

consists of not only net income or loss but also changes in foreign currency translation adjustments, minimum pension liability adjustments, net unrealized holding gains and losses on certain investments in "Marketable securities" and "Other investments", and net unrealized holding gains and losses on derivative instruments, on a net-of-tax basis.

#### **r. Derivative Instruments and Hedging Activities**

In accordance with SFAS 133, "Accounting for Derivative Instruments and Hedging Activities," SFAS 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities — an amendment of FASB Statement No. 133" and SFAS 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities," the Company and its subsidiaries recognize all derivative instruments, such as foreign exchange contracts, interest rate swap contracts and commodity price contracts, in the financial statements measured at fair value, regardless of the purpose or intent for holding them, as either assets or liabilities.

The accounting for changes in fair value depends on the intended use of the derivative instruments and resulting hedge effectiveness.

All derivative instruments are recognized on the balance sheet at their fair value. The Company and its subsidiaries designate and account for derivative instruments as follows:

- "Fair value hedge": a hedge of the fair value of a recognized asset or liability or of an unrecognized firm commitment. The changes in fair value of recognized assets or liabilities or unrecognized firm commitments and related derivative instruments that are designated and qualify as fair value hedges are recorded in earnings if the hedges are considered highly effective.
- "Cash flow hedge": a hedge of the variability of cash flow to be received or paid related to a forecasted transaction or a recognized asset or liability. The changes in fair value of derivative instruments that are designated and qualify as cash flow hedges are recorded in "Accumulated other comprehensive income (loss)" if the hedges are considered highly effective.

This treatment is continued until earnings are affected by the variability in cash flows to be received or paid related to the forecasted transactions or the recognized assets or liabilities designated as the hedged items. The ineffective portion of the hedge is currently reported in earnings.

- "Foreign currency hedge": a hedge of foreign-currency fair value or cash flow. The changes in fair value or cash flow of recognized assets or liabilities, unrecognized firm commitments or forecasted transactions and derivatives that are designated and qualify as foreign-currency fair value or cash flow hedges are recorded in either earnings or "Accumulated other comprehensive income (loss)" if the hedges are considered highly effective.

Recognition in earnings or "Accumulated other comprehensive income (loss)" is dependent on the treatment of foreign currency hedges as fair value hedges or cash flow hedges.

The Company and its subsidiaries meet the documentation requirements as prescribed by SFAS 133 and SFAS 138, which include a statement of its risk-management objective and the strategy for undertaking various hedge transactions.

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

Hedge accounting is discontinued for ineffective hedges, if any. The changes in fair value of derivative instruments related to discontinued hedges are recognized in earnings currently.

The changes in fair value of derivative instruments for trading purposes are recorded in earnings.

#### **s. Issuance of Stock by Subsidiaries or Associated Companies**

With respect to the issuance of shares to a third party by a subsidiary or an associated company, the resulting gain or loss arising from the change in the Company's relative ownership interest is recorded in earnings in the period when such shares are issued.

#### **t. Leases**

The Company and its subsidiaries lease fixed assets under direct financing leases and operating leases as a lessor. Income from direct financing leases is recognized by amortizing unearned income over the lease term at a constant periodic rate of return on the net investment. Operating lease income is recognized over the lease term on a straight-line basis.

The Company and its subsidiaries lease fixed assets under capital leases and operating leases as a lessee. For capital lease obligations, interest expense is recognized over the lease term at a constant periodic rate on the lease obligation. Depreciation of the leased assets is recognized over the lease term on a straight-line basis. Rental expense on operating leases is recognized over the lease term on a straight-line basis.

#### **u. Guarantees**

In accordance with FIN 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others," the Company and its subsidiaries recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken for those guarantees newly issued or modified after December 31, 2002.

#### **v. Classification of Mineral Rights**

In accordance with EITF 04-2, "Whether Mineral Rights are Tangible or Intangible Assets," FASB Staff Position ("FSP") SFAS 141-1 and SFAS 142-1 "Interaction of FASB Statements No. 141, Business Combinations, and No. 142, Goodwill and Other Intangible Assets, and EITF Issue No. 04-2, "Whether Mineral Rights Are Tangible or Intangible Assets"" and FSP SFAS 142-2, "Application of FASB Statement No. 142, Goodwill and Other Intangible Assets, to Oil- and Gas-Producing Entities," all mineral rights held by mining, oil- and gas-producing entities have been reclassified as tangible assets on Consolidated Balance Sheets as of March 31, 2005, although such mineral rights were previously classified as intangible assets.