



Kyoto Prefecture Financial Profile and Fiscal Reforms

京都府



October 2016

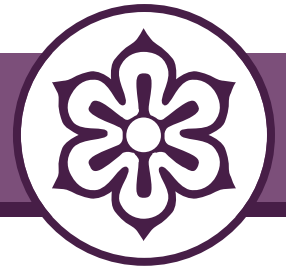
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Kyoto Prefecture: Introduction



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Overview of Kyoto Prefecture

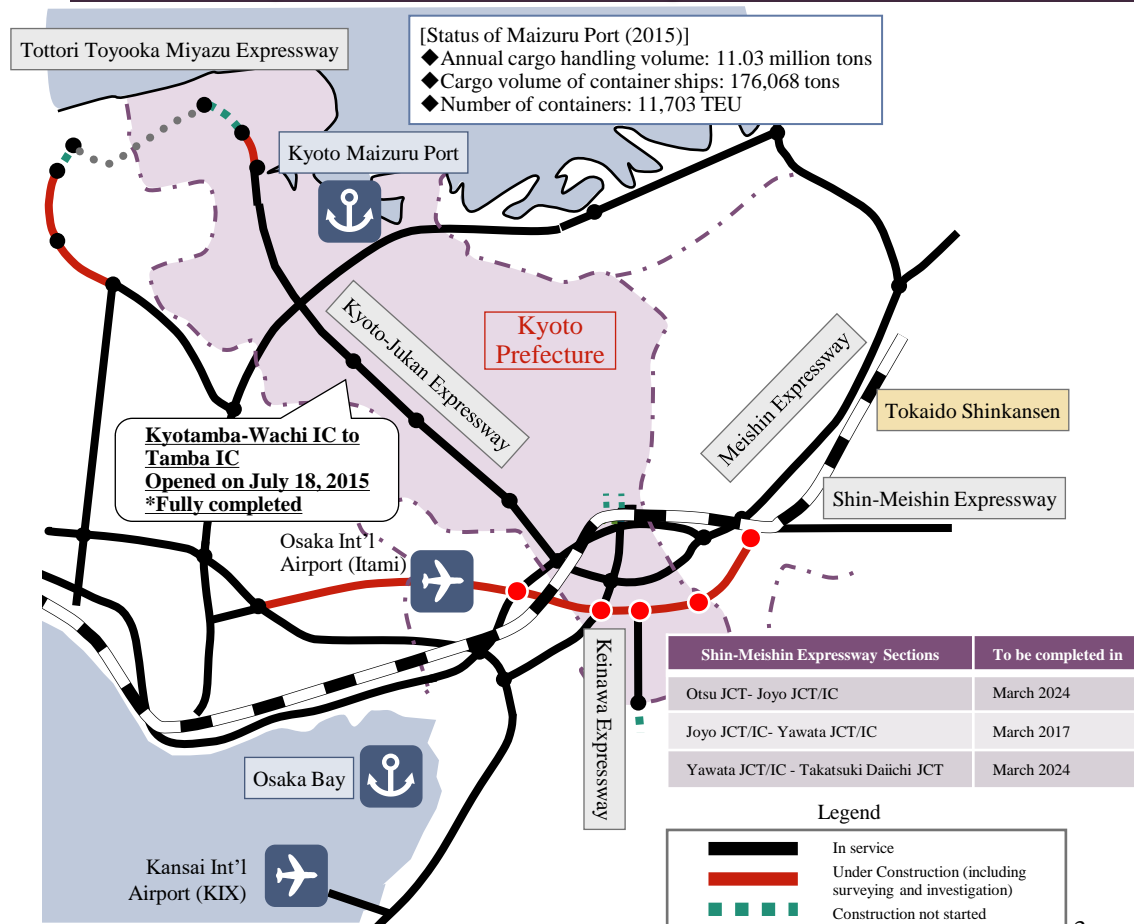


- Kyoto is one of the biggest prefectures in Japan with a population and economy ranked between the 10th and 15th in the nation.
- It has an arterial transportation network stretching from east to west, including the Meishin Expressway, Shin-Meishin Expressway, and Tokaido Shinkansen, as well as excellent accessibility from major airports—about 55 min. from Osaka International Airport and about 75 min. from Kansai International Airport—making it a sightseeing destination for an increasing number of foreign tourists.
- That plus the Kyoto-Jukan and Keinawa Expressways, which stretch from north to south, make this a well-developed transportation network serving as the cornerstone of the region's economy. In particular, we are making the most of the fully completed Kyoto-Jukan Expressway to develop attractive towns across the prefecture and promote visits by tourists under the banner of "Another Side of Kyoto."

Basic Facts about Kyoto Prefecture

| | | | |
|--|-----------------------|---------------------------|------|
| Area | 4,612 km ² | 31 st in Japan | 2014 |
| Population | 2.61 million | 13 th in Japan | 2014 |
| Prefectural GDP | 9,825.4 billion yen | 13 th in Japan | 2013 |
| Prefectural Income per Capita | 2.97 million yen | 14 th in Japan | 2013 |
| Manufacturing Value Added *Businesses with 10 or more employees | 1,811.8 billion yen | 17 th in Japan | 2014 |
| Annual Retail Sales | 2,553.7 billion yen | 13 th in Japan | 2014 |

Kyoto Prefecture Transportation Network

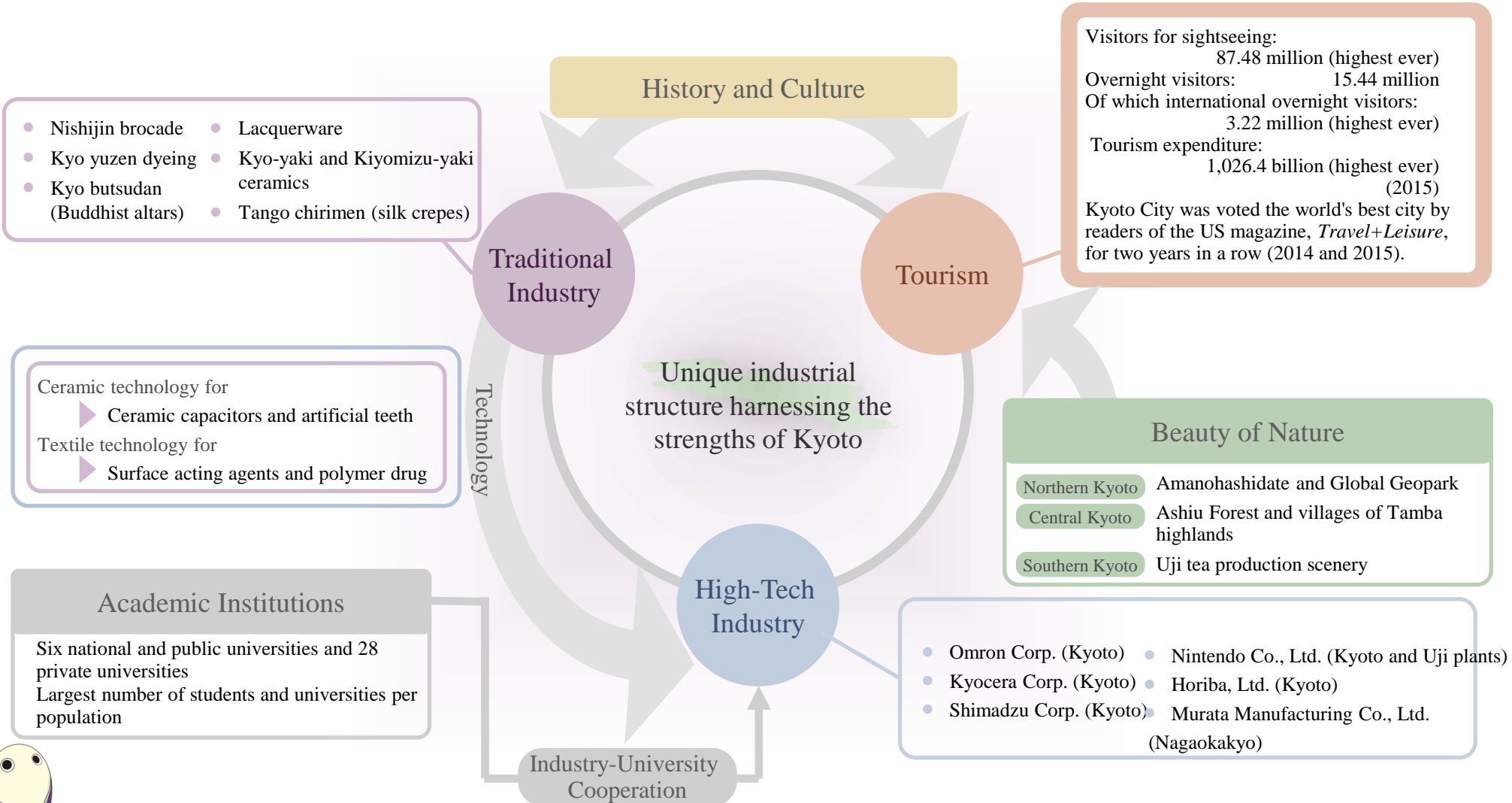


*Names of ICs are tentative for those not completed.

Kyoto's Unique Industries



- Kyoto's economy is supported by industries that create value that is unique to Kyoto, such as the tourism and traditional industries supported by 1,200 years of history and culture, as well as high-technology industries that combine the technological excellence of Kyoto's traditional industries with innovative ideas.



Kyoto Firms Creating High Added Value



- Supported by Kyoto's unique strengths in technologies, the Kyoto-based manufacturing industry holds significant shares of Japan's high-technology product markets and others.
- Home to many companies operating profitable businesses that employ their own home-grown technologies, Kyoto boasts the 11th highest corporate taxable income in Japan.

Kyoto's Major Products

| Industry | Products | Shipments | Rank |
|--|---|------------------------|------|
| Advanced Technology & Research Equipment | Pollution measuring instruments | 15.4 billion yen (54%) | 1 |
| | Spectral photometers | 10.7 billion yen (47%) | 1 |
| | Other analysis equipment | 45.8 billion yen (50%) | 1 |
| | Physical, chemical machinery and appliances | 18.9 billion yen (20%) | 1 |
| | Medical X-ray equipment | 20.5 billion yen (11%) | 1 |
| | Semiconductors and IC testers | 17.1 billion yen (13%) | 3 |
| Traditional Crafts | Ready-made kimono and obi | 6.2 billion yen (37%) | 1 |
| | Chirimen textile | 2.9 billion yen (73%) | 1 |
| | Paper fans and folding fans | 1.6 billion yen (32%) | 2 |
| Food & Beverages | Sake | 57.6 billion yen (13%) | 2 |
| | Japanese confectionery | 39.3 billion yen (7%) | 1 |
| | Green tea (refined tea) | 29.9 billion yen (13%) | 2 |

Source: METI: FY2014 industry statistics (domestic market share in %)

Corporate Taxable Income by Prefecture

| Rank | Prefecture | Taxable Income (Million yen) | Number of Firms | |
|------|------------|------------------------------|-----------------|------|
| | | | Number of Firms | Rank |
| 1 | Tokyo | 19,158,447 | 547,907 | 1 |
| 2 | Osaka | 4,292,145 | 224,120 | 2 |
| 3 | Aichi | 2,560,665 | 155,172 | 4 |
| 4 | Kanagawa | 1,300,192 | 173,626 | 3 |
| 5 | Hyogo | 902,740 | 96,983 | 8 |
| 6 | Fukuoka | 863,952 | 92,420 | 9 |
| 7 | Saitama | 766,936 | 127,284 | 5 |
| 8 | Chiba | 743,841 | 101,917 | 7 |
| 9 | Hokkaido | 685,265 | 112,501 | 6 |
| 10 | Shizuoka | 607,574 | 74,242 | 10 |
| 11 | Kyoto | 594,862 | 55,413 | 12 |
| 12 | Hiroshima | 561,701 | 59,653 | 11 |
| 13 | Gunma | 353,433 | 40,874 | 17 |
| 14 | Niigata | 353,323 | 42,397 | 15 |
| 15 | Okayama | 338,832 | 38,469 | 20 |

#11 in Taxable Income
#12 in Number of Firms

Source: National Tax Agency (avg. of FY2010-2014)



Tourism Industry Supporting the Prefectural Economy



- Kyoto has an abundance of tourism resources, including cultural assets, such as the ancient capital and Amanohashidate, one of Japan's top three scenic wonders. Its history, culture, natural environment, and scenic beauty are magnets for visitors from around the world, and tourism plays an important role in Kyoto's economy.

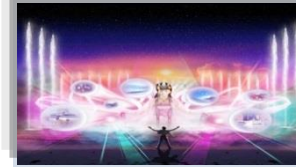


"Kyoto by the Sea" - No. of visitors to northern Kyoto tops 10 million.



Kyoto by the Sea

Completion of the Kyoto-Jukan Expressway has paved the way for various projects highlighting the attractive features of northern Kyoto. Umi no Kyoto (Kyoto by the Sea) DMO was launched in June with an aim to make this area one of the top tourist destinations in Japan.



"The Kyoto by the Sea Water Projection Show," held in July, drew about 20,000 people.

"Kyoto by the Forest" - Target Year



Kyoto by the Forest

Central Kyoto is home to the Ashiu Forest and Miyama Kayabukino-Sato. We are working to revitalize forestry and instill an appreciation for our forests with an eye to preserving an enduring natural heritage for future generations.



- Communicating the wonders of forests throughout the year
- Spring: Fashion show spotlighting stunning women's apparel
- Summer: Dance festival for the generation that will oversee the future growth of our forests
- October 8 and 9: National Tree-care Festival

"Tea in Kyoto"



Kyoto of Tea

The oldest tea producing region in Japan, southern Kyoto takes pride in an idyllic landscape steeped in history. We are working to promote the tea industry, popularize tea culture, etc.



- April 2015 -
 "Sauntering through the 800-year history of Japanese tea"—Yamashiro, Kyoto
 Recognized as a Japanese Heritage

| | | | |
|----------------------------|----------|---------------------|------|
| National Heritage Sites | 2,169 | #2 in Japan (16.5%) | 2016 |
| Protected Historical Areas | 8,513 ha | #1 in Japan (42.4%) | 2015 |

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



Vision for Kyoto Prefecture



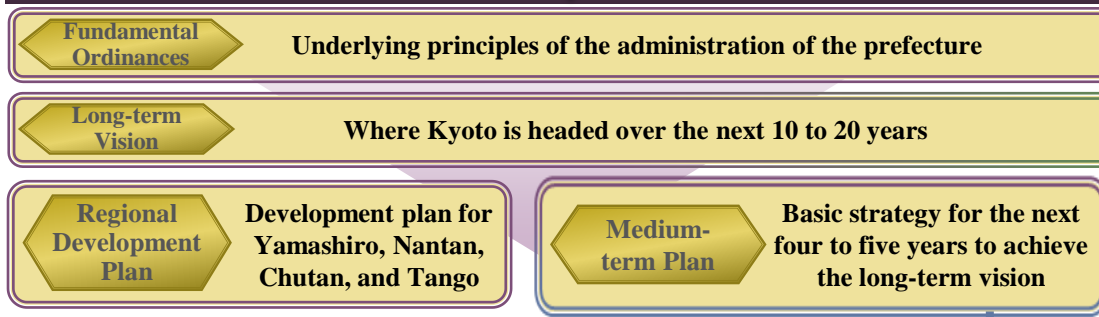
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Long-term Vision and Medium-term Plan of “The Kyoto of Tomorrow”



- “The Kyoto of Tomorrow,” new guidelines for the administration of Kyoto Prefecture, was initiated in January 2011.
- The long-term vision specifies where Kyoto is headed in the next 10 to 20 years, while the medium-term plan outlines a basic strategy for the next four to five years.
- We are implementing ongoing initiatives to leverage the strengths of Kyoto and meet other objectives (i.e. benchmarks) set under the medium-term plan. (The periods of the medium-term plan and the regional promotion plan ended in Mar. 2015, and a new plan for Apr. 2015 to Mar. 2019 has begun.)

Structure of “The Kyoto of Tomorrow”



Three Paths to Achieving the Long-term Vision

- **Make communities safer**
→ Build a Kyoto where everyone can live with peace of mind
- **Achieve regional co-existence and cooperation**
→ Build a Kyoto in which society is held together by bonds of trust, relationships, and cooperation
- **Leverage the Strengths of Kyoto**
→ Build a Kyoto where lifestyles, industry, and regional growth are a reality

Outline of the New “Medium-term Plan”

- The long-term vision focuses on a vision for the future, while the medium-term plan spells out specific goals and how to attain them.

| Focus of revision | New policy directions | Excerpts from the medium-term plan | |
|---|---|--|--|
| (1) Ensuring safety/security • Respond to frequent wind and flood damage, as well as a declining population (2) Growth • Invigorate all of Kyoto by taking advantage of national growth strategies and recovery of Japan’s economy | I. Make Communities Safer (1) Measures for preventing and mitigating disasters (2) Measures against the declining birthrate (3) Employment measures (4) Measures for the elderly | No worries about childrearing | • Implement comprehensive measures against a declining birthrate—covering marriage, pregnancy, and childbirth, in addition to existing support for childrearing (Support for spouse hunting, financial aid for fertility treatment, reduction of economic burdens facing child-rearing families, and development of a childcare environment) [No. of births per year] 2013: 20,106 > 2018: 22,000 (+2,000) |
| | II. Achieve regional co-existence and cooperation | Job security | • Promote full-time employment opportunities for young people and secure the kinds of personnel required by industry (Support for employment, vocational training, and promoting diverse working styles) [Total of newly employed full-time workers] 2013: 7,806 → 2014-2017: 30,000 |
| | III. Leverage the Strengths of Kyoto (1) Promotion of culture and sports (2) Measures for local industries (3) Measures for regional development (4) Energy policies | Industrial innovation and development of small- to medium-sized firms | • Promote industrial innovation that will pave the way to the future (Developing industries that incorporate features of Kyoto, such as environmental, life sciences, film, and content industries; promoting the Kyoto Innovation Belt Scheme to develop new industries through industry-academia collaboration by leveraging the largest number of colleges per capita in Japan; creating an international hub for innovation in health care and life sciences under the National Strategic Special Zones program; and promoting tourism across Kyoto) [Number of research institutes in Kansai Science City] End of 2013: 66 → End of 2018: 80 (up 20%) [Number of tourists per year] 2008: 77.99 million (record high) → 2018: 80 million (record high) |



Kyoto-style Regional Revitalization: Creating New Cultures for a New Life



- Working with the aim of creating unique regional cultures, we are implementing the "Kyoto Style Regional Revitalization" strategy across the prefecture to bring out the best of its outstanding resources and assets, which no other prefectures have, such as its long history and traditions, world-class universities and research institutions, small- to medium-sized companies with excellent technological capabilities, and rich natural environment.

Kyoto Prefecture Regional Revitalization Strategy Basic Objectives



1. Create a culture of human development

New initiative that leverages the bonds of communities and Kyoto's strength as an academic center

2. Create a culture of industry

New initiative that combines a diversity of local resources encompassing nature, history, and traditions

3. Create a culture of living in Kyoto

New initiative for enjoying great features of both urban and rural environments in the heart of nature

4. Create a culture of community development

New initiative where municipalities work together to enhance local economies and people's lives



Cultural Affairs Agency to Move to Kyoto

- As part of its strategy for overcoming population decline and invigorating local economies, the national government has solicited proposals for moving government agencies outside Tokyo, in order to aid regional revitalization. As a result, the government has decided to relocate all functions of the Cultural Affairs Agency to Kyoto.



Demonstration experiment related to the relocation of the Cultural Affairs Agency (Kyoto Prefectural Government Old Main Building, July 11-24, 2016)





Current Financial Profile and Fiscal Reforms



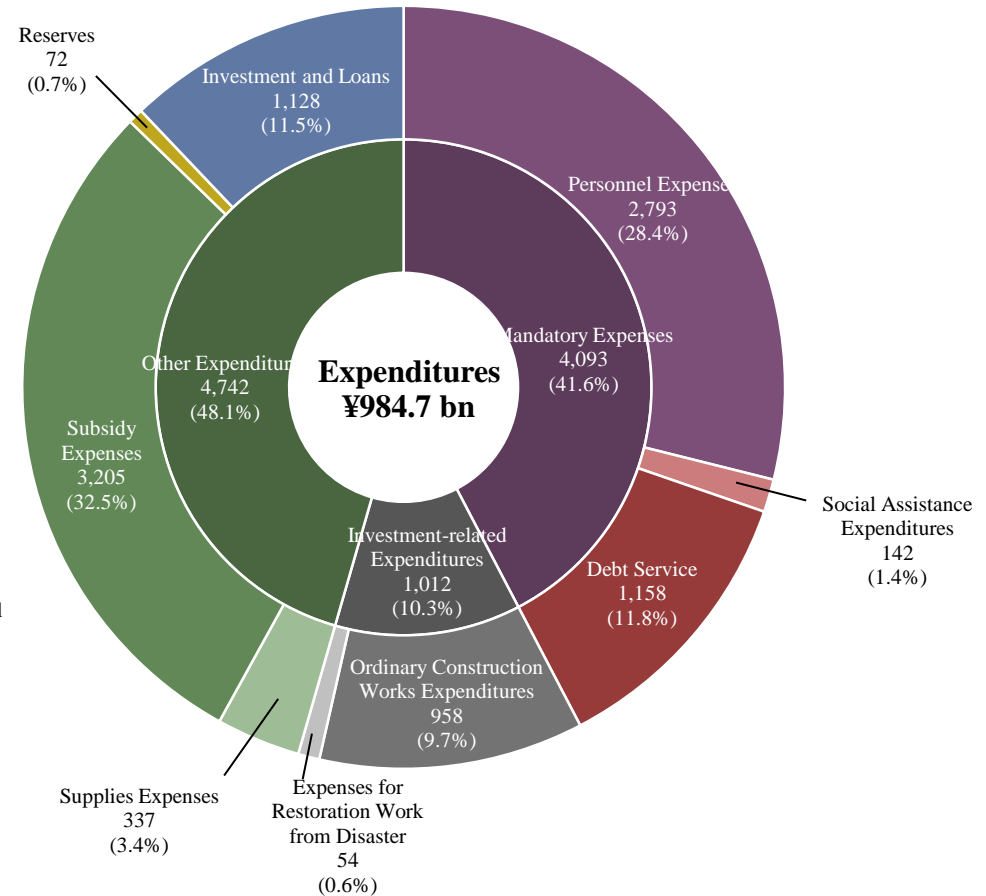
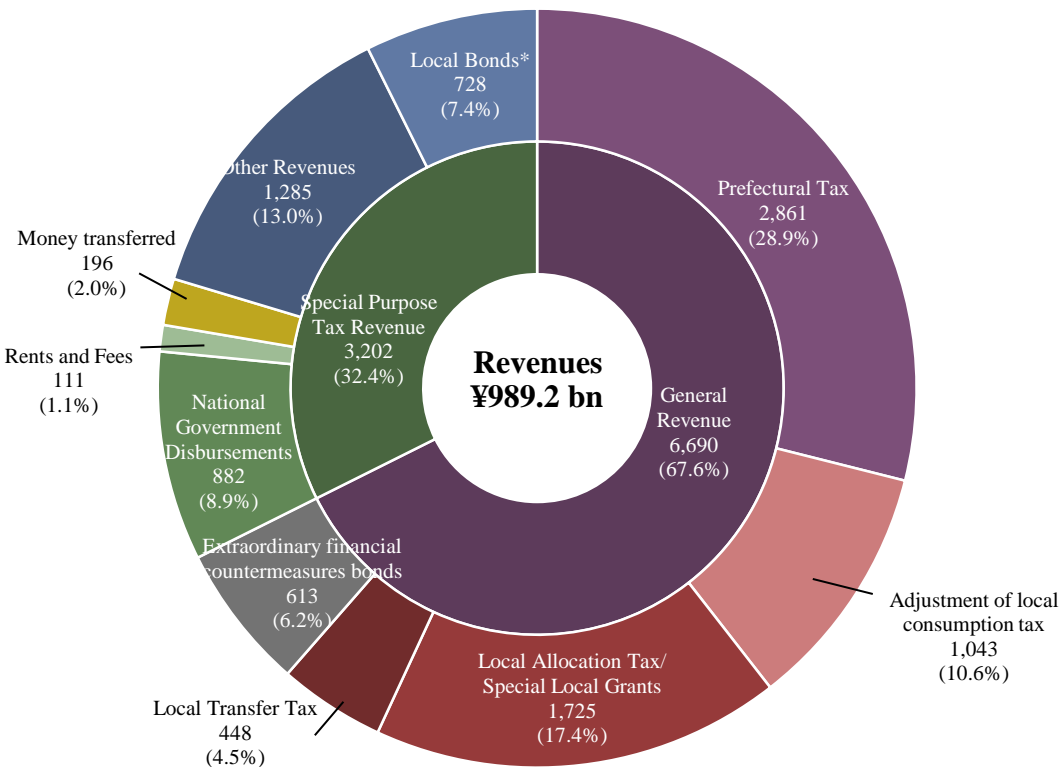
General Account: Annual Revenues and Expenditures Structure



- General revenue sources accounted for over 60% of total revenue in FY 2015, despite severe economic conditions.
- Mandatory expenses (e.g. personnel expenses, debt service) accounted for 40% of total expenditures. The Kyoto government intends to cut such expenses further.

FY 2015 General Account

*Excluding extraordinary financial countermeasures bonds

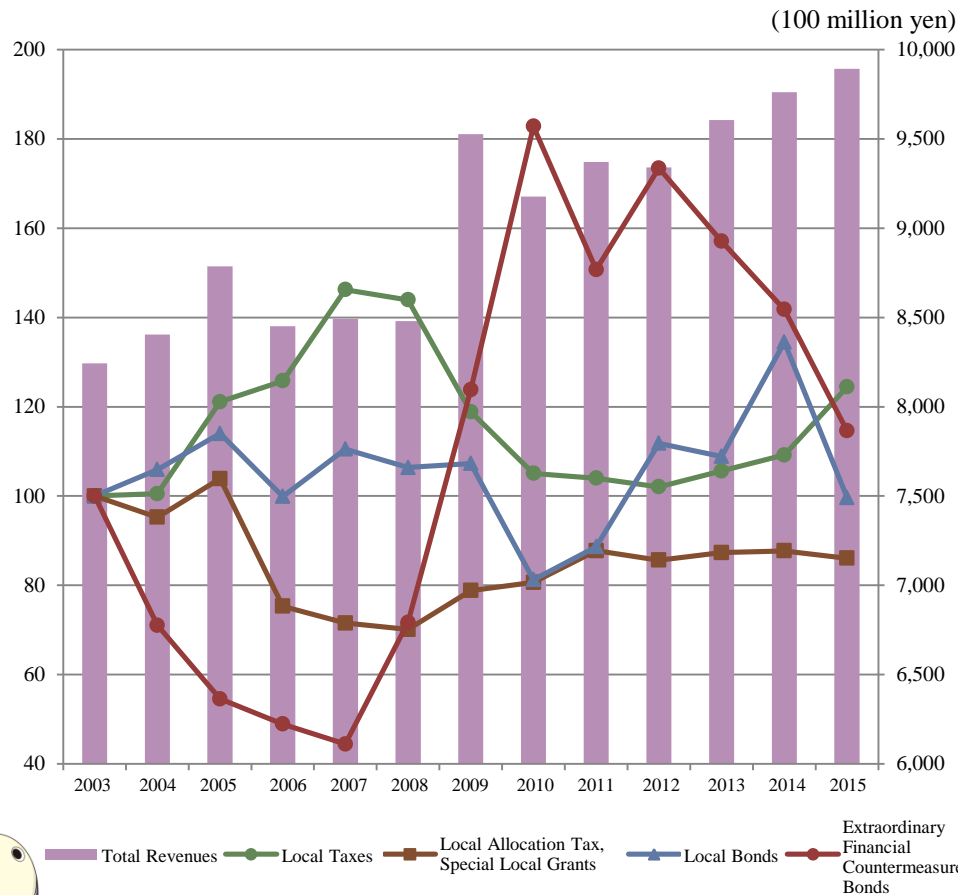


General Account: Changes in Expenditures and Revenues

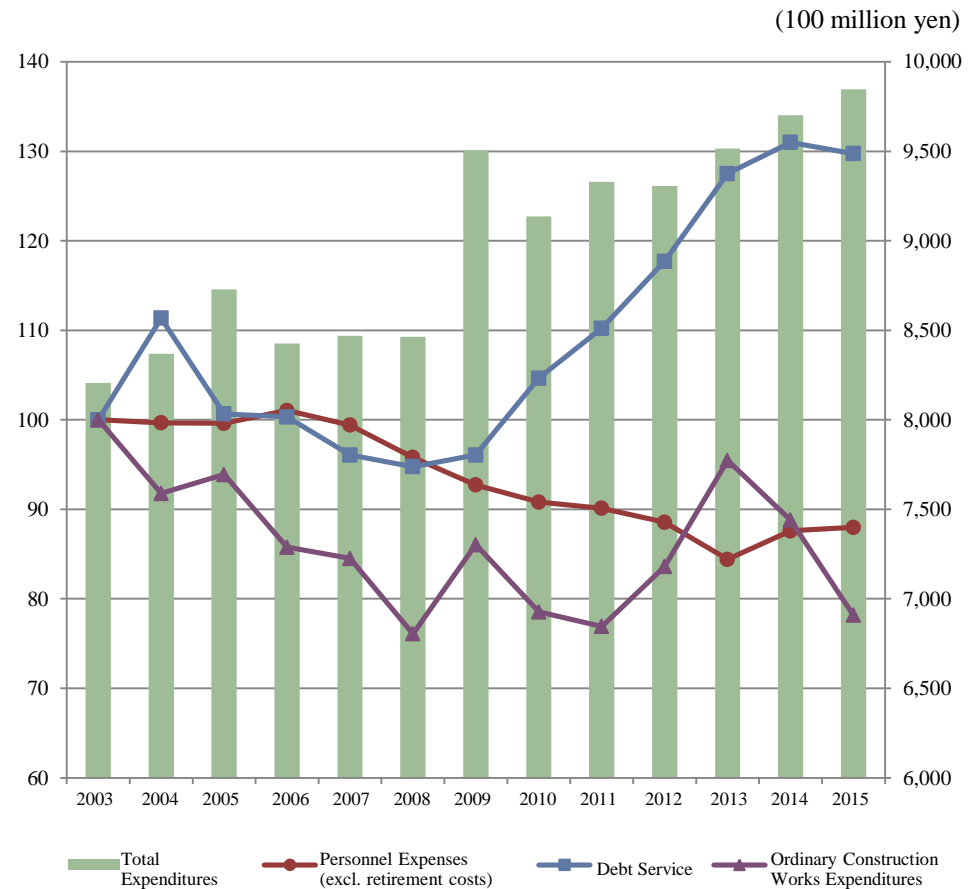


- While extraordinary financial countermeasure bonds increased, total redemptions of principal and interest are covered by the local allocation tax.
- The increase in local bonds in FY2014 is due to the issuance of a bond to promote third-sector reforms, etc. (18 billion yen).
- When making investments in social capital, we ensure that an optimal balance is maintained between outstanding prefectural debt and funds for repayment, such as tax revenues.
- Although personnel expenses increased in FY2014 due to the discontinuation of the temporary salary reduction measure, they are declining overall.

Changes in Revenues and Major Revenue Sources (Figures in 2003 as 100)



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



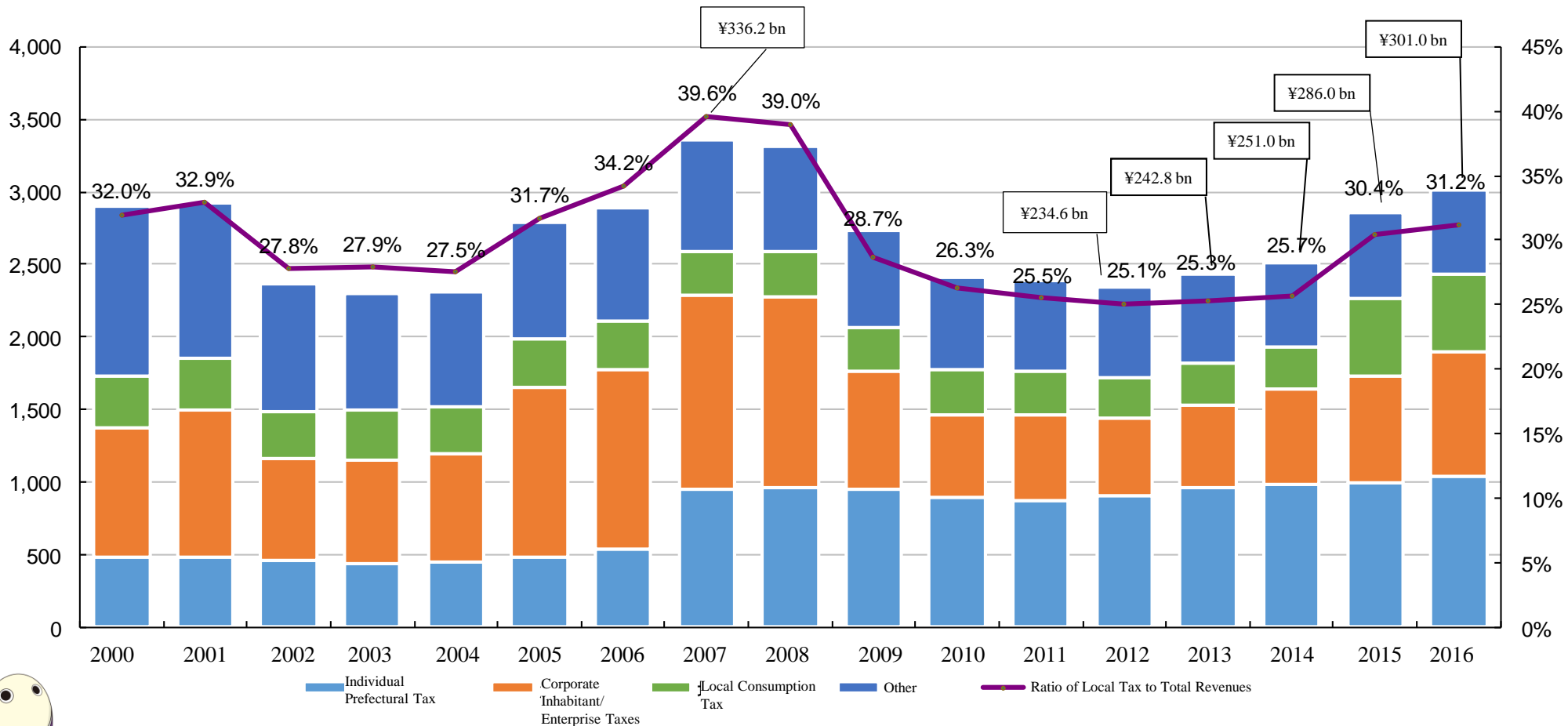
Prefectural Tax Revenues



- Tax revenues, which had continued to decline due to the economic downturn, bottomed out in fiscal 2013 and have been increasing for the last three years.
- Tax revenues for FY2016 are expected to increase due to the economic recovery, as well as other factors.

Prefectural Tax

(100 million yen)



Fiscal Reforms



Sound Public Finance
Guideline (FY 1999 - FY 2003)

Earned 67.7 billion yen, topping the 65 yen billion target

Management Reform Plan
(FY 2004 - FY 2008)

Earned 59.7 billion yen, topping the 50 billion yen target

Citizen
Satisfaction
Maximization Plan
(FY 2009 - FY 2013)

Earned 78.1 billion yen, topping the 60 billion yen target

- ◆ Concentrated limited human, financial, and infrastructure resources on maximizing the satisfaction of residents, despite a bleak financial outlook
- ◆ Streamlined programs and enhanced regional cooperation based on the needs of residents
- ◆ Simplified work processes, enhanced training to maximize the strengths of human resources, and maintained the Government Debt Program, which was launched in 2006 to bring down overall public debt and ordinary construction works expenditures, all of which led to meeting the goal of cutting outstanding prefectural debt (excluding emergency financial countermeasures bonds, etc.) by the end of FY 2013

Plan to Maximize
Citizen Satisfaction
and Gather Strength
in Kyoto
(FY 2014 - FY 2018)

- ◆ Expand public-private cooperation by fostering collaboration among citizens, companies, NPOs, and other stakeholders to combine the strengths of Kyoto as a whole, and further expand comprehensive services for citizens
- ◆ Eliminate unnecessary work and have each employee strive to develop superior services for citizens throughout the prefectural government
- ◆ Cut costs through strategic maintenance and management of public facilities to optimize the issuance of prefectural bonds, while ensuring new investment resources
- ◆ Stimulate local economies by making the necessary investments in social capital to increase tax revenue and achieve an optimal balance between outstanding prefectural debt and funds for repayment (such as tax revenue), which make up the stock of social capital, all with the aim of building a sustainable financial structure

Outstanding prefectural debt target

Outstanding prefectural debt
(excluding emergency
financial and disaster related
bonds)

- Prefectural debt
management
fund

≤ (

Tax revenue
(including
consumption tax
adjustment)

+

Local tax
allocation

+

Emergency
financial
countermeas-
ures bonds

) × 2*

*initially x2.3 (in 2014) > x2.16 (in 2015)

➔ Estimated fiscal effect of 40 billion yen



Community-driven Public Works Projects for Enhancing Resident Satisfaction



- A participatory development program was initiated in FY 2009. Under the program, decisions on public works projects are based on proposals solicited from Kyoto Prefecture residents concerning areas they think need improvement on the basis of their daily observations and routine discoveries.
- The program is aimed at increasing citizens' interest in public works projects, fulfilling our accountability to citizens, and enhancing their satisfaction.

Japan's first innovative local community opinion-driven municipal public works projects initiative

Local infrastructure renovation and repair work for enhancing safety and security, as well as improving scenic beauty

- ◆ Eliminate irregular road surfaces
- ◆ Repair paved roads
- ◆ Install guardrails and fall-prevention facilities
- ◆ Install traffic lights
- ◆ Implement rockfall preventive measures
- ◆ Repair river embankments and river walls
- ◆ Replace or repaint safety facilities such as street lightings and guardrails

About 13,000 proposals received over seven years (FY 2009 - FY 2015)

Example of a specific resident proposal



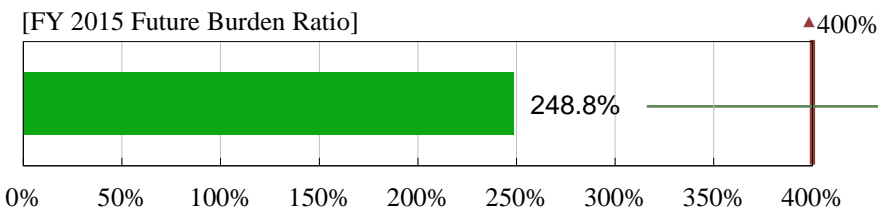
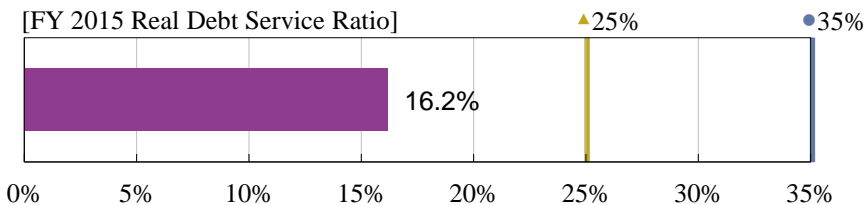
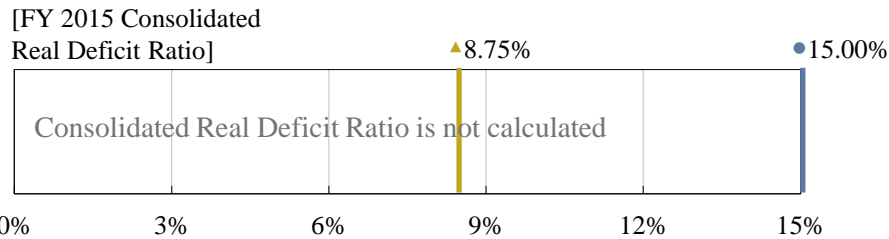
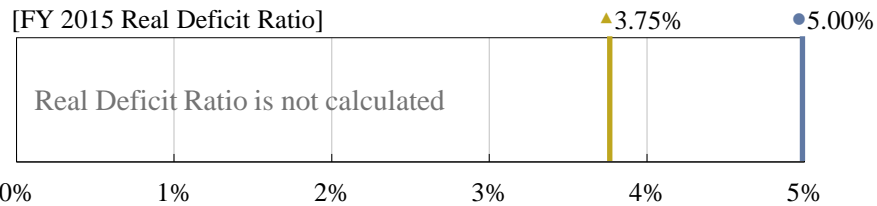
Gratings were installed on a street with a narrow sidewalk



Four Financial Soundness Indicators



- All four indicators are well below the threshold of fiscal reconstruction and early fiscal consolidation standards set by law.
- Kyoto continues its efforts to ensure appropriate financial management and maintain its fiscal health.



▲ Early fiscal consolidation standard ● Fiscal reconstruction standard

*The threshold for future burden ratio (▲) is set only for the early fiscal consolidation standard.

Calculation of Future Burden Ratio

| Item | Amount (Million yen) | Notes |
|---|----------------------|---|
| Outstanding local government bonds | 2,115,351 | Current balance of local government bonds including bonds to be redeemed in full at maturity |
| Planned expenditures for debt burden | 4,067 | Part of budget to be allocated to public debt service as debt burden |
| Est. transfer from public corp. bonds | 30,098 | Estimated funds to be transferred for redemptions of local government bonds related to special accounts (non-general account) |
| Est. share for unions | 18 | Estimated share of principal and interest redemption costs for labor unions, local development agencies, etc. |
| Est. retirement bonus burden | 209,728 | Estimated retirement allowances assuming voluntary retirement by all employees at the end of the previous fiscal year |
| Est. share of established corporations' liabilities | 799 | |
| 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 |
| Third sector, etc. | 799 | Estimated share of indemnities for third-sector entities, etc. |
| Consolidated real deficit | 0 | Real deficit on a total accounting basis |
| Est. unions' consolidated real deficit burdens | N/A | |
| Future Burden (A) | 2,360,061 | |
| Allocable funds | 149,209 | Allocable funds to local government bond redemption from balance of all funds |
| Allocable special revenue | 29,848 | Special revenue (e.g. publicly-managed housing fees) allocable to redemption resources for local government bonds |
| Est. standard fiscal demand | 1,012,209 | Estimated funds obtained by multiplying the prefectural bond balance by the ratio of regular local allocation tax |
| Allocable fiscal sources (B) | 1,191,266 | |
| Numerator (A-B) | 1,168,795 | |



Prefectural Bond Issuance Operation



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Characteristics of Issuance Operation



- Kyoto Prefecture issues bonds in response to the opinions and needs of investors and through dialogs with markets.

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

- 5-yr and 10-yr bonds are issued in fixed months to facilitate annual financial planning.
- The frequency of issuing bonds has been increased in response to investors' requests for more purchase opportunities.

Until FY 2010: 3 issues/year

Beginning FY 2011: 4 issues/year

Kyoto holds separate meetings with each investors

- Individual meetings are held for investors to facilitate a better understanding of Kyoto's fiscal situation.

FY 2009: 8 meetings

FY 2010: 24 meetings

From FY 2011: 50 per year on average

Kyoto steps up efforts to improve products

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

- Since the launch of the flexible issuance facility in fiscal 2013, we have managed bond issues flexibly according to the opinions and requests of investors, as well as market conditions.
- We will continue to place emphasis on communicating with investors in managing bond issues.

Bonds issued via a negotiated sale from 2014 onwards

| ¥100MM | FY 2014 | | FY 2015 | |
|------------------------------|----------------------------|-------------|------------|-------------|
| | First half | Second half | First half | Second half |
| 20-year | 200 | | 200 | |
| 5-year | 100 | | 100 | |
| 15-year | 100 | 100 | 100 | 100 |
| 20-year scheduled redemption | Flexible issuance facility | 100 | | 100 |

Vendor Awards Received in 2013

| | |
|--|--|
| FY 2013 20-year irredeemable bonds (challenge issuance facility) | |
| Thomson Reuters DealWatch | Innovative Debt Deal of the Year |
| Capital Eye | Best Deals of 2013 Special Prize of Regional Bonds Division |



Past Results and Future Plans



- In fiscal 2016, Kyoto Prefecture issued 30-year municipal bonds, in addition to conventional 5-year, 10-year, and 20-year municipal bonds in a nationwide public offering.
- In fiscal 2015, we used the flexible issuance facility to issue 5-year and 15-year bonds in April and 15-year bonds and 20-year irredeemable bonds in October through negotiated sales.

(¥100MM)

| <FY 2015> | April | May | June | July | Aug. | Sept. | Oct. | Nov. | Dec. | Jan. | Feb. | March | Total |
|--|------------|------------|------------|------------|------------|------------|--------------------------------|------|------------|-----------|------|------------|--------------|
| 5-year | 100 | | 100 | | | 100 | | | 100 | | | 100 | 500 |
| 5-year (Citizen Participatory-type Bond) | | | | | | 25 | | | | | | | 25 |
| 10-year | | | 100 | | | 100 | | | 100 | | | 100 | 400 |
| 15-year | 100 | | | | | | 100 | | | | | | 200 |
| 20-year | | | | | 200 | | 100 (Fixed-term redemption) | | | | | | 300 |
| Joint Local Government Bonds | 100 | 100 | 50 | 100 | 50 | 50 | | | 50 | 50 | | 50 | 600 |
| Total | 300 | 100 | 250 | 100 | 250 | 275 | 200 | | 250 | 50 | | 250 | 2,025 |

| <FY 2016> | April | May | June | July | Aug. | Sept. | Oct. | Nov. | Dec. | Jan. | Feb. | March | Total |
|------------------------------|------------|-----------|------------|------------|------------|------------|--------------------------------|------|------------|-----------|------|------------|--------------|
| 5-year | | | 100 | | | 100 | | | 100 | | | 100 | 400 |
| 10-year | 100 | | 100 | | | 100 | | | 100 | | | 100 | 500 |
| 15-year | 100 | | | | | | 100 | | | | | | 200 |
| 20-year | | | | | 200 | | 100 (Fixed-term redemption) | | | | | | 300 |
| 30-year | | | | | | 100 | | | | | | | 100 |
| Joint Local Government Bonds | 50 | 50 | 50 | 100 | 50 | 50 | | | 50 | 50 | | 50 | 500 |
| Total | 250 | 50 | 250 | 100 | 250 | 350 | 200 | | 250 | 50 | | 250 | 2,000 |



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