ANNUAL REPORT 2002

January 1, 2001 - March 31, 2002

MITSUI & CO. (U.S.A.), INC.

To the Board of Directors of Mitsui & Co. (U.S.A.), Inc.:

We have audited the accompanying consolidated balance sheets of Mitsui & Co. (U.S.A.), Inc. and subsidiaries (collectively, the "Company") as of March 31, 2002 and December 31, 2000, and the related consolidated statements of income, shareholder's equity and cash flows for the fifteen-month period ended March 31, 2002 and the year ended December 31, 2000. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Company at March 31, 2002 and December 31, 2000, and the results of their operations and their cash flows for the fifteen-month period ended March 31, 2002 and the year ended December 31, 2000 in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the consolidated financial statements, the Company changed its fiscal year-end from December 31st to March 31st.

Deloitte & Touche LLP

New York, NY
June 14, 2002

MITSUI & CO. (U.S.A.), INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

MARCH 31, 2002 AND DECEMBER 31, 2000

	March 31, 2002	December 31, 2000
	(In Thousands)	
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents (Note 1)	$ 188,493	$ 216,176
Marketable securities (Notes 1, 2 and 10)	288	19,833
Accounts and notes receivable:		
Customers	427,053	683,037
Parent and affiliated companies—net	412,800	736,510
Allowance for doubtful receivables	(29,435)	(28,814)
Inventories (Note 1)	476,433	443,124
Advance payments to suppliers	39,205	29,609
Other current assets (Note 5)	68,197	77,747
Total current assets	1,583,034	2,177,222
INVESTMENTS:		
Investments in and advances to associated companies (Notes 1 and 2)	312,578	278,878
Financing leases (Note 2)	473,161	279,375
Other investments (Notes 1, 2 and 10)	215,154	161,593
Total investments	1,000,893	719,846
PROPERTY AND EQUIPMENT—NET (Notes 1, 3 and 6)	341,214	315,699
NONCURRENT ADVANCES, RECEIVABLES AND OTHER—NET (Note 10)	59,572	80,479
Total	$2,984,713	$3,293,246

See Notes to Consolidated Financial Statements.

CONSOLIDATED BALANCE SHEETS

MARCH 31, 2002 AND DECEMBER 31, 2000

	March 31, 2002	December 31, 2000
	(In Thousands)	
LIABILITIES AND SHAREHOLDER'S EQUITY		
CURRENT LIABILITIES:		
Notes, acceptances and accounts payable—trade:		
Trade creditors	$ 565,202	$ 803,633
Other	166	236
Notes and loans payable (Notes 4 and 10)	514,920	488,462
Advances received on contracts	46,189	21,462
Current maturities of long-term debt (Notes 4 and 10)	176,128	112,807
Accrued taxes on income (Note 5)	2,803	22,593
Accrued expenses and sundry	51,992	62,833
Total current liabilities	1,357,400	1,512,026
LONG-TERM DEBT, LESS CURRENT MATURITIES (Notes 4 and 10)	853,344	984,745
CAPITAL LEASE OBLIGATIONS (Note 6)	45,192	46,982
DEFERRED INCOME TAXES (Note 5)	124,655	115,388
OTHER LIABILITIES	31,463	38,241
MINORITY INTEREST IN SUBSIDIARIES	65,870	62,633
SHAREHOLDER'S EQUITY:		
Capital stock, no par value, authorized and outstanding, 1,000 shares	350,000	350,000
Retained earnings	154,313	177,950
Accumulated other comprehensive income (Notes 1 and 2)	2,476	5,281
Shareholder's equity	506,789	533,231
COMMITMENTS AND CONTINGENCIES (Notes 5, 6, 8, 9 and 10)		
Total	$2,984,713	$3,293,246

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF INCOME

FIFTEEN-MONTH PERIOD ENDED MARCH 31, 2002 AND
THE YEAR ENDED DECEMBER 31, 2000

	March 31, 2002	December 31, 2000
	(In Thousands)	
Total Trade Transactions (Notes 1 and 11)	$ 9,566,245	$ 8,726,126
Revenue—Gross Trading Profit (Notes 1 and 11)	$ 351,660	$ 332,458
Selling, General and Administrative Expenses	(290,391)	(252,348)
Interest (Net of interest expense of $110,317,000 and $115,701,000 for the Fifteen-Month Period Ended March 31, 2002 and for the Year Ended December 31, 2000, respectively)	3,587	9,005
Other Income—Net (Note 2)	22,821	53,458
Income Before Income Taxes and Equity in Loss of Associated Companies	87,677	142,573
Provision for Income Taxes (Notes 1 and 5)	47,168	60,965
Income Before Equity in Loss of Associated Companies	40,509	81,608
Equity in Loss of Associated Companies—Net (After Income Tax Effect) (Note 1)	(16,702)	(730)
Net Income	$ 23,807	$ 80,878

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDER'S EQUITY

FIFTEEN-MONTH PERIOD ENDED MARCH 31, 2002 AND THE YEAR ENDED DECEMBER 31, 2000

(In Thousands)

	Comprehensive Income	Capital Stock	Retained Earnings	Accumulated Other Comprehensive Income	Total Shareholder's Equity
Balance, January 1, 2000		$350,000	$ 202,401	$ 48,583	$ 600,984
Comprehensive income:					
Net income	$ 80,878		80,878		80,878
Other comprehensive income (loss):					
Foreign currency translation adjustments	137			137	137
Unrealized loss on securities, net of reclassification adjustments and tax	(43,439)			(43,439)	(43,439)
Comprehensive income	$ 37,576				
Dividends declared			(105,000)		(105,000)
Reorganization of certain subsidiaries, etc.			(329)		(329)
Balance, December 31, 2000		350,000	177,950	5,281	533,231
Comprehensive income:					
Net income	$ 23,807		23,807		23,807
Other comprehensive loss:					
Foreign currency translation adjustments	(242)			(242)	(242)
Unrealized loss on securities, net of reclassification adjustments and tax	(2,563)			(2,563)	(2,563)
Comprehensive income	$ 21,002				
Dividends declared			(45,780)		(45,780)
Reorganization of certain subsidiaries, etc.			(1,664)		(1,664)
Balance, March 31, 2002		$350,000	$ 154,313	$ 2,476	$ 506,789

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

FIFTEEN-MONTH PERIOD ENDED MARCH 31, 2002 AND
THE YEAR ENDED DECEMBER 31, 2000

	March 31, 2002	December 31, 2000
	(In Thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 23,807	$ 80,878
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation, depletion and amortization	66,298	53,648
Provision for losses on receivables, etc.	807	10,015
Loss (gain) on sales of marketable securities and other—net	3,929	(62,287)
Financing leases	(34,005)	(19,458)
Equity in loss of associated companies—net (after income tax effect), net of dividends received	24,289	14,044
Deferred income taxes	11,186	(3,930)
Minority interest in subsidiaries	2,289	7,575
Other	(623)	8,328
Changes in operating assets and liabilities:		
Decrease in accounts and notes receivable	579,694	95,229
Increase in inventories	(33,309)	(56,837)
(Increase) decrease in advance payments to suppliers	(9,596)	70,812
Decrease (increase) in other current assets	6,203	(239,391)
Decrease in noncurrent advances, receivables and other	4,250	106,015
(Decrease) increase in notes, acceptances and accounts payable	(98,311)	110,142
Increase (decrease) in advances received on contracts	24,727	(94,725)
Decrease in accrued taxes on income	(21,082)	(2,594)
Decrease in accrued expenses and sundry	(10,841)	(16,163)
Decrease in noncurrent other liabilities	(6,778)	(123,104)
Net cash provided by (used in) operating activities	532,934	(61,803)
CASH FLOWS FROM INVESTING ACTIVITIES:		
(Increase) decrease in marketable securities and other investments	(41,154)	79,814
(Increase) decrease in investments in and advances to associated companies	(59,653)	9,519
Proceeds from financing leases	84,515	37,724
Issuance of financing leases	(243,539)	(115,058)
Capital expenditures—net	(72,117)	(54,443)
Other	(242)	137
Net cash used in investing activities	(332,190)	(42,307)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Increase in short-term notes and loans payable	26,458	311,666
Issuance of long-term debt	163,468	395,428
Payments on long-term debt	(380,864)	(525,328)
Payments on capital lease obligations	(1,664)	(7,767)
Minority interest in subsidiaries	955	(3,891)
Dividends paid	(36,780)	(105,000)
Net cash (used in) provided by financing activities	(228,427)	65,108
NET DECREASE IN CASH AND CASH EQUIVALENTS	(27,683)	(39,002)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	216,176	255,178
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 188,493	$ 216,176
SUPPLEMENTAL CASH FLOW INFORMATION:		
Interest paid	$ 118,352	$ 143,036
Income taxes paid—net	$ 55,772	$ 68,475

See Notes to Consolidated Financial Statements.

1. Summary of Significant Accounting Policies

BASIS OF PRESENTATION

The consolidated financial statements include the accounts of Mitsui & Co. (U.S.A.), Inc., a wholly-owned subsidiary of Mitsui & Co., Ltd. ("Mitsui Japan") (a Japanese corporation), and all of its significant subsidiaries (collectively, the "Company"). Significant intercompany items have been eliminated in consolidation. The Company's operations are principally in the following industries: steel, metals, machinery, chemicals, foods, energy, textiles, real estate and financial services, each having a diverse customer base.

During the fifteen-month period ended March 31, 2002, the Company changed its fiscal year-end from December 31st to March 31st in order to have the same fiscal year-end as the parent company. Selected financial information derived from the results of operations for the three-month periods ended March 31, 2002 and March 31, 2001 is as follows:

	Three-Month Period Ended March 31,	
	2002	2001
	(In Thousands)	
Total trade transactions	$1,648,490	$2,041,470
Revenue—gross trading profit	45,133	66,166
Net (loss) income	(19,896)	5,398

USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

CASH EQUIVALENTS

Cash equivalents are highly liquid short-term investments with an original maturity of three months or less and are readily convertible to cash.

INVENTORIES

Inventories are generally stated at the lower of cost (principally identified cost) or market. Commodities inventories that are able to be hedged using a terminal (futures) market (principally aluminum, grain, cocoa, coffee, copper and sugar) are stated at market value. At March 31, 2002 and December 31, 2000, commodities inventories stated at market comprise approximately 31 percent and 26 percent, respectively, of total inventories.

FUTURES CONTRACTS

The Company enters into commodity futures contracts principally as a means of hedging transactions in inventories and trading commitments. Changes in the market value of the futures contracts are recognized in earnings.

INVESTMENTS AND MARKETABLE SECURITIES

The Company classifies certain investments as "available-for-sale," which are carried at fair value, with any unrealized gains and losses excluded from earnings and reported as a separate component of accumulated other comprehensive income on a net-of-tax basis. Equity interests in associated companies are accounted for on the equity method of accounting when the Company and its parent have a combined equity interest in these companies of 20 percent or more. Investments in which combined ownership is less than 20 percent are carried at cost.

DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

Effective January 1, 2001, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended by SFAS Nos. 137

and 138. SFAS No. 133, as amended, requires that all derivative instruments be recognized and measured at fair value as either assets or liabilities. The accounting for changes in the fair value depends on the intended use of the derivative instrument and its resulting hedge designation. The initial transition adjustment recorded upon adoption of SFAS 133, as amended, was immaterial.

The Company enters into agreements for derivative commodity instruments, such as futures, forward and options contracts, as a part of its trading activities, principally for non-ferrous metals and agricultural products that are traded on a terminal (futures) market. These derivative instruments are marked-to-market and gains or losses resulting from these contracts are reported in earnings.

The Company enters into derivative financial instruments, such as interest rate swap agreements, foreign exchange forward contracts, currency swap agreements, and interest rate and currency swap agreements as a means of hedging its interest rate and foreign exchange rate exposures.

Changes in the fair value of interest rate swap agreements, designated and effective as fair value hedges for changes in the value of fixed-rate financial assets or liabilities attributable to changes in the designated benchmark interest rate, are recognized in earnings as offsets to changes in the fair value of hedged items.

Changes in the fair value of foreign exchange forward contracts and currency swap agreements, designated and effective as cash flow hedges for changes in foreign currency denominated assets or liabilities, unrecognized firm commitments and forecasted transactions attributable to changes in the related foreign currency exchange rate, are initially recorded in other comprehensive income (loss) and reclassified into earnings when the hedged transactions affect earnings.

Changes in the fair value of interest rate and currency swap agreements, designated and effective as fair value hedges for changes in the fair value of foreign currency denominated assets or liabilities attributable to changes in the related foreign currency exchange rate, are recorded in earnings.

Changes in the fair value of derivative financial instruments for which hedge requirements are not met under SFAS No. 133, as amended, are recognized currently in earnings.

PROPERTY AND EQUIPMENT

Property and equipment is recorded at cost. Depreciation and amortization are provided over the estimated useful lives (ranging from 3 to 33 years) of the property using primarily the straight-line method.

RECOVERABILITY OF LONG-LIVED ASSETS

The Company periodically evaluates the carrying values and periods over which long-lived tangible and intangible assets are depreciated or amortized to determine if events have occurred which would require modification to the useful lives. In evaluating useful lives and carrying values of long-lived assets, the Company reviews certain indicators of potential impairment, such as undiscounted projected cash flows, profitability and other factors such as its business plans. In the event that an impairment seems likely, the fair value of the related asset is determined, and the Company would record a charge to earnings calculated by comparing the asset's carrying value to the estimated fair value. The Company estimates fair value based on the best information available, making whatever estimates, judgments and projections are considered necessary.

TOTAL TRADE TRANSACTIONS AND REVENUE—GROSS TRADING PROFIT

The Company acts as principal or agent in the legal form of trading transactions to earn trading profits. Total trade transactions consist of net sales in which the Company acts as principal and amounts of transactions in which the Company serves as agent. Total trade transactions include the contract value of all transactions in which the Company participates regardless of the form of the transactions. A substantial part of total trading transactions represents transactions in which title to and payment for the goods pass through the Company without physical acquisition and delivery through the Company's inventories. Revenue–gross trading profit represents gross margin with respect to purchase and sales transactions, in which the Company acts as principal, and compensation, in the form of commissions, with respect to agency transactions.

The Company recognizes revenue–gross trading profit when it has persuasive evidence of an arrangement, the goods have been delivered or the services have been rendered to the customer, the sales price is fixed or determinable and collectibility is reasonably assured.

INCOME TAXES

The Company uses the asset and liability method for financial accounting and reporting for income taxes. A valuation allowance is established, when necessary, to reduce deferred tax assets to their estimated realizable amounts.

The Company's Federal income tax return is prepared on a consolidated basis. Provision for income taxes on undistributed earnings of associated companies has been made on the assumption that the earnings were distributed on a current basis as dividends.

COMPREHENSIVE INCOME

In accordance with SFAS No. 130, "Reporting Comprehensive Income," the Company has included amounts for comprehensive income (which consists of net income and other comprehensive income (loss)). Other comprehensive income (loss) consists of all changes to shareholder's equity other than those resulting from net income or shareholder transactions. For the Company, other comprehensive income (loss) consists of foreign currency translation adjustments and unrealized gains (losses) on marketable securities, net of taxes and reclassification adjustments. Accumulated other comprehensive income, which is the cumulative amount of other comprehensive income, is a separate component of consolidated shareholder's equity.

SECURITIZATION OF ACCOUNTS RECEIVABLE

The Company has an asset-backed securitization facility whereby certain accounts receivable are sold through a wholly-owned special purpose entity to a third party. The securitization facility allows for the Company to sell eligible accounts receivable on a revolving basis. At March 31, 2002 and December 31, 2000, the unpaid balance of accounts receivable sold were $128 million and $145 million, respectively. The Company continues to service these receivables and maintains a retained interest in the receivables sold. The retained interest totaling $52.7 million and $44.6 million as of March 31, 2002 and December 31, 2000, respectively, represents the excess of receivables sold to the wholly-owned special purpose entity over the amount funded to the Company. In connection with the sale of accounts receivable, the Company recorded a net loss, including interest income, of $4.3 million and $6.7 million for the fifteen-month period ended March 31, 2002 and the year ended December 31, 2000, respectively.

RECLASSIFICATIONS

Certain reclassifications have been made to the 2000 consolidated financial statements to conform with the current period presentation.

RECENT ACCOUNTING PRONOUNCEMENTS

In June 2001, Financial Accounting Standards Board (the "FASB") issued SFAS No. 141, "Business Combinations," which addresses financial accounting and reporting for business combinations and supersedes Accounting Principles Board ("APB") Opinion No. 16, "Business Combinations," and SFAS No. 38, "Accounting for Preacquisition Contingencies of Purchased Enterprises." SFAS No. 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001. The adoption of SFAS No. 141 did not have a material impact on the Company's consolidated financial statements.

In June 2001, the FASB issued SFAS No. 142, "Goodwill and Other Intangible Assets." SFAS No. 142 addresses financial accounting and reporting for acquired goodwill and other intangible assets and supersedes APB Opinion No. 17, "Intangible Assets." Under SFAS No. 142, goodwill and some intangible assets will no longer be amortized, but rather reviewed for impairment on a periodic basis. The provisions of SFAS No. 142 were required to be adopted by the Company effective April 1, 2002. The adoption of SFAS No. 142 did not have a material impact on the Company's consolidated financial statements.

In August 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations," which addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. The provisions of SFAS No. 143 are required to be adopted by the Company effective April 1, 2003. The Company is currently evaluating the impact, if any, that SFAS No. 143 will have on its consolidated financial statements.

In October 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," which supersedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," and APB Opinion No. 30, "Reporting the Results of Operations–Reporting the Effects of Disposal of a Segment of a Business and Extraordinary, Unusual and Infrequently Occurring Events and Transactions." SFAS No. 144 addresses financial accounting and reporting for the impairment or disposal of long-lived assets and also broadens the presentation of discontinued operations to include more disposal transactions. The provisions of SFAS No. 144 are required to be adopted by the Company effective April 1, 2002. The Company is currently evaluating the impact, if any, that SFAS No. 144 will have on its consolidated financial statements.

In April 2002, the FASB issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections." SFAS No. 145 rescinds SFAS No. 4, "Reporting Gains and Losses from Extinguishment of Debt," and an amendment of SFAS No. 4, SFAS No. 64, "Extinguishment of Debt Made to Satisfy Sinking-Fund Requirements." SFAS No. 145 eliminates SFAS No. 4 and allows gains and losses from extinguishment of debt to be classified as extraordinary items only if they meet the criteria in APB Opinion No. 30. SFAS No. 145 amends SFAS No. 13, "Accounting for Leases," to eliminate an inconsistency between the required accounting for sale-leaseback transactions and the required accounting for certain lease modifications that have economic effects that are similar to sale-leaseback transactions. SFAS No. 145 also amends other existing authoritative pronouncements to make various technical corrections, clarify meanings, or describe their applicability under changed conditions. The provisions of SFAS No. 145 are required to be adopted by the Company effective April 1, 2003; however, early adoption of the provisions with respect to SFAS No. 4 is encouraged. The Company is currently evaluating the impact, if any, that SFAS No. 145 will have on its consolidated financial statements.

2. Investments and Marketable Securities

Investments in and advances to associated companies are comprised of the following:

	March 31, 2002	December 31, 2000
	(In Thousands)	
Investments in capital, at cost	$199,558	$181,807
Share of equity earnings—net	28,786	52,033
Advances, etc.	84,234	45,038
Total	$312,578	$278,878

The Company has a 32.5 percent equity interest in a partnership which produces methyl tertiary butyl ether ("MTBE"). At March 31, 2002 and December 31, 2000, the Company's carrying value of its investment in the partnership (including notes receivable), net of guarantees and other items, approximated $26 million and $31 million, respectively. In March 1999, the Governor of California issued an executive order that called for the discontinuation of MTBE use in California by the year 2003. Since such time, there have been numerous other actions initiated that either call for the phasing-out or discontinuation of MTBE use in various states throughout the United States. Although there can be no assurance as to future events, the Company believes that, at this time, it will substantially recover the net remaining carrying value of its investment in the partnership.

The Company has a 10 percent equity interest in Novus International Inc. ("Novus"). Novus, together with certain other third-party methionine manufacturers, have been named in various class action and individual lawsuits in the United States alleging anticompetitive practices. In March 2002, the defendants in the federal multi-district litigation class action lawsuit reached a preliminary settlement with the class plaintiffs to settle the matter. In May 2002, Novus paid approximately $35 million towards the total settlement amount. The settlement is still subject to final approval by the court. The other actions, including five federal direct action plaintiff lawsuits and indirect purchaser actions in six states, are still pending.

Investments in financing leases (primarily collateralized by aircraft) are comprised of the following:

	March 31, 2002	December 31, 2000
	(In Thousands)	
Direct financing leases:		
Net minimum lease payments—(approximately $260,000,000 collectible through March 31, 2007 on an approximately ratable annual basis; the remaining balance is collectible through 2021)	$ 536,583	$357,387
Estimated residual value of leased assets	130,336	94,617
Less—Unearned income	(247,846)	(160,701)
Allowance for doubtful accounts	(5,276)	(17,143)
	413,797	274,160
Less—Current portion	(18,496)	(24,135)
Net investment in direct financing leases	$ 395,301	$250,025
Leveraged leases:		
Minimum lease payments—(net of principal and interest on third-party non-recourse debt)—approximately $21,037,000 collectible through March 31, 2007 on an approximately ratable annual basis; the remaining balance is collectible through 2022	$ 35,690	$ 5,807
Estimated residual value of leased assets	74,384	33,703
Less—Unearned income	(32,214)	(10,160)
Investment in leveraged leases	77,860	29,350
Less—Deferred tax liabilities arising from leveraged leases	(25,555)	(8,773)
Net investment in leveraged leases	$ 52,305	$ 20,577

At March 31, 2002 and December 31, 2000, included in current assets and other noncurrent investments are marketable securities classified as available-for-sale with aggregate fair values of $214,645,000 (cost of $210,309,000) and $86,873,000 (cost of $78,579,000), respectively. During the year ended December 31, 2000, the Company sold a portion of its investments in two publicly traded companies resulting in realized gains of approximately $19 million, which are included in other income in the consolidated statement of income. There were no significant unrealized gains or losses on any individual marketable securities at March 31, 2002 and December 31, 2000. Net unrealized gains on marketable securities are included as a component of accumulated other comprehensive income, net of taxes, in the consolidated statements of shareholder's equity.

3. Property and Equipment

Property and equipment, including that held under capital leases (see Note 6), represents the following:

	March 31, 2002	December 31, 2000
	(In Thousands)	
Property leased to others	$ 62,495	$ 48,834
Land and land improvements	25,503	25,441
Buildings and structures	347,610	319,096
Equipment and fixtures, including leasehold improvements	223,849	213,585
Total	659,457	606,956
Less—Accumulated depreciation and amortization	(318,243)	(291,257)
Net	$ 341,214	$ 315,699

4. Debt and Other Financing Agreements

At March 31, 2002 and December 31, 2000, the Company had short-term notes of approximately $350 million and $361 million, respectively, and loans payable of approximately $165 million and $127 million, respectively, at an interest rate of approximately 2.0%.

Long-term debt is comprised of the following:

	March 31, 2002	December 31, 2000
	(In Thousands)	
Parent and affiliated companies—maturing through 2004—1.7 to 2.8%	$ 106,381	$ 9,813
Other:		
Financial institutions—maturing through 2010—at fixed or floating rates, principally 1.7 to 7.7%	408,144	319,128
Medium Term Notes—maturing through 2014—principally 1.7 to 2.5%	487,662	741,336
Others—maturing through 2008—2.0 to 7.7%	27,285	27,275
Total principal amount	1,029,472	1,097,552
Less—Current maturities	(176,128)	(112,807)
Net	$ 853,344	$ 984,745

Long-term debt matures during the following years ending March 31 as follows:

	(In Thousands)
2003	$ 176,128
2004	270,097
2005	177,252
2006	172,989
2007	82,551
Thereafter	150,455
Total	$1,029,472

5. Income Taxes

In June 2001, the Company finalized an agreement with the Internal Revenue Service (the "IRS") to settle the issues raised during the examination of its Federal consolidated tax returns for the periods ended March 31, 1991 through December 31, 1994. In June 2002, the Company finalized an agreement with the IRS to settle the issues raised during the examination of its Federal consolidated income tax returns for the years ended December 31, 1995 through December 31, 1997. These settlements had no material effect on the Company's financial position, results of operations or liquidity. For open tax years (subsequent to 1997), the Company is of the opinion that amounts accrued in the consolidated balance sheets are adequate to cover amounts, if any, that may be due in the future.

At March 31, 2002 and December 31, 2000, net current deferred tax assets were $7,071,000 and $6,310,000, respectively, and net noncurrent deferred tax liabilities were $124,655,000 and $115,388,000, respectively. At March 31, 2002 and December 31, 2000, deferred tax assets consisted primarily of the tax effects of reserves recorded for financial statement purposes (principally losses on receivables and investments) that are not currently deductible for tax purposes. At March 31, 2002 and December 31, 2000, deferred tax liabilities consisted primarily of the tax effects of accelerated tax depreciation, financing leases, and net unrealized gains on marketable securities classified as available-for-sale.

The provision (benefit) for income taxes consists of the following for the fifteen-month period ended March 31, 2002 and the year ended December 31, 2000:

	March 31, 2002	December 31, 2000
	(In Thousands)	
Current:		
Federal	$29,209	$54,409
State	6,773	10,486
Total current	35,982	64,895
Deferred	11,186	(3,930)
Total income taxes	$47,168	$60,965

The effective tax rates for the reported amounts of income tax expense are higher than the domestic Federal statutory rate of 35 percent mainly due to state and local income taxes and non-deductible expenses.

6. Leases

The following is a summary of property and equipment held under capital leases:

	March 31, 2002	December 31, 2000
	(In Thousands)	
Property leased to others	$ —	$ 1,251
Equipment and fixtures, including leasehold improvements	43,576	43,222
Total	43,576	44,473
Less—Accumulated amortization	(21,879)	(21,128)
Net	$ 21,697	$ 23,345

Future minimum payments, by year and in the aggregate, under capital leases and operating leases with initial or remaining terms of one year or more during the following years ending March 31 are as follows:

	Capital Leases	Operating Leases
	(In Thousands)	
2003	$ 2,535	$ 23,242
2004	10,102	21,271
2005	569	18,291
2006	569	15,746
2007	569	4,927
Thereafter	37,699	16,698
Total minimum payments required*	52,043	$100,175
Less—Amount representing interest	(5,636)	
Present value of net minimum lease payments	46,407	
Less—Current portion	(1,215)	
Long-term obligations	$ 45,192	

* Minimum payments have not been reduced by minimum sublease rentals of $10,876,000 under capital leases and $1,773,000 under operating leases due in the future under noncancelable subleases.

Rental expense relating to operating leases was $22,635,000 for the fifteen-month period ended March 31, 2002 and $18,957,000 for the year ended December 31, 2000. Sublease rental income was $2,853,000 for the fifteen-month period ended March 31, 2002 and $3,543,000 for the year ended December 31, 2000.

7. Pension Plan and Other Postretirement Benefits

Net periodic pension and other postretirement benefits costs are comprised of the following for the fifteen-month period ended March 31, 2002 and for the year ended December 31, 2000:

	Pension Benefits		Other Postretirement Benefits	
	March 31, 2002	December 31, 2000	March 31, 2002	December 31, 2000
	(In Thousands)		(In Thousands)	
Service cost	$ 1,693	$ 1,436	$ 284	$ 209
Interest cost	3,613	2,640	648	463
Expected return on assets	(3,208)	(2,474)	—	—
Amortization of unrecognized amounts:				
Transition obligation	19	15	234	187
Prior service cost	244	195	—	—
Other	60	—	54	3
Net periodic cost	$ 2,421	$ 1,812	$ 1,220	$ 862

Changes in the projected benefit obligation, plan assets and funded status are comprised of the following for the fifteen-month period ended March 31, 2002 and for the year ended December 31, 2000:

	Pension Benefits		Other Postretirement Benefits	
	March 31, 2002	December 31, 2000	March 31, 2002	December 31, 2000
	(In Thousands)		(In Thousands)	
Changes in projected benefit obligation:				
Benefit obligation at the end of prior period	$ 37,578	$35,365	$ 6,638	$ 5,742
Service cost	1,693	1,436	284	209
Interest cost	3,613	2,640	648	463
Benefits paid	(1,830)	(1,241)	(435)	(561)
Change in plan provisions	26	—	—	—
Actuarial (gain) loss	(10)	(622)	233	785
Change in discount rate	1,344	—	—	—
Benefit obligation at end of period	$ 42,414	$37,578	$ 7,368	$ 6,638
Changes in plan assets:				
Fair value of plan assets at beginning of period	$ 29,033	$29,202	$ —	$ —
Actual return on plan assets	(1,030)	(558)	—	—
Employer contributions	4,665	1,630	—	—
Benefits paid	(1,830)	(1,241)	—	—
Fair value of plan assets at end of period	$ 30,838	$29,033	$ —	$ —
Funded status:				
Funded status at end of period	$(11,576)	$(8,545)	$(7,368)	$(6,638)
Unrecognized net loss	7,819	2,307	1,510	1,331
Unrecognized prior service cost	1,222	1,440	—	—
Unrecognized transition obligation	27	47	2,061	2,295
Net amount recognized	$ (2,508)	$(4,751)	$(3,797)	$(3,012)
Assumptions used in the computations are as follows:				
Discount rate	7.50%	7.75%	7.50%	7.75%
Expected long-term rate of return on plan assets	8.50%	8.50%	—	—
Rate of increase in future compensation levels	3.00%	3.00-7.00%	—	—

Assumed health care cost trend rates have been used in the valuation of postretirement health insurance benefits. Prior to December 31, 2000, the medical health care cost trend rate was 5.0% for 2000, decreasing to 4.5% by the year 2001, and dental health care cost trend rate was 4.5%. Effective December 31, 2000, the medical health care cost trend rate was 8.0% for 2001, decreasing to 4.5% by the year 2008, and the dental health care cost trend rate was 4.5%. Increasing the health care cost trend rate by 1.0% would increase the total benefit obligation to $8,422,000 or by 14.3% and the aggregate of the service and interest cost components of the net periodic other postretirement benefit cost would increase from $932,000 to $1,092,000 or by 17.2%.

8. Commitments and Contingencies

At March 31, 2002 and December 31, 2000, unused letters of credit amounted to approximately $5 million and $10 million, respectively.

At March 31, 2002 and December 31, 2000, commitments to extend additional credit to or invest in various entities aggregated approximately $54 million (through 2018) and $64 million (through 2005), respectively.

The Company customarily enters into long-term purchase contracts (usually with related sales contracts) for certain inventories. At March 31, 2002 and December 31, 2000, long-term purchase contracts at fixed or basic purchase prices amounted to approximately $197 million (through 2007) and $384 million (through 2003), respectively.

It is a customary practice of the Company to guarantee, severally or jointly with others, indebtedness of certain of its customers, suppliers and affiliated companies, primarily in furtherance of its trading activities. At March 31, 2002 and December 31, 2000, the aggregate amount of such guarantees was approximately $183 million and $131 million, respectively. Also, at March 31, 2002 and December 31, 2000, as is customary, the Company had performance bond guarantees and stand-by letters of credit outstanding which aggregated approximately $66 million and $31 million, respectively.

9. Legal Matters

The Company is a defendant in several legal actions, including civil antitrust action lawsuits arising from choline chloride pricing and marketing practices. As a result of various governmental investigations of market irregularities within the choline chloride product market, the Company is one of numerous defendants in civil antitrust action lawsuits (including potential class action lawsuits). The Company intends to vigorously defend this matter, as well as other legal actions. Although some actions are still in a preliminary stage and definitive conclusions cannot be made as to those legal actions, the Company is of the opinion that, based on information presently available, such legal actions will not have a material adverse effect on the Company's financial position, results of operations or liquidity.

10. Risk Management and Fair Value of Financial Instruments

As explained in Note 1, the Company enters into derivative financial instruments to reduce the exposures to fluctuations in interest rates and foreign exchange rates. The primary categories of derivatives used are foreign exchange forward contracts, interest rate swaps, currency swaps, and options. Since most of the Company's derivative transactions are related to qualified hedges of underlying business exposures, market risk in those derivative instruments is basically offset by equal and opposite movements in the underlying exposure. The Company has a Market Risk Management Department which independently monitors and analyzes the positions of derivative transactions and reports the analysis to management, strengthening the Company's ability to manage derivative risk comprehensively. In addition, the Company sets position limits based on accumulated notional amounts with each counterparty, and changes these limits based on the counterparty's current rating by independent institutions.

The following methods and assumptions are used in estimating the fair market value of derivatives and financial instruments:

Current Financial Assets Other Than Marketable Securities and Current Financial Liabilities: The fair market values approximate the carrying amounts reported in the consolidated financial statements because of their short-term maturities.

Marketable Securities and Other Investments: The fair market values of marketable securities and other investments are based on quoted market prices and, when available, cash flow analyses.

Noncurrent Advances, Receivables and Other, and Advances to Associated Companies: The fair market values of noncurrent trade receivables, including long-term loans receivable, except for loans with floating rates, are estimated by discounted cash flow analysis, using interest rates currently being offered for loans or accounts receivable with similar terms to borrowers or customers of similar credit quality and maturities. Carrying amounts of loans with floating rates approximate fair value.

Long-Term Debt: The fair market values of long-term debt, except for debt with floating rates, is estimated by discounted cash flow analysis, using interest rates currently available for similar types of borrowings with similar terms and maturities. Carrying amounts of borrowings with floating rates approximate fair value.

Off-Balance Sheet Financial Commitments: The Company has not estimated the fair market value of certain off-balance sheet commitments such as financial guarantees of indebtedness and financing commitments. Management believes that, because of uncertainty involved in attempting to assess the likelihood and timing of commitments being drawn upon, coupled with the lack of an established market, estimation of such fair market values is not practical. The Company is of the opinion that it is improbable that it will be required to satisfy these guarantees.

Derivative Financial Instruments: The fair market value of the Company's derivative financial instruments (i.e., interest rate swaps, currency swaps, options and foreign exchange forward contracts) is generally valued based on quoted market prices of comparable contracts, current termination values or discounted cash flow analyses using rates currently available for similar types of contracts at the reporting date. To some extent, judgment is required to interpret certain market data to estimate fair market values for particular financial instruments.

The Company's exposure to credit risks in the event of non-performance by counterparties to the financial instruments is considered to be minimal as the Company deals only with highly-rated counterparties.

The following schedules are summaries of carrying amounts and fair market values of financial instruments as of March 31, 2002 and December 31, 2000:

	March 31, 2002	
	Carrying Amount	Estimated Fair Value
	Assets (Liabilities) (In Thousands)	
Assets:		
Marketable securities and other investments	$ 214,645	$ 214,645
Noncurrent advances, receivables and other	30,402	30,402
Liabilities:		
Debt	(1,544,392)	(1,544,392)
Derivative financial instruments:		
Liabilities	(120,438)	(120,438)

	December 31, 2000	
	Carrying Amount	Estimated Fair Value
	Assets (Liabilities) (In Thousands)	
Assets:		
Marketable securities and other investments	$ 86,873	$ 86,873
Noncurrent advances, receivables and other	48,844	48,844
Liabilities:		
Debt	(1,586,014)	(1,616,026)
Derivative financial instruments:		
Assets	—	(1,891)
Liabilities	(56,055)	(26,043)

11. Business Segments

The Company's principal business activities have been classified into the following operating segments: Iron and Steel, Non-Ferrous Metals, Machinery, Chemicals, Foods, Energy, Real Estate & Other and Corporate. Business segments are based on products and services for sale. The following are those amounts which are used by the Company in managing its business as of March 31, 2002 and December 31, 2000 and for the fifteen-month period ended March 31, 2002 and for the year ended December 31, 2000:

March 31, 2002 (In Thousands)	Iron and Steel	Non-Ferrous Metals	Machinery	Chemicals	Foods	Energy, Real Estate & Other	Corporate	Total
Total Trade Transactions	$1,477,639	$1,226,701	$1,036,871	$1,833,254	$1,502,350	$2,489,430	$ —	$9,566,245
Revenue—Gross Trading Profit	83,303	18,888	49,837	117,527	37,108	47,519	(2,522)	351,660
Net Income (Loss)	1,143	3,763	1,455	(4,663)	6,354	4,500	11,255	23,807
Total Assets	316,084	189,261	830,018	679,743	176,654	329,011	463,942	2,984,713

December 31, 2000 (In Thousands)	Iron and Steel	Non-Ferrous Metals	Machinery	Chemicals	Foods	Energy, Real Estate & Other	Corporate	Total
Total Trade Transactions	$1,195,423	$1,257,149	$1,288,711	$1,942,351	$1,264,754	$1,777,738	$ —	$8,726,126
Revenue—Gross Trading Profit	78,986	31,894	48,112	90,722	30,149	51,493	1,102	332,458
Net Income (Loss)	(2,342)	13,086	43,135	1,703	9,505	10,583	5,208	80,878
Total Assets	312,233	165,385	744,855	713,731	194,479	275,204	887,359	3,293,246

All of the Company's segments derive a significant portion of trade transactions from Mitsui Japan and its affiliates. For the fifteen-month period ended March 31, 2002 and for the year ended December 31, 2000, trade transactions with Mitsui Japan and its affiliates represent approximately 33 percent and 37 percent, respectively, of total trade transactions. Other than trade transactions with Mitsui Japan and its affiliates, no other single customer represents a significant portion of the Company's total trade transactions.

The following table provides geographic information for total trade transactions, which is based on the location of customers for the fifteen-month period ended March 31, 2002 and for the year ended December 31, 2000:

	March 31, 2002	December 31, 2000
	(In Thousands)	
United States	$5,080,928	$ 3,824,262
Japan	2,349,187	2,587,791
Other foreign countries	2,136,130	2,314,073
Total	$9,566,245	$ 8,726,126

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