

Consolidated Financial Statements

Central Nippon Expressway Company Limited and
its Consolidated Subsidiaries

*Years ended March 31, 2014 and 2013
with Independent Auditor's Report*

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Independent Auditor's Report

The Board of Directors
Central Nippon Expressway Company Limited

We have audited the accompanying consolidated financial statements of Central Nippon Expressway Company Limited and its consolidated subsidiaries, which comprise the consolidated balance sheets as at March 31, 2014 and 2013, and the consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the years then ended and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for designing and operating such internal control as management determines is necessary to enable the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. The purpose of an audit of the consolidated financial statements is not to express an opinion on the effectiveness of the entity's internal control, but in making these risk assessments the auditor considers internal controls relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Central Nippon Expressway Company Limited and its consolidated subsidiaries as at March 31, 2014 and 2013, and their consolidated financial performance and cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

Convenience Translation

We have reviewed the translation of these consolidated financial statements into U.S. dollars, presented for the convenience of readers, and, in our opinion, the accompanying consolidated financial statements have been properly translated on the basis described in Note 1(a).

/s/ Ernst & Young ShinNihon LLC
June 20, 2014
Nagoya, Japan

Central Nippon Expressway Company Limited and its Consolidated Subsidiaries

Consolidated Balance Sheets

March 31, 2014 and 2013

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars (Note 1(a))</i>
	2014	2013	2014
Assets			
Current assets:			
Cash and deposits (<i>Notes 9, 17 and 18</i>)	¥ 74,384	¥ 24,930	\$ 722,736
Accounts receivable due from expressway business operations (<i>Notes 18 and 22</i>)	51,070	44,463	496,211
Other accounts receivable (<i>Note 18</i>)	50,155	7,275	487,320
Marketable securities (<i>Notes 4, 17 and 18</i>)	40,000	98,276	388,651
Inventories (<i>Note 5</i>)	878,431	689,785	8,535,086
Deferred income taxes (<i>Note 10</i>)	2,345	2,682	22,785
Other current assets (<i>Notes 17, 18 and 20</i>)	12,819	27,483	124,553
Allowance for doubtful accounts	(21)	(12)	(204)
Total current assets	1,109,183	894,882	10,777,138
Property and equipment (<i>Notes 7, 15 and 21</i>):			
Buildings	58,520	57,242	568,597
Structures	53,147	51,818	516,391
Machinery and equipment	95,004	89,885	923,086
Vehicles	18,212	17,137	176,953
Tools, furniture and fixtures	12,731	12,360	123,698
Land	119,717	119,843	1,163,204
Leased assets	1,778	1,581	17,276
Construction in progress	4,018	3,112	39,040
Less accumulated depreciation	(103,245)	(87,989)	(1,003,158)
Total property and equipment	259,882	264,989	2,525,087
Investments and other assets:			
Investments in unconsolidated subsidiaries and affiliates (<i>Notes 6, 18 and 21</i>)	3,856	4,499	37,466
Investments in securities (<i>Notes 4 and 18</i>)	1,065	946	10,348
Intangible fixed assets (<i>Note 21</i>)	8,659	9,854	84,133
Deferred income taxes (<i>Note 10</i>)	2,544	1,806	24,718
Asset for retirement benefits (<i>Note 11</i>)	134	—	1,302
Others (<i>Note 9</i>)	5,325	6,070	51,739
Allowance for doubtful accounts	(298)	(261)	(2,895)
Total investments and other assets	21,285	22,914	206,811
Deferred assets:			
Bond issuance expenses for road construction	1,533	1,209	14,895
Total assets (<i>Notes 9, 12, 21 and 22</i>)	¥ 1,391,883	¥ 1,183,994	\$ 13,523,931

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars (Note 1(a))</i>
	2014	2013	2014
Liabilities			
Current liabilities:			
Accounts payable due to expressway business operations (Notes 18 and 22)	¥ 83,599	¥ 93,589	\$ 812,272
Current portion of long-term debt (Notes 8, 9, 18 and 22)	51,325	38,040	498,688
Current portion of lease obligations (Notes 8 and 15)	309	313	3,002
Other accounts payable (Note 18)	19,561	59,807	190,060
Income and other taxes payable (Notes 10 and 18)	1,861	1,270	18,082
Accrued employees' bonuses	2,829	2,865	27,487
Allowance for losses due to forged expressway cards	57	80	554
Other current liabilities (Note 22)	14,788	15,287	143,685
Total current liabilities (Note 21)	174,329	211,251	1,693,830
Long-term liabilities:			
Long-term debt (Notes 8, 9, 18 and 22)	917,541	677,366	8,915,089
Lease obligations (Notes 8 and 15)	664	686	6,452
Deferred income taxes (Note 10)	64	157	622
Accrued retirement benefits for employees (Note 11)	—	59,530	—
Liability for retirement benefits (Note 11)	70,273	—	682,792
Accrued retirement benefits for directors, corporate auditors and corporate officers	232	186	2,254
Allowance for ETC mileage program	7,307	5,600	70,997
Allowance for card shopping point program	25	24	243
Others	22,807	23,408	221,600
Total long-term liabilities (Note 21)	1,018,913	766,957	9,900,049
Contingent liabilities (Notes 12 and 22)			
Net assets:			
Shareholders' equity (Notes 13 and 16):			
Common stock	65,000	65,000	631,558
Authorized: 520,000,000 shares			
Issued: 130,000,000 shares at March 31, 2014 and 2013			
Capital surplus	71,650	71,650	696,172
Retained earnings	67,719	66,488	657,977
Total shareholders' equity	204,369	203,138	1,985,707
Accumulated other comprehensive loss:			
Net unrealized holding gain (loss) on securities (Note 16)	23	(3)	224
Retirement benefit liability adjustments	(9,457)	—	(91,887)
Total accumulated other comprehensive loss	(9,434)	(3)	(91,663)
Minority interests (Note 16)	3,706	2,651	36,008
Total net assets (Note 16)	198,641	205,786	1,930,052
Total liabilities and net assets	¥ 1,391,883	¥ 1,183,994	\$ 13,523,931

See notes to consolidated financial statements.

Central Nippon Expressway Company Limited and its Consolidated Subsidiaries

Consolidated Statements of Income

Years ended March 31, 2014 and 2013

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars (Note 1(a))</i>
	2014	2013	2014
Operating revenues (Notes 21 and 22)	¥ 635,444	¥ 1,681,016	\$ 6,174,155
Operating expenses:			
Road assets leasing expenses (Note 22)	360,586	350,248	3,503,556
Cost of sales and administrative expenses for expressway business operations (Notes 11 and 14)	213,770	1,267,114	2,077,050
Selling, general and administrative expenses (Notes 11 and 14)	59,048	57,267	573,728
Total operating expenses	633,404	1,674,629	6,154,334
Operating income (Note 21)	2,040	6,387	19,821
Other income (expenses):			
Interest income	66	101	641
Land and property rental fees	215	227	2,089
Amortization of negative goodwill (Note 21)	342	339	3,323
Equity in earnings of affiliates	318	506	3,090
Interest expenses	(83)	(137)	(806)
Gain on sales of fixed assets	57	47	554
Gain on sales of investments in securities (Note 4)	37	123	360
Gain on cancellation of insurance claims	—	80	—
Loss on disposal of fixed assets	(167)	(146)	(1,623)
Loss on sales of fixed assets	(61)	(5)	(593)
Loss on sales of investments in securities (Note 4)	—	(33)	—
Gain on negative goodwill (Notes 21 and 23)	1,010	339	9,813
Gain on step acquisitions (Note 23)	—	16	—
Loss on withdrawal from employees' pension fund	—	(84)	—
Others	533	616	5,179
Income before income taxes and minority interests	4,307	8,376	41,848
Income taxes (Note 10):			
Current	2,930	3,335	28,469
Deferred	100	699	971
	3,030	4,034	29,440
Income before minority interests	1,277	4,342	12,408
Minority interests	46	(11)	447
Net income (Note 16)	¥ 1,231	¥ 4,353	\$ 11,961

See notes to consolidated financial statements.

Central Nippon Expressway Company Limited and its Consolidated Subsidiaries

Consolidated Statements of Comprehensive Income

Years ended March 31, 2014 and 2013

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars (Note 1(a))</i>
	2014	2013	2014
Income before minority interests	¥ 1,277	¥ 4,342	\$ 12,408
Other comprehensive income:			
Net unrealized holding gain on securities	26	19	252
Share of other comprehensive income of affiliates accounted for by the equity method	0	20	0
Total other comprehensive income (Note 24)	26	39	252
Comprehensive income	¥ 1,303	¥ 4,381	\$ 12,660
Total comprehensive income (loss) attributable to:			
Shareholders of the Company	¥ 1,256	¥ 4,392	\$ 12,204
Minority interests	47	(11)	456

See notes to consolidated financial statements.

Central Nippon Expressway Company Limited and its Consolidated Subsidiaries

Consolidated Statements of Changes in Net Assets

Years ended March 31, 2014 and 2013

	Number of shares in issue	<i>Millions of yen</i>		
		Common stock	Capital surplus	Retained earnings
Balance at April 1, 2012	130,000,000	¥ 65,000	¥ 71,650	¥ 62,135
Net income for the year	—	—	—	4,353
Other changes	—	—	—	—
Balance at April 1, 2013	130,000,000	65,000	71,650	66,488
Net income for the year	—	—	—	1,231
Other changes	—	—	—	—
Balance at March 31, 2014	130,000,000	¥ 65,000	¥ 71,650	¥ 67,719

	<i>Millions of yen</i>			
	Accumulated other comprehensive loss			Total net assets
	Net unrealized holding gain (loss) on securities	Retirement benefit liability adjustments	Minority interests	
Balance at April 1, 2012	¥ (41)	¥ —	¥ 2,341	¥ 201,085
Net income for the year	—	—	—	4,353
Other changes	38	—	310	348
Balance at April 1, 2013	¥ (3)	¥ —	¥ 2,651	¥ 205,786
Net income for the year	—	—	—	1,231
Other changes	26	(9,457)	1,055	(8,376)
Balance at March 31, 2014	¥ 23	¥ (9,457)	¥ 3,706	¥ 198,641

	<i>Thousands of U.S. dollars (Note 1(a))</i>		
	Common stock	Capital surplus	Retained earnings
Balance at April 1, 2013	\$ 631,558	\$ 696,172	\$ 646,016
Net income for the year	—	—	11,961
Other changes	—	—	—
Balance at March 31, 2014	\$ 631,558	\$ 696,172	\$ 657,977

	<i>Thousands of U.S. dollars (Note 1(a))</i>			
	Accumulated other comprehensive loss			Total net assets
	Net unrealized holding gain (loss) on securities	Retirement benefit liability adjustments	Minority interests	
Balance at April 1, 2013	\$ (29)	\$ —	\$ 25,758	\$ 1,999,475
Net income for the year	—	—	—	11,961
Other changes	253	(91,887)	10,250	(81,384)
Balance at March 31, 2014	\$ 224	\$ (91,887)	\$ 36,008	\$ 1,930,052

See notes to consolidated financial statements.

Central Nippon Expressway Company Limited and its Consolidated Subsidiaries

Consolidated Statements of Cash Flows

Years ended March 31, 2014 and 2013

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars (Note 1(a))</i>
	2014	2013	2014
Cash flows from operating activities:			
Income before income taxes and minority interests	¥ 4,307	¥ 8,376	\$ 41,848
Depreciation and amortization	20,794	20,782	202,040
Gain on negative goodwill	(1,010)	(339)	(9,813)
Gain on step acquisitions	—	(16)	—
Equity in earnings of affiliates	(318)	(506)	(3,090)
Increase in accrued retirement benefits	—	1,783	—
Increase in asset and liability for retirement benefits	911	—	8,852
Decrease in accrued employees' bonuses	(44)	(56)	(428)
Increase (decrease) in allowance for ETC mileage program	1,707	(226)	16,586
Increase (decrease) in allowance for doubtful accounts	46	(17)	447
Interest and dividend income	(103)	(110)	(1,001)
Interest expense	4,773	5,097	46,376
Loss (gain) on sales of fixed assets	5	(42)	49
Loss on disposal of fixed assets	1,105	1,435	10,736
Increase in accounts receivable due from expressway business operations	(6,508)	(869)	(63,234)
(Increase) decrease in inventories (Note 17)	(188,332)	788,080	(1,829,887)
Decrease in accounts payable due to expressway business operations	(9,272)	(4,814)	(90,089)
Decrease (increase) in other accounts payable	(80,118)	50,243	(778,449)
Others	(176)	(690)	(1,711)
Subtotal	(252,233)	868,111	(2,450,768)
Interest and dividends received	162	139	1,574
Interest paid	(6,862)	(4,598)	(66,673)
Income taxes paid	(1,649)	(6,595)	(16,022)
Net cash (used in) provided by operating activities	(260,582)	857,057	(2,531,889)
Cash flows from investing activities:			
Increase in time deposits	(1,468)	(954)	(14,263)
Decrease in time deposits	1,788	1,140	17,373
Proceeds from sales and redemption of marketable securities	77	280	748
Payments for purchase of investments in securities	(1)	(340)	(10)
Proceeds from sales and redemption of investments in securities	513	934	4,984
Payments for purchase of fixed assets	(16,073)	(29,318)	(156,169)
Proceeds from sale of fixed assets	577	181	5,606
Proceeds from acquisition of investments in subsidiaries resulting in change in scope of consolidation (Note 17)	1,312	310	12,748
Others	(45)	142	(437)
Net cash used in investing activities	(13,320)	(27,625)	(129,420)
Cash flows from financing activities:			
Proceeds from long-term loans	34,000	34,000	330,354
Repayments of long-term loans (Note 17)	(23,060)	(394,247)	(224,058)
Proceeds from issuance of bonds for road construction	291,841	309,265	2,835,610
Redemption of bonds for road construction (Note 17)	(50,000)	(794,167)	(485,814)
Cash dividends paid to minority shareholders	(17)	(2)	(165)
Others	(354)	(411)	(3,440)
Net cash provided by (used in) financing activities	252,410	(845,562)	2,452,487
Effect of exchange rate changes on cash equivalents	0	(0)	0
Net decrease in cash and cash equivalents	(21,492)	(16,130)	(208,822)
Cash and cash equivalents at beginning of the year	134,119	150,249	1,303,138
Cash and cash equivalents at end of the year (Note 17)	¥ 112,627	¥ 134,119	\$ 1,094,316

See notes to consolidated financial statements.

Central Nippon Expressway Company Limited and its Consolidated Subsidiaries

Notes to Consolidated Financial Statements

March 31, 2014 and 2013

1. Summary of Significant Accounting Policies

(a) Basis of presentation

The accompanying consolidated financial statements of Central Nippon Expressway Company Limited (the "Company") and its consolidated subsidiaries are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards, and are compiled from the consolidated financial statements prepared by the Company as required by the Financial Instruments and Exchange Act of Japan.

In preparing the accompanying consolidated financial statements, certain reclassifications have been made to the consolidated financial statements issued domestically in order to present them in a format which is more familiar to readers outside Japan. In addition, certain notes included herein are not required under accounting principles generally accepted in Japan but are presented as additional information.

A reclassification of previously reported amount was made to confirm the consolidated statements of income for the year ended March 31, 2013 to the 2014 presentation.

The translation of Japanese yen amounts into U.S. dollars is included solely for the convenience of the reader and has been made at ¥102.92 = U.S. \$1.00, the approximate rate of exchange in effect on March 31, 2014. This translation should not be construed as a representation that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollar amounts at the above or any other rate.

(b) Principles of consolidation and accounting for investments in unconsolidated subsidiaries and affiliates

The accompanying consolidated financial statements include the accounts of the Company and its 23 and 21 significant consolidated subsidiaries (collectively, the "Group") for the years ended March 31, 2014 and 2013, respectively. The Company has applied the equity method to its investments in 12 and 14 significant affiliates for the purpose of the consolidated financial statements for the years ended March 31, 2014 and 2013, respectively.

The principles of consolidation are to include significant subsidiaries over which substantial control is exerted either through majority ownership of voting stock and/or by other means. In addition, significant affiliates, over which the Group exercises substantial control in various ways, are accounted for by the equity method.

All significant intercompany transactions and accounts have been eliminated in consolidation.

Other subsidiaries and affiliates are not significant in terms of their total assets, net income or loss, and retained earnings. Accordingly, these other subsidiaries and affiliates have not been consolidated nor are they accounted for by the equity method. Investments in such subsidiaries and affiliates are stated at cost or less. Where there has been a permanent decline in the value of such investments, the Company has written down the investments.

Goodwill is amortized using the straight-line method over the respective determinable useful lives or a period of 5 years if the useful lives are indeterminable. Goodwill is charged to income in the year of acquisition if immaterial.

Negative goodwill is credited to income when incurred. Negative goodwill recognized before or on March 31, 2010 had been amortized using the straight-line method over a period of 20 years.

(c) Cash and cash equivalents

Cash and cash equivalents consist of cash in hand, deposits held at call with banks, net of overdrafts, and all highly liquid investments with maturities of 3 months or less.

Central Nippon Expressway Company Limited and its Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

(d) Investments in securities

Securities, other than those of affiliates, are classified into three categories: held-to-maturity debt securities and other securities.

Held-to-maturity debt securities are stated at amortized cost. Marketable securities classified as other securities are carried at fair value with any changes in unrealized holding gain or loss, net of the applicable income taxes, reported as a separate component of accumulated other comprehensive income or loss. Cost of securities sold is determined by the moving average method. Non-marketable securities classified as other securities are carried at cost determined by the moving average method.

Under the Companies Act of Japan (the “Act”), unrealized holding gain on other securities, net of the related taxes, is not available for distribution as dividends.

For hybrid financial instruments containing an embedded derivative that cannot be reliably identified and measured separately the entire contract is measured at fair value with the gain or loss recognized in income.

(e) Inventories

Work in process for road construction is determined by the individual cost method.

Acquisition costs of work in process for road construction includes costs for road construction, costs for acquiring land, related incidental costs, labor costs for road construction and removal costs and other related costs.

Interest expense incurred for work in process for road construction up to the date of completion is capitalized as a part of the work in process for road construction.

Merchandise is principally stated at lower of cost, determined by the individual cost method, or net selling value.

Raw materials and supplies are principally stated at lower of cost, determined by the first-in first-out method, or net selling value.

(f) Allowance for doubtful accounts

Allowance for doubtful accounts is provided based on the actual historical percentage of bad debts and an estimate of uncollectible amounts determined by an assessment of individual receivables.

(g) Property and equipment (except for leased assets)

Depreciation of property and equipment of the Company and its consolidated subsidiaries is calculated principally by the straight-line method based on the estimated useful lives and the residual value determined by the Company. Significant renewals and additions are capitalized at cost. Maintenance and repairs are charged to income as incurred. The estimated useful lives of the assets are as follows:

Buildings:	3 to 50 years
Structures:	8 to 60 years
Machinery and equipment:	5 to 17 years

The Company succeeded certain property and equipment from the Japan Highway Public Corporation (“JHPC”) when the Company was established on October 1, 2005. The estimated useful lives of property and equipment transferred to the Company from the JHPC are determined based on the respective estimated useful lives of used assets.

Central Nippon Expressway Company Limited and its Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

(h) Intangible assets (except for leased assets)

Amortization of intangible assets is calculated by the straight-line method over the estimated useful lives of the respective assets.

Expenditures related to computer software development for internal use are charged to income as incurred, unless these contribute to the generation of future income or cost savings. Such expenditures are capitalized as assets and amortized by the straight-line method over their estimated useful life of 5 years.

(i) Leases

Leased assets under finance lease transactions which do not transfer ownership to the lessee are capitalized and depreciated or amortized over the respective lease terms to a nil residual value by the straight-line method.

Finance lease transactions commencing on or before March 31, 2008 other than those in which the ownership of the leased assets is transferred to the lessee continue to be accounted for as operating leases.

(j) Bond issuance expenses for road construction

Bond issuance expenses for road construction are capitalized and amortized by the straight-line method over the term of the bonds.

(k) Derivatives and hedging activities

The Company has entered into a currency swap contract to hedge its exposure to adverse fluctuation of the foreign currency exchange rate corresponding to a corporate bond denominated in a foreign currency based on internal regulations.

Gains or losses on derivatives positions designated as hedges are deferred until the gains or losses on the respective underlying hedged items are recognized.

Currency swap contracts that meet certain conditions are accounted for by the allocation method, which requires that the recognized foreign currency transaction be translated at the corresponding currency swap contract rate.

The Company measures hedge effectiveness by comparing the cumulative changes in cash flows or fair value of the hedging instrument and the hedged item, except for the currency swap accounted for by the allocation method, for which the measurement of hedge effectiveness is omitted.

(l) Income taxes

Deferred tax assets and liabilities have been recognized in the consolidated financial statements with respect to the differences between the financial reporting and tax bases of the assets and liabilities, and were measured using the enacted tax rates and laws which will be in effect when the differences are expected to reverse.

(m) Accrued employees' bonuses

Accrued employees' bonuses are provided at the estimated amount of bonuses to be paid to the employees in the following year which has been allocated to the current fiscal year.

(n) Retirement benefits

The liability for retirement benefits are provided based on the amount of the projected benefit obligation reduced by the pension plan assets at fair value at the end of the year.

Central Nippon Expressway Company Limited and its Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

(n) Retirement benefits (continued)

The retirement benefit obligation is attributed to each period by the straight-line method over the estimate years of service of the eligible employees.

Actuarial gain or loss is amortized in the year following the year in which such gain or loss is recognized principally by the straight-line method over a period from 10 years to 13 years, which is within the estimated average remaining years of service of the eligible employees. Actuarial gain or loss of certain consolidated subsidiaries is fully charged to income as incurred.

Prior service cost of certain consolidated subsidiaries is amortized by the straight-line method over a period from 10 years to 13 years, which is within the estimated average remaining years of service of the eligible employees. Prior service cost of certain consolidated subsidiaries is fully charged to income as incurred.

(o) Accrued retirement benefits for directors, corporate auditors and corporate officers

Directors, corporate auditors and corporate officers of the Company and certain consolidated domestic subsidiaries are entitled to lump-sum payments under unfunded retirement benefits plans. An estimate of the accrued retirement benefits for these officers has been made based on internal regulations.

(p) Allowance for losses due to forged expressway cards

Certain losses are expected to be incurred due to the use of forged expressway cards based on historical experience. Allowance for losses due to forged expressway cards is provided based on an estimate of losses reasonably expected to be incurred subsequent to the balance sheet date.

(q) Allowance for ETC mileage program

The Electronic Toll Collection (“ETC”) mileage program is offered to motorists who join the ETC mileage program. In accordance with the ETC mileage program, customers can receive a discount on expressway tolls based on the number of points that they accumulate. The allowance for ETC mileage program is provided as an estimate of the total costs expected to be incurred subsequent to the balance sheet date based on the outstanding number of points at the end of each fiscal year.

(r) Allowance for card shopping point program

The Company offers a cash rebate or gift program to customers based on the number of points that they accumulate. The allowance for card shopping point program is provided as an estimate of the total costs expected to be incurred subsequent to the balance sheet date based on the historical data on the utilization of points by customers.

(s) Recognition of revenues and costs

Operating revenues from the transfer of expressway assets constructed by the Company and related operating expenses are recognized by the completed-contract method in accordance with “Accounting Standards for Expressway Operations”.

In principle, pursuant to Article 51 of the Act on Special Measures concerning Road Construction and Improvement of Japan (the “Special Measures Act”), expressway assets constructed by the Company shall belong to the Japan Expressway Holding and Debt Repayment Agency (“JEHDRA”) after the completion of construction. At the same time, pursuant to Article 15 of the Japan Expressway Holding and Debt Repayment Agency Act of Law (the “JEHDRA Act”), the debts borne by the Company for construction shall be assumed by JEHDRA. As such, operating revenues and related operating expenses are recognized once construction of the expressway assets is completed and JEHDRA assumes ownership.

Central Nippon Expressway Company Limited and its Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

(s) Recognition of revenues and costs (continued)

For construction related to the improvement or enhancement of safety of expressway assets as determined by the Board of Directors, the debts borne by the Company for construction shall not be assumed by JEHDRA. Costs for such improvement or enhancement of safety of expressway assets are charged to expense as incurred.

On the other hand, revenue from and the related costs of road construction projects and contracted construction (the "Agency Business") are recognized by the percentage-of-completion method at the amount for which the outcome of the construction activity is deemed probable at the end of the reporting period. To estimate the progress of such construction projects, the Company measures the percentage of completion by comparing costs incurred to date with the most recent estimate of total costs required to complete the project (cost to cost method). For other construction projects where the outcome cannot be reliably measured, the completed-contract method is applied.

For construction contracts related to the Agency Business that commenced on or before March 31, 2009, the percentage-of-completion method is applied if the construction work extends beyond a two-year period and the contract amount exceeds ¥5,000 million (\$48,581 thousand). Other construction contracts are accounted for by the completed-contract method.

Effective the year ended March 31, 2010, the Company has adopted "Accounting Standard for Construction Contracts" (Accounting Standards Board of Japan ("ASBJ") Statement No.15 issued on December 27, 2007) and "Guidance on Accounting Standard for Construction Contracts" (ASBJ Guidance No.18 issued on December 27, 2007).

2. Accounting Changes

The Company adopted "Accounting Standard for Retirement Benefits" (ASBJ Statement No.26 of May 17, 2012) and "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No.25 of May 17, 2012) (except for certain provisions described in the main clause of Section 35 of the standard and in the main clause of Section 67 of the guidance) as of the end of the year ended March 31, 2014. These accounting standards require entities to apply a revised method for recording the retirement benefit obligation, after deducting pension plan assets, as an asset and a liability for retirement benefit. In addition, unrecognized actuarial differences and unrecognized prior service costs are recorded as an asset for retirement benefits and a liability for retirement benefits. Concerning the application of the Accounting Standard for Retirement Benefits, based on the provisional treatment set out in Section 37 of the standard, the effects of such changes in the current fiscal year have been recorded in retirement benefit liability adjustments as a separate component of accumulated other comprehensive income. As a result of this change, a liability for retirement benefit was recognized in the amount of ¥9,838 million (\$95,589 thousand), asset for retirement benefits was recognized in the amount of ¥247 million (\$2,400 thousand), deferred tax asset reflected in deferred income taxes increased by ¥518 million (\$5,033 million), deferred tax liability reflected in deferred income taxes decreased by ¥89 million (\$864 thousand) and retirement benefits liability adjustment was recognized by ¥9,478 million (\$92,901 thousand) as of March 31, 2014. In addition, net assets per share decreased by ¥72.91 (\$0.71) as of March 31, 2014.

3. Accounting Standards Issued but Not Yet Effective

Accounting standards for retirement benefits

On May 17, 2012, the ASBJ issued "Accounting Standard for Retirement Benefits" (ASBJ Statement No.26) and "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No.25), which replaced the Accounting Standard for Retirement Benefits that had been issued by the Business Accounting Council in 1998 with an effective date of April 1, 2000 and the other related practical guidance, being followed by partial amendments from time to time through 2009.

Central Nippon Expressway Company Limited and its Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

3. Accounting Standards Issued but Not Yet Effective (continued)

Accounting standards for retirement benefits (continued)

The standard provides guidance for the accounting for unrecognized actuarial differences and unrecognized prior service costs, the calculation methods for retirement benefit obligation and service costs, and enhancement of disclosures taking into consideration improvements to financial reporting and international trends.

The revised accounting standard and guidance for the accounting for unrecognized actual differences and unrecognized prior service costs and enhancement of disclosures were adopted as of the end of the fiscal year ended March 31, 2014. However, revisions to the calculation methods for the retirement benefit obligation and service costs are scheduled to be adopted from the beginning of the fiscal year ending March 31, 2015.

The Company and its domestic consolidated subsidiaries are currently evaluating the effect of adopting these revised standards on its consolidated financial statements.

Accounting standards for business combinations

On September 13, 2013, the ASBJ issued “Revised Accounting Standard for Business Combinations” (ASBJ Statement No.21), “Revised Accounting Standard for Consolidated Financial Statement” (ASBJ Statement No.22), “Revised Accounting Standard for Business Divestitures” (ASBJ Statement No.7), “Revised Accounting Standard for Earnings Per Share” (ASBJ Statement No.2), “Revised Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures” (ASBJ Guidance No.10), and “Revised Guidance on Accounting Standard for Earnings Per Share” (ASBJ Guidance No.4).

Under these revised accounting standards, the accounting treatment for any changes in a parent’s ownership interest in a subsidiary when the parent retains control over the subsidiary and the corresponding accounting for acquisition-related costs were revised. In addition, the presentation method of net income was amended, the term “minority interests” was replaced by “non-controlling interests,” and transitional provisions for these accounting standards were also defined.

The Company and its domestic consolidated subsidiaries expect to adopt these revised accounting standards and guidance from the beginning of the fiscal year ending March 31, 2016.

The Company and its domestic consolidated subsidiaries are currently evaluating the effect of adopting these revised standards on its consolidated financial statements.

Central Nippon Expressway Company Limited and its Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

4. Securities

Held-to-maturity debt securities with available market value at March 31, 2014 and 2013 are as follows:

<i>Millions of yen</i>						
Held-to-maturity debt securities						
2014			2013			
Carrying value	Market value	Unrealized gain (loss)	Carrying value	Market value	Unrealized gain (loss)	
Securities with market value exceeding carrying value:						
National and local government bonds	¥ 352	¥ 365	¥ 13	¥ 352	¥ 367	¥ 15
Corporate bonds	150	155	5	150	157	7
Other	—	—	—	—	—	—
Securities with market value not exceeding carrying value:						
National and local government bonds	—	—	—	—	—	—
Corporate bonds	—	—	—	—	—	—
Other	20,000	20,000	(0)	11,999	11,999	(0)
Total	¥20,502	¥20,520	¥ 18	¥12,501	¥12,523	¥ 22

<i>Thousands of U.S. dollars</i>			
Held-to-maturity debt securities			
2014			
Carrying value	Market value	Unrealized gain (loss)	
Securities with market value exceeding carrying value:			
National and local government bonds	\$ 3,420	\$ 3,546	\$ 126
Corporate bonds	1,457	1,506	49
Other	—	—	—
Securities with market value not exceeding carrying value:			
National and local government bonds	—	—	—
Corporate bonds	—	—	—
Other	194,326	194,326	(0)
Total	\$199,203	\$199,378	\$ 175

Central Nippon Expressway Company Limited and its Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

4. Securities (continued)

Other securities with available market value at March 31, 2014 and 2013 are as follows:

<i>Millions of yen</i>						
Other securities						
2014			2013			
Acquisition cost	Carrying value	Unrealized gain (loss)	Acquisition cost	Carrying value	Unrealized gain (loss)	
Securities with carrying value exceeding acquisition cost:						
Stocks	¥ 128	¥ 166	¥ 38	¥ 45	¥ 45	¥ 0
Securities with carrying value not exceeding acquisition cost:						
Stocks	38	27	(11)	72	59	(13)
Bonds	237	237	–	211	211	–
Other	20,000	20,000	–	86,276	86,276	–
Subtotal	20,275	20,264	(11)	86,559	86,546	(13)
Total	¥20,403	¥20,430	¥ 27	¥86,604	¥86,591	¥ (13)
<i>Thousands of U.S. dollars</i>						
Other securities						
2014						
Acquisition cost	Carrying value	Unrealized gain (loss)				
Securities with carrying value exceeding acquisition cost:						
Stocks	\$ 1,243	\$ 1,613	\$ 370			
Securities with carrying value not exceeding acquisition cost:						
Stocks	369	262	(107)			
Bonds	2,303	2,303	–			
Other	194,326	194,326	–			
Subtotal	196,998	196,891	(107)			
Total	\$198,241	\$198,504	\$ 263			

The Company recognizes loss on impairment of marketable securities classified as other securities if the market value of a security at year end declines by more than 50% compared with its carrying value and if the decline is deemed to be irrecoverable.

The Company recognizes impairment of individual marketable securities classified as other securities if the market value declines within a range of 30% or more, but less than 50%, when recoverability is doubtful and a significant decline of market value has occurred to such an extent that: 1) the decline has been within a range of 30% or more and than less than 50% in the last two consecutive years; 2) the issuing corporation has incurred excessive debt; or 3) the issuing corporation recorded losses in the last two consecutive years and losses in the following year are anticipated.

Hybrid financial instruments containing an embedded derivative that cannot be separated are stated at fair value and the resulting gains or losses are included in the carrying value of the bonds in the above table.

Because no quoted market price is available and it is extremely difficult to estimate the corresponding future cash flow, unlisted stocks of ¥133 million (\$1,292 thousand) and ¥129 million at March 31, 2014 and 2013 are not included in the above table.

Central Nippon Expressway Company Limited and its Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

4. Securities (continued)

Sales of securities classified as other securities and the aggregate gain and loss for the years ended March 31, 2014 and 2013 are summarized as follows:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	2014	2013	2014
Sales proceeds:			
Stocks	¥ 53	¥ 121	\$ 515
Corporate bonds	–	405	–
Other	–	432	–
	¥ 53	¥ 958	\$ 515
Aggregate gain:			
Stocks	¥ 37	¥ 23	\$ 360
Corporate bonds	–	91	–
Other	–	9	–
	¥ 37	¥ 123	\$ 360
Aggregate loss:			
Stocks	¥ –	¥ (14)	\$ –
Corporate bonds	–	(0)	–
Other	–	(19)	–
	¥ –	¥ (33)	\$ –

5. Inventories

Inventories at March 31, 2014 and 2013 were as follows:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	2014	2013	2014
Work in process for road construction	¥ 873,903	¥ 685,664	\$ 8,491,090
Merchandise and finished goods	1,270	1,112	12,340
Raw materials and supplies	1,711	1,677	16,625
Work in process	1,547	1,332	15,031
	¥ 878,431	¥ 689,785	\$ 8,535,086

6. Investments in Unconsolidated Subsidiaries and Affiliates

Investments in unconsolidated subsidiaries and affiliates included stock of jointly controlled companies of ¥1,514 million (\$14,710 thousand) and ¥1,532 million at March 31, 2014 and 2013, respectively.

7. Rental Properties

The Company has commercial facilities and commercial land available for rent located in service areas and parking areas adjacent to its expressways (“service areas”).

In certain service areas commercial facilities are leased by the Company to Central Nippon Exis Co., Ltd, the Company’s consolidated subsidiary, and a certain portion of the facilities is further subleased to third-party tenants with the remaining portion being utilized by the Company’s consolidated subsidiaries as retail stores or as free rest areas for motorists.

Accordingly, certain service areas are deemed as real estate and included in rental properties.

Central Nippon Expressway Company Limited and its Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

7. Rental Properties (continued)

The carrying value in the accompanying consolidated balance sheets as of March 31, 2014 and 2013 and corresponding fair value of rental properties are as follows:

<i>Millions of yen</i>			
	<i>Carrying value</i>		<i>Fair value</i>
	April 1, 2013	Net change	March 31, 2014
Rental properties	¥ 5,607	¥ 906	¥ 6,513
			¥ 5,887
<i>Millions of yen</i>			
	<i>Carrying value</i>		<i>Fair value</i>
	April 1, 2012	Net change	March 31, 2013
Rental properties	¥ 15,063	¥ (9,456)	¥ 5,607
			¥ 5,025
<i>Thousands of U.S. dollars</i>			
	<i>Carrying value</i>		<i>Fair value</i>
	April 1, 2013	Net change	March 31, 2014
Rental properties	\$ 54,479	\$ 8,803	\$ 63,282
			\$ 57,200

The carrying value in the above table represents acquisition cost less accumulated depreciation.

Net change in rental properties in the above table for the years ended March 31, 2014 and 2013 mainly represents the transfer of construction in progress from rental properties to real estate including certain portions used as investment property.

The fair value in the above table is principally computed based on “Real Estate Appraisal Standards” in Japan.

The carrying value in the accompanying consolidated balance sheets as of March 31, 2014 and 2013 and corresponding fair value of real estate including certain portions used as investment property are as follows:

<i>Millions of yen</i>			
	<i>Carrying value</i>		<i>Fair value</i>
	April 1, 2013	Net change	March 31, 2014
Real estate including certain portions used as investment property	¥ 133,604	¥ (1,252)	¥ 132,352
			¥ 115,204
<i>Millions of yen</i>			
	<i>Carrying value</i>		<i>Fair value</i>
	April 1, 2012	Net change	March 31, 2013
Real estate including certain portions used as investment property	¥ 124,055	¥ 9,549	¥ 133,604
			¥ 118,486
<i>Thousands of U.S. dollars</i>			
	<i>Carrying value</i>		<i>Fair value</i>
	April 1, 2013	Net change	March 31, 2014
Real estate including certain portions used as investment property	\$ 1,298,134	\$ (12,164)	\$ 1,285,970
			\$ 1,119,355

The carrying value in the above table represents the acquisition cost less accumulated depreciation.

Net changes in real estate including certain portions used as investment property for the years ended March 31, 2014 and 2013 mainly represent the transfer of construction in progress from rental properties to real estate and the increase of the consolidated subsidiaries.

The fair value in the above table is principally computed based on “Real Estate Appraisal Standards” in Japan.

Central Nippon Expressway Company Limited and its Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

7. Rental Properties (continued)

Operating revenues, operating expenses and net for those properties for the years ended March 31, 2014 and 2013 are as follows:

<i>Millions of yen</i>			
2014			
	Operating revenues	Operating expenses	Net
Rental properties	¥ 514	¥ 248	¥ 266
Real estate including certain portions used as investment property	31,472	18,825	12,647
<i>Millions of yen</i>			
2013			
	Operating revenues	Operating expenses	Net
Rental properties	¥ 490	¥ 205	¥ 285
Real estate including certain portions used as investment property	33,435	19,719	13,716
<i>Thousands of U.S. dollars</i>			
2014			
	Operating revenues	Operating expenses	Net
Rental properties	\$ 4,994	\$ 2,410	\$ 2,584
Real estate including certain portions used as investment property	305,791	182,909	122,882

Operating revenues in the above table includes revenues from retail businesses and others operated by consolidated subsidiaries in the amounts of ¥12,060 million (\$117,178 thousand) and ¥12,518 million for the years ended March 31, 2014 and 2013, respectively.

Operating expenses in the above table includes expenses related to real estate including certain portions used as investment property, such as depreciation expenses, repairs, insurance costs, and taxes and public charges and others.

8. Long-Term Debt and Lease Obligations

Long-term debt at March 31, 2014 and 2013 consisted of the following:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	2014	2013	2014
Bonds for road construction	¥ 852,520	¥ 610,000	\$ 8,283,327
Long-term loans for road construction at interest rates ranging from 0.412% to 0.697% due from 2015 to 2017	110,000	95,950	1,068,791
Other long-term loans at interest rates ranging from 0.120% to 3.880% due from 2014 to 2033	6,346	9,456	61,659
	968,866	715,406	9,413,777
	(51,325)	(38,040)	(498,688)
Less current portion	¥ 917,541	¥ 677,366	\$ 8,915,089

The current portion of long-term debt in the above table is classified based on the maturity dates of the original agreements.

Central Nippon Expressway Company Limited and its Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

8. Long-Term Debt and Lease Obligations (continued)

Bonds for road construction as of March 31, 2014 and 2013 are summarized as follows:

		Issue date	Maturity date	Interest rate (%)	Note	Millions of yen		Thousands of U.S. dollars
						2014	2013	2014
No.26	Bond of Central Nippon Expressway Company Limited	May 31, 2011	March 20, 2014	0.34	*	¥ –	¥ 15,000	\$ –
No.27	Bond of Central Nippon Expressway Company Limited	May 31, 2011	March 18, 2016	0.53	*	–	25,000	–
No.28	Bond of Central Nippon Expressway Company Limited	May 31, 2011	March 20, 2018	0.78	*	–	10,000	–
No.29	Bond of Central Nippon Expressway Company Limited	May 31, 2011	March 19, 2021	1.21		20,000	20,000	194,326
No.30	Bond of Central Nippon Expressway Company Limited	September 27, 2011	September 19, 2014	0.27		10,000	10,000	97,163
No.31	Bond of Central Nippon Expressway Company Limited	September 27, 2011	September 20, 2016	0.43		20,000	20,000	194,326
No.32	Bond of Central Nippon Expressway Company Limited	September 27, 2011	September 20, 2018	0.64		15,000	15,000	145,744
No.33	Bond of Central Nippon Expressway Company Limited	September 27, 2011	September 17, 2021	1.08		25,000	25,000	242,907
No.34	Bond of Central Nippon Expressway Company Limited	November 25, 2011	September 19, 2014	0.27		35,000	35,000	340,070
No.35	Bond of Central Nippon Expressway Company Limited	November 25, 2011	September 20, 2016	0.44		10,000	10,000	97,163
No.36	Bond of Central Nippon Expressway Company Limited	November 25, 2011	September 17, 2021	1.06		15,000	15,000	145,744
No.37	Bond of Central Nippon Expressway Company Limited	February 28, 2012	February 26, 2016	0.38		35,000	35,000	340,070
No.38	Bond of Central Nippon Expressway Company Limited	February 28, 2012	February 28, 2019	0.67		15,000	15,000	145,744
No.39	Bond of Central Nippon Expressway Company Limited	February 28, 2012	December 20, 2021	1.05		50,000	50,000	485,814
No.40	Bond of Central Nippon Expressway Company Limited	May 23, 2012	March 18, 2016	0.29		40,000	40,000	388,651
No.41	Bond of Central Nippon Expressway Company Limited	May 23, 2012	March 20, 2019	0.56		20,000	20,000	194,326
No.42	Bond of Central Nippon Expressway Company Limited	May 23, 2012	March 18, 2022	0.94		40,000	40,000	388,651
No.43	Bond of Central Nippon Expressway Company Limited	September 20, 2012	September 20, 2017	0.36		30,000	30,000	291,489
No.44	Bond of Central Nippon Expressway Company Limited	September 20, 2012	September 20, 2019	0.53		15,000	15,000	145,744

Central Nippon Expressway Company Limited and its Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

8. Long-Term Debt and Lease Obligations (continued)

		Issue date	Maturity date	Interest rate (%)	Note	Millions of yen		Thousands of U.S. dollars
						2014	2013	2014
No.45	Bond of Central Nippon Expressway Company Limited	September 20, 2012	September 20, 2022	0.90		¥ 35,000	¥ 35,000	\$ 340,070
No.46	Bond of Central Nippon Expressway Company Limited	November 9, 2012	September 20, 2017	0.35		60,000	60,000	582,977
No.47	Bond of Central Nippon Expressway Company Limited	March 19, 2013	March 20, 2018	0.27		50,000	50,000	485,814
No.48	Bond of Central Nippon Expressway Company Limited	March 19, 2013	March 20, 2023	0.80		20,000	20,000	194,326
No.49	Bond of Central Nippon Expressway Company Limited	May 21, 2013	March 20, 2018	0.50		70,000	—	680,140
No.1	U.S. Bond of Central Nippon Expressway Company Limited	September 10, 2013	September 30, 2018	2.36		97,520	—	947,532
No.50	Bond of Central Nippon Expressway Company Limited	November 8, 2013	November 8, 2016	0.23		15,000	—	145,744
No.51	Bond of Central Nippon Expressway Company Limited	November 8, 2013	November 8, 2018	0.32		25,000	—	242,907
No.52	Bond of Central Nippon Expressway Company Limited	November 8, 2013	November 6, 2020	0.48		15,000	—	145,744
No.53	Bond of Central Nippon Expressway Company Limited	February 14, 2014	June 20, 2017	0.22		30,000	—	291,489
No.54	Bond of Central Nippon Expressway Company Limited	February 14, 2014	December 20, 2018	0.31		20,000	—	194,326
No.55	Bond of Central Nippon Expressway Company Limited	February 14, 2014	December 18, 2020	0.47		10,000	—	97,163
No.56	Bond of Central Nippon Expressway Company Limited	February 14, 2014	December 20, 2023	0.75		10,000	—	97,163
Total						¥ 852,520	¥ 610,000	\$ 8,283,327

* Pursuant to Article 15 of the JEHDRA Act, JEHDRA assumed these obligations shown in the above table.

The aggregate annual maturities of long-term debt subsequent to March 31, 2014 are summarized as follows:

Years ending March 31,	Millions of yen		
	Bonds for road construction	Long-term loans for road construction	Other long-term debt
2015	¥ 45,000	¥ —	¥ 6,325
2016	75,000	50,000	2
2017	45,000	30,000	2
2018	240,000	30,000	2
2019 and thereafter	447,520	—	15
	¥ 852,520	¥ 110,000	¥ 6,346

Central Nippon Expressway Company Limited and its Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

8. Long-Term Debt and Lease Obligations (continued)

Years ending March 31,	<i>Thousands of U.S. dollars</i>		
	Bonds for road construction	Long-term loans for road construction	Other long-term debt
2015	\$ 437,233	\$ –	\$ 61,455
2016	728,721	485,813	19
2017	437,233	291,489	19
2018	2,331,908	291,489	19
2019 and thereafter	4,348,232	–	147
	\$ 8,283,327	\$ 1,068,791	\$ 61,659

The aggregate annual maturities of lease obligations subsequent to March 31, 2014 are summarized as follows:

Years ending March 31,	<i>Millions of yen</i>	<i>Thousands of U.S. dollars</i>
	Lease obligations	
2015	¥ 309	\$ 3,002
2016	191	1,856
2017	165	1,603
2018	138	1,341
2019 and thereafter	170	1,652
	¥ 973	\$ 9,454

9. Pledged Assets

At March 31, 2014 and 2013, the total assets of the Company were pledged as collateral for the following bonds pursuant to Article 8 of the Act on Expressway Companies of Japan.

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	2014	2013	2014
Bonds for road construction			
Carrying value	¥ 852,520	¥ 610,000	\$ 8,283,327
Face value	852,520	610,000	\$ 8,283,327

In addition, at March 31, 2014 and 2013, the total assets of the Company were also pledged as collateral for bonds in the amounts of ¥1,020,000 million (\$9,910,610 thousand) and ¥1,040,000 million at March 31, 2014 and 2013, respectively assumed by JEHDRA pursuant to Article 15 of the JEHDRA Act.

At March 31, 2014 and 2013, the following assets, other than pledged assets outlined above under requirement of the Act on Expressway Companies of Japan and the JEHDRA Act, were pledged.

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	2014	2013	2014
Cash and deposits	¥ 3	¥ 3	\$ 29
Others	419	519	4,071

10. Income Taxes

The Company and its domestic subsidiaries are subject to several taxes based on income which, in the aggregate, resulted in a statutory tax rate of approximately 37.7% for the years ended March 31, 2014 and 2013, respectively.

Central Nippon Expressway Company Limited and its Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

10. Income Taxes (continued)

The effective tax rates reflected in the accompanying consolidated statements of income for the years ended March 31, 2014 and 2013 differ from the above statutory tax rate for the following reasons:

	2014	2013
Statutory tax rate	37.7%	37.7%
Adjustments:		
Effects of changes in corporation tax rates	6.9	1.1
Valuation allowance	23.9	12.1
Gain on negative goodwill	(8.8)	(1.5)
Gain on step acquisitions	–	(0.1)
Amortization of negative goodwill	(3.0)	(1.5)
Equity in earnings of affiliates	(2.8)	(2.3)
Other	16.4	2.7
Effective tax rates	70.3%	48.2%

The significant components of the Group's deferred tax assets and liabilities at March 31, 2014 and 2013 are summarized as follows:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	2014	2013	2014
Deferred tax assets:			
Allowance for doubtful accounts	¥ 98	¥ 65	\$ 952
Accrued employees' bonuses	1,018	1,100	9,891
Allowance for losses due to forged expressway cards	20	30	194
Accrued retirement benefits	–	21,209	–
Liability for retirement benefits	24,940	–	242,324
Allowance for ETC mileage program	2,580	1,978	25,068
Other	5,995	5,690	58,250
Gross deferred tax assets	34,651	30,072	336,679
Less valuation allowance	(29,687)	(25,520)	(288,447)
Total deferred tax assets	4,964	4,552	48,232
Deferred tax liabilities:			
Other	(139)	(221)	(1,351)
Total deferred tax liabilities	(139)	(221)	(1,351)
Net deferred tax assets	¥ 4,825	¥ 4,331	\$ 46,881

The "Act for Partial Amendment of the Income Tax Act, etc." (Act No.10 of 2014) was promulgated on March 31, 2014 and, as a result, the Company is no longer subject to the Special Reconstruction Corporation Tax effective for fiscal years beginning on or after April 1, 2014.

As a result, the effective statutory tax rate used to measure the Company's deferred tax assets and liabilities was changed from 37.7% to 35.3% for the temporary differences expected to be realized or settled from fiscal years beginning April 1, 2014. The effect of the announced reduction of the effective statutory tax rate was to decrease deferred tax assets after offsetting deferred tax liabilities by ¥207 million (\$2,011 thousand), increase deferred income taxes by ¥209 million (\$2,031 thousand) and increase unrealized holding gain on securities by ¥2 million (\$19 thousand) as of and for the year ended March 31, 2014.

Central Nippon Expressway Company Limited and its Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

11. Retirement Benefits

1. Overview

The Company and its consolidated subsidiaries have defined benefit plans that include both unfunded severance indemnity plans and lump-sum severance indemnity plans and a defined contribution plan. The defined benefit pension plans include corporate pension plans and welfare pension fund plans (“WPPF”) covering substantially all employees who are entitled to lump-sum or annuity payments, the amounts of which are determined by reference to basic rates of pay, length of service, and the conditions under which termination occurs.

Certain consolidated subsidiaries calculate the liability for retirement benefits based on the simplified method. These domestic subsidiaries have calculated their retirement benefit obligation based on the amount which would be payable at the year end if all eligible employees terminated their services voluntarily.

The Company and certain consolidated subsidiaries participate in a multi-employer welfare pension plan. The contributions to the fund are charged to expense when paid in cases where the proportional portion of plan assets attributable to the Company rationally cannot be calculated. In cases where the proportional portion can be calculated, the liability for retirement benefits is provided based on the amount of the projected benefit obligation after deducting by the pension plan assets.

As described in Note 2 “Accounting Changes”, “Accounting Standard for Retirement Benefits” (ASBJ Statement No.26 of May 17, 2012) and “Guidance on Accounting Standard for Retirement Benefits” (ASBJ Guidance No.25 of May 17, 2012) are adopted as of the end of the year ended March 31, 2014.

2. Defined benefit plans for the year ended March 31, 2014

The change in retirement benefit obligation is outlined as follows (excluding defined benefit plans based on the simplified method):

	<i>Millions of yen</i>	<i>Thousands of U.S. dollars</i>
	2014	
Retirement benefit obligation at April 1, 2013	¥ 103,217	\$ 1,002,886
Service cost	3,977	38,642
Interest cost	1,536	14,924
Actuarial loss	36	349
Benefit paid	(4,172)	(40,536)
Retirement benefit obligation at March 31, 2014	¥ 104,594	\$ 1,016,265

The change in plan assets at fair value is outlined as follows (excluding retirement defined benefit plans based on the simplified method):

	<i>Millions of yen</i>	<i>Thousands of U.S. dollars</i>
	2014	
Plan assets at fair value at April 1, 2013	¥ 33,326	\$ 323,805
Expected return on plan assets	1,265	12,291
Actuarial gain	55	534
Contributions by the employer	1,979	19,229
Benefit paid	(1,783)	(17,324)
Other	493	4,790
Plan assets at fair value at March 31, 2014	¥ 35,335	\$ 343,325

Central Nippon Expressway Company Limited and its Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

11. Retirement Benefits (continued)

2. Defined benefit plans for the year ended March 31, 2014 (continued)

The change in retirement benefit obligation under the simplified method is outlined as follows:

	<i>Millions of yen</i>	<i>Thousands of U.S. dollars</i>
	2014	
Retirement benefit obligation at April 1, 2013	¥ 818	\$ 7,948
Service cost	241	2,341
Benefit paid	(112)	(1,088)
Payment for the plan	(67)	(651)
Retirement benefit obligation at March 31, 2014	<u>¥ 880</u>	<u>\$ 8,550</u>

The balance of retirement benefit obligation and plan assets at fair value, liabilities and assets recognized in consolidated balance sheet are outlined as follows:

	<i>Millions of yen</i>	<i>Thousands of U.S. dollars</i>
	2014	
Funded retirement benefit obligation	¥ 78,839	\$ 766,022
Plan assets at fair value	(36,100)	(350,758)
	<u>42,739</u>	<u>415,264</u>
Unfunded retirement benefit obligation	27,400	266,226
Net amount of liabilities and assets recognized in consolidated balance sheet	<u>70,139</u>	<u>681,490</u>
Liability for retirement benefits	70,273	682,792
Asset for retirement benefits	(134)	(1,302)
Net amount of liabilities recognized in consolidated balance sheet	<u>¥ 70,139</u>	<u>\$ 681,490</u>

The components of retirement benefit expenses for the year ended March 31, 2014 are outlined as follows:

	<i>Millions of yen</i>	<i>Thousands of U.S. dollars</i>
	2014	
Service cost	¥ 3,484	\$ 33,852
Interest cost	1,536	14,924
Expected return on plan assets	(1,265)	(12,291)
Amortization:		
Actuarial loss	1,476	14,341
Past service cost	(14)	(136)
Retirement benefit expenses under the simplified method	241	2,341
Other	(141)	(1,370)
Retirement benefit expenses	<u>¥ 5,317</u>	<u>\$ 51,661</u>

The balance of unrecognized past service cost and actuarial loss recognized in accumulated other comprehensive income, before tax effects, is outlined as follows:

	<i>Millions of yen</i>	<i>Thousands of U.S. dollars</i>
	2014	
Unrecognized past service cost	¥ (82)	\$ (796)
Unrecognized actuarial loss	10,167	98,785
Total	<u>¥ 10,085</u>	<u>\$ 97,989</u>

Central Nippon Expressway Company Limited and its Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

11. Retirement Benefits (continued)

2. Defined benefit plans for the year ended March 31, 2014 (continued)

The plan assets by major category consist of the following:

	<u>2014</u>
Securities	30.10%
Bonds	37.98
Cash and deposits	0.01
Other	31.91
Total	<u>100.0%</u>

The expected long-term rate of return on plan assets is determined as a result of consideration of both the portfolio allocation at present and in the future, and long-term expected rate of return from multiple plan assets at present and in the future.

The assumptions used in accounting for the defined benefit plans for the year ended March 31, 2014 are as follows:

	<u>2014</u>
Discount rates	1.0-1.5%
Expected long-term rates of return on plan assets	0.0-5.4%

Amount required to contribute to defined contribution plans including the multi-employer welfare pension plans was ¥ 511 million (\$4,965 thousand) for the year ended March 31, 2014.

3. Defined benefit plans for the year ended March 31, 2013

The following table sets forth the funded and accrued status of the pension plans, and the amounts recognized in the accompanying consolidated balance sheet at March 31, 2013 for the Group's defined benefit plans:

	<i>Millions of yen</i>
	<u>2013</u>
Retirement benefit obligation	¥(104,764)
Fair value of plan assets	34,065
Unfunded retirement benefit obligation	(70,699)
Unrecognized actuarial loss	11,662
Unrecognized prior service cost	(96)
Net amount recognized in the consolidated balance sheets	(59,133)
Prepaid pension expenses	397
Accrued retirement benefits for employees	<u>¥ (59,530)</u>

The components of retirement benefit expenses for employees for the year ended March 31, 2013 was as follows:

	<i>Millions of yen</i>
	<u>2013</u>
Service cost	¥ 3,080
Interest cost	1,804
Expected return on plan assets	(483)
Amortization:	
Actuarial loss	1,066
Prior service cost	(39)
Retirement benefit expenses for employees	<u>¥ 5,428</u>

Service cost does not include the amounts contributed by employees with respect to the WPPF.

Central Nippon Expressway Company Limited and its Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

11. Retirement Benefits (continued)

3. Defined benefit plans for the year ended March 31, 2013 (continued)

The assumptions used in accounting for the defined benefit plans for the year ended March 31, 2013 were as follows:

	2013
Discount rates	1.0-1.5%
Expected rates of return on plan assets	0.0-2.3%

12. Contingent Liabilities

At March 31, 2014 and 2013, the Company provides the following debt guarantees:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	2014	2013	2014
JEHDRA	¥ 3,005,206	¥ 3,931,818	\$ 29,199,436
E-NEXCO	2,272	7,337	22,075
W-NEXCO	28	32	273
	¥ 3,007,506	¥ 3,939,187	\$ 29,221,784

Pursuant to Article 16 of the “Act regarding the Implementation of Acts Related to Privatisation of the Japan Highway Public Corporation of Japan” (the “Implementation Act”), the Company is jointly and severally liable with JEHDRA, East Nippon Expressway Company Limited (“E-NEXCO”) and West Nippon Expressway Company Limited (“W-NEXCO”) for the loans and road bonds succeeded to by JEHDRA, E-NEXCO or W-NEXCO from the JHPC (excluding loans from the Japanese government, loans succeeded to by JEHDRA and bonds held by the Japanese government).

Pursuant to Article 15 of the JEHDRA Act, the Company is jointly and severally liable for the long-term debt transferred to JEHDRA corresponding to costs incurred for road construction, reconstruction, repairs, maintenance and disaster recovery as follows:

As a consequence of these transfers addressed above, bonds for road construction and long-term loans for road construction decreased by ¥50,000 million (face value) (\$485,814 thousand) and ¥15,950 million (\$154,975 thousand), respectively, for the year ended March 31, 2014.

At March 31, 2014 and 2013, the Company is jointly and severally liable with JEHDRA, E-NEXCO and W-NEXCO for the debt succeeded to by the Company from JHPC and already assumed by JEHDRA (excluding loans from the Japanese government).

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	2014	2013	2014
JEHDRA	¥ 10,981	¥ 16,467	\$ 106,695

At March 31, 2014 and 2013, the Company is jointly and severally liable with JEHDRA for the bonds and loans of JEHDRA transferred by the Company, which were originally financed by the Company, as follows:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	2014	2013	2014
JEHDRA	¥ 1,346,950	¥ 1,505,840	\$ 13,087,349

Central Nippon Expressway Company Limited and its Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

13. Shareholders' Equity

The Act provides that an amount equal to 10% of the amount to be disbursed as distributions of capital surplus (other than the capital reserve) and retained earnings (other than the legal reserve) be transferred to the capital reserve and the legal reserve, respectively, until the sum of the capital reserve and the legal reserve equals 25% of the capital stock account. Such distributions can be made at any time by resolution of the shareholders or by the Board of Directors if certain conditions are met.

Under the Act, upon the issuance and sale of new shares of common stock, the entire amount of the proceeds is required to be accounted for as common stock, although a company may, by resolution of the Board of Directors, account for an amount not exceeding one-half of the proceeds of the sale of new shares as capital surplus.

14. Research and Development Cost

Research and development cost included in cost of sales and administrative expenses for expressway business operations and selling, general and administrative expenses amounted to ¥829 million (\$8,055 thousand) and ¥778 million for the years ended March 31, 2014 and 2013, respectively.

15. Leases

The following pro forma amounts represent the acquisition cost, accumulated depreciation and net book value of assets leased to the Company and its consolidated subsidiaries at March 31, 2013, which would have been reflected in the accompanying consolidated balance sheets if finance leases, other than those which transfer the ownership of the leased assets to the Company or its consolidated subsidiaries, that started on or before March 31, 2008 (which are currently accounted for as operating leases) had been capitalized:

	<i>Millions of yen</i>		
	2013		
	<u>Acquisition cost</u>	<u>Accumulated depreciation</u>	<u>Net book value</u>
Classification of leased assets:			
Vehicles	¥ 96	¥ 88	¥ 8
Total	¥ 96	¥ 88	¥ 8

Lease payments of the Company and its consolidated subsidiaries relating to finance leases accounted for as operating leases amounted to ¥8 million (\$78 thousand) and ¥49 million for the years ended March 31, 2014 and 2013, respectively. Depreciation on these leased assets calculated by the straight-line method would have amounted to ¥8 million (\$78 thousand) and ¥49 million for the years ended March 31, 2014 and 2013, respectively, if it had been reflected in the accompanying consolidated balance sheets.

Future minimum lease payments subsequent to March 31, 2014 under non-cancellable operating leases related to road assets are summarized as follows:

<u>Years ending March 31,</u>	<i>Millions of yen</i>	<i>Thousands of U.S. dollars</i>
2015	¥ 422,290	\$ 4,103,090
2016 and thereafter	15,750,168	153,033,113
	¥ 16,172,458	\$ 157,136,203

Pursuant to Article 13.5 of the JEHDRA Act and Article 6.2 of the Act on Expressway Companies of Japan, the Company and JEHDRA, the lessor, review the agreements including road assets leasing fees approximately every 5 years, which allows each party to propose amendments to the extent deemed necessary after the review.

However, if the agreement for the road assets leasing fees does not meet the criteria specified in Article 17 of the JEHDRA Act, or if any events that may adversely affect fair and efficient operations are noted, for example, both may propose amendments to the agreement at any time.

Central Nippon Expressway Company Limited and its Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

15. Leases (continued)

Lease fees may be increased or decreased in proportion to the amount of expressway tolls received from expressway users, if the actual toll amounts received fall short or are in excess of the estimated toll amounts.

Future minimum lease payments subsequent to March 31, 2014 under non-cancellable operating leases other than road assets are summarized as follows:

<u>Years ending March 31,</u>	<i>Millions of yen</i>	<i>Thousands of U.S. dollars</i>
2015	¥ 364	\$ 3,537
2016 and thereafter	616	5,985
	¥ 980	\$ 9,522

16. Amounts per Share

Per share amounts as of and for the years ended March 31, 2014 and 2013 are as follows:

	<i>Yen</i>		<i>U.S. dollars</i>
	2014	2013	2014
Net income:			
Basic	¥ 9.47	¥ 33.48	\$ 0.09
Net assets	1,499.49	1,562.58	14.57

Basic net income per share has been computed based on the net income attributable to shareholders of common stock and the weighted-average number of shares of common stock outstanding during the year.

Amounts per share of net assets have been computed based on the net assets available for distribution to the shareholders and the number of shares of common stock outstanding at the year end.

The financial data used in the computation of basic net income per share for the years ended March 31, 2014 and 2013 is summarized as follows:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	2014	2013	2014
Net income	¥ 1,231	¥ 4,353	\$ 11,961
Adjusted net income available for distribution to common stockholders	¥ 1,231	¥ 4,353	\$ 11,961
	<i>Thousands of shares</i>		
	2014	2013	
Weighted-average number of shares of common stock outstanding	130,000		130,000

Central Nippon Expressway Company Limited and its Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

16. Amounts per Share (continued)

The financial data used in the computation of net assets per share as of March 31, 2014 and 2013 is summarized as follows:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	2014	2013	2014
Total net assets	¥ 198,641	¥ 205,786	\$ 1,930,052
Deduction from total net assets			
Minority interests	3,706	2,651	36,008
Total net assets available to common stockholders	¥ 194,935	¥ 203,135	\$ 1,894,044
	<i>Thousands of shares</i>		
	2014	2013	
Number of shares of common stock used in the calculation of net assets per share	130,000		130,000

17. Supplemental Information on Consolidated Statements of Cash Flows

Reconciliations of cash and deposits in the accompanying consolidated balance sheets at March 31, 2014 and 2013 and cash and cash equivalents in the accompanying consolidated statements of cash flows for the years then ended is as follows:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	At March 31,		
	2014	2013	2014
Cash and deposits	¥ 74,384	¥ 24,930	\$ 722,736
Certificates of deposits included in marketable securities maturing within three months	20,000	86,000	194,326
Commercial papers included in marketable securities maturing within three months	20,000	11,999	194,326
Repurchase agreements included in other current assets within three months of contract term	–	11,995	–
Public bond investment trust included in marketable securities	–	277	–
Deposits over three months	(1,757)	(1,082)	(17,072)
Cash and cash equivalents	¥ 112,627	¥ 134,119	\$ 1,094,316

During the year ended March 31, 2014, the Company purchased shares of Central Nippon Road Maintenance Kanazawa Co., Ltd. and newly included it in the scope of consolidation.

Central Nippon Expressway Company Limited and its Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

17. Supplemental Information on Consolidated Statements of Cash Flows (continued)

The following summarizes the assets and liabilities included in consolidation and the relationship between acquisition cost and the net proceeds from acquisition:

	<i>Millions of yen</i>	<i>Thousands of U.S. dollars</i>
	2014	
Current assets	¥ 1,182	\$ 11,485
Non-current assets	874	8,492
Current liabilities	(145)	(1,409)
Non-current liabilities	(19)	(184)
Negative goodwill	(440)	(4,275)
Minority interests	(847)	(8,230)
Interests previously acquired	(541)	(5,257)
Acquisition cost	64	622
Cash and cash equivalents	(843)	(8,191)
Net proceeds from acquisition	¥ (779)	\$ (7,569)

Net proceeds from the acquisition of ¥779 million (\$7,569 thousand) are included in proceeds from acquisition of investments in subsidiaries resulting in change in scope of consolidation in the consolidated statement of cash flows for the year ended March 31, 2014.

During the year ended March 31, 2014, the Company purchased shares of Central Nippon Road Maintenance Chubu Co., Ltd. and newly included it in the scope of consolidation.

The following summarizes the assets and liabilities included in consolidation and the relationship between acquisition cost and the net proceeds from acquisition:

	<i>Millions of yen</i>	<i>Thousands of U.S. dollars</i>
	2014	
Current assets	¥ 1,458	\$ 14,166
Non-current assets	32	311
Current liabilities	(204)	(1,982)
Non-current liabilities	(50)	(486)
Negative goodwill	(162)	(1,574)
Minority interests	(672)	(6,529)
Interests previously acquired	(402)	(3,906)
Acquisition cost	—	—
Cash and cash equivalents	(533)	(5,179)
Net proceeds from acquisition	¥ (533)	\$ (5,179)

Net proceeds from the acquisition of ¥533 million (\$5,179 thousand) are included in proceeds from acquisition of investments in subsidiaries resulting in change in scope of consolidation in the consolidated statement of cash flows for the year ended March 31, 2014.

During the year ended March 31, 2013, the Company purchased shares of Central Nippon Road Maintenance Shizuoka Co., Ltd. and included it in the scope of consolidation.

Central Nippon Expressway Company Limited and its Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

17. Supplemental Information on Consolidated Statements of Cash Flows (continued)

The following summarizes the assets and liabilities included in consolidation and the relationship between acquisition cost and the net proceeds from acquisition:

	<i>Millions of yen</i>
	2013
Current assets	¥ 40
Goodwill	3
Current liabilities	(2)
Minority interests	(19)
Acquisition cost	22
Cash and cash equivalents	(38)
Net proceeds from acquisition	¥ (16)

Net proceeds from the acquisition of ¥16 million are included in proceeds from acquisition of investments in subsidiaries resulting in change in scope of consolidation in the consolidated statement of cash flows for the year ended March 31, 2013.

During the year ended March 31, 2013, the Company purchased shares of Central Nippon Road Maintenance Tokyo Co., Ltd. and included it in the scope of consolidation.

The following summarizes the assets and liabilities included in consolidation and the relationship between acquisition cost and the net proceeds from acquisition:

	<i>Millions of yen</i>
	2013
Current assets	¥1,004
Non-current assets	286
Current liabilities	(404)
Non-current liabilities	(28)
Negative goodwill	(280)
Minority interests	(415)
Interests previously acquired	(4)
Differences due to step acquisition	(16)
Acquisition cost	143
Cash and cash equivalents	(437)
Net proceeds from acquisition	¥ (294)

Net proceeds from the acquisition of ¥294 million are included in proceeds from acquisition of investments in subsidiaries resulting in change in scope of consolidation in the consolidated statement of cash flows for the year ended March 31, 2013.

As described in Note 1(s) "Recognition of revenues and cost", in principle, expressway assets constructed by the Company shall be transferred to JEHDRA after the completion of construction. Concurrently, the debts financed by the Company for construction shall be assumed by JEHDRA.

For the years ended March 31, 2014 and 2013, expressway assets constructed by the Company in the amounts of ¥74,456 million (\$723,436 thousand) and ¥1,127,926 million, respectively, were transferred to JEHDRA pursuant to Article 51.2 through 51.4 of the Special Measures Act and, concurrently, the long-term debt of ¥15,950 million (\$154,975 thousand) and ¥386,150 million, respectively and bonds related to road construction of ¥50,000 million (\$485,814 thousand) and ¥794,167 million respectively, were assumed by JEHDRA pursuant to Article 15.1 of the JEHDRA Act.

Central Nippon Expressway Company Limited and its Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

17. Supplemental Information on Consolidated Statements of Cash Flows (continued)

Non-cash transactions outlined above are incorporated and included in (increase) decrease in inventories, repayment of long-term loans and redemption of bonds for road construction in the consolidated statements of cash flows for the years ended March 31, 2014 and 2013.

18. Financial Instruments and Related Disclosures

Status of financial instruments

(1) Policy for financial instruments

The Group raises funds mainly through bank loans and the issuance of bonds. In principle, bank loans and bonds are repaid and redeemed within 10 years based on past funding.

(2) Types of financial instruments and related risk

Accounts receivable due from expressway business operations and other accounts receivable are exposed to credit risk in relation to customers. Marketable securities and investments in securities are held for the purpose of fund management and primarily consist of certificates of deposits and commercial papers. These are exposed to credit risk in relation to issuers and market risk.

Accounts payable due to expressway business operations and other accounts payable have payment due dates principally within one year. Other long term loans include liabilities succeeded from JHPC due to the privatization of the Company and for the purpose of financing capital investments by the Company.

Long-term loans for road construction and bonds for road construction are used to fund construction, reconstruction, maintenance and repair and disaster recovery. After the completion of construction, road assets are transferred to JEHDRA pursuant to Article 51.2 or 51.4 of the Special Measures Act.

Long-term debt with variable interest rates is exposed to interest rate fluctuation risk.

The corporate bond denominated in a foreign currency is exposed to exchange rate fluctuation risk. For the purpose of hedging foreign currency exchange fluctuation risk, the Company entered into a foreign currency swap contract when the corporate bond denominated in a foreign currency was issued.

Derivative transactions where the foreign currency swap is designated as the hedging instrument and corporate bond denominated in a foreign currency as the hedged item are accounted for by the allocation method.

(3) Risk management for financial instruments

(a) Monitoring of credit risk

For managing credit risks arising from accounts receivable due from expressway business operations and other accounts receivable, each related division of the Group monitors the collection, due dates and outstanding balances by customer. In addition, the Group periodically identifies the credit conditions of major customers.

Marketable securities and investments in securities primarily consist of certificates of deposits and commercial papers and are limited to securities with high credit ratings based on internal regulations, and are exposed to immaterial credit risks.

For long-term loans with variable interest rates included in long-term debt for road construction, the Group includes contractual provisions allowing the Company to demand early redemption of certain debt under specific conditions.

(b) Monitoring of market risk

Marketable securities, investments in securities and short-term debt receivable included in other current assets primarily consist of certificates of deposits and commercial papers and are limited to instruments with defined interest rates and are restricted to domestic Japanese instruments based on internal regulations.

Central Nippon Expressway Company Limited and its Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

18. Financial Instruments and Related Disclosures (continued)

Status of financial instruments (continued)

The corporate bond denominated in foreign currency, which are exposed to foreign currency exchange risk, are monitored by each corporate bond and are accounted for by the allocate method by utilizing currency swap contracts.

(c) Monitoring of liquidity risk

Based on reports from each division of the Group, the Company prepares and updates cash flow plans on a timely basis and maintains appropriate liquidity levels to manage liquidity risk.

(d) Derivative transactions

The Company and certain subsidiaries enter into derivative transactions based on internal regulations but do not enter into derivative transactions for speculative or trading purposes. Currency swap contracts that meet certain conditions are accounted for by the allocation method, which requires that the recognized foreign currency transaction be translated at the corresponding currency swap contract rate.

Fair value of financial instruments

The carrying value of financial instruments on the accompanying consolidated balance sheets as of March 31, 2014 and 2013 and their estimated fair value are shown in the following table. The following table does not include financial instruments for which it is extremely difficult to determine the fair value.

<i>Millions of yen</i>								
	2014			2013				
	Carrying value	Estimated fair value	Difference	Carrying value	Estimated fair value	Difference		
Assets:								
Cash and deposits	¥ 74,384	¥ 74,384	¥ –	¥ 24,930	¥ 24,930	¥ –		
Accounts receivable due from expressway business operations	51,070	51,070	–	44,463	44,463	–		
Other accounts receivable	50,155	50,155	–	7,275	7,275	–		
Marketable securities and investments in securities:								
Held-to-maturity debt securities	20,502	20,520	18	12,501	12,523	22		
Other securities	20,430	20,430	–	86,591	86,591	–		
Short-term loans receivable included in other current assets	3	3	–	12,001	12,001	–		
Total assets	216,544	216,562	18	187,761	187,783	22		
Liabilities:								
Accounts payable due to expressway business operations	83,599	83,599	–	93,589	93,589	–		
Other accounts payable	19,561	19,561	–	59,807	59,807	–		
Income and other taxes payable	1,861	1,861	–	1,270	1,270	–		
Bonds for road construction (*)	852,520	861,220	8,700	610,000	618,761	8,761		
Long-term loans for road construction (*)	110,000	110,014	14	95,950	95,892	(58)		
Other long-term loans	6,346	6,362	16	9,456	9,513	57		
Total liabilities	¥ 1,073,887	¥ 1,082,617	¥ 8,730	¥ 870,072	¥ 878,832	¥ 8,760		

(*) including due within a year

Central Nippon Expressway Company Limited and its Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

18. Financial Instruments and Related Disclosures (continued)

Fair value of financial instruments (continued)

<i>Thousands of U.S. dollars</i>			
2014			
	Carrying value	Estimated fair value	Difference
Assets:			
Cash and deposits	\$ 722,736	\$ 722,736	\$ –
Accounts receivable due from expressway business operations	496,211	496,211	–
Other accounts receivable	487,320	487,320	–
Marketable securities and investments in securities:			
Held-to-maturity debt securities	199,203	199,378	175
Other securities	198,504	198,504	–
Short-term loans receivable included in other current assets	29	29	–
Total assets	<u>2,104,003</u>	<u>2,104,178</u>	<u>175</u>
Liabilities:			
Accounts payable due to expressway business operations	812,272	812,272	–
Other accounts payable	190,060	190,060	–
Income and other taxes payable	18,082	18,082	–
Bonds for road construction (*)	8,283,327	8,367,859	84,532
Long-term loans for road construction (*)	1,068,791	1,068,927	136
Other long-term loans	61,659	61,815	156
Total liabilities	<u>\$ 10,434,191</u>	<u>\$ 10,519,015</u>	<u>\$ 84,824</u>

The fair value of cash and deposits, accounts receivable due from expressway business operations, other accounts receivable and short-term loans receivable approximates the carrying value since these items are settled in a short period of time.

For marketable securities and investments in securities, the fair value of the corresponding certificates of deposit approximates the carrying value since these items are settled in a short period of time. The fair value of held-to-maturity debt securities and other securities other than certificates of deposit is determined based on quoted market prices. For further information on the fair value of marketable securities and investments in securities, please refer to Note 4.

The fair value of accounts payable due to expressway business operations, other accounts payable and income and other taxes payable approximates the carrying value since these items are settled in a short period of time.

The fair value of bonds for road construction is determined based on market prices.

The fair value of long-term loans for road construction and other long-term loans, including the current portion, with variable interest rates approximates carrying value since these items reflect market interest rates in the short term and these have been no significant changes in the Company's financial condition that would negatively impact its credit status.

The fair value of long-term loans for road construction and other long-term loans, including the current portion, with fixed interest rates is determined based on the discounted present value of the principal and interest payments using the corresponding fixed interest rate for new debt with the same terms and conditions.

Derivative transactions

Please refer to Note 19 "Derivative Financial Instruments and Hedging Activities."

Central Nippon Expressway Company Limited and its Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

18. Financial Instruments and Related Disclosures (continued)

Fair value of financial instruments (continued)

Financial instruments for which it is extremely difficult to determine the fair value as of March 31, 2014 and 2013 are summarized as follows:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	2014	2013	2014
Unlisted stocks:			
Investments in unconsolidated subsidiaries and affiliates	¥ 3,856	¥ 4,499	\$ 37,466
Other securities	133	129	1,292

No quoted market price is available for unlisted stocks and it is extremely difficult to estimate the corresponding future cash flow.

The redemption schedule for cash and deposits, accounts receivable due from expressway business operations, other accounts receivable and investments in securities with maturities at March 31, 2014 are as follows:

	<i>Millions of yen</i>			
	2014			
	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Cash and deposits	¥ 74,384	¥ –	¥ –	¥ –
Accounts receivable due from expressway business operations	51,070	–	–	–
Other accounts receivable	50,155	–	–	–
Investments in securities:				
Held-to-maturity debt securities	20,000	200	300	–
Other securities	20,000	–	–	432
Total	¥ 215,609	¥ 200	¥ 300	¥ 432

	<i>Thousands of U.S. dollars</i>			
	2014			
	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Cash and deposits	\$ 722,736	\$ –	\$ –	\$ –
Accounts receivable due from expressway business operations	496,211	–	–	–
Other accounts receivable	487,320	–	–	–
Investments in securities:				
Held-to-maturity debt securities	194,326	1,943	2,915	–
Other securities	194,326	–	–	4,197
Total	\$ 2,094,919	\$ 1,943	\$ 2,915	\$ 4,197

Central Nippon Expressway Company Limited and its Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

19. Derivative Financial Instruments and Hedging Activities

For hybrid financial instruments containing an embedded derivative that cannot be reliably identified and measured separately which did not qualify hedge accounting at March 31, 2014 and 2013, the entire contract is measured at fair value with the gain or loss recognized in income and included in investment securities at March 31, 2014 and 2013.

The contract amount and the fair value of the derivative instrument outstanding which qualified hedge accounting at March 31, 2014 was as follows:

Hedge accounting method	Hedging instrument	Main hedged item	<i>Millions of yen</i>		
			Contract amount	Contract amount payable after one year	Fair value
Allocation method for currency swaps	Currency swap	Bonds for road construction	¥97,520	¥97,520	(*)
Hedge accounting method	Hedging instrument	Main hedged item	<i>Thousands of U.S. dollars</i>		
			Contract amount	Contract amount payable after one year	Fair value
Allocation method for currency swaps	Currency swap	Bonds for road construction	\$947,532	\$947,532	(*)

(*) Because currency swap contract is accounted for as if the contract rate applied to the currency swap had originally applied to the underlying bonds for road construction, the fair value is included in the fair value of bond for road construction.

There were no derivative instruments outstanding, which qualified hedge accounting at March 31, 2013.

20. Repurchase Transactions

The repurchase transactions included in other current assets and the fair value of pledged assets at March 31, 2013 are as follows:

	<i>Millions of yen</i>
	2013
Repurchase transactions	¥ 11,995
Fair value of securities received as pledged assets	¥ 11,995

21. Segment Information

(1) Outline of reporting segments

Reportable segments of the Company are components for which separate financial information is available and whose operating results are regularly reviewed by the management to determine the allocation of management resources and assess the business performance.

The Company's business segments are classified by different products and services based on their business domains. The Company's business segments consist of the following reportable segments: expressway business, rest area business and other related business.

Central Nippon Expressway Company Limited and its Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

21. Segment Information (continued)

Details on the reportable segments are as follows:

Expressway business:	Construction, reconstruction, maintenance, repairs, disaster recovery, and other management activities involving the expressway business
Rest area business:	Construction, management and operations of rest area businesses adjacent to expressways
Other related business:	Agency Business, truck terminal business, facilities utilization business, retail business and other related business

(2) Calculation method of net sales, gain, loss, assets, liabilities and other items by each reporting segment

The accounting policies applied by each reporting segment are consistent with those described in Note 1.

Segment income (loss) presented in segment information is calculated based on operating income in the consolidated statements of income.

In addition, property and equipment and intangible fixed assets related to common departments in the Company are not allocated to reportable segments. Related expenses, however, are allocated to each reportable segment based on a rational method.

Intersegment sales are determined in reference to market actual value.

Information on net sales, segment income or loss, segment assets and liabilities and other items by each reportable segment as of and for the years ended March 31, 2014 and 2013 is outlined as follows:

<i>Millions of yen</i>						
2014						
	Reportable segments			Total	Adjustments	Consolidated
	Expressway business	Rest area business	Other related business			
Sales to third parties	¥ 582,550	¥ 40,190	¥ 12,704	¥ 635,444	¥ –	¥ 635,444
Intersegment sales and transfers	19	21	23	63	(63)	–
Net sales	582,569	40,211	12,727	635,507	(63)	635,444
Segment income (loss)	¥ (3,532)	¥ 5,685	¥ (145)	¥ 2,008	¥ 32	¥ 2,040
Segment assets	¥ 1,086,394	¥ 174,809	¥ 5,742	¥ 1,266,945	¥ 124,938	¥ 1,391,883
Segment liabilities	962,520	4,000	–	966,520	226,722	1,193,242
Other items:						
Depreciation and amortization	17,279	3,315	200	20,794	–	20,794
Investments in affiliates	3,161	–	592	3,753	–	3,753
Increase in property and equipment and intangible assets	11,282	3,168	84	14,534	2,038	16,572

Central Nippon Expressway Company Limited and its Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

21. Segment Information (continued)

<i>Millions of yen</i>						
2013						
	Reportable segments			Total	Adjustments	Consolidated
	Expressway business	Rest area business	Other related business			
Sales to third parties	¥1,626,104	¥ 42,000	¥12,912	¥ 1,681,016	¥ –	¥ 1,681,016
Intersegment sales and transfers	21	13	12	46	(46)	–
Net sales	1,626,125	42,013	12,924	1,681,062	(46)	1,681,016
Segment income (loss)	¥ 29	¥ 6,611	¥ (269)	¥ 6,371	¥ 16	¥ 6,387
Segment assets	¥ 850,827	¥ 169,324	¥ 6,345	¥ 1,026,496	¥ 157,498	¥ 1,183,994
Segment liabilities	705,950	4,000	–	709,950	268,258	978,208
Other items:						
Depreciation and amortization	17,395	3,215	172	20,782	–	20,782
Investments in affiliates	3,775	–	619	4,394	–	4,394
Increase in property and equipment and intangible assets	18,202	8,347	218	26,767	2,555	29,322
<i>Thousands of U.S. dollars</i>						
2014						
	Reportable segments			Total	Adjustments	Consolidated
	Expressway business	Rest area business	Other related business			
Sales to third parties	\$ 5,660,222	\$ 390,497	\$ 123,436	\$ 6,174,155	\$ –	\$ 6,174,155
Intersegment sales and transfers	184	205	223	612	(612)	–
Net sales	5,660,406	390,702	123,659	6,174,767	(612)	6,174,155
Segment income (loss)	\$ (34,318)	\$ 55,237	\$ (1,409)	\$ 19,510	\$ 311	\$ 19,821
Segment assets	\$ 10,555,713	\$ 1,698,494	\$ 55,791	\$ 12,309,998	\$ 1,213,933	\$ 13,523,931
Segment liabilities	9,352,118	38,865	–	9,390,983	2,202,896	11,593,879
Other items:						
Depreciation and amortization	167,888	32,209	1,943	202,040	–	202,040
Investments in affiliates	30,713	–	5,752	36,465	–	36,465
Increase in property and equipment and intangible assets	109,619	30,781	816	141,216	19,802	161,018

Adjustments in the above tables:

The adjustments of segment income in the amounts of ¥32 million (\$311 thousand) and ¥16 million for the years ended March 31, 2014 and 2013, respectively, are eliminations of intersegment transactions.

The adjustments of segment assets in the amounts of ¥124,938 million (\$1,213,933 thousand) and ¥157,498 million at March 31, 2014 and 2013, respectively, include corporate assets not allocated to reportable segments, mainly consisting of surplus funds held by the Company (deposits and marketable securities) and assets related common departments in the Company.

Central Nippon Expressway Company Limited and its Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

21. Segment Information (continued)

The adjustments of segment liabilities in the amounts of ¥226,722 million (\$2,202,896 thousand) and ¥268,258 million at March 31, 2014 and 2013 respectively, include corporate liabilities not allocated to reportable segments, principally consisting of accrued liabilities, liability for retirement benefits and other liabilities.

The adjustments of increase in property, plant and equipment and intangible assets in the amounts of ¥2,038 million (\$19,802 thousand) and ¥2,555 million for the years ended March 31, 2014 and 2013, respectively, include corporate assets not allocated to reportable segments, principally consisting of system development by the Company.

Information on each product and service for the years ended March 31, 2014 and 2013 is analyzed as follows:

<i>Millions of yen</i>				
2014				
	Toll fee	Completion of road assets	Other	Total
Sales to external customers	¥ 511,417	¥ 70,457	¥ 53,570	¥ 635,444
<i>Millions of yen</i>				
2013				
	Toll fee	Completion of road assets	Other	Total
Sales to external customers	¥ 497,332	¥ 1,127,926	¥ 55,758	¥ 1,681,016
<i>Thousands of U.S. dollars</i>				
2014				
	Toll fee	Completion of road assets	Other	Total
Sales to external customers	\$ 4,969,073	\$ 684,580	\$ 520,502	\$ 6,174,155

As more than 90% of the consolidated net sales for the years ended March 31, 2014 and 2013 were made in Japan, the disclosure of geographical segment information has been omitted.

As property and equipment in the consolidated balance sheets is located only in Japan, the disclosure of information on property and equipment by country or geographic region as of March 31, 2014 and 2013 has been omitted.

Sales to JEHDRA concerning completion of expressway assets amounted to ¥70,457 million (\$684,580 thousand) and ¥1,127,926 million by the expressway business segment for the years ended March 31, 2014 and 2013.

Information on amortization of goodwill and the remaining balance by reportable segment as of and for the years ended March 31, 2014 and 2013 is as follows:

<i>Millions of yen</i>						
2014						
	Expressway business	Rest area business	Other related business	Total	Eliminations and other	Consolidated
Amortization of goodwill	¥ -	¥ 0	¥ -	¥ 0	¥ -	¥ 0
Remaining balance	¥ -	¥ -	¥ -	¥ -	¥ -	¥ -

Central Nippon Expressway Company Limited and its Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

21. Segment Information (continued)

<i>Millions of yen</i>						
2013						
	Expressway business	Rest area business	Other related business	Total	Eliminations and other	Consolidated
Amortization of goodwill	¥ 3	¥ 1	¥ –	¥ 4	¥ –	¥ 4
Remaining balance	¥ –	¥ –	¥ –	¥ –	¥ –	¥ –
<i>Thousands of U.S. dollars</i>						
2014						
	Expressway business	Rest area business	Other related business	Total	Eliminations and other	Consolidated
Amortization of goodwill	\$ –	\$ 0	\$ –	\$ 0	\$ –	\$ 0
Remaining balance	\$ –	\$ –	\$ –	\$ –	\$ –	\$ –

Amortization and the remaining balance of negative goodwill arising from business combinations before April 1, 2010 amounted to ¥342 million (\$3,323 thousand) and ¥342 million, and ¥4,871 million (\$47,328 thousand) and ¥5,213 million in “Eliminations and other” as of and for the years ended March 31, 2014 and 2013, respectively.

Gain on negative goodwill in the expressway business segment in the amount of ¥743 million (\$7,219 thousand) and in the rest area business segment of ¥267 million (\$2,594 thousand) for the year ended March 31, 2014 incurred from the acquisition of Central Nippon Road Maintenance Kanazawa Co., Ltd. by Central Nippon Highway Maintenance Hokuriku Co., Ltd. and the acquisition of Central Nippon Road Maintenance Chubu Co., Ltd. by Central Nippon Highway Maintenance Nagoya Co., Ltd., as disclosed in Note 23 “Business Combinations.”

Gain on negative goodwill in the expressway business segment of ¥280 million for the year ended March 31, 2013 incurred from the acquisition of Central Nippon Road Maintenance Tokyo Co., Ltd. by Central Nippon Highway Maintenance Tomei Co., Ltd., as disclosed in Note 23 “Business Combinations.”

Central Nippon Expressway Company Limited and its Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

22. Related Party Transactions

Principal transactions between the Company and JEHDRA for the years ended March 31, 2014 and 2013 are summarized as follows:

2014					
Relationship with the related party	Nature of transaction	Transaction amount (Millions of yen)	Transaction amount (Thousands of U.S. dollars)	Account name	Carrying amount (Millions of yen) Carrying amount (Thousands of U.S. dollars)
				Accounts payable due to expressway business operations	¥ 57,516 \$ 558,842
Leasing of road assets	Road assets leasing expenses (*1)	¥ 360,586	\$ 3,503,556	Accounts receivable due from expressway business operations (*2)	13 126
Transfer of road assets and loans and jointly and severally liable debts	Revenues from the transfer of road assets constructed by the Company (*1)	70,457	684,580	Accounts receivable due from expressway business operations	5,094 49,495
	Transfer of liabilities and guarantee of debts (*3)	65,950	640,789	—	—
	Guarantee of debts (*4)	3,005,206	29,199,436	—	—
Jointly and severally liable for debts	Guarantee of debts (*5)	1,291,981	12,553,255	—	—
2013					
Relationship with the related party	Nature of transaction	Transaction amount (Millions of yen)	Account name	Carrying amount (Millions of yen)	
			Accounts payable due to expressway business operations	¥48,080	
Leasing of road assets	Road assets leasing expenses (*1)	¥ 350,248	Accounts receivable due from expressway business operations (*2)	67	
Transfer of road assets and loans and jointly and severally liable debts	Revenues from the transfer of road assets constructed by the Company (*1)	1,127,926	Other current liabilities	2,603	
	Transfer of liabilities and guarantee of debts (*3)	1,181,150	—	—	
Jointly and severally liable for debts	Guarantee of debts (*4)	3,931,818	—	—	
	Guarantee of debts (*5)	341,157	—	—	

JEHDRA is supervised by the Minister of Land, Infrastructure, Transport and Tourism (“Minister of LIT”), which is a major shareholder of the Company, and its share capital at March 31, 2014 and 2013 amounted to ¥5,376,312 million (\$52,237,777 thousand) and ¥5,255,125 million, respectively.

JEHDRA, which is located in Minato ward in Tokyo, is engaged in business activities involving holding road assets, leasing of road assets to the Company and repayment of debts it has assumed.

Central Nippon Expressway Company Limited and its Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

22. Related Party Transactions (continued)

Applicable consumption taxes are not included in the transaction amounts but are included in balances in the above table.

(*1) Agreements are concluded based on negotiations the between the Company and JEHDRA.

(*2) Leasing fees may be reduced in proportion to the amount of expressway tolls received by users if the actual toll amounts received fall short of the estimated toll amount in accordance with applicable agreements.

(*3) Pursuant to Article 15 of the JEHDRA Act, the Company is jointly and severally liable for the debt transferred to JEHDRA corresponding to costs for construction of expressways, reconstruction, repairs, maintenance and disaster recovery. Related guarantee fees are not received by the Company.

(*4) Pursuant to Article 16 of the Implementation Act, the Company is jointly and severally liable with JEHDRA, E-NEXCO and W-NEXCO for the loans and road bonds succeeded to by JEHDRA, E-NEXCO or W-NEXCO from JHPC (excluding loans from the Japanese government, loans succeeded to by JEHDRA and bonds held by the Japanese government). Related guarantee fees are not received by the Company.

(*5) Pursuant to Article 15 of the JEHDRA Act, the Company is jointly and severally liable with E-NEXCO and W-NEXCO in the amount of ¥10,981 million (\$106,695 thousand) and ¥16,467 million and solely liable in the amount of ¥1,281,000 million (\$12,446,560 thousand) and ¥324,690 million at March 31, 2014 and 2013, respectively, for the debt transferred to JEHDRA in the amount corresponding to costs for construction for expressways, reconstruction, repairs, maintenance and disaster recovery. Related guarantee fees are not received by the Company.

23. Business Combinations

(1) Acquisition of Astech Co., Ltd., currently named as Central Nippon Road Maintenance Kanazawa Co., Ltd.

On May 20, 2013, Central Nippon Highway Maintenance Hokuriku Co., Ltd., a wholly-owned subsidiary, additionally acquired 22% of the voting rights of Astech Co., Ltd., currently named as Central Nippon Road Maintenance Kanazawa Co., Ltd., which is engaged in maintenance and repairs of expressways and related operations in exchange for a cash consideration. As a result, Central Nippon Highway Maintenance Hokuriku Co., Ltd. currently holds 55% of the voting rights after this acquisition. The purpose of the business combination is to ensure that maintenance and repair work on expressways is performed in an efficient manner. Central Nippon Road Maintenance Kanazawa Co., Ltd. has a fiscal year end of March 31 and its operating results from April 1, 2013 to March 31, 2014 have been included in the accompanying consolidated financial statements.

The fair value of the consideration paid to purchase shares of the acquired entity including acquisition-related expenses was ¥605 million (\$5,878 thousand), which was paid to acquire 22% of the voting rights. As a result, ¥364 million (\$3,537 thousand) of negative goodwill was recognized, corresponding to the excess of the fair value of net assets acquired on the date of the business combination over the acquisition costs, which was charged to income for the year ended March 31, 2014.

The assets and liabilities on the date of the business combination are as follows:

	<i>Millions of yen</i>	<i>Thousands of U.S. dollars</i>
Current assets	¥ 1,182	\$ 11,485
Non-current assets	874	8,492
Total assets	2,056	19,977
Current liabilities	145	1,409
Non-current liabilities	19	184
Total liabilities	¥ 164	\$ 1,593

Central Nippon Expressway Company Limited and its Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

23. Business Combinations (continued)

(2) Acquisition of Central Nippon Road Maintenance Chubu Co., Ltd.

On May 20, 2013, as a result of the acquisition of Astech Co., Ltd., currently named as Central Nippon Road Maintenance Kanazawa Co., Ltd., by Central Nippon Highway Maintenance Hokuriku Co., Ltd., as described above (1), the Group automatically acquired shares of Central Nippon Road Maintenance Chubu Co., Ltd., which is engaged in maintenance and repairs of expressways and related operations.

The fair value of the consideration paid to purchase shares of the acquired entity was ¥402 million (\$3,906 thousand). As a result, ¥70 million (\$680 thousand) of negative goodwill was recognized, corresponding to the excess of the fair value of net assets acquired on the acquisition date over the acquisition costs, which was charged to income for the year ended March 31, 2014.

The assets and liabilities on the date of the business combination are as follows:

	<i>Millions of yen</i>	<i>Thousands of U.S. dollars</i>
Current assets	¥ 1,458	\$ 14,166
Non-current assets	32	311
Total assets	1,490	14,477
Current liabilities	204	1,982
Non-current liabilities	50	486
Total liabilities	¥ 254	\$ 2,468

In addition, another consolidated subsidiary acquired 30% of the voting rights of Central Nippon Road Maintenance Chubu Co., Ltd. After these acquisitions, the Group holds 76% of the voting rights in total. The purpose of the corresponding business combination is to ensure that maintenance and repair work on expressways is performed in an efficient manner. Central Nippon Road Maintenance Chubu Co., Ltd. has a fiscal year end of March 31 and its operating results from April 1, 2013 to March 31, 2014 have been included in the accompanying consolidated financial statements.

(3) Acquisition of Central Nippon Road Maintenance Shizuoka Co., Ltd.

On April 4, 2012, the Company acquired 51% of the voting rights of Central Nippon Road Maintenance Shizuoka Co., Ltd., which is engaged in maintenance and repairs of expressways and related operations, through the acquisition of shares for cash. The purpose of the business combination is to ensure maintenance and repair work on expressways is performed in an efficient manner. Central Nippon Road Maintenance Shizuoka Co., Ltd. has a fiscal year end of March 31.

The fair value of the consideration paid to purchase shares of the acquired entity was ¥22 million. As a result, ¥3 million of goodwill was recognized, corresponding to the excess of the acquisition costs over the fair value of net assets acquired on the date of the business combination, which was charged to income as incurred.

The assets and liabilities on the date of the business combination are as follows:

	<i>Millions of yen</i>
Current assets	¥ 40
Non-current assets	—
Total assets	40
Current liabilities	2
Non-current liabilities	—
Total liabilities	¥ 2

Central Nippon Expressway Company Limited and its Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

23. Business Combinations (continued)

(4) Acquisition of Central Nippon Road Maintenance Tokyo Co., Ltd.

On April 9, 2012, the Company acquired 45% of the voting rights of Central Nippon Road Maintenance Tokyo Co., Ltd., which is engaged in maintenance and repairs of expressways and related operations through the acquisition of shares for cash. As a result, the Company currently holds 51% of the voting rights after this acquisition. The purpose of the corresponding business combination is to ensure maintenance and repair work on expressways in performed an efficient manner. Central Nippon Road Maintenance Tokyo Co., Ltd. has a fiscal year end of March 31.

The fair value of the consideration paid to purchase shares of the acquired entity was ¥163 million. As a result, the Company recorded a gain on step acquisition in the amount of ¥16 million and ¥280 million of negative goodwill was recognized, corresponding to the excess of the fair value of net assets acquired on the acquisition date over the acquisition costs.

The assets and liabilities on the date of the business combination are as follows:

	<i>Millions of yen</i>
Current assets	¥ 1,007
Non-current assets	283
Total assets	1,290
Current liabilities	400
Non-current liabilities	32
Total liabilities	¥ 432

24. Other Comprehensive Income

The following table presents an analysis of components of other comprehensive income for the years ended March 31, 2014 and 2013.

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	2014	2013	2014
Net unrealized holding gain on securities:			
Amount arising during the year	¥ 37	¥ 29	\$ 360
Reclassification adjustments for gains included in net income	3	—	28
Before tax effect	40	29	388
Tax effect	(14)	(10)	(136)
Net unrealized holding gain on securities	26	19	252
Share of other comprehensive income of affiliates accounted for by the equity method:			
Amount arising during the year	0	20	0
Total other comprehensive income	¥ 26	¥ 39	\$ 252

25. Subsequent Events

(1) Establishment of NEXCO Central Nippon Development Co., Ltd.

On April 8, 2014, NEXCO Central Nippon Investment LLC., the Company's consolidated subsidiary, established NEXCO Central Nippon Development Co., Ltd. As a result, Limited Liability Company NEXCO Central Nippon Investment obtained 800,000 shares at cost of ¥400 million (\$3,887 thousand).

Central Nippon Expressway Company Limited and its Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

25. Subsequent Events (continued)

NEXCO Central Nippon Development Co., Ltd. is engaged in development and administrative operation of commercial facilities around the express way. The purpose of this establishment is to ensure that commercial facilities around the expressway are developed, maintained and operated effectively.

(2) Acquisition of Hakone Turnpike Limited.

On April 25, 2014, NEXCO Central Nippon Investment LLC., the Company's consolidated subsidiary, acquired the 740 shares of Hakone Turnpike Limited. at cost of ¥78 million (\$758 thousand). As a result, Hakone Turnpike Limited. became a wholly owned subsidiary of NEXCO Central Nippon Investment LLC.

Hakone Turnpike Limited. has been engaged in owing, maintaining and operating the motoring roads and other related businesses. The purpose of this acquisition is to ensure effective operations of motoring roads business based on the Road Transportation Act of Japan.

The following table presents the assets and liabilities of Hakone Turnpike as of March 31, 2013:

	<i>Millions of yen</i>
Assets	<u>¥ 1,616</u>
Liabilities	<u>1,508</u>
Net assets	<u>¥ 108</u>

(3) Acquisition of Deros Japan Co., Ltd.

On May 26, 2014, Central Nippon Highway Maintenance Hokuriku Co., Ltd., the Company's consolidated subsidiary, acquired 315 shares of Deros Japan Co., Ltd. at cost of ¥63 million (\$612 thousand). As a result, the voting rights acquired reached 30.3%.

Deros Japan Co., Ltd. has been engaged in inspection, diagnosis, repair and addition of the road structures. The purpose of this acquisition is to ensure to enhance the road repair and maintenance business for road structures.

The following table presents the assets and liabilities of Central Nippon Highway Hokuriku Co., Ltd. as of September 30, 2013:

	<i>Millions of yen</i>
Assets	<u>¥ 1,011</u>
Liabilities	<u>827</u>
Net assets	<u>¥ 184</u>

(4) Issuance of Corporate Bonds

On May 30, 2014, the Company issued Bond of Central Nippon Expressway Company Limited No. 57 in the amount of ¥100,000 million (\$971,628 thousand) with the applicable interest rate of 0.294% and a maturity date on March 20, 2019 for construction of expressways, reconstruction, repairs, maintenance, disaster recovery and other management activities related to its expressways.

The issuance price was ¥100 per ¥100 face value and the payment date was May 30, 2014. A statutory lien was pledged in accordance with the applicable law.

The following special provisions were attached to the bonds.

JEHDRA is jointly and severally liable with the Company for the corresponding obligation, to the extent that the obligation related to the bond is assumed by JEHDRA pursuant to the JEHDRA Act.

When the obligation is assumed by JEHDRA, total assets of JEHDRA will be additionally pledged as collateral for bond holders.

Central Nippon Expressway Company Limited and its Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

25. Subsequent Events (continued)

The order of lien by bond holders is equivalent to that of holders of bonds of the Japan Expressway Holding and Debt Repayment Agency.

26. Significant Subsidiaries and Affiliates

The Company's consolidated subsidiaries and significant affiliates accounted for by the equity method are presented as follows:

Name	Ownership interest	Country of incorporation	Subsidiaries / affiliates
Central Nippon Exis Co., Ltd.	100.0%	Japan	Consolidated subsidiary
Central Nippon Extoll Yokohama Co., Ltd.	100.0	Japan	Consolidated subsidiary
Central Nippon Extoll Nagoya Co., Ltd.	100.0	Japan	Consolidated subsidiary
Central Nippon Highway Patrol Tokyo Co., Ltd.	100.0	Japan	Consolidated subsidiary
Central Nippon Highway Patrol Nagoya Co., Ltd.	100.0	Japan	Consolidated subsidiary
Central Nippon Highway Engineering Tokyo Co., Ltd.	100.0	Japan	Consolidated subsidiary
Central Nippon Highway Engineering Nagoya Co., Ltd.	100.0	Japan	Consolidated subsidiary
Central Nippon Highway Maintenance Tomei Co., Ltd.	88.7	Japan	Consolidated subsidiary
Central Nippon Highway Maintenance Chuoh Co., Ltd.	100.0	Japan	Consolidated subsidiary
Central Nippon Highway Maintenance Nagoya Co., Ltd.	100.0	Japan	Consolidated subsidiary
Central Nippon Highway Maintenance Hokuriku Co., Ltd.	100.0	Japan	Consolidated subsidiary
NEXCO Central Nippon Services Co., Ltd.	100.0	Japan	Consolidated subsidiary
Central-NEXCO Technical Marketing Co., Ltd.	100.0	Japan	Consolidated subsidiary
NEXCO Central Nippon Investment LLC.	100.0	Japan	Consolidated subsidiary
H.R. Yokohama Co., Ltd.	100.0	Japan	Consolidated subsidiary
Grancer Seiwa Service Co., Ltd.	72.1	Japan	Consolidated subsidiary
Central Nippon Highway Advance Co., Ltd.	100.0	Japan	Consolidated subsidiary
Central Nippon Road Maintenance Shizuoka Co., Ltd.	51.0	Japan	Consolidated subsidiary
Central Nippon Road Maintenance Tokyo Co., Ltd.	53.6	Japan	Consolidated subsidiary
Central Nippon Road Maintenance Tokai Co., Ltd.	51.0	Japan	Consolidated subsidiary
Central-NEXCO Auto Service Co., Ltd.	100.0	Japan	Consolidated subsidiary
Central Nippon Road Maintenance Kanazawa Co., Ltd.	55.2	Japan	Consolidated subsidiary
Central Nippon Road Maintenance Chubu Co., Ltd.	76.0	Japan	Consolidated subsidiary

Central Nippon Expressway Company Limited and its Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

26. Significant Subsidiaries and Affiliates (continued)

Name	Ownership interest	Country of incorporation	Subsidiaries / affiliates
Hokuriku Expressway Terminal Co., Ltd.	27.6%	Japan	Equity-method affiliate
NEXCO Systems Co., Ltd.	33.3	Japan	Equity-method affiliate
Nippon Expressway Research Institute Co., Ltd.	33.3	Japan	Equity-method affiliate
NEXCO Insurance Services Co., Ltd.	33.3	Japan	Equity-method affiliate
HIGHWAY TOLL SYSTEMS Co., Ltd.	24.0	Japan	Equity-method affiliate
Japan Expressway International Co., Ltd.	28.6	Japan	Equity-method affiliate
Central Nippon Facilities Management Co., Ltd.	49.0	Japan	Equity-method affiliate
Nihon Road Maintenance Co., Ltd.	15.0	Japan	Equity-method affiliate
Tokyo Highway Co., Ltd.	15.0	Japan	Equity-method affiliate
TC Maintenance Co., Ltd.	33.4	Japan	Equity-method affiliate
NHS Nagoya Co., Ltd.	33.5	Japan	Equity-method affiliate
KOSOKUHOZEN Co., Ltd.	33.3	Japan	Equity-method affiliate

Effective the year ended March 31, 2014, Central Nippon Road Maintenance Kanazawa Company Limited, whose shares were newly acquired by Central Nippon Highway Maintenance Hokuriku Co., Ltd., has been newly consolidated.

Effective the year ended March 31, 2014, Central Nippon Road Maintenance Chubu Co., Ltd., whose shares were newly acquired through the acquisition of shares of Central Nippon Road Maintenance Kanazawa Company Limited, has been newly consolidated.

Weiza Co., Ltd. has not been included in the scope of consolidation since this company is not significant in terms of its total assets, net income or loss, and retained earnings.

Weiza Co., Ltd. and Shoei Co., Ltd. have neither been accounted for by the equity method nor included in the scope of consolidation since these companies are not significant in terms of net income or loss, and retained earnings and are not material as a whole.

