Management Discussion and Analysis of Operating Results, Financial Standing, and Cash Flows

Analysis of Operating Results

Operating Balance

Chubu Electric's electrical energy sold amounted to 121.8 TWh, almost the same as in the previous fiscal year, mainly due to a sales increase in the Tokyo metropolitan area and an increase in air conditioning demand by lower temperature in this winter, in spite of effect of switches made to other operators due to intensified competition.

On the demand for low voltage increased by 0.6TWh to 38.8TWh, compared with the previous fiscal year, mainly due to a sales increase in the Tokyo metropolitan area and an increase in air conditioning demand by lower temperature in this winter, in spite of customer's power saving effect and effect of switches made to other operators.

On the demand for high voltage and extra-high voltage dropped by 0.8TWh to 83.0TWh, compared with the previous fiscal year, mainly due to a sales increase in the Tokyo metropolitan area and an increase of production in the automobile and semiconductor industry, in spite of effect of switches made to other operators.

Electrical Energy Sold

(TWh, %)

	FY2016 (A)	FY2015 (B)	Change (A-B)	Change (A-B)/B
Low voltage	38.8	38.2	0.6	1.5
High voltage Extra-high voltage	83.0	83.8	(0.8)	(0.8)
Total	121.8	122.0	(0.2)	(0.1)

As to electricity power supply, the flow rate fell short of the previous fiscal year; thus hydroelectric power output decreased by 0.5TWh to 8.6TWh over the previous fiscal year, while the operation of all reactors at the Hamaoka Nuclear Power Station was suspended.

On the other hand, interchanged power and purchased power decreased by 1.9TWh to 9.8TWh over the previous fiscal year, mainly due to an increase in electricity sales volume to power exchange.

As a result, thermal power output increased by 3.2TWh to 110.2TWh, compared with the previous fiscal year.

Electric Power Supplied

(TWh, %)

	FY2016	Rate of Change
Internally generated		
Hydroelectric power	8.6	(6.2)
<flow rate>	<99.8>	
Thermal power	110.2	3.0
Nuclear power	(0.2)	0.3
<utilization rate>	<–>	
Renewable energy	0.0	(32.9)
Interchanged, Purchased power	9.8	(16.7)
Power used for pumped storage	(1.1)	78.4
Total	127.3	0.2

* From FY2016, the amount of power at the sending end has been mentioned as the amount of internally generated power. Rate of Change in the amount of power is calculated by converting the figure from the previous fiscal year to the sending end value.

In terms of operating balance, operating revenues decreased by 250.5 billion yen to 2,603.5 billion yen over the previous fiscal year, mainly due to a decrease in electricity sales revenues resulting from a decrease of fuel cost adjustment charge.

Operating expenses decreased by 101.9 billion yen to 2,467.0 billion yen over the previous fiscal year, due mainly to an decrease in fuel costs caused by a fall of fuel price.

As a result, operating income decreased by 148.5 billion yen to 136.4 billion yen, compared with the previous fiscal year.

Operational results by segment (before elimination of inter-segment transactions) are as follows.

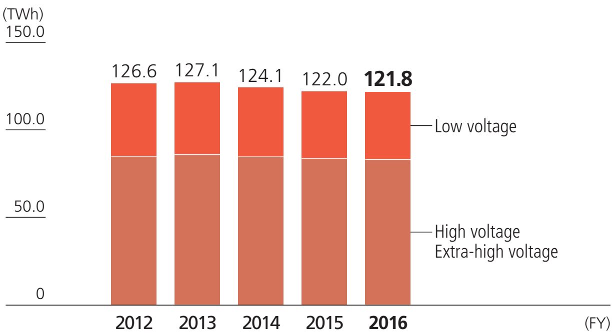
As the company introduced the company system in April 2016, comparisons of the current fiscal year with the previous fiscal year were not made.

Operating revenues of Power Generation amounted to 986.2 billion yen, and operating income was 61.2 billion yen.

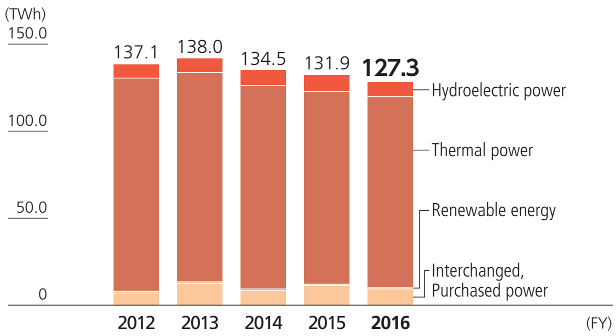
Operating revenues of Power Network amounted to 732.9 billion yen, and operating income was 35.0 billion yen.

Operating revenues of Customer Service & Sales amounted to 2,452.6 billion yen, and operating income was 51.1 billion yen.

Electrical Energy Sold



Electric Power Supplied



* From FY2016, the amount of power at the sending end has been mentioned as the mount of internally generated power.

Ordinary Income

Non-operating revenue decreased by 0.8 billion yen to 18.4 billion yen over the previous fiscal year. In combination with sales, the ordinary revenue in total decreased by 251.3 billion yen year on year to 2,621.9 billion yen.

Meanwhile, non-operating expenses decreased by 15.2 billion yen to 33.4 billion yen over the previous fiscal year. Combined with operating expenses, total ordinary expenses decreased by 117.2 billion yen year on year, to 2,500.5 billion yen.

As a result, ordinary income decreased by 134.1 billion yen to 121.4 billion yen, compared with the previous fiscal year.

Net Income attributable to owners of parent

During the current fiscal year, although the company recorded extraordinary income of 30.2 billion yen as JERA succeed the company's existing fuel business (upstream investments and fuel procurement) and the existing overseas power generation and energy infrastructure businesses, the net income attributable to owners of parent decreased by 55.0 billion yen to 114.6 billion yen, compared with the previous fiscal year.

Analysis of Financial Standing

Assets

Non-current assets decreased to 4,694.8 billion yen, down 99.7 billion yen from the end of the previous fiscal year, mainly due to the reversal of the reserve fund for reprocessing of irradiated nuclear fuel.

Current assets decreased by 26.9 billion yen to 717.5 billion yen, mainly due to a decrease in short-term investments.

As a result of the above, total assets decreased by126.6 billion yen to 5,412.3 billion yen, compared with the previous fiscal year end.

Liabilities

Total liabilities decreased by 214.2 billion yen from the end of the previous fiscal year to 3,687.5 billion yen, mainly due to the reversal of the provision for the reprocessing of irradiated nuclear fuel and the provision for preparation of the reprocessing irradiated nuclear fuel.

Net Assets

Total net assets increased by 87.6 billion yen from the end of the previous fiscal year to 1,724.7 billion yen due to the recognition of net income attributable to owners of the parent and other factors, despite the payment of dividends.

As a result, the shareholders' equity ratio was 31.1%.

Analysis of Cash Flows

Cash flow from operating activities decreased by 227.3 billion yen to 335.0 billion yen over the previous fiscal year, because of such factors as a decrease in electricity sales revenues due to a fall in fuel cost adjustment charge.

Cash outflow from investment activities increased by 52.2 billion yen over the previous fiscal year to 360.2 billion yen, mainly because purchase of noncurrent assets increased.

As a consequence of the above, free cash flow worsened by 279.5 billion yen from the previous fiscal year, resulting in an expenditure of 25.1 billion yen.

Cash flow from financing activities increased by 333.1 billion yen from the previous fiscal year due to an increase in demand for funds, resulting in income of 21.0 billion yen.

Consequently, the amount of cash and cash equivalents at end of fiscal year under review decreased by 30.4 billion yen from the end of previous fiscal year.

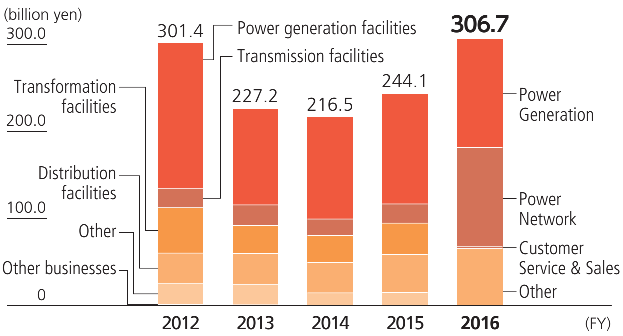
Furthermore, total outstanding interest-bearing debt at end of fiscal year under review increased by 49.2 billion yen from end of the previous fiscal year to 2,674.7 billion yen.

Capital Investments

Capital investments amounted to ¥345.6 billion in the fiscal year ended March 31, 2017 as a result of our efforts to pursue a maximum level of management efficiency, including procurement cost reduction by increasing competitive tendering when placing orders, while securing a stable supply of electric power and public security.

A breakdown of the capital investments by segment (before elimination of inter-segment transactions) is 125.1 billion yen for Power Generation, 114.6 billion yen for Power Network, 7.2 billion yen for Customer Service & Sales, and 105.1 billion yen for other segments.

■ **Capital Investments**



* From FY 2016, it has been changed to a breakdown by segment.

■ **(Reference) Fiscal 2016 Capital Investments (Non-consolidated)**

(billion yen)

Item	
Power Generation	125.1
Power Network	
Transmission facilities	25.1
Transformation facilities	44.9
Distribution facilities	34.2
Other	10.3
Total	114.6
Customer Service & Sales	0.8
Other	66.0
Grand total	306.7

* The above figures do not include consumption tax.

Business and Other Risks

Of all the variables affecting the Chubu Electric Power Group's performance and financial standing, the primary factors most likely to have a major effect on investors' decisions are listed below.

Forward-looking statements in this report are based on facts and conditions as of the date of this report (on June 29, 2017). Actual results may differ, affected by the government's future energy policy and revision of electricity business system.

(1) Risks of the economic environment

<1> Economic and weather conditions

In the electric power business, which is the core business of the Chubu Electric Power Group, the volume of electricity sales fluctuates due to economic and temperature, and consequently, the performance could potentially be affected.

In addition, the amount of yearly precipitation affects the amount of hydro electric power output, which impacts our power-generating costs. Chubu Electric, however, has set aside a reserve for fluctuation in water levels, which allows the company to make a certain adjustment against such impact within balance of the reserve, thus limits the effect on performance.

<2> Changes in fuel prices, etc.

Although fuel cost such as liquefied ntural gas (LNG), and crude oil may be affected by market price and fluctuations in the currency exchange market, the fluctuations of fuel prices within certain range could potentially be reflected in electricity rates under "Fuel-cost Adjustment System" , the impact of these factors on performance should be mitigated.

Meanwhile, the performance could also potentially be affected by the fluctuation in fuel expenses in the cases where: fuel becomes difficult to procure, for example, because of fluctuating supply and demand, supplier facility and/or operational issues, or changes in the political situation.

<3> Changes in interest rates

The balance of interest-bearing debts at the Chubu Electric Power Group stood at 2,674.7 billion yen at the end of March 2017, an amount equivalent to 49.4% of the group's total assets. Interest payments on this debt are susceptible to market interest rates, and thus, the performance could potentially be affected.

Of these interest-bearing debts, however, 86.4% came from long-term funds (bonds and long-term loans), and most of these funding were procured at fixed interest rates. So the effect of interest rate changes is considered limited.

Part of the corporate pension plan assets, held by the group, could potentially affect the performance as their market value fluctuates in tandem with movements in stock prices and interest rates, among other factors.

(2) Risks associated with Chubu Electric Group business activities

<1> Suspension of electricity generating facilities

Chubu Electric has suspended operation of all reactors at the Hamaoka Nuclear Power Station. Based on the new regulatory standards, the company has currently been implementing countermeasures steadily, while undergoing the Nuclear Regulation Authority's review to verify compliance with the new regulatory standards for Reactor No. 3 and No.4. The company will strengthen internal systems to take action in response to reviews being conducted, and allow early confirmation that the power station conforms to the new regulations.

The major safety enhancement measures at Unit 4, related to the tsunami/earthquake countermeasures or severe accident countermeasures that have been planned after the accident at the Fukushima Daiichi Nuclear Power Station, was mostly completed. In the future as well, if the contents of safety enhancement work need to be revised or additions need to be made based on the progress of the examination or based on new knowledge, the revisions or additions should be implemented at the earliest. After Unit 4, efforts will be made to implement the countermeasures in Unit 3 based on the new regulatory standards. In parallel with specifying the method for recovery from the sea-water inflow in Unit 5, countermeasures based on the new regulatory standards will be examined, and preparations will be made for applying for the examination for verification of conformance.

Moreover, on site response focusing on the inside of the power station, such as strengthening the on-site response capabilities through education/training or by streamlining the emergency preparedness system, will be continues, and in addition, efforts will be made to enhance the offsite response in preparation for nuclear disaster in the areas around the power station, by strengthening cooperation with the national and local governments, directed towards enhancing the effectiveness of emergency response including the evacuation of residents.

Since operation is suspended for all reactors at the Hamaoka Nuclear Power Station, the company is providing electricity using thermal power sources as an alternative; this will substantially increase fuel cost which, coupled with other factors, is likely to exert an influence on performance.

Providing the complete power supply system from power generation to distribution, the Chubu Electric Power Group strives to develop and maintain optimum facilities that ensure stable delivery of high quality electricity economically, while working to establish disaster-resistant systems by taking measures against large-scale earthquakes.

However, if supply facilities of the company or other power companies from which we receive power supply are shut down because of a large-scale disaster, an accident or terrorism and an obstacle to fuel procurement, the performance could potentially be affected.

<2> Nuclear power back-end costs, etc.
The back-end business of nuclear power takes an extremely long time period and has many uncertainties. Rules set by the government have reduced such uncertainties, but the costs of nuclear fuel cycles, including back-end costs, may vary depending on regulatory reform, changes in estimates of future expenses (mandated and voluntary), and the operating status of reprocessing facilities. As a result, the performance could potentially be affected.

<3> Changes in the competitive environment
Following the full liberalization of the electricity and gas retail markets and with the legal unbundling of the power transmission/distribution sector scheduled for 2020, the environment surrounding the energy business is changing rapidly. In addition, as markets and rules are being developed in stages to further encourage competition, the supply-demand structure may change significantly.

Under such circumstances, the Chubu Electric Power Group will maximize management efficiency and also create competitive tariff menu and new services that surpass the expectations of customers as well as promoting the sales of electricity and gas with focus on the Tokyo metropolitan area. However, the performance could also potentially be affected by intensified competition and changes to supply-demand structure.

Chubu Electric will strengthen its competitiveness by realizing flexible, economic an stable fuel procurement through JERA, and will also expand the scale of business in overseas power generation, energy infrastructure and other fields. Furthermore, with the aim of enhancing Chubu Electric Power Group’s corporate value, the company will move ahead with detailed discussions and necessary procedures, toward the integration of the existing thermal power generation business with JERA scheduled in the first half of FY2019.

Since the company formed the alliance with the aim to accelerate its conventional growth strategy, the company believes the alliance will increase growth opportunities. However, the performance could be affected by the specific development of the alliance.

<4> Regulatory amendments for global environment protection, etc.
With the international framework after 2020 regarding climate change agreed upon and global warming attracting international attention, Chubu Electric is, as a participating company of the “Electric Power Council for a Low Carbon Society (ELCS)”, a voluntary framework for conducting acrivities to suppress the emission of greenhouse gas, also required to achieve the goals set by ELCS, as well as to improve the efficiency of thermal power generation and the ratio of non-fossil energy sources in accordance with the Energy Saving Act and the Sophisticated Methods of Energy Supply Structures, which were revised in April 2016,

Given this situation, the Chubu Electric Power Group has established the “Chubu Electric Power Group Basic Environmental Policy”. Under its detailed protocol designated as “Action Plan”, the group aims to strive for the optimal energy mix and promote energy conservation, and through environmental management, contributes to the realization of a low carbon society on a global scale. However, the group performance could potentially be affected by the future trend of tightening environmental regulations, among other factors.

<5> Businesses other than electric power
The Chubu Electric Power Group focuses on electricity, gas and on-site energy supply as its core business areas. The group is engaged in a wide range of businesses, including overseas energy business, taking advantage of our accumulated know-how in domestic businesses, constructions for expanding and securing electricity-related facilities, and manufacturing of materials and equipment for the core businesses of the group. These businesses are subject to changing business environments, including increasing competition with other enterprises, and could potentially affect performance if they fail to produce the results expected by the group.

(3) Other risks

<1> Compliance
The Chubu Electric Power Group strives for strict compliance by establishing the “Chubu Electric Power Group Basic Compliance Policy”, which relates to compliance with laws, regulations and social rules. If any event against compliance occurs within or in connection with the organization and the reputation of the group is damaged, the performance could be adversely affected.

<2> Information leaks
The Chubu Electric Power Group comply with the relevant laws, maintains internal systems and establishes rules on information handling to ensure proper management of personal information (including specific personal information) and other critical information. The group has also increased information system security as well as employee training for this purpose.

However, in case information leak occurs and the direct cost of responding to the situation and loss of public trust in the group arises, the performance could potentially be affected.