

## (2) Analysis Based on New Public Accounting Procedures

### [1] Summary of Financial Statements

- **TMG's financial statements consist of four tables: the "Balance Sheet", the "Administrative Cost Statement", the "Cash Flow Statement" and the "Statement of Changes in Net Assets". TMG provides "Administrative Cost Statement" in place of the "Profit and Loss Statement" and also provides "Statement of Changes in Net Assets" in place of "Statement of Change in Shareholders' Equity." This is because TMG is not a profit-making organization.**

**TMG's finances in fiscal year 2017, as shown in the financial statements, are summarized below.**

- **About TMG's assets and liabilities in the balance sheet, assets as of the end of fiscal year 2017 increased from the previous fiscal year to 34,622.4 billion yen (an increase of 581.0 billion yen from the end of the previous fiscal year), while liabilities were 6,934.2 billion yen (a decrease of 185.7 billion yen from the end of the previous fiscal year). In assets, the balance of fund reserves was 4,561.6 billion yen (an increase of 320.0 billion yen from the end of the previous fiscal year), and in liabilities, the balance of TMG bonds was 5,849.2 billion yen (a decrease of 210.1 billion yen from the end of the previous fiscal year). The ratio of liabilities to assets is 20.0% (a 0.9 percentage point decline from the previous fiscal year).**
- **The administrative cost statement indicates that the balance for the current period stood at 687.6 billion yen (a decrease of 54.4 billion yen compared to the previous year), and revenues continued to exceed expenses.**
- **In the cash flow statement, the balance for administrative service activities cash flow shows revenues exceeding expenses by 841.6 billion yen, expenses exceeding revenues by 390.7 billion yen in the balance of social capital improvement investment activities, and in the balance for financing activities, expenses exceeded revenues by 352.6 billion yen, but in the pro forma balance, found by adding the balance for administrative service activities cash flow, the balance of social capital improvement investment activities, the balance for financing activities and the balance brought forward from the previous fiscal year to the total balance, revenues exceeded expenses by 476.8 billion yen.**
- **The statement of changes in net assets shows that net assets increased 766.8 billion yen, in tandem with progress in social capital improvements.**
- **Given these factors, it is possible to say that TMG's financial soundness is maintained.**

## [2] Summary of Financial Statements

### < Governmental accounting (single-entry bookkeeping/cash basis)>

#### [Ordinary Account Settlement]

- Recognizes revenues and expenses for the current term on a cash basis, and itemizes expenses by purpose and type.

Allows recognition of administrative activities by each administrative purpose or type

Revenues	
Metropolitan tax	
Treasury disbursements	
Misc. revenues	
TMG bonds	
Others	
Expenses	
<By purpose>	<By type>
Welfare	Personnel
Commerce/ manufacturing	Non-personnel
Civil engineering	Subsidizing expenses
Education	Ordinary construction
Others	Others
Proforma balance (revenues - expenses)	

Revenues and expenses divided into three categories

Match  
(= cash basis)

◆ Cannot recognize stock information of assets, etc. or cost information that includes expenses that do not involve transfers of cash such as depreciation expenses, etc.

### <New Public Accounting

#### [Cash Flow Statement]

- Categorizes cash flow into "administrative service activities", which indicates ordinary administrative services, "social capital improvement investment", which indicates changes in formation of fixed assets and funds, etc. and "financing activities", which indicates procurement of revenues sources through public bond issuance and borrowings and the redemption of public bonds, etc. and clarifies the balance in each

Enables recognition of the causes of changes in cash flow

<b>Administrative service activities</b>
Total revenues
Tax revenues, etc.
Other
Total expenses
Administrative expenses
Other
Balance of admin. service activities
<b>Social capital improvement investment</b>
Total revenues
Funds transferred
Other
Total expenses
Social capital improvement exp.
Other
Balance of social capital improvement investment activities
Balance of administrative activities cash flow
<b>Financing activities</b>
Revenues from financing activities
Expenses for financing activities
Balance of financing activities
Total balance
Balance brought forward from the previous year
Proforma balance

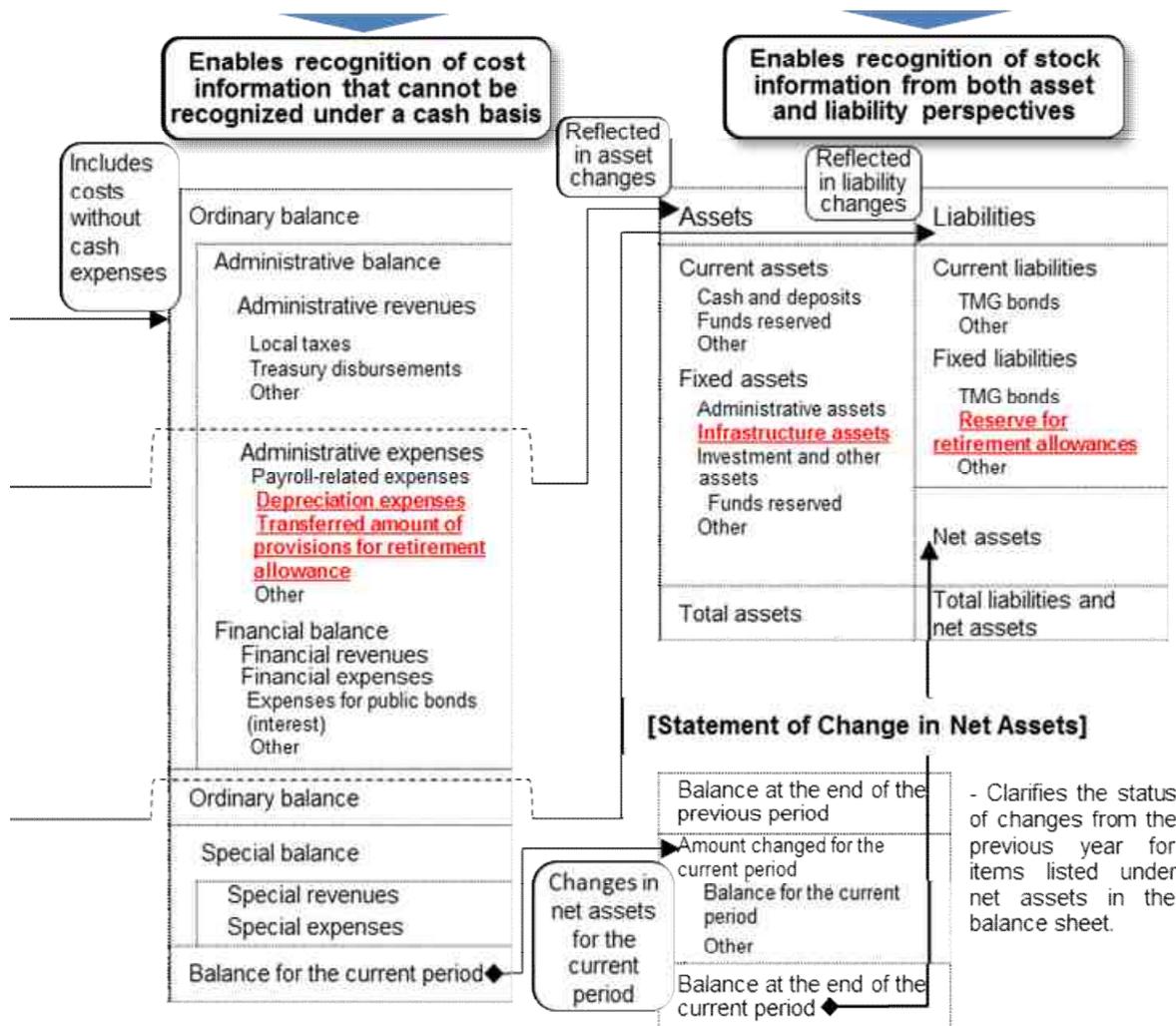
## (Double-entry Bookkeeping/Accrual Basis) >

### [Administrative Cost Statement]

- Recognizes "expenses" over a single accounting period on an accrual basis, and clarifies the corresponding relationship between "expenses and "revenues" and the balance between the two
- Costs without cash expenses such as depreciation expenses and transfer to reserve, etc. are included under expenses.

### [Balance Sheet]

- Categorizes accounts as "Assets", "Liabilities" and "Net assets", and clarifies stock information regarding infrastructure assets such as roads and bridges, etc. and balance of funds, TMG bonds, etc.



◆ By conducting financial analyses from a different perspective to that of government accounting, through recognition of stock information of assets, etc. and cost information on an accrual basis, it is possible to strengthen management and enrich accountability.

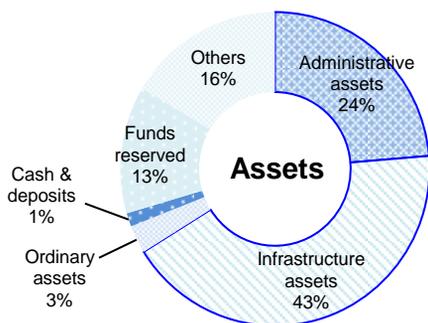
### [3] Balance Sheet

- The balance sheet is to be compiled to give a clear picture of the status of TMG's assets, liabilities, and net assets as of March 31 (however, this includes the variation during the settlement period).
- In the balance sheet, the amount of assets, such as land and buildings, is equal to the total of liabilities, such as TMG bonds and borrowings, and net assets.

#### <Balance sheet points>

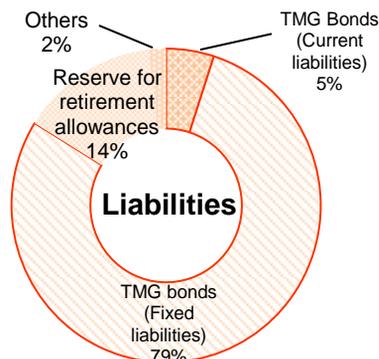
- The assets section shows the extent of assets possessed by the TMG. As shown in Figure 1, administrative assets provided for official use or for use by the public, such as TMG office buildings and TMG schools, etc. and infrastructure assets such as roads, etc. account for about 70% of all TMG assets. In addition, funds reserved, which account for over 10% of assets and serve a significant role as preparations for future financial demands, increased by 320.0 billion yen compared to the previous year as of end FY2017.
- The liabilities section shows the extent of the burden that will be passed down to future generations, such as TMG bonds, arrearage and borrowings, etc. As shown in Figure 2, TMG bonds, which account for over 80% of liabilities, had decreased by 210.1 billion yen compared to the previous year as of end FY2017.

**[Figure 1] Breakdown of Assets**



Administrative assets and infrastructure assets account for about **70%**

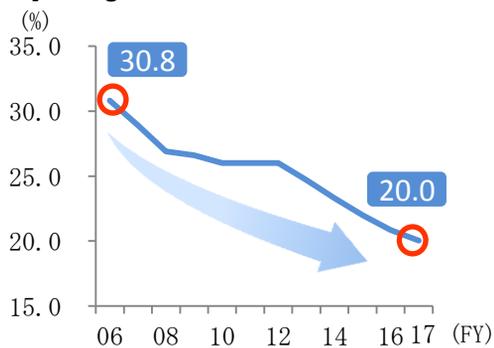
**[Figure 2] Breakdown of Liabilities**



TMG Bonds (current liability + fixed liability) account for about **80%**

- As shown in Figure 3, a comparison of ratios of liabilities to assets between end FY2006, when new public accounting systems were introduced, and FY2017, shows a decrease of 10.8 percentage points. Since end FY2006, the ratio of liabilities to assets has maintained a generally decreasing trend, and this indicates that the formation of assets is progressing without increasing future burden.

**[Figure 3] Changes in Ratio of Liabilities to Assets\***



\*Calculated by multiplying the liabilities section total/assets section total by 100.

- The net assets section shows the difference between the total amount of assets and the total amount of liabilities in the balance sheet. With the promotion of fund reserves in preparation for the future and redemption of TMG bonds in order to lighten the burden for future generations, the difference as of end FY2017 increased by 766.8 billion yen.

## &lt;Balance Sheet&gt;

(in billion yen, %)

Item	FY2017	FY2016	Change in amount	Percentage of change
<b>Assets</b>				
Current assets	1,633.7	1,423.3	210.3	14.8
Cash & deposits	490.3	390.5	99.7	25.5
Uncollected revenues	69.2	78.7	(9.4)	(11.9)
Reserve for deficits due to non-payment	(8.9)	(10.4)	1.4	(13.5)
Funds reserved	942.8	810.8	132.0	16.3
Others	140.2	153.7	(13.4)	(8.7)
Fixed assets	32,988.7	32,618.0	370.7	1.1
Administrative assets	8,188.6	8,171.6	16.9	0.2
Ordinary assets	988.5	1,069.9	(81.4)	(7.6)
Infrastructure assets	14,720.9	14,598.3	122.6	0.8
Funds reserved	3,618.7	3,430.7	188.0	5.5
Others	5,471.8	5,347.3	124.5	2.3
<b>Total assets</b>	<b>34,622.4</b>	<b>34,041.4</b>	<b>581.0</b>	<b>1.7</b>
<b>Liabilities</b>				
Current liabilities	460.7	427.6	33.1	7.7
TMG bonds	352.0	335.0	16.9	5.0
Reserve for bonus	105.2	85.6	19.5	22.8
Other	3.4	6.8	(3.4)	(50.0)
Fixed liabilities	6,473.5	6,692.4	(218.9)	(3.3)
TMG bonds	5,497.1	5,724.2	(227.0)	(4.0)
Reserve for retirement allowances	961.8	951.8	9.9	1.0
Others	14.4	16.2	(1.7)	(10.5)
<b>Total liabilities</b>	<b>6,934.2</b>	<b>7,120.0</b>	<b>(185.7)</b>	<b>(2.6)</b>
<b>Total net assets</b>	<b>27,688.2</b>	<b>26,921.3</b>	<b>766.8</b>	<b>2.8</b>
<b>Total liabilities and net assets</b>	<b>34,622.4</b>	<b>34,041.4</b>	<b>581.0</b>	<b>1.7</b>

## Assets

## &lt;Reserve for deficits due to non-payment&gt;

As some uncollected revenues such as fees, etc. may become deficit due to non-payment in the future, the projected uncollectable amount is recorded under reserve.

## &lt;Funds reserved&gt;

Cash, etc. in preparation for financial resource adjustments between fiscal years and future financial needs is recorded as funds reserved.

\*Fiscal adjustment funds and sinking funds scheduled for reversal in the next fiscal year are treated as current assets, while funds that do not fall under current assets are treated as fixed assets.

## &lt;Infrastructure assets&gt;

Records amounts related to roads and bridges, etc.

## Liabilities

## &lt;TMG bonds&gt;

As TMG bonds must be paid in the future, they are recorded as liabilities.

\*TMG bonds scheduled for redemption in the next fiscal year are treated as current liabilities while TMG bonds scheduled for redemption in the fiscal year after the next fiscal year or later are treated as fixed liabilities.

## Net assets

The net assets section shows the difference between the total amount of assets and the total amount of liabilities in the balance sheet.

Accumulation of net assets was conducted in FY2017.

## [4] Administrative Cost Statement

- The administrative cost statement is compiled to recognize “expenses” arising from administrative services activities provided by TMG during a single accounting period on an accrual basis and clarify the corresponding relationship between “expenses” and the “revenues” and the difference between the two (hereinafter, “the balance”).
- A surplus in the balance for the current period in the administrative cost statement indicates that the expenses arising from administrative services provided during the period were basically paid within the revenues such as tax revenues of the same period.

### <Administrative cost statement points>

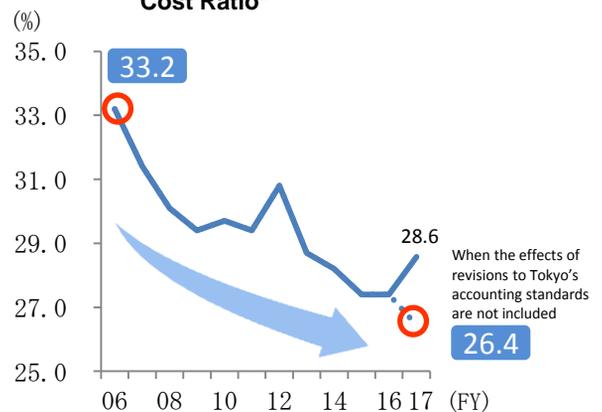
- The administrative cost statement also records costs without cash expenses as expenses. The recording of expenses that are not recognized under government accounting, in an accrual basis administrative costs statement, enables the recognition of cost information.

#### - Examples of costs without cash expenses -

- In relation to expenses required for public facilities, etc. government accounting only recognizes the initial construction costs and annual maintenance costs. Meanwhile, the accrual basis approach focuses on the decrease of the asset value of a building, etc. as time passes, and records the amount of decrease each year, in accordance with the operational life of the asset, as depreciation expenses.

- The main accrual basis cost related to personnel expenses is transfer to reserve for retirement allowances. This recognizes that even if the payment of retirement allowances is some years later, the cost in terms of amount of increase of future retirement allowances is attributable to this fiscal year, and records this as an expense. Furthermore, as shown in Figure 4, when looking at the ratio of personnel expenses to costs in order to ascertain administrative services efficiency, there has been a generally decreasing trend since FY2006.

[Figure 4] Changes in Personnel Expenses to Cost Ratio\*



\*1 Calculated using the formula (Payroll related expenses + amount transferred to reserve for retirement allowances + amount transferred to reserve for bonuses) / (administrative expenses + financial expenses) x 100.

\*2 Furthermore, recording of reserve for bonuses commenced from FY2012 onwards, together with recording of the relevant amount as amount transferred to reserve for bonuses (recorded under amount transferred to reserves for other allowances in FY2012).

\*3 Figures for FY2017 include the effects of increases in allowances due to reviews of amount transferred to reserve for retirement allowances and amount transferred to reserve for bonuses (revised Tokyo accounting standards).

- The balance for the current period for FY2017 shows that revenues exceeded expenses by 687.6 billion yen. Balance for the current period, an item that corresponds to “Net profit for the current period” in the profit and loss statements of private enterprises, is a part of the items that comprise net assets, and is allocated to funds reserved in preparation for future financial needs and the redemption of TMG bonds to alleviate the burden on future generations.

**<Administrative Cost Statement>**

(In billion yen, %)

Item	FY2017	FY2016	Change in amount	Percentage of change
Ordinary Balance				
Administrative balance				
Administrative revenues	6,178.6	6,167.9	10.7	0.2
Local taxes	5,288.0	5,315.9	(27.8)	(0.5)
National treasury disbursements	305.7	267.4	38.2	14.3
Fees and charges	152.2	153.5	(1.3)	(0.8)
Others	432.6	430.9	1.6	0.4
Administrative expenses	5,554.7	5,349.7	205.0	3.8
Tax-related expenses	1,385.0	1,367.6	17.3	1.3
Payroll-related expenses	1,354.6	1,338.9	15.7	1.2
Subsidizing expenses	1,198.4	1,115.7	82.6	7.4
Investment expenses	441.4	459.4	(18.0)	(3.9)
Depreciation expenses	177.3	171.1	6.2	3.6
Transfer to reserve for deficit due to non-payment	7.7	8.8	(1.0)	(11.4)
Transfer to reserve for bonus	105.2	85.6	19.5	22.8
Transfer to reserve for retirement allowances	147.8	64.1	83.6	130.4
Others	737.0	738.1	(1.0)	(0.1)
Financial balance				
Financial revenues	14.2	15.5	(1.3)	(8.4)
Financial expenses	70.7	78.4	(7.6)	(9.7)
Expenses for public bonds (interest)	69.4	76.3	(6.9)	(9.0)
Others	1.2	2.0	(0.7)	(35.0)
Ordinary balance	567.3	755.3	(187.9)	-
Special balance				
Special revenues	214.3	50.5	163.8	324.4
Special expenses	94.0	63.8	30.2	47.3
Balance for the current period	687.6	742.1	(54.4)	-

Note: Investment expenses are the sum total of subsidiary investment expenses, independent investment expenses and investment expenses directly controlled by the national government.

<b>Administrative balance</b>	<p>&lt;Depreciation expenses&gt; The amount of decrease in value of depreciable assets such as buildings and important property, not recognized under government accounting, is recorded under expenses.</p> <p>&lt;Amount transferred to reserve for retirement allowances&gt; The amount of increase of future retirement allowances, not recognized under government accounting, is recognized as costs attributable to this fiscal year, and recorded under expenses.</p>
<b>Financial balance</b>	<p>&lt;Expenses for public bonds (Interest)&gt; Interest paid on TMG bonds is recorded under financial balance.</p>
<b>Balance for the current period</b>	<p>This is the sum total of ordinary balance and special balance. The balance for the current period can also be utilized in preparation for future financial needs, such as fund reserves, etc.</p>

## [5] Cash Flow Statement

**The cash flow statement is prepared to categorize the cash flow of the TMG's finances according to "administrative services activities", "social capital improvement investment", and "financing activities", undertaken for funding and repayments, etc. and to indicate the cash balance status in each.**

**The balance of administrative service activities indicates the difference in revenues and expenses accompanying the delivery of ordinary administrative services, and the balance of social capital improvement investment activities indicates the difference in revenues and expenses accompanying the formation of fixed assets and others.**

**The balance of administrative activities cash flow is the combination of these two balances. The proforma revenues and expenses by the government accounting method (see page 1) is the sum of the balance of administrative activities cash flow, the balance of financing activities, and the balance brought forward from the previous fiscal year. Consequently, the cash flow statement can be said to show government accounting settlements as divided into each activity category.**

### < Cash flow statement points >

The balance of administrative service activities in FY2017 was 841.6 billion yen in net revenues (net revenues for the previous fiscal year were 893.9 billion yen), a decrease of 52.3 billion yen compared to the previous fiscal year. This is mainly due to a decrease of 18.9 billion yen in tax revenues, primarily from the two corporate taxes, caused by the effects of a slump in corporate earnings in financial/securities, etc. revenues, even though corporate earnings from construction/wholesale/retail, etc. remained strong.

The balance of social capital improvement investment activities for FY2017 was 390.7 billion yen in net expenses (net expenses for the previous fiscal year were 522.1 billion yen), a decrease of 131.4 billion yen compared to the previous fiscal year. This is mainly due to a 58.0 billion yen increase in funds transferred under revenues and a decrease of 74.6 billion yen in fund reserves under expenses.

The balance of financing activities for FY2017 was 352.6 billion yen in net expenses (net expenses for the previous fiscal year were 244.7 billion yen), an increase of 107.8 billion yen compared to the previous fiscal year. This is mainly due to a 15.8 billion yen decrease in TMG bonds, and an 88.7 billion yen increase in expenses for public bonds (principal) allocated to the redemption of past TMG bonds.

The proforma balance, which is the sum of the balance of social capital improvement investment activities, the balance of financing activities, the balance of administrative services activities (841.6 billion yen) and the balance carried forward from the previous year (378.6 billion yen), indicates a surplus. The proforma balance of 476.8 billion yen consists mainly of financial resources that should be carried over to the next fiscal year, and will be utilized in the next fiscal year.

**<Cash Flow Statement>**

(in billion yen, %)

Item	FY2017	FY2016	Change in amount	Percentage of change
<b>Administrative service activities</b>				
Total revenues	6,191.6	6,184.8	6.7	0.1
Tax revenues, etc.	5,539.6	5,558.5	(18.9)	(0.3)
Others	651.9	626.2	25.7	4.1
Total expenses	5,350.0	5,290.9	59.1	1.1
Tax-related expenses	1,385.0	1,367.6	17.3	1.3
Administrative expenses	3,893.7	3,841.9	51.8	1.3
Others	71.2	81.3	(10.0)	(12.3)
<b>Balance of administrative service activities</b>	<b>841.6</b>	<b>893.9</b>	<b>(52.3)</b>	<b>-</b>
<b>Social capital improvement investment activities</b>				
Total revenues	596.5	530.9	65.5	12.3
Funds transferred	115.2	57.1	58.0	101.6
Others	481.2	473.7	7.5	1.6
Total expenses	987.2	1,053.0	(65.8)	(6.2)
Social capital improvement expenses	344.1	381.3	(37.1)	(9.7)
Fund reserve	295.6	370.3	(74.6)	(20.1)
Others	347.4	301.3	46.0	15.3
<b>Balance of social capital improvement activities</b>	<b>(390.7)</b>	<b>(522.1)</b>	<b>131.4</b>	<b>-</b>
<b>Balance of administrative activities cash flow</b>	<b>450.8</b>	<b>371.8</b>	<b>79.0</b>	<b>-</b>
<b>Financial activities</b>				
Revenues from financing activities	137.6	155.1	(17.5)	(11.3)
TMG bonds	136.8	152.6	(15.8)	(10.4)
Others	0.8	2.5	(1.7)	(68.0)
Expenses related to financing activities	490.2	399.9	90.3	22.6
Expenses for public bonds (principal)	486.4	397.7	88.7	22.3
Others	3.7	2.1	1.5	71.4
<b>Balance of financing activities</b>	<b>(352.6)</b>	<b>(244.7)</b>	<b>(107.8)</b>	<b>-</b>
<b>Total balance</b>	<b>98.2</b>	<b>127.0</b>	<b>(28.8)</b>	<b>-</b>
<b>Balance carried forward from the previous year</b>	<b>378.6</b>	<b>251.5</b>	<b>127.0</b>	<b>-</b>
<b>Proforma balance</b>	<b>476.8</b>	<b>378.6</b>	<b>98.2</b>	<b>-</b>

<b>Administrative service activities</b>	This indicates cash balance for ordinary administrative services such as payment of salaries and purchase of property, etc.
<b>Social capital improvement investment activities</b>	This indicates cash balance derived from formation of fixed assets and changes to funds, etc.
<b>Balance of administrative activities cash flow</b>	This is the sum total of the balance of administrative services activities and the balance of social capital improvement investment activities.
<b>Financial activities</b>	This indicates the cash balance for procurement of revenues sources through TMG bond issuance and borrowings, and redemption of TMG bonds, etc.
<b>Proforma balance</b>	Corresponds to the amount derived by subtracting total annual expenses from total annual revenues under government accounting.

## [6] Statement of Changes in Net Assets

The statement of changes in net assets is compiled to clearly indicate the changes in net asset items, which show the balance between assets and liabilities in the balance sheet, during a single accounting period.

Furthermore, the administrative costs statement's balance for the current period is recorded as surplus in the statement of changes in net assets, and the balance at the end of the current period given in the statement of changes in net assets corresponds to the total amount given under net assets in the balance sheet.

### <Statement of changes in net assets' points>

Based on deliberations by the Tokyo Accounting Standards Board, the TMG revised its accounting standards in 2007, and in addition to conventional balance sheets, administrative cost statements and cash flow statements, created the "Statement of Changes in Net Assets", which clarifies changes in net assets recorded on the balance sheet in a single accounting period.

Of the items in the statement of changes in net assets, "Opening balance equivalents" indicates the status of assets when the TMG first started creating balance sheets in FY2006, and the given value has not changed in subsequent fiscal years. Additionally, "National treasury disbursements" refers to the portion of treasury disbursements that will be allocated to expenses for social capital improvements. Other than these, there is also "Assessed value of donated assets", which records assets that have been received without any corresponding expense, and "Amounts transferred to wards, towns, etc.", which records exemptions when assets are transferred to wards, towns, etc. when a business is transferred.

At the end of fiscal year 2017, net assets stood at 27,688.2 billion yen, an increase of 766.8 billion yen from 26,921.3 billion yen in the previous fiscal year. The increase is due primarily to a rise in national treasury disbursements for social capital improvement and balance for the current period etc.

### <Statement of Changes in Net Assets>

	Opening balance equivalent	National treasury disbursements	Charges and transfers etc.	Assessed value of donated assets	Amounts transferred to wards, towns etc.	Cross-accounting transaction account	Other surplus	Total
Balance at the end of the previous period	19,021.8	1,285.1	92.3	346.3	(123.3)	(1.9)	6,300.8	26,921.3
Amount changed for the current period	-	83.8	4.6	7.6	(16.8)	(0.1)	687.6	766.8
Change in fixed assets etc.	-	83.8	4.6	7.6	(16.8)	(7.8)	-	71.4
Change in TMG bonds etc.	-	-	-	-	-	(22.4)	-	(22.4)
Other intra-bureau transactions	-	-	-	-	-	30.1	-	30.1
Balance for the current period	-	-	-	-	-	-	687.6	687.6
Balance at the end of the current period	19,021.8	1,368.9	96.9	354.0	(140.1)	(2.0)	6,988.5	27,688.2

(in billion yen)

Shows each item

The statement of changes in net assets is a table that lists each item of net assets from left to right and the variation factors over a single fiscal year from top to bottom.

Shows variation factors in net assets

