interest rate swap agreements to manage fluctuations in cash flows or in fair values resulting from changes in interest rates.

Interest rate swaps are used to change floating rates on debt obligations to fixed rates by entering into receive-floating, pay-fixed interest rate swaps under which the Company and certain subsidiaries receive floating interest rate proceeds and make fixed interest rate payments, thereby creating fixed-rate debt.

On the other hand, interest rate swaps are used to change fixed rates on debt obligations to floating rates by entering into receive-fixed, pay-floating interest rate swaps under which the Company and certain subsidiaries receive fixed interest rate proceeds and make floating interest rate payments, thereby creating floating-rate debt.

Most hedging relationships between the derivative financial instruments and hedged items are highly effective in off-setting changes in cash flows or in fair values resulting from interest rate risk.

Commodity Price Risk Management

The Company and certain subsidiaries enter into derivative instruments for commodities, such as crude oil and grain, principally to hedge fluctuation in cash flows or in fair values due to changes in commodity prices.

Derivative instruments for commodities do not have a material effect on the financial statements.

Most hedging relationships between the derivative instruments and hedged items are highly effective in off-setting changes in cash flows or in fair values resulting from commodity price risk.

Risk Management Policy

The Company and its subsidiaries assess foreign exchange rate risk, interest rate risk and commodity price risk by continually monitoring changes in exposure and by evaluating hedging opportunities.

The Company and its subsidiaries manage to limit the level of exposure to derivative instruments based on the purpose of holding derivative instruments.

The risk management policy of the Company and its subsidiaries states that derivative instruments for the most part are held for hedging purposes.

The Company and its subsidiaries meet the documentation requirements as prescribed by SFAS133 and SFAS138, which includes their risk-management objective and strategy for undertaking various hedge transactions.

In addition, a formal assessment is made at the hedge's inception and periodically on an on-going basis, as to whether the derivatives used in hedging activities are highly effective in off-setting changes in fair values or cash flows of hedged items.

Fair Value Hedge

Changes in the fair value of both recognized assets and liabilities and unrecognized firm commitments and derivative instruments that are designated and qualify as fair value hedges of these assets and liabilities and firm commitments are recognized in earnings.

The sum of the amount of the hedge ineffectiveness and net gain or loss excluded from the assessment of hedge effectiveness is not material for the years ended March 31, 2003 and 2002.

Cash Flow Hedge

Changes in the fair value of derivative instruments that are designated and qualify as cash flow hedges of unrecognized forecast transactions and recognized assets and liabilities are reported in accumulated other comprehensive income (loss) (referred to as AOCI).

These amounts are reclassified into earnings in the same period as hedged items affect earnings.

The sum of the amount of the hedge ineffectiveness and net gain or loss excluded from the assessment of hedge effectiveness is not material for the years ended March 31, 2003 and 2002. ¥2,806 million ($ 23,344 thousand) and ¥2,048 million of net losses were reclassified from AOCI into earnings during the years ended March 31, 2003 and 2002, respectively, as net gains or losses relating to the hedged items affected earnings. ¥2,286 million ($19,018 thousand) of net losses in AOCI at March 31, 2003 are expected to be reclassified to earnings within the next 12 months.

As of March 31, 2003, the maximum length of time over which the Company and its subsidiaries are hedging their exposure to variability in future cash flows is approximately 54 months.

Held or issued derivative instruments for trading purposes were insignificant.

The contract or notional amounts of derivative financial instruments held as of March 31, 2003 and 2002 were summarized as follows:

	Millions of Yen		Thousands of U.S. dollars
	2003	2002	2003
Foreign exchange contracts (inclusive of currency swap agreements)			
To sell foreign currencies	¥ 100,915	105,439	$ 839,559
To buy foreign currencies	228,733	263,723	1,902,937
Interest rate swap agreements	1,778,326	1,882,335	14,794,725
Interest rate option agreements	109,194	110,842	908,436