

R&I Evaluation of Individual Prefectures and Designated Cities

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Prefectures

Hokkaido: AA-op

Despite being overwhelmingly larger than all the other prefectures, Hokkaido ranks 6th nationwide in terms of regional GDP. It has a less than 40% self-financing ratio, due to an economy largely dependent on the public sector, and a weak tax base. The prefecture has a considerable burden of investments in economic stimulating measures or social infrastructure. This resulted in a substantial municipal bond outstanding, and the number of likely years of debt redemption is rather high compared to other prefectures. Currently, Hokkaido is working on cost-retrenchment, including paring back investment spending and personnel costs significantly, and the prefecture's adjusted single fiscal year deficit has been declining since fiscal 2003. Nevertheless, its adjusted single fiscal year balance ratio was close to -10% even as of fiscal 2005, continuing to compare poorly with that of other prefectures. Owing to its weak economy, Hokkaido will probably take a while to reduce its municipal bond outstanding.

Fiscal Year	2001	2002	2003	2004	2005
Self-financing ratio	39.0%	35.3%	35.6%	36.3%	38.1%
Adjusted single fiscal year balance ratio	-17.6%	-21.2%	-23.0%	-17.3%	-9.4%
Number of likely years of debt redemption (total account basis) (years)	8.8	9.8	9.5	11.2	10.2

Miyagi: AAop

Miyagi ranked 15th nationwide in terms of regional GDP in fiscal 2004. It is the largest of the six Tohoku economies in north-eastern Japan, with a relatively sound tax base. Its self-financing ratio and the number of likely years of debt redemption is only slightly below the national average. Although the adjusted single fiscal year balance ratio remains negative, the ratio has been maintained at a relatively low level since fiscal 2000, and its debt balance (total account basis) has been stable at the 1.6 trillion yen level as a result of efforts to cut back on investment spending. Coming up, the prefecture has plans to continue its fiscal governance focusing on primary balance of general accounts. R&I foresees a relatively stable fiscal condition for Miyagi.

Fiscal Year	2001	2002	2003	2004	2005
Self-financing ratio	45.7%	45.1%	45.9%	48.1%	48.7%
Adjusted single fiscal year balance ratio	-0.2%	-2.9%	-6.1%	-8.6%	-4.2%
Number of likely years of debt redemption (total account basis) (years)	7.7	8.5	8.2	8.6	8.4

Fukushima: AAop

Fukushima is the second largest economy in the Tohoku region, after Miyagi. In fiscal 2004, it ranked 18th nationwide in terms of regional GDP. Easily accessible from the Tokyo metropolitan area, Fukushima is a base for a variety of enterprises, especially in the manufacturing sector, and of the six Tohoku prefectures; and it has the largest percentage of manufacturing industries in the regional GDP. The prefecture's self-financing ratio is slightly below the national average, but it has been working on reduction of personnel costs and investment spending. Fukushima has had a surplus primary balance of general accounts since fiscal 2000, and has been consistently keeping down the number of likely years of debt redemption at the 5-year level, which is lower than the national average. The adjusted single fiscal year deficit is also declining. If the municipal bond outstanding shrinks further, R&I will consider giving Fukushima a positive evaluation.

Fiscal Year	2001	2002	2003	2004	2005
Self-financing ratio	41.2%	40.2%	39.2%	41.5%	41.7%
Adjusted single fiscal year balance ratio	-7.7%	-9.4%	-6.4%	-4.0%	0.0%
Number of likely years of debt redemption (total account basis) (years)	5.0	5.6	5.4	5.8	5.7

Ibaraki: AAop

Ibaraki, which was ranked 12th nationwide in terms of regional GDP for fiscal 2004, is the largest of the three Kita Kanto (northern Kanto) economies. With an industrial belt along its coast, and commuter towns connecting to Tokyo in its southwest, the prefecture has a strong tax base. The self-financing ratio is slightly lower than the national average, however, the number of likely years of debt redemption is one of the highest among the prefectures. This is due to its past investment burden accompanying economic countermeasures and the considerable burden of operations not statutorily covered by Local Public Enterprise Law (Chihou Kouei Kigyou Hou) — such as residential land development operations and harbor operations. Ibaraki has recently been carrying out administrative and fiscal reform, and this combined with increasing tax revenues, due to economic recovery; the adjusted single fiscal year deficit is declining. R&I is watching to see if the prefecture can reduce its municipal bond outstanding, which will contribute to more stable credit evaluation.

Fiscal Year	2001	2002	2003	2004	2005
Self-financing ratio	46.6%	46.1%	45.0%	48.8%	50.8%
Adjusted single fiscal year balance ratio	-10.6%	-20.6%	-12.8%	-11.2%	-5.6%
Number of likely years of debt redemption (total account basis) (years)	7.6	8.6	8.4	9.8	9.5

Gunma: AAop → AA+op

Gunma is one of the three Kita Kanto prefectures and was ranked 20th nationwide in terms of regional GDP for fiscal 2004. It has a relatively sound tax base, with country's highest number of company start-ups in fiscal 2005. In recent years, thanks to increasing tax revenues, the prefecture has had a self-financing ratio higher than the national average. The number of likely years of debt redemption is lower than the national average, and the level of debt is also low. For the past two years, it has had a surplus primary balance of ordinary accounts, and its adjusted single fiscal year balance also turned black in fiscal 2005. The prefecture's payroll expenses are a bit on the higher side, but it aims to keep up its primary balance surplus and keep down the prefecture-issued bonds.



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R&I considers it likely that Gunma will maintain its relatively good financial condition in the coming years.

Fiscal Year	2001	2002	2003	2004	2005
Self-financing ratio	47.1%	45.9%	47.9%	51.9%	54.7%
Adjusted single fiscal year balance ratio	-7.5%	-12.0%	-10.7%	-4.4%	1.5%
Number of likely years of debt redemption (total account basis) (years)	5.6	6.3	6.1	6.1	6.7

Saitama: AA+op

Saitama is one of the Minami Kanto (south Kanto) economies, located just north of the capital Tokyo. Apart from a concentration of commercial enterprises, the southern and eastern parts of the prefecture constitute commuter towns for people working in Tokyo, and the population is on the rise. The prefecture was ranked 5th nationwide in terms of regional GDP for fiscal 2004. It has a strong tax base and a self-financing ratio of over 50%, which is higher than the national average. In recent years, the prefecture has cut back on expenditure while it has seen an increase in tax revenues. Therefore, its adjusted single fiscal year deficit has been declining for three consecutive years. The balance of municipal bonds, however, is on the rise, and the number of likely years of debt redemption is rather high compared with other prefectures. R&I is watching to see whether the adjusted single fiscal year balance will continue to improve.

Fiscal Year	2001	2002	2003	2004	2005
Self-financing ratio	51.7%	46.8%	50.4%	54.1%	54.5%
Adjusted single fiscal year balance ratio	-7.8%	-17.9%	-12.5%	-7.1%	-3.7%
Number of likely years of debt redemption (total account basis) (years)	7.9	8.1	8.3	8.8	9.8

Chiba: AA+op

One of the Minami Kanto economies, Chiba is located east of Tokyo and was ranked 7th nationwide in terms of regional GDP for fiscal 2004. In addition to a concentration of commercial enterprises, the prefecture's population is also on the rise, and it has a strong tax base. Its self-financing ratio has remained over 50% for the past ten years, and has actually been on a rise in recent years, thanks to recovering corporate performances and higher revenue from taxes. Although the prefecture's number of likely years of debt redemption is higher than the national average, its efforts at administrative and fiscal reform are beginning to show results, with the adjusted single fiscal year balance for fiscal 2005 improving to nearly equilibrium level. Although Chiba plans to keep working on cost reduction, it has a high municipal bond outstanding. R&I will pay attention to its trends in income and expenditure.

Fiscal Year	2001	2002	2003	2004	2005
Self-financing ratio	54.1%	50.9%	52.1%	53.6%	56.8%
Adjusted single fiscal year balance ratio	-7.6%	-15.9%	-15.9%	-12.5%	-0.4%
Number of likely years of debt redemption (total account basis) (years)	7.9	9.5	9.7	9.3	8.5

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Tokyo: AAAop

Tokyo, the capital of Japan, has the largest economy. As of fiscal 2004, the regional GDP of Tokyo amounted to 17.6% of the regional GDP of Japan, followed by Osaka at a distant 7.6%. The concentration of economic activity in Tokyo is quite remarkable. The population of Tokyo continues to rise, and its tax base is the strongest in the country by far. Tokyo is working on the improvement of municipal tax collection as well as on strengthening its cost-structure, and its debt outstanding (total account basis) has been shrinking these past few years. According to the books as of fiscal 2005, Tokyo scores best among all the prefectures and designated cities in terms of self-financing ratio, adjusted single fiscal year balance ratio, and the number of likely years of debt redemption. It is quite capable of meeting the investment needed to host the Olympic Games.

Fiscal Year	2001	2002	2003	2004	2005
Self-financing ratio	83.9%	83.0%	82.3%	82.0%	84.7%
Adjusted single fiscal year balance ratio	7.5%	-2.4%	-11.0%	5.6%	17.2%
Number of likely years of debt redemption (total account basis) (years)	5.9	6.4	5.7	5.1	4.5

Kanagawa: AAop → AA+op

Located south of Tokyo, it is the largest of the Minami Kanto economies. It ranked 4th, after Tokyo, Osaka, and Aichi, in terms of regional GDP in fiscal 2004. In addition to its large number of commercial enterprises, Kanagawa is the second most populated prefecture in Japan. Thanks to a relatively sound tax base, the prefecture's self-financing ratio exceeds 60%. Despite an increasing municipal bond outstanding and a high number of likely years of debt redemption, its municipal bond outstanding to municipal taxes ratio is quite low and bettered only by Tokyo. The prefecture's policy of keeping newly issued municipal bonds within 140 billion yen in the medium term, an effort aimed at reversing the increase of the municipal bond outstanding by fiscal 2010, augurs well, and there is little concern over its economy taking a turn for the worse in the near future.

Fiscal Year	2001	2002	2003	2004	2005
Self-financing ratio	64.2%	62.3%	58.2%	62.4%	64.3%
Adjusted single fiscal year balance ratio	-4.8%	-14.3%	-19.2%	-10.6%	-8.4%
Number of likely years of debt redemption (total account basis) (years)	7.7	10.2	9.1	7.6	9.0

Niigata: AAop

Niigata is the largest economy the three prefectures of Koushin-etsu, a region neighboring Kanto, and 14th nationwide in terms of regional GDP in fiscal 2004. Niigata's economy is significantly dependent on the public sector and it cannot be said to have a strong tax-base. Therefore, its self-financing ratio remains under 40%. The prefecture's municipal bond outstanding expanded as a result of recovery programs undertaken in the wake of the torrential rains and Chuetsu earthquakes of 2004, but the actual number of likely years of debt redemption is not that high, after subtracting the amount loaned to the earthquake disaster reconstruction fund (305.0 billion yen). Now with the recovery programs past their peak, the prefecture is planning to scale down investment spending considerably in fiscal 2006. R&I will pay attention to Niigata's efforts toward economic recovery.

Fiscal Year	2001	2002	2003	2004	2005
Self-financing ratio	38.8%	38.2%	37.1%	30.8%	37.0%
Adjusted single fiscal year balance ratio	-16.0%	-19.3%	-11.8%	-73.8%	-6.7%
Number of likely years of debt redemption (total account basis) (years)	6.5	7.3	7.3	8.7	9.2

Nagano: AAop

Another of the three Koushin-etsu prefectures, Nagano ranked 17th nationwide in terms of regional GDP for fiscal 2004. IT-related (information and communications) mechanical industries account for a large proportion of the prefecture's industrial structure. Although Nagano's self-financing ratio is somewhat weaker than the national average, its number of likely years of debt redemption is slightly shorter than the national average. The municipal bond outstanding swelled up as a result of past economic stimulating measures as well as capital investment related to the 1998 Winter Olympics, but Nagano has since then curtailed public spending and similar programs to a large extent, and strictly stuck to a tight budget. Thanks to this, its adjusted single fiscal year balance has been in surplus since fiscal 2003, and the municipal bond outstanding is also shrinking. If such trends continue, the prefecture's evaluation will improve.

Fiscal Year	2001	2002	2003	2004	2005
Self-financing ratio	43.4%	42.0%	42.3%	44.6%	44.1%
Adjusted single fiscal year balance ratio	-1.2%	-9.0%	2.7%	7.2%	10.3%
Number of likely years of debt redemption (total account basis) (years)	6.4	7.3	6.8	6.8	7.1

Shizuoka: AA+op

Shizuoka, one of the Tokai prefectures, ranked 10th nationwide in terms of regional GDP for fiscal 2004. The prefecture's transport machinery, electrical appliances, paper pulp, and other manufacturing industries are quite robust, and it ranks 3rd nationwide in terms of shipment of manufactured goods. It has a relatively strong tax base, and its self-financing ratio remains by and large above 50%. Shizuoka is working to keep down personnel costs and cut back on investment spending, and since fiscal 2003, its adjusted single fiscal year deficit has been declining. Although its municipal bond outstanding is on a slight rise, it maintains a number of likely years of debt redemption at par with the national average. The prefecture has been working on the Mt. Fuji Shizuoka Airport as well as on an access road connecting to the second Tomei motorway, but R&I considers that these projects will impose only a limited strain on its finances.

Fiscal Year	2001	2002	2003	2004	2005
Self-financing ratio	52.1%	48.9%	50.0%	53.1%	54.5%
Adjusted single fiscal year balance ratio	-11.1%	-15.4%	-9.3%	-7.6%	-1.9%
Number of likely years of debt redemption (total account basis) (years)	6.8	7.8	6.9	7.7	7.6

Gifu: AAop

Gifu is also one of the Tokai prefectures, and because of its proximity to Aichi, has strong local industries such as textiles and ceramics. However, its economy is rather small, ranking 21st nationwide in terms of regional GDP for fiscal 2004, and its self-financing ratio hovers around 40%. Gifu's municipal bond outstanding is on the rise, and so is its number of likely years of debt redemption, which was longer than the national average in fiscal 2005. However, thanks to cost-reduction efforts, the prefecture's adjusted single fiscal year deficit has been declining since fiscal 2003, and one of its top priorities is to reverse the increasing municipal bond outstanding by fiscal 2010. Therefore, R&I does not foresee any drastic worsening of the prefecture's economic performance in the near future.

Fiscal Year	2001	2002	2003	2004	2005
Self-financing ratio	42.6%	39.4%	39.6%	42.1%	43.8%
Adjusted single fiscal year balance ratio	-14.9%	-23.4%	-14.7%	-9.1%	-2.9%
Number of likely years of debt redemption (total account basis) (years)	5.5	6.6	6.4	7.1	7.6

Aichi: AAop → AA+op

Aichi forms the core of the Tokai region. In fiscal 2004, it ranked 3rd nationwide in terms of regional GDP. The prefecture forms the headquarters and main production base for the Toyota Motor Corporation group of companies, and ranks No. 1 in Japan in terms of the volume of shipment of manufactured goods. It has an extremely strong tax base. In fiscal 2005, it had a self-financing ratio of just under 70%, a rate bettered only by Tokyo. The municipal bond outstanding is rising due to investments accompanying economic countermeasures in the past as well as its two major recent projects—the Chubu International Airport, and the Aichi Expo. Nevertheless, thanks to its economic vitality, the prefecture enjoys a strong expansion of revenue from taxes and its number of likely years of debt redemption is shrinking. Aichi aims to turn its primary balance into a surplus by fiscal 2010. R&I considers that the prefecture should be able to leverage its economic strength in maintaining fiscal stability.

Fiscal Year	2001	2002	2003	2004	2005
Self-financing ratio	65.8%	63.5%	64.0%	66.4%	69.4%
Adjusted single fiscal year balance ratio	-10.0%	-17.3%	-19.6%	-14.8%	-3.9%
Number of likely years of debt redemption (total account basis) (years)	8.4	10.3	9.2	9.6	8.9

Kyoto: AA+op

Kyoto is one of the six Kinki prefectures and ranked 13th nationwide in terms of regional GDP for fiscal 2004. Its self-financing ratio is lower than the national average, but it has a history of low investment spending, and it has a shorter than average number of likely years of debt redemption as well as ratio of municipal bond outstanding to municipal taxes. Kyoto has been working on administrative and fiscal reforms by reducing payroll and putting a ceiling on the amount of expenditure for municipal bonds and ordinary construction works. It also aims to reduce shortage of funds by 50 billion yen by fiscal 2008. With some good performance by major Kyoto-based companies like Kyocera and Nintendo, corporate taxes for fiscal 2005 jumped considerably. Nevertheless, Kyoto's tax base cannot be said to be very strong. R&I will pay attention to its efforts

to strengthen its financial structure.

Fiscal Year	2001	2002	2003	2004	2005
Self-financing ratio	50.1%	46.5%	44.9%	48.4%	48.0%
Adjusted single fiscal year balance ratio	-5.5%	-15.2%	-15.0%	-11.9%	-4.4%
Number of likely years of debt redemption (total account basis) (years)	6.2	7.6	7.5	7.2	7.0

Osaka: AA-op → AAop

Osaka forms the core of the Kinki region and ranks second, after Tokyo, in terms of regional GDP. Its self-financing ratio in fiscal 2005 was bettered only by Tokyo and Aichi. Despite an ongoing outflow of commercial enterprises, the prefecture still has a strong tax base. Thanks to active efforts to promote administrative and fiscal reforms, which resulted in improved commercial performance and higher revenues from taxes, Osaka's adjusted single fiscal year balance turned black in fiscal 2005. Its number of likely years of debt redemption is longer than the national average, but shrinking since fiscal 2003. The recovery of investment in the Rinku Town and Hannan Skytown projects as well as the investment burden of Osaka need close attention, but the prefecture's finances are gradually stabilizing.

Fiscal Year	2001	2002	2003	2004	2005
Self-financing ratio	61.4%	62.5%	62.2%	64.7%	67.6%
Adjusted single fiscal year balance ratio	-8.8%	-7.3%	-10.2%	-6.0%	2.8%
Number of likely years of debt redemption (total account basis) (years)	9.6	10.4	9.5	9.0	8.9

Hyogo: AA-op → AAop

Hyogo is the second largest economy in the Kinki region, after Osaka, and ranks 8th nationwide in terms of regional GDP. Although Hyogo suffered heavy damages due to the Hanshin-Awaji Earthquake, recovery is progressing well. The population has risen to the level higher than that prior to the Earthquake, and the number of industrial sites is increasing. The prefecture has a relatively sound tax base, with a self-financing ratio at par with the national average. The municipal bond outstanding has expanded, owing both to recovery programs in the wake of the earthquake and the bringing forward of social infrastructure establishment programs, and the prefecture's number of likely years of debt redemption is comparatively long. Nevertheless, thanks to a check on overall investment, the bond issuance level is expected to start decreasing from fiscal 2007, and finances are stabilizing. Hyogo Prefecture Land Development Public Co. and Hyogo Prefectural Housing Corp. were saddled with huge amounts of debt, but these are gradually being cleared, with support from the prefectural government.

Fiscal Year	2001	2002	2003	2004	2005
Self-financing ratio	52.2%	50.8%	49.4%	51.3%	51.3%
Adjusted single fiscal year balance ratio	-12.3%	-16.3%	-27.7%	-18.2%	-12.8%
Number of likely years of debt redemption (total account basis) (years)	9.4	10.3	10.5	10.5	9.3

Hiroshima: AAop

Hiroshima is the largest of the five prefectures in the Chugoku region. It has a density of transport machinery, electrical appliances, and other machine-related industries, and in fiscal 2004, ranked 11th nationwide, after Shizuoka, in terms of regional GDP. Its self-financing ratio is somewhat lower than the national average. The prefecture covered expenses related to the 1994 Asian Games, economic countermeasures, and losses, etc., by issuing municipal bonds. Therefore, its municipal bond outstanding kept increasing, and its number of likely years of debt redemption is longer than the national average. Capital investment and factory shipment relating to the semiconductor and electrical appliance related industries are robust, and tax income is increasing. Nevertheless R&I considers it will be necessary to pay attention to the prefecture's efforts to strengthen its finances.

Fiscal Year	2001	2002	2003	2004	2005
Self-financing ratio	39.8%	38.7%	39.0%	41.2%	43.8%
Adjusted single fiscal year balance ratio	-11.6%	-18.7%	-19.0%	-14.9%	-6.5%
Number of likely years of debt redemption (total account basis) (years)	7.1	8.3	8.9	9.2	8.9

Shimane: AA-op (Newly assigned)

Another Chugoku economy, Shimane ranked 45th nationwide in terms of regional GDP for fiscal 2004. The prefecture's capital structure is made up largely of public spending and capital formation, and its economy is largely based on the public sector. The tax base is weak. Its number of likely years of debt redemption is shorter than the national average, but the ratio of municipal bond outstanding to regional taxes is the highest nationwide. In 2005, with the introduction of taxation, such as the tax for the reduction of industrial waste, and with the rise in nuclear fuel tax, the prefecture's revenue rose for the first time in five years, and its self-financing ratio exceeded 30%. This and efforts to reduce expenditure resulted in a large reduction of the adjusted single fiscal year deficit to near equilibrium level. R&I will watch to see whether the prefecture's efforts at administrative and fiscal reform help in improving its fiscal balance.

Fiscal Year	2001	2002	2003	2004	2005
Self-financing ratio	25.9%	27.9%	29.0%	29.6%	31.9%
Adjusted single fiscal year balance ratio	-23.7%	-27.1%	-18.7%	-13.7%	-1.4%
Number of likely years of debt redemption (total account basis) (years)	6.0	5.9	6.0	6.8	6.5

Fukuoka: AAop

Fukuoka prefecture is the largest of the Kyushu economies, with two designated cities — Fukuoka City and Kita Kyushu City. In fiscal 2004, it ranked 9th, nationwide, in terms of regional GDP. Its self-financing ratio remains somewhat lower than the national average. In addition to the burden accompanying economic countermeasures, the considerable burden of personnel costs and social assistance expenditure, such as social welfare for residents in old coalfield areas, led to an increasing municipal bond outstanding. The number of likely years of debt redemption is longer than the national average. The deficit of adjusted single fiscal year balance ratio is also quite large. Despite increasing revenue from taxes thanks to a strong economic base and vigorous economic activity, the prefecture needs to strengthen its cost-reduction measures and improve its fiscal

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balance. R&I will be watching its progress in this area.

Fiscal Year	2001	2002	2003	2004	2005
Self-financing ratio	46.5%	45.3%	45.7%	47.5%	48.9%
Adjusted single fiscal year balance ratio	-10.5%	-15.2%	-19.0%	-14.2%	-9.5%
Number of likely years of debt redemption (total account basis) (years)	7.1	8.3	8.1	8.0	8.5

Kumamoto: AA-op→AAop

Kumamoto is located more or less in the center of Kyushu and ranked 24th nationwide in terms of regional GDP for fiscal 2004. In the Kyushu region, it is the second largest economy, following Fukuoka. It has an increasing concentration of semiconductor-related industries, but its tax base cannot be said to be strong, and its self-financing ratio is lower than the national average at the 30-40% level. In 2005, the prefecture's number of likely years of debt redemption extended longer than the national average. However, since fiscal 1999, it has maintained its primary balance surplus. The prefecture's adjusted single fiscal year balance ratio remains in deficit, however, it remains small. Kumamoto is working to prevent an increase in its municipal bond outstanding. Kumamoto has several investment projects on its agenda, including the Kyushu Shinkansen, but it is continuing its administrative and fiscal reform program, and should be able to maintain a relatively stable financial position.

Fiscal Year	2001	2002	2003	2004	2005
Self-financing ratio	33.4%	32.6%	32.5%	35.1%	34.6%
Adjusted single fiscal year balance ratio	-5.0%	-6.9%	-5.1%	-1.1%	-2.8%
Number of likely years of debt redemption (total account basis) (years)	6.2	6.6	6.7	7.2	8.2

Oita: AAop (Newly assigned)

Located in northern Kyushu, Oita ranked 30th nationwide in terms of regional GDP for fiscal 2004. In recent years, the automobile and precision instruments industries have been introduced to this prefecture, and the weight of manufacturing industries within its industrial structure beats that of other prefectures in the Kyushu region. Its self-financing ratio, lower than the national average, remains at the 30 to 40% level, and its tax base cannot be said to be very strong. The prefecture's number of likely years of debt redemption is at par with the national average, and is also working on reforming its fiscal balance. Since fiscal 2000, Oita's primary balance has maintained a surplus. Its adjusted single fiscal year balance, which was being plagued by a small deficit, turned to a surplus in fiscal 2005. In addition to an increase in tax revenues thanks to increased economic activity, the prefecture hopes to keep working on checking the increase of its municipal bond outstanding, and is expected to keep up a relatively stable economy.

Fiscal Year	2001	2002	2003	2004	2005
Self-financing ratio	33.4%	33.6%	34.4%	33.5%	34.5%
Adjusted single fiscal year balance ratio	-8.4%	-7.1%	-4.3%	-1.7%	0.4%
Number of likely years of debt redemption (total account basis) (years)	6.0	6.0	5.7	7.2	7.5

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Kagoshima: AA-op (Newly assigned)

Kagoshima is located at the southern-most tip of Kyushu and ranked 26th nationwide in terms of regional GDP for fiscal 2004. It has a weak tax base and its self-financing ratio is lowest among all the prefectures at 27%. In addition to a large number of isolated islands, the prefecture is often at the mercy of natural disasters, resulting in large investment spending and the number of likely years of debt redemption is longer than the national average. In the past few years, Kagoshima has been proactively engaged in administrative and fiscal reforms, and has succeeded in converting the adjusted single fiscal year deficit - which was relatively large in the past - into a surplus in fiscal 2005. The municipal bond outstanding also shrank. Starting from fiscal 2004, the prefecture draws up an annual expenditure target for the subsequent 10-years, and is working on cost reduction. R&I will watch to see whether continuing efforts improve the prefecture's financial condition.

Fiscal Year	2001	2002	2003	2004	2005
Self-financing ratio	26.9%	25.1%	24.4%	26.3%	26.5%
Adjusted single fiscal year balance ratio	-20.4%	-22.3%	-11.8%	-6.0%	0.2%
Number of likely years of debt redemption (total account basis) (years)	7.0	7.6	7.8	8.4	8.7

Designated Cities

Sapporo: AAop

Sapporo, the capital of Hokkaido, ranks 4th among designated cities in terms of population. Its economy is based on branch establishments, with the only major corporations being power or gas companies; this, combined with the fact that Hokkaido's economy as a whole is rather weak, does not make for a strong tax base for Sapporo. It ranks 3rd from below among designated cities when it comes to self-financing ratio. Its number of likely years of debt redemption is shorter than the average for designated cities, but the ratio of municipal bond outstanding to local taxes is higher than average. The city, however, is working on reforming its fiscal structure as well as on keeping down the issuance of municipal bonds. Since fiscal 2004, its adjusted single fiscal year balance has been black, the municipal bond outstanding is shrinking, and the city's finances are strengthening.

Fiscal Year	2001	2002	2003	2004	2005
Self-financing ratio	51.5%	51.6%	51.7%	52.9%	53.8%
Adjusted single fiscal year balance ratio	-7.8%	-8.4%	-2.6%	2.2%	5.4%
Number of likely years of debt redemption (total account basis) (years)	12.2	12.9	11.9	12.2	12.4

Sendai: AA+op

Sendai is the capital of Miyagi and the nucleus of the Tohoku region. Its population is 11th among designated cities. Its economy is based on branch establishments, with not many major

corporations based in Sendai, and the city's self-financing ratio is somewhat lower than the average for designated cities. Although its number of likely years of debt redemption is shorter than the average for designated cities, it cannot be said to be at a very good level. Thanks, however, to the city's early efforts at administrative and fiscal reform, the 5-year average of its adjusted single fiscal year deficit remains at a low 7.3 billion yen, and the ratio is better than other designated cities. Sendai is poised to prudently continue with administrative and fiscal reforms. Nevertheless, R&I will pay attention to the effect of the construction of the Tozai subway line, which was started in fiscal 2006, on the city's finances.

Fiscal Year	2001	2002	2003	2004	2005
Self-financing ratio	57.6%	58.7%	56.0%	56.3%	58.1%
Adjusted single fiscal year balance ratio	-3.0%	-4.2%	-8.8%	-1.6%	1.4%
Number of likely years of debt redemption (total account basis) (years)	12.3	12.9	11.8	12.8	12.1

Saitama City: AAop

The capital of Saitama, Saitama City was born in May 2001 as a result of the merger of Urawa, Ohmiya and Yono cities, and in April 2003, it was included in the list of designated cities. Its population ranks 9th among designated cities but is on the rise as one of the commuter-towns of Tokyo, and it has a relatively stable tax base and a self-financing ratio higher than the average for designated cities. Although the number of likely years of debt redemption is much shorter than the average, a considerable investment burden is anticipated in the near future as the city builds a sewer system and upgrades its urban infrastructure. In the five years starting in fiscal 2006, Saitama is expected to face approximately 84.5 billion yen shortage of funds. Therefore, it is important to carefully assess medium-term administrative and fiscal policy guidelines as well as their effect on the city's economy.

Fiscal Year	2001	2002	2003	2004	2005
Self-financing ratio	69.3%	68.8%	61.7%	63.3%	64.0%
Adjusted single fiscal year balance ratio	4.8%	-8.0%	-10.4%	-12.4%	-2.3%
Number of likely years of debt redemption (total account basis) (years)	5.6	6.0	5.0	5.7	6.0

Chiba City: AA+op

Chiba City is the capital of Chiba, and its population continues to rise as one of the commuter-towns for Tokyo, but it is the only designated city in the vicinity of Tokyo to have a population of less than one million, ranking it 13th among designated cities. The city, however, has a wide range of commercial enterprises, from iron-and-steel-related to telecommunications, and this combined with the completion of the Makuhari New City gives it a strong tax base. Its self-financing ratio and the number of likely years of debt redemption are both better than the average for designated cities. However, the municipal bond outstanding is on the rise as the city strengthens its urban infrastructure. In fiscal 2005, its adjusted single fiscal year deficit exceeded 20 billion yen, quite a large value for a designated city. With another major project, the Soga suburban center, on its agenda, the city's finances will have to be closely watched.

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Fiscal Year	2001	2002	2003	2004	2005
Self-financing ratio	63.4%	62.3%	58.4%	60.1%	61.4%
Adjusted single fiscal year balance ratio	-9.2%	-13.7%	-19.1%	-16.6%	-12.1%
Number of likely years of debt redemption (total account basis) (years)	10.2	11.4	12.3	12.7	11.3

Yokohama: AA+op

The capital of Kanagawa, Yokohama has the largest population of all designated cities. The population is also expected to continue rising for a good while to come, which gives the city a solid tax base, mainly centered around the individual taxpayer. It has the third highest self-financing ratio among designated cities. Although its number of likely years of debt redemption is somewhat shorter than the average for designated cities, it has a large municipal bond outstanding. Yokohama is strongly pushing administrative and fiscal reforms, and its adjusted single fiscal year balance is quite favorable compared with other designated cities, with an average deficit of 3.5 billion yen in five years. The city's municipal bond outstanding started decreasing in fiscal 2004. It aims to contain the amount of bond issues to the amount it meets the principal repayments, by Fiscal 2006. R&I believes that the city's municipal bond outstanding will continue to decrease in the coming days.

Fiscal Year	2001	2002	2003	2004	2005
Self-financing ratio	65.4%	67.2%	65.5%	65.4%	66.3%
Adjusted single fiscal year balance ratio	-1.0%	-1.1%	0.5%	2.7%	-3.3%
Number of likely years of debt redemption (total account basis) (years)	12.3	12.0	12.2	12.8	12.6

Kawasaki: AAop

Kawasaki is one of the big cities of Kanagawa and ranks 8th among designated cities in terms of population. In addition to being an industrial city at the core of the Keihin industrial belt, the city's north-western portion consists of a residential area that has continued to develop since the years of rapid economic growth, so the population keeps rising. It has a solid tax base and one of the best self-financing ratios among designated cities. The number of likely years of debt redemption is also shorter than the average. The city's Kawasaki longitudinal express rail-road (subway) project is still pending, as it awaits re-approval after a revision of the link-up route. Although the revised plans will cost the city less than the original plans, it is still an enormous amount, and R&I is closely watching to see the effect on the city's finances.

Fiscal Year	2001	2002	2003	2004	2005
Self-financing ratio	69.6%	67.1%	62.2%	65.4%	67.2%
Adjusted single fiscal year balance ratio	-7.0%	-11.3%	-25.2%	-8.2%	0.6%
Number of likely years of debt redemption (total account basis) (years)	8.0	9.3	10.6	10.4	10.5

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Shizuoka City: AAop

The capital of Shizuoka prefecture, it merged with Shimizu city in April 2003, and became a designated city in April 2005. In March 2006, it merged again with the neighboring town of Kanbaramachi. Shizuoka City ranks 15th among designated cities in terms of population, and its self-financing ratio is somewhat lower than the average. While its number of likely years of debt redemption is also much shorter than the average at the moment, the city's investment burden is expected to increase, with projects such as the construction of the national and prefectural highway, which have been transferred to the city government by the prefecture, the construction of an access road connecting to the second Tomei motorway, and the laying of a sewer system and other urban infrastructure. R&I will follow how these additional burdens affect the city's finances.

Fiscal Year	2001	2002	2003	2004	2005
Self-financing ratio	65.9%	66.1%	57.9%	60.3%	57.4%
Adjusted single fiscal year balance ratio	-2.6%	-6.4%	-11.4%	-7.2%	1.2%
Number of likely years of debt redemption (total account basis) (years)	6.6	5.6	6.4	7.7	6.8

Nagoya: AAop

Nagoya is the capital of Aichi and is at the center of the Nagoya economic zone, one of the three major metropolitan areas in Japan. It ranks 3rd among designated cities in terms of population. With most of the economic activity of the Nagoya economic zone concentrated within the city, it has a very strong tax base, and its self-financing ratio is one of the best among designated cities. The city's municipal bond outstanding, however, is quite high, owing to expenditure related to economic countermeasures, projects to strengthen urban infrastructure, etc., and the number of likely years of debt redemption is longer than the average. The city has been pushing administrative and fiscal reforms and curbing bond issuance, though, which reversed the increase in municipal bond outstanding in fiscal 2005. If it manages to further shrink this balance through tighter reforms, its creditworthiness should improve.

Fiscal Year	2001	2002	2003	2004	2005
Self-financing ratio	64.4%	65.2%	64.4%	65.6%	68.1%
Adjusted single fiscal year balance ratio	-9.6%	-9.8%	-7.8%	-1.7%	2.6%
Number of likely years of debt redemption (total account basis) (years)	12.8	13.3	13.8	15.4	15.5

Kyoto City: AA-op

The capital of Kyoto, Kyoto city ranks 6th in terms of population among designated cities. Compared with the other designated cities, Kyoto has many structural challenges — in addition to its large number of tax-exempt Shinto shrine and Buddhist temple sites, it has vast areas of forest land, which have a low assessed valuation. Its tax base, therefore, is not very strong, and its self-financing ratio is quite low compared with other designated cities. Due to past subway-system and other urban infrastructure related projects, the city was saddled with a huge financial burden, which has resulted in a high level of municipal bond outstanding. Kyoto is pushing administrative and fiscal reforms now, however, and also trying to improve its financial position by introducing private consignment in its subway system and systematically revising fares. R&I is paying attention to the outcome of such measures.

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Fiscal Year	2001	2002	2003	2004	2005
Self-financing ratio	52.8%	52.7%	51.4%	51.3%	52.1%
Adjusted single fiscal year balance ratio	-5.2%	-4.7%	-6.4%	-10.2%	-4.0%
Number of likely years of debt redemption (total account basis) (years)	15.3	16.0	15.4	18.2	16.4

Osaka City: AA-op

The capital of Osaka prefecture, it has the second largest population among designated cities, after Yokohama. It also has a large number of commercial enterprises and its tax revenue structure is characterized by the high weight of corporate municipal tax. Osaka City has a solid tax base and a self-financing ratio is at par with the average for designated cities. Meanwhile, heavy borrowing by public sector enterprises involved in laying urban infrastructure or subway lines have resulted in the longest number of likely years of debt redemption among designated cities. According to *The Complete Picture of Financial Risk*, put out by the city in February 2007, shortage of funds of 215 billion yen is expected to arise from the Abeno redevelopment project, apart from which, the city faces the risk of being asked to shoulder the debts of affiliated corporations. Osaka City needs to carefully assess the improvement of its finances as it goes about strengthening administrative and fiscal reforms.

Fiscal Year	2001	2002	2003	2004	2005
Self-financing ratio	62.8%	61.3%	59.6%	60.0%	61.0%
Adjusted single fiscal year balance ratio	-23.2%	-18.9%	-14.4%	-4.2%	-0.7%
Number of likely years of debt redemption (total account basis) (years)	15.1	16.9	18.1	19.3	18.4

Sakai: AAop (Newly assigned)

Sakai is part of the Osaka prefecture, and after merging with Mihara-cho in February 2005, was included in the list of designated cities in April 2006. Its population is less than one million, ranking it 14th among designated cities. It has an industrial belt along the coast, and a relatively dense concentration of iron and steel, and other metal industries. Sakai has a lower than average self-financing ratio of 54%, but its adjusted single fiscal year balance turned to surplus in fiscal 2004, and the number of likely years of debt redemption is shorter than the average. The city's finances are expected to be strained in the coming years as it takes up urban infrastructure projects such as laying new roads and the Tozai railroad connecting the coastal region with the JR Sakai rail network. R&I will pay attention to the developments.

Fiscal Year	2001	2002	2003	2004	2005
Self-financing ratio	61.4%	59.5%	54.9%	55.2%	54.4%
Adjusted single fiscal year balance ratio	-2.5%	-4.6%	-9.1%	3.3%	4.2%
Number of likely years of debt redemption (total account basis) (years)	11.3	12.2	11.4	11.5	12.6

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Hiroshima City: AAop

The capital of Hiroshima prefecture, Hiroshima City ranks 10th among designated cities in terms of population. Its tax base is not very strong compared with the designated cities in the metropolitan areas, and its self-financing ratio is lower than the average. The city's urban infrastructure investment shot up, triggered by its hosting of the 1994 Asian Games, and its municipal bond outstanding remains high. The number of likely years of debt redemption is also comparatively long. The city was quick to enforce administrative and fiscal reforms, the results of which continue to emerge, such as an improvement in its adjusted single fiscal year balance, which turned black in fiscal 2004. Its tax base is weak, however, and the city will have to find other ways of improving its fiscal position.

Fiscal Year	2001	2002	2003	2004	2005
Self-financing ratio	54.1%	52.8%	53.8%	55.7%	55.9%
Adjusted single fiscal year balance ratio	-3.9%	-9.6%	-5.8%	1.2%	0.5%
Number of likely years of debt redemption (total account basis) (years)	13.8	14.3	14.8	17.3	17.4

Kita Kyushu: AAop

Kita Kyushu is one of the designated cities of Fukuoka prefecture, and ranks 12th in terms of population, which is below one million. The population is declining due to the erosion of the iron-and-steel and other heavy industrial bases, which had supported the city's economy. Its self-financing ratio is lower than the average for designated cities, but its revenue from taxes is currently on the rise with corporate performances improving. The municipal bond outstanding is also rising, due to ongoing large projects including the Science City project, which have increased the city's investment burden, and its traditionally short number of likely years of debt redemption has lengthened, pushing it closer to the average value for designated cities. Meanwhile, since the aforementioned major projects are over with their first stage, the municipal bond outstanding is not likely to swell too much, up ahead.

Fiscal Year	2001	2002	2003	2004	2005
Self-financing ratio	48.4%	50.7%	50.1%	52.8%	52.1%
Adjusted single fiscal year balance ratio	-19.8%	-15.7%	-14.9%	-4.9%	-6.6%
Number of likely years of debt redemption (total account basis) (years)	9.8	11.0	11.5	11.6	12.3

Fukuoka City: AAop

The capital of Fukuoka prefecture, and ranked 7th in terms of population among designated cities. The city's population continues to increase and it has a sturdy tax base. Its self-financing ratio is at par with the average for designated cities. Due to major investment in connection with hosting the Fukuoka Universiade in 1995, the city's municipal bond outstanding increased considerably, and the number of likely years of debt redemption has become longer than the average. However, the city's efforts at improving its finances by suppressing bond issuance have been effective, and its adjusted single fiscal year balance turned black in fiscal 2005. At the same time, its municipal bond outstanding also started to shrink. R&I expects the trend will continue, despite major ongoing projects such as the construction of the man-made island, Island City.



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Fiscal Year	2001	2002	2003	2004	2005
Self-financing ratio	55.8%	57.0%	57.0%	59.3%	61.0%
Adjusted single fiscal year balance ratio	-12.1%	-13.3%	-10.7%	-5.5%	0.7%
Number of likely years of debt redemption (total account basis) (years)	14.4	14.2	14.3	14.7	13.8

Major Economic Indicators

Self-financing ratio (%) = independent revenue sources/total annual revenue

Independent revenue sources = local taxes + charges, burdens + usage fees + handling charges + property revenue + donations + money transferred + money carried forward + various revenues

Adjusted single fiscal year balance ratio (%) = adjusted single fiscal year balance/standard fiscal scale

Adjusted single fiscal year balance = single fiscal year balance + increase or decrease in current reserve outstanding -increase or decrease in outstanding local government bonds

Number of likely years of debt redemption (years) = outstanding local government bonds (total account basis)/surplus repayment funds

Surplus repayment funds = general revenue resources total - (current expenses appropriated general revenue resources - principal repayment portion of public debt payments)

Note: Calculations of various indices for Hyogo and Kobe, does not include amounts relating to the repayment of the Kobe and Awaji Recovery Fund. Designated city averages are the weighted averages of local governments for which data could be obtained for each year.

Source: Compiled by R&I from data from NEEDS (Nikkei Economic Electronic Databank System)