

4 Financial conditions

1. Outline

In FY2018, with the principle of steady implementation of projects based on the "Medium-Term Project Management Plan for Kitakyushu City Water Utility and Sewer System" (FY2016 to 2020), we secured revenue by proper imposition and collection of sewer user charge and reduced maintenance and management cost by the introduction of high-performance equipment and devices in time to their reform or renewal.

From financial aspect, fund revenue and expenditure on single-year basis recorded a surplus of 69.72 million yen to secure a cumulative fund surplus of 2,786.95 million yen.

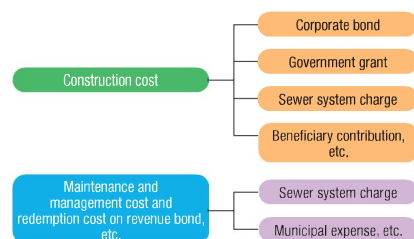
2. Financial mechanism

The expenses of the sewer system projects are classified into construction cost, maintenance and management cost, redemption cost on revenue bond, etc., and the financial resources are as follows.

(1) Construction cost

It costs a lot to construct and renew sewer system facilities. The sewer system construction cost in FY2018 was about 12.9 billion yen. Most of the construction cost is covered by government grants and long-term loans (corporate bond). The procurement of funds by the issuance of corporate bonds gives the following advantages.

- Since many projects can be implemented in a single year, the period of time that citizens wait for the improvement of sewer system facilities is reduced, which will facilitate administrative services.
- As the sewer systems facilities can be used for a long time, 50 years or more, the construction cost can be borne by multiple generations equally.



(2) Maintenance and management cost

It is necessary to maintain and manage sewer system facilities appropriately from the viewpoints of securing the safety of citizen's lives and environmental conservation. The maintenance and management cost includes the repair cost of sewer pipes, operating cost, etc. for pump stations and water purification plants.

In FY2018, the maintenance and management cost amounted to about 6.8 billion yen in total, including the electricity bill, chemicals cost, repair cost, personnel cost and so on, which is equivalent to about 18.63 million yen a day.

Project cost	Sewer construction cost	Maintenance and management cost	Total
FY 2018	About 12.9 billion yen	About 6.8 billion yen	About 19.7 billion yen

[Operating balance and capital balance]

• Operating revenue and expenditure

The operating revenue and expenditure indicates the balance of revenue and expenditure occurred in the business operations of a public enterprise, the main items of which include the maintenance and management cost and depreciation cost of sewer pipes, pump stations and water purification plants, and interest paid on corporate bonds for construction of sewer system facilities.

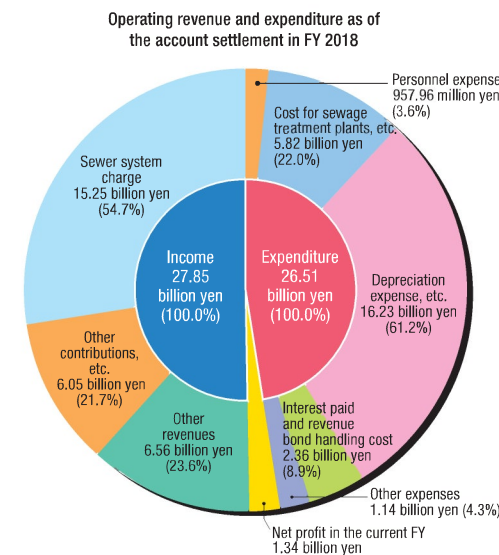
• Capital revenue and expenditure

The capital revenue and expenditure indicates the balance of revenue and expenditure occurred in the construction and improvement for future business operations and redemption cost on the principal of revenue bond, etc. for maintenance and development of continuous services. The main items include the expense for measures for promotion of the sewer system, flood prevention, improvement of the combined sewer system, renovation and renewal of sewer system facilities, etc., and redemption cost on the principal of revenue bond.

3. Account settlement in FY2018 (including tax)

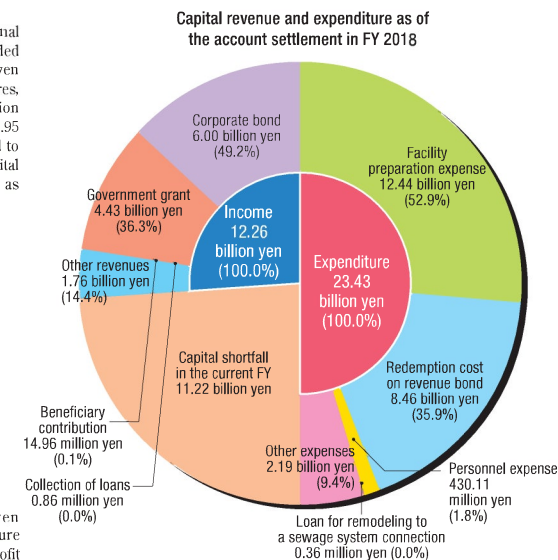
(1) Operating revenue and expenditure

Revenues consisted of operating revenue of 21,646.28 million yen (including a water bill income of 15,246.82 million yen), a non-operating revenue of 6,196.30 million yen and an extraordinary profit of 10.29 million yen, totaling 27,852.87 million yen. On the other hand, expenditures consisted of an operating expense of 23,934.30 million yen, non-operating expense of 2,574.52 million yen, and an extraordinary loss of 2.22 million yen, totaling 26,511.04 million yen. All in all, a profit of 1,341.83 million yen was gained in FY2018.



(2) Capital revenue and expenditure

A corporate bond of 6.00 billion yen, a national subsidy of 4,425.29 million yen, etc. were recorded as revenue, which resulted in 12,205.99 million yen in total. On the other hand, regarding expenditures, a facility preparation expense of 12,403.58 million yen, a redemption cost on revenue bond of 8,405.95 million yen, etc. were recorded, which amounted to 23,430.29 million yen in total. Consequently, a capital shortfall of 11,224.30 million yen was recorded as the balance of revenue and expenditure.



(3) Fund balance

A capital shortfall of 11,224.30 million yen arising out of the capital revenue and expenditure was compensated for by the reserved fund of profit and loss account, etc. Consequently, with a fund surplus of 69.72 million yen on a single-year basis, the cumulative fund surplus of 2,786.95 million yen at the end of FY2018 was ensured.