Reference Material

Tokyo Metropolitan Government

Annual Financial Report

Fiscal Year 2017

This is a provisional English version of Fiscal Year 2017 Tokyo Metropolitan Government Annual Financial Report.

This material is furnished solely for the purpose of the reader's reference only.

If there is any conflict and/or discrepancy between this material and the Japanese original of the Annual Financial Report, information in the Japanese original prevails.

Contents

1 Fiscal Year 2017 Tokyo Metropolitan Government Settlement of the Ordinary Account and Various Indicators …… 1

(1) Fiscal Year 2017 Summary of Financial Results …… 1

(2) Analysis Based on New Public Accounting Procedures …… 13

2 Fiscal Year 2017 Tokyo Metropolitan Government Financial Report …… 39

(1) TMG Comprehensive Financial Statements …… 39

(2) Management Status by Managing Body …… 40

(Appended Tables)

1 Fiscal Year 2017 Tokyo Metropolitan Government Ordinary Account Financial Statement …… 44

(1) Ordinary Account Balance Sheet …… 44

(2) Ordinary Account Administrative Cost Statement …… 46

(3) Ordinary Account Cash Flow Statement …… 47

(4) Ordinary Account Statement of Changes in Net Assets …… 48

(5) Ordinary Account Aggregate Tangible Fixed Assets and Intangible Fixed Assets/Supplementary Details …… 48

(6) Accounting Policy and Notes Regarding Preparation of the Tokyo Metropolitan Government Ordinary Account Financial Statement …… 49

2 Fiscal Year 2017 Tokyo Metropolitan Government Comprehensive Financial Statement …… 57

(1) Tokyo Metropolitan Government Comprehensive Financial Statement …… 57

(2) Accounting Policy and Notes Regarding Preparation of the Tokyo Metropolitan Government Comprehensive Financial Statement …… 69

(Reference Tables)

Tokyo Metropoitan Government Financial chronological tables (ordinary account) …… 76

1. Fiscal Year 2017 Tokyo Metropolitan Government Settlement of the Ordinary Account and Various Indicators

The following is a settlement report of the fiscal year 2017 Tokyo Metropolitan Government (TMG) ordinary account.

The ordinary account is a statistical and conceptual account used for determining the financial position of each local government as well as for analyzing overall local fiscal conditions. This account is reconfigured to conform to the accounting procedures of local governments according to standards established by the Ministry of Internal Affairs and Communications.

The ordinary account consists of a general account and some special accounts. The settlement presents a net calculation that has been adjusted to eliminate overlap between accounts.

(1) Fiscal Year 2017 Summary of Financial Results

[1] Revenues and Expenses

○ **Total annual revenues amounted to 7,304.4 billion yen and total annual expenses were 6,827.5 billion yen, with a proforma balance of 476.9 billion yen. The actual balance, calculated by subtracting fiscal revenues to be carried forward from the proforma balance, was a surplus of 125.3 billion yen.**

○ **This is due to the promotion of persistent reforms such as further thorough efforts to eliminate any wasteful aspects with an eye to the future, etc.**

○ **Furthermore, the ordinary balance ratio stood at 82.2%.**

○ In order to resolve the issues facing Tokyo and ensure the fulfilment of the missions bestowed upon TMG finances, the assertive deployment of strategic policies for the realization of 3-cities, through cross-bureau cooperation and the utilization of new concepts that the administration does not possess, and the sustainment of a sound fiscal foundation, through the persistent advancement of autonomous TMG finance reforms and the further thorough elimination of any wasteful aspects from the perspective of Wise-Spending, will be necessary.

<Fiscal Year 2017 Settlement Results> (in billion yen, %)

Item		FY2017	FY2016	Change in amount	Percentage of change
Total annual revenues	(A)	7,304.4	7,122.5	181.9	2.6
Total annual expenses	(B)	6,827.5	6,743.9	83.6	1.2
Proforma balance	(C=A-B)	476.9	378.6	98.3	-
Fiscal revenues to be carried forward	(D)	351.6	249.4	102.2	-
Actual balance	(C-D)	125.3	129.2	(3.9)	-
Ordinary balance ratio		82.2	79.6	-	-

Note: Fiscal revenues to be carried forward refers to financial resources that should be carried forward to the next fiscal year together with approved carry forward, carry-forward due to unforeseeable reasons, business balance carried forward, etc. and includes the balance of unsettled local consumption tax carried forward to the following fiscal year.

[2] Main features

<Annual Revenues> (in billion yen, %)

Item		FY2017		FY2016		Change in amount	Percentage of change
		Amount	% of total	Amount	% of total		
Metropolitan taxes		5,289.2	72.4	5,318.0	74.7	(28.7)	(0.5)
	Two corporate taxes	1,850.9	25.3	1,892.6	26.6	(41.8)	(2.2)
Local transfer taxes		245.1	3.4	235.5	3.3	9.6	4.1
National treasury disbursements		389.7	5.3	349.1	4.9	40.6	11.6
TMG bonds		136.8	1.9	152.6	2.1	(15.8)	(10.4)
Others		1,243.5	17.0	1,067.3	15.0	176.2	16.5
Total revenues		7,304.4	100.0	7,122.5	100.0	181.9	2.6

Note: The two corporate taxes are the corporate enterprise tax and corporate inhabitant tax.

○ While corporate earnings from construction/wholesale/retail, etc. remained strong, total metropolitan tax revenues decreased by 0.5% or 28.7 billion yen compared to the previous fiscal year, mainly due to decreases in the two corporate taxes resulting from the effects of a slump in corporate earnings in financial/securities, etc.

○ Local transfer taxes increased by 4.1% or 9.6 billion yen compared to the previous fiscal year, mainly due to an increase in special local corporate transfer taxes.

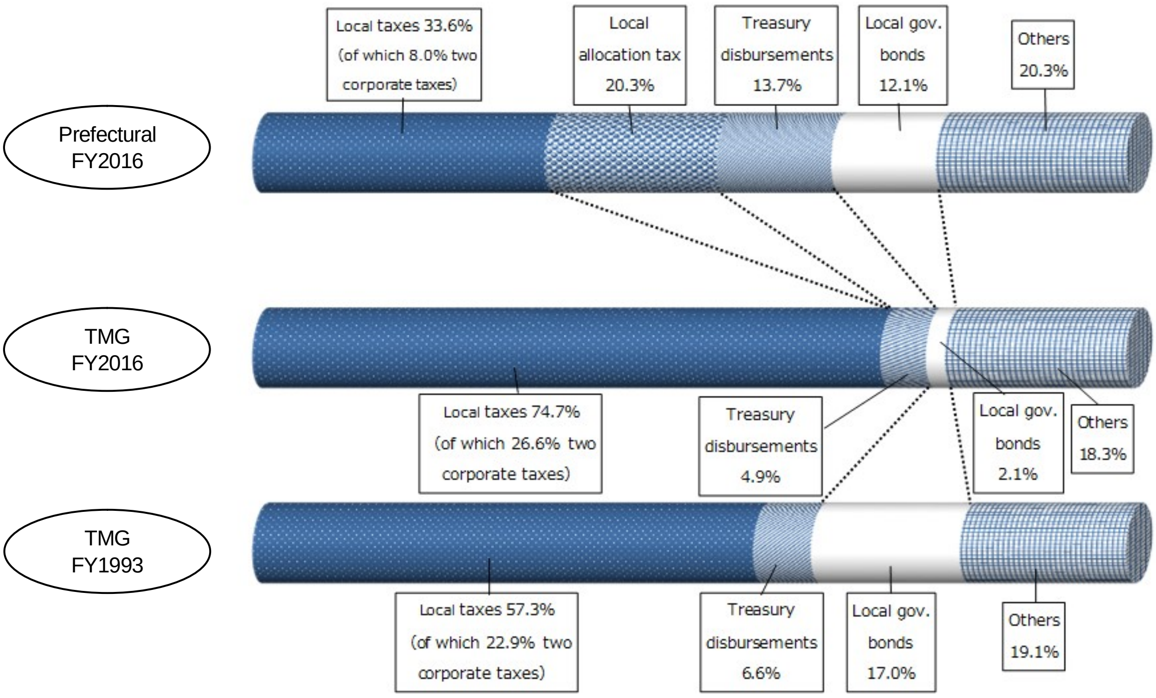
○ While disbursements for ordinary construction works decreased, national treasury disbursements increased by 11.6% or 40.6 billion yen compared to the previous fiscal year, mainly due to the newly established grants for the Tokyo Paralympic Games event hosting preparations and increases in national health insurance fiscal stabilization fund subsidies, etc.

○ TMG bonds decreased by 10.4% or 15.8 billion yen compared to the previous fiscal year as a result of their appropriate utilization in light of the financial condition and future financial burdens.

○ Others increased by 16.5% or 176.2 billion yen compared to the previous fiscal year, mainly due to a 56.8 billion yen increase in fund transfers and a 127.1 billion yen increase in amount carried forward.

(Reference) Features of TMG Revenue Structures

≪Revenue Structures of TMG and Other Prefectures≫



○ About 70% of TMG's annual revenues are derived from local taxes (metropolitan taxes), and as a large part of this is comprised of revenue from the two corporate taxes, which are susceptible to economic fluctuation, TMG's finances have an inherently unstable structure.
In addition, TMG is the only municipality that does not receive local allocation tax grants and consequently needs to perform financial management more self-reliantly than other municipalities.

○ Meanwhile, in comparison to FY1993, in which expenses peaked, the percentage of revenue accounted for by local government bonds (TMG bonds) in FY2016 was lower.

○ Following the collapse of the bubble economy, TMG utilized funds and issued the largest number of TMG bonds ever issued in order to supplement the fall in tax revenues. The result was that the TMG fell into an unprecedented financial crisis with a rapid increase in the balance of TMG bonds and a record actual balance deficit in FY1998, etc.

○ Later, as a part of efforts towards fiscal reconstruction, the TMG endeavored to reduce investment expenses and control TMG bond issuance.

○ The ratio of local government bonds to the overall TMG revenue for FY2016 was much lower, even in comparison to other prefectures, and the TMG is currently operating healthy financial management with low dependence on local government bonds.

<Annual Expenses> (in billion yen, %)

Item		FY2017		FY2016		Change in amount	Percentage of change
		Amount	% of total	Amount	% of total		
General expenses		4,661.4	68.3	4,592.0	68.1	69.4	1.5
	Personnel expenses	1,496.6	21.9	1,494.8	22.2	1.8	0.1
	Investment expenses	816.4	12.0	874.6	13.0	(58.2)	(6.7)
	Subsidizing expenses	1,434.7	21.0	1,355.4	20.1	79.3	5.9
	Others	913.6	13.4	867.1	12.9	46.5	5.4
Expenses for public bonds		557.1	8.2	476.0	7.1	81.1	17.0
Tax-related expenses etc.		1,609.0	23.6	1,675.9	24.9	(66.8)	(4.0)
Total expenses		6,827.5	100.0	6,743.9	100.0	83.6	1.2

Note: General expenses refers to expenses excluding public bonds, tax-related expenses for the allocation of a certain percentage of taxes such as local consumption tax grants to wards, towns, etc., and the reserves (principal) of funds aimed at the realization of 3-cities.

○ In general expenses, while retirement allowances were reduced as a result of fewer retirees, personnel expenses increased by 0.1% or 1.8 billion yen compared to the previous fiscal year, mainly due to increased salaries resulting from a revision of salaries to increase, and increased burden on cooperatives.

○ In general expenses, while competition facilities related development expenses for the Tokyo 2020 Olympic and Paralympic Games (hereinafter the “Tokyo 2020 Games”) increased, investment expenses decreased by 6.7% or 58.2 billion yen compared to the previous fiscal year, mainly due to decreased development expenses following progress in the Musashino Forest Sport Plaza project.

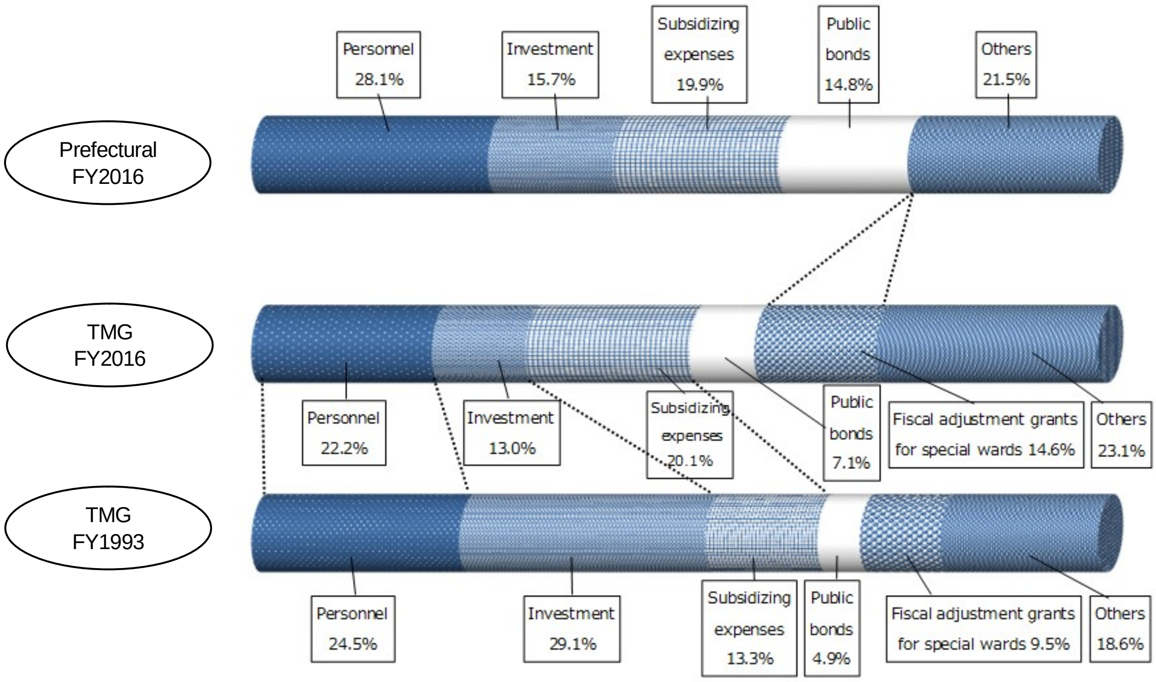
○ In general expenses, subsidizing expenses increased by 5.9% or 79.3 billion yen compared to the previous fiscal year, mainly due to expansion of career progression supplements for nursery teachers, etc. and municipal support projects to resolve the issue of children on waiting lists for nursery school admissions, etc.

○ While redemption expenses for interest decreased, expenses for public bonds increased by 17.0% or 81.1 billion yen compared to the previous fiscal year, mainly due to an increase in redemption expenses for principal.

○ While deposits to preparation funds for the Tokyo 2020 Games increased by 153.1 billion yen, tax-related expenses decreased by 4.0% or 66.8 billion yen compared to the previous fiscal year, mainly due to a decrease of 203.5 billion yen in deposits to the advanced welfare city realization fund.

(Reference) Features of TMG Expenses Structures

≪TMG and Prefectural Expenses Structures≫



Note: Tax-related expenses other than those related to fiscal adjustment grants for special wards are included under Others.

○ A feature of the TMG that does not exist in other prefectures is that the “Fiscal Adjustment Grants for Special Wards”, which undertakes allocation of financial resources between TMG and Tokyo wards and financial resource adjustments between special wards, is recorded under the special ward system.

○ In addition, when compared to FY1993, FY2016 shows a reduction in the ratio of personnel expenses and investment expenses to total expenses.

○ The TMG’s stance of maintaining expenses levels for large-scale facilities construction and responses to national government economic measures, etc. even as tax revenues diminished following the collapse of the bubble economy, resulted in a financial crisis. The TMG subsequently steered towards financial reconstruction ahead of the government and other prefectures, reducing personnel numbers and pressing forward with prioritization of project activities, and after achieving financial reconstruction, continued in their efforts to revise measures through their project review activities. With efforts such as these, by FY2016, personnel expenses and investment expenses were down by about 10% and 60% respectively in comparison to FY1993.

○ Meanwhile, due to increase in expenses related to social security, the ratio of subsidizing expenses, etc. to total expenses has increased.

○ In this way, the TMG is undertaking thorough internal efforts and promoting the metabolism of measures by aiming to review and redesign them through project review activities, etc. and is providing necessary administrative services in accordance with the needs of Tokyo citizens.

<Breakdown of Expenditures by Purpose> (in billion yen, %)

Item	FY2017		FY2016		Change in amount	Percentage of change
	Amount	% of total	Amount	% of total		
Gen. Service Admin.	586.7	8.6	344.6	5.1	242.0	70.2
Welfare	967.4	14.2	1,113.7	16.5	(146.3)	(13.1)
Hygiene	219.5	3.2	219.4	3.3	0.1	0.0
Commerce/manufacturing	340.1	5.0	373.4	5.5	(33.3)	(8.9)
Civil engineering	845.6	12.4	909.4	13.5	(63.8)	(7.0)
Police	621.0	9.1	623.2	9.2	(2.2)	(0.4)
Fire defense	229.9	3.4	225.5	3.3	4.4	2.0
Education	1,014.6	14.9	1,028.0	15.2	(13.4)	(1.3)
Public bonds	557.1	8.2	476.0	7.1	81.1	17.0
Others	1,445.6	21.2	1,430.6	21.2	15.0	1.0
Total expenses	6,827.5	100.0	6,743.9	100.0	83.6	1.2

Note: Expenditure by purpose refers to expenses that have been itemized according to administrative purposes.

○ General Service Administration increased by 70.2% or 242.0 billion yen compared to the previous fiscal year, mainly due to deposits to preparation funds for the Tokyo 2020 Games and deposits to fiscal adjustment funds.

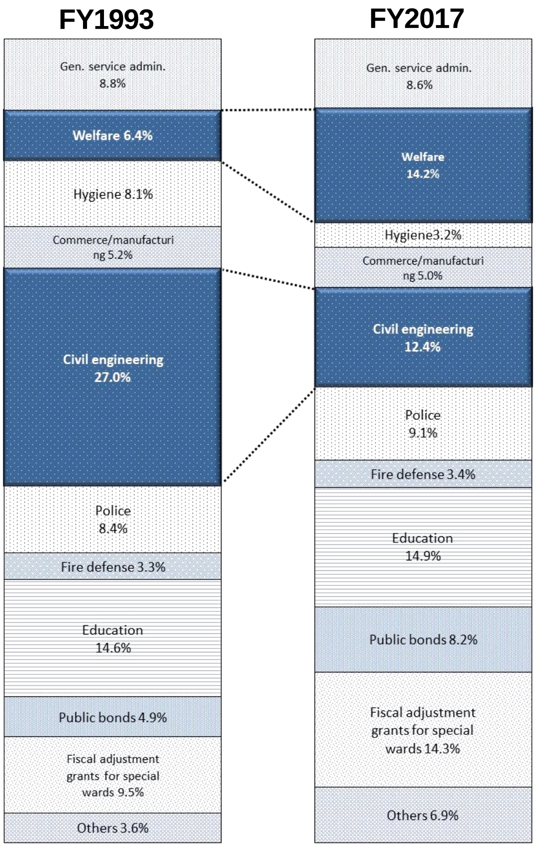
○ While career progression supplements for nursery teachers, etc. and municipal support projects to resolve the issue of children on waiting lists for nursery school admissions, etc. increased, welfare expenses decreased by 13.1% or 146.3 billion yen compared to the previous fiscal year, mainly due to decreases in deposits to the advanced welfare city realization fund.

○ While redemption expenses for interest decreased, expenses for public bonds increased by 17.0% or 81.1 billion yen compared to the previous fiscal year, mainly due to an increase in redemption expenses for principal.

○ Other expenses increased by 1.0% or 15.0 billion yen compared to the previous fiscal year, mainly due to a 12.6 billion yen increase in transfer of tax on capital gains.

(Reference) Features of TMG Expenses Structures by Purpose, etc.

≪TMG Expenses Structure by Purpose ≫



≪Expenses per Tokyo Citizen≫

Item	Purpose	FY2017	(Reference) FY1993
General service administration	Planning/admin and revitalization of municipalities, etc.	¥43,020	¥53,455
Welfare	Measures for children on waiting lists, the elderly, etc.	¥70,936	¥38,599
Hygiene	Realization of comfortable city environments, etc.	¥16,097	¥49,353
Commerce/ manufacturing	Support for small/medium enterprises, revitalization of the tourism industry, etc.	¥24,938	¥31,673
Civil engineering	Development of roads, rivers, harbors, etc. and town development, etc.	¥62,006	¥164,221
Police	Police activities, etc.	¥45,539	¥51,076
Fire defense	Fire defense activities, etc.	¥16,857	¥20,250
Education	School education and preparations for the Tokyo 2020 Games, etc.	¥74,399	¥88,547
Public bonds	Redemption of TMG bonds and interest payments, etc.	¥40,850	¥30,041
Fiscal Adjustment Grants for Special Wards	Financial adjustments between the TMG and special wards, etc.	¥71,590	¥57,906
Others	Tax related grants to municipalities, etc.	¥34,413	¥21,997
Total		¥500,645	¥607,118

*Total Tokyo population for FY2017 is as of January 1, 2018, as given in the "Population Register".

*Total Tokyo population for FY1993 is as of March 31, 1994, as given in the "Population Register".

○ Comparisons between FY1993 and FY2017 shows an increase in the ratio of welfare expenses to total expenses and a decrease in civil engineering expenses.

○ The increase in welfare expenses is mainly due to increased costs related to measures implemented for children and the elderly from the background of an aging society and falling birth rate.

○ Meanwhile, with reductions in investment expenses due to prioritization of projects in accordance with urgency and necessity, the ratio of civil engineering expenses to total expenses has decreased significantly.

○ In addition, expenses of 6,827.5 billion yen in the FY2017 fiscal results were translated into expenses per Tokyo citizen. Expenditure amounts for welfare expenses and education expenses have increased in comparison to other categories.

○ In this way, efforts are made to establish an accurate understanding of the needs of Tokyo citizens, which change with the times, in order to conduct appropriate allocation of financial resources, such as the limited metropolitan tax revenues, etc. to the necessary measures.

[3] Fiscal Indices

(i) Ordinary balance ratio

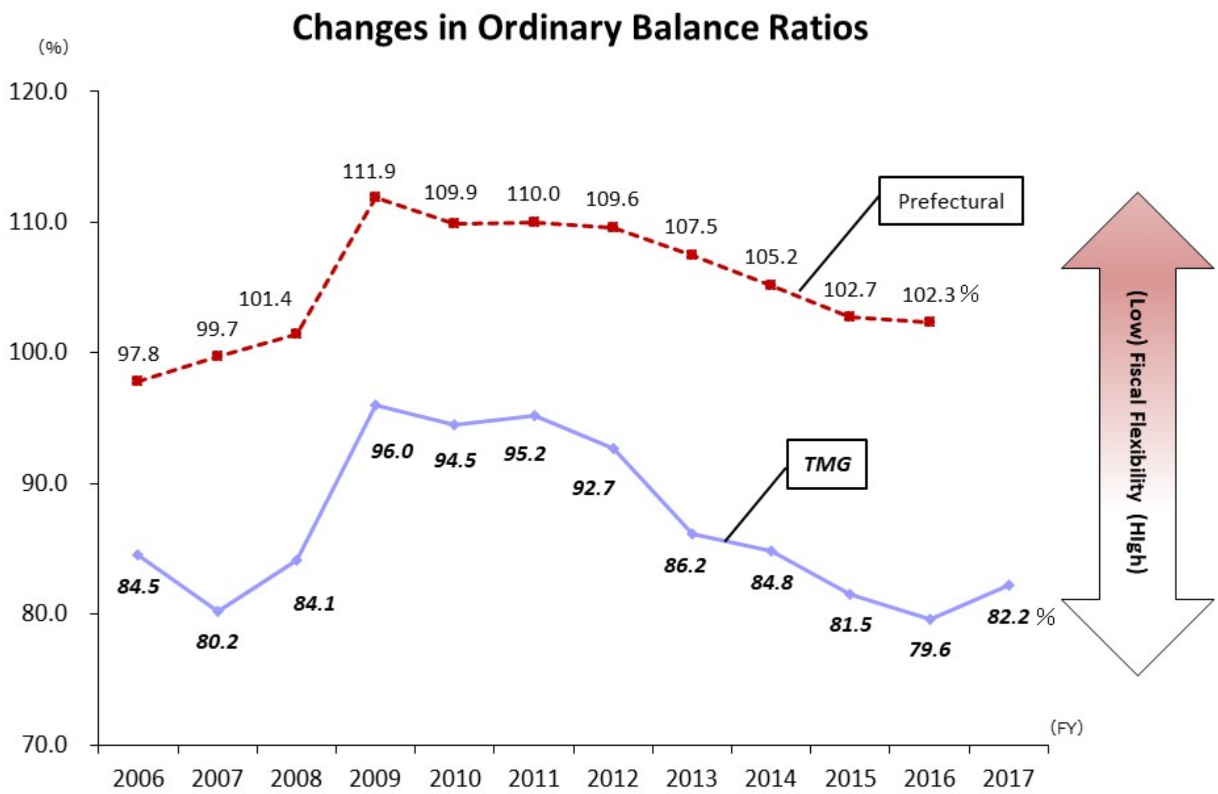
○ **The ordinary balance ratio is an indicator that measures fiscal flexibility by indicating the level of allocation of local taxes, etc. to expenses that are difficult to reduce by any simple means, such as personnel expenses, social assistance expenses, expenses for public bonds, etc. The lower this ratio, the greater the flexibility.**

○ **The FY2017 ordinary balance ratio was 82.2%, an improvement of 2.6 percentage points from 79.6% in the previous fiscal year.**

○ **This is mainly due to an increase in redemption expenses for principal under expenses for public bonds, and a decrease in metropolitan tax revenues.**

○ **In recent years, the average prefectural figures have exceeded 100%, and the status of Tokyo's fiscal flexibility is high.**

Note: Ordinary balance ratio (%) = General revenues sources allocated to ordinary expenses, etc. ÷ Ordinary general revenue sources, etc. x 100

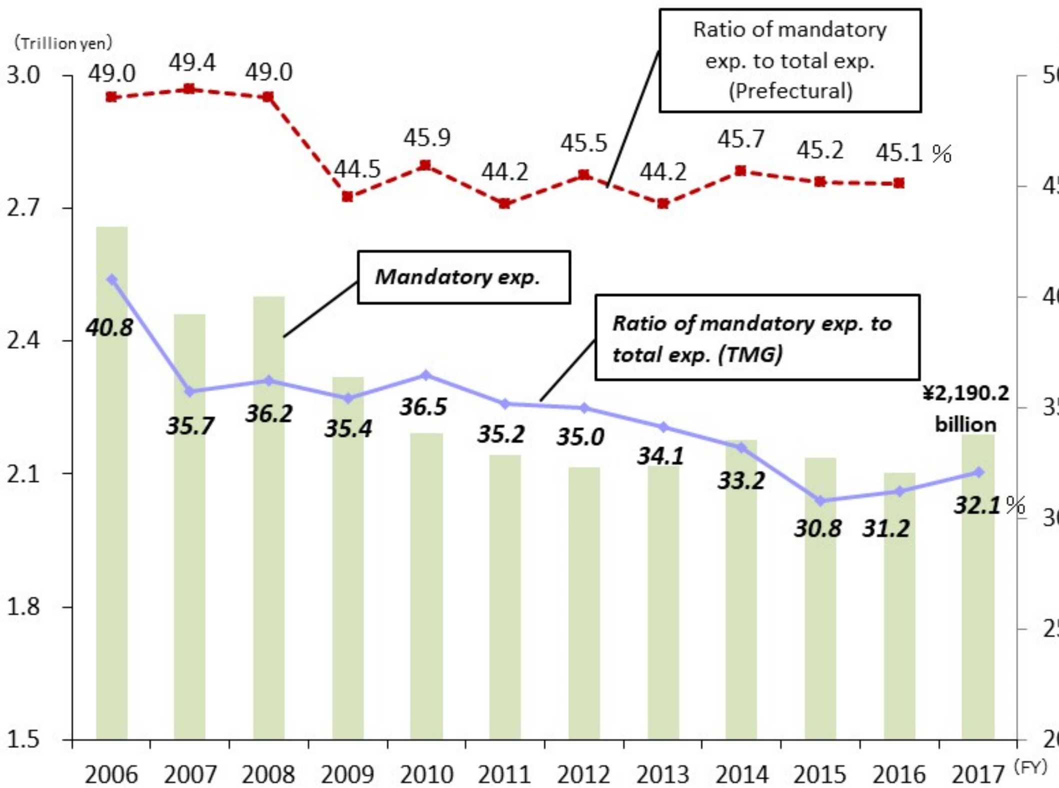


Note: Prefectural ratios are weighted averages. For FY2006, calculations were made with tax reduction supplementary bonds and extraordinary financial countermeasures bonds excluded from ordinary general revenues sources, etc. while for FY2007 to FY2016, calculations were made with extraordinary tax revenue supplementary bonds and extraordinary financial countermeasures bonds excluded from ordinary general revenues sources, etc.

(ii) Mandatory expenses

- ○ **Mandatory expenses refers to the expenses of local governments for which expenditure is mandatory, namely personnel expenses, social assistance expenses and expenses for public bonds, and the lower the ratio of these mandatory expenses to total expenses, the higher the financial flexibility.**
- ○ **Mandatory expenses for FY2017 came to 2,190.2 billion yen, an increase of 4.1% or 86.5 billion yen compared to the previous year.**
- ○ **This is mainly due to an increase in redemption expenses for principal under expenses for public bonds, and apart from expenses for public bonds, mandatory expenses are about the same as the previous year.**
- ○ **While the ratio of mandatory expenses to total expenses has shown a generally decreasing trend in recent years, this is mainly due to thorough internal efforts such as reduction in numbers of personnel and the appropriate utilization of TMG bonds, such as controlled issuance with future burdens taken into consideration.**
- ○ **Prefectural ratios have remained at around 45% in recent years, and the status of Tokyo's fiscal flexibility is high.**

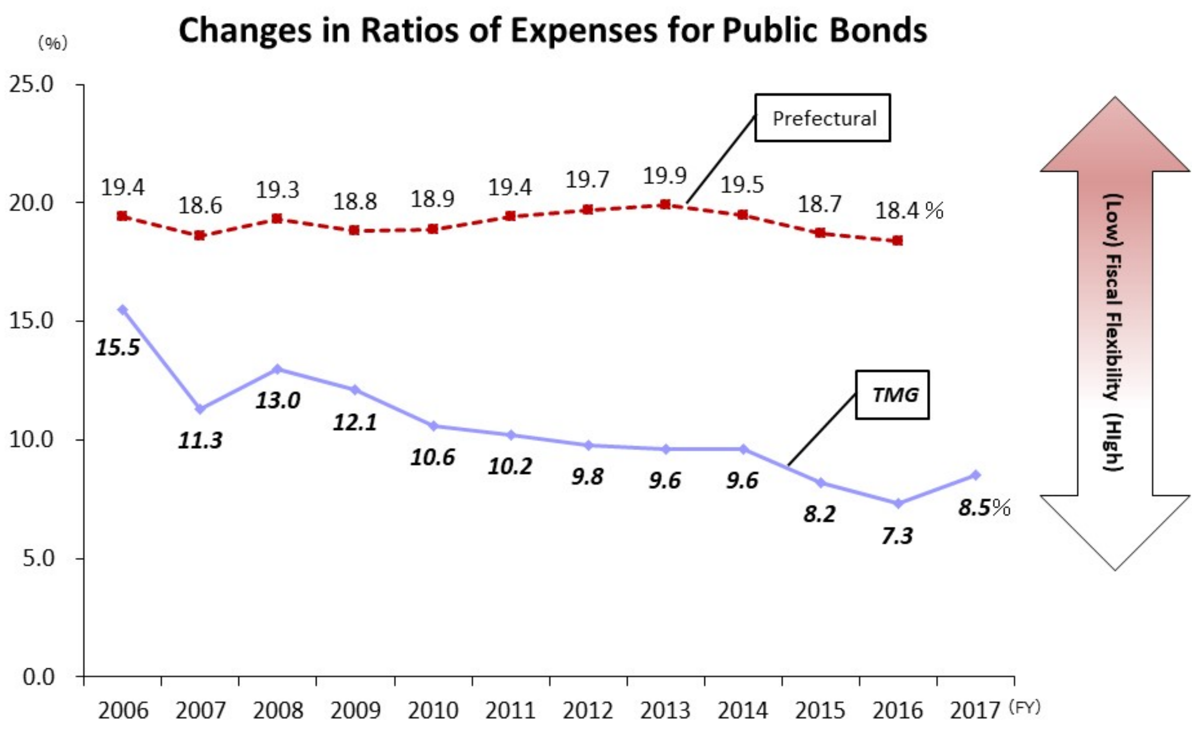
Changes in Mandatory Expenses and Ratio to Total Expenses



(iii) Ratio of expenses for public bonds

- **The ratio of expenses for public bonds is an indicator of the level of allocation of general revenue sources to the redemption of local government bonds, and the lower this ratio, the greater the fiscal flexibility.**
- **The FY2017 ratio of expenses for public bonds was 8.5%, an improvement of 1.2 percentage points from 7.3% in the previous fiscal year.**
- **This was mainly due to an increase in redemption expenses for principal for public bonds, and a decrease in metropolitan tax revenues.**
- **In recent years, the average prefectural figures have remained at around 19%, and the status of Tokyo's fiscal flexibility is high.**

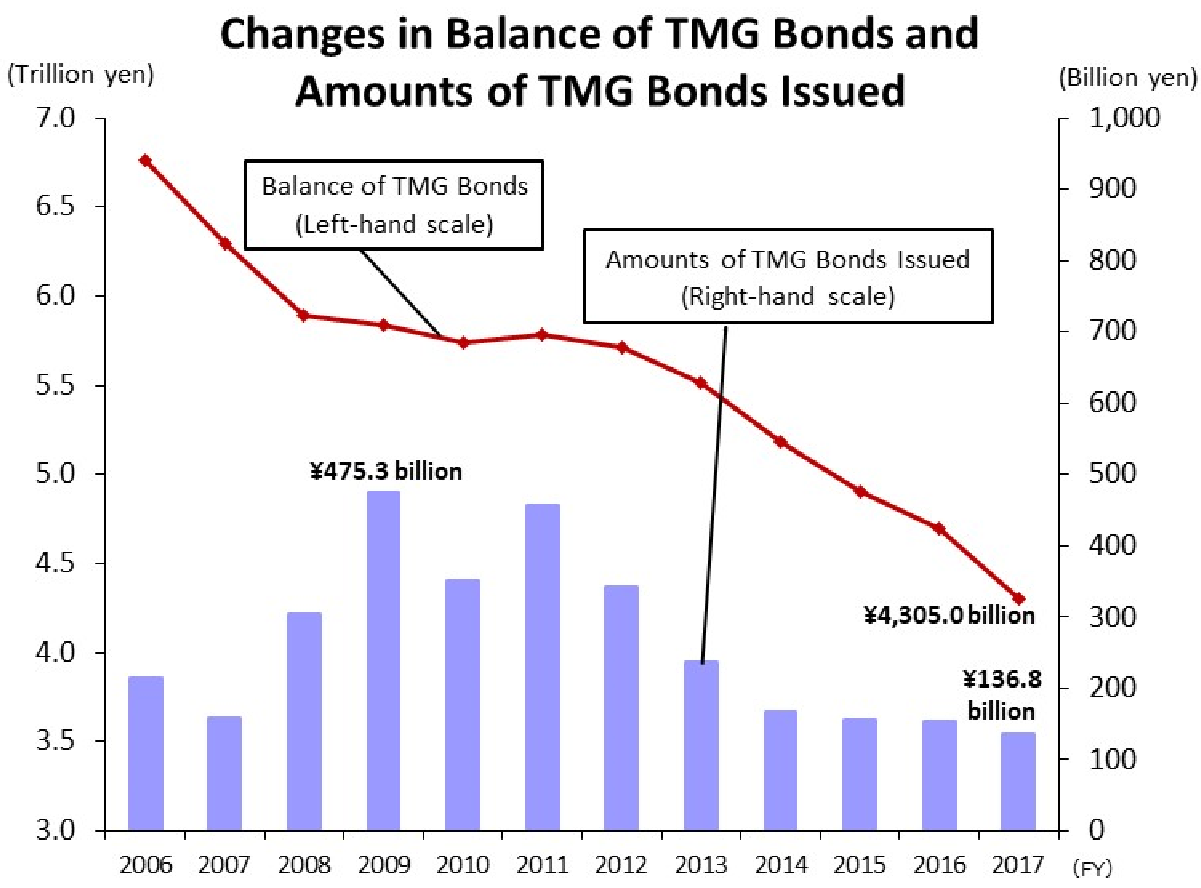
Note: Ratio of expenses for public bonds (%) = General revenues sources allocated to expenses for public bonds, etc. ÷ Total general revenue sources, etc. x 100



Note: Prefectural ratios are weighted averages, excluding partial-affairs-associations, etc.

(iv) Current TMG bonds balance

- **The balance of TMG bonds (ordinary account bonds) as of the end of fiscal 2017 was 4,305.0 billion yen, which represents a decrease of 7.5% or 349.7 billion yen from the previous fiscal year.**
- **The amount of TMG bonds issued increased temporarily due to the response to reduced metropolitan tax revenues caused by the Lehman Shock and the response to the Great East Japan Earthquake, but has since decreased and the balance of TMG bonds also continues to decrease.**
- **The appropriate utilization of TMG bonds will be continued in light of the financial condition and future financial burdens.**



Note: Current TMG bonds balance in the ordinary account settlement excludes sinking fund reserves for allocation to principal redemption of bullet local bonds, and therefore does not coincide with the amount stated for TMG bonds in the balance sheet.

[4] Ratios set forth by the Law on the Fiscal Consolidation of Local Governments

From a background of serious fiscal deterioration in some local governments, the Law on the Fiscal Consolidation of Local Governments was enacted as a mechanism to facilitate prompt responses for cases where fiscal consolidation or reconstruction of financial status is deemed necessary.

The ratios to judge fiscal consolidation and capital shortage ratios based on this law, focus on stock as well as on flow, and serve as indicators that clarify the overall finances of local governments by including expenses in the general accounts in relation to public entities accounts and third-sector public/private enterprises as well as general accounts, etc. (almost the same scope as ordinary accounts).

This law requires local governments to calculate the ratios, receive inspection of the results by the audit committee, report the results to the assembly, and announce the results to residents on an annual basis.

Ratios for TMG, calculated from the FY2017 financial results, are as shown below.

Ratios for judging fiscal consolidation

General term referring to the four indices for judging the need for early consolidation and rebuilding of financial affairs.
Each index is calculated as a ratio against the standard financial scale.

Real deficit ratio

(Ratio of real deficit amount [general accounts, etc.])
Early consolidation standard 5.47% Fiscal reconstruction standard 8.43%

—

(There is no real deficit)

Consolidated real deficit ratio

(Ratio of real deficit amount [all accounts based])
Early consolidation standard 10.47% Fiscal reconstruction standard 18.43%

—

(There is no consolidated real deficit)

Real debt payment ratio

(Ratio of general revenues sources used for redemption of local government bonds [3-year average])
Early consolidation standard 25% Fiscal reconstruction standard 35%

FY2016	FY2017
1.5%	1.6%

Future burden ratio

(Ratio of future burden expected in general accounts, etc.)
Early consolidation standard 400% Fiscal reconstruction standard -

FY2016	FY2017
19.8%	12.5%

Capital shortage ratio

Index showing degree of deterioration of management status in public enterprises.
Calculated as the ratio of capital shortage against business scale of public enterprise accounts.
Early consolidation standard 20%

For all accounts —

(The is no capital shortage)

*There are a total of twelve TMG account types to which capital shortage ratios apply; Hospitals, Central Wholesale Markets, Urban Redevelopment Projects, Waterfront Areas Development Projects, Port and Harbor Projects, Transportation, Urban Rapid Transit Railways, Electric Power, Waterworks, Industrial Waterworks, Sewerage and Slaughterhouses.

Notes: 1. Standard financial scale indicates the scale of operational general revenue sources for local governments under standard conditions.
2. Judgment criteria, such as the early consolidation standard, have been defined for each index, and if any of these exceed the standard, efforts to achieve fiscal consolidation, through the formulation of fiscal consolidation plans, etc. must be undertaken.