Summary of Fiscal Year 2013 "Tokyo Metropolitan Government Annual Financial Report"

September 12, 2014
Bureau of Finance

Summary of Fiscal Year 2013 Ordinary Account

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○ The actual balance of revenues and expenses was nearly balanced for six consecutive years.
○ The ordinary balance ratio stood at 86.2%.
○ In order to deal with the challenges and future key issues that the metropolitan government faces, it is important to sustain the ability to respond to fiscal needs by verifying the whole business from scratch and making a thorough review and reconstruction, etc.

<Settlement Results> (in billion yen, %)

Item	FY2013	FY2012	Change in amount	Percentage of change
Total annual revenues (A)	6,455.2	6,233.0	222.2	3.6
Total annual expenses (B)	6,202.2	6,041.8	160.5	2.7
Proforma balance (C = A - B)	252.9	191.2	61.7	-
Fiscal revenues to be carried forward (D)	252.3	190.6	61.6	-
Actual balance (C - D)	0.6	0.6	0.1	-
Ordinary balance ratio	86.2	92.7	-	-
Ratio of expenses for public bonds	9.6	9.8	-	-
Current TMG bonds balance	5,510.5	5,710.3	(199.9)	(3.5)

○ Actual balance of revenues and expenses: **nearly balanced**
○ Ordinary balance ratio: **86.2%**
○ Current TMG bonds balance: year-on-year: **decrease of 3.5% or 199.9 billion yen**

<Annual Revenues> (in billion yen, %)

Item	FY2013	FY2012	Change in amount	Percentage of change
Metropolitan taxes	4,534.2	4,257.1	277.1	6.5
Two corporate taxes	1,523.0	1,346.4	176.7	13.1
National treasury disbursements	410.1	395.5	14.6	3.7
TMG bonds	237.6	341.3	(103.7)	(30.4)
Other	1,273.3	1,239.2	34.1	2.8
Total revenues	6,455.2	6,233.0	222.2	3.6

○ Metropolitan tax revenues: increased by 6.5% or 277.1 billion yen compared to the previous fiscal year because two corporate taxes increased due to a recovery in corporate profits as the economy recovered more broadly.
○TMG bonds: decreased by 30.4% or 103.7 billion yen compared to the previous fiscal year as a result of their appropriate use in light of the financial condition and future financial burdens.

<Annual Expenses> (in billion yen, %)

Item	FY2013	FY2012	Change in amount	Percentage of change
General expenses	4,442.3	4,377.6	64.7	1.5
Personnel expenses	1,445.4	1,468.2	(22.8)	(1.6)
Investment expenses	758.9	738.6	20.2	2.7
Others	2,238.0	2,170.8	67.3	3.1
Expenses for public bonds	547.5	524.9	22.6	4.3
Tax-related expenses, etc.	1,212.5	1,139.3	73.2	6.4
Total expenses	6,202.2	6,041.8	160.5	2.7

○ General expenses: increase by 1.5% or 64.7 billion yen compared to the previous fiscal year mainly due to increases in investment expenses, and reserves such as grants related to social securities, despite decreases in personnel expenses.

○ Tax-related expenses: increased by 6.4% or 73.2 billion yen from the last fiscal year largely due to increases in fiscal adjustment grants for special wards and reserves for the fiscal adjustment funds.

<Ratios set forth by the Fiscal Consolidation Law> (Unit: %)

Real deficit ratio	Consolidated real deficit ratio	Real debt payment ratio	Future burden ratio	Capital shortage ratios
—	—	0.6	73.2	—
(5.74)	(10.74)	(25.0)	(400.0)	(20.0)

*1 Without deficit, the real deficit ratio and the consolidated real deficit ratio is not shown.
*2 Without capital shortage, the capital shortage ratios are not shown for every public enterprise account.
*3 Figures in ( ) are figures set forth by the early consolidation standard, etc.

○ Real debt payment ratio was **0.6%**.
○ Future burden ratio, which represents expected future burdens including those of local public corporations and third-sector public/private enterprises, was **73.2%**.

Analysis Based on New Public Accounting Procedures

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<Balance Sheet> (in billion yen, %)

Item	FY2013	FY2012	Change in amount
Total assets	32,828.2	32,605.0	223.1
Cash and deposits	258.2	192.7	65.4
Infrastructure assets	14,094.8	14,063.9	30.9
Total liabilities	8,107.8	8,481.9	(374.0)
TMG bonds	6,955.2	7,297.6	(342.3)
Total net assets	24,720.3	24,123.0	597.2
Total liabilities and net assets	32,828.2	32,605.0	223.1
Ratio of liabilities to assets	24.7%	26.0%	-

Assets and net assets increased but liabilities decreased.
The ratio of liabilities to assets was 24.7% (26.0% in the previous fiscal year).
○ Assets: 32.8282 trillion yen (+223.1 billion yen)
○ Liabilities: 8.1078 trillion yen (-374.0 billion yen)
○ Net assets: 24.7203 trillion yen (+597.2 billion yen)

○ Assets increased mainly due to an increase in cash and deposits.
○ Liabilities decreased mainly due to a decrease in TMG bonds.

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<Administrative Cost Statement> (in billion yen)

Item	FY2013	FY2012	Change in amount
Ordinary balance			
Ordinary revenues	5,510.3	5,225.3	284.9
Local taxes	4,533.5	4,258.1	275.4
Ordinary expenses	5,037.2	5,079.8	(42.5)
Payroll-related expenses	1,273.4	1,356.7	(83.2)
Tax-related expenses	1,197.6	1,142.2	55.3
Ordinary balance	473.0	145.5	327.5
Special balance	0.2	24.6	(24.4)
Balance for the current period	473.3	170.2	303.0

The administrative cost statement indicates that the balance for the current period stood at 473.3 billion yen (+303.0 billion yen), and revenues continued to exceed expenses.
○ Ordinary revenues increased (+284.9 billion yen) mainly due to an increase in metropolitan tax revenues (+275.4 billion yen).
○ Ordinary expenses decreased (-42.5 billion yen) mainly due to a decrease in payroll-related expenses (-83.2 billion yen).

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<Cash Flow Statement> (in billion yen)

Item	Amount
Balance of administrative service activities	611.9
Balance of social capital improvement activities	(350.8)
Balance of administrative activities cash flow	261.1
Balance of financing activities	(199.4)
Balance brought forward from the previous year	191.2
Proforma balance (brought forward to the next year)	252.9

○ The balance of administrative service activities cash flow stood at 261.1 billion yen in net revenues.
○ The balance of financing activities was 199.4 billion yen in net expenses because the redemption expenses of TMG bonds exceeded the revenues raised through their issuance.
○ The proforma balance, found by the balance of administrative activities cash flow, the balance of financing activities, and the balance brought forward from the previous year exceeded expenses by 252.9 billion yen.

TMG Comprehensive Financial Statements

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<Balance Sheet> (in billion yen)

Item	FY2013	FY2012	Change in amount
Total assets	47,524.3	47,308.7	215.6
I Current assets	3,120.3	2,925.1	195.2
II Fixed assets	44,398.0	44,377.3	20.7
III Deferred assets	5.9	6.2	(0.3)
Total liabilities	14,153.0	14,678.0	(525.0)
I Current liabilities	1,943.6	1,798.3	145.2
II Fixed liabilities	12,209.3	12,879.6	(670.3)
Total net assets	33,371.3	32,630.6	740.6
Total liabilities and net assets	47,524.3	47,308.7	215.6

○ The net asset ratio, which shows net assets as a percentage of total assets, increased.
FY2012: 69.0% → FY2013: 70.2% (+1.2 points)
○ Nine of eleven public enterprise accounts were in surplus in the current balance and net profit/loss for the current period.
○ 10 joint-stock companies among administrative bodies were in surplus in the current balance and net profit/loss for the current period.
○ It is important to gain an accurate picture of financial conditions of the entire TMG and maintain a manageable financial burden for TMG into the future.

- Analysis of TMG's Finances -

Considerations for future financial management through a reality check of TMG finances which supports preparations for 2020 Tokyo Olympic and Paralympic Games and initiatives toward making "the World's Best City, Tokyo".

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Unstable TMG's Fiscal Structure

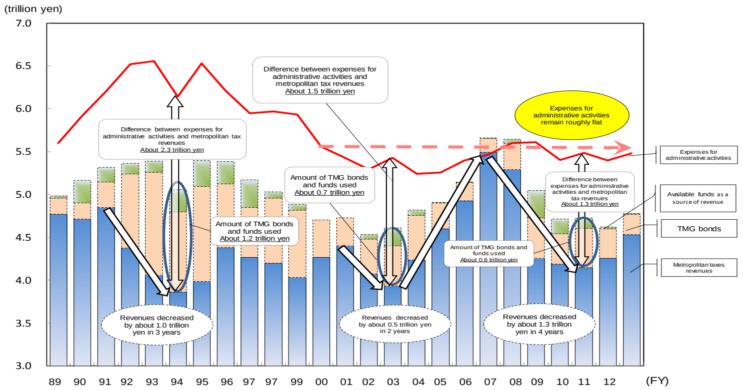
○ Local taxes account for a large portion of metropolitan tax revenue. Out of them, **two corporate taxes , considerably susceptible to economic fluctuations, take up a large portion in the revenue**.

○ Therefore, metropolitan tax revenues have fluctuated widely along with economic fluctuations.
(FY1991–FY1994) Revenues decreased by about 1 trillion yen
(FY2001–FY2003) Revenues decreased by about 0.5 trillion yen
(FY2007–FY2011) Revenues decreased by about 1.3 trillion yen

○ Furthermore, TMG, the only prefecture that has never received local allocation taxes in Japan, is **required to implement its financial management more independently than other municipalities**.

○ In order to promote necessary projects under the unstable fiscal structure, TMG bonds and funds are used as fiscal resources to fill the gap between metropolitan tax revenues and expenses for administrative activities (the amount calculated by subtracting funds reserved and expenses for public bonds from total expenses).
(FY1994: Tax revenues decreased rapidly after the collapse of the economic bubble.)
・Gap: About 2.3 trillion yen → TMG bonds and funds used: About 1.2 trillion yen
(FY2003: Tax revenues decreased significantly again.)
・Gap: About 1.5 trillion yen → TMG bonds and funds used: About 0.7 trillion yen
(FY2011: Tax revenues had decreased for four straight years for the first time in TMG history.)
・Gap: About 1.3 trillion yen → TMG bonds and funds used: About 0.6 trillion yen

○ Since FY2000, expenses for administrative activities have been restricted in efforts toward fiscal reconstruction. Even after the fiscal reconstruction was completed, efforts have been continued to enhance the efficiency and effectiveness of projects. At the same time, **TMG stably provides necessary administrative services by maintaining expenses for administrative activities at a certain level, which is made possible by utilizing TMG bonds and funds, as tax revenues continue to fluctuate**.



Fiscal Demand Inherent in TMG

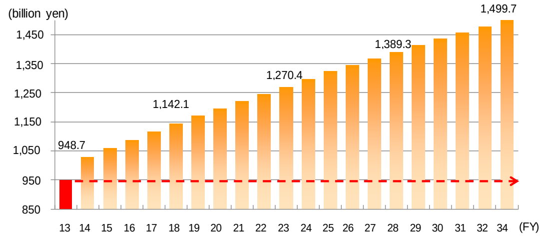
○ Verification of innevitable fiscal demand for TMG used a third party's estimates of future costs.

Increase in Social Securities Costs

○ Society is aging so rapidly that almost one TMG citizen in three will be among elderly people by 2036.

○ According to a third party's estimates of future costs, social securities costs will increase by an average 30 billion yen each year.

○ In consideration of greater fiscal demand in the future, it is important to review and restructure measures as necessary and strategically push forward with focused measures against key issues .



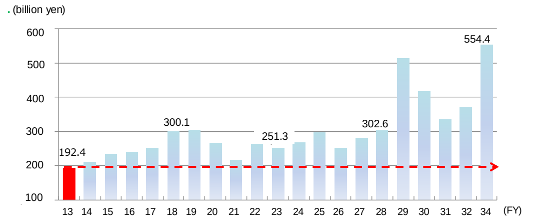
* The estimates of future costs were calculated by EY ShinNihon LLC.
* The estimates were calculated in the following way. The premise is the continuation of business. Figures from fiscal results were employed. Set a coefficient (variation factors such as fluctuations of the population) for each type and content of business related to social securities and multiply it with each cost and reflect matters such as a rise of prices.
* The FY 2013 figure is the amount of fiscal results in the breakdown of expenditures by purpose "Welfare and Public Health."

Increase in Costs for Maintaining and Renewing Social Infrastructure

○ Tangible fixed assets (including social infrastructure) have worn out exponentially in recent years.

○ According to a third party's estimates of future costs, incremental costs for maintaining and renewing social infrastructure will be about 2.3 trillion yen cumulatively for the next 20 years.

○ It is necessary to verify the maintenance needs of all sorts of social infrastructure in consideration of its appropriate service and to attempt to level and reduce its costs in the mid- and long term through measures including the extension of its operational life.



* The estimates of future costs were calculated by EY ShinNihon LLC.
* The estimates were calculated in the following way. Based on public accounting information, assume that social infrastructure is renewed altogether when its legal operational life expires. Multiply the acquired price with factors including construction cost deflators and inflation rates.
* The FY 2013 figure is the amount of fiscal results, extracted from costs of maintaining and renewing social

Fiscal Management with an Eye toward the Future

TMG Bonds—Systematic Use from Medium-and Long-Term Standpoint

○ Since FY 2000, TMG has adjusted issuance of TMG bonds, corresponding with tax revenue, in an effort to reduce the issuance while reviewing the level of investment-oriented expenses through pursuing fiscal reconstruction.

○ As circumstances around the fiscal environment change, it is **essential to continue systematic use of TMG bonds** by examining their need from various standpoints including a change in the demographic structure and demand for maintenance and renewal of social infrastructure.

Funds—Securing a Positive Balance with an Eye toward the Future

○ Since FY 2009, as tax revenue has declined, TMG has effective use of funds that have been set aside as a source of funds.

Simultaneously, TMG minimized the use of funds by efforts such as cutting expenses. As a result, TMG has secured an estimate of about 0.9 trillion yen in the funds that can be used as a general source of revenue as of the end of FY2014.

○ **It is crucial to secure the positive balance of funds** for maintaining the medium- and long-term ability to carry out necessary projects as difficult problems have piled up in implementing fiscal management from now in addition to the fact that TMG finances are susceptible to economic fluctuations.

Sustainment of Sound Fiscal Foundation

○ It is imperative to sustain a sound fiscal foundation that can support preparations for 2020 Tokyo Olympic and Paralympic Games and initiatives for making "the World's Best City, Tokyo" while addressing the unstable tax revenue inherent to TMG finances and inevitable expenditures for the future.

○ The realities that TMG faces do not allow any optimism because TMG's revenue sources can further decrease due to a reduction in corporate tax rate, and a further irrational review on local taxes on corporations, in addition to a tentative measure of corporation enterprise tax and nationalization of part of corporation inhabitant tax.

○ Amid difficulties foreseeing the fiscal environment, **TMG will sustain its stable fiscal ability for the future and execute its mission steadily** by using TMG bonds and funds in a systematic and strategic manner on top of the self-reform, which will be carried out more thoroughly.