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Financial Status of Aichi Prefecture

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Highlights

Outstanding Economic and Industrial Platforms

- One of the most highly populated prefectures in Japan with an economy comparable to that of a country.
- Focus on automobiles with an outstanding concentration of industries, including aircraft, space and machine tools

Maintenance of Fiscal Soundness Backed by Strong Financial Capability

- Prefecture with one of the highest levels of tax revenues in Japan.
- Firm and sound fiscal standing shown by the indicators of financial soundness.
- Ample provision of sinking funds.

Aichi Prefecture Bonds

- Leading bond issuer in Japan: 375 billion yen issuance planned for FY2014
- Continuing monthly issuance of 10-year bonds as benchmark.
- Received the highest rating of local government bonds comparable to that for Japanese government bonds (JGBs) from three domestic and international credit rating agencies



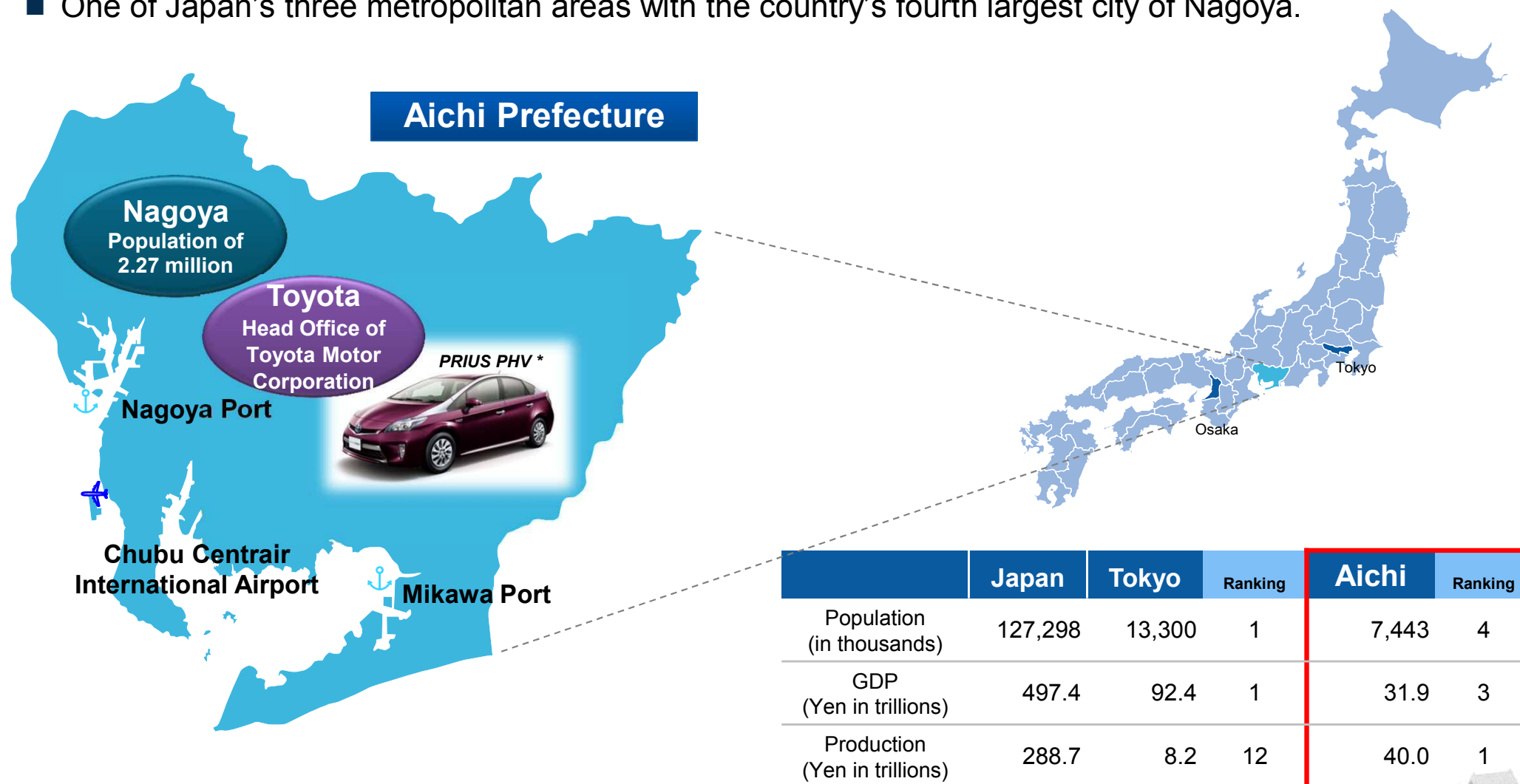
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1. Overview



Overview of Aichi Prefecture

- Aichi Prefecture, located in the central area of Japan, has the world's leading automotive cluster and is home to Toyota Motor Corporation's headquarters and major plants.
- One of Japan's three metropolitan areas with the country's fourth largest city of Nagoya.



* Provided by Toyota Motor Corporation

Economic Size and Demographics of Aichi Prefecture

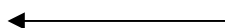
- Third largest GDP in Japan after Tokyo and Osaka. It is comparable to that of a country in Europe and also represents one of the largest economies in Asia.
- While Japan's population is on the decline, the population in Aichi continues to rise.

2011 GDP of OECD and ASEAN Countries ⁽¹⁾

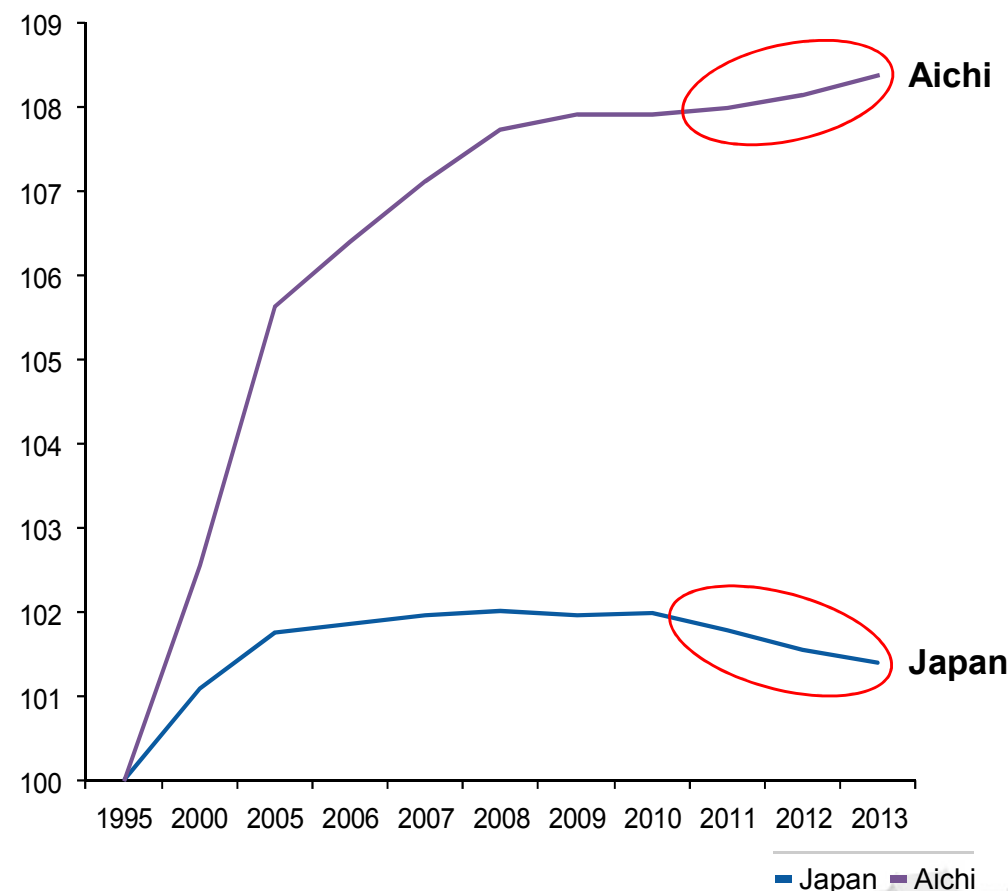
(in billions of US dollars)

Country	GDP
U.S.A.	14,991.3
China	7,318.5
Japan	5,867.2
Germany	3,600.8
France	2,773.0
.....	
Norway	485.8
Austria	418.0
Thailand	345.7

GDP
Aichi⁽²⁾
403.3



Population Growth (1995 = 100) ⁽³⁾



(1) Source: World bank, as of April 2013

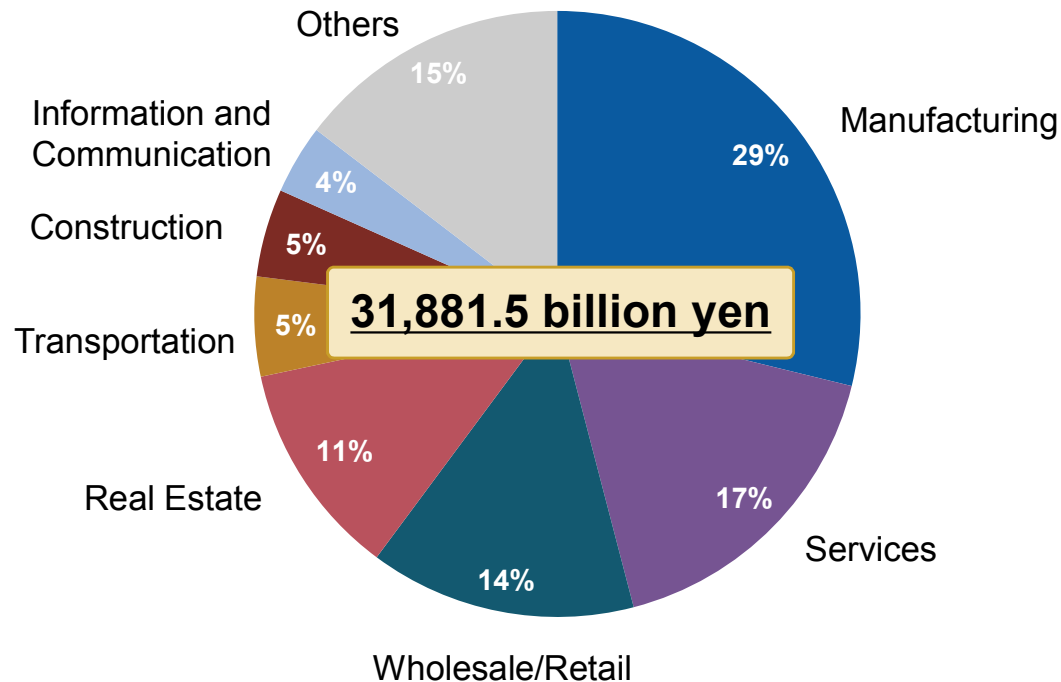
(2) Source: Aichi prefecture's economic accounts, converted at the rate of USD1 = JPY79.05, as of FY2011

(3) Source: Statistics Bureau of the Ministry of Internal Affairs and Communications, Economic and Social Research Institute of Cabinet Office, and Statistics Division of Aichi Prefectural Government

Industrial Structure of Aichi

- Well-balanced industrial structure with manufacturing sector at the core.
- With a dominant domestic share in manufacturing, placing Aichi in No. 1 position in total shipments of manufactured goods for 36 consecutive years, the Prefecture drives Japan's manufacturing sector particularly the automotive industry.

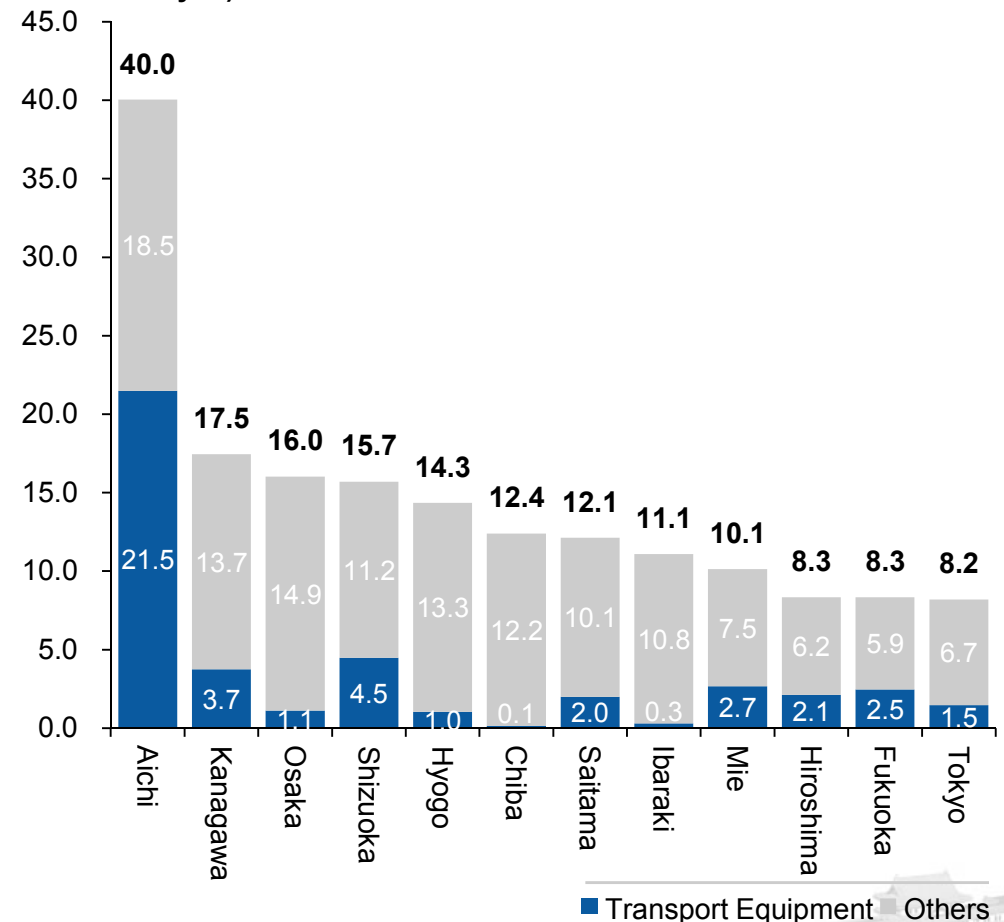
Breakdown of GDP (FY2011)



Source: Aichi prefecture's economic accounts (FY2011, actual and estimate)

Total Shipments of Manufactured Goods (2012)

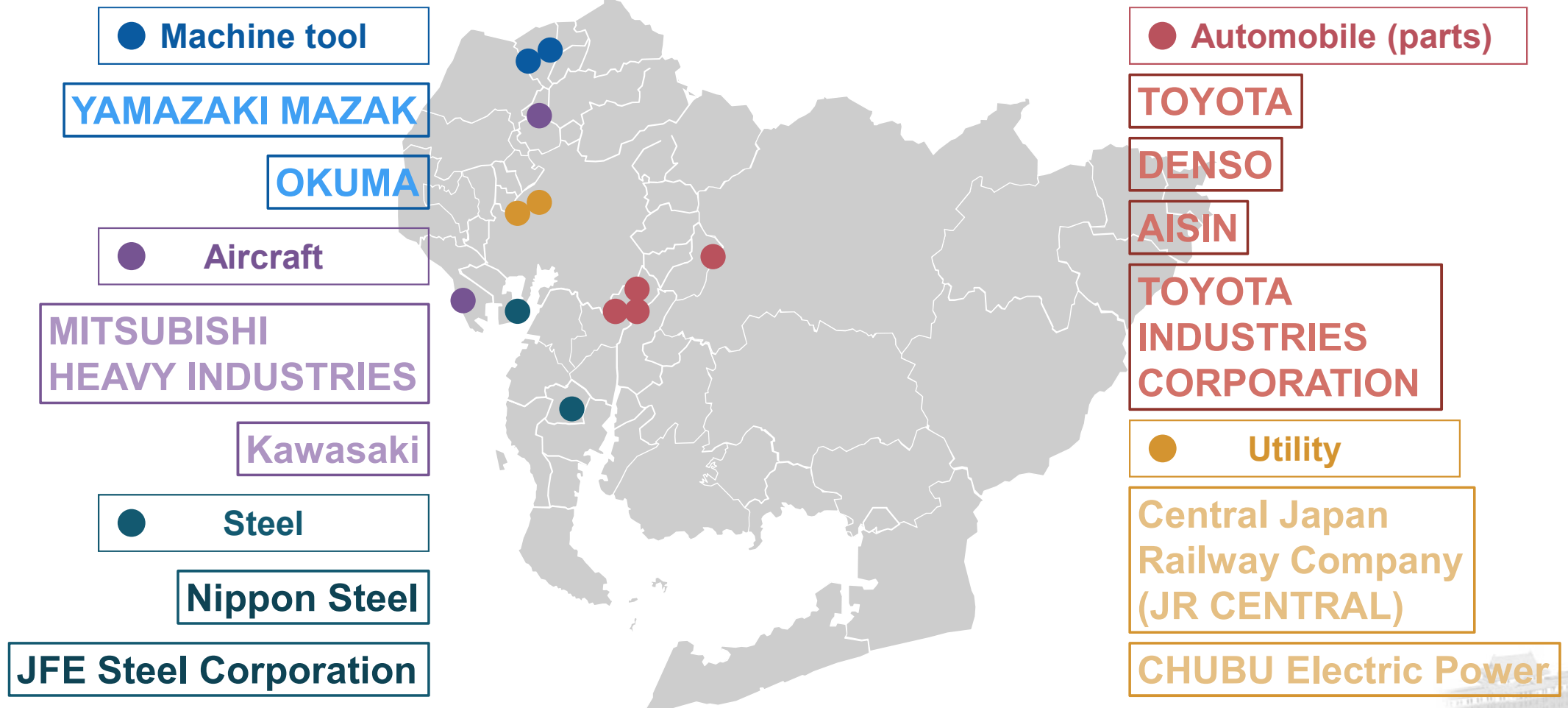
(in trillions of yen)



Source: "FY2012 Census of Manufacturers (summary)" issued by Ministry of Economy, Trade and Industry

Major Corporations Located in Aichi Prefecture

- In the automotive sector, the major plants of Toyota Motor Corporation are located in Aichi, as are many component manufacturers including Denso — one of the world's top companies — as well as many small-and-midsize firms.
- World-class machine tool manufacturers, the aircraft manufacturer undertaking production of B787 wings, JR Tokai (*Shinkansen* bullet train operator) are also located in Aichi



Growth of Aerospace Industry

Future Growth Industry — Center of Aerospace Industry

- Japanese leading airframe manufacturers are concentrated in the Chubu region, a center of aircraft industry, producing 50% of Japan's aircraft and related components
- The region seeks to be one of the world's top three centers for the aerospace industry, which is expected to grow steadily as a key industry over the medium- to long-term

Concentration of Aerospace Industry

Production of Boeing 787

- 35% of the airframe structure, incl. main/center wing boxes and forward fuselage, are produced in the region

Boeing 787



Provided by Boeing

Development of Domestic Small Jet MRJ

- State-of-the-art aerodynamic design and cutting-edge engine developed by Mitsubishi Aircraft, significantly reducing fuel consumption
- First delivery to start in 2017

MRJ



Provided by Mitsubishi Aircraft Corporation

Creation of Aerospace Industrial Cluster

- The Chubu region, centering around Aichi Prefecture and including Gifu Prefecture and the City of Nagoya, was designated as a Comprehensive Special Zone for the aerospace industry by the government in December 2011
 - Strongly promoting industry development as part of the country's "International Strategic Comprehensive Special Zone Plan"

Aiming to be a world top 3 hub for the aerospace industry

Target

Aerospace industry output in Chubu:
700 billion yen (2010)⇒ 900 billion yen (2015)

Aerospace industry employees in Chubu:
15,000 (2010)⇒ 20,000 (2015)



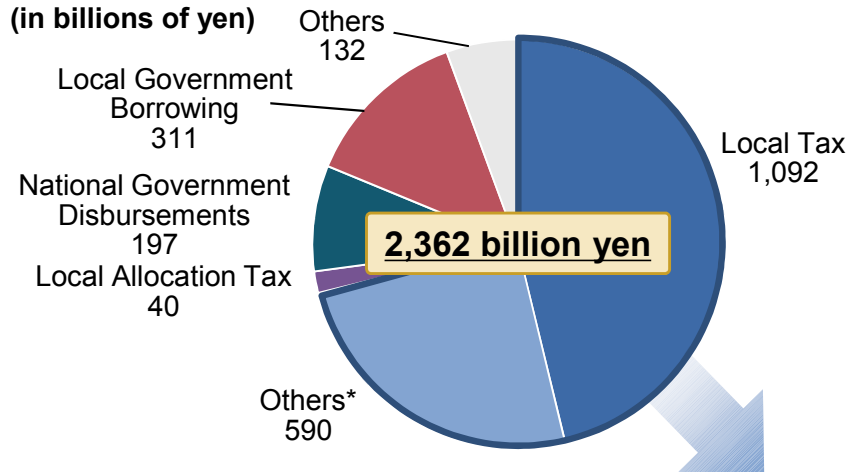
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2. Fiscal Profile



Aichi Prefecture's Revenue

Breakdown of Revenue (FY2014 Initial Budget)

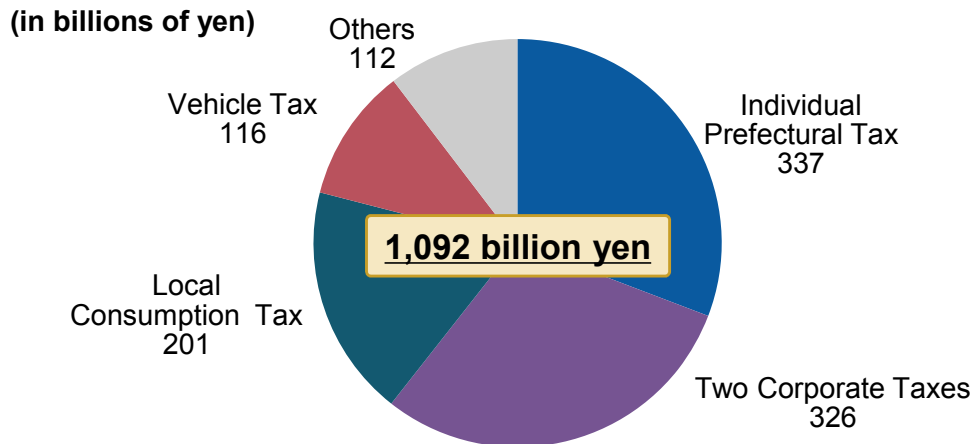


* Others mainly consist of a provision of prefecture's reserves, an usage charge for prefecture's facilities and administrative handling fees

Independent Revenue

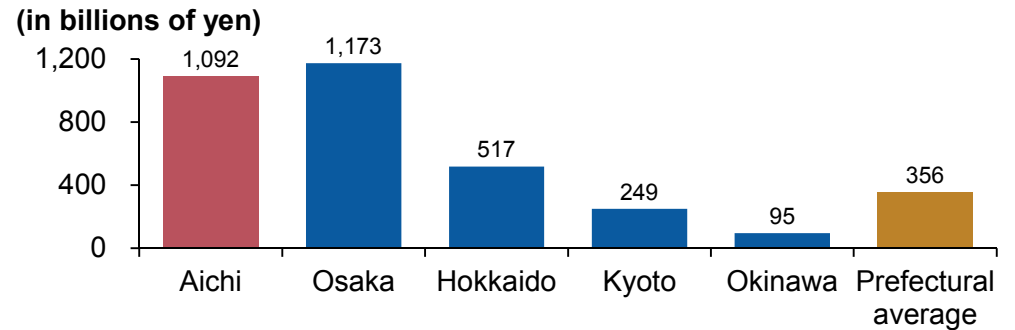


Breakdown of Tax Revenue (FY2014 Initial Budget)

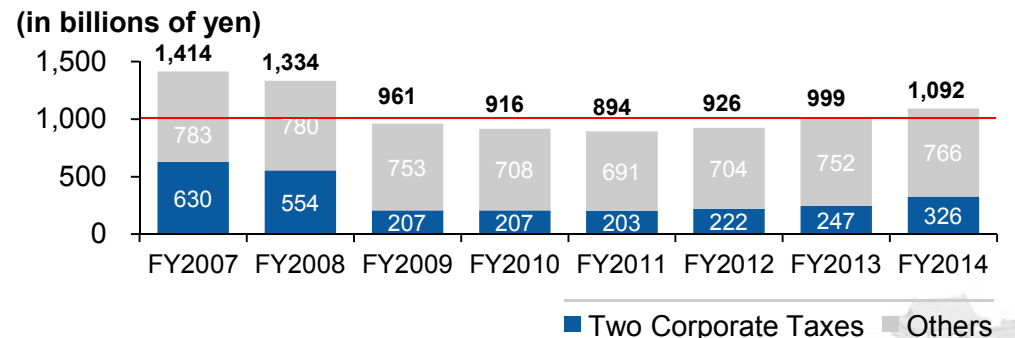


- 70% of it's revenue comes from its own tax sources
- Aichi has one of Japan's strongest tax revenue bases with corporate residence tax and corporate enterprise tax as the primary source, reflecting the economic strength of the region.
- Balanced prefectural taxation on income, production and consumption.

FY2014 Local Tax Comparison (Initial Budget)



Trends in Local Tax Revenue

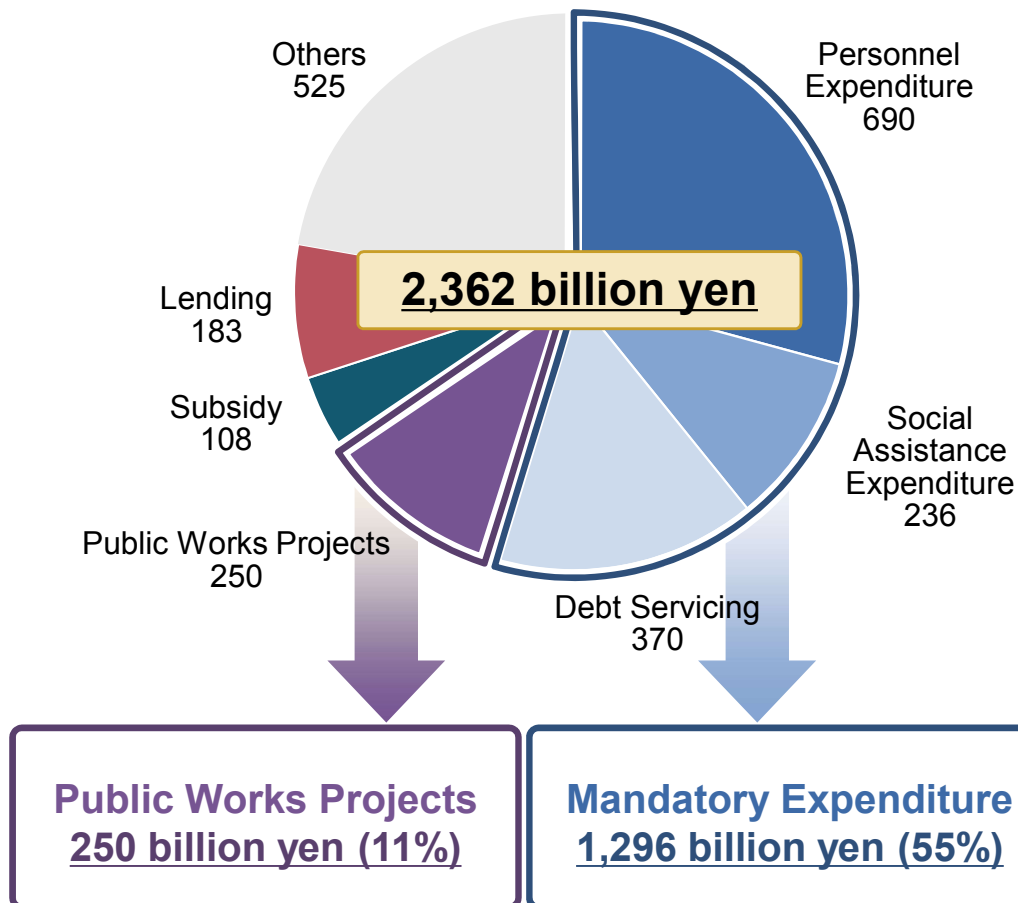


Aichi Prefecture's Expenditure

- Mandatory expenditure accounts for 55% of its total expenditure
- Control personnel expenditure and public works projects to maintain sound fiscal management

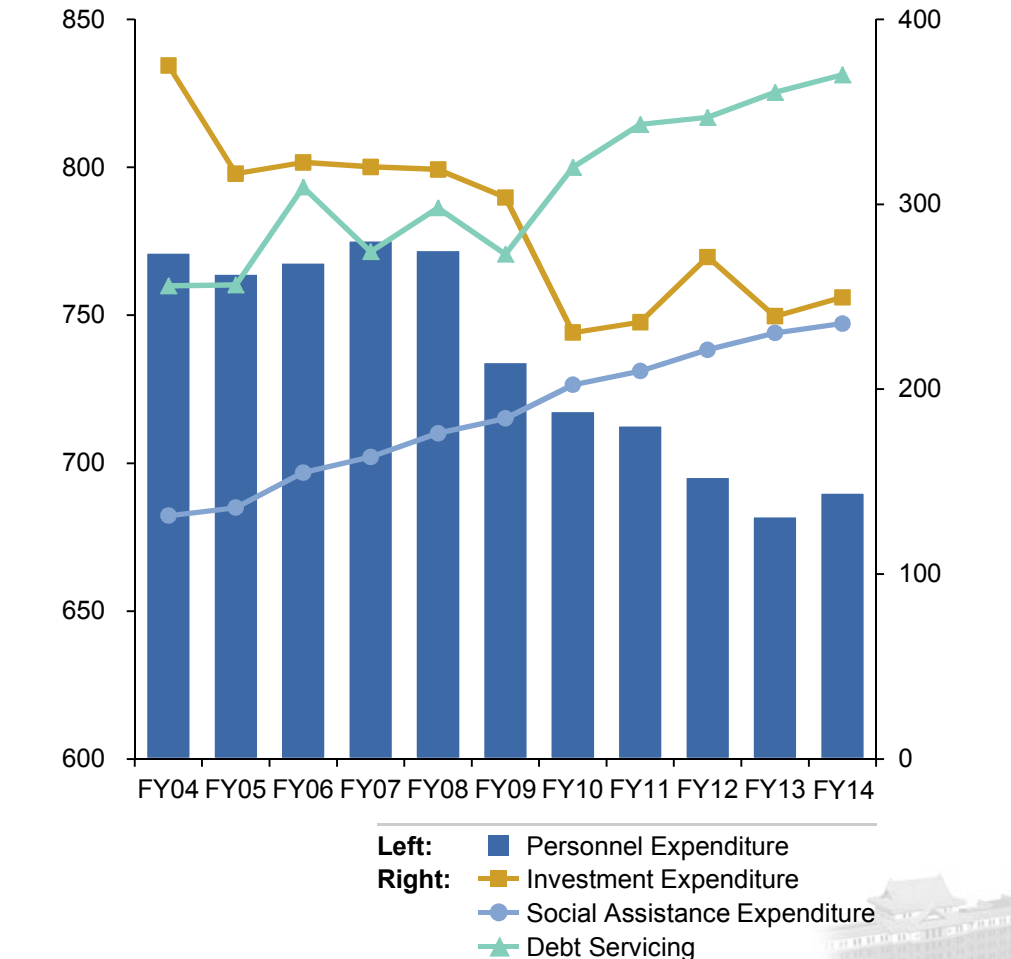
Breakdown of Expenditure (FY2014 Initial Budget)

(in billions of yen)



Trends in key items of Expenditure

(in billions of yen)

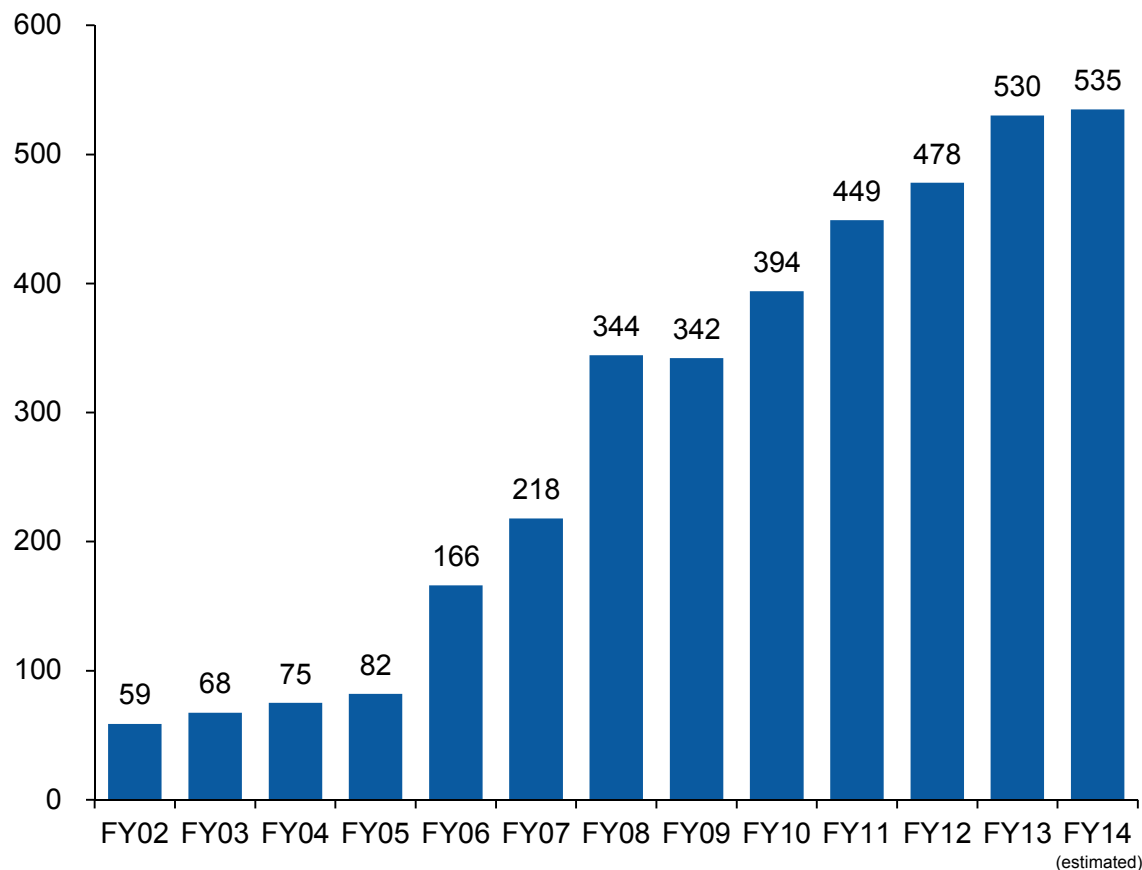


Liquidity: Status of Sinking Funds

- To ensure ample liquidity, Japanese local governments hold deposits and marketable securities accounting for a certain percentage of outstanding bullet bonds, as sinking funds
- Aichi Prefecture sets aside more than required under the rule when it can secure financial resources. The level of its sinking fund is highly evaluated by rating agencies.

Trends in Balance of Sinking Funds

(in billions of yen)



S&P's Evaluation of Liquidity

- Aichi has very strong liquidity, in our opinion. We estimate that the prefecture's internal cash holdings, measured by free cash and liquid assets, were about 157% of its annual debt service requirements (including contributions to its debt payment fund) as of March 31, 2013.
- Also, in our view, the prefecture has strong access to external liquidity, reflecting its close relationship with Bank of Tokyo-Mitsubishi UFJ Ltd., a quasi-commitment line provider that ensures its short-term liquidity, and Aichi's established position in the bond market.

(Source: "S&P Report" dated April 18, 2014)



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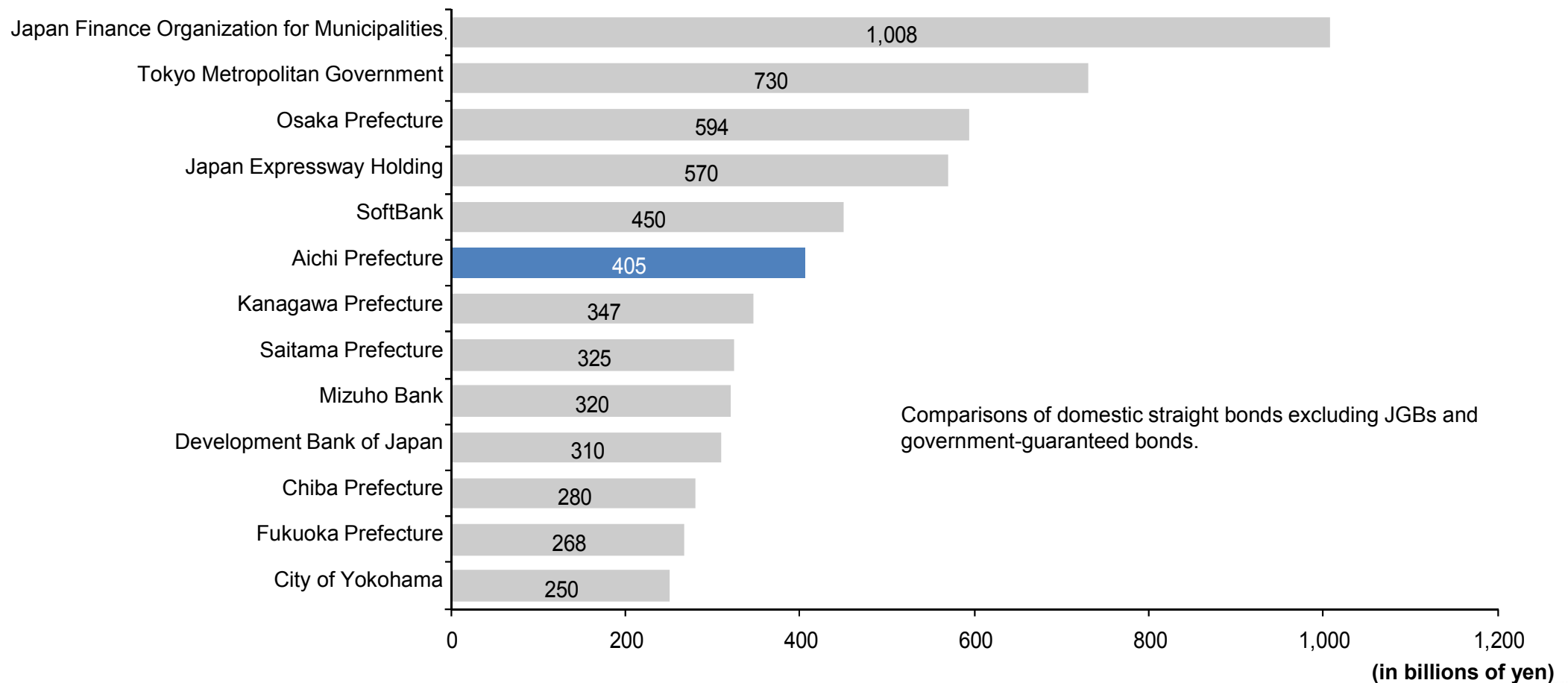
3. Aichi Prefecture Bonds (APB)



Positioning of Aichi LGB in Japan

- Aichi is the third largest LGB issuer by volume after Tokyo and Osaka. It is one of Japan's leading bond issuers overall, even when compared with government-affiliated organizations, financial institutions and business companies.

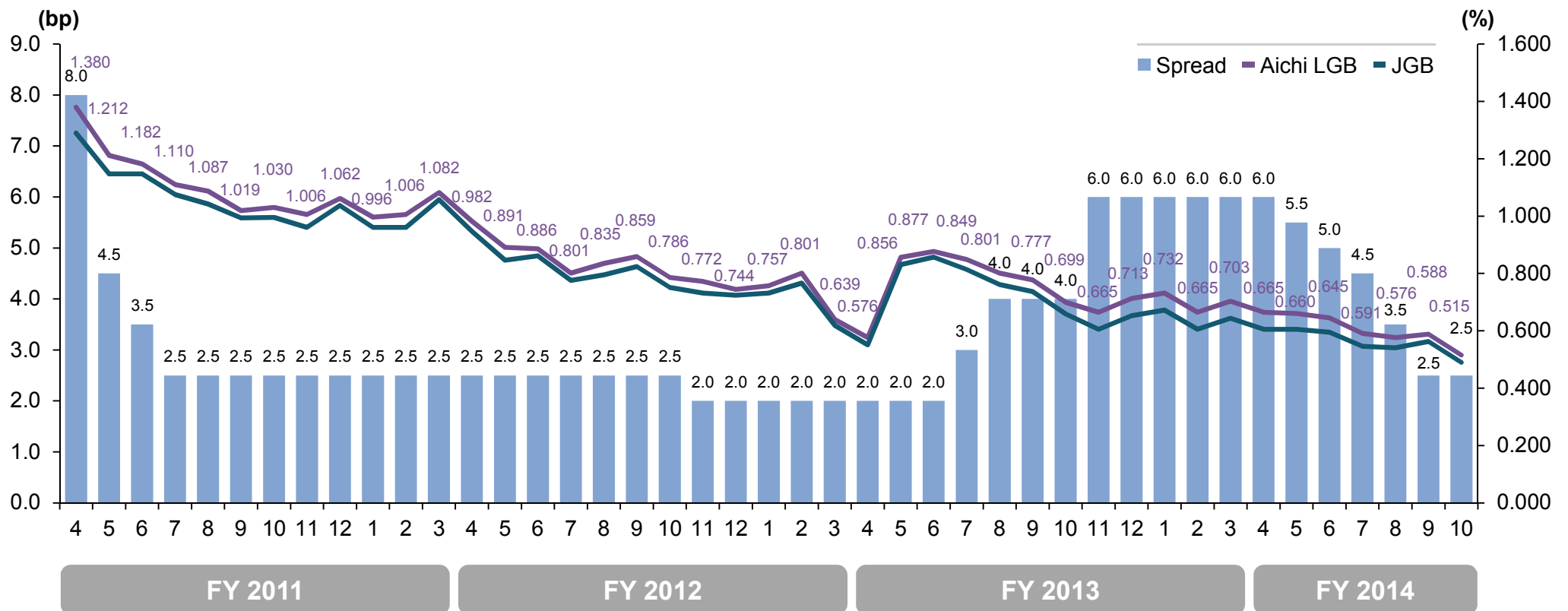
Major Issuing Bodies with Large Issuing Volume in Japan (FY2013)



Attractiveness Relative to JGB

- Aichi issues its core 10-year bonds monthly. In Japan, the only monthly issued bonds other than JGBs and government guaranteed bonds are Tokyo Metropolitan LGB, Joint LGB and Aichi LGB.
- Aichi LGB spread over JGB has remained stable.

10-Year Bond Spread Level



Ratings and BIS Risk Weight

- To help investors make investment decisions, Aichi obtained ratings on its bonds from 3 rating agencies.
- Its ratings are the highest of Japanese local government bonds and are the same as JGB.

Credit ratings of Aichi Prefecture

S&P AA- (negative*) Same as JGB

- The rating continues to reflect stable independent revenue sources and steady financial administration results.
- Bond rating is the same as those for Japanese government bonds (JGB) and Tokyo Metropolitan bonds

AAA	Hong Kong (Special Administrative Region) Singapore (Republic of)
AA+	USA, Greater London Authority
AA	Paris (City of), Vancouver (City of)
AA-	Aichi (Prefecture of) , Tokyo Metropolitan Government, Japan, China, Ontario (Province of), JBIC(Japan Bank for International Cooperation), JFM(Japan Finance Organization for Municipalities)
A+	Israel (State of), Korea (Republic of)
A	Marseille (City of), Slovakia (City of)
A-	Malaysia

(as of September, 2014)

**R&I AA+ (stable)
Same as JGB**

**JCR AAA
Same as JGB**

Risk Weight under BIS Standards

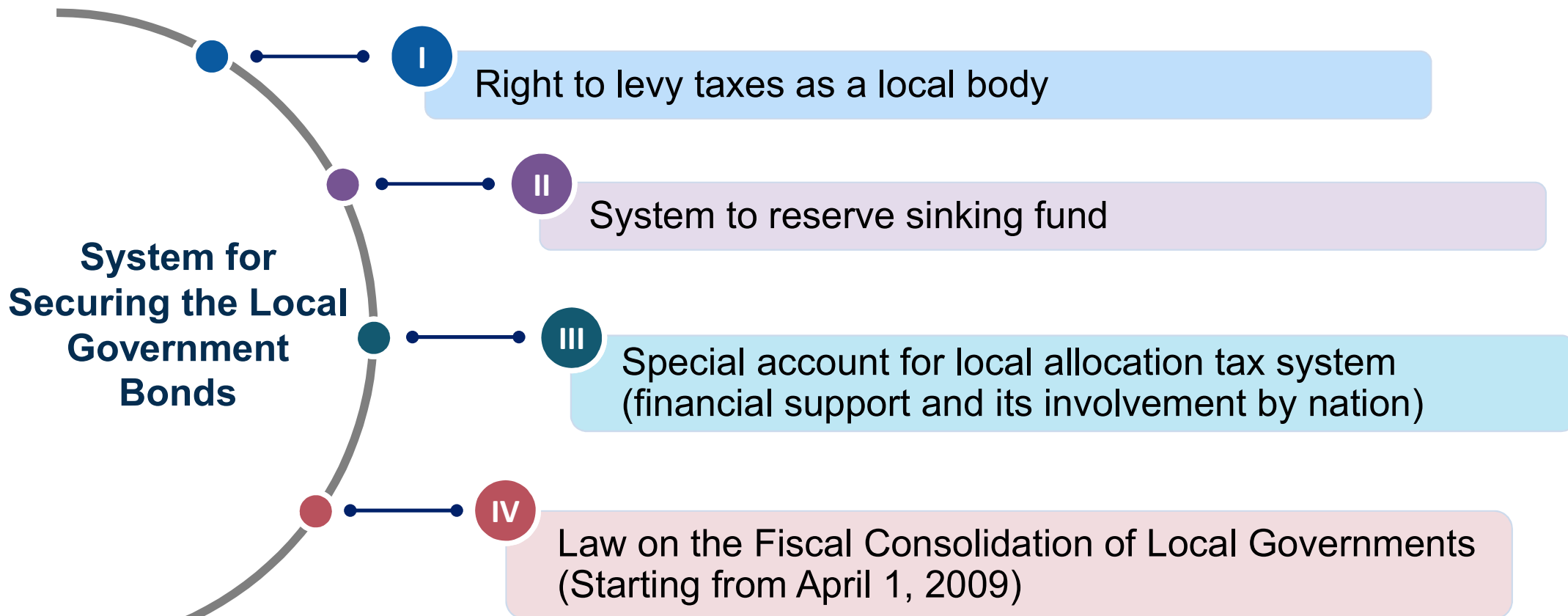
JGBs	0%
Aichi LGBs	0%
Government agency bonds	10%~20%
Bank debenture bonds	20%
Straight bonds	20% or more

- Zero risk weight is for domestic investors in Japan. For overseas investors, will depend on confirmation of relevant regulatory authority in each country
- However, ordinary local government bonds are rated from 10% to 20%

* On April 27, 2011, APB moved in line with JGB, to negative outlook.

Safety of Local Government Bonds

- The level of risk associated with Japan's local government bonds is considerably low



- Secures the reliability of local government bond redemptions
- There has been no default on local government bond payments to date

FY2014 Public Offering Bond Issuance Plan

- Aichi Prefecture plans to issue public offering bonds worth 375 billion yen in FY2014.

FY2014 Public Offering Bond Issuance Plan

(in billions of yen)	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Total
Joint-LGB				10			10			10			40
5-year LGB	20												20
10-year LGB	20	20	20	20	20	20	20	20	20	20	20	20	240
20-year LGB		10							10				20
Flex term	7y: 15	20y: 5		30y: 10					20				50
Prefectural resident bond					2.5							2.5	5
Total													375

Concepts Underlying the Issuance Plan

- Continue monthly issue of 10-year bonds as benchmark.
- Issue a variety of bonds including 5-year and 20-year bonds. and bonds for prefectural residents.
- Offer flex term bonds that do not have an initial fixed term, in order to secure flexibility in bond issuance and respond to investor needs.
 - Respond to requests for increased issuance during marketing period.
 - Respond to needs for diversifying maturities (Aichi has issued 2, 7, 15 and 30-year bonds in the past).

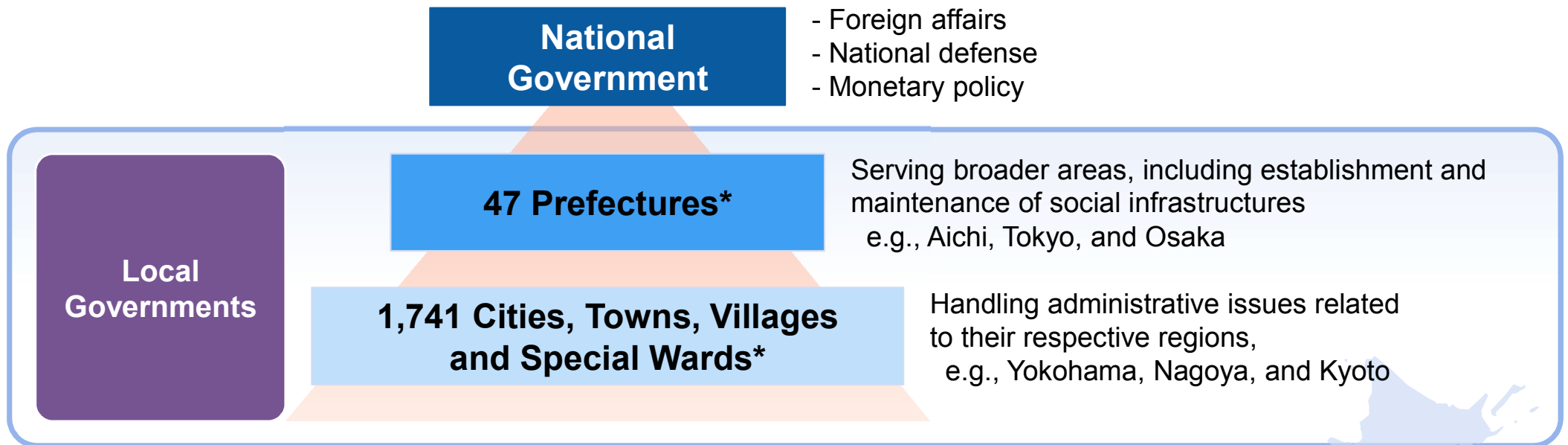


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4. Appendix



Local Government System in Japan

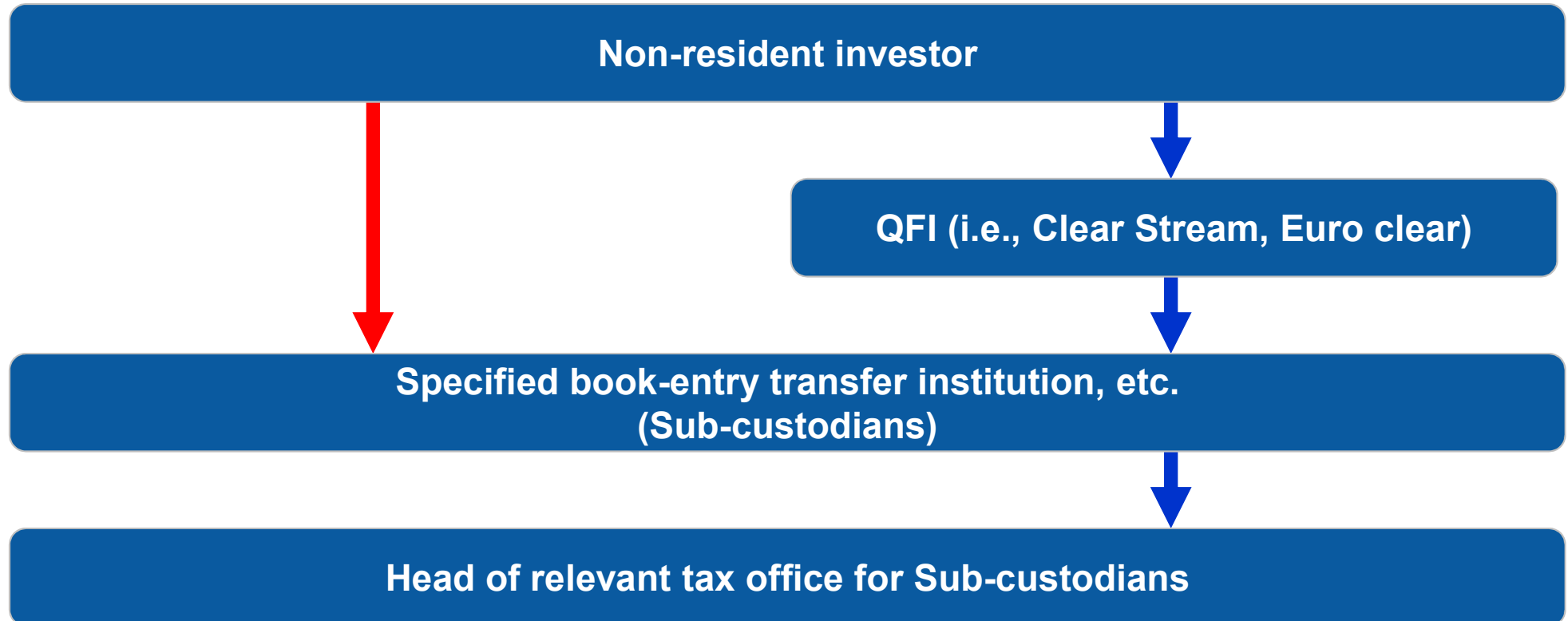


- Local governments are responsible for a wide range of services closely related to the daily lives of citizens such as:
 - Public health
 - Social welfare
 - Education
 - Policing
 - Fire fighting
 - Social infrastructures

* as of April, 2014

Outline of Tax Exemption for Non-Residents

Procedure of tax exemption for nonresident



- Starting in 2008, with the Article 5-2 Act on Special Measures Concerning Taxation (Limited to the provisions related to nonresidents and foreign corporations), the interest gains on LGBs owned by non-resident or foreign corporations which settled by the book-entry system are exempted from withholding tax.

FY2012A Ordinary Account Settlement

- Local governments undertake municipal administration in Japan, and the size of a local government is comparable to that of a country under a federal system. Prefectures are engaged in a wide range of administrative services such as providing police service, operating high schools and bearing the costs of elementary and junior high schools.
- Aichi Prefecture's expenditures for FY2012 amounted to over 2.1 trillion yen. Aichi has been in the black for 13 consecutive years despite a decline in tax revenue.

(in millions of yen)

	FY2013	FY2012	Changes
Local Tax	997,618	938,569	59,049
Local Transfer Tax	122,310	102,212	20,098
Local Allocation Tax	66,483	59,125	7,358
National Government Disbursements	227,009	209,579	17,430
Local Government Borrowing	393,266	436,118	△ 42,852
Other Revenues	368,132	400,661	△ 32,529
Total Revenues	2,174,818	2,146,264	28,554

	FY2013	FY2012	Changes
Mandatory Expenditures	1,077,941	1,080,271	△ 2,330
Personnel Expenditures	663,046	680,571	△ 17,525
Debt Servicing	373,870	359,252	14,618
Social Assistance Expenditures	41,025	40,448	577
Investment Expenditures	228,073	217,351	10,722
Other Expenditures	851,656	831,415	20,241
Total Expenditures	2,157,670	2,129,037	28,633

Gross Balance	17,148	17,227	△ 79
Real Balance	6,171	6,018	153

Financial Ratios

- All four key indicators that measure local government's financial soundness are comfortably below the maximum levels.

Fiscal Health Indicators

	FY2011 Results	FY2012 Results	FY2013 Results	Early warning limit
(1) Real Deficit Ratio	- (not applicable to APB)			3.75%
(2) Consolidated Real Deficit Ratio	- (not applicable to APB)			8.75%
(3) Real Debt Payment Ratio	14.9%	15.5%	15.5%	25%
(4) Future Burden Ratio	256.7%	244.5%	232.7%	400%

Details

- (1) The ratio of "real deficit within the General Account" to "standard financial scale".
- (2) The ratio of "all account-based real deficit" to the "standard financial scale".
- (3) The ratio of the "general revenue resources appropriated to pay off bonds" to the "standard financial scale".
- (4) The ratio of "future debts including those of the public-private joint sector as well as expected future debts on the General Account" to the "standard financial scale".

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