

TOKYO METROPOLITAN GOVERNMENT (TMG)

Bureau of Finance

The Financial Position of the TMG and TMG Bonds



Bureau of Finance, Tokyo Metropolitan Government
July 2008



I. <i>Introduction</i>	2
II. <i>Financial Profile</i>	7
III. <i>TMG Bonds</i>	19
IV. <i>Topics</i>	27

Note 1: Unless otherwise noted, figures in this material until FY2006 indicate settlement amounts; figures for FY2007 are final adjusted budget amounts, and figures for FY2008 are initial budget amounts.

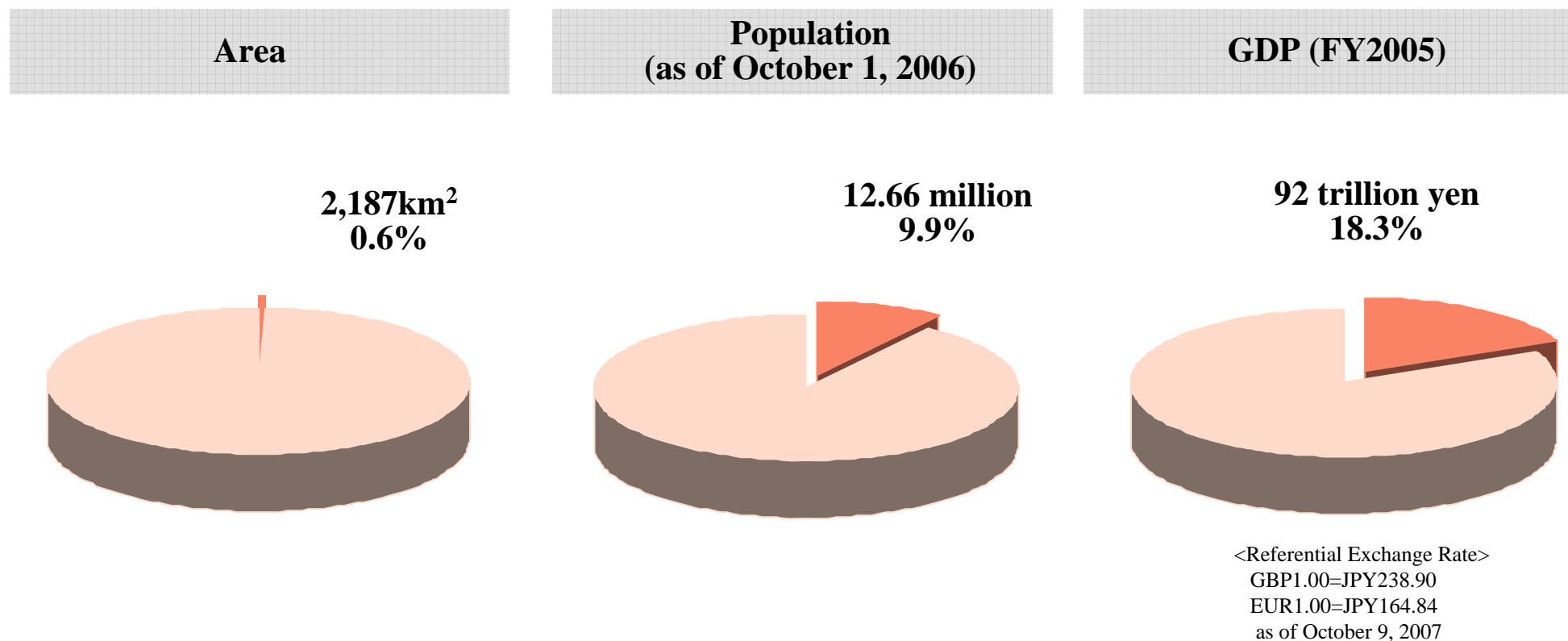
Note 2: Figures based on the initial budget of the general account for FY1994, FY1999, and FY2003 are also the actual budget figures after adjustment.

Note 3: Figures have been rounded off to the unit indicated without the adjustment of fractional amounts. Therefore, the sum of these figures may not coincide with totals shown..



I. Introduction

■ (1) Share of Met Tokyo among Prefectures in Japan ①



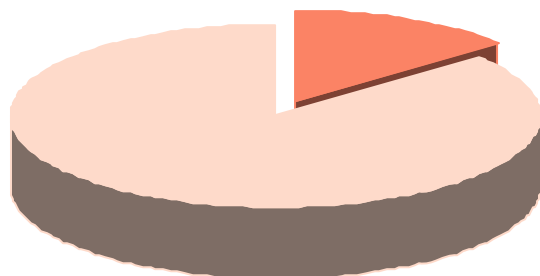
Source: “2005 Population Census ” and “October 1, 2006 Current Population Projections” by Statistics Bureau, Ministry of Internal Affairs and Communications; “Annual Report of National Accounts” by Economic and Social Research Institute, Cabinet Office, Government of Japan; “FY2005 Annual Report on Prefectural Accounts” by Bureau of General Affairs, Tokyo Metropolitan Government;

■ (1) Share of Met Tokyo among Prefectures in Japan ②



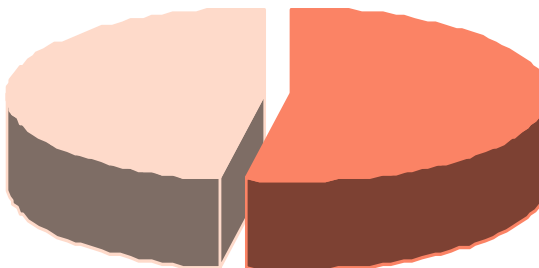
Number of Employees (2005)

8.21 million
13.3%



**Number of Offices of
Foreign Corporations (2006)**

1,157 Offices
52.8%



**Annual Sales of Information
Services (2006)**

8 trillion yen
58.3%

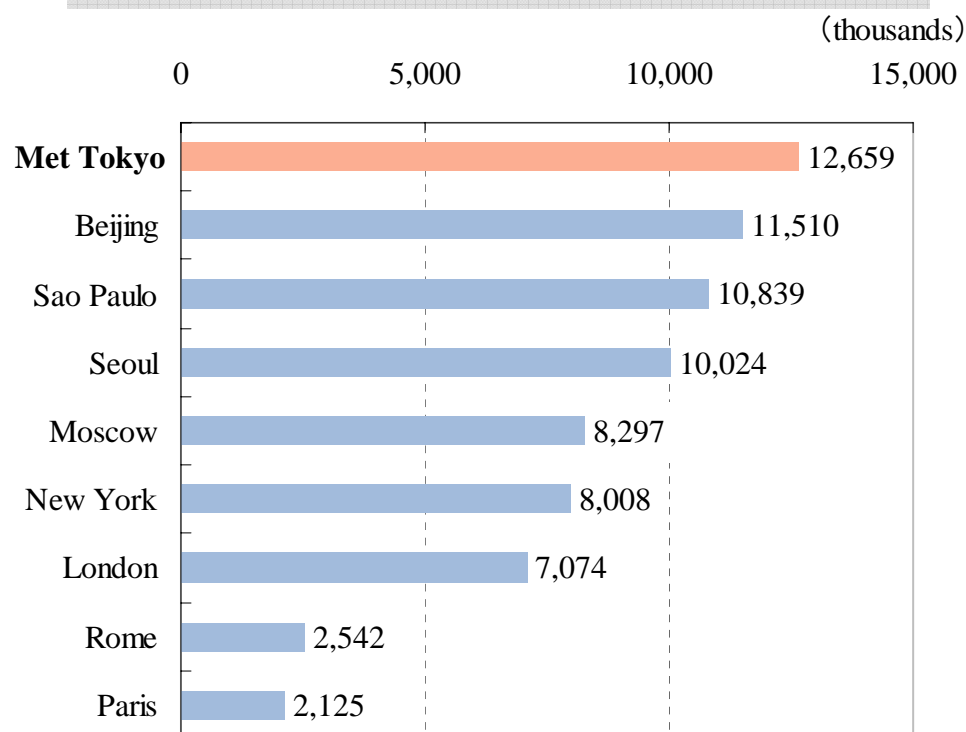


Source: “2005 Population Census ” and “2006 Survey of Offices and Corporate Statistics” by Statistics Bureau, Ministry of Internal Affairs and Communications; “2006 Survey of Selected Service Industries” by Economic and Industrial Policy Bureau, Ministry of Economy, Trade and Industry

■ (2) Global Comparison ①



Population of Major Cities



Source: Tokyo: "October 1, 2006 Current Population Projections" by Statistics Bureau, Ministry of Internal Affairs and Communications
 Overseas cities: *World Statistics 2007* by Statistics Bureau, Ministry of Internal Affairs and Communications (Dates for population censuses vary according to city but range from 1996 to 2003)

Productive Population Ratio (People Aged 15 to 64)

Rank	Country	(Year)	Ages 15 to 64 (%)
1	Korea	(2003)	71.44
2	Czech	(2003)	70.84
3	Russia	(2001)	70.28
4	China	(2000)	70.00
5	Poland	(2003)	69.62
6	Ukraine	(2003)	69.13
7	Romania	(2003)	68.99
8	Thailand	(2002)	68.97
9	Canada	(2003)	68.88
10	Spain	(2003)	68.65
17	Germany	(2003)	67.36
19	Australia	(2002)	67.09
21	USA	(2003)	66.76
22	Italy	(2003)	66.68
24	Japan	(2005)	65.82
25	United Kingdom	(2003)	65.69
27	France	(2003)	65.05

Met Tokyo (2005) 69.14

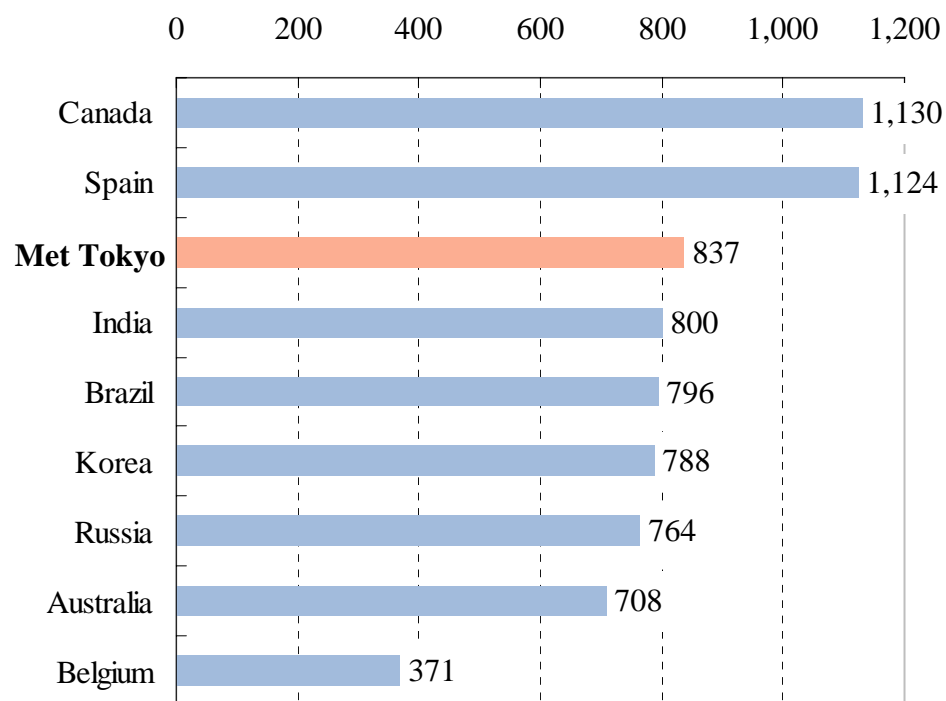
Source: *UN Demographic Yearbook* 2000, 2002, 2003
2005 Population Census by Statistics Bureau, Ministry of Internal Affairs and Communications

■ (2) Global Comparison ②



GDP (Nominal)

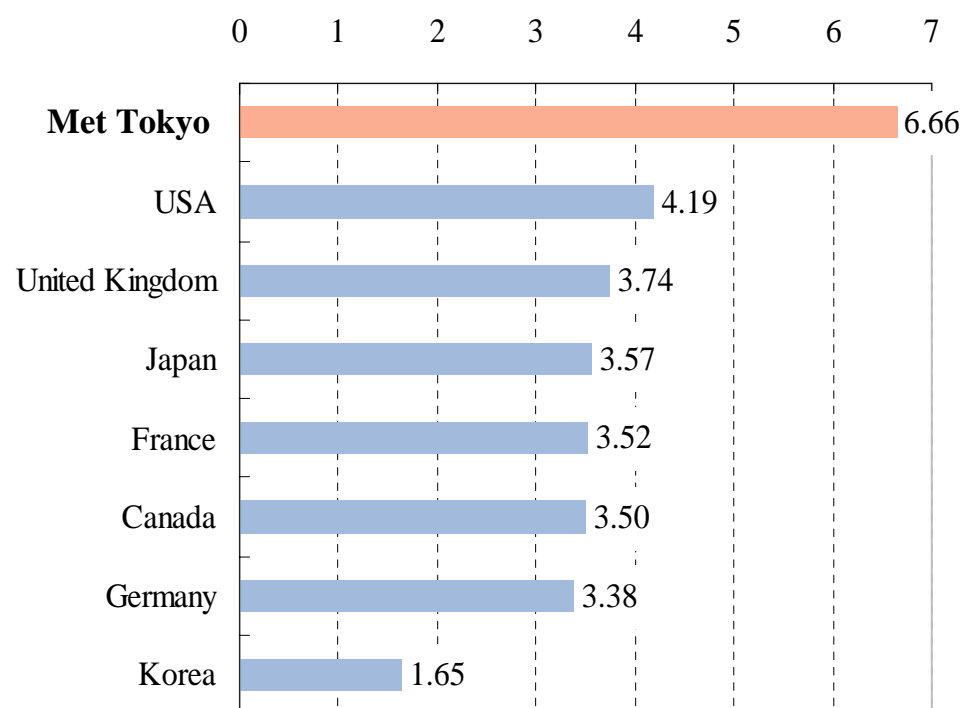
(USD 1billion)



*2005 calendar year (FY2005 for Met Tokyo)
 Conversion rate for Met Tokyo: \$1 = 110.22 yen
 Source: *World Statistics 2007* by the Statistics Bureau, Ministry of Internal Affairs and Communications
FY2005 Annual Report on Prefectural Accounts by Bureau of General Affairs, Tokyo Metropolitan Government

Per Capita GDP (Nominal)

(USD 10,000)



*2005 calendar year (FY2005 for Met Tokyo)
 Conversion rate for Tokyo: \$1 = 110.22 yen
 Source: *World Statistics 2007* by the Statistics Bureau, Ministry of Internal Affairs and Communications; however, population figures for Met Tokyo were calculated from *FY2005 Annual Report on Prefectural Accounts* and *2005 Population Census* by Statistics Bureau, Ministry of Internal Affairs and Communications



II. Financial Profile

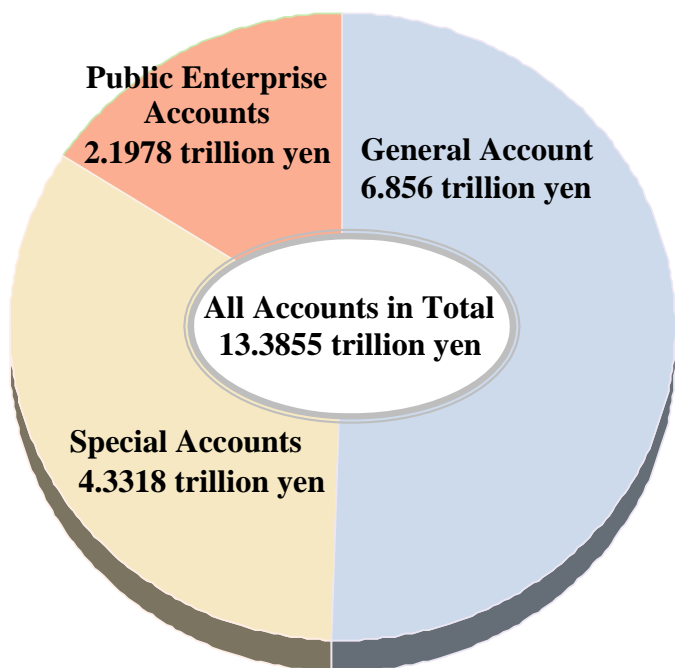


■ (1) The Financial Scale of TMG

- The budget of the general account is 6.856 trillion yen* (total annual expenditure).
- In addition to its general account, TMG has 17 special accounts and 11 public enterprise accounts, with an aggregate budget of 13.3855 trillion yen*.

*FY 2008 initial budget basis

**Financial Scale of TMG
(FY2008 Initial Budget)**



**Comparison of TMG's Financial Scale
(FY2008 Initial Budget)**

	(trillion yen)
Japan	83.0613
Fiscal budgets of local gov'ts	83.4014
Metropolitan Tokyo	6.8560
Belgium (2006)	7.0401
New York City (2008)	6.4487

*Figures for Japan and Metropolitan Tokyo are from the initial General Accounts budget (Conversion rate is the rate current on January 4, 2008)

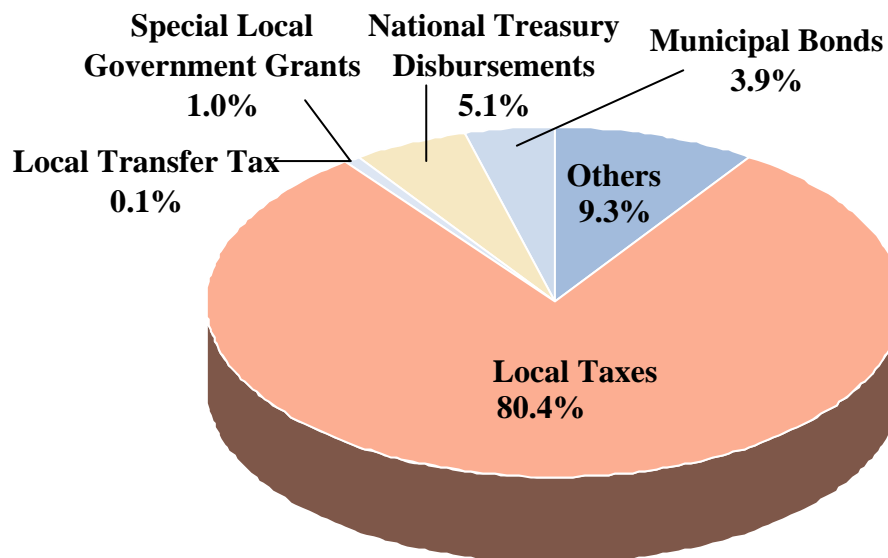
■ (2) Financial Profile of TMG ①Annual Revenue



- Flexibility in fiscal management has been secured with local taxes accounting for 80% of general account revenue, and a high ratio of independent revenue* at 89.9%.

* Independent revenue means a revenue which a local government can raise on its own without depending on the central government, i.e., local taxes, usage charges, charges for services, commission, property revenue and miscellaneous revenue, etc.

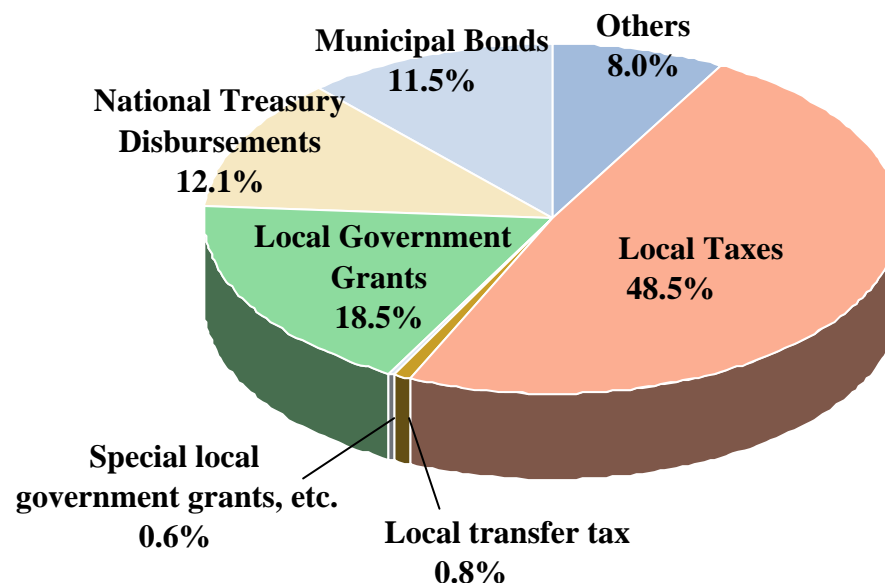
**Breakdown of the TMG's Revenues
(FY2007 General Account Budget)**



Independent Revenue Ratio (=Local Taxes + Others*)
89.9%

* Grants-in-aid and special grants are not included in "Others".

**Breakdown of All Local Governments' Revenues
(FY2007 Local Government Fiscal Plan)**



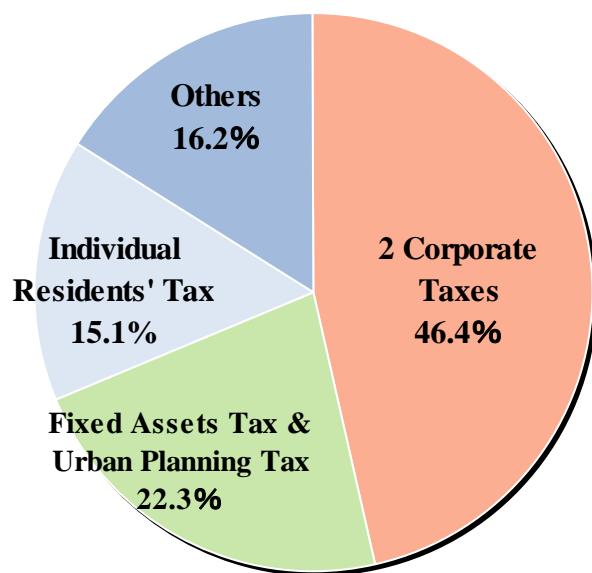
Independent Revenue Ratio (=Local Taxes + Others)
56.5%

■ (2) Financial Profile of TMG ① Annual Revenue – Metropolitan Tax Revenue



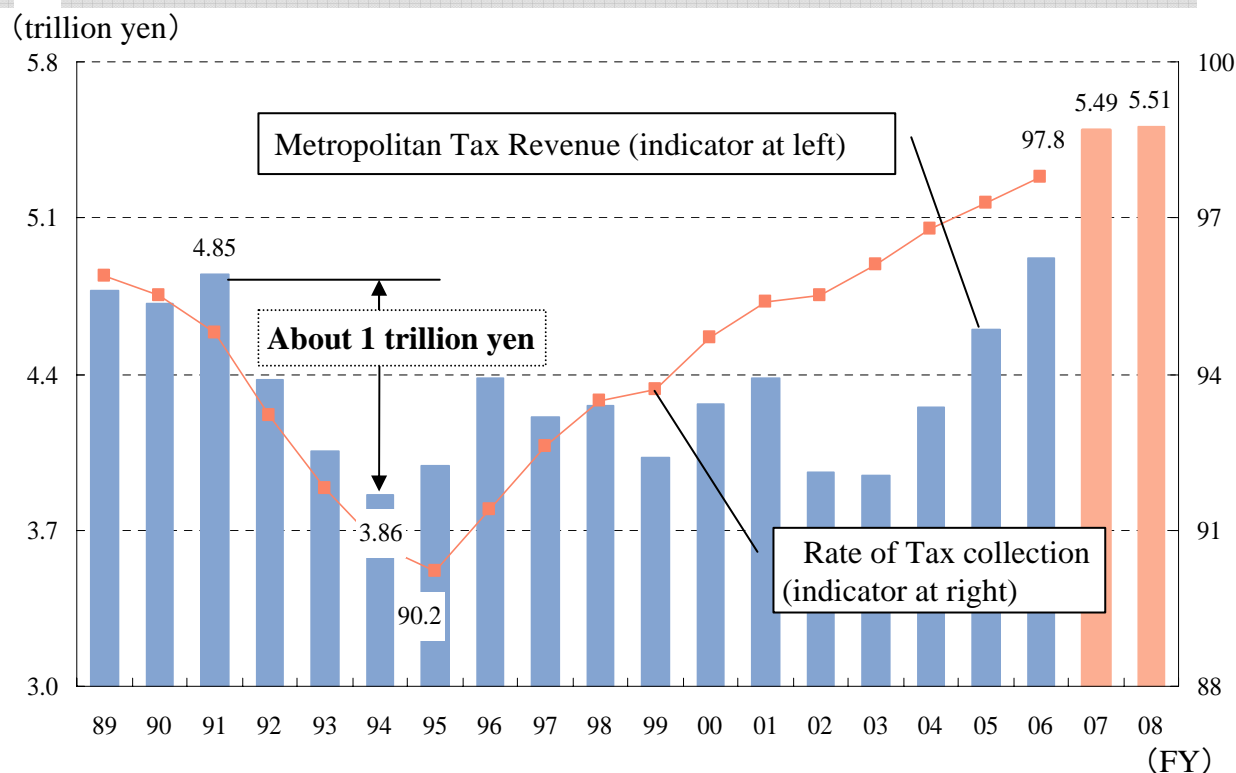
- The two corporate taxes (Corporate Business Tax and Corporate Resident Tax), which are exposed to economic fluctuations, account for more than 40% of revenue sources.
- However, structure remains unstable, as TMG in the past recorded a decline of 1 trillion yen in only a 3-year period (FY1992~1994).
- Increase for the FY2008 budget will remain at 0.3% compared to the FY2007 final adjusted budget.

Breakdown of Metropolitan Tax Revenue



* FY 2008 initial budget

Trends in Metropolitan Tax Revenue and Rate of Collection

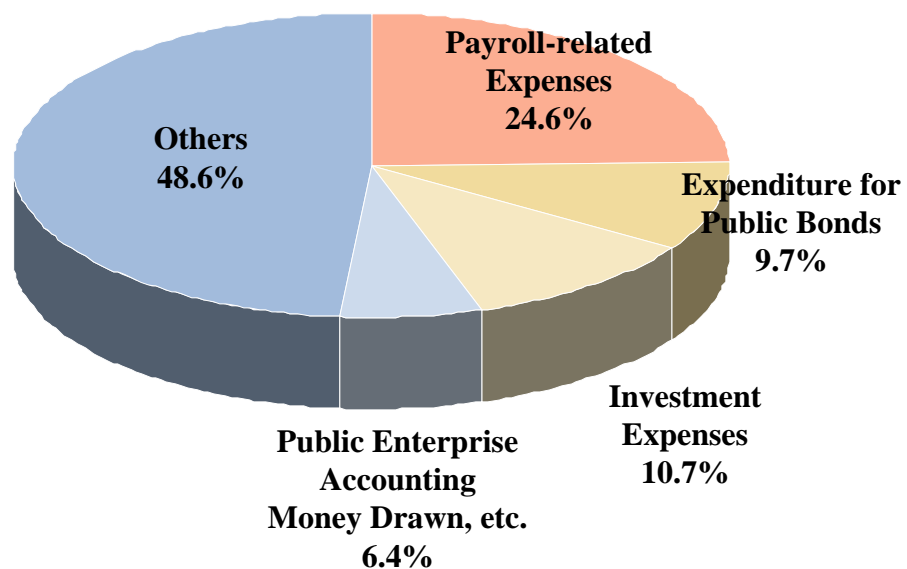


■ (2) Financial Profile of TMG ② Annual Expenditures

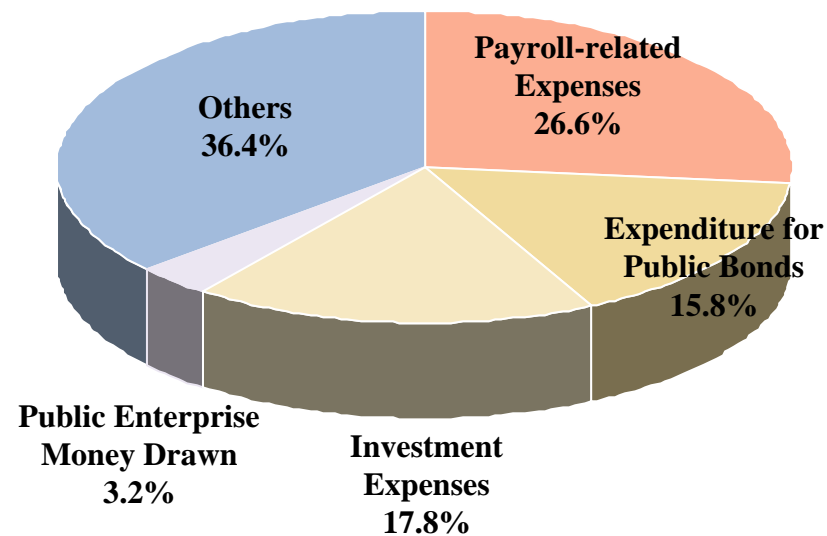


- Ratio of expenditure for public bonds and investment expenses are lower than those of the aggregate for all local governments in Japan.

**Breakdown of TMG's Expenditure
(FY2008 General Account Budget)**



**Breakdown of All Local Governments' Expenditures
(FY2008 Local Government Fiscal Plan)**



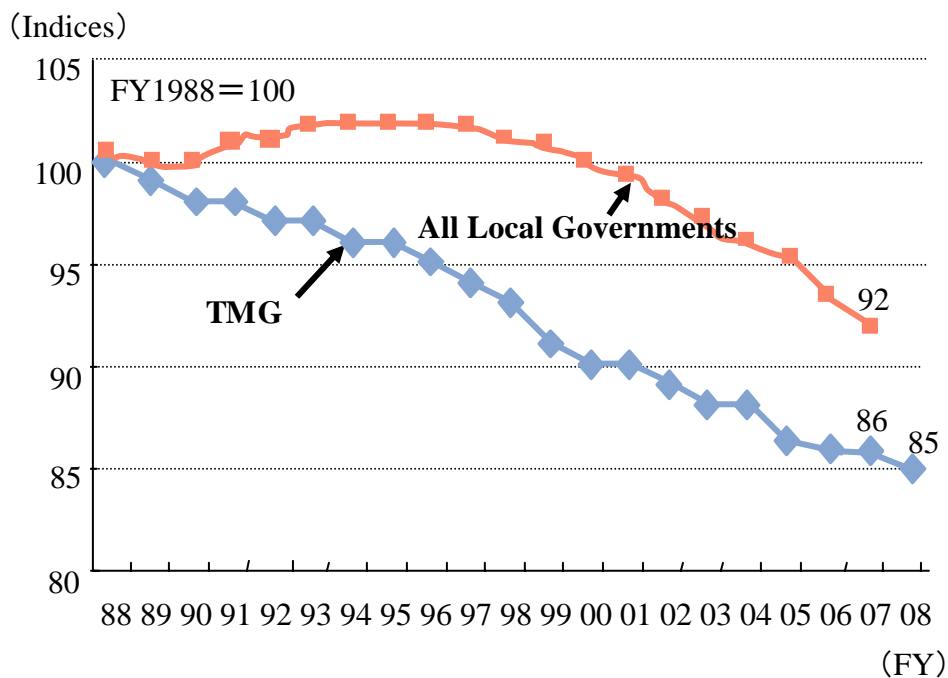
■ (2) Financial Profile of TMG

② Annual Expenditures – Initiatives in administrative and fiscal reform

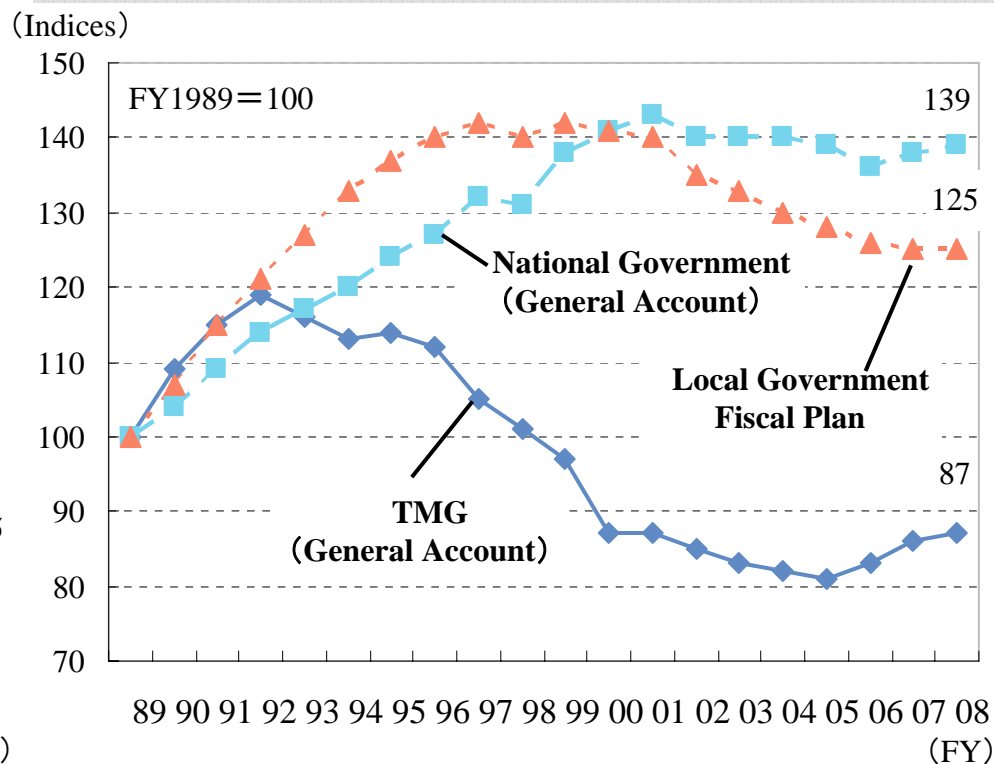


- The recovery in financial soundness of TMG today, in large part, results from accumulated efforts at administrative and fiscal reform.
- TMG remain committed to thorough restructuring and will continue to review internal efforts and measures. Accelerate financial structure reforms through review of administrative operations and individual balance sheets.

Trends in the Number of Staff



Trends in General Expenditure



*Based on the initial budget draft



■ (2) Financial Profile of TMG ③ Metropolitan Debt

- The dependence on bond issuance and the level of bond outstanding are being maintained at an extremely low level in comparison with the national government and the fiscal planning of local governments.
- By curbing issue of refinancing bonds for FY2008, redemption amounts can be leveled out, shrinking bond balances and lightening the fiscal load for the future.

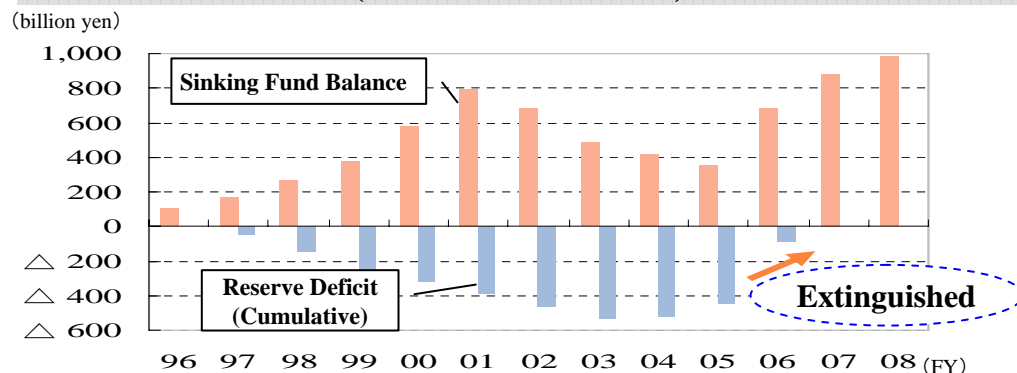
Comparison of Dependence on Bond Issuance and Bond Outstanding

(Unit: yen)

Category	TMG (General Account)	National Government (General Account)	Local Government Fiscal Plan
Dependence on Bond issuance	3.9%	30.5%	11.5%
Bond Outstanding (compared with General Account Tax Revenue)	6.4trillion (1.2x)	553trillion (10.3x)	197trillion (4.9x)

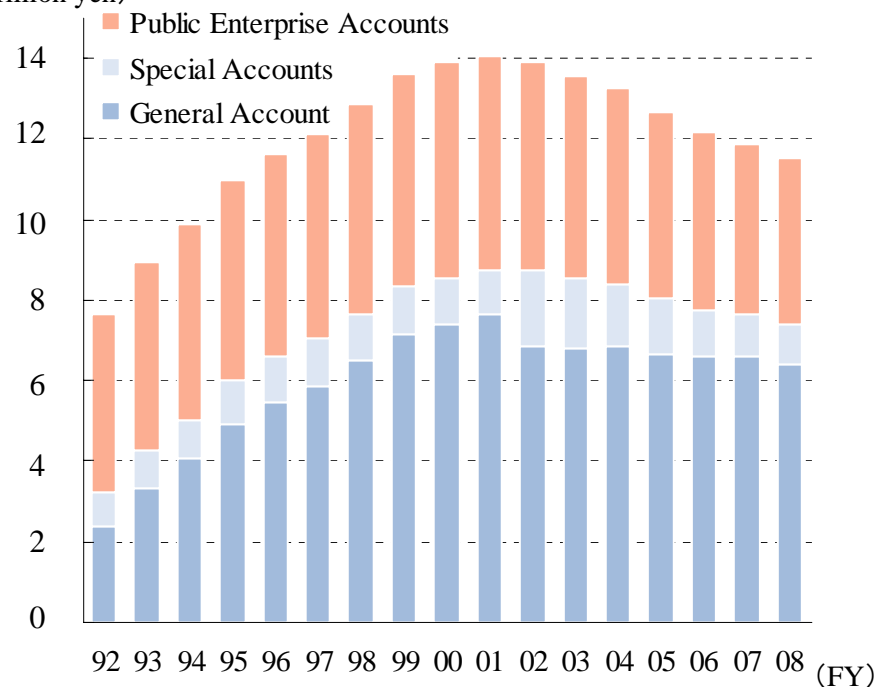
*Based on FY2008 initial budget

Change in Sinking Fund and Reserve Deficit Amounts (General Account)



Trends in Metropolitan Debt Outstanding (All Accounts)

(trillion yen)

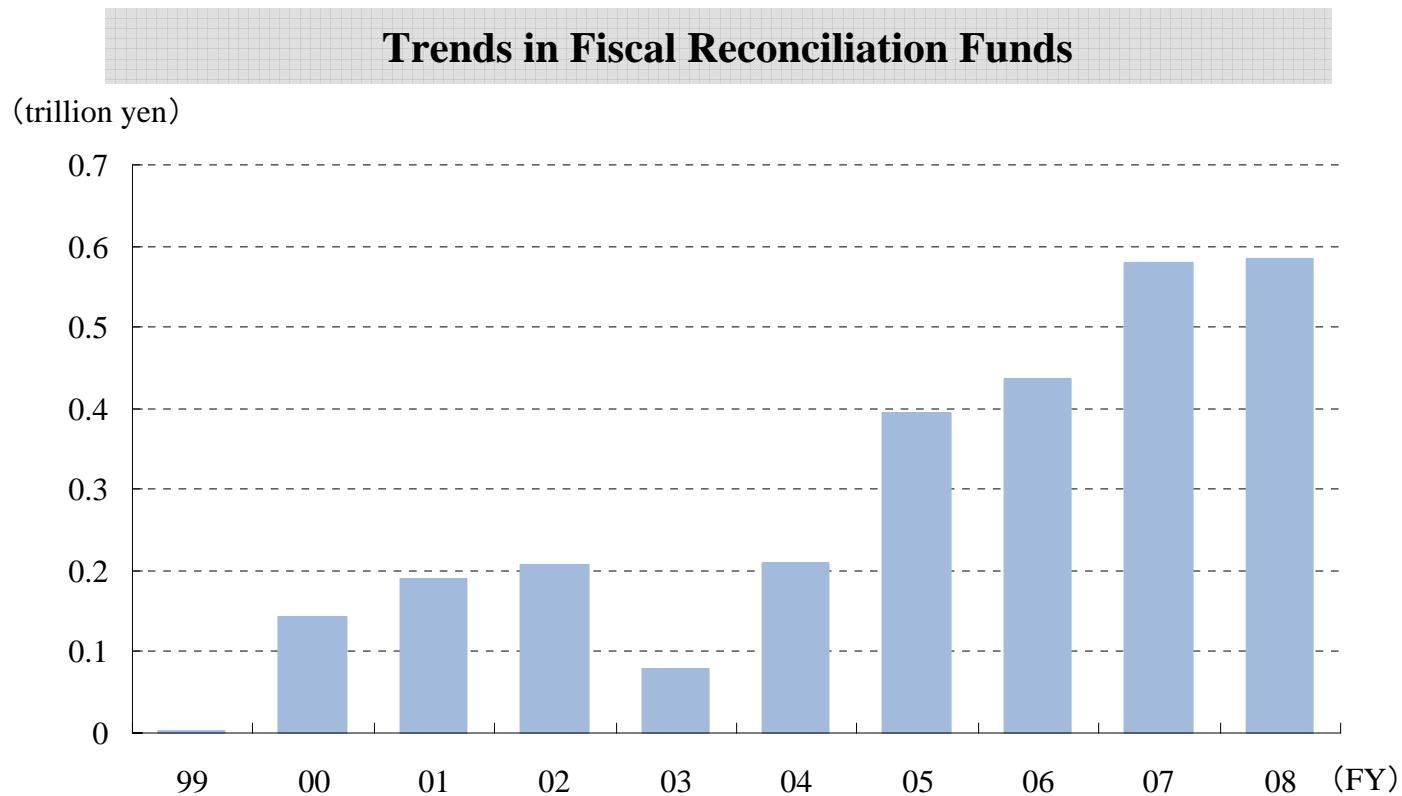


* The Level of Public Enterprise Account is based on Mar 31 of every year (excluding NTT bonds)

■ (2) Financial Profile of TMG ④ Fund Balances



- An increase in fiscal demands and a decline in tax revenues in the future may hinder the trends of healthy growth of TMG.
- A proactive use of funds is needed to build a fiscal foundation that can support the necessary government services.



*FY2007 reflects final adjusted budget , FY2008 is based on initial budget.

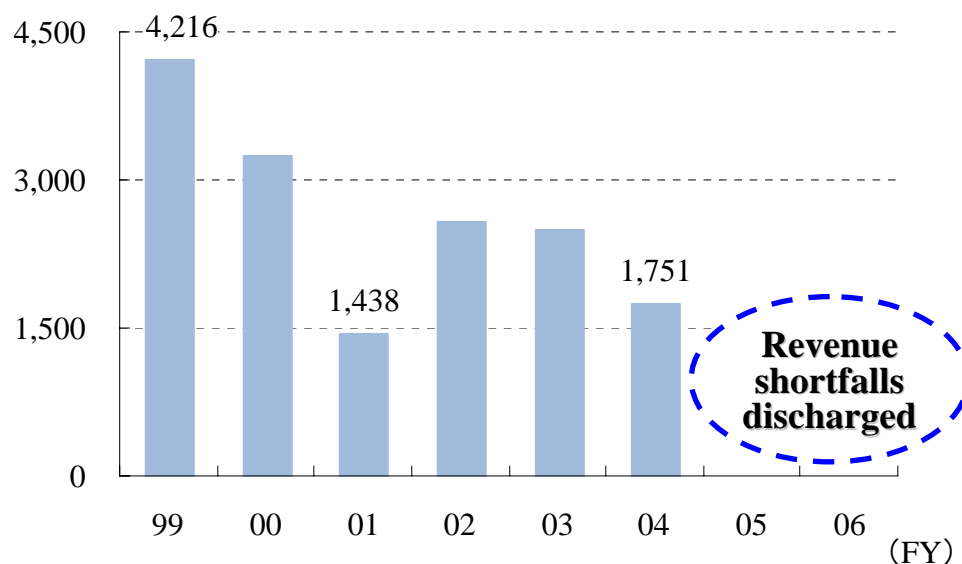


■ (3) Financial Profile of TMG

- With the clearing of revenue shortfalls and establishment of a solid trend toward surpluses, restructuring of metropolitan finances is at an end point.
- It is time to move to a new stage of policy development that looks toward Tokyo's future.

Trends in Temporary Funding Measure Amounts

(100 million yen)

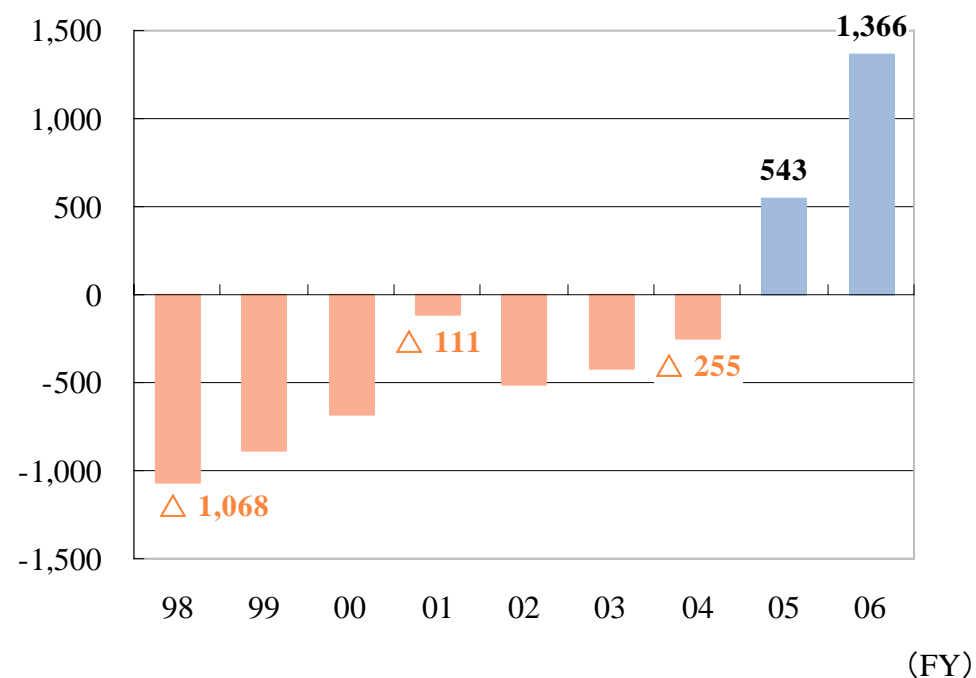


Temporary Funding Measures in Tokyo

- Delay adding to Sinking Funds
- Spend down funds
- Borrow from other accounts
- Issue Retirement Money Bonds

Trends in Real Balance (General Account Results)

(100 million yen)





■ (4) FY2006 Results of Accounts ① Ordinary Accounts

- The real balance is in the black at 137 billion yen, and has been in the black for two consecutive years.
- Total metropolitan tax revenue increased by 7%, thanks to favorable corporate earnings.
- Personnel costs rose 0.2% due to a rise in retirement benefit payments.
- Public debt payments rose 33.5% due to efforts to eliminate a reserve shortage in sinking funds arising from past temporary financial measures.

Ordinary Account Results

(100 million yen, %)

Division	FY2006	FY2005	Increase/ Decrease	Rate of Change
Annual revenue	68,278	64,334	3,944	6.1
Metropolitan tax	49,271	46,027	3,244	7.0
Annual expenditure	65,164	62,202	2,962	4.8
General expenditure	42,155	41,634	521	1.3
Personnel cost	15,928	15,894	34	0.2
Public debt payments	9,655	7,231	2,424	33.5
Formal balance	3,113	2,132	982	-
Fiscal revenue to be carried forward	1,744	1,603	141	-
Real balance	1,370	529	841	-

● Ordinary Accounting

- a conceptual, statistics-based type of accounting which was restructured to be consistent with the accounting of local municipal entities in accordance with standards set by the Ministry of Internal Affairs and Communications
- 14 special accounts were added to the general account; using this accounting system, the net total is calculated eliminating overlap between accounts.



■ (4) FY2006 Results of Accounts ② Public Enterprise Accounts

- Of public enterprise P/L accounts for FY2006, hospitals account were in the red.
- While helping enterprises to reach their economic potential, we also stand by the basic principle of promoting the public welfare, and continue to work toward management reforms and sustainable improvement in services.

Public Enterprise Account Results

(100 million yen)

Account	P/L Statement		Balance Sheet		
	Current Balance	Current Net Income	Debenture Capital	Equity Capital	Surplus
Hospitals	-27	-1	897	799	1
Central wholesale market	2	2	932	3,050	2,360
Urban redevelopment	2	2	371	1	7
Waterfront area development	141	16	4,729	6,065	574
Ports and harbors	31	31	58	3,284	135
Transportation	10	13	214	337	1,108
Subway	31	26	6,181	3,522	172
Electricity	1	1	-	24	40
Waterworks	573	583	5,325	12,072	5,416
Industrial waterworks	0	0	0	227	120
Sewage system	273	273	24,910	14,902	24,850
Total	1,037	946	43,618	44,283	34,783

■ (5) Financial Indicators



Trends in Key Financial Indicators

(%)

	Details	FY2002 Results	FY2003 Results	FY2004 Results	FY2005 Results	FY2006 Forecast
Ordinary Balance Ratio	Measures the flexibility of the financial structure; the lower it is, the more flexibility there is.	96.9 (99.4)	97.9 (103.1)	92.6 (102.0)	85.8 (99.0)	84.5
Debt Expenditure Burden Ratio	The ratio of general financial resources appropriated to debt expenditure to the entire amount of general finances	12.6 (19.8)	12.0 (19.8)	12.9 (19.9)	12.3 (19.3)	15.5
Financial Capability Index	The higher the index, the more financial leeway there is.	1.034 (0.41)	1.044 (0.41)	1.060 (0.41)	1.107 (0.43)	1.215
Real Debt Service Ratio	Ratio which indicates the ratio of principal redemption money for municipal bonds to the standard financial budget, etc.	-	-	-	17.1 (14.9)	15.2

*Figures in parentheses indicate the prefectural average.



III. TMG Bonds

■ (1) Issue Plans for FY2008



Plans for Public Offering for FY2008

(100 million yen)

	2008									2009			FY2008 Total
	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	
10-year bonds	300	300-	300-	300-	300-	300-	300 -	300 -	300 -	300 -	300 -	300 -	- 4,000
20-year bonds	3 to 4 times a year, about 20 to 30 billion yen each time												- 800
30-year bonds	once a year, about 10 to 20 billion yen each time												100 - 200
Foreign Bonds	Once a year, about 50 billion yen												500

Total up to -5,500

* A change in circumstances may result in a change in the planned issue amount



■ (2) International Bonds

- Obtained Moody's rating on February 1, 2007, and issued Euro bonds in January 2008.
- Expect to continue issuing bonds in the international market.

International Bonds without Government Guarantee

Category	Issue Date	Signing Date	Issue Amount	Maturity	Coupon Rate	Yield to Subscribers	Issue Price	Credit Ratings
No. 6 Euro-Euro Bonds	Jan 31,2008	Jan 29,2008	318 million euros	27yrs	4.900%	4.909%	99.867%	Aaa

Category	Issue Date	Signing Date	Issue Amount	Maturity	Coupon Rate	Yield to Subscribers	Issue Price
No. 2 Euro-Euro Bonds	Nov 8,2004	Nov 1,2004	160 million euros	30yrs	5.070%	5.074%	99.940%
No. 3 Euro-Euro Bonds	Jun 2,2005	May 31,2005	294 million euros	27yrs	4.260%	4.260%	100.000%
No. 4 Euro-Euro Bonds	Nov 29,2005	Nov 24,2005	150 million euros	30yrs	4.270%	4.274%	99.933%
No. 5 Euro-Euro Bonds	Jun 21,2006	Jun 19,2006	344 million euros	27yrs	4.700%	4.709%	99.864%

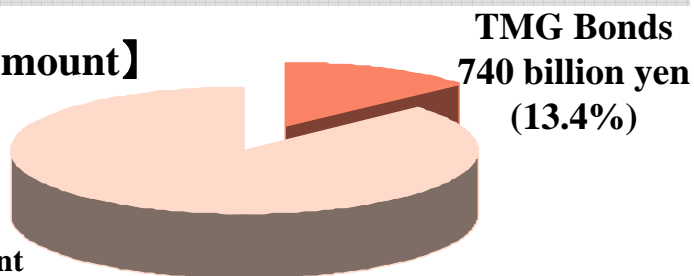
■ (3) Liquidity and Stability of TMG Bonds



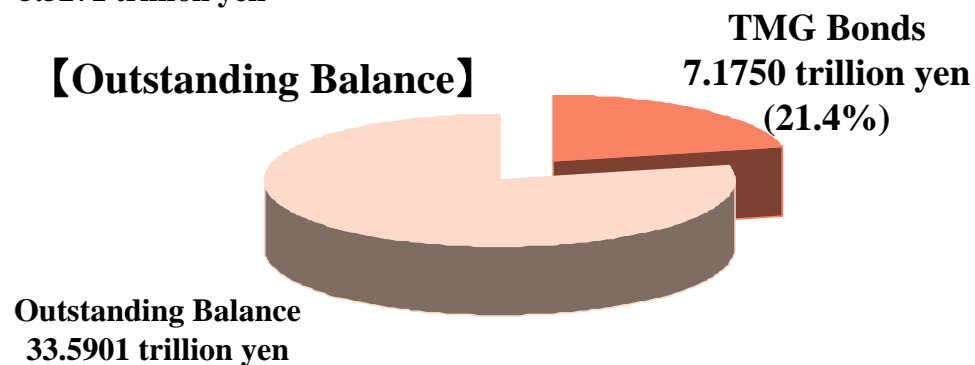
- TMG bonds have a high share in the local government bond market in terms of issue amount and outstanding balance.
- Metropolitan Tokyo's independent revenue sources, such as local taxes, account for the major part of its revenue, enable TMG to maintain stable resources for its future repayment.

Public Offering of Local Government Bonds (FY 2006)

【Issue Amount】



【Outstanding Balance】



* Excluding retail targeted bonds and foreign bonds

Independent Revenue Sources (FY 2008 General Account Budget)

89.9%

BIS Risk Weight

Government Bonds	Government-Guaranteed Bonds	TMG Bonds	FILP Institutional Bonds	Electric Power Bonds	Bank Debentures
0%	0%	0%	10%	20%	20%

* Zero ratings are for domestic investors in Japan.
For overseas investors, will depend on confirmation of relevant regulatory authority in each country.
(However, ordinary municipal bonds are from 10% to 20%.)

■ (4) Initiatives in Marketing ① Obtaining Credit Ratings



■ TMG bonds obtained a credit rating on February 1, 2007

- **Credit Rating Company: Moody's Investors Service**
- **Type of Rating: Foreign Currency Issuer Rating: Aaa / Stable,
Local Currency Issuer Rating: Aa1 / Stable**



■ Obtained additional ratings on March 26, 2008

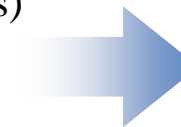
- **Credit Rating Company: Standard & Poor's Rating Services**
- **Type of Rating : Long-Term Issuer Credit
(Both foreign and domestic currency denominated) AA / Stable**



■ Currently, considering obtaining additional ratings in FY 2008

■ Effects of obtaining credit ratings

- Makes it possible to broadcast Tokyo's financial strength internationally
- Expanded investor base
- Improvement in metro bond issuing terms (lower costs)



**Effects are magnified when
multiple ratings are obtained**



■ (4) Initiatives in Marketing ②Enhancing IR Activities

■ Issuance strategy focusing on communication with investors

- About 90% of fund raised through TMG bonds are from private sector.
- Diverse products, regular issuance of 10-year bonds, improvement in pricing method
- Investor visits, symposiums, seminars, sales meetings, etc.
- Website for investors (TMG Website, including English)

■ Proactive overseas IR activities as the only municipal government which issues foreign bonds

- Participated in the Japan Capital Markets Summit (London) sponsored by Euro Week magazine in May 2007
- Conducted Tokyo's first IR tour in Europe in October, 2007

IR Results (FY2007)

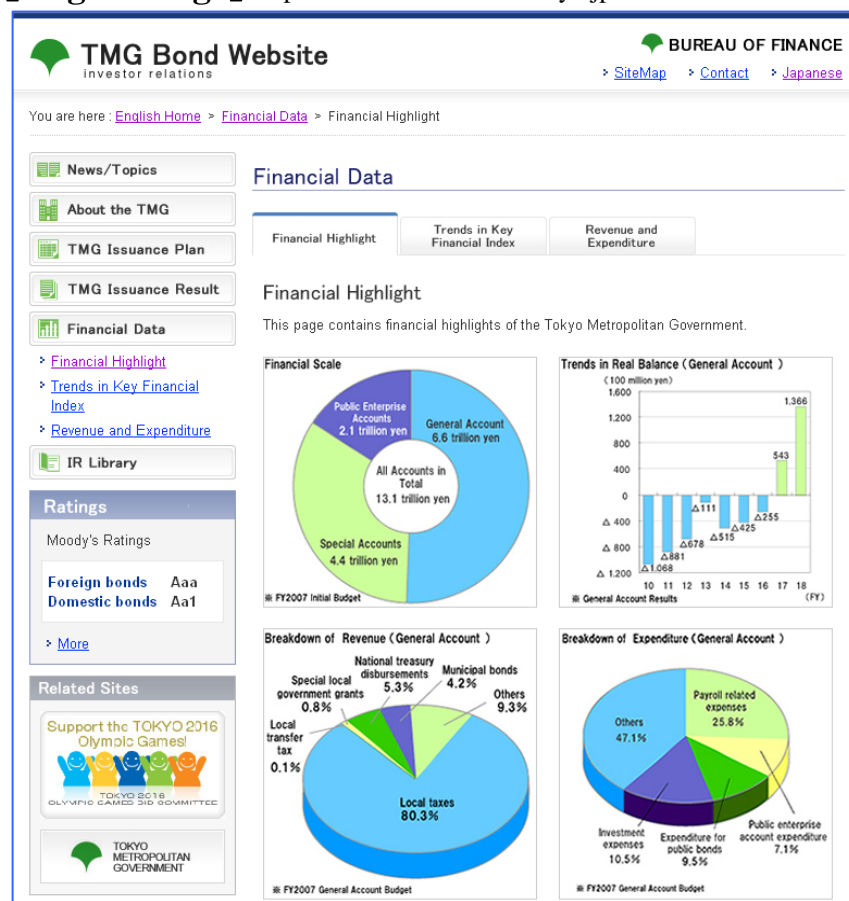
Event / Business	Details / No. of Times
Investor Visits	33 companies and groups (including overseas investors)
Participation in Symposium Meetings	13 (including sales meetings)
Japan Capital Markets Summit	About 200 finance industry-related attendees at London seminar In addition, individual visits to investors (3times)
IR Tour in Europe	Held investor meetings in London, Paris, and Frankfurt, As well as visits to individual investors (6)



■ (4) Initiatives in Marketing ②Enhancing IR Activities

- Redesigned of investor site in January, 2008 (TMG Bond Website)
- Improved quality of information, enhancing contents both in Japanese and English.

【English Page】 <http://www.zaimu.metro.tokyo.jp/bond/en/en.html>





■ (4) Initiatives in Marketing

③ Tax Exemption Measures for Book-entry transfer Muni Bonds

- Were applied to interest income arising from municipal bonds in book-entry form on and after 1st January, 2008

- ▶ FY2007 Tax Reform included the tax exemption measures related to interest on book-entry transfer municipal bonds held by nonresident individuals or foreign corporations
 - ▶ Interest on book-entry transfer municipal bonds held by nonresident individuals or foreign corporations will be exempt from income tax, subject to submission of the Application Form for Withholding Tax Exemption
 - ▶ Those who have already submitted the Application Form for Withholding Tax Exemption for JGBs in book-entry format shall be deemed to have submitted the Application Form for Withholding Tax Exemption for municipal bonds in book-entry format under certain conditions
- Interest income from coupon-bearing bonds held by nonresident individuals or foreign corporations is generally subject to 15% withholding tax.
 - Book-entry system for municipal bonds started in January 2006, and since then, almost all the municipal bonds have been issued in book-entry format. Most of the municipal bonds issued prior to the introduction of the book-entry system have also been consented to be reformatted into the book-entry format.
 - Book-entry system for municipal bonds is operated by Japan Securities Depository Center, Inc. (JASDEC), while the one for JGBs is operated by BOJ.



IV. Topics

■ (1) "Tokyo in 10 Years" : A Model for the 21st Century City



- Established in December, 2006, to set forth the city's strategy for the measures it will take to achieve a vision for the city in its bid for the Olympics in 10 years.
- In December, 2007, established a program to be executed over the next 3 years

Eight Goals in the Plan

1. Restore Tokyo's beauty as a city of water and greenery
2. Transform Tokyo through the three loop roads
3. Become the city with the lowest environmental load in the world
4. Strengthen Tokyo's disaster preparedness to enhance credibility
5. Create the world's first urban model for a super-aging society
6. Make Tokyo more prominent in terms of culture, tourism, universal design and industry
7. Create a society where motivated individuals can pursue their ambitions
8. Promote sports to provide dreams to children

Program to be executed in 2008 toward the "Tokyo in 10 Years" Vision

■ Objectives

- ▶ The rapid and assured implementation of measures towards achieving the 8 goals of the "Tokyo in 10 Years" plan.
- ▶ Roll out innovative efforts to achieve the "21st Century City" model, for the 2016 Tokyo Olympics and beyond.

■ Actions

- ▶ Create an action plan for the 3-year period of the biggest push (2008-2010)
- ▶ Generate a broad regional movement throughout all of Tokyo.

■ Tokyo's Bid for the 2016 Olympics



Shortlisted as a Candidate City, with a highest score (June 2008)

Selection by the IOC Executive Board based on the application file, etc.

- Rated as top in 4 categories including “Safety and Security”
- Scoring high overall, with 10 out of 11 categories in total within top two cities
- Selected as a Candidate City with the highest overall score

Rank	Candidate Cities
1	Tokyo (Japan)
2	Madrid (Spain)
3	Chicago (USA)
4	Rio De Janeiro (Brazil)

Schedule

2008	Jan	Submit the application file to the IOC
	Jun	The IOC selects the candidate cities
	Aug	Beijing Olympics (Sept.:Paralympics)
2009	Feb	Submit the candidature file to the IOC
	Oct	Host city is to be chosen by the IOC

Expenses and Economic Effects

● Funds for Olympic Bid Promotional Activities

- ◆ Bid expenses :
5.5 billion yen (Tokyo to bear about 3.1 billion yen)
- ◆ Movement promotion expenses :
9.5 billion yen (Tokyo to bear about 6.9 trillion yen)

● Olympic Preparation Fund

400 billion yen set aside
(FY 2006 to FY 2009)

<Note>

Economic ripple effects :
about 3 trillion yen
(rough estimate)

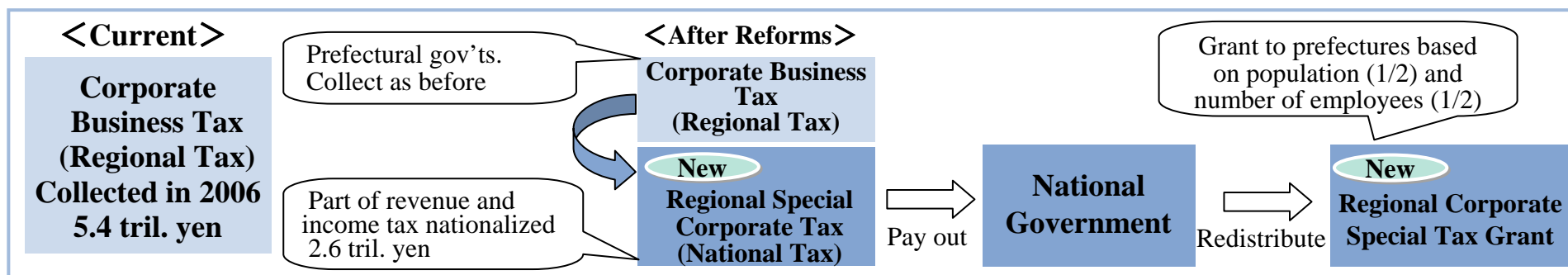
*Based on the amounts of production induced nationwide.

■ (3) Recent Developments in Regional Tax Resource Issues



- Under the stated goal of correcting unbalances in regional tax revenues, enacting tax reforms that will require Tokyo and other cities to shift a part of their fiscal resources to other regions.
- A portion of the corporate tax, a fundamental tax for regional governments, will be split off, converted to national control, and redistributed to other regions.

【Basic Framework】



■ Amount of Effect on TMG (Estimate)

- FY2009 → Approx. 280 bil. yen
 - FY2010 → Approx. 320 bil. yen
- } Approx. 600 bil. Yen drop in revenue

■ TMG's View and Approach

- A strictly interim measure, in place only until real tax structure reforms, including the consumption tax, are enacted
- Need to move quickly to enact real reforms of the tax revenue structure that will enable regional governments to achieve true independence
- Use working-level discussions (set up in December, 2007, in talks between Governor Ishihara and Prime Minister Fukuda) to ensure critical measures are implemented swiftly
Ex. 13 key measures, including progressing with conversion of Haneda Airport to full international operations

■ Website Address and Other Details



- Website address of Tokyo Metropolitan Government (TMG):
<http://www.metro.tokyo.jp/ENGLISH/index.htm>
- Website address for TMG Bonds: <http://www.zaimu.metro.tokyo.jp/bond/en/en.html>
- E-mail Address: S0000063@section.metro.tokyo.jp

Websites of related organizations:

- Ministry of Internal Affairs and Communications :
http://www.soumu.go.jp/c-zaisei/chihosai/pdf/070417_IR_English.pdf
- The Japan Local Bond Association: <http://www.chihousai.or.jp/english/index.html>

- This data has been prepared to provide information regarding the financial position of the TMG to investors who are considering the purchase of TMG bonds. It is not intended for sales purposes or as an offer to subscribe to a certain issue.
- This material has been prepared using various types of data believed to be reliable at the time. However, this is not a guarantee of its accuracy and completeness. Moreover, while future outlooks and projections indicated in this data are at present believed to be appropriate for the TMG within the scope presented here, this is not a promise of their being realized in the future.
- The main points of the data presented here may be at odds with other reports published elsewhere or which may be published in the future. Customers are asked to make their own judgments when using this material.