



## FY2010 Kobe City IR Seminar Presentation

~ FY2009 Results ~

The former foreign settlement area of Kobe



AA  
(Stable)



City of Design  
**KOBE**  
Member of the UNESCO  
Creative Cities Network  
since 2008

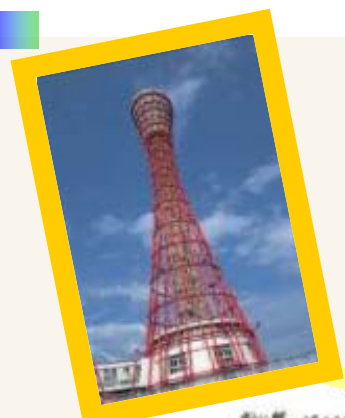
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# City of Design KOBÉ

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# 1. Overview of Kobe



# ~ Overview of Kobe ~

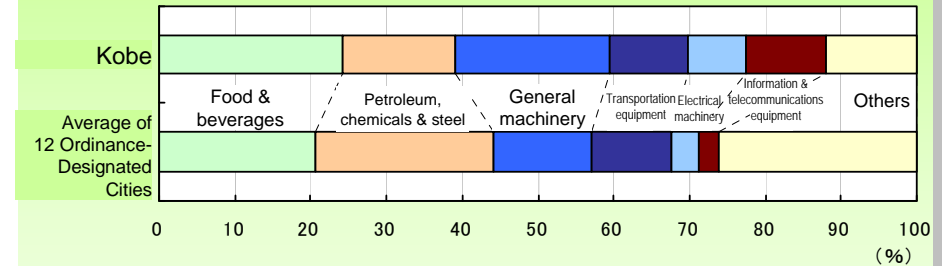
## Overview of Kobe

		Ranking among all 12 ordinance-designated cities*
Land Area	552.80km <sup>2</sup>	5th
Population	1.539 mil.	5th (As of Sept. 2010)
Municipal GDP (Nominal)	6.15 tril. yen	6th (FY2007)
Sea Imports/Exports	9.18 tril. yen	3th (FY2008)
No. of Establishments	74,036	7th (Preliminary for 2009)

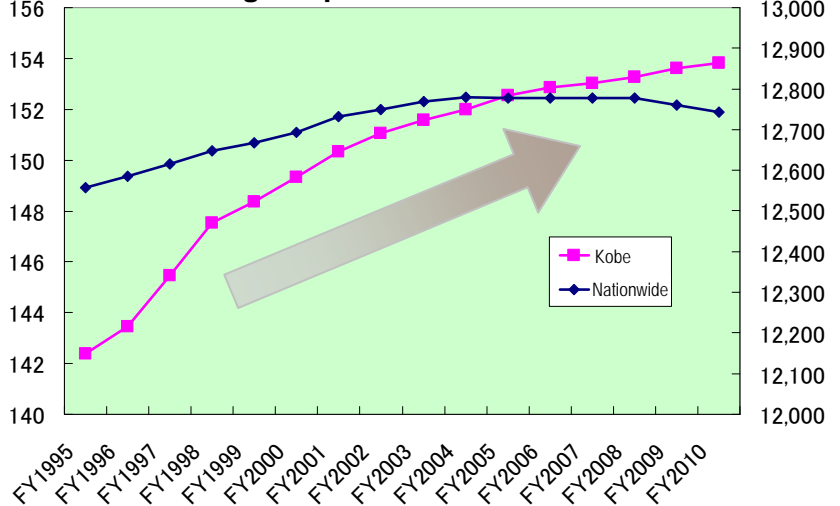
## Industry

Kobe boasts a good balance of light, heavy and high-tech industries

Breakdown of Manufactured Goods Shipments (2008)



Record High Population Growth in Kobe (10 thousands)



Traditional food & brewing industry

Expansion of the port led to growth in heavy industry

Growth of the chemical and clothing industries

Clusters of high-tech and medical industries

\* 12 ordinance-designated cities: cities whose statistics are reported in "Comparative Statistics Yearbook of Large Cities in Japan" (Sapporo, Sendai, Chiba, Kawasaki, Yokohama, Nagoya, Kyoto, Osaka, Kobe, Hiroshima, Kitakyushu, and Fukuoka)

# ~ Social Infrastructure of Kobe ~

- Well established transportation and social infrastructure (such as water and sewerage)
- Post-earthquake restoration and reconstruction is almost completed.
- Active efforts are underway to attract companies to convenient industrial premises located in the waterfront and land areas.
- The long-established Port of Kobe has been **designated as an international container strategic port**.
- A large project to extend the Hanshin Expressway Wangan Route is underway.\*

## Transportation Networks of Kobe

Air	Kobe Airport	Links 5 domestic cities
Railway	Sanyo Shinkansen (bullet train) Railway system	Japan Railways, private railways, subways and new transportation systems, allowing easy access in and out of the city *The number of passengers using Shin-Kobe Station continues to break new records.
Road	Expressway networks	Expressway networks such as Hanshin, Sanyo, Chugoku and Kobe Awaji Hanshin
Sea	Port of Kobe	Opened in 1868 and serves as a gateway to around 130 countries and approx. 500 ports.

## The Social Infrastructure of Kobe

Sewerage	Diffusion rate of sewerage: 99.8% [Public sewerage system: 98.6%] (National average: 84.8% [72.7%])
Waterworks	Diffusion rate of water supply: 99.8% (National average: 97.2%)
Parks	Park area per capita: 16.9 m <sup>2</sup> (Ranks 1st among all ordinance-designated cities)
Schools	Total of 604 schools, including 21 universities (Ranks 2nd among all ordinance-designated cities)



\* Urban planning and environmental impact assessment procedures for the extension of the Hanshin Expressway Wangan Route have already been completed. Details such as operation, construction method, fiscal burden are to be decided.

# ~ Kobe Medical Industry Development Project ~

We have created a major R&D center for highly advanced medical technology on Port Island, aiming to form the largest biomedical cluster in Japan by attracting the world's top-tier research institutes, medical institutions and medical-related enterprises.

**Goal:** Accumulate 200 medical-related companies by the end of 2010

**Future:** Create a medical cluster of 500 medical-related companies in Kobe



- (1) Research and development of medical devices
- (2) Support for clinical research and trials of medicines, etc.
- (3) Clinical application of regenerative medicine

Build a new key industry  
Increase employment and tax revenue  
Enhance medical standards

# ~ The Progress Situation of the Medical Industry Development Project ~

## Research Institutes

- As core facilities, 11 institutions are located in the area including the Institute of Biomedical Research and Innovation, and the Translational Research Informatics Center. Cooperation among these institutions has been strengthened to promote the clinical and practical application of drugs, medical devices and regenerative medicine.
- In addition to Hyogo University of Health Sciences and the Faculty of Pharmaceutical Sciences of Kobe Gakuin University, Konan University's Faculty of Frontiers of Innovative Research in Science and Technology and the Frontier Institute for Biomolecular Engineering Research were opened in April 2009. Also, Kobe University and the University of Hyogo will be in operation from 2011.



## Next-generation Supercomputer

- The world's most advanced and high-performance supercomputer (also known as the "K" computer) will be installed on Kobe Port Island.
- The supercomputer will become available in various fields such as life sciences, nanotechnology, manufacturing, aerospace engineering, disaster prevention, nuclear energy, and geo-environmental sciences.
- The next-generation supercomputer center is being built by RIKEN.



- Total project cost: 115 billion yen
- Start of operation: 2012
- Computing capability: 10 petaflops (10 quadrillion mathematical calculations per second)

Source: RIKEN

No. of medical-related companies: **185**

(As of the end of September 2010)

No. of researchers and employees:

**approx. 3,700**

### <Medicine>

Daiichi Sankyo, Asubio Pharmaceuticals, Eisai's research subsidiary KAN Research Institute, Nippon Boehringer Ingelheim, Carna Biosciences

### <Medical Devices>

Panasonic Electric Works, GE Healthcare Japan, Siemens Japan, Sysmex, Fukuda Denshi, Mitsubishi Heavy Industry, Furuno Electric

### <Generative Medicine>

Olympus, ArBlast

### <Healthcare>

Nichii Gakkan, Noevir, Fujicco, Reve 21, etc.

## 2. Kobe Account Results



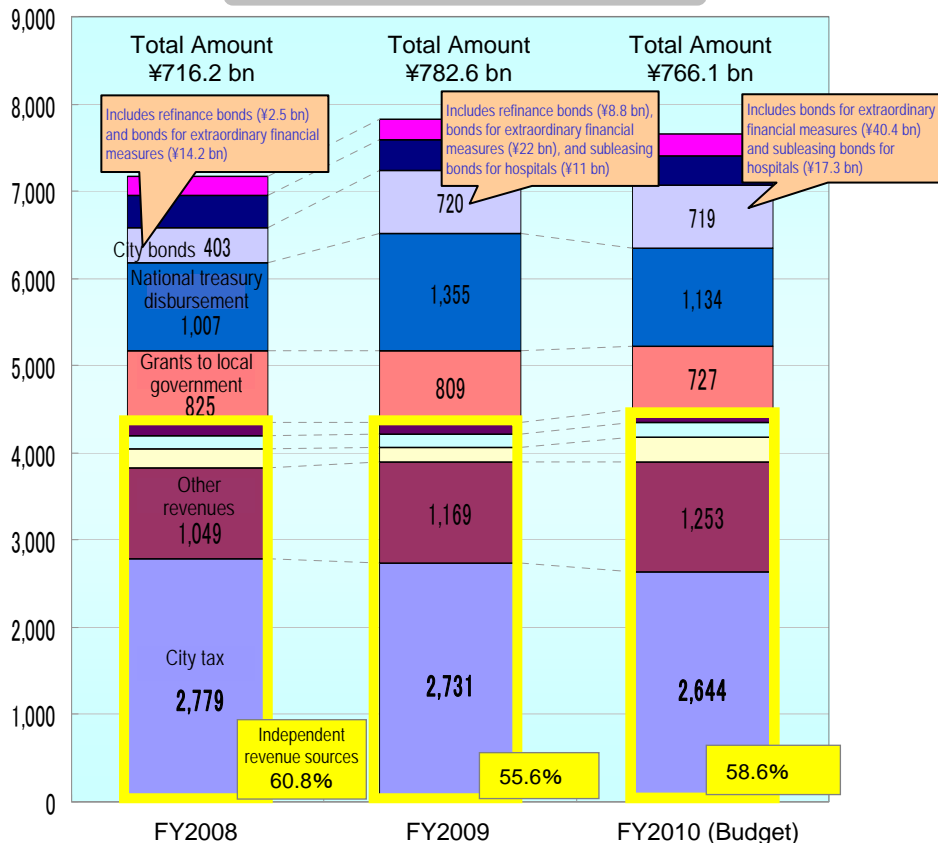
View of the City from Ikari Mountain

# ~ General Account Results FY2009 ~

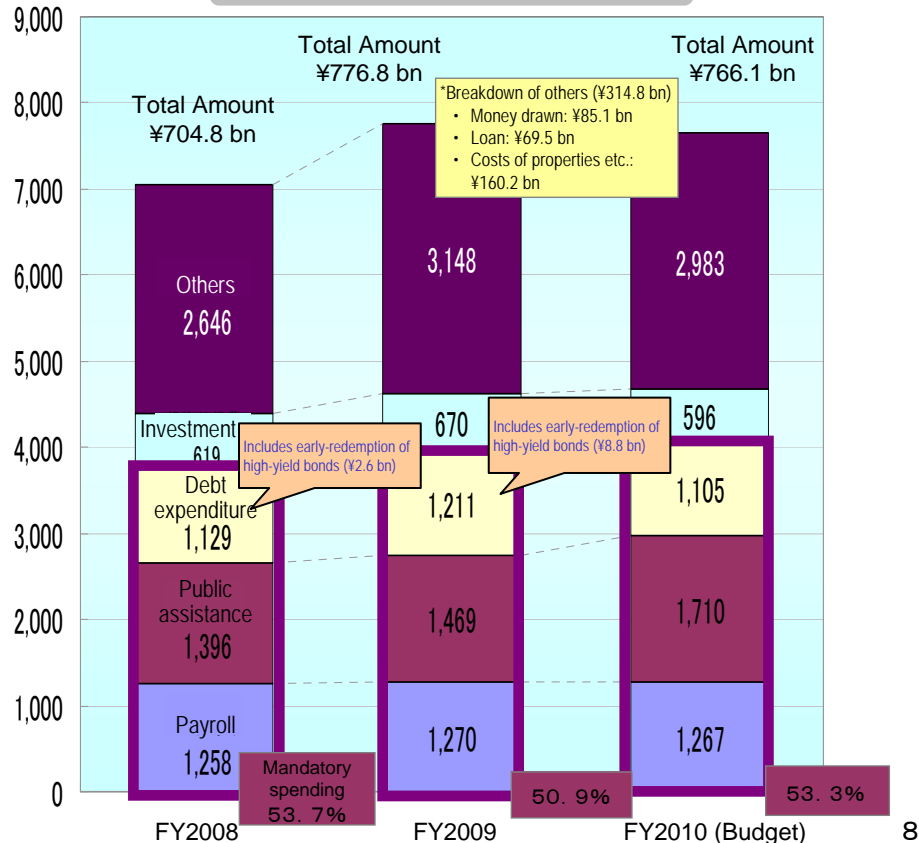
While city tax revenues dropped substantially nationwide in FY2009, Kobe saw a minimal decrease in tax revenue.

- [Revenue]** Tax revenue decreased by a total of 4.8 billion yen ( $\Delta 1.7\%$ ): Individual inhabitant tax revenue was almost unchanged from the previous year, corporate inhabitant tax revenue dropped by 5.4 billion yen ( $\Delta 17.6\%$ ), and fixed property tax revenue increased by 1 billion yen ( $+0.9\%$ ).
- [Expenditure]** Despite an increase in public assistance including welfare payment, the mandatory spending ratio decreased slightly because of the increase in operating expenses resulting from the central government's measures taken to combat the economic crisis.

## Revenue



## Expenditure



# ~ Primary Balance Trends ~

● We carefully manage new borrowings in order to keep the primary balance in surplus.\*  
 (Surplus for 13 consecutive years since 1997)

\*The primary balance is the difference between expenditures (excluding bond expenses) and revenues (excluding bond revenues). This is a fiscal soundness indicator. A surplus in the primary balance means that tax revenues exceed expenditure, leaving no burden for the next generation.

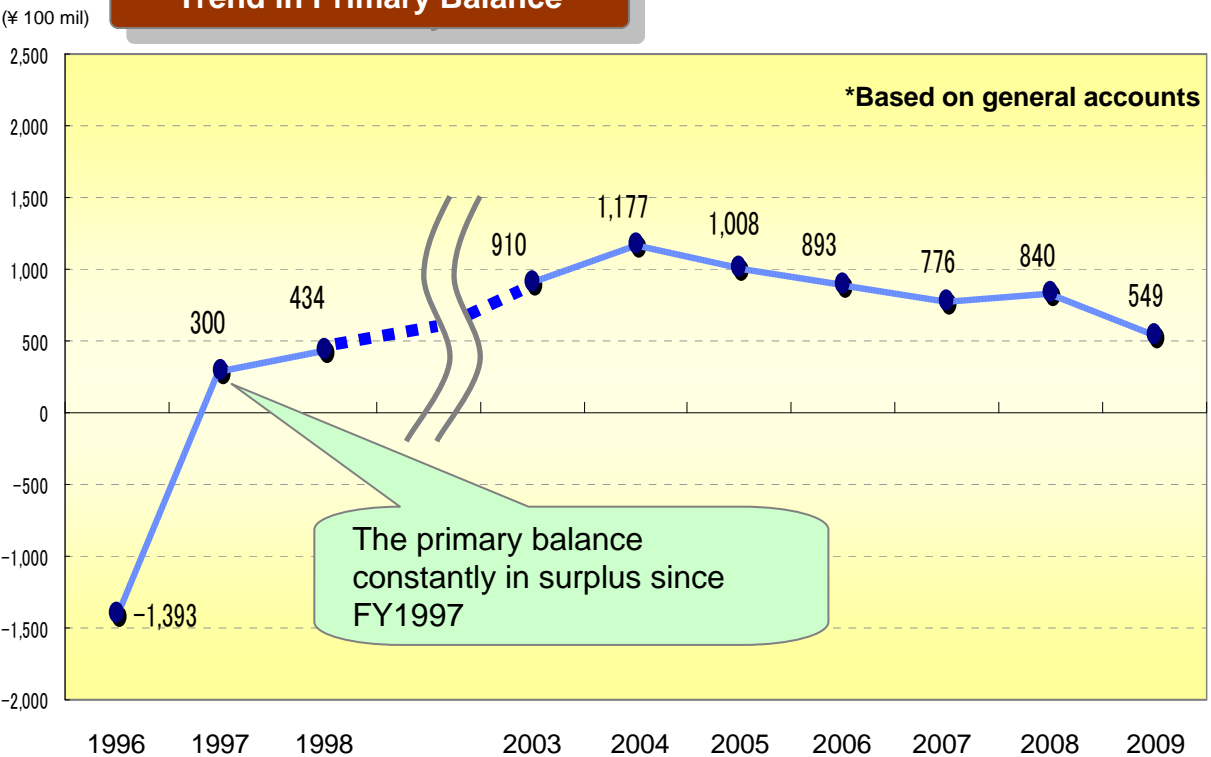
After the budget of FY1999, the issuance of unsubsidized general public works bonds to local government-financed businesses was suspended. This in turn reduces public investment and leads to a reduction in the outstanding balance of city bonds.

<Indicator comparison with other ordinance-designated cities>

		2008	2009
Actual debt payment ratio (3-year average)	Ratio (%)	15.1	13.9
	Rank	12th	14th
Primary balance/standard fiscal size (Based on ordinary accounts)	Ratio (%)	25.0	14.6
	Rank	<b>1st</b>	<b>2nd</b>
Outstanding bond debt per capita (Based on general accounts)	Outstanding amount (thousand yen)	663	662
	Rank	9th	11th
Dependence on bond issuance (Based on general accounts) <small>*The higher the rank, the lower the dependence.</small>	Ratio (%)	5.3	8.2
	Rank	<b>1st</b>	<b>3rd</b>

\*Ranked among 18 cities in 2008, and 19 cities in 2009

**Trend in Primary Balance**



# ~ Special Account & Public Enterprise Account Results FY2009 ~

Name of Special Account	FY2010 Budget		FY2009 Result		FY2008 Result	
	Expenditure	Transferred to General Account	Expenditure	Transferred to General Account	Expenditure	Transferred to General Account
Debt payment	3,906	1,105	3,909	1,211	3,807	1,129
National health insurance	1,530	141	1,475	131	1,452	136
Healthcare for the elderly	1	0	10	0	140	9
Care insurance	1,034	155	962	140	913	135
Geriatric care for the latter-stage elderly	291	145	253	131	235	119
Market business	51	4	40	5	44	2
Meat center	12	9	11	9	11	9
Workers' benefit	5	0	4	0	4	1
Agricultural insurance	3	1	3	1	2	1
Benefit/support for fatherless families/widows	4	0	2	0	2	0
Land acquisition for future development	1	0	1	0	1	0
Parking business	11	1	12	2	13	2
Rural community sewerage	12	9	14	9	21	9
Seacoast environment maintenance	18	4	18	4	19	4
Urban area redevelopment	111	87	136	80	127	83
City-provided housing	327	82	335	101	341	85
Airport maintenance	24	6	74	5	94	4
<b>Total</b>	<b>7,341</b>	<b>1,749</b>	<b>7,259</b>	<b>1,829</b>	<b>7,226</b>	<b>1,728</b>

## ★Accounts

- In addition to general accounts, 17 special accounts and 8 public enterprise accounts have been set up in Kobe.
- Special accounts are established under the Local Autonomy Law in order to meet the need for accounting for specific revenues and expenditures (those aside from the general revenues and expenditures under the general accounts) for the purpose of carrying out specific business or otherwise financing specific expenses with specific revenue.
- Public enterprise accounts are for businesses managed by independent profit systems (excluding general account expenditures), which are managed based on standard business accounting practices.

(Unit: ¥100 mil)

Name of Public Enterprise Account	Operation	FY2010 Profit and Loss (Budget)	FY2009 Profit and Loss (Result)	FY2008 Profit and Loss (Result)
Sewage system account	Sewage disposals	3	14	16
Port and harbor account	Management and operation of the Port of Kobe	37	33	34
Urban development account	Development and sale of residential and industrial estate	14	8	33
Automotive business account	City bus services	0	2	2
Rapid transit railway account	Subway services	△ 13	△ 13	△ 14
Waterworks account	Waterworks	3	6	8
Industrial waterworks account	Waterworks for companies	1	4	4
<b>Total</b>		<b>45</b>	<b>54</b>	<b>83</b>
<b>( Reference )</b>				
Kobe City Hospital Organization	Operation of municipal hospitals <small>*Turned into an independent administrative corporation in 2009</small>	7	30	3



Municipal Subway Kaigan Line <Yumekamome>

## [Municipal Subways' Results]

FY2008 result  
Seishin-Yamate Line  
+ ¥5.1 bn  
Kaigan Line  
△¥6.5 bn

FY2009 result  
Seishin-Yamate Line  
+ ¥4.8 bn  
Kaigan Line  
△¥6.1 bn

# ~ Urban Development Account Results ~

## Urban Development Account

### [Description of Business]

- Land development (development and sale of residential and industrial estate) in waterfront and land areas
- \* Bonds issued for land development are redeemed by proceeds from land selling.

### [Financial Condition]

- Due to a decline in companies' motivation to invest due to the weak economy, land selling has fallen into a sluggish pace.
- While withholding funding by refinancing some of the bonds issued, we have promoted land selling by attracting more companies utilizing private sector know-how.

### Assets

Land for sale	¥295 bn
Cash and deposits	¥178.4 bn

### Liabilities

Municipal debt outstanding	¥337.5 bn
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(As of the end of 2009)

### <Land-Sale Revenues in the Previous 3 Years >

FY2007	FY2008	FY2009
¥36.1 bn	¥27.7 bn	¥14.5 bn

## Kobe Airport-Related Business

- The airport island was created by land reclamation. The site for the airport on the island was sold to the Airport Maintenance Account, and the remaining sites will be sold as needed after the completion of land reclamation.

(Total project cost: ¥278 bn \*Planned)

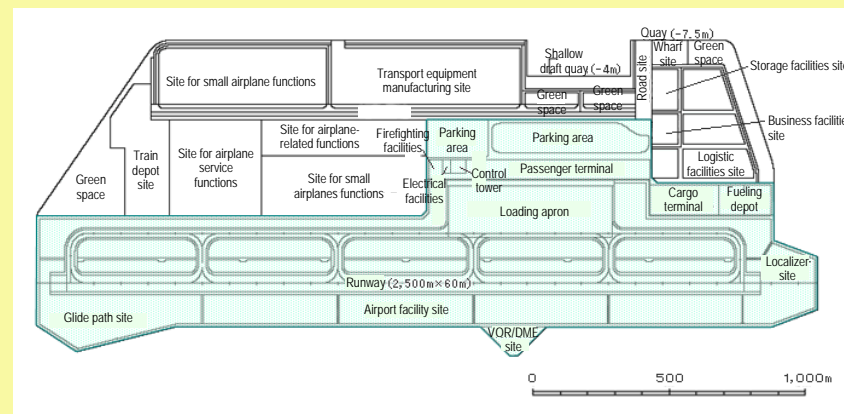
(Total bond issue: ¥198.2 bn \*Actual)

### <Land Sale Results>

	Land Area	Land Sale Revenue
(1) Sites sold (airport)	138.4ha	¥38.8 bn
(2) Sites sold (private sector etc.)	14.8ha	¥20.8 bn
(3) Sites to be sold *Partially under reclamation	90.1ha	—
Sites under lease	0.9ha	—

### All sites are:

- Use district: light-industrial district
- Building-to-land ratio: 60%
- Floor-area ratio: 200%



# ~ The Current Status of Kobe Airport ~

The opening of Kobe Airport has provided a great stimulus to the attraction of businesses, creating the synergistic effect of enhancing the convenience of the city.

## Attraction of Businesses

- ◆ The goal of selling **50 ha** of industrial premises within 3 years (FY2005-2007) was achieved.

No. of businesses	Before airport opening	Present
Port Island (2nd Stage)	287	382
Kobe Biomedical Innovation Cluster	83	185
Techno Logistic Park	56	90

\* Port Island 2nd Stage includes 156 companies in the Kobe Biomedical Innovation Cluster.

\* Present numbers of companies are as of the end of September 2010.

## Other Positive Effects

- ◆ The world's fastest supercomputer (by Riken) is to be installed in Kobe, a city recognized for its excellence in convenience and education/research environment.
- ◆ In April 2007, **three universities were opened** on Port Island 1st Stage (former container berth).  
⇒ Attract **approx. 8,000 students** to Port Island

Influence on tourism	FY2005	FY2009
Hotel occupancy rate	68.4%	66.1%
No. of tourists	27.3 mil	30.15 mil

## Airport Maintenance Account

### [Description of business]

- Maintenance and administrative operation of Kobe Airport (Total operating expenses/total project cost: ¥59.4 bn \*Planned)

### [Airport maintenance]

- The building and maintenance of airport facilities, including site acquisition and runway construction, were covered with government subsidies and bond issue, which has been redeemed by landing fees, etc. (Total bond issue: ¥26.7 bn \*Actual)

### [Airport administrative operation]

- Administrative operation has been covered by landing lease fees.

### [Financial condition]

- Landing fees decreased by ¥6.3 million compared to the previous fiscal year to ¥67.5 million, due to changes in airline routes and equipment. Due to administrative operation cost saving, however, the balance of payments was better than budget expectations.



Kobe's fiscal indicators stand well below the Early Warning Limit.

## Real Deficit Ratio (General Account/Consolidated)

- ◆ General 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 Accounts/Consolidated (No Deficit)** (¥100 mil)

	Description of Business	Deficit/Surplus
General Account	Includes housing, airport	+1
Special Account	Nursing-care insurance etc.	+19
Sewage System Account	Sewage disposals	+190
Port and Harbor Account	Management and operation of Port of Kobe	+602
Urban Development Account	Development and sales of premises	+445
Automotive Public Enterprise Account	City bus services	△12
Rapid Transit Railway Account	Subway services	-
Waterworks Account	Waterworks	+62
Industrial Waterworks Account	Waterworks for companies	+10

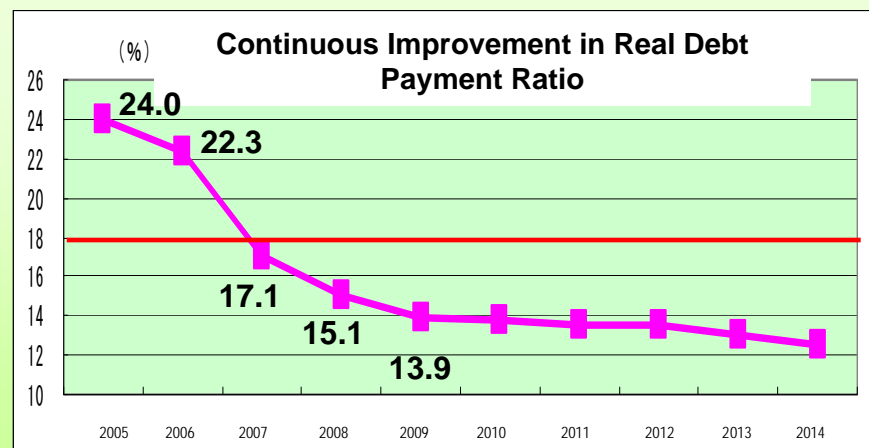
Since the surplus of the waterworks, sewage system, and port/harbor accounts exceeds the deficit of the automotive public enterprise account, no consolidated negative net worth is recognized.

## Real Debt Payment Ratio

- ◆ The debt payment ratio has shown improvement as a result of a decline in outstanding city bonds.
- ◆ "Urban planning tax," a primary tax item for major cities, has been appropriated for debt expenditure deductions since FY2007.

FY2007	FY2008	FY2009	3-year average
14.6	14.3	13.1	<b>13.9</b>

⇒ After being transferred to "Informed & Consulted" status (below 18%), Kobe has significantly improved the real debt payment ratio by reducing outstanding city bonds, in line with its Fiscal Reform Plan. (△2.0% y/y in 2008, △1.2% y/y in 2009).

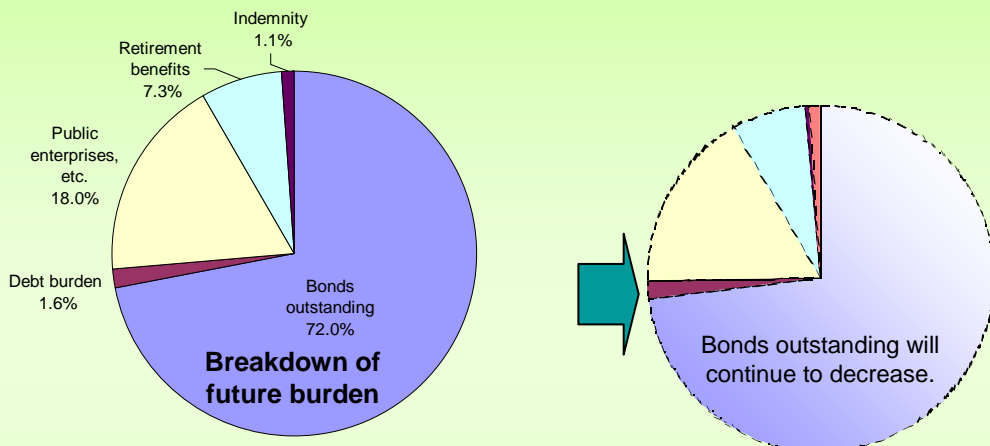


## Future Burden Ratio

### ◆ Future burden for local government

**175.6% (Δ1% year-on-year)**

**(Well below the Early Warning Limit of 400%)**



Reasons behind the future burden ratio being lower than the current debt payment ratio (current debt outstanding/annual revenue).

- ◆ Bonds related to earthquake restoration are covered by tax reimbursed from the central government. (As a result, the financial strength indicator and the ratio of recurring profit are deteriorating.)
- ◆ Major public enterprises, such as those for waterworks and the port & harbor, have shown favorable performance.
- ◆ Under the administrative and fiscal reform guidelines, extra-governmental organization reforms were implemented.

### Public Enterprise Burden

(¥ 100 mil)

Market business	11	Sewerage	588
Meat center	34	Port and harbor	729
Parking business	6	Urban development	138
Rural community sewerage	116	Automotives	8
Seacoast environment improvement	32	Rapid transit railway	646
Urban area redevelopment	755	Waterworks	2
<b>Total</b>			<b>3,065</b>

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

### Compensation Burden for Losses of the 3rd Sector (joint corporations invested both by the public and private sectors)

(¥ 100 mil)

Roads Corporation	0	Foundation for Biomedical Research and Innovation	23
Land Development Public Corporation	12	Zaitaku Care Institute	1
University of Foreign Studies	0	Housing Supply Corporation	85
Kobe New Transit	5	Air Terminal	3
Kobe Raid Transit Railway	2	Port Terminal Corporation	23
Social Welfare Promotion Association	0	<b>Total</b>	<b>154</b>

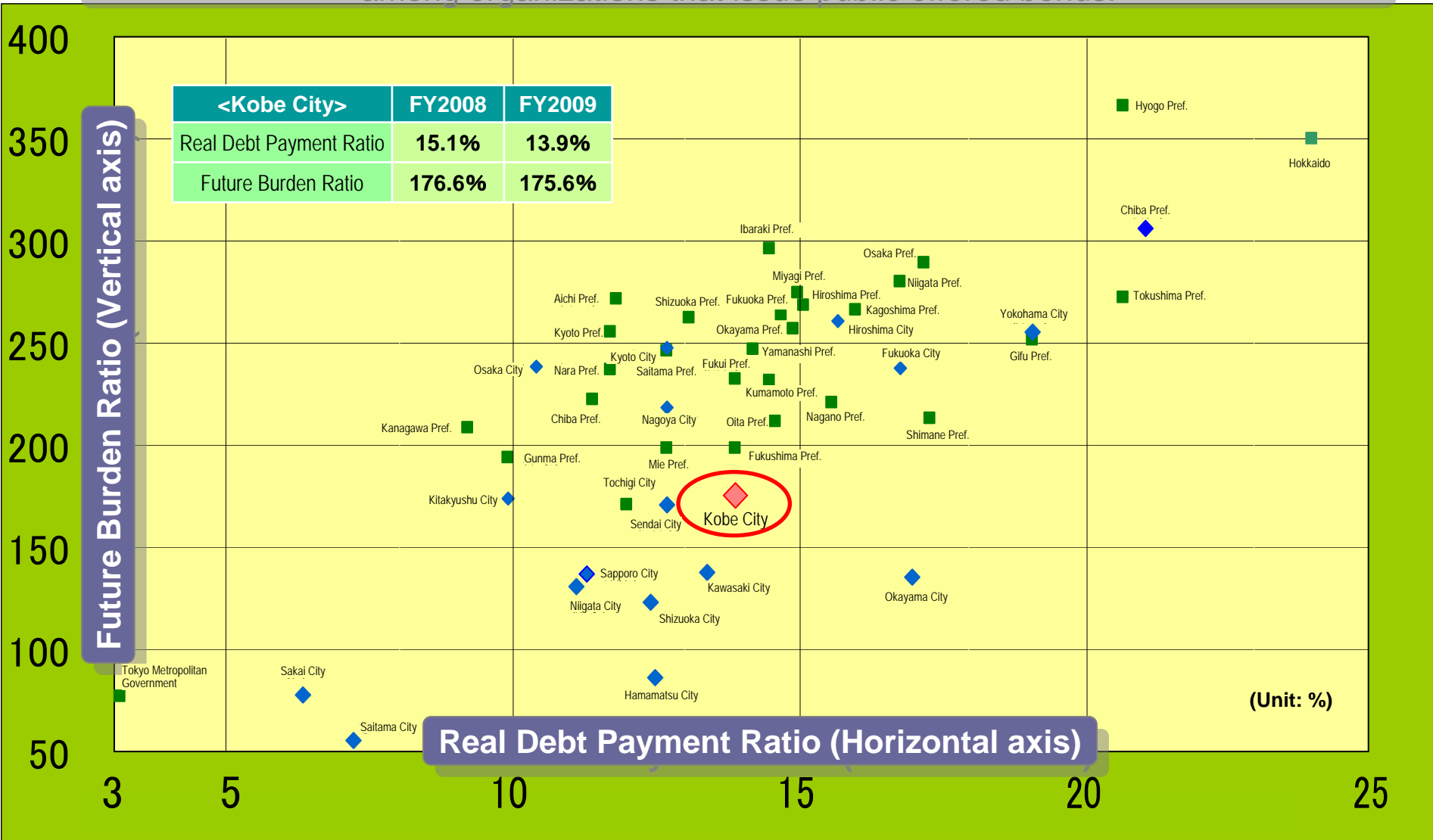
\* Multiplying the outstanding amount of compensation for each organization by the multiple determined by each financial statement

\* Additionally, the compensation burden for directed credit programs is ¥4.2 billion.

Since FY1997, the primary balance has continued to be positive; the City's administrative and fiscal reform implementations are reflected in the fiscal indicators.

# ~ Four Fiscal Indicators Status FY2009 ~

Because of its improvement in terms of debt level, Kobe City ranks in the middle range among organizations that issue public offered bonds.



## 3. Kobe's Administrative and Fiscal Reforms



■ Three-year Urgent Plan for Kobe to Improve Its Financial Status (FY1996-1998)

■ Renewed Plan for Improving Administration and Finance (FY1999-2003)

Budget deficit per fiscal year:  
Improved by approx. ¥216 billion

No. of city employees: Reduced by 2,185

## Implementation of Administrative Policy (FY2004-2010)

- ✓ Reduce outstanding balance of city bonds
- ✓ Reduce the number of city employees
- ✓ Assess administrative operations and utilize the ability of the private sector
- ✓ Reform the administration of universities and public enterprises

FY2004-2010 (Estimate)

Outstanding balance of city bonds:  
Reduced by approx. ¥600 billion

No. of city employees (including organizations):  
Reduced by 3,379

Budget deficit per fiscal year:  
Improved by ¥73.1 billion

\*Changes in the no. of city employees 21,728 persons in 1995 → 19,543 persons in 2003 → 16,164 persons in 2010

○ Make steady efforts to complete the reform plan by the end of FY2010.

○ Examine the next plan (FY2011-2015) and move forward firmly with administrative and fiscal reform.

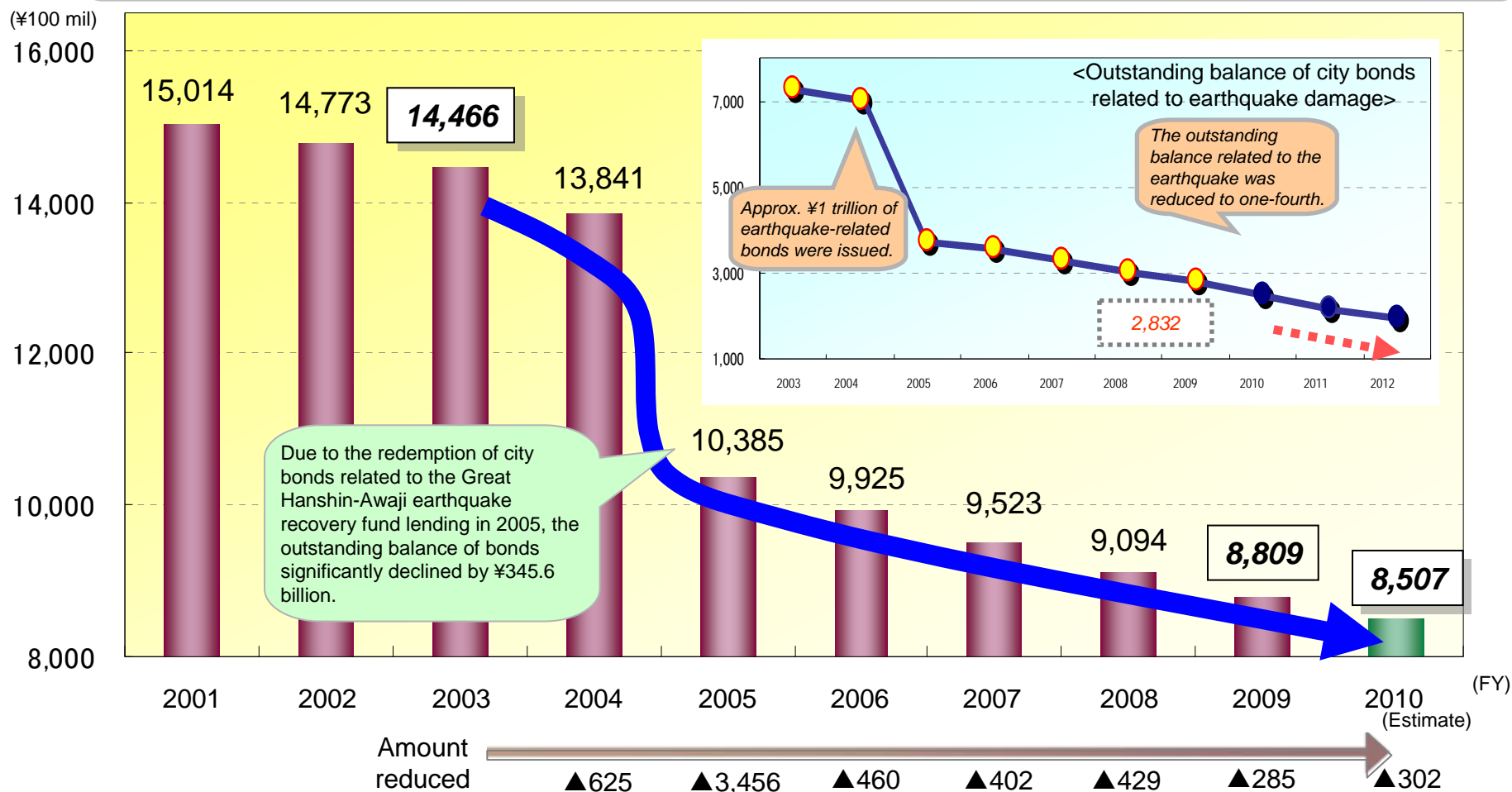
# ~ Acceleration of Further Reform ~

~Further reduction of outstanding city bonds beyond the initial target set in the administrative and fiscal reform guidelines~

In the past 7 years (FY2004-2010), the outstanding balance of city bonds\* has been **reduced by approx. ¥600 billion.**

⇒ **It is expected to achieve a ¥600 billion reduction, ¥100 billion more than the initial target.**

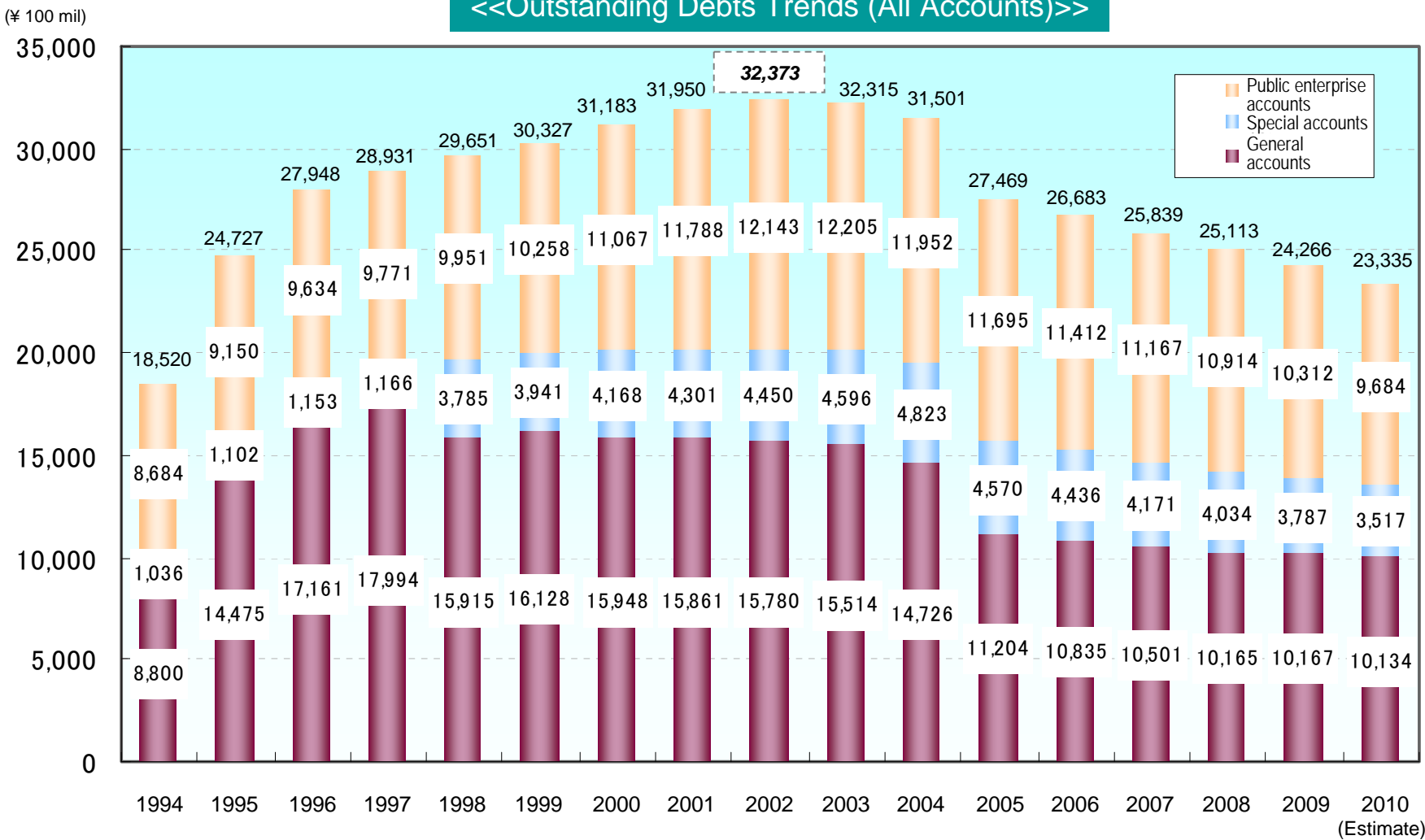
\*Bond fund savings exempted from the total of outstanding bonds



# ~ Steady Reduction of Outstanding Balance of City Bonds ~

● Outstanding debts of all accounts have been reduced steadily after the peak in FY2002.

<<Outstanding Debts Trends (All Accounts)>>



Improvement in financial conditions has led to a rise in the Credit Rating.

- In Jan. 2007, Kobe was the first to obtain an “AA (Stable)” credit rating among local governments which have issued municipal bonds.
- Administrative reform will be continuously implemented of the public enterprise accounts and extra-government organizations, both of which need continued and close observation.

## R&I Credit Ranking

Before 2006: Op Rating

**AA-**

“Kobe has a high level of debt following the effects of the earthquake.”

Jan 2007: Rating Upon Request

**AA (Stable)**

“Kobe’s fiscal position is showing visible improvement.”

May 2010: Regular Rating Affirmed

**AA (Stable)**

“In terms of fiscal management, Kobe shows high stability, providing economic infrastructure comparable to its counterparts, as one of Japan’s five major cities.”

### ☆Rating Criteria

- Fiscal Balance/Debt Levels** ⇒ “Debt level has been reduced to below the average of all the ordinance-designated cities, and the financial balance is eminently good.”
- Economic Strength** ⇒ “The independent revenue ratio has recovered to a level comparable to that of other ordinance-designated cities,” which is largely attributable to the implementation of projects that respond to the changing industrial environment, such as the Medical Industry Development Project.
- Status of Public Enterprises** ⇒ “Public Enterprises Accounts are kept in surplus. Close attention shall be paid to the collection of funds.”
- Future Direction of Fiscal Management** ⇒ “Under the leadership of Mayor Tatsuo Yada, who has stated his commitment to maintaining the primary balance surplus and has made known his strong determination to reduce the outstanding municipal debt, R&I believes that Kobe will continue to steadily move forward with its administrative and fiscal reforms.”

## ~ Administrative and Fiscal Reform Achievements (2) ~

Kobe won the DealWatch Awards 2009 (Division of Local Bonds), making widely known the City's strong commitment to fiscal reform.

Kobe received a high evaluation in the capital market by winning “**Local Government Bond Issuer of the Year**”; the City's strong commitment to administrative and fiscal reform and its bond issue policy that attach importance to dialogue with investors were brought to public attention.



Award ceremony at Grand Hyatt Tokyo



Tatsuo Yada,  
Mayor of Kobe

The award certificate displayed for the public in the entrance hall of the city hall

**The award can be attributed to two factors:**

- (1) Significant improvement in the city's finances through bold implementation of administrative and fiscal reforms; and**
- (2) Implementation of its bond issue policy that places importance on dialogue with investors.**

# ~ Management Reforms of Extra-governmental Organizations ~

- After the earthquake disaster, Kobe promoted a drastic overhaul of existing extra-governmental organizations, thereby abolishing 18 organizations through merger and abolition.
- Kobe Extra-Governmental Organization Reform Committee was launched to further move on reforms

## Efforts Undertaken Up until Now

The number of extra-governmental organizations was **reduced from 64 in 1995 by 25**, through merger and abolition. When the seven organizations newly established, such as Kobe Airport Terminal Co., Ltd. and the Foundation for Biomedical Research and Innovation, are included, the total number of organizations was reduced by 18. Our efforts were also focused on better management of the organizations.

## Efforts to Undertake from FY2010

The Kobe Extra-government Organization Reform Committee, launched in September 2009, will examine the operations of individual extra-government organizations and **conduct a zero-based review of them**, in order to further promote **reduction of the number of the organizations and their radical management reform**.



31-minute ferry trip between Kansai Int'l Airport and Kobe Airport by Bay Shuttle operated by Kaijo Access

## Review of City's Involvement in Extra-governmental Organizations

### ■ Recruitment from private sector

In 29 of the 38 organizations in which city officials serve as auditors, certified public accountants and other public sector experts were hired. **The recruitment of external staff will be promoted in the other 9 organizations as well.**

### ■ Phase-out of the dispatch of city officials

In line with the policy of reducing the number of municipal employees, we will phase out the dispatch of city officials to extra-governmental organizations. Organizational restructuring will be promoted to reduce the number of city officials dispatched to the organizations by 30%.

[No. of staff dispatched from the City]

1,164 in July 2003 → 512 in July 2010

### ■ Operation transfer and review of the investment ratio

Merger with other organizations and the transfer of operations to private companies will be promoted, and the City's investment ratio will be reviewed.

## Radical Review of Management Practices

To eliminate the deficit, a radical review of management practices will be carried out. The efforts will include the promotion of merger and abolition and the implementation of measures for a return to profitability.

○Kobe Marine Hotels K.K.	(¥2,799 million)
○Kobe Wine Co., Ltd.	(¥2,977 million)
○Kobe City Housing Supply Corporation	(¥2,366 million)
○Kobe City Air Terminal Co., Ltd.	(¥663 million)
○Kaijo Access Co., Ltd.	(¥13,160 million)

\*The figure in parentheses indicates net liabilities for FY2009.

## 4. Kobe's Growth Strategy and Funding Plan



# ~ Growth Strategy (1) ~

For the Comprehensive Special Zone System to be introduced based on Japan's New Growth Strategy (approved by the Cabinet on June 18, 2010), Kobe has submitted to the central government two plans to have Kobe designated as an "international strategic comprehensive special zone".

## Kobe's Growth Strategy

To make Kobe a global center for "Life Innovation" (Kobe International Biomedical Innovation Special Zone)

To make Kobe an international hub port by strengthening the functions of Hanshin Port (Hanshin International Container Strategic Port Special Zone)

## Kobe International Biomedical Innovation Special Zone

### Background

- The rise of emerging bio-clusters in Asian countries
- New Growth Strategy: "Life Innovation" in the medical, nursing-care and welfare fields

Accumulation of excellent researchers and clinicians



Strengths of Kobe

World-class regenerative medical technology



Next-generation supercomputer (the "K" computer with a 10-petaflop processing speed)

### Preferential regulatory measures/tax and financial support measures

- ✓ Promote improvement of the environment necessary for R&D, practical application development, and commercialization in the medical, healthcare and nursing-care fields.
- ✓ Significantly reduce R&D, production and distribution costs.
- ✓ Develop/enhance a financial system that facilitate the raising of funds.
- ✓ Secure human resources with outstanding specialist capabilities from around the world.
- ✓ Enhance the functions of Kobe Airport and reduce regulations.

Toward becoming Asia's No. 1 biomedical cluster

**Kobe leads the Japanese economy as a gateway to the world.**

## Hanshin International Container Strategic Port Special Zone

### Background

- Intensifying international competition among ports in Asian countries
- Japanese industries diminishing its international competitiveness due to rising costs, etc. (Movement of production to foreign countries)

### Concept

Further selection and concentration of container ports in Japan

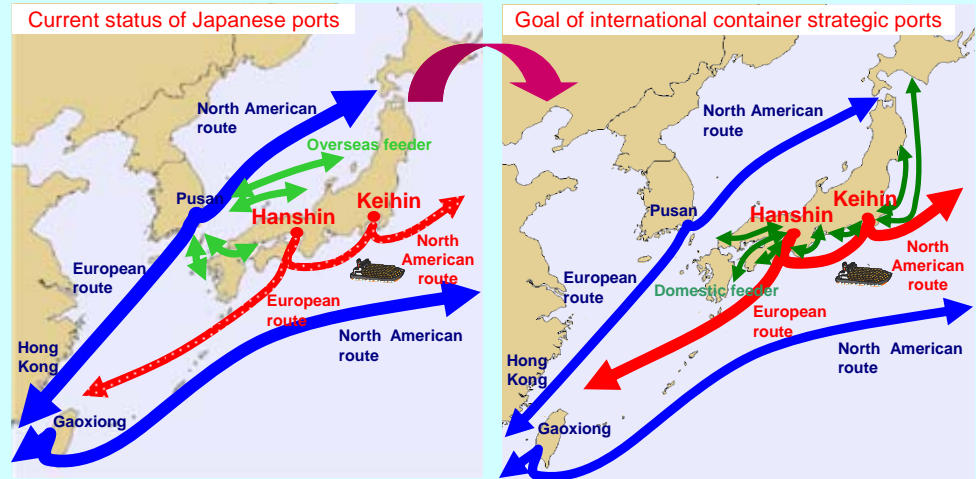
Centralized handling of domestic container cargos by Hanshin Port

Maintenance/expansion of main sea routes  
Provision of international transport services at frequent intervals and at lower cost to cargo owners

Contribution to enhancing the international competitiveness of industries that serve as the engine of growth in the Japanese economy

### Strategy

- Strengthen the function of collecting shipments for international container cargo.
- Reduce port costs.
- Realize port management from the viewpoint of private sector.
- Increase the volumes of cargos to be handled by attracting distribution-related companies and high-tech industry to Kobe.



# ~ Funding Policy ~

~ Kobe will maintain close dialogue with the market in its funding practice. ~

- ✓ Since FY2008, all transactions have been structured and issued through Syndicated Deals.  
⇒ To respond to investor demand and communicate with the market to achieve fair pricing
- ✓ In addition to group presentations to investors, one-on-one meetings have been held proactively since 2004.

(¥ 100 mil)

## FY2010 Bond Issuance Schedule

\* "Added Units" will be used to increase the issue size. Timing is subject to trends in interest rates and/or investor demand.

	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Total
5yr Bonds	100						100						200
10yr Bonds				100						100			200
20yr Bonds				100						100			200
30yr Bonds							100						100
Added units							100						100
Joint Local Gov't Bonds	50	40	40	40	40	40	40	40	40	40	40	50	500
Total													1,300

## FY2010 1st Half Bond Issuance Results

\* 10-year, 5-year, and 20-year bonds were issued for ¥10 billion each time in April, June and September respectively.

\* In September 2009, we started to issue bonds at par (coupon rate calculated to three decimal places) to respond to investor demand.

	Coupon	Offer Price	Issue Amount (¥ bn)	Issue Date	Pricing Date
5yr Bonds	0.431%	100.0	10	6/21	6/9
10yr Bonds	1.445 %	100.0	10	4/20	4/9
20yr Bonds	1.895%	100.0	10	9/13	9/2

18 m tall statue of  
“Tetsujin No.28” built  
in  
Shin Nagata, Kobe  
**Completed**

# KOBE 鉄人 PROJECT

For any inquiries, please contact:

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

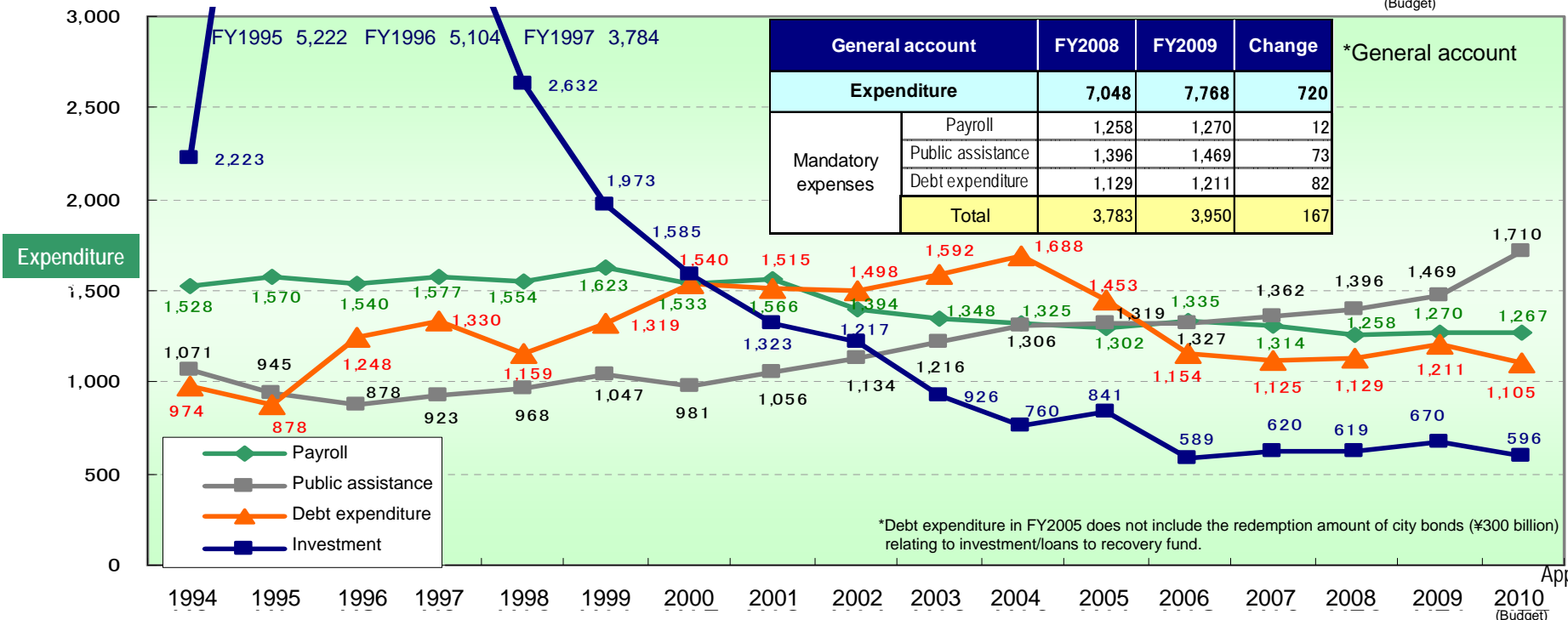
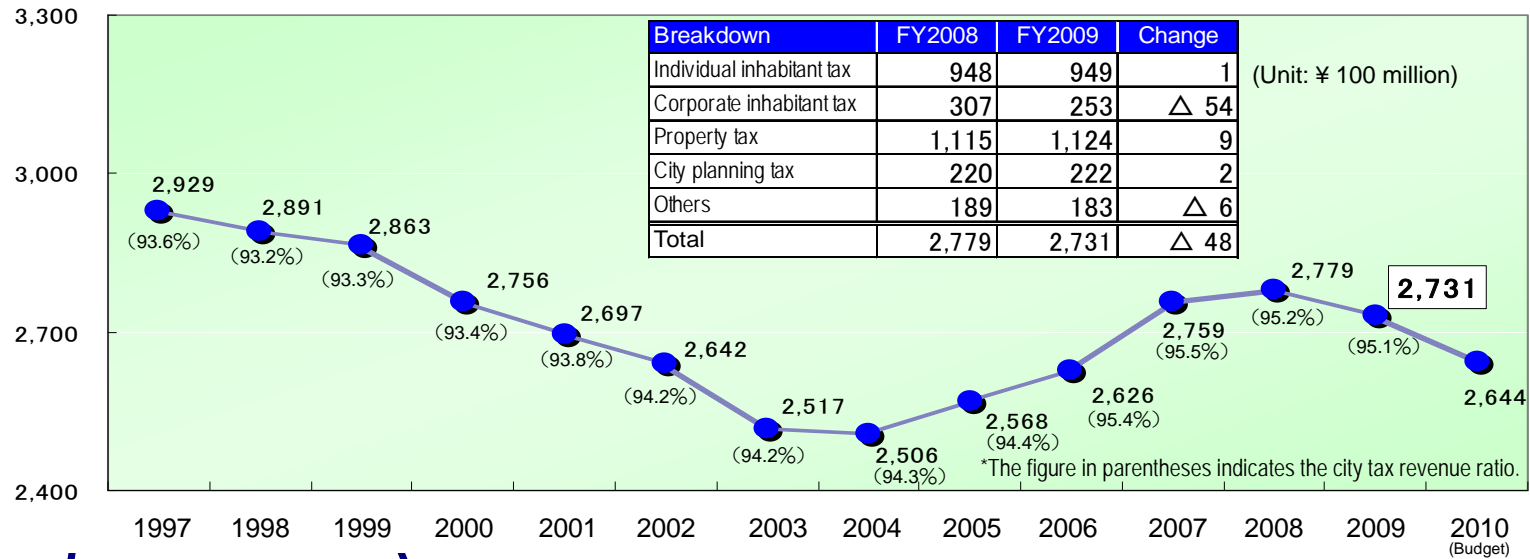
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<http://www.city.kobe.lg.jp/information/about/financial/index.html>

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PROJECT 2010

# ~ Appendix – City Tax Revenues and Expenditures ~



# ~ Appendix – Fiscal Indicators of Each City ~

## Ordinary Balance Ratio

## Financial Capability Index

## Consolidated Real Deficit Ratio

## Real Debt Payment Ratio

## Future Burden Ratio

\*3 year average

\*3 year average ( ) shows change from the previous FY

\*( ) shows change from the previous FY

Hamamatsu City	89.2
Niigata City	89.5
Saitama City	89.9
Okayama City	90.5
Shizuoka City	90.9
Fukuoka City	94.0
Yokohama City	95.8
Kyoto City	95.9
Kawasaki City	96.4
Sakai City	96.8
Sagamihara City	96.9
Sendai City	97.4
Hiroshima City	97.9
Kobe City	97.9
Nagoya City	98.1
Chiba City	99.2
Kitakyushu City	99.8
Sapporo City	99.8
Osaka City	100.2
Average	95.6

Kawasaki City	1.101
Nagoya City	1.064
Sagamihara City	1.058
Saitama City	1.035
Chiba City	1.019
Yokohama City	1.011
Osaka City	0.959
Shizuoka City	0.924
Hamamatsu City	0.914
Sendai City	0.861
Fukuoka City	0.847
Sakai City	0.822
Hiroshima City	0.810
Okayama City	0.774
Kyoto City	0.762
Kobe City	0.735
Niigata City	0.705
Kitakyushu City	0.705
Sapporo City	0.699
Average	0.884

Sapporo City	-
Sendai City	-
Niigata City	-
Saitama City	-
Kawasaki City	-
Sagamihara City	-
Yokohama City	-
Shizuoka City	-
Hamamatsu City	-
Nagoya City	-
Osaka City	-
Sakai City	-
Kobe City	-
Okayama City	-
Hiroshima City	-
Kitakyushu City	-
Fukuoka City	-
Chiba City	0.44
Kyoto City	5.47
Average	-

Sagamihara City	4.7 ( — )
Sakai City	6.3 (△0.6)
Saitama City	7.2 (△0.7)
Kitakyushu City	9.9 (+1.9)
Osaka City	10.4 (△0.3)
Niigata City	11.1 (△0.1)
Sapporo City	11.3 (+0.5)
Shizuoka City	12.4 (+0.2)
Hamamatsu City	12.5 (△0.3)
Sendai City	12.7 (+0.5)
Nagoya City	12.7 (△0.8)
Kyoto City	12.7 (+0.7)
Kawasaki City	13.4 (△2.2)
Kobe City	13.9 (△1.2)
Hiroshima City	15.7 (+0.1)
Fukuoka City	16.8 (△1.0)
Okayama City	17.0 (△0.6)
Yokohama City	19.1 (△1.1)
Chiba City	21.1 (+1.0)
Weighted Average	13.2 (△0.6)

Sagamihara City	36.6 ( — )
Saitama City	55.7 (△4.9)
Sakai City	77.8 (△3.3)
Hamamatsu City	86.2 (△3.7)
Shizuoka City	123.3 (+6.6)
Niigata City	130.9 (△5.3)
Okayama City	135.6 (△18.4)
Sapporo City	137.1 (△10.1)
Kawasaki City	137.4 (+3.5)
Sendai City	170.9 (+1.1)
Kitakyushu City	173.5 (+1.7)
Kobe City	175.6 (△1.0)
Nagoya City	218.6 (△6.3)
Fukuoka City	237.7 (△16.3)
Osaka City	238.7 (△7.0)
Kyoto City	247.7 (+7.7)
Yokohama City	255.2 (△5.9)
Hiroshima City	260.9 (+4.5)
Chiba City	306.4 (△3.2)
Weighted Average	190.5 (△7.9)

\*Kobe City single year 0.733

\*Kobe City single year 13.1

# ~ Appendix – Financial Conditions of Extra-governmental Organizations ~

Extra-governmental Organizations	Investment Ratio	Change in Net Worth/Profit and Loss			Debt Outstanding Relating to Debt Guarantee & Indemnity Agreement
		2007	2008	2009	
Kobe International Center for Cooperation and Communication	100.0%	0	0	0	—
Foundation for Biomedical Research and Innovation	92.9%	0	1	24	33
Kobe New Transit Co., Ltd.	77.2%	1	△6	△2	54
Kobe Well-being and Life Enrichment Promotion Foundation	100.0%	0	0	0	—
Kobe Cultural Foundation	100.0%	0	0	0	—
Arima Onsen Co., Ltd.	50.0%	0	△0	0	—
Kobe Welfare Promotion Association	100.0%	△1	△1	1	0
Kobe Sports Association for the Disabled	100.0%	0	0	0	—
Kobe City Community Healthcare Promotion Foundation	90.9%	0	1	1	—
Institute of Kobe Home Care Foundation	35.0%	2	1	1	5
Kobe Industrial Promotion Foundation	100.0%	0	0	0	—
Kobe Convention & Visitors Association	100.0%	4	△0	△2	—
Kobe Minorino Corporation	96.1%	0	0	0	—
Kobe Wine Co., Ltd.	93.1%	△1	△1	△1	—
Kobe Commerce, Industry and Trade Center Inc.	50.0%	2	2	1	—
Kobe City Roads Corporation	100.0%	—	—	—	719

\* 31 legally-incorporated organizations (with 50% or more investment by Kobe or a certain amount of property and labor costs of which are borne by Kobe) and 2 organizations whose losses have been compensated by Kobe

As of March 31, 2010 (Unit: ¥100 mil)

Extra-governmental Organizations	Investment Ratio	Change in Net Worth/Profit and Loss			Debt Outstanding Relating to Debt Guarantee & Indemnity Agreement
		2007	2008	2009	
Kobe Parks and Greenery Association	50.0%	0	0	△0	—
Kobe Toshi Seibi Kousha	99.6%	2	4	3	—
Kobe City Housing Supply Corporation	100.0%	4	2	1	284
Kobe City Land Development Corporation	100.0%	2	1	0	47
Kobe City Development Corporation Foundation	100.0%	6	1	0	—
Kobe Port Terminal Corporation	100.0%	7	△7	△47	223
Kobe Newtown Development Center Co., Ltd.	89.4%	6	10	6	—
Kobe Air Cargo City Terminal Co., Ltd.	48.4%	2	1	0	—
Kobe City Air Terminal Co., Ltd.	43.1%	△0	△0	△0	—
Kobe Ferry Center Co., Ltd.	36.0%	0	0	△0	—
Kaijo Access Co., Ltd.	27.6%	△3	△1	0	—
Kobe City Disaster Prevention Corporation	100.0%	0	0	0	—
Kobe City Water Supply Service Corporation	100.0%	0	1	0	—
Kobe City Transportation Promotion Co., Ltd.	90.9%	0	0	0	—
Kobe City Athletic Association	87.5%	0	△1	0	—
Kobe Rapid Transit Railway Co., Ltd.	25.0%	△1	△3	△3	21
Kobe Airport Terminal Co., Ltd.	30.9%	0	2	1	32

## ~ Appendix – About Structured Bonds ~

### Funding through Structured Bond Issuance

From the perspective of securing various financial resources, Kobe has asked bond underwriting banks to submit proposals for bond issuance. From among various conditions suggested (such as fixed interests, floating rates and special agreements), we have selected more favorable terms for funding.

We issued structured bonds three times during the two years of FY2005 and 2006, totaling ¥15 billion. Since then no structured bonds have been issued.

FY of issue	Special contract	Issue Amount (¥ bn)
FY2005	Interest rate spread	5
	Exchange	5
FY2006	Interest rate spread	5

\* The percentage of structured bonds in the total amount borrowed: 0.62% (¥15 billion/¥2,426.6 billion)

\* For strategic choice, we did a trial calculation for about half of the borrowing period, based on special contract terms, and compared the calculation results with the cases of fixed interests and floating interests.

### Fund Management by Structured Bonds

Payment reserves and bond funds are managed mainly by investing them in the purchase of local government bonds and placing them in term deposits.

Profits from managing the bond funds are appropriated for the interest payments of the City bonds. For less interest payment burden and more favorable fund management, about 10 percent of the fund balances are used for structured bonds (with national and local government bonds as the principal).

(Balance as of the end of 2009)

Type	Amount Invested (Ratio)	Average yield
Deposits with banks	¥256.4 bn (54.7%)	0.40%
National bonds, government-backed bonds, local government bonds, etc.	¥182 bn (38.8%)	0.89%
Structured bonds	¥16.5 bn (3.5%)	0.53%
Shares*	¥14.2 bn (3.0%)	11.7%

\* Shares: the shares of electric power and financial companies acquired before and during the war

# 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 in calculation of local allocation taxes

⇒ The national government secures financial resources for repayment of LAB P&I

### Bond issuance permission system as a prompt corrective action

- ✓ Restriction of issuance on local authorities with real debt expenditure ratio  $\geq 18\%$
- ✓ Restriction of issuance on local authorities with deficit

⇒ The system aims to avoid problems in repayment of LAB P&I by each local government authority

### Action to take if real deficit exceeds a prescribed level=Financial Reconstruction

- ✓ Financial reconstruction under state control  
Consultation with and consent of national government is required on it
- ✓ Annual budget must be adjusted in accordance with the reconstruction plan

⇒ Repayment is assured because the national government will be involved in budget-making

## Outline of tax-exemption for interest on LAB payable to non-residents, etc.

▶ The following revisions are applicable to interest on transfer LAB payable after January 1, 2008

- ① For interest on transfer LAB payable to non-residents or foreign legal entities, income tax or corporate tax shall not be imposed if application of tax-exemption application submitted for withholding exemption as in the case of transfer national bonds
- ② Preferential measures shall be prescribed for those already submitted application of tax-exemption for interest on transfer national bonds – they should automatically obtain tax-exemption for interest on transfer LAB under certain conditions

## ▶ Transfer local authority Bonds

- A new system of transfer of LAB: By book-entry of increase/reduction of the balance into ledger of transfer account in transfer institution or account management institution (completely paperless), such bonds shall be treated as “transfer LAB”
- As for general bond transfer system, Japan Securities Depository Center shall be the transfer institution and the system starts on January 10, 2006
- As for new issuance of transfer bonds and transfer of outstanding bonds to transfer bonds, consent of issuers for transfer institutions are required. However, almost all prefectural governments, ordinance-designated cities and municipal governments, who issued bonds, have already given consent