

Joint IR Meeting 2008

Financial Condition of City of Kitakyushu



Kitakyushu Airport



Kitakyushu Science and Research Park

Feb 16, 2008 ~ Feb 27, 2008

City of Kitakyushu Mayor
Kenji Kitahashi

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Greetings from the mayor of City of Kitakyushu



City of Kitakyushu promotes industrial development and visitors industry in order to achieve a “people-friendly and vigorous city” by developing child-care, education and welfare environments. Moreover, we aim to be a city admired by the rest of the world such as “No.1 child-care city in Japan” and “No.1 education city in Japan.”

City of Kitakyushu has been growing into a prosperous city with developing industrial and commercial businesses and has historically contributed to Japanese modernization. At the same time, the city has beautiful natural scenery surrounded by sea and mountains, though it is a million-city.

This is our first participation in an overseas IR session for municipal bonds, and I would like all of investors to take the opportunity to learn about City of Kitakyushu in order to help your investment decisions.

Please visit City of Kitakyushu when you come to Japan. We always welcome you to our city.

City of Kitakyushu Mayor Kenji Kitahashi

北九州市長 北橋 健治



0. Introduction – II

~ Basic Data of Ordinance-designated Cities ~

For the fiscal year 2005, Yen in billions

	Area (Km ²)	Population (1,000)	Shipments		Retail Sales	GDP	Debt	Debt % GDP
			Agricultural	Industrial				
Chiba	272	924	11	1,053	962	3,653	652	18%
Fukuoka	341	1,401	8	610	1,820	6,791	1,395	21%
Hiroshima	905	1,154	6	1,925	1,372	4,692	953	20%
Kawasaki	143	1,327	3	4,250	1,140	4,704	914	19%
Kitakyushu	487	993	6	1,886	1,146	3,454	882	26%
Kobe	551	1,525	12	2,572	1,742	5,969	1,120	19%
Kyoto	828	1,474	13	2,270	2,033	6,009	1,075	18%
Nagoya	327	2,215	3	3,764	3,066	12,016	1,798	15%
Osaka	222	2,628	1	4,148	4,542	21,265	2,879	14%
Saitama	218	1,176	8	843	1,051	NA	337	--
Sapporo	1,121	1,880	5	569	2,322	6,978	1,157	17%
Sendai	784	1,025	10	851	1,246	4,171	733	18%
Shizuoka	1,390	700	24	1,471	802	NA	323	--
Yokohama	437	3,579	10	4,452	3,621	12,938	2,410	19%

City of Kitakyushu at a glance ~ Logistics Infrastructure supportive of Growth~

Kokura Multi-Purpose Terminal



Hibiki Container Terminal



7 sea routes (5 oversea),
44 services per month

Shin Wakato Road



Higashikyushu
Expressway



Kitakyushu Cargo
Terminal Station



Tachinoura Container Terminal



35 oversea routes, 167
services per month

ShinMoji Ferry Terminal

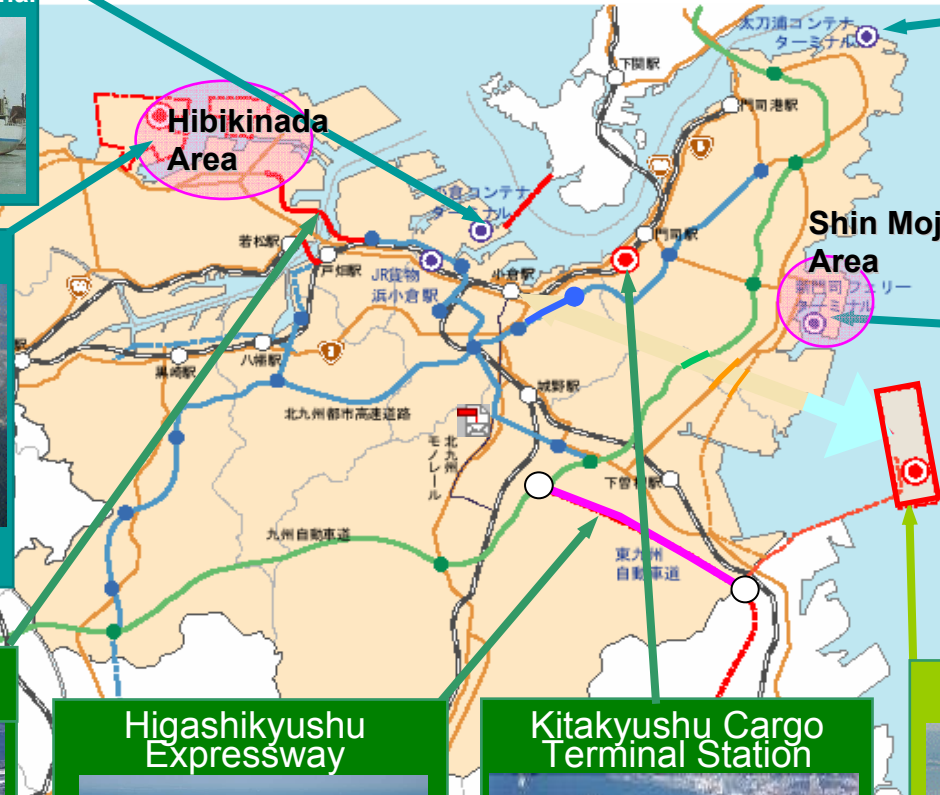


4 sea routes, 42 services
per week

Kitakyushu Airport



15 round trips to Tokyo per day,
Okinawa, Shanghai, etc



~ Congregated Automobile Industries ~

● Automobile Manufacturing Base with 1.5million Units Production

- Toyota Motor Kyushu, Inc.

Started in Sep 2005: 430 thousand units

- Toyota Motor Kyushu Kanda Plant

Started in Jan 2006: 220 thousand units
to 400 thousand units (expected in 2008)

- Toyota Motor Kokura Plant

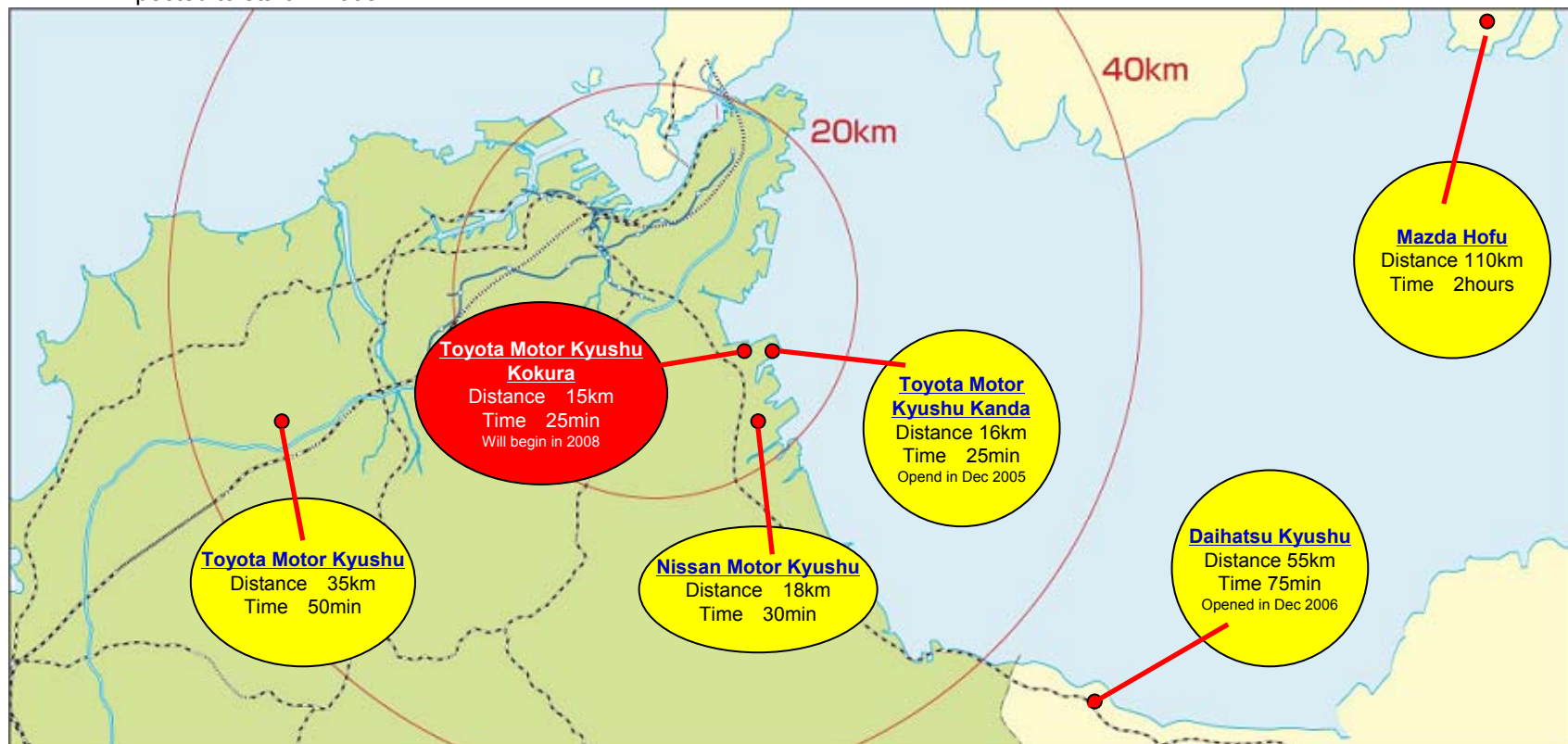
Expected to start in 2008

- Nissan Motor Kyushu Plant

Started in Apr 1975: 530 thousand units

- Daihatsu Kyushu

Started in Dec 2004: 240 thousand units to 500 thousand units in
2007 (expected)



Financial Condition of City of Kitakyushu

1. Profile

- Established in February 1963 by the merger of five cities
- Population of 990,000 around and a budget of over 500 billion yen
- Transportation node for Kyushu and Honshu, also close to East Asia
- Developed as an industrial city and become an environmental city, overcoming pollution problem
- Value of products shipment growth rate of 7.1%
- Much better business conditions DI than nationwide average (Dec 07 BoJ Tankan, nationwide 2, Kitakyushu 11)

2. Financial Condition

- Depends on local allocation tax due to the low tax income per resident
- Highly flexible expense structure by effort to keep the low mandatory spending ratio

Healthy financial condition
despite relatively weak revenue base

3. Fiscal Management Plan

【Revenue】

- Tax revenue is increasing on economic recovery, but cannot expect jumping growth going forward
- Significant decline in local allocation tax

【Expenditure】

- Increase in social assistance expenditure and health and welfare related expenditures
- Increase in debt expenditure

Need to restructure fiscal management based on medium-term financial outlook

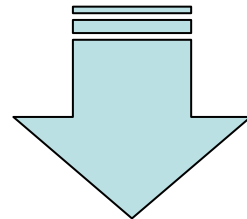
Established "City of Kitakyushu's Master Management Plan".
Drawn up medium-term financial outlook (for coming 4 years)
and work for management restructuring strategically.

- Actions: 1) Further revamp of administration
2) Cut personnel costs
3) Prioritize and rein in investment

4. Issue Plan

- Issue amount generally decreasing after peaking in fiscal 2000. Real debt ratio (preliminary figures) is the lowest among ordinance-designated cities
- Sinking fund for redemption of bullet bond is steadily set aside (73 billion yen as of March 31, 2006)
- Working on diversification of funding proactively, City of Kitakyushu has issued 10-year bonds every December, 5-year bonds once a year and 20-year bonds twice a year.

- **Depends on local allocation tax due to the low tax income per resident**
- **Highly flexible expense structure by effort to keep the low mandatory spending ratio**



**Healthy financial condition
despite relatively weak revenue base**

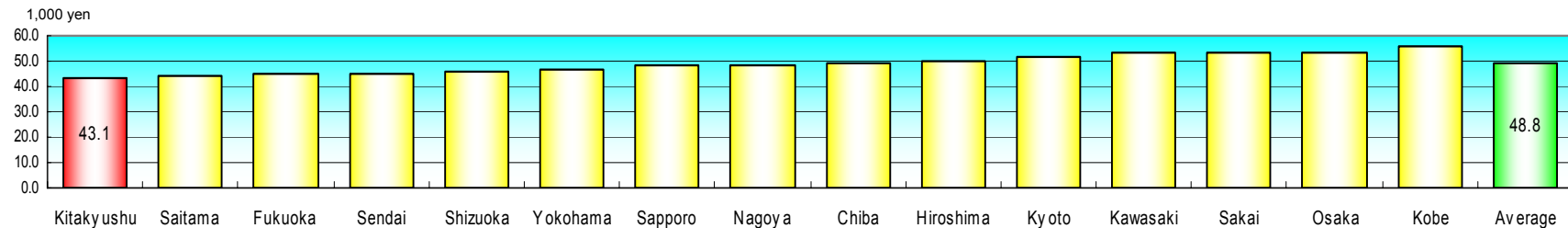
1. Financial Condition – III

~ Highly Flexible Expense Structure ~

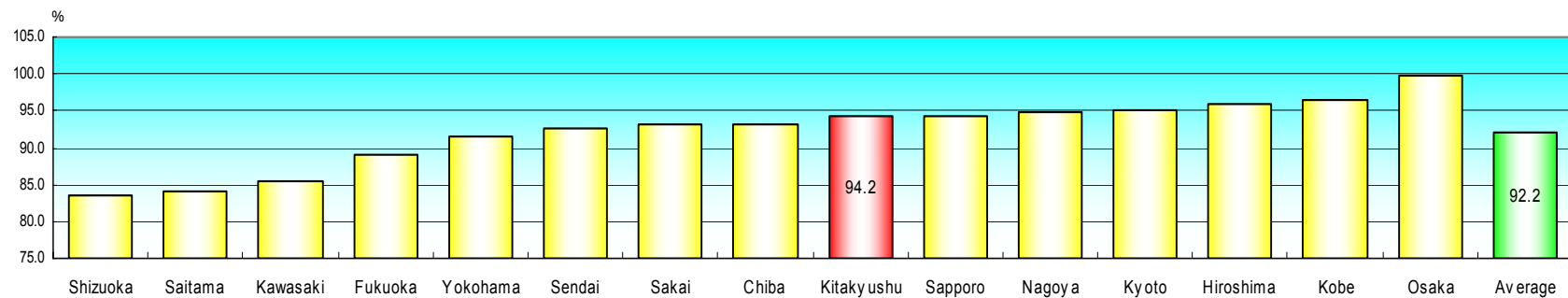
Fiscal 2006 Regular Account Settlement

(Preliminary Figures)

Mandatory Spending Ratio (Ranked 1st among ordinance-designated cities)



Ordinary Income/Expense Ratio (Ranked 5th among ordinance-designated cities)

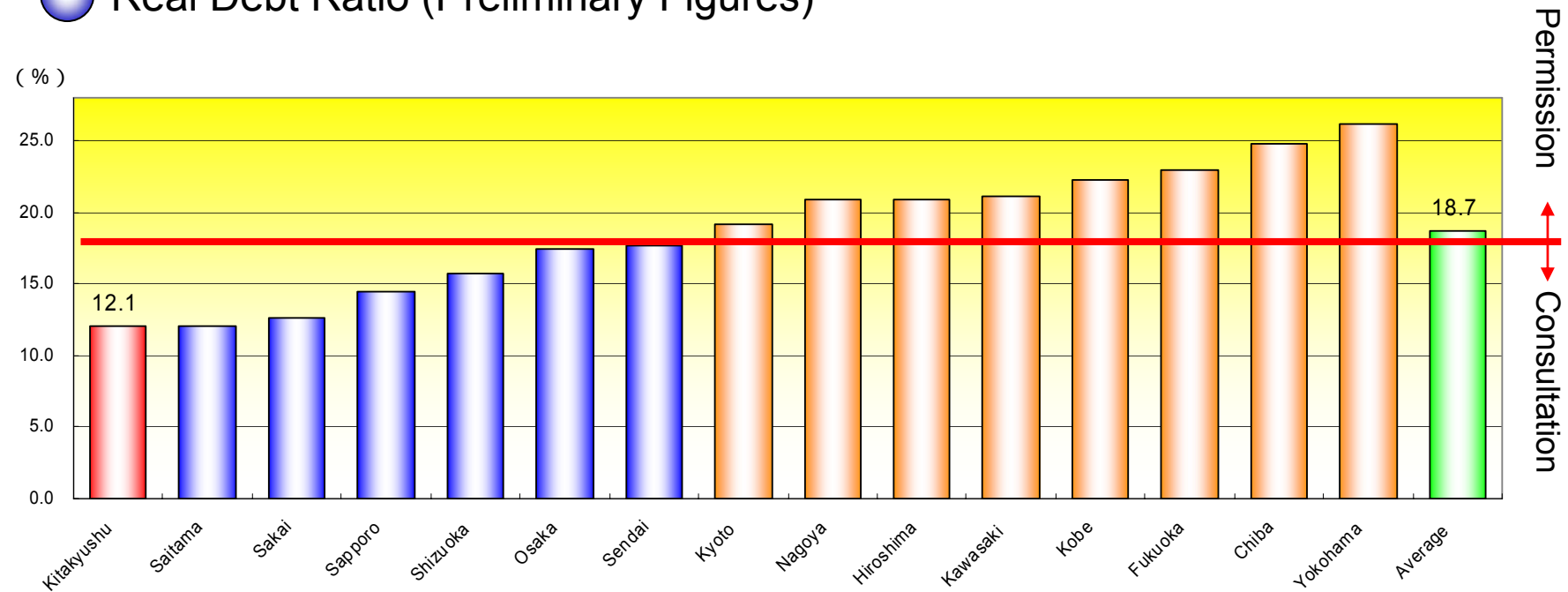


City of Kitakyushu enjoys highly flexible expense structure, as a result of the proactive promotion of administrative and financial reform, and aggressive utilization of municipal bonds with locally allocated tax provisions.

2. Issue Plan and Management– I

~ Real Debt Ratio ~

● Real Debt Ratio (Preliminary Figures)



Note: On basis of fiscal 2006 settlement (from documents released by the Ministry of Internal Affairs and Communications)

The real debt ratio is a new indicator introduced in conjunction with the adoption of the consultation system for municipal bonds. City of Kitakyushu's ratio ranked the first among ordinance-designated cities at 12.1% for fiscal 2006, due to

- 1) making use of advantageous bond issuance with local tax allocation provisions conventionally,
- 2) limiting grant-in-aid to public enterprises,
- 3) setting fund reserve for redemption of bullet bond in line with the rules.

2. Issue Plan and Management – II

~ Underwriting Members ~



Public offering bonds (as of Dec, 2007)

(%)

(%)

*Mizuho Bank	23.0	*Nomura Sec.	10.0
(Manager's Discretion)	1.0	*Nikko Citigroup Sec	10.0
*Fukuoka Bank	6.0	*Daiwa SMBC Sec	10.0
*Nishi-Nippon City Bank	2.0	(Manager's Discretion)	1.0
*Yamaguchi Bank	2.0	*Shinko Sec	9.0
*Fukuoka Hibiki Shinkin	1.0	*Mitsubishi UFJ Sec	7.0
*Sumitomo Mitsui Banking	1.0	Mizuho Sec	2.0
Depfa Bank	1.0	*Mizuho Investors Sec	2.0
Bank Total	37.0	Morgan Stanley Sec	1.0
*5year Syndicated Member		*SMBC Friend Sec	1.0
		*Marusan Sec	1.0
		Okasan Sec	1.0
		*Maeda Sec	1.0
		Shinkin Sec	1.0
		Goldman Sachs Sec	1.0
		Merrill Lynch Sec	1.0
		Deutsche Sec	1.0
		BNP Paribas Sec	1.0
		Credit Suiss Sec	1.0
		Lehman Brothers Sec	1.0
		Securities Total	63.0



Private placement bonds (as of Dec, 2007)

(%)

Fukuoka Bank	25.0
Mizuho Bank	25.0
Nishi-Nippon City Bank	14.0
Yamaguchi Bank	14.0
Fukuoka Hibiki Shinkin	8.0
Shinkin Central Bank	4.0
Sumitomo Mitsui Banking	2.0
Bank of Tokyo Mitsubishi UFJ	1.0
Fukuoka Chuo Bank	1.0
Shinwa Bank	1.0
Higo Bank	1.0
Oita Bank	1.0
Saga Bank	1.0
Depfa Bank	1.0
Shinsei Bank	1.0
Total	100.0

2. Issue Plan and Management – III

~ Initiatives for Funding Diversification ~

Initiatives of Fund Procurement Diversification

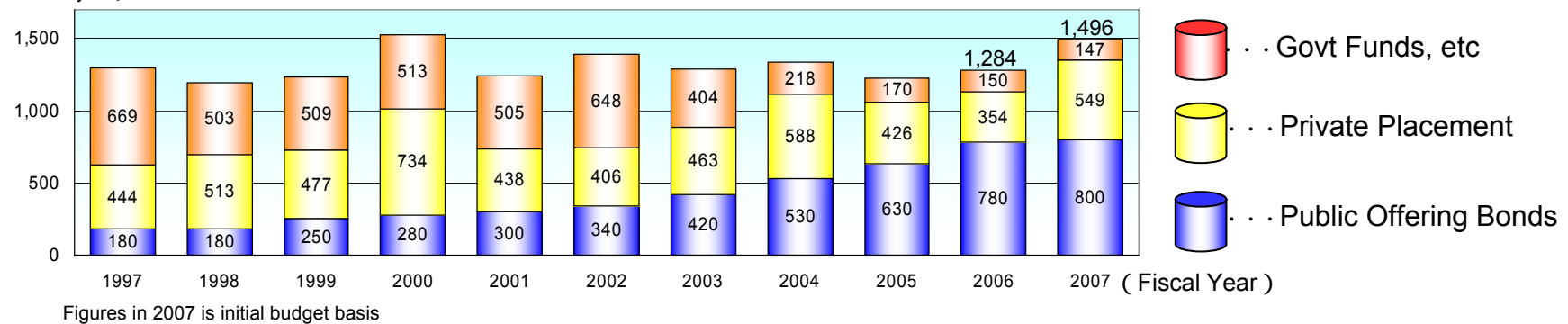
Have issued 5 yr private placement bonds from 2000
Have issued resident-participation public offering bonds (Himawari bonds) from 2002
Have issued joint municipal bonds from 2003
Have borrowed floating rate loans from 2004

Have borrowed syndicate loans from 2004
Have borrowed loan on proposal basis from 2005
Have issued super-long bonds (20 yr) from 2006

Government/Private Sector Funds in Bond Issue

- The shift to private sector funds is expected to continue in fiscal 2007, with such funds accounting for approximately 90%. The City will continue to work to procure long-term, low-interest funds as an alternative to government financing.

(100 million yen) Historical Issue Amount (All Accounts)



2. Issue Plan and Management – IV ~FY2007 Issuance Plan ~

FY2008 Public Bond Issuance Schedule

Unit: JPY Billion

	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	Total
5-year bonds						10							10
10-year bonds									20				20
20-year bonds				10						10			20
Joint Municipal Bonds			5		5		5	5		5	5		30
Total	0	0	5	10	5	10	5	5	20	15	5	0	80

For FY2008, 10-year bonds, which has been issued every December, 5-year bonds once a year and 20-year bonds twice a year are scheduled as well in FY2007.