

City of Osaka

The Current Fiscal Condition and the Future Outlook



October 2009

 **OSAKA** CITY

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Message to Investors

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

Admin & Fiscal Reforms

Basic policies established

High Bond Rating

High ratings provided by various agencies

Sound Fiscal Management

Financial soundness standards met

A Highly Creative City

Boast talented population, advanced technologies, wide array of cultural assets

Mayor Hiramatsu Vision

For a Stronger Osaka Policy Adopted



High Bond Ratings

- The City of Osaka's debt burden is on par with other government ordinance cities, but heavy when compared to foreign cities.
- The City of Osaka, however, has a solid tax base, and our administrative and financial reforms are starting to bear fruit. We are confident that the city will be able to maintain its debt-servicing capacity even if recurring expenses rise and non-recurring expenses arise.
- The City of Osaka will strive to maintain its high bond ratings with steps taken to improve its finances.

AA-

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

AA rating category means entity has very little risk of default. (Little difference between this and AAA category).

Aa2

Moody's (Local Currency Rating) (3rd highest on 21-tier scale)

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

AA+

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

Rating indicates very high capacity to honor debt obligations.

Overview of Osaka City

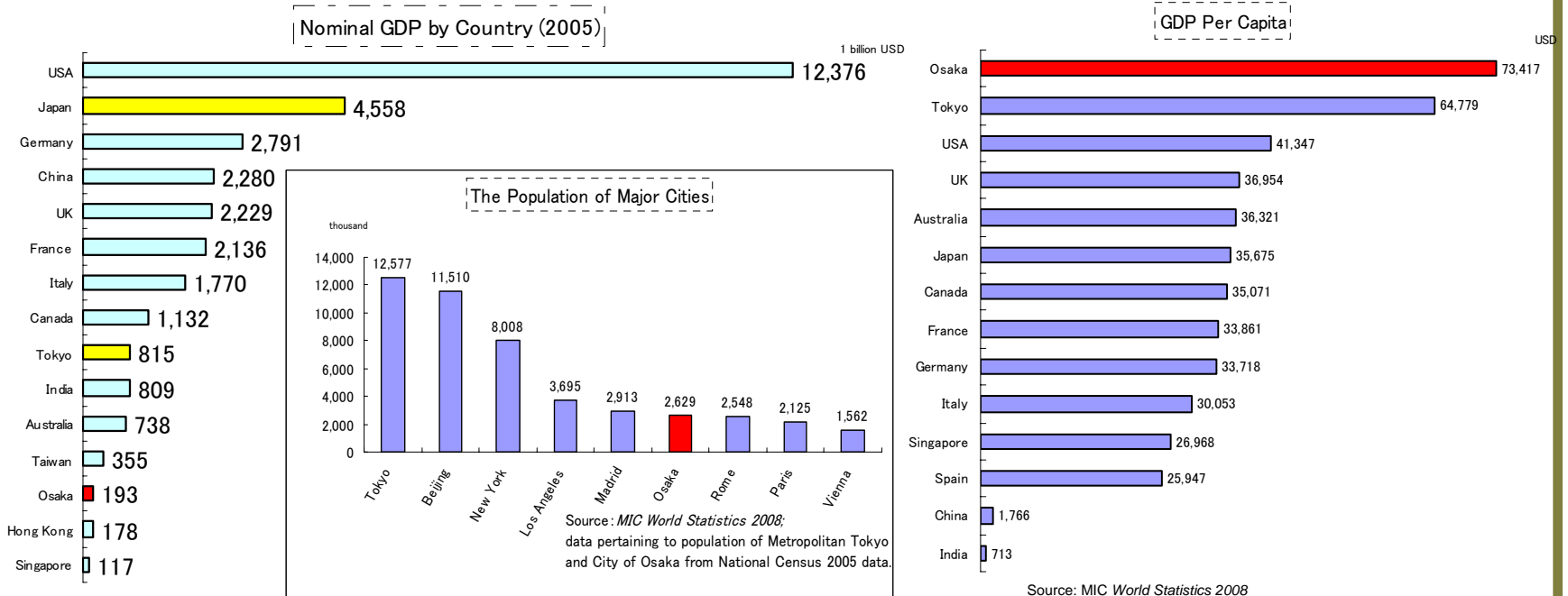
- Area: 222.11km²
- Population: 2,628,811
- GDP: 21.86 trillion yen
- Total Annual Income of All Households: 8.82 trillion yen
- No. of Plants and Outlets: 201,462
- Workforce: 2,216,895
- Sister Cities
 - San Francisco (USA)
 - Sao Paulo (Brazil)
 - Chicago (USA)
 - Shanghai (China)
 - Melbourne (Australia)
 - St. Petersburg (Russia)
 - Milan (Italy)
 - Hamburg (Germany)

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



Robust Economic Activity

The City of Osaka boasts a higher GDP than both Hong Kong and Singapore, also enjoying very high per capita GDP.



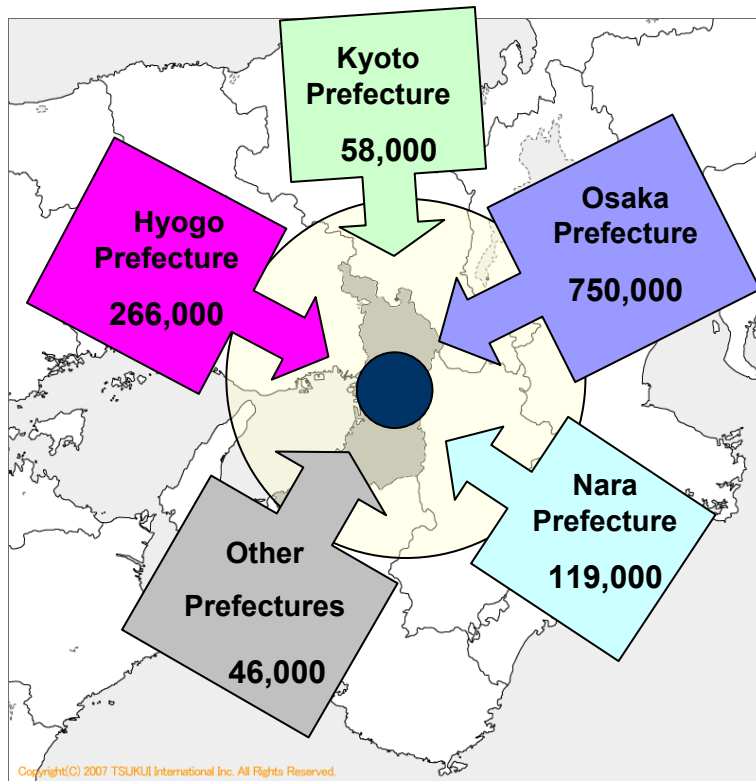
Notes: ① Figures for Metropolitan Tokyo and City of Osaka are based on the fiscal year starting April 1.

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

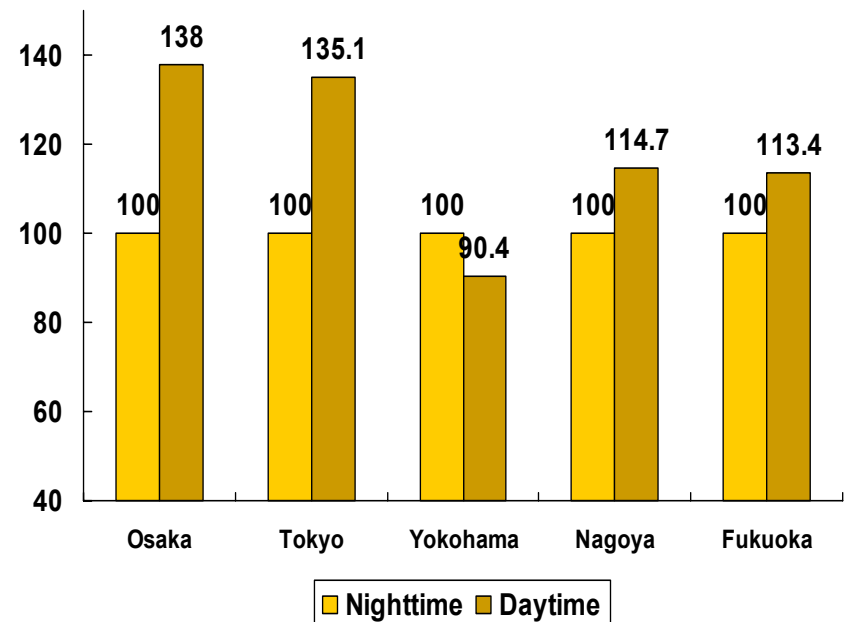
Source: Cabinet Office *Monthly Foreign Economic Situation Data*; Cabinet Office *National Accounts for Japan*, *Prefectural Accounts for Metropolitan Tokyo*, and *Economic Statistics for City of Osaka*.

Osaka, a Major Hub in Kansai Area

Osaka is a major hub in the greater Osaka region. Many workers and students commute to the city from Osaka Prefecture and neighboring prefectures during the day, swelling the daytime population to approximately 1.4 times the night-time population.

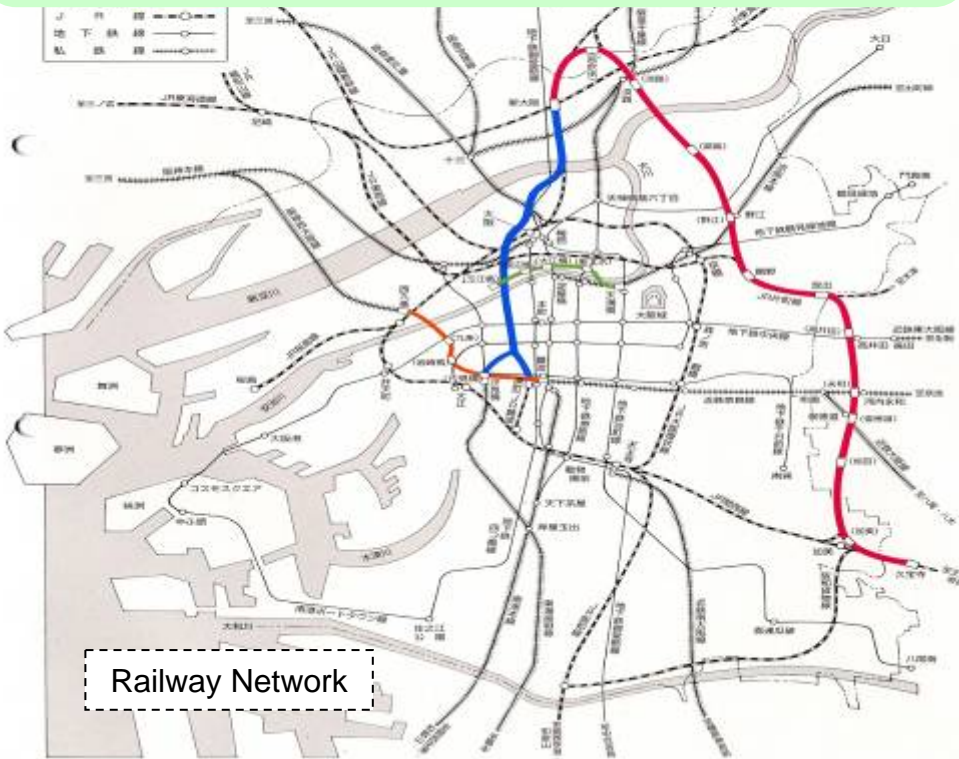


Daytime Population Comparisons
(nighttime population = 100)
(2005 National Census)



Strengths of Osaka City (Solid Infrastructure)

- The City of Osaka got an early start in building roads, sewers, subways and other vital infrastructure needed to support growing economic activity in the region.
- Existing infrastructure already serves large percentage of population, so the City of Osaka should be able to rein in fiscal spending.



Subway

129.9 km of publicly-operated subway (tops in Japan)



Waterworks

First gov't ordinance city to boast 100% purified water supply



Sewage System

Only government ordinance city with sewage system covering 100% of city



Central Wholesale Market

2nd largest annual transaction volume in Japan



City Parks

Parks account for 4.18% of the city area – 4th among government-designated cities



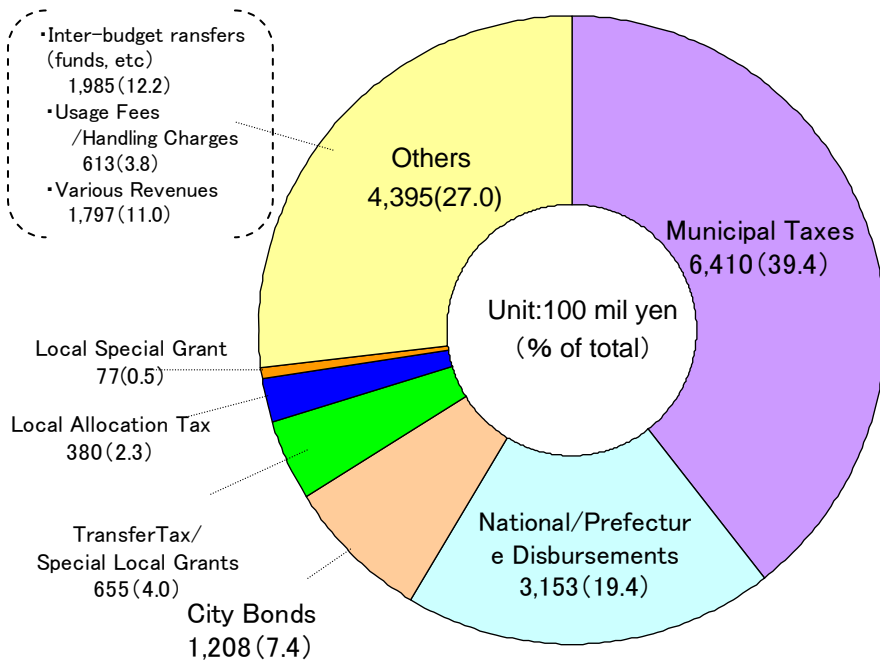
City Hospitals

Only government ordinance city to have hospital with 1,000 plus beds

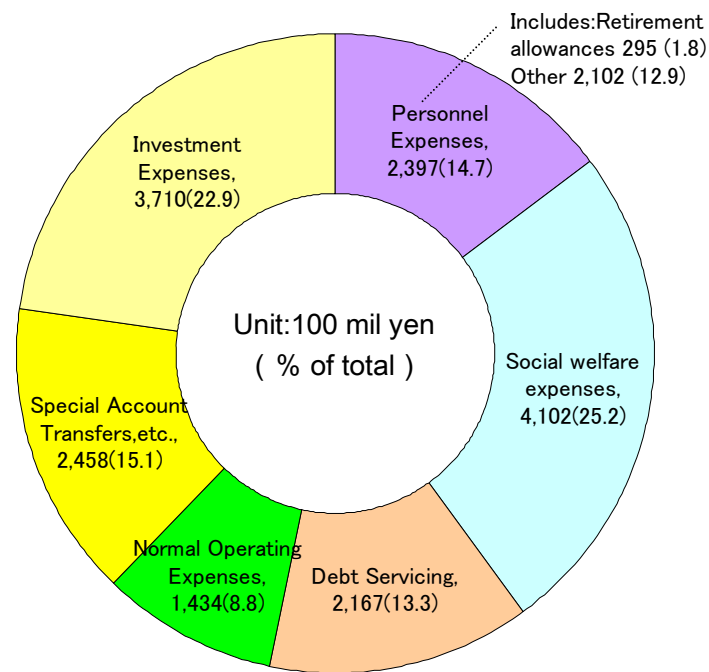
General Account Budget

City of Osaka FY2009 General Account Budget (initial) at 1.6278 trillion yen

Revenues

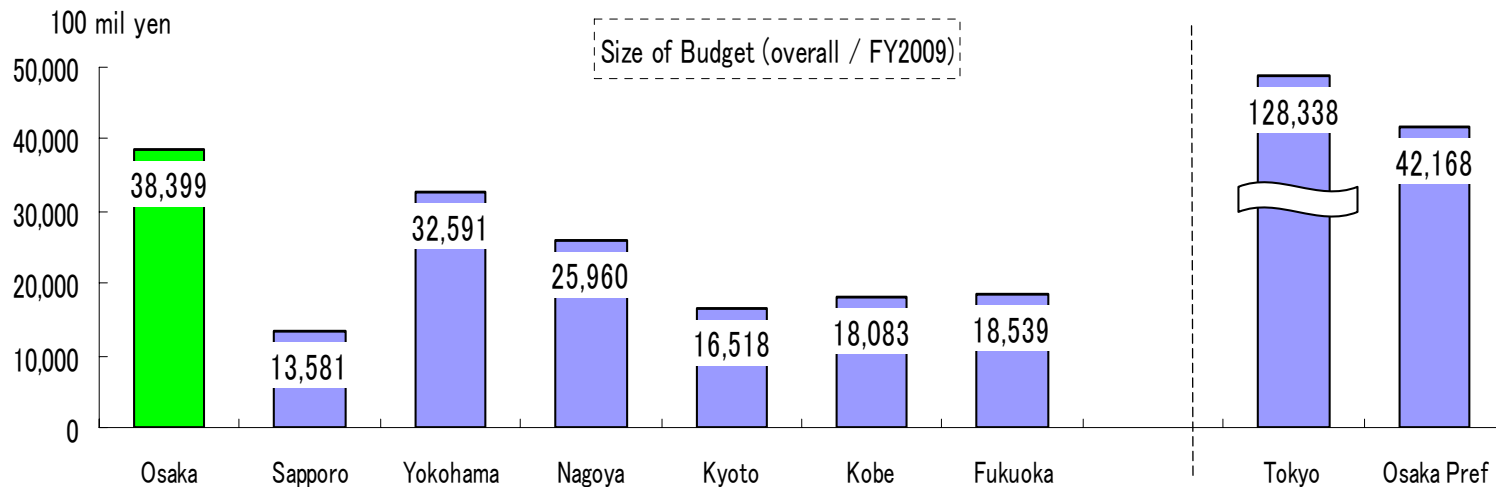


Expenditures



Overall Budget (comparison between major cities)

- The City of Osaka's overall budget for FY2009 is the third largest among municipalities, follow after the Tokyo metropolitan government and Osaka Prefecture.



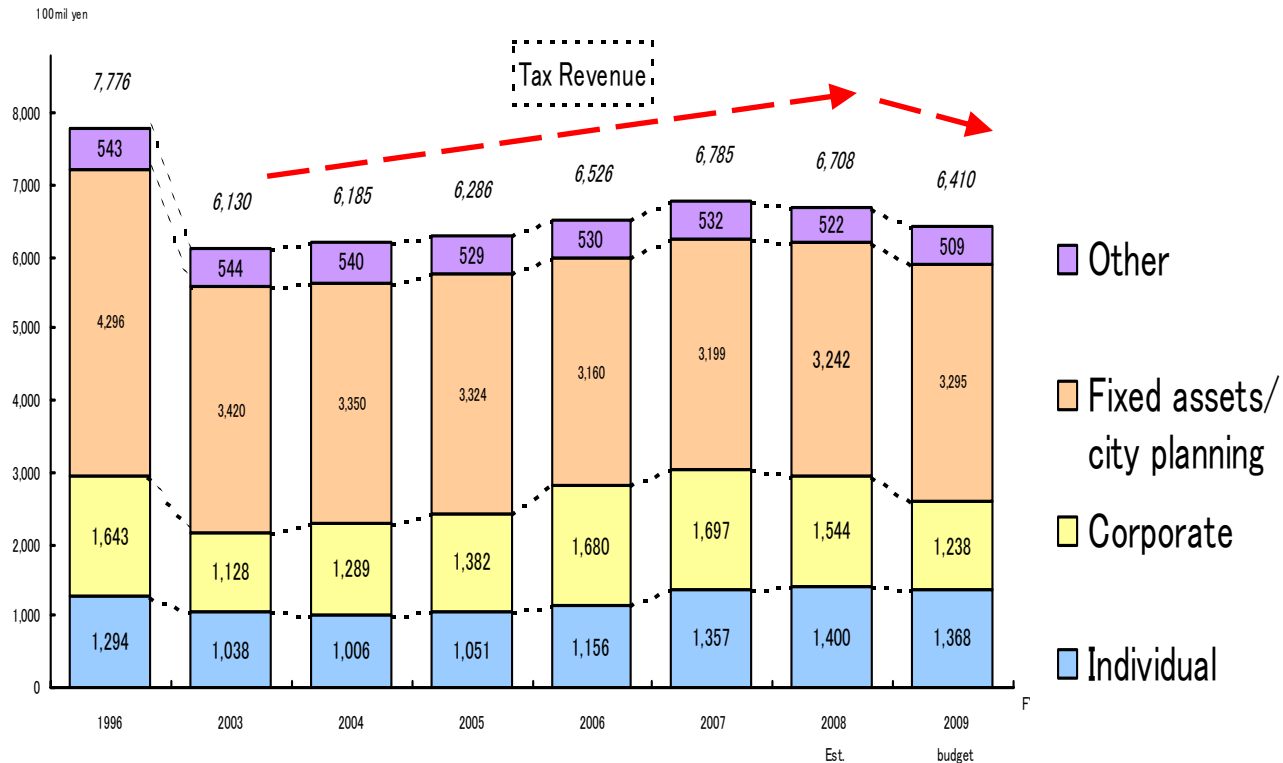
Osaka City Budget (overall):

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

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

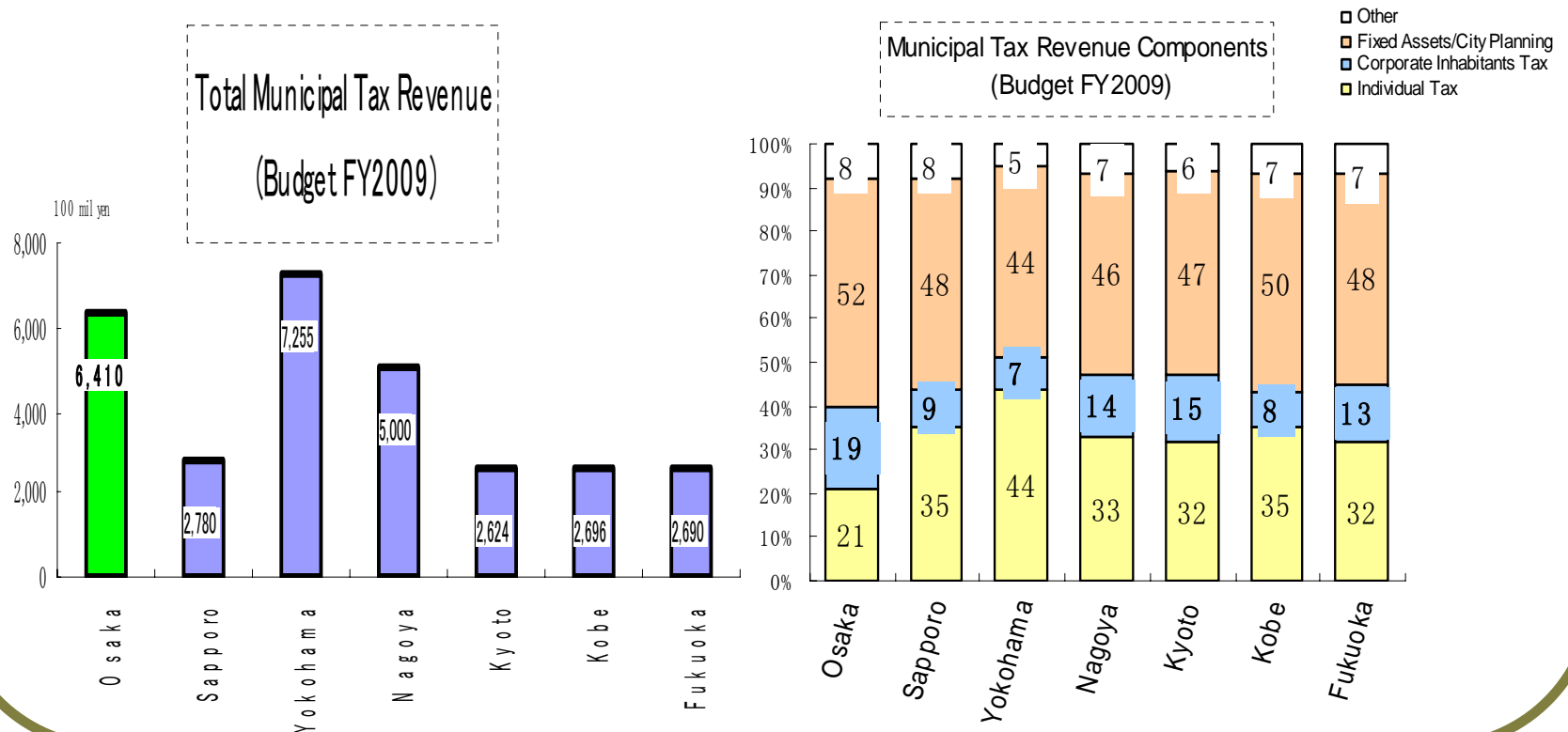
Trends in Municipal Tax Revenue

- Municipal tax revenue is expected to reach 641 billion yen in FY2009, down 6.7% from a year earlier.
- Overall municipal tax revenue is projected to decline as taxes from corporate inhabitants and other sources should fall due to the rapid deterioration in the economy.



Municipal Tax (comparison between major cities)

- ▶ The City of Osaka is expected to collect 641 billion yen in municipal taxes, which is the second largest amount as compared with other government-designated cities.
- ▶ Corporate Inhabitants Tax accounts for a meaningful proportion of total tax revenue and should improve once the economy picks up again.



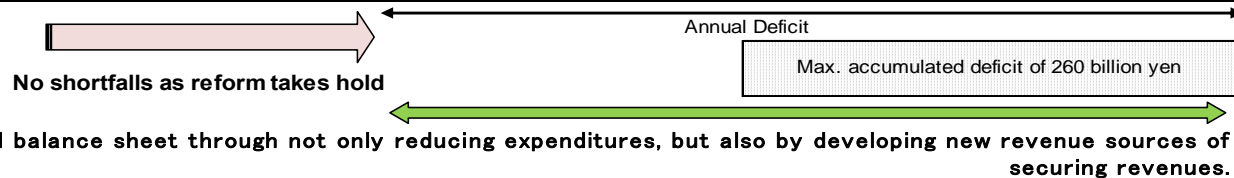
Medium-Term Fiscal Balance (July 2009)

Worsened economic outlook following the global financial crisis reflected

- No financial shortfall before FY2011.
- Maximum accumulated deficit of 260 billion yen between FY2012 and FY2018.
- The City of Osaka plans to address these funding shortages by:
 - Reflecting these shortfalls when formulating next Administrative and Financial Reform Plan
 - Performing a thorough review of administrative expenditures and implementing necessary restructuring measures
 - Studying additional measures to secure revenue (including distribution of retained earnings from public enterprises and improved overdue debt collection)
 - Pressing for sweeping reform of policies at national level, including public assistance and National Health Insurance schemes.

(100 mil yen)

(General Account)	FY2009	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018
Overall annual fiscal balance	0	0	0	△ 212	△ 610	△ 563	△ 474	△ 275	△ 222	△ 246
Accumulated balance	0	0	0	△ 212	△ 822	△ 1,385	△ 1,859	△ 2,134	△ 2,356	△ 2,602



Estimated Outstanding Balance of City Bonds (General Account)

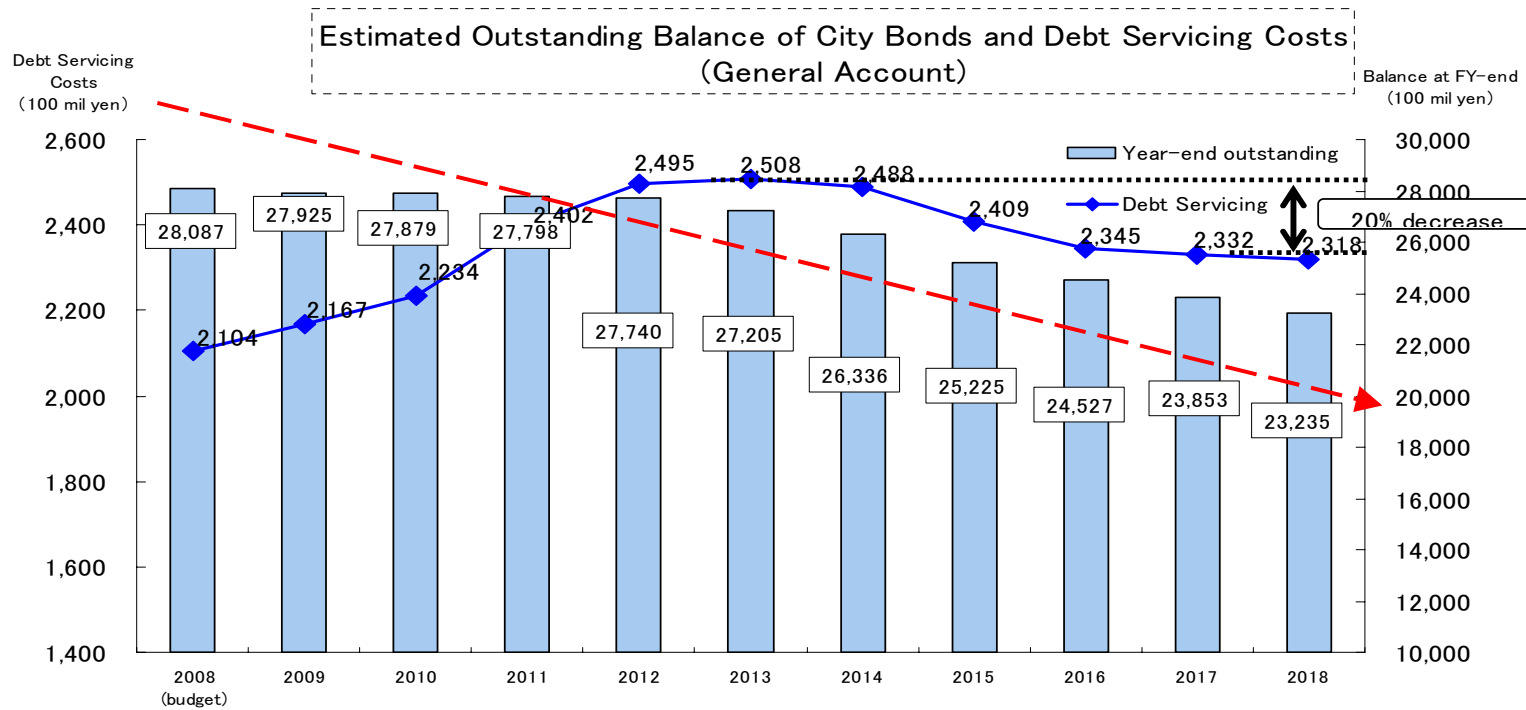
(100 mil yen)

FY2008	FY2009	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018
28,087	27,925	27,879	27,798	27,740	27,205	26,336	25,225	24,527	23,853	23,235

Target: 20% decrease from FY2008 levels by FY2018.

City Bonds Outstanding and Debt Servicing Costs

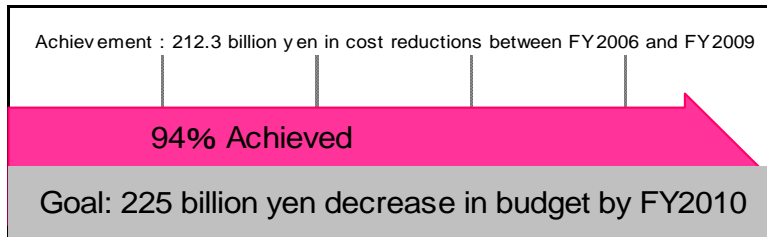
- Having used bond proceeds to finance city infrastructure building and economic stimulus projects, the City of Osaka must now address significant redemptions, which will peak around FY2013.
- Thereafter, city bonds outstanding and debt servicing costs should fall (based on July 2009 fiscal balance estimate).



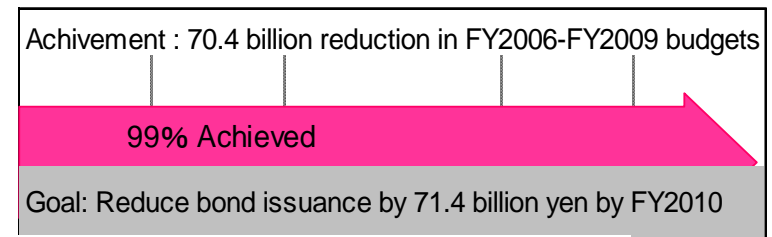
Excellent Record of Administrative and Fiscal Reforms

To respond to rapid changes in socioeconomic environments resulting from the low birthrate and a greying population, the City of Osaka is undertaking administrative and fiscal actions based on its guidelines for reforms. These moves should enable it to reach numerical targets linked to strengthening its finances.

■ Cost Reductions



■ Reduction of Municipal Bond Issuance



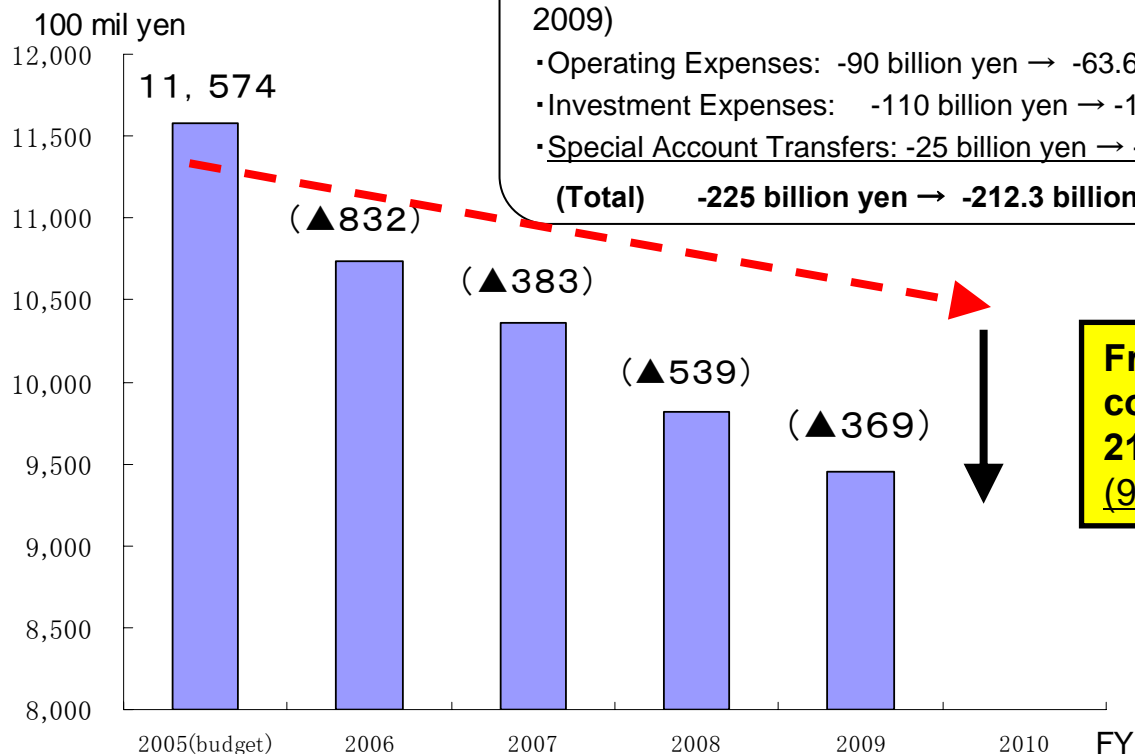
Breakdown

	Cost	Reduction	Targets		Performance (% Achieved)
	Target		Period	Target	
Operating Expenses	20% reduction (468.4 billion yen) from the initial FY2005 budget (1.0395 trillion yen), by making a 291.4 billion yen cut in personnel expenses and a 177 billion yen cut in normal operating expenses, excluding obligatory expenses such as social assistance and debt servicing (571.1 billion yen).		FY2006~FY2010	90 billion yen	63.6 billion yen (71%)
Investment Expenses	25% reduction (438.3 billion yen) from the initial FY2005 budget.		FY2006~FY2010	110 billion yen	115.7 billion yen (achieved goal)
Special Account Transfers	30% reduction (83 billion yen) from the FY2005 initial budget (250.7 billion yen), excluding those items difficult to reduce such as payments for debt servicing and insurance burdens.		FY2006~FY2008	25 billion yen	33.0 billion yen (achieved goal)
			Total	225 billion yen	212.3 billion yen (94%)

Reducing Expenditures (Costs)

Reducing Expenditures (General Account)

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



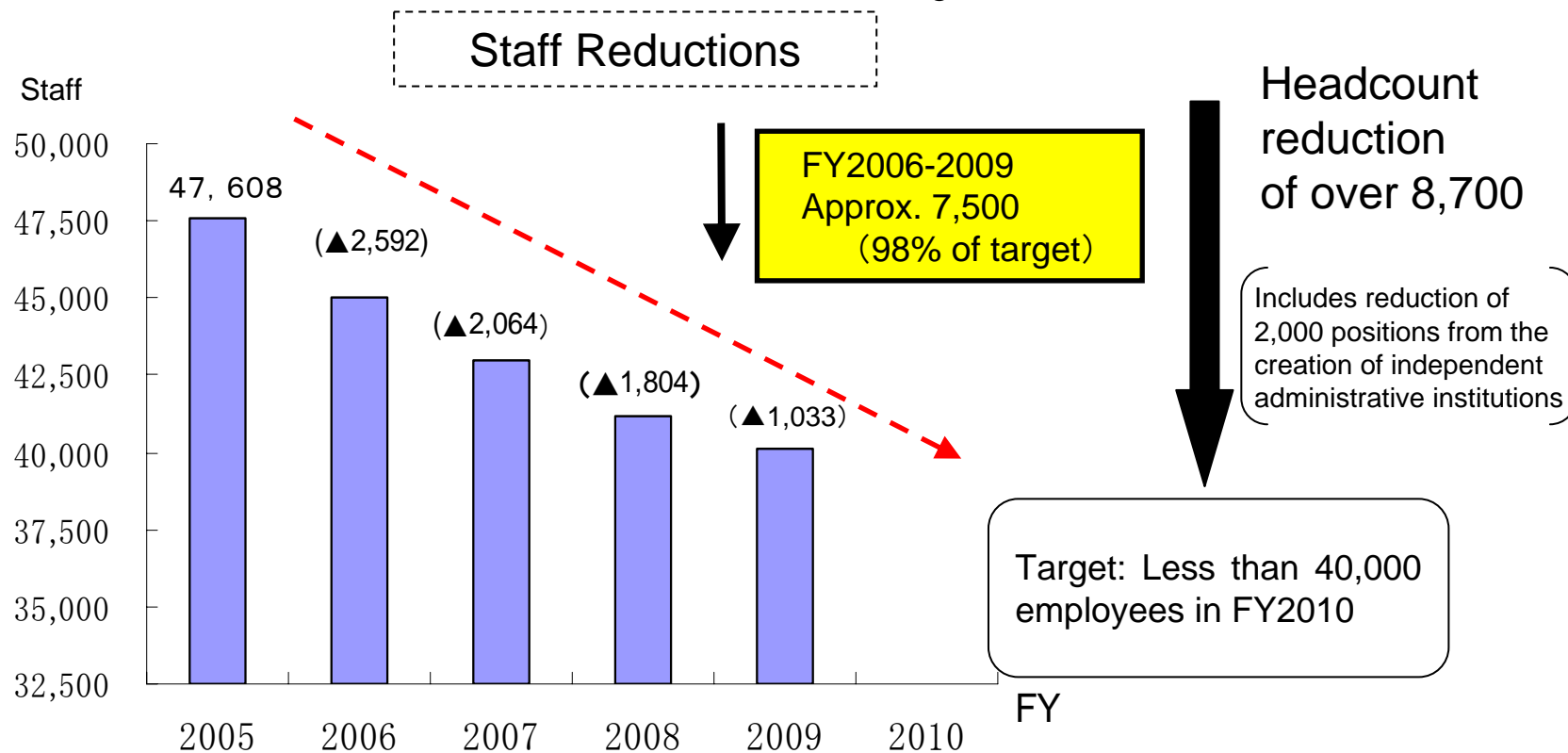
Target (FY2006-2010) → Achievement and % of Target (FY2006-2009)

- Operating Expenses: -90 billion yen → -63.6 billion yen (71%)
 - Investment Expenses: -110 billion yen → -115.7 billion yen (105%)
 - Special Account Transfers: -25 billion yen → -33.0 billion yen (132%)
- (Total) -225 billion yen → -212.3 billion yen (94%)**

**From FY2006-2009,
costs reduced by
212.3 billion yen
(94% of target)**

Staff Reductions

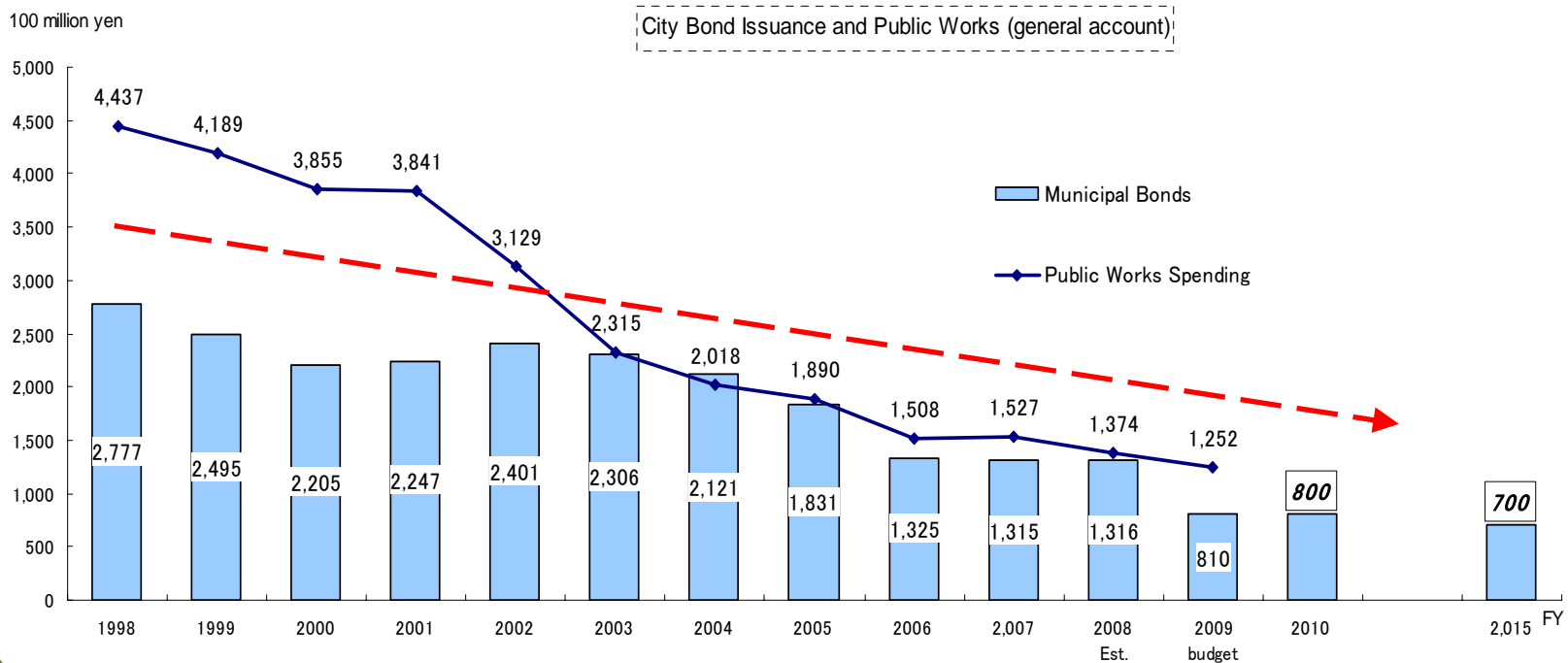
Staff hiring kept to absolute minimum



Note: FY2005-2008 figures as of October 1; FY2009 figures based on budget

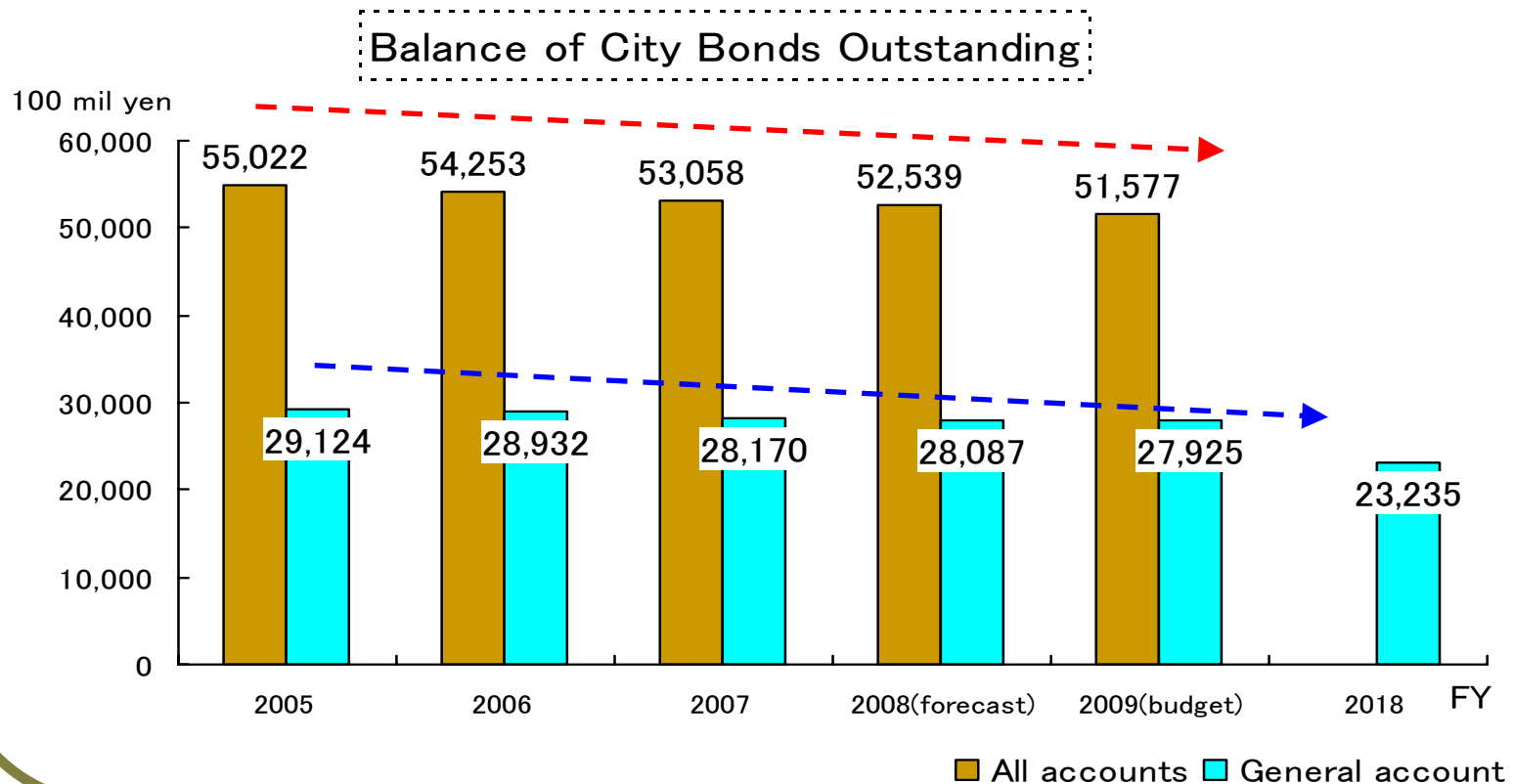
Reduced Bond Issuance and Public Works

- ▶ Public works have been reduced and strict steps are being taken to hold down the issuance of city bonds.
- ▶ The goal is to reduce city bond issuance to 80 billion yen in FY2010 and 70 billion yen in FY2015 (excluding Extraordinary Financial Measure Bonds and Tax-Cut Compensation Bonds).

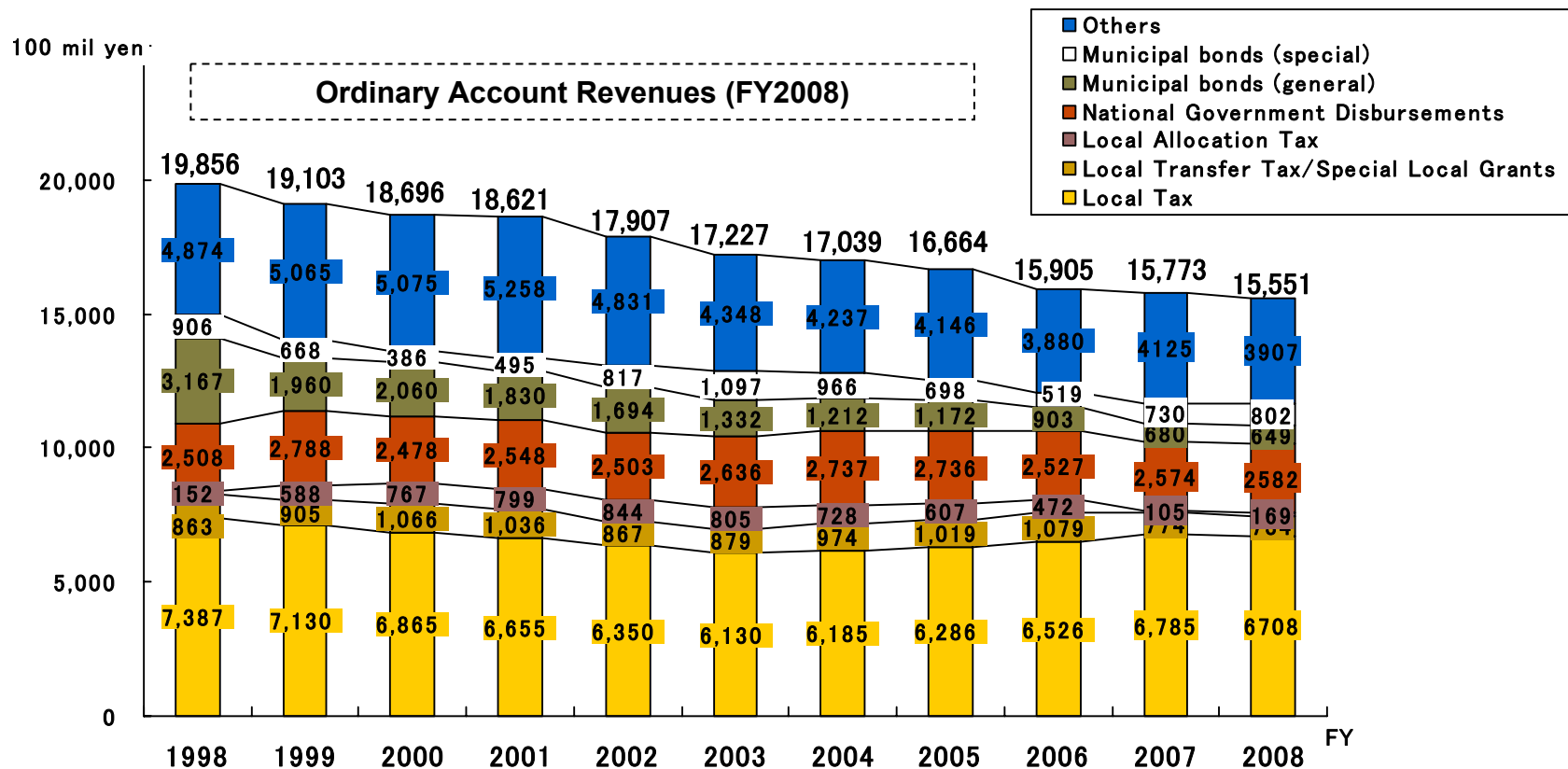


Cuts in City Bonds Outstanding

- By strictly curbing city bond issuance in accordance with targets detailed in the Basic Guidelines for Management Reform, city bonds outstanding in both General & All Accounts have decreased.



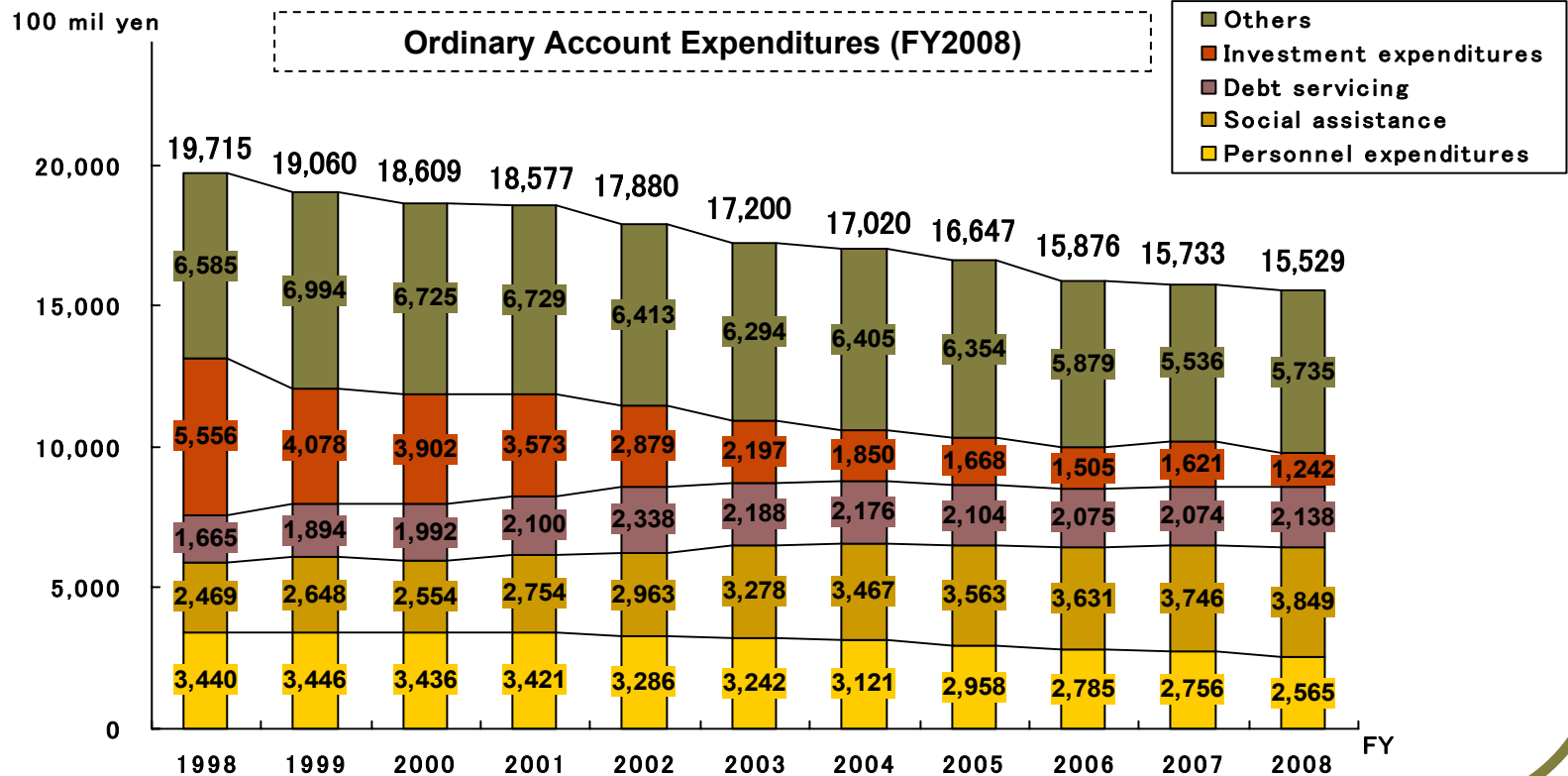
Ordinary Account Revenues



Ordinary Account... Classification used by the Ministry of Internal Affairs and Communications for local government accounting 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 (Expenditures)

- Mandatory expenditures for social assistance and debt servicing have been rising. However, investment spending has been decreasing. Total expenditures have also shrunk, thanks to staff reductions and reviews of operating and administrative expenditures.



Ordinary Account and Financial Indicators

(million yen)

	FY2003	FY2004	FY2005	FY2006	FY2007	FY2008
Total Revenues	1,722,657	1,703,865	1,666,375	1,590,506	1,577,285	1,555,121
Total Expenditures	1,719,987	1,701,951	1,664,689	1,587,643	1,573,282	1,552,859
Revenues Minus Expenditures	2,670	1,914	1,686	2,863	4,003	2,262
Real Balance	192	229	254	366	434	449
Single FY Balance	▲ 54	37	25	112	180	15
Real Single FY Balance	▲ 54	37	25	112	68	15
Standard Fiscal Scale	714,466	709,669	716,450	715,432	717,085	742,722
Fiscal Power Index	0.86%	0.86%	0.87%	0.89%	0.93%	0.96%
Real Revenue-Expenditure Ratio	-	-	-	0.1%	0.1%	0.1%
Ordinary Balance Ratio	102.5%	103.6%	101.7%	99.7%	99.9%	99.2%
Contract Authorization Amount (Scheduled Expenditure)	245,822	215,164	214,120	183,444	146,545	127,729

Operating Results of Public Enterprises

The operating performance of public and quasi-public enterprises is favorable. The subway, waterworks and sewage systems are all profitable, as the City of Osaka got off to an early start in building up such infrastructure.

FY2008

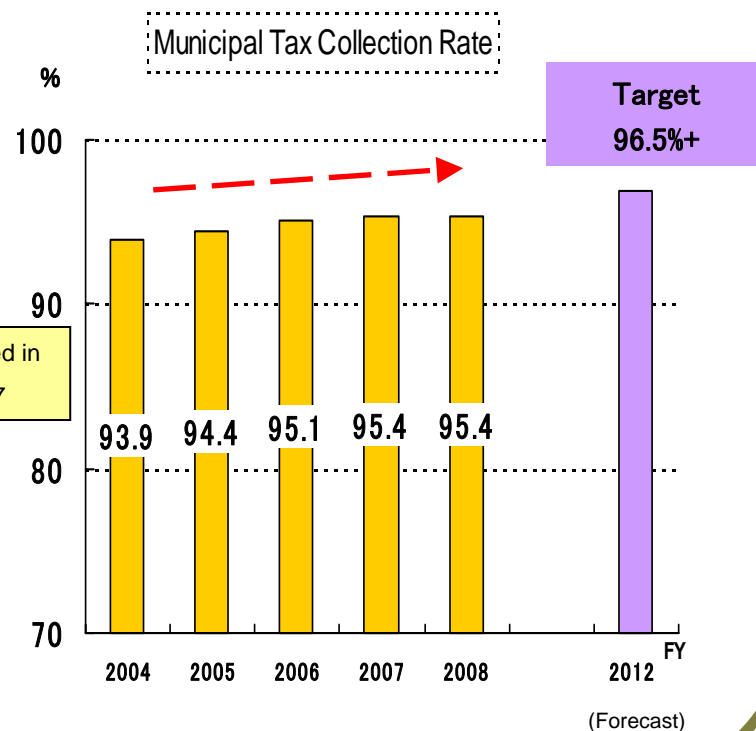
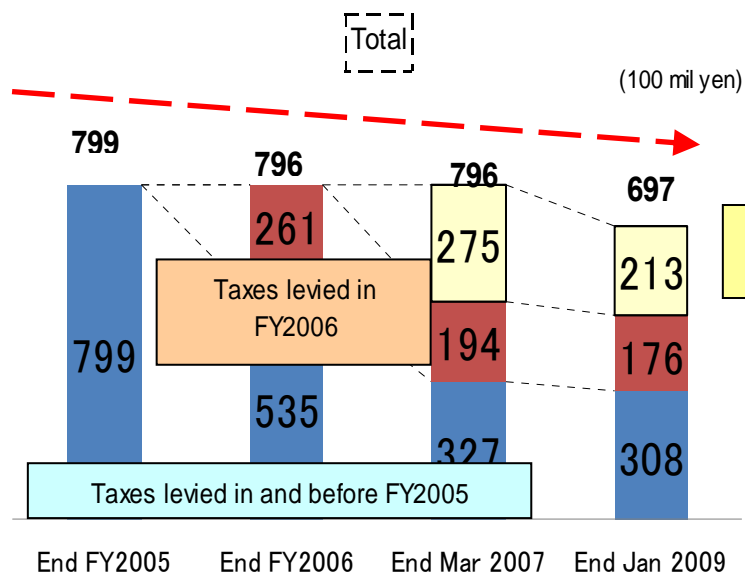
(100 mil yen)

	Account Name	Total Revenues	Total Expenses	Net Profit / Loss	Accumulated Losses / Retained Earnings	City Bonds Outstanding
Quasi-Public Enterprises	City Hospitals	521	426	95	-29	562
	Central Wholesale Market	76	89	-13	-127	736
	Port Operations	178	163	15	222	1,876
	Sewage	782	749	33	157	5,686
Public Enterprises	Bus	218	223	-5	-11	210
	Subway	1,696	1,572	124	354	7,142
	Waterworks	769	644	125	298	2,516
	Industrial Waterworks	20	17	3	33	27

Securing Income

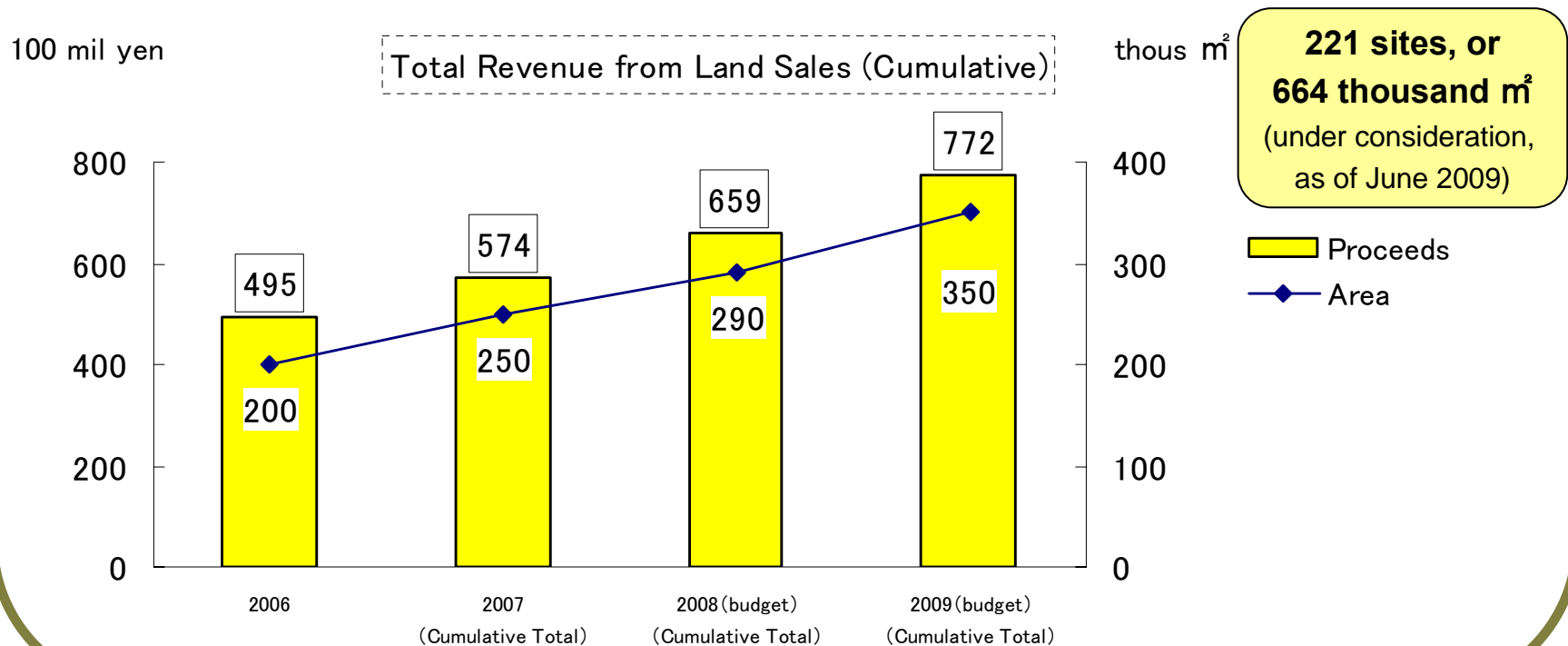
- The City of Osaka has stepped up efforts to improve overdue tax receivables collection, which include holding regular “(Osaka City Government) Meetings on Measures against Delinquent Tax Receivables” and forming the “Delinquent Tax Receivables Special Collection Team.”

Delinquent Tax Receivables



Sales of Unused Land

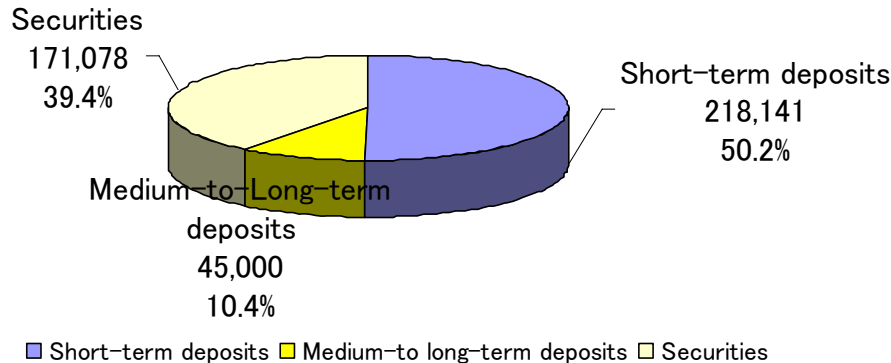
- To ease a financial burden for the City of Osaka, efforts are underway to sell as much unused land as possible while also taking into account the need to maintain public land ownership where necessary.



Accumulated Fund Balance

- In accordance with municipal ordinances, the City of Osaka has established various funds that aim for stable, optimum returns, combining both short-term and medium-/long-term investments.

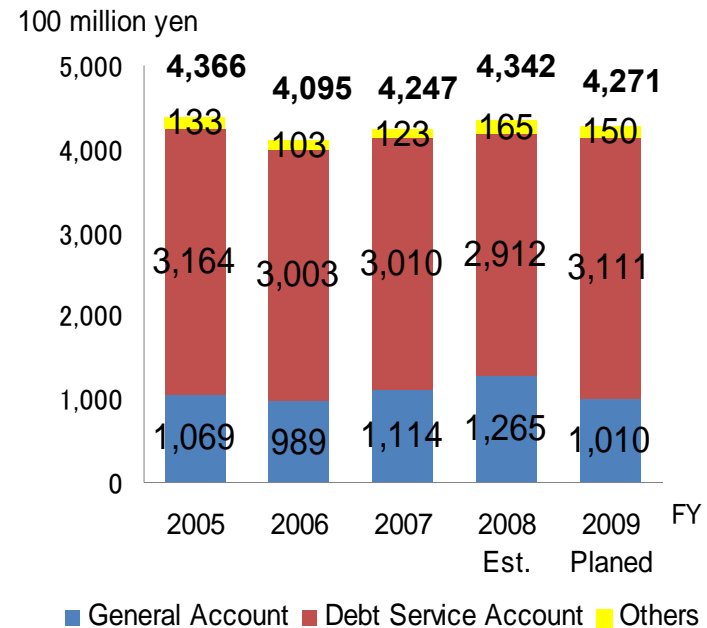
Portfolio Composition
(End-March 2009)



Bonds: Includes muni bonds (158,302 million yen) and government-guaranteed bonds (10,000 million yen).

Shares: Kansai Electric Power (24,425 million yen)

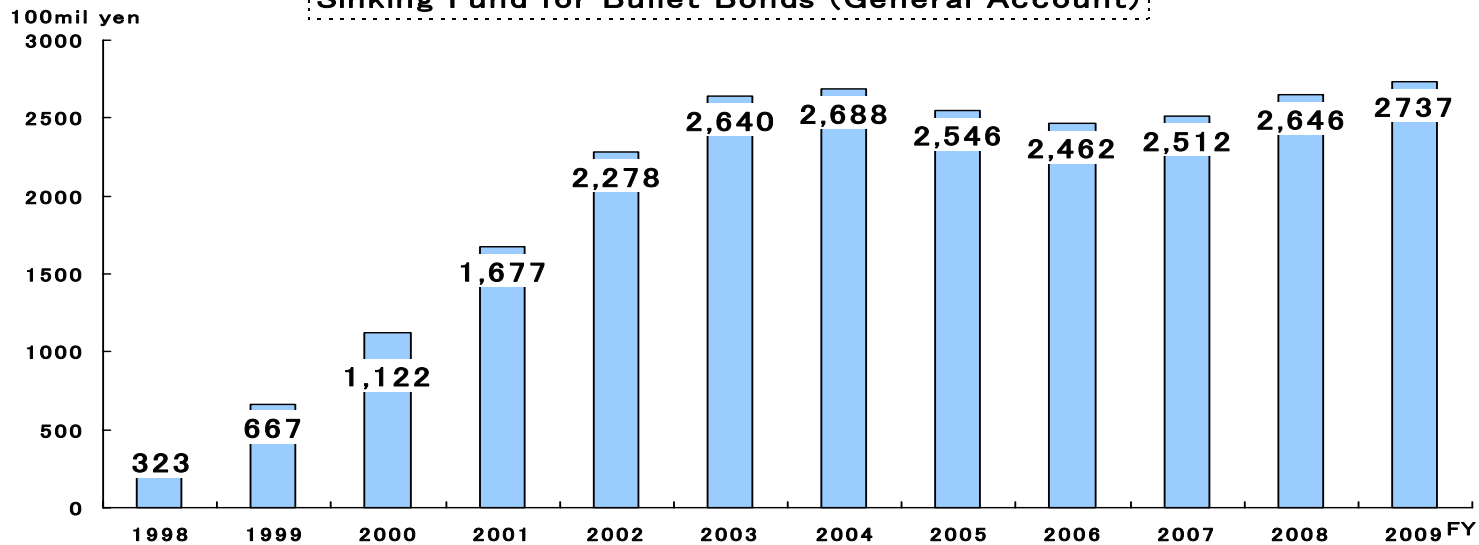
Fund Balance



Sinking Fund

- In accordance with national government stipulations, the City of Osaka has established a sinking fund to ensure adequate funding for redemption of all city bonds at maturity.
- There is never any borrowing from this fund for day-to-day operations.

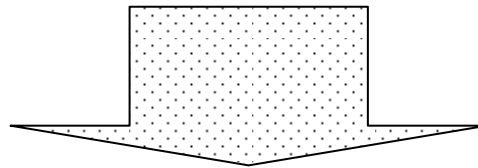
Sinking Fund for Bullet Bonds (General Account)



FY	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008 Est	2009 Budget
Accumulated Amount	211	344	455	555	669	730	726	685	696	756	852	920
Withdrawal	—	—	—	—	68	368	678	827	791	706	718	829
Balance	323	667	1,122	1,677	2,278	2,640	2,688	2,546	2,462	2,512	2,646	2,737

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 requires municipalities to establish and disclose financial indicators and aims for them to recover financial soundness at the earliest possible date.
- Every fiscal year, auditors examine four key indicators of financial health [(1) Real Deficit Ratio, (2) Consolidated Real Deficit Ratio, (3) Real Debt Servicing Ratio, and (4) Future Burden Ratio]. These figures are presented to the City Council before being released to the public.
- If a local government does not meet requirements for any of the four ratios, plans to restore financial soundness must be drawn up by the City Council and announced publicly.



The City of Osaka intends to further strengthen its finances to meet the indicator requirements.

The Four Financial Indicators

The City of Osaka is working to ensure that it meets the requirement for each of the four indicators outlined by the Law Relating to the Financial Soundness of Local Governments.

	Early Financial Warning Standards 〔 Strengthen finances through voluntary improvement measures 〕	Financial Restoration Standards 〔 Seek help from national government 〕	City of Osaka (End FY2007)
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 36.5 billion yen
Real Debt Servicing Ratio (Real debt servicing expense including special factors)	More than 25%	More than 35%	10.7%
Future Burden Ratio (Real debts including special accounts, subsidiaries, etc.)	More than 400%		245.7%

1. Ratios marked with [-] indicate that City of Osaka has no real deficit or consolidated real deficit.

2. Financial Restoration Standards for the Consolidated Real Deficit Ratio have been gradually tightened over a three-year period (40% in FY2007; raised to 35% in FY2008 and 30% in FY2009).

Tax Exemption for Interest on Muni Bonds

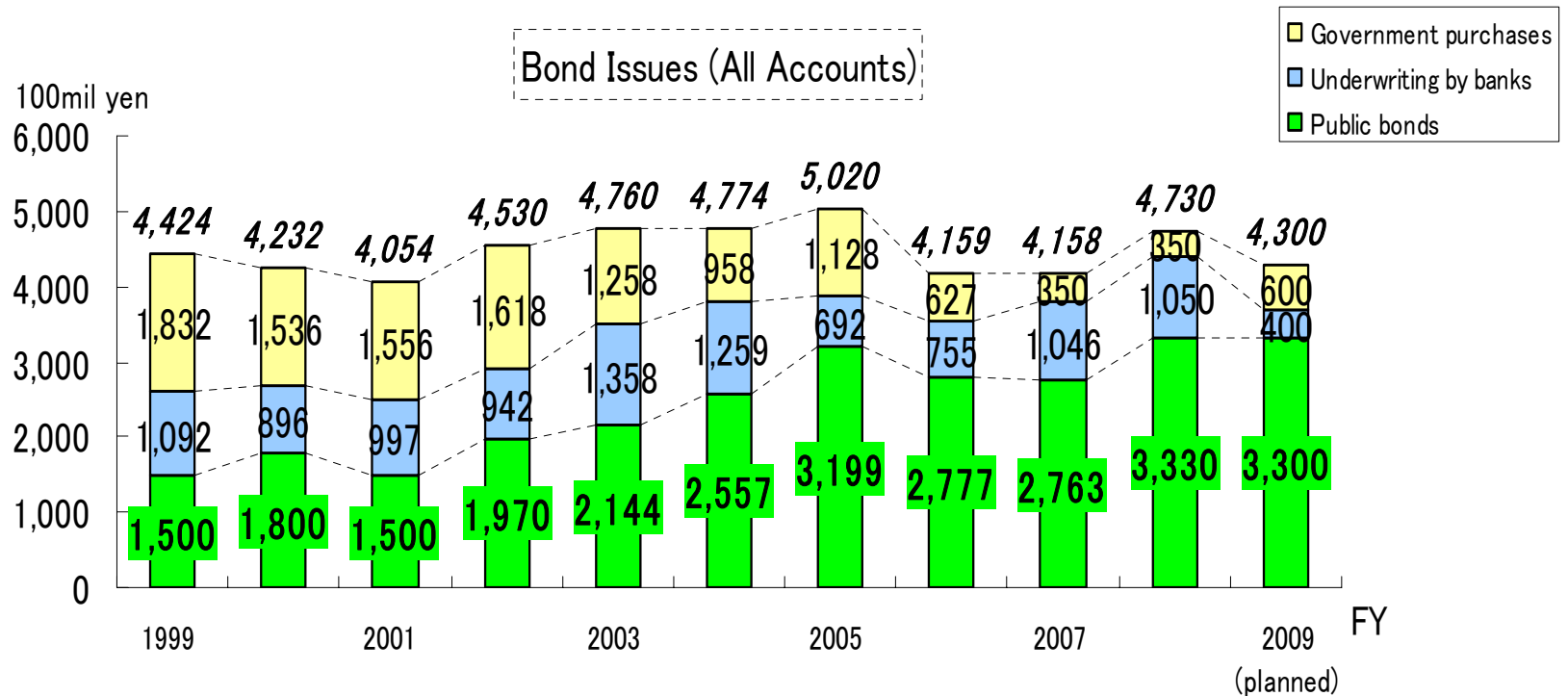
➤ Under the Act on Special Measures Concerning Taxation (covering non-residents and foreign corporations, including trust banks working as custodians for foreign mutual funds), interest on municipal bonds (LGB) held by non-residents or foreign corporations and settled by the electronic book-entry system are exempt from withholding tax, as with JGBs. The exemption applies to interest paid after January 1, 2008 and is subject to the conditions below.

Conditions

- Non-JGB securities are required to be settled through Japan Securities Depository Center (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 member of JASDEC (i.e., local sub-custodian in Japan) or via a designated FIAMI/QFI (i.e., global custodian) and submit the appropriate paperwork.
- In case the beneficiary holds LGBs through a global custodian, it must have FIAMI/QFI status.
- Entities exempted for JGBs are also eligible for the tax exemption on local government bonds, under certain conditions.

Increased Fundraising on Markets

- The City of Osaka has increasingly been financing its activities with the issue of public bonds, which now account for approximately 70% of all funds raised.



※Based on face value, including refinancing bonds

※※Figures have been rounded and hence may not sum to totals.

Disclaimer

- This document is not and should not be construed as an offer to sell or the solicitation of an offer to purchase or subscribe for bonds issued by the City of Osaka.
- The information contained herein may be completed and supplemented at any time; it does not constitute an investment recommendation nor should it serve as a basis for investment decision.
- The City of Osaka assumes no responsibility for any action taken based on the information contained herein.

Inquiries about materials:

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Osaka City Homepage

<http://www.city.osaka.lg.jp/contents/wdu020/english/>

Inquires about fiscal conditions:

Osaka City Finance Bureau Homepage

<http://www.zaisei.city.osaka.jp/public/english/index.html>