

# Financial Condition of Hiroshima Prefecture

January 2009



Hiroshima Prefecture





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Hiroshima  
Prefecture

# 1. Profile of Hiroshima Prefecture and its Economy

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# ◆ Profile of Hiroshima Prefecture



- Hiroshima Prefecture has every aspect of geomorphic characteristics of Japan including mountains, sea, rivers, valleys, plains, and basins etc. The climate ranges from northern districts (like severe coldness) to southern districts (like mild warmness) depending on the area. This provides a variety of local products as well as different sports, which led Hiroshima to be called as a “smaller version of Japan”.
- Along with **core industrial (especially the automobile industry) and commercial activities** centering around the Hiroshima Urban Zone (Hiroshima-shi, Kure-shi and others) and the Bingo Urban Zone (Fukuyama-shi, Onomichi-shi), **agriculture and fishery industries are also active blessed with affluent nature like sea and mountains.**
- **International recognition of Hiroshima is extremely high with two World Heritages**, namely Itsukushima Shrine and the Atomic Dome within the prefecture, attracting a lot of tourists from home and abroad.
- **Its population is ranked 12th in the nation** with approximately 2.88 million people, and **Hiroshima-shi, the largest city in Chugoku and Shikoku Districts** is its prefectural capital.

Item	Data of Hiroshima	Rank in the nation	Source
Population	2,880 thousand	12th	Ministry of Internal Affairs and Communication “National census” 2005
Space	8,479 km <sup>2</sup>	10th	Geographical Survey Institute “National area survey by prefecture and municipality” 2006
Nominal GDP	¥11,998.8 billion	11th	Cabinet Office “Economic accounts of prefectural inhabitants” 2005
Products shipment value, etc.	¥8,578.6 billion	12th	Ministry of Economy, Trade and Industry “Industrial statistics” 2006
Products sales value	¥11,810.4 billion	10th	Ministry of Economy, Trade and Industry “Commercial statistics” 2007
Loan balance of domestic banks	¥7,427.1 billion	11th	Bank of Japan “Deposit, cash and loan by prefecture” 2007

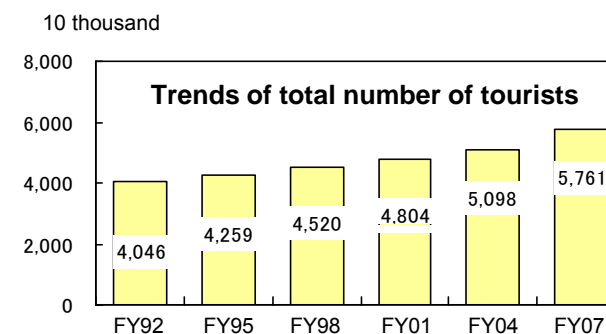
## Two world heritages



Itsukushima Shrine



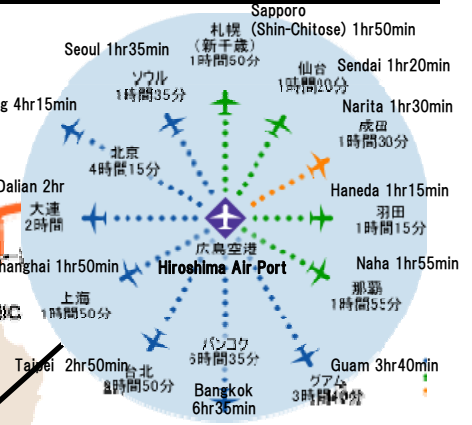
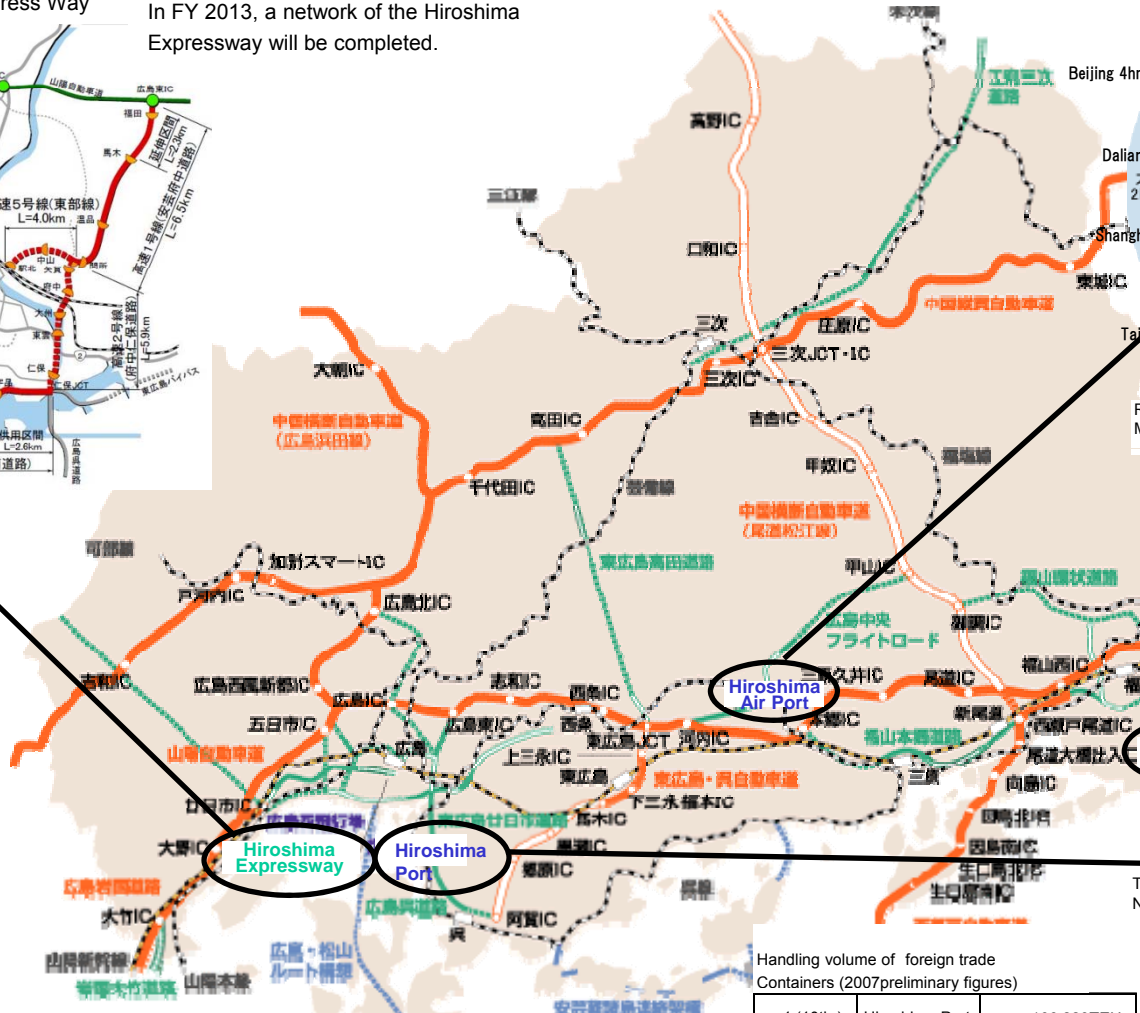
Atomic Dome



# ◆ Superiority of its Function as Nucleus Base

Hiroshima Express Way

In FY 2013, a network of the Hiroshima Expressway will be completed.



Record of transport by route FY 2007 (Preliminary figures, Ministry of Land Infrastructure, Transport and Tourism)

Record of transport by route FY 2007 (Preliminary figures, Ministry of Land Infrastructure, Transport and Tourism)		
Rank	Route	Volume (thousand persons)
1	Sapporo-Tokyo	9,722
2	Fukuoka-Tokyo	8,136
3	Osaka-Tokyo	5,831
4	Okinawa-Tokyo	5,374
5	Hiroshima-Tokyo	2,315

Handling volume of foreign trade Containers (2007 preliminary figures)

1 (10th)	Hiroshima Port	166,223TEU
2 (14th)	Mizushima Port	104,343TEU
3 (15th)	Fukuyama Port	82,194TEU



As the core prefecture in Chugoku Shikoku Districts, Hiroshima Prefecture is equipped with the nucleus function as a base for a broad regional network of traffic such as expressways, airports and ports.

( ) National rank

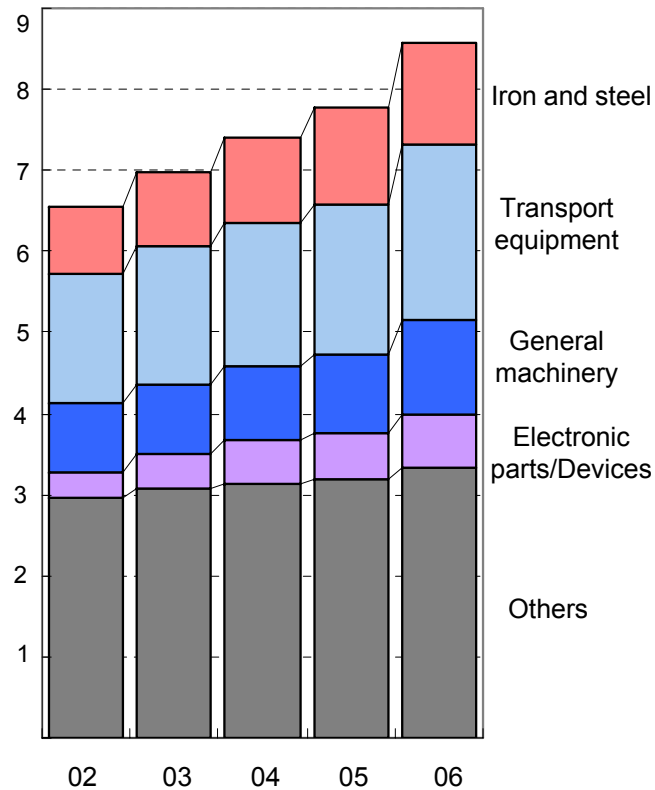


# ◆ Situation of the Regional Economy (1)



## ■ Manufacturing industry drives the economy.

【Hiroshima: Change in the amount of shipment value of products】  
(trillion yen)



<Value of shipment of products, etc.>

**2006 : ¥ 8,578.6 billion**

**Ranked No.1 in Chugoku/Shikoku/Kyushu for 3 consecutive years (Ranked 12th in the nation)**

<Amount of added value>

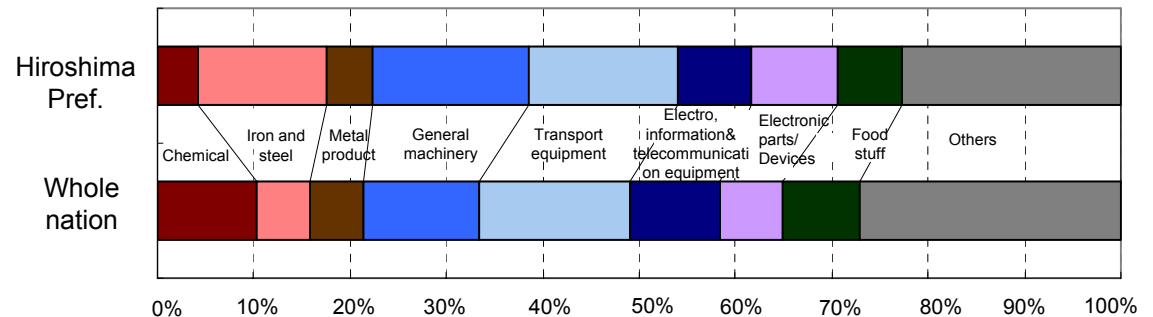
**2006 : ¥2,803.7 billion**

**Ranked No.1 in Chugoku/Shikoku/Kyushu for 4 consecutive years (Ranked 12th in the nation)**

Iron and steel and automobile industries are leading the economy, and new industries such as electronic parts/devices have grown significantly.

Proportion of electronic parts/devices 4.7% (2002) ⇒ 7.5%(2006)

【2006. Industry-classified composition of added value】



# ◆ Situation of the Regional Economy (2)



## Accumulation of emerging growth industries

FY 2003	MAEKAWA MFG. CO., LTD., Higashi-Hiroshima Plant (¥1.2 billion)
	NITTO DENKO CORPORATION, Onomichi-Plant (¥10.0 billion)
FY 2004	Hiroshima Elpida Memory, Inc. (¥500 billion until 2008)
	Sharp Corporation, Hiroshima Plant (R&D) (¥2.4 billion)
	Sharp Corporation, Mihara Plant (¥8.2 billion)
	DNP Precision Devices Co., Ltd., Mihara Plant (¥25.0 billion)
FY 2005	NITTO DENKO CORPORATION, Onomichi Plant (¥14.0 billion)
	Dai Nippon Printing Co., Ltd. (¥15.0 billion)
	DAISEL CHEMICAL INDUSTRIES, LTD., Otake Plant (¥38.0 billion until 2007)
FY 2006	MAEKAWA MFG. CO., LTD., Higashi-Hiroshima Plant (¥1.0 billion)
	DAISEL CHEMICAL INDUSTRIES, LTD., Otake Plant (¥40.0 billion until 2008)
	MITSUBISHI RAYON CO., LTD., Otake Plant (¥12.0 billion)
FY 2007	DAISEL CHEMICAL INDUSTRIES, LTD., Otake Plant (¥38.0 billion)

Cross-Chugoku Expressway  
(Hiroshima Hamada Line)

Chugoku Expressway

Cross-Chugoku Expressway  
(Onomichi Matsue Line)

Sanyo Expressway

Hiroshima City

Nishi Seto Expressway

Magnesium LC cover

MG Precision (Aki District, Hiroshima City)

LC screen protection acrylic plate

Mitsubishi Rayon (Otake)

Film for flexible base

Mitsui Chemical (Otake)  
(Iwakuni, Yamaguchi Pref.)

DRAM

Elpida Memory  
(Higashi Hiroshima City)

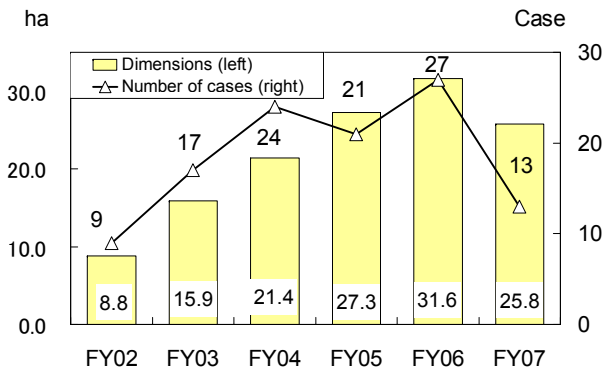
R&D manufacturing

Sharp (Higashi Hiroshima City)

## Support system of Hiroshima Prefecture to promote corporate advance (extract)

Division	Subject of subsidy	Subject area* complex	Condition of recipient	Subsidy amount (Formula)	Limit
Land	Equivalent to Land price	Pref. owned industrial complex	Manufacturing, sales, R&D, service industry, etc.	Land price x (max) 25%	None
Tax	Equivalent to real estate acquisition tax	Pref. owned Industrial complex	Manufacturing, sales, R&D, service industry, etc.	Equivalent to real estate acquisition tax of land building	None
Building Facility	New plant, new distribution facility, new or increased software industry	Pref. owned industrial complex, public distribution complex and all areas in the prefecture	Manufacturing, sales, R&D, service industry, etc., which satisfy certain conditions like floor space and amount of capital investment	[Pref. owned industrial complex] Capital investment amount (excluding land price) x 15% [Other public complex] Capital investment amount (excluding land price) x 10% [Private land] Capital investment amount (excluding land price) x 5%	[Prefecture owned] ¥500 million [Others] ¥100 million

## Situation concerning the advance in industrial complexes managed by prefecture (Location agreement base)



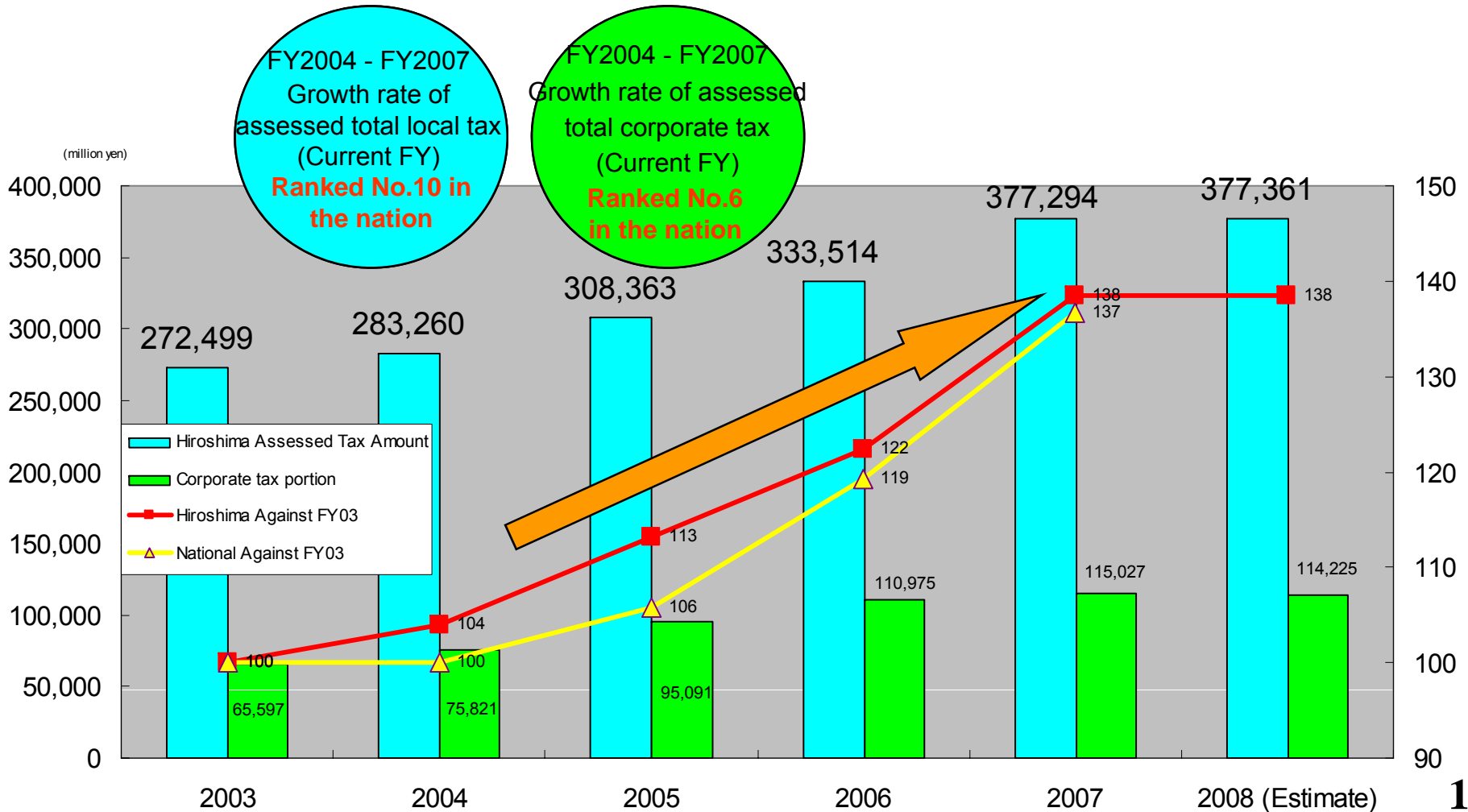


# Tax Revenue Situation

Assessed tax amount: Current year base



While tax revenue has been recovering every year due to increased revenue mainly from two corporate taxes, the estimated revenue for FY2008 reflects a severe economic situation derived from hikes in oil and raw material prices and financial unrest.







Hiroshima  
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## 2. Commitment to Administrative and Fiscal Reform

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# ◆ Hiroshima Style Decentralized Administration System



## Hiroshima Prefecture Decentralized Reform Promotion Program

Formulated: November 15, 2004

Period: FY 2005—FY 2009 (5 years)

Constitution: **Collective designation of the 3 plans** below

### Promotion Plan for Decentralized Reform

- Mergers of base municipalities (cities, towns and villages) have progressed  
→ Bigger municipalities
  - 86 cities, towns and villages ⇒ 23 cities and towns
- Review division of roles between public administration and the private sector
  - Abolition of administrative works, transfer to private sector
- Transfer administrative works and authority to base municipalities
- Propose system reform to the government
  - Transfer of administrative works from the prefecture to the central government
  - Early transition to doshusei (regional system)

### Second Administration System Reform Promotion Plan

- Establishment of a decentralized administration system
  - Revision of administrative works
- Establishment of an efficient and streamlined prefectural government
  - Organizational restructuring of prefecture
  - Proper control of a fixed number of employees
    - Reduce approximately 10% of the employees (approximately 2,800) in five years between FY 2005 and FY 2009
- Residents and performance oriented organization culture
  - Review of results of measures and resident participation
  - Human resources development

### Second Medium-term Fiscal Management Policies

- Target
  - Early solution of revenue shortfall
  - Early achievement of a primary balance
- Measures for achieving fiscal soundness
  - Thorough internal efforts (Reduction of personnel expenses and internal administrative expenses)
  - Policy review (Reduction of ordinary construction works expenditures and subsidies)
  - Revenue securement (Secure independent revenue source such as prefectural tax revenue)
  - Measures to secure funds (Thorough fund management and efficient fund operation, fund raising, etc.)

# ◆ Steady Efforts toward Financial Soundness



- In accordance with the “measures for materialization” toward financial soundness formulated in FY2003, we accomplished a reduction of targeted ¥87.3 billion during the 3 years between FY2004 and FY2006 by way of all-out internal efforts like restraint of personnel expenses and revision of measures such as reducing public works, etc.
- In continuation, we have formulated “New measures for materialization” in FY2006, and we engage in a reduction of approximately ¥90.0 billion during FY2007 and FY2009.

## Efforts to date

In accordance with the “Measures for materialization” (FY2004-FY2006), targeted reduction of ¥87.3 billion was accomplished.

## Undergoing efforts

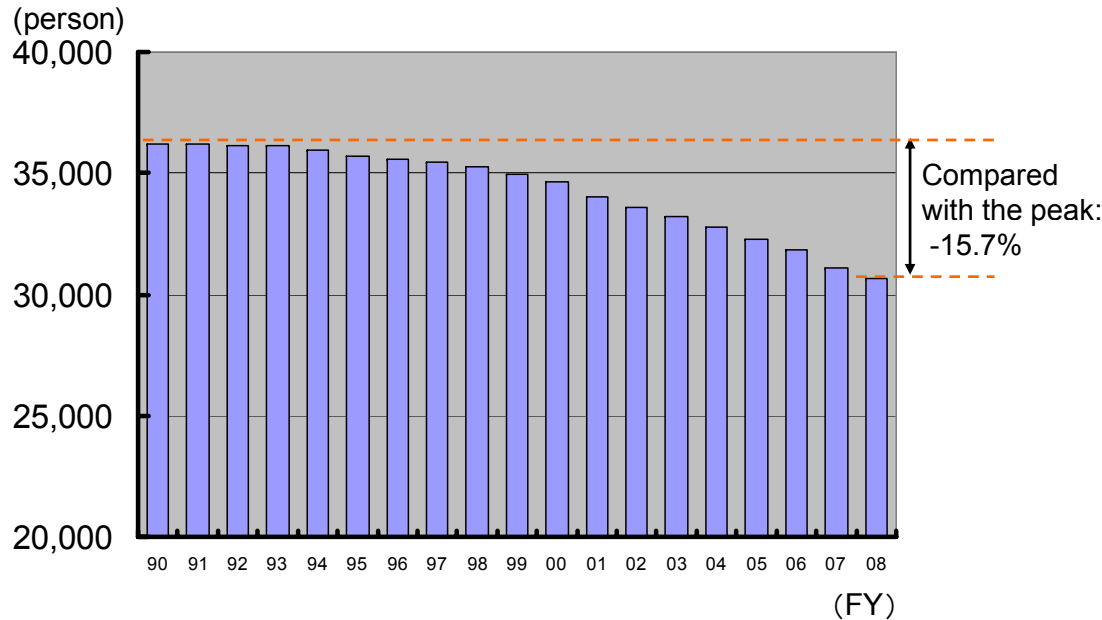
Target (FY2007 – FY2009) of “New measures for materialization”			FY2007 – FY2009 Target amount of effect
Expenditure	<b>Internal effort</b>		<b>Total ¥90.0 billion</b>
	Restraint of personnel expense	Review number of employees, measures to restrain salary, etc., revision of various benefits	
	Cut in internal administration expenses	Cut based on results of comprehensive review of administrative works	
	<b>Revision of measures</b>		
	Cut in ordinary construction works expenditure	Planned reduction of public works, 35% cut in investment expenditures other than public works compared with FY2006.	
	Review of administrative works	Cut based on results of comprehensive review of administrative works	
Revenue	<b>Securement of revenue</b>	Reduction in the amount of unsettled revenue, securement of revenue from sale of assets, etc.	





# ◆ Personnel Downsizing of Hiroshima Prefecture

<Change in the number of prefectural government employees>



■ So far, we have carried out personnel downsizing with a pace faster than the national average, and we have posted a target for future higher than the government guideline.

- ① **Actual results: 1999-2007**
  - National average of municipalities -6.6%
  - Hiroshima Prefecture -10.9%
    - \* Total fixed number base (Including teachers and police officers)
- ② **Target for the next 5 years**
  - Government guideline (2005-2010) -4.6%
  - Hiroshima Prefecture (2005-2010) -6.9%
  - Hiroshima Prefecture (2004-2009) -8.4%
    - \* Total fixed number base (excluding undecided police officers)

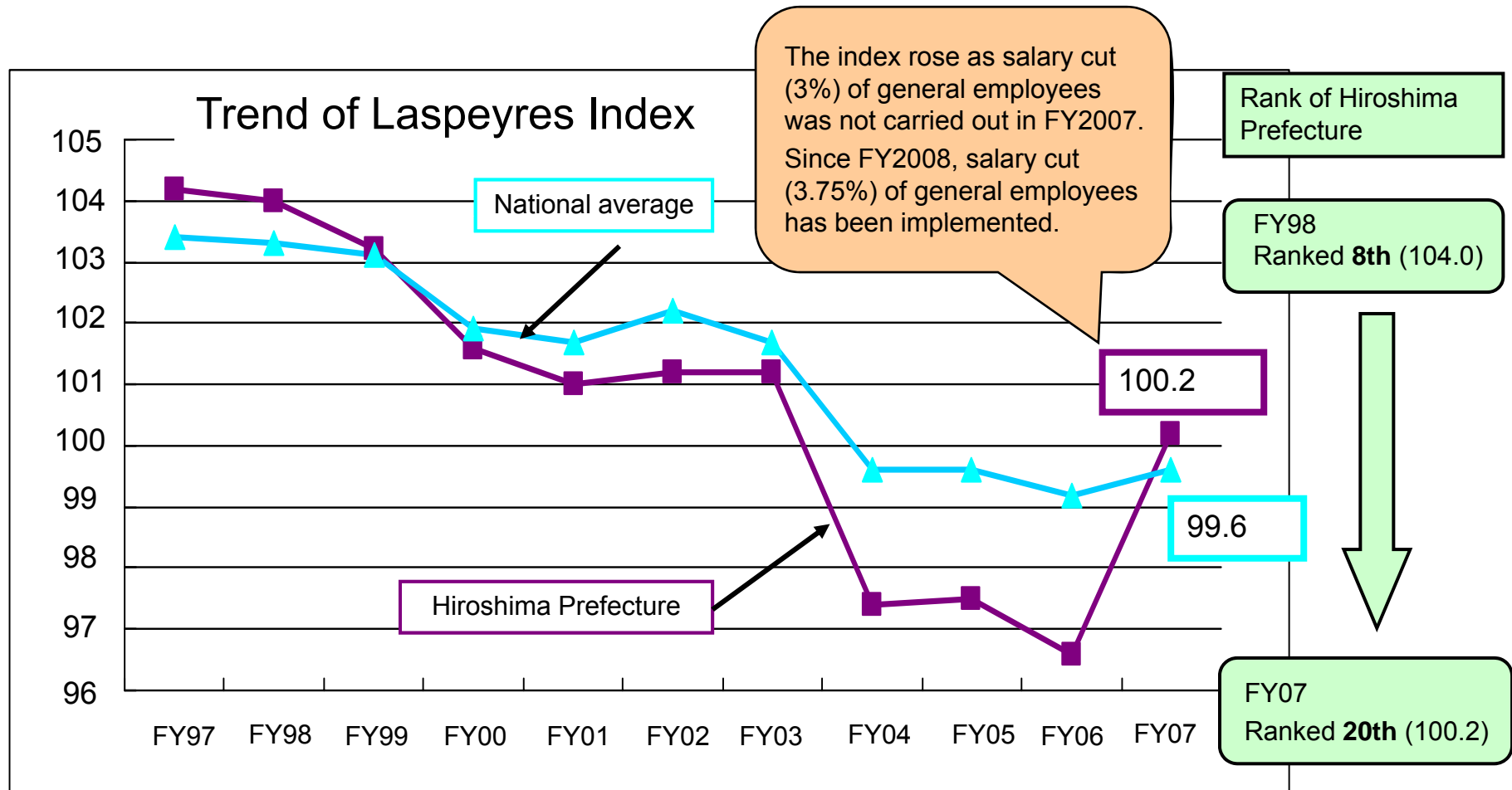
Number of government employees per population of 1,000

10.8 persons

(Ranked 9th fewest in the nation)



# ◆ Salary Level of Hiroshima Prefecture



## ◆Sophistication and Streamlining of Fund Management

- In light of substantial change in the environment surrounding fund management, “Hiroshima Prefecture Fund Management Committee” was established in FY2007, and the “Fund management policy” was formulated.
- In accordance with this “Fund management policy”, we are making all-out governmental efforts in the sophistication and streamlining of fund management.

### Outline of “Fund Management Policy”

For details, please refer to Hiroshima Pref. HP (Top page ⇒Prefectural administration information・statistics ⇒Prefectural finance・budget)

#### (1) Objective and principle of fund management

- To pursue efficiency, such as an increased gain on management and decreased fund raising cost, based on a thorough risk control.

#### (2) Fund management system・fund management plan

- To establish a "Fund Management Committee" composed of external experts in financing, etc.
- To formulate all governmental fund management plans (Annual cash control plan, fund investment plan, fund raising plan, etc.)

#### (3) Fund management policy

- To lengthen management period based on establishment of a system to monitor the situation of destinations of deposit constantly.

#### (4) Fund raising policy

- To implement the leveling of the timing of issuing, and diversification of maturities.
- To implement review of underwriting method of publicly offered bonds in the market (case-by-case appointment of managing securities firm) and diversification of redemption method.

### Composition of “Fund Management Committee”

« FY 2007 »

- Government members 6
- External members 2  
Person of learning and experience, financial consultant
- Executive office  
Financial administration section, think tank

« FY 2008 »

- Government members 6
- External members 5  
Person of learning and experience, financial consultant, CPA, expert of regional finance
- Executive office  
Financial administration section, think tank

External members have been increased in FY2008 in order to implement fund management under a more solid system.





Hiroshima  
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### **3. Outline of Budget (FY 2008) and Financial Result (FY 2007)**

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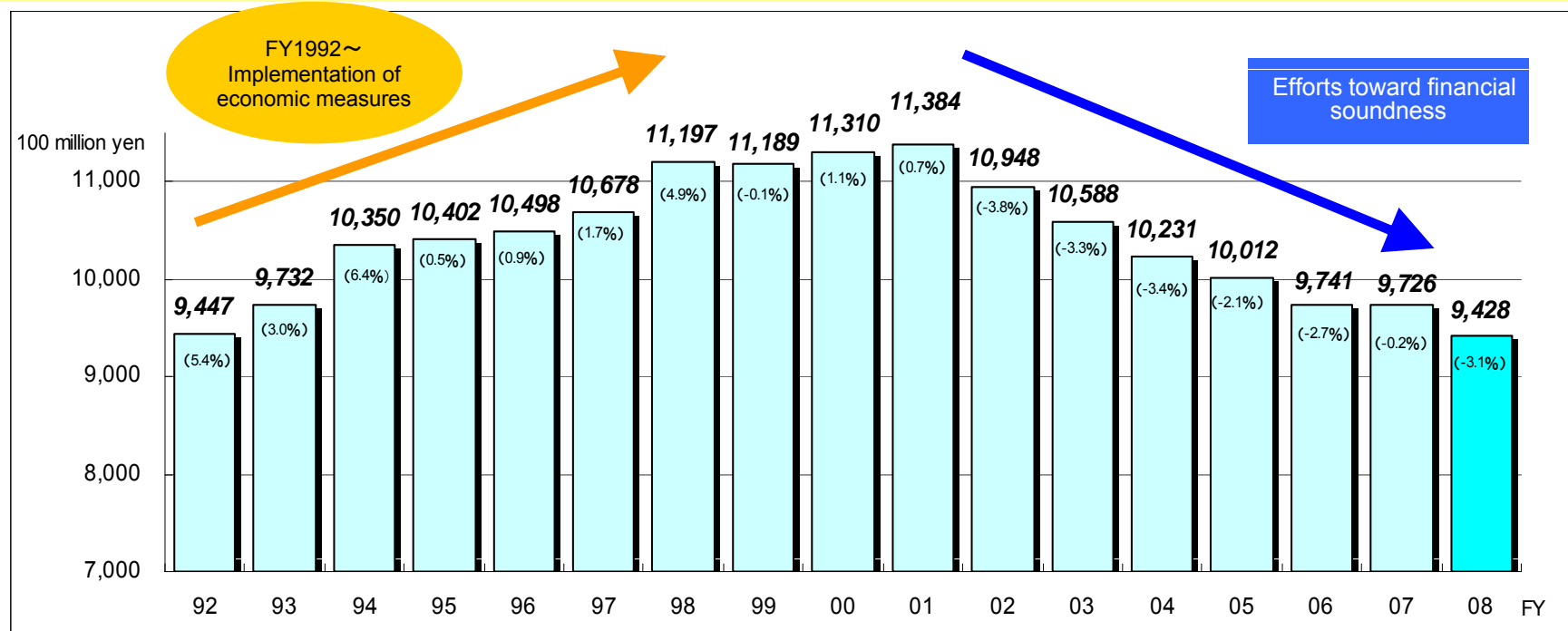




# ◆ Scale of Budget ~FY2008~

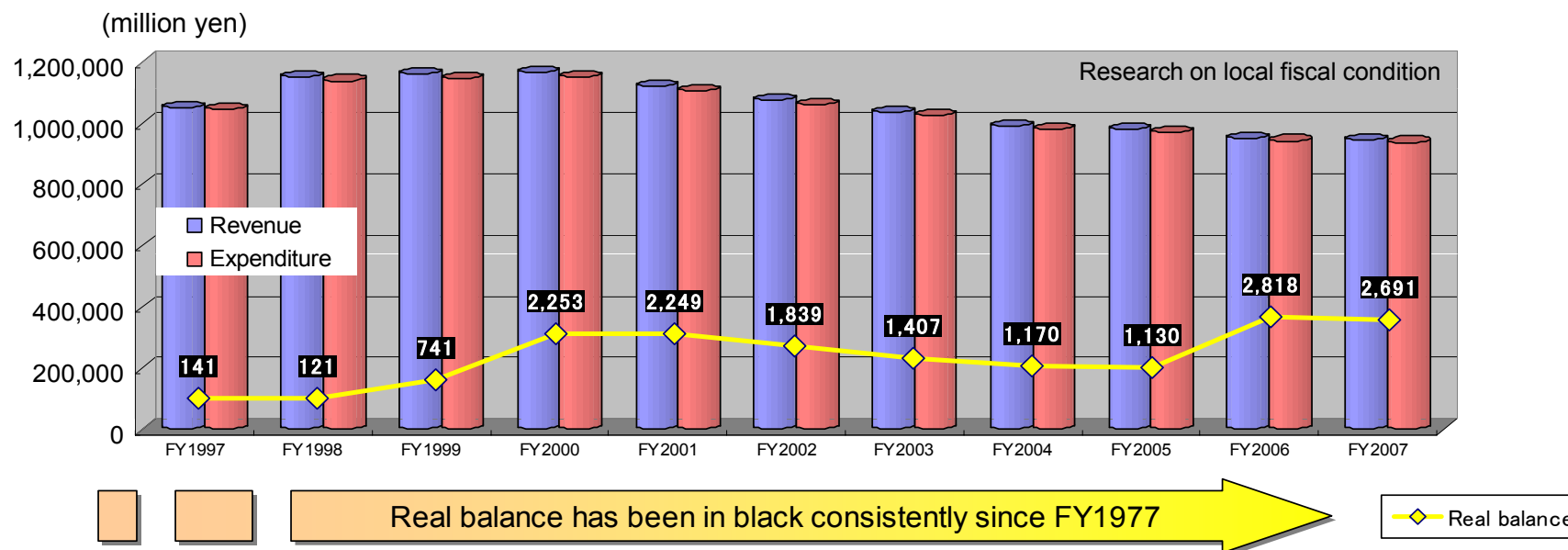
**General account ¥942.8 billion (- ¥29.85 billion or -3.1% compared with the previous year)**

- **Austere budget for 7 consecutive years** since FY2002 (A reduction of approx. ¥200 billion from the peak year FY2001)
- A reduction of ¥29.85billion (-3.1%) compared with the previous year
- Realized streamlined scale of budget by selective concentration of measures along with fundamental restraint in expenditures ( efforts toward financial soundness)





# ◆ Trends of Financial Results



(million yen)											
Item	FY1997	FY1998	FY1999	FY2000	FY2001	FY2002	FY2003	FY2004	FY2005	FY2006	FY2007
General revenue resources	522,520	538,789	567,841	605,096	577,888	541,398	524,903	528,186	567,718	584,155	566,529
National treasury disbursement	217,744	241,378	249,094	249,364	238,347	203,651	192,339	175,583	153,877	129,843	122,828
Local bonds	173,910	220,363	188,165	175,049	178,137	193,328	197,675	176,659	152,030	140,520	140,864
Others	139,445	151,220	158,411	138,671	129,932	138,295	124,219	112,258	109,730	99,190	116,217
<b>Revenue</b>	<b>1,053,619</b>	<b>1,151,750</b>	<b>1,163,511</b>	<b>1,168,180</b>	<b>1,124,304</b>	<b>1,076,672</b>	<b>1,039,136</b>	<b>992,686</b>	<b>983,355</b>	<b>953,708</b>	<b>946,438</b>
Obligatory expenditure	486,904	502,252	514,879	522,399	526,224	527,511	514,807	497,176	488,198	482,251	492,005
Public debt payment	99,592	114,394	131,810	137,450	143,721	146,992	144,445	136,410	136,612	135,599	150,548
Investment expenditure	304,883	354,415	347,739	335,052	283,097	265,894	244,365	214,756	197,297	182,513	165,818
Others	254,327	284,464	287,194	297,198	298,685	267,551	266,870	269,420	287,301	279,479	281,322
<b>Expenditure</b>	<b>1,046,114</b>	<b>1,141,131</b>	<b>1,149,812</b>	<b>1,154,649</b>	<b>1,108,006</b>	<b>1,060,956</b>	<b>1,026,042</b>	<b>981,352</b>	<b>972,796</b>	<b>944,243</b>	<b>939,145</b>
<b>Real balance</b>	<b>141</b>	<b>121</b>	<b>741</b>	<b>2,253</b>	<b>2,249</b>	<b>1,839</b>	<b>1,407</b>	<b>1,170</b>	<b>1,130</b>	<b>2,818</b>	<b>2,691</b>





# ◆ Trends of primary balance

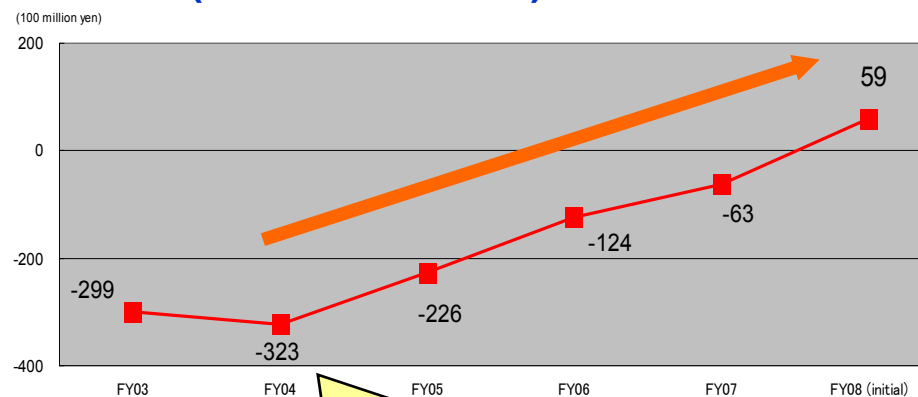
- **Primary balance surplus has been achieved in the initial budget for two consecutive years, FY 2007 and FY2008.**
    - ~ Due to issuance of the yield reduction compensation bond of ¥6.8 billion, obliged by reduced revenue from two corporate taxes, the balance of FY2007 on settlement base was a deficit of ¥6.3 billion.
  - We engage in achieving primary balance surplus on settlement base as an important subject.
    - ~ Primary balance on settlement base has been improved consistently from FY2002 in spite of an increased deficit due to increased issuance of bonds mainly to cope with the disaster in FY2004.
- ⇒ Estimate at the time of compilation of the initial budget for FY2008 was a surplus of ¥5.9 billion.

(100 million yen)

Item	FY03	FY04	FY05	FY06	FY07	FY08 (initial)
Redemption of principal (A)	1,012	940	903	943	1,059	963
Issue amount of local bond (B)	1,311	1,263	1,129	1,067	1,122	904
Primary balance (A - B)	-299	-323	-226	-124	-63	59

\*Both redemption of principal and issue amount of local bond do not include temporary financial measure bond and tax reduction compensation bond.

## ■ PB (Settlement base) ~2008 is initial budget base



In order to cope with disaster of typhoon No. 16 and 18

### ○ Definition of primary balance of Hiroshima

: Balance of redemption amount of principal and issue amount of local bond (excluding temporary financial measure bond etc.)

**Black:** Redemption amount of principal > Issue amount of local bond

⇒ Reduced balance of local bond

**Red:** Redemption amount of principal < Issue amount of local bond

⇒ Increased balance of local bond

### \* Definition of the state (Ministry of Finance)

(Basic financial revenue and expense)

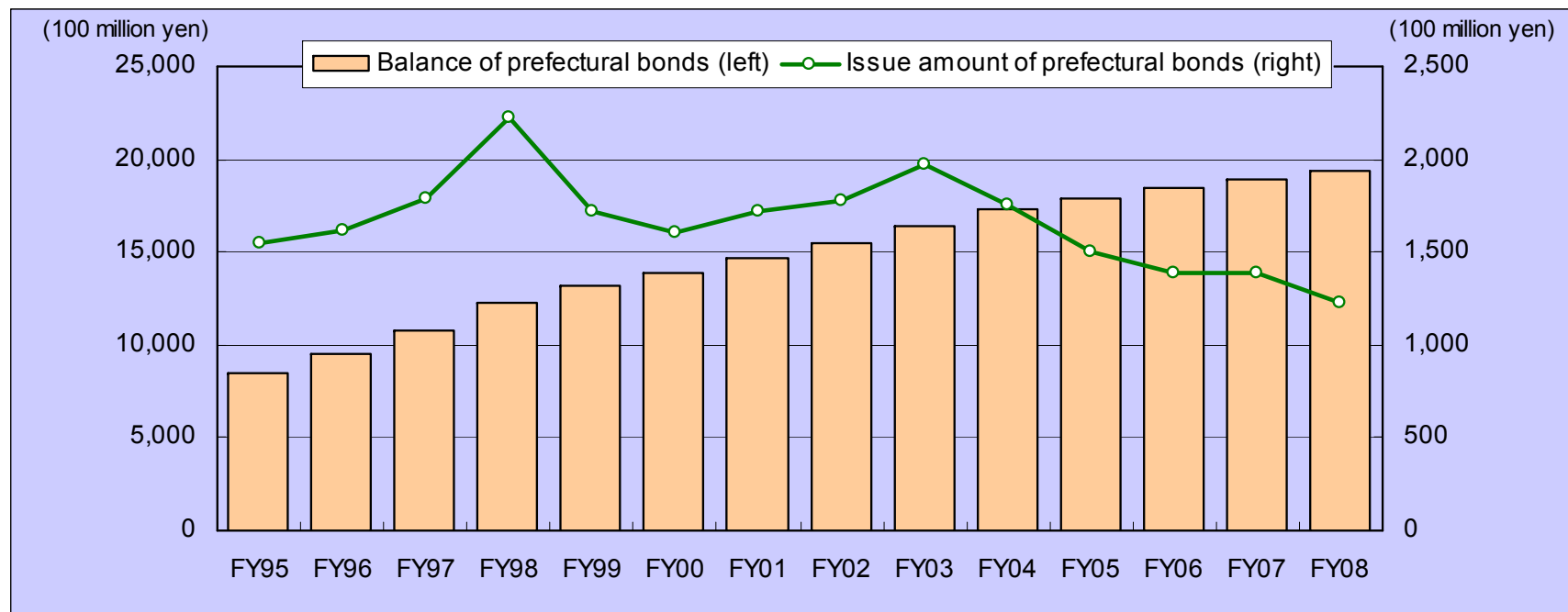
: Balance of revenue such as tax revenue excluding local bond and expenditure excluding both redemption amount of principal and interest



## ◆ Trends of Issue Amount and Balance of Prefectural Bond

- Since FY1992 when bubble effects of the economy collapsed, issue amount of prefectural bonds increased drastically in order to cope with economic measures and revenue shortage of the local finance with a resultant substantial increase in the balance.
- In recent years, **the amount of prefectural bonds issued has decreased to slightly over 50% of the peak amount**, following efforts to cut public works and others in a regular manner. While the balance still remains at a high level, the rate of growth has been edging down, due to reduced issue amount, and **a further improvement is expected by achievement of a primary balance surplus**.
- Balance at the end of FY2007 is 3.46 times of the standard fiscal scale, and the balance per resident is ¥651 thousand.

(General accounting base)





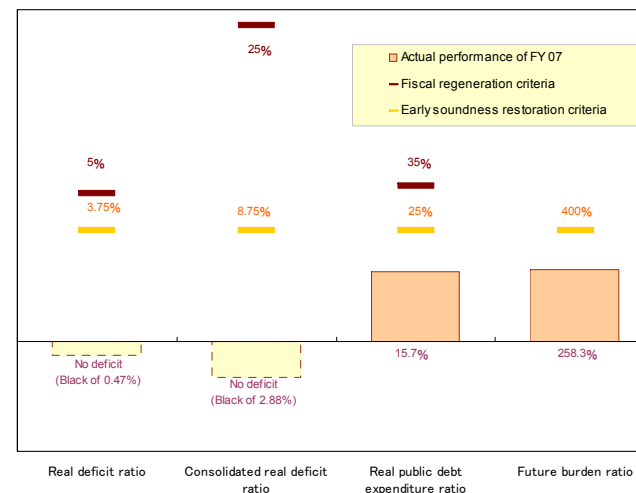
# ◆ Ratios to Judge Soundness

■ With respect to FY2007 settlement, all 4 indicators of financial soundness were below criteria of early restoration of soundness.

## FY2007: Ratios to judge soundness

Item	Real deficit ratio	Consolidated real deficit ratio	Real public debt expenditure ratio	Future burden ratio
Ratio to judge soundness	[Black]	[Black]	15.7	258.3
(Early soundness restoration criteria)	(3.75)	(8.75)	(25.0)	(400.0)
(Fiscal regeneration criteria)	(5.0)	(25.0)	(35.0)	—

(%)



## Outline of Ratios to Judge Soundness

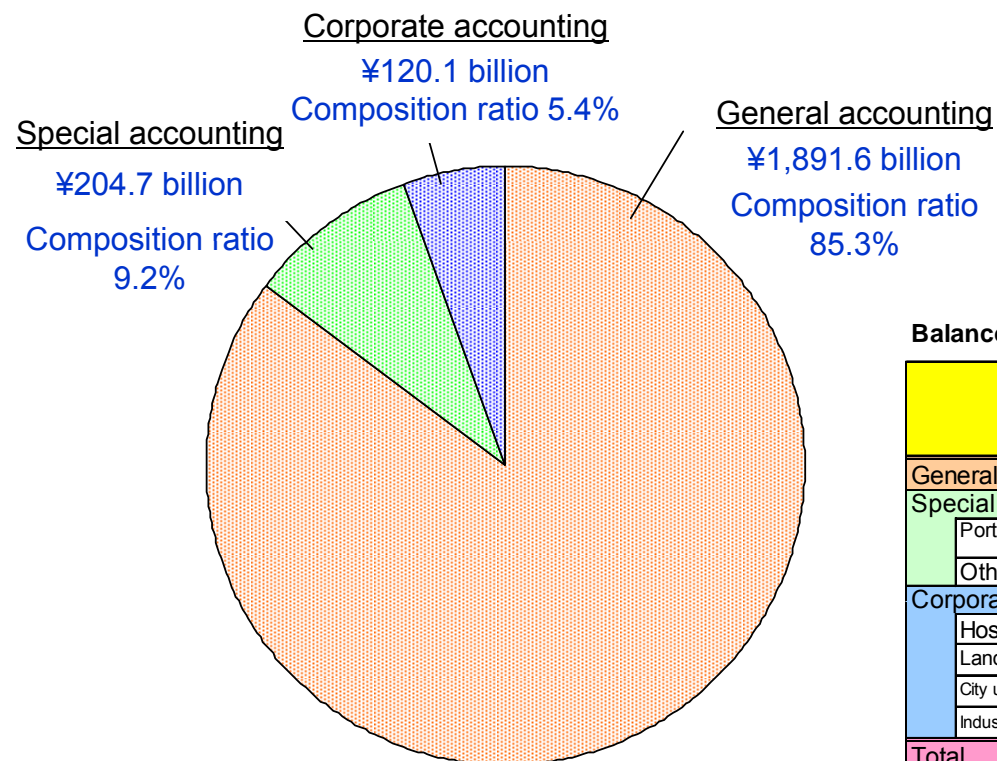
Item	Outline
<b>Real deficit ratio</b> (Ratio of real deficit to general accounting, etc.)	Shortfall of revenues over expenditures (deficit) divided by the amount of the standard fiscal scale which represents the standard scale of general revenue of the prefecture, regarding general accounting, etc., whose major financial resources of the expenditures is general revenue such as prefectural tax and local allocation tax.
<b>Consolidated real deficit ratio</b> (Ratio of real deficit of all accountings)	Amount of shortfall of revenues over expenditures of the prefecture as a whole adding up deficits and surpluses of all accountings of the prefecture divided by the amount of the standard fiscal scale which represents the standard scale of general revenue of the prefecture.
<b>Real public debt expenditure ratio</b> (Ratio which shows the weight of public debt expenditure and expenditure related to public debt)	Average value of 3 years obtained by dividing obligatory public debt expenditure and expenditure related to public debt out of expenditures of the prefecture such as general accounting by the amount based on the standard fiscal scale of the prefecture.
<b>Future burden ratio</b> (Ratio which reflects the balance of local bonds and effective debt to be paid by general accounting, etc. in the future)	A ratio obtained by grasping the amount which corresponds to effective debt to be paid by general accounting, etc. of the prefecture in the future (future burden), subtracting funds, etc. which may be applied to redemption of the debt from the amount of the future burden, and divided by the amount based on the standard fiscal scale of the prefecture.

# ◆ Breakdown of Balance of Prefectural Bonds

■ Among balance of prefectural bonds (total accounting base), **85.3% is comprised of general accounting.**

Composition ratios of special accounting and corporate accounting are 9.2% and 5.4% respectively.

Balance of prefectural bonds by accounting (FY2007 Settlement)



Balance of prefectural bonds by accounting (As of the end of FY2007)

	Balance of prefectural bonds (¥100 million)	Composition ratio (%)
General accounting	18,916	85.3
Special accounting	2,047	9.2
Port and harbor business accounting	1,121	5.1
Others	927	4.2
Corporate accounting	1,201	5.4
Hospital business accounting	276	1.2
Land development business accounting	377	1.7
City use water supply business accounting	454	2.1
Industry water supply business accounting	94	0.4
<b>Total</b>	<b>22,165</b>	<b>100.0</b>

(The figures are rounded to the nearest hundred-million and no adjustment is made to fraction causing a mismatch with the total.)

# ◆ Special Account Settlement



(million yen)

Accounting	Revenue A	Expenditure B	Gap C=A-B	Outline of Accounting
Certificate stamp, etc.	14,951	14,727	224	For clarification of proceeds of prefectural certificate stamps, etc.
Administrative costs	340	319	21	For rational management of supply procurement and communication
Public land acquisition business	2,608	2,608	0	For clear distinction using public land advanced procurement bonds
Debt management	219,113	219,113	0	For efficient accounting through the uniform management of redemption work of public debt
Mother and Child/Widow welfare fund	422	304	118	Loan for living and school expenses addressed to fatherless families, etc.
SME support fund	8,072	6,199	1,873	Loan to support strengthening of a managerial base and start-up of small and medium sized enterprises
Agriculture and fishery extension fund	1,337	747	590	Loan to support improvement of agriculture, fishery and forestry management
Prefectural forestry expenses	120	120	0	For corporate management of forests owned by the prefecture
Port and harbor special preparation business cost	16,733	15,990	743	For the smooth management of the port and harbor preparation business, and its clarification in accounting
River basin sewerage business expenses	9,148	9,147	1	For the smooth management of the river basin sewerage business, and its clarification in accounting
Prefectural housing business expenses	6,838	6,637	201	For the smooth management of the prefecture owned housing business, and its clarification in accounting
High school scholarship	1,377	774	603	For the smooth management of the high school etc. scholarship loan business, and its clarification in accounting
<b>Total</b>	<b>281,059</b>	<b>276,685</b>	<b>4,374</b>	



## ◆ Situation of Corporate Account Settlement and Balance Sheet

- Following last year, revenue expenditure and receipt for both the hospital business and land development business were in the red due to increased medical expenses and a fall in land prices, etc., and the profitability needs to be improved. The water-supply business for industrial use and water-supply business for city use are managed stably.

(million yen)

Item		Hospital	Water-supply for industries	Land development	Water supply for city use	Total
Operational expenditure and receipt	Revenue	20,925	2,719	7,593	11,808	43,045
	Expenditure	21,699	2,467	8,389	9,415	41,970
	Gap (Net income for current FY)	-774	252	-796	2,393	1,075
Capital expenditure and receipt	Revenue	2,697	648	6,421	4,167	13,933
	Corporate bonds	1,407	397	6,421	349	8,574
	Expenditure	3,482	1,491	16,198	10,107	31,278
	Redemption	1,946	367	15,183	7,203	24,699
	Gap	-785	-843	-9,777	-5,940	-17,345
B a l a n c e  S h e e t	Assets	29,415	24,850	62,387	155,889	272,541
	Fixed assets	23,929	20,438	57,865	145,632	247,864
	Current assets	4,694	4,412	3,878	10,257	23,241
	Others	792	0	644	0	1,436
	Liabilities	3,826	1,873	1,101	3,177	9,977
	Fixed liabilities	238	1,219	662	1,694	3,813
	Current liabilities	3,588	654	439	1,483	6,164
	Capital	25,589	22,977	61,286	152,712	262,564
	Capital, etc.	23,451	4,282	37,610	51,783	117,126
	Corporate bond	27,555	9,430	37,679	45,443	120,107
Surplus	-25,417	9,265	-14,003	55,486	25,331	
Cash flow		868	2,539	2,777	7,080	13,264

\* Cash flow: Current assets - Current liabilities - Allowance

\* Revenue expenditure and receipt includes tax, Balance Sheet exclude tax.

◆ **Efforts toward managerial improvement of corporate accounting**



## 1. Hospital business accounting

- We have engaged in rehabilitation of management by formulating “Hiroshima Prefecture Hospital Business Management Plan” (FY2005~), and after formulation of the plan, single year balance has been in the black consistently.
- With respect to the 4 hospitals, (namely Hiroshima, Akitsu, Setoda and Kamiishi-Sanwa,) while we promote the reinforcement of Hiroshima Hospital, with its high-level medical care functions, as the foundation hospital of Hiroshima, we will review the hospital scale, etc. of the Akitsu Hospital where the number of patients is declining. We will also promote the transfer of the community-based Setoda and Kamiishi-Sanwa Hospitals to the local community (A transfer agreement of the Kamiishi-Sanwa Hospital has been reached with the local municipality ).
- In April 2009, we will implement a transition from the partial application business (limited to financial rules) to a total application business under the Local Public Corporation Law, promoting the definition of managerial responsibility and enhanced employee awareness under new hospital business managers.

## 2. Land development business accounting

- By having established “Hiroshima Prefecture Industrial Accumulation Promotion Strategy Headquarters”, we promote strategic attraction of companies by grasping corporate needs accurately.
- Based on the corporate needs, we promote better use of undeveloped sites by improving and converting a number of small lot sites into large lot sites, for instance.



## ◆ Financial Results of Companies with More than 1/2 Capital Contribution

- With respect to 3 local public corporations (4 bodies), **they are managed stably with all their single year balances in the black**. Above all, revenue expenditure balance of the Land Development Public Corporation at the end of FY2007 ended up with ¥18.7billion, making it one of the few excellent corporations in the nation.
- Balance of loan guarantee and loss compensation of the prefecture for invested corporations is approx. ¥91.0 billion, which remains at approx. **4.1% of the balance of prefectural bonds**.

### < Fiscal Year 2007 settlement >

(million yen)

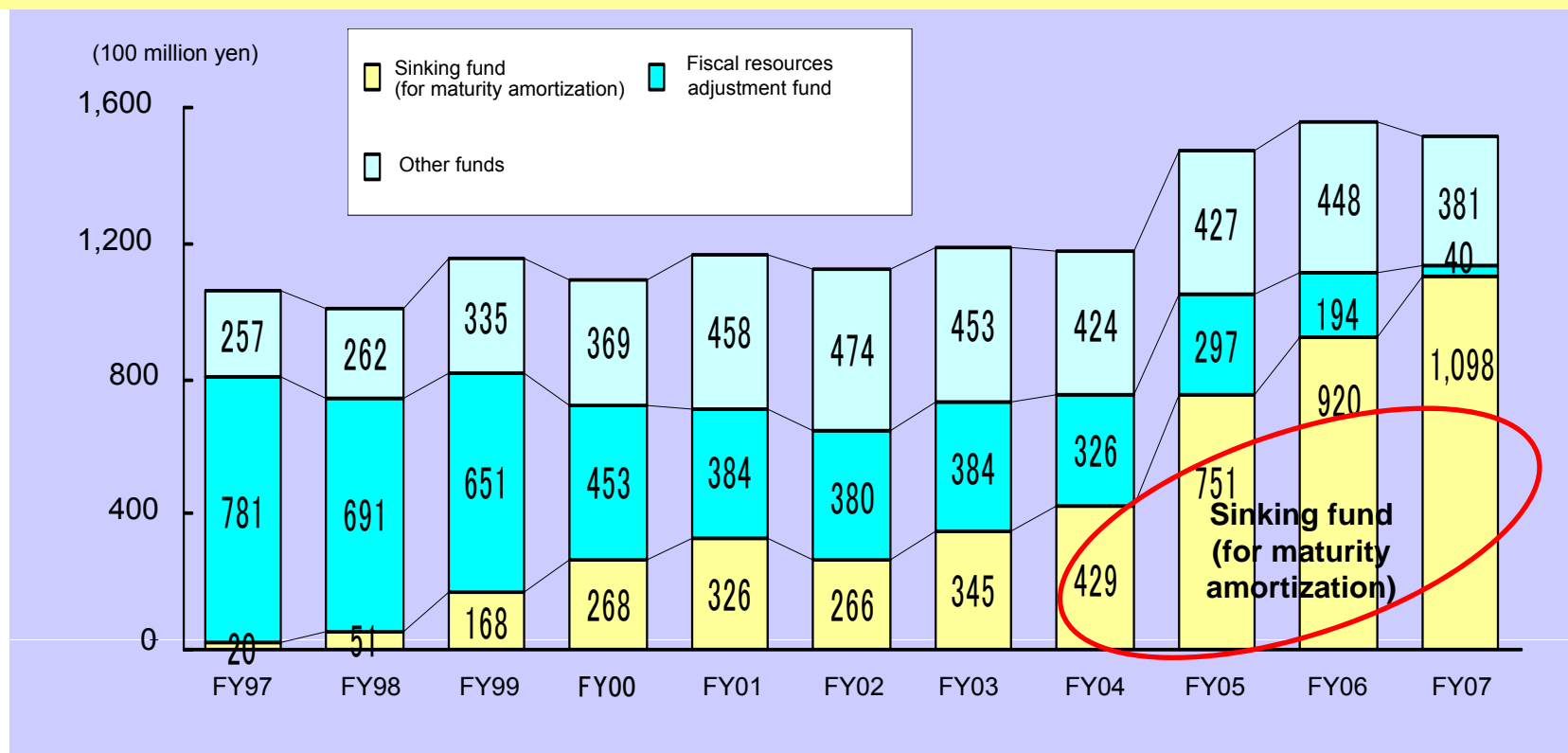
Item		Hiroshima Prefecture Land Development Public Corporation	HIROSHIMA PREFECTURE ROAD PUBLIC CORPORATION	Hiroshima Expressway Public Corporation	Hiroshima Prefectural Housing Corporation	16 other entities	Total
Single year balance	Revenue	5,246	6,998	5,482	3,486	24,336	45,548
	Expenditure	5,127	6,998	5,482	2,693	24,148	44,448
	Gap	119	0	0	793	188	1,100
Carryover from previous year		18,590	0	134	6,173	2,188	27,085
Net balance at end of FY2007		18,709	0	134	6,966	2,375	28,184
Carital, etc.	Investment of prefecture	30	6,325	30,638	8	3,747	40,748
	Equity position	100.0%	100.0%	50.0%	83.0%	72.1%	62.0%
B a l a n c e  S h e e t	Total assets A	27,006	25,303	292,715	25,902	79,695	450,621
	Total liabilities B	8,267	18,978	231,305	19,205	57,470	335,225
	Total capital C	18,739	6,325	61,409	6,697	22,226	115,396
	Assets C/Liabilities B	69.4%	25.0%	21.0%	25.9%	27.9%	25.6%
Balance of loan guarantee of prefecture		5,281	6,964	64,189	0	0	76,434
Balance of loss compensation of prefecture		0	0	0	0	14,593	14,593





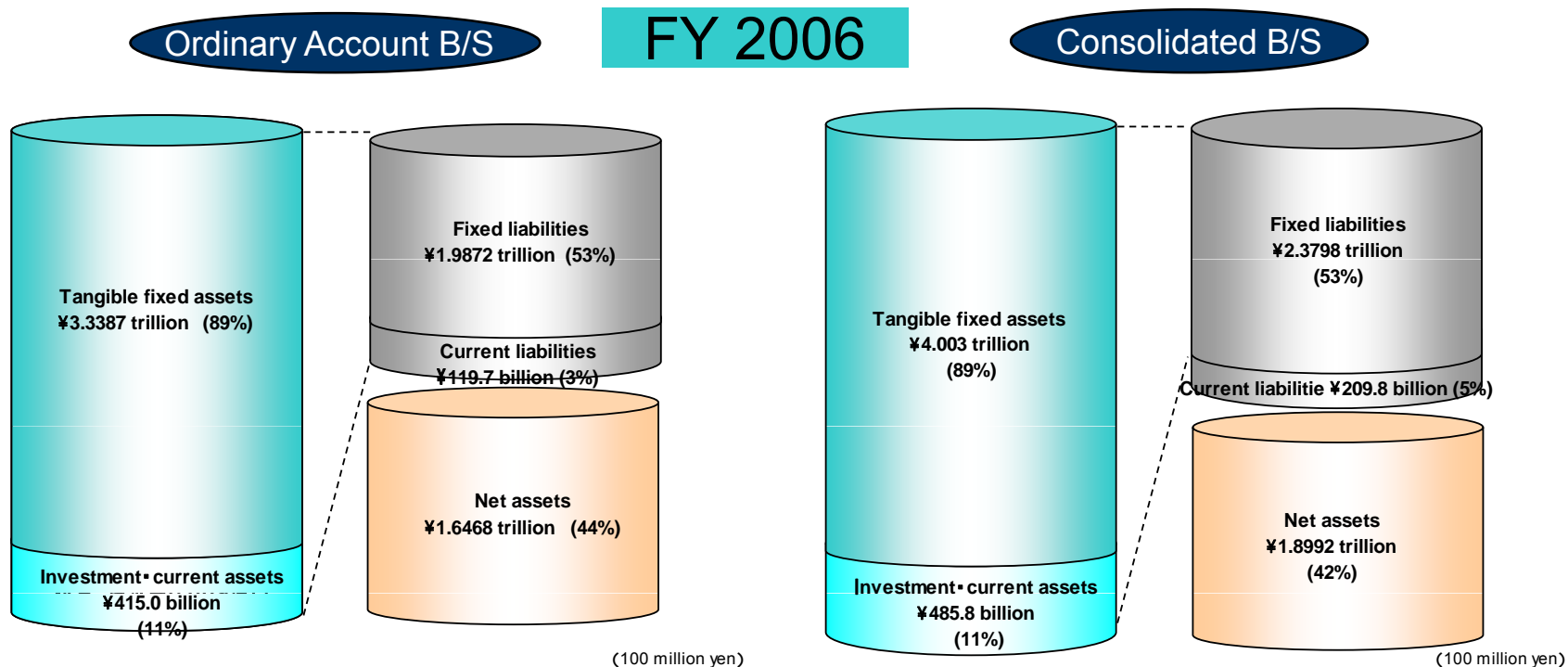
## ◆ Trends of Balance of Funds

- The sinking fund is a fund to prepare for bullet repayment at maturity by reserving each year.  
 ⇒ **Hiroshima Prefecture strictly observe to appropriate the theoretical sinking fund for redemption for publicly offered bonds.**  
**(Reserve rule: Deferred for 5 years, 25 years x 4%)**
- The fiscal resources adjustment fund (the fiscal adjustment fund and sinking fund “general”) are compensatory funds in case of unexpected increases in expenditure such as a substantial reduction in tax revenue due to recession or disaster, and the balance at the end of FY2007 was ¥4.0billion in total.





# ◆ Balance Sheet of Hiroshima



(100 million yen)

【Assets】		37,537		【Liabilities】		21,069	
① Tangible fixed assets	33,387	89%	① Fixed liabilities	19,872	53%		
Government office and road, etc.			Local bond and reserve for retirement allowance				
② Investment, etc.	3,758	10%	② Current liabilities	1,197	3%		
Investment and loan			Redemption money for next year				
③ Current assets	392	1%					
Yearly cash account and fund							
			<b>【Net assets】</b>	<b>16,468</b>	<b>44%</b>		
			① National treasury disbursement	9,588			
			② General account budget, etc.	6,880			
<b>Total assets</b>	<b>37,537</b>		<b>Total liabilities • net assets</b>	<b>37,537</b>			

(100 million yen)

【Assets】		44,888		【Liabilities】		25,896	
① Tangible fixed assets	40,030	89%	① Fixed liabilities	23,798	53%		
② Investment, etc.	3,418	8%	② Current liabilities	2,098	5%		
③ Current assets	1,425	3%					
④ Deferred account	15	0%					
			<b>【Net assets】</b>	<b>18,992</b>	<b>42%</b>		
<b>Total assets</b>	<b>44,888</b>		<b>Total liabilities and net assets</b>	<b>44,888</b>			

\* Scope of consolidation covers ordinary account, public corporation account, special account and major invested companies.



Hiroshima  
Prefecture

## 4. Hiroshima Prefectural Bond

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# ◆ Acquisition of Solicited Rating

■ Hiroshima has acquired a rating from “Moody’s Investors Service” (Sep. 16, 2008).

【Long-term obligation rating : Locally-denominated 】 **Aa1 (outlook: Stable)**

【BCA (Baseline Credit Assessment) 】 **4**

## Purpose of Acquisition of Rating

- ① **Correspondence to changing fund raising environment**
  - Increase in the issue amount of public offering bonds in the market, and changes in the method of determining terms and conditions
  - Abolition of unsolicited ratings by the end of the year
- ② **Enhanced creditworthiness and expanded investor base**
- ③ **Application to financial and administrative operations**
  - Application of professional and objective analysis of the third party organization

## Points of Assessment

- ① **Efforts toward financial soundness (Material P15-18)**
  - Expenditures have been reduced and streamlined in line with the past performance and present “New measures for materialization”
  - **Consistent improvement of the public finance**
- ② **Nucleus base of the Chugoku District = Stability of the regional economy (Material P8-11)**
  - Demographic stability, industrial accumulation
  - Diversification of industrial structure and development of expressway network by the prefecture
- ③ **Enhancement of fund management system (Material P19)**
  - Establishment of “Fund Management Committee” involving external experts

## Local Bonds Ratings by Moody’s

Hiroshima's rating is the second highest assessment from the top.

Rating of locally-denominated issuers		Baseline Credit Assessment	
Aaa			1
Aa1	All rated entities		2
Aa2			3
Aa3		Hiroshima Pref., Shizuoka Pref., Fukuoka Pref., Nagoya City, Hamamatsu City, Sakai City, Fukuoka City	4
A1		Niigata Pref., Kyoto City, Osaka City	5
A2			6
A3			7

Among 3-6 of BCA where Japanese municipalities concentrate, the second highest assessment



# ◆ Issuance of Public Offering Bonds

- Issue amount of public offering bonds in the market has been increasing every year since FY2002 in order to diversify method of fund raising.
- In FY2008, we are engaged in bimonthly issuance of 10 year bonds and issuance of ultra-long term bonds (20years) in order to enhance liquidity.
- We will continue to engage in the leveling of issuing intervals and the diversification of issuing maturities in line with the “Hiroshima fund management policy (Material P19)” instituted in FY2007.

## ○ Individual public bond issuance schedule in FY2008

(100 million yen)

	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Total
Public bond (10 year)		100		100		100		100		100		100	600
Public bond (20 year)							100						100
Joint issue bond (10 year)	100		100		100		100		100		100		600
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>200</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>1,300</b>

## (Reference) Market public offering bond Trend of issue amount

(100 million yen)

Item	(FY)	96	97	98	99	00	01	02	03	04	05	06	07
Individual issue bond	(10 year bond)	190	200	200	250	250	300	400	200	400	400	600	700
	(20 year bond)	—	—	—	—	—	—	—	—	—	—	—	150
Joint issue bond		—	—	—	—	—	—	—	400	560	600	600	600
<b>Total</b>		<b>190</b>	<b>200</b>	<b>200</b>	<b>250</b>	<b>250</b>	<b>300</b>	<b>400</b>	<b>600</b>	<b>960</b>	<b>1,000</b>	<b>1,200</b>	<b>1,450</b>

## ◆ Contact

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**Hiroshima Prefecture**

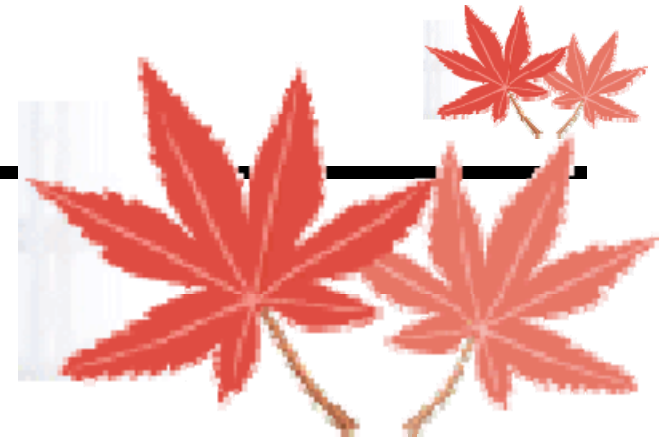
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### Disclaimer

The purpose of this material is to explain the financial condition of Hiroshima Prefecture to investors who are considering the purchase of Hiroshima Prefectural Bonds, and not to offer the sale or solicit the purchase of any specific bonds.

This material has been prepared using various types of data believed to be reliable at the time. However, this is not a guarantee of its accuracy. Moreover, while future outlooks and projections indicated in this date are at present believed to be appropriate for the Hiroshima Prefectural Bonds within the scope presented here, this is not a promise of their being realized in the future.