



## FY2009 Kobe City IR Seminar Presentation

– FY2008 Results –



AA  
(Stable)



United Nations  
Educational, Scientific and  
Cultural Organization

City of Design  
**KOBE**

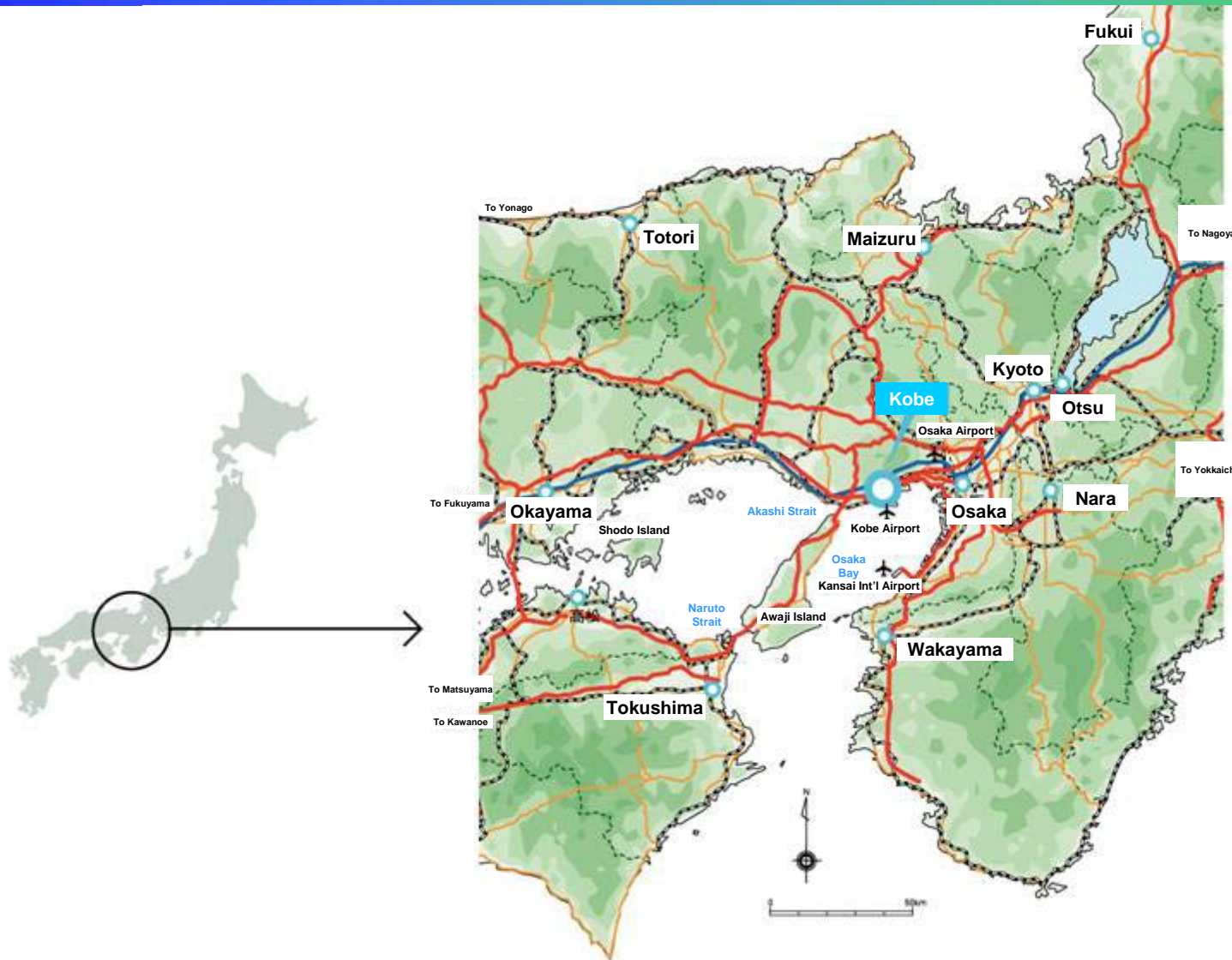
Member of the UNESCO  
Creative Cities Network  
since 2008

~ Table of Contents ~

# Kobe City of KOBESIO

<b><u>Table of Contents</u></b>	.. P 1	<b>Status of Four Fiscal Indicators</b>	.. P 12
<b>Overview of Kobe City</b>	.. P 3	<b>Post-quake Administrative Fiscal Reform Achievements</b>	.. P 14
<b>Social Infrastructure of Kobe City</b>	.. P 4	<b>Primary Balance Trends</b>	.. P 16
<b>The Benefits of Opening Kobe Airport</b>	.. P 5	<b>Management Reform of Extra-governmental Organization</b>	.. P 18
<b>Kobe Medical Industry Development Project</b>	.. P 6	<b>Improved Credit Rating and Financial Ranking</b>	.. P 20
<b>General Account Results FY2008</b>	.. P 9	<b>Funding Plans</b>	.. P 22
<b>Special Account Results FY2008</b>	.. P 10		
<b>Public Enterprise Account Results FY2008</b>	.. P 11		
		<b>Appendix</b>	
		<b>City Tax Revenue and Expenditure</b>	.. Appendix 1
		<b>Fiscal Indicators of Each City</b>	.. Appendix 2
		<b>System of Local Authority Bonds in Japan</b>	Appendix 3
		<b>Tax-Exemption for interest on transfer</b>	.. Appendix 4
		<b>Local authority bonds</b>	

# 1. Overview of Kobe City



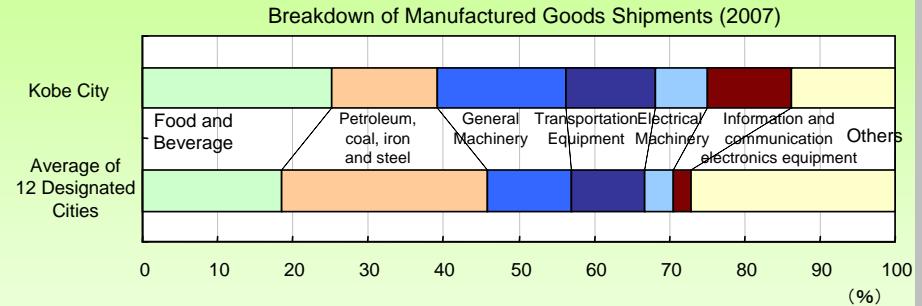
# Overview of Kobe City

## Overview

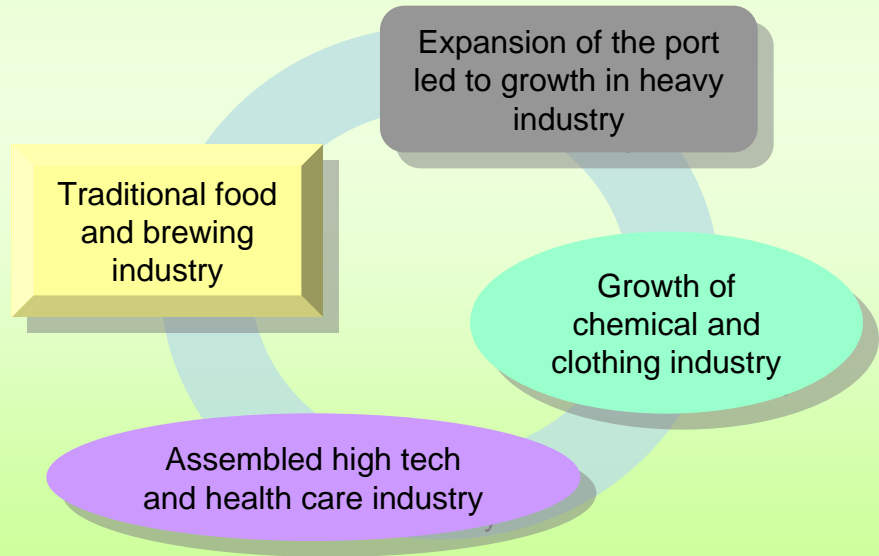
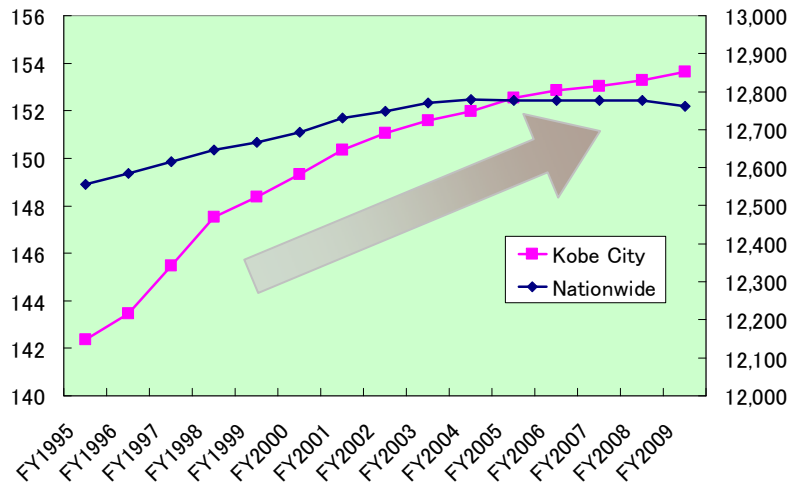
		Ranking among all 12 designated cities*
Land Area	552.80km <sup>2</sup>	6 <sup>th</sup>
Population	153.6mln	5 <sup>th</sup> (As of June FY2009)
GDP (Nominal)	6.02trn yen	7 <sup>th</sup> (FY2006)
Sea Imports / Exports	9.2trn yen	3 <sup>rd</sup> (2007)
Number of Establishments	72,788	6 <sup>th</sup> (2006)

## Industry

A good balance of light, heavy and high-tech industries



(10 thousands) **Record High Population Figures** (10 thousands)



\*The 12 cities reporting their statistics : Sapporo, Sendai, Chiba, Kawasaki, Yokohama, Nagoya, Kyoto, Osaka, Kobe, Hiroshima, Kitakyushu, Fukuoka

# ~ Social Infrastructure of Kobe City ~

- Well established transportation and social infrastructure (such as waterworks)
- Post-earthquake restoration and reconstruction is close to completion
- Companies are attracted to convenient industrial premises located in the waterfront and inland areas
- Extension of the Hanshin Expressway Project is in progress\*

## The Kobe City Transportation Network

Air	Kobe Airport	Links 5 domestic cities
Railway	Shinkansen (Bullet Train) Railway System	Japan Railways, private railways, subways and the new transportation system allow access in and out of the city
Toll Road	Expressway Networks	Expressway networks such as Hanshin, Sanyo, Chugoku, Kobe Awaji Naruto
Sea	Port of Kobe	Opened in 1868, the Port of Kobe operates as a gateway to around 130 countries and approx.500 ports



## The Social Infrastructure of Kobe City

Sewerage Systems	Rate of flush toilet service 99.7% 【Public sewerage system 98.5%】 (National Average 83.7% 【71.7%】)
Water works	Distribution rate 99.8% (National Average 97.1%)
Parks	Park area per capita 16.7m <sup>2</sup> ( Ranked 1 <sup>st</sup> among all designated cities)
Education	Total of 607 schools, including 20 Universities (Ranked 2 <sup>nd</sup> among all designated cities)

(Statistics as of FY2007)

\* The expansion of the Hanshin Expressway is currently being assessed in terms of urban planning and environmental impact  
Details such as operation, construction method, fiscal burden is to be decided

# ~ The Benefits of Opening Kobe Airport ~

The opening of Kobe Airport stimulated enterprise attraction greatly, and the city became increasingly convenient

<i>Kobe Airport</i>	2.74mln visitors (as of FY2006)	FY2008: <b>2.58mln visitors</b>
Opened in February 2006, recognized as highly convenient		
<i>Shinkansen (Bullet Train)</i>	2.55mln passengers (FY2005)	FY2007: <b>2.77mln passengers</b>
The fastest bullet trains all stop at Shin Kobe, the station was used by a record number of passengers in fiscal 2007		
<i>Port of Kobe</i>	2.26mln TEU (FY2005)	FY2008: <b>2.56mln TEU</b>
Rapidly restoring the competitiveness of the port following the 140 <sup>th</sup> anniversary of its opening		



## Attracting Businesses

- ◆ Achieved a **50ha** sell off of industrial premises within 3 years (Fiscal 2005-2007)

Number of companies in each location	Before airport opening	Present
Port Island (2nd Stage)	287	<b>370</b>
Medical Industry Development	83	<b>158</b>
Techno Logistic Park	56	<b>89</b>

\* Port Island 2<sup>nd</sup> stage includes 135 companies in Medical Industry Development Project

\* Current number comprises companies launched as of October 2009

## Other Positive Effects

- ◆ The world's fastest super computer is to be installed in Kobe, a city known for excellence and convenience as an education and research environment
- ◆ In April 2007, 3 new universities were opened on Port Island, students numbering around 8,000 are now gathered on Port Island

Influence on tourism	FY2005	FY2008
Hotel occupancy rate	68.4%	<b>75.1%</b>
Number of Tourists	27.3mln	<b>28.61mln</b>

# ~ Kobe Medical Industry Development Project ~

We have created an advanced medical technology and development complex on Port Island. In cooperation with industrial, academic and government organizations, we aim to have the largest “Bio Cluster” in Japan and to accumulate the world’s top tier research institutions and medical-related companies.

Goal: Accumulate 200 medical-related companies by the end of 2010

Future: Create a medical cluster in the City consisting of 500 companies



- (1) Research and development of medical devices
- (2) Support clinical research and trials of medicines
- (3) Clinical application of regenerative medicines

Build a new key industry  
Increase tax revenue and employment  
Improve healthcare standards

## Research Institutions

■ 11 institutions such as The Institute of Biomedical Research and Innovation, and the Translational Research Informatics center make up the core of the Medical Industry Development Project on Port Island.

■ The following facilities have recently been established: Hyogo University of Health Sciences, Kobe Gakuin University Faculty of Pharmaceutical Sciences, and Konan University's Frontier Institute of Biomolecular Engineering Research, and Faculty of Innovative Research in Science and Technology. Also, a Kobe University research institution will be in service from 2011.



## Next Generation Super Computer

- The fastest Super Computer in the world, created by RIKEN, is being constructed on Port Island, with partial operation commencing in 2010.
- The Super Computer will be used in many different fields, including; life sciences, nano-technology, manufacturing, aerospace, space engineering, disaster prevention, nuclear power and geo-environmental sciences.



Kobe was chosen from 15 sites nationwide owing to excellent; accessibility, education and research environments

Source: RIKEN

## Number of medical-related companies

(As of 7<sup>th</sup> Oct 2009) **158**

## Researchers and employees

**Approx. 3,000**

### <Medicine>

Daiichi Sankyo, Asubio Pharmaceuticals, Eisai KAN Research Institute, Boehringer Ingelheim Japan, Carina Bioscience

### <Medical Devices>

Panasonic Electric Works, GE Healthcare Japan, Siemens Japan, Sysmex, Fukuda Denshi, Mitsubishi Heavy Industry

### <Regenerative Medicine>

Olympus, Terumo, ArBlast

### <Healthcare>

Nichii Gakkan, Noevir, Fujicco, REVE21



## 2 . Account Results and Administrative and Fiscal Reform

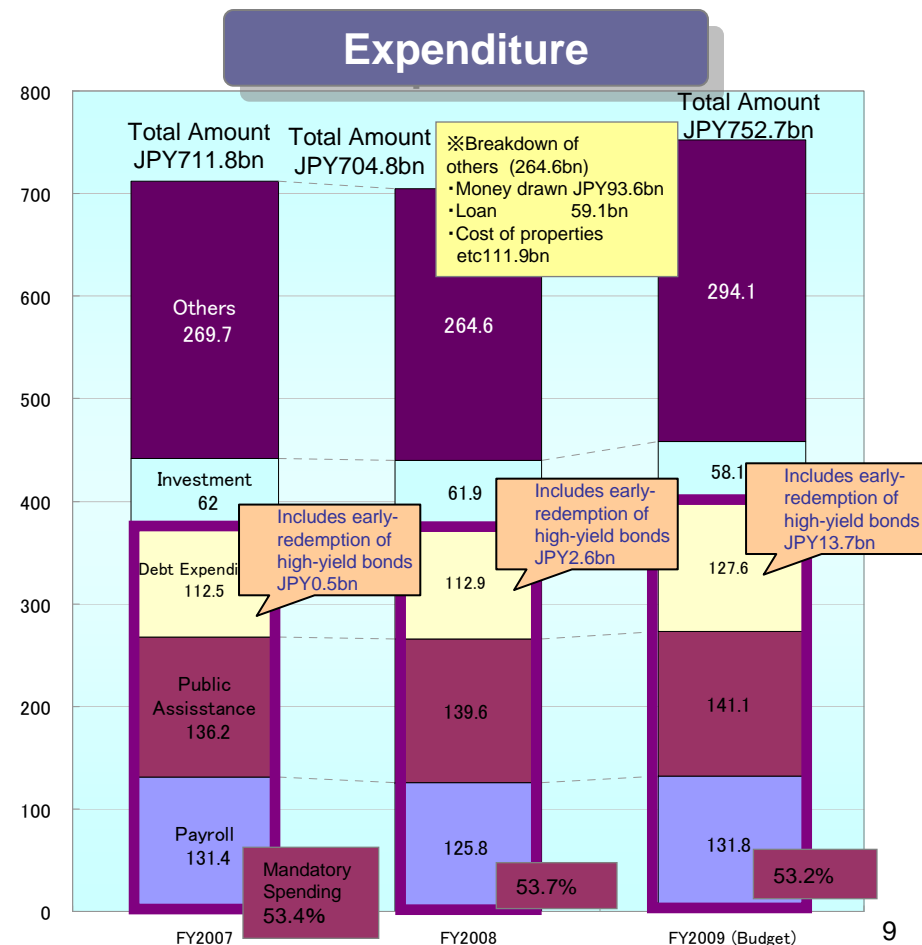
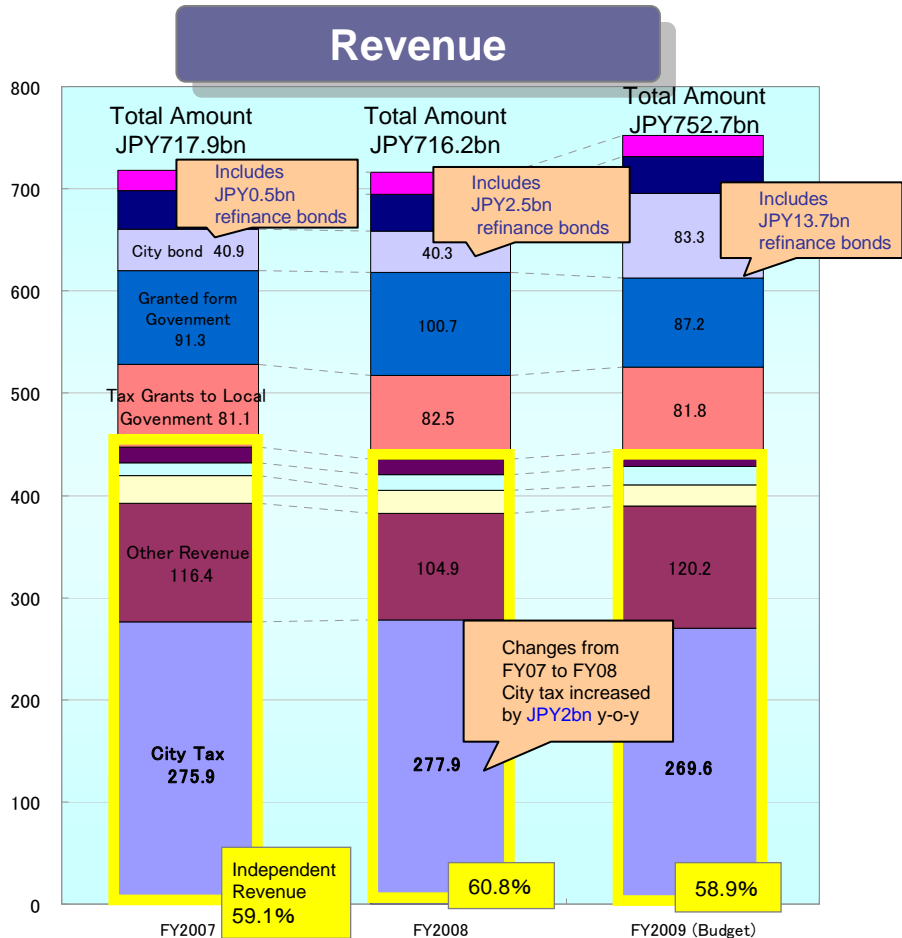


View of the City from Ikari Mountain

# ~ General Account Results FY2008 ~

Despite the difficult economic situation, the Independent Revenue Ratio was improved by the increase in tax revenue for 4 consecutive years

- [Revenue] City Tax Revenue made strong advances with the increase in **Individual Tax (+1.4bn yen)** and **Property Tax (+1.1bn yen)** exceeding the decrease in Corporation Tax (▲0.4bn yen).
- [Expenditure] Mandatory Spending Ratio was almost unchanged with the decrease of Payroll offset by the increase of Public Assistance



# Special Account Results FY2008

- 6 accounts including Airport Business were in surplus, all other businesses were balanced
- Public Debt Servicing and four insurance accounts make up 90% of the total expenditure/transfers to the General Account

Name of Special Account	FY2009 Budget		FY2008 Result		FY2007 Result	
	Expenditure	Transferred to General Account	Expenditure	Transferred to General Account	Expenditure	Transferred to General Account
Public Debt Servicing	4,023	1,276	3,807	1,129	4,494	1,124
National health insurance	1,476	133	1,452	136	1,501	166
Healthcare for the elderly	1	0	140	9	1,301	97
Care insurance	942	143	913	135	879	127
Geriatric care for latter-stage elderly	261	140	235	119	-	-
Market Business	41	5	44	2	51	2
Meat center	12	9	11	9	11	9
Workers' benefit	5	0	4	1	5	1
Agricultural insurance	3	1	2	1	3	1
Benefit/support for fatherless families/widows	2	0	2	0	2	0
Land acquisition for future development	1	0	1	0	5	0
Parking business	12	2	13	2	14	2
Rural community sewerage	14	9	21	9	19	9
Seacoast environment maintenance	18	4	19	4	131	8
Urban area redevelopment	133	83	127	83	157	65
City-provided housing	382	99	341	85	320	80
Airport maintenance	75	5	94	4	114	4
<b>Total</b>	<b>7,401</b>	<b>1,909</b>	<b>7,226</b>	<b>1,728</b>	<b>9,007</b>	<b>1,695</b>

## 【Airport Maintenance Business】

### <Operation>

- Maintenance of Kobe Airport

### <Results>

- Although landing fees decreased due to the partial suspension of Skymark's Haneda flights (one flight per day suspended in June, two flights per day suspended in July) and the JAL Kagoshima flights (suspended since February), cost reduction ensured a profit of 1.73mn yen

### <H1 FY2009 occupancy rate of Kobe Airport >

Total : 70.7%

(FY2007 : 67.0%、FY2008 : 67.8%)

By line : New-Chitose 73.5%, Haneda 71.4%, Kumamoto 44.5%、Naha 67.6%、Ishigaki 69.1%

(JPY100mln)

## ★Account Criteria

- In addition to General Accounts 17 Special Accounts and 8 Public Enterprise Accounts have been set up. \*There are 7 Public Enterprise Accounts since FY2009
- Special Accounts are established under Local Autonomy Law in order to meet the need for accounting for specific revenues and expenditures (those aside from the general revenues and expenditures under the General Accounts) for the purpose of carrying out specific business or otherwise financing specific expenses with specific revenue
- Public Enterprise Accounts are for business that are managed by independent profit systems (excluding the general account expenditures), which report in business accounting standards under Local Public Enterprise Law

# Public Enterprise Account Results FY2008

- 7 accounts in surplus due to cost reductions
- Improvements were made in the deficit accounts of Hospital Service and Rapid Transit Railway

## 【Hospital Service Account】

### <Operation>

- Operating Kobe City Medical Center General Hospital and West Hospital
- Became a local incorporated administrative agency on April 2009, splitting from the City's organization

### <Results>

- Management improvements, including increase of unit price of medical consultations and cost reduction of materials, resulted as a **surplus for the first time in 5 years**
- Aiming to balance results under the New Corporate Mid Term Plan (valid until 2013)

## 【Rapid Transit Railway Account】

### <Operation>

- Operating Seishin Yamate-line (since 1987) and Kaigan-line (since July 2001)

### <Results>

- Increase of passengers and capex reduction improved both lines' results (Seishin Yamate-line: 4 consecutive years, Kaigan-line: from its opening)
- Steady surplus of Seishin Yamate-line exceeded the deficit of the relatively new Kaigan-line, mainly due to their capital cost burden, therefore total results have improved.

Account	Operation	FY2009 P/L (Budget)	FY2008 P/L (Result)	FY2007 P/L (Result)
Sewage System Account	Sewage disposals	3	16	31
Port and Harbor Account	Management and operation of Port of Kobe	23	34	75
Urban Development Account	Development and allotment of sales of reresidential and real estate	17	33	33
Hospital Service Account	Operation of civilian hospitals	-	3	△ 10
Automotive Business Account	City bus services	△ 3	2	3
Rapid Transit Railway Account	Subway services	△ 14	△ 14	△ 30
Water works Account	Waterworks	3	8	9
Industrial Waterworks Account	Waterworks for companies	1	4	3
<b>Total</b>		<b>30</b>	<b>86</b>	<b>114</b>



Municipal Subway Kaigan-line  
(Yumekamome)

### 【Municipal Subways' Results】

FY2007 result  
Seishi Yamate  
-line  
+JPY3.8bn  
Kaigan-line  
△JPY6.8bn

FY2008 result  
Seishin Yamate  
-line  
+JPY5.1bn  
Kaigan-line  
△JPY6.5bn

(JPY100mln)

## Kobe City's Fiscal Indicators stand well below the Early Warning Limit

### Real Deficit Ratio (General Account / Consolidated)

- ◆ General Accounts have remained in line with the existing balance ratio
- ◆ Local public enterprises' negative net worth are included in "Consolidated real deficit ratio"

Not applicable for both

General Accounts / Consolidated (No Deficit) (JPY100mIn)

Account	Operations	Deficit/Surplus
General Account	Includes housing, airport	+2
Special Accounts	Nursing-care insurance etc	+30
Sewage System Account	Sewage disposals	+186
Port and Harbor Account	Management and operation of Port of Kobe	+666
Urban Development Account	Development and allotment of sales of residential and real estates	+437
Hospital Service Account	Operation of civilian hospitals	△28
Automotive public enterprise account	City bus services	△12
Rapid Transit Railway Account	Subway services	-
Waterworks Account	Waterworks	+66
Industrial Waterworks Account	Waterworks for companies	+8

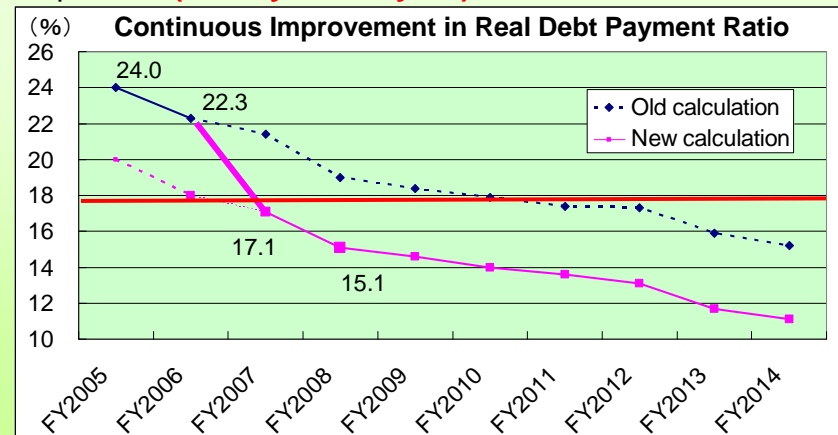
Since Waterworks, Port and Harbor Account surplus exceeds Hospital Service / Automotive Public Enterprise Account deficit, no consolidated negative net worth is recognized

### Real Debt Payment Ratio

- ◆ Decline in outstanding city bonds
  - ◆ Debt Service Ratio contributed to better
  - ◆ "Urban Planning Tax" was appropriated for debt expenditure deductions from FY2007
- ⇒ Transferred to "Informed & Consult" Status (Below 18%)

FY2006	FY2007	FY2008	3-years Average
16.6	14.6	14.3	15.1

By reducing outstanding city bonds, in line with our Fiscal Reform Plan, Real Debt Payment Ratio had strongly improved! (△2% year-on-year)



# ~ Four Fiscal Indicators and Consultation System ~

- Under the new Law Relating to the Fiscal Consolidation of Local Governments, the four indicators give a broader and faster insight of local governments' fiscal conditions
- To secure fiscal soundness, local governments with Real Deficit Ratios over 18% require prior approval from the Ministry of Internal Affairs and Communication

Fiscal Indicators	Definition	Early Warning Limit	Reconstruction Limit
Real Deficit Ratio	Ratio of deficit (including general account) to the local government's standard fiscal scale	Prefectures: 3.75% Municipalities: 11.25-15% (Subject to fiscal size)	Prefectures: 5% Municipalities: 20%
Consolidated Real Deficit Ratio	Consolidated deficit of all accounts to the local government's standard fiscal scale	Prefectures: 8.75% Municipalities: 16.25-20% (Subject to fiscal size)	Prefectures: 15% Municipalities: 30%
Real Debt Payment Ratio	Debt payments by general revenue to the local government's standard fiscal scale	25%	25%
Future Burden Ratio	Outstanding debt (including future burdens of public enterprises, government affiliates) to the local government's standard fiscal scale	Prefectures/designated cities: 400% Municipalities: 350%	

## Consultation System for Issuing Bonds

### Above 25%: Limited Issuance with Approval

Bonds/Loans issuance by local governments with Real Deficit Ratios over 25%, are limited or rejected by MIC (Ministry of Internal Affairs and Communication) subject to certain projects

### Above 18%: Issuance with Approval

Bonds/Loans issuance by local governments with Real Deficit Ratios over 18%, are required to submit "Debt Management Plan" and to be approved under the general rules

### Below 18% : "Inform and Consult" Status

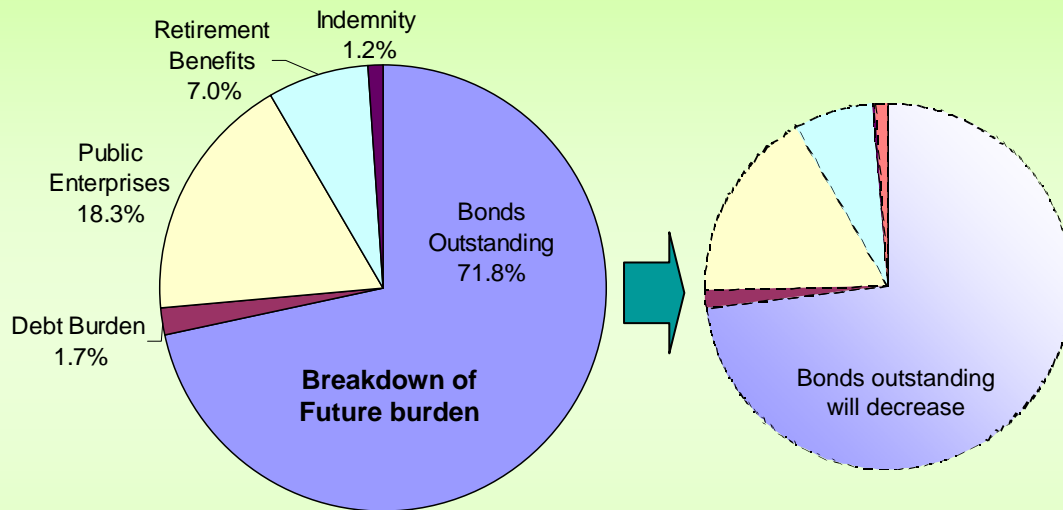
Bonds/Loans issuance by local governments below 18% of Real Deficit Ratio are expected to obtain consent under the general rules from MIC. However, they are also able to issue bonds without consent, given prior report to the Assembly

## Future Burden Ratio

### ◆ Future burden for Local Government

**176.6%**

(Well under the Early Warning Limit of 400%)



### Reasons behind the future burden ratio being lower than the current Debt Service Ratio (current debt outstanding / annual revenue)

- ◆ Bonds related to the earthquake restoration are covered by tax reimbursed from the government (Therefore the financial strength indicator and ratio of recurring profit are deteriorating)
- ◆ Major public enterprises, such as the waterworks and the port and harbor account have performed well
- ◆ Under the administrative and fiscal reform guidelines, reorganization of affiliated entities were implemented

Public Enterprise Burden		(JPYbn)	
Market business	1.2	Port and Harbor	74.9
Meat center	3.8	Urban Development	0
Parking business	0.8	Hospitals	11
Rural community sewerage	12	Automotives	0.8
Seacoast environment maintenance	2.6	Rapid Transit Railway	69.6
Urban area redevelopment	76.1	Waterworks	0.2
Sewerage	63.5	<b>Total</b>	<b>316.5</b>

\*Tax grant revenues will be deducted from the total in the actual future burden

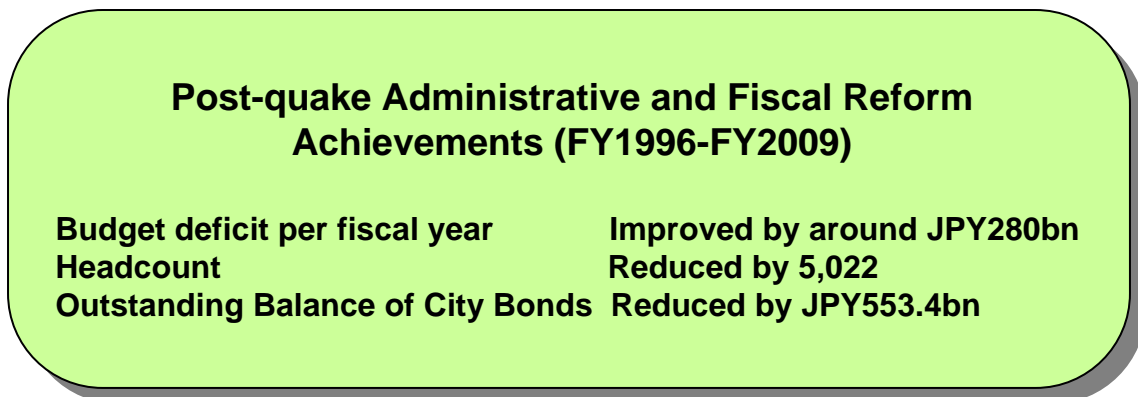
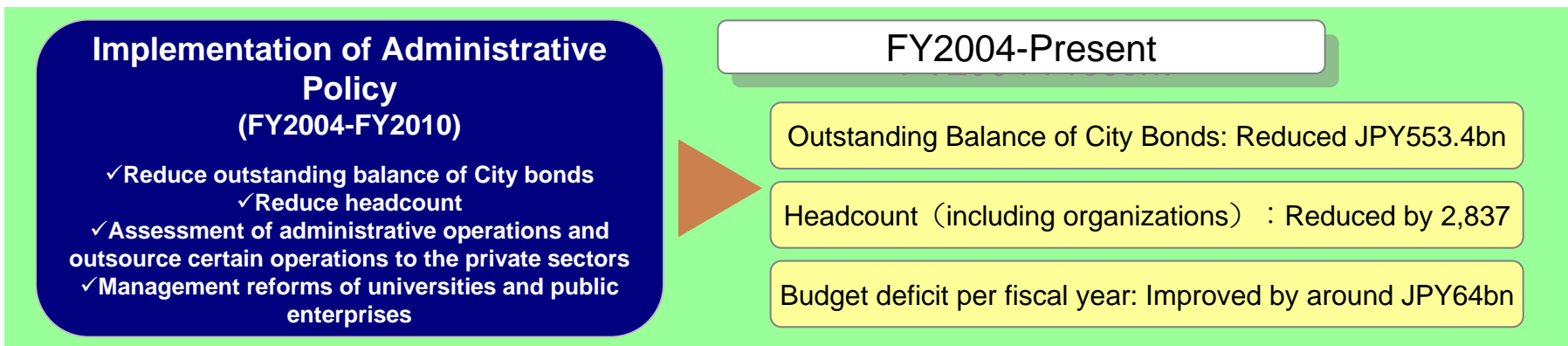
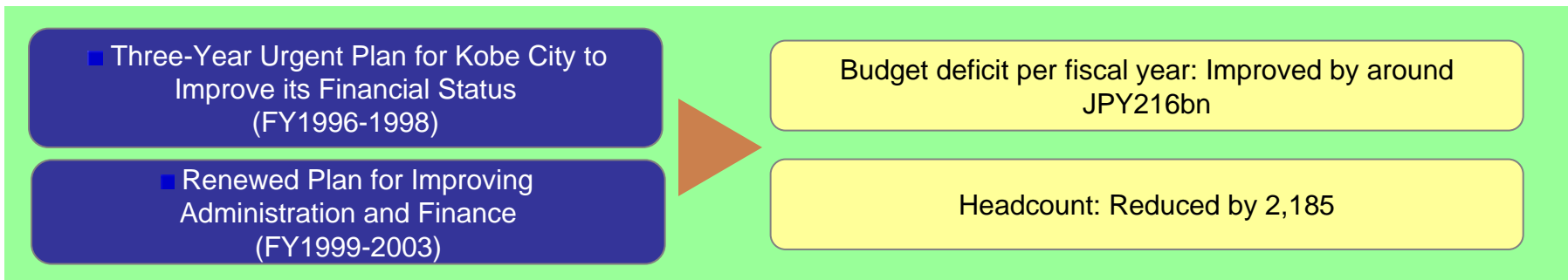
Compensation Burden for losses of the Third Sector		(JPYbn)	
Roads Corporation	0	Foundation for Biomedical Research and Innovation	2.3
Land Development Public Corporation	2.6	Zaitaku Care Institute	0.1
University of Foreign Studies	0	Housing Supply Corporation	9
Kobe New Transit	0.6	Air Terminal	0.3
Kobe Rapid Transit Railway	0.9	Port Terminal Corporation	2.4
Social Welfare Promotion Association	0.1	<b>Total</b>	<b>18.3</b>

\*Multiplying outstanding amount of compensation for each organization by the multiple determined by each financial statement  
\*Additionally, compensation burden for directed credit program is JPY2.7bn

Since FY1997, the primary balance has continued to be positive and these administrative and fiscal reform implementations are reflected in the fiscal indicators



# Post-quake Administrative Fiscal Reform Achievements

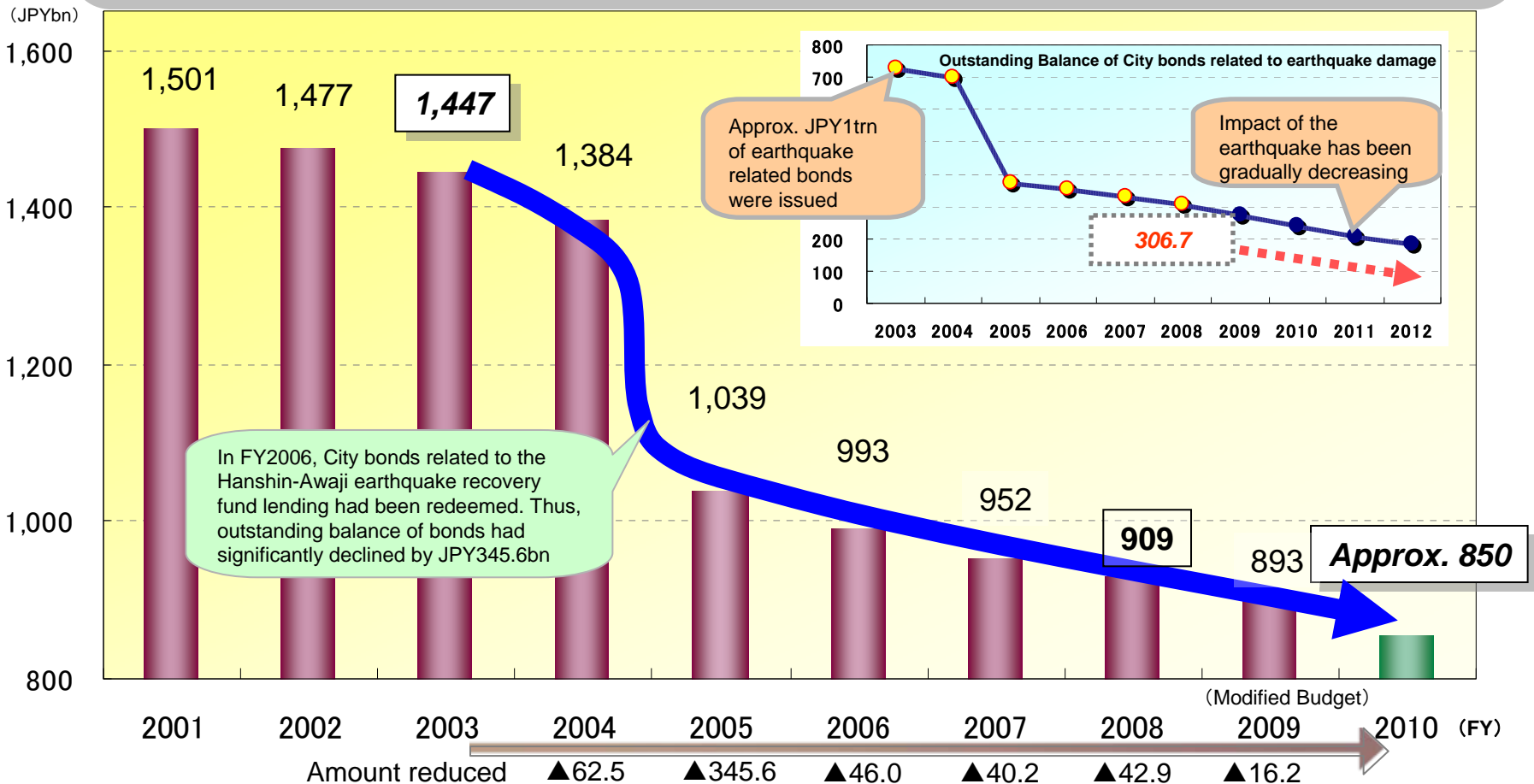




# ~ Acceleration of Further Reform ~

## Further Reduction of outstanding City Bonds ahead of the reform plan

- ✓ In the past 6 years (FY2004-2009) the outstanding balance of City Bonds has been **reduced by JPY553.4bn**  
 ⇒ **Initial target of reducing JPY500bn of City bonds was accomplished two years ahead of schedule**  
\*Bond fund savings exempted from total of outstanding bonds
- ✓ On top of the reform target of JPY500bn, **further reduction of approx. JPY100bn was accomplished**

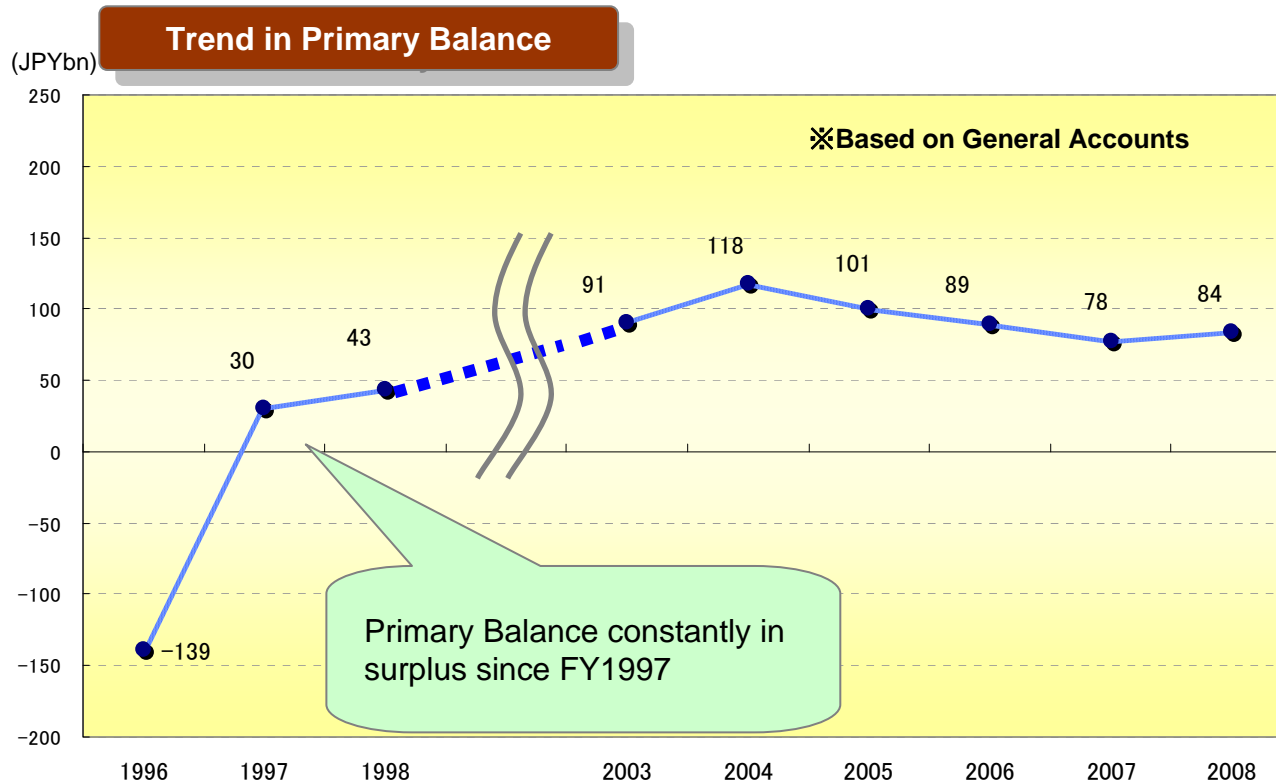


# Primary Balance Trends

- We carefully manage new borrowings in order to keep the Primary Balance in surplus
  - ※ (**Surplus for 12 consecutive years** since 1997)
- We maintain our ranking as one of the best designated cities in terms of the Primary Balance and dependence on bonds

※ Primary Balance is the difference between expenditure (excl. debt interest/redemption payment) and revenue (excl. newly issued debt). This is one of the fiscal indicators. A surplus in the Primary Balance shows that 1 year of revenue covers 1 year of expenditure, thus leaving no burden for the next generation

※After the budget of FY1999, the issuance of unsubsidized general public works bonds to local government-financed businesses was suspended. This in turn reduces public investment and leads to a reduction in the outstanding balance of city bonds



< Indicator comparison with other designated cities >

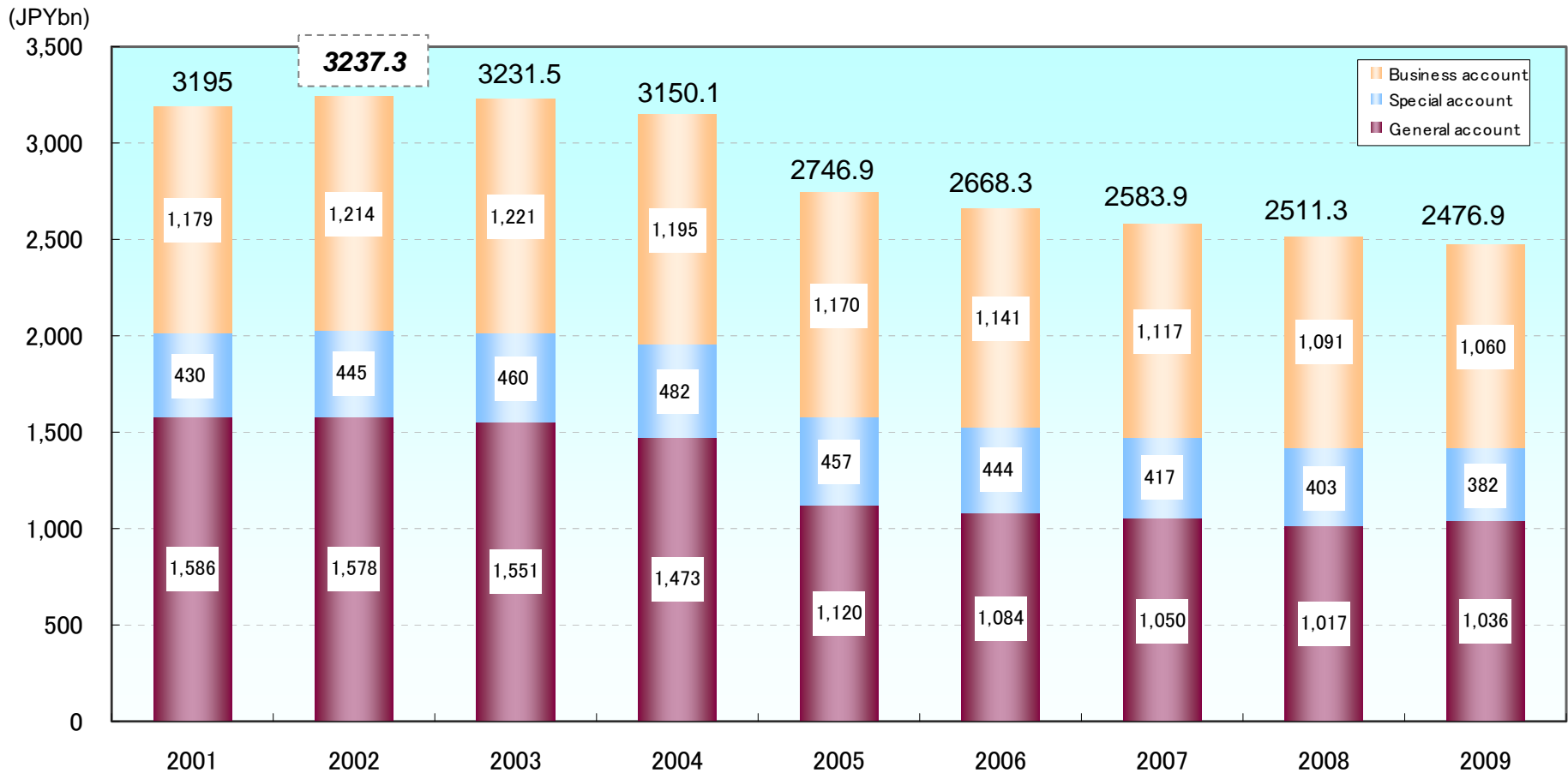
		2007	2008
Actual Debt Payment Ratio (3-years average)	Ratio (%)	17.1	15.1
	Rank	14 <sup>th</sup>	12 <sup>th</sup>
Primary Balance/Standard fiscal size (Based on General Accounts)	Ratio (%)	24.3	25.0
	Rank	1 <sup>st</sup>	1 <sup>st</sup>
Outstanding debt/the number of civilian (Based on General Accounts)	Amount outstanding (thousands yen)	687	663
	Rank	9 <sup>th</sup>	9 <sup>th</sup>
Dependence on bond issuance (Based on General Accounts)	Ratio (%)	6.8	6.6
	Rank	2 <sup>nd</sup>	2 <sup>nd</sup>

※Ranked among 17 cities in 2007, and 18 cities in 2008

# ~ Steady Reduction of Outstanding Bonds ~

● Outstanding debt of all accounts steadily reducing after the peak of FY2002

《 Outstanding Debts Trends (All Accounts) 》



After the earthquake, we worked on reforming extra-governmental organizations and succeeded in reducing the number of organizations in deficit

- Radical reform to accommodate social environment changes was effected, and 18 organizations were abolished through merger and abolition
- Kobe Extra-Governmental Organization Reform Committee was established and reform plans have been started

## Achievements

### < Introducing External Evaluation >

- Established "Extra-governmental Organization Evaluating Committee" in Nov 2002

### < Realignment Organization >

- Conducted mergers and abolished organizations by privatizing or reviewing business based on external evaluation

	FY 1995	FY 2008
Organizations in deficit	28	15
Total number of organizations	64	46



## Kaijo Access Co., Ltd

### < Operation >

- Marine transportation between Kobe Airport and Kansai International Airport
  - 29 minutes by high-speed ferry

### < Results >

- The deficit was greatly improved by an increase in passenger numbers and cost reductions, although the cost of fuel was rising  
FY2007 △JPY265mln → FY2008 △JPY6mln
- We aim for balanced results in FY2009

### < Passengers >

(In thousands)	FY2007	FY2008
Passengers	310	350

## Kobe Minorino Corporation

<http://www.kobewine.co.jp/>

### < Operation >

- Production and sales of Kobe Wine, management of recreational sites including Rokkosan Pasture and Sea Fishing Park, as well as enhancing agriculture and fisheries

### < Results >

- Retained earnings increased driven by improvement of wine business  
FY2007 6mln → FY2008 17mln yen
- Expanding sales channel through the internet etc.

### < Bottle Sales >

(In thousands)	FY2007	FY2008
Sales	430	560

## 3. Kobe City Funding Plan



## Efforts in fiscal reform have led to improvements in the Credit Rating and Financial Ranking

- In Jan. 2007, we were the first to obtain an “AA (Stable)” Credit Rating among local governments which issue municipal bonds.
- Reform of the Public Enterprise Accounts and Extra-Government Organizations, which are observed closely by ratings agencies, will continue.
- Under the newest objective indicator, the Financial Ranking, we obtained rank 2. (1: best, 4: worst)

### Changes in R&I Credit Rating

Before 2006 : op Rating  
(Unsolicited Rating)

**AA-**

“Has a high level of debt following the effects of the earthquake”

Jan 2007 : Rating upon Request

**AA** (stable)

“The City’s fiscal position is showing visible improvement”

May 2009 : Regular Rating Affirmed

**AA** (stable)

“Financial positions have favorably recovered”

#### ☆ Rating criteria

- Fiscal Balance/Debt Levels
- Economic Strength
- Status of Public Enterprises
- Course of Fiscal Policy

⇒“Debt level is recovering to a level comparable to that of other designated cities and financial balance is eminently good”

⇒“Projects such as the Medical Industry Development Project are working successfully so far while adapting to the changes in the industrial environment, thus the independent revenue ratio has recovered to the average level of all designated cities”

⇒“Public Enterprise Accounts are kept in surplus. Close attention shall be paid to the collection of funds”

⇒“Under the leadership of mayor Tatsuo Yada, who has stated his commitment to maintaining the primary balance surplus and has made known his strong determination to reduce the outstanding municipal debt, R&I believes Kobe City will continue to improve the city’s financial condition while it implements economic measures”

## Improvement of Financial Rankings

New Financial Rankings give a subjective assessment of a municipality's finances based on their results, while rating agencies include quantitative factors, such as interviews with senior leaders. The New Financial Ranking, which was first introduced in Dec.2008, expanded the factors evaluated to include public enterprises and Joint Third Sectors

	Old Rank	New Rank	Notch
Kobe City	Ⅳ	2	+2
Sapporo City	Ⅱ	2	—
Sendai City	Ⅱ	2	—
Chiba City	Ⅲ	4	△1
Tokyo Metropolitan Government	Ⅰ	1	—
Kawasaki City	Ⅱ	1	+1
Yokohama City	Ⅰ	1	—
Nagoya City	Ⅱ	2	—
Kyoto City	Ⅲ	4	△1
Osaka City	Ⅴ	4	+1
Hiroshima City	Ⅲ	4	△1
Kitakyushu City	Ⅳ	4	—
Fukuoka City	Ⅳ	4	—

Kobe City is the only city which improved its Financial Ranking by 2 notches from Sep 2005 to Jan 2009 (among all prefectures, only Nagano Prefecture improved by 2 notches)

## R&I Rating Information Report published in August

Through its Administrative and Fiscal Reform, Kobe City outplays its peers.

Credit improved promptly and its current level is by no means inferior to the rating of AA.

Through a series of well-planned administrative and fiscal reforms which the City initiated aggressively, its **primary balance has been kept in the black** since FY1997 and its fiscal balance such as adjusted single fiscal year balance ratio is **well above the average of all prefectures and designated cities.**

The debt repayment period is 7.8 years, which is almost the same as the average of designated cities (7.6 years) on an Ordinary Account basis.

Under the leadership of mayor Tatsuo Yada, who has stated his commitment to maintaining the primary balance surplus and has made known his strong determination to reduce the outstanding municipal debt, R&I believes Kobe City will probably continue to improve the City's financial condition at earlier pace than other designated cities while it implements economic measures. R&I expects Kobe City to continue to improve their financial condition steadily.

### Debt Repayment Period (substantial debt outstanding/solvency)

※ Criteria which is used in financial evaluation by Ministry of Finance and in ratings of R&I

	FY2003 Results	FY2009 Results	
Kobe City	9.5	7.8	-1.7

Financial improvement has been proved by objective criterion

# ~ Funding Plans ~

~ Kobe City will maintain close dialogue with investors in its funding practice ~

- ✓ Since FY2008 all transactions are structured and issued through Syndicated Deals  
⇒ To respond to investor demand/communicate with the market to achieve fair pricing
- ✓ Group presentations and one-on-one meetings held proactively

## FY2009 Issuing Schedule

※"Added Unit" will be used to increase the issue size. Timing is subject to trends in interest rates and/or investor demand

※Plan to issue approx. JPY30bn conventionally and JPY24bn of high-yielding refinance bonds in private placement format

(JPYbn)

	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Total
<b>5yr Bond</b>	10												10
<b>10yr Bond</b>	10						10						20
<b>20yr Bond</b>	10						10						20
<b>30yr Bond</b>	10												10
<b>Added Unit</b>	20												20
<b>Joint Local Gov't Bond</b>	3	3	4	3	3	4	3	3	4	3	3	4	40
<b>Total</b>													120

## FY2008 Issuance Results

※ 20yr bond had used 10bn of the Added Unit to respond to investor demand and increased the issue size to 20bn on Apr.

Also issued 10yr bond in Jun and 30yr bond in Sep

※ We started to issue bonds at par (coupon calculated to three decimal places) from 30yr bond issued in Sep

Tenor	Coupon (%)	Offer price	Issue Amount (JPYbn)	Issue Date	Pricing Date
5yr	0.598	100	10	18 <sup>th</sup> Dec	9 <sup>th</sup> Dec
10yr	1.69	99.98	10	12 <sup>th</sup> Jun	3 <sup>rd</sup> Jun
20yr	2.28	99.96	20	28 <sup>th</sup> Apr	17 <sup>th</sup> Apr
30yr	2.391	100.0	10	25 <sup>th</sup> Sep	11 <sup>th</sup> Sep





# KOBE 鉄人 PROJECT

18m tall statue of Gigantor  
built in Shin Nagata, Kobe  
Completed

For any inquiries, please contact:

Bond Finance Section, Finance Department,  
Administration and Finance Bureau,  
Kobe City

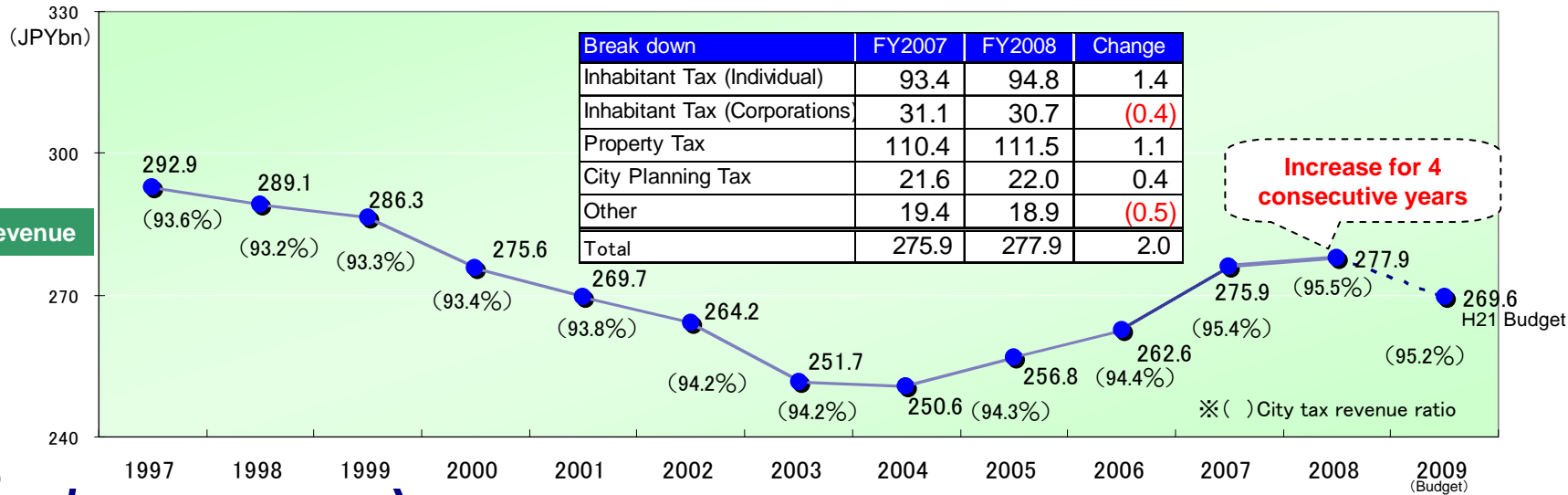
Phone: +81-78-822-5137  
6-5-1 Kano-cho, Chuo-ku, Kobe City

(C)HIKARIPURO/KOBE TETSUJIN PROJECT2009

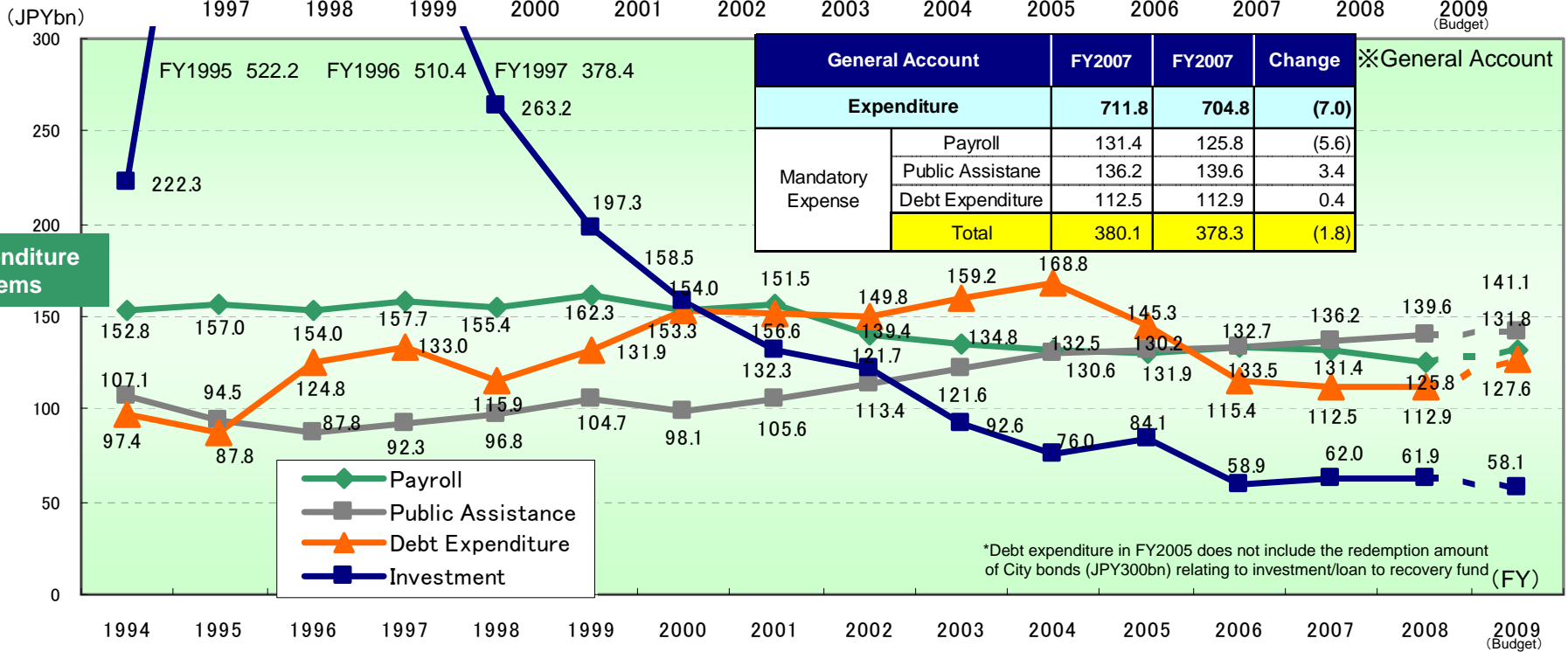
<http://www.City.kobe.lg.jp/information/about/financial/index.html>

# Appendix – City Tax Revenue and Expenditure

## City Tax Revenue



## Expenditure By Items



# Appendix – Fiscal Indicators of Each City

## Ordinary Balance Ratio

## Financial Capability Index

## Consolidated Real Deficit Ratio

## Real Debt Payment Ratio

## Future Burden Ratio

※ 3 year Average

※ 3 year Average ,( ) shows change from last FY

※ ( ) shows change from last FY

Hamamatsu City	86.1
Niigata City	88.0
Saitama City	88.3
Shizuoka City	90.9
Fukuoka City	93.1
Okayama City	93.6
Kawasaki City	94.2
Sakai City	94.6
Yokohama City	94.7
Hiroshima City	96.2
Chiba City	96.3
Sendai City	96.7
Nagoya City	96.8
Kyoto City	97.0
<b>Kobe City</b>	<b>97.3</b>
Sapporo City	99.0
Osaka City	99.2
Kitakyushu City	99.5
<b>Average</b>	<b>94.5</b>

Kawasaki City	1.08
Nagoya City	1.048
Saitama City	1.033
Chiba City	1.022
Yokohama City	0.998
Osaka City	0.955
Hamamatsu City	0.932
Shizuoka City	0.919
Sendai City	0.851
Fukuoka City	0.842
Sakai City	0.814
Hiroshima City	0.803
Okayama City	0.777
Kyoto City	0.751
<b>Kobe City</b>	<b>0.722</b>
Niigata City	0.713
Kitakyushu City	0.706
Sapporo City	0.692
<b>Average</b>	<b>0.87</b>

Sapporo City	-
Sendai City	-
Niigata City	-
Saitama City	-
Chiba City	-
Kawasaki City	-
Yokohama City	-
Shizuoka City	-
Hamamatsu City	-
Nagoya City	-
Osaka City	-
Sakai City	-
<b>Kobe City</b>	<b>-</b>
Hiroshima City	-
Kitakyushu City	-
Fukuoka City	-
Kyoto City	8.63
<b>Average</b>	<b>-</b>

Sakai City	6.9(Δ0.2)
Saitama City	7.9(Δ0.4)
Kitakyushu City	8.0(+1.7)
Osaka City	10.7(Δ1.1)
Sapporo City	10.8(±0.0)
Niigata City	11.2(Δ0.3)
Kyoto City	12.0(Δ0.9)
Sendai City	12.2(Δ1.4)
Shizuoka City	12.2(+1.0)
Hamamatsu City	12.8(Δ0.1)
Nagoya City	13.5(Δ0.6)
<b>Kobe City</b>	<b>15.1(Δ2.0)</b>
Kawasaki City	15.6(Δ0.7)
Hiroshima City	15.6(Δ0.5)
Okayama City	17.6( - )
Fukuoka City	17.8(Δ0.6)
Chiba City	20.1(+0.5)
Yokohama City	20.2(Δ0.4)
<b>Weighted Average</b>	<b>13.8(Δ0.4)</b>

Saitama City	60.6(Δ11.5)
Sakai City	81.1(+10.4)
Hamamatsu City	89.9(Δ34.4)
Shizuoka City	116.7(+8.5)
Kawasaki City	133.9(Δ13.4)
Niigata City	136.2(Δ0.8)
Sapporo City	147.2(Δ9.7)
Okayama City	154.0( - )
Sendai City	169.8(+10.4)
Kitakyushu City	171.8(+7.9)
<b>Kobe City</b>	<b>176.6(Δ0.9)</b>
Nagoya City	224.9(Δ5.5)
Kyoto City	240.0(+5.4)
Osaka City	245.7(Δ18.1)
Fukuoka City	254.0(Δ5.6)
Hiroshima City	256.4(+0.6)
Yokohama City	261.1(Δ31.6)
Chiba City	309.6(Δ2.0)
<b>Weighted Average</b>	<b>198.4(Δ10.3)</b>

※ Kobe City single year **0.733**

※ Kobe City single year **14.3**

# System of Local Authority Bonds (LAB) in Japan

## Mechanism of Principal & Interest (P&I) repayment assured

### Securing of financial resources for repayment of P&I

- ✓ Obtain local tax revenue based on the right of taxation
- ✓ Budget expenditure for public bonds (for P&I repayment) as a part of annual expenditure in budget proposals
- ✓ Obtain a level of local allocation taxes enough to match the annual expenditure including expenditure for public bonds with the revenue
- ✓ Include a part of LAB P&I repayment fund into standard financial needs in calculation of local allocation taxes

⇒ The national government secures financial resources for repayment of LAB P&I

### Bond issuance permission system as a prompt corrective action

- ✓ Restriction of issuance on local authorities with real debt expenditure ratio  $\geq 18\%$
- ✓ Restriction of issuance on local authorities with deficit

⇒ The system aims to avoid problems in repayment of LAB P&I by each local government authority

### Action to take if real deficit exceeds a prescribed level=Financial Reconstruction

- ✓ Financial reconstruction under state control  
Consultation with and consent of national government is required on it
- ✓ Annual budget must be adjusted in accordance with the reconstruction plan

⇒ Repayment is assured because the national government will be involved in budget-making

## Outline of tax-exemption for interest on LAB payable to non-residents, etc.

▶ The following revisions are applicable to interest on transfer LAB payable after January 1, 2008

- ① For interest on transfer LAB payable to non-residents or foreign legal entities, income tax or corporate tax shall not be imposed if application of tax-exemption application submitted for withholding exemption as in the case of transfer national bonds
- ② Preferential measures shall be prescribed for those already submitted application of tax-exemption for interest on transfer national bonds – they should automatically obtain tax-exemption for interest on transfer LAB under certain conditions

## ▶ Transfer local authority Bonds

- A new system of transfer of LAB: By book-entry of increase/reduction of the balance into ledger of transfer account in transfer institution or account management institution (completely paperless), such bonds shall be treated as “transfer LAB”
- As for general bond transfer system, Japan Securities Depository Center shall be the transfer institution and the system starts on January 10, 2006
- As for new issuance of transfer bonds and transfer of outstanding bonds to transfer bonds, consent of issuers for transfer institutions are required. However, almost all prefectural governments, ordinance-designated cities and municipal governments, who issued bonds, have already given consent