | — | — | — |
| Vested | 31,500 | 188,900 | 500 |
| End of the year | — | — | 242,200 |
| Vested: (shares) | | | |
| Previous fiscal year end | — | — | — |
| Vested | 31,500 | 188,900 | 500 |
| Exercised | — | — | — |
| Forfeited | — | — | — |
| End of the year | 31,500 | 188,900 | 500 |

MEGALOS CO., LTD.

| FY2008 | 2nd issue of stock options |
|---|---|
| Non-vested: (shares) | |
| Previous fiscal year end | — |
| Granted | — |
| Forfeited | — |
| Vested | — |
| End of the year | — |
| Vested: (shares) | |
| Previous fiscal year end | 20,000 |
| Vested | — |
| Exercised | 8,000 |
| Forfeited | — |
| End of the year | 12,000 |

MEGALOS CO., LTD.

| FY2009 | 2nd issue of stock options |
|---|---|
| Non-vested: (shares) | |
| Previous fiscal year end | — |
| Granted | — |
| Forfeited | — |
| Vested | — |
| End of the year | — |
| Vested: (shares) | |
| Previous fiscal year end | 22,000 |
| Vested | — |
| Exercised | — |
| Forfeited | — |
| End of the year | 22,000 |

| MEGALOS CO., LTD.<br>FY2010 | 1st issue of stock options | 2nd issue of stock options |
|---|---|---|
| Non-vested: (shares) | | |
| Previous fiscal year end | — | 23,000 |
| Granted | — | — |
| Forfeited | — | — |
| Vested | — | 23,000 |
| End of the year | — | — |
| Vested: (shares) | | |
| Previous fiscal year end | 7,900 | — |
| Vested | — | 23,000 |
| Exercised | 5,700 | — |
| Forfeited | — | — |
| End of the year | 2,200 | 23,000 |

| MEGALOS CO., LTD.<br>FY2011 | 1st issue of stock options | 2nd issue of stock options |
|---|---|---|
| Non-vested: (shares) | | |
| Previous fiscal year end | — | 23,000 |
| Granted | — | — |
| Forfeited | — | — |
| Vested | — | — |
| End of the year | — | 23,000 |
| Vested: (shares) | | |
| Previous fiscal year end | 7,900 | — |
| Vested | — | — |
| Exercised | 3,800 | — |
| Forfeited | — | — |
| End of the year | 4,100 | — |

| MEGALOS CO., LTD.<br>FY2012 | 1st issue of stock options | 2nd issue of stock options |
|---|---|---|
| Non-vested: (shares) | | |
| Previous fiscal year end | — | — |
| Granted | 7,900 | 28,000 |
| Forfeited | — | — |
| Vested | 7,900 | — |
| End of the year | — | 28,000 |
| Vested: (shares) | | |
| Previous fiscal year end | — | — |
| Vested | 7,900 | — |
| Exercised | — | — |
| Forfeited | — | — |
| End of the year | 7,900 | — |

*(2) Unit price data*

Nomura Real Estate Holdings, Inc.

| FY2007 | 2nd issue of stock options | 3rd issue of stock options |
|---|---|---|
| Exercise price (¥) | 1 | 3,380 |
| Average price upon exercise (¥) | 1,437 | — |
| Fair value on grant date (¥) | 2,903 | 714 |

Nomura Real Estate Holdings, Inc.

| FY2008 | 2nd issue of stock options | 3rd issue of stock options |
|---|---|---|
| Exercise price (¥) | 1 | 2,255 |
| Average price upon exercise (¥) | 1,423 | — |
| Fair value on grant date (¥) | 2,131 | 770 |

Nomura Real Estate Holdings, Inc.

| FY2009 | 2nd issue of stock options | 3rd issue of stock options |
|---|---|---|
| Exercise price (¥) | 1 | 1,663 |
| Average price upon exercise (¥) | 1,465 | 2,064 |
| Fair value on grant date (¥) | 1,533 | 641 |

Nomura Real Estate Holdings, Inc.

| FY2010 | 1st issue of stock options | 2nd issue of stock options | 3rd issue of stock options |
|---|---|---|---|
| Exercise price (¥) | 1 | 1 | 1,194 |
| Average price upon exercise (¥) | — | 1,531 | 1,645 |
| Fair value on grant date (¥) | 1,119 | 1,119 | 437 |

Nomura Real Estate Holdings, Inc.

| FY2011 | 1st issue of stock options | 2nd issue of stock options | 3rd issue of stock options |
|---|---|---|---|
| Exercise price (¥) | 1 | 1 | 1,457 |
| Average price upon exercise (¥) | 1,441 | 1,468 | — |
| Fair value on grant date (¥) | 1,045 | 1,045 | 315 |

Nomura Real Estate Holdings, Inc.

| FY2012 | 1st issue of stock options | 2nd issue of stock options | 3rd issue of stock options |
|---|---|---|---|
| Exercise price (¥) | 1 | 1 | 1,451 |
| Average price upon exercise (¥) | — | — | — |
| Fair value on grant date (¥) | 1,283 | 1,283 | 454 |

MEGALOS CO., LTD.

| FY2008 | 2nd issue of stock options |
|---|---|
| Exercise price (¥) | 740 |
| Average price upon exercise (¥) | 1,076 |
| Fair value on grant date (¥) | 184 |

MEGALOS CO., LTD.

| FY2009 | 2nd issue of stock options |
|---|---|
| Exercise price (¥) | 1,010 |
| Average price upon exercise (¥) | — |
| Fair value on grant date (¥) | 259 |

MEGALOS CO., LTD.

| FY2010 | 1st issue of stock options | 2nd issue of stock options |
|---|---|---|
| Exercise price (¥) | 1 | 1,093 |
| Average price upon exercise (¥) | 1,124 | — |
| Fair value on grant date (¥) | 983 | 219 |

| MEGALOS CO., LTD. FY2011 | 1st issue of stock options | 2nd issue of stock options |
|---|---|---|
| Exercise price (¥) | 1 | 1,105 |
| Average price upon exercise (¥) | 1,114 | — |
| Fair value on grant date (¥) | 1,033 | 235 |

| MEGALOS CO., LTD. FY2012 | 1st issue of stock options | 2nd issue of stock options |
|---|---|---|
| Exercise price (¥) | 1 | 1,196 |
| Average price upon exercise (¥) | — | — |
| Fair value on grant date (¥) | 1,096 | 192 |

Note: With respect to stock options outstanding at March 31, 2013, the number of stock options is calculated based on the number of shares of common stock which would be required to be issued if all such stock options were to be exercised.

## 4. Method for estimating per share fair value of stock options

The per share fair value of the stock options granted during the fiscal year ended March 31, 2013 (FY2012) was estimated as follows:

(1) Valuation technique used Black-Scholes method

(2) Main base data and estimation methods

a. Nomura Real Estate Holdings, Inc.

| | Nomura Real Estate Holdings, Inc. 1st issue of FY2012 stock options | Nomura Real Estate Holdings, Inc. 2nd issue of FY2012 stock options | Nomura Real Estate Holdings, Inc. 3rd issue of FY2012 stock options |
|---|---|---|---|
| Expected volatility of the share price (Note 1) | 47.6% | 47.6% | 47.6% |
| Expected remaining life of the option (Note 2) | 4.5 years | 4.5 years | 4.5 years |
| Expected dividend (Note 3) | ¥30 ($0.32) per share | ¥30 ($0.32) per share | ¥30 ($0.32) per share |
| Risk-free interest rate (Note 4) | 0.32% | 0.32% | 0.32% |

Notes: 1. Calculated based on the actual stock price for four years and six months (from February 2008 to August 2012).
2. Calculated with an assumption that the stock option is exercised at the middle of the exercise period as the Company does not have sufficient data for a more precise estimation.
3. Based on the expected dividend for the fiscal year ended March 31, 2013 at the grant date.
4. Based on the yield of Japanese government bonds for the period equivalent to the expected remaining life of the option.

b. MEGALOS CO., LTD. (consolidated subsidiary)

| | MEGALOS CO., LTD. 1st issue of FY2012 stock options | MEGALOS CO., LTD. 2nd issue of FY2012 stock options |
|---|---|---|
| Expected volatility of the share price (Note 1) | 18.3% | 25.0% |
| Expected remaining life of the option (Note 2) | 3.5 years | 4.5 years |
| Expected dividend (Note 3) | ¥14 ($0.15) per share | ¥14 ($0.15) per share |
| Risk-free interest rate (Note 4) | 0.22% | 0.31% |

Notes: 1. Volatility of share price for the 1st issues of 2012 stock options were calculated based on the actual stock price for the past three years and six months preceding the grant date; and for the 2nd issue, four years and six months preceding the grant date.
2. Calculated with an assumption that the stock option is exercised at the middle of the exercise period as MEGALOS CO., LTD. does not have sufficient data for a more precise estimation.
3. Based on the expected dividend for the fiscal year ended March 31, 2013.
4. Based on the yield of Japanese government bonds for the period equivalent to the expected remaining life of the option.

## 5. Estimation of the number of vested options

The estimation of the number of vested options is made based on the actual number of forfeited options due to difficulty in reasonably estimating future forfeitures.

## 22. Subsequent Events

*Payment of Dividends*

At the 9th Annual General Meeting of Shareholders held on June 27, 2013, a resolution for the payment of dividends of ¥15.0 ($0.16) per share, ¥2,859 million ($30,398 thousand) in total, to shareholders of record as of March 31, 2013 was approved.

*Stock Acquisition Rights*

The Company has resolved to issue stock acquisition rights as stock options at the meeting of its Board of Directors held on June 27, 2013.

1. Stock acquisition rights with exercise price of ¥1 per share
   (1) Recipients
   Directors of the Company: 4 persons
   Directors and executive officers of the Company's subsidiaries: 74 persons
   (2) Type and number of shares subject to the stock acquisition rights
   Common stock: 163,500 shares
   The number of shares issuable under each stock acquisition right shall be 100 shares.
   (3) The amount per share to be paid at the time of the exercise
   ¥1 per share
   (4) Allotment date
   July 23, 2013
   (5) Exercise period of the stock acquisition rights
   July 23, 2015 – July 22, 2020
   (6) Conditions for assignment of the stock acquisition rights
   Assignment of the stock acquisition rights to third parties requires the approval of the Company's Board of Directors.

2. Stock acquisition rights with exercise price to be determined by reference the market price of the stock at the time of the exercise
   (1) Recipients
   Directors of the Company: 4 persons
   Directors and executive officers of the Company's subsidiaries: 74 persons
   Employees of its subsidiaries: 170 persons
   (2) Type and number of shares subject to the stock acquisition rights
   Common stock: 333,300 shares
   The number of shares issuable under each stock acquisition right shall be 100 shares.
   (3) The amount per share to be paid at the time of the exercise
   The amount to be paid per share shall be the higher of the average closing price of the Company's common stock in regular trading on the Tokyo Stock Exchange in the month preceding the month of the allotment date multiplied by 1.05 (fractional amounts less than ¥1 are to be rounded up) or the closing price on the allotment date (if there is no closing price, the most recent closing price prior to this date).
   (4) Allotment date
   July 23, 2013
   (5) Exercise period of the stock acquisition rights
   July 23, 2015 – July 22, 2020
   (6) Conditions for assignment of the stock acquisition rights
   Assignment of the stock acquisition rights to third parties requires the approval of the Company's Board of Directors.

# Independent Auditors' Report

Building a better working world

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## Independent Auditor's Report

The Board of Directors
Nomura Real Estate Holdings, Inc.

We have audited the accompanying consolidated financial statements of Nomura Real Estate Holdings, Inc. and its subsidiaries, which comprise the consolidated balance sheet as at March 31, 2013, and the consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

*Management's Responsibility for the Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for designing and operating such internal control as management determines is necessary to enable the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

*Auditor's Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. The purpose of an audit of the consolidated financial statements is not to express an opinion on the effectiveness of the entity's internal control, but in making these risk assessments the auditor considers internal controls relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Opinion*

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Nomura Real Estate Holdings, Inc. and its subsidiaries as at March 31, 2013, and their consolidated financial performance and cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

*Convenience Translation*

We have reviewed the translation of these consolidated financial statements into U.S. dollars, presented for the convenience of readers, and, in our opinion, the accompanying consolidated financial statements have been properly translated on the basis described in Note 1.

Ernst & Young ShinNihon LLC

June 27, 2013
Tokyo, Japan

# Group Company Profile

## Nomura Real Estate Development Co., Ltd.

http://www.nomura-re.co.jp/english/index.html

Nomura Real Estate Development conducts a range of businesses. The residential development business provides quality residential accommodation under the PROUD and OHANA brands. Meanwhile, the building business, the commercial facility business, and the logistics facility business plan, develop and manage commercial, logistics and other facilities, including office buildings such as PMO, and GEMS urban-type commercial facilities. In addition, the corporate real estate (CRE) strategic support and corporate brokerage business helps maximize the value of real estate.

## Nomura Building Management Co., Ltd.

http://www.nomura-bm.co.jp/
(Japanese only)

Nomura Building Management handles facility management and efficient property management, as well as the renewal of building interiors. The company provides expertise regarding all aspects of management of buildings.

## Nomura Real Estate Asset Management Co., Ltd.

http://www.nre-am.co.jp/english/index.html

In October 2011, three investment management companies in the Nomura Real Estate Group merged and became one of the largest real estate investment management companies in Japan with more than ¥1 trillion in assets under management. Nomura Real Estate Asset Management provides one-stop shopping for a broad variety of financial products and investment management services that meet a wide range of real estate investment needs, including privately placed real estate funds, to listed real estate investment trusts (REIT), debt investment in domestic real estate, overseas real estate fund of funds, and discretionary investment management contracts with institutional investors.

## Nomura Living Support Co., Ltd.

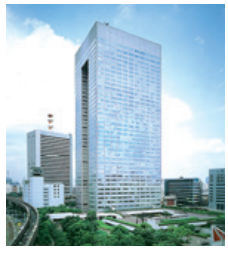
http://www.nomura-ls.co.jp/
(Japanese only)

Nomura Living Support responds to a broad range of customer needs, from managing condominiums to interior coordination and consultation. This company is responsible for the management and maintenance aspects of the Nomura Real Estate Group's residential development, sales and management operations.

## Nomura Real Estate Urban Net Co., Ltd.

http://www.nomura-un.co.jp/
(Japanese only)

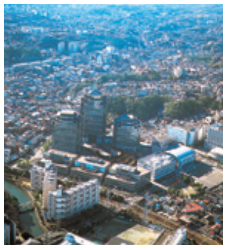
This company provides solutions for satisfying customers in the real estate services and consulting fields. These include residential real estate brokerage for helping customers in changing their place of residence, and commercial real estate brokerage, which addresses the real estate needs of companies and investors. The company also operates a consignment sales business where it sells condominium units and detached housing as a sales agent.



## NREG TOSHIBA BUIIDING Co., Ltd.

http://www.toshiba-building.co.jp/building/index_j.htm
(Japanese only)

NREG TOSHIBA BUILDING offers services spanning the development, leasing and management of office buildings, commercial facilities, warehouses, condominiums and other properties, as well as property brokerage and consulting on corporate real estate (CRE) utilization.



## YBP* Heating and Cooling Supply Co., Ltd.

*** YBP=Yokohama Business Park**

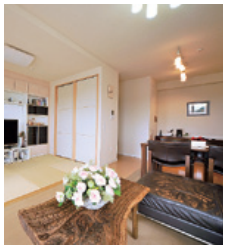
This company is responsible for the supply of heating and cooling services to Yokohama Business Park, a large-scale business facility, through its district heating and cooling system.

Using a "best-mix" system that combines gas and electricity, the company uses energy efficiently to curtail costs and minimize environmental impact.

## Geo-Akamatsu Co., Ltd.

http://www.geo-akamatsu.co.jp/
(Only in Japanese)

Geo-Akamatsu provides a full range of property consulting and other services that maximize its 40 years of accumulated expertise. These services include surveys of commercial facilities, project planning, leasing, commercial space design and property management.



## Nomura Real Estate Reform Co., Ltd.

http://www.nomura-rf.co.jp/
(Only in Japanese)

Nomura Real Estate Reform offers assistance in remodeling and repairing residential accommodation to provide people with comfortable places to live. This includes reform plans that match family growth and lifestyle changes.

## PRIME X. Co., Ltd.

http://www.prime-x.co.jp/
(Only in Japanese)

Based on the accumulated real estate expertise of the Nomura Real Estate Group, Prime X develops Internet advertising businesses that specialize in business in the real estate and housing industries.

Prime X delivers proposals that maximize customer benefits, ranging from the creation of corporate websites and project homepages to creating and managing membership organizations, and handling project sales promotions.

## MEGALOS Co., Ltd.

http://www.megalos.co.jp/
(Only in Japanese)

Under the philosophy of "transforming customer satisfaction into happiness," MEGALOS plans, develops and manages fitness facilities offering top-of-the-line service and equipment that are housed in the best facilities in each area.

# Investor Information

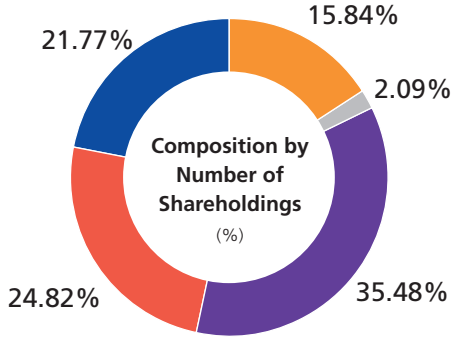
(As of March 31, 2013)

## Corporate Data

| | | | |
|---|---|---|---|
| **Corporate Name:** | Nomura Real Estate Holdings, Inc. | **Date of Establishment:** | June 1, 2004 |
| **Representative:** | Kamezo Nakai, President | **Number of Employees:** | 5,581 (on a consolidated basis) |
| **Head Office:** | Shinjuku Nomura Building,<br>1-26-2 Nishi-Shinjuku, Shinjuku-ku,<br>Tokyo 163-0566, Japan | **Fiscal Year:** | From April 1 to March 31 |
| | | **General Meeting of Shareholders:** | June |

## Stock Information

| | |
|---|---|
| Common Stock: | ¥115,728,103,400 |
| Number of Authorized Shares: | 450,000,000 |
| Number of Shares Issued: | 190,595,500 |
| Market Listing: | First Section of Tokyo Stock Exchange |
| Minimum Trading Unit: | 100 shares |
| Number of Shareholders: | 59,123 |



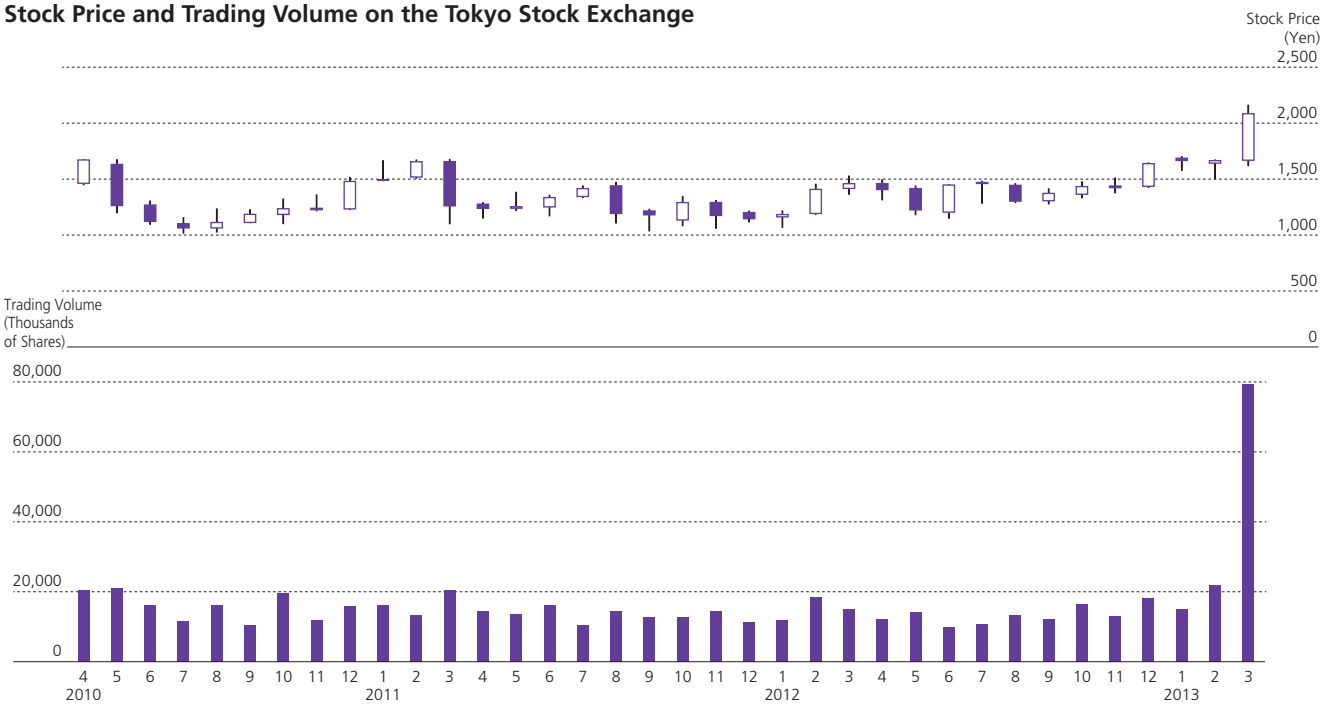

## Ten Largest Shareholders

| Name of Shareholder | No. of shares | Shareholding (%) |
|---|---|---|
| Nomura Land and Building Co., Ltd. | 64,777,500 | 33.98 |
| The Master Trust Bank of Japan, Ltd. (Trust account) | 7,775,400 | 4.07 |
| Japan Trustee Services Bank, Ltd. (Trust account 9) | 5,880,300 | 3.08 |
| Japan Trustee Services Bank, Ltd. (Trust account) | 5,518,700 | 2.89 |
| Nomura Real Estate Holdings Employee Shareholding Association | 3,295,482 | 1.72 |
| RBC IST LONDON–CLIENTS ACCOUNT | 2,180,800 | 1.14 |
| The Bank of New York Mellon as Agent BNYM. AS EA Dutch Pension Omnibus 140016 | 2,152,183 | 1.12 |
| SSBT OD05 Omnibus Account–Treaty Clients | 2,092,700 | 1.09 |
| Nomura Securities Co., Ltd. | 2,058,940 | 1.08 |
| The Bank of NY Treaty JASDEC Account | 1,935,194 | 1.01 |

## Composition by Number of Shareholdings

| | |
|---|---|
| Financial Institutions | (15.84%) |
| Financial Instruments Firms | (2.09%) |
| Other Japanese Firms | (35.48%) |
| Other Foreign Investors | (24.82%) |
| Individuals and Others | (21.77%) |

## Stock Price and Trading Volume on the Tokyo Stock Exchange



NOMURA REAL ESTATE HOLDINGS ANNUAL REPORT 2013 For the Year Ended March 31, 2013


**Nomura Real Estate Holdings, Inc.**

Shinjuku Nomura Building, 1-26-2
Nishi-Shinjuku, Shinjuku-ku, Tokyo 163-0566, Japan

URL: http://www.nomura-re-hd.co.jp/english



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