

Municipal Bond Subdivision
Financial Affairs Department
City of YOKOHAMA



City of YOKOHAMA

Investor Presentation
January, 2008

Contents



1

City of Yokohama's Overview

1-1

City of Yokohama's Overview

1-2

City of Yokohama's Economic Scale

1-3

Transportation Network

1-4

Revitalize City's Economy

2

Financial Operation

2-1

FY 2006 General Account Settlement

2-2

City of Yokohama's Mid-term Plan
– Tackle Administrative & Financial Reform

2-3

How to Make of Reducing City Bonds

2-4

Reduce Wider Sense of "City of
Yokohama's Debts"

2-5

Activities for Reforming Auxiliary
Organizations

2-6

Reduce Expenses within
Administration

3

Float Bonds

3-1

Credit Rating

3-2

Breakdown of Issued Amounts by
Funding Source

3-3

FY 2007 Public Offering Bond
Issuance Policy

3-4

Activities of "Dialogue with the
Market":

3-5

Awarded City of Yokohama and
Related Articles

3-6

Non-taxable Interests of Municipality
Bonds under Act on Transfer of
Bonds



1 City of Yokohama's Overview



Investor Relations

- 1-1 City of Yokohama's Overview
- 1-2 City of Yokohama's Economic Scale
- 1-3 Transportation Network
- 1-4 Revitalize City's Economy

1-1 City of Yokohama's Overview

As the first Japanese port opened its gate to the world in 1859, Yokohama has grown rapidly to become the second largest city in Japan.

Population

3,630,830 (as of December 1, 2007)

It corresponds to the population of Los Angeles (United States), Melbourne (Australia) and Busan (South Korea).

Total Area

434.98km² (2007)

City's Gross Domestic Product

12.939 trillion yen (FY 2004)

As % of total Japan 2.6% (Total Japan 496.197 trillion yen)
It is an order between Portugal in 24th place and Czech Republic in 25th place compared with OECD nations.

Citizen's Per Capita Income

3.110 million yen (2004)

Japanese per capita income is 2.826 million yen. (2004)

TRAVEL TIME FROM MAJOR CITIES

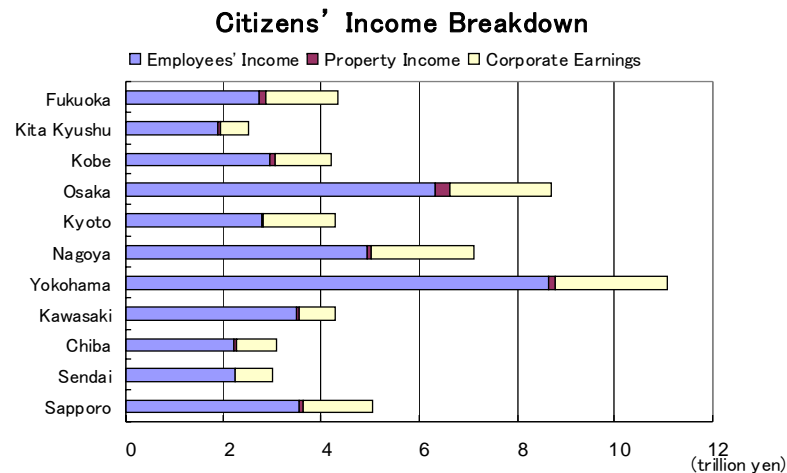


1-2 City of Yokohama's Economic Scale

City of Yokohama's economy is characterized by citizens' higher income and diversified industrial base. City's economy grew for two consecutive years.

Citizens' income

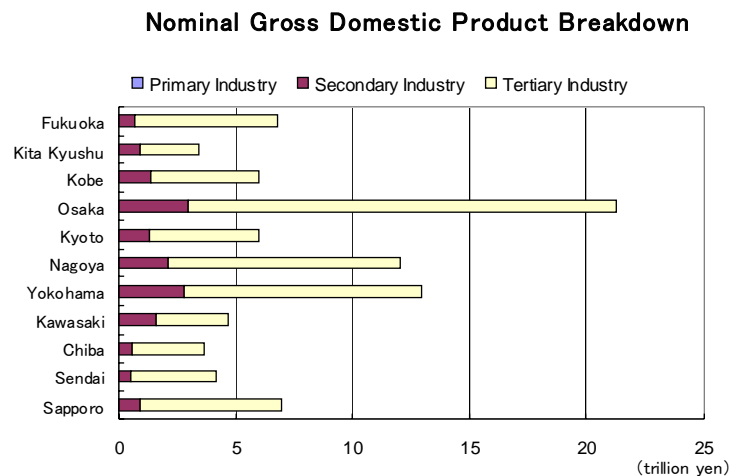
(FY 2004)



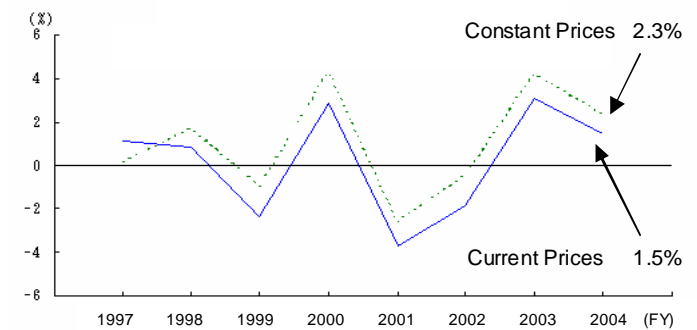
City's Gross Domestic Product

City's Economic Growth Rate

(FY2004)



City's Economic Growth Rate



Source: City of Yokohama

1-3 Transportation Network

Given Haneda Airport to be reopened for international flights in 2009, City is expected to develop further interaction between East Asian countries.

Access to Yokohama

- **Access from airports**

80 minutes from Narita Airport (New Tokyo Int'l Airport)
20 minutes from Haneda Airport (Tokyo Int'l Airport)
(Using railway or airport limousines)

- **Access by railway**

30 minutes from Tokyo
2 hours and a half from Kyoto and Osaka (by bullet train to Shin Yokohama Station)

- **Access by road**

30 minutes from Tokyo (using Tokyo Capital Freeway)

Haneda Airport to be reopened for international routes

- City supports the government's initiative of extending Haneda Airport's runways to be completed by the end of 2009

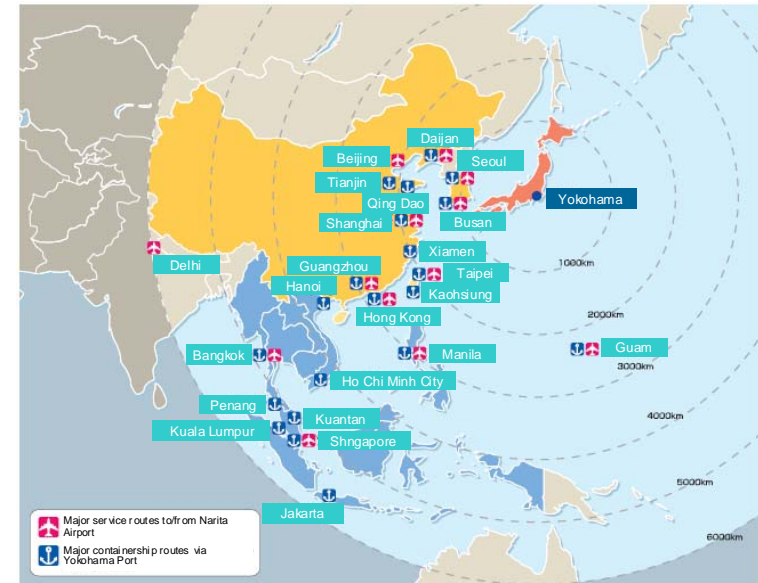
- Haneda Airport's runways will be extended to allow short-distance international routes

- City attempts to enable the airport to accept international passenger flights on regular service from major East Asian cities such as ASEAN countries

Super Hub Harbor

- In July 2004, Yokohama Harbor was designated as "Super Hub Harbor" by the government to reinforce its competitive edge as container harbor. In such a way, the harbor attempts to accommodate super-large container ships and growing cargo volume

- In 2002, Yokohama International Port Terminal had a major redesign, and large passenger liners such as Sapphire Princess and Queen Elizabeth 2 made a port call at the terminal. In 2007, 123 passenger boats, the largest calls in Japan for 5 consecutive years, called at the terminal



1-4 Revitalize City's Economy

“Aggressive” economic policies to be competitive among cities

Attract Businesses

Help attract businesses under Ordinance of Business Siting Promotion

- Reduce property tax and city planning tax to half in 5 years
- Grant subsidies with the ceiling of 5 billion yen (1 firm per area)



Economic Ripple Effect

Induced output : c. 1 trillion yen

Induced Employment : 57,000

Tax Revenue : More than 40 billion yen

(for 10 years from 2004)

* The above figures result from trial calculation with currently 22 businesses certified under Ordinance of Business Siting Promotion

Supporting amount is expected to be recouped in about 4 years and half

- | | |
|------|---|
| 2009 | Nissan Motor (moved head office) |
| | Fuji Xerox (setting up R&D base) |
| 2010 | Marubeni & Mitsubishi Co. group |
| | Mitsui Fudosan |
| 2011 | Sega |
| | (Setting up comprehensive entertainment facility) |
| | Nomura Real Estate Development group |
| | (moved head office of NRI) |
| | CSK Group |
| | (Built head office building) |

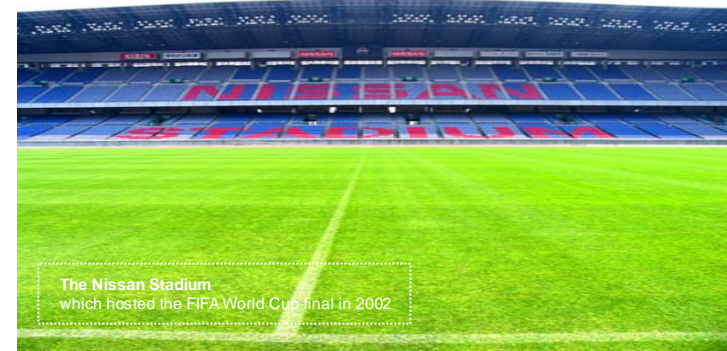


Concentration & Development of Asian Companies and Human Resources

Promote Advertisement Business

Event Commemorating 150 Anniversary of Opening the Port

- Attract Indian international school
- Indian automotive parts company (Tata Auto Comp Systems) branches out into City
- Transfer facility's naming rights and promote advertising
- Naming rights were granted to Nippatsu Mitsuzawa Stadium, following Nissan Stadium
- TICAD Meeting was decided to take place in City
- Hold topical event commemorating 150 anniversary
- Tourist promotion campaign in partnership with private operators, one of the largest campaign in Japan "Yokohama & Kanagawa Destination Campaign"
- "Action to Plant 1.5 Million Trees," a joint effort by citizens, businesses and the public sector to plant 1.5 million trees



The Nissan Stadium which hosted the FIFA World Cup final in 2002



2 Financial Operation



Investor Relations

- 2-1 FY 2006 General Account Settlement
- 2-2 City of Yokohama's Mid-term Plan – Tackle Administrative & Financial Reform
- 2-3 How to Make of Reducing City Bonds
- 2-4 Reduce Wider Sense of “City of Yokohama's Debts”
- 2-5 Activities for Reforming Auxiliary Organizations
- 2-6 Reduce Expenses within Administration

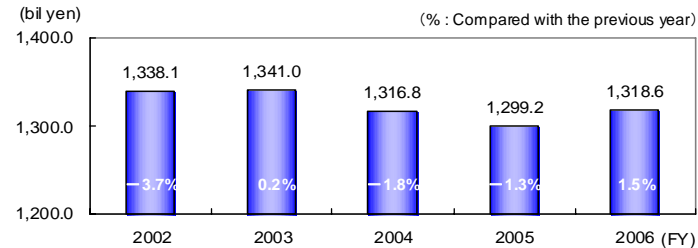
2-1 FY 2006 General Account Settlement

City of Yokohama's general account settlement demonstrated firm foundation of the independent sources as well as the stability of revenue.

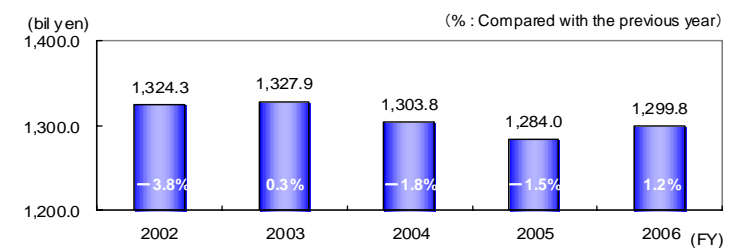
Revenue & Expenditure

1. Yokohama posted positive results of both revenue and expenditure year-on-year for the first time after 3 years absence.
2. Total net balance of settled accounts was booked as gain of about 6.5 billion yen, thanks to implemented efficient and effective budgeting.
3. For two consecutive years, City's tax revenue posted gain, representing 2.7% up from the previous fiscal year. City's tax collection ratio continued to improve from the previous fiscal year, and was 96.7%.

Trends of Revenue Settlement Accounts

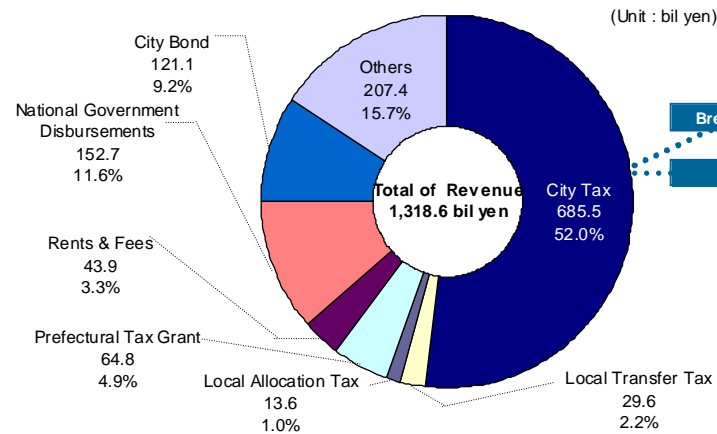


Trends of Expenditure Settlement Accounts



Breakdown of Revenue

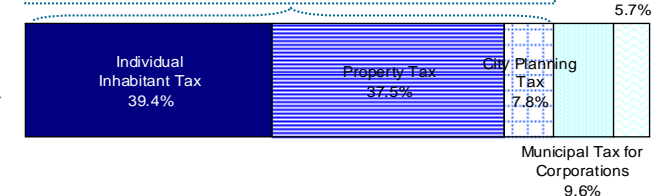
Breakdown of Revenue Settlement in FY2006



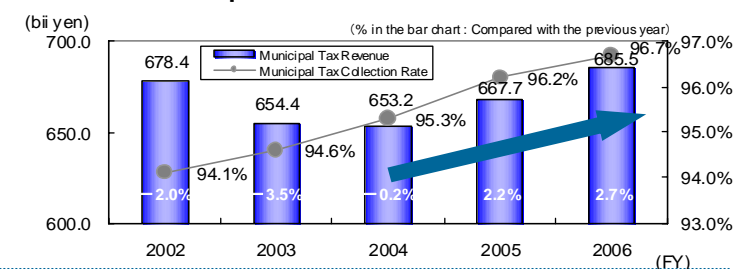
Breakdown

Move

Tax items relatively less affected by economic trends
84.7% of tax income



Municipal Tax Revenue and Collection Rate



2-2 City of Yokohama's Mid-term Plan – Tackle Administrative & Financial Reform

The following are targets to be achieved in 5 years from FY 2006 to FY 2010 as part of underscored administrative & financial reform under “City of Yokohama’s Mid-term Plan”.

Grapple with Financial Reconstruction

	Target value	Recent activities
Reduce amount of issued City bonds	Reduce 5% a year on average	<u>City Bond Balance dropped for the 1st time after the war</u> General Account: reduced from FY 2005 All Account : reduced from FY 2004
Redemption of debts in special accounts, public enterprise accounts, and auxiliary organizations (Debts redeemed with city taxes, etc.)	Put up More than 400 bil yen Steadily for redemption in 4 years from FY 2007 to 2010	<u>Primary Balance in Yokohama format</u> Book gain achieved in FY 2006 Book gain of 21 bil yen in FY 2007 <u>Reduce about 360 bil yen for debts</u> FY 2002→2006 year-end (Debts redeemed with city taxes, etc.)

Optimize Administrative Cost

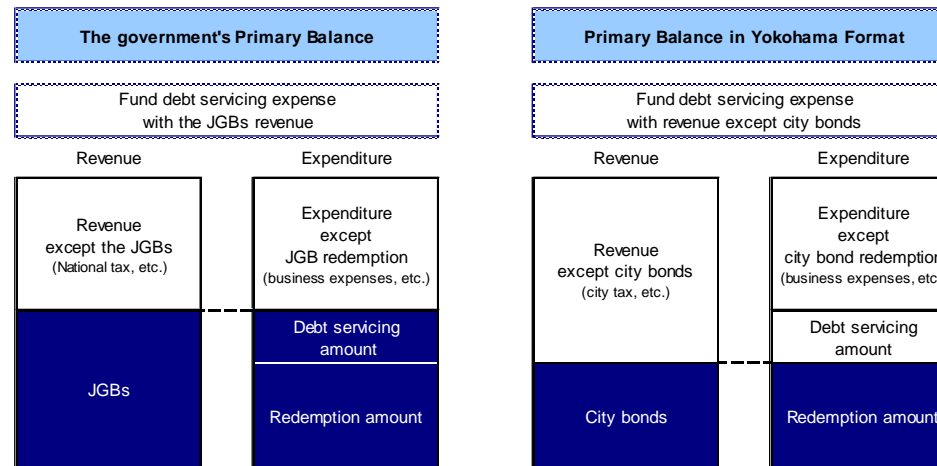
	Expected reduction	Target value (FY 2006 to 2010)
Reduce labor expense	— 9 bil yen	Reduce more than 1,900 employees (based on overall accounting)
Cut ordinary expense	— 41 bil yen	Administrative promotion expense — Reduce 1% every FY Ordinary internal expense — Reduce 3% every FY
Trim facilities, etc.	— 111 bil yen	Trim 3% on average every FY

2-3 How to Control of New City Bonds Issue

We aim to book gains every fiscal year according to “Primary Balance in Yokohama Format,” set higher than the government’s method in a bid to reduce outstanding city bond balance.

Primary Balance in Yokohama Format

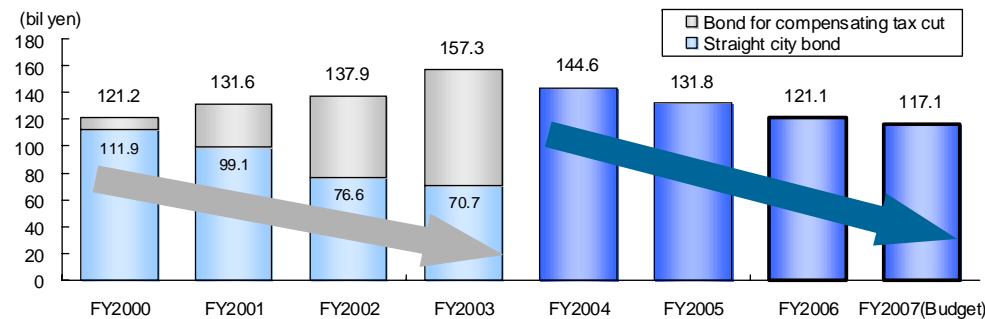
We continue to book gains every fiscal year according to “Primary Balance in Yokohama Format” achieved with initial budgets of the fiscal years 2006 and 2007 in a row.



What is “Primary Balance in Yokohama Format”?

- The government’s primary balance refers to “financing a fiscal year’s expenditures, excluding expense of servicing JGBs, with revenue. This results in incremented JGB balance by servicing expense.
- On the other hand, City of Yokohama defines it as financing the fiscal year’s expenditures, including the budget of servicing bonds, with the fiscal year’s revenue. We reduces the issued amount of city bonds within the budget for redeeming bonds in that fiscal year to control the outstanding city bond balance. We secure revenues other than city bonds while reducing expenditures thoroughly.

Trends of General Account City Bond Issuance Amounts



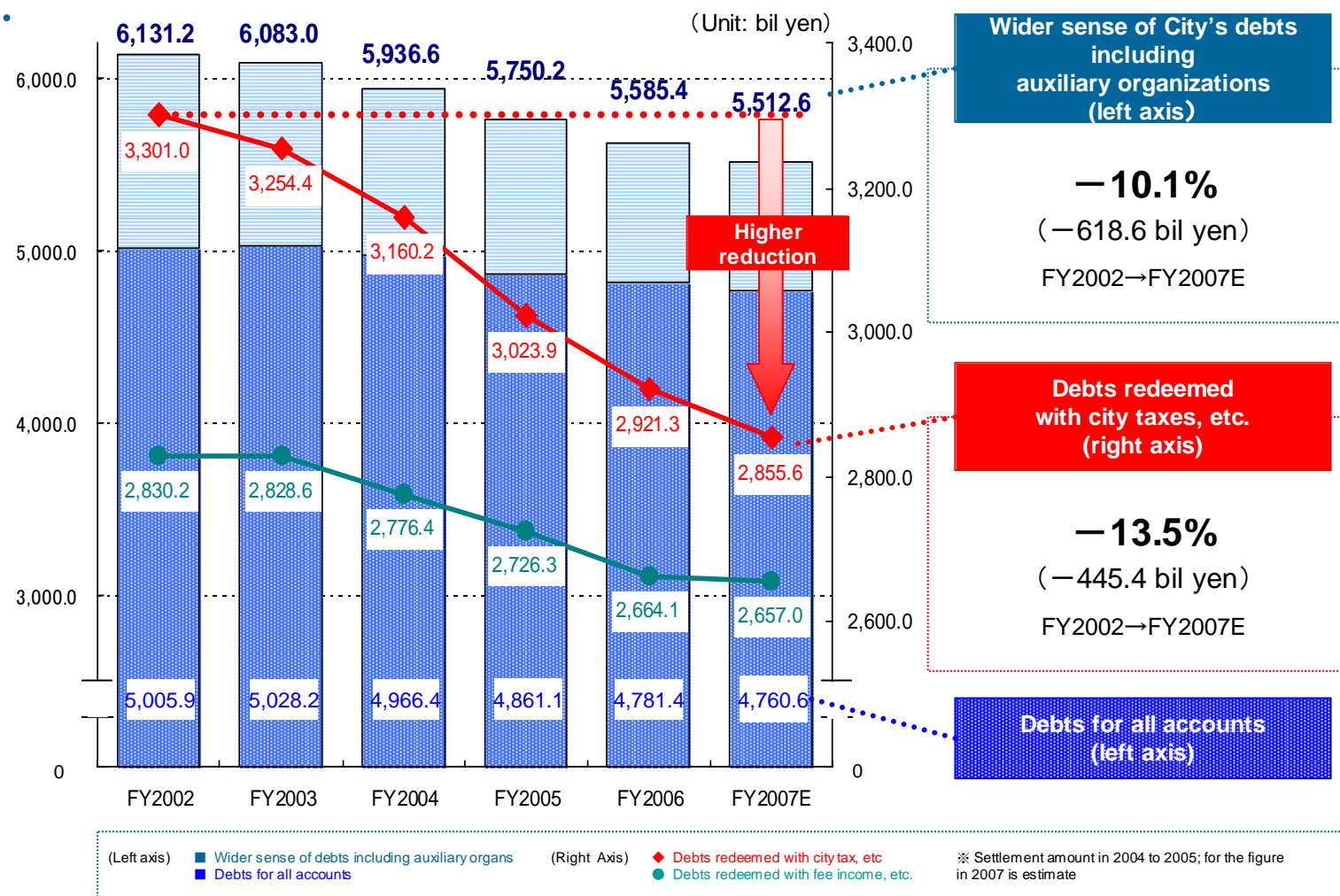
(*)

As Yokohama City University turned into regional incorporated administrative agency in April 2005, general accounts succeeded its debts. To measure data unevenly, debts of the university before then were added to general accounts.

2-4 Reduce Wider Sense of “City of Yokohama’s Debts”

City disclosed overall picture of debts including auxiliary organizations as well as general, special and public enterprise accounts, for the first time as municipality in Japan, starting in Jan 2003.

Debt Balance



2-5 Activities for Reforming Auxiliary Organizations

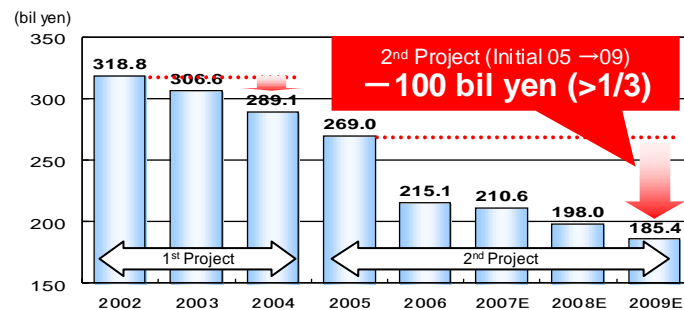
City of Yokohama's loss guarantees for auxiliary organizations totaled 649.4bn yen in FY 2006. We carry out the following activities to improve the financial situation of two auxiliary organizations, Land Development Public Corporation and Architectural Project Assistance Public Corporation, that have larger guarantee amount; 212.8bn and 225.7 bn yen respectively.

Land Development Public Corporation & Architectural Project Assistance Public Corporation

Business Improvement Project of Land Development Public Corporation

- Develop 2nd project (Initial FY2005→FY2009 end)
- Trim total book value of all the holding lands by c. 100 bil yen (more than a third)

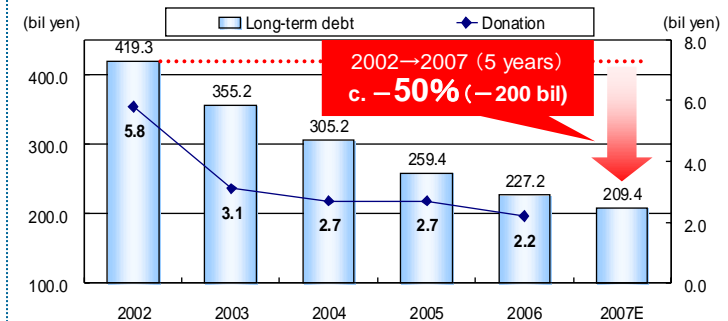
Trends of book value of all the lands held by "Land Development Public Corporation"



Architectural Project Assistance Public Corporation

- Close new loan operation by the end of FY 2005 (Abolish individual's housing loan in the end of FY 2003))
- An committee examines ways to handle accounts receivable

Trends of "Architectural Project Assistance Public Corporation" long-term debt and donation



Promote Independent Management of Auxiliary Organizations

【Auxiliary organizations】 **56** (initially in FY 2002) → **42** (as of FY 2007)

Continue review of Specific Accord for independent management of designated auxiliary organizations

Clarify directions for those organizations subject to review

Review with City involved and thorough information disclosure

【Initially FY2007】

- Specific Accord-subjected Organizations (move of 5 organs) to 39
- Organizations moved to private entity to 2
- Organizations to be integrated 2

【Implemented in FY 2007 or after】

- Organizations to be dissolved in FY 2007 or after 1

- Auxiliary Organization White Paper (temporary title) is published

2-6 Reduce Expenses within Administration

City is reorganized as flexible and effective organization in response to changing social affairs, and reviews role sharing between private and public sectors.

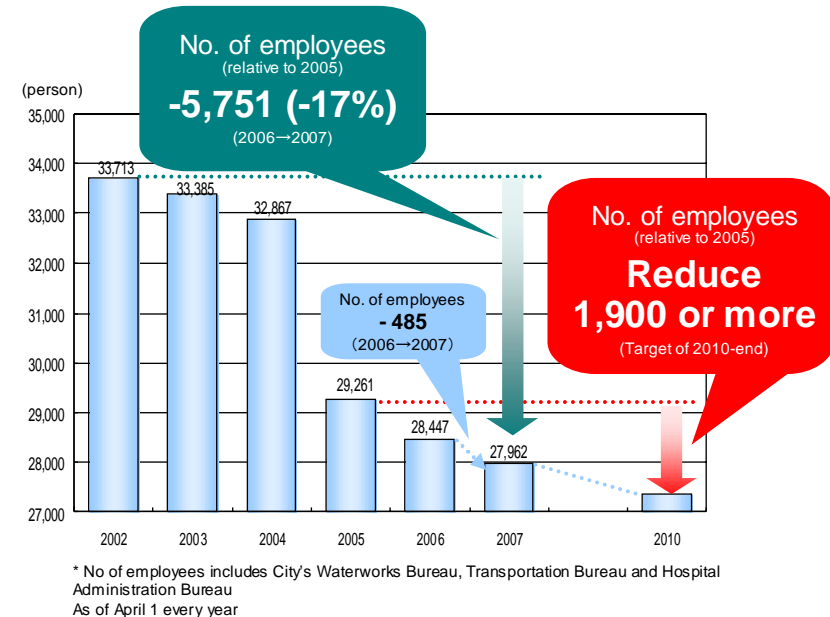
Reduce Expenses within Administration

Review fixed number of employees

Reorganize Administration to be flexible and effective



* Indicator on "Municipalities' Financial Comparison Analysis Table" for analyzing management of municipalities to compare



Ban Special Service Allowance as a general rule

FY 2003 (55 allowances) → FY2006 (3 allowances)

Promote privatization & outsourcing

City's nursery schools, cooking school lunch, and household garbage collection operations

Introduce Designated Manager Regime

Release operations of public facilities to private sector

Proposal-competition-type Public Service Reform Regime

Introduce market testing concept to improve administrative services



3 Float Bonds



Investor Relations

- 3-1 Credit Rating
- 3-2 Breakdown of Issued amounts by Funding Source
- 3-3 FY 2007 Public Offering Bond Issuance Policy
- 3-4 Activities of “Dialogue with the Market”
- 3-5 Awarded City of Yokohama and Related Articles
- 3-6 Non-taxable Interests of Municipality Bonds under Act on Transfer of Bonds

3-1 Credit Rating

City of Yokohama's public offering bonds have been rated for the first time as municipality in Japan.

Credit Rating



Major rating points

- City's sound autonomous financing base and highly stable revenue
- Excellent financial discipline toward sound financial fundamentals albeit with higher percentage of debts
- Debt balance is set to be reduced
- City's financial standing is expected to turn into sound financial base via mid-term plan

Relative to Other Cities (Dec, 2007)

	Yokohama	Milan	Rome	Lille	Montreal	Geneva
Issuer credit rating	AA- Positive	A+ Stable	A+ Stable	A+ Stable	A+ Stable	AA- Stable
Sovereign issuer rating	Japan AA Stable	Italy A+ Stable	Italy A+ Stable	France AAA Stable	Canada AAA Stable	Switzerland AAA Stable

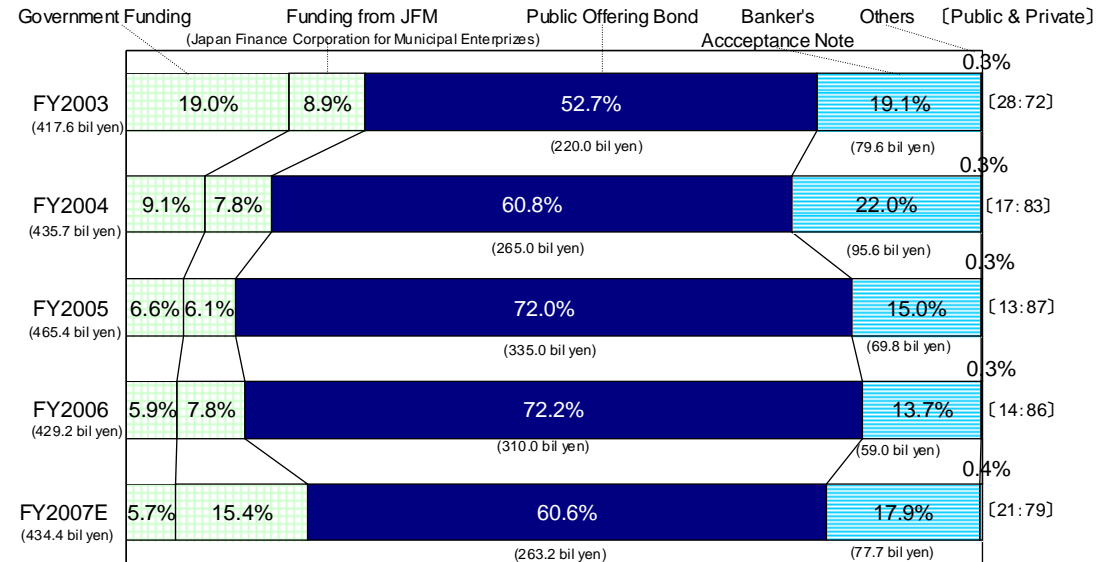
S&P's List of Past Reports

- April 23, 2007 Impact Of Japan Upgrade On Ratings On Municipalities
- Nov. 14, 2006 Credit FAQ : City of Yokohama And The Credit Environment Surrounding Japanese Local And Regional Governments
- Nov. 2, 2006 Report Card : World's Top 10 Economic Centers
- Oct. 23, 2006 Yokohama (City of)
- Oct. 4, 2006 City of Yokohama Assigned 'AA-' Rating; Outlook Positive

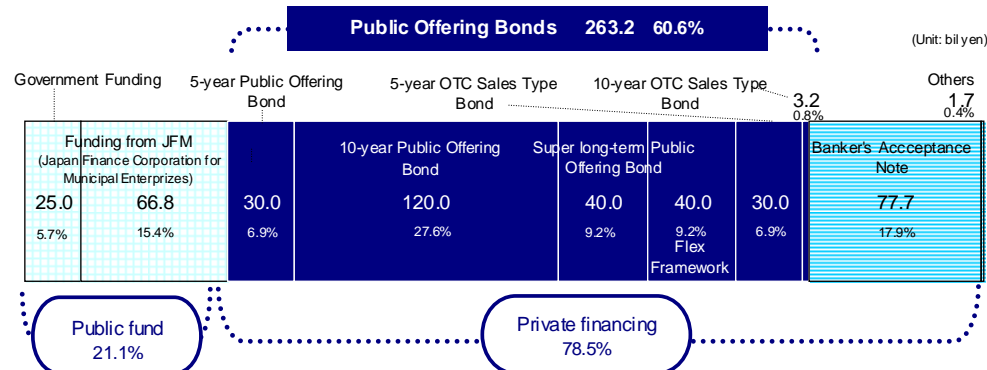
3-2 Breakdown of Issued Amounts by Funding Source

Municipality's funding at its own risk through its own endeavor has been boosting the ratio of private financing to the total.

Trends of Issued Amounts of All the Accounts



Scheduled Issuance Amount in FY 2007



“Flex framework”, where City of Yokohama may select bonds with terms and timing attracting investors’ greater demand, was set up to accommodate investors’ need flexibly.

[illegible]

**Floating bonds
factoring in market
environment for
stable supply**

- 5 year bond
- 10 year bond
- Super long term bond
- Flex framework:

Continue bidding method
Underwriting method was further improved
Lead manager method to seek flexible issuance goes on
“Flex framework”, where City of Yokohama may select bonds
with term and timing of greater demand within the fiscal period,
instead of defining the term or timing in the beginning, was set up

.....

FY 2007 Public Offering Bond Amounts to the Total: **263.2** bil yen

(Unit: bil yen)		Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Total [+Flex framework (external No.)]
5 year bond				15				15						30
10 year bond			20	20			30	(10)	25	20		20		120 [+15]
Super dated bond			[20Y] 20				[30Y] 25	[20Y] 15	(50)		5			40 [+25]
Flex framwrk					(20)			(50)		(20)				40 [-40]
OTC Sales Type	Hama-sai 5 (5 year bond)		7.5				7.5			7.5		7.5		30
	Hama-sai 10 (10 year bond)		0.8				0.8			0.8		0.8		3.2
Actual results											Plan			

* Plans in December or afterwards represent current ones, and are subject to change.

3-4 Activities of “Dialogue with the Market”

To achieve municipality’s funding at its own risk through its own endeavor, we float city bonds, underscoring “Dialogue with the Market.”

Recent activities

FY	Item	Description
FY2003	Introduce super long term bonds	<p>【July 2003】 City of Yokohama started to issue 20 year bonds for the first time as municipality that issued publicly offered bonds in Japan.</p> <p>【December 2004】 City started to issue 30 year bonds</p>
	Introduce lead manager method	<p>【July 2003】 To understand the need of investors, City adopted a system to determine issuance terms. City of Yokohama introduced this system for the first time as Japanese municipality of super long term publicly placement bonds.</p>
	Start Mayor's IR Meeting	<p>【March 2004】 IR Meeting, where the mayor himself makes a presentation in his own words to investors, was launched.</p>
FY2004	Move to the system to determine issuance terms separately	<p>【April 2004】 City of Yokohama, together with Tokyo Metropolitan Government, trailblazed the "system to determine issuance terms separately" (formula of negotiating terms by Yokohama itself) from the "system to decide issuance terms uniformly (committing negotiations to the Ministry for Public Management, Home Affairs, Posts and Telecommunications, and deciding either Tokyo municipality bond type or other type of a municipality).</p>
FY2006	Request for credit rating	<p>【October 2006】 City of Yokohama's bonds have been rated for the first time as Japanese municipality that issued publicly placed bonds. City acquired credit rating from S & P, providing overseas investors with the "world standard tool."</p>
	Yokohama was awarded two typical prizes of the Japanese bond market at the same time.	<p>【April 2007】 Thomson Financial awarded, to Yokohama, the "Issuer of the Year" in the overall section among entities in municipality bond market as well as overall bond and equity markets.</p> <p>【January 2007】 The Nikkei Bonds & Financial Weekly issued by Nihon Keizai Shimbun awarded, to Yokohama, the "Deal of the Year's 1st Prize of Municipality Bonds."</p>
FY2007	Set flex framework	<p>【April 2007】 "Flex framework", where City of Yokohama may select bonds with terms and timing within the fiscal term, attracting greater invest or demand (instead of determining them in the beginning of the fiscal year), was set up to accommodate investors need flexibly.</p>
	Explore overseas investors	<p>【March & September 2007】 Multiple customers are explored, who invest in 30 year bonds (4th and 5th issuances) as Japanese municipality bonds for the first time.</p>
	Withdrawal from issuance of joint issuance bonds	<p>【April 2007】 To achieve municipality's funding at its own risk through its own endeavor and secure funding thoroughly, City withdrew from joint issuance bonds.</p>

3-5 Awarded City of Yokohama and Related Articles

The City of Yokohama was awarded the prize for the first time as municipality.

Awarded

THOMSON Deal Watch

Awards 2006 "Issuer of the Year"



Shigemi Oba
Director General of Administrative Management and Coordination Bureau

- City of Yokohama was awarded the "Issuer of the Year" in the overall section among entities in municipality bond market as well as overall bond and equity markets.

- Major credits given to the City:

1. The City acquired credit rating for the first time as municipality of issuing publicly placement bonds
2. The City trailblazed direct dialogue with capital markets.
3. Customer base was expanded to overseas investors.

Euromoney – Japanese Edition

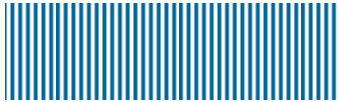
2007 "Best Yen Bond Deal"

The "Nikkei Bonds & Financial Weekly" issued by Nikkei Newspaper

2007 "Municipality Bond Deal of the Year" - No. 1 & No.2 2006 "Municipality Bond Deal of the Year" - No. 1

Article in English on introducing City of Yokohama's Municipality Bonds

- Sep 7, 2007 **EuroWeek** Japan Municipal Bonds IR Statement
- The City of Yokohama : At the heart of Japan's economy
- June, 2007 **EuroWeek** Japanese Municipal Bonds - Funding traffic heads for international market
(Page 17) CITY OF YOKOHAMA - A leader among Japan's local government issuers
(Page 18) RATING AGENCY Q&A – S&P speaks out on City of Yokohama
- Jan, 2007 **The Banker** Japanese municipal financing



3-6 Non-taxable Interest of Municipality Bonds under Act on Transfer of Bonds

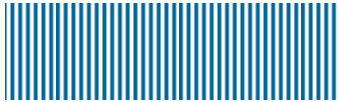
The law was revised, and non-taxable interest of municipality bonds payable to non-residents starts.

..... **Non-taxable interest regime starts**

- The following revised tax system applies to interests of municipality bonds under Act on Transfer of Bonds that are to be paid in January 1, 2008 or thereafter.
- No income tax or corporate tax is levied on interests of municipality bonds payable to non-residents and foreign entities, subject to the requirement of filing a non-taxable application statement, and withholding tax is exempted.
- When a non-taxable application statement was filed for interest of the transferred under Act on Transfer of Bonds, the non-taxable application statement on transferred municipality bonds are deemed to have been filed, and other special measures are taken.

..... **Transferred municipality bonds**

- This is the new settlement regime where titles to municipality bonds are transferred by means of incremental/decremental balance record on transfer account books put in place by transfer settlement agents or account management institutions.
- “General Bond Transfer Regime,” in which Japan Securities Depository Center” serves as transfer settlement agent, starts in January 10, 2006.
- Issuers of transfer bonds need to agree on transfer settlement agents before moving to transferring newly issued and existing bonds. Prefectures, ordinance-designated cities and almost all of the municipalities of issuing bonds have already agreed on this.



Contact Us



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