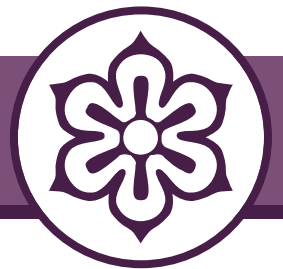


Kyoto Prefecture Financial Profile and Fiscal Reforms

京都府



2013 Oct.

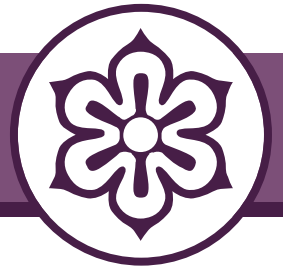
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Kyoto Prefecture: An Introduction



京都府広報監 まゆまろ

Overview of Kyoto Prefecture

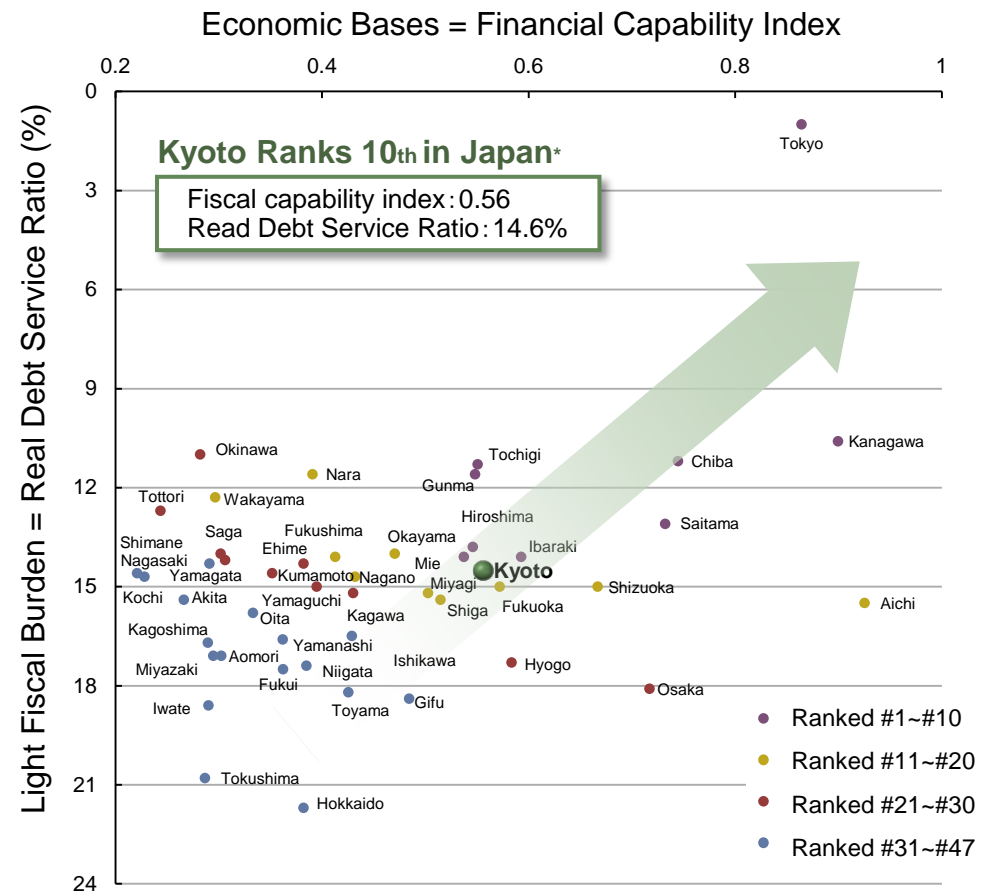


- Kyoto Prefecture is ranked between number 10 and number 19 in population and economic sizes among all 47 prefectures of Japan
- Kyoto features light debt burden and strong economic bases

Basic Facts about Kyoto Prefecture

Area	4,613km ²	31 st	FY2011
Population	2.63 million	13 th	FY2011
Prefectural GDP	9,372.6billion	13 th	FY2010
Prefectural Income per Capita	2.73million	18 th	FY2010
Manufacturing Value Added Workplaces with 10 or more employees	1,615.3billion	19 th	FY2011
Annual Retail Sales	3,022.5 billion	12 th	FY2007

Economic Bases and Fiscal Burden



* The ranking is based on average fiscal capability indices and real debt service ratios in FY210-2012

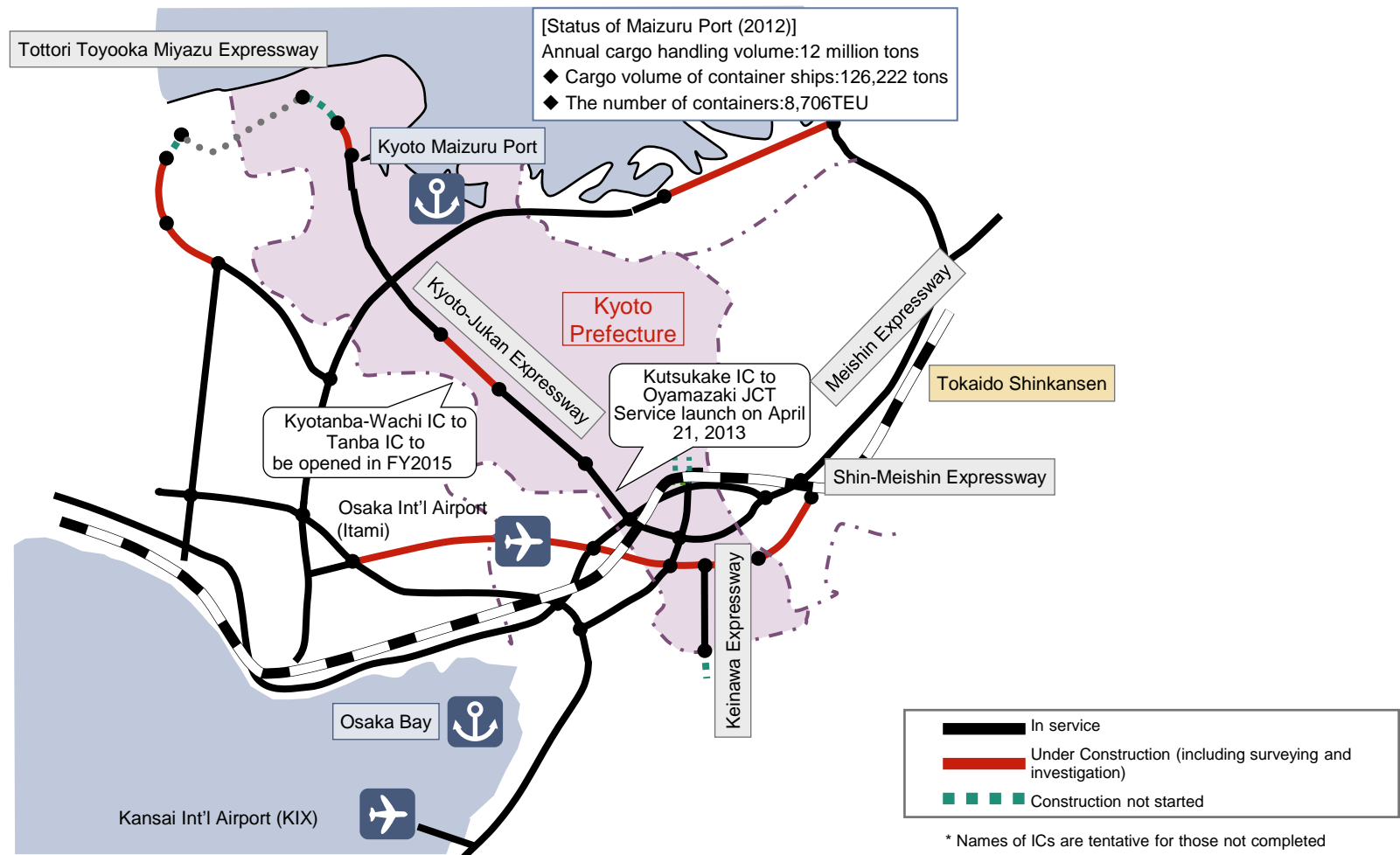


Transport Network Supporting Economic Bases



- Kyoto economy is supported by improved traffic network of Meishin Expressway, Shin-Meishin Expressway and Tokaido Shinkansen linking east and west, as well as Kyoto-Jukan Expressway and Keinawa Expressway connecting north and south.
- Quick access of approx. 75 min from Kansai International Airport and 55 min from Osaka International Airport.
- It is under the slogan “Kyoto the Sea City” that Kyoto Prefecture has been striving to build an attractive environment in its mid-northern area that is endowed with natural beauty and historical assets

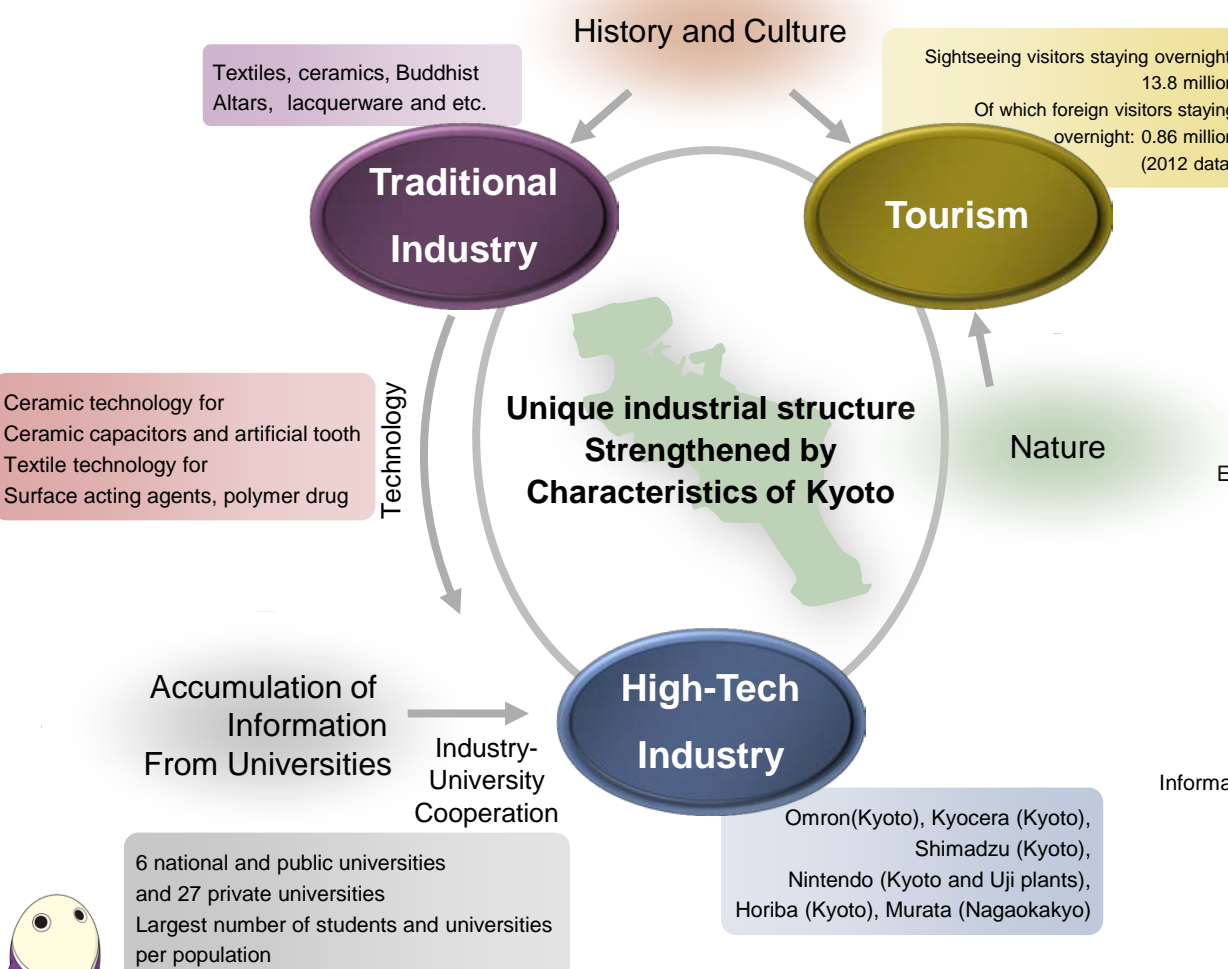
Traffic Network



Kyoto's Unique Industries

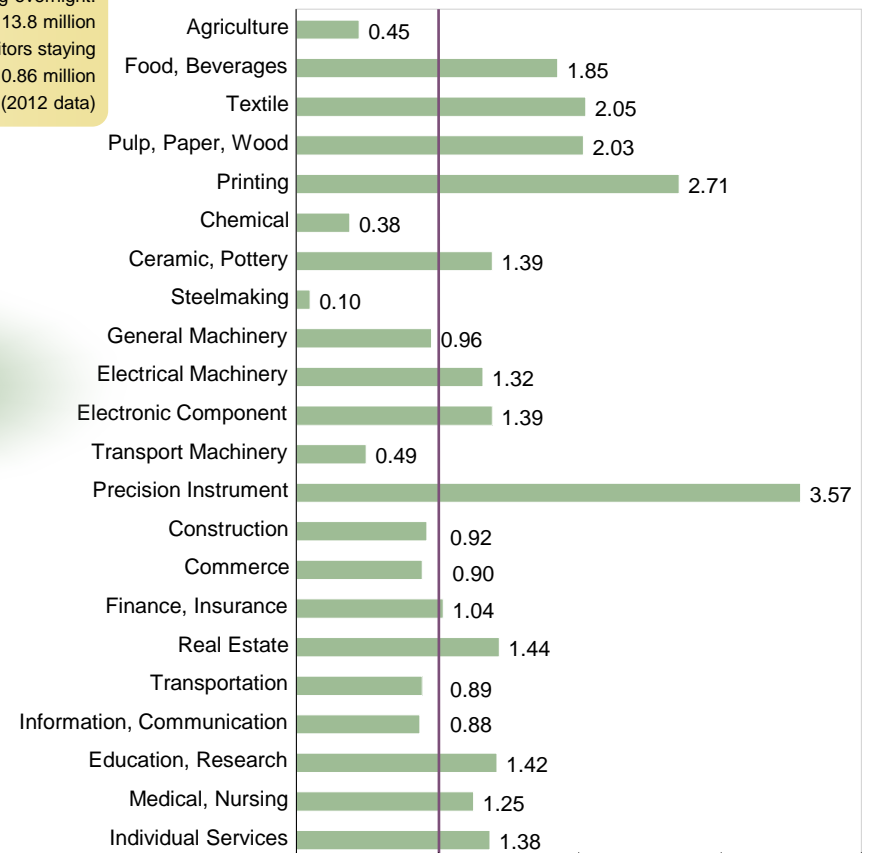


- Kyoto economy is strengthened by tourism and traditional industry based on 1,200 years of history and culture as well as high technology industry, all of which creates value-added products



Specialization Coefficient by Industry

* Specialization Coefficient – Production value by sector in Kyoto/Production value by sector in Japan. Sector with figure topping 1.0 has higher composition ratio than that in Japan



Sources: 2005 Kyoto Pref. industry statistics



Kyoto Firms Creating High Added Value



- Kyoto-based manufacturing industry holds a significant market share in Japan in a wide range of products, supported by Kyoto's unique strength in technology
- With many companies running profitable businesses with their own technology, Kyoto ranks 7th in Japan in its corporate taxable income

Kyoto Shipment

Industry	Item	Shipments	Ranks
Advanced Technology & Research Equipment	Pollution measuring instrument	¥30.4 billion (58%)	1
	Spectral photometer	¥16.5 billion (65%)	1
	Other analyzing equipment	¥55.7 billion (53%)	1
	Physical, chemical machinery and appliances	¥14.8 billion (23%)	2
	Medical X-ray apparatus	¥28.8 billion (21%)	1
	Semiconductor, IC tester	¥11.7 billion (11%)	2
Printmaking & Printing	Photomasks*	¥9.2 billion (10%)	3
	Prints excl. paper	¥95.8 billion (13%)	1
Traditional Craft	Ready-made kimono, obi	¥7.3 billion (42%)	1
	Chirimen textile	¥3.8 billion (79%)	1
Food & Beverages	Sake	¥58.6 billion (15%)	2
	Japanese confectionery	¥355 billion (7%)	1

* Glass plate to be used to copy electronics component circuit
Sources: METI: FY2011 industry statistics (domestic market share in %)

Corporate Taxable Income by Prefecture

Rank	Prefecture	Taxable Income (¥mil)	Number of Firms	Rank
1	Tokyo	17,705,479	547,579	1
2	Osaka	4,045,152	223,273	2
3	Aichi	2,377,715	156,117	4
4	Kanagawa	1,192,867	174,640	3
5	Hyogo	904,608	96,343	8
6	Fukuoka	805,363	90,475	9
7	Kyoto	750,991	55,361	12
8	Saitama	712,530	127,779	5
9	Chiba	638,202	101,639	7
10	Shizuoka	609,417	75,461	10
11	Hokkaido	584,989	114,023	6
12	Hiroshima	547,408	60,613	11
13	Gunma	369,916	41,741	17
14	Niigata	321,895	43,452	15
15	Okayama	317,973	38,889	20

#12 in Number of Firms
#7 in Taxable Income

Sources: National Tax Agency (avg of FY2007-2011)



Tourism Supporting Kyoto Economy

Tourism resources, including history, culture, nature and scenery are attracting both Japanese and foreign tourists. Tourism plays an important roll for Kyoto Economy



National Heritage Sites	2,144	#2 in Japan (16.6%)	2013
Protected Historical Areas	8,513ha	#1 in Japan (42.4%)	2011

An outline of the "Kyoto the Sea City" initiative

Build an attractive environment in the Tango and Chutan areas

Achieve by fiscal 2015 a significant growth in human and non-human traffics in the Tango and Chutan areas by making a visible progress in the endeavor to develop land and sea transport infrastructures in these areas

Develop Kyoto Prefecture's northern areas into a tourist zone that is as competitive as any other tourist area in the country by leveraging these areas' historical and geographical settings, while reaping the benefits of the progress attained by the prefecture's transport infrastructure development programs

Build "strategic locations" equipped with dynamism and visitor attracting power through the efforts to designate priority development districts and to unify the exterior designs of inns and other types of accommodation facilities

Develop a tourism exchange platform serving as a bridge between different "strategic locations"

Strategic wide-area tourism promotion



2013年4月14日 運行開始

京都府後のすばらしい自然景観をお楽しみいただくため、あかまつで、四季折々の自然を愛む旅を

大正期のインテリアが、ゆずらぎを与える「あかまつ」を、四季折々の自然を愛む旅を

観光型車両をリニューアル

Kitakinki Tango Railway Company

Sources: Agency for Cultural Affairs, Ministry of Land, Infrastructure, Transport and Tourism

The Vision for KyotoPrefecture



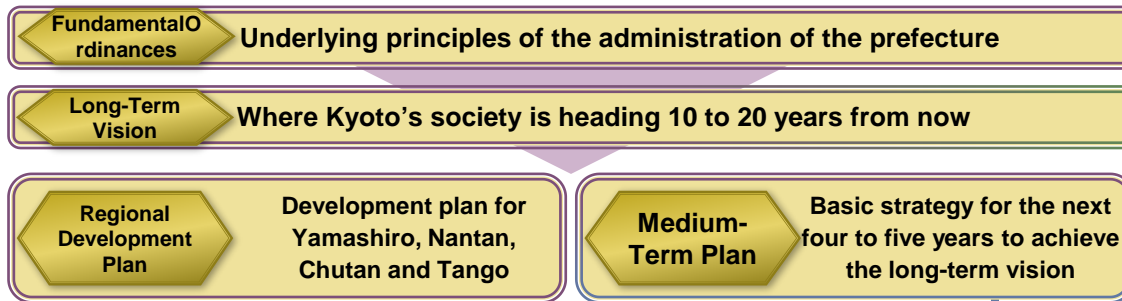
Long-Term Vision and Medium-Term Plan of

“The Kyoto of Tomorrow”



- The Kyoto of Tomorrow, new guidelines for the administration of Kyoto Prefecture, started in January 2011
- The long-term vision specifies where Kyoto’s society is heading 10 to 20 years from now, and the medium-term plan outlines the basic strategy for the next four to five years.
- Under the medium-term plan, targeted levels, i.e., benchmarks are set and initiatives will continue to be taken to “Leverage the Strengths of Kyoto” and meet other objectives.

Structure of “The Kyoto of Tomorrow”



3 Paths for Achieving the Long-Term Vision

- **Rebuild the security of residents**
 - ➔ Build Kyoto where everyone can live securely
- **Achieve regional co-existence and cooperation**
 - ➔ Build Kyoto in which society is held together by the bonds of trust, relationship and cooperation
- **Leverage the Strengths of Kyoto**
 - ➔ Build Kyoto where lifestyle, industry and regional growth are a reality

Structure of the Medium-Term Plan

- The medium-term plan describes (1) the current situation, issues and approaches, (2) the mission, (3) objectives (benchmarks), and (4) concrete solutions for 17 action areas in accordance with the 3 paths of the long-term vision.

Excerpts from the Medium-Term Plan: Related to Leveraging the Strength of Kyoto

Human Resources	<ul style="list-style-type: none"> ■ Promote state-of-the-art academic research that contributes to the world and other initiatives [Numerical target] The number of patent registrations by universities and research industries in Kansai Science City: To 1,500 from 1,143 (up 30%) 	Industrial Innovation / Small and Medium Businesses	<ul style="list-style-type: none"> ■ Cultivate brand industries by leveraging features of Kyoto [Numerical target] Real GDP growth rate: Increase from current 1.27% Annual No. of companies attracted to Kyoto: Increase from current 24 ■ Promote industrial exchange with the world [Numerical target] Container handling volume a year at a Maizuru Port: 6,690TEU → 10,000TEU (up 50% from the record high) ■ Develop tourism of Kyoto, and other initiatives [Numerical target] Amount of annual construction by tourists in the prefecture: to 800 billion yen from 706.3 billion yen (the largest-ever increase)
Environment	<ul style="list-style-type: none"> ■ Create beautiful urban environments and views as well as natural living environments, and other initiatives [Numerical target] The number of registration of Kyoto Prefecture landscape assets: to 30 from 13 (one or more each in all municipalities, except the city of Kyoto) 	Mobility, Communication & Exchange	<ul style="list-style-type: none"> ■ Establish Kyoto as a center of cultural and academic research [Numerical target] The number of research institutes in Kansai Science City: to 75 from 60 (up 25%) ■ Have excellent human resources of the world gather in Kyoto, and other initiatives [Numerical target] The number of international conferences held in the prefecture per year: Staying at 187 (record high in the past 10 years)
Culture	<ul style="list-style-type: none"> ■ Promote Kyoto culture by creating opportunities for people to experience it, and other initiatives [Numerical target] The number of visitors to prefectural cultural facilities per year: 1.8 million from 1.243 million (up 50%) 		



Current Financial Profile and Fiscal Reforms



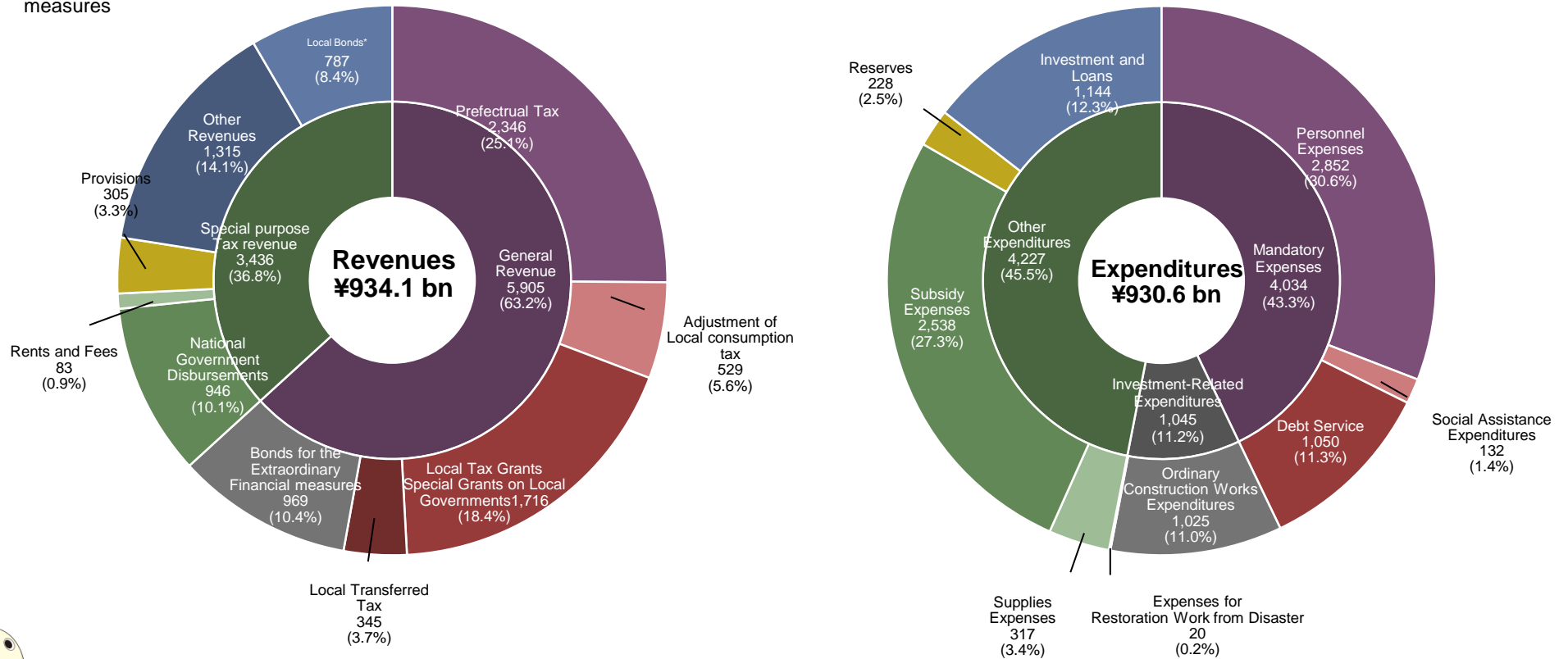
General Account: Annual Revenues and Expenditures Structure



- General revenue sources accounts for over 60 pct of overall revenues in FY 2012 despite severe economic conditions
- Mandatory expenses (e.g. personnel expenses, debt service) accounts for over 40 pct of overall expenditures. Kyoto government intends to further decrease such expenses

FY2012 General Account

* Excluding bonds for the extraordinary financial measures

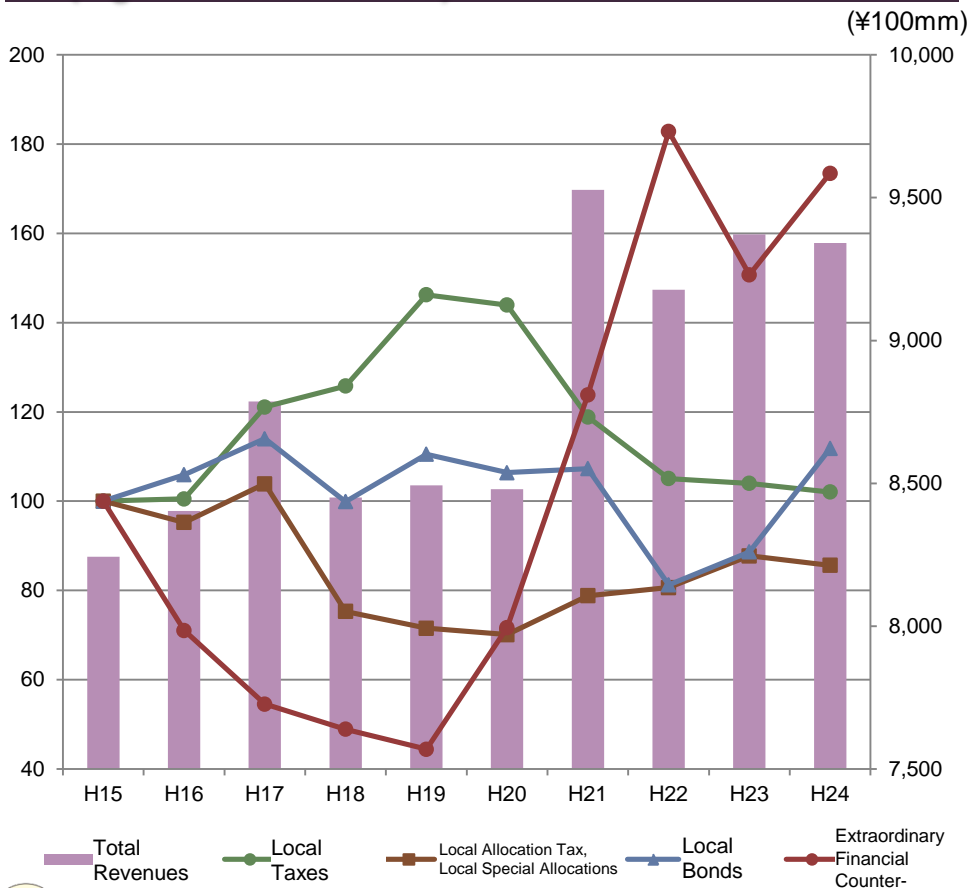


General Account: Changes in Expenditures and Revenues

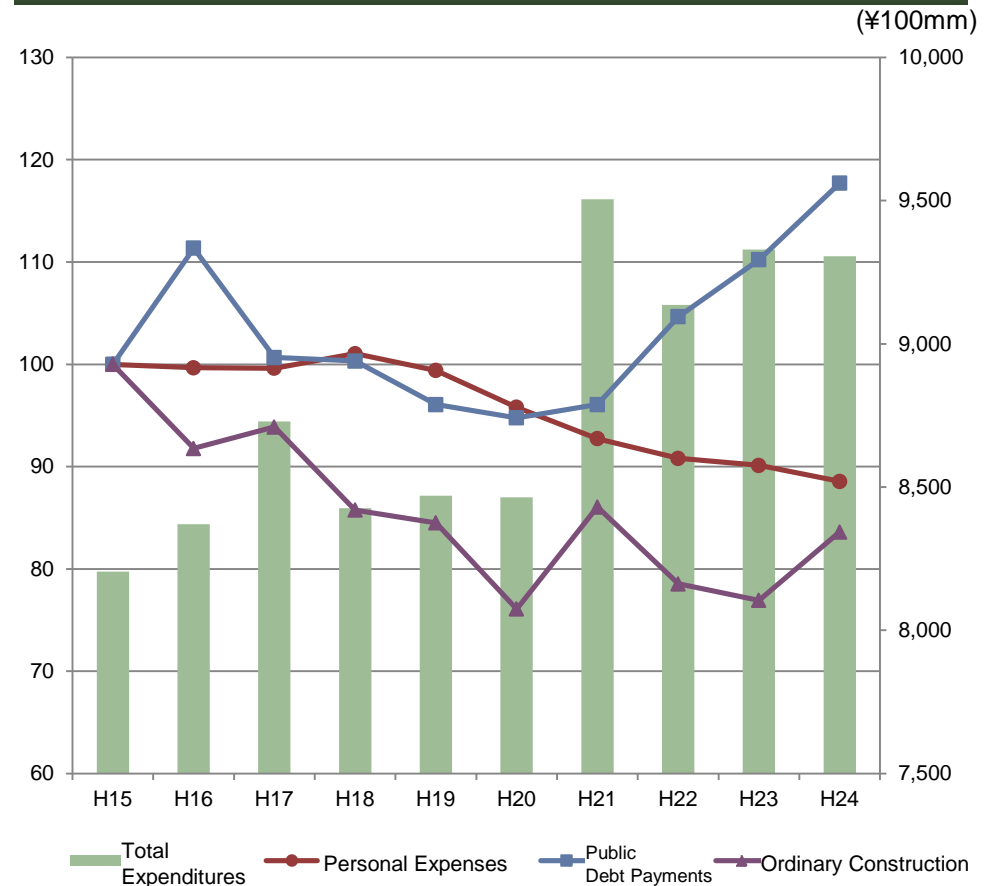


- Through the weak economy led to a reduction in tax revenues and an increase in extraordinary financial countermeasures bonds, the full amount of redemption of principal and interest of extraordinary financial countermeasures bonds is covered by the local allocation tax
- The total amount of public debt payments and ordinary construction costs are managed according to the “Public Debt Payment Program”
- Efforts to reduce personnel expenses are being maintained

Change in Revenues and Major Revenue Sources (Figure in 2003 as 100)



Changes in Expenditures and Major Expenditure Items (Figure in 2003 as 100)

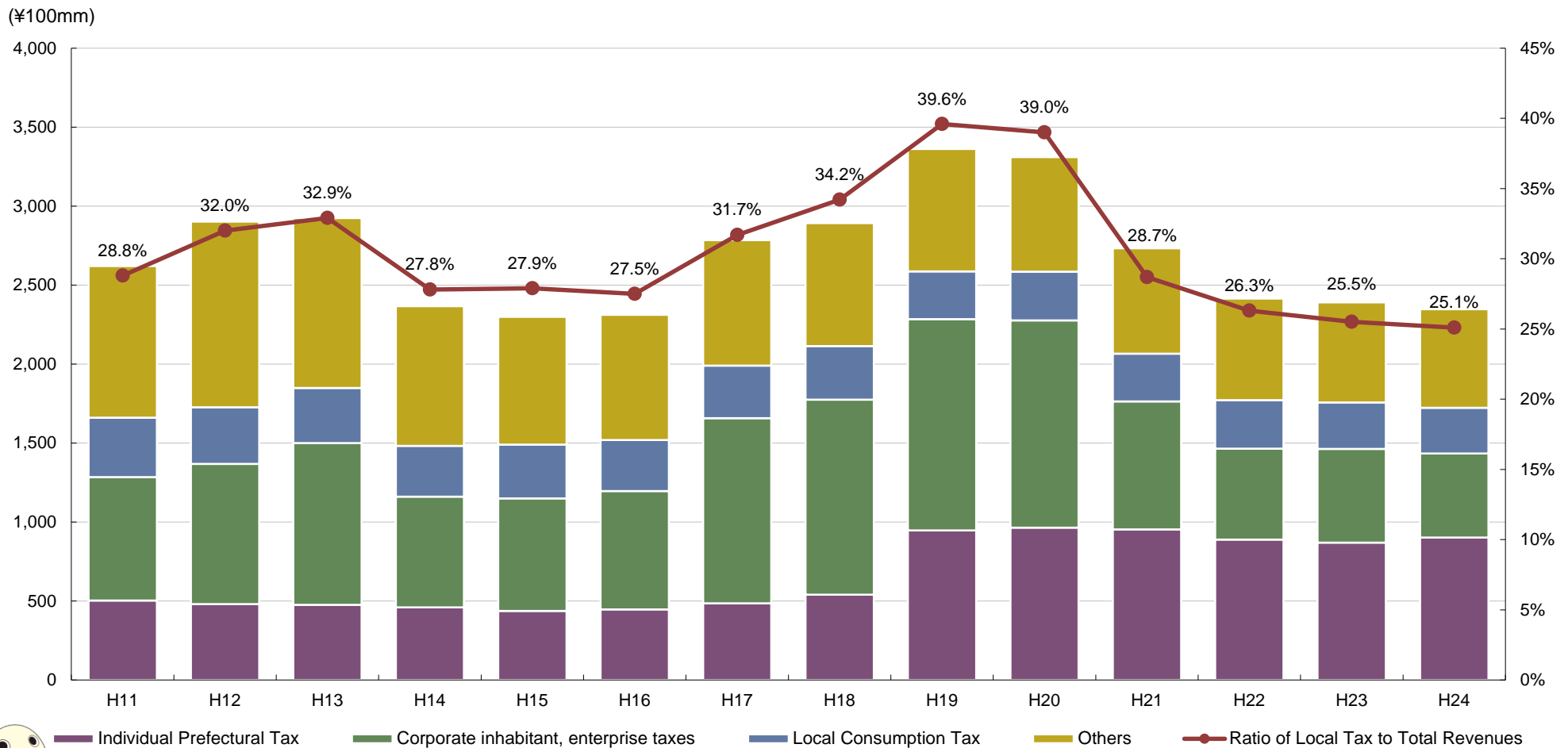


Prefectural Tax Revenues



- Japan's sluggish economic conditions resulted in Kyoto Prefecture's fiscal 2012 municipal tax revenue declining for the fifth consecutive year
- As for Kyoto Prefecture's initial budget for fiscal 2013, corporate income taxes are assumed to increase over fiscal 2012, a projection that was made based on information obtained from the local business community

Prefectural Tax



Fiscal Reforms



- Kyoto has implemented steps to return to fiscal health and has achieved results exceeding targets
- Kyoto launched a plan in 2009 to maximize the satisfaction of its residents by preserving a high level of public services

Sound Public Finance Guideline (FY1999-FY2003)

- Financial system instability caused a major decline in tax revenues and significant negative impact to the budget
- Salaries and operating expenses were cut across the board

→ Kyoto improved its budget position by 67.7 billion yen, exceeding the target of 65 billion

Management Reform Plan (FY2004-FY2008)

- The difficult fiscal situation continued
- Through salary reductions, Kyoto streamlined its organization and operations without affecting public services
- Kyoto undertook a program to reduce debt service expenses by controlling bond issuance so that total outstanding issuance would begin to decline by 2013

→ Kyoto achieved an improvement of 56.1 billion yen, exceeding the target of 50 billion

Citizen Satisfaction Maximization Plan (FY2009-FY2013)

- While fiscal strengthening initiatives continue, focus limited human, financial and infrastructure resources to maximize the satisfaction of residents
- Based on the needs of residents, streamline programs and enhance regional cooperation
- Streamline operational processes, develop training to maximize the strengths of human resources, and continue efforts to reduce debt service expenses

→ Kyoto is projecting a 60.0 billion yen improvement to its fiscal position



A “project based on opinions solicited from Kyoto Prefecture residents” that is aimed at achieving improved resident satisfaction



- Established in fiscal 2009 a “resident participation-type” public works project. This was a project based on a process to determine project spots through soliciting opinions publicly from Kyoto Prefecture residents concerning local spots they believe should be rectified, on the basis of their daily observations and routine discoveries
- This project was aimed at “achieving higher interest of Kyoto citizens in public works project,” at “fulfilling explanation responsibility for Kyoto residents” and at “attaining increased satisfaction of Kyoto citizens”

A new local community opinion-driven municipal public works project of the first of its kind in Japan

Local infrastructure renovation and repair works that can bring about a greater sense of safety and security as well as improved scenic beauty

- Eliminate road bumps
- Repair paved roads
- Install guardrails and fall prevention facilities
- Install traffic lights
- Take rock fall preventive measures
- Repair river embankments and river walls
- Replace or repaint safety facilities such as road lights and guardrails

During the four-year period from 2009 to 2012,
resident opinions totaling over 7,000 were
obtained from the local community

An example of specific resident proposal

<Before installation>



Gratings were installed
on a street with little
sidewalk width



<After installation>



The Budget Screening Process and the Outcomes



- Kyoto examines programs in terms of their necessity, operating agency and benefits to the prefecture in order to efficiently allocate and focus limited resources in a way that increases the satisfaction of residents

Budget Screening Process

Internal Review (self-check by staff)

Under the budgeting system, personnel conduct a review from the perspective of public value and satisfaction when funds are requested

Planning and finance departments review the program in terms of public need and benefit as well as operating agency and methods
→ Staff liaise with residents and organizations to discover needs and ensure that the budget reflects them

Following the request for funds and publication of the budget proposal, key records associated with the program are disclosed in public
→ A step to ensuring the transparency of the budgeting process

→ Records of some 210 reviews are available on the Kyoto web site

External Review

Review by external experts
Roughly 30 major programs are reviewed each year

Programs by field of the medium-term plan of “The Kyoto of Tomorrow” are systematically reviewed

Outcomes Reflected in Budgets

Through its internal review and budget assessment processes, the Kyoto Prefectural Government succeeded in making budget revisions totaling approx. 9.4 billion yen in value for 288 public works projects with respect to the initial fiscal 2012 budget, and budget revisions totaling approx. 6.1 billion yen in value for 257 public works projects with respect to the initial fiscal 2013 budget



Public Bond Program



- Faced with ongoing fiscal challenges including reduced tax revenues, Kyoto has continued its program to control debt service expenses, which it launched under the Management Reform Plan. The program, which seeks to limit the overall amount of debt service expense and ordinary construction expense, has been retained as part of the Citizen Satisfaction Maximization Plan. Excluding issuances for extraordinary fiscal measures, Kyoto is working to limit its bond issuances

Public Bond Program

Real Investment Costs Limited at FY2005 Levels
(Debt Service Expenses + Ordinary Construction Expenses)

FY2005 Initial Budget	Debt Service (excl. Extraordinary Financial Countermeasures Bonds and issuance for disaster relief)	¥87.7bn	} approx. ¥190bn = Cap
	Ordinary Construction (excl. disaster recovery projects)	¥101.2bn	

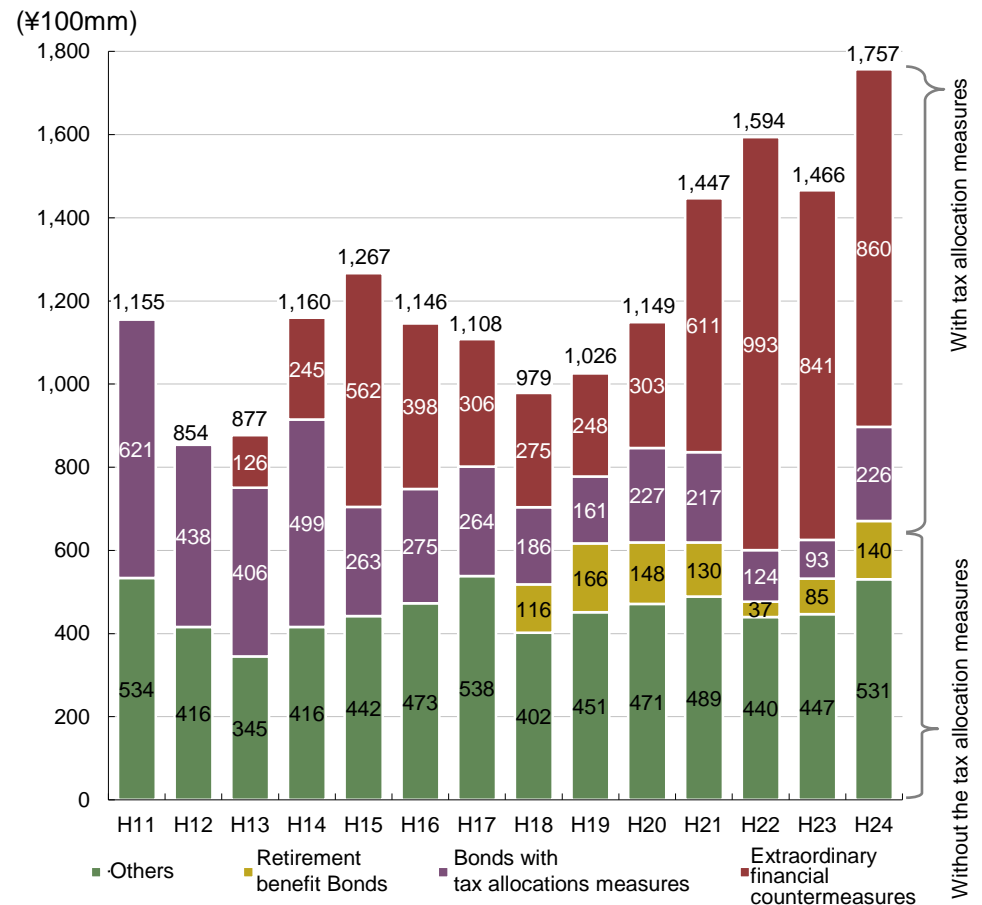
Debt Service Expenses to Rise

Compensate by Limiting Construction Projects

- Carefully plan construction of schools, social welfare facilities, police facilities, hospitals, etc in line with public need
- Enhance prioritization of projects and project management

Debt Outstanding decline in FY2013

Size of Issue FY1998-2011



* Based on issue amount. Differs from revenue

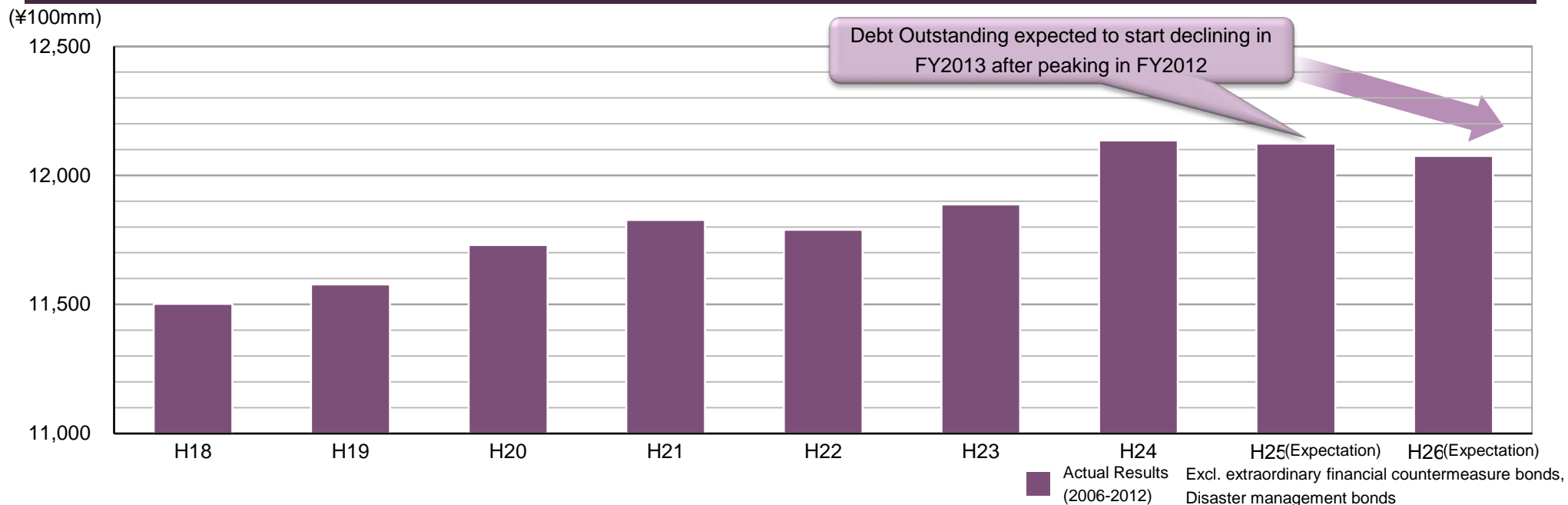


Bond Balance forecast

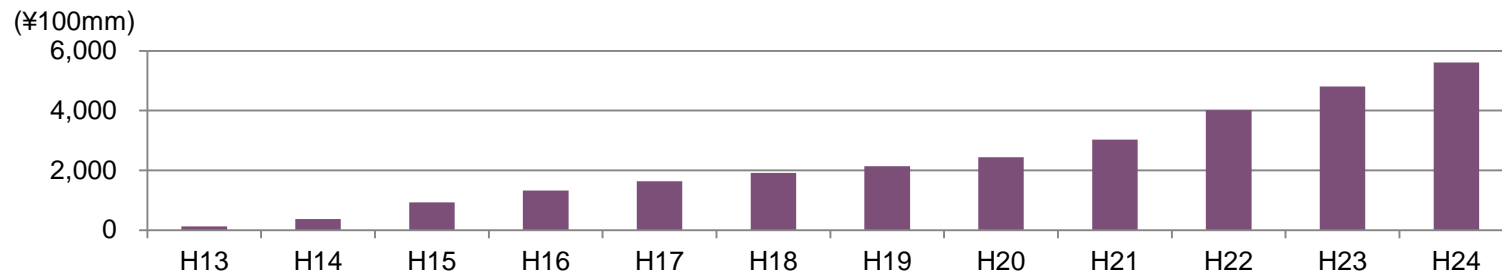


- As a result of fiscal health initiatives, including the program to reduce debt service expense, issuance outstanding in each year since FY2006 has been lower than the level targeted under the program
- The prefecture is transitioning toward redemption of publicly offered bonds in full at maturity. Outstanding issuance, excluding issuance for extraordinary measures, will continue to rise until FY2012 when redemptions will begin. The balance is projected to decline from FY2013

Prefectural Bond Balance Forecast



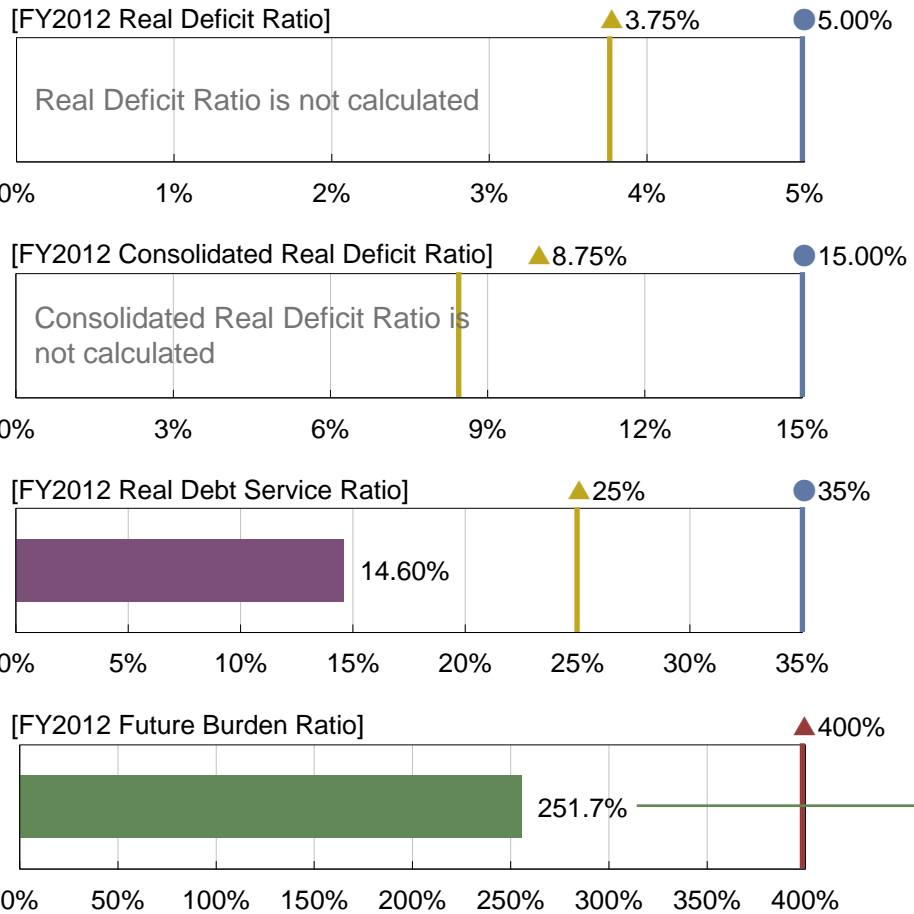
Outstanding Extraordinary Financial Countermeasure Bond Issue



Four Financial Soundness Indicators



- All indicators are well below the limits for financial soundness and early financial soundness set by law
- Kyoto will step up efforts to maintain fiscal health in the future



▲ Early Warning Limit ● Reconstruction Limit

* Future burden ratio (▲) as required for early financial soundness

Calculation of Future Burden Ratio

Item	Amount (¥1mm)	Notes
Outstanding local government bonds	1,880,308	Current balance of local government bonds including bonds to be redeemed in full at maturity
Planned expenditures for debt burden	6,336	Part of budget to be allocated to public debt payments as debt burden
Est transfer from public corp bonds	39,834	Estimated funds to be transferred for redemption of local government bonds related to special accounts (non general account)
Est share for unions	N/A	
Est retirement bonus burden	242,325	Estimated retirement allowances assuming voluntary retirement by all employees at the end of previous fiscal year
Est share of established corporations' liabilities	19,874	
Local Roads Public Corp	0	Estimated burden of Roads Public Corp. loan balance debt
Land Development Corp	0	Estimated burden of Land Development Corp. debt
Quasi-sector, etc.	19,874	Estimated share of indemnities for quasi-corps
Quasi-sector, etc.	0	Real deficit on a total accounting basis
Est unions' consolidated real deficit burdens	N/A	
Future Burden (A)	2,188,677	
Allocable funds	113,572	Allocable funds to local government bond redemption from balance of all funds
Allocable special revenue	31,138	Special revenue (e.g. publicly-managed housing fees) allocable to redemption resources for local government bonds
Est in standard fiscal demand	905,249	Estimated funds added to ratio of regular local allocation tax in prefectural bond balance
Allocable fiscal sources(B)	1,049,959	
Numerator (A-B)	1,138,718	



Prefectural Bond Issuance Operation



Characteristics of the Issuance Operation



- Kyoto Prefecture conducts bond issuances in dialogue with the market

Public bonds to be underwritten by syndicates are issued basically in June, September, December and March

- As for 5-yr and 10-yr bonds, issuance is initially scheduled in order to help develop Annual financial plan
- The number of issues increased on demand from investors

~ FY2010: 3 issues/year → FY2011~ : 4 issues/year

Kyoto holds separate meetings with individual investors

- Meetings are held for individual investors for better understanding in Kyoto's fiscal situation

FY2009: 8 meetings → FY2010: 24 meetings → FY2011: 45 meetings → FY2012: 68 meetings

Kyoto steps up efforts to improve products

- Kyoto has been stepping up efforts to meet investors' demand for new issuance conditions

In FY2012, Kyoto launched its 1st-ever offering with lead managers (10-yr)

Utilized a flexible issuance facility to issue a 10-year and 15-year municipal bonds in April 2013, and a 7-year, 10-year and 15-year municipal bonds in October 2013, respectively (fiscal 2013)



Past Results and Future Plans



- During fiscal 2013 as well, Kyoto Prefecture will continue to issue a 5-year, 10-year and 20-year municipal bonds, respectively, as nationwide-type bonds to be offered publicly in the market
- In April 2013, Kyoto Prefecture issued a 15-year municipal bond by using a lead underwriter-based issuance format as the first-ever Japanese municipal government to do so, following which it issued a 7-year municipal bond in October 2013

(¥100mm)

FY2012	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Total
5-yr			200			100			100			100	500
5-yr (Citizen Participatory-type Bond)						25							25
10-yr			200			100	100		100			100	600
20-yr					200								200
Joint Local Government Bonds	150	50	100	100	50	50		50	50	50	50		700
Total	150	50	500	100	250	275	100	50	250	50	50	200	2,025

FY2013	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Total
5-yr			200			100			100			100	500
5-yr (Citizen Participatory-type Bond)					25								25
7-yr							100						100
10-yr	100		200			100	100		100			100	700
15-yr	100						100						200
20-yr					200				100 (Fixed time redemption)				300
Joint Local Government Bonds	100	50	50	100	50	50			50	50	50	50	600
Total	300	50	450	100	275	250	300	100	250	50	50	250	2,425



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