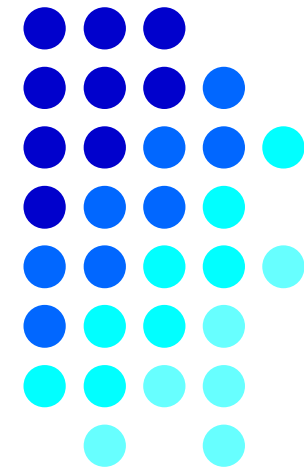


## *FY2007 Kobe City IR Seminar*

*– FY2006 Results –*



**AA**  
(Stable)



***KOBE CITY***

<http://www.city.kobe.jp>



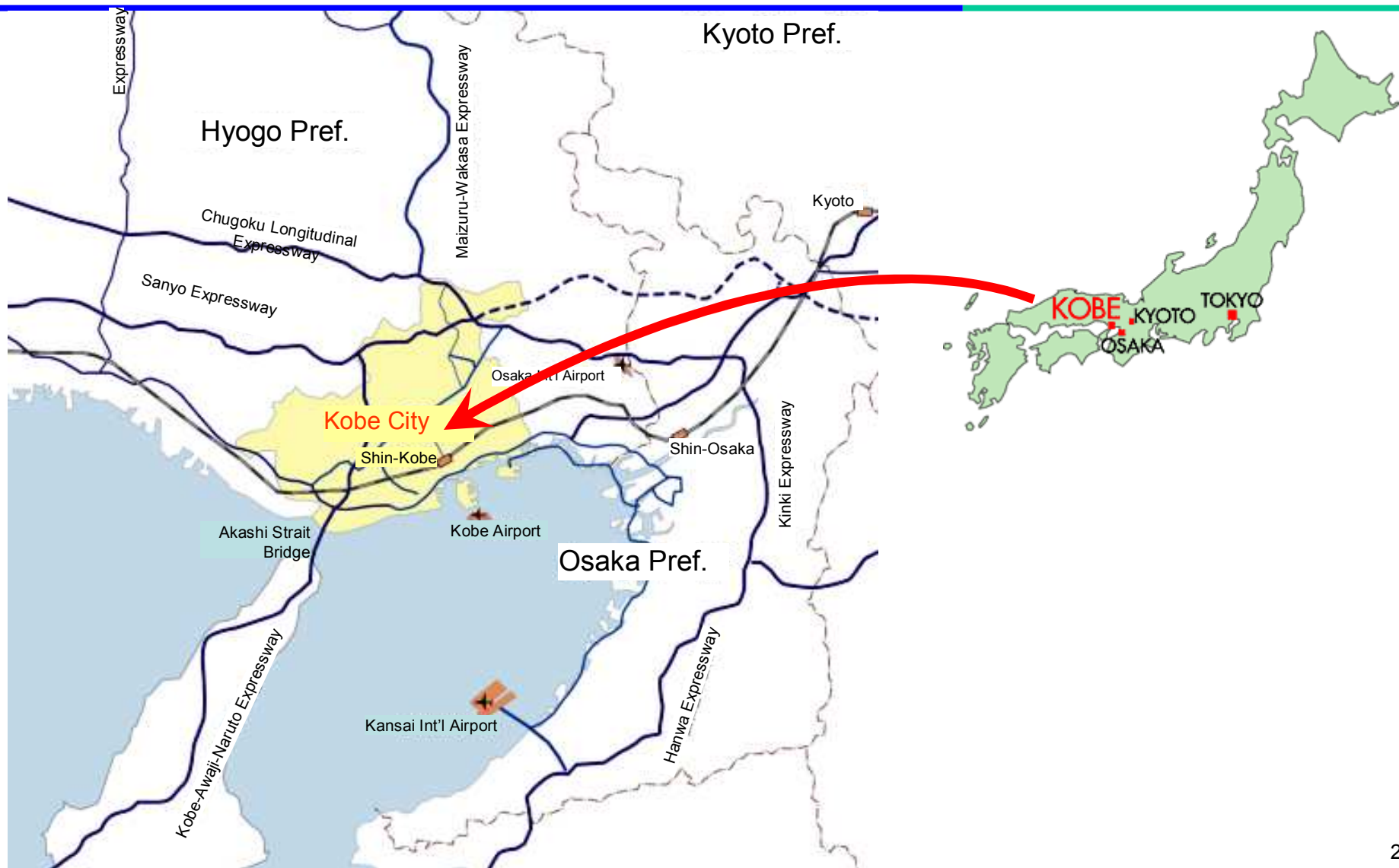
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**Kobe City**  
Toward Creation of Affluent City

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# 1. Kobe City Today



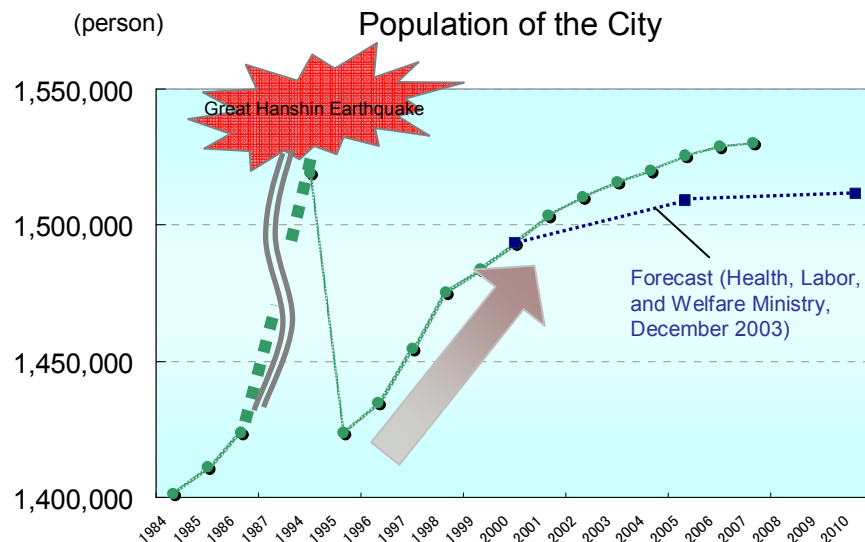
# Overview of Kobe City

## Fact Sheet

- Land area: **552.80 km<sup>2</sup>**  
[Sixth largest among all government-designated cities]
- Population: **1,530,912**  
\*As of Dec. 1, 2007  
[Fifth largest among all government-designated cities]

## Population Change

- The population of Kobe City dropped by approx. 100,000 in 1995 following the Great Hanshin Earthquake. The population recovered to the pre-quake level in November 2004, it has been growing consistently since.



## Economy

- Growing Economy
  - Increased capex
  - Improved employment rate and wages
  - Strong consumer spending

\*Source: The Summary of Regional Economy and Finance, Bank of Japan  
Kobe Branch, October 2007

## The City's Image

- Cosmopolitan city full of exotic atmosphere
- Port town
- Fashionable city



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## ***2. Economic Fact Sheet***

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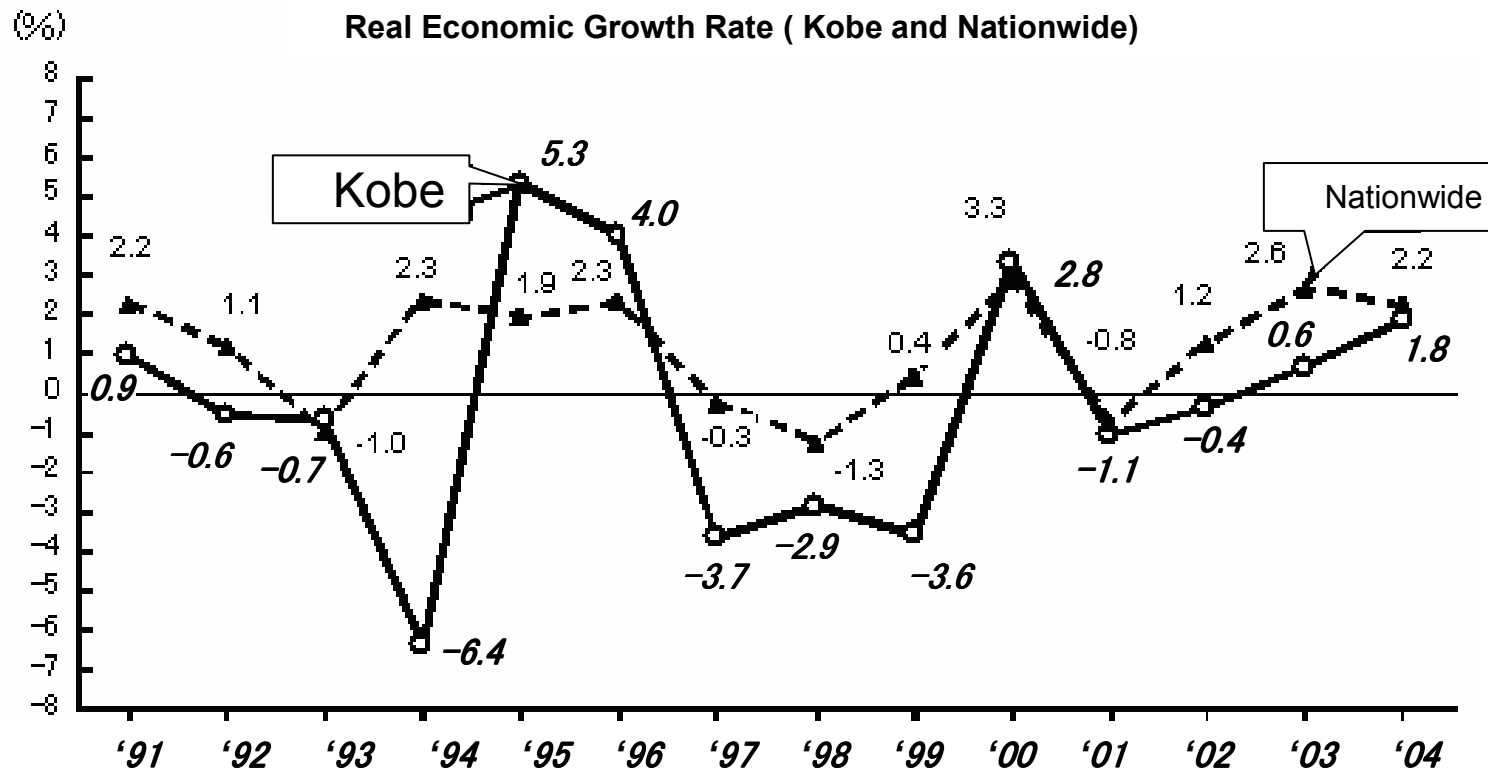


Taking off from Kobe Airport

# Size of Economy

Real Gross Product in Kobe **6 trillion 293.3 billion yen** (FY 2006)

- The city's economy is called "1% Economy" as it accounts for 1% of GDP
- Growth for 2 consecutive years attained in FY 06 is due to a substantial growth in manufacturing industries such as transportation equipment, etc.





# Industrial Structure

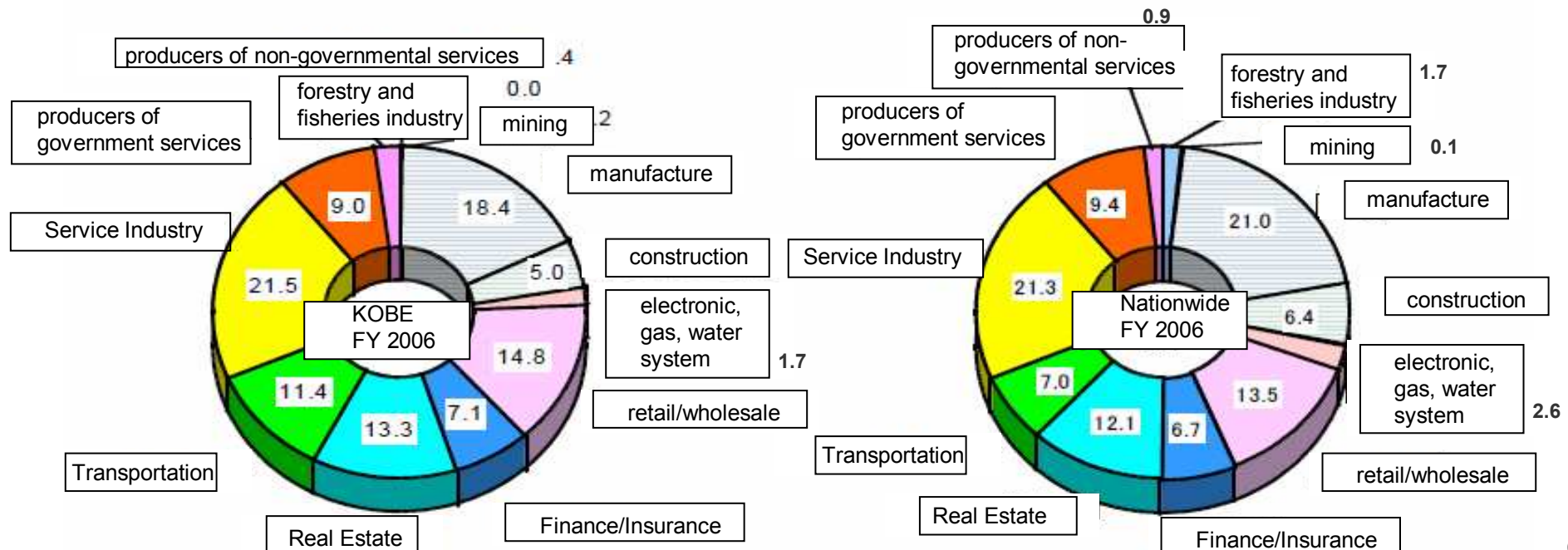
## Main industries

- Heavy industries such as shipbuilding, steel, etc. and machinery & appliances
- Foods due to the location near the sea, manufacturing industries such as rubber goods
- Chemical shoes, western confectionery, apparel, pearls, brewing, etc.

## Main business corporations

- Mitsubishi Heavy Industries, Ltd.,  
Kawasaki Heavy Industries, Kobe Steel, Ltd.  
Nestle Japan
- Asics, P & G
- RIKEN Japan, Eli Lilly Japan K.K.  
Nippon Boehringer Ingelheim Co., Ltd.

**Gross Production - Percentage Distribution by industry (Kobe & Nationwide)**



## Positive Ripple Effects Due to the Opening of Kobe Airport

### Attracting Businesses

- ◆ An increased number of companies came to the Port Island II because of the close proximity to the airport  
⇒ The number of companies increased from 287 (before the airport opening) to **365** (after the opening)
- ◆ Many more companies joined the Healthcare Industry City Project  
⇒ The number increased from 83 to **115** companies  
(As of Dec. 7, 2007)

### Other Positive Effects

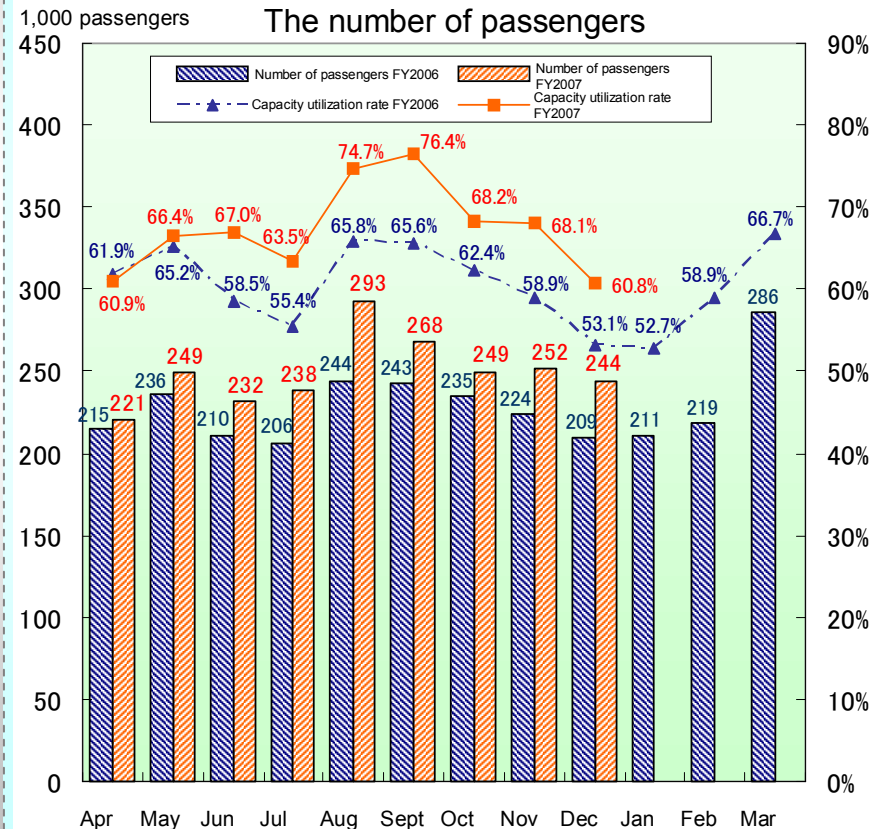
- In April 2007, 3 universities opened in the Port Island I (former container berth portion):  
⇒ Approximately 8,000 new students came to the Port Island
- ◆ Hotel occupancy rate improved by:  
⇒ **+6.1% y/y**
  - ◆ The number of visitors increased to:  
⇒ **29.2 million (the 2<sup>nd</sup> largest figure in its history)**

Average figures for the period from April 2006 to March 2007

Fiscal 2006

### Airport Users

- ◆ Approx. **2.74 million** passengers used the airport in FY2006 alone
- ◆ The number of passengers is continuing to increase





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### 3. *Financial Condition and Administrative Reform*

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Urban District viewed from Ikariyama

# FY2006 Results of General Accounts

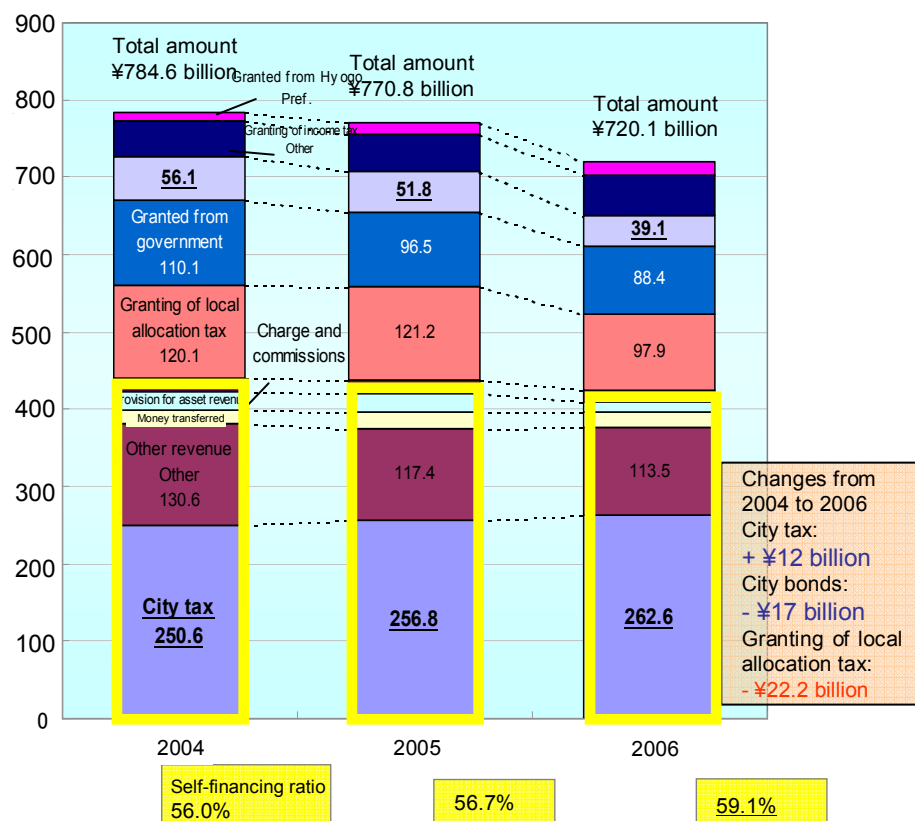


**Kobe City**  
Toward Creation of Affluent Kobe

Growing city tax revenue helped the city to steadily improve the self-financing ratio

- Revenue: City tax revenue increased due to tax reform and economic recovery. Receipts of local allocation tax declined sharply.
- Expenditure: Payroll and public assistance slightly increased. Debt expenditure significantly reduced.

## Revenue in General Account



## Expenditure in General Account



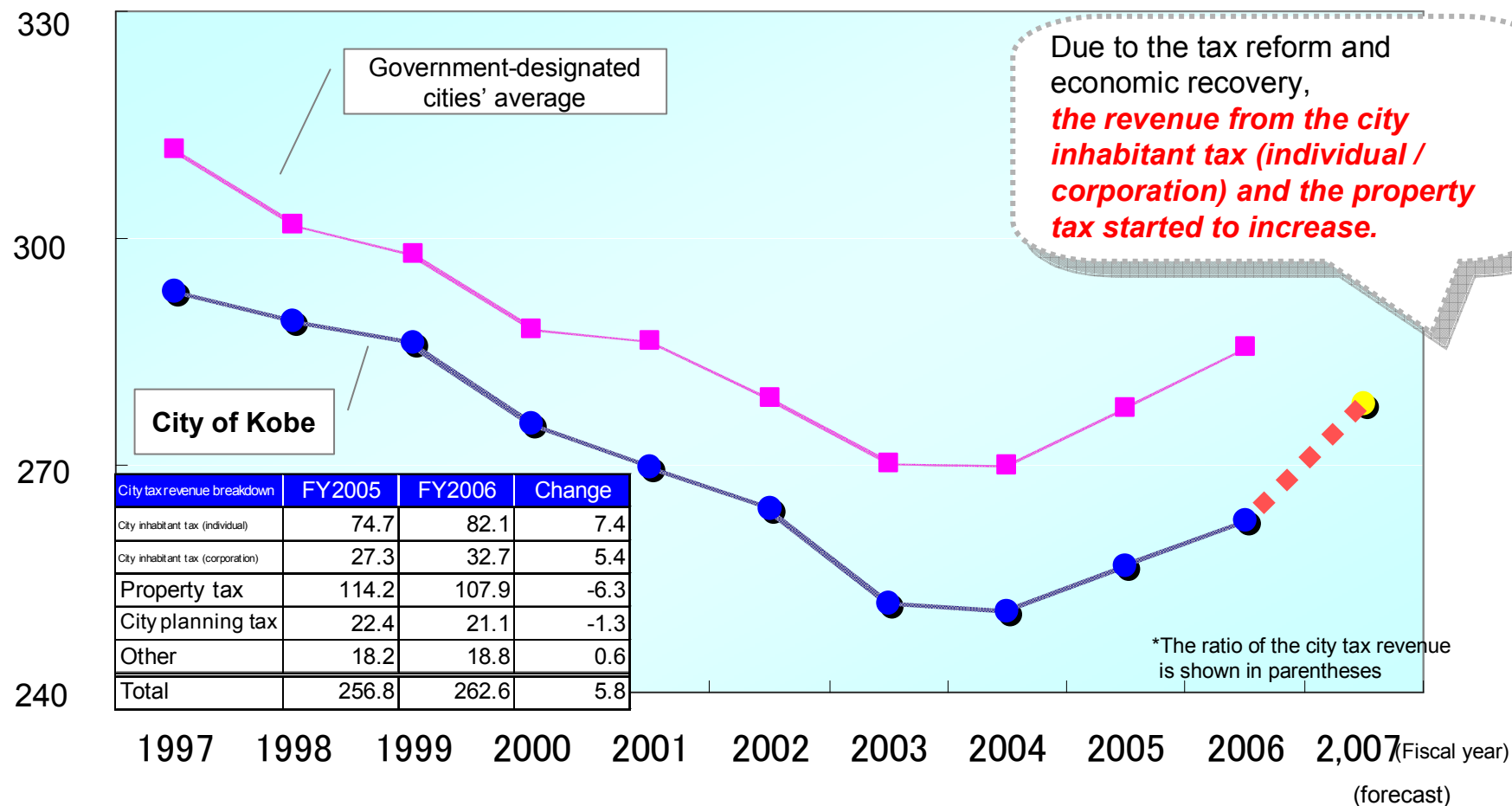
# City Tax Revenue



**Kobe City**  
Toward Creation of Affluent Kobe

- City tax revenue bottomed out in FY2006 after the 8th consecutive annual decline that started in 1997. The revenue continued to increase in FY2006 and FY2007 due to the economic recovery and the transfer of tax sources.

(Billions of Yen)

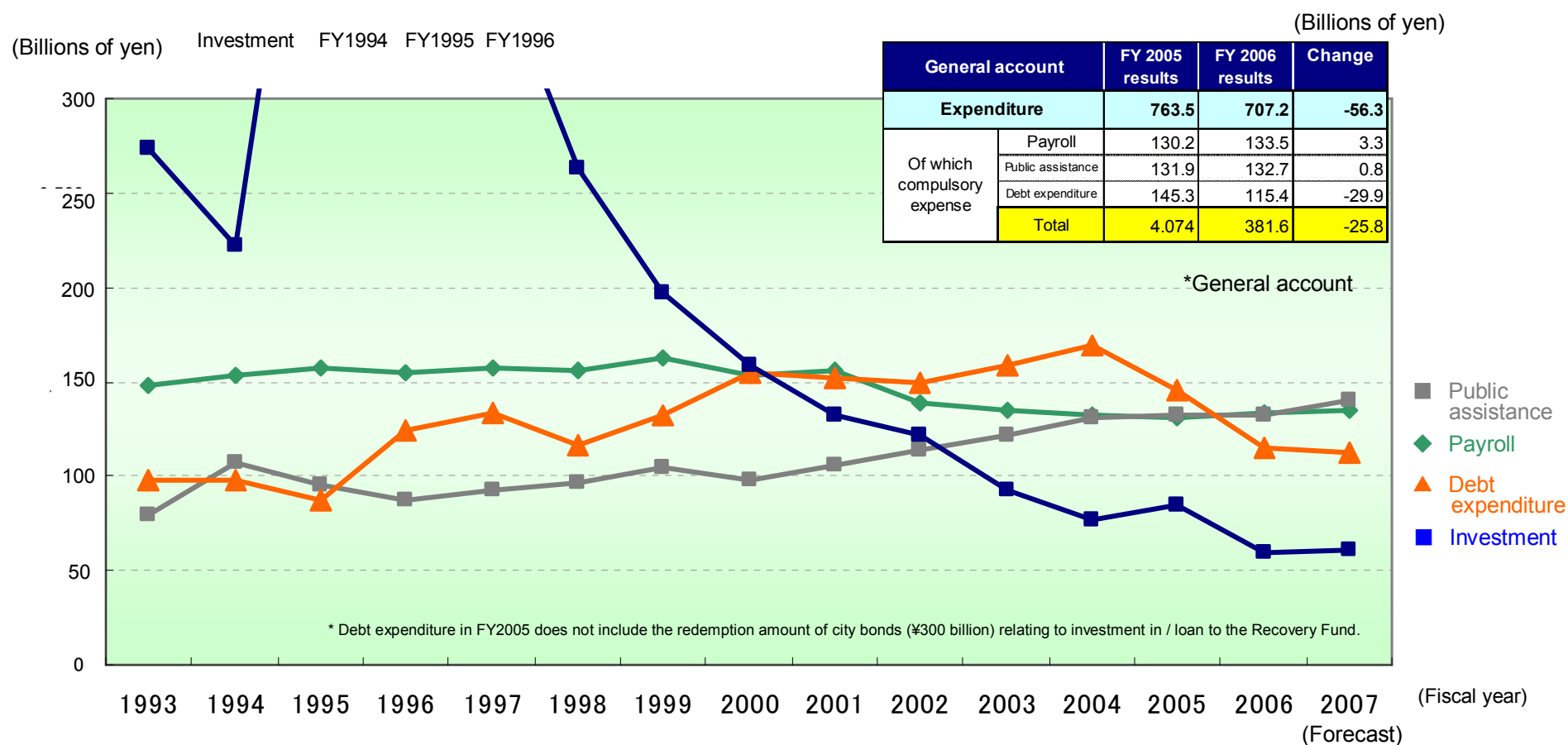


# Expenditure by Item



**Kobe City**  
Toward Creation of Affluent Kobe

- Debt expenditure peaked out in FY2004, declining consistently since. Payroll has been restrained by headcount reduction.
- Investment is lowered to no more than one fourth of the pre-quake level.

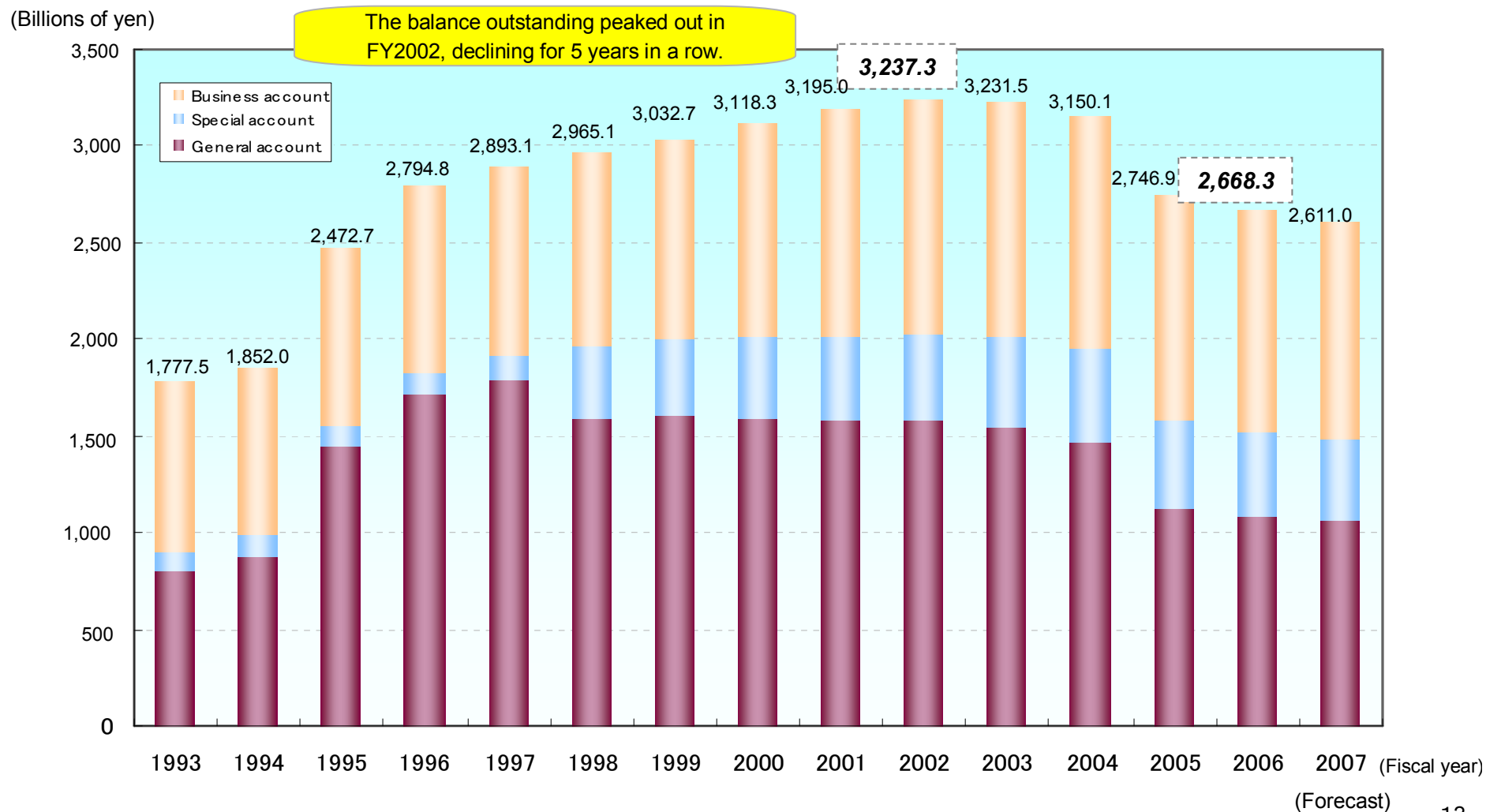


## Outstanding Balance of City Bonds (All Accounts)



**Kobe City**  
Toward Creation of Affluent Kobe

The outstanding balance of city bonds has been reduced by approx. 20% compared to that in FY2002 in all accounts.





# Steady Progress in Administrative and Fiscal Reforms



**Kobe City**  
Toward Creation of Affluent Kobe

- The City has consistently promoted administrative and fiscal reforms to restore its financial status after the earthquake.
- We are now aggressively carrying out the administrative and fiscal reforms in accordance with the Administrative Policy (Target year: FY2010).

## History of our administrative and fiscal reforms

- Three-Year Urgent Plan for Kobe City to Improve Its Financial Status (FY1996 – FY1998)

- Renewed Plan for Improving Administration and Finance (FY1999 – FY2003)



- Outcome of the administrative and fiscal reforms (up to FY2003)
  - ✓ Net loss for one fiscal year: Improved by ¥96 billion
  - ✓ Headcount: Reduced by 2,185
  - ✓ Reorganization: Reduced 353 positions

## Implementation of the Administrative Policy (Target year: FY2010)

**Reducing the outstanding balance of city bonds by ¥500 billion in real terms**

**Reducing headcount by 3,000**

**Exploiting the private sector (privatization /contracting out services to the private sector)**

- Introducing the system of Licensed Managers (545 facilities)  
Reduced cost: approx. **¥1.45 billion** (2005 – 2007)
- Contracted out a half of City's bus service to the private sector, transferring 5 bus routes  
Reduced cost: approx. **¥3 billion** (2004 – 2006)

**Management reforms of universities and the City-owned companies**

- Reorganized to operate Shin Chuo City Hospital, using PFI  
Reduced cost: approx. **¥4.8 billion** (2007-2039)
- Making Kobe City University of Foreign Studies an independent administrative agency (April 2007)

**Reviewing, suspending, and abolishing businesses and facilities**



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## 4. *Funding*

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A view from Kazamidori-no-yakata house

# Schedule of Issuing and Offering Bonds to the Public

## Schedule of Issuing Bonds in FY2007

Billions of yen

|                  | Apr | May | Jun | Jul | Aug | Sept | Oct | Nov | Dec | Jan | Feb | Mar | Total |
|------------------|-----|-----|-----|-----|-----|------|-----|-----|-----|-----|-----|-----|-------|
| 5-yr bond        |     | 10  |     |     |     |      |     |     | 10  |     |     | 10  | 30    |
| 10-yr bond       |     |     |     |     |     |      |     | 10  |     |     | 10  |     | 20    |
| 20-yr bond       |     |     |     | 20  |     |      | 10  |     |     |     |     |     | 30    |
| 30-yr bond       |     |     |     |     |     |      | 10  |     |     |     |     |     | 10    |
| Co-issuance bond | 5   | 5   | 5   | 5   | 5   | 5    | 5   | 5   | 5   | 5   | 5   | 5   | 60    |
| Total            | 5   | 15  | 5   | 25  | 5   | 5    | 90  |     |     |     |     |     | 150   |

- The City will issue and offer bonds of ¥160 billion to the public in FY2007
- In addition to holding IR seminars for major shareholders, we will continue to conduct proactive investor relations' activities including one-on-one meetings

\*The above schedule may be changed from time to time.

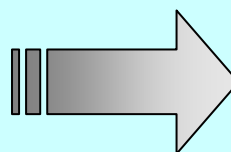
\*We plan to issue bonds presumably underwritten by banks of *approximately* ¥50 billion.

### For reference: Issuer Rating

The City obtained rating from Rating and Investment Information, Inc. (R&I) in January 2007 as follows:

Previous rating (op)

**AA-**



Present rating

**AA**

Outlook: Stable

\* "Op" ratings are determined chiefly on the basis of publicly available, disclosed information.

\* "AA" is defined as "a very high degree of capacity for payment of issuance claims. It is also accompanied by excellent elements."

## 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

⇒ 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

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