Bringing Tomorrow Today — NOMURA REAL ESTATE GROUP

NOMURA REAL ESTATE HOLDINGS

Financial Report 2014

For the Year Ended March 31, 2014

Management’s Discussion and Analysis

Trends in the Real Estate Industry

While there are some signs of increases in construction labor and materials prices, the business environment in the condominium market is favorable with contract rates transitioning at high levels on the back of expansion in home loan deductions and low interest rates. Condominium sales in the Tokyo region increased by 23.8% year-on-year to 56,476 units in calendar year 2013, which was the first time supply exceeded 50,000 units since the bankruptcy of Lehman Brothers in 2008. Contract rates at average first month grew by 3.2 percentage points year-on-year to 79.5% in 2013, maintaining a high level and without falling below the peak/trough target of 70% throughout the year.

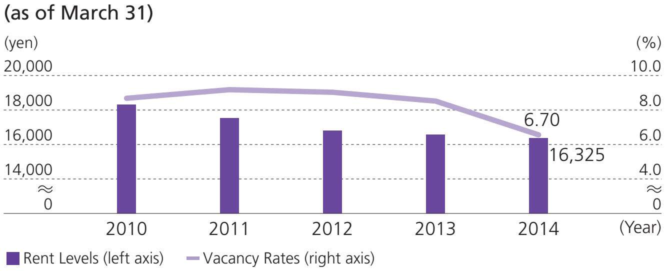
Although rent levels remained soft in the office market, central city vacancy rates are trending downward, and we are seeing movements toward recovery such as rent increases in some large properties. The office building vacancy rate in the five wards of central Tokyo declined by 1.86 percentage points as of March 31, 2014, improving to 6.70%. Average rent levels in the five wards of central Tokyo remained low as of March 31, 2014, falling by ¥179 per *tsubo* (approx. 3.3m^2) compared to March 31, 2013 to ¥16,325 per *tsubo*.

The business environment in the real estate investment market has transitioned firmly with factors including successive new J-REIT listings and public offerings on the back of continued strength in the funding environment and brisk real estate transaction activity. The effects of Abenomics have also driven the Tokyo Stock Exchange REIT Index to high levels. In addition, expected yields on A-class office buildings in the Marunouchi/Otemachi area remain in a downward phase, falling by 0.4 points year-on-year as of April 1, 2014 to 4.0%.

Condominium Supply and Contract Rates in the Tokyo Metropolitan Area (calendar year)

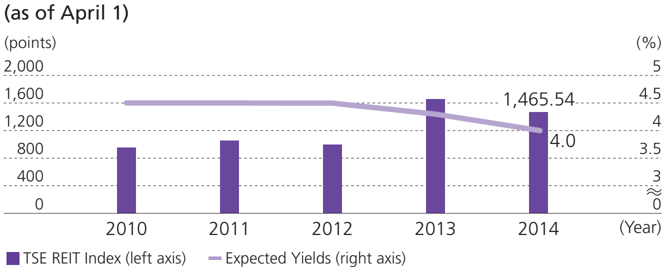
Source: Real Estate Economic Institute Co., Ltd.

Vacancy Rates and Rent Levels in the Five Wards of Tokyo (as of March 31)



Source: Miki Shoji Co., Ltd.

Changes in TSE REIT Index (as of March 31) and Expected Yields* (as of April 1)

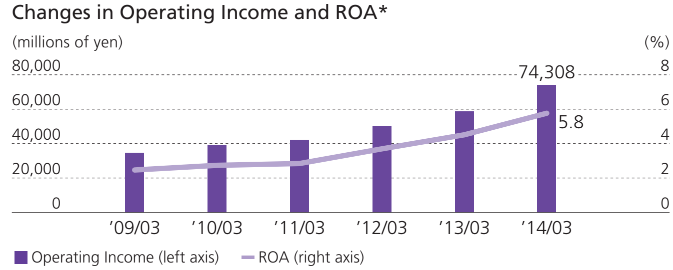


Source: Changes in TSE REIT Index: Bloomberg
Changes in Expected Yields: Japan Real Estate Institute
*Expected yields for A-class office buildings in Marunouchi and Otemachi are shown

Analysis of Operating Results

The Nomura Real Estate Group recorded an impairment loss of ¥16,572 million in connection with a total of nine leased noncurrent assets in which business profitability has declined in the fiscal year ended March 31, 2014. However, the Group achieved an increase in both revenue and income year-on-year due to factors including a large increase in units sold in the core Residential Development Business and recording losses on valuation of equity investments in the fiscal year ended March 31, 2013. As a result, consolidated operating revenue increased by ¥14,275 (2.8%) year-on-year to ¥532,016 million, operating income increased by ¥16,000 million (27.4%) to ¥74,308 million, ordinary income increased by ¥18,251 million (39.8%) to ¥64,058 million, and net income increased by ¥7,487 million (38.7%) to ¥26,844 million. These results for operating revenue, operating income, and ordinary income were all at record levels for the Group. As a result, we achieved the operating income target of ¥65.0 billon stated in phase I (through March 2016) of our Mid- to Long-term Business Plan two years ahead of schedule. Further, we achieved significant growth in ROA, which we consider to be an important management indicator, to 5.8%.

Changes in Operating Income and ROA*



*ROA=(Operating Income+Non-operating Income)/End-period Total Assets

Operating Results by Segment

Residential Development Business

In housing sales, we achieved record sales of 6,209 units (an increase of 460 units year-on-year) including the 600-unit Tokyo waterfront high-rise condominium, PROUD TOWER Shinonome Canal Court. The gross margin ratio trended downward to 21.7% (a decrease of 0.8 percentage points year-on-year); however, it remained at a high level.

Further, housing sales have remained strong, and we concluded contracts in the fiscal year ended March 31, 2014 for 6,999 units (a decrease of 182 year-on-year) including large-scale properties such as Tomihisa Cross Comfort Tower. We achieved contract rates of 72.5% as of the beginning of the fiscal year against our target of 7,000 units for the fiscal year ending March 31, 2015, and have 1,117 contracts scheduled for booking in the fiscal year ending March 31, 2016.

As a result of these factors, operating revenue in the Residential Development Business increased by ¥2,112 million (0.7%) year-on-year to ¥310,580 million and operating income increased by ¥940 million (2.9%) to ¥33,730 million. This was mainly due to the increase in the number of housing units sold.

The number of units, sales, and outstanding contract amounts sold in joint ventures are calculated based on the Company's allotments.

Leasing Business

In the leasing business sector, we continued to strengthen business promotion activities to meet the needs of our tenants. In the fiscal year ended March 31, 2014, LAZONA Kawasaki Toshiba Building (Saiwai-ku, Kawasaki City, Kanagawa Prefecture), a large-size office building with floor area of over 100,000m^2, started operation without vacancies as we leased the entire building to the Toshiba Group. Bono Sagamiono Shopping Center (Minami-ku, Sagamihara City, Kanagawa Prefecture), which opened in March 2013, also contributed to profit growth throughout the year. As a result, the vacancy rate in the Leasing Business remained at the low level of 2.9% as of March 31, 2014.

We proactively promoted development in each business area in property development operations, including Premium Midsize Office (PMO) in office development, GEMS urban-type commercial facilities, and Landport series logistics facilities. In the fiscal year ended March 31, 2014, we booked sales including GEMS Shibuya (Shibuya-ku, Tokyo) and PMO Nihonbashi Odenmacho (Chuo-ku, Tokyo).

As a result, operating revenue in the Leasing Business decreased by ¥9,754 million (9.1%) year-on-year to ¥96,912 million and operating income increased by ¥3,699 million (15.9%) to ¥27,035 million. This was mainly due to factors including improved profitability, despite the decrease in operating revenue through property sales in our property development business.

Investment Management Business

In the Investment Management Business, we focused on stable management of the various funds operated by the Nomura Real Estate Group. In June 2013, we listed Nomura Real Estate Master Fund. Inc., a fund investing in logistics and commercial facilities, on the Tokyo Stock Exchange REIT market. In addition, each of the Group's funds took steps to expand assets under management in the fiscal year ended March 31, 2014 through acquisitions of approximately ¥130 billion.

As a result, operating revenue in the Investment Management Business increased by ¥7,193 million (64.6%) year-on-year to ¥18,326 million and operating income was ¥8,037 (we recorded an operating loss of ¥2,724 million in the fiscal year ended March 31, 2013). This was mainly due to the recording of compensation associated with the acquisition of assets by Nomura Real Estate Master Fund, Inc., income through the sale of SPC properties, and losses on the valuation of equity investments in the fiscal year ended March 31, 2013.

Property Brokerage & CRE Business

In wholesale operations, we focused on making proposals to respond accurately to the needs of companies to effectively use their real estate holdings and business promotion activities quickly recognizing changes in customer needs. Further, the business environment has improved off its lows, and real estate transactions are strong as a result of the increasing investment sentiment of institutional investors including REITS.

In retail operations, we aimed to expand our branch network, mainly in the Tokyo metropolitan area. In the fiscal year ended March 31, 2014, we opened a total of six new branches: Mita Center, Meguro Center, Narimasu Center, Musashi-Kosugi Center, and Kunitachi Center in the Tokyo metropolitan area, and Okamoto Center in the Kansai area. This resulted in our branch network expanding to a total of 57 branches as of March 31, 2014. We also worked toward improving our ability to attract customers and expanding our customer base through initiatives including aiming to enhance our Internet portal site, nomu.com, and launching our new branch brand, Nomura no Chukai + (Plus).

As a result, our property brokerage operations achieved record levels in both transaction value and transaction numbers. Operating revenue in the Property Brokerage & CRE Business increased by ¥3,075 million (11.8%) year-on-year to ¥29,169 million and operating income increased by ¥2,156 million (34.9%) to ¥8,332 million.

Property & Facility Management Business

In building management operations, we continuously worked on increasing the number of properties under management and interior work orders from tenants. In housing management operations, we focused on improving customer satisfaction through the enhancement of our service lineup for tenanted areas. As of April 1, 2014, we merged Nomura Building Management Co., Ltd. and Nomura Living Support Co., Ltd. to further enhance the Property & Facility Management Business. This will enable us to aim to further strengthen and accelerate growth in this business going forward by integrating the technologies we have built up to date in building management businesses with our abilities in housing management.

As a result, operating revenue in the Property & Facility Management Business increased by ¥5,775 million (8.7%) year-on-year to ¥72,151 million and operating income increased by ¥653 million (14.6%) to ¥5,108 million.

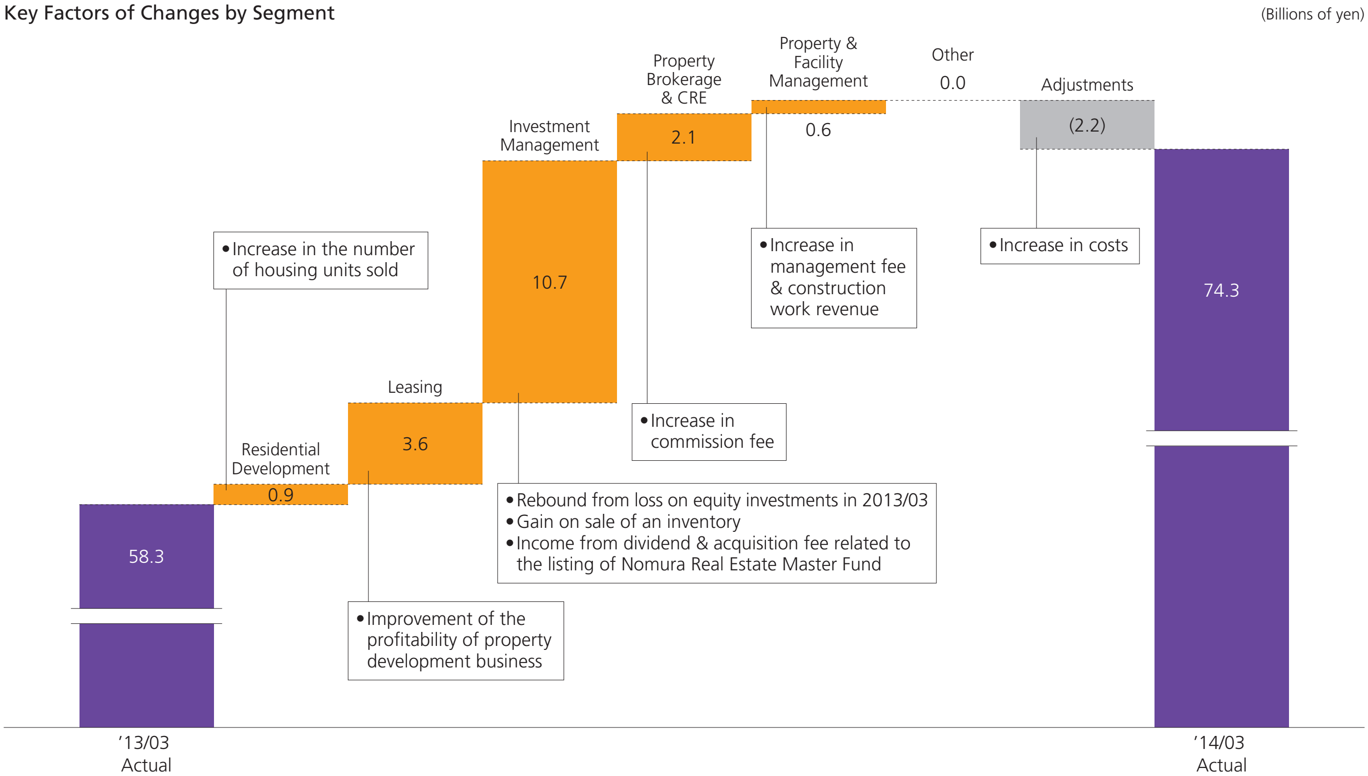
Other Business

In the fitness club business operations, we conducted various campaigns and events to recruit new members and improve customer satisfaction. We opened the Kanagawa/Sagamiono branch of our MEGALOS Sports Club within Bono Sagamiono Shopping Center in May 2013. Also, we opened our first Fitness Field Dayos24 branch in January 2014, Dayos24 Narimasu, which is a compact, 24-hour fitness gym. This resulted in our network expanding to 27 branches as of March 31, 2014.

As a result, operating revenue in the Other Business increased by ¥3,677 million (24.6%) year-on-year to ¥18,640 million and operating income increased by ¥60 million (13.6%) to ¥508 million.

Key Factors of Changes by Segment

(Billions of yen)



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

	2010/03	2011/03	2012/03	2013/03	2014/03
Residential Development Business:					
Condominium sales (units)	3,696	4,497	3,397	5,111	5,491
Detached housing sales (units)	415	580	631	638	718
Gross margin ratio of housing sales (%)	16.1	16.4	23.3	22.5	21.7
Completed housing units held in inventories (units)	535	113	114	42	31
Rental condominium sales for investors (units)	248	138	739	534	133
Leasing Business:					
Vacancy rate at year-end (Offices, commercial facilities) (%)*	4.8	4.0	2.3	2.2	2.9
Investment Management Business:					
Assets under management (millions of yen)	1,204,546	1,126,601	1,153,898	1,127,495	1,132,246
Property Brokerage & CRE Business:					
Brokerage (number of transactions)	5,219	5,774	5,762	6,494	7,437
Brokerage-total transaction value (millions of yen)	386,446	425,274	452,950	540,698	672,774
Property & Facility Management Business:					
Buildings under management (number of transactions)	655	684	696	723	703
Condominiums under management (units)	121,212	127,567	130,987	137,745	147,516
Other Business:					
Members of MEGALOS (people)	128,365	127,707	133,033	132,196	141,564

* Accompanying the change in segments, some items have also been changed from the fiscal year ended March 31, 2012.

Analysis of Financial Position

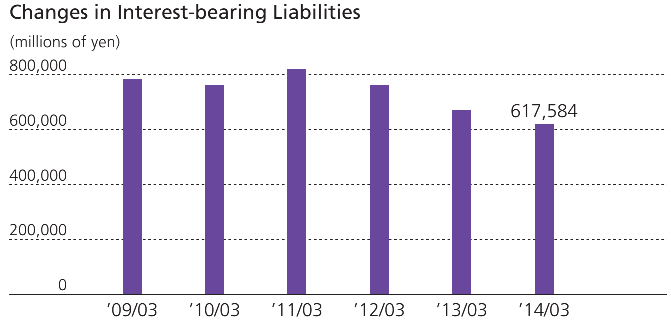
Assets

Total assets were ¥1,313,888 million, which was a decrease of ¥56,061 million compared to March 31, 2013. Current assets decreased by ¥38,125 million compared to March 31, 2013 to ¥496,979 million. This was mainly due to a decrease of ¥22,450 million in equity investments in private funds compared to March 31, 2013 as a result of collections and a decrease of ¥16,243 million in available-for-sale real estate including profit-generating properties. Noncurrent assets were ¥816,909 million, which was a decrease of ¥17,936 million compared to March 31, 2013. This was mainly due to recording impairment losses and a year-on-year decrease of ¥21,300 million in property, plant, and equipment associated with depreciation. We recorded impairment losses of ¥16,572 million in the fiscal year ended March 31, 2014.

Liabilities

Total liabilities were ¥895,191 million, which was a decrease of ¥76,482 million compared with March 31, 2013. Current liabilities decreased by ¥26,760 million compared with March 31, 2013 to ¥288,095 million. This was mainly due to factors including a transfer of ¥10,000 million from noncurrent liabilities into the current portion of bonds while short-term loans payable decreased by ¥14,901 million, deposits received decreased by ¥12,076 million, and notes and accounts payable-trade decreased by ¥11,719 million. Noncurrent liabilities were ¥607,096 million, which was a decrease of ¥49,722 million compared to March 31, 2013. This was mainly due to a decrease of ¥36,784 million in long-term loans payable due to repayments and transferring a portion of bonds payable into current liabilities. As a result of these factors, interest-bearing liabilities were ¥617,584 million, which was a decrease of ¥51,685 million compared to March 31, 2013. Further, our debt-to-equity ratio decreased from 2.0 times at March 31, 2013 to 1.7 times.

Changes in Interest-bearing Liabilities



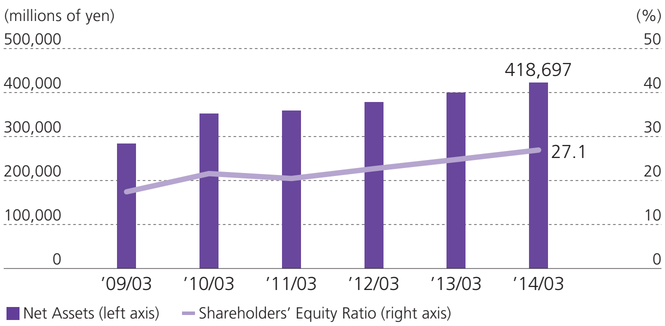
Net Assets

Net assets increased by ¥20,421 million compared to March 31, 2013 to ¥418,697 million. This was mainly due to factors including an increase of ¥21,124 million in retained earnings.

Further, accumulated other comprehensive income was ¥7,333 million, which was a decrease of ¥2,254 million compared to March 31, 2013. This was mainly due to a decrease of ¥2,806 million in the valuation difference on available-for-sale securities resulting from factors including a revaluation associated with decreased unit prices in certain REITs operated by the Nomura Real Estate Group.

As a result, shareholders' equity increased by ¥19,462 million compared to March 31, 2013 to ¥355,680 million. The shareholders' equity ratio increased from 24.5% as at March 31, 2013 to 27.1%.

Changes in Net Assets and Shareholders' Equity Ratio



Credit Rating Situation

Rating and Investment Information, Inc. (R&I) and Japan Credit Rating Agency, Ltd. (JCR) assign the following ratings to the various corporate bonds issued by Nomura Real Estate Holdings:

Rating Agency	Long-term	Short-term
Rating and Investment Information, Inc. (R&I)	A-	a-1
Japan Credit Rating Agency, Ltd. (JCR)	A	J-1

Cash Flows

Cash Flows from Operating Activities

Net cash flows from operating activities in the fiscal year ended March 31, 2014 were an inflow of ¥83,535 million (¥5,760 million down year-on-year). This was mainly due to factors including a decrease in equity investments due to collection of capital we invested in private funds and a decrease in inventories such as profit-generating properties in addition to income before income taxes and minority interests of ¥48,448 million.

Cash Flows from Investing Activities

Net cash flows from investing activities in the fiscal year ended March 31, 2014 were an outflow of ¥20,192 million (¥17,604 million down year-on-year). This was mainly due to factors including expenditure for acquisition of property, plant, and equipment and intangible assets including Lazona Kawasaki Toshiba Building.

Cash Flows from Financing Activities

Net cash flows from financing activities in the fiscal year ended March 31, 2014 were an outflow of ¥57,858 million (¥36,808 million up year-on-year). This was mainly due to factors including repayment of long-term loans payable.

Facilities Situation

In the fiscal year ended March 31, 2014, we invested a total amount of ¥16,174 million in facilities including the NREG Kawasaki Logistics Center (Kawasaki-ku, Kawasaki City, Kanagawa Prefecture).

Business Segment (millions of yen)	'13/03	'14/03	Change
Residential Development	158	293	135
Leasing	29,231	14,176	(15,055)
Investment Management	146	125	(21)
Property Brokerage & CRE	459	492	33
Property & Facility Management	197	245	48
Other	944	571	(373)
Sub-total	31,135	15,902	(15,233)
Adjustments	204	273	69
Total	31,339	16,175	(15,164)

We acquired the following properties in the fiscal year ended March 31, 2014:

Property Name (location)	Segment (use)	Area (m²)	Acquisition Price (millions of yen)
NREG Kawasaki Logistics Center (Kawasaki-ku, Kawasaki City, Kanagawa Prefecture)	Leasing (logistics facility)	Building: 48,965 Land: 27,866	7,905
PMO Yaesudori (Chuo-ku, Tokyo)	Leasing (office building)	Building: 7,074 Land: 931	5,515

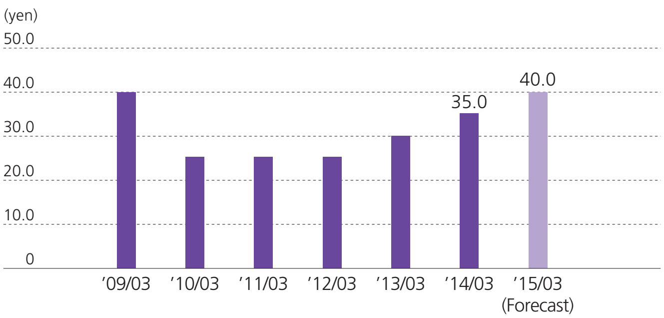
We disposed of the following properties in the fiscal year ended March 31, 2014:

Property Name (location)	Segment (use)	Area (m²)	Book Value (millions of yen)
NF Hongo Building (Bunkyo-ku, Tokyo)	Investment Management (office building)	Building: 6,123 Land: 941	4,681

Basic Policy Concerning Profit Distribution and Dividends for the fiscal years ended March 31, 2014 and ending March 31, 2015

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 the fiscal year ended March 31, 2014, we increased our full-year dividend from the initially planned ¥15 to ¥20, based on our projections for the operating environment and business performance going forward. Together with the already-paid interim dividend, out total annual dividend was ¥35 per share as a result of this, which was an increase of ¥5 per share year-on-year. We intend to increase our dividend by a further ¥5 in the fiscal year ending March 31, 2015, making our total forecast annual dividend ¥40 per share.

Changes in Dividend Payments

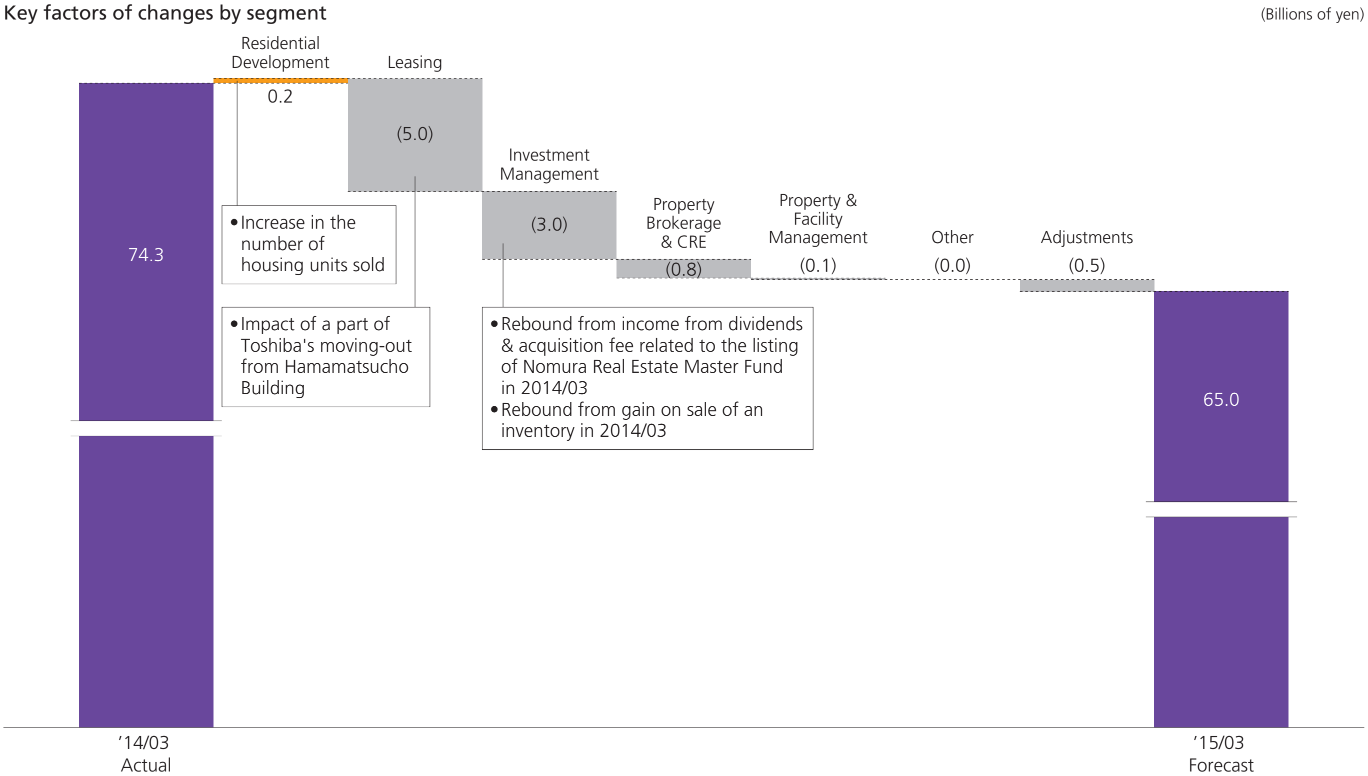


Consolidated Performance Outlook for the fiscal year ending March 31, 2015 (announced on April 30, 2014)

In the fiscal year ending March 31, 2015, we are projecting ¥560,000 million of operating revenue (an increase of ¥27,984 million year-on-year), ¥65,000 million of operating income (a decrease of ¥9,308 million), ¥55,000 million of ordinary income (a decrease of ¥9,058 million), and ¥29,000 million of net income (an increase of ¥2,156 million). While we are projecting an increase in operating revenue due to increased housing unit sales in the Residential Development Business, we are projecting a decrease in operating income and ordinary income due to factors including the impact of the partial relocation of Toshiba Corporation at the Hamamatsucho Building in the Leasing Business, and the drop-off of income recorded in the fiscal year ended March 31, 2014 from asset acquisitions in association with the listing of the Nomura Real Estate Master Fund. Inc. and income from the disposal of SPC properties in the Investment Management Business. Further, we are expecting an increase in net income due to our projection for lower extraordinary losses year-on-year.

Key factors of changes by segment

(Billions of yen)



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, 2014.

(1) Trends in the real estate market

The Group's performance for the fiscal year ended March 31, 2014 resulted in increased revenue and income compared to the previous fiscal year. However, fears over the stagnation in overseas economies and slowing of rush demand following the increase in the consumption tax 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, 2014 stood at ¥617,584 million, down ¥51,685 million from a year earlier (equivalent to 47.0% of total assets, 1.9 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, 2014, Nomura Land and Building owned 33.9% 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, 2013 and 2014

	(Millions of yen)		(Thousands of U.S.dollars) (Note 1)
ASSETS	2013	2014	2014
Current Assets:			
Cash and deposits (Notes 2(3) and 3)	¥ 42,499	¥ 45,484	$ 441,940
Notes and accounts receivable-trade	13,259	14,771	143,519
Short-term investment securities(Notes 2(3), 3 and 4)	20,000	22,500	218,616
Real estate for sale (Note 6)	61,291	45,048	437,698
Real estate for sale in process	224,409	217,839	2,116,585
Land held for development	83,603	85,975	835,353
Equity investments (Notes 3 and 4)	29,578	7,129	69,265
Deferred tax assets (Note 10)	16,293	7,385	71,753
Other	44,374	51,026	495,782
Allowance for doubtful accounts	(202)	(178)	(1,726)
Total current assets	535,104	496,979	4,828,785
Investments and Other Assets:			
Investment securities (Notes 3 and 4)	46,185	47,630	462,792
Lease and guarantee deposits (Note 3)	17,709	19,224	186,783
Deferred tax assets (Note 10)	21,031	21,860	212,399
Other	3,116	2,720	26,430
Allowance for doubtful accounts	(1)	(1)	(14)
Total investments and other assets	88,040	91,433	888,390
Property, Plant and Equipment:			
Land (Notes 6 and 15)	483,759	467,610	4,543,436
Buildings and structures (Notes 6 and 15)	354,525	360,252	3,500,310
Construction in progress (Note 6)	910	875	8,502
Machinery and equipment (Note 6)	9,460	9,960	96,769
Other	1,691	1,792	17,411
	850,345	840,489	8,166,428
Accumulated depreciation	(112,946)	(124,396)	(1,208,661)
Net property, plant and equipment	737,399	716,093	6,957,767
Intangible Assets	9,406	9,383	91,164
Total Assets	¥1,369,949	¥1,313,888	$12,766,106

See notes to consolidated financial statements.

LIABILITIES AND NET ASSETS	(Millions of yen) 2013	2014	(Thousands of U.S.dollars) (Note 1) 2014
Current Liabilities:			
Notes and accounts payable-trade	¥ 49,348	¥ 37,629	$ 365,617
Short-term loans payable (Notes 3, 5 and 6)	167,585	152,684	1,483,517
Current portion of bonds payable (Notes 3 and 5)	—	10,000	97,163
Income taxes payable (Note 10)	6,448	8,091	78,619
Deposits received	21,252	9,176	89,152
Provision for bonuses	4,952	6,088	59,151
Provision for directors' bonuses	434	586	5,695
Provision for loss on business liquidation	149	113	1,097
Provision for loss on disaster	303	0	0
Accounts payable-other	17,147	11,941	116,020
Accrued interests	2,010	1,604	15,585
Accrued consumption taxes	1,438	2,805	27,257
Advanced received	35,976	42,556	413,489
Other	7,813	4,822	46,851
Total current liabilities	314,855	288,095	2,799,213
Noncurrent Liabilities:			
Bonds payable (Notes 3, 5 and 6)	33,000	23,000	223,475
Long-term loans payable (Notes 3, 5 and 6)	468,684	431,900	4,196,463
Lease and guarantee deposits received (Note 6)	55,189	57,124	555,033
Deferred tax liabilities (Note 10)	70,618	67,422	655,089
Deferred tax Liabilities for land revaluation	4,537	4,537	44,085
Net defined benefit liability (Note 7)	—	14,902	144,790
Provision for retirement benefits (Note 7)	15,291	—	—
Provision for loss on subleasing business	1,115	473	4,599
Other	8,384	7,738	75,179
Total noncurrent liabilities	656,818	607,096	5,898,713
Total Liabilities	971,673	895,191	8,697,926
Net Assets:			
Shareholders' equity (Note 11):			
Capital stock	115,728	116,024	1,127,324
Capital surplus	93,057	93,353	907,052
Retained earnings	117,848	138,972	1,350,290
Treasury stock	(2)	(2)	(25)
Total shareholder's equity	326,631	348,347	3,384,641
Accumulated other comprehensive income:			
Valuation difference on available-for-sale securities	2,116	(690)	(6,704)
Deferred gains or losses on hedges	238	25	243
Revaluation reserve for land	7,224	7,224	70,191
Foreign currency translation adjustment	9	32	312
Remeasurements of defined benefit plans (Note 7)	—	742	7,210
Total accumulated other comprehensive income	9,587	7,333	71,252
Subscription rights to shares:	952	1,274	12,375
Minority interests:	61,106	61,743	599,912
Total Net Assets	398,276	418,697	4,068,180
Total Liabilities and Net Assets	¥1,369,949	¥1,313,888	$12,766,106

See notes to consolidated financial statements.

Consolidated Statement of Income

Nomura Real Estate Holdings, Inc. and its subsidiaries
Years Ended March 31, 2013 and 2014

	(Millions of yen)		(Thousands of U.S.dollars) (Note 1)
Operating Revenues and Expenses	2013	2014	2014
Operating Revenue:	¥517,741	¥532,016	$5,169,221
Operating revenue	517,741	532,016	5,169,221
Operating Expenses:	459,433	457,708	4,447,224
Operating cost	383,169	372,680	3,621,070
Selling, general and administrative expenses	76,264	85,028	826,154
Operating Income	58,308	74,308	721,997
Other Income and Expenses	(23,314)	(25,860)	(251,267)
Interest income	82	77	748
Dividends income	3,461	887	8,621
Equity in earnings of affiliates	2	10	93
Gain on sales of noncurrent assets (Note 8)	336	544	5,286
Gain on reversal of asset retirement obligations	257	0	0
Reversal of provision for loss on disaster	—	295	2,866
Compensation income	—	122	1,189
Interest expenses	(12,542)	(10,026)	(97,416)
Impairment loss (Note 9)	(11,405)	(16,572)	(161,021)
Other, net	(3,505)	(1,197)	(11,633)
Income before Income Taxes and Minority Interests	34,994	48,448	470,730
Income Taxes (Note 10):			
Income taxes-current	11,546	13,829	134,360
Income taxes-deferred	1,685	6,284	61,055
Total Income Taxes	13,231	20,113	195,415
Income before minority interests	21,763	28,335	275,315
Minority interests in income	2,406	1,491	14,490
Net Income	¥ 19,357	¥ 26,844	$260,825

See notes to consolidated financial statements.

Consolidated Statement of Comprehensive Income

Nomura Real Estate Holdings, Inc. and its subsidiaries
Years Ended March 31, 2013 and 2014

	(Millions of yen)		(Thousands of U.S.dollars) (Note 1)
	2013	2014	2014
Income before Minority Interests	¥21,762	¥28,335	$275,315
Other Comprehensive Income (Note 18):			
Valuation difference on available-for-sale securities	4,161	(2,809)	(27,289)
Deferred gains or losses on hedges	(167)	(213)	(2,069)
Revaluation reserve for land	(0)	(0)	(1)
Share of other comprehensive income of affiliates accountedfor using the equity method	839	24	231
Total other comprehensive income	4,833	(2,998)	(29,128)
Comprehensive Income (Note 18)	¥26,595	¥25,337	$246,187
(Breakdown)			
Comprehensive income attributable to shareholders of the parent	¥24,185	¥23,849	$231,724
Comprehensive income attributable to minority interests	2,410	1,488	14,463

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, 2013 and 2014

	Number of shares issued	Millions of yen: 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	Remeasurements of defined benefit plans	Subscription rights to shares	Minority interests	Total net assets
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)
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
Balance at April 1,2013	190,595,500	¥115,728	¥93,057	¥117,848	¥(2)	¥ 2,116	¥ 238	¥7,224	¥ 9	—	¥ 952	¥61,106	¥398,276
Issuance of new shares	311,300	296	296	—	—	—	—	—	—	—	—	—	592
Dividends from surplus	—	—	—	(5,720)	—	—	—	—	—	—	—	—	(5,720)
Net income	—	—	—	26,844	—	—	—	—	—	—	—	—	26,844
Purchases of treasury stock	—	—	—	—	(0)	—	—	—	—	—	—	—	0
Net changes of items other than shareholders' equity	—	—	—	—	—	(2,806)	(213)	(0)	23	742	322	637	(1,295)
Balance at March 31,2014	190,906,800	¥116,024	¥93,353	¥138,972	¥(2)	¥ (690)	¥ 25	¥7,224	¥ 32	¥742	¥1,274	¥61,743	¥418,697

	(Thousands of U.S. dollars) (Note 1): Capital stock	Capital surplus	Retained earnings	Treasury stock	Valuation difference on available-for-sale securities	Deferred gains/losses on hedges	Revaluation reserve for land	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Subscription rights to shares	Minority interests	Total net assets
Balance at April 1,2013	$1,124,447	$904,175	$1,145,053	$(23)	$20,559	$2,312	$70,192	$81	—	$9,245	$593,724	$3,869,765
Issuance of new shares	2,877	2,877	—	—	—	—	—	—	—	—	—	5,754
Dividends from surplus	—	—	(55,588)	—	—	—	—	—	—	—	—	(55,588)
Net income	—	—	260,825	—	—	—	—	—	—	—	—	260,825
Purchases of treasury stock	—	—	—	(2)	—	—	—	—	—	—	—	(2)
Net changes of items other than shareholders' equity	—	—	-	—	(27,263)	(2,069)	(1)	231	7,210	3,130	6,188	(12,574)
Balance at March 31,2014	$1,127,324	$907,052	$1,350,290	$(25)	$(6,704)	$243	$70,191	$312	$7,210	$12,375	$599,912	$4,068,180

See notes to consolidated financial statements.

Note: The number of issued shares outstanding increased by 138,600 shares and 311,300 shares in the years ended March 31, 2013 and 2014, 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, 2013 and 2014

	(Millions of yen)		(Thousands of U.S.dollars) (Note 1)
Cash Flows	2013	2014	2014
Cash Flows from Operating Activities:			
Income Before Income Taxes and Minority Interests	¥ 34,994	¥ 48,448	¥ 470,730
Depreciation and Amortization	13,514	14,333	139,266
Impairment Loss	11,405	16,572	161,021
Loss (gain) on sales of property, plant and equipment	(336)	(544)	(5,286)
Equity in (Earnings) Losses of Affiliates	(2)	(10)	(93)
Increase (Decrease) in Allowance for Doubtful Accounts	(6)	(25)	(240)
Increase (Decrease) in Provision for Retirement Benefits	(328)	(15,291)	(148,577)
Increase (Decrease) in Provision for Loss on Business Liquidation	72	(37)	(355)
Increase (Decrease) in Provision for Loss on Subleasing Business	(468)	(642)	(6,235)
Increase (Decrease) in Provision for Loss on Disaster	(110)	(303)	(2,946)
Increase (Decrease) in Net Defined Benefit Liability	—	14,902	144,790
Interest and Dividends Income	(3,543)	(964)	(9,369)
Interest Expenses	12,542	10,026	97,416
Decrease (Increase) in Notes and Accounts Receivable-trade	(72)	(1,512)	(14,687)
Decrease (Increase) in Inventories	(2,315)	20,500	199,185
Decrease (Increase) in Equity Investments	12,317	22,450	218,131
Increase (Decrease) in Notes and Accounts Payable-trade	12,996	(11,719)	(113,861)
Increase (Decrease) in Deposits Received	6,776	(12,076)	(117,335)
Other, Net	13,592	(77)	(755)
Subtotal	111,028	104,031	1,010,800
Interest and Dividends Income Received	2,557	1,811	17,598
Interest Expenses Paid	(12,837)	(10,431)	(101,354)
Income Taxes Paid	(11,453)	(11,876)	(115,393)
Net cash Provided by Operating Activities	89,295	83,535	811,651
Cash Flows from Investing Activities:			
Purchase of Investment Securities	(371)	(9,252)	(89,899)
Proceeds from sales and liquidation of investment securities	393	2,590	25,169
Purchase of Property, Plant and Equipment and Intangible Assets	(18,963)	(21,939)	(213,165)
Proceeds from Sales of Property, Plant and Equipment and Intangible Assets	7,832	6,953	67,555
Payments of Loans Receivable	(8)	0	0
Collection of Loans Receivable	25	17	169
Payments for Lease and Guarantee Deposits	(996)	(574)	(5,580)
Proceeds from Collection of Lease and Guarantee Deposits	6,830	1,690	16,423
Repayments of Lease and Guarantee Deposits Received	(4,792)	(2,556)	(24,831)
Proceeds from Lease and Guarantee Deposits Received	3,893	2,167	21,055
Other, Net	3,569	712	6,917
Net cash used in investing activities	(2,588)	(20,192)	(196,187)
Cash Flows from Financing Activities:			
Net Increase (Decrease) in Short-term Loans Payable	7,000	(8,200)	(79,673)
Increase (Decrease) in Commercial Papers	—	—	—
Repayments of Finance Lease Obligations	(196)	(187)	(1,806)
Proceeds from Long-term Loans Payable	39,900	82,600	802,565
Repayments of Long-term Loans Payable	(136,193)	(126,085)	(1,225,080)
Proceeds from Issuance of common stock	85	428	4,162
Proceeds from Issuance of common stock to Minority Shareholders	6	33	325
Purchase of Treasury Stock	0	0	(2)
Cash Dividends Paid	(5,238)	(5,720)	(55,588)
Cash Dividends Paid to Minority Shareholders	(30)	(727)	(7,068)
Net cash used in Financing Activities	(94,666)	(57,858)	(562,165)
Net Increase (Decrease) in Cash and Cash Equivalents	(7,959)	5,485	53,299
Cash and Cash Equivalents at Beginning of the Fiscal Year	70,456	62,497	607,238
Cash and Cash Equivalents at End of the Fiscal Year (Notes 2(3))	¥ 62,497	¥ 67,982	¥ 660,537

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Nomura Real Estate Holdings, Inc. and its subsidiaries
March 31, 2013 and 2014

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, 2014 of ¥102.92=U.S.$1. The approximate rate of exchange prevailing at June 27, 2014 was ¥101.55=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 12.

(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, 2013 and 2014 were ¥2,964 million and ¥1 million ($12 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

To calculate retirement benefit obligations, the estimated amount of retirement benefits attributable to the fiscal year is determined based on the straight-line attribution method.

Prior service costs are amortized as incurred by the straight-line method over 10 years, which is within the average number of remaining service years of the eligible employees.

Actuarial gains and losses are amortized in the following fiscal year in which the gain or loss is recognized by the straight-line method mainly over 10 years, which is within the average number of remaining service years 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, 2013 and 2014 were ¥1,764.05 and ¥1,863.12 ($18.10), respectively.
Net income per share for the years ended March 31, 2013 and 2014 was ¥101.61 and ¥140.70 ($1.37), respectively.
Diluted net income per share for the years ended March 31, 2013 and 2014 was ¥101.44 and ¥140.23 ($1.36), 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, 2013 and 2014, 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) Changes in Accounting Policies

(Application of Accounting Standard for Retirement Benefits)

The Group has applied the "Accounting Standard for Retirement Benefits" (Accounting Standards Board of Japan (ASBJ) Statement No.26 issued on May 17, 2012; hereinafter the "Retirement Benefits Accounting Standard") and the "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No.25 issued on May 17, 2012; hereinafter the "Guidance") from the end of the fiscal year ended March 31, 2014 (excluding the provisions stipulated in the main clause of Article 35 of the Retirement Benefits Accounting Standard and in the main clause of Article 67 of the Guidance).

In accordance with this, the company's retirement benefit liabilities are now calculated as net defined benefit liability, which is the amount of retirement benefits after deduction of pension assets, and unrecognized actuarial gains and losses and unrecognized prior service costs are included in net difined benefit liability.

The adoption of the accounting standards for retirement benefits and the Guidance is subject to the transitional treatment stipulated by Article 37 of the Retirement Benefits Accounting Standard, and the amount of financial impact on the consolidated financial statements as a result of the adoption of this accounting standard is added to / deducated from remeasurements of defined benefit plans in accumulated other comprehensive income.

As a result, the net defined benefit liability as of March 31, 2014 totaled ¥14,902 million ($144,790 thousand) and the accumulated other comprehensive income increased by ¥742 million ($7,210 thousand). Net assets per share increased by ¥3.89 ($0.04).

(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

Revisions apply mainly to the accounting treatments for unrecognized actuarial gains and losses as well as unrecognized prior service costs, the calculation methods for retirement benefit obligations as well as service costs, and the enhancement of disclosure.

(b) Scheduled date of adoption

The revision of calculation methods for retirement benefit obligations and service costs is effective 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 of the adoption of revised calculation methods for retirement benefit obligations and service costs on the consolidated balance sheets 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 evaluates 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 13. 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, 2013 and 2014 are as follows. Items for which fair value is extremely difficult to determine have not been included.

	Book value	Fair value	Difference
2013	(Millions of yen)	(Millions of yen)	(Millions of yen)
(1) Cash and deposits	¥ 42,499	¥ 42,499	¥ —
(2) Short-term investment securities	20,000	20,000	—
(3) Investment securities [1]	31,264	31,294	30
Total assets	93,763	93,793	30
(1) Short-term loans payable [2]	41,500	41,500	-
(2) Bonds payable	33,000	34,426	1,426
(3) Long-term loans payable [2]	594,769	609,261	14,492
Total liabilities	669,269	685,187	15,918
Derivative transactions [4]	¥ 2	¥ 2	¥ —

	Book value		Fair value		Difference	
2014	(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	¥ 45,484	$ 441,940	¥ 45,484	$ 441,940	¥ —	—
(2) Short-term investment securities	22,500	218,616	22,500	218,616	—	—
(3) Investment securities [1]	32,846	319,137	32,874	319,411	28	274
Total assets	100,830	979,693	100,858	979,967	28	274
(1) Short-term loans payable [2]	33,300	323,552	33,300	323,552	—	—
(2) Bonds payable[3]	33,000	320,638	34,469	334,909	1,469	14,271
(3) Long-term loans payable [2]	551,284	5,356,428	563,203	5,472,240	11,919	115,812
Total liabilities	617,584	6,000,618	630,972	6,130,701	13,388	130,083
Derivative transactions [4]	¥ (3)	$ (33)	¥ (3)	$ (33)	¥ —	$ —

Notes: 1. Includes government bonds, etc. presented as lease and guarantee deposits on the Consolidated Balance Sheets.
2. Current portion of long-term loans payable is included in (3) Long-term loans payable.
3. Current portion of bonds is included in (2) Bonds payable.
4. 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.)

¥20,249 million as of March 31, 2013

¥17,809 million ($166,045 thousand) as of March 31, 2014

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 book values approximate fair values, their book values are deemed as their fair values.

(2) Short-term investment securities

As these instruments, primarily comprising negotiable deposits, are settled within a short term and their book values approximate fair values, their book values are deemed 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 book values approximate fair values, their book values are deemed 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 13. Derivative Financial Instruments for information on derivative transactions.

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

	Book value
2013	(Millions of yen)
Investment in silent partnership	¥45,419

	Book value	
2014	(Millions of yen)	(Thousands of U.S. dollars)
Investment in silent partnership	¥22,921	$222,705

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

2013	Within 1 year (Millions of yen)	1–5 years (Millions of yen)	5–10 years (Millions of yen)	Over 10 years (Millions of yen)
Cash and deposits	¥42,416	¥ —	¥ —	¥—
Short-term investment				
securities and investment securities				
Held-to-maturity debt securities	—	—	—	—
Government and municipal bonds, etc.	—	320	604	—
Corporate bonds	—	—	—	—
Available-for-sale securities with maturities	—	—	—	—
Debt securities	—	—	—	—
Others	20,000	—	—	—
Total	¥62,416	¥320	¥604	¥—

	Within 1 year		1–5 years		5–10 years		Over 10 years	
2014	(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)
Cash and deposits	¥45,436	$441,466	¥ —	$ —	¥ —	$ —	¥ —	$ —
Short-term investment								
securities and investment securities								
Held-to-maturity debt securities								
Government and municipal bonds, etc.	65	632	308	2,995	672	6,529	—	—
Corporate bonds	—	—	—	—	—	—	—	—
Available-for-sale securities with maturities								
Debt securities	—	—	—	—	—	—	—	—
Others	22,500	218,616	—	—	—	—	—	—
Total	¥68,001	$660,714	¥308	$2,995	¥672	$6,529	¥ —	$ —

5. Repayment schedule for bonds payable and long-term loans payable at March 31, 2013 and 2014

2013	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	¥ 41,500	¥ —	¥ —	¥ —
Bonds payable	—	10,000	3,000	—
Long-term loans payable	126,085	106,135	115,748	88,700
Total	¥167,585	¥116,135	¥118,748	¥88,700

2013	4-5 years (Millions of yen)	Over 5 years (Millions of yen)
Short-term loans payable	¥ —	¥ —
Bonds payable	10,000	10,000
Long-term loans payable	59,300	98,800
Total	¥ 69,300	¥108,800

2014	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	¥ 33,300	$ 323,552	¥ —	$ —	¥ —	$ —	¥ —	$ —
Bonds payable	10,000	97,163	3,000	29,149	¥ —	$ —	10,000	97,163
Long-term loans payable	119,384	1,159,965	102,500	995,919	91,300	887,097	59,300	576,176
Total	¥162,684	$1,580,680	¥105,500	$1,025,068	¥91,300	$887,097	¥69,300	$673,339

2014	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	97,163
Long-term loans payable	68,300	663,622	110,500	1,073,649
Total	¥68,300	$663,622	¥120,500	$1,170,812

4. Securities

The following tables summarize the acquisition cost, book value and fair value of securities held by the Group as of March 31, 2013 and 2014.

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

2013	Book value (Millions of yen)	Fair value (Millions of yen)	Difference (Millions of yen)
Securities whose fair value exceeds book value:			
Government and municipal bonds, etc.	¥720	¥752	¥32
Subtotal	720	752	32
Securities whose fair value does not exceed book value:			
Government and municipal bonds, etc.	214	212	(2)
Subtotal	214	212	(2)
Total	¥934	¥964	¥30

2014	Book value (Millions of yen)	Fair value (Millions of yen)	Difference (Millions of yen)	Book value (Thousands of U.S. dollars)	Fair value (Thousands of U.S. dollars)	Difference (Thousands of U.S. dollars)
Securities whose fair value exceeds book value:						
Government and municipal bonds, etc.	¥ 967	¥ 996	¥29	$ 9,401	$ 9,683	$282
Subtotal	967	996	29	9,401	9,683	282
Securities whose fair value does not exceed book value:						
Government and municipal bonds, etc.	85	84	-1	822	814	-8
Subtotal	85	84	-1	822	814	-8
Total	¥1,052	¥1,080	¥28	$10,223	$10,497	$274

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

2013	(Millions of yen) Acquisition cost	Book value	Difference
Securities whose book value exceeds acquisition cost:			
Stocks	¥ 637	¥ 1,234	¥ 597
Other	20,480	23,686	3,206
Subtotal	21,117	24,920	3,803
Securities whose book value does not exceed acquisition cost:			
Stocks	6	5	(1)
Other	20,469	20,362	(107)
Subtotal	20,475	20,367	(108)
Total	¥41,592	¥45,287	¥ 3,695

	(Millions of yen)			(Thousands of U.S. dollars)		
2014	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference
Securities whose book value exceeds acquisition cost:						
Stocks	¥ 634	¥ 1,350	¥ 716	$ 6,163	$ 13,118	$ 6,955
Other	12,080	13,202	1,122	117,372	128,277	10,905
Subtotal	12,714	14,552	1,838	123,535	141,395	17,860
Securities whose book value does not exceed acquisition cost:						
Stocks	373	357	(16)	3,630	3,474	(156)
Other	40,032	37,479	(2,553)	388,958	364,156	(24,802)
Subtotal	40,405	37,836	(2,569)	392,588	367,630	(24,958)
Total	¥53,119	¥52,388	¥ (731)	$516,123	$509,025	$ (7,098)

(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, 2014. There were no sales of available-for-sale securities during the year ended March 31, 2013.

2014

	(Millions of yen)			(Millions of yen)		
Type	Sales amount	Aggregate gains	Aggregate losses	Sales amount	Aggregate gains	Aggregate losses
Stocks	¥27	¥19	¥1	$258	$181	$8
Total	¥27	¥19	¥1	$258	$181	$8

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

Short-term loans payable as of March 31, 2013 and 2014 mainly consisted of borrowings from banks with a weighted-average interest rate of 0.4% in 2013 and 0.3% in 2014.

Long-term loans payable and bonds payable as of March 31, 2013 and 2014 are summarized as follows:

	(Millions of yen)		(Thousands of U.S.dollars)
	2013	2014	2014
Unsecured bonds (1.7%), due 2014	¥ 10,000	¥ 10,000	$ 97,163
Unsecured bonds (2.1%), due 2017	10,000	10,000	97,163
Unsecured bonds (2.0%), due 2020	10,000	10,000	97,163
Secured bonds (1.8%), due 2016	3,000	3,000	29,149
Long-term loans payable[1]			
Secured	18,080	13,429	130,476
Unsecured	576,689	537,855	5,225,952
Lease obligations[2]	1,278	1,233	11,985
Subtotal	629,047	585,517	5,689,051
Less amounts due within one year	(126,252)	(129,529)	(1,258,543)
	¥502,795	¥455,988	$4,430,508

Notes: 1. Long-term loans payable as of March 31, 2013 and 2014 mainly consisted of borrowings from domestic Japanese banks and life insurance companies with weighted-average interest rates of 1.0% in 2013 and 0.9% in 2014.

Notes: 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, 2014.

Years ending March 31	(Millions of yen)	(Thousands of U.S. dollars)
2015	¥102,500	$ 995,919
2016	91,300	887,097
2017	59,300	576,176
2018	68,300	663,622
2019 and thereafter	110,500	1,073,649
	¥431,900	$4,196,463

The following table shows the maturities of lease obligations subsequent to March 31, 2014.

Years ending March 31	(Millions of yen)	(Thousands of U.S. dollars)
2015	¥ 119	$ 1,151
2016	87	849
2017	61	588
2018	34	331
2019 and thereafter	787	7,652
	¥1,088	$10,571

6. Pledged Assets and Secured Liabilities

Pledged assets and secured liabilities at March 31, 2013 and 2014 are summarized as follows:

(1) Pledged Assets and Secured Liabilities

	(Millions of yen)		(Thousands of U.S.dollars)
	2013	2014	2014
Pledged assets:			
Buildings and structures	¥ 8,612	¥1,278	$12,415
Land	7,455	1,263	12,276
Other property and equipment	28	9	88
	¥16,095	¥2,550	$24,779
Secured liabilities:			
Short-term loans payable (Including the current portion of long-term loans payable)	¥ 293	¥ 57	$ 554
Long-term loans payable (Repayment periods of more than one year)	57	—	—
Lease and guarantee deposits received	67	60	580
Total	¥ 417	¥ 117	$ 1,134

(2) As of March 31, 2013, cash and deposits in the amount of ¥2 million and investment securities in the amount of ¥2 million are pledged as collateral for trade payables and a portion of liabilities of investee companies, respectively.
As of March 31, 2014, cash and deposits in the amount of ¥2 million ($19 thousand) and investment securities in the amount of ¥10 million ($97 thousand) are pledged as collateral for trade payables and a portion of liabilities of investee companies, respectively.

(3) Non-recourse Loans and Bonds

Non-recourse loans and bonds are as follows:

	(Millions of yen)		(Thousands of U.S.dollars)
	2013	2014	2014
Non-recourse short-term loans payable	¥ 4,359	¥13,372	$129,922
Non-recourse long-term loans payable	13,371	—	—
Non-recourse bonds payable	3,000	3,000	29,149
	¥20,730	¥16,372	$159,071

Pledged assets for non-recourse loans and bonds are as follows:

	(Millions of yen)		(Thousands of U.S.dollars)
	2013	2014	2014
Cash and Deposits	¥ 4,279	¥ 3,890	$ 37,794
Buildings and structures	7,757	5,025	48,828
Land	35,976	25,472	247,493
Other property and equipment	49	46	445
	¥48,061	¥34,433	$334,560

7. Retirement Benefits

Retirement Benefits for the fiscal year ended March 31, 2013 is as follows:

(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 lump-sum pension plans. 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 accounts 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

2013	(Millions of yen)
(1) Projected benefit obligation	¥ (26,800)
(2) Plan assets at fair value	11,614
(3) Unfunded retirement benefit obligation (1)+(2)	(15,186)
(4) Unrecognized actuarial gains or losses	2,862
(5) Unrecognized prior service costs	(2,967)
(6) Provision for retirement benefits (3)+(4)+(5)	¥ (15,291)

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

(3) Details of Retirement Benefit Expenses

2013	(Millions of yen)
(1) Service costs	¥1,346
(2) Interest costs	404
(3) Less: Expected return on plan assets	(183)
(4) Amortization of actuarial gains or losses	344
(5) Amortization of prior service costs	(396)
(6) Additional retirement benefit payments	37
(7) Other	171
Retirement benefit expenses	¥1,723

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

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

2013	(Millions of yen)
Discount rate	1.0~1.3%
Expected rate of return on plan assets	2.0%

Retirement Benefits for the fiscal year ended March 31, 2014 is as follows:

(1) Outline of Retirement Benefit Plans

The Company does not have a retirement benefit plan. As defined benefit plans, certain subsidiaries have the lump-sum pension plan and the defined benefit corporate pension plan, and defined contribution pension plans. In certain cases, additional retirement benefit payments may be made. For the lump-sum pension plan and the defined benefit corporate pension plan used by certain subsidiaries, net defined benefit liability and retirement benefit expenses are calculated by simplified method.

(2)Defined Benefit Plans

A reconciliation of the changes in retirement benefit obligations for the fiscal year ended March 31, 2014 (excluding plans applying simplified method)

2014	(Millions of yen)	(Thousands of U.S. dollars)
Retirement benefit obligations at April 1, 2013	¥24,994	$242,848
Service costs	1,348	13,100
Interest costs	256	2,490
Actuarial gains or losses	(98)	(953)
Retirement benefit payments	(685)	(6,656)
Retirement benefit obligations at March 31, 2014	¥25,815	$250,829

A reconciliation of the changes in balance of plan assets for the fiscal year ended March 31, 2014 (excluding plans applying simplified method)

2014	(Millions of yen)	(Thousands of U.S. dollars)
Fair value of plan assets at April 1, 2013	¥11,549	$112,211
Expected return on plan assets	115	1,122
Actuarial gains or losses	1,037	10,075
Employer contributions	426	4,139
Retirement benefit payments	(323)	(3,142)
Fair value of plan assets at March 31, 2014	¥12,804	$124,405

A reconciliation of the changes in balance of net defined benefit liability applying a simplified method for the fiscal year ended March 31, 2014

2014	(Millions of yen)	(Thousands of U.S. dollars)
Net defined benefit liability at April 1, 2013	¥ 1,741	$ 16,917
Retirement benefit expenses	302	2,942
Retirement benefit payments	(133)	(1,296)
Contributions to plan	(20)	(197)
Net defined benefit liability at March 31, 2014	¥ 1,890	$ 18,366

A reconciliation of retirement benefit obligations as well as plan assets at March 31, 2014 and net defined benefit liability on the Consolidated Balance Sheet

2014	(Millions of yen)	(Thousands of U.S. dollars)
Funded retirement benefit obligations	¥17,766	$172,617
Fair value of plan assets	(12,882)	(125,169)
Subtotal	4,884	47,448
Unfunded retirement benefit obligations	10,018	97,342
Net liabilities on the Consolidated Balance Sheet	¥14,902	$144,790
Net defined benefit liability	¥14,902	$144,790
Net liabilities on the Consolidated Balance Sheet	¥14,902	$144,790

Note: The plans applying simplified method are also included.

Breakdown of retirement benefit expenses

2014	(Millions of yen)	(Thousands of U.S. dollars)
Service costs	¥1,348	$13,100
Interest costs	256	2,490
Expected return on plan assets	(115)	(1,122)
Amortization of actuarial gains or losses	308	2,989
Amortization of prior service costs	(396)	(3,844)
Retirement benefit expenses calculated by a simplified method	303	2,943
Other	51	496
Retirement benefit expenses for defined benefit plans	¥1,755	$17,052

Breakdown of items recorded in remeasurements of defined benefit plans, before tax.

2014	(Millions of yen)	(Thousands of U.S. dollars)
Unrecognized prior service costs	¥2,571	$24,986
Unrecognized actuarial gains or losses	(1,419)	(13,791)
Total	¥1,152	$11,195

Composition of plan assets by major classifications

2014	
Debt securities	52%
Equity investments	30%
Other	18%
Total	100%

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

2014	
Discount rate	1.0~1.3%
Expected rate of return on plan assets	1.0%

(3)Defined Contribution Plan

The required contributions to defined contribution plans of consolidated subsidiaries are ¥179 million ($1,740 thousand).

8. Gain on Sales of Property and Equipment

The breakdown of gain on sales of property and equipment for the fiscal years ended March 31, 2013 and 2014 is as follows:

	Gain on sales		
	(Millions of yen)		(Thousands of U.S.dollars)
	2013	2014	2014
Land	¥158	¥481	$4,678
Buildings	178	63	608
Total	¥336	¥544	$5,286

9. Impairment Loss

The Group recognized impairment loss on the following groups of assets for the fiscal years ended March 31, 2013 and 2014:

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 for the fiscal year ended March 31, 2013. The impairment loss is broken down into an impairment loss of ¥10,407 million on land and an impairment loss of ¥998 million 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.

2014 Primary use	Type	Location
Leased assets	Buildings	Minato-ku, Tokyo and other locations
Others	Land	
(9 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 nine 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 ¥16,572 million ($161,021 thousand) for the fiscal year ended March 31, 2014. The impairment loss is broken down into an impairment loss of ¥11,821 million ($114,858 thousand) on land and an impairment loss of ¥4,751 million ($46,163 thousand) on buildings and 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.

10. Income Taxes

The statutory tax rate in Japan for the Company and its domestic subsidiaries was 38.0% for the fiscal years ended March 31, 2013 and 2014.

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

	2013	2014
Statutory tax rate	(Note)	38.0%
Adjustments:		
Permanent differences including entertainment expenses		1.4
Effect of tax rate change		1.0
Other		1.1
Effective tax rate		41.5%

Note: The note 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, 2013 and 2014:

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

	(Millions of yen)		(Thousands of U.S.dollars)
	2013	2014	2014
Deferred tax assets:			
Unrealized profits	¥ 14,182	¥ 13,277	$ 128,999
Impairment loss	8,224	8,380	81,426
Provision for retirement benefits	5,529	0	0
Net Defined Benefit Liability	—	5,248	50,991
Inventory write-downs	5,928	3,837	37,281
Loss on valuation of equity investments	7,974	2,859	27,782
Provision for bonuses	1,795	2,048	19,897
Excess of depreciation	1,963	1,596	15,508
Revaluation of assets on consolidation	2,452	620	6,026
Provision for loss on subleasing business	620	169	1,638
Other	6,513	5,580	54,216
Gross deferred tax assets	55,180	43,614	423,764
Valuation allowance	(5,286)	(3,198)	(31,075)
Total deferred tax assets	49,894	40,416	392,689
Deferred tax liabilities:			
Revaluation of assets on consolidation	(56,618)	(53,564)	(520,445)
Reserve for deferred income taxes	(23,874)	(23,837)	(231,603)
Other	(2,696)	(1,340)	(13,018)
Total deferred tax liabilities	(83,188)	(78,741)	(765,066)
Net deferred tax liabilities	¥(33,294)	¥(38,325)	$(372,377)

Corporate income tax rate change and its effects on deferred tax assets and deferred tax liabilities

Effective fiscal years beginning on or after April 1, 2014, the special reconstruction corporate tax will not be imposed following the enactment of new legal statutes promulgated on March 31, 2014; a corporate tax law partial amendment (Act No. 10 of 2014). In accordance with this reform, the statutory tax rate, which is used to measure deferred tax assets and deferred tax liabilities, is reduced from 38.0% to 35.6% for temporary differences that are expected to be eliminated during and after the fiscal year beginning on April 1, 2014.

Due to this tax rate change, net deferred tax assets (the amount after deducting deferred tax liabilities) decreased by ¥508 million ($4,936 thousand), and income taxes-deferred increased by the same amount as of and for the fiscal year ended March 31, 2014.

11. 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, 2014, the Group's capital reserve amounted to ¥93,354 million ($907,052 thousand), and no legal reserve was recorded

12. 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)
	2013	2014	2014
Cash and deposits	¥42,499	¥45,484	$441,940
Short-term investment securities	20,000	22,500	218,616
Time deposits with maturities of more than three months	(2)	(2)	(19)
Cash and cash equivalents	¥62,497	¥67,982	$660,537

13. 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

2013			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	¥1,610	—	¥2
Total			¥1,610	—	¥2

2014			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	¥1,037	$10,071	—	—	¥(3)	$(33)
Total			¥1,037	$10,071	—	—	¥(3)	$(33)

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

2013 Hedge accounting method	Type of derivatives	Major hedged items	Contract amount (Millions of yen)		Contract amount due after one year (Millions of yen)	Fair value (Millions of yen)
Exceptional treatment for interest rate swaps	Interest rate swaps Receive floating rate/ Pay fixed rate	Long-term debt	¥478,970	¥370,097	—	¥2
Total			¥478,970	¥370,097	—	¥2

2014 Hedge accounting method	Type of derivatives	Major hedged items	Contract amount (Millions of yen)	Contract amount (Thousands of U.S. dollars)	Contract amount due after one year (Millions of yen)	Contract amount due after one year (Thousands of U.S. dollars)	Fair value (Millions of yen)	Fair value (Thousands of U.S. dollars)
Exceptional treatment for interest rate swaps	Interest rate swaps Receive floating rate/ Pay fixed rate	Long-term debt	¥419,197	$4,073,033	¥317,500	$3,084,920	(Note)	(Note)
Total			¥419,197	$4,073,033	¥317,500	$3,084,920		

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.

14. 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, 2013 and 2014.

Operating leases	(Millions of yen) 2013	(Millions of yen) 2014	(Thousands of U.S.dollars) 2014
Future lease payments:			
Due within 1 year	¥ 3,559	¥ 2,748	$ 26,703
Due after 1 year	12,870	11,615	112,848
Total	¥ 16,429	¥14,363	$139,551
Future lease receipts:			
Due within 1 year	¥ 13,652	¥16,578	$161,080
Due after 1 year	89,105	72,231	701,817
Total	¥102,757	¥88,809	$862,897

Note: The note for finance leases has been omitted due to immateriality.

15. 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, 2014, 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, 2013 and 2014

	Book value[1]			Fair value[2]
	March 31, 2012	Increase/Decrease	March 31, 2013	March 31, 2013
2013	(Millions of yen)	(Millions of yen)	(Millions of yen)	(Millions of yen)
Rental properties	¥670,012	¥28,621	¥698,632	¥714,150
Other properties used as rental properties[3]	24,785	84	24,869	46,600

	Book value[1]						Fair value[2]	
	March 31, 2012		Increase/Decrease		March 31, 2013		March 31, 2013	
2014	(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	¥698,632	$6,788,111	¥ (22,157)	$ (215,284)	¥676,475	$6,572,827	¥695,176	$6,754,525
Other properties used as rental properties	24,869	241,633	722	7,012	25,591	248,645	48,130	467,645

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, 2013 and 2014 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, 2013 and 2014.

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, 2013 and 2014

	Operating income	Others (gains (losses) on sale of property, etc.)
2013	(Millions of yen)	(Millions of yen)
Rental properties	¥26,060	¥ (10,739)
Other properties used as rental properties	1,120	—

	Operating income		Others (gains (losses) on sale of property, etc.)	
2014	(Millions of yen)	(Thousands of U.S. dollars)	(Millions of yen)	(Thousands of U.S. dollars)
Rental properties	¥26,911	$261,477	¥ (15,958)	$ (155,057)
Other properties used as rental properties	791	7,690	—	—

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 (¥336 million) and impairment loss (¥11,331 million) in the fiscal year ended March 31, 2013, and gain on sales of noncurrent assets (¥544 million ($5,286 thousand)) and impairment loss (¥16,502 million ($160,343 thousand)) in the fiscal year ended March 31, 2014.

16. 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).

From the first quarter of the fiscal year ended March 31, 2014, Nomura Real Estate Reform Co., Ltd. has been shifted from the Property & Facility Management Business Segment to the Residential Development Business Segment to promote unification with the housing development business. The attached segment information for the fiscal year ended March 31, 2013 was 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, 2013 and 2014 were as follows:

Results by segment 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	¥307,513	¥103,827	¥10,880	¥23,842	¥56,722	¥14,957	¥ 517,741	¥ —	¥ 517,741
Inter-segment	955	2,839	253	2,252	9,654	6	15,959	(15,959)	—
Subtotal	308,468	106,666	11,133	26,094	66,376	14,963	533,700	(15,959)	517,741
Segment income(loss)	32,790	23,336	(2,724)	6,176	4,455	448	64,481	(6,173)	58,308
Segment assets	337,120	790,735	91,854	26,904	30,469	37,168	1,314,250	55,699	1,369,949
Other items									
Depreciation	¥ 156	¥ 11,216	¥ 342	¥ 226	¥ 260	¥ 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	158	29,231	146	459	197	944	31,135	204	31,339

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 ¥6,173 million shown in the eliminations or corporate column for segment income (loss) includes an addition of ¥558 million for the elimination of inter-segment transactions and a deduction of ¥6,731 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 ¥55,699 million shown in the eliminations or corporate column for segment assets includes a deduction of ¥44,178 million for the elimination of inter-segment transactions and an addition of ¥99,877 million for corporate assets not allocated to reportable segments.

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

Results by segment for the fiscal year ended March 31, 2014

(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	¥309,738	¥ 94,804	¥18,323	¥26,637	¥63,878	¥18,636	¥ 532,016	¥ —	¥ 532,016
Inter-segment	842	2,108	3	2,532	8,273	4	13,762	(13,762)	—
Subtotal	310,580	96,912	18,326	29,169	72,151	18,640	545,778	(13,762)	532,016
Segment income(loss)	33,730	27,035	8,037	8,332	5,108	508	82,750	(8,442)	74,308
Segment assets	339,880	767,997	67,347	21,142	32,891	34,134	1,263,391	50,497	1,313,888
Other items									
Depreciation	¥ 104	¥ 12,297	¥ 212	¥ 251	¥ 258	¥ 1,053	¥ 14,175	¥ 158	¥ 14,333
Amortization of goodwill	—	236	—	—	29	—	265	—	265
Investment in affiliates accounted for using equity method	28	1,029	—	—	—	—	1,057	—	1,057
Increase in property, plant and equipment and intangible assets	293	14,176	125	492	245	571	15,902	273	16,175

(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	$3,009,503	$ 921,145	$178,035	$258,808	$620,655	$181,075	$ 5,169,221	$ —	$ 5,169,221
Inter-segment	8,178	20,484	31	24,600	80,381	41	133,715	-133,715	—
Subtotal	3,017,681	941,629	178,066	283,408	701,036	181,116	5,302,936	-133,715	5,169,221
Segment income(loss)	327,737	262,679	78,089	80,955	49,628	4,939	804,027	-82,030	721,997
Segment assets	3,302,371	7,462,077	654,357	205,423	319,582	331,654	12,275,464	490,642	12,766,106
Other items									
Depreciation	$ 1,007	$ 119,487	$ 2,059	$ 2,444	$ 2,506	$ 10,227	$ 137,730	$ 1,536	$ 139,266
Amortization of goodwill	—	2,289	—	—	285	—	2,574	—	2,574
Investment in affiliates accounted for using equity method	272	10,001	—	—	—	—	10,273	—	10,273
Increase in property, plant and equipment and intangible assets	2,851	137,733	1,218	4,782	2,379	5,546	154,509	2,647	157,156

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 ¥8,442 million ($82,030 thousand) shown in the eliminations or corporate column for segment income (loss) includes an addition of ¥667 million ($6,482 thousand) for the elimination of inter-segment transactions and a deduction of ¥9,109 million ($88,512 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 ¥55,766 million ($490,642 thousand) shown in the eliminations or corporate column for segment assets includes a deduction of ¥44,101 million ($393,647 thousand) for the elimination of inter-segment transactions and an addition of ¥91,011 million ($884,289 thousand) for corporate assets not allocated to reportable segments.

3. The segment income (loss) 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, 2013 and 2014 is summarized as follows:

	(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

	(Millions of yen)						
2014	Residential Development	Leasing	Investment Management	Property brokerage & CRE	Property & facility management	Other (Note)	Total
Impairment loss	¥—	¥16,565	¥—	¥—	¥—	¥7	¥16,572

	(Thousands of U.S. dollars)						
2014	Residential Development	Leasing	Investment Management	Property brokerage & CRE	Property & facility management	Other (Note)	Total
Impairment loss	$—	$160,954	$—	$—	$—	$67	$161,021

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, 2013 and 2014 by reportable segments:

	(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

	(Millions of yen)					
2014	Residential Development	Leasing	Investment Management	Property brokerage & CRE	Property & facility management	Total
Amortization	¥—	¥ 236	¥—	¥—	¥ 29	¥ 265
Balance at March 31, 2014	¥—	¥3,475	¥—	¥—	¥264	¥3,739

	(Thousands of U.S. dollars)					
2014	Residential Development	Leasing	Investment Management	Property brokerage & CRE	Property & facility management	Total
Amortization	$—	$ 2,289	$—	$—	$ 285	$ 2,574
Balance at March 31, 2014	$—	$33,763	$—	$—	$2,562	$36,325

17. Contingent Liabilities

Contingent liabilities as of March 31, 2013 and 2014 are as follows:

	(Millions of yen)		(Thousands of U.S. dollars)
	2013	2014	2014
Guarantees for home loans of house purchasers from banks and other	¥67,720	¥26,733	$259,746
Guarantees for loans to business partners in the business of commercial buildings for rent	813	744	7,230
	¥68,533	¥27,477	$266,976

18. 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, 2013 and 2014 are as follows:

	(Millions of yen)		(Thousands of U.S. dollars)
	2013	2014	2014
Valuation difference on available-for-sale securities:			
Amount recognized during the year	¥7,472	¥(3,749)	$(36,431)
Amount of recycling	(1,019)	(621)	(6,027)
Before income tax effect	6,453	(4,370)	(42,458)
Income tax effect	(2,292)	1,561	15,168
Valuation difference on available-for-sale securities	4,161	(2,809)	(27,290)
Deferred gains or losses on hedges:			
Amount recognized during the year	(181)	(282)	(2,741)
Amount of recycling	(78)	(49)	(471)
Before income tax effect	(259)	(331)	(3,212)
Income tax effect	92	118	1,144
Deferred gains or losses on hedges	(167)	(213)	(2,068)
Revaluation reserve for land:			
Income tax effect	(0)	(0)	(1)
Share of other comprehensive income of affiliates accounted for using the equity method:			
Amount recognized during the year	8	41	402
Amount of recycling	1,291	-	-
Before income tax effect	1,299	41	402
Income tax effect	(460)	(17)	(171)
Share of other comprehensive income of affiliates accounted for using the equity method	839	24	231
Total other comprehensive income	¥4,833	¥(2,998)	$(29,128)

19. 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, 2013 and 2014.

20. 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)
	2013	2014	2014
Selling, general and administrative expenses	¥384	¥536	$5,204

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) Directors of the Company's Subsidiaries (45 persons) Employees of the Company's Subsidiaries (116 persons)
Type and number of shares reserved (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) Directors and executive officers of the Company's subsidiaries (52 persons) Employees of the Company's subsidiaries (122 persons)
Type and number of shares reserved (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) Directors and executive officers of the Company's subsidiaries (51 persons) Employees of the Company's subsidiaries (129 persons)
Type and number of shares reserved (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) Directors and executive officers of the Company's subsidiaries (57 persons) Employees of the Company's subsidiaries (147 persons)
Type and number of shares reserved(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) Directors and executive officers of the Company's subsidiaries (57 persons) Employees of the Company's subsidiaries (152 persons)
Type and number of shares reserved(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) Directors and executive officers of the Company's subsidiaries (64 persons) Employees of the Company's subsidiaries (152 persons)
Type and number of shares reserved(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

Nomura Real Estate Holdings, Inc.

FY2013	1st issue of stock options	2nd issue of stock options	3rd issue of stock options
Recipients	Directors of the Company (4 persons)	Directors and executive officers of the Company's subsidiaries (74 persons)	Directors of the Company (4 persons) Directors and executive officers of the Company's subsidiaries (74 persons) Employees of the Company's subsidiaries (170 persons)
Type and number of shares reserved(Note)	Common stock: 20,200 shares	Common stock: 143,300 shares	Common stock: 333,300 shares
Grant date	July 23, 2013	July 23, 2013	July 23, 2013
Vesting conditions	No conditions attached	No conditions attached	No conditions attached
Service period	No period specified	No period specified	No period specified
Exercisable period	July 23, 2015 – July 22, 2020	July 23, 2015 – July 22, 2020	July 23, 2015 – July 22, 2020

MEGALOS CO., LTD.

FY2008	2nd issue of stock options
Recipients	Directors (3 persons) Employees (14 persons)
Type and number of shares reserved (Note)	Common stock: 32,000 shares
Grant date	December 1, 2008
Vesting conditions	No conditions attached
Service period	No period specified
Exercisable period	December 1, 2010 – November 30, 2015

MEGALOS CO., LTD.

FY2009	2nd issue of stock options
Recipients	Directors (3 persons) Employees (12 persons)
Type and number of shares reserved (Note)	Common stock: 27,000 shares
Grant date	August 3, 2009
Vesting conditions	No conditions attached
Service period	No period specified
Exercisable period	August 3, 2011 – August 2, 2016

MEGALOS CO., LTD.

FY2010	1st issue of stock options	2nd issue of stock options
Recipients	Directors of the Company (3 persons)	Directors (3 persons) Employees (12 persons)
Type and number of shares reserved (Note)	Common stock: 7,900 shares	Common stock: 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 – August 22, 2016	August 23, 2012 – August 22, 2017

MEGALOS CO., LTD.

FY2011	1st issue of stock options	2nd issue of stock options
Recipients	Directors of the Company (3 persons)	Directors (3 persons) Employees (11 persons)
Type and number of shares reserved (Note)	Common stock: 7,900 shares	Common stock: 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 – August 21, 2017	August 22, 2013 – August 21, 2018

MEGALOS CO., LTD.

FY2012	1st issue of stock options	2nd issue of stock options
Recipients	Directors of the Company (3 persons)	Directors (3 persons) Employees (13 persons)
Type and number of shares reserved (Note)	Common stock: 7,900 shares	Common stock: 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 – August 19, 2018	August 20, 2014 – August 19, 2019

MEGALOS CO., LTD.

FY2013	1st issue of stock options	2nd issue of stock options
Recipients	Directors of the Company (3 persons)	Directors (3 persons) Employees (19 persons)
Type and number of shares reserved (Note)	Common stock: 7,900 shares	Common stock: 34,000 shares
Grant date	August 19, 2013	August 19, 2013
Vesting conditions	No conditions attached	No conditions attached
Service period	No period specified	No period specified
Exercisable period	August 19, 2014 – August 18, 2019	August 19, 2015 – August 18, 2020

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	1,800	156,600
Vested	—	—
Exercised	1,800	—
Forfeited	—	19,700
End of the year	—	136,900

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	6,100	169,900
Vested	—	—
Exercised	900	13,600
Forfeited	—	15,100
End of the year	5,200	141,200

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	14,600	175,600
Vested	—	—
Exercised	4,800	82,700
Forfeited	—	—
End of the year	9,800	92,900

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	—	—	—
Granted	—	—	—
Forfeited	—	—	—
Vested	—	—	—
End of the year	—	—	—
Vested: (shares)			
Previous fiscal year end	2,900	23,300	168,300
Vested	—	—	—
Exercised	—	3,800	102,900
Forfeited	—	—	2,900
End of the year	2,900	19,500	62,500

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	—	—	214,500
Granted	—	—	—
Forfeited	—	—	2,200
Vested	—	—	212,300
End of the year	—	—	—
Vested: (shares)			
Previous fiscal year end	4,700	37,600	11,600
Vested	—	—	212,300
Exercised	—	6,600	94,200
Forfeited	—	—	—
End of the year	4,700	31,000	129,700

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	—	—	242,200
Granted	—	—	—
Forfeited	—	—	3,500
Vested	—	—	3,300
End of the year	—	—	235,400
Vested: (shares)			
Previous fiscal year end	—	—	500
Vested	31,500	188,900	3,300
Exercised	—	—	—
Forfeited	—	—	—
End of the year	31,500	188,900	3,800

Nomura Real Estate Holdings, Inc.

FY2013	1st issue of stock options	2nd issue of stock options	3rd issue of stock options
Non-vested: (shares)			
Previous fiscal year end	—	—	—
Granted	20,200	143,300	333,300
Forfeited	—	—	1,200
Vested	20,200	143,300	-
End of the year	—	—	332,100
Vested: (shares)			
Previous fiscal year end	—	—	—
Vested	20,200	143,300	—
Exercised	—	—	—
Forfeited	—	—	—
End of the year	20,200	143,300	—

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	12,000
Vested	—
Exercised	3,000
Forfeited	—
End of the year	9,000

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	10,000
Forfeited	—
End of the year	12,000

MEGALOS CO., LTD.

FY2010	1st issue of stock options	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	2,200	23,000
Vested	—	—
Exercised	2,200	10,000
Forfeited	—	—
End of the year	—	13,000

MEGALOS CO., LTD.

FY2011	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	4,100	—
Vested	—	23,000
Exercised	4,100	9,200
Forfeited	—	800
End of the year	—	13,000

MEGALOS CO., LTD.

FY2012	1st issue of stock options	2nd issue of stock options
Non-vested: (shares)		
Previous fiscal year end	—	28,000
Granted	—	—
Forfeited	—	4,000
Vested	—	—
End of the year	—	24,000
Vested: (shares)		
Previous fiscal year end	7,900	—
Vested	—	—
Exercised	7,900	—
Forfeited	—	—
End of the year	—	—

MEGALOS CO., LTD.

FY2013	1st issue of stock options	2nd issue of stock options
Non-vested: (shares)		
Previous fiscal year end	—	—
Granted	7,900	34,000
Forfeited	—	4,000
Vested	7,900	—
End of the year	—	30,000
Vested: (shares)		
Previous fiscal year end	—	—
Vested	7,900	—
Exercised	—	—
Forfeited	—	—
End of the year	—	13,000

(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 (¥)	2,096	—
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 (¥)	2,447	2,506
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 (¥)	2,330	2,479
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 (¥)	—	2,333	2,466
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 (¥)	—	2,354	2,412
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

Nomura Real Estate Holdings, Inc.

FY2013	1st issue of stock options	2nd issue of stock options	3rd issue of stock options
Exercise price (¥)	1	1	2,429
Average price upon exercise (¥)	—	—	—
Fair value on grant date (¥)	2,297	2,297	675

MEGALOS CO., LTD.

FY2008	2nd issue of stock options
Exercise price (¥)	740
Average price upon exercise (¥)	1,451
Fair value on grant date (¥)	184

MEGALOS CO., LTD.

FY2009	2nd issue of stock options
Exercise price (¥)	1,010
Average price upon exercise (¥)	1,408
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 (¥)	1,335	1,424
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 (¥)	1,351	1,509
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 (¥)	1,396	—
Fair value on grant date (¥)	1,096	192

MEGALOS CO., LTD.

FY2013	1st issue of stock options	2nd issue of stock options
Exercise price (¥)	1	1,488
Average price upon exercise (¥)	—	—
Fair value on grant date (¥)	1,411	195

Note: With respect to stock options outstanding at March 31, 2014, 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, 2014 (FY2013) 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 FY2013 stock options	Nomura Real Estate Holdings, Inc. 2nd issue of FY2013 stock options	Nomura Real Estate Holdings, Inc. 3rd issue of FY2013 stock options
Expected volatility of the share price (Note 1)	37.3%	37.3%	37.3%
Expected remaining life of the option (Note 2)	4.5years	4.5years	4.5years
Expected dividend (Note 3)	¥30($0.29) per share	¥30($0.29) per share	¥30($0.29) per share
Risk-free interest rate (Note 4)	0.33%	0.33%	0.33%

Notes: 1. Calculated based on the actual stock price for four years and six months (from January 2009 to July 2013).
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, 2014 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 FY2013 stock options	MEGALOS CO., LTD. 2nd issue of FY2013 stock options
Expected volatility of the share price (Note 1)	18.1%	18.5%
Expected remaining life of the option (Note 2)	3.5 years	4.5 years
Expected dividend (Note 3)	¥7($0.07) per share	¥7($0.07) per share
Risk-free interest rate (Note 4)	0.25%	0.34%

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, 2014.
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.

21. Subsequent Events

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, 2014.

1. Stock acquisition rights with exercise price of ¥1 per share
   (1) Recipients
   Directors of the Company: 6 persons
   Directors and executive officers of the Company's subsidiaries: 72 persons
   (2) Type and number of shares subject to the stock acquisition rights
   Common stock: 235,100 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, 2014
   (5) Exercise period of the stock acquisition rights
   July 23, 2016 – July 22, 2021
   (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: 6 persons
   Directors and executive officers of the Company's subsidiaries: 72 persons
   Employees of its subsidiaries: 187 persons
   (2) Type and number of shares subject to the stock acquisition rights
   Common stock: 352,300 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, 2014
   (5) Exercise period of the stock acquisition rights
   July 23, 2016 – July 22, 2021
   (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

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Building a better working world

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, 2014, 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, 2014, 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, 2014
Tokyo, Japan

A member firm of Ernst & Young Global Limited