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

Analysis of Operating Results

Operating Balance

Chubu Electric Power's electrical energy sold decreased by 3.2 TWh to 118.3 TWh, compared with the previous fiscal year, mainly due to an effect of switches made to other operators with the intensified competition, in spite of a sales increase outside Chubu region.

Furthermore, electrical energy sold including group companies decreased by 1.7 TWh to 123.6 TWh compared with the previous fiscal year.

■ Electrical Energy Sold

(TWh, %)

	FY2018 (A)	FY2017 (B)	Change (A-B)	Rate of Change (A-B)/B
Low voltage	36.4	38.8	(2.4)	(6.2)
High voltage Extra-high voltage	81.9	82.6	(0.8)	(0.9)
Total	118.3	121.4	(3.2)	(2.6)
Reference (1):				
Electrical energy sold including group companies*	123.6	125.3	(1.7)	(1.4)

*The sum of the company, consolidated subsidiaries, and affiliates accounted for under the equity method.

Reference (2):				
Electrical Energy Sold to other companies*	11.1	7.9	3.2	40.5

*Electrical Energy Sold to other companies represents volume in "Wholesale" of Externally generated.

As for electricity power supply, hydroelectric power output amounted to 8.5 TWh, almost the same as in the previous fiscal year, while the operation of all reactors at the Hamaoka Nuclear Power Station was suspended.

On the other hand, wholesale power increased by 3.2 TWh to 11.1 TWh over the previous fiscal year, mainly due to an increase in wholesale volume, and purchased power increased by 4.1 TWh to 22.8 TWh over the previous fiscal year, mainly due to an increase in purchase of power outside Chubu region and renewable energy.

As a result, thermal power output decreased by 4.1 TWh to 104.0 TWh, compared with the previous fiscal year.

■ Electric Power Supplied

(TWh, %)

	FY2018	Rate of Change
Internally generated		
Hydroelectric power	8.5	(0.3)
<flow rate>	<102.4>	
Thermal power	104.0	(3.8)
Nuclear power	(0.3)	2.1
<utilization rate>	<–>	
Renewable energy	0.1	46.0
Externally generated		
Wholesale	(11.1)	40.5
Purchased power	22.8	22.2
Power used for pumped storage	(0.7)	(46.8)
Total	123.4	(2.0)

In terms of operating balance, operating revenues increased by 181.7 billion yen to 3,035.0 billion yen over the previous fiscal year, mainly due to an increase in fuel cost adjustment charge, in spite of a decrease in electrical energy sold.

Operating expenses increased by 192.3 billion yen to 2,909.1 billion yen over the previous fiscal year, mainly due to an increase in fuel expenses following a rise in fuel prices, in spite of improvement of management efficiency across the group.

As a result, operating income decreased by 10.5 billion yen to 125.9 billion yen compared with the previous fiscal year.

Below is the performance by segment (before elimination of inter-segment transactions) of this consolidated fiscal year.

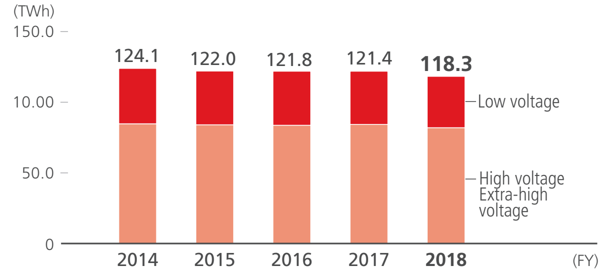
<Power Generation>

Operating revenue from power supply with thermal and renewable energy increased by 55.3 billion yen to 1,152.9 billion yen compared with the previous fiscal year, because of an increase in unit price of revenue due to an increase in fuel price.

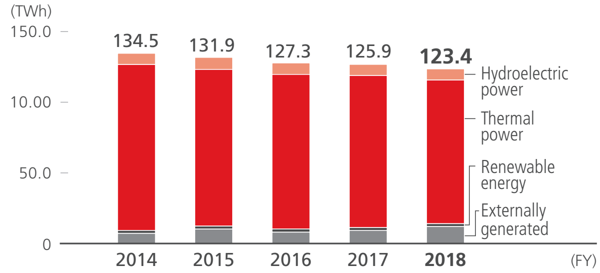
On the other hand, operating expenses increased by 86.1 billion yen to 1,145.4 billion yen compared with the previous fiscal year, because of an increase in fuel cost due to an increase in fuel price.

As a result of the above, operating income decreased by 30.7 billion yen to 7.4 billion yen compared with the previous fiscal year.

■ Electrical Energy Sold



■ Electric Power Supplied



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

<Power Network>
Operating revenue from provision of power network services increased by 1.7 billion yen to 746.4 billion yen compared with the previous fiscal year, mainly due to an increase in grant based on Act on Special Measures Concerning Procurement of Electricity from Renewable Energy Sources by Electricity Utilities, in spite of a decrease in electricity demand in Chubu region.

On the other hand, operating expenses increased by 3.9 billion yen to 693.3 billion yen compared with the previous fiscal year, mainly due to an increase in the purchase costs based on Act on Special Measures Concerning Procurement of Electricity from Renewable Energy Sources by Electricity Utilities, in addition to the natural disaster recovery expenditure in equipment damage caused by Typhoon No.21 and No.24, in spite of improvement of the efficiency related to the basic costs.

As a result of the above, operating income decreased by 2.2 billion yen to 53.0 billion yen compared with the previous fiscal year.

<Customer Service & Sales>
Operating revenue from a total energy service centered on gas & electric power increased by 115.6 billion yen to 2,749.5 billion yen compared with the previous fiscal year, mainly due to an increase in fuel cost adjustment charge in spite of a decrease in electrical energy sold.

On the other hand, operating expenses increased by 88.7 billion yen to 2,684.5 billion yen compared with the previous fiscal year, mainly due to an increase in expenses of purchased power because of an increase in fuel price.

As a result of the above, operating income increased by 26.8 billion yen to 65.0 billion yen compared with the previous fiscal year.

Ordinary Income
Nonoperating revenue decreased by 5.6 billion yen to 22.2 billion yen over the previous fiscal year. Ordinary revenue, the total of operating revenues and nonoperating revenue, increased by 176.1 billion yen year on year to 3,057.3 billion yen.

Meanwhile, Nonoperating expenses decreased by 0.6 billion yen to 35.2 billion yen over the previous fiscal year. Ordinary expenses, the total of operating expenses and nonoperating expenses, increased by 191.7 billion yen year on year, to 2,944.4 billion yen.

As a result, ordinary income decreased by 15.6 billion yen to 112.9 billion yen, compared with the previous fiscal year.

Net Income attributable to owners of parent
Net income attributable to owners of parent increased by 5.0 billion yen to 79.4 billion yen, compared with the previous fiscal year.

Achievement status of management target
Consolidated ordinary income amounted approximately to 163.0 billion yen after excluding the time-lag impact by the fuel cost adjustment system, and the mid-term goal of 150 billion yen or more in terms of consolidated ordinary income by FY2018, which was set in March 2016, has been achieved.

Analysis of Financial Standing

Assets
Noncurrent assets increased by 101.5 billion yen to 4,893.7 billion yen from the end of the previous consolidated fiscal year, mainly due to an increase in noncurrent assets because of capital investment, in spite of the progress of the depreciation.

Current assets increased by 356.5 billion yen to 1093.7 billion yen from the end of the previous consolidated fiscal year, mainly due to securing cash and deposits in order to integrate the company's existing thermal power generation businesses to JERA, etc.

As a result of the above, total assets increased by 458.1 billion yen to 5,987.5 billion yen compared with the end of the previous consolidated fiscal year.

Liabilities
Total liabilities increased by 405.6 billion yen to 4,143.1 billion yen from the end of the previous consolidated fiscal year, mainly due to an increase in interest-bearing liabilities.

Net Assets
Total net assets increased by 52.4 billion yen to 1,844.3 billion yen from the end of the previous consolidated fiscal year, mainly due to the recognition of net income attributable to owners of parent, in spite of paying cash dividends.

As a result, the shareholders' equity ratio was 29.7%.

Analysis of Cash Flows
Cash inflow from operating activities decreased by 127.7 billion yen to 296.4 billion yen from the previous consolidated fiscal year, because of an increase in fuel cost due to an increase in fuel price.

Cash outflow from investment activities increased by 23.8 billion yen to 368.3 billion yen from the previous consolidated fiscal year, mainly due to an increase in payments for acquiring noncurrent assets.

As a result, free cash flow decreased by 151.6 billion yen to -71.9 billion yen from the previous consolidated fiscal year.

Cash inflow from financing activities increased by 425.9 billion yen to 337.2 billion yen from the previous consolidated fiscal year mainly due to an increase in amount for funding.

Consequently, the amount of cash and cash equivalents at end of consolidated fiscal year increased by 265.1 billion yen from the end of previous consolidated fiscal year.

Furthermore, total outstanding interest-bearing debt at end of consolidated fiscal year increased by 385.5 billion yen to 2,981.1 billion yen from the end of previous consolidated fiscal year.

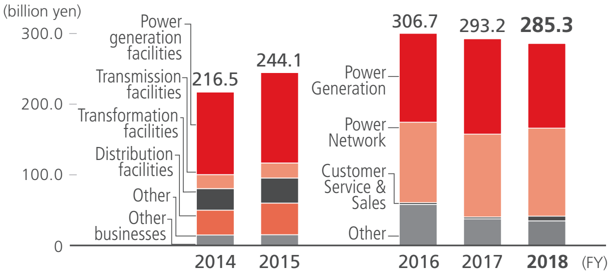
With regard to capital sources and fund fluidity, the group raises equipment funds required primarily to administrate the electricity business by way of issuing corporate bonds, obtaining bank loans, etc., and gains in short-term operation funds mainly by issuing short-term corporate bonds in principle.

Capital Investments

Capital investments amounted to 327.1 billion yen in the fiscal year ended March 31, 2019 as a result of our efforts to pursue a maximum level of management efficiency, including slimming down of equipment, 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 116.9 billion yen for Power Generation, 114.6 billion yen for Power Network, 17.2 billion yen for Customer Service & Sales, and 84.6 billion yen for other segments.

■ Capital Investments (Nonconsolidated)



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

■ Reference: FY2018 Capital Investments (Nonconsolidated)

(billion yen)

Item	
Power Generation	116.9
Power Network	
Transmission facilities	25.4
Transformation facilities	45.5
Distribution facilities	32.1
Other	11.5
Total	114.6
Customer Service & Sales	1.4
Other	52.2
Grand total	285.3

*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 the financial statement report (on June 27, 2019). Actual results may differ, affected by the government's future energy policy and revision of electricity business system and others.

(1) Risks of the economic environment

<1> Economic and weather conditions

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

In addition, the amount of yearly precipitation affects the amount of hydroelectric power output, which impacts our power-generating costs. Chubu Electric Power, 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.

Regarding the group's fuel procurement costs, they may be affected by market price and fluctuations in the currency exchange market such as liquefied natural gas (LNG), coal and crude oil, however, 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.

Also, although fuel procurement by JERA etc., has been carried out to diversify the procurement sources and secure flexibility, the performance could potentially be affected by the fluctuation in fuel procurement costs in the cases where: fuel becomes difficult to procure because of fluctuating supply and demand, supplier facility and/or operational issues, or changes in the political situation and so on.

<3> Changes in interest rates

The balance of interest-bearing debts of the Group is 2,981.1 billion yen at the end of March 2019, an amount equivalent to 49.8% 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.

However, 599.2 billion yen of the debt have been succeeded to JERA on April 1, 2019, and 85.9% of the rest of the debt is long-term funds for bonds and long-term loans and most of these funding were procured at fixed interest rates, so the impact on business result is limited.

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

(2) Risks associated with the Group business activities

<1> Suspension of electricity generating facilities

The company 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 Units 3 and 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, any additional equipment counterplan in response to the review etc. should be implemented at the earliest time possible. 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 power procurement costs which coupled with other factors, is likely to exert an influence on performance.

The Group strives to develop and maintain optimum facilities that ensure stable delivery of high quality electricity economically, while taking measures against large-scale earthquakes and cyber terrorism as a response to threats such as disasters.

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, an obstacle to fuel procurement and the correspondence to the new regulatory standards, 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 like 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.

The company views these kinds of changes in business environment as major opportunities for growth. In order to take the lead in the new era of energy, the company makes the transition to "a business model that separates power generation from sales" such as integration the existing thermal power generation business into JERA in April 2019, and split off the sales business in April 2020. By having each of our business deal with a different markets and developing the business independently, the company aims to grow into a more robust corporate group.

In the sales business, the company will work to expand sales by providing electricity and gas with services and products that enrich customers' lives. JERA will grow to become a global energy company and work to supply international competitive energy stably by integrated and optimal management of entire value chain from fuel upstream, procurement, power generation and electricity and gas wholesale sales. Through these efforts, the company will work to increase the corporate value of the Group.

However, the performance could be affected by intensifying competition and so on.

<4> Regulatory amendments for global environment protection, etc.

While increasing requests for global warming countermeasures in both Japan and overseas reflecting an adoption of Paris Agreement, it is necessary to improve the percentage of non-fossil energy sources in accordance with the Sophisticated Methods of Energy Supply Structures as well as participating in "Electric Power Council for a Low Carbon Society (ELCS)" which is a voluntary framework for conducting activities to suppress the emission of greenhouse gas and aiming to achieve the goals set by ELCS.

Given this situation, the group has established "Action Plan" which is detailed protocol action plan based on the "Chubu Electric Power Group Basic Environmental Policy". In addition to reducing CO_2 emissions and pursuing the optimal energy mix through all measures including the expansion of the use of renewable energy, the group is promoting energy saving and aims to realize a low-carbon society on a global scale through thorough environmental management.

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 group focuses on the energy business that supplies electricity, gas and on-site energy as its core areas and are developing various businesses, including overseas energy business taking advantage of our know-how in our domestic businesses, electricity-related facilities construction and maintenance, and manufacturing of materials and equipment for the core businesses of the group.

In addition to these businesses, the group develop "new growth fields" further, including Community Support Infrastructure which focuses on solving social issues, while promoting collaboration with various companies in order to actively utilize AI and IoT technologies and external resources.

However, 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 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, the reputation of the group may be damaged and the performance could be adversely affected.

<2> Information leaks

The 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.