

City of Osaka

Fiscal Conditions and Outlook



October 2008

City of Osaka

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Message to Investors

- **You can invest in Osaka City Bonds with confidence as we promise to make redemption of our bonds top priority.**
- **We are taking steps to further enhance IR and improve the market's assessment of Osaka City Bonds.**

Admin & Financial Reform

Adopted the Basic Guidelines
For City Management Reform

High Bond Rating

High Ratings
from Various
Rating Agencies

Sound Fiscal Management

Financial soundness
standards met

A More Creative City

Talented Personnel
Cutting-edge technology
Wide Array of Cultural Assets

Mayor Hiramatsu Vision

**Development of Key Policies and Projects
(to be announced this fall)**



High Bond Ratings

- The City of Osaka's total debt is on par with other government-designated cities, but is large when compared to other cities internationally.
- The City of Osaka however, has a solid base for generating financial resources and the results of our administrative and financial reforms are starting to appear. We are confident that the city will be able to maintain its debt-servicing capacity even if expenses rise and additional burdens associated with financial risks arise.
- The City of Osaka strives to maintain its high bond ratings based on plans to build even healthier financial positions.

AA-

Standard & Poor's (4th highest on 20-tier scale)

An AA rating means the entity has a very strong debt servicing capacity. (Little difference between this and the highest AAA).

Aa1

Moody's (Local currency basis) (2nd highest on 21-tier scale)

The entity has very good creditworthiness and credit risks are extremely low.

AA+

Japan Credit Rating Agency (2nd highest on 20-tier scale)

Very high capacity to honor debt obligations.

Overview of Osaka

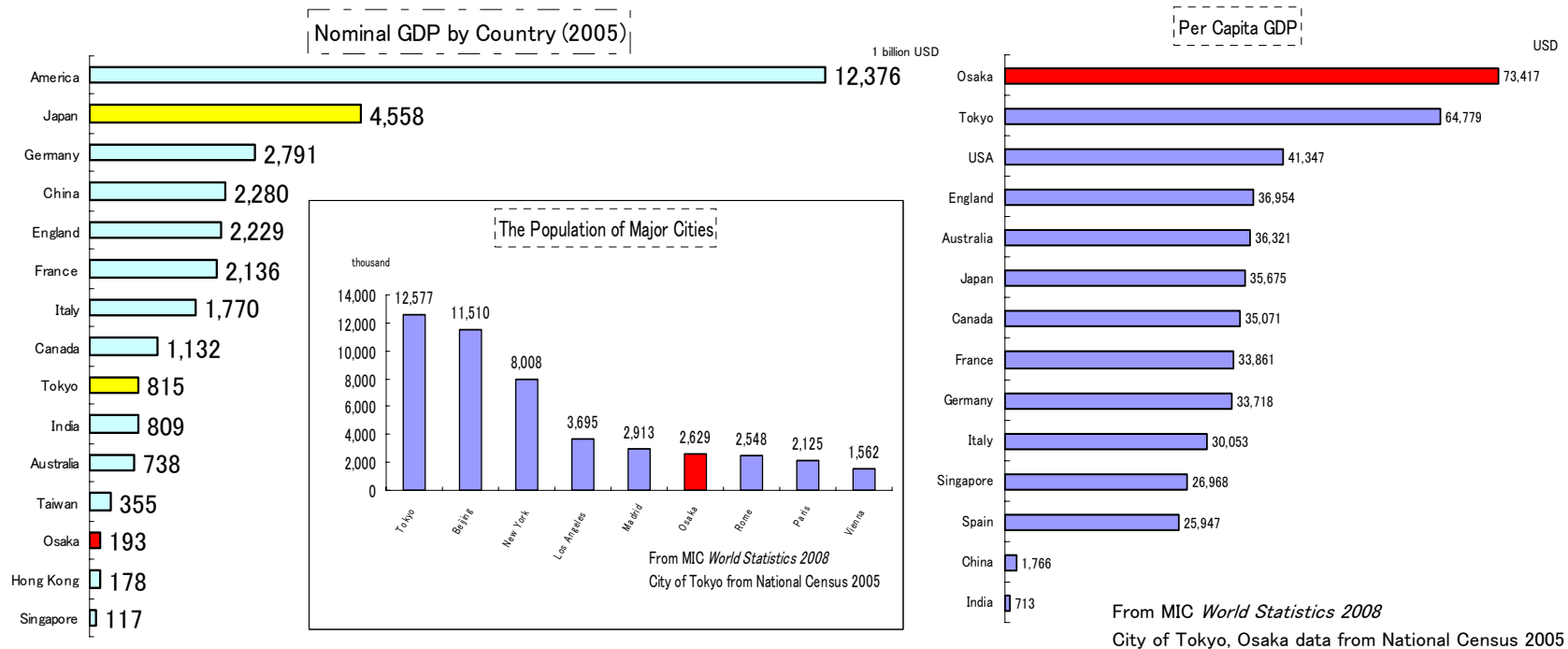
- Area: 222.11km²
- Population: 2,628,811 citizens
- Gross production: 21.86 trillion yen
- Income: 8.82 trillion yen
- Business sites: 201,462
- Workers: 2,216,895
- Sister Cities
 - San Francisco (USA)
 - Sao Paulo (Brazil)
 - Chicago (USA)
 - Shanghai (China)
 - Melbourne (Australia)
 - St. Petersburg (Russia)
 - Milan (Italy)
 - Hamburg (Germany)

(Source: 2005 National Census, 2005 Osaka Economic Statistics, 2006 Business Statistics)



Robust Economic Activity

Osaka boasts a GDP higher than both Hong Kong and Singapore, while enjoying very high per capita GDP.



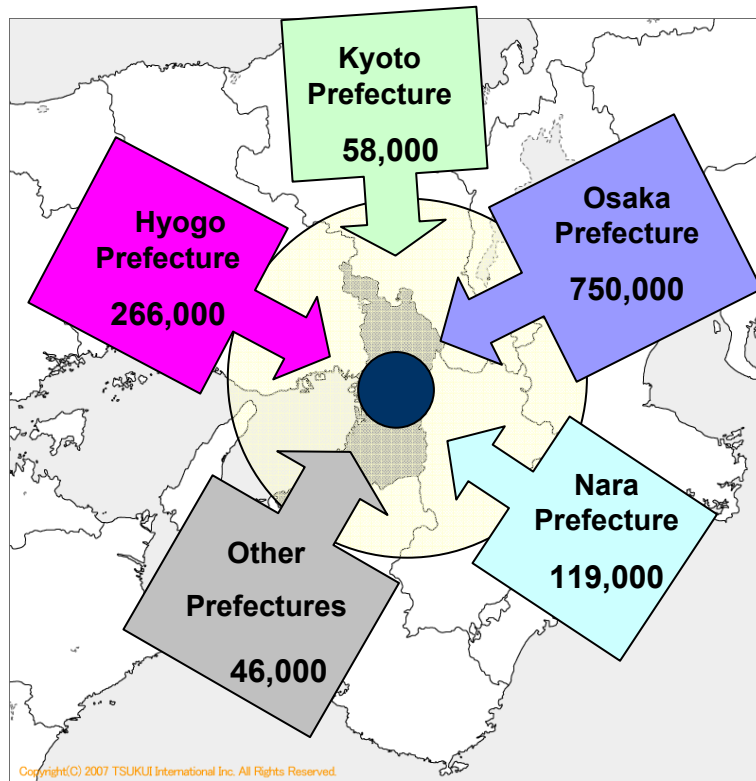
Notes: ①Figures for Tokyo and Osaka are based on the fiscal year starting April 1.

②The figures for Japan, Tokyo and Osaka are based on exchange rates of USD/JPY = 113.26 for the 2005 fiscal year and USD/JPY = 110.16 for the 2005 calendar year, based on simple monthly averages from the Tokyo forex market.

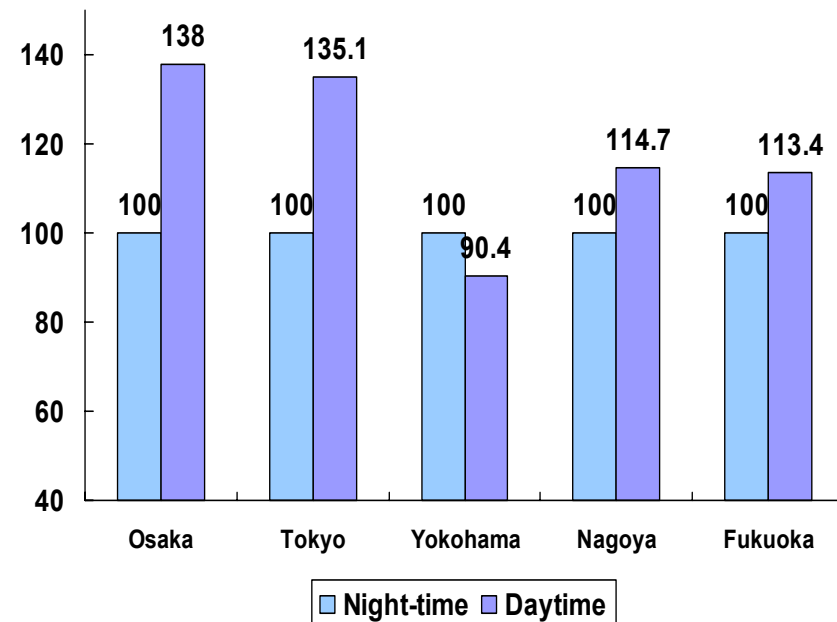
Source: Cabinet Offices' *Monthly Foreign Economic Situation Data*, Cabinet Offices National Accounts for Japan, *Prefectural Accounts for Tokyo and Economic Statistics for Osaka*.

Osaka, a Central City

Osaka is the key city for the greater Osaka region. Many workers and students commute to the city from Osaka Prefecture and neighboring prefectures during the day, swelling the population by approximately 1.4 times the night-time population.

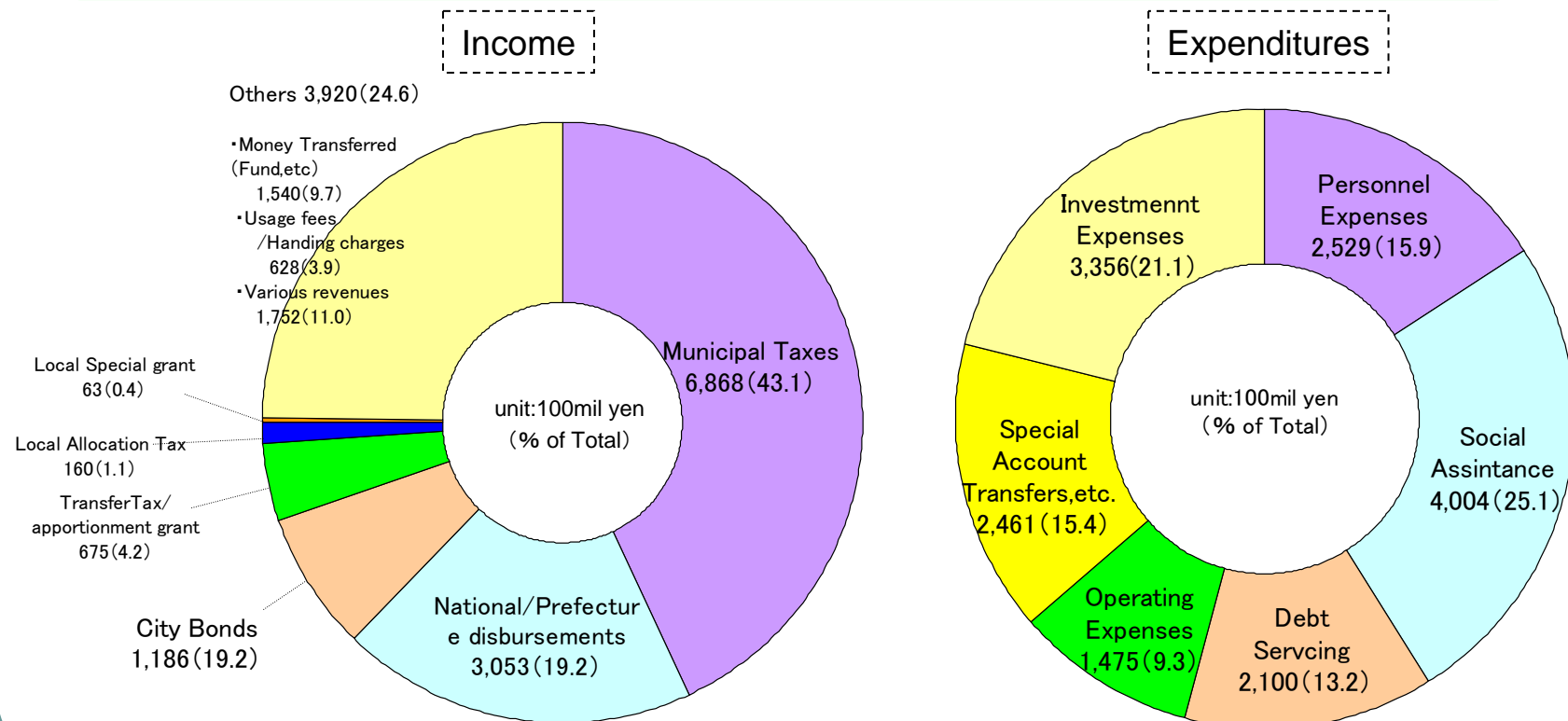


Daytime Population Comparisons
(night-time population = 100)
(2005 National Census)



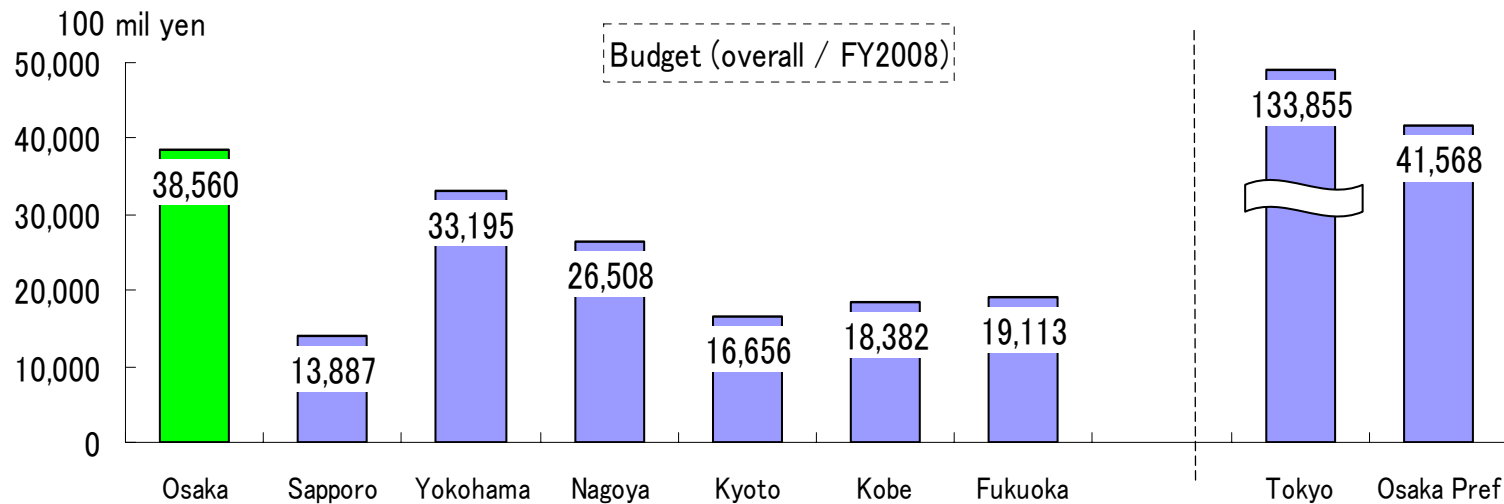
General Account Budget

- The City of Osaka's General Account Budget (Initial) for FY2008 was ¥ 1.5925 trillion.



Overall Budget (Comparison by city)

- The City of Osaka's overall budget for FY2008 was the third largest among local governments in Japan, behind only the Tokyo metropolitan government and Osaka Prefecture.



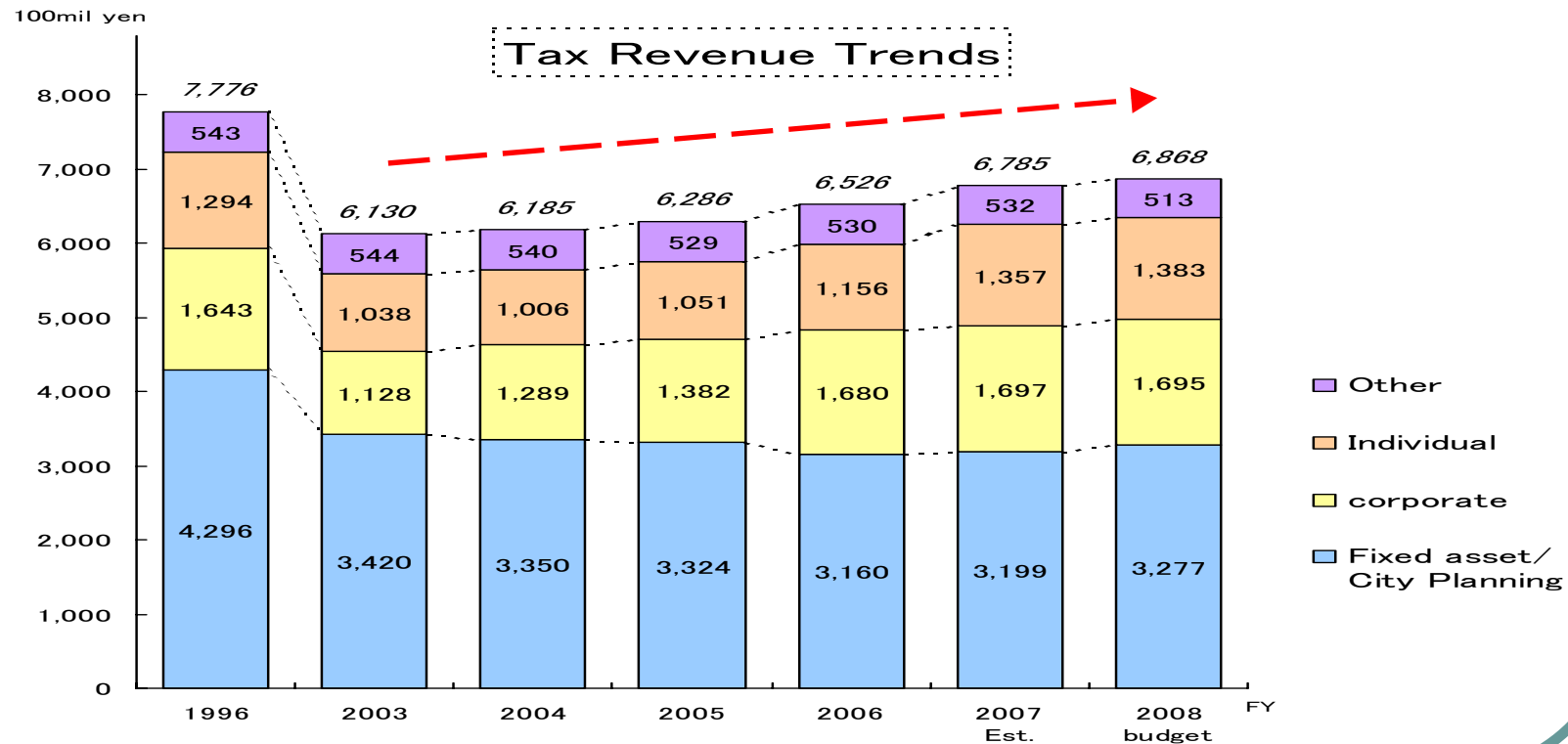
Osaka City Budget (overall):

The overall budget consists of the general account and 19 special accounts.

Special accounts are arranged into the following four categories based on their characteristics: Government Ordinance Special Account, Quasi-Public Enterprise Account, Public Enterprises Account and Debt Servicing Account.

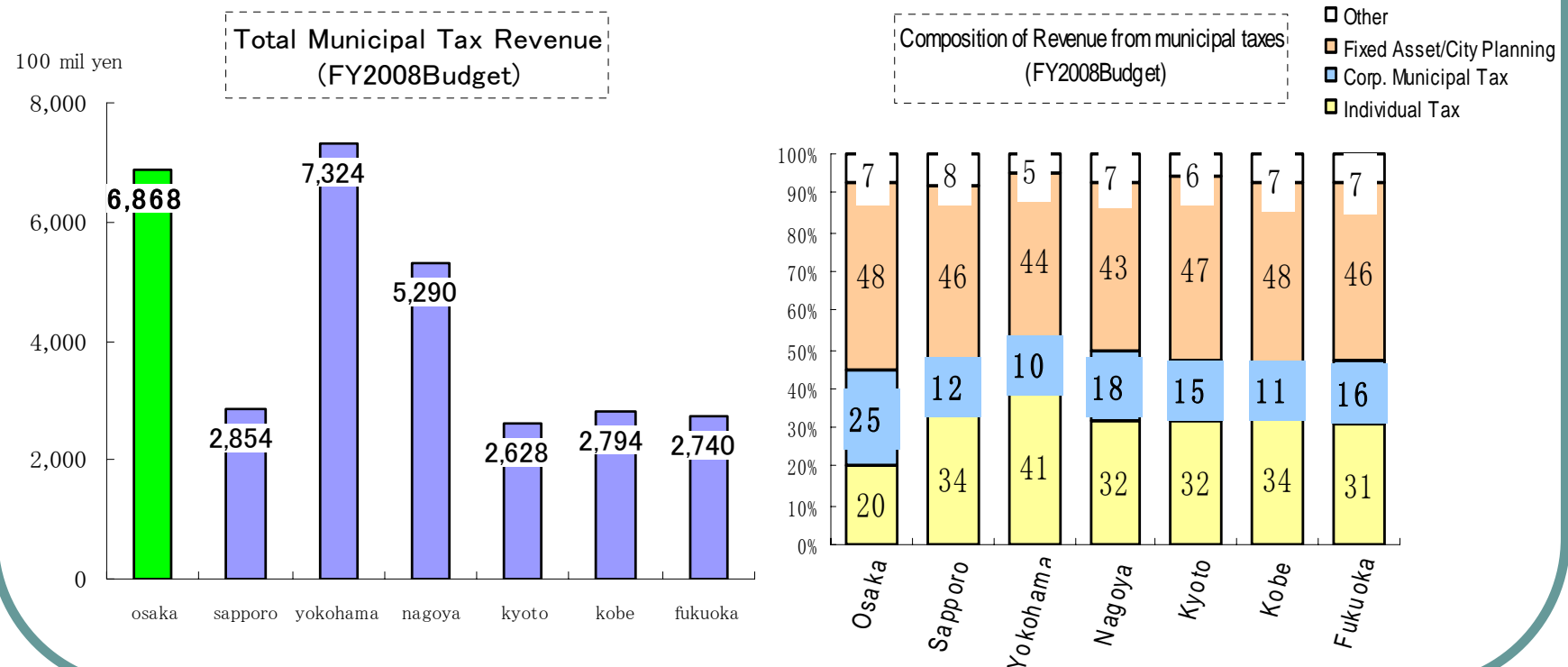
Municipal Tax Revenue Trends

- Municipal tax revenue increased 0.9% year-on-year to 686.8 billion yen
- This is a slowdown from the rate of increase between FY2006 and FY2007, however tax revenues still remain solid



Municipal Tax (Comparison by city)

- ▶ Total municipal taxes collected was 686.8 billion yen, the second largest for any government-designated city.
- ▶ Corporate Inhabitants Tax accounts for a large share of total tax revenue and this has been increasing along with the recovering economy.



Medium-Term Fiscal Balance (May 2008)

Assuming numerical targets of Osaka City's Basic Guidelines for City Management Reform (to FY2010) are met . . .

- There will be no fiscal shortfalls up to FY2010.
- From FY2017 the city will have an annual surplus, though there will be up to a 120 billion yen deficit between FY2011 and FY2016.
- Costs will be reduced in various ways, including reductions in personnel expenses.

(100 mil yen)

(General Account)	FY2008	FY2009	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017
Ordinary annual balance	0	0	0	0	-59	-179	-83	-26	92	145
Annual balance with financial risk	0	0	0	-35	-175	-188	-214	-212	-155	-105
Overall annual fiscal balance	0	0	0	-35	-234	-367	-297	-238	-63	40
Accumulated balance	0	0	0	-35	-269	-636	-933	-1171	-1234	-1194



City Bond Outstanding Forecast (general account)

⇒ Measures required to offset annual average shortfall of 17 billion yen

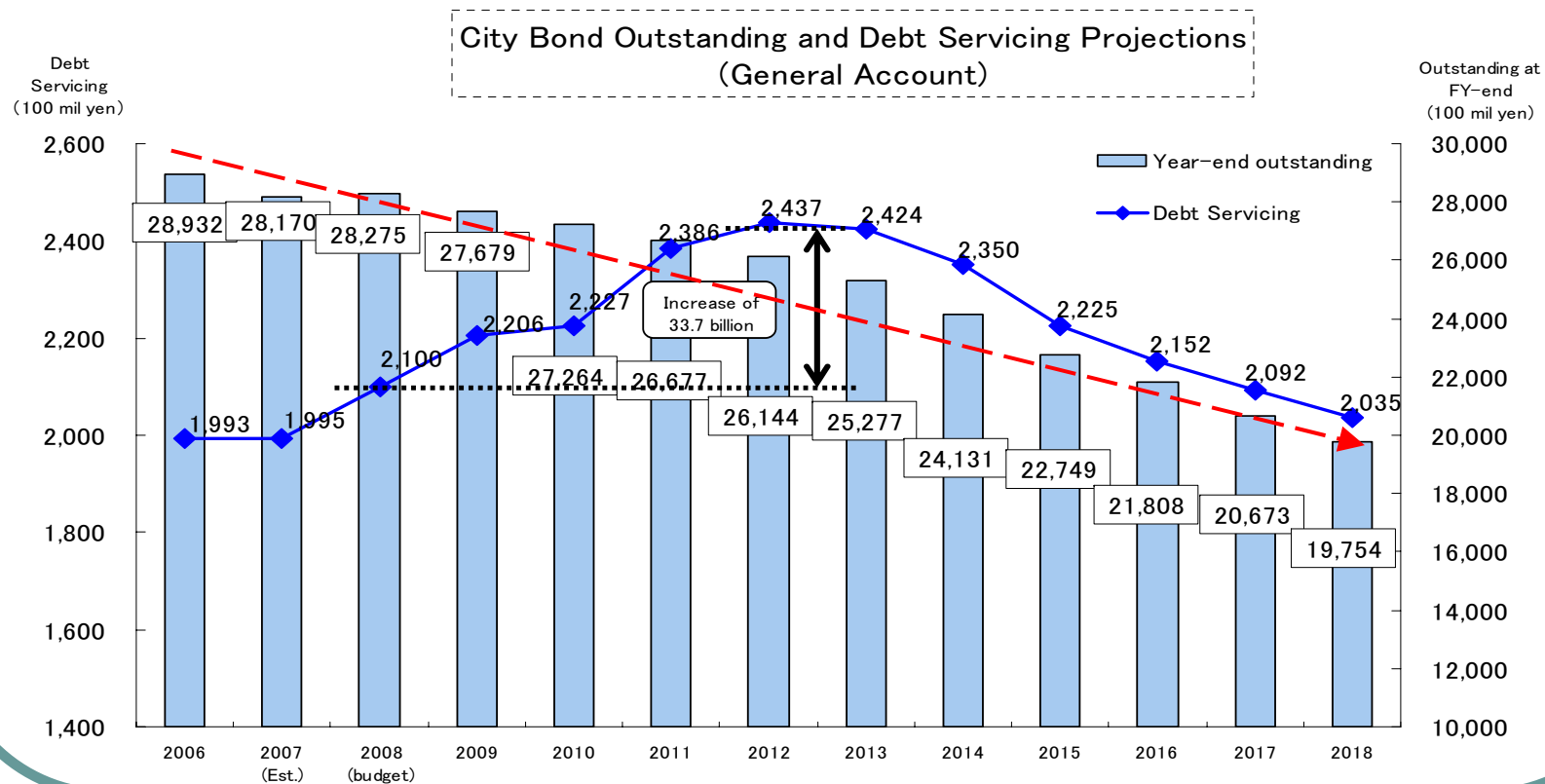
(100 mil yen)

FY2008	FY2009	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018
28,275	27,679	27,264	26,677	26,144	25,277	24,131	22,749	21,808	20,673	19,754

Target: Under 2 trillion yen by FY2018

Future Trends for City Bond Outstanding and Debt Servicing

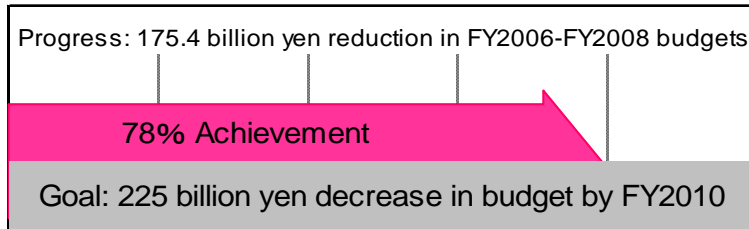
- As a result of using city bonds to finance city infrastructure and promote business, the City of Osaka must now address redemptions of the accumulated city bond outstanding, which will peak around FY2012.
- After FY2012, a decrease in the outstanding of city bonds and debt servicing expenses is forecast (September 2007 fiscal balance estimate).



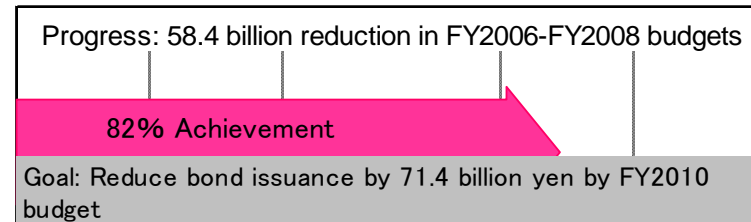
Sound Administrative and Financial Reform

To meet the rapidly changing socioeconomic conditions caused by Japan's low birth rate and ageing society, under the Basic Guidelines for City Management Reform, the City of Osaka is undertaking administrative and financial reforms to meet targets of further healthier financial positions.

■ Cost Reductions



■ Reduction of Municipal Bond Issuance



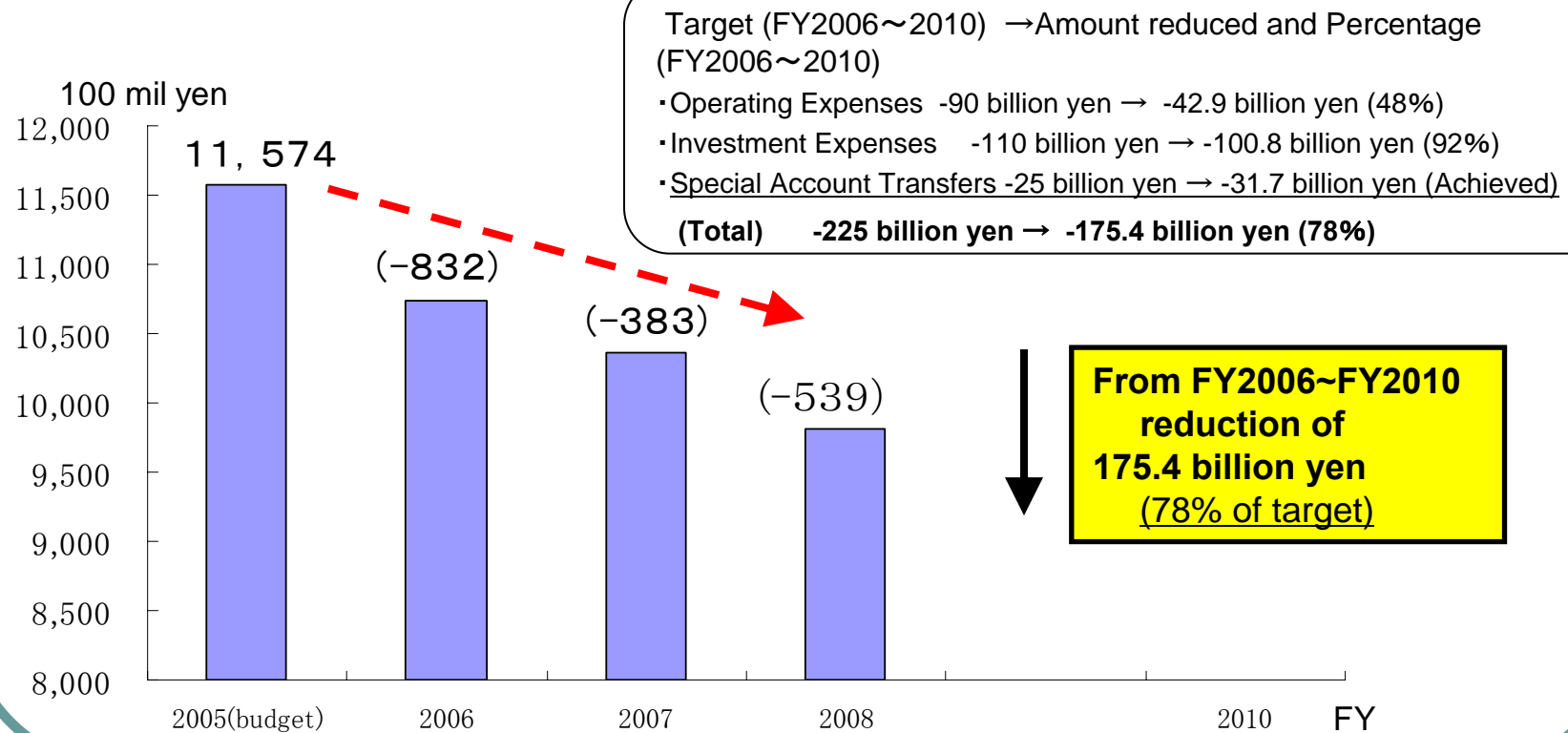
Breakdown

	Cost Reduction	Targets		Result
	Target	Period	Target	(% Achieved)
Operating Expenses	20% reduction (468.4 billion yen) from the FY2005 initial budget (1.395 trillion yen) by cutting personnel expenses by 291.4 billion yen and normal operating expenses by 177 billion yen, excluding obligatory expenses such as social assistance and debt servicing (571.1 billion yen).	FY2006~FY2010	90 billion yen	42.9 billion yen (48%)
Investment Expenses	25% reduction (438.3 billion yen) from the initial FY2005 budget.	FY2006~FY2010	110 billion yen	100.8 billion yen (92%)
Special Account Transfers	30% reduction (83 billion yen) from the FY2005 initial budget (250.7 billion), excluding those items difficult to reduce such as payments for debt servicing and insurance burdens.	FY2006~FY2008	25 billion yen	31.7 billion yen (achieved goal)
		Total	225 billion yen	175.4 billion yen (78%)

Reducing Expenditures (Costs)

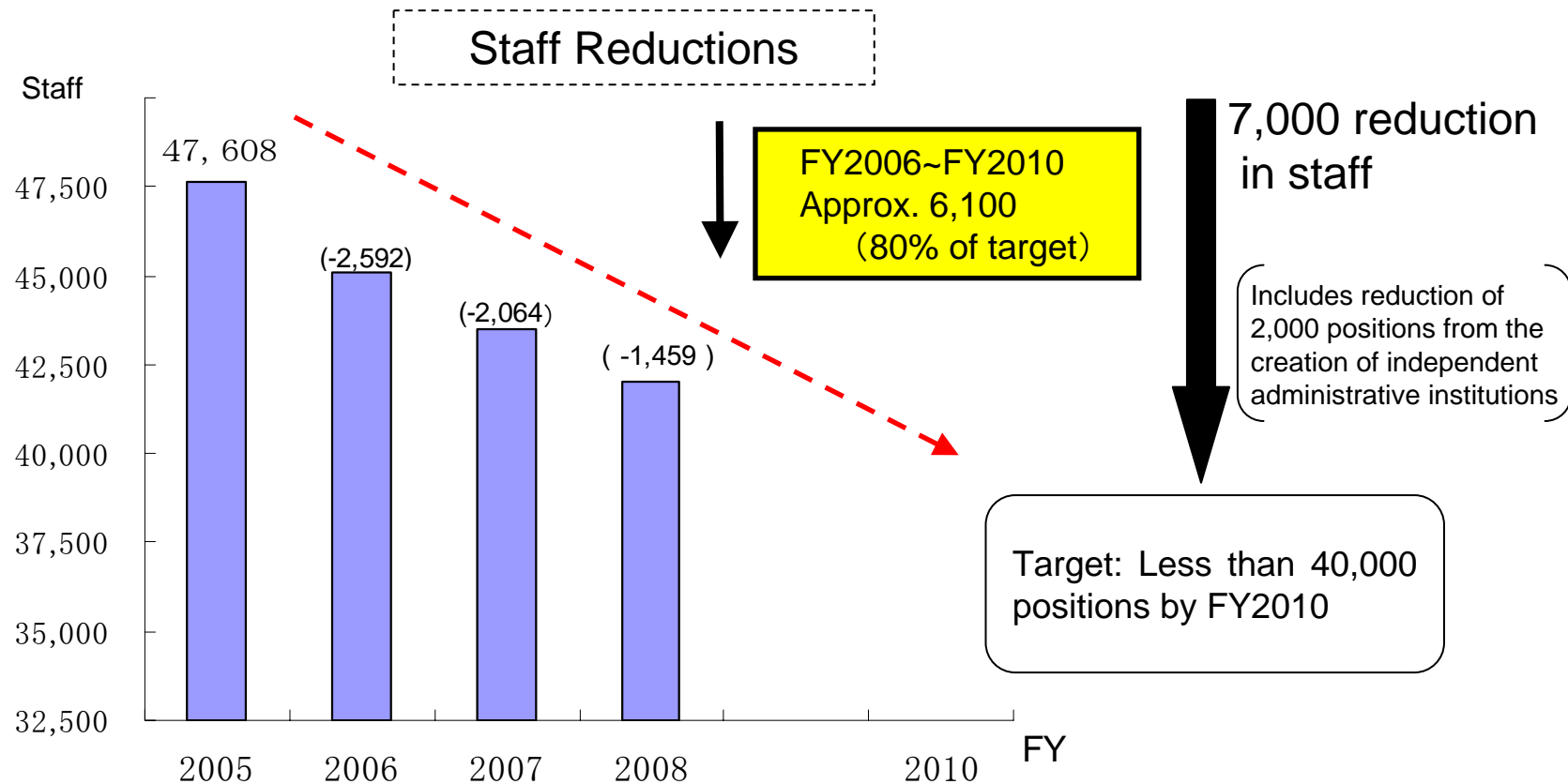
Reducing Expenditures (General account)

(Operating Expenses, Investment Expenses, Special Account Transfers
[Operating Expenses excluding Social Assistance and Debt Servicing])



Staff Reductions

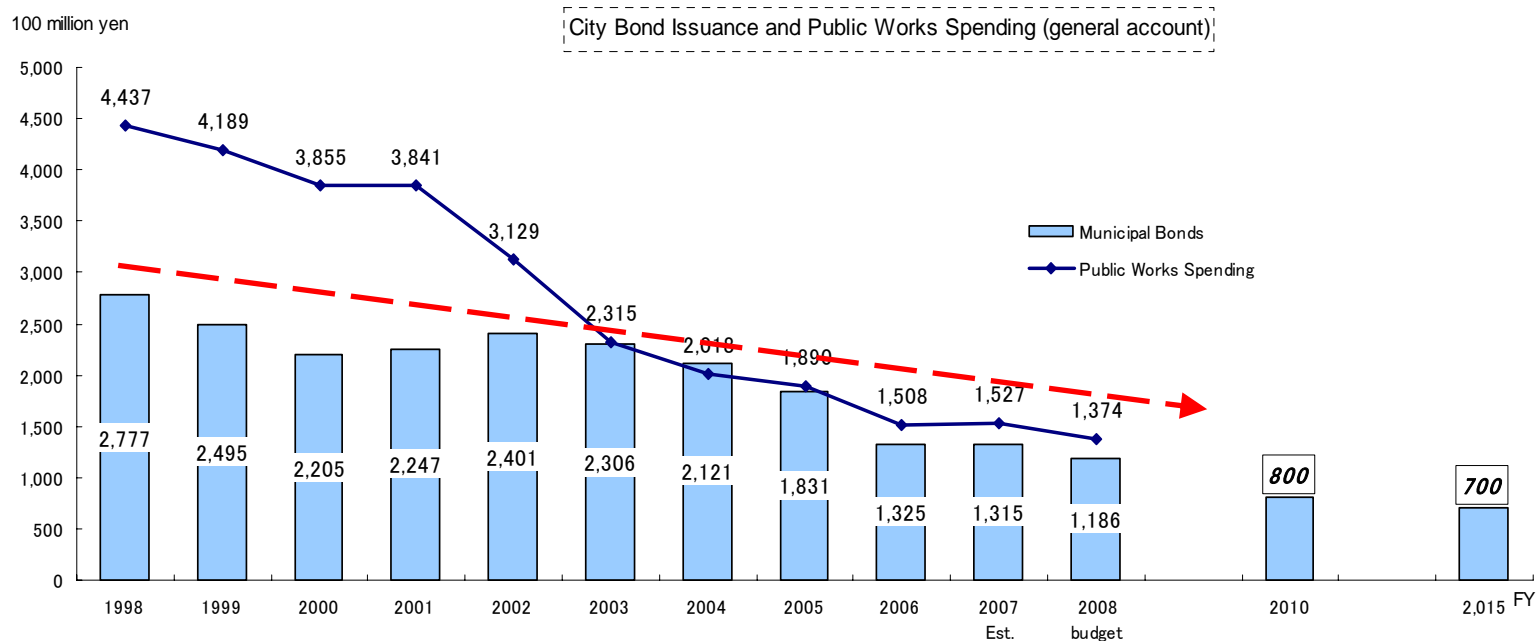
Staff hiring to be limited to the necessary minimum



Note: FY2005-2007 figures as of October 1, FY2008 figures based on budget

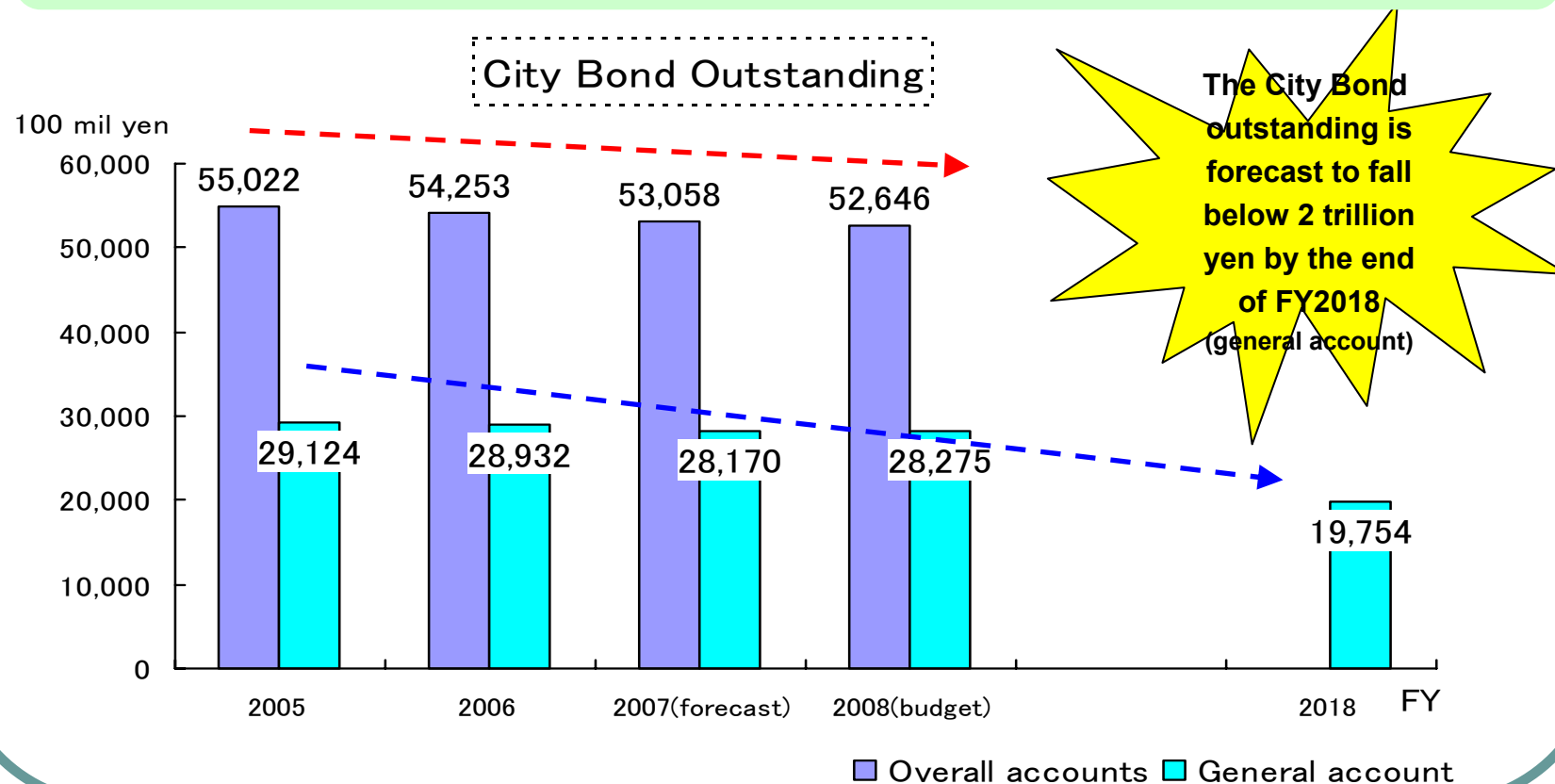
Reducing City Bond Issuance and Public Works Spending

- Public works spending is being reduced and strict steps are being taken to hold down the issuance of new city bonds.
- The goal is to limit new city bond issuances to 80 billion yen by FY2010 and 70 billion yen by FY2015 (excluding extraordinary financial countermeasures bonds and tax-reduction supplementary bonds).

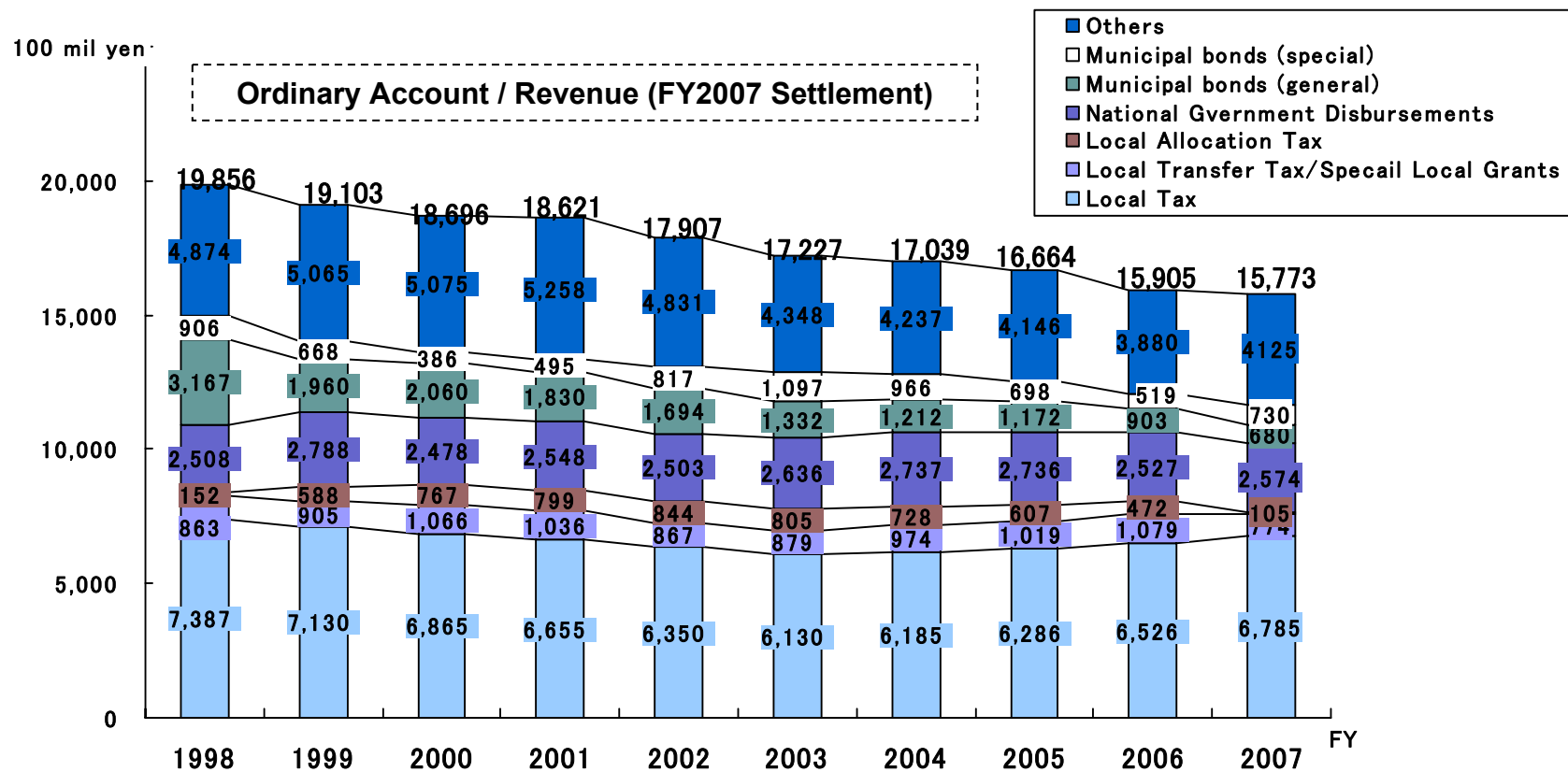


Reducing City Bond Outstanding

- By strictly holding down new city bond issuances, in accordance with the reduction targets set in the Basic Guidelines for Management Reform, the outstanding of city bonds in both the General and Overall accounts have decreased.



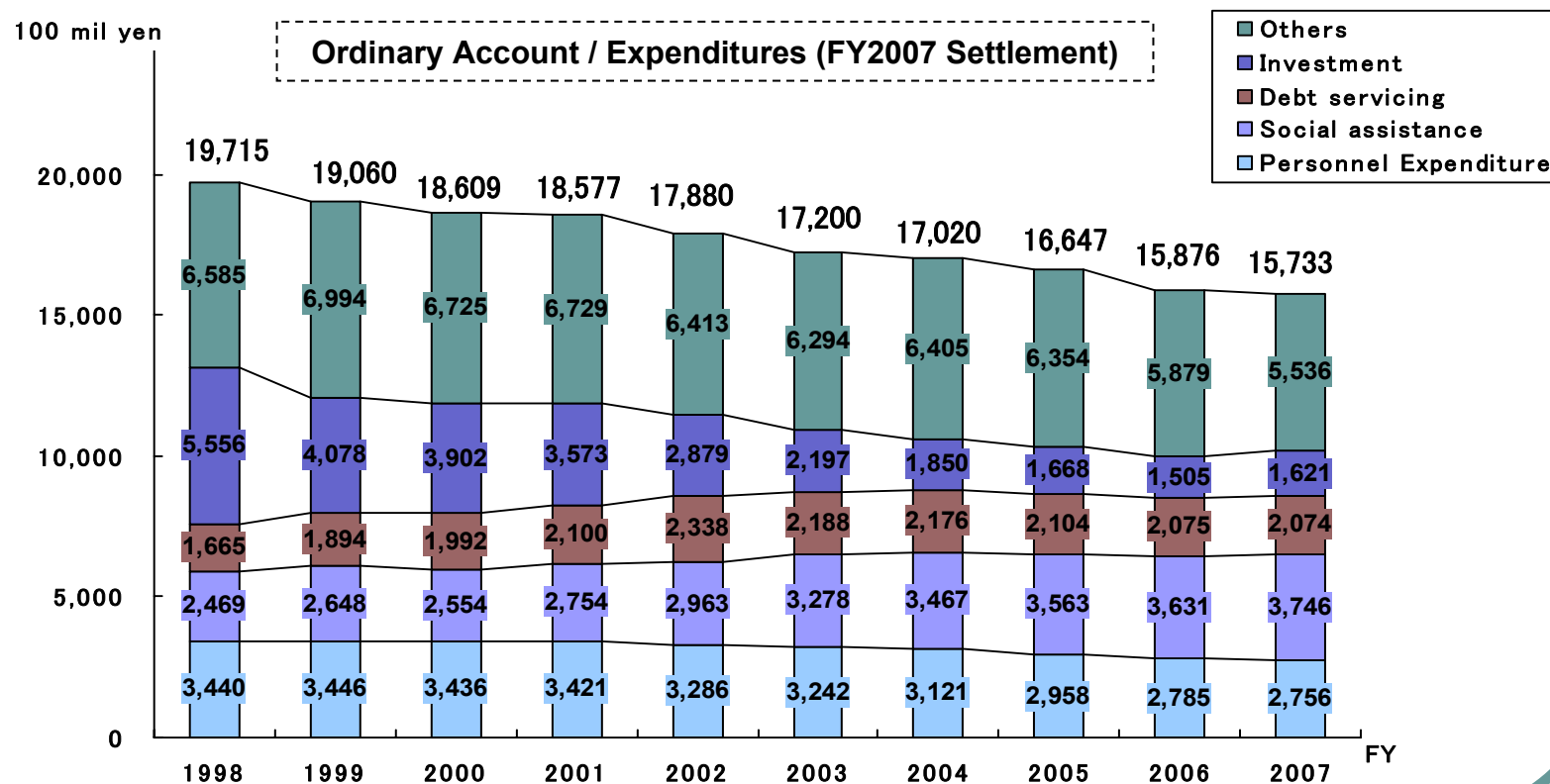
Ordinary Account Settlement Trends (revenue)



Ordinary Account... Classification used by the Ministry of Internal Affairs and Communications for local government financial settlement statistics. Refers to all accounts other than accounts for public enterprises. Allows for comparisons among local governments as well as time series comparisons.

Ordinary Account Settlement Trends (expenditures)

- There has been an increase in required expenditure for social assistance and debt servicing, investment expenditures however, have been decreasing.
- Total expenditure is decreasing due to personnel reductions and reviews of operating and administrative expenses.



Ordinary Account Settlement and Financial Indexes

(million yen)

	FY2003	FY2004	FY2005	FY2006	FY2007
Total revenue	1,722,657	1,703,865	1,666,375	1,590,506	1,577,285
Total expenditures	1,719,987	1,701,951	1,664,689	1,587,643	1,573,282
Revenue minus expenditures	2,670	1,914	1,686	2,863	4,003
Real balance	192	229	254	366	434
Single FY balance	▲ 54	37	25	112	68
Real single FY balance	▲ 54	37	25	112	68
Standard fiscal scale	714,466	709,669	716,450	715,432	717,085
Fiscal power index	0.86%	0.86%	0.87%	0.89%	0.93%
Real revenue-expenditure ratio	—	—	—	0.1%	0.1%
Ordinary balance ratio	102.5%	103.6%	101.7%	99.7%	99.9%
Contract authorization amount (scheduled expenditure)	245,822	215,164	214,120	183,444	146,545

Account Settlements for Public Enterprises

The operating income and expenses of public and quasi-public enterprises are sound. The subway, waterworks and sewage systems have all been profitable as the City of Osaka was quick to develop infrastructure within the City.

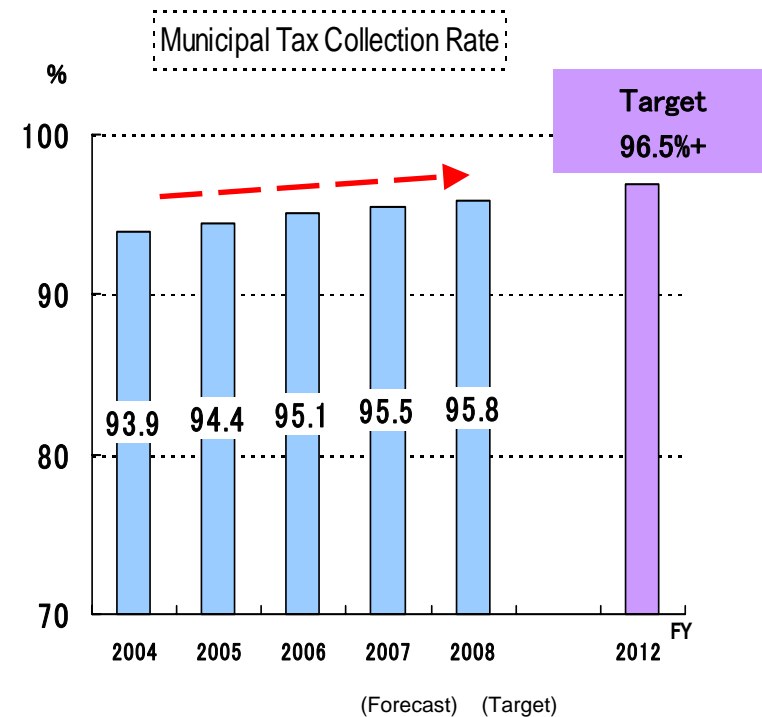
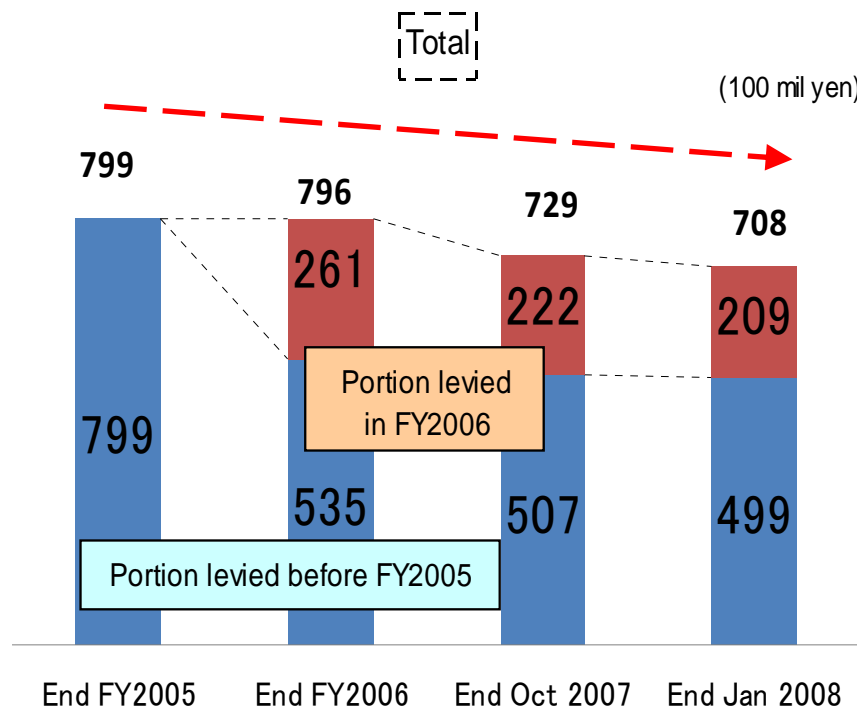
FY2007 Settlement

(100 mil yen)

	Account Name	Total Earnings	Total Expenses	Net Profit / Loss	Bad Debt / Surplus	City Bond Outstanding
Quasi-Public Enterprises	City Hospitals	429	434	-5	-123	591
	Central Wholesale Markets	78	93	-15	-126	765
	Port Operations	226	232	-6	254	1,931
	Sewage	825	778	47	133	5,773
Public Enterprises	Bus	229	244	-15	-57	214
	Subway	1,727	1,502	225	294	7,543
	Waterworks	738	665	73	246	2,536
	Industrial Waterworks	21	19	2	27	30

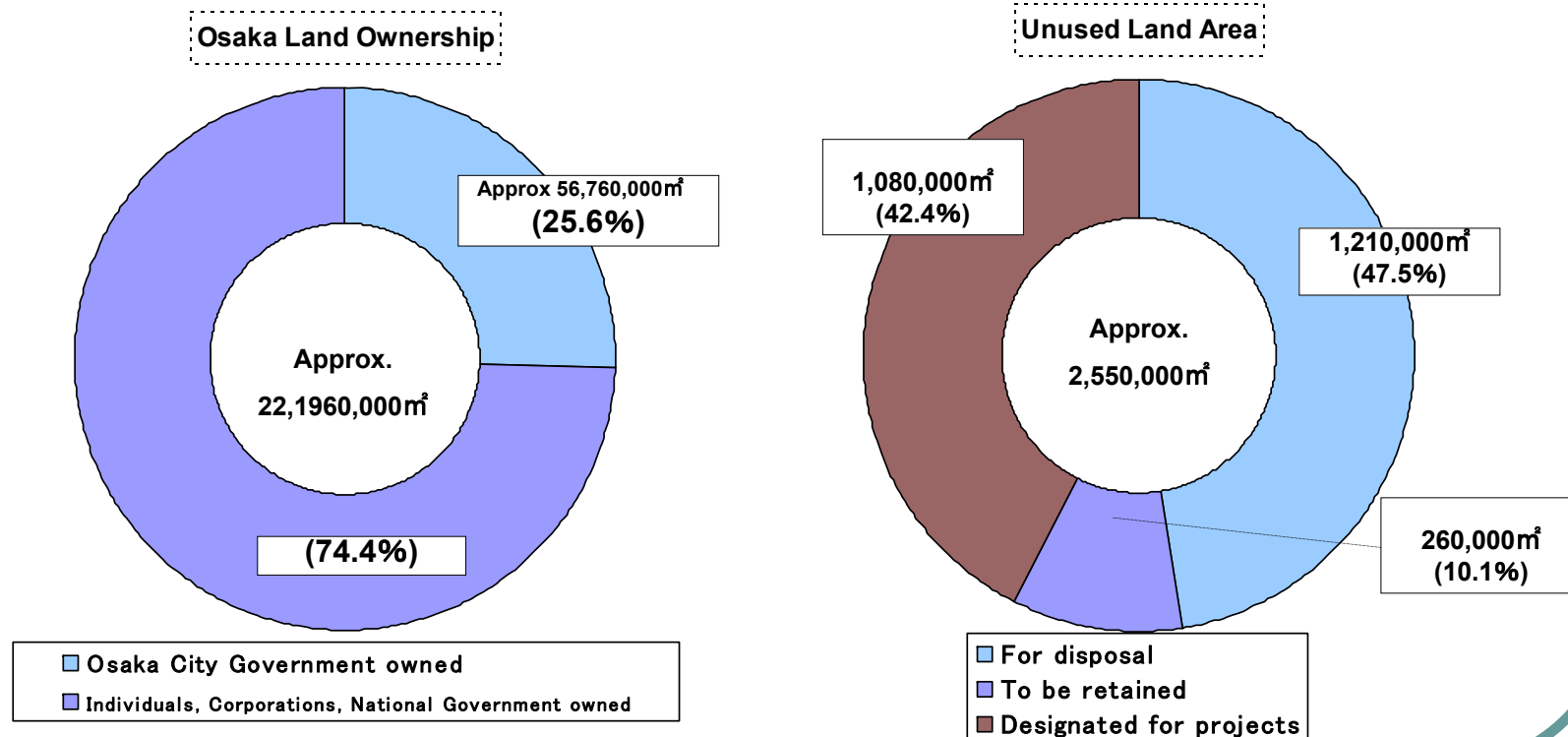
Securing Income

- The City of Osaka is taking further steps to address outstanding collections by...
 1. Not allowing for the creation of new outstanding collections,
 2. and eliminating those currency outstanding collections.



Utilizing Unused Land

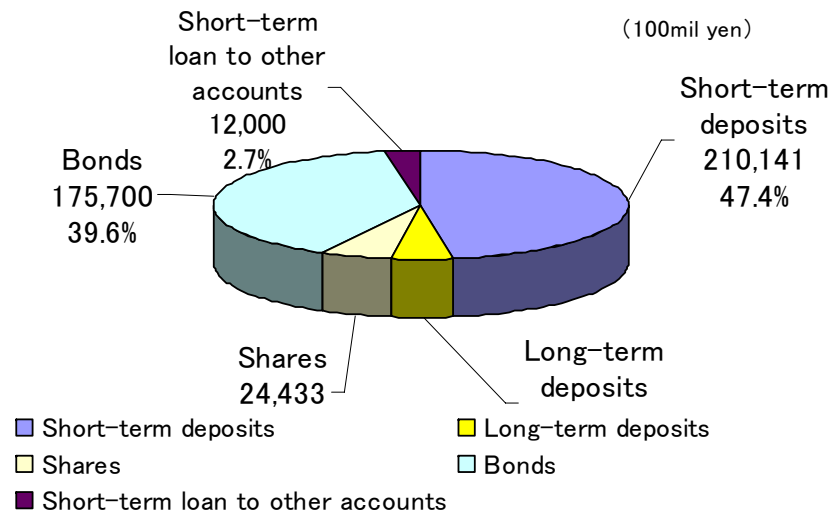
- The City of Osaka owns approximately 25% of the city land area.
- Measures are being taken to effectively utilize and/or sell unused land. Efforts are also being made to sell some areas of unused land, in the aim of earning no less than 100 billion yen over the next 10 years.



Accumulated Fund Balance

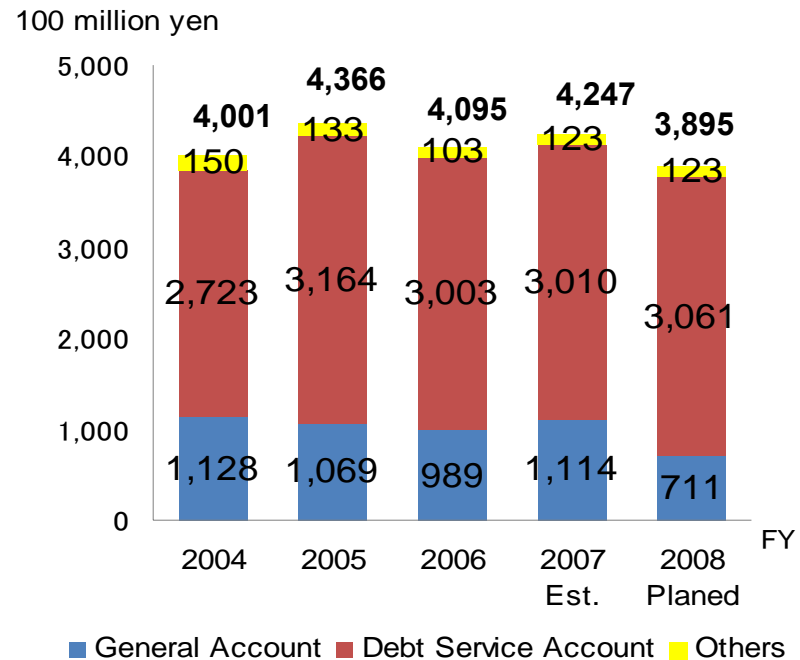
- The City of Osaka has established a fund for accumulating reserves in accordance with regulations.
- The fund is being efficiently operated, utilizing both short-term and long-term management, in accordance with the purpose of the fund.

Fund Status
(End of March 2008)



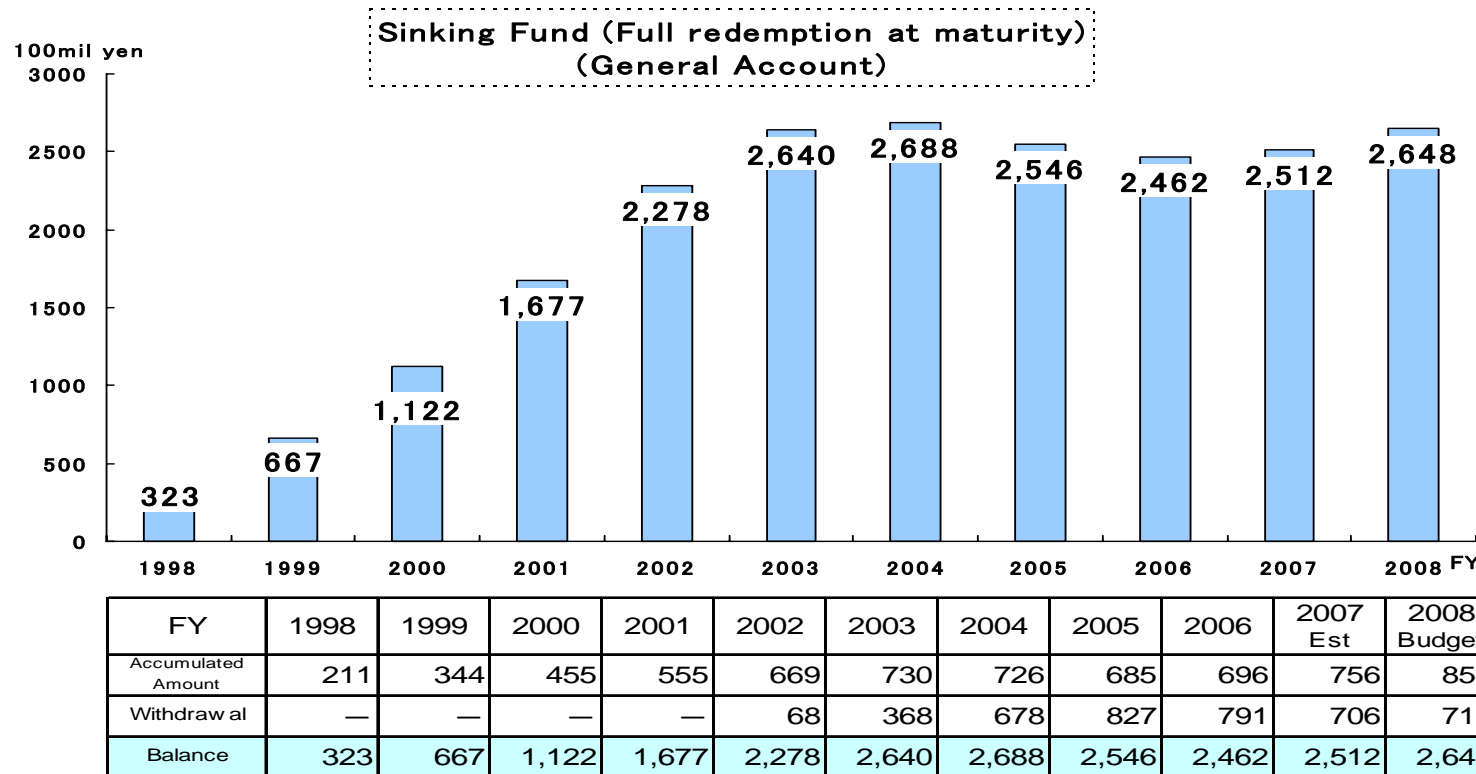
Bonds: Local Bonds (158,302 million yen), Government-guaranteed Bonds (10,000 million yen) etc.
 Shares: Kansai Electric Power (24,425 million yen)

Fund Balance



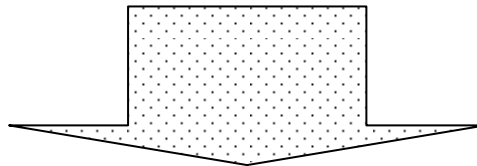
Sinking Fund Outstanding

- In accordance with national government stipulations, the City of Osaka has created a sinking fund which has ensured adequate financing for the redemption of all city bonds at maturity.
- There is never any borrowing from, or relying on, this fund for financial operations.



The Law Relating to Financial Soundness of Local Governments

- The Law Relating to Financial Soundness of Local Governments was enacted on June 15, 2007.
- The Law has been enacted as a new system to thoroughly establish and disclose financial indexes and to strive for the earliest possible renewal of financial soundness and rebuilding of financial affairs.
- Every fiscal year, the audit commissioners examine four key financial health ratios [(1) Real Deficit Ratio, (2) Consolidated Real Deficit Ratio, (3) Real Debt Servicing Ratio, and (4) Future Burden Ratio], reports them to the City Council, upon which they are publicly announced with auditor inspection attached.
- If any of the four ratios exceed the established standard, a (1) financial soundness plan and a (2) financial rebuilding plan must be formulated with approval by the City Council and announced publicly.



The City of Osaka conducts prudent financial management to further strengthen finances and ensure that the ratios of these financial indexes do not exceed established standards.

The Four Financial Indexes

Sound financial management is undertaken to ensure that the four indexes of the Law Relating to the Financial Soundness of Local Governments remain within the established standards for early financial warning.

	Early Financial Warning Standards 〔 Strengthening finances through voluntary improvement measures 〕	Financial Restoration Standards 〔 With help from national government 〕	City of Osaka (FY2006-end)
Real Deficit Ratio (General account)	More than 11.25%	More than 20%	— Real Surplus of 400 million yen
Consolidated Real Deficit Ratio (Overall account)	More than 16.25%	More than 30%	— Consolidated Surplus of 1.5 billion yen
Real debt Servicing Ratio (Real debt servicing expense including special factors)	More than 25%	More than 35%	11.8%
Future Burden Ratio (Real debts including special accounts, subsidiaries, etc.)	More than 400%		263.8%

In the case of no real debt or consolidated real debt, a 「—」 is shown.

Financial Restoration Standards for the Consolidated Real Debt Ratio, a 3 year transitional standard (Municipality 40%→40%→35%→30%) is in place.

Tax Exemption Scheme

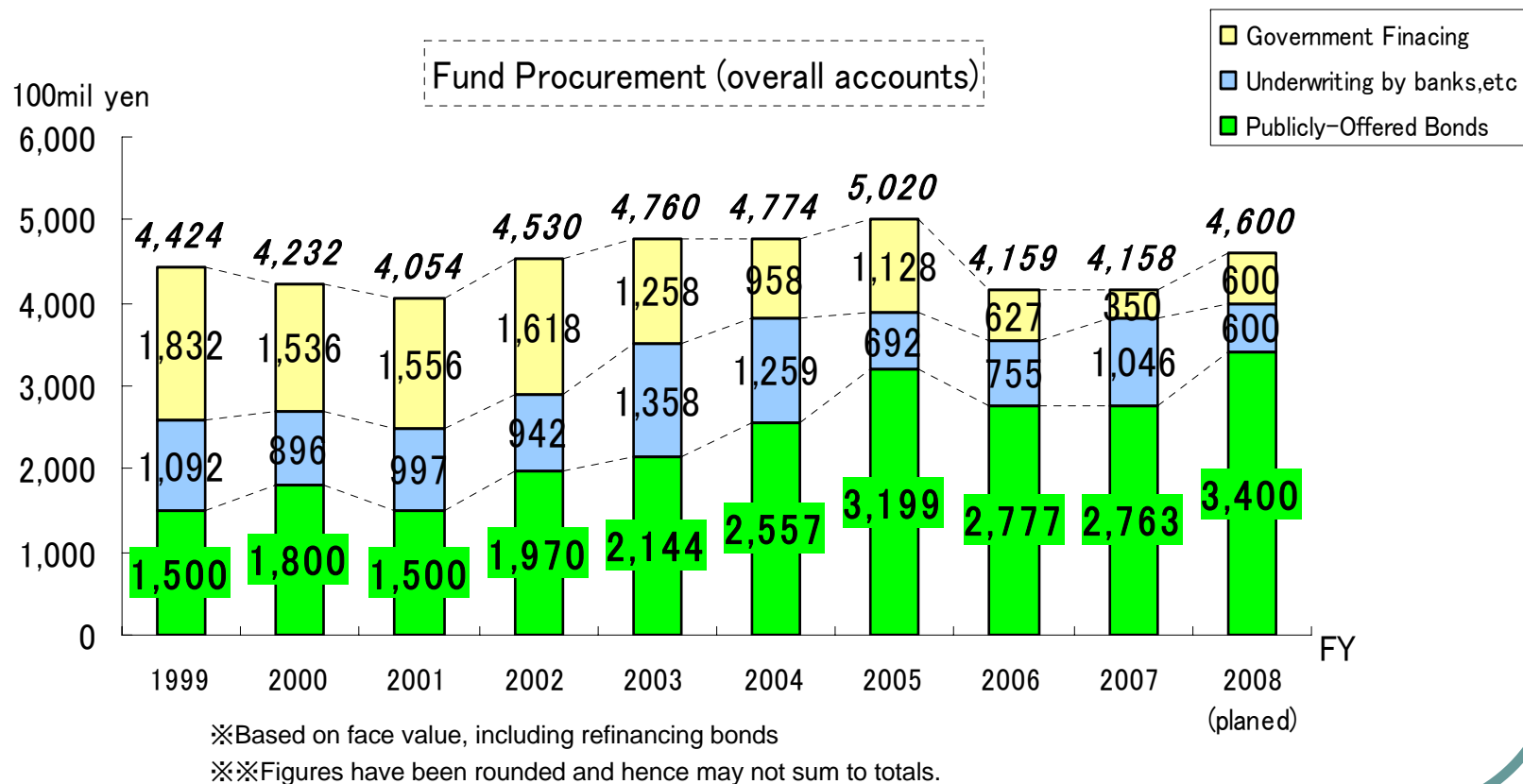
➤ Starting in 2008, with the Article 5-2 Act on Special Measures Concerning Taxation (limited to the provisions related to nonresidents and foreign corporations), the interest gains on LGBs owned by non-resident or foreign corporations, settled by the book-entry system, are exempted from withholding tax. Previously, 15% WHT rate was applied to foreign investors. (※With the bilateral tax treaty, the tax charged shall not exceed 10 % of the gross amount of the interest)

Conditions

- Non-JGB securities are required to be settled through Japan Securities Depository Centre (JASDEC) - Japan's central securities custody and book-entry transfer system.
- Non-resident investors can enjoy tax exemption only when they hold LGBs through a direct participant of JASDEC (i.e., a local sub-custodian in Japan) or via a designated FIAMI/QFI (i.e., a global custodian).
- In case the beneficiary holds LGBs through a global custodian, it must have FIAMI/QFI status.
- Entities who are exempted for JGBs are also eligible for the tax exemption on local government bonds.

Increased Financing from the Market

- The City of Osaka has increasingly been obtaining financing from publicly offered bonds, which now account for approximately 70% of all fund procurement.



Disclaimer

- This document contains neither an offer to sell securities nor an invitation to submit and offer to buy securities.
- The information contained herein may be completed and supplemented at any time; it does not constitute and investment recommendation nor should it serve as a basis for investment decision.
- The City of Osaka assumes no responsibility or reliability for the completeness or correctness of the information contained herein.

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