

**Semiannual Consolidated Financial Statements
(Unaudited)**

**Central Nippon Expressway Company Limited
and its Consolidated Subsidiaries**

***Six-month periods ended September 30, 2016 and 2015
with Independent Auditor's Review Report***

Central Nippon Expressway Company Limited
and its Consolidated Subsidiaries

Semiannual Consolidated Financial Statements (Unaudited)

Six-month periods ended September 30, 2016 and 2015

Contents

Independent Auditor's Review Report	1
Semiannual Consolidated Financial Statements (Unaudited)	
Semiannual Consolidated Balance Sheet (Unaudited)	2
Semiannual Consolidated Statements of Income (Unaudited)	4
Semiannual Consolidated Statements of Comprehensive Income (Unaudited)	5
Semiannual Consolidated Statements of Changes in Net Assets (Unaudited)	6
Semiannual Consolidated Statements of Cash Flows (Unaudited)	8
Notes to Semiannual Consolidated Financial Statements (Unaudited)	9

Independent Auditor's Review Report

The Board of Directors
Central Nippon Expressway Company Limited

We have reviewed the accompanying semiannual consolidated financial statements of Central Nippon Expressway Company Limited and its consolidated subsidiaries, which comprise the semiannual consolidated balance sheet as at September 30, 2016, the semiannual consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the six-month periods ended September 30, 2016 and 2015 and a summary of significant accounting policies and explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Semiannual Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these semiannual consolidated financial statements in accordance with accounting principles for semiannual consolidated financial statements 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 semiannual consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on these semiannual consolidated financial statements based on our review. We conducted our review in accordance with the review standards for interim financial statements generally accepted in Japan.

A review of interim financial statements consists of making inquiries, primarily of management and persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in Japan.

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

Auditor's Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the semiannual consolidated financial statements referred to above do not present fairly, in all material respects, the consolidated financial position of Central Nippon Expressway Company Limited and its consolidated subsidiaries at September 30, 2016, and their consolidated financial performance and cash flows for the six-month periods ended September 30, 2016 and 2015, in conformity with the accounting principles for semiannual consolidated financial statements generally accepted in Japan.

Convenience Translation

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

/S/ Ernst & Young ShinNihon LLC
December 15, 2016
Nagoya, Japan

Central Nippon Expressway Company Limited
and its Consolidated Subsidiaries

Semiannual Consolidated Balance Sheet (Unaudited)

September 30, 2016

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars (Note 1(a))</i>
	<u>September 30, 2016</u>	<u>March 31, 2016</u>	<u>September 30, 2016</u>
Assets			
Current assets:			
Cash and deposits (<i>Notes 4, 9 and 10</i>)	¥ 105,164	¥ 73,444	\$ 1,039,992
Accounts receivable due from expressway business operations (<i>Note 10</i>)	80,991	72,387	800,939
Other accounts receivable (<i>Note 10</i>)	15,329	9,777	151,592
Marketable securities (<i>Notes 3 and 10</i>)	—	50	—
Inventories	804,414	686,098	7,955,044
Deferred income taxes	2,893	2,874	28,610
Other current assets	34,695	25,727	343,107
Allowance for doubtful accounts	(12)	(10)	(119)
Total current assets	<u>1,043,474</u>	<u>870,347</u>	<u>10,319,165</u>
 Property and equipment (<i>Note 12</i>):			
Buildings	64,626	64,395	639,102
Structures	59,337	58,694	586,798
Machinery and equipment	101,839	101,896	1,007,110
Vehicles	25,996	25,932	257,081
Tools, furniture and fixtures	13,918	14,537	137,638
Land	120,452	120,413	1,191,179
Leased assets	3,218	2,871	31,824
Construction in progress	5,190	3,836	51,325
Less accumulated depreciation	(135,845)	(130,079)	(1,343,404)
Total property and equipment	<u>258,731</u>	<u>262,495</u>	<u>2,558,653</u>
 Investments and other assets:			
Investments in unconsolidated subsidiaries and affiliates (<i>Notes 10 and 12</i>)	4,952	4,848	48,972
Investments in securities (<i>Notes 3 and 10</i>)	598	664	5,914
Intangible fixed assets (<i>Note 12</i>)	8,473	8,884	83,792
Deferred income taxes	2,992	3,028	29,589
Asset for retirement benefits	296	266	2,927
Others (<i>Note 4</i>)	5,396	5,572	53,361
Allowance for doubtful accounts	(511)	(514)	(5,053)
Total investments and other assets	<u>22,196</u>	<u>22,748</u>	<u>219,502</u>
 Deferred assets:			
Bond issuance expenses for road construction	1,550	995	15,328
Total assets (<i>Notes 4 and 12</i>)	<u>¥ 1,325,951</u>	<u>¥ 1,156,585</u>	<u>\$ 13,112,648</u>

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars (Note 1(a))</i>
	September 30, 2016	March 31, 2016	September 30, 2016
Liabilities			
Current liabilities:			
Accounts payable due to expressway business operations (Note 10)	¥ 80,052	¥ 158,268	\$ 791,653
Current portion of long-term debt (Notes 4 and 10)	100	100	989
Current portion of lease obligations	637	561	6,299
Other accounts payable (Note 10)	11,453	48,022	113,262
Income and other taxes payable (Note 10)	8,786	2,941	86,887
Accrued employees' bonuses	3,485	3,150	34,464
Other current liabilities	33,130	20,856	327,631
Total current liabilities (Note 12)	<u>137,643</u>	<u>233,898</u>	<u>1,361,185</u>
Long-term liabilities:			
Long-term debt (Notes 4 and 10)	855,491	604,568	8,460,156
Lease obligations	1,333	1,218	13,182
Deferred income taxes	300	302	2,967
Liability for retirement benefits	86,735	91,204	857,743
Accrued retirement benefits for directors, audit and supervisory board members and corporate officers	185	236	1,830
Allowance for ETC mileage program	9,107	8,570	90,061
Allowance for card shopping point program	26	19	257
Others	25,700	25,885	254,153
Total long-term liabilities (Note 12)	<u>978,877</u>	<u>732,002</u>	<u>9,680,349</u>
Contingent liabilities (Note 5)			
Net assets:			
Shareholder's equity (Notes 6 and 8):			
Common stock	65,000	65,000	642,801
Authorized: 520,000,000 shares			
Issued: 130,000,000 shares at September 30, 2016 and March 31, 2016			
Capital surplus	72,246	71,869	714,458
Retained earnings	91,802	77,377	907,852
Total shareholder's equity	<u>229,048</u>	<u>214,246</u>	<u>2,265,111</u>
Accumulated other comprehensive loss:			
Net unrealized holding gain on securities (Note 3)	52	53	514
Retirement benefit liability adjustments	(20,970)	(25,679)	(207,377)
Total accumulated other comprehensive loss	<u>(20,918)</u>	<u>(25,626)</u>	<u>(206,863)</u>
Non-controlling interests (Note 8)	<u>1,301</u>	<u>2,065</u>	<u>12,866</u>
Total net assets (Note 8)	<u>209,431</u>	<u>190,685</u>	<u>2,071,114</u>
Total liabilities and net assets	<u>¥ 1,325,951</u>	<u>¥ 1,156,585</u>	<u>\$ 13,112,648</u>

See notes to semiannual consolidated financial statements.

Central Nippon Expressway Company Limited
and its Consolidated Subsidiaries

Semiannual Consolidated Statements of Income (Unaudited)

Six-month periods ended September 30, 2016 and 2015

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars (Note 1(a))</i>
	For the six-month periods ended		
	September 30, 2016	September 30, 2015	September 30, 2016
Operating revenues (Note 12)	¥ 431,656	¥ 381,030	\$ 4,268,750
Operating expenses:			
Road assets leasing expenses	235,661	240,558	2,330,508
Cost of sales and administrative expenses for expressway business operations	134,312	80,829	1,328,244
Selling, general and administrative expenses	40,414	39,381	399,664
Total operating expenses	410,387	360,768	4,058,416
Operating income (Note 12)	21,269	20,262	210,334
Other income (expenses):			
Interest income	3	45	30
Interest expenses	(12)	(10)	(119)
Land and property rental fees	104	91	1,028
Amortization of negative goodwill (Note 12)	171	171	1,691
Equity in earnings of affiliates	211	141	2,087
Gain on sales of fixed assets	81	35	801
Loss on disposal of fixed assets	(97)	(61)	(959)
Loss on sales of investments in securities	(41)	—	(405)
Others	162	218	1,602
Income before income taxes and non-controlling interests	21,851	20,892	216,090
Income taxes:			
Current	7,397	7,592	73,151
Deferred	20	(462)	198
	7,417	7,130	73,349
Net income	14,434	13,762	142,741
Non-controlling interests	9	38	89
Net income attributable to owner of the Company (Note 8)	¥ 14,425	¥ 13,724	\$ 142,652

See notes to semiannual consolidated financial statements.

Central Nippon Expressway Company Limited
and its Consolidated Subsidiaries

Semiannual Consolidated Statements of Comprehensive Income (Unaudited)

Six-month periods ended September 30, 2016 and 2015

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars (Note 1(a))</i>
	For the six-month periods ended		
	September 30, 2016	September 30, 2015	September 30, 2016
Net income	¥ 14,434	¥ 13,762	\$ 142,741
Other comprehensive income (loss):			
Net unrealized holding gain (loss) on securities	4	(1)	40
Retirement benefit liability adjustments	4,792	465	47,389
Share of other comprehensive loss of affiliates accounted for by the equity method	(88)	(12)	(870)
Total other comprehensive income	4,708	452	46,559
Comprehensive income	¥ 19,142	¥ 14,214	\$ 189,300
Total comprehensive income attributable to:			
Owner of the Company	¥ 19,133	¥ 14,176	\$ 189,211
Non-controlling interests	¥ 9	¥ 38	\$ 89

Central Nippon Expressway Company Limited
and its Consolidated Subsidiaries

Semiannual Consolidated Statements of Changes in Net Assets (Unaudited)

Six-month periods ended September 30, 2016 and 2015

	Number of shares in issue	<i>Millions of yen</i>		
		Common stock	Capital surplus	Retained earnings
Balance at April 1, 2015	130,000,000	¥ 65,000	¥ 71,650	¥ 69,465
Net income attributable to owner of the Company for the period	—	—	—	13,724
Change in ownership interests due to transactions with non-controlling interests	—	—	70	—
Other changes	—	—	—	—
Balance at September 30, 2015	130,000,000	¥ 65,000	¥ 71,720	¥ 83,189
Balance at April 1, 2016	130,000,000	65,000	71,869	77,377
Net income attributable to owner of the Company for the period	—	—	—	14,425
Change in ownership interests due to transactions with non- controlling interests	—	—	377	—
Other changes	—	—	—	—
Balance at September 30, 2016	130,000,000	¥ 65,000	¥ 72,246	¥ 91,802

	<i>Millions of yen</i>			
	Accumulated other comprehensive income (loss)			
	Net unrealized holding gain on securities	Retirement benefit liability adjustments	Non-controlling interests	Total net assets
Balance at April 1, 2015	¥ 52	¥ (4,318)	¥ 2,277	¥ 204,126
Net income attributable to the Company for the period	—	—	—	13,724
Change in ownership interests due to transactions with non-controlling interests	—	—	—	70
Other changes	(7)	460	(81)	372
Balance at September 30, 2015	¥ 45	¥ (3,858)	¥ 2,196	¥ 218,292
Balance at April 1, 2016	53	(25,679)	2,065	190,685
Net income attributable to owner of the Company for the period	—	—	—	14,425
Change in ownership interests due to transactions with non- controlling interests	—	—	—	377
Other changes	(1)	4,709	(764)	3,944
Balance at September 30, 2016	¥ 52	¥ (20,970)	¥ 1,301	¥ 209,431

Central Nippon Expressway Company Limited
and its Consolidated Subsidiaries

Semiannual Consolidated Statements of Changes in Net Assets (Unaudited)
(continued)

Six-month periods ended September 30, 2016 and 2015

<i>Thousands of U.S. dollars (Note 1(a))</i>			
	Common stock	Capital surplus	Retained earnings
Balance at April 1, 2016	\$ 642,801	\$ 710,730	\$ 765,200
Net income attributable to owner of the Company for the period	—	—	142,652
Change in ownership interests due to transactions with non-controlling interests	—	3,728	—
Other changes	—	—	—
Balance at September 30, 2016	\$ 642,801	\$ 714,458	\$ 907,852

<i>Thousands of U.S. dollars (Note 1(a))</i>				
	Accumulated other comprehensive income (loss)			
	Net unrealized holding gain on securities	Retirement benefit liability adjustments	Non-controlling interests	Total net assets
Balance at April 1, 2016	\$ 524	\$ (253,946)	\$ 20,421	\$ 1,885,730
Net income attributable to owner of the Company for the period	—	—	—	142,652
Change in ownership interests due to transactions with non-controlling interests	—	—	—	3,728
Other changes	(10)	46,569	(7,555)	39,004
Balance at September 30, 2016	\$ 514	\$ (207,377)	\$ 12,866	\$ 2,071,114

Central Nippon Expressway Company Limited
and its Consolidated Subsidiaries

Semiannual Consolidated Statements of Cash Flows (Unaudited)

Six-month periods ended September 30, 2016 and 2015

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars (Note 1(a))</i>
	For the six-month periods ended		
	September 30, 2016	September 30, 2015	September 30, 2016
Cash flows from operating activities:			
Income before income taxes and non-controlling interests	¥ 21,851	¥ 20,892	\$ 216,090
Depreciation and amortization	10,461	10,049	103,451
Equity in earnings of affiliates	(211)	(141)	(2,087)
Increase in asset and liability for retirement benefits	285	105	2,818
Increase in accrued employees' bonuses	335	366	3,323
Increase in allowance for ETC mileage program	537	550	5,311
Decrease in allowance for doubtful accounts	(1)	(2)	(20)
Interest and dividend income	(11)	(51)	(109)
Interest expense	696	1,969	6,883
Gain on sales of fixed assets	(80)	(35)	(791)
Loss on disposal of fixed assets	700	530	6,922
(Increase) decrease in accounts receivable due from expressway business operations	(2,039)	27,666	(20,164)
Increase in inventories (Note 9)	(118,316)	(127,297)	(1,170,055)
Decrease in accounts payable due to expressway business operations	(87,972)	(30,019)	(869,976)
Decrease in other accounts payable	(34,808)	(17,182)	(344,225)
Others	5,842	2,595	57,773
Subtotal	(202,731)	(110,005)	(2,004,856)
Interest and dividends received	29	62	287
Interest paid	(619)	(2,302)	(6,121)
Income taxes paid	(2,276)	(2,477)	(22,508)
Net cash used in operating activities	(205,597)	(114,722)	(2,033,198)
Cash flows from investing activities:			
Increase in time deposits	(3)	(3)	(30)
Decrease in time deposits	6	6	59
Payments for purchase of investments in securities	—	(195)	—
Proceeds from sales and redemption of marketable securities	50	350	494
Proceeds from sales and redemption of investments in securities	31	200	307
Payments for purchase of fixed assets	(12,363)	(9,761)	(122,261)
Proceeds from sales of fixed assets	120	446	1,187
Others	36	6	357
Net cash used in investing activities	(12,123)	(8,951)	(119,887)
Cash flows from financing activities:			
Proceeds from long-term loans	115	1,010	1,137
Repayments of long-term loans (Note 9)	(50)	(25)	(494)
Proceeds from issuance of bonds for road construction	310,076	108,063	3,066,416
Redemption of bonds for road construction (Note 9)	(60,000)	(50,000)	(593,354)
Purchase of shares of subsidiaries not resulting in change in scope of consolidation	(397)	(48)	(3,926)
Others	(300)	(231)	(2,967)
Net cash provided by financing activities	249,444	58,769	2,466,812
Effect of exchange rate changes on cash and cash equivalents	(1)	0	(11)
Net increase (decrease) in cash and cash equivalents	31,723	(64,904)	313,716
Cash and cash equivalents at beginning of the period	72,979	185,924	721,707
Cash and cash equivalents at end of the period (Note 9)	¥ 104,702	¥ 121,020	\$ 1,035,423

See notes to semiannual consolidated financial statements.

Central Nippon Expressway Company Limited
and its Consolidated Subsidiaries

Notes to Semiannual Consolidated Financial Statements (Unaudited)

September 30, 2016

1. Summary of Significant Accounting Policies

(a) Basis of presentation

The accompanying semiannual consolidated financial statements of Central Nippon Expressway Company Limited (the “Company”) and its consolidated subsidiaries (collectively, the “Group”) 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 semiannual consolidated financial statements prepared by the Company as required by the Financial Instruments and Exchange Act of Japan.

The semiannual consolidated financial statements of the Group are prepared in accordance with the “Regulations Concerning the Terminology, Forms and Preparation Methods of Semiannual Consolidated Financial Statements” (“Regulations for Semiannual Consolidated Financial Statements”) (Ministry of Finance Ordinance No. 24, 1999).

In preparing the accompanying semiannual consolidated financial statements, certain reclassifications have been made to the semiannual 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 other explanatory information.

The consolidated balance sheet at March 31, 2016, presented herein for comparative purposes, is derived from the audited consolidated balance sheet.

The translation of Japanese yen amounts into U.S. dollars is included solely for the convenience of the reader and has been made at ¥101.12 = U.S. \$1.00, the approximate rate of exchange in effect on September 30, 2016. 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.

Central Nippon Expressway Company Limited
and its Consolidated Subsidiaries

Notes to Semiannual Consolidated Financial Statements (Unaudited)
(Continued)

1. Summary of Significant Accounting Policies (continued)

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

The accompanying semiannual consolidated financial statements include the accounts of the Company and its 25 significant consolidated subsidiaries for the six-month periods ended September 30, 2016 and 2015. The Company has applied the equity method to its investments in 13 significant affiliates for the purpose of the semiannual consolidated financial statements for the six-month periods ended September 30, 2016 and 2015.

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 consolidated 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, profit 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 unless there has been a permanent decline in the value of such investments. In such case, the Company is required to write 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, and short-term investments which are readily convertible to cash subject to an insignificant risk of any change in their value and which were purchased with original maturities of 3 months or less.

Central Nippon Expressway Company Limited
and its Consolidated Subsidiaries

Notes to Semiannual Consolidated Financial Statements (Unaudited)
(Continued)

1. Summary of Significant Accounting Policies (continued)

(d) Investments in securities

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

Trading securities, consisting of debt and marketable equity securities, are stated at fair value. Gain or loss, both realized and unrealized, is credited or charged to income. 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 (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 include 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.

Central Nippon Expressway Company Limited
and its Consolidated Subsidiaries

Notes to Semiannual Consolidated Financial Statements (Unaudited)
(Continued)

1. Summary of Significant Accounting Policies (continued)

(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:	3 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.

(h) Intangible fixed assets (except for leased assets)

Amortization of intangible fixed 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) Leased assets

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.

Central Nippon Expressway Company Limited
and its Consolidated Subsidiaries

Notes to Semiannual Consolidated Financial Statements (Unaudited)
(Continued)

1. Summary of Significant Accounting Policies (continued)

(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 currency swap contracts and interest-rate swap contracts to hedge its exposure to exchange rate fluctuation risk and interest-rate fluctuation risk corresponding to corporate bonds denominated in a foreign currency based on internal regulations.

Gains or losses on derivatives positions designated as hedges are principally 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. Interest-rate swap contracts that meet certain conditions are accounted for by the special treatment. Under the treatment, the net amount to be paid or received under the contracts is added to or deducted from the interest on the hedged items, by treating them as a single item.

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 swaps accounted for by the allocation method and the interest-rate swaps accounted for by the special treatment, for which the measurement of hedge effectiveness is omitted.

(l) Income taxes

Deferred tax assets and liabilities have been recognized in the semiannual 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 current fiscal year which has been allocated to the six-month period ended September 30, 2016.

Central Nippon Expressway Company Limited
and its Consolidated Subsidiaries

Notes to Semiannual Consolidated Financial Statements (Unaudited)
(Continued)

1. Summary of Significant Accounting Policies (continued)

(n) Retirement benefits

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

The retirement benefit obligation is attributed to each period based on the benefit formula method over the estimated years of service of the eligible employees.

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 end of the fiscal year if all eligible employees terminated their services voluntarily.

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 recognized in income or loss at the time of occurrence.

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, audit and supervisory board members and corporate officers

Directors, audit and supervisory board members 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 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 the period.

Central Nippon Expressway Company Limited
and its Consolidated Subsidiaries

Notes to Semiannual Consolidated Financial Statements (Unaudited)
(Continued)

1. Summary of Significant Accounting Policies (continued)

(q) 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.

(r) 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.

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.

Central Nippon Expressway Company Limited
and its Consolidated Subsidiaries

Notes to Semiannual Consolidated Financial Statements (Unaudited)
(Continued)

1. Summary of Significant Accounting Policies (continued)

(r) Recognition of revenues and costs (continued)

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 is ¥5,000 million (\$49,446 thousand) or more. 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. Supplemental Information

- (1) From the six-month period ended September 30, 2016, the Group adopted the “Implementation Guidance on Recoverability of Deferred Tax Assets” (ASBJ Guidance No. 26, March 28, 2016).
- (2) On April 1, 2016, the Company obtained approval from the Minister of Health, Labour and Welfare of Japan with respect to its application for an exemption from the obligation for benefits related to future employee services under the substitutional portion of the Welfare Pension Fund Plan (“WFPF”). The Company will recognize the corresponding gain or loss at the date of termination of the substitutional portion of the benefit obligation for employee services provided in prior years. The Company will also derecognize the substitutional portion of the benefit obligation for employee services provided in prior years and recognize the corresponding gain or loss at the date of approval of the return of the substitutional portion of pension plan assets.

The impacts on the semiannual consolidated financial statements as of and for the six-month period ended September 30, 2016, as a result of this change cannot be reasonably estimated because many related factors remain uncertain at this time.

Central Nippon Expressway Company Limited
and its Consolidated Subsidiaries

Notes to Semiannual Consolidated Financial Statements (Unaudited)
(Continued)

3. Securities

Held-to-maturity debt securities with available market value at September 30, 2016 and March 31, 2016 are as follows:

<i>Millions of yen</i>						
Held-to-maturity debt securities						
September 30, 2016			March 31, 2016			
Carrying value	Market value	Unrealized gain	Carrying value	Market value	Unrealized gain	
Securities with market value exceeding carrying value:						
National and local government bonds	¥ 301	¥ 317	¥ 16	¥ 350	¥ 369	¥ 19
Corporate bonds	50	52	2	50	52	2
Total	<u>¥ 351</u>	<u>¥ 369</u>	<u>¥ 18</u>	<u>¥ 400</u>	<u>¥ 421</u>	<u>¥ 21</u>

				<i>Thousands of U.S. dollars</i>		
				Held-to-maturity debt securities		
				September 30, 2016		
				Carrying value	Market value	Unrealized gain
Securities with market value exceeding carrying value:						
National and local government bonds	\$ 2,977	\$ 3,135	\$ 158			
Corporate bonds	494	514	20			
Total	<u>\$ 3,471</u>	<u>\$ 3,649</u>	<u>\$ 178</u>			

Central Nippon Expressway Company Limited
and its Consolidated Subsidiaries

Notes to Semiannual Consolidated Financial Statements (Unaudited)
(Continued)

3. Securities (continued)

Other securities with available market value at September 30, 2016 and March 31, 2016 are as follows:

<i>Millions of yen</i>						
Other securities						
September 30, 2016			March 31, 2016			
Acquisition cost	Carrying value	Unrealized gain (loss)	Acquisition cost	Carrying value	Unrealized gain (loss)	
Securities with carrying value exceeding acquisition cost:						
Stocks	¥ 78	¥ 181	¥ 103	¥ 78	¥ 175	¥ 97
Securities with carrying value not exceeding acquisition cost:						
Stocks	38	23	(15)	38	23	(15)
Total	¥ 116	¥ 204	¥ 88	¥ 116	¥ 198	¥ 82

<i>Thousands of U.S. dollars</i>			
Other securities			
September 30, 2016			
Acquisition cost	Carrying value	Unrealized gain (loss)	
Securities with carrying value exceeding acquisition cost:			
Stocks	\$ 771	\$ 1,790	\$ 1,019
Securities with carrying value not exceeding acquisition cost:			
Stocks	376	227	(149)
Total	\$ 1,147	\$ 2,017	\$ 870

Central Nippon Expressway Company Limited
and its Consolidated Subsidiaries

Notes to Semiannual Consolidated Financial Statements (Unaudited)
(Continued)

3. Securities (continued)

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

The Company recognizes loss on 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, but less than 50%, in the last two consecutive years; 2) the issuing corporation has a net asset deficiency; 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 ¥43 million (\$426 thousand) and ¥116 million at September 30, 2016 and March 31, 2016 are not included in the above table.

Central Nippon Expressway Company Limited
and its Consolidated Subsidiaries

Notes to Semiannual Consolidated Financial Statements (Unaudited)
(Continued)

4. Pledged Assets

At September 30, 2016 and March 31, 2016, 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>
	September 30, 2016	March 31, 2016	September 30, 2016
Bonds for road construction:			
Carrying value	¥ 786,579	¥ 535,721	\$ 7,778,669
Face value	786,579	535,721	7,778,669

In addition, at September 30, 2016 and March 31, 2016, the total assets of the Company were also pledged as collateral for bonds in the amounts of ¥1,352,520 million (\$13,375,396 thousand) and ¥1,392,520 million, respectively, assumed by JEHDRA pursuant to Article 15 of the JEHDRA Act.

At September 30, 2016 and March 31, 2016, 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>
	September 30, 2016	March 31, 2016	September 30, 2016
Cash and deposits	¥ 3	¥ 3	\$ 30
Others	250	250	2,472

Central Nippon Expressway Company Limited
and its Consolidated Subsidiaries

Notes to Semiannual Consolidated Financial Statements (Unaudited)
(Continued)

5. Contingent Liabilities

At September 30, 2016 and March 31, 2016, the Company provides the following debt guarantees:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	September 30, 2016	March 31, 2016	September 30, 2016
JEHDRA	¥ 661,000	¥ 661,000	\$ 6,536,788
E-NEXCO	5	6	49
W-NEXCO	11	12	109
	¥ 661,016	¥ 661,018	\$ 6,536,946

Pursuant to Article 16 of the “Act regarding the Implementation of Acts Related to Privatization 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:

At September 30, 2016 and March 31, 2016, 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>
	September 30, 2016	March 31, 2016	September 30, 2016
JEHDRA	¥ 1,384,570	¥ 1,454,570	\$ 13,692,346

As a consequence of these transfers addressed above, bonds for road construction decreased by ¥60,000 million (face value) (\$593,354 thousand) for the six-month period ended September 30, 2016.

Central Nippon Expressway Company Limited
and its Consolidated Subsidiaries

Notes to Semiannual Consolidated Financial Statements (Unaudited)
(Continued)

6. Shareholder's 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.

7. Leases

Future minimum lease payments subsequent to September 30, 2016 under non-cancellable operating leases related to road assets are summarized as follows:

Years ending September 30,	<i>Millions of yen</i>	<i>Thousands of U.S. dollars</i>
2017	¥ 450,413	\$ 4,454,242
2018 and thereafter	17,322,208	171,303,481
	<u>¥ 17,772,621</u>	<u>\$ 175,757,723</u>

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.

Central Nippon Expressway Company Limited
and its Consolidated Subsidiaries

Notes to Semiannual Consolidated Financial Statements (Unaudited)
(Continued)

7. Leases (continued)

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.

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 September 30, 2016 under non-cancellable operating leases other than road assets are summarized as follows:

Years ending September 30,	<i>Millions of yen</i>	<i>Thousands of U.S. dollars</i>
2017	¥ 396	\$ 3,916
2018 and thereafter	1,078	10,661
	¥ 1,474	\$ 14,577

8. Amounts per Share

Per share amounts for the six-month periods ended September 30, 2016 and 2015 are as follows:

	<i>Yen</i>	<i>U.S. dollars</i>
	2016	2015
Net income attributable to owner of the Company:		2016
Basic	¥ 110.96	¥ 105.57
		\$ 1.10

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

Net assets per share as of September 30, 2016 and March 31, 2016 are as follows:

	<i>Yen</i>	<i>U.S. dollars</i>
	September 30, 2016	March 31, 2016
Net assets	¥ 1,601.00	¥ 1,450.92
		\$ 15.83

Central Nippon Expressway Company Limited
and its Consolidated Subsidiaries

Notes to Semiannual Consolidated Financial Statements (Unaudited)
(Continued)

8. Amounts per Share (continued)

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

The financial data used in the computation of basic net income attributable to owner of the Company per share for the six-month periods ended September 30, 2016 and 2015 is summarized as follows:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	2016	2015	2016
Net income attributable to owner of the Company	¥ 14,425	¥ 13,724	\$ 142,652
Adjusted net income attributable to owner of the Company	¥ 14,425	¥ 13,724	\$ 142,652

	<i>Thousands of shares</i>	
	September 30, 2016	September 30, 2015
Weighted-average number of shares of common stock outstanding	130,000	130,000

The financial data used in the computation of net assets per share at September 30, 2016 and March 31, 2016 is summarized as follows:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	September 30, 2016	March 31, 2016	September 30, 2016
Total net assets	¥ 209,431	¥ 190,685	\$ 2,071,114
Deductions from total net assets:			
Non-controlling interests	1,301	2,065	12,866
Total net assets available to common stockholder	¥ 208,130	¥ 188,620	\$ 2,058,248

	<i>Thousands of shares</i>	
	September 30, 2016	March 31, 2016
Number of shares of common stock used in the calculation of net assets per share	130,000	130,000

Central Nippon Expressway Company Limited
and its Consolidated Subsidiaries

Notes to Semiannual Consolidated Financial Statements (Unaudited)
(Continued)

9. Supplemental Information on Semiannual Consolidated Statements of Cash Flows

Reconciliations of cash and deposits in the accompanying semiannual consolidated balance sheet at September 30, 2016 and cash and cash equivalents in the accompanying semiannual consolidated statement of cash flows for the six-month period then ended are as follows:

	<i>Millions of yen</i>	<i>Thousands of U.S. dollars</i>
	At September 30, 2016	
Cash and deposits	¥ 105,164	\$ 1,039,992
Certificates of deposits included in marketable securities maturing within three months	—	—
Deposits over three months	(462)	(4,569)
Cash and cash equivalents	¥ 104,702	\$ 1,035,423

As described in Note 1 (r) “Recognition of revenues and costs,” 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 six-month periods ended September 30, 2016 and 2015, expressway assets constructed by the Company in the amounts of ¥66,565 million (\$658,277 thousand) and ¥23,340 million, respectively, were transferred to JEHDRA pursuant to Articles 51.2 through 51.4 of the Special Measures Act and, concurrently, bonds related to road construction of ¥60,000 million (\$593,354 thousand) and ¥50,000 million for the six-month periods ended September 30, 2016 and 2015, respectively, were assumed by JEHDRA pursuant to Article 15.1 of the JEHDRA Act.

Non-cash transactions outlined above are incorporated and included in increase in inventories, repayment of long-term loans and redemption of bonds for road construction in the semiannual consolidated statements of cash flows for the six-month periods ended September 30, 2016 and 2015.

Central Nippon Expressway Company Limited
and its Consolidated Subsidiaries

Notes to Semiannual Consolidated Financial Statements (Unaudited)
(Continued)

10. Financial Instruments and Related Disclosures

Fair value of financial instruments

The carrying value of financial instruments on the accompanying semiannual consolidated balance sheet at September 30, 2016 and consolidated balance sheet at March 31, 2016 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>					
	September 30, 2016			March 31, 2016		
	Carrying value	Fair value	Difference	Carrying value	Fair value	Difference
Assets:						
Cash and deposits	¥ 105,164	¥ 105,164	¥ –	¥ 73,444	¥ 73,444	¥ –
Accounts receivable due from expressway business operations	80,991	80,991	–	72,387	72,387	–
Other accounts receivable	15,329	15,329	–	9,777	9,777	–
Marketable securities and investments in securities:						
Held-to-maturity debt securities	351	369	18	400	421	21
Other securities	204	204	–	198	198	–
Total assets	202,039	202,057	18	156,206	156,227	21
Liabilities:						
Accounts payable due to expressway business operations	80,052	80,052	–	158,268	158,268	–
Other accounts payable	11,453	11,453	–	48,022	48,022	–
Income and other taxes payable	8,786	8,786	–	2,941	2,941	–
Bonds for road construction (*)	786,579	792,627	6,048	535,721	541,522	5,801
Long-term loans for road construction (*)	68,129	68,182	53	68,014	68,105	91
Other long-term loans (*)	883	883	–	933	933	–
Total liabilities	¥ 955,882	¥ 961,983	¥ 6,101	¥ 813,899	¥ 819,791	¥ 5,892

* Including the current portion of long-term debt.

Central Nippon Expressway Company Limited
and its Consolidated Subsidiaries

Notes to Semiannual Consolidated Financial Statements (Unaudited)
(Continued)

10. Financial Instruments and Related Disclosures (continued)

Fair value of financial instruments (continued)

<i>Thousands of U.S. dollars</i>			
September 30, 2016			
	Carrying value	Fair value	Difference
Assets:			
Cash and deposits	\$ 1,039,992	\$ 1,039,992	\$ —
Accounts receivable due from expressway business operations	800,939	800,939	—
Other accounts receivable	151,592	151,592	—
Marketable securities and investments in securities:			
Held-to-maturity debt securities	3,471	3,649	178
Other securities	2,017	2,017	—
Total assets	<u>1,998,011</u>	<u>1,998,189</u>	<u>178</u>
Liabilities:			
Accounts payable due to expressway business operations	791,653	791,653	—
Other accounts payable	113,262	113,262	—
Income and other taxes payable	86,887	86,887	—
Bonds for road construction (*)	7,778,669	7,838,479	59,810
Long-term loans for road construction (*)	673,744	674,268	524
Other long-term loans (*)	8,732	8,732	—
Total liabilities	<u>\$ 9,452,947</u>	<u>\$ 9,513,281</u>	<u>\$ 60,334</u>

* Including the current portion of long-term debt.

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

Central Nippon Expressway Company Limited
and its Consolidated Subsidiaries

Notes to Semiannual Consolidated Financial Statements (Unaudited)
(Continued)

10. Financial Instruments and Related Disclosures (continued)

Fair value of financial instruments (continued)

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 3 “Securities.”

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 including the current portion 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 there 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.

Financial instruments for which it is extremely difficult to determine the fair value at September 30, 2016 and March 31, 2016 are summarized as follows:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	September 30, 2016	March 31, 2016	September 30, 2016
Unlisted stocks:			
Investments in unconsolidated subsidiaries and affiliates	¥ 4,952	¥ 4,848	\$ 48,972
Other securities	43	116	425

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

Central Nippon Expressway Company Limited
and its Consolidated Subsidiaries

Notes to Semiannual Consolidated Financial Statements (Unaudited)
(Continued)

11. 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 September 30, 2016 and March 31, 2016, the entire contract is measured at fair value with the gain or loss recognized in income and included in investments in securities at September 30, 2016 and March 31, 2016.

The contract amount and the fair value of the derivative instruments outstanding which qualified for hedge accounting at September 30, 2016 and March 31, 2016 were as follows:

			<i>Millions of yen</i>		
			September 30, 2016		
Hedge accounting method	Hedging instrument	Main hedged item	Contract amount	Contract amount payable after one year	Fair value
Allocation method for currency swaps	Currency swap	Bonds for road construction	¥ 311,438	¥ 311,438	*1
Integrated treatment of interest rate and currency swaps (special treatment, allocation method)	Currency swap including interest-rate swaps	Bonds for road construction	96,341	96,341	*2
Total			¥ 407,779	¥ 407,779	
			<i>Millions of yen</i>		
			March 31, 2016		
Hedge accounting method	Hedging instrument	Main hedged item	Contract amount	Contract amount payable after one year	Fair value
Allocation method for currency swaps	Currency swap	Bonds for road construction	¥ 168,926	¥ 168,926	*1
Integrated treatment of interest rate and currency swaps (special treatment, allocation method)	Currency swap including interest-rate swaps	Bonds for road construction	31,795	31,795	*2
Total			¥ 200,721	¥ 200,721	

Central Nippon Expressway Company Limited
and its Consolidated Subsidiaries

Notes to Semiannual Consolidated Financial Statements (Unaudited)
(Continued)

11. Derivative Financial Instruments and Hedging Activities (continued)

			<i>Thousands of U.S. dollars</i>		
			September 30, 2016		
Hedge accounting method	Hedging instrument	Main hedged item	Contract amount	Contract amount payable after one year	Fair value
Allocation method for currency swaps	Currency swap	Bonds for road construction	\$ 3,079,885	\$ 3,079,885	*1
Integrated treatment of interest rate and currency swaps (special treatment, allocation method)	Currency swap including interest-rate swaps	Bonds for road construction	952,740	952,740	*2
Total			<u>\$ 4,032,625</u>	<u>\$ 4,032,625</u>	

*1 Because the currency swap contracts using the allocation method are accounted for as combined with the bonds for road construction as the hedged items, their fair value is included in the fair value of such bonds for road construction.

*2 Because the currency swap contracts using the allocation method and interest-rate swap contracts using the special treatment of interest rate swaps are accounted for as combined with the bonds for road construction as the hedged items, their fair value is included in the fair value of such bonds for road construction.

Central Nippon Expressway Company Limited
and its Consolidated Subsidiaries

Notes to Semiannual Consolidated Financial Statements (Unaudited)
(Continued)

12. Segment Information

(1) Outline of reporting segments

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

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, income, loss, assets, liabilities and other items by each reportable segment

The accounting policies applied by each reporting segment are consistent with those described in Note 1 "Summary of Significant Accounting Policies."

Segment income (loss) presented in segment information is calculated based on operating income in the semiannual 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 and transfers are determined in reference to market actual value.

Central Nippon Expressway Company Limited
and its Consolidated Subsidiaries

Notes to Semiannual Consolidated Financial Statements (Unaudited)
(Continued)

12. Segment Information (continued)

- (3) Information on net sales, income, loss, assets, liabilities and other items by each reportable segment as of and for the six-month periods ended September 30, 2016 and 2015:

<i>Millions of yen</i>						
2016						
Reportable segments						
	Expressway business	Rest area business	Other related business	Total	Adjustments	Consolidated
Sales to third parties	¥ 404,826	¥ 16,579	¥ 10,251	¥ 431,656	¥ –	¥ 431,656
Intersegment sales and transfers	11	3	1	15	(15)	–
Net sales	404,837	16,582	10,252	431,671	(15)	431,656
Segment income (loss)	¥ 18,085	¥ 3,237	¥ (57)	¥ 21,265	¥ 4	¥ 21,269
Segment assets	¥ 1,011,690	¥ 175,710	¥ 17,036	¥ 1,204,436	¥ 121,515	¥ 1,325,951
Segment liabilities	854,708	–	875	855,583	260,937	1,116,520
Other items:						
Depreciation and amortization	8,674	1,642	145	10,461		10,461
Investments in affiliates	4,033	–	814	4,847	–	4,847
Increase in property and equipment and intangible fixed assets	5,693	823	12	6,528	554	7,082

<i>Millions of yen</i>						
2015						
Reportable segments						
	Expressway business	Rest area business	Other related business	Total	Adjustments	Consolidated
Sales to third parties	¥ 359,261	¥ 16,553	¥ 5,216	¥ 381,030	¥ –	¥ 381,030
Intersegment sales and transfers	11	2	1	14	(14)	–
Net sales	359,272	16,555	5,217	381,044	(14)	381,030
Segment income	¥ 16,835	¥ 3,414	¥ 9	¥ 20,258	¥ 4	¥ 20,262
Segment assets	¥ 1,203,822	¥ 173,325	¥ 13,734	¥ 1,390,881	¥ 133,858	¥ 1,524,739
Segment liabilities	1,055,495	1,000	975	1,057,470	248,977	1,306,447
Other items:						
Depreciation and amortization	8,257	1,640	152	10,049	–	10,049
Investments in affiliates	3,850	–	828	4,678	–	4,678
Increase in property and equipment and intangible fixed assets	3,694	688	337	4,719	1,210	5,929

Central Nippon Expressway Company Limited
and its Consolidated Subsidiaries

Notes to Semiannual Consolidated Financial Statements (Unaudited)
(Continued)

12. Segment Information (continued)

- (3) Information on net sales, income, loss, assets, liabilities and other items by each reportable segment as of and for the six-month periods ended September 30, 2016 and 2015:
(continued)

<i>Thousands of U.S. dollars</i>						
2016						
	Reportable segments			Total	Adjustments	Consolidated
	Expressway business	Rest area business	Other related business			
Sales to third parties	\$ 4,003,421	\$ 163,954	\$ 101,375	\$ 4,268,750	\$ –	\$ 4,268,750
Intersegment sales and transfers	109	29	10	148	(148)	–
Net sales	4,003,530	163,983	101,385	4,268,898	(148)	4,268,750
Segment income (loss)	\$ 178,847	\$ 32,011	\$ (564)	\$ 210,294	\$ 40	\$ 210,334
Segment assets	\$ 10,004,846	\$ 1,737,638	\$ 168,473	\$ 11,910,957	\$ 1,201,691	\$ 13,112,648
Segment liabilities	8,452,413	–	8,653	8,461,066	2,580,468	11,041,534
Other items:						
Depreciation and amortization	85,779	16,238	1,434	103,451	–	103,451
Investments in affiliates	39,883	–	8,050	47,933	–	47,933
Increase in property and equipment and intangible fixed assets	56,299	8,139	119	64,557	5,479	70,036

Adjustments in the above tables:

The adjustments of segment income (loss) in the amounts of ¥4 million (\$40 thousand) and ¥4 million for the six-month periods ended September 30, 2016 and 2015, respectively, are eliminations of intersegment transactions.

The adjustments of segment assets in the amounts of ¥121,515 million (\$1,201,691 thousand) and ¥133,858 million at September 30, 2016 and 2015, 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 to common departments in the Company.

Central Nippon Expressway Company Limited
and its Consolidated Subsidiaries

Notes to Semiannual Consolidated Financial Statements (Unaudited)
(Continued)

12. Segment Information (continued)

- (3) Information on net sales, income, loss, assets, liabilities and other items by each reportable segment as of and for the six-month periods ended September 30, 2016 and 2015: (continued)

The adjustments of segment liabilities in the amounts of ¥260,937 million (\$2,580,468 thousand) and ¥248,977 million at September 30, 2016 and 2015, respectively, include corporate liabilities not allocated to reportable segments, principally consisting of other accounts payable and liability for retirement benefits.

The adjustments of increase in property and equipment and intangible fixed assets in the amounts of ¥554 million (\$5,479 thousand) and ¥1,210 million for the six-month periods ended September 30, 2016 and 2015, respectively, include corporate assets not allocated to reportable segments, principally consisting of system development by the Company.

Related information

Segment income corresponds to operating income in the semiannual consolidated statements of income.

Information on each product and service for the six-month periods ended September 30, 2016 and 2015 is analyzed as follows:

<i>Millions of yen</i>				
2016				
	Toll fee	Completion of road assets	Other	Total
Sales to external customers	¥ 337,641	¥ 66,565	¥ 27,450	¥ 431,656
<i>Millions of yen</i>				
2015				
	Toll fee	Completion of road assets	Other	Total
Sales to external customers	¥ 335,450	¥ 23,340	¥ 22,240	¥ 381,030
<i>Thousands of U.S. dollars</i>				
2016				
	Toll fee	Completion of road assets	Other	Total
Sales to external customers	\$ 3,339,013	\$ 658,277	\$ 271,460	\$ 4,268,750

Central Nippon Expressway Company Limited
and its Consolidated Subsidiaries

Notes to Semiannual Consolidated Financial Statements (Unaudited)
(Continued)

12. Segment Information (continued)

Related information (continued)

As more than 90% of the consolidated net sales for the six-month periods ended September 30, 2016 and 2015 were made in Japan, the disclosure of geographical segment information has been omitted.

As property and equipment in the semiannual consolidated balance sheets are located only in Japan, the disclosure of information on property and equipment by country or geographic region as of September 30, 2016 and 2015 has been omitted.

Sales to JEHDRA concerning completion of expressway assets amounted to ¥66,597 million (\$658,594 thousand) and ¥23,393 million by the expressway business segment for the six-month periods ended September 30, 2016 and 2015, respectively.

No amortization of goodwill for any segments was recorded for the six-month periods ended September 30, 2016 and 2015 and there was no remaining balance of goodwill for any segments as of September 30, 2016 and 2015.

Amortization and the remaining balance of negative goodwill arising from business combinations before April 1, 2010 amounted to ¥171 million (\$1,691 thousand) and ¥171 million, and ¥4,015 million (\$39,705 thousand) and ¥4,357 million as of and for the six-month periods ended September 30, 2016 and 2015, respectively.

Central Nippon Expressway Company Limited
and its Consolidated Subsidiaries

Notes to Semiannual Consolidated Financial Statements (Unaudited)
(Continued)

13. Subsequent Events

(1) Issuance of Corporate Bond

The Company issued general bond to finance the construction of expressways, reconstruction, repairs, maintenance, disaster recovery and other management activities related to its expressways. A statutory lien was pledged in accordance with the applicable law. The details are as follows:

	Total amount issued	Interest rate	Issue price	Issuance date	Redempti on date
Bond of Central Nippon Expressway Company Limited No.67	¥50,000 million (\$494,462 thousand)	0.030% per annum	100% of face value	November 30, 2016	September 17, 2021

The following special provisions were attached to the bond.

- (i) JEHDRA is jointly and severally liable with the Company for the corresponding obligation, to the extent that the obligation related to these bonds is assumed by JEHDRA pursuant to the JEHDRA Act.
- (ii) When the obligation is assumed by JEHDRA, total assets of JEHDRA will be additionally pledged as collateral for bond holders.
- (iii) The order of lien by bond holders is equivalent to that of holders of bonds of the Japan Expressway Holding and Debt Repayment Agency.

(2) Amendments to Significant Agreements

On October 13, 2016, a meeting of the Board of Directors of the Company resolved partial amendments of “Agreements related to Chuo Expressway Fuji-Yoshida Line” with JEHDRA, which was originally concluded on March 31, 2006 pursuant to Article 6.1 of the Expressway Company Law and Article 13.1 of the Agency Law. Accordingly, effective December 12, 2016, the corresponding amendments were concluded with JEHDRA and the Company filed an application for approval from the Minister of Land, Infrastructure, Transport and Tourism (“LIT”) of Japan. As a result, the application was approved by the Minister of LIT effective December 14, 2016.

These amendments included the addition of seismic strengthening works for bridges and the adjustment of the projected toll revenue due to the re-examination of the toll fee discount. As a result, the following terms were amended: “cap of liabilities assumed related to expenses for construction of repair works,” “leasing fees on road assets” and “projected toll revenue”.

Central Nippon Expressway Company Limited
and its Consolidated Subsidiaries

Notes to Semiannual Consolidated Financial Statements (Unaudited)
(Continued)

13. Subsequent Events (continued)

(2) Amendments to Significant Agreements (continued)

In addition, the cap of liabilities to be assumed related to expenses for construction of repair works from the year ended March 31, 2017 to 2060 is to be increased by ¥29,284 million (\$289,597 thousand) inclusive of consumption tax, projected toll revenue per the agreements from the year ended March 31, 2017 to 2060 is to be decreased by ¥90,861 million (\$898,546 thousand) inclusive of consumption tax and road assets leasing fees from the year ended March 31, 2017 to 2060 is to be decreased by ¥67,198 million (\$664,537 thousands) inclusive of consumption tax.

The leasing fees on road assets may be increased or decreased in proportion to the amount of projected toll revenue, if the actual toll revenues fall short of, or are in excess of, up to certain level, compared with projected toll revenue per the agreements.

As a result of an amendment of the agreement by the Company and JEHDRA, as described in Note7 “Leases”, future minimum lease payments subsequent to the six-month periods ended September 30, 2016 under non-cancellable operating leases related to road assets were adjusted as follows:

<u>Years ending September 30,</u>	<u>Millions of yen</u>	<u>Thousands of U.S. dollars</u>
2017	¥ 445,124	\$ 4,401,938
2018 and thereafter	17,265,277	170,740,477
	<u>¥ 17,710,401</u>	<u>\$ 175,142,415</u>

Central Nippon Expressway Company Limited
and its Consolidated Subsidiaries

Notes to Semiannual Consolidated Financial Statements (Unaudited)
(Continued)

14. 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
Central Nippon Highway Retail Yokohama Co., Ltd.	100.0	Japan	Consolidated subsidiary
Central Nippon Highway Retail Nagoya Co., Ltd.	100.0	Japan	Consolidated subsidiary
Central Nippon Highway Advance Co., Ltd.	100.0	Japan	Consolidated subsidiary
Central Nippon Road Maintenance Shizuoka Co., Ltd.	100.0	Japan	Consolidated subsidiary
Central Nippon Road Maintenance Tokyo Co., Ltd.	89.9	Japan	Consolidated subsidiary
Central Nippon Road Maintenance Tokai Co., Ltd.	85.7	Japan	Consolidated subsidiary
Central-NEXCO Auto Service Co., Ltd.	100.0	Japan	Consolidated subsidiary
Central Nippon Road Maintenance Kanazawa Co., Ltd.	80.6	Japan	Consolidated subsidiary
Central Nippon Road Maintenance Chubu Co., Ltd.	91.2	Japan	Consolidated subsidiary
Hakone Turnpike Limited.	100.0	Japan	Consolidated subsidiary
NEXCO Central Nippon Development Company Limited	100.0	Japan	Consolidated subsidiary

Central Nippon Expressway Company Limited
and its Consolidated Subsidiaries

Notes to Semiannual Consolidated Financial Statements (Unaudited)
(Continued)

14. Significant Subsidiaries and Affiliates (continued)

Name	Ownership interest	Country of incorporation	Subsidiaries / affiliates
Hokuriku Highway Terminal Company Limited	27.7%	Japan	Equity-method affiliate
Nexco Systems Company Limited	33.3	Japan	Equity-method affiliate
Nippon Expressway Research Institute Company Limited	33.3	Japan	Equity-method affiliate
NEXCO Insurance Services Co., Ltd.	33.3	Japan	Equity-method affiliate
HIGHWAY TOLL SYSTEMS CO., LTD.	30.1	Japan	Equity-method affiliate
Japan Expressway International Co., Ltd.	28.7	Japan	Equity-method affiliate
Central Nippon Facilities Management Co., Ltd.	20.0	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
KOSOKU HOZEN Co., Ltd.	33.4	Japan	Equity-method affiliate
Deros Japan Co., Ltd.	30.3	Japan	Equity-method affiliate

On July 1, 2015, H.R. Yokohama Co., Ltd. and Grancer Seiwa Service Co., Ltd. changed their names to Central Nippon Highway Retail Yokohama Co., Ltd. and Central Nippon Highway Retail Nagoya Co., Ltd., respectively.

Weiza Co., Ltd., Ushiyama Clean service 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 profit attributable to the Company or loss, and retained earnings and are not material as a whole.