

# Our Commitment

Nomura Real Estate Holdings, Inc.

Annual Report 2007

Year ended March 31, 2007

Bringing Tomorrow Today — NOMURA REAL ESTATE GROUP



# Our Commitment to Our Philosophy

At all companies in the Nomura Real Estate Group, every employee is committed to realizing the Group's philosophy.

## Group Philosophy

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

## Group Message

# Bringing Tomorrow Today

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

## Group Mission

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

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

## Group Symbol, United N

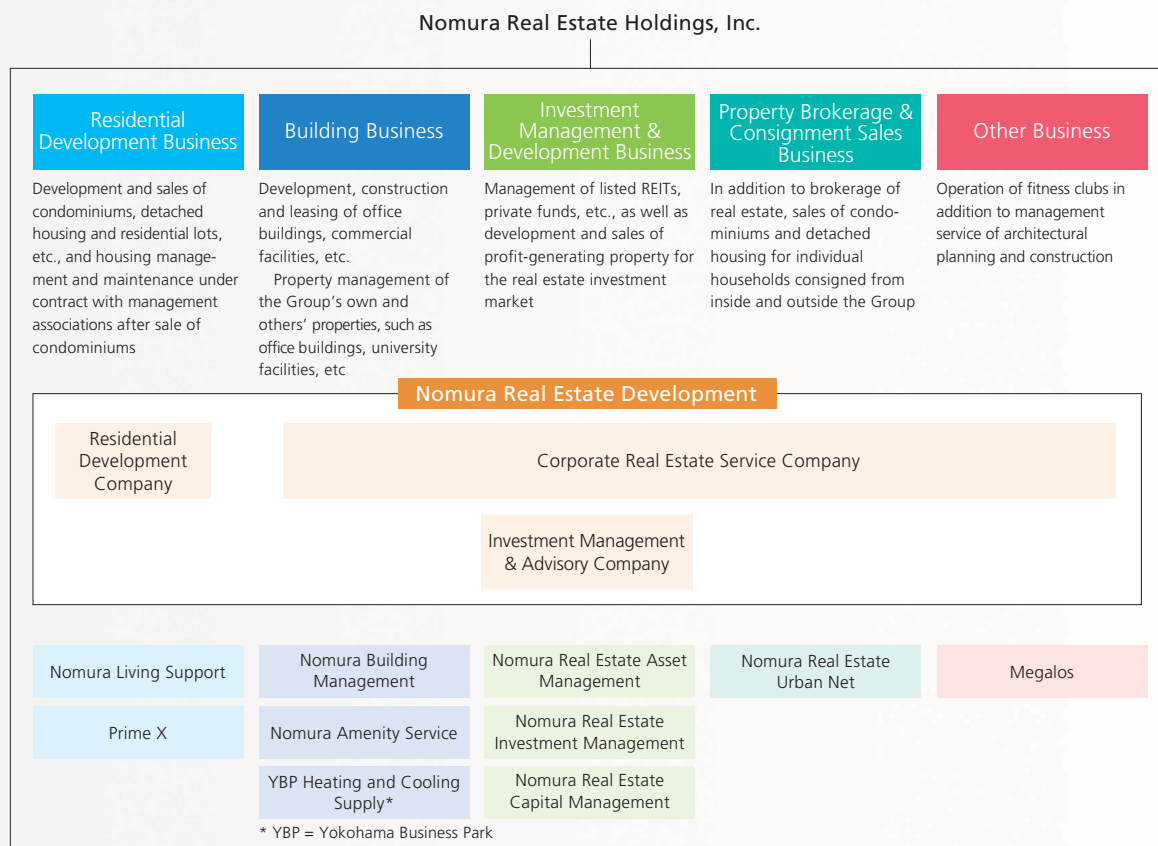


United N is symbolic of our fervent desire to create a better tomorrow by valuing every interaction and forming relationships with many people. This symbol also expresses the important relationships we have with many groups such as customers, shareholders and trading partners, as well as our commitment to being a pacesetter in the creation of a new real estate business paradigm—regardless of convention. At the same time, the symbol represents the new value we will create by combining the passion and skills of every person and company in the Nomura Real Estate Group and their diverse values.

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## Business Activities and Group Companies



In July 2007, Geo Akamatsu Co., Ltd. joined the Nomura Real Estate Group.

# Consolidated Financial Highlights

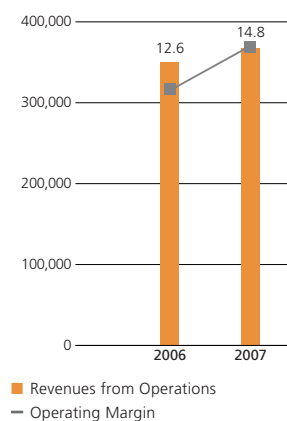
Nomura Real Estate Holdings, Inc. and its subsidiaries  
Years ended March 31

	(Millions of yen)		(Thousands of U.S. dollars) (Note 1)
	2006	2007	2007
<b>Operating Results:</b>			
Revenues from operations	¥ 350,319	¥367,237	\$3,110,858
Gross profit	97,551	108,668	920,527
Operating income	44,268	54,374	460,605
Net income	12,717	26,297	222,764
Cash flows from operating activities	(99,830)	(89,850)	(761,116)
Cash flows from investing activities	(17,995)	(26,787)	(226,913)
Cash flows from financing activities	113,818	100,863	854,409
<b>Per Share Data (yen / dollars) (Note 2):</b>			
Net income	¥56,109.84	¥ 200.47	\$ 1.70
Cash dividends	2,000.00	20.00	0.17
<b>Balance Sheet Data (as of March 31):</b>			
Total assets	¥ 689,287	¥836,303	\$7,084,313
Shareholders' equity	60,732	214,207	1,806,073
Interest-bearing debt	413,039	394,885	3,345,070
<b>Ratios:</b>			
Return on assets (Note 3)	6.5%	6.6%	
Return on equity	23.7%	19.2%	
Operating margin	12.6%	14.8%	
Dividend payout ratio	3.6%	10.0%	
Shareholders' equity ratio	8.8%	25.5%	

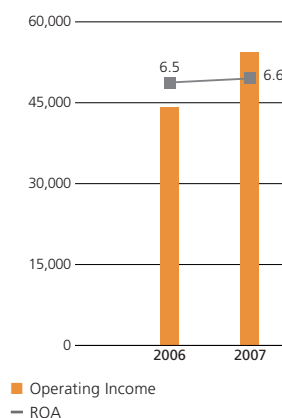
## Notes:

1. The translation of Japanese yen amounts into U.S. dollar amounts is included solely for the convenience of the reader, using the rate of exchange prevailing on the Tokyo Foreign Exchange Market on March 30, 2007, which was ¥118.05 = US\$1.00.
2. The Company carried out a 500-for-1 stock split on April 1, 2006.
3. Return on assets = (Operating income + Non-operating income) / Total assets at end of fiscal year.

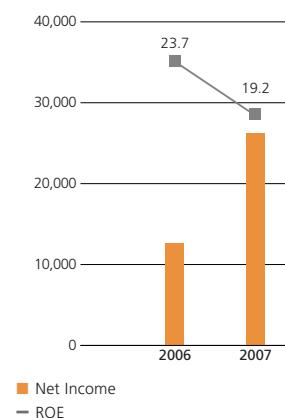
**Revenues from Operations and Operating Margin**  
(Millions of yen / %)



**Operating Income and ROA**  
(Millions of yen / %)



**Net Income and ROE**  
(Millions of yen / %)



## Segment Information

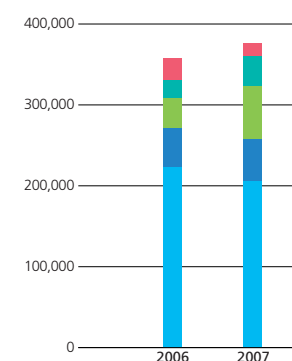
Nomura Real Estate Holdings, Inc. and its subsidiaries  
Years ended March 31

	(Millions of yen)		(Thousands of U.S. dollars) (Note 1)
	2006	2007	2007
<b>Revenues from Operations</b>			
Residential Development Business	¥222,518	¥205,950	\$1,744,604
Building Business	48,288	51,342	434,920
Investment Management & Development Business	37,272	65,867	557,954
Property Brokerage & Consignment Sales Business	22,874	36,488	309,089
Other Business	27,058	15,162	128,437
Eliminations or corporate	(7,691)	(7,572)	(64,146)
<b>Operating Income (loss)</b>			
Residential Development Business	¥ 21,952	¥ 23,627	\$ 200,146
Building Business	7,158	8,372	70,924
Investment Management & Development Business	14,224	18,613	157,665
Property Brokerage & Consignment Sales Business	5,592	8,389	71,063
Other Business	324	1,212	10,269
Eliminations or corporate	(4,982)	(5,839)	(49,462)
<b>Return on Assets of Each Segment (Note 2)</b>			
Residential Development Business	11.1%	9.2%	
Building Business	4.2%	4.6%	
Investment Management & Development Business	6.5%	6.8%	
Property Brokerage & Consignment Sales Business	14.9%	11.6%	
Other Business	1.4%	5.0%	
<b>Inventories</b>			
Residential Development Business	¥163,917	¥229,863	\$1,947,167
Building Business	9,078	10,165	86,106
Investment Management & Development Business	137,389	132,642	1,123,612
Property Brokerage & Consignment Sales Business	23,704	48,898	414,215
Other Business	6,604	6,336	53,668
Eliminations or corporate	(137)	(130)	(1,099)

### Notes:

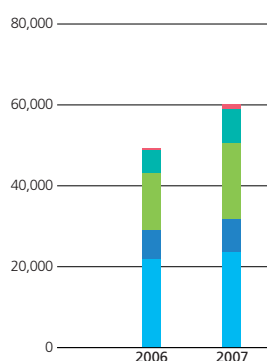
- The translation of Japanese yen amounts into U.S. dollar amounts is included solely for the convenience of the reader, using the rate of exchange prevailing on the Tokyo Foreign Exchange Market on March 30, 2007, of ¥118.05 = US\$1.00.
- ROA of each segment = Segment operating income / Segment assets at end of fiscal year

**Revenues from Operations\***  
(Millions of yen)

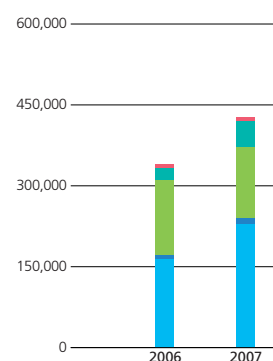


■ Residential Development Business  
■ Building Business  
■ Investment Management & Development Business  
■ Property Brokerage & Consignment Sales Business  
■ Other Business

**Operating Income\***  
(Millions of yen)



**Inventories\***  
(Millions of yen)



\* "Eliminations or corporate" amounts are not reflected in graphs.

# Our Commitment to Our Shareholders

Our dedication will produce results that live up to the expectations of shareholders and other investors.

## Our Promise

Thank you for reading the 2007 Annual Report of Nomura Real Estate Holdings, Inc. (the Company). The fiscal year ended March 31, 2007 (fiscal 2006) was a year when the Nomura Real Estate Group (the Group) accomplished substantial changes in building the foundations for growth in the next stage. On October 3, 2006, the shares of the Company were listed on the First Section of the Tokyo Stock Exchange. I promise that we will achieve our growth targets by continuing to act with an even stronger sense of determination and responsibility than before in relation to all stakeholders.

## Business Overview of Fiscal 2006

In fiscal 2006, the business environment in the real estate industry remained favorable in tandem with the steady recovery of the Japanese economy, which saw an improvement in employment conditions and growth in consumer spending. In the condominium market, supply remained at a high level, but sales continued to show underlying strength reflecting demand based on anticipation regarding a rise in interest rates and the level of land prices. In the office building leasing market, vacancy rates tended to fall as demand continued to increase in response to an improvement in corporate earnings, and rents entered a phase of growth mainly in metropolitan areas. Moreover, the real estate investment market, as typified by real estate investment trusts (REITs), continued to expand steadily and firmly increased its presence as a new form of real estate business.

In this operating environment, in fiscal 2006, the Company reported record figures for consolidated revenues from operations, operating income and net income. Consolidated revenues from operations totaled ¥367.2

billion, an increase of ¥16.9 billion, or 4.8%, compared to the previous fiscal year. Consolidated operating income rose ¥10.1 billion, or 22.8%, to ¥54.4 billion. Consolidated net income grew ¥13.6 billion, or 106.8%, to ¥26.3 billion.

## Medium-term Business Plan (Fiscal 2007–Fiscal 2009)

The Group has formulated a three-year medium-term business plan that commences in fiscal 2007. We regard the next three years as a new stage, and while continuing to grow, we will endeavor to build a solid earnings base that is invulnerable to the market environment.

The two fundamental policies in our medium-term business plan are (1) to establish a solid earnings base and maintain profit growth and (2) to pursue high investment efficiency and enhance the soundness of our financial position. By fiscal 2009, the final year of the plan, the entire Group aims to raise operating income to ¥72 billion, return on assets (ROA\*) to 7% and the shareholders' equity ratio to 30%.

To achieve these targets, the Group will strongly pursue three business strategies. First, we will make full use of our functions as a real estate developer. Second, we will strengthen our property sourcing capabilities and strategically expand business opportunities. Third, we will expand investment management operations.

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

## Group Philosophy and Direction

In a real estate industry that is changing dramatically, the driving force behind our steady growth is our Group Philosophy, which we share as an entire group as the starting point for our actions. In the Nomura Real Estate Group, we

express this philosophy through the Group Message "Bringing Tomorrow Today." The message "Bringing Tomorrow Today" incorporates the point of view of being "customer-oriented" and it is a point of view that the Group has inherited and thoroughly held since the foundation of Nomura Real Estate Development. This point of view that permeated the consciousness of every single group employee led to the reinforcement of every business and supported our growth as the Group's comprehensive strength. We will therefore carry this Group Philosophy forward into the future and continue to strive to be trusted by society.

#### To Our Shareholders

Fiscal 2007 marks the 50th anniversary of Nomura Real Estate Development Group. As we enter the milestone year of our 50th anniversary, I would like to profoundly thank all the stakeholders that are involved with the Group, beginning with our shareholders. From here on as well, we will build a strong corporate structure in preparation for changes such as fluctuations in real estate values and interest rate levels by forming a well-balanced business portfolio. As a unified Group, we will also implement business strategies to achieve the targets set out in the medium-term business plan. I look forward to your unwavering support and encouragement in these endeavors.

August 2007  
Hirohisa Suzuki  
President

*Hirohisa Suzuki*



# Our Commitment to Legacy

We have built up a trustworthy track record and a reservoir of expertise and trust over half a century in business. By staying true to this legacy, we aim to deliver consistent earnings growth and raise our corporate value to meet the expectations of stakeholders.

**1957**  
Birth of Nomura Real Estate Development Co., Ltd.

**April 1957**  
Started business operation by building the new headquarters of Nomura Securities Co., Ltd.

**1960s**  
Period of rapid growth of the Japanese economy

**May 1961**  
Started purchasing residential land in Kajiwarayama, Kamakura, and entered housing development business as a developer



**October 1963**  
Launched condominium development business with the construction of Co-op Take-no-Maru in Yokohama.

**1970s**  
Japanese economic reconstruction boom and steep rise in land prices

**May 1978**  
Headquarters moved to Shinjuku Nomura Building

**July 1978**  
Started subdivision of land developed for villas in Karuizawa and entered resort business

**October 1978**  
Started business involving housing management with condominiums developed by the Company

## Residential Development Business

## Building Business

**May 1959**  
Completion of new headquarters of Nomura Securities Co., Ltd.; owned building and leased it to Nomura Securities; started leasing business



**April 1977**  
Building Management Division independently established as Nomura Building Sogo Kanri (currently Nomura Building Management Co., Ltd.)



**May 1978**  
Completed construction of Shinjuku Nomura Building and started leasing to tenants

## Investment Management & Development Business

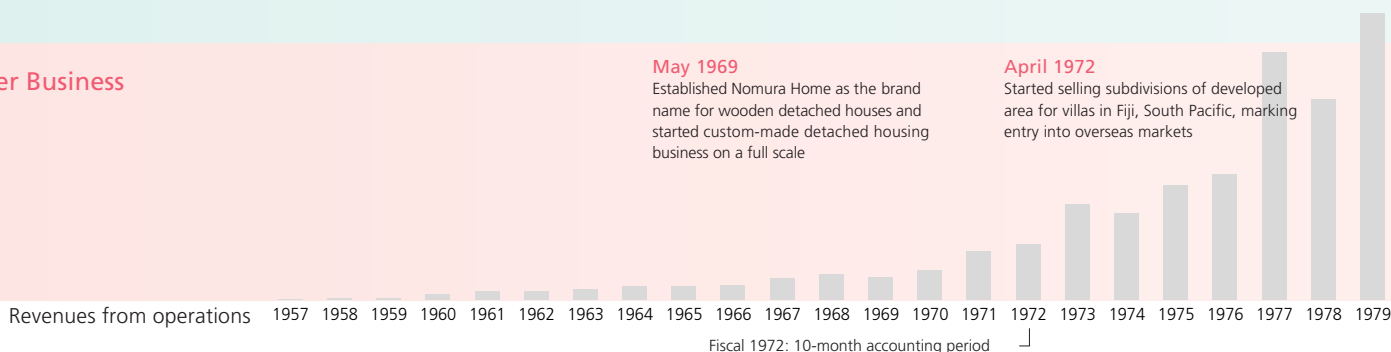
## Property Brokerage & Consignment Sales Business

**June 1959**  
Obtained real estate brokerage licence and started real estate brokerage business

## Other Business

**May 1969**  
Established Nomura Home as the brand name for wooden detached houses and started custom-made detached housing business on a full scale

**April 1972**  
Started selling subdivisions of developed area for villas in Fiji, South Pacific, marking entry into overseas markets





**1980s**  
Period of drastic changes in economy

**1990s**  
End of bubble economy

**2000s**  
New form of real estate market



**2007**  
Focusing on the next 50 years

**April 2007**  
50th anniversary of foundation of the Group

**50<sup>th</sup>**  
anniversary

(Millions of yen)  
— 400,000

**April 1985**

Started selling subdivisions of Tsurukawa Midoriyama residential area in Machida-city, Tokyo



**March 1994**

Started selling A-City Hills and Towers at Seifu-Shinto residential and commercial area, in Hiroshima Seibu Kyuryo City, Hiroshima

**October 2002**

Started selling subdivisions of Sento no Mori residential area, Machida City, Tokyo

**December 2002**

Unified brand named PROUD established for residential products and service



**August 1983**

Established overseas subsidiary, Nomura Real Estate International Inc. in Los Angeles and entered overseas real estate leasing business

**January 1990**

Completed construction of part of Yokohama Business Park and started leasing to tenants



**November 2001**

Completed all 11 buildings planned for Yokohama Business Park

**July 1999**

Started project to joint investment in office buildings with overseas investors (forerunner of Investment Management & Development business)

**December 2001**

Opened Fab Minami-Osawa, an urban cinema complex, in Hachioji City, Tokyo.

**December 2003**

Nomura Real Estate Office Fund, Inc. listed on the Tokyo Stock Exchange



**February 2007**

Nomura Real Estate Residential Fund, Inc. listed on the Tokyo Stock Exchange



**November 1989**

Launched the fitness club business with the opening of the Tsurukawa Midoriyama Club

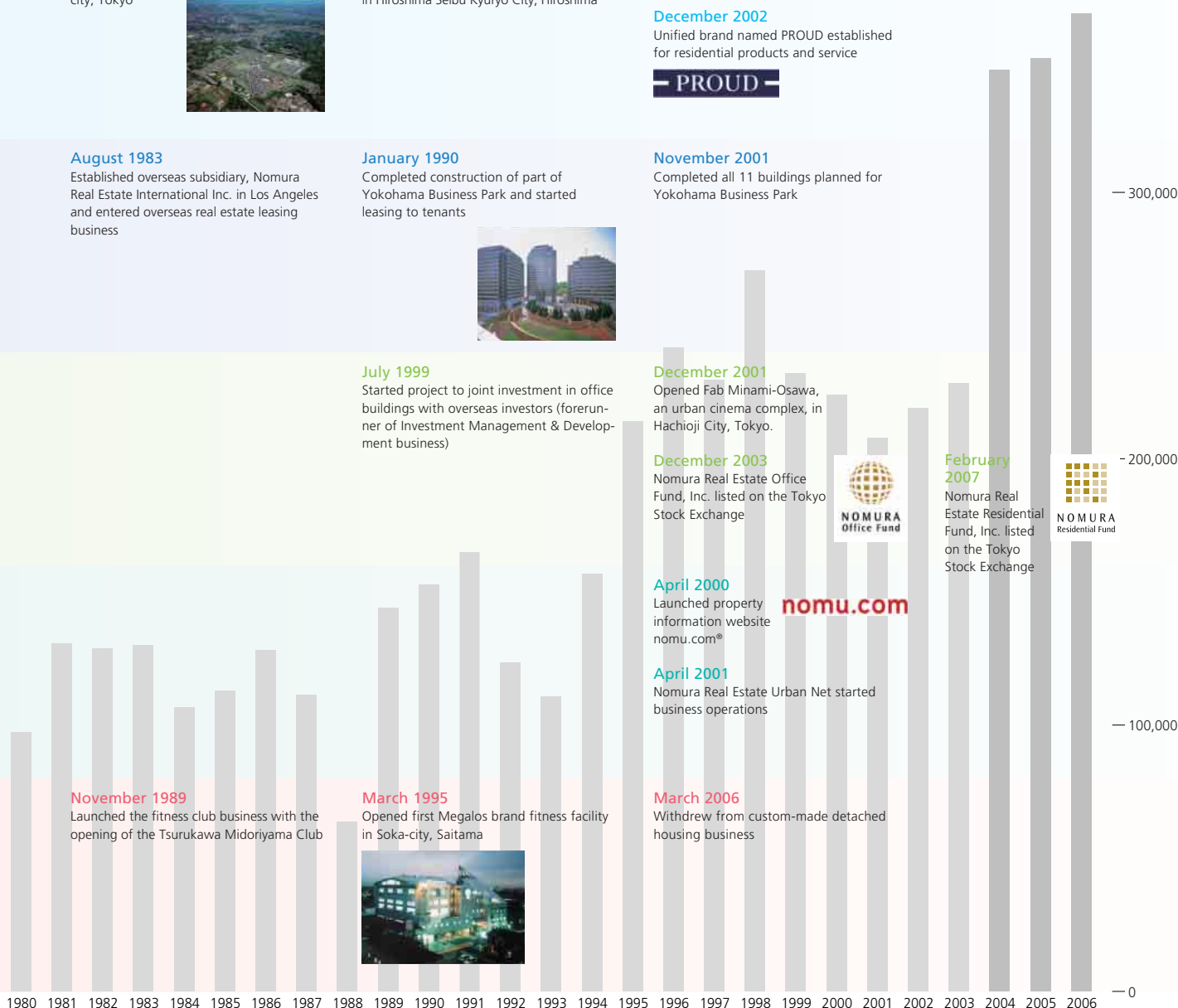
**March 1995**

Opened first Megalos brand fitness facility in Soka-city, Saitama



**March 2006**

Withdrawn from custom-made detached housing business



Fiscal 1988: 6-month accounting period

For fiscal 2003 and before: Non-consolidated business result figures for Nomura Real Estate Development are shown

For fiscal 2004 and after: Consolidated business results are shown

## PROUD: A Brand Residents Are Proud to Call Their Home

We create the best living places to spend time in

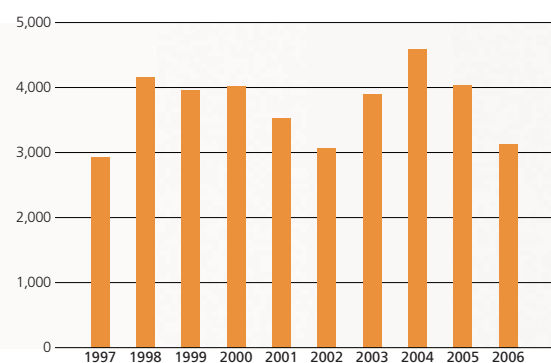
In 2002, Nomura Real Estate Development established the unified brand name PROUD for residential products and service. PROUD signifies that these are residences of which the occupants, the people who created them and the local community can all be proud. We have continued to carry out sales of housing for more than 40 years. While continuing this business, we have put the greatest value on "uncompromised quality." With the support of our numerous in-house engineers and by performing checks based on rigorous standards that we have independently determined, we have maintained high quality. Furthermore, our integrated development, sales and management operations will help us to make effective use of customers' needs in creating subsequent residences. We will make good use of the expertise regarding residential development that we have built up so far and also actively undertake urban redevelopment and renovation projects.



PROUD GEM Shibuya Jinnan (Shibuya-ku, Tokyo)



Number of Condominium Units Supplied  
(Units)



Source: Real Estate Economic Institute Co., LTD.





PROUD Minami Aoyama (Minato-ku, Tokyo)



PROUD SEASON Minami Oizumi  
(Nerima-ku, Tokyo)



THE HOUSE Minami Azabu  
(Minato-ku, Tokyo)



THE STAGIO (Adachi-ku, Tokyo)



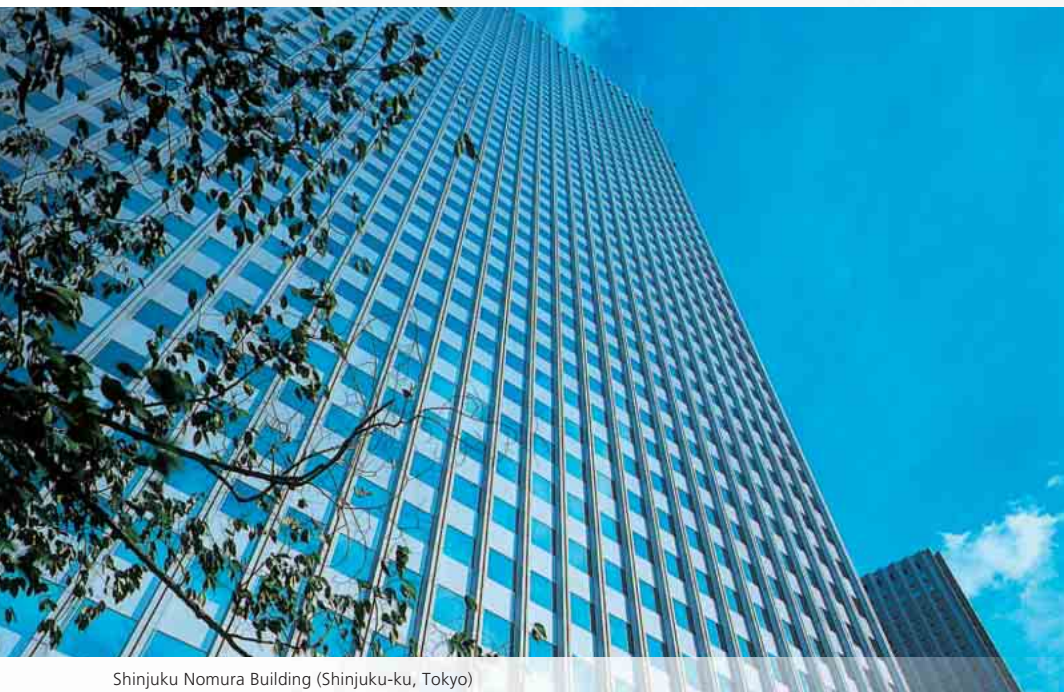
PROUD TOWER Futakotamagawa  
(Setagaya-ku, Tokyo)



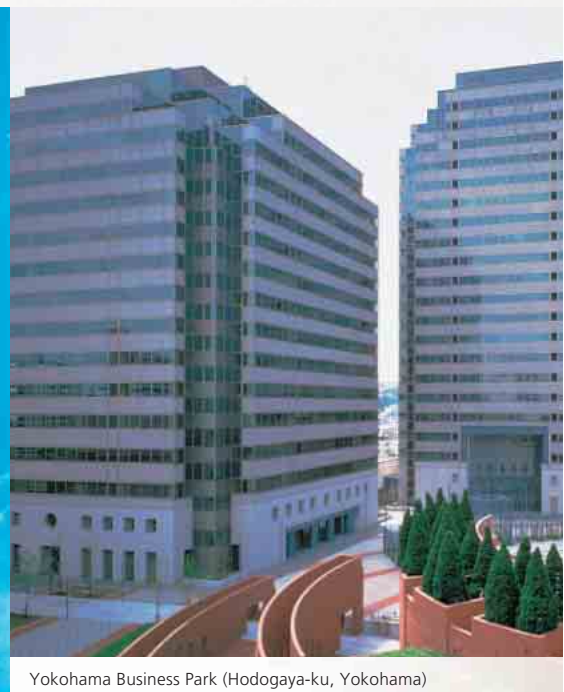
# Offering New Value

## New Value Offered by the Nomura Real Estate Group

By leveraging the customer networks, business expertise, and technological capabilities that it has built up so far, the Nomura Real Estate Group is developing and providing diverse products and services related to real estate. We are operating a broad range of services related to real estate that include the development and sale of profit-generating property such as large commercial facilities and custom-made office buildings, as well as the leasing and comprehensive management of office buildings. In addition, we contribute to the profitability and maximize the value of real estate that customers own, and also operate businesses that support clients' real estate strategies and a fitness club business that entails the operation of 18 facilities mainly in the Tokyo Metropolitan area.



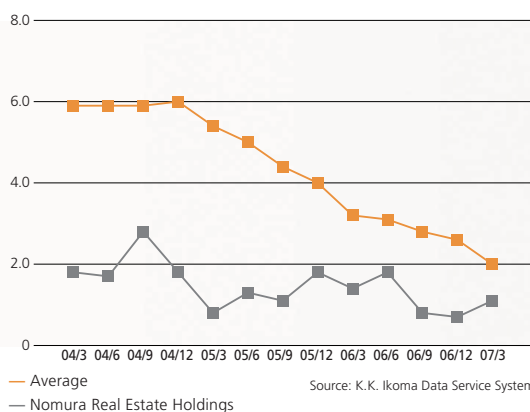
Shinjuku Nomura Building (Shinjuku-ku, Tokyo)



Yokohama Business Park (Hodogaya-ku, Yokohama)

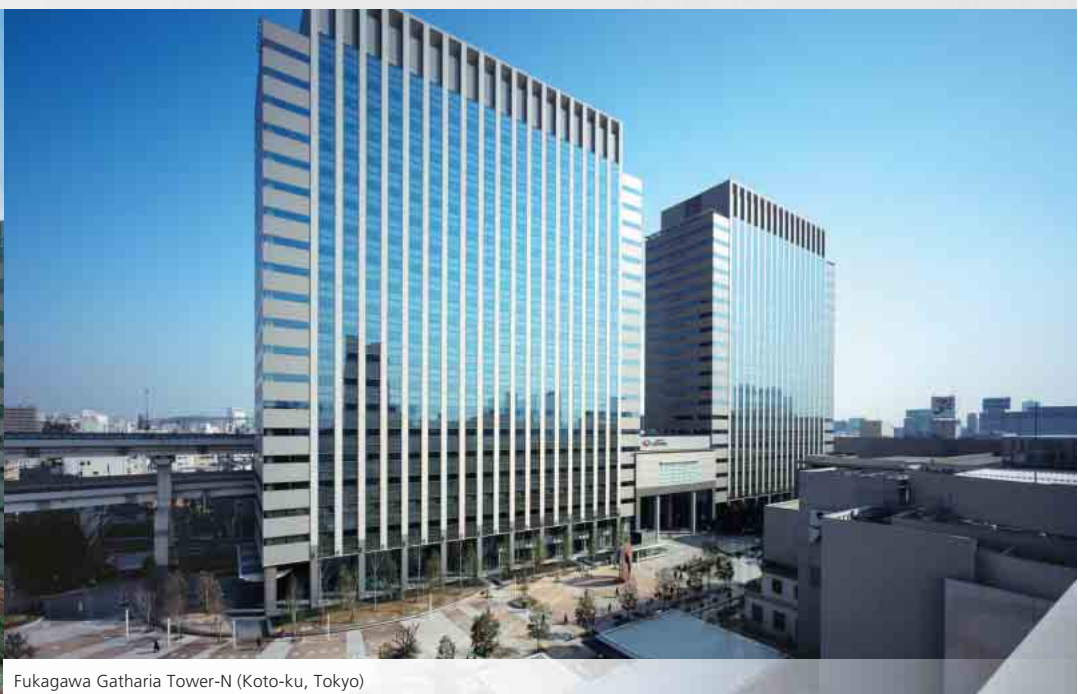
## Office Building Vacancy Rates in Tokyo's 23 Wards

As of end of months (%)



Kitakyushu Kurosaki Shopping Center  
(Yahatanishi-ku, Kitakyushu)

<Perspective image>



Fukagawa Gatharia Tower-N (Koto-ku, Tokyo)



Midosuji Nomura Building (Tentative Name)  
(Chuo-ku, Osaka)  
<Perspective image>



Shinjuku Nomura Building (Shinjuku-ku, Tokyo)



Megalos Plusa Kinshicho  
(Sumida-ku, Tokyo)



# Value in Asset Management

## Superiority of Nomura Real Estate Group in Asset Management

In the Nomura Real Estate Group, based primarily on an "Investor Oriented" management philosophy, three asset management companies are respectively engaged in the management of Japan real estate investment trusts (J-REITs), private real estate funds, and securitized real estate products. When managing these investments, personnel with a broad range of expertise and specialization spanning both real estate and finance draw up and execute real estate investment strategies. In addition, through the creation of a framework that rigorously conducts risk management associated with real estate investment and disclosure of information, they ensure management with a high degree of reliability.



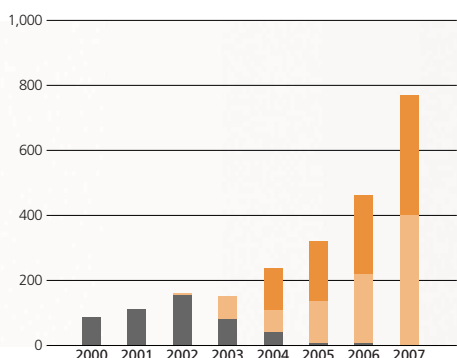
SECOM Medical Building (Chiyoda-ku, Tokyo)



Ichibancho Stear (Aoba-ku, Sendai)

## Assets under the Group's Management

As of March 31, (Billions of Yen)



Note: Since March 31, 2007, the method of calculating outstanding assets under management of REITs has been changed.

■ Listed J-REITs  
■ Private Funds  
■ Joint Investments, etc.



NOF Shibuya Koen-dori Building (Shibuya-ku, Tokyo)



PROUD FLAT Kagurazaka (Shinjuku-ku, Tokyo)

## Our Future – Overview of Medium-term Business Plan

### Overview of Medium-term Business Plan

The Nomura Real Estate Group has formulated a three-year medium-term business plan beginning in fiscal 2007.

Based on the medium-term business plan, we aim to focus on growth in a medium- to long-term time frame, including the period of this plan, and to expand earnings by bolstering the operating base of our existing businesses.

Moreover, we intend to enhance efficiency through the effective allocation of management resources, according to the profitability and growth potential of each business. Based on the flexible concept of the market as the reference point, we intend to build a foundation for medium- to long-term growth by promoting the creation of fields that cut across businesses and by making greater efforts to take advantage of new business opportunities.

### Nomura Real Estate Group's Performance Targets

	FY2006	FY2009	Change
Operating Income			
(Millions of yen)	54,374	72,000	32.4%
ROA*	6.6%	7.0%	0.4 pts
Shareholders' Equity Ratio	25.5%	30.0%	4.5 pts

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

### Basic Policies of Medium-term Business Plan

The basic policies of this medium-term business plan are to establish a strong earnings base and maintain profit growth, and to pursue high investment efficiency and improve the soundness of the financial base.

Establishing a strong earnings base and maintaining profit growth means that we should aim to ensure profit growth for the entire Group while establishing a well-balanced business portfolio. The operating income target of ¥72 billion that we have set represents a profit increase of about 32% compared to actual operating income of ¥54.4 billion in fiscal 2006, and growth of about 10% on an annual average basis. The Group believes it will be able to comfortably achieve this target by further reinforcing the current operating base.

To realize the pursuit of high investment efficiency and improve the soundness of the financial base, the Group will focus on business speed and funding efficiency in the development business and expanding fee businesses such as asset management and brokerage. By undertaking these measures, the Group aims to pursue high investment efficiency. We also intend to build up profits produced by these measures and enhance the soundness of our financial position. Based on the medium-term business plan we will increase operating income by more than 30% without substantially increasing the level of interest-bearing debt compared to the end of fiscal 2006.

## Nomura Real Estate Group's growth strategies

Business Strategies	Specific Measures
Make full use of developer functions	<ul style="list-style-type: none"> <li>• Promote businesses by utilizing advanced expertise in operations such as large-scale redevelopment and renovation</li> <li>• Realize mutual growth through supply of in-house developed office buildings and rental housing to REITs managed by the Group</li> <li>• Establish profit-generating property development business model that emphasizes fund cycles and investment returns</li> <li>• Step up endeavors aimed at multi-use property development, including retail facilities</li> </ul>
Strengthen property sourcing capabilities and strategically expand business opportunities	<ul style="list-style-type: none"> <li>• Reinforce brand power by acquiring high acclaim from the market</li> <li>• Bolster property sourcing capabilities by expanding volume of fund formation business</li> <li>• Enhance information acquisition capabilities by promoting Internet strategies</li> <li>• Acquire diverse business opportunities by providing optimal solutions</li> <li>• Expand business domains by unearthing and fostering new businesses</li> </ul>
Expand investment management operations	<ul style="list-style-type: none"> <li>• Continuous increase of assets under management of two REITs</li> <li>• Aggressive expansion into new areas for private funds (such as logistics facilities, commercial facilities, and securitized real estate)</li> </ul>

### Residential Development Business Strategies

In the Residential Development Business, we aim to book total sales of 6,000 units, comprising 5,000 units for end users and 1,000 for the investment market, and to establish a business foundation that will enable us to sustain the supply of these levels of figures of units. In the Residential Development Business segment, which is the Group's core business, our most important management issue is to generate a certain amount of business volume and profit without being influenced by the market environment. To do this, we will undertake the following measures.

First, we will further enhance the value of the PROUD brand. By using our integrated development, sales and management operations to grasp customers' needs, and through supplying meticulously well-built, high quality and high-performance housing, we can both raise the satisfaction of customers who have purchased them and also focus on public relations activities that successfully disseminate the brand image, thereby continuing to maintain PROUD's position as the top housing brand.

Furthermore, we are strengthening endeavors in the redevelopment, renovation and land readjustment project operations. In these operations, it is necessary to have sophisticated expertise, an extensive track record and corporate creditworthiness, and there are not many developers that can do all of these. These are highly difficult operations in which it takes time to reach the stage of commercialization, but we intend to strengthen such initiatives as expanding our specialized departments and ensuring certain levels of business volumes in these areas.

Moreover, we are working to expand the number of PROUD FLAT rental units supplied. In this business, Nomura Real Estate Group continuously supplies properties to residential REITs in order to achieve mutual growth with REITs. While crystallizing our development, operating and management expertise in each area, we are displaying our comprehensive strength and building a business model that is unique to the Group.

### Investment Management & Development Business

Activities in the Investment Management & Development Business segment are broadly divided between the asset management and the profit-generating property development operations.





In asset management operations, from the second half of the 1990s the Nomura Real Estate Group understood the changes in the structure of real estate ownership in Japan and has been carrying out initiatives in the field of asset management that were pioneering in the industry. The trust that investors have been placing in the Group based on its management expertise accumulated to date and past investment achievements has become one of the Group's great strengths.

In the medium-term business plan, we have set a new target of increasing assets under management to ¥1.5 trillion at the end of fiscal 2009, which will be approximately double the assets at the end of fiscal 2006. Asset management operations intend to use this growth in assets under management to establish a secure and stable income base. To do this, we will work to further strengthen our operating capabilities and further expand our business domains.

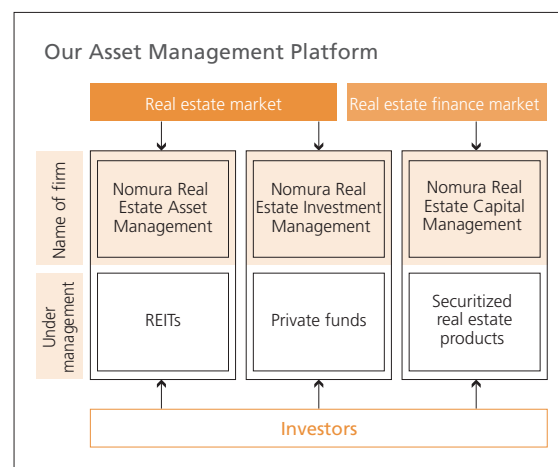
Nomura Real Estate Asset Management will work to improve the earnings potential of its real estate under management, to maintain and secure its fund procurement capabilities and to invest in carefully selected prime properties, through Nomura Real Estate Office Fund, Inc. (NOF), which undertakes consigned management, and Nomura Real Estate Residential Fund, Inc. (NRF). At the same time, Nomura Real Estate Asset Management will further strengthen strategic cooperation with Nomura Real Estate Development.

Nomura Real Estate Investment Management, which manages private funds, will accelerate the consigned management of funds specializing in logistics and retail facilities as new management sectors. At the same time, the company intends to form funds with a new investment strategy to supply the market with investment products possessing a variety of risk/return characteristics in order to expand the consigned business domain.

Nomura Real Estate Capital Management undertakes consigned management of funds that invests in real estate-related securities such as funds of funds targeting private real estate funds and commercial mortgage-backed securities (CMBS) as investment vehicles. In addition to growth of these funds, the company aims to capitalize on the expanding needs of investors to expand its business domain with an eye to making inroads in global markets.

The three asset management companies of the Nomura Real Estate Group, on the basis of their "Investor Oriented" management philosophy, respond to the wide-ranging asset management needs of investors and aim to be the leading companies in this industry.

The profit-generating property development operations are currently carrying out approximately 150 projects. The involvement in these many projects enables both the



improvement of property sourcing and business promotion capabilities, and the lessening of income volatility through the diversification of risk.

After having developed these projects and increased their value, we then successively sell them. We both realize development profit and also allocate the funds collected from sales to new investment projects. In the development of retail facilities in particular, Geo Akamatsu Co., Ltd., which has an extensive track record in planning and consulting operations in this area, was added to the Nomura Real Estate Group in fiscal 2007. Consequently, we plan to expand the development of commercial facilities by making maximum use of this company's expertise.

### Strategies for other business


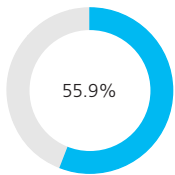

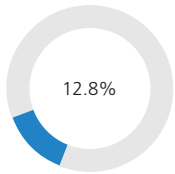

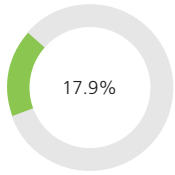

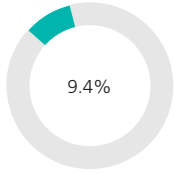

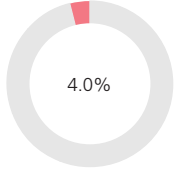
In the Building Business, based on the viewpoint of maintaining our business portfolio, we intend to strategically increase the number of buildings we own. During the period of the current medium-term business plan, the Group will develop the Nihonbashi Nomura Building (tentative name) and the Midosuji Nomura Building (tentative name) in line with our policy to add to the lineup of buildings we own.

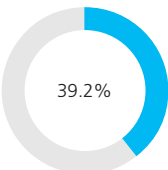
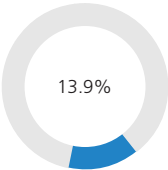
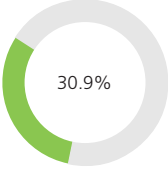
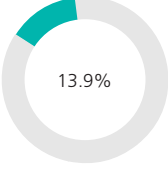
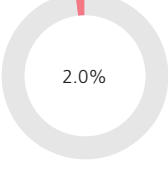
In the Property Brokerage & Consignment Sales Business, our policy is to maintain a high potential for growth in the core business of property brokerage. We aim to increase total transaction value, which reached ¥380 billion in fiscal 2006, to a level of more than ¥500 billion in fiscal 2009.

Finally, in the fitness club business, which we conduct under the Megalos brand, we will continue to achieve growth by developing an urban compact type of facility and by accelerating the opening of facilities in areas along railway lines where there were previously no Megalos fitness clubs and in areas outside the Tokyo metropolitan area.

# Our Commitment to Our Markets

We will raise the presence of each business to achieve consistent growth and enhance corporate value.

		Main business	Composition of revenues
Residential Development Business		<ul style="list-style-type: none"> <li>Sales of housing</li> <li>Management of condominiums</li> </ul>	 <p>55.9%</p>
Building Business		<ul style="list-style-type: none"> <li>Leasing (owned)</li> <li>Leasing (subleasing)</li> <li>Property management and facility management</li> </ul>	 <p>12.8%</p>
Investment Management & Development Business		<ul style="list-style-type: none"> <li>Property development</li> <li>Investment management</li> </ul>	 <p>17.9%</p>
Property Brokerage & Consignment Sales Business		<ul style="list-style-type: none"> <li>Property brokerage</li> <li>Consignment sales</li> <li>Real property sales</li> </ul>	 <p>9.4%</p>
Other Business		<ul style="list-style-type: none"> <li>Fitness clubs</li> <li>Architectural plan and management</li> </ul>	 <p>4.0%</p>

Composition of operating income	Major subsidiaries	Fiscal 2006 topics	
 <p>39.2%</p>	<ul style="list-style-type: none"> <li>■ Nomura Real Estate Development Co., Ltd.</li> <li>■ Nomura Living Support Co., Ltd.</li> <li>■ PRIME X Co., Ltd.</li> </ul>	<p>The Residential Development Business offers a diverse product lineup that includes large-scale condominiums, high-rise condominiums, large detached housing, and urban detached housing under the PROUD brand. Two properties that we developed—PROUD CITY Oizumi Gakuen and STATES GRAN Ibaraki won the Good Design Award 2006 (Architecture and Environment Design Category), sponsored by the Japan Industrial Design Promotion Organization. Nomura Real Estate properties have won the Good Design Award for five consecutive years.</p>	
 <p>13.9%</p>	<ul style="list-style-type: none"> <li>■ Nomura Real Estate Development Co., Ltd.</li> <li>■ Nomura Building Management Co., Ltd.</li> <li>■ Nomura Amenity Service Co., Ltd.</li> <li>■ YBP Heating and Cooling Supply Co., Ltd.</li> </ul>	<p>The Building Business has carried out renewal work on the Shinjuku Nomura Building, our key office building, and the Nihonbashi Nomura Building (tentative name), a redevelopment project that includes renovation of the Shinmuromachi Building. In January 2007, we also completed the Fukagawa Gatharia Tower-N, an office building that we developed, and it started operation in February. Building utilization at the end of fiscal 2006 stood at 98.1%, a year-on-year increase of 1.6 percentage points.</p>	
 <p>30.9%</p>	<ul style="list-style-type: none"> <li>■ Nomura Real Estate Development Co., Ltd.</li> <li>■ Nomura Real Estate Asset Management Co., Ltd.</li> <li>■ Nomura Real Estate Investment Management Co., Ltd.</li> <li>■ Nomura Real Estate Capital Management Co., Ltd.</li> </ul>	<p>In the Investment Management &amp; Development Business, the profit-generating property development division sold the Secom Medical Building and the Omron Kyoto Center Building to Nomura Real Estate Office Fund, Inc. In the asset management part, Nomura Real Estate Asset Management listed Nomura Real Estate Residential Fund, Inc. on the Tokyo Stock Exchange. In addition, we responded to diverse investor needs by forming a Fund of Funds that invests overseas and a fund that invests in securitized real estate products.</p>	
 <p>13.9%</p>	<ul style="list-style-type: none"> <li>■ Nomura Real Estate Development Co., Ltd.</li> <li>■ Nomura Real Estate Urban Net Co., Ltd.</li> </ul>	<p>In the Property Brokerage &amp; Consignment Sales Business, we worked to further develop our Internet strategy and reinforce proposal-based marketing targeting business financial corporations. The number of registered members of the Internet site nomu.com at the end of fiscal 2006 stood at 144,000, a year-on-year increase of 58,000. In August 2006, we also opened the Seijo Center as a new base in the Jonan and Josai area. Consignment sales operations endeavored to form sales tie-ups with excellent developers and also focused on the cultivation of new developers.</p>	
 <p>2.0%</p>	<ul style="list-style-type: none"> <li>■ Nomura Real Estate Development Co., Ltd.</li> <li>■ Megalos Co., Ltd.</li> </ul>	<p>In the fitness club business, operations at four facilities that we opened in the previous fiscal year got on track, and existing facilities also recorded a strong earnings performance. In March 2007, we opened Megalos Plusia Kinshicho. At the end of March 2007, the number of Megalos members based at all facilities exceeded 115,000.</p>	

### Residential Development Business

The Residential Development Business supplies approximately 4,000 residential properties a year, primarily in the Tokyo metropolitan area. The Group offers a diverse product lineup under the PROUD brand that includes: PROUD CITY (large-scale condominiums), PROUD TOWER (skyscraper condominiums), PROUD TOWN (large-scale detached housing), and PROUD SEASON (detached housing in urban areas). The PROUD brand embodies our desire to supply the best properties in the area and greatly satisfy our customers. Our concept of PROUD being equivalent to Nomura Real Estate Development's high-quality condominiums has become steadily entrenched in the market.

#### Overview of Fiscal 2006

In fiscal 2006, the housing market generally remained robust, with demand from the condominium market showing underlying strength. However, owing to a decline in the number of housing units sold in the housing sales part, revenues from operations in the Residential Development Business segment declined ¥16.6 billion, or 7.4%, year-on-year to ¥206.0 billion. However, operating income increased ¥1.7 billion, or 7.6%, to ¥23.6 billion, due to an improvement in the gross margin of housing sales operations.

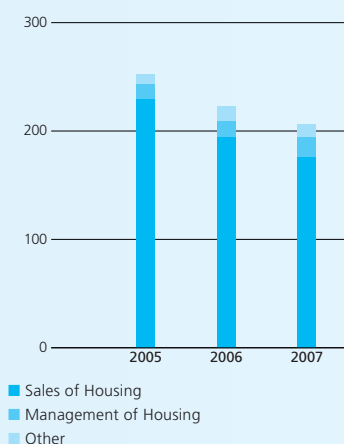
In the housing sales operations, we focused our efforts on site selection and product planning in order to supply properties that will be evaluated as the best in their respective areas. Sales were favorable as shown by the fact that completed inventories held only six units. In addition, we attempted to establish a new earnings base by developing rental housing and expanding batch sales to investors such as REITs.

In housing management operations, we endeavored to thoroughly promote economic considerations while advocating earnings growth as the most important management issue. To improve earnings, we also adopted a variety of measures. For example, we reinforced collaboration with the housing sales business and strove to build an integrated development, sales and management business model, aggressively undertook management consignment orders from companies outside the Group, and attempted to increase the number of managed units and expand orders for long-term repair work.

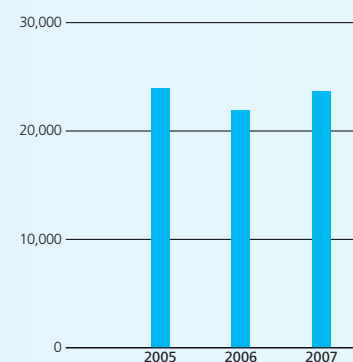
#### Basic Policy in Medium-term Business Plan and Future Expansion

The basic policy that the Group has advocated for the Residential Development Business in the medium-term business plan is to become the leading company in the

**Revenues from Operations**  
(Billions of yen)

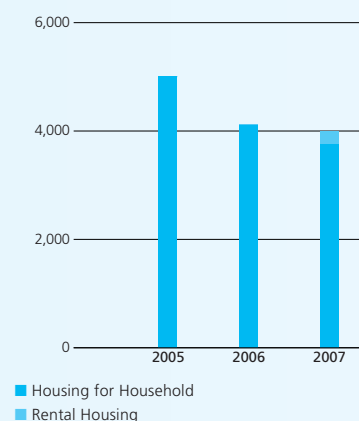


**Operating Income\***  
(Millions of yen)



\* Operating income figures are total amounts of Residential Development Business.

**Number of Housing Sales**  
(Units)





PROUD Minami Ogikubo  
(Suginami-ku, Tokyo)



PROUD TOWN Inage (Inage-ku, Chiba)



PROUD FLAT Gakugei Daigaku  
(Meguro-ku, Tokyo)

housing industry. In fiscal 2009, the final fiscal year of the medium-term business plan, we aim to post annual housing sales of 5,000 units and rental housing sales of 1,000 units. Thereafter, we will establish an organization to ensure the stable supply of properties on that scale. In addition, we will work to improve quality, which will become the foundation of our brand power, in order to further enhance the image of the PROUD brand.

Furthermore, to steadily promote sales of about 5,000 housing units a year, we will also aggressively engage in redevelopment projects, renovation projects, and land readjustment projects.

In addition to housing sales, we will also focus our efforts on the development of rental housing for investors. With regard to PROUD FLAT brand products, in particular, we aim to create high-quality rental condominiums by making use of the expertise we have cultivated in the housing sales

business. We also plan to supply properties to Nomura Real Estate Residential Fund, Inc., which is managed within the Group, and thereby expand assets under management in the Investment Management & Development Business.

In the housing management business, which is a stock-type fee business, we will expand the number of properties that we are commissioned to manage. At the same time, we will realize sustained growth by incorporating new business opportunities that are closely related to customers' lives.

## Business Results

(Millions of yen)

Years ended March 31	2005	2006	2007
Revenues from Operations	¥251,926	¥222,518	¥205,950
Operating Income	23,904	21,952	23,627
Assets	174,413	197,316	257,184
ROA* (%)	13.7%	11.1%	9.2%
Inventories	¥153,104	¥163,917	¥229,863

\* ROA by segment = Segment operating income / Segment assets at end of fiscal year

## Building Business

The Group owns trophy office buildings such as Shinjuku Nomura Building, Yokohama Business Park, and Otemachi Nomura Building in major areas of the office market. Besides leasing the buildings we own, we are also operating subleasing and property management businesses, which enables us to gain better understanding of the needs of tenants that are specific to the area concerned as well as market trends in a timely manner. At the same time, we respond in a comprehensive manner to customers' needs such as trading and liquidity and leasing and asset use, and we have developed an organization that is able to develop businesses with a very broad base.

### Overview of Fiscal 2006

In the Building Business, we strove to expand marketing activities closely suited to tenant needs as well as maintain and enhance utilization rates. We also worked to expand commission income relating to property management and building management operations. In fiscal 2006, we carried out renewal work on Shinjuku Nomura Building, a key office building, and Nihonbashi Nomura Building (tentative name), a redevelopment project that includes renovation of Shinmuromachi Building. In January 2007, we completed the Fukagawa Gatharia Tower-N. As a result, revenues from operations in the Building Business segment rose ¥3.1 billion, or 6.3%, to ¥51.3 billion. Operating income grew ¥1.2 billion, or 17.0%, to ¥8.4 billion.

Profits derived from leasing operations improved because there was an increase in the number of cases where the rents of existing tenants were raised as a result of rent

reviews, and such measures were implemented as the cancellation of unprofitable subleasing contracts. In property and facility management operations, we thoroughly improved services, which resulted in an increase in the number of consigned properties.

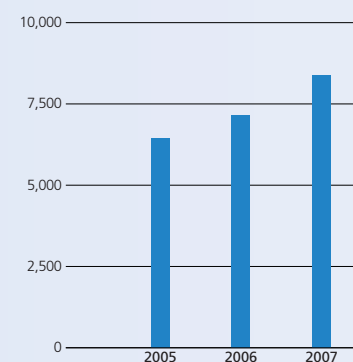
### Basic Policy in Medium-term Business Plan and Future Expansion

One measure to expand the Building Business going forward is Nihonbashi Nomura Building (tentative name), which is scheduled for completion in fiscal 2009. This is a project that entails the integrated renovation of surrounding buildings, including Shinmuromachi Building, which Nomura Real Estate Development owns. By making use of various methods such as taking advantage of redevelopment opportunities in designated areas in urban centers and the transfer bonus of floor space, we plan to substantially increase building capacity rate.

**Revenues from Operations**  
(Billions of yen)

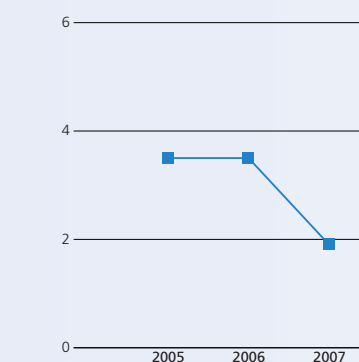


**Operating Income\***  
(Millions of yen)



\* Operating income figures are total amounts of Building Business.

**Vacancy Rate at Year-end**  
(%)





Shinjuku Nomura Building  
(Shinjuku-ku, Tokyo)

Fukagawa Gatharia Tower-N  
(Koto-ku, Tokyo)

Nihonbashi Nomura  
Building (Tentative  
Name) (Chuo-ku, Tokyo)  
<Perspective image>

After completion, we intend this to become the Group's key office building in the Nihonbashi district. In addition, in the Building Business, we have adopted the policy of selecting and owning properties that will become key office buildings in major areas of the office market. One example is Midosuji Nomura Building (tentative name) in Chuo-ku, Osaka: we started construction during fiscal year 2007 and it is scheduled for completion at the end of fiscal 2008. While continuing to strategically increase the floor space we own, we will also expand fee businesses, namely, property management and facility management.

In our leased buildings, we have maintained lower vacancy rates than the market average. We believe this stems from our comprehensive service organization covering property management and building management, which is the Group's strength. As the Group makes integrated use of its management capability and

technological capabilities in regular negotiations with owners and tenants, it has responded to customer needs and enhanced their degree of satisfaction. In addition to this, as we are good at leasing and directly market properties ourselves, we have realized high operating rates.

Besides further expanding the Building Business, we intend to reinforce our organizational network, which is able to understand the needs of tenants that are specific to the area concerned as well as market trends in a timely manner.

## Business Results

(Millions of yen)

Years ended March 31	2005	2006	2007
Revenues from Operations	¥ 45,826	¥ 48,288	¥ 51,342
Operating Income	6,459	7,158	8,372
Assets	168,820	170,011	180,587
Return on Assets* (%)	3.8%	4.2%	4.6%
Inventories	¥ 1,622	¥ 9,078	¥ 10,165

\* ROA by segment = Segment operating income / Segment assets at end of fiscal year



## Investment Management & Development Business

Investment Management & Development Business is the Group's second core business and is steadily achieving growth. This segment comprises two types of activities. In the case of the profit-generating property development, we carry out investment and development by using our own funds, and then generate income by selling these developed properties. In the case of the asset management operations, we manage investors' funds. Our great strengths in this business have been established by the accumulation of a product lineup and expertise that are able to fulfill all kinds of investors' needs, as well as customer confidence produced by our impressive past achievements.

### Overview of Fiscal 2006

In the Investment Management & Development Business in fiscal 2006, the commercialization and securitization of acquired projects and the acquisition of new projects showed favorable progress in profit-generating property development operations. In the asset management part, assets under management in private funds and REITs expanded steadily. As a result, revenues from operations in the Investment Management & Development Business segment surged ¥28.6 billion, or 76.7%, to ¥65.9 billion. Operating income grew ¥4.4 billion, or 30.9%, to ¥18.6 billion.

During fiscal 2006, in profit-generating property development, we sold the Secom Medical Building, an advanced medical facility, and the Omron Kyoto Center Building to Nomura Real Estate Office Fund, Inc. In addition, we sold Conze Ebisu, an urban dining complex building, to a REIT outside the Group. As a result, operating

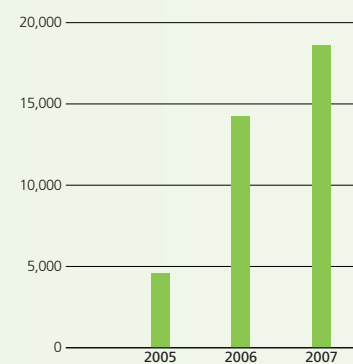
revenues from these operations soared ¥36.8 billion, or 187.6%, to 56.3 billion.

In asset management operations, Nomura Real Estate Asset Management (NREAM) established and launched Nomura Real Estate Residential Fund, Inc. for the purpose of investing in residential property. In February 2007, it listed the fund on the Tokyo Stock Exchange as the second REIT operated by the Group. In addition, Nomura Real Estate Investment Management (NREIM) expanded assets under management. Especially, it endeavored to expand the scale of private funds targeting commercial complexes and logistics facilities. Meanwhile, Nomura Real Estate Capital Management (NRECM) expanded business in areas targeting management securitised real estate funds varying from fund of funds to commercial mortgage-backed securities (CMBS) and also acquired a license for services relating to discretionary investment agreement based on the laws regulating the

**Revenues from Operations**  
(Billions of yen)

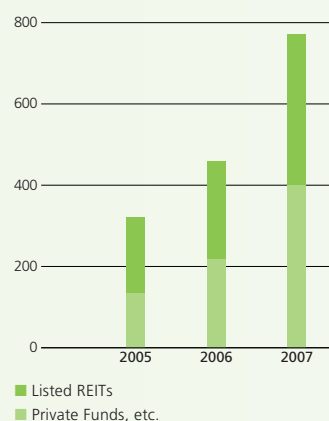


**Operating Income\***  
(Millions of yen)



\* Operating income figures are total amounts of Investment Management & Development Business.

**Assets under Management**  
(Billions of yen)







SECOM Medical Building  
(Chiyoda-ku, Tokyo)

Conze Ebisu  
(Shibuya-ku, Tokyo)

Land Port Atsugi (Atsugi-city, Kanagawa)

securities investment advisory business. Operating revenues in asset management operations declined ¥8.2 billion, or 46.2%, to ¥9.5 billion, due to the absence of special factors that occurred in fiscal 2005. However, assets under business grew ¥310.9 billion, or 67.5%, to ¥771.2 billion.

#### Basic Policy in Medium-term Business Plan and Future Expansion

Profit-generating property development operations are currently engaged in more than 100 development and value-adding projects. However, going forward, we will successively sell them to realize development profits and allocate the funds collected to investment in new projects, aiming to establish a business model for profit-generating property development operations that focuses on fund cycles and investment returns.

Asset management operations aim to expand assets under management to ¥1.5 trillion in fiscal 2009, the final year of the plan, which will be approximately double the assets at the end of fiscal 2006, and to build a stable base in terms of fee business. To that end, we will undertake the following challenges: strengthening operational expertise, expanding sectors targeted for investment; expanding real estate securitization products and other activities in the financial assets domain; diversifying methods of fund procurement; meeting the requirements of the Financial Products Exchange Law; and developing human resources.

#### Business Results

(Millions of yen)

Years ended March 31	2005	2006	2007
Revenues from Operations	¥ 7,720	¥ 37,272	¥ 65,867
Operating Income	4,606	14,224	18,613
Assets	122,770	217,544	275,202
Return on Assets* (%)	3.8%	6.5%	6.8%
Inventories	¥ 84,636	¥137,389	¥132,642

\* ROA by segment = Segment operating income / Segment assets at end of fiscal year

## Property Brokerage & Consignment Sales Business

The Group's Property Brokerage & Consignment Sales Business in its individual brokerage operations performs highly efficient management by promoting office networks primarily in the Tokyo metropolitan area and Internet strategies with a comprehensive property information website, "nomu.com". The main feature of our corporate real estate brokerage operations is the fact that we make effective use of direct networking channels to more than 3,000 companies that we have cultivated over a long period of time. This leads to exploring the seeds of projects and the conclusion of contracts.



Nomura Real Estate Urban Net  
Seijo Center (Setagaya-ku, Tokyo)

### Overview of Fiscal 2006

During fiscal 2006, the property brokerage part endeavored to improve the content of nomu.com for MEN, a site targeting single men, and nomu.com/BIZ, a corporate real estate information website. As we pursued a marketing strategy utilizing the Internet and worked to strengthen customer-focused marketing targeting business corporations, the division performed favorably. For example, transaction value of brokerage increased sharply in both individual households and corporates and rates of commission also rose.

In consignment sales, we focused on forming sales tie-ups with high-quality developers and fostering new developers. We also made efforts to promote product supply, contract formation, delivery, and settlement.

In product real estate sales, we started out with information obtained from brokerage clients, and then acquired properties, developed them and increased their

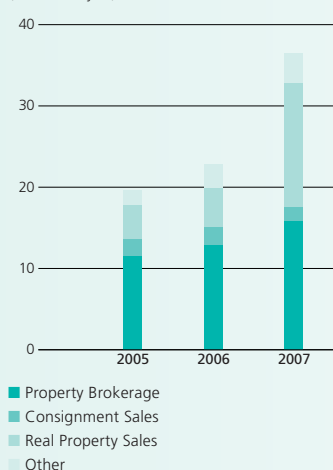
value. Such endeavors to add value and sell properties expanded rapidly.

As a result, revenues from operations in the Property Brokerage & Consignment Sales Business segment grew ¥13.6 billion, or 59.5%, to ¥36.5 billion, and operating income climbed ¥2.8 billion, or 50.0%, to ¥8.4 billion.

### Basic Policy in Medium-term Business Plan and Future Expansion

In the Group, the basic policy for the Property Brokerage & Consignment Sales Business in the medium-term business plan is to establish the number one brand that is trusted by customers. Specifically, we will step up promotion of the Internet strategy by enhancing the contents of nomu.com, a website managed by Nomura Real Estate Urban Net. In addition, we will promote the development of human resources and larger branch offices.

Revenues from Operations  
(Billions of yen)

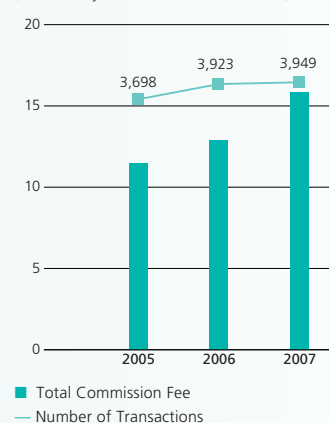


Operating Income\*  
(Millions of yen)



\* Operating income figures are total amounts of Property Brokerage & Consignment Sales Business.

Property Brokerage  
(Billions of yen/number of transactions)



## Other Business

The fitness club business entails the management of 18 facilities mainly in the Tokyo metropolitan area. We expect to realize synergies with the Nomura Real Estate Group through the acquisition of land information when opening facilities and the maintenance and management of facilities. We regard this as a sector where we will continue to achieve steady growth through the expansion of the facility network.



Megalos Plusia  
Kinshicho (Sumida-ku,  
Tokyo)

### Overview of Fiscal 2006

In the fitness club business activities, operations at four facilities that we opened in fiscal 2005 got on track, and existing facilities also registered a good performance. In March 2007, we opened Megalos Plusia Kinshicho, the second fitness club under our new concept targeting women and middle-aged people. As a result, we had a network of 18 facilities in total, and the total number of Megalos members exceeded 115,000. Based on our policy of withdrawing from custom-made housing business, the Company dissolved Nomura Home Co., Ltd. in March 2006, and that company was completely wound up in January 2007.

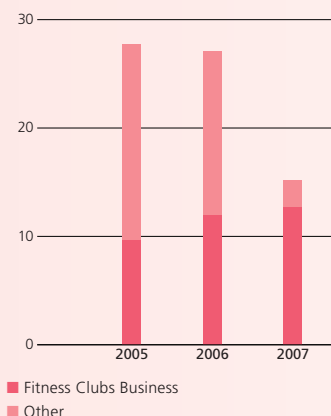
As a result, revenues from operations in the Other Business segment declined ¥11.9 billion, or 44.0%, to ¥15.2 billion. However, operating income increased ¥0.8 billion, or 274.2%, to ¥1.2 billion.

### Basic Policy in Medium-term Business Plan and Future Expansion

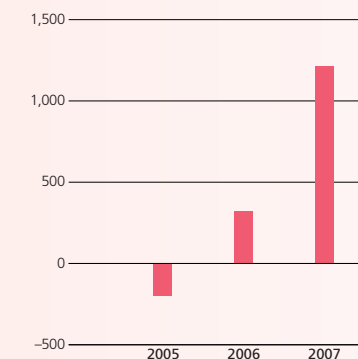
In the fitness industry, there has been an increase in the number of fitness club users, mainly in the middle-aged and senior age groups, because of rising interest in lifestyle diseases such as metabolic syndrome (a combination of medical disorders that increase one's risk for cardiovascular disease and diabetes) and measures to prevent such diseases.

We will continue to not only expand the number of facilities, but also endeavor to improve facilities and introduce the latest equipment. We will also establish a facility environment, customer service methods and scientific training theories, and we will provide the latest programs based on these. By utilizing this original approach and expertise, we will contribute to the physical and mental health of as many regional residents as possible.

Revenues from Operations  
(Billions of yen)

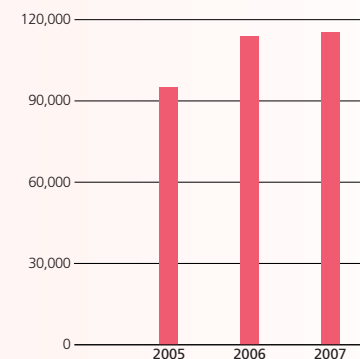


Operating Income (Loss)\*  
(Millions of yen)



\* Operating income figures are total amounts of Other Business.

Number of Members of Megalos



# Our Commitment to Our Stakeholders

We believe that a sound management structure is the backbone for earnings growth and higher corporate value.

## Basic Viewpoints Regarding Corporate Governance

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

## Company Organizations and Establishment of Internal Control Systems

The Company's Board of Directors comprises five directors. It decides important corporate matters and supervises the execution of business operations by directors. Corporate auditors attend meetings of the Board of Directors and provide their opinions as the need arises.

The Company has adopted a corporate auditor system. The Board of Corporate Auditors comprises four corporate auditors, two of whom are external auditors. It formulates such matters as audit policies and operational roles, and receives reports and conducts discussions regarding important matters relating to audits carried out on the basis of those policies and roles.

Moreover, the Company has established the holding of Group Management Meetings whose members include the Company's directors and the presidents of major subsidiaries. The purposes of these meetings are to unify intentions to promote Group management and to verify the progress of the budgets of each operating company and execution status of other business operations.

## Risk Management and Compliance Framework

### Risk Management System

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

### Compliance Systems

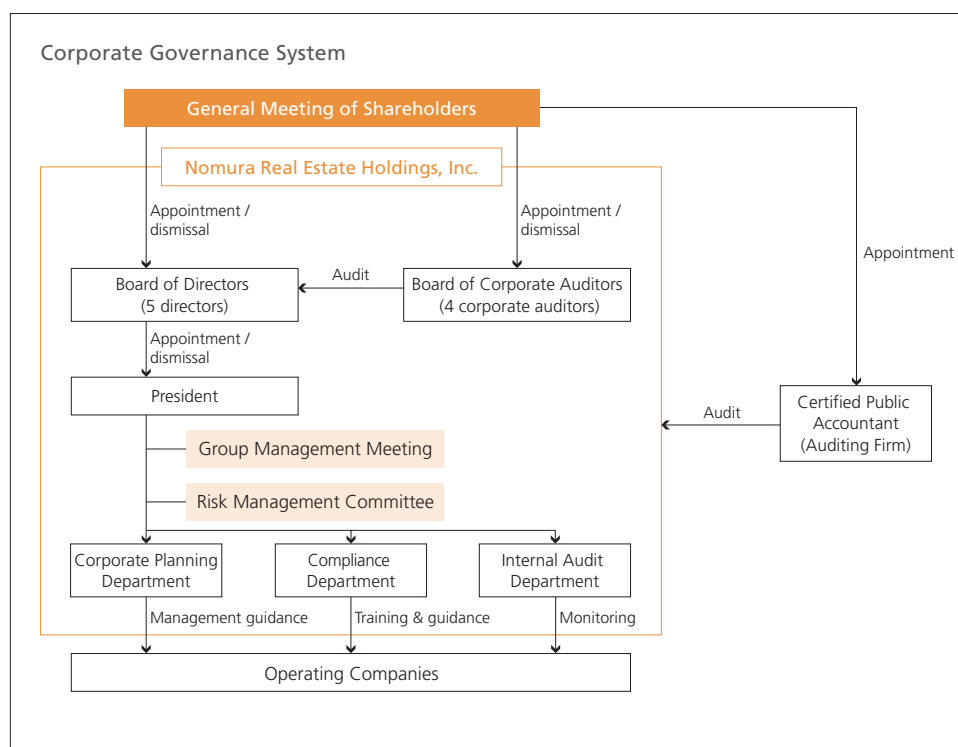
The Nomura Real Estate Group regards compliance, including the observance of laws and regulations and corporate ethics, as one of the most important management issues. As a set of relevant guidelines, it has formulated the *Nomura Real Estate Group Code of Action*.

To promote continuous educational and awareness activities for executives and employees, we have established the Compliance Department in the Company. It provides advice, guidance, and support to Group companies.

Furthermore, based on the viewpoint of collecting information regarding risks, we have set up the *Nomura Real Estate Group Risk Hotline* as a point of contact for internal reporting by Group employees.

### Internal Audit System

The Nomura Real Estate Group has established an internal audit department at each Group company, with the exception of some small companies. Each department is supervised under the direct jurisdiction of the Group company president or an officer who does not hold an additional office in a business operations division, which allows the department to maintain organizational independence. In addition, we have established the Internal Audit Department at Nomura Real Estate Holdings that supervises the internal audit functions of the entire Group and performs monitoring, evaluation, and auditing in each division within the Company.



### Corporate Auditor Audit System

The Company has appointed full-time staff as audit officers in the Corporate Planning Department to support corporate auditor audits. Each corporate auditor attends meetings of the Board of Directors and other important meetings and audits the execution of the duties of directors while cooperating with the Internal Audit Department and the accounting auditors as needed.

### Accounting Audits

The Company has concluded an auditing contract with Ernst & Young ShinNihon. In addition to performing regular audits, Ernst & Young ShinNihon discusses and verifies accounting issues as needed and conducts appropriate accounting practices.

All of the certified public accountants that carry out work have not more than seven years of continued experience in auditing the Company, and the auditing firm has adopted autonomous measures to ensure that its employees that carry out work do not participate for longer than a designated period in the Company's account auditing.

Assistants associated with audit operations comprise five certified public accountants, and eight assistant certified public accountants and staff.

### Compensation of Directors and Officers

At the second annual general meeting of shareholders on June 26, 2006, it was resolved that the maximum annual compensation limit for directors and corporate auditors would be ¥650 million and ¥120 million, respectively.

The Company paid the following compensation for fiscal 2006 to directors and corporate auditors.

Six Directors	¥321 million
Four Corporate Auditors	¥66 million
(Among Whom, Two External Auditors)	(¥7 million)
Total: 10 Persons	¥387 million

Compensation provided to Ernst & Young ShinNihon, the Company's accounting auditor, is as follows.

Compensation Based on Operations	
Provided in Article 2-1 of Certified Public	
Accountants Law	¥17 million
Other than Above	¥96 million

#### Stock Option Compensation for Directors

The Company has been engaged in revising the compensation system for directors and corporate auditors so that it contributes to the further enhancement of the business performance and corporate value of the Nomura Real Estate Group. During this period, we abolished the system of retirement benefits for directors and corporate auditors, which tended to be inflexible and based on seniority, on March 31, 2006.

At the general meeting of shareholders on June 28, 2007, approval was provided to grant stock options based on the exercise of stock acquisition rights to Company directors in each fiscal year. These stock options, with transfer restrictions attached, are to be within the range of the amount of ¥650 million per annum, as approved at the annual general meeting of shareholders on June 26, 2006. The purposes of providing these stock options are to endeavor to share interests with all shareholders and to further increase corporate value.

#### Matters Concerning Parent Company

The Company's parent company is Nomura Land and Building Co., Ltd. (NLB).

##### 1) Capital relationship with Nomura Land and Building Co., Ltd.

The former Nomura Real Estate Development Co., Ltd., the predecessor of both Nomura Real Estate Development Co., Ltd., which is currently a subsidiary of Nomura Real

Estate Holdings, and NLB, the Company's parent company, was established on April 15, 1957. Subsequently, in January 1970, it was divided into NLB, which is engaged mainly in the management of real estate associated with Nomura Securities Co., Ltd., and Nomura Real Estate Development which conducts other real estate operations. In October 2004, it was decided that the Company would become the holding company of the Nomura Real Estate Group. Accordingly, NLB assigned all the outstanding shares of Nomura Real Estate Development to the Company as an in-kind contribution, and became the Company's parent company. Owing to the issuance of new shares associated with the listing of the Company in October 2006 and sale of shares by NLB held a 64.8% shareholding in Nomura Real Estate Holdings at the end of March 2007.

##### 2) Business transaction relationships

In the fiscal year ended March 31, 2007, business transactions between NLB and companies in the Nomura Real Estate Group amounted to ¥19 million in the Building Business segment and so on.

##### 3) Personal relationships

To strengthen audit operations, the Company has accepted two non-full-time corporate auditors from NLB. They are Toshio Miura, an executive managing director of NLB, and Masakazu Katada, a managing director of NLB. Hirohisa Suzuki, the Company's President, is the former President of NLB, but apart from the corporate auditors mentioned above, no executives or employees of the Company are concurrently serving at NLB or on secondment from that company.

The relationship between the Nomura Real Estate Group and NLB is as described above, but it does not exert any influence on the Nomura Real Estate Group's free market-ing activities or management decisions. In addition, NLB has subsidiaries outside the Nomura Real Estate Group that are engaged in an overseas hotel management business and so on, but they do not compete with the Group's business operations.

The Company performs business management independently from the parent company based on the Company's own responsibility.

## Corporate Social Responsibility (CSR)

The Group Philosophy of the Nomura Real Estate Group is expressed in the words “Bringing Tomorrow Today.” The word “Tomorrow” does not signify satisfaction and contentment with the current situation; rather, it is imbued with the spirit of challenge focused on the future. The word “Bringing” describes the relationship among customers, society, and Group companies and high goals, and it expresses the will to accomplish things. Moreover, it is imbued with the sense that the products and services of the Nomura Real Estate Group realize and provide (= bring) the dreams and future that people conjure up, while linking together the good relationships and connections among customers, society, and the Nomura Real Estate Group. As such, “Bringing Tomorrow Today” is the fundamental concept in all the Group’s various corporate activities, and it includes endeavors to achieve socially sustainable development.

### Nomura Real Estate Group’s Environmental Conservation and Social Contribution Activities

#### Environmental Conservation Activities

In its business activities, the Nomura Real Estate Group always takes account of the impact on the environment. It strives to keep the burden that products and services or business activities impose on the environment to a minimum as far as possible. An enormous amount of energy is consumed in the construction and usage period of buildings. Consequently, when developing and operating housing and other buildings, the Group pays sufficient consideration to the impact on the environment, including the appropriate use of resources and the alleviation of environmental load, from the design stage to the operating stage.



The Group conducts various environmentally-friendly initiatives based on ISO 14001 and has acquired this environmental certification.

#### Social Contribution Activities

The Nomura Real Estate Group not only provides high-quality products and services to customers, but also contributes to regional culture and communities. This leads to deeper communication between society and the Group and an improvement in service, as well as the creation of community activities and a rich culture. We believe we can create truly comfortable living spaces for everyone, including our customers.



Supporting disaster prevention training through a community event

## Board of Directors and Corporate Auditors



President  
Hirohisa Suzuki



Director  
Mototsugu Takai



Director  
Seiji Matsumoto



Director  
Yoji Kurihara



Director  
Takao Orihara



Corporate Auditor  
Toshio Miura



Corporate Auditor  
Tatsuo Shimamura



Corporate Auditor  
Mitsuharu Sato



Corporate Auditor  
Masakazu Katada

(As of June 28, 2007)



## Our Commitment to Our Results

We will promote growth strategies based on a sound management structure.  
This promise to our stakeholders will lead to excellent results.

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#### Forward-looking Statements

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

## Three-Year Financial Summary

Nomura Real Estate Holdings, Inc.

The fiscal years ended March 31, 2005, 2006 and 2007

	(Millions of yen)			(Thousands of U.S. dollars)
	2005	2006	2007	2007
<b>Fiscal Year</b>				
Revenues from operations	¥345,894	¥350,319	¥367,237	\$3,110,858
Gross profit	87,531	97,551	108,668	920,527
Gross margin ratio	25.3%	27.8%	29.6%	
Selling, general and administrative expenses	51,789	53,283	54,294	459,922
SG&A ratio to revenues	15.0%	15.2%	14.8%	
Operating income	35,742	44,268	54,374	460,605
Operating margin	10.3%	12.6%	14.8%	
Income before income taxes and minority interests	16,359	19,721	47,868	405,487
Net income	6,474	12,717	26,297	222,764
Cash flows from operating activities	(24,630)	(99,830)	(89,850)	(761,116)
Cash flows from investing activities	(20,462)	(17,995)	(26,787)	(226,913)
Cash flows from financing activities	63,444	113,818	100,863	854,409
Cash and cash equivalents at fiscal year end	48,223	44,216	28,437	240,891
<b>Fiscal Year End</b>				
Total assets	580,130	689,287	836,303	7,084,313
Interest-bearing debt	300,247	413,039	394,885	3,345,070
Shareholders' equity	46,645	60,732	213,207	1,806,073
Shareholders' equity ratio	8.0%	8.8%	25.5%	
Debt-to-equity ratio (times)	6.4	6.8	1.9	
	(Yen)			(U.S. dollars)
	2005	2006	2007	2007
<b>Per Share Data (Note)</b>				
Shareholders' equity	¥203,859.93	¥267,956.93	¥1,427.80	\$12.09
Net income	44,367.78	56,109.84	200.47	1.70
Cash dividends	—	2,000.00	20.00	0.17

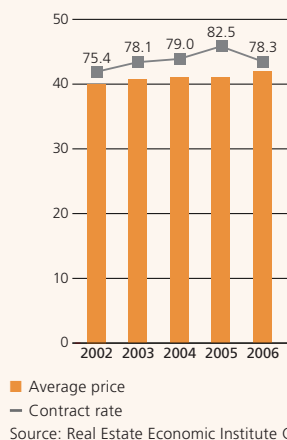
Note: The Company carried out a 500-for-1 stock split on April 1, 2006.

## Management's Discussion and Analysis

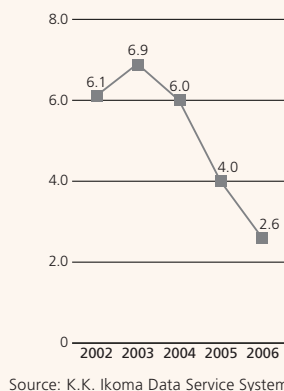
### Trends in the Real Estate Industry

In fiscal 2006, the year ended March 31, 2007, the housing sales market continued with a high level of supply and maintained a strong performance centered on high-rise and large-scale condominiums, with robust demand evident among first-time home buyers, primarily the so-called second-generation baby boomers, and the elderly. This performance was supported by anticipation of a rise in the level of land prices and interest rates. In the office building leasing market, vacancy rates declined as office demand expanded due to an improvement in corporate earnings and companies returned to the center of cities, while rents entered a phase of growth primarily in the case of centrally located urban buildings with excellent locations and facilities. Furthermore, the real estate investment market, where REITs are the representative products, also continued to expand steadily, and gradually increased their presence as a new form of real estate business.

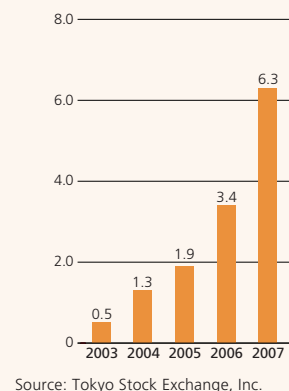
**Average prices and contract rates for condominiums in the Tokyo metropolitan area**  
For the calendar years  
(Millions of yen / %)



**Vacancy rates in Tokyo's 23 wards**  
As of December 31  
(%)



**J-REIT market's total valuation**  
As of March 31  
(Trillions of yen)



### Analysis of Operating Results

The Group reported a strong earnings performance. In fiscal 2006, revenues from operations, operating income and net profit all reached new record highs, as was the case in fiscal 2005.

Revenues from operations year-on-year increased ¥16.9 billion, or 4.8%, to ¥367.2 billion. By segment, revenues declined in the Residential Development Business due to a decrease in the number of sales of housing units, and revenues declined in the Other Business due to the Group's withdrawal from the custom-made detached housing business. However, revenues grew substantially in the Investment Management & Development Business and the Property Brokerage & Consignment Sales Business. In the Investment Management & Development Business, in particular, the sales of internally developed profit-generating property to REITs inside and outside the Group made a strong contribution.

Operating income rose ¥10.1 billion, or 22.8%, to ¥54.4 billion. All segments recorded growth in profit, and the Investment Management & Development Business and the Property Brokerage & Consignment Sales Business reported particularly striking increases. In both segments, capital gains from sales of internally developed profit-generating property made a substantial contribution.

Net income was up ¥13.6 billion, or 106.8%, to ¥26.3 billion. As the Group had almost completed its financial restructuring by the previous fiscal year, extraordinary losses amounted to only ¥869 million because of the early application of the lower of cost or market valuation method to inventories. As a result, net income showed a large increase.

Earnings by business segment are outlined below. It should be noted that revenues from operations in each segment includes inter-segment sales and transfers.

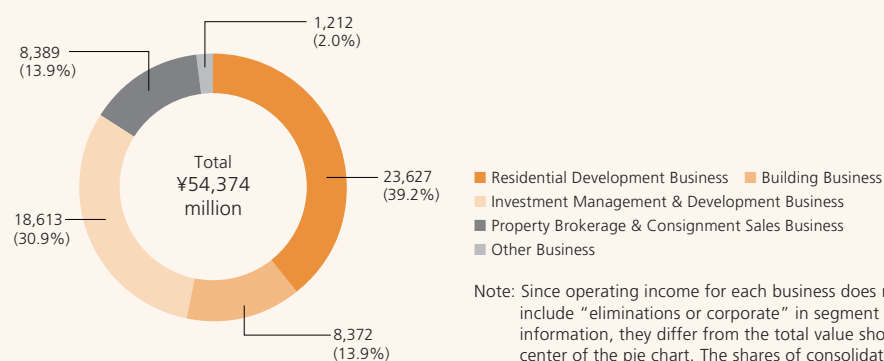
#### Segment earnings

	(Millions of yen)		
Years ended March 31	2005	2006	2007
Residential Development Business:			
Revenues from operations	¥251,926	¥222,518	¥205,950
Operating income	23,904	21,952	23,627
Building Business:			
Revenues from operations	45,826	48,288	51,342
Operating income	6,459	7,158	8,372
Investment Management & Development Business:			
Revenues from operations	7,720	37,272	65,867
Operating income	4,606	14,224	18,613
Property Brokerage & Consignment Sales Business:			
Revenues from operations	19,641	22,874	36,488
Operating income	5,011	5,592	8,389
Other Business:			
Revenues from operations	27,716	27,058	15,162
Operating income (loss)	(203)	324	1,212

The pie chart below shows the percentage of operating income generated by each segment. The Group has achieved a well-balanced business portfolio.

#### Breakdown of operating income in fiscal 2006

(Millions of yen / %)



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

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

Years ended March 31	2005	2006	2007
Residential Development Business:			
Condominium sales (units)	4,629	3,656	3,245
Detached housing sales (units)	374	448	507
Gross margin ratio of housing sales (%)	19.2	20.5	22.2
Completed housing inventories (units)	68	64	6
Rental condominium sales for investors (units)	0	36	248
Condominiums under management (units)	86,385	92,758	97,847
Building Business:			
Vacancy rate (%)	3.5	3.5	1.9
Investment Management & Development Business:			
Assets under management (millions of yen)	319,713	460,320	771,211
Property Brokerage & Consignment Sales Business:			
Brokerage Number of transactions	3,698	3,923	3,949
Brokerage Total transaction value (millions of yen)	323,389	347,990	388,479
Other Business:			
Members of MEGALOS	94,966	113,973	115,457

#### Analysis of Financial Position

In fiscal 2006, current assets rose ¥111.3 billion, or 23.7%, to ¥580.5 billion. This increase resulted mainly from a year-on-year rise of ¥87.2 billion in inventories due to a purchase of land by the Residential Development Business and a ¥36.4 billion year-on-year increase in equity investments associated with growth in assets under management in the Investment Management & Development Business. Since the Group invests in equity from the viewpoint of being in the same boat as investors when undertaking the management of funds, the balance of equity investments increases when assets under management increase.

Net property and equipment grew ¥21.8 billion, or 14.2%, to ¥175.0 billion due to the completion of the Fukagawa Gatharia Tower-N and a purchase of land for Midosuji Nomura Building (tentative name). Investments and other assets rose ¥13.6 billion, or 21.1%, to ¥78.2 billion. This is attributable to an investment associated with the formation of Nomura Real Estate Residential Fund, Inc. and a rise in book value associated with an increase in share prices of office and residential REITs. As a result, total assets grew ¥147.0 billion, or 21.3%, to ¥836.3 billion.

Current liabilities decreased ¥40.8 billion, or 15.0%, to ¥230.7 billion due to a decrease in short-term debt.

Long-term liabilities increased ¥35.0 billion, or 9.8%, to ¥391.1 billion. However, the balance of interest-bearing debt declined ¥18.2 billion to ¥394.9 billion. As a result, total liabilities decreased ¥5.7 billion, or 0.9%, to ¥621.8 billion.

In response to the enforcement of the Companies Act, minority interests and deferred gains or losses on hedges have been newly included in shareholders' equity in net assets. Net assets, which include minority interests, increased ¥153.7 billion year-on-year to ¥214.5 billion. This increase was mainly due to the posting of ¥26.3 billion in net income and a capital increase (¥120.0 billion) implemented in tandem with the listing of the Company's shares on the Tokyo Stock Exchange. As a result, the debt-to-equity ratio was 1.9 and the shareholders' equity ratio was 25.5%, marking a substantial improvement from the end of the previous fiscal year.

Because of the issuance of new shares at the time of listing, we have become able to purchase properties for the sake of profit growth going forward without increasing debts. We would like to thank all our new shareholders, who have provided us with funds for growth, and we will fulfill the responsibilities with which we have been charged.

## Cash Flows

### Cash flows from operating activities

Although they decreased by ¥10.0 billion year-on-year, net cash used in operating activities was ¥89.8 billion mainly because of: an increase in inventories, mainly caused by a purchase of land by the Residential Development Business; a rise in equity investment value in the Investment Management & Development Business due to growth in assets under management; and a partial offset of income before income taxes and minority interests of ¥47.9 billion.

### Cash flows from investing activities

Net cash used in investing activities increased by ¥8.8 billion, resulting in ¥26.8 billion. This is mainly attributable to an investment in Nomura Real Estate Residential Fund, Inc. as well as purchases of property and equipment, including the Fukagawa Gatharia Tower-N building and land for an office building in Chuo-ku, Osaka.

### Cash flows from financing activities

Net cash provided by financing activities declined by ¥13.0 billion, resulting in net cash provided of ¥100.9 billion. This was mainly due to ¥119.4 billion in funds raised through a capital increase carried out in tandem with the listing of the Company's shares on the Tokyo Stock Exchange.

As a result, cash and cash equivalents at the end of fiscal 2006 stood at ¥28.4 billion, representing a year-on-year decrease of ¥15.8 billion.

## Basic Policy Concerning Profit Distribution

The Company's basic policy regarding the distribution of profits to shareholders requires that such distribution is determined by considering a balance with retained earnings, after comprehensively taking into account such factors as business performance during the applicable fiscal year, the management environment going forward and capital investment plans. We intend to utilize the retained earnings for proactive business investments, including the purchase of inventories, with the aim of obtaining profits in the future.

In accordance with the basic policy on profit distribution, the Company paid an annual dividend per share of ¥20 for fiscal 2006. For fiscal 2007, the Company intends to pay an annual dividend per share of ¥30, including an interim dividend of ¥15.

## Risks Affecting the Business of Nomura Real Estate Group

We believe that the following major risks have the potential to significantly impact the operating results and financial condition of the Group as well as the decisions of investors. As the Group is sufficiently aware of the potential for these risks, in addition to carrying out thorough risk management, it is currently establishing and strengthening its internal control systems to ensure that the best measures are taken. It should be noted that matters concerning the future in this document have been determined on the basis of information that the Group was able to obtain as of the end of fiscal 2006.

### **1) Trends in real estate market**

Going forward, if incidents such as a rise in interest rates, stagnant economic conditions, a deterioration in corporate earnings and consumer spending, or excess supply in the real estate market should occur, this would likely cause a decline in the purchasing inclinations of customers of the Residential Development Business and the Property Brokerage & Consignment Sales Business. Moreover, in the Building Business and the Investment Management & Development Business, this could lead to a decline in the level of office rents and a rise in vacancy rates as well as a fall in asset value, which could have an adverse impact on the Group's business performance.

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

Going forward, if the Building Standards Law, the Building Lots and Buildings Transaction Business Law or other real estate-related laws are revised, or if new legislation is implemented, this could cause the occurrence of new obligations and expense burdens. Such events could adversely affect the Group's business performance.

Furthermore, if the tax system related to real estate is revised, this could lead to an increase in expenses for holding, acquisition or sale of assets, a decline in the purchasing inclinations of customers, a change in the facility strategies of companies, and a revision of their investment plans. Such events could have an adverse impact on the Group's business performance.

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

Each company in the Group obtains licenses and permits such as real estate brokerage licenses and construction licenses when carrying out business activities. In the future, if such licenses or permits should be cancelled or subject to penalties for whatever reason, this could adversely affect the Group's business performance.

### **4) Impact on balance of interest-bearing debt**

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) Natural disasters**

Natural disasters such as earthquakes and wind and flood damage, or the occurrence of 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.

### **6) Personal information**

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

## Consolidated Balance Sheets

Nomura Real Estate Holdings, Inc.  
March 31, 2006 and 2007

ASSETS	(Millions of yen)		(Thousands of U.S. dollars)
	2006	2007	2007
<b>Current Assets:</b>			
Cash and bank deposits (Note 2 (3))	¥ 44,216	¥ 28,439	\$ 240,907
Notes and accounts receivable	7,258	9,305	78,822
Inventories (Notes 5 and 8)	340,555	427,774	3,623,669
Equity investments (Note 3)	41,571	77,945	660,272
Deferred income taxes (Note 9)	11,425	11,528	97,652
Other current assets	24,248	25,595	216,816
Allowance for doubtful accounts	(77)	(70)	(598)
Total current assets	469,196	580,516	4,917,540
<b>Investments and Other Assets:</b>			
Investment securities (Note 3)	17,209	36,758	311,379
Lease deposits	29,487	28,185	238,755
Deferred income taxes (Note 9)	11,592	11,832	100,226
Other	6,331	1,461	12,377
Allowance for doubtful accounts	(54)	(71)	(601)
Total investments and other assets	64,565	78,165	662,136
<b>Property and Equipment, at cost:</b>			
Land (Notes 5 and 7)	71,392	89,141	755,116
Buildings and structures (Note 7)	132,783	141,057	1,194,894
Construction in progress (Note 5)	4,424	701	5,935
Machinery and equipment (Note 5)	5,542	5,587	47,327
	214,141	236,486	2,003,272
Accumulated depreciation	(60,971)	(61,494)	(520,915)
Net property and equipment	153,170	174,992	1,482,357
<b>Intangible fixed assets</b>	2,356	2,630	22,280
<b>Total Assets</b>	<b>¥689,287</b>	<b>¥836,303</b>	<b>\$7,084,313</b>



LIABILITIES AND NET ASSETS	(Millions of yen)		(Thousands of U.S. dollars)
	2006	2007	2007
<b>Current Liabilities:</b>			
Trade accounts payable	¥ 40,472	¥ 39,058	\$ 330,861
Short-term debt and current portion of long-term debt (Notes 4 and 5)	109,250	67,766	574,041
Corporate bonds due within one year	100	—	—
Accrued income taxes (Note 9)	9,182	15,165	128,460
Deposits received	68,728	60,281	510,637
Deferred income taxes (Note 9)	285	185	1,569
Accrued bonuses to employees	3,305	3,665	31,049
Accrued bonuses to directors and corporate auditors	497	571	4,836
Provision for loss on liquidation of subsidiaries	746	628	5,320
Accrued interest	667	793	6,717
Accrued consumption taxes	727	1,588	13,454
Other accounts payable	5,379	5,308	44,968
Rents received in advance	17,969	17,507	148,302
Other current liabilities (Note 8)	14,173	18,202	154,188
Total current liabilities	271,480	230,717	1,954,402
<b>Long-term Liabilities:</b>			
Corporate bonds	5,500	—	—
Long-term debt less current portion (Notes 4 and 5)	298,189	327,120	2,771,028
Guarantees and deposits from tenants	22,626	31,032	262,877
Deferred income taxes (Note 9)	6,257	11,087	93,915
Deferred tax liabilities on land revaluation (Note 9)	3,930	3,905	33,076
Allowance for employees' retirement benefits (Note 6)	9,133	10,699	90,630
Allowance for directors' and corporate auditors' retirement benefits	1,241	—	—
Provision for loss on subleasing business	5,880	3,812	32,295
Other liabilities	3,331	3,465	29,353
Total long-term liabilities	356,087	391,120	3,313,174
Total Liabilities	627,567	621,837	5,267,576
<b>Net Assets:</b>			
Shareholders' equity (Note 10):			
Common stock	22,670	82,646	700,097
Additional paid-in capital	—	59,976	508,056
Retained earnings	33,288	59,245	501,860
Treasury stock	—	(0)	(2)
Valuation, translation adjustments and other:			
Net unrealized holding gains on securities	4,772	11,429	96,818
Deferred gains/losses on hedges	—	(15)	(131)
Land revaluation reserve	(213)	(327)	(2,769)
Foreign currency translation adjustments	215	253	2,145
Minority interests	988	1,259	10,663
Total Net Assets	61,720	214,466	1,816,737
Total Liabilities and Net Assets	¥689,287	¥836,303	\$7,084,313

See notes to consolidated financial statements.

## Consolidated Statements of Income

Nomura Real Estate Holdings, Inc.  
Years Ended March 31, 2006 and 2007

	(Millions of yen)		(Thousands of U.S. dollars)
	2006	2007	2007
<b>Operating Revenues:</b>			
Revenues from operations	¥350,319	¥367,237	\$3,110,858
<b>Operating Expenses:</b>	306,051	312,863	2,650,253
Cost of revenues from operations	252,768	258,569	2,190,331
Selling, general and administrative expenses	53,283	54,294	459,922
<b>Operating Income</b>	<b>44,268</b>	<b>54,374</b>	<b>460,605</b>
<b>Other Income and Expenses:</b>	(24,547)	(6,506)	(55,118)
Interest income	100	373	3,156
Dividend income	30	71	603
Gain on changes in equity of affiliates	455	—	—
Gain on compensation for damages	311	—	—
Gain on reversal of provision for loss on subleasing business	—	1,291	10,930
Interest expense	(4,845)	(6,514)	(55,181)
Equity in loss of unconsolidated subsidiaries and affiliates	(49)	(65)	(549)
Distributions from silent partnership	(900)	(174)	(1,471)
Inventory write-downs	—	(869)	(7,365)
Loss on liquidation of subsidiaries	(1,178)	—	—
Loss on impairment of fixed assets	(4,438)	—	—
Loss on subleasing business	(9,784)	—	—
Other, net	(4,249)	(619)	(5,241)
<b>Income before Income Taxes and Minority Interests</b>	<b>19,721</b>	<b>47,868</b>	<b>405,487</b>
<b>Income Taxes (Note 9):</b>			
Current	11,525	21,648	183,383
Deferred	(4,546)	(222)	(1,886)
Total	6,979	21,426	181,497
Minority interests	25	145	1,226
<b>Net Income</b>	<b>¥ 12,717</b>	<b>¥ 26,297</b>	<b>\$ 222,764</b>

See notes to consolidated financial statements.

# Consolidated Statements of Changes in Net Assets

Nomura Real Estate Holdings, Inc.  
Years Ended March 31, 2006 and 2007

	(Millions of yen)					
	Number of shares issued	Common stock	Additional paid-in capital	Retained earnings	Treasury stock	Net unrealized holding gains on securities
Balance at March 31, 2005	226,650	¥22,670	¥ –	¥20,571	¥ –	¥ 2,263
Net income	–	–	–	12,717	–	–
Other changes	–	–	–	(0)	–	2,509
Balance at March 31, 2006	226,650	¥22,670	¥ –	¥33,288	¥ –	¥ 4,772
Issuance of common stock	149,098,350	59,976	59,976	–	–	–
Cash dividends paid	–	–	–	(453)	–	–
Net income	–	–	–	26,297	–	–
Purchases of treasury stock	–	–	–	–	(0)	–
Other changes	–	–	–	113	–	6,657
Balance at March 31, 2007	149,325,000	¥82,646	¥59,976	¥59,245	¥(0)	¥11,429

	(Millions of yen)				
	Deferred gains/ losses on hedges	Land revaluation reserve	Foreign currency translation adjustments	Minority interests	Total net assets
Balance at March 31, 2005	¥ –	¥ 2,154	¥(1,013)	¥ 209	¥ 46,854
Net income	–	–	–	–	12,717
Other changes	–	(2,367)	1,228	779	2,149
Balance at March 31, 2006	¥ –	¥ (213)	¥ 215	¥ 988	¥ 61,720
Issuance of common stock	–	–	–	–	119,952
Cash dividends paid	–	–	–	–	(453)
Net income	–	–	–	–	26,297
Purchases of treasury stock	–	–	–	–	(0)
Other changes	(15)	(114)	38	271	6,950
Balance at March 31, 2007	¥(15)	¥ (327)	¥ 253	¥1,259	¥214,466

	(Thousands of U.S. dollars)				
	Common stock	Additional paid-in capital	Retained earnings	Treasury stock	Net unrealized holding gains on securities
Balance at March 31, 2006	\$192,041	\$ –	\$281,984	\$ –	\$40,421
Issuance of common stock	508,056	508,056	–	–	–
Cash dividends paid	–	–	(3,840)	–	–
Net income	–	–	222,764	–	–
Purchases of treasury stock	–	–	–	(2)	–
Other changes	–	–	952	–	56,397
Balance at March 31, 2007	\$700,097	\$508,056	\$501,860	\$(2)	\$96,818

	(Thousands of U.S. dollars)				
	Deferred gains/ losses on hedges	Land revaluation reserve	Foreign currency translation adjustments	Minority interests	Total net assets
Balance at March 31, 2006	\$ –	\$(1,802)	\$1,820	\$ 8,372	\$ 522,836
Issuance of common stock	–	–	–	–	1,016,112
Cash dividends paid	–	–	–	–	(3,840)
Net income	–	–	–	–	222,764
Purchases of treasury stock	–	–	–	–	(2)
Other changes	(131)	(967)	325	2,291	58,867
Balance at March 31, 2007	\$(131)	\$(2,769)	\$2,145	\$10,663	\$1,816,737

Notes:

(1) Effective the fiscal year ended March 31, 2007, minority interests have been included in net assets.

(2) The increase of 149,098,350 shares in the total amount of issued common stock comprises an increase of 113,098,350 shares due to a stock split and an increase of 36,000,000 shares due to a capital increase by public offering.

## Consolidated Statements of Cash Flows

Nomura Real Estate Holdings, Inc.  
Years Ended March 31, 2006 and 2007

	(Millions of yen)		(Thousands of U.S. dollars)
	2006	2007	2007
<b>Cash Flows from Operating Activities:</b>			
Income before income taxes and minority interests	¥ 19,721	¥ 47,868	\$ 405,487
Depreciation	5,407	4,546	38,509
Loss on impairment of fixed assets	4,438	—	—
Equity in loss of unconsolidated subsidiaries and affiliates	49	65	549
Decrease (increase) in allowance for doubtful accounts	(211)	10	86
Increase in allowance for employees' retirement benefits	943	1,566	13,264
Decrease in provision for loss on liquidation of subsidiaries	(61)	(118)	(999)
Increase (decrease) in provision for loss on subleasing business	5,880	(2,068)	(17,515)
Interest and dividend income	(130)	(444)	(3,759)
Interest expense	4,845	6,514	55,181
Decrease (increase) in accounts receivable	2,487	(2,047)	(17,341)
Increase in inventories	(82,544)	(87,219)	(738,830)
Increase in equity investments	(25,666)	(36,374)	(308,125)
Decrease in trade accounts payable	(10,407)	(1,413)	(11,972)
Decrease in deposits received	(8,309)	(7,551)	(63,965)
Payment of bonuses to directors and corporate auditors	(441)	—	—
Other, net	(88)	7,646	64,774
<b>Subtotal</b>	(84,087)	(69,019)	(584,656)
Interest and dividends received	1,280	1,151	9,749
Interest paid	(4,585)	(6,303)	(53,393)
Income taxes paid	(12,438)	(15,679)	(132,816)
<b>Net cash used in operating activities</b>	(99,830)	(89,850)	(761,116)
<b>Cash Flows from Investing Activities:</b>			
Payments for purchases of investment securities	(910)	(9,196)	(77,900)
Proceeds from sales of investment securities	1,579	154	1,306
Payments for purchases of property and equipment, and intangible fixed assets	(11,818)	(26,917)	(228,014)
Proceeds from sales of property and equipment, and intangible fixed assets	2,720	141	1,195
Increase in loans	(5,038)	(82)	(697)
Decrease in loans	490	112	954
Increase in lease deposits	(2,508)	(524)	(4,441)
Decrease in lease deposits	5,502	1,796	15,211
Decrease in guarantees from tenants	(5,543)	(3,295)	(27,910)
Increase in guarantees from tenants	1,613	10,800	91,487
Other, net	(4,082)	224	1,896
<b>Net cash used in investing activities</b>	(17,995)	(26,787)	(226,913)
<b>Cash Flows from Financing Activities:</b>			
Increase (decrease) in short-term debt	2,300	(36,200)	(306,650)
Proceeds from long-term debt	166,721	76,768	650,301
Repayment of long-term debt	(61,429)	(53,122)	(449,992)
Proceeds from issuance of corporate bonds	5,571	—	—
Payments for redemption of corporate bonds	(400)	(5,600)	(47,437)
Proceeds from issuance of shares	—	119,428	1,011,672
Proceeds from issuance of shares to minority shareholders	1,062	49	414
Cash dividends paid	—	(453)	(3,840)
Payments for dividends to minority shareholders	(7)	(7)	(57)
Net increase in treasury stock	—	(0)	(2)
<b>Net cash provided by financing activities</b>	113,818	100,863	854,409
<b>Net decrease in Cash and Cash Equivalents</b>	(4,007)	(15,774)	(133,620)
<b>Cash and Cash Equivalents at Beginning of the Fiscal Year</b>	48,223	44,216	374,549
<b>Increase (decrease) in Cash and Cash Equivalents Resulting from Change in Scope of Consolidation</b>	—	(5)	(38)
<b>Cash and Cash Equivalents at End of the Fiscal year (Note 2 (3))</b>	¥ 44,216	¥ 28,437	\$ 240,891

See notes to consolidated financial statements.

# Notes to Consolidated Financial Statements

Nomura Real Estate Holdings, Inc.  
March 31, 2006 and 2007

## 1. Basis of Presentation of Consolidated Financial Statements

The accompanying consolidated financial statements of Nomura Real Estate Holdings, Inc. (the “Company”) and its consolidated subsidiaries have been prepared in accordance with the provisions set forth in the Securities and Exchange Law 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 understanding of readers. 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, 2007, of ¥118.05 = U.S.\$1.00. 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

The accompanying consolidated financial statements include the accounts of the Company and its subsidiaries that the Company controls directly or indirectly. Companies over which the Company exercises significant influence in terms of their operating and financial policies have been included in the consolidated financial statements on an equity basis.

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 have 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 revenues and expense accounts are translated into yen at the average rates of exchange for the period. Differences arising from such translation are presented as “Foreign currency translation adjustments” in Net Assets.

### (3) Cash and Cash Equivalents

In preparing the Consolidated Statements of Cash Flows, cash on hand, readily-available deposits and short-term, highly-liquid investments with maturities not exceeding three months at the time of purchase and with an insignificant risk of market value fluctuation are considered to be cash and cash equivalents.

As of March 31, 2007, the balance of “Cash and cash equivalents” differed from the balance of “Cash and bank deposits” because it did not include time deposits with deposit terms exceeding three months of ¥2 million (\$16 thousand).

### (4) Recognition of Revenues

Revenues from sales of housing and other real estate are recognized when delivered and accepted by customers.

#### **(5) Inventories**

Since the fiscal year ended March 31, 2007, inventories are mainly stated at cost, determined by the specific identification cost method (the amounts of inventories in the accompanying Consolidated Balance Sheets are computed according to the write-down method reflecting decreased profitability).

Prior to March 31, 2006, inventories are mainly stated at cost, determined by the specific identification cost method. The Company has adopted "Accounting Standard for Measurement of Inventories" (Statement No.9 issued by the Accounting Standards Board of Japan on July 5, 2006) effective the year ended March 31, 2007. As a result, income before income taxes and minority interests decreased by ¥869 million compared with the amount which would have been recorded under the previous method. The information that had effects on segment information was described in Note 13.

#### **(6) Marketable 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**

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
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#### **(8) Software**

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

#### **(9) 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.

#### **(10) Leases**

Except for finance lease agreements under which ownership of the leased assets is deemed to be transferred to the lessee, lease fees are charged in the same manner as operating leases.

#### **(11) Income Taxes**

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

#### **(12) Allowance for Employees' Retirement Benefits**

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

Actuarial gain or loss is included in the Consolidated Statements of Income from the year following the fiscal year in which the gain or loss is recognized on a straight-line basis over a 10-year period, which is shorter than the average remaining service period of the eligible employees.

#### **(13) Allowance for Directors' and Corporate Auditors' Retirement Benefits**

The Company and certain of its subsidiaries approved a resolution for the final payment of retirement benefits for directors and corporate auditors following the termination of the retirement benefit plan for directors and corporate auditors resolved at the ordinary general meeting of shareholders held in June 2006.

As a result, Allowance for directors' and corporate auditors' retirement benefits has been included in Other current liabilities effective the year ended March 31, 2007.

#### **(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 for the year ended March 31, 2007 has not been presented since no potentially dilutive shares of common stock were outstanding as of March 31, 2007.

#### **(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 on land revaluation" in Liabilities and the net of such tax amount is recorded as "Land revaluation reserve" in Net Assets.

Method of revaluation:

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

Market value was less than book value after revaluation by ¥3,179 million at March 31, 2006 and ¥4,099 million (\$34,720 thousand) at March 31, 2007, respectively.

#### **(16) Derivative Financial Instruments**

In principle, 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 gains or losses on the underlying hedged items are recognized.

As to interest rate swaps and interest rate caps that meet certain hedging criteria, the Company applies exceptional treatment where the Company 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. For currency swaps and foreign exchange forwards that meet certain hedging criteria, the Company records cash flows from securities and loans denominated in foreign currencies at an amount determined by the swaps and forwards, and no gain or loss is recognized.

### (17) Accounting standard for presentation of net assets in the balance sheet

Effective the year ended March 31, 2007, the Company has adopted a new accounting standard for the presentation of net assets in the balance sheet and the related implementation guidance. In addition, effective the year ended March 31, 2007, the Company is required to prepare consolidated statements of changes in net assets instead of consolidated statements of shareholders' equity. In this connection, the previously reported consolidated balance sheet as of March 31, 2006 and consolidated statement of shareholders' equity for the year then ended have been restated to conform to the presentation and disclosure of the consolidated financial statements for the year ended March 31, 2007.

### 3. Securities

The following tables summarize the acquisition cost, book value and market value of securities which the Company held as of March 31, 2006 and 2007:

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

2006	(Millions of yen)		
	Book value	Market value	Difference
Securities whose market value exceeds book value:			
Government and municipal bonds, etc.	¥ –	¥ –	¥ –
Subtotal	–	–	–
Securities whose market value does not exceed book value:			
Government and municipal bonds, etc.	290	283	(7)
Subtotal	290	283	(7)
Total	¥290	¥283	¥(7)

2007	(Millions of yen)			(Thousands of U.S. dollars)		
	Book value	Market value	Difference	Book value	Market value	Difference
Securities whose market value exceeds book value:						
Government and municipal bonds, etc.	¥ 5	¥ 5	¥ 0	\$ 42	\$ 43	\$ 1
Subtotal	5	5	0	42	43	1
Securities whose market value does not exceed book value:						
Government and municipal bonds, etc.	291	287	(4)	2,461	2,428	(33)
Subtotal	291	287	(4)	2,461	2,428	(33)
Total	¥296	¥292	¥(4)	\$2,503	\$2,471	\$(32)



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

2006	(Millions of yen)		
	Acquisition cost	Book value	Difference
Securities whose book value exceeds acquisition cost:			
Stocks	¥ 1,357	¥ 3,944	¥2,587
Bonds	—	—	—
Other	6,012	11,489	5,477
Subtotal	7,369	15,433	8,064
Securities whose book value does not exceed acquisition cost:			
Stocks	12	10	(2)
Bonds	—	—	—
Other	7,012	6,997	(15)
Subtotal	7,024	7,007	(17)
Total	¥14,393	¥22,440	¥8,047

2007	(Millions of yen)			(Thousands of U.S. dollars)		
	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference
Securities whose book value exceeds acquisition cost:						
Stocks	¥ 1,357	¥ 3,537	¥2,180	\$ 11,499	\$ 29,965	\$ 18,466
Bonds	—	—	—	—	—	—
Other	35,435	52,533	17,098	300,168	445,005	144,837
Subtotal	36,792	56,070	19,278	311,667	474,970	163,303
Securities whose book value does not exceed acquisition cost:						
Stocks	12	8	(4)	102	67	(35)
Bonds	—	—	—	—	—	—
Other	—	—	—	—	—	—
Subtotal	12	8	(4)	102	67	(35)
Total	¥36,804	¥56,078	¥19,274	\$311,769	\$475,037	\$163,268

## (3) Sales of Available-for-sale Securities for the Years Ended March 31, 2006 and 2007

The table below describes sales of available-for-sale securities for the years ended March 31, 2006 and 2007:

(Millions of yen)						(Thousands of U.S. dollars)		
2006			2007			2007		
Sales amount	Aggregate gains	Aggregate losses	Sales amount	Aggregate gains	Aggregate losses	Sales amount	Aggregate gains	Aggregate losses
¥91	¥80	¥—	¥9,009	¥156	¥—	\$76,315	\$1,324	\$—

#### (4) Securities Without Market Value

The following table summarizes the book value of securities without market value as of March 31, 2006 and 2007:

	(Millions of yen)		(Thousands of U.S. dollars)
	2006	2007	2007
	Book value	Book value	Book value
Available-for-sale securities:			
Unlisted stocks	¥ 568	¥ 555	¥ 4,698
Preferred investments	4,554	4,554	38,575
Investments in silent partnerships	30,020	53,031	449,222

#### (5) Available-for-sale Securities with Maturities and the Redemption Schedule for Held-to-maturity Securities

The following tables summarize the redemption schedule for securities classified as available-for-sale securities with maturities and held-to-maturity securities as of March 31, 2006 and 2007:

2006	(Millions of yen)			
	Due within 1 year	Due after 1 year and within 5 years	Due after 5 years and within 10 years	Due after 10 years
Bonds:				
Government and municipal bonds, etc.	¥–	¥285	¥5	¥–
Other	–	–	–	–
Total	¥–	¥285	¥5	¥–

2007	(Millions of yen)				(Thousands of U.S. dollars)			
	Due within 1 year	Due after 1 year and within 5 years	Due after 5 years and within 10 years	Due after 10 years	Due within 1 year	Due after 1 year and within 5 years	Due after 5 years and within 10 years	Due after 10 years
Bonds:								
Government and municipal bonds, etc.	¥–	¥290	¥5	¥–	\$–	\$2,457	\$42	\$–
Other	–	–	–	–	–	–	–	–
Total	¥–	¥290	¥5	¥–	\$–	\$2,457	\$42	\$–

#### 4. Short-term and Long-term Debt

Short-term debt as of March 31, 2006 and 2007 mainly consisted of borrowings from bank; and the weighted-average interest rates were 0.6% and 1.0%, respectively.

Long-term debt as of March 31, 2006 and 2007 is classified as follows:

	(Millions of yen)		(Thousands of U.S. dollars)
	2006	2007	2007
Secured	¥ 27,673	¥ 41,070	\$ 347,903
Unsecured	318,566	328,815	2,785,392
Subtotal	346,239	369,885	3,133,295
Less amounts due within one year	(48,050)	(42,765)	(362,267)
	¥298,189	¥327,120	\$2,771,028

Long-term debt consisted mainly of loans from domestic banks and life insurance companies. The weighted-average interest rates were 0.9% and 1.3% at March 31, 2006 and 2007, respectively.

The details of maturities of long-term less current portion debt subsequent to March 31, 2008 were as follows:

Maturities of long-term debt for the years ending March 31	(Millions of yen)	(Thousands of U.S. dollars)
2009	¥ 66,442	\$ 562,827
2010	70,933	600,873
2011	72,229	611,854
2012	59,680	505,545
2013 and thereafter	57,836	489,929
	¥327,120	\$2,771,028

## 5. Pledged Assets and Secured Liabilities

Pledged assets and secured liabilities at March 31, 2006 and 2007 are summarized as follows:

### (1) Pledged assets and secured liabilities

	(Millions of yen)		(Thousands of U.S. dollars)
	2006	2007	2007
Pledged assets:			
Machinery and equipment	¥31	¥31	\$264
Secured liabilities:			
Short-term debt and current portion of long-term debt	5	3	24
Long-term debt less current portion	3	—	—
Total	¥ 8	¥ 3	\$ 24

### (2) Pledged assets and secured liabilities for non-recourse loans

	(Millions of yen)		(Thousands of U.S. dollars)
	2006	2007	2007
Pledged assets:			
Inventories (land for sale)	¥55,792	¥51,847	\$439,196
Land	—	15,560	131,808
Construction in progress	—	575	4,870
Total	55,792	67,982	575,874
Secured liabilities:			
Short-term debt and current portion of long-term debt	3,071	1,015	8,598
Long-term debt less current portion	27,294	40,052	339,282
Total	¥30,365	¥41,067	\$347,880

## 6. Employees' Retirement Benefits

### (1) Outline of Retirement Benefit Plans

The Company does not have a retirement benefit plan. Among the consolidated subsidiaries, one subsidiary has lump-sum payment and tax-qualified pension plans which are defined benefit plans with a retirement benefit trust. Four subsidiaries have only adopted lump-sum payment plans which are defined benefit plans. Also, one consolidated subsidiary has a defined contribution pension plan in addition to lump-sum payment plans which are defined benefit plans. In certain cases, additional retirement benefit payments have been made.

### (2) Details of Retirement Benefit Obligation

	(Millions of yen)		(Thousands of U.S. dollars)
	2006	2007	2007
(1) Projected benefit obligation	¥(20,342)	¥(21,229)	\$(179,827)
(2) Plan assets at fair value	9,623	8,783	74,399
(3) Unfunded retirement benefit obligation (1)+(2)	(10,719)	(12,446)	(105,428)
(4) Unrecognized actuarial gain or loss	1,586	1,747	14,798
(5) Allowance for employees' retirement benefits (3)+(4)	(9,133)	(10,699)	(90,630)

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

### (3) Details of Retirement Benefit Expenses

	(Millions of yen)		(Thousands of U.S. dollars)
	2006	2007	2007
Retirement benefit expenses	¥2,959	¥2,001	\$16,954
(1) Service cost	1,367	1,270	10,760
(2) Interest cost	379	392	3,323
(3) Less: Expected return on plan assets	(150)	(192)	(1,630)
(4) Amortization of actuarial gain or loss	545	378	3,204
(5) Additional retirement benefit payments	774	54	455
(6) Other	44	99	842

Notes:

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

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

	2006	2007
Discount rate	2.00%	2.00%
Expected rate of return on plan assets	2.00%	2.00%

## 7. Loss on Impairment of Fixed Assets

The Group accounted for impairment losses on the following groups of assets for the fiscal year ended March 31, 2006.

Primary use	Type of assets	Location
Leasing assets, etc. 15 items	Buildings, land and other property and equipment	Hiroshima City, Hiroshima Prefecture, etc.

The Company and its subsidiaries grouped their fixed assets based on minimum units which generate cash flows largely independent of those of other assets or groups of assets. The corporate headquarters facilities are treated as common assets.

In light of a considerable decrease in the fair value of assets against their corresponding book value due to a decline in land prices, significant deterioration in profitability due to a decline in current rent levels, adverse market conditions and certain other factors, the Company and its subsidiaries reduced the book value of 15 groups of assets to their respective recoverable value, and recorded the difference in loss on impairment of fixed assets totaling ¥4,438 million for the year ended March 31, 2006. The impairment loss comprised ¥2,821 million for land and land leaseholds, and ¥1,617 million for buildings and structures.

The recoverable value of the asset groups was measured based on their respective net realizable value, principally determined based on appraisal valuation performed by certified real estate appraisers.

## 8. Unrealized Transaction

The following unrealized transaction was performed during the year ended March 31, 2006.

Nomura Real Estate Development Co., Ltd., a domestic consolidated subsidiary of the Company, entrusted a block of rental condominiums developed for sale to a trust bank and assigned its beneficiary rights to Home Property Investors, Ltd., an SPC (special purpose company), on December 20, 2005.

However, as Nomura Real Estate Development Co., Ltd. has retained equity holdings in silent partnerships (Tokumei Kumiai), in amounts exceeding 5% of the transfer value to Home Property Investors, Ltd., the risks and economic benefits of the assets were consequently not deemed to have been assigned in their entirety to other parties through the SPC. Therefore, the transaction has been accounted for as a financing transaction in accordance with "Practical Principles Concerning Accounting Treatment of Assignor in Liquidation of Real Estate Property Using Special Purpose Companies" (July 31, 2000) for the year ended March 31, 2006.

As a result, the related assets have not been treated as sales but were included in the accompanying Consolidated Balance Sheets at March 31, 2006, while liabilities of ¥1,094 million were recorded in "Other current liabilities" in the accompanying Consolidated Balance Sheets at March 31, 2006.

The book value of these assets (Inventories) as of March 31, 2006 was ¥770 million.

## 9. Income Taxes

The statutory tax rate in Japan was 40.7% for the years ended March 31, 2006 and 2007.

The table below presents an itemized breakdown of factors generating differences between the statutory tax rate and the effective tax rates of the Company and its domestic subsidiaries for the years ended March 31, 2006 and 2007:

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

	2006		2007
Statutory tax rate	40.7%	Statutory tax rate	40.7%
Adjustments:		Adjustments:	
Permanent differences including entertainment expenses	1.2%	Permanent differences including entertainment expenses	0.5%
Retained earnings of affiliates	5.5%	Valuation allowance	3.0%
Valuation allowance	(12.8)%	Other	0.6%
Other	0.8%		
Effective tax rate	35.4%	Effective tax rate	44.8%

The table below presents an itemized breakdown of deferred tax assets and liabilities as of March 31, 2006 and 2007:

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

	(Millions of yen)		(Thousands of U.S. dollars)
	2006	2007	2007
Deferred tax assets:			
Unrealized profits	¥ 11,257	¥ 11,592	\$ 98,184
Inventory write-downs	6,372	6,787	57,489
Allowance for employees' retirement benefits	4,041	4,336	36,732
Loss on subleasing business	3,652	2,810	23,806
Accrued bonuses	1,590	1,488	12,610
Tax loss carryforward	1,567	—	—
Trust assets for retirement benefits	1,177	703	5,954
Loss on impairment of fixed assets	840	702	5,947
Accrued enterprise tax	801	1,287	10,899
Other	3,209	3,469	29,386
Gross deferred tax assets	34,506	33,174	281,017
Valuation allowance	(3,780)	(3,540)	(29,986)
Total deferred tax assets	30,726	29,634	251,031
Deferred tax liabilities:			
Reserve for deferred income taxes	(9,420)	(8,641)	(73,200)
Net unrealized gain on securities	(3,281)	(7,844)	(66,450)
Gain on contribution of securities to retirement benefit trust	(868)	(662)	(5,609)
Other	(681)	(399)	(3,378)
Total deferred tax liabilities	(14,250)	(17,546)	(148,637)
Net deferred tax assets	¥ 16,476	¥ 12,088	\$ 102,394

## 10. Shareholders' Equity

Companies in Japan had been subject to the Commercial Code of Japan (the "Code"); however, the Code was superseded by the Companies Act of Japan (the "Act") which went into effect on May 1, 2006.

Under the Act, all funds obtained through the issuance of 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 additional paid-in capital).

Also, under the Act, an amount equivalent to at least 10% of cash outlays as cash dividends or certain appropriations of retained earnings must be transferred to the retained earnings reserve (a component of retained earnings), until the amount equals 25% of common stock, including the balance of the capital reserve.

As of March 31, 2007, the Company's capital reserve amounted to ¥59,976 million, and no retained earnings reserve was recorded.

## 11. Derivative Financial Instruments

It is a policy of the Company and consolidated subsidiaries to utilize derivative financial instruments only for the purposes of hedging interest rate risk and currency risk, and not for speculative purposes.

The purpose of interest rate swap and interest rate cap contracts is to hedge the risk of increases in financing costs in the future by fixing interest payments for loans, while the purpose of foreign exchange forward contracts and cross currency swap contracts is to hedge the risk of currency fluctuation in securities denominated in foreign currencies.

Interest rate swap and interest rate cap transactions are subject to the risk of changes in interest rate. Foreign exchange forward and currency swap transactions are subject to the risk of changes in foreign exchange rates. The derivative financial instruments are executed with creditworthy financial institutions, and the Company's management believes there is little risk of default by the counterparties to its derivatives positions.

The derivative transactions are executed and managed by the Company's Finance Department in accordance with the established policies and plans of risk management set forth and approved by the officer in charge of the Finance Department based on the applicable internal regulations. The Finance Department also reports the transaction status to the officer in charge on a regular basis. In the Company's consolidated subsidiaries, the derivative transactions are executed and managed in accordance with the designated procedures based on their respective internal regulations.

Details of derivative financial instruments used by the Company are summarized as follows.

Hedging instruments	Hedged items
Interest rate swap and interest rate cap contracts	Loans
Currency swap and foreign exchange forward contracts	Securities denominated in foreign currencies

Fluctuation in cash flows or total market fluctuation of hedged items is compared with that of the hedging instruments to assess the effectiveness of the hedges based on the ratio of the fluctuation.

## 12. Leases

Finance lease transactions, other than those which are deemed to transfer ownership of the leased property to the lessee, are accounted for as operating lease transactions.

Details of significant lease transactions are as follows:

A summary of the *pro forma* amounts of acquisition cost, accumulated depreciation, and year-end balance of leased properties as of March 31, 2006 and 2007 is as follows:

	(Millions of yen)		(Thousands of U.S. dollars )
	2006	2007	2007
Acquisition cost:			
Buildings and structures	¥ 53	¥ 30	\$ 250
Machinery and equipment	2,440	2,196	18,603
Other	414	293	2,485
Accumulated depreciation	(1,561)	(1,320)	(11,182)
Year-end balance	¥ 1,346	¥ 1,199	\$ 10,156

Notes:

1. The above acquisition cost includes the imputed interest expense portion, since the year-end balances of the future rental expense accounts were only a small percentage of the year-end balances of property and equipment.
2. *Pro forma* depreciation equivalents were computed using the straight-line method over the respective lease periods assuming a nil residual value or a residual indemnity.

The table below presents the future lease payments under such finance leases subsequent to March 31, 2006 and 2007:

	(Millions of yen)		(Thousands of U.S. dollars )
Finance leases	2006	2007	2007
Future lease payments:			
Due within 1 year	¥ 518	¥ 396	\$ 3,358
Due over 1 year	828	803	6,798
Total	¥1,346	¥1,199	\$10,156

The table below presents the future lease payments and receipts of operating leases subsequent to March 31, 2006 and 2007:

	(Millions of yen)		(Thousands of U.S. dollars )
Operating leases	2006	2007	2007
Future lease payments:			
Due within 1 year	¥ 8,218	¥ 7,882	\$ 66,769
Due over 1 year	57,650	46,288	392,103
Total	¥65,868	¥54,170	\$458,872
Future lease receipts:			
Due within 1 year	¥ 7,603	¥ 5,911	\$ 50,067
Due over 1 year	44,861	30,881	261,594
Total	¥52,464	¥36,792	\$311,661

Note: The above future lease payments include the imputed expense portion, since the year-end balances of the future rental expense accounts were only a small percentage of the year-end balance of property and equipment.



### 13. Segment Information

The Company and its consolidated subsidiaries mainly operate in five business segments: (1) Residential Development; (2) Building; (3) Investment Management & Development; (4) Property Brokerage & Consignment Sales; (5) Other.

Results by segment for the years ended March 31, 2006 and 2007 were as follows:

#### Results by segment for the fiscal year ended March 31, 2006

	(Millions of yen)							
	Residential Development	Building	Investment Management & Development	Property Brokerage & Consignment Sales	Other	Subtotal	Eliminations or corporate	Total
Revenues from operations and operating income								
Revenues from operations:								
External customers	¥222,341	¥ 44,932	¥ 37,140	¥21,416	¥24,490	¥350,319	¥ –	¥350,319
Inter-segment	177	3,356	132	1,458	2,568	7,691	(7,691)	–
Subtotal	222,518	48,288	37,272	22,874	27,058	358,010	(7,691)	350,319
Operating expenses	200,566	41,130	23,048	17,282	26,734	308,760	(2,709)	306,051
Operating income	¥ 21,952	¥ 7,158	¥ 14,224	¥ 5,592	¥ 324	¥ 49,250	¥ (4,982)	¥ 44,268
Total assets, depreciation, impairment loss and capital expenditure								
Total assets	¥197,316	¥170,011	¥217,544	¥37,466	¥23,567	¥645,904	¥43,383	¥689,287
Depreciation	221	4,113	64	73	723	5,194	213	5,407
Impairment loss	3	799	–	–	3,636	4,438	–	4,438
Capital expenditure	324	3,538	7,088	283	969	12,202	(321)	11,881

#### Results by segment for the year ended March 31, 2007

	(Millions of yen)							
	Residential Development	Building	Investment Management & Development	Property Brokerage & Consignment Sales	Other	Subtotal	Eliminations or corporate	Total
Revenues from operations and operating income								
Revenues from operations:								
External customers	¥205,365	¥ 46,912	¥ 65,653	¥34,486	¥14,821	¥367,237	¥ –	¥367,237
Inter-segment	585	4,430	214	2,002	341	7,572	(7,572)	–
Subtotal	205,950	51,342	65,867	36,488	15,162	374,809	(7,572)	367,237
Operating expenses	182,323	42,970	47,254	28,099	13,950	314,596	(1,733)	312,863
Operating income	¥ 23,627	¥ 8,372	¥ 18,613	¥ 8,389	¥ 1,212	¥ 60,213	¥ (5,839)	¥ 54,374
Total assets, depreciation and capital expenditure								
Total assets	¥257,184	¥180,587	¥275,202	¥72,531	¥24,004	¥809,508	¥26,795	¥836,303
Depreciation	213	3,232	115	98	674	4,332	214	4,546
Capital expenditure	336	11,988	24,549	218	1,039	38,130	(10,019)	28,111

(Thousands of U.S. dollars )

	Residential Development	Building	Investment Management & Development	Property Brokerage & Consignment Sales	Other	Subtotal	Eliminations or corporate	Total
Revenues from operations and operating income								
Revenues from operations								
External customers	\$1,739,646	\$ 397,392	\$ 556,145	\$292,128	\$125,547	\$3,110,858	\$ –	\$3,110,858
Inter-segment	4,958	37,528	1,809	16,961	2,890	64,146	(64,146)	–
Subtotal	1,744,604	434,920	557,954	309,089	128,437	3,175,004	(64,146)	3,110,858
Operating expenses	1,544,458	363,996	400,289	238,026	118,168	2,664,937	(14,684)	2,650,253
Operating income	\$ 200,146	\$ 70,924	\$ 157,665	\$ 71,063	\$ 10,269	\$ 510,067	\$ (49,462)	\$ 460,605
Total assets, depreciation and capital expenditure								
Total assets	\$2,178,602	\$1,529,755	\$2,331,231	\$614,407	\$203,339	\$6,857,334	\$226,979	\$7,084,313
Depreciation	1,801	27,382	978	826	5,713	36,700	1,809	38,509
Capital expenditure	2,846	101,551	207,950	1,849	8,800	322,996	(84,868)	238,128

## Notes:

- Business segments are determined according to the business activities of each company in the consolidated group.
- Principal products and services within each segment
  - Residential Development Business  
Sale of condominiums, detached housing and residential lots, overall management of condominiums
  - Building Business  
Leasing and overall management of office buildings, district heating and cooling services
  - Investment Management & Development Business  
Development and sale of profit-generating property management of and investment in real estate funds
  - Property Brokerage & Consignment Sales Business  
Real estate brokerage and consulting services, sales representation of condominiums and detached housing, insurance brokerage
  - Other Business  
Fitness club management and construction of custom-made housing
- Operating expenses for the fiscal years ended March 31, 2006 and 2007 consisted of ¥5,558 million and ¥5,607 million, respectively, of unallocatable operating expenses which were included in "eliminations or corporate." The principal items were expenses related to general administration of the Company and its consolidated subsidiary, Nomura Real Estate Development Co., Ltd.
- Total assets at March 31, 2006 and 2007 consisted of ¥59,644 million and ¥55,188 million, respectively, of assets not allocated to a segment which were included in "eliminations or corporate". The principal items were surplus funds (cash and bank deposits), long-term investment funds (investment securities), deferred tax assets, and assets related to general administration of the Company and its consolidated subsidiary, Nomura Real Estate Development Co., Ltd.
- Change in accounting policy (for the fiscal year ended March 31, 2007)
  - Accounting standard for measurement of inventories  
As described in Note 2 (5) Significant Accounting Policy, the Company has adopted "Accounting Standard for Measurement of Inventories" (Statement No.9 issued by the Accounting Standards Board of Japan on July 5, 2006) effective the year ended March 31, 2007. As a result, total assets in the "Other" business segment decreased by ¥869 million compared with the amount which would have been recorded under the previous method.

#### 14. Contingent Liabilities:

Contingent Liabilities as of March 31, 2006 and 2007 were as follows:

	(Millions of yen)		(Thousands of U.S. dollars)
	2006	2007	2007
Guarantees for home loans made by house purchasers from banks and other	¥41,424	¥44,411	\$376,206
Guarantees for loans to business partners in the business of commercial buildings for rent	1,245	1,188	10,062
	¥42,669	¥45,599	\$386,268

#### 15. Subsequent Events

##### Payment of Dividends

At the 3rd ordinary general meeting of shareholders held on June 28, 2007, a resolution for the payment of a dividend of ¥20.00 (U.S.\$0.17) per share, ¥2,986 million (U.S.\$25,299 thousand) in total, to shareholders was approved for the year ended March 31, 2007.

##### Introduction of Stock Option Plans

At the 3rd ordinary general meeting of shareholders held on June 28, 2007, a resolution for the introduction of two stock option plans was approved. The contents of these plans are summarized as follows:

##### 1. Persons to whom stock options shall be allocated

5 directors of the Company

##### 2. Stock acquisition rights to be issued as stock options for stock-linked compensation

1) Total number of stock options to be issued and number of shares subject to the stock acquisition rights

a) Maximum number of stock options shall be 250 units.

b) Up to 25,000 shares of common stock of the Company shall be subject to the stock acquisition rights. The number of shares subject to one stock option shall be 100 shares. However, subsequent to the close of this ordinary general meeting of shareholders, whenever adjustments to the aforementioned number of shares is deemed necessary (e.g., stock splits, stock consolidations, or allotments of shares without contribution), the Company shall make the necessary adjustments.

2) Amount of assets to be paid upon exercise of the stock acquisition rights

Payments to be made upon exercise of the stock acquisition rights shall be by cash. The price per share shall be ¥1 and the total amount to be paid upon exercise of one stock acquisition right shall be the amount calculated by multiplying ¥1 by the number of shares subject to one stock acquisition right.

3) Exercisable period for the stock options

The exercisable period for the stock options shall be within 5 years commencing from the day that falls 1 year after the date when the stock acquisition rights are allotted (herein after the "Allotment Date").

Diluted net income per share has not been presented since no potentially dilutive shares of common stock were outstanding.

4) Restrictions on the transfer of stock acquisition rights

Transfer of stock acquisition rights shall require the approval of the Board of Directors of the Company.

5) Other matters related to stock acquisition rights

The details of items (1) to (4) above and other matters shall be resolved at a Board of Directors' meeting.

**3. Stock acquisition rights to be issued as market value stock options**

1) Total number of stock acquisition rights to be issued and number of shares subject to stock acquisition rights

a) Total number of stock acquisition rights

Maximum number of stock acquisition rights shall be 300 units.

b) Up to 30,000 shares of common stock of the Company shall be subject to the stock acquisition rights. The number of shares subject to one stock acquisition right shall be 100 shares. However, subsequent to the close of this ordinary general meeting of shareholders, whenever adjustments to the aforementioned number of shares are deemed necessary (e.g., stock splits, stock consolidations, or allotments of shares without contribution), the Company shall make the necessary adjustments.

2) Amount of assets to be paid upon exercise of stock options

Payments to be made upon the exercise of the stock acquisition rights shall be by cash, and the amount shall be the exercise price of the shares as calculated below, multiplied by the number of shares to be issued for the allotted stock options. The exercise price per share shall be either the amount calculated by multiplying 1.05 by the average of the closing market price of the Company's shares for all trading days for the month immediately preceding the month in which the Allotment Date of the stock acquisition rights falls (excluding days when there are no transactions of the Company's shares of common stock) on the Tokyo Stock Exchange (fractions of less than ¥1 shall be rounded up to the nearest whole yen), or the closing market price on the Allotment Date (if there is no closing market price on that date, the closing market price on the day immediately preceding the transaction date shall be applied), whichever is higher.

Adjustments to the exercise price shall be made in cases where the Company implements a stock split, a consolidation of the Company's stocks, allots shares without contribution, or any other cases where the Company acknowledges the necessity of an adjustment.

3) Exercisable period for the stock acquisition rights

The exercisable period for the stock acquisition rights shall be within 5 years commencing from the day that falls 2 years after the Allotment Date.

4) Restrictions on the transfer of stock acquisition rights

Transfer of stock acquisition rights shall require the approval of a resolution of the Board of Directors of the Company.

5) Other matters related to stock options

The details of, and other matters related to, items (1) to (4) above shall be resolved at a Board of Directors' meeting.

**4. Outline of stock option plans**

(1) Stock options for stock-linked compensation

1) Eligible recipients of stock options: Certain directors of the Company and its consolidated subsidiaries (some of them are not included)

2) Number of stock options granted: Varies according to the position of the recipients

3) Issue price of stock options: ¥0 per option

4) Exercise price of stock options: ¥1 per share

5) Exercisable period for stock options: 5 years commencing from the day that falls 1 year after the Allotment Date

(2) Market value stock options

1) Eligible recipients of stock options: Certain officers of the Company and its consolidated subsidiaries, in addition to rights holders of 'stock options for stock-linked compensation.'

2) Number of stock options granted: Varies according to the position of the recipients

3) Issue price of stock options: ¥0 per option

4) Exercise price of stock options: 105% of the average closing market price of the month immediately preceding the month in which the Allotment Date of the stock acquisition rights falls or the closing market price on the Allotment Date, whichever is higher.

5) Exercisable period for stock options: 5 years commencing from the day that falls 2 years after the Allotment Date



☎ Certified Public Accountants

Hibiya Kokusai Bldg.  
2-2-3, Uchisaiwai-cho  
Chiyoda-ku, Tokyo, Japan 100-0011  
C.P.O. Box 1196, Tokyo, Japan 100-8641

☎ Tel: 03 3503 1100

Fax: 03 3503 1197

## Report of Independent Auditors

The Board of Directors  
Nomura Real Estate Holdings, Inc.

We have audited the accompanying consolidated balance sheets of Nomura Real Estate Holdings, Inc. and consolidated subsidiaries as of March 31, 2006 and 2007, and the related consolidated statements of income, changes in net assets, and cash flows for the years then ended, all expressed in yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Nomura Real Estate Holdings, Inc. and consolidated subsidiaries at March 31, 2006 and 2007, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2007 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1.

*Ernst & Young ShinNihon*

June 28, 2007



## Corporate Data (As of March 31, 2007)

Corporate Name	Nomura Real Estate Holdings, Inc.
Head Office	Shinjuku Nomura Building, 1-26-2 Nishi-Shinjuku, Shinjuku-ku, Tokyo 163-0566, Japan
Date of Establishment	June 1, 2004
Common Stock	¥82,646 million
Number of Employees	3,835 (on a consolidated basis)
Number of Authorized Shares	450,000,000
Number of Shares Issued	149,325,000
Market Listing	First Section of Tokyo Stock Exchange
Minimum Trading Unit	100 shares

### Ten Largest Shareholders

Name of Shareholder	No. of shares	Shareholding (%)
Nomura Land and Building Co., Ltd.	96,817,500	64.83
The Master Trust Bank of Japan, Ltd. (Trust account)	3,197,300	2.14
Japan Trustee Services Bank, Ltd. (Trust account)	3,149,500	2.10
Nomura Real Estate Holdings Employee Shareholding Association	2,364,382	1.58
Morgan Stanley & Co. International Ltd.	1,050,800	0.70
CBLUX PIONEER ASSET MANAGEMENT SA (SL)	976,826	0.65
Trust & Custody Services Bank, Ltd. (B trust account)	923,000	0.61
Assad	694,400	0.46
Mitsui Asset Trust and Banking Company, Limited (Nominee account no. 1)	652,500	0.43
The Chase Manhattan Bank, NA London, SL Omnibus Account	642,000	0.42

**Nomura Real Estate Holdings, Inc.**

Shinjuku Nomura Building, 1-26-2

Nishi-Shinjuku, Shinjuku-ku, Tokyo 163-0566, Japan

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