Analysis of TMG's Finances

○ Up to this point, TMG's financial condition in FY2016 was studied through analyses of conventional government accounting and financial statements.

○ This section looks back over past financial management and considers future TMG finances by analyzing future financial demand.

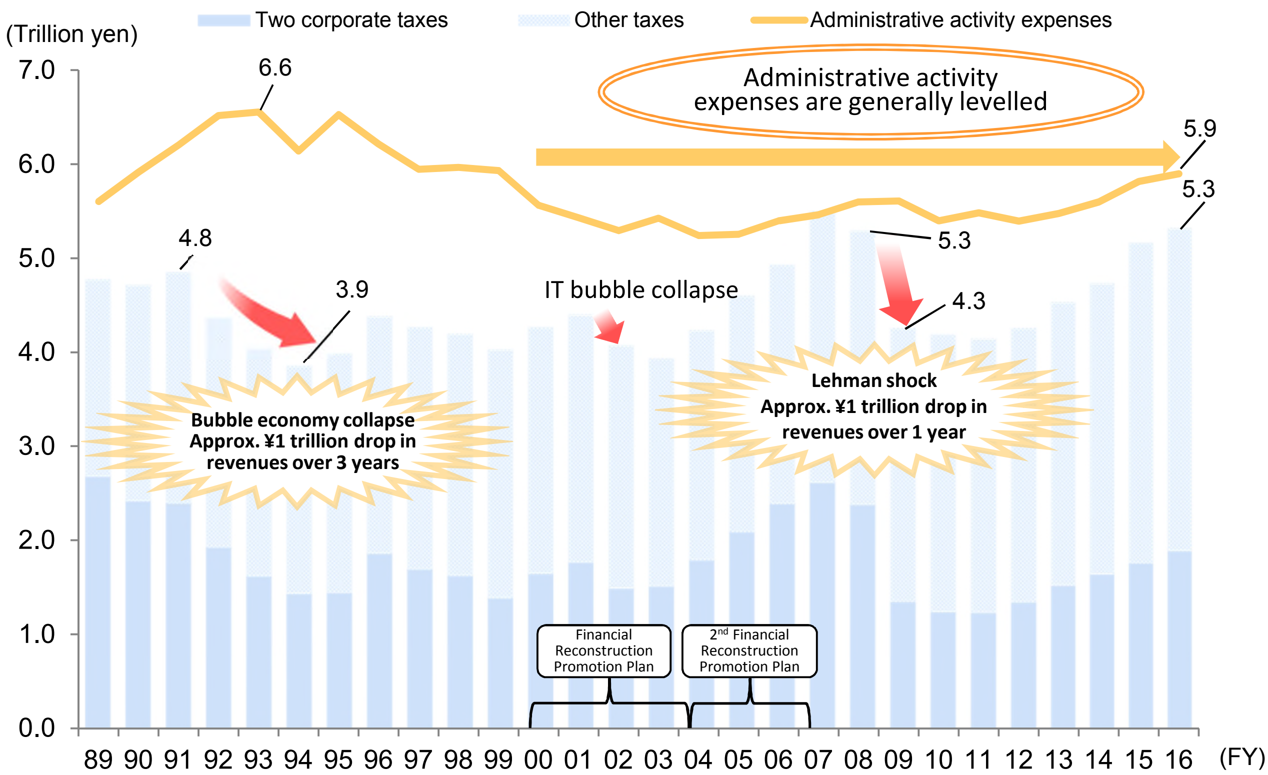
Chapter 1 - Looking back over TMG finances to date

○ The actual balance of revenues and expenses in the FY2016 financial results was 129.2 billion yen in the black.

○ However, since a large part of the metropolitan tax revenues that form the basis of Tokyo's annual revenues is comprised of revenue from the two corporate taxes, which are susceptible to economic fluctuation, TMG finances have an inherently unstable structure.

○ We now look back over TMG finances to date with a focus on the collapse of the bubble economy and the Lehman shock, which caused significant falls in metropolitan tax revenues (Figure 1).

[Figure 1] Changes in Administrative Activity Expenses and Metropolitan Tax Revenues



*Administrative activity expenses refers to total annual expenses related to administrative services undertaken over the year, excluding deposits to funds and expenses for public bonds.

○ Let us first look at differences in expenses structures in situations involving reduced revenues.

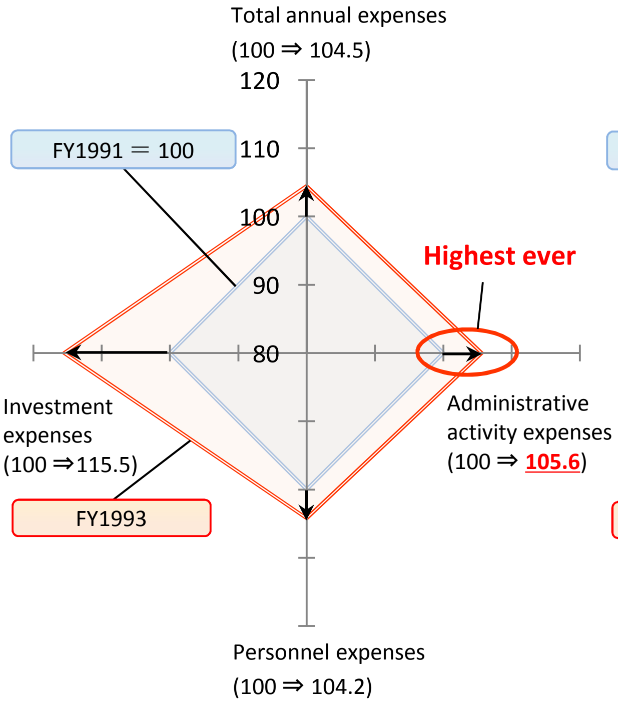
○ Along with the economic recession accompanying the collapse of the bubble economy, metropolitan tax revenues fell by about 1 trillion yen over three years from FY1991.

○ However, the state implemented economic measures promoting regional public works, and along with compliance with the state's economic measures, TMG maintained high expenses levels through the implementation of successive large-scale facilities construction works, etc. This resulted in general increases in expenses, even when faced with reduced revenues, and administrative activity expenses subsequently reached the highest ever recorded of about 6.6 trillion yen in FY1993 (Figures 1 and 2).

○ Meanwhile, due to the effects of the Lehman shock, metropolitan tax revenues fell by about 1 trillion yen in one year, peaking in FY2007 and recording the first ever four-year consecutive fall in revenues in the history of TMG finances.

○ Comparisons between FY2007 and FY2011 show that the necessary measures were implemented while aiming to control personnel expenses, and administrative activity expenses remained generally level (Figure 3).

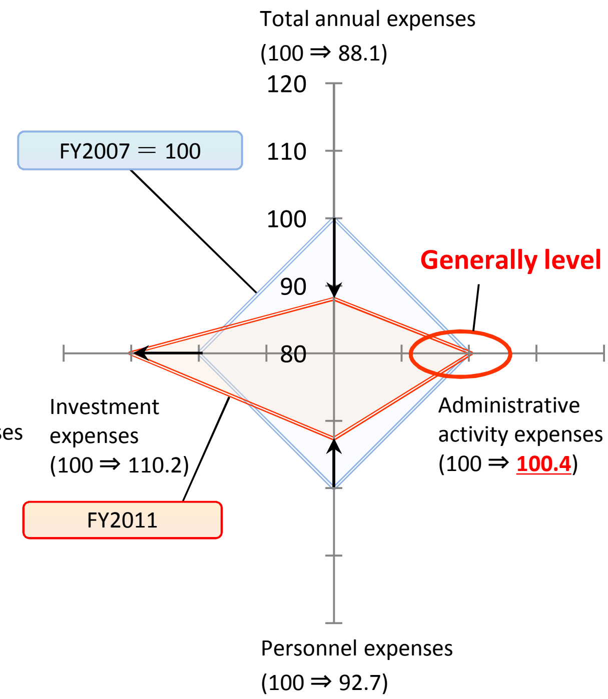
[Figure 2] Expenses Structure Comparison ① (FY1991 and FY1993)



(Units: Billion yen, %)

Category	FY1991	FY1993	Rate of change
Total annual exp.	6,726.0	7,026.2	4.5
Of which admin. Activity exp.	**62,056**	**6,554.6**	**5.6**
Of which personnel exp.	1,652.1	1,721.6	4.2
Of which investment exp.	1,770.5	2,044.2	15.5

[Figure 3] Expenses Structure Comparison ② (FY2007 and FY2011)



(Units: Billion yen, %)

Category	FY2007	FY2011	Rate of change
Total annual exp.	6,901.7	6,078.8	(11.9)
Of which admin. Activity exp.	**5,463.4**	**5,483.4**	**0.4**
Of which personnel exp.	1,605.9	1,487.9	(7.3)
Of which investment exp.	704.3	776.1	10.2

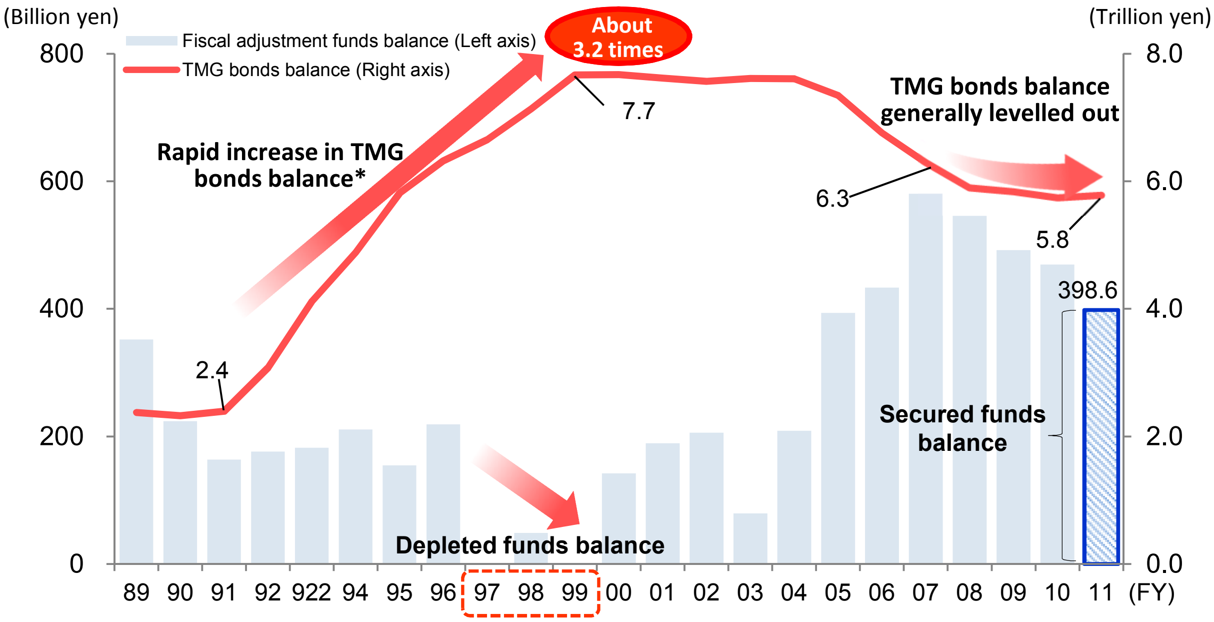
*In Figure 2, values have been index converted with values for FY1991 set as 100.
*In Figure 3, values have been index converted with values for FY2007 set as 100.

○ Following on, let us look at the effects these differences have had on fiscal adjustment funds balance and TMG bonds balance (Figure 4).

○ Following the collapse of the bubble economy, funds and TMG bonds were actively utilized in order to maintain high expenses levels while the slump in tax revenues continued. This resulted in funds balance almost bottoming out from FY1997 to FY1999, while TMG bonds balance increased to 7.7 trillion yen in FY1999, about 3.2 times greater in comparison to FY1991.

○ Meanwhile, although funds and TMG bonds were utilized in a similar way in order to accommodate significant reductions in tax revenues following the Lehman shock, TMG bonds balance was generally levelled out while a fixed level of funds balance was secured.

[Figure 4] Changes in Fiscal Adjustment Funds Balance/TMG Bonds Balance



* Includes the effects of changes made in methods of TMG bonds redemption from FY1992 onwards, from the scheduled redemption method of small repayments every year to the bullet maturity amortization method of lump sum repayments after ten years.

○ As is apparent, while facing similar reduced revenue situations, significant qualitative changes in TMG finances were achieved following the collapse of the bubble economy and the Lehman shock.

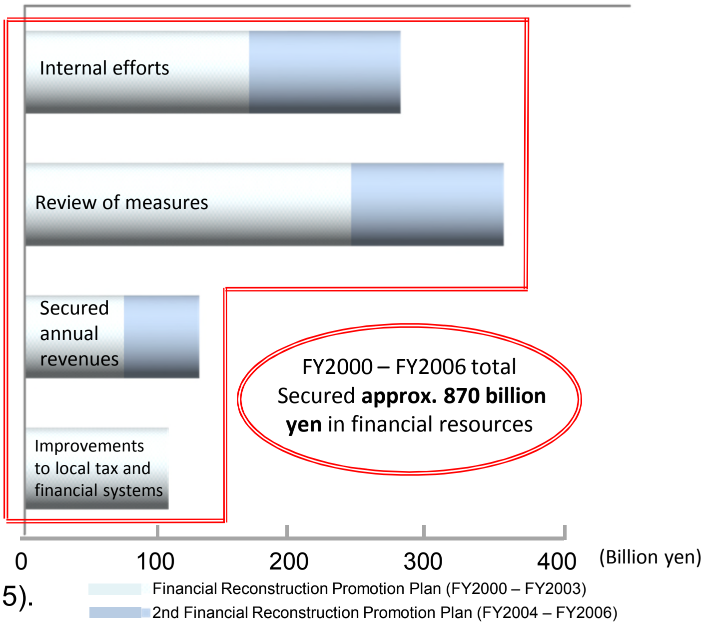
○ From here on, we look into the fiscal reconstruction and subsequent project review approaches that brought about these changes in TMG finances.

○ Due to the prolonged slump in tax revenues following the collapse of the bubble economy, financial results for FY1998 recorded the worst ever deficit of 106.8 billion yen, and TMG faced the reality of falling into the critical status of a local public entity under financial reconstruction.

○ Consequently, from FY2000 onwards, full efforts were focused on financial reconstruction approaches based on two “Financial Reconstruction Promotion Plans”.

○ Over this period, the results of internal efforts such as temporary reductions in TMG salaries, etc. and thorough reviews of measures secured approx. 870 billion yen in financial resources, with financial results for FY2005 finally changing over from the red into the black, and bringing the period of financial reconstruction to a close (Figure 5).

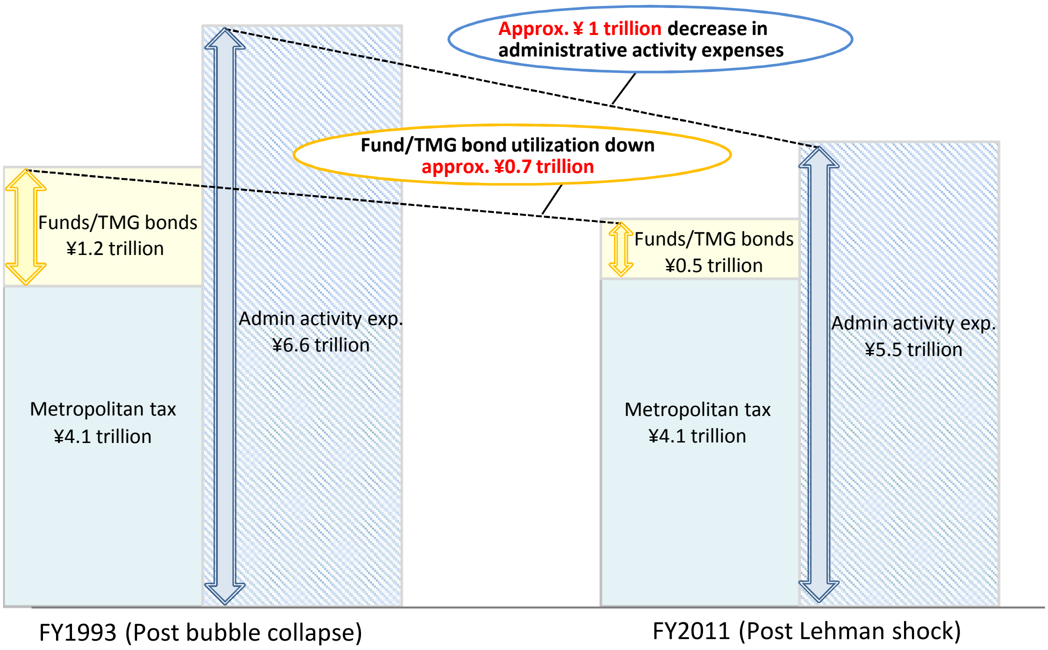
[Figure 5] Breakdown of Financial Resource Amounts Secured in Accordance with Financial Reconstruction Promotion Plans



○ In order to continue these review efforts after financial reconstruction had been achieved and avoid making the same mistakes, the plans were redesigned as approaches to project reviews, and through the utilization of checks from specialist perspectives and new public accounting methods, diverse inspections were conducted in the process of budget formation, and reviews of measures were further promoted without any easing off.

○ Through such approaches to financial reconstruction and project reviews, thorough efforts to eliminate any wasteful aspects were undertaken, and continued steady approaches to improve project efficiency and effectiveness resulted in a reduction of approx. one trillion yen in administrative activity expenses in FY2011 in comparison to FY1993, which also led to decreased totals for amounts withdrawn from funds and amounts of TMG bonds issued (Figure 6).

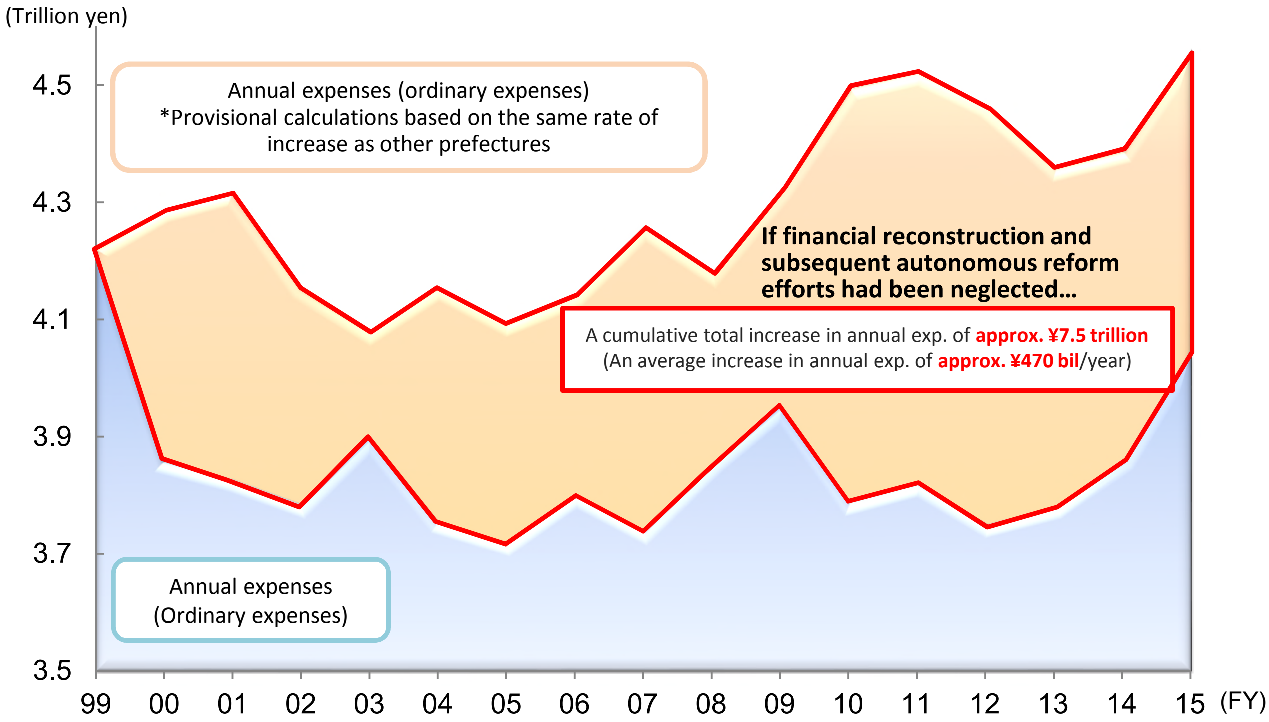
[Figure 6] Comparison between Administrative Activity Expenses and Funds/TMG Bonds Utilization



○ If financial reconstruction and subsequent project review approaches had not been conducted, and annual expenses had increased at a rate similar to that of other prefectures, increases in annual expenses would have reached a cumulative total of approx. 7.5 trillion yen, an average of approx. 470 billion yen per year (Figure 7).

○ The lead that TMG took over other prefectures in this manner, with persistent autonomous reforms in the form of internal efforts and reviews of measures, has led to today's stable financial management.

[Figure 7] Changes (provisional calculations) in Annual Expenses (ordinary expenses)



* Annual expenses (ordinary expenses) = administrative activity expenses – investment expenses – fiscal adjustment grants for special wards
* Prefectural annual expenses = administrative activity expenses – investment expenses

○ As we have seen thus far, there have been periods in Tokyo's past in which, under unstable revenue structures, deficits in excess of 100 billion yen have been recorded. However, approaches based on two financial reconstruction promotion plans and the strict checks on each measure together with persistent efforts to improve their efficiency and effectiveness, even after achieving financial reconstruction, has enabled the stable provision of necessary administrative services seen today.

○ In order to ensure the fulfilment of missions bestowed upon TMG finances and the stable implementation of measures into the future, persistent autonomous reforms with an even greater focus on creativity than before, together with further efforts to eliminate any wasteful aspects, etc. along with sustained medium to long-term financial capabilities that will form the foundation for the implementation of measures, will be essential.

○ In the next chapter, we consider financial management with an eye to the future.

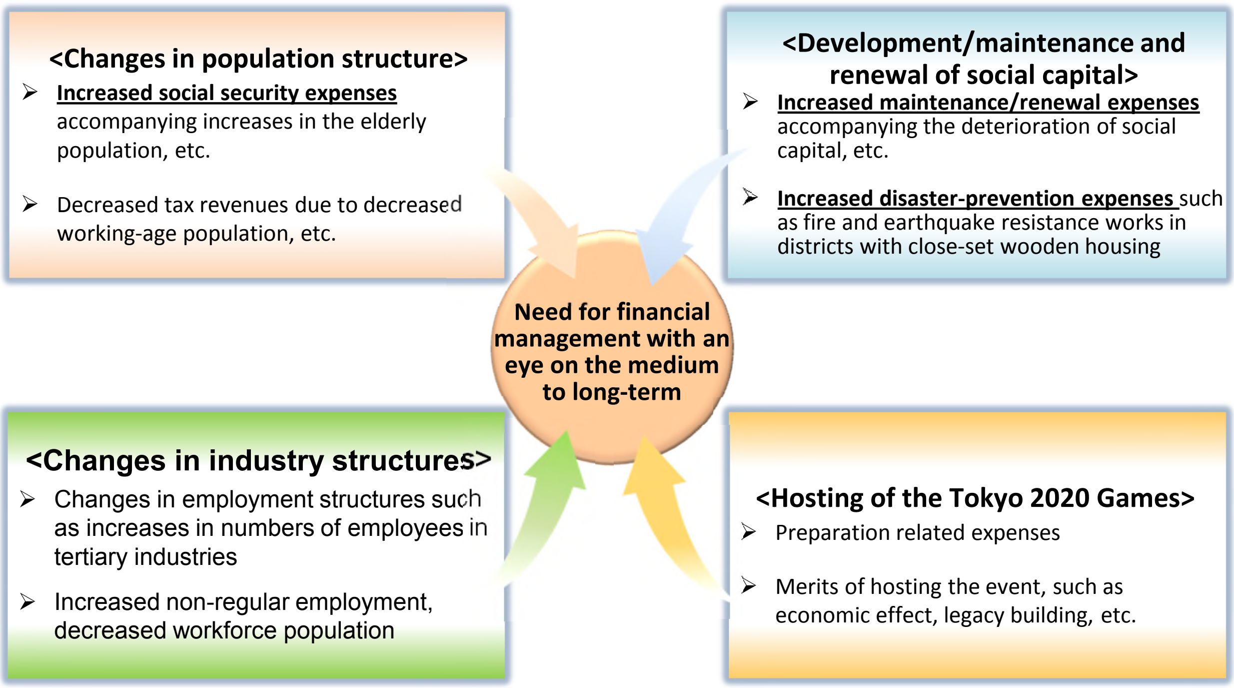
Chapter 2 - Future financial demands and financial management with an eye to the future

〇 While supporting approaches towards the realization of 3-cities and preparations for a successful Tokyo 2020 Games under unstable revenue structures, an awareness of the financial demands that TMG finances cannot avoid must be maintained in order to realize sustainable financial management into the future.

〇 This section analyzes the future financial demands faced by Tokyo and considers future financial management with a focus on approaches from FY2016 onwards.

〇 Figure 8 organizes the changes, etc. in the social circumstances surrounding TMG finances from four perspectives, and shows the increasing need for financial management with an eye on medium to long-term aspects such as increases in social security expenses caused by changes in population structures.

[Figure 8] The Need for Financial Management with an Eye on the Medium to Long-term



〇 While bearing these changes and future financial demands in mind, TMG must be sure to undertake measures for the resolution of issues that Tokyo will face.

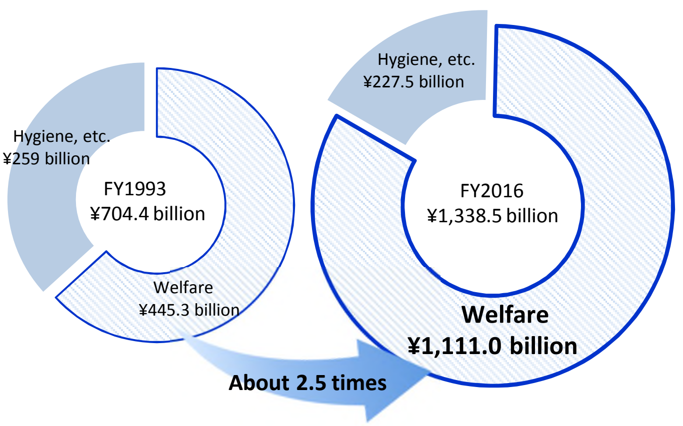
〇 Of the financial demands faced by TMG, this section focuses on the three themes of social security expenses, social capital stock maintenance/renewal expenses and disaster-prevention expenses.

Social security expenses

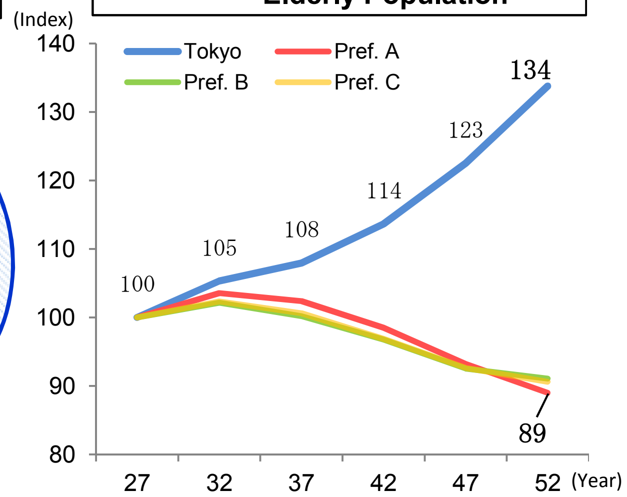
○ A comparison between FY1993, which recorded the highest ever administrative activity expenses, and FY2016, shows increased social security related expenses, of which welfare expenses, which represents expenses required for the various measures for children and the elderly, have increased by about 2.5 times (Figure 9).

○ When comparisons are made between Tokyo and the three prefectures with the highest aging population rates, the projected rate of increase in the elderly population is still significantly higher for Tokyo, and even greater increases in social security related expenses are anticipated (Figure 10).

[Figure 9] Comparison of Social Security related Expenses (FY1993 and FY2016)



[Figure 10] Future Estimates for Elderly Population

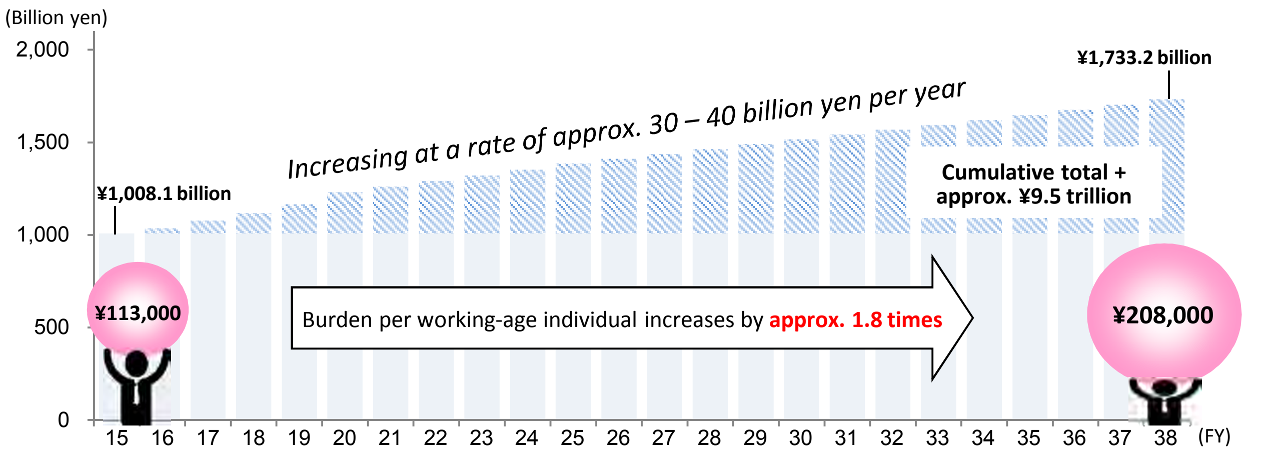


* Social security related expenses indicated in Figure 9 exclude disaster relief expenses and clearance expenses.

* Future estimates in Figure 10 are from "Regional Population Projections for Japan (March 2013 estimates)" published by the National Institute of Population and Social Security Research, and values have been index converted with values for FY2015 set as 100.

○ In addition, according to third-party estimates, social security expenses will increase at a rate of approx. 30 - 40 billion yen per year, increasing to a forecast cumulative total of approx. 9.5 trillion yen by FY2038.
Based on this forecast, the burden per working-age individual in Tokyo by FY2038 works out to be approx. 1.8 times that of FY2015 (Figure 11).

[Figure 11] Future Estimates for Social Security Expenses (provisional calculations)



* Calculations of future estimates were conducted by Ernst & Young Shin Nihon LLC.

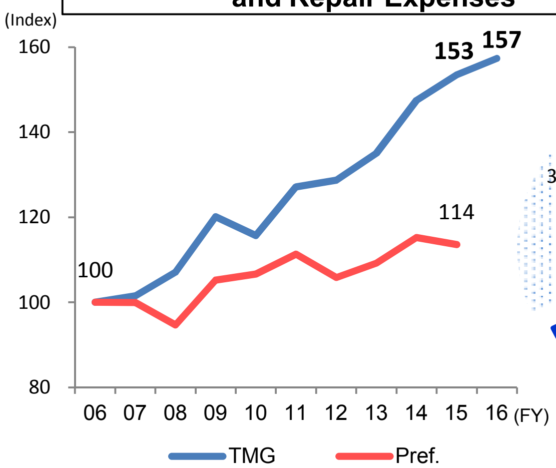
* Overall TMG social security expenses were estimated by multiplying the settled amount for social security expenses in FY2015, which was used as the standard, by inflation rates, etc. on the premise that projects such as those that are current will continue in the future.

Social capital stock maintenance/renewal expenses

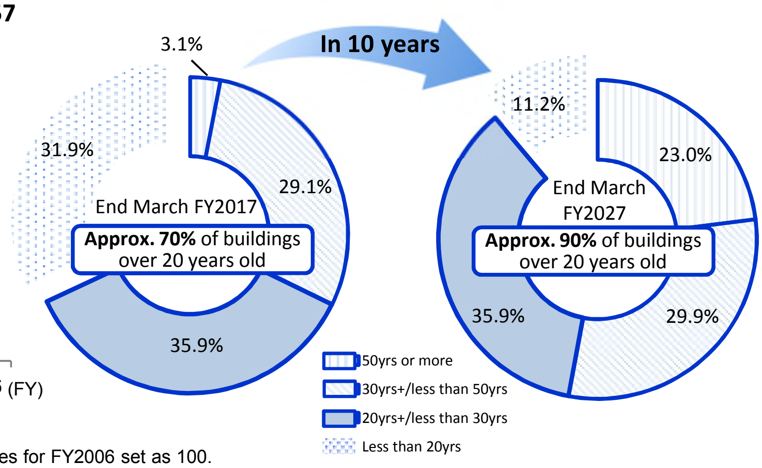
○ TMG's maintenance and repair expenses for FY2016 were approx. 1.6 times that of FY2006, ten years ago, and this rate of increase is significantly higher in comparison to the other prefectures (Figure 12).

○ In addition, the construction of public properties (buildings) owned by the TMG was concentrated in the mid-60s to mid-70s and in the single digit years of the Heisei period (1989-97), and as of end March 2017, roughly 70% of TMG owned buildings were over 20 years old, making the handling of deterioration an important issue. If another 10 years pass under current conditions, roughly 90% of buildings will be over 20 years old, and facilities maintenance/repair expenses and renewal expenses can be expected to increase even further (Figure 13).

[Figure 12] Changes in Maintenance and Repair Expenses



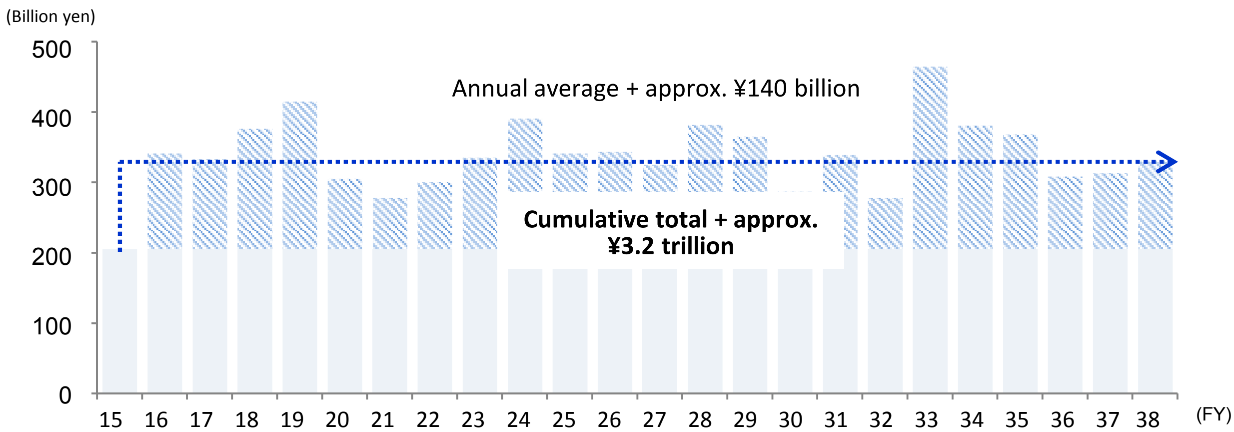
[Figure 13] Public Property (buildings) Percentages by Building Age



* In Figure 12, values have been index converted with values for FY2006 set as 100.
* Figure 13 is organised in calendar years, and excludes public properties owned by the Bureau of Waterworks, the Bureau of Sewerage, and the Bureau of Transportation.

○ In addition, according to third-party future estimates of TMG's social capital stock maintenance/renewal expenses based on TMG's public-sector accounting information, over the next 50 years, the cumulative amount of increase in expenses is estimated to be approx. 3.2 trillion yen (Figure 14). For the future, together with systematic maintenance and renewal to prevent facilities malfunction and reduction in safety, efforts must be made to standardize and reduce expenses over the medium to long-term by extending the life of facilities, etc.

[Figure 14] Future Estimates of Social Capital Stock Maintenance and Renewal Expenses (provisional calculation)



* Calculations of future estimates were conducted by Ernst & Young Shin Nihon LLC.
* FY2015 shows the settled amount related to social capital stock maintenance and renewal.
* Based on public-sector accounting information, etc. estimates assume total renewal at the end of the legally defined service years, with provisional calculations made by multiplying acquisition prices by construction cost deflators and inflation rates.

Disaster-prevention expenses

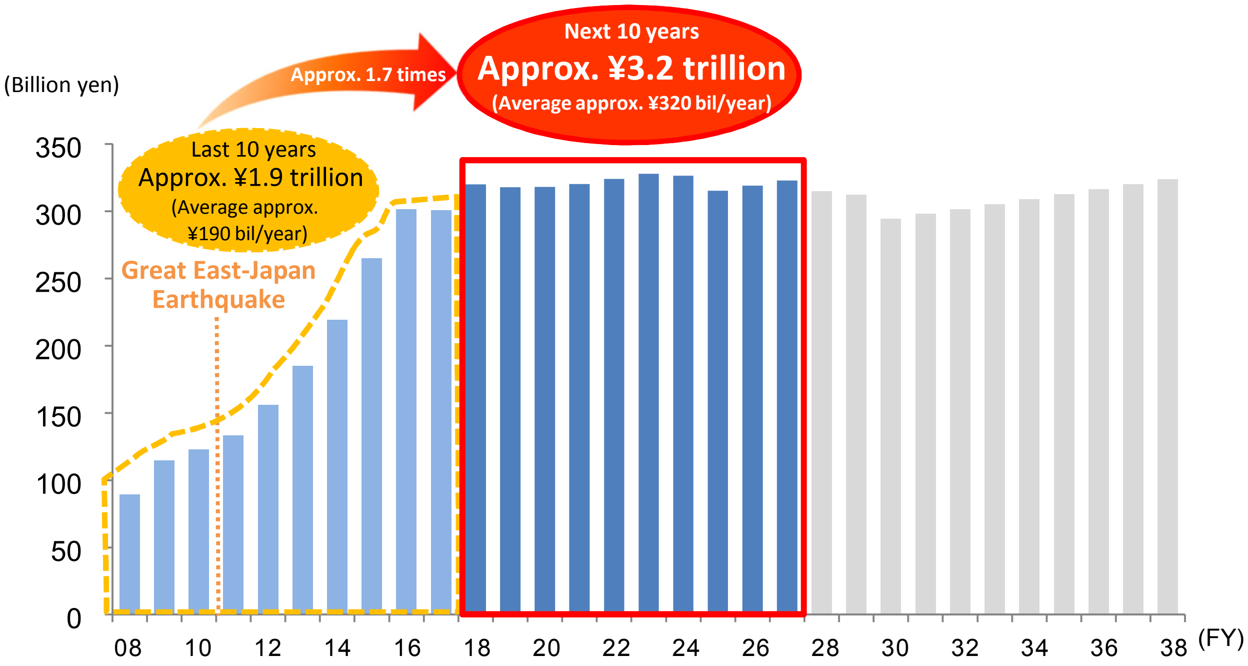
○ TMG faces risks related to the incidence of large-scale disasters such as the Tokyo Inland Earthquake and localized torrential downpours, etc.

○ In addition to human damages, there are concerns that a disaster occurring in Tokyo, where the central political, economic and administrative agencies are concentrated, may have a serious impact on nationwide socio-economic activities, such as the paralysis of city functions, etc.

○ In order to protect the lives/assets of Tokyo citizens and ensure safety/security, there is an urgent need for the implementation of measures such as fire and earthquake resistance works in districts with close-set wooden housing and the elimination of utility poles, etc. in preparation for large-scale disasters.

○ In addition, according to third-party future estimates for disaster-prevention related expenses, the total of expenses from FY2018 to FY2027 is expected to increase by approx. 1.7 times to approx. 3.2 trillion yen in comparison to the total for the last ten years (Figure 15).

[Figure 15] Future Estimates of Disaster-Prevention related Expenses (provisional calculation)



*Provisional calculations of future estimates were conducted by an external research institution.

○ As seen thus far, future TMG finances face many unavoidable medium to long-term financial demands such as social security expenses.
○ In order to deal with these financial demands, the further promotion of autonomous reform approaches undertaken to date, together with the strategic and systematic utilization of funds and TMG bonds, will be necessary.

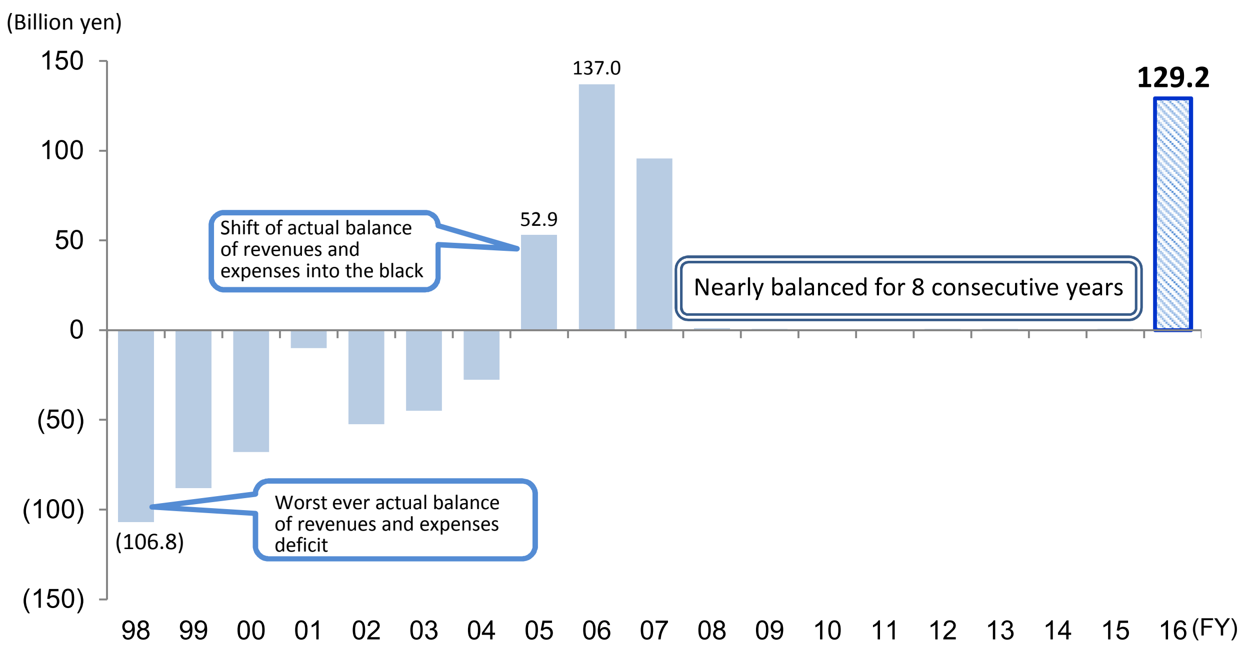
○ From here on, we look into the autonomous reform approaches that were accelerated from FY2016 onwards, and the funds and TMG bonds that will fulfil important roles in future financial management.

Autonomous reform approaches

(TMG finance reform approaches)

○ From September 2016, TMG commenced finance reform approaches beginning with the three themes of autonomous reform, information disclosure and internal controls.
○ Of these, autonomous reform specifically involves every department engaging in autonomous review approaches for current policies, measures, administrative projects, organizations, budgets, working practice, etc. in light of the three principles of “Tomin First (Tokyo citizens first)”, “Information disclosure” and “Wise-spending”.
○ In FY2016, each department identified tasks based on their own awareness of issues, and pressed forward with autonomous reform approaches in relation to 486 items, with a focus on improving administrative practice and efficiency.
○ Due to such efforts in FY2016, to revise annual expenses through comprehensive inspections of measures and approaches towards autonomous reform, etc. the actual balance of revenues and expenses for the year was 129.2 billion yen in the black (Figure 16).

[Figure 16] Changes in Actual Balance of Revenues and Expenses



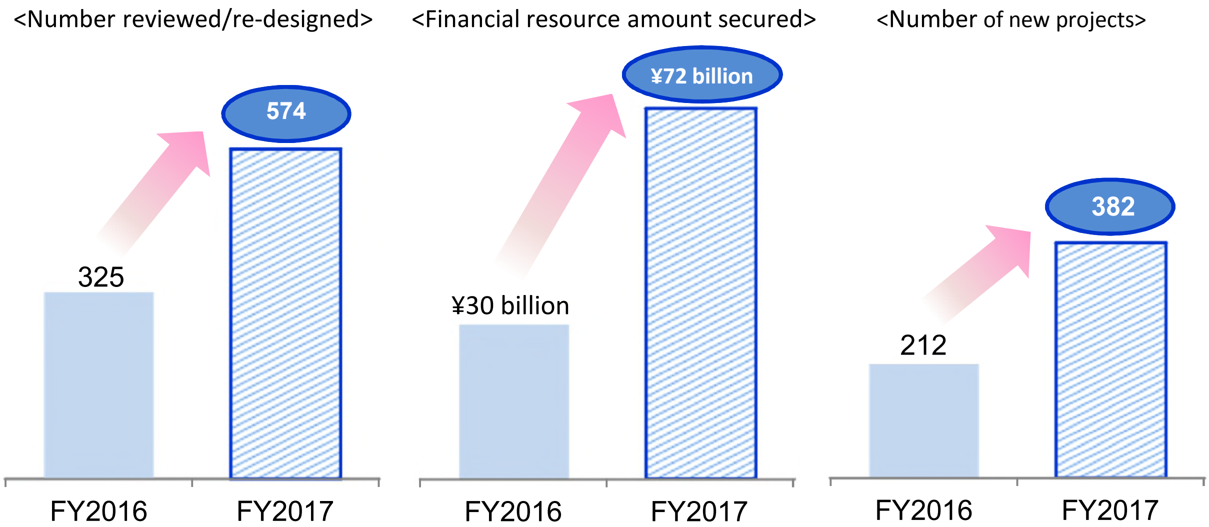
(Approaches to project reviews)

○ In addition, in the FY2017 budget, along with the adoption of the principle of setting fixed periods for all project activities, other actions such as the introduction of systems that make determinations on project revision, expansion and continuation, etc. through project reviews in relation to projects that have reached the ends of their terms, enabled the further enhancement of PDCA cycles derived from project reviews to date.

○ As a result, the number of projects subject to “Review/re-design” reached 574, an increase of 249 over the FY2016 budget, and led to the securing of approx. 72 billion yen in financial resources.

○ In this way, TMG promoted the metabolism of measures by focusing creativity to undertake project review approaches from ever more diverse perspectives. This resulted in the highest ever number (382) of new project launches (Figure 17).

[Figure 17] Status of Project Review Approaches



Utilization of funds and TMG bonds

(Funds)

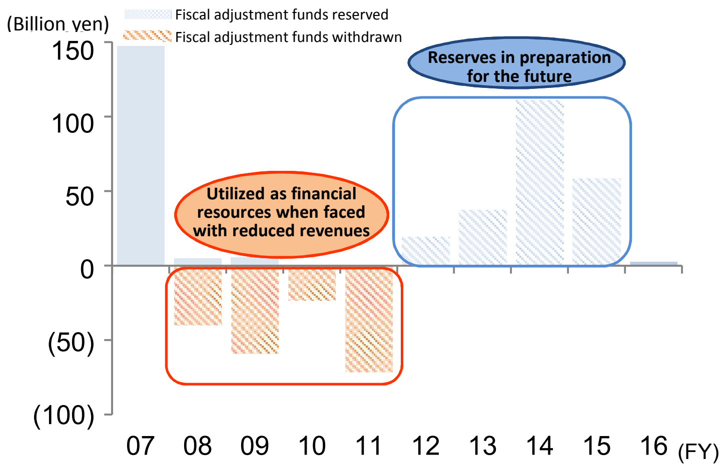
○ Fiscal adjustment funds are designed for financial resource adjustment between fiscal years with the objective of contributing to sound financial management, and serve a significant role in the financial management of Tokyo, which faces unstable metropolitan tax revenues.

○ Fiscal adjustment funds were utilized as financial resources when Tokyo faced reduced revenues due to the effects of the Lehman shock, which reduced revenues by approx. one trillion yen in one year, and in order to continue providing stable administrative services, securing balance is extremely important (Figure 18).

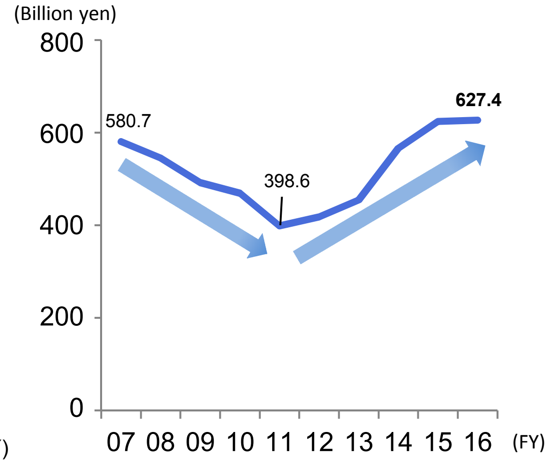
○ Taking such perspectives into consideration, robust metropolitan tax revenues of recent years have allowed reserves to be built up in preparation for the future, and as of end FY2016, a balance of 627.4 billion yen has been secured (Figure 18, 19).

○ In addition, strategic utilization will be necessary for the medium to long-term financial demands that have been discussed up to this point and the handling of the Tokyo 2020 Games, etc. and in relation to funds for the realization of 3-cities.

[Figure 18] Changes in Fiscal Adjustment Funds Balance Amounts Reserved/Withdrawn



[Figure 19] Changes in Fiscal Adjustment Funds Balance



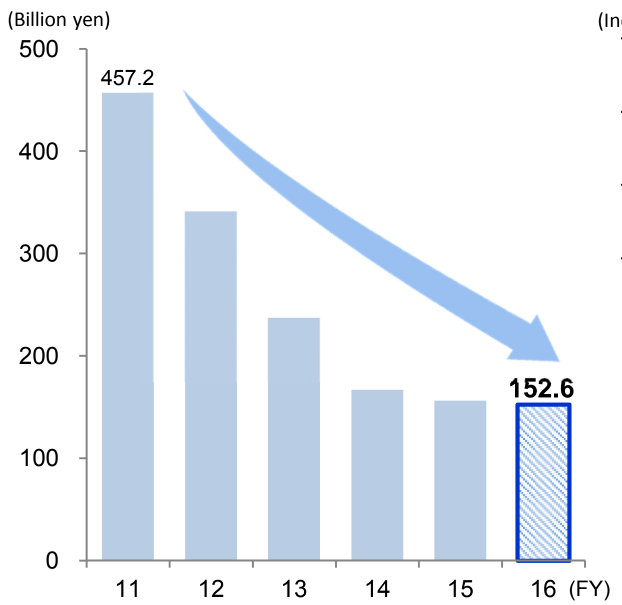
(TMG bonds)

○ While TMG bonds provide a function that aims to balance the burden between generations as a financial resource for the formation/renewal of social capital stock, they are also liabilities for which payment must be made in the future, therefore their utilization must take the balance between benefits and burdens for future generations into full consideration.

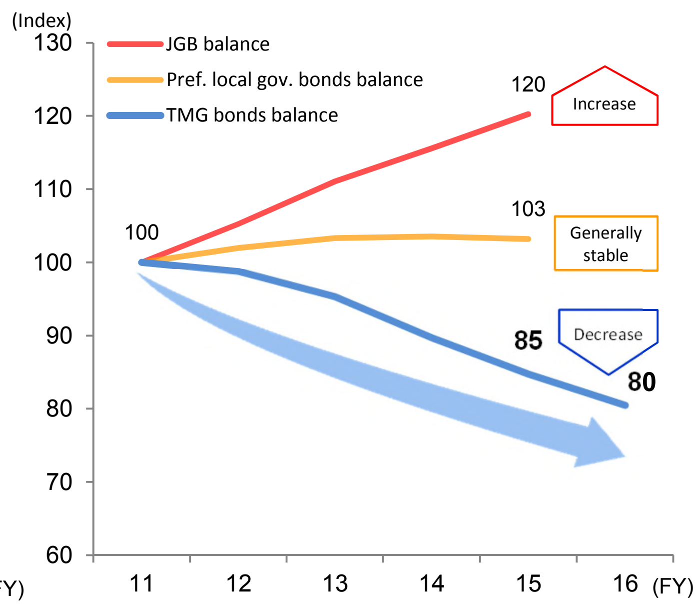
○ The amount of TMG bonds issued in FY2016 was 152.6 billion yen, a decrease of over 300 billion yen in comparison to FY2011, and with a decreasing trend in the balance of TMG bonds in comparison to Japanese Government Bonds (JGB)/ local government bonds since FY2011, TMG is striving to control issuance with an eye to the future (Figure 20, 21).

○ Meanwhile, with the population of Tokyo expected to peak in 2025 before shifting to a decreasing trend, it is important to continue appropriate utilization of TMG bonds in preparation for the full arrival of a progressively aging society with low birth rate and a declining population, while continuously keeping an eye to medium to long-term demands.

[Figure 20] Changes in Amounts of TMG Bonds Issued



[Figure 21] Comparison of JGB, Local Government Bonds and TMG Bonds Balance



*In Figure 21, values have been index converted with values for FY2011 set as 100.

○ Due to financial management to date and autonomous reform approaches undertaken in FY2016, the actual balance of revenues and expenses in the FY2016 financial results was in the black.

○ TMG must maintain a robust and flexible fiscal foundation in order to continue working towards the resolution of issues faced by Tokyo, through the swift and steady promotion of highly effective measures without missing any opportunities, along with the steady and effective promotion of preparations for the Tokyo 2020 Games.

○ Meanwhile, the state commenced the examination of reviews of settlement criteria for local consumption tax in April, in the lead up to the FY2018 tax reforms, and this could lead to the exploitation of Tokyo's financial resources.
Measures to seize Tokyo's financial resources will not only threaten the livelihoods of Tokyo citizens, they will also impede preparations for the Tokyo 2020 Games, which should be undertaken as an approach involving all of Japan, and as such, are entirely unacceptable.

○ With the difficulties in forecasting the direction of future financial environments, TMG must be even more thorough in the elimination of any wasteful aspects and tie this into improvements in the efficiency and effectiveness of every measure, from the "Tomin First (Tokyo citizens first) perspective, by implementing new reviews based on objective indices (evidence based) in relation to the project reviews that have steadily yielded results to date, etc.

○ On that basis, TMG will strategically and systematically utilize funds and TMG bonds, and maintain stable financial capabilities into the future to ensure the fulfilment of the missions bestowed upon TMG finances.

2. Fiscal Year 2016 Tokyo Metropolitan Government Financial Report

○ **In comparison to the end of the previous fiscal year, total assets had increased by 405.2 billion yen to 47,328.9 billion yen, while total liabilities had decreased by 511.8 billion yen to 14,691.2 billion yen, and the net asset ratio, which represents the percentage of the total net assets to the total assets, was 69.0% (67.6% as of the end of the previous fiscal year).**

○ **In special accounts, total net assets increased by 0.3 billion yen from the end of the previous fiscal year, reaching 9.0 billion yen.**

○ **In public enterprise accounts, the net asset ratio was 53.2% (51.8% as of the end of the previous fiscal year).**

○ **With respect to administrative bodies, their financial health improved in general. For further improvement of financial position, it is essential that each of the bodies continues to enhance its management efforts.**

(1) TMG Comprehensive Financial Statements

TMG comprehensive financial statements are prepared as shown below so that the comprehensive financial status of public enterprises and administrative bodies, etc. can be understood more accurately.

- Elimination offsets of internal transactions are limited to the scope of the ordinary account.
- Special accounts outside of the scope of the ordinary account, public enterprise accounts, administrative bodies, and local independent administrative corporations, will have their individual financial statements displayed.
- Financial statements include not only the balance sheet, but an administrative cost statement which shows administrative revenues and expenses for the fiscal year in question.

The scope of TMG comprehensive financial statements covers the ordinary account for TMG itself (a general account and 13 special accounts), two special accounts outside of the scope of the ordinary account, 11 public enterprise accounts, and, for organizations other than TMG, 33 administrative bodies and three local independent administrative corporations.

<TMG Comprehensive Financial Statements> (in billion yen,%)

Item	FY2016	FY2015	Change in amount	Percentage of change
Assets				
Ⅰ Current Assets	2,936.6	3,035.2	(98.6)	(3.2)
Ⅱ Fixed Assets	44,392.1	43,888.2	503.9	1.1
(of which, tangible fixed assets)	38,487.9	38,398.7	89.2	0.2
Ⅲ Deferred assets	0.1	0.1	(0)	(0.0)
Total Assets	47,328.9	46,923.6	405.2	0.9
Liabilities				
Ⅰ Current liabilities	1,215.9	1,445.5	(229.6)	(15.9)
Ⅱ Fixed liabilities	11,227.0	11,499.4	(272.4)	(2.4)
Ⅲ Deferred revenues	2,248.2	2,258.0	(9.7)	(0.4)
Total Liabilities	14,691.2	15,203.1	(511.8)	(3.4)
Total Net Assets	32,637.6	31,720.5	917.1	2.9
Total Liabilities and Net Assets	47,328.9	46,923.6	405.2	0.9

○ Total assets were 47,328.9 billion yen (46,923.6 billion yen at the end of the previous fiscal year), and this is mainly because, while current assets decreased by 98.6 billion yen in comparison to the end of the previous fiscal year, fixed assets increased by 503.9 billion yen in the same comparison, resulting in an increase of 405.2 billion yen for the same comparison. Of the total assets, tangible fixed assets accounted for 38,487.9 billion yen or 81.3%.

○ Total liabilities were 14,691.2 billion yen (15,203.1 billion yen at the end of the previous fiscal year), and this is mainly because of decreases in deferred revenues by 9.7 billion yen in comparison to the previous fiscal year, together with decreases in current liabilities and fixed liabilities by 229.6 billion yen and 272.4 billion yen respectively for the same comparison, resulting in a decrease of 511.8 billion yen for the same comparison. Of the total liabilities, fixed liabilities accounted for 11,227.0 billion yen or 76.4%.

○ Total net assets were 32,637.6 billion yen (31,720.5 billion yen at the end of the previous fiscal year), an increase of 917.1 billion yen from the end of the previous fiscal year. The net asset ratio was 69.0% (67.6% at the end of the previous fiscal year).

(2) Management Status by Managing Body

[1] Special Accounts (outside scope of the ordinary account)

○ For the current period, the balance for the Slaughterhouse Account was in deficit, while the balance for the Metropolitan Public Housing Tenants Security Deposit Account was in surplus. The total of the total net assets of these two special accounts was 9.0 billion yen (8.6 billion yen at the end of the previous fiscal year), an increase of 0.3 billion yen compared to the previous year.

[2] Public Enterprise Accounts

○ Regarding the current balance, 5 accounts such as the Waterfront Area Development Project account were in deficit, the Industrial Waterworks account was balanced, and the remaining 5 accounts were in surplus. In the profit/loss for the current period, 4 accounts such as the Waterfront Area Development Project account were in deficit, the Industrial Waterworks account was balanced, and the remaining 6 accounts were in surplus. Additionally, the net assets ratio was 53.2% (51.8% at the end of the previous fiscal year).

[3] Administrative Bodies etc.

○ Among 33 administrative bodies (33 bodies in the previous fiscal year), the total of 23 bodies including public interest corporations (the total number was 23 in the previous fiscal year) saw an increase in the overall net asset ratio. For the remaining 10 joint-stock companies (10 in the previous fiscal year), the ratio of net assets to total assets increased from the previous fiscal year, and they were in surplus in the current balance and net profit/loss for the current period. To promote further improvement of financial position, it is essential that each of the bodies continues to enhance its management efforts.

○ TMG has been striving to improve administrative bodies' financial conditions, for example, by setting managerial goals from a "finances" perspective, and as well as such efforts, TMG has engaged in efforts to gain an accurate picture of their financial conditions, including the future outlook, in order to prevent excessive financial burden to the TMG's general account in future fiscal years associated with such bodies.

○ In fiscal year 2008, the Fiscal Consolidation Law was enforced, under which estimated amounts of charges for the public enterprise accounts, as well as in the general account for the bodies relating to a local government, such as third-sector public/private enterprises etc. shall be included in the calculation of future burden ratio. Furthermore, the local government is required to have clear understanding of the debt that can affect its financial position etc. over the years to come.

Given this, it is important to gain an accurate picture of financial conditions of the entire TMG, including administrative bodies etc. and maintain a manageable financial burden for TMG into the future.