



FY2008 Kobe City IR Seminar Presentation

- FY2007 Results -

Zuihouji Park, Arima

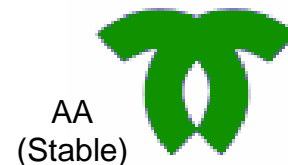


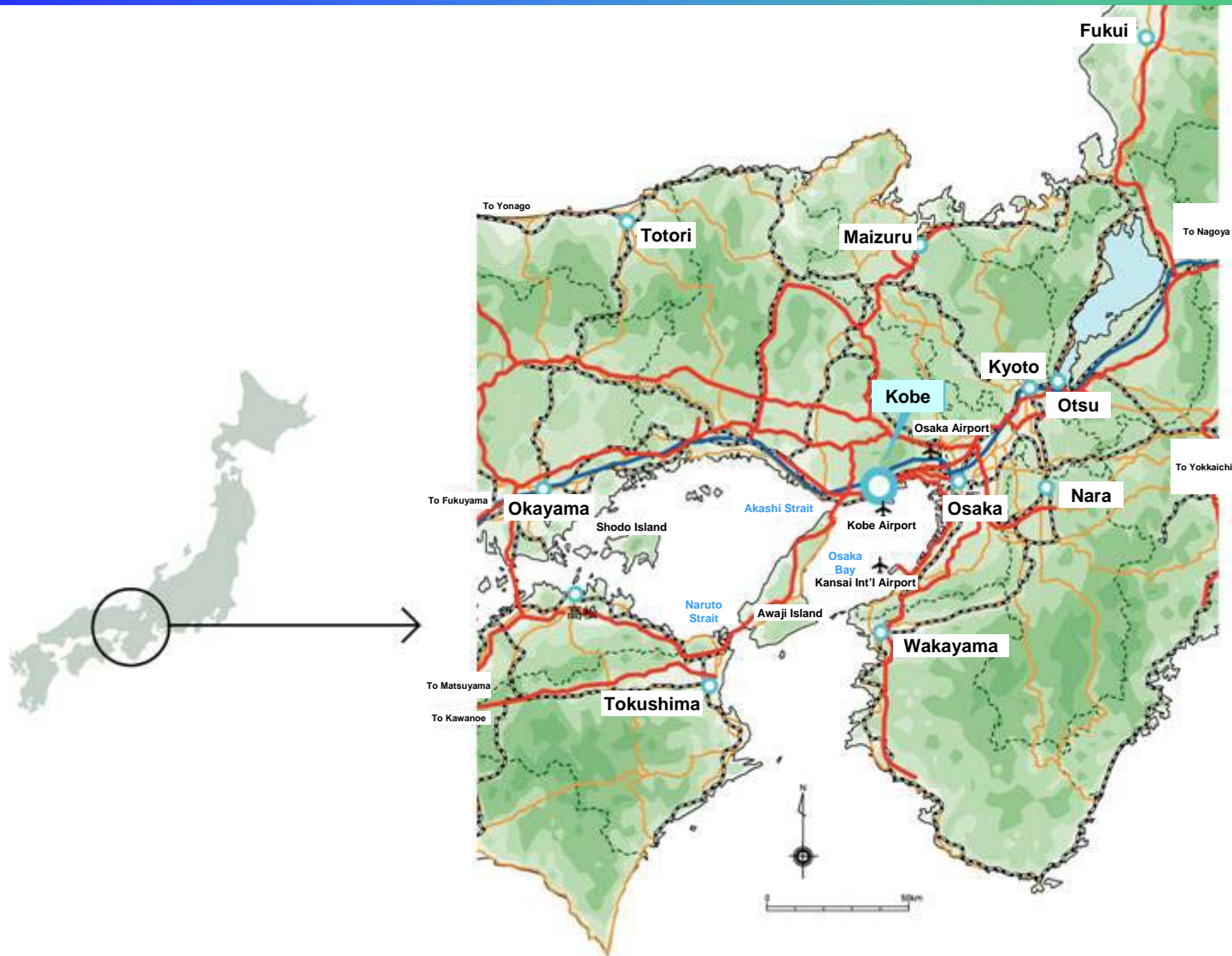
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1. Overview of Kobe City



Overview of Kobe City

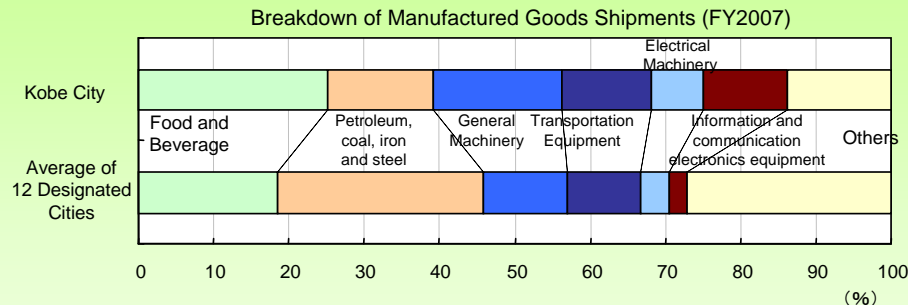


Overview

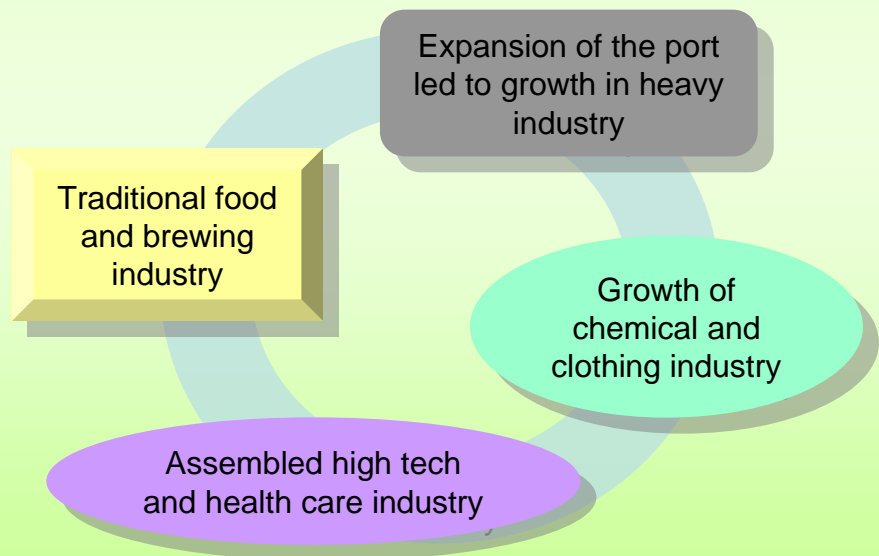
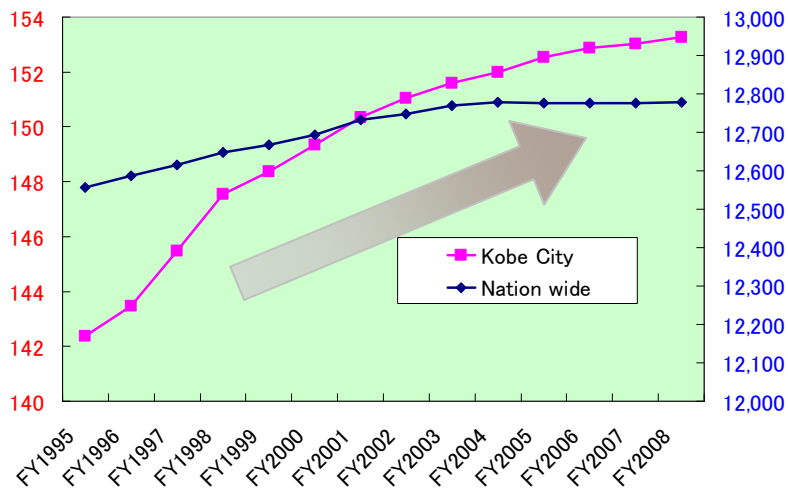
		Ranking among all 12 designated cities*
Land Area	552.80 km ²	6th
Population	1.534mln	5th (As of Feb FY2009)
GDP (Nominal)	6.04trn yen	6th (FY2005)
Sea transported import /export	8.4trn yen	3th (FY2006)
Number of establishments	72,788	6th (FY2006)

Industry

Well balance of light, heavy and high tech industries



Population Reached Record High (10 thousands)



*12 cities that report 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 under progress*

Kobe City's Transportation

Sky	Kobe Airport	Links 5 domestic cities
Railway	Shinkansen (Bullet Train) Railway System	Japan Railways, Private Railways, Subways, New transportation system allows access to in and out of the City
Toll Road	Expressway	Expressway networks such as Hanshin, Sanyo, Chugoku, Kobe Awaji Naruto
Sea	Port of Kobe	Opened in 1868, Port of Kobe operates as a gateway to around 130 countries and approx .500 ports

Kobe City's Social Infrastructure

Sewerage	Rate of flush toilet service 99.8% 【Public sewerage system 98.5%】 (National Average 92.4% 【70.5%】)
Water works	Distribution rate 99.8% (National Average 97.2%)
Park	Park area per capita 16.5m ² (National Average 9.3m ²)
Education (as of FY2006)	Total of 607 schools, including 20 Universities (nationally ranks 2nd place)



* Hanshin Expressway expansion is currently undergoing Urban Planning and Environmental Impact Assessment
Details such as operation, construction method, fiscal burden is yet to be decided

Kobe City's Economic Status



Opening of Kobe Airport had a synergetic effect to the City's convenience

<i>Kobe Airport</i>	2.74mln visitors (as of FY2006)	FY2007: 2.97mln visitors
Opened in Feb-2006, recognized for its high convenience		
<i>Shinkansen (Bullet Train)</i>	5.08mln passengers (FY2005)	FY2007: 5.51mln passengers
Shin-Kobe station marked its record high number of passengers in FY2007		
<i>Port of Kobe</i>	2.26mln TEU (FY2005)	FY2007: 2.47mln TEU
Rapidly restoring port's competitiveness along with its 140th anniversary of opening		



Attracting Businesses

- Achieved to sell off **50ha** of industrial premises within 3 years (FY2005-2007)

Number of companies in each location	Before airport opening	After airport opening
Port Island (2nd Stage)	287	376
Medical Industry City	83	138
Techno logistic Park	56	95

Other Positive Spill-over Effects

- Accounted for outstanding convenience, academic research environment, the world's fastest supercomputer is to be installed in the City
- In April 2007, 3 universities opened in Port Island ⇒ **Around 8,000** students newly assembled

Influence on tourism	FY2005	FY2006	FY2007
Hotel occupancy rate	68.4%	73.5%	75.2%
Number of Tourists	27.3mln	29.2mln	28.41mln

2. Account Results and Administrative and Fiscal Reform



View of the City from Ikari Mountain

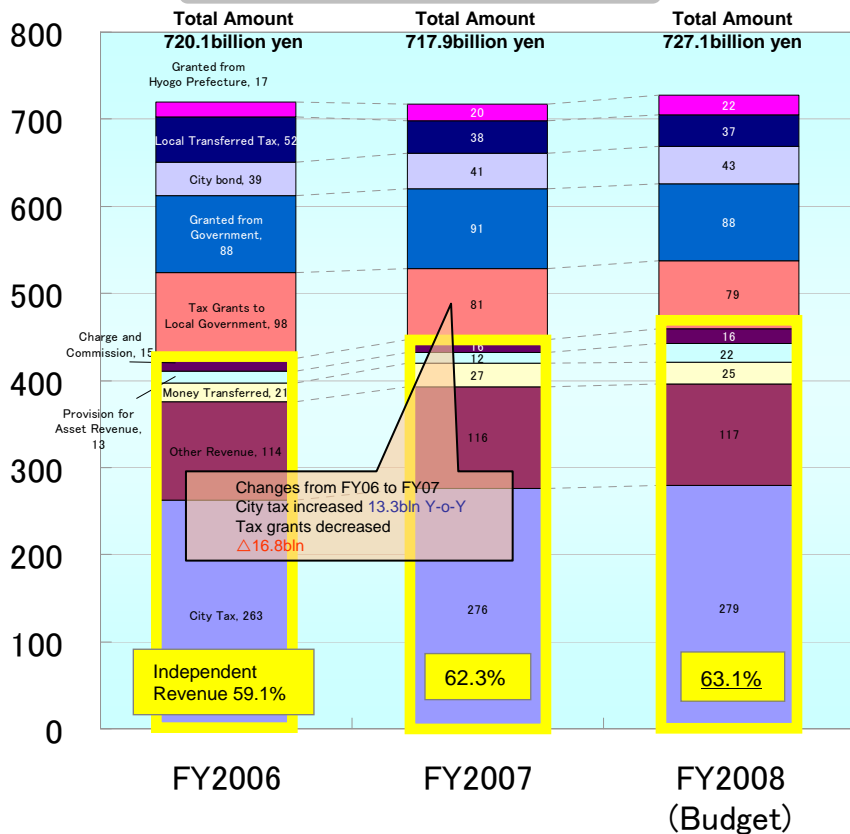
FY2007 Results of General Account



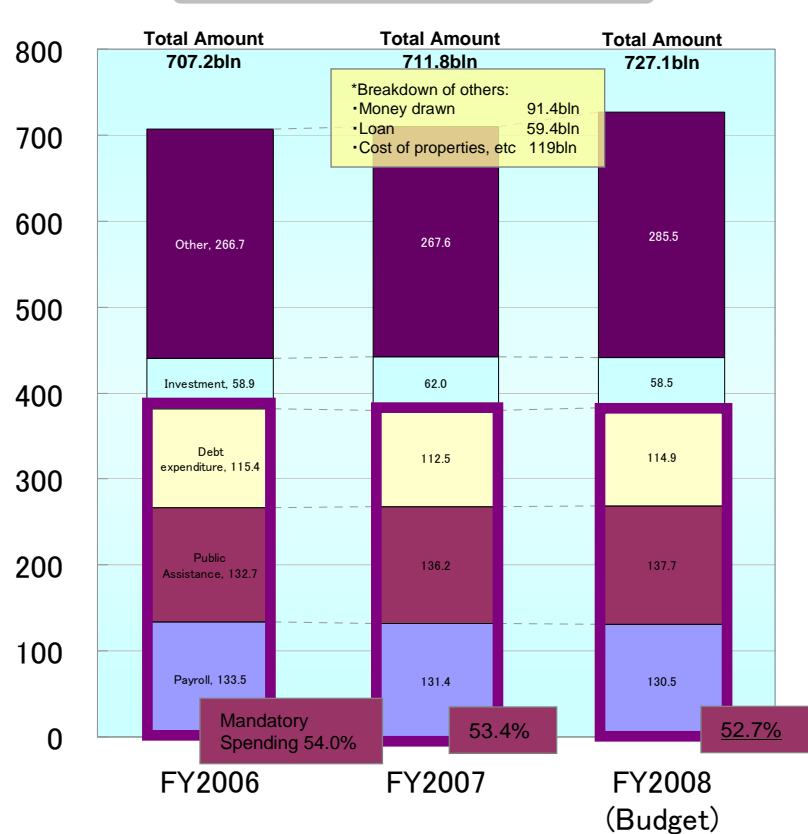
Increase in city tax revenue and further implementation of fiscal reform improved financial indicators

- [Revenue] Despite a decline in corporate earnings, transfer of tax revenue sources to local governments and new housing registration had accounted to increase city tax revenue
Transfer of tax revenue sources had reduced amount of tax grants to local governments
⇒ **Independent Revenue Ratio had risen**
- [Expenditure] Decline in payroll and debt expenditure ⇒ **Mandatory Spending Ratio improved**

Revenue

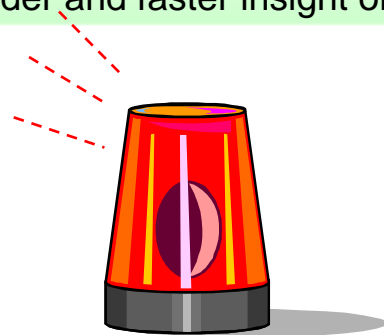


Expenditure



Law Relating to Fiscal Consolidation of Local Governments

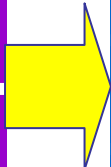
- The Law on the Special Measures to Promote Local Public Financial Reconstruction had only regulated “fiscal reconstruction” measured by local governments’ deficit
- Under the new Law Relating to the Fiscal Consolidation of Local Governments, the four indicators give a broader and faster insight of local governments’ fiscal conditions



The Law on the Special Measures to Promote Local Public Financial Reconstruction



Law Relating to the Fiscal Consolidation of Local Governments

Criteria	Deficit only		Four fiscal indicators (Real deficit ratio, Consolidated real deficit ratio, Real debt payment ratio, Future burden ratio)
Indicators	Covered Ordinary Account only		Covers general accounts to government affiliates
Legally Binding Obligation	None (Applied by Local Government)		Exists
Disclosure	Not required		Report to the assembly after receiving assessment by auditor
Gradual Measures	None		Early Warning System

Financial indicators released from FY2007 results / Implemented from FY2008

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 Debt Payment 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%	35%
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 Debt Payment 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 Debt Payment 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 Debt Payment 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

Four Fiscal Indicators • FY2007 Results



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

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

- ◆ Ordinary 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 / Consolidated Accounts (No Deficit)** (JPY100mln)

Account	Operations	Deficit/Surplus
Ordinary Account	Includes housing, airport	+2
Special Accounts	Nursing-care insurance etc	+33
Sewage System Account	Sewage disposals	+190
Port and Harbor Account	Management and operation of Port of Kobe	+714
Urban Development Account	Development and allotment of sales of residential and real estates	+428
Hospital Service Account	Operation of civilian hospitals	△40
Automotive Business Account	City bus services	△12
Rapid Transit Railway Account	Subway services	-
Waterworks Account	Waterworks	+91
Industrial Waterworks Account	Waterworks for companies	+9

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

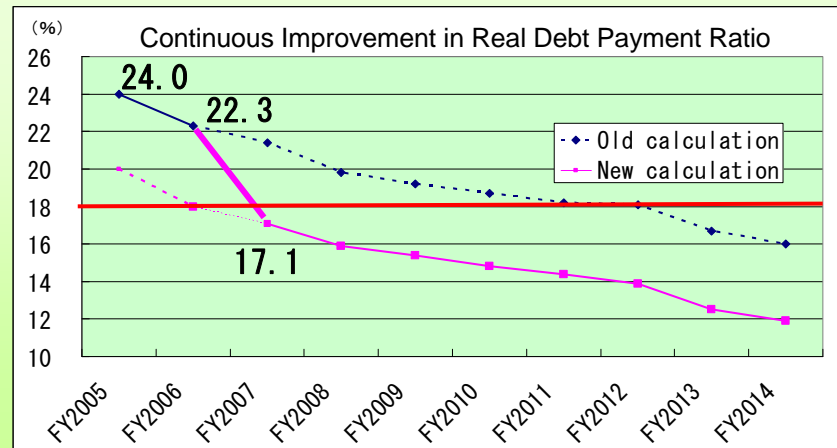
Real Debt Payment Ratio

- ◆ Effective Debt Service Ratio
- ◆ Decline in outstanding city bonds
- ◆ "Urban Planning Tax" was appropriated for debt expenditure deductions from this year
⇒ **(Below 18%)**

Transferred to "Informed & Consult" Status

FY2005	FY2006	FY2007	3-years Average
19.9	16.6	14.8	17.1

FY2007 results nearly reached the weighted average(14.2%) of all designated cities

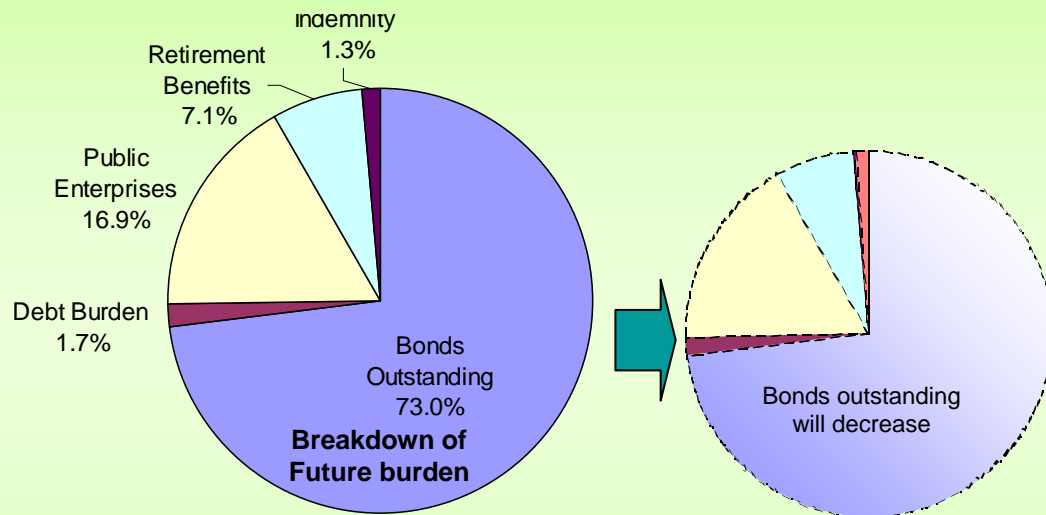


Future Burden Ratio

◆ Future burden for Local Government

177.5% *Weighted average of all designated cities 208.7%

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

Public Enterprise Burden

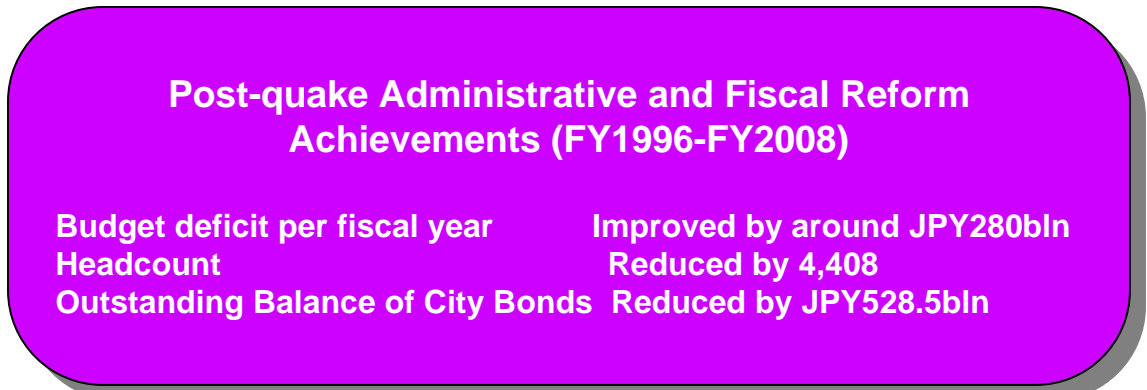
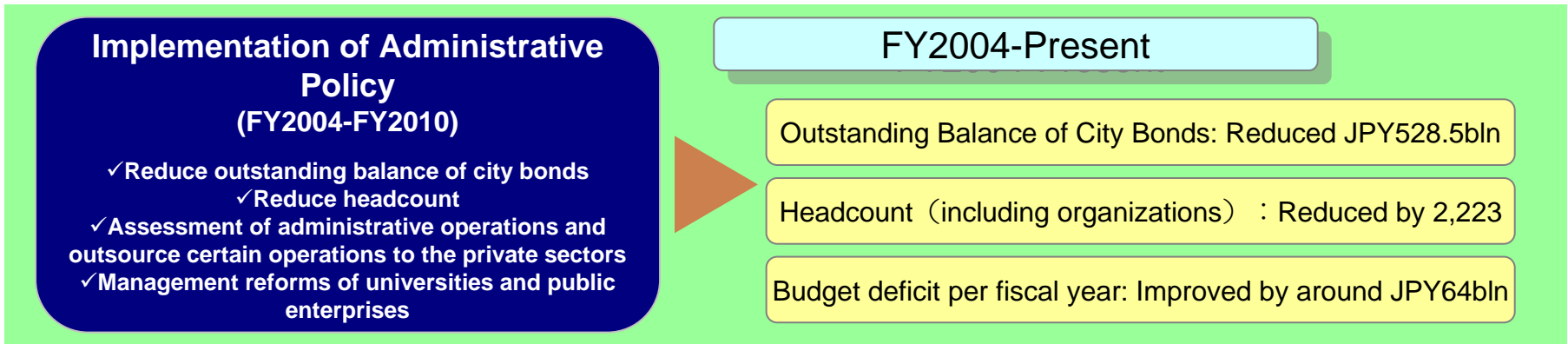
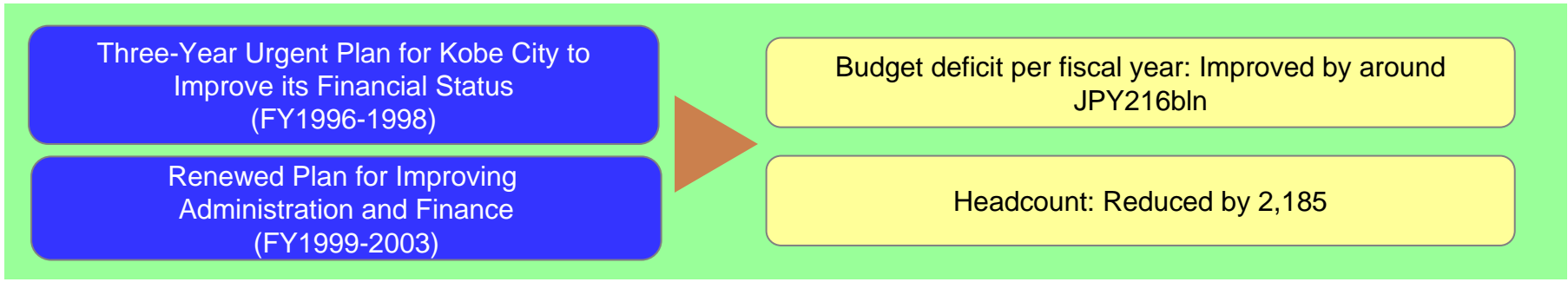
(JPY bln)

Market business	1.3	Port and Harbor	49
Meat center	4.2	Urban Development	0
Parking business	1.4	Hospitals	8.4
Rural community sewerage	11.7	Automotives	0.7
Seacoast environment maintenance	0.9	Rapid Transit Railway	73.6
Urban area redevelopment	77.2	Waterworks	0.3
Sewerage	66.3	Total	295

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

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 and Fiscal Reform Achievements



Acceleration of Further Reform

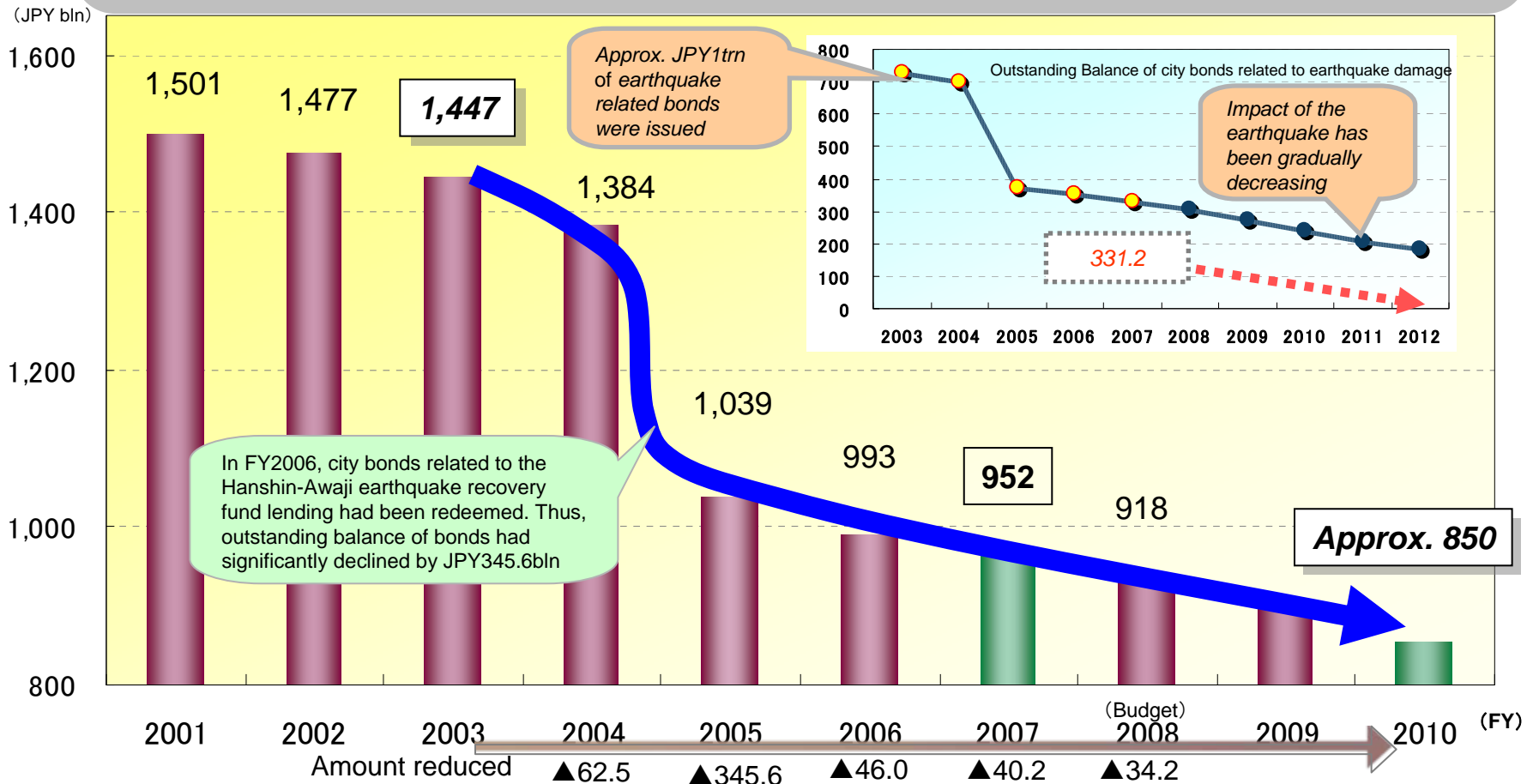


Further reduction of city bonds outstanding ahead of the reform plan

- ✓ In the past five years (FY2004-2008) outstanding balance of city bonds* were **reduced by JPY528.5bln**
 ⇒ **Initial target of reducing JPY500bln 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 JPY500bln, **further reduction of approx. JPY100bln was accomplished**



3. Future Vision of Kobe City and Funding Plans



Future Vision of Kobe City



- Creative city planning strategy in the mid-long term horizon ⇒ “DESIGN CITY KOBE”
- Medium-term plan “Kobe 2010 VISION”
- Medical Industry Development Projects to enhance attractiveness and vitality of the City

DESIGN CITY KOBE

KOBE 2010 VISION



World's fastest Supercomputer site image

◆ Through five design perspectives, the mid-long term city planning strategy aims to create new attractions and vitality to improve the quality of living, by redefining “Kobe City’s uniqueness”



Living **Manufacturing (Monozukuri)**

1. “Affluent life”
2. “Capitalize unique and attractiveness”
3. “Vitalize the economy”
4. “Encourage creativity”
5. “Maturing the mental mind and handling it to the next generation”

Five perspectives links People, Product and the City

Under the changing social environment, Kobe City aims the following

- A city where residents wish to continue staying
- Attractive city to visitors
- A city with sustainable development

- ◆ Future Vision: Further vitalize the city and citizens “Affluent Creative City, Kobe”
- ◆ PDCA Cycle to implemented to manage progress
- ◆ 96% of the measures are reported as being “favorable” or “generally favorable”
⇒ **New basic plans to be launched**
- ◆ In July-2008, “Next-term Basic Plan Proposal Gathering” was held

Medical Industry Development Project

- ◆ Since 1998, the City had enticed medical-related industries to Port Island with the aim to establish a research and development center for leading-edge medical technology
- ◆ Designated as an “Intellectual Cluster Formation Project” by the Ministry of Education and authorized as one of Japanese government’s “Urban Renaissance Projects” and being promoted as a national project
- ◆ Next-Generation Supercomputer to operated as the key driver for the foundation of the world’s most advanced research and education hub

Kobe City's Funding Plans



Kobe City will continue to keep a close dialogue with investors in its funding practice

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

Issuer Rating

On May 2008, the City obtained the following rating from Rating and Investment Information, Inc. (R&I)

AA

(Outlook: Stable)

***The fiscal condition is recovering to a level comparable to that of other designated cities** (R&I, News Release, 16 May 2008)*

New Financial Rankings

Apart from ratings, R&I had announced financial ranking for municipalities in Dec-2008. The ranking reflects "relative evaluation of prefectures and government-designated cities based mainly on settlement of accounts data" R&I has decided to utilize a four-tier evaluation scheme, with rankings to be identified from the highest ranking by Arabic numerals 1, 2, 3 and 4 (each category an equal 25%).

Kobe City ranks in the second tier, reflecting the City's improving fiscal conditions

Rank	Prefectures and Designated Cities
1	Tochigi Pref, Gunma Pref, Saitama Pref, Chiba Pref, Tokyo Metropolitan Gov't, Kanagawa Pref, Nagano Pref, Shizuoka Pref, Aichi Pref, Mie Pref, Saitama City, Yokohama City, Kawasaki City, Shizuoka City, Niigata City, Hamamatsu City
2	Miyagi Pref, Fukushima Pref, Fukui Pref, Gifu Pref, Shiga Pref, Okayama Pref, Yamaguchi Pref, Ehime Pref, Saga Pref, Oita Pref, Okinawa Pref, Sapporo City, Sendai City, Nagoya City, Sakai City, Kobe City
3	Aomori Pref, Ibaraki Pref, Toyama Pref, Ishikawa Pref, Yamanashi Pref, Kyoto Pref, Osaka Pref, Nara Pref, Wakayama Pref, Totori Pref, Hiroshima Pref, Tokushima Pref, Kagawa Pref, Fukuoka Pref, Kumamoto Pref, Miyazaki Pref
4	Hokkaido Gov't, Iwate Pref, Akita Pref, Yamagata Pref, Niigata Pref, Hyogo Pref, Shimane Pref, Kouchi Pref, Nagasaki Pref, Kagoshima Pref, Chiba City, Kyoto City, Osaka City, Hiroshima City, Kitakyushu City, Fukuoka City

FY2009 Bond Issuing Schedule

(JPY bln)

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

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

FY2008 Issuance Results

Tenor	Coupon	Issue size	Price (per 100)	Issue date	Pricing date
5-year	1.27%	JPY10bln	99.99	18-Aug	6-Aug
10-year	1.76%	JPY10bln	99.93	23-July	10-July
20-year	2.38%	JPY20bln*	100	27-May	16-May
20-year#2	2.08%	JPY10bln	99.90	16-Feb	4-Feb

**20-year bond had used JPY10bln of the Added Unit to respond to investor demand and increased the issue size to JPY20bln*



For any inquiries, please contact:

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

**Phone: +81-78-322-5137
6-5-1 Kano-cho, Chuo-ku, Kobe City**

<http://www.city.kobe.jp/cityoffice/09/071/index/>
http://www.city.kobe.jp/cityoffice/09/071/IR_en/
(Investor Relations English website)

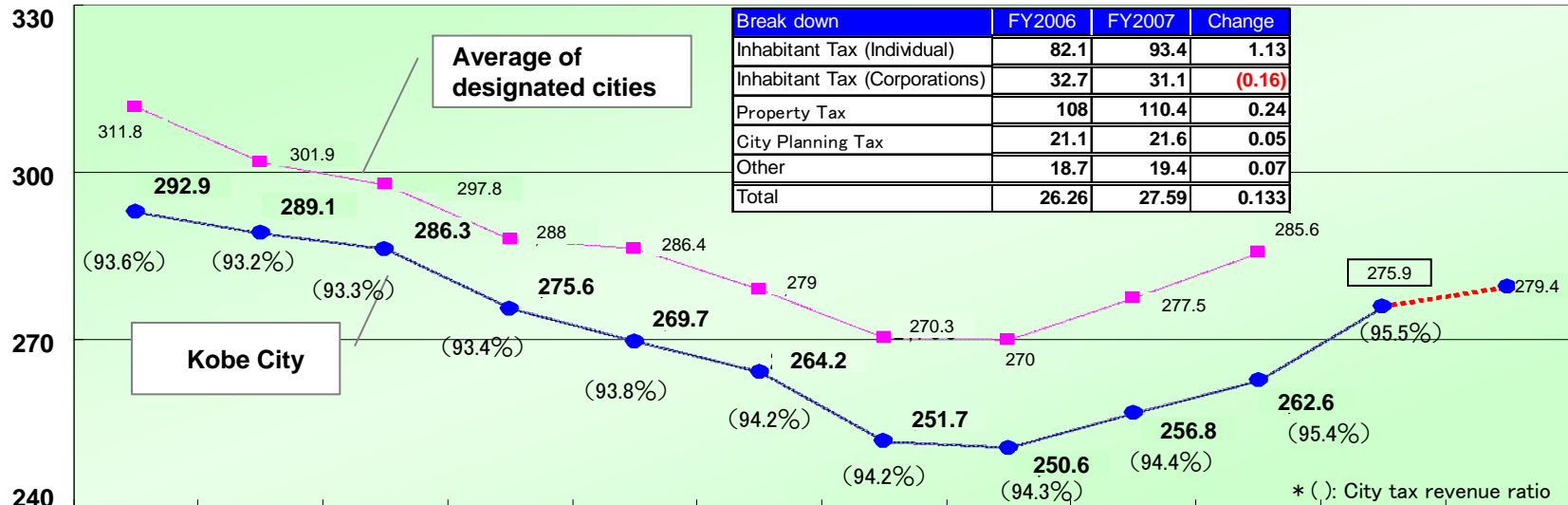
Arima Onsen (Hot spring)

Appendix – City Tax Revenue and Expenditure

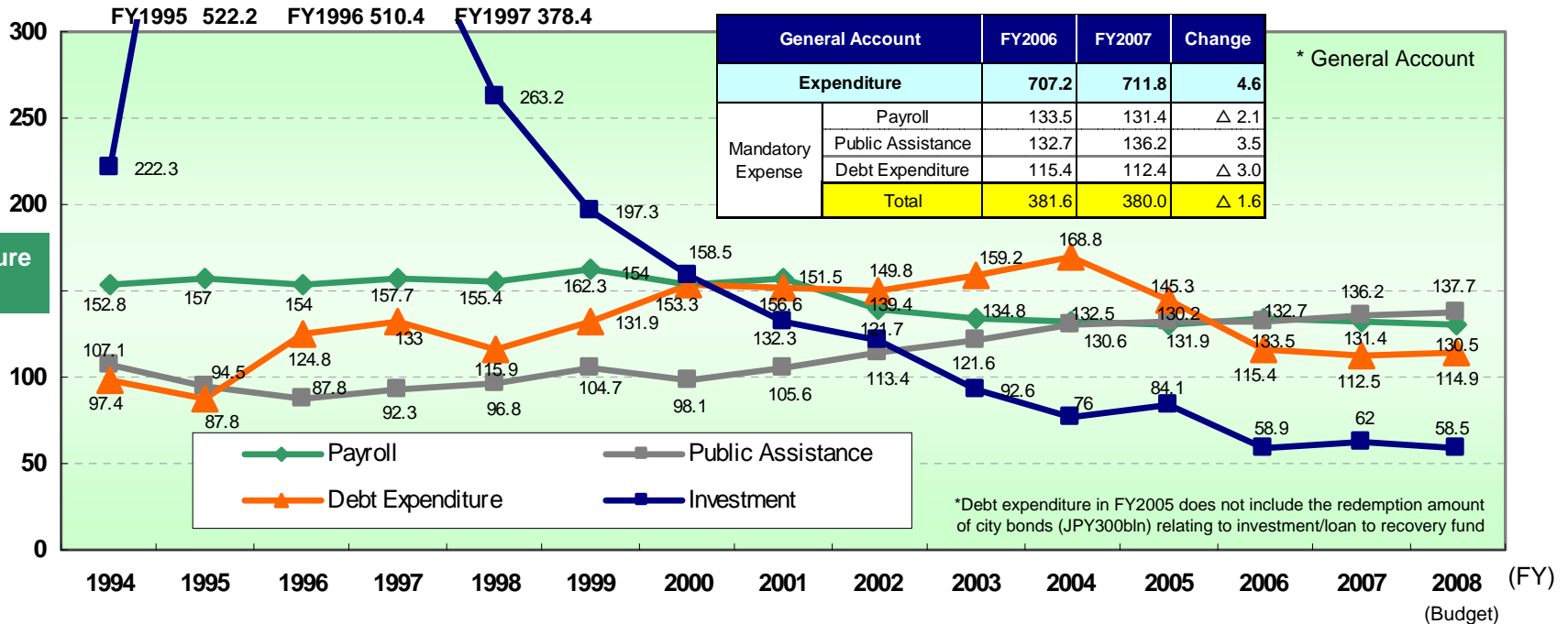
(in JPYbn)



City Tax Revenue



Expenditure By Items



Appendix – FY2007 Results of Special and Corporate Accounts



(in JPYbln)

Name of Special Account	FY2008 Budget		FY2007 Result		FY2006 Result	
	Expenditures	Amount Transferred to General Accounting	Expenditures	Amount Transferred to General Accounting	Expenditures	Amount Transferred to General Accounting
National debt service	385.2	114.9	449.4	112.4	346.7	115.4
National health insurance	144.4	13.1	150.1	16.6	140.6	13.4
Healthcare for the elderly	15.6	1.2	130.1	9.7	128.7	10.3
Care insurance	90.7	13.8	87.9	12.7	81.8	12.3
Geriatric care for latter-stage elderly	25.4	12.3	-	-	-	-
Market business	4.5	0.2	5.1	0.2	3.7	0.1
Meat center	1.1	0.9	1.1	0.9	1.1	0.9
Workers' benefit	0.6	0.1	0.5	0.1	0.5	0.1
Agricultural insurance	0.4	0.1	0.3	0.1	0.3	0.1
Benefit/support for fatherless families/widows	0.2	0	0.2	0	0.1	0
Land acquisition for future development	0.1	0	0.5	0	1.2	0
Parking business	1.3	0.2	1.4	0.2	1.8	0.3
Rural community sewerage	2.2	0.9	1.9	0.9	1.6	0.9
Seacoast environment maintenance	1.7	0.4	13.1	0.8	1.6	0.8
Urban area redevelopment	13.2	9.1	15.7	6.5	16.9	6.1
City-provided housing	36.8	8.2	32	8	29.5	8.7
Airport maintenance	9.5	0.4	11.4	0.4	8.7	0.3
Total	732.9	175.8	900.7	169.5	764.8	169.7

FY2007 Balance of Payments

3 accounts in black
 Support to fatherless families/widows
 JPY 0.4bln
 Care insurance
 JPY 1.6bln
 Airport
 JPY 0.1bln
 Others are balanced with no accounts in the red

Account	Description of the Accounts	FY 2008 P/L (Budget)	FY 2007 P/L (Final)	FY 2006 P/L (Final)
Sewerage System	Sewage disposal	0.3	3.1	2.7
Port and Harbor	Management and operation of Port of Kobe	3.5	7.5	7.1
Urban Development	Development and allotment sales of residential and industrial estates	4	3.3	6.5
Hospital Service	Operation of civilian hospitals	△ 4	△ 10	△ 10
Automotives	City bus services	0.1	0.3	0.2
Rapid Transit Railway	Subway services	△ 19	△ 30	△ 33
Waterworks	Waterworks	0.4	0.9	0.9
Industrial Waterworks	Waterworks for companies	0	0.3	0
Total		6	11.4	13.1

Appendix - Fiscal Indicators of Respective Cities



Ordinary Balance Ratio

Saitama City	86.1
Hamamatsu City	86.4
Shizuoka City	87.4
Niigata City	88.6
Kawasaki City	93.5
Sakai City	93.7
Fukuoka City	94.2
Yokohama City	94.2
Sapporo City	95.3
Chiba City	96.5
Nagoya City	97.2
Sendai City	97.4
Kitakyushu City	97.7
Kyoto City	97.8
Kobe City	98.0
Hiroshima City	98.4
Osaka City	99.9
Average	94.3

Financial Capability Index

※ 3 year Average

Kawasaki City	1.06
Nagoya City	1.02
Saitama City	1.01
Chiba City	1.00
Yokohama City	0.98
Osaka City	0.93
Hamamatsu City	0.91
Shizuoka City	0.90
Sendai City	0.83
Fukuoka City	0.83
Sakai City	0.80
Hiroshima City	0.79
Kyoto City	0.72
Niigata City	0.70
Kobe City	0.69
Kitakyushu City	0.686
Sapporo City	0.681
Average	0.86

Consolidated Real Deficit Ratio

Sapporo City	-
Sendai City	-
Niigata City	-
Saitama City	-
Chiba City	-
Kawasaki City	-
Yokohama City	-
Shizuoka City	-
Hamamatsu City	-
Nagoya City	-
Osaka City	-
Sakai City	-
Kobe City	-
Hiroshima City	-
Kitakyushu City	-
Fukuoka City	-
Kyoto City	10.45
Average	-

Real Debt Payment Ratio

※ 3 year Average

Kitakyushu City	6.3
Sakai City	7.1
Saitama City	8.3
Sapporo City	10.8
Shizuoka City	11.2
Niigata City	11.5
Osaka City	11.8
Hamamatsu City	12.9
Kyoto City	12.9
Sendai City	13.6
Nagoya City	14.1
Hiroshima City	16.1
Kawasaki City	16.3
Kobe City	17.1
Fukuoka City	18.4
Chiba City	19.6
Yokohama City	20.6
Weighted Average	14.2

Future Burden Ratio

Sakai City	70.7
Saitama City	72.1
Shizuoka City	108.2
Hamamatsu City	124.3
Niigata City	137.0
Kawasaki City	147.3
Sapporo City	156.9
Sendai City	159.4
Kitakyushu City	163.9
Kobe City	177.5
Nagoya City	230.4
Kyoto City	234.6
Hiroshima City	255.8
Fukuoka City	259.6
Osaka City	263.8
Yokohama City	292.7
Chiba City	311.6
Weighted Average	208.7

※ Kobe City single year **0.739**

※ Kobe City single year **14.8**

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

⇒ 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

Tax-Exemption for interest on transfer local authority bonds

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