

The risk management policies including objectives and strategies for undertaking derivative instruments are documented, and the Company and its subsidiaries make a formal assessment at the hedge's inception and quarterly on an on-going basis, as to whether the derivatives used in hedging activities are highly effective in offsetting changes in fair values or cash flows of hedged items.

Fair Value Hedge

Changes in the fair value of derivative instruments designated and qualified as fair value hedges of recognized assets and liabilities or unrecognized firm commitments are recognized in earnings together with changes in the fair value of the corresponding hedged items.

The amount of the hedges' ineffectiveness and net gain or loss excluded from the assessment of hedge effectiveness was not material for the years ended March 31, 2006, 2005 and 2004.

The amount of net gain or loss recognized in earnings when the hedged firm commitment no longer qualified as a fair value hedge was not material for the years ended March 31, 2006, 2005 and 2004.

Cash Flow Hedge

Changes in the fair value of derivative instruments designated and qualified as cash flow hedges of forecasted 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 the hedged items affect earnings.

Changes in the fair value of interest rate swap designated as hedging instruments are initially recorded in AOCI and reclassified into earnings as interest expense when the

hedged items affect earnings.

The amount of the hedges' ineffectiveness and net gain or loss excluded from the assessment of hedge effectiveness was not material for the years ended March 31, 2006, 2005 and 2004.

Net losses of ¥1,369 million (\$12 million) into AOCI at March 31, 2006 are expected to be reclassified into earnings within the next 12 months.

As of March 31, 2006, the maximum length of time over which the Company and its subsidiaries are hedging their exposure to variability in future cash flows for forecasted transactions excluding those forecasted transactions related to the payment of variable interest on existing financial instruments is approximately 39 months.

The amount of net gain or loss reclassified into earnings because it was probable that forecasted transactions would not occur was immaterial for the years ended March 31, 2006, 2005 and 2004.

Derivative instruments held or issued for trading purposes were insignificant.

(2) Fair Values of Financial Instruments

The Company and its subsidiaries have various financial instruments, which are exposed to credit losses in the event of non-performance by counterparties.

The Company and its subsidiaries are engaged in transactions with numerous counterparties to ensure that there are no significant concentrations of credit risk with any individual counterparty or groups of counterparties.

The estimated fair values of financial instruments as of March 31, 2006 and 2005 were as follows:

	Millions of Yen				Millions of U.S. dollars	
	2006		2005		2006	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Financial Assets:						
Other non-current receivables and advances to associated companies (less allowance for doubtful receivables)	¥ 140,078	¥ 140,215	¥ 232,355	¥ 232,864	\$ 1,192	\$ 1,194
Financial Liabilities:						
Long-term debt (including current maturities) ...	¥ 1,935,200	¥ 1,934,576	¥ 2,005,988	¥ 2,006,809	\$ 16,474	\$ 16,469
Derivative Financial Instruments (Assets):						
Foreign exchange contracts (including currency swap agreements)	¥ 5,719	¥ 5,719	¥ 7,752	¥ 7,752	\$ 49	\$ 49
Interest rate swap agreements	6,663	6,663	11,278	11,278	57	57
Interest rate option agreements	2	2	161	161	0	0
Derivative Financial Instruments (Liabilities):						
Foreign exchange contracts (including currency swap agreements)	¥ 3,017	¥ 3,017	¥ 2,590	¥ 2,590	\$ 26	\$ 26
Interest rate swap agreements	10,977	10,977	7,763	7,763	93	93
Interest rate option agreements	15	15	—	—	0	0

Quoted market prices, where available, are used to estimate fair values of financial instruments. However fair values are estimated using discounted cash flow technique or other methods when quoted market prices are not available. These estimates involve uncertainty and subjectivity, and therefore fair values are not objectively verifiable. Changes in assumptions could significantly affect fair value amounts.

Current Financial Assets other than Marketable Securities and Current Financial Liabilities:

The carrying amounts approximate fair values because of the short maturity of these instruments.