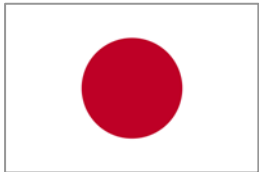

Doing Business in Japan



Michael W. Reuben – Managing Director
Koichiro Tanaka - Managing Director
Chiyomi Kojima - Director
Global Subsidiaries Group
Citibank Japan Limited

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Q&A

1-1. Japan Snapshot

Country Overview

- Capital City : Tokyo
- Population : 127,771,000
- Currency : Japanese Yen
- GDP : USD4.35 trillion
- GDP Growth Rate : 2.1%
- Exports : USD739 billion
- Imports : USD675 billion
- CPI Inflation Rate : 0.3%
- JPY/USD : 104.12 (11:39am on May 19, 2008)

(as of 2007 end)

Foreign Exchange Controls

- Foreign Exchange and Foreign Trade Law (April 1998) gave companies in Japan greater flexibility in managing foreign currency, trade settlement, and subsidiary funding. There are five key law revisions:
 - Cross-border capital flow liberalization
 - Free market for foreign currency exchange
 - **Overseas accounts**
 - **Multi-lateral netting**
 - **Allow domestic trade in foreign currency**
- Japan resident entities are responsible for all regulatory reporting
- Export and import controls are imposed following the UN sanction and Japanese government sanction
- Export and Import of certain products are prohibited or require specific licenses

Source: NCL Report

Banking Sector

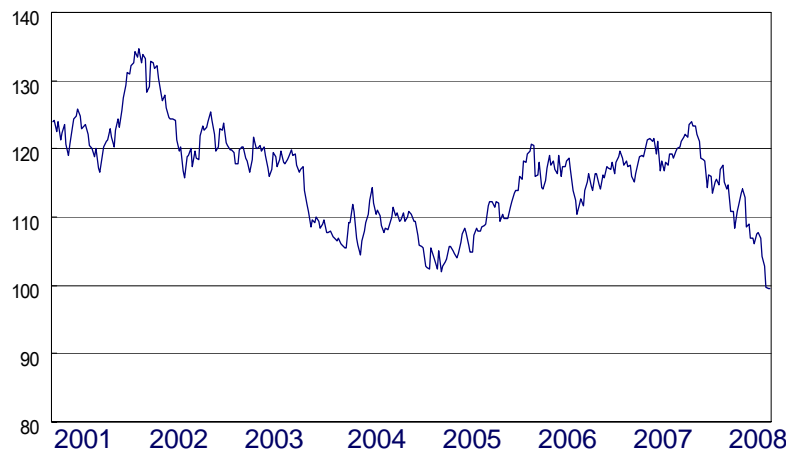
- Financial Institutions
 - 150 Japanese banks
 - 1,544 cooperative-type institutions
 - 69 foreign banks
 - Postal Savings, which has a 24,000 branch network
- NPL
 - Significantly receded to 2.8% in 2006 from 4.0% in 2005
- Current Market
 - Appreciation of JPY
 - Significantly lower share price
 - BOJ encourages the uncollateralized overnight call rate to remain at around 0.5%

Regulatory Body

- **Ministry of Finance (MOF)**
 - Law making
- **Bank of Japan (BOJ)**
 - Central Bank
 - Monetary policy
 - Settlement services for financial institutions
- **Financial Service Agency (FSA)**
 - Supervisory and inspection on financial institutions
- **Japan Bankers Association (Zenginkyo)**
 - Operating Zengin, Gaitame, Clearing Houses
- **Tokyo Stock Exchange**

1-2. Changing Economic Market

Exchange Rate (JPY/USD)

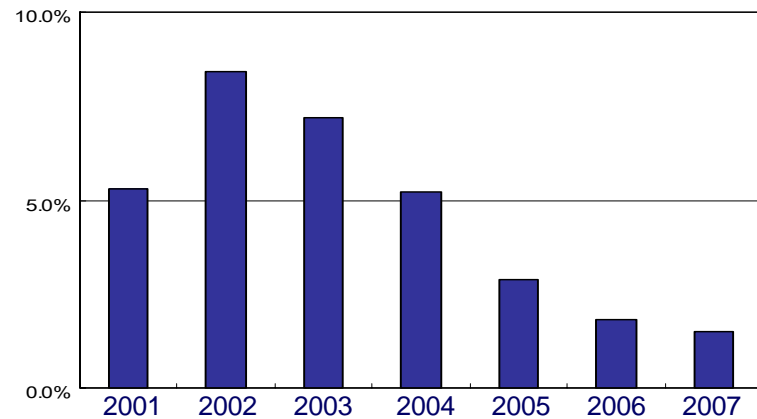


- The business confidence DI among large manufacturers declined by 8 points in the March Tankan, indicating the negative impacts from the US economic slowdown, the yen's appreciation, and surging energy prices.
- However, other components of the survey including profits and business investment outlook suggested a more stable economic outlook.
- The Japanese banking system has been dramatically restructured and Nonperforming Loans (NPL) significantly reduced.

Stock Price (Nikkei 225)

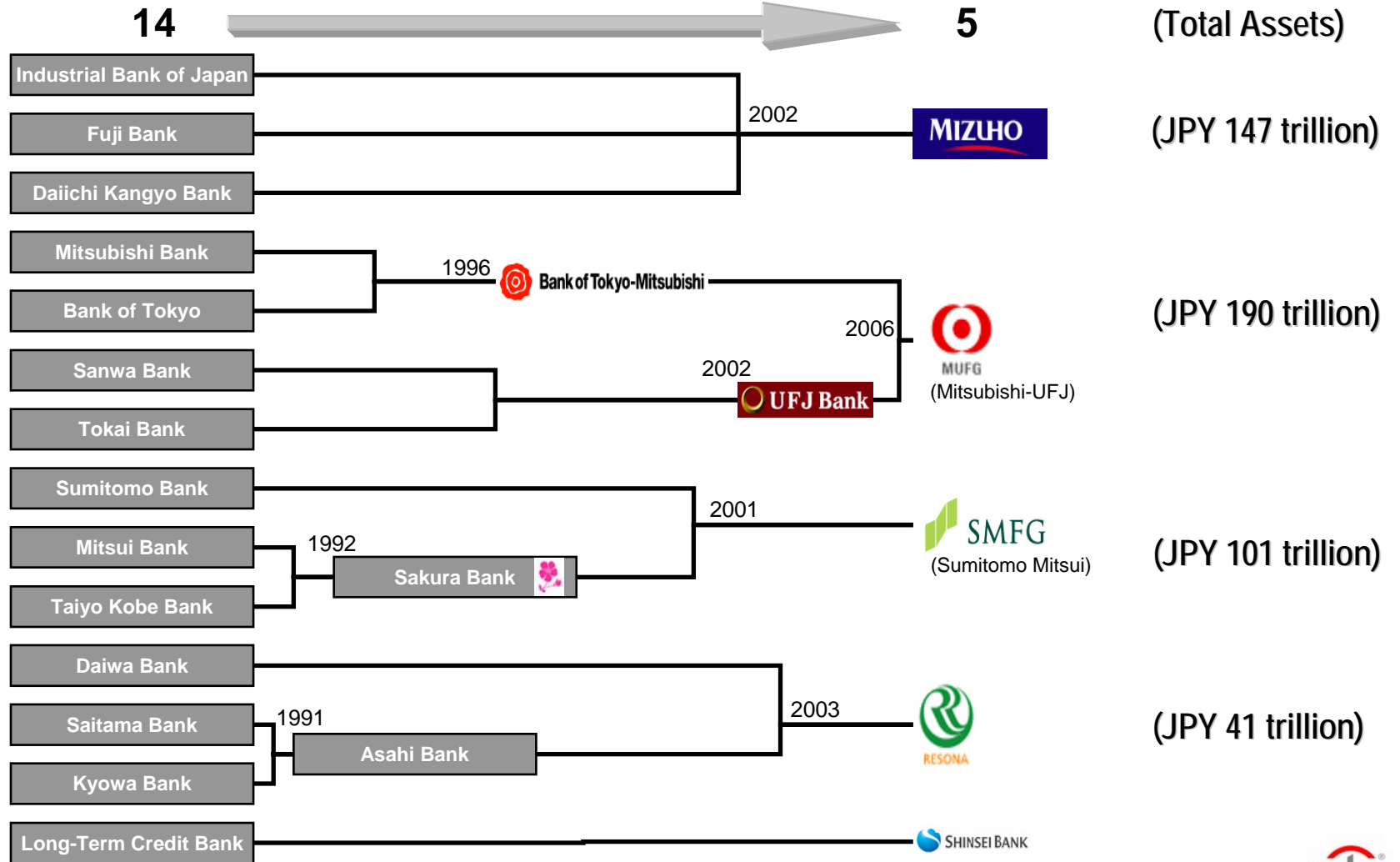


Non-Performing Loan Trend



Source: Bloomberg, FSA

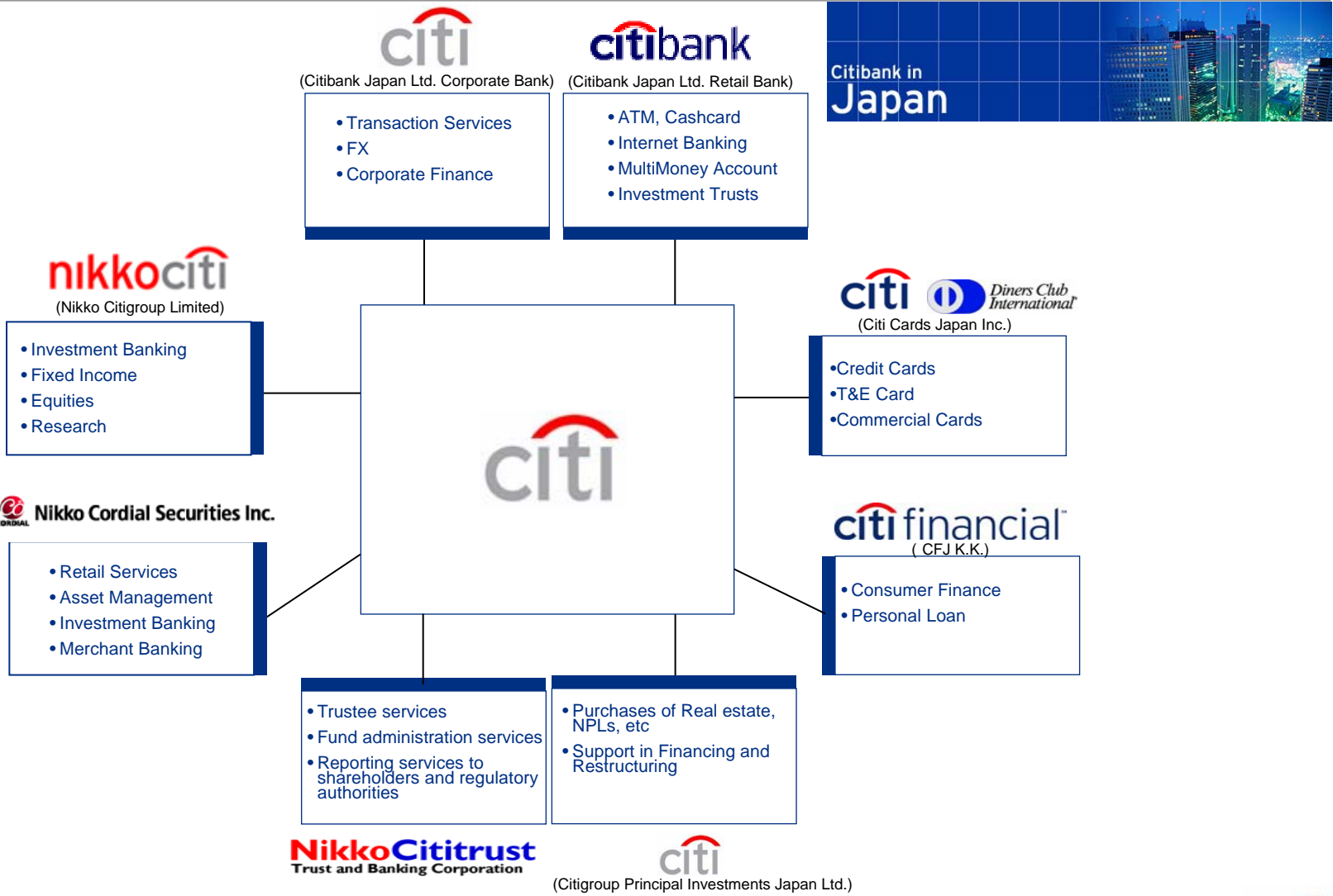
1-3. Consolidation of Major Banks



1-4. Key Themes in Japan

- Before US sub-prime mortgage crisis: Recovery of Japanese economy
 - Continued economic expansion (the longest growth period since World War II)
 - Appreciation of Japanese Yen
- After US sub-prime mortgage crisis: Limited damage to Japanese bank's capital from sub-prime issues
 - Mainly externally driven slowdown
- The firewall between bank and securities firm still exists.
- Introduction of triangle mergers (May 2007)
 - More foreign companies look to expand in Japan
- J-SOX (SOX Japan Version) are effective since April 2008

2-1. Citi in Japan



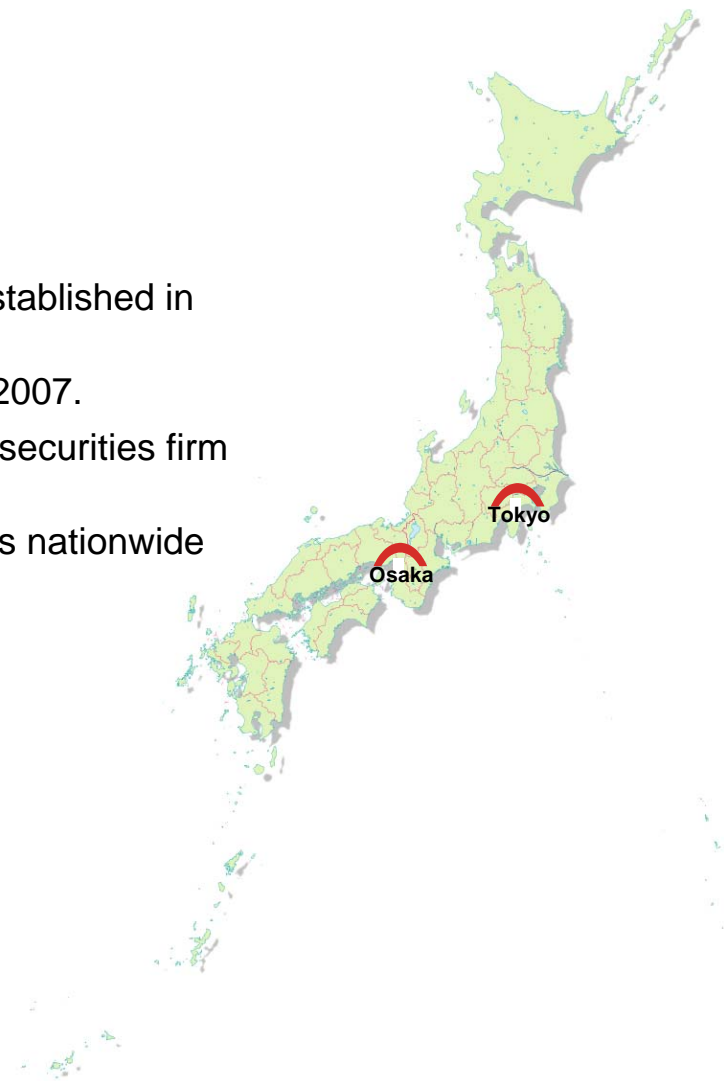
(As of April, 2008)



2-2. Citi in Japan

Commitment to Japan Market

- One of the oldest and largest foreign banks in Japan
- Citibank has over 100 years of presence in Japan (established in 1902 in Yokohama)
- First foreign bank in Japan became localized in July 2007.
- In 2007, Citi acquired Nikko Cordial, the third largest securities firm in Japan, by triangle merger.
- As of September 2007, Citibank has 1,962 employees nationwide (over 16,000 including Nikko Cordial Group).
- Capital: JPY 123.1 billion (as of Sep. 30, 2007)



2-3. Citi in Japan

Corporate Bank Division

- Service to companies and financial institutions with global reach
- Focus on meeting the unique needs of clients in each industry, bringing in the special expertise of Product Managers, with Citi's strong global footprint, premium products, and capital strength.



3-1. Doing Business in Japan

Account Opening

- Three types of accounts available in LCY/FCY for residents and non-residents
 - Current account: Non-interest bearing by regulation, JPY checkbook
 - Savings account: Interest bearing
 - Time deposits: onshore and offshore
- No special regulation for a representative office
- ID Verification Law requires Commercial Registration of the company and ID copy of its employee

Remittance of Dividends and Profits

- Foreign investors are permitted to remit distributed profits or revenue and other legal income to overseas
- Central bank reporting is required for outgoing and incoming payments exceeding JPY30 million

Repatriation of Capital

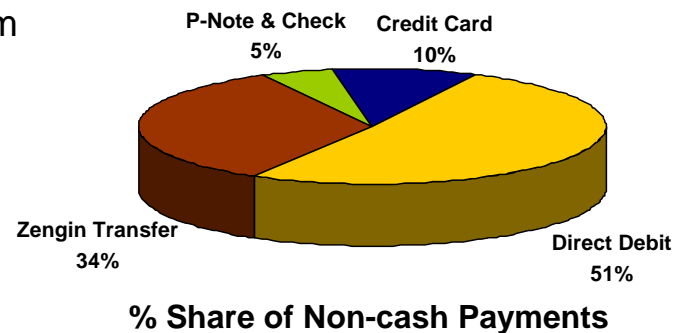
- The repatriation of capital is allowed in the case of business termination except certain industries
- Central bank reporting is required for cross-border capital movements exceeding JPY100 million

Country Clearing

- Zengin Clearing System
 - JPY domestic wire transfer network
 - Payments via electronic banking system, ATMs and at branch
- Foreign Exchange Yen Clearing System (FXYCS)
 - JPY payment or receipts involving non-residents
 - Foreign Exchange transactions among residents
- Bank of Japan Net (BOJ Net)
 - RTGS payments among financial institutions
- Clearing House
 - 185 clearing houses across Japan
 - Clearing of JPY checks, promissory notes, bills of exchange, foreign exchange receipts and travelers checks

3-2. Japanese Settlement Systems

- Settlement Systems
 - Resident Yen Settlement
 - **Zengin** – electronic real-time clearing system which is used for the majority of payments.
 - **BOJ-Net** – electronic real-time gross settlement system used between the banks.
 - Non-Resident Yen Settlement – **FX Yen Clearing System (Gaitame)** is used for any payments that involve a non-resident.
 - **Tokyo Clearing House** – Check and Bill (Promissory Note) clearing.
- Payment methods
 - Direct debit is the most common payments method for all regular consumer to business payments I.e. utility and rental payments etc.
 - Electronic payments are made real-time via Zengin System
 - Checks are uncommon
 - Promissory notes are preferred in certain industries
 - Credit card usage is lower than in other countries
 - Cash remains dominant in retail, leisure and insurance.



3-3. Tax and Regulatory Considerations

- Inter-company interest must be setup between the entities at arms-length pricing.
- The interest to be paid to a foreign entity from a Japan incorporated company is subject to withholding tax, the rates depending on tax-treaty and jurisdiction.
- If the account pays foreign withholding tax, “Foreign Tax Credit” may be applicable.
- Monthly Interest Re-allocation Report available from domestic sweep system can be used at client’s end to calculate and withhold necessary tax between resident and non-resident entity.
- Fund transfer in accordance with cross border (including to non-residents) target balancing service will invoke various reporting requirements under Foreign Exchange Law and subordinate regulations in Japan. For example,
 - Cross border non-trade movements over 30 million yen or equivalent must be reported to the Bank of Japan (BOJ) on “invisible report” forms.
 - Cross border capital movements over 100 million yen or cross border end-of-month balances over 100 million yen must be reported to BOJ by additional after-the-fact report.
- A Zero Balance structure that repetitively moves cash among companies may be viewed as constituting inter-company lending and hence subject to a registration requirement in Japan under Money Lending Business Law.

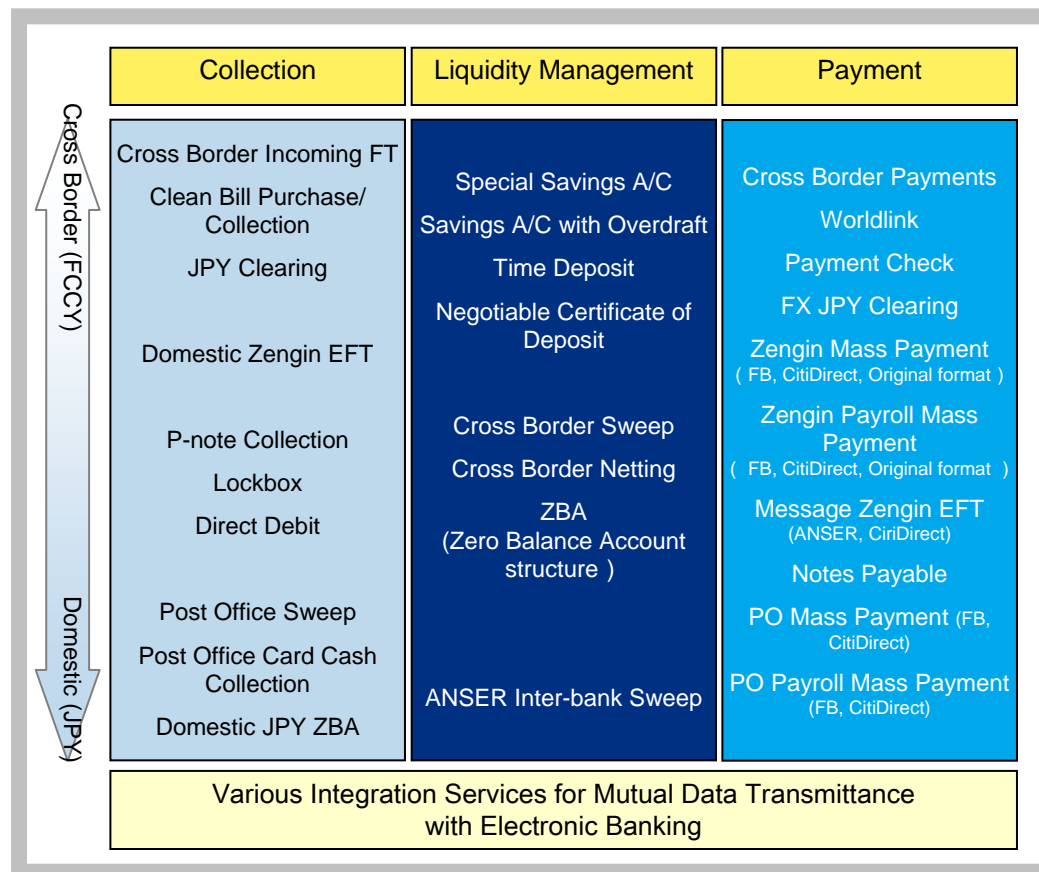
Remarks: Legal, tax, regulatory, and accounting policies should be consulted with the independent legal, tax and accounting advisors.

4-1. Solutions and Best Practices for MNC Treasury in Japan

MNC Requirements	Available Tools	
General Banking Solutions	<ul style="list-style-type: none"> • Cash Management <ul style="list-style-type: none"> – Receivables Management – Payables Management – Liquidity Management (pooling, netting, etc.) 	<ul style="list-style-type: none"> • Trade Finance/ Services <ul style="list-style-type: none"> – Supplier Financing – Customs Bond/ Bank Guarantees
	<ul style="list-style-type: none"> • Investments <ul style="list-style-type: none"> – FCY deposits – LCY deposits 	<ul style="list-style-type: none"> • FCY Risk Management <ul style="list-style-type: none"> – Forwards – Options – Derivatives (cross-currency swaps, etc.)
Working Capital and Funding Solutions	<ul style="list-style-type: none"> • Long Term (LCY/FCY) <ul style="list-style-type: none"> – Bank Loans (Bi-lateral, Syndication) – Private Placement – Euro MTN • Short-term (LCY/FCY) <ul style="list-style-type: none"> – Bank Borrowings – CP, Repo, etc. • Other Methods: <ul style="list-style-type: none"> – Corporate Finance (securitization, etc.) – Bond Issuance (global yen/ euro yen bonds, samurai bonds, etc.) 	

4-2. Citibank's Cash Management Solutions in Japan

- Citi in Japan covers full range of cross border and domestic solutions



4-3. Citibank's Trade Finance & Services Solutions in Japan

To Exporters/Suppliers

To Importers/Buyers

Trade Service

Traditional Service

- Export LC Advising
- Export Documents Direct Collection

Risk Hedge

- Export LC Confirmation, Stand By LC Confirmation
- Commitment Negotiation
- D/A without recourse
- Forfaiting

In-sourcing Service

- Export Document Collection/Preparation Service

IT Platform

- CitiDirect Platform (Will be live in 3Q 2008)

Traditional Service

- LC issuance
- Import Collection
- Trust Receipt / Shipping Guarantee
- Stand By LC / Guarantee Issuance
- Customs Bond Issuance

IT Platform

- CitiDirect Platform (Will be live in 3Q 2008)

Trade Finance

Global / Local Financing & Risk Hedge

- Account Receivable Purchase Credit Program (Supplier Centric)
- Distribution Financing

Local Financing & Risk Hedge

- P-Note without recourse purchase

IT Platform

- CitiConnect

Global / Local Financing & Risk Hedge

- Account Receivable Purchase Credit Program (Buyer Centric)
- Supplier Finance

Local Financing & Risk Hedge

- Import Loan (Hompo Loan)
- Banker's Acceptance

IT Platform

- CitiConnect

4-5. Key Challenges for Doing Business in Japan

- High cost of labor
- Language barrier
 - The main payments system ‘Zengin’ requires Japanese language input – however not all multi nationals have Japanese language ERP systems.
- Control and security of “Firm Banking”, a market standard electronic banking system
 - Data is not encrypted, authorization controls are weak, and passwords are static and frequently shared.
 - Frequently an internal audit issues for multi-national operating in Japan.
- Number of bank accounts
 - Many companies have numerous banking relationships as a result of historical ties or industry practice. Achieving efficient liquidity management whilst maintaining multiple banking relationships is a challenging task.
- Use paper-based payment instruments for Promissory notes
- Insufficient information for reconciliation
 - Inadequate payment information is conveyed through the Zengin system creating reconciliations difficulties and resulting in numerous customer inquiries

4-6. Solutions and Best Practices

- Shared Service Center and outsourcing solutions
- Usage of CitiDirect
 - Multi-language and remote access capabilities
 - Straight-through-processing (STP)
 - Enhanced security including encryption, changeable password, audit trail
- Sweeping tools for liquidity management
 - Domestic Multi-bank Sweep (ANSER)
 - Post Office Sweep
 - Zero Balance Account/ Cross Border Sweep
- Electronic payments in lieu of promissory notes
- Virtual accounts to facilitate reconciliations (identify remitters)

5-1. Case Study – Liquidity Management

Client: A major delivery company with over 1,000 employees and over 30 local branches across Japan

Need

- Efficient and cost-effective funding
- Maximize return on excess cash
- More transparency at the regional and global treasury center

Challenges

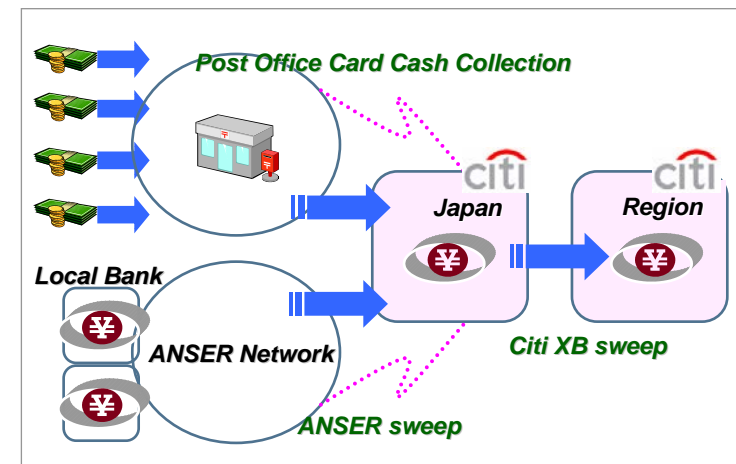
- Multiple bank relationships as a result of historical ties and proximity of the bank in case of hard cash deposit
- Psychological resistance from sales team to request changes of collection bank
- Low interest rate on JPY in case of long position
- Unexpected non-receipt of incoming funds

Solutions

- Request all customers to change the collection account to Citi
- Use ANSER to sweep the balance from other bank's accounts and use Post Office Card cash collection service to collect OTC (over the counter) cash by 30 local branches without opening accounts
- Sweep excess cash to client's cash pooling bank for investments
- Set up the just-in-case overdraft facility for unexpected non-receipt of funds or mis-funding

Results

- ✓ Accounts reduced from 40 to 3 and collection process is streamlined
- ✓ More transparency from Regional Treasury's perspective
- ✓ Maximized return on surplus by investing in higher interest currencies



5-2. Case Study – Virtual Account

Client: A major online search engine company with huge and increasing client base

Need

- Issues with collection process - need a quick and accurate method of reconciling customer's payment so that they can activate the service as soon as confirming the receipt of the funds.

Challenges

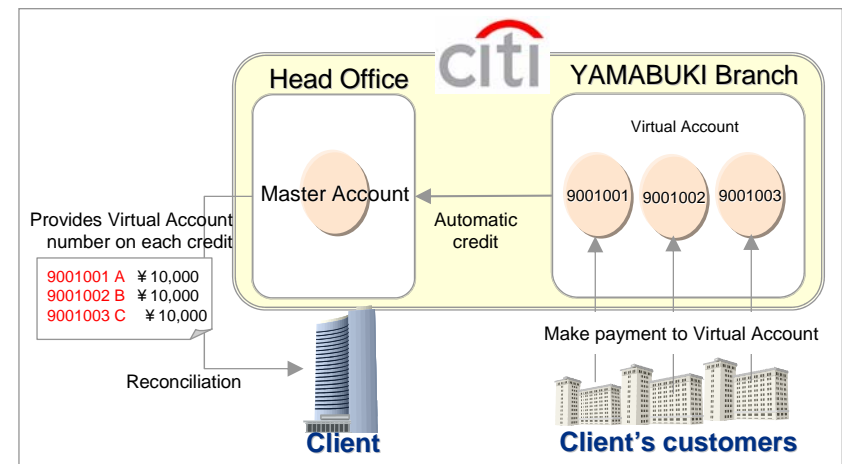
- Identifying difficulties – Insufficient description of remitter information in Zengin, Japanese clearing system
- Largely manual intensive reconciliation process

Solutions

- Virtual Account is opened under “YAMABUKI” Branch, a virtual branch.
- 7 digits virtual account number, unique to each customer, is assigned to each customer.
- Automatic reconciliation with the specific remitter account number.

Results

- ✓ Automated matching and reconciliation by using virtual account as matching key.
- ✓ Save time and cost on account receivables operations.
- ✓ Timely matching/ reconciliation to improve client service and efficient credit control.



5-3. Case Study – Supplier Financing scheme

Client: A large industrial conglomerate with multi-lines of businesses with manufacturing, sales, and distribution

Need

- Streamline manual processes of promissory note issuance and control
- Decrease cost – labor and stamp duty cost
- Enhance relationship with suppliers

Challenges

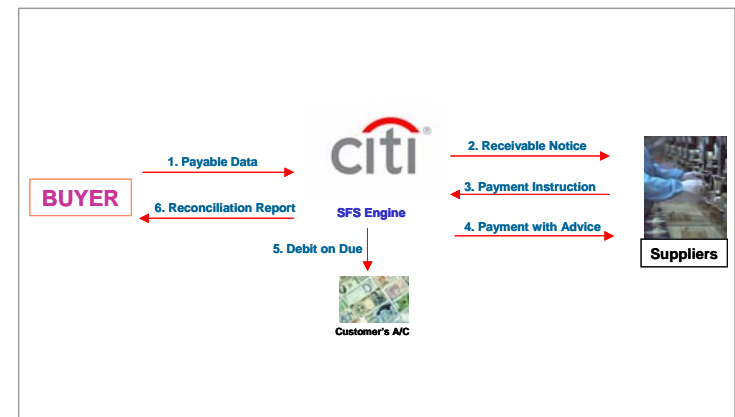
- Resistance from suppliers to keep paper-based notes
- The Subcontract Act, which protect small suppliers

Solutions

- Supplier financing scheme to replace manually issued promissory notes with electronic payments at maturity
- Worked with the client to produce payable data in CitiDirect

Results

- ✓ Improvement in the relationship with suppliers by providing funding source through discounting of receivables with Citi
- ✓ Elimination of Promissory notes issuance for the entire group companies in Japan (process improvement)
- ✓ Elimination of stamp duty and HR costs related with P-notes issuance and Management (estimated cost saving exceeds USD300,000 p.a.)



Leadership in Global Transaction Services

- Largest and most diversified foreign bank
- Strong and long commitment to Japanese market
- Excellent local capabilities with global network in dealing with MNCs
- Reputable trade bank among trading companies and financial institutions
- Unique alliance with Post Office which has 24,000 branch network across Japan



Q&A



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