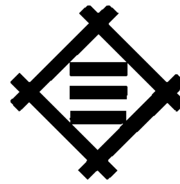

ANNUAL REPORT 2003

April 1, 2002 - March 31, 2003

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, 2003 and 2002, and the related consolidated statements of income, shareholder's equity and cash flows for the year ended March 31, 2003 and for the fifteen-month period ended March 31, 2002. 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 Mitsui & Co. (U.S.A.), Inc. and subsidiaries at March 31, 2003 and 2002, and the results of their operations and their cash flows for the year ended March 31, 2003 and for the fifteen-month period ended March 31, 2002 in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the consolidated financial statements, during the fifteen-month period ended March 31, 2002, the Company changed its fiscal year-end from December 31st to March 31st.

Deloitte & Touche LLP

New York, NY
June 17, 2003

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

CONSOLIDATED BALANCE SHEETS

MARCH 31, 2003 AND 2002

	March 31, 2003	March 31, 2002
	(In Thousands)	
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents (Note 1)	$ 196,760	$ 188,493
Marketable securities (Notes 1, 2 and 10)	5,129	288
Accounts and notes receivable (Notes 1 and 10):		
Customers	520,376	427,053
Parent and affiliated companies—net	625,859	412,800
Allowance for doubtful receivables	(26,820)	(29,435)
Inventories (Note 1)	522,006	476,433
Advance payments to suppliers	18,639	39,205
Other current assets	206,371	68,197
Total current assets	2,068,320	1,583,034
INVESTMENTS:		
Investments in and advances to associated companies (Notes 1 and 2)	319,545	312,578
Financing leases (Note 2)	473,779	473,161
Other investments (Notes 1, 2 and 10)	180,067	215,154
Total investments	973,391	1,000,893
PROPERTY AND EQUIPMENT—NET (Notes 1, 3 and 6)	336,698	341,214
NONCURRENT ADVANCES, RECEIVABLES AND OTHER—NET (Note 10)	56,009	59,572
Total	$3,434,418	$2,984,713

See Notes to Consolidated Financial Statements.

CONSOLIDATED BALANCE SHEETS

MARCH 31, 2003 AND 2002

	March 31, 2003	March 31, 2002
	(In Thousands)	
LIABILITIES AND SHAREHOLDER'S EQUITY		
CURRENT LIABILITIES:		
Notes, acceptances and accounts payable—trade:		
Trade creditors	$ 591,187	$ 565,202
Other	2,781	166
Notes and loans payable (Notes 4 and 10)	695,916	514,920
Advances received on contracts	64,583	46,189
Current maturities of long-term debt (Notes 4 and 10)	312,479	176,128
Accrued taxes on income	28,269	2,803
Accrued expenses and sundry	94,519	51,992
Total current liabilities	1,789,734	1,357,400
LONG-TERM DEBT, LESS CURRENT MATURITIES (Notes 4 and 10)	874,216	853,344
CAPITAL LEASE OBLIGATIONS (Note 6)	36,000	45,192
DEFERRED INCOME TAXES (Note 5)	149,539	124,655
OTHER LIABILITIES	71,336	31,463
COMMITMENTS AND CONTINGENCIES (Notes 5, 6, 8, 9 and 10)		
MINORITY INTEREST IN SUBSIDIARIES	69,343	65,870
SHAREHOLDER'S EQUITY:		
Capital stock, no par value, authorized and outstanding, 1,000 shares	350,000	350,000
Retained earnings	101,729	154,313
Accumulated other comprehensive (loss) income (Notes 1 and 2)	(7,479)	2,476
Shareholder's equity	444,250	506,789
Total	$3,434,418	$2,984,713

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF INCOME

YEAR ENDED MARCH 31, 2003 AND
FIFTEEN-MONTH PERIOD ENDED MARCH 31, 2002

	March 31, 2003	March 31, 2002
	(In Thousands)	
TOTAL TRADE TRANSACTIONS (Notes 1 and 11)	$8,721,027	$9,566,245
REVENUE—GROSS TRADING PROFIT (Notes 1 and 11)	$ 303,590	$ 351,660
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	(281,734)	(290,391)
INTEREST (NET OF INTEREST EXPENSE OF $48,112,000 and $110,317,000 for the Year Ended March 31, 2003 and for the Fifteen-Month Period Ended March 31, 2002, respectively)	9,796	3,587
OTHER (LOSS) INCOME—NET	(26,035)	22,821
INCOME BEFORE INCOME TAXES AND EQUITY IN EARNINGS (LOSS) OF ASSOCIATED COMPANIES	5,617	87,677
(BENEFIT) PROVISION FOR INCOME TAXES (Notes 1 and 5)	(6,020)	47,168
INCOME BEFORE EQUITY IN EARNINGS (LOSS) OF ASSOCIATED COMPANIES	11,637	40,509
EQUITY IN EARNINGS (LOSS) OF ASSOCIATED COMPANIES—NET (AFTER INCOME TAX EFFECT) (Note 1)	4,005	(16,702)
NET INCOME	$ 15,642	$ 23,807

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDER'S EQUITY

YEAR ENDED MARCH 31, 2003 AND FIFTEEN-MONTH PERIOD ENDED MARCH 31, 2002

(In Thousands)

	Comprehensive Income	Capital Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholder's Equity
Balance, January 1, 2001		$ 350,000	$ 177,950	$ 5,281	$ 533,231
Comprehensive income:					
Net income	$ 23,807		23,807		23,807
Other comprehensive income (loss):					
Foreign currency translation adjustments	(242)			(242)	(242)
Unrealized loss on marketable securities, net of tax	(1,016)			(1,016)	(1,016)
Reclassification adjustments on marketable securities, net of tax	(1,547)			(1,547)	(1,547)
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
Comprehensive income:					
Net income	$ 15,642		15,642		15,642
Other comprehensive income (loss):					
Foreign currency translation adjustments	(856)			(856)	(856)
Unrealized loss on derivatives used as cash flow hedges, net of tax	(636)			(636)	(636)
Unrealized loss on marketable securities, net of tax	(573)			(573)	(573)
Reclassification adjustments on marketable securities, net of tax	1,323			1,323	1,323
Minimum pension liability adjustments, net of tax	(9,213)			(9,213)	(9,213)
Comprehensive income	$ 5,687				
Dividends declared			(74,000)		(74,000)
Reorganization of certain subsidiaries, etc.			5,774		5,774
Balance, March 31, 2003		$ 350,000	$ 101,729	$ (7,479)	$ 444,250

See Notes to Consolidated Financial Statements.

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEAR ENDED MARCH 31, 2003 AND FIFTEEN-MONTH PERIOD ENDED MARCH 31, 2002

	March 31, 2003	March 31, 2002
	(In Thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 15,642	$ 23,807
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation, depletion and amortization	30,699	66,298
Provision for losses on receivables, etc.	38,893	807
Loss (gain) on sales of marketable securities and other—net	36,534	3,929
Financing leases	3,471	(34,005)
Equity in (earnings) loss of associated companies—net (after income tax effect), net of dividends received	497	24,289
Deferred income taxes	(4,412)	11,186
Minority interest in subsidiaries	4,918	2,289
Other	(914)	(623)
Changes in operating assets and liabilities:		
(Increase) decrease in accounts and notes receivable	(336,209)	579,694
Increase in inventories	(45,573)	(33,309)
Decrease (increase) in advance payments to suppliers	20,566	(9,596)
(Increase) decrease in other current assets	(84,877)	6,203
(Increase) decrease in noncurrent advances, receivables and other	(429)	4,250
Increase (decrease) in notes, acceptances and accounts payable	107,253	(98,311)
Increase in advances received on contracts	18,394	24,727
Increase (decrease) in accrued taxes on income	25,466	(21,082)
Increase (decrease) in accrued expenses and sundry	26,723	(10,841)
Decrease in noncurrent other liabilities	(17,048)	(6,778)
Net cash (used in) provided by operating activities	(160,406)	532,934
CASH FLOWS FROM INVESTING ACTIVITIES:		
Increase in marketable securities and other investments	(4,867)	(41,154)
Increase in investments in and advances to associated companies	(1,690)	(59,653)
Proceeds from financing leases	18,437	84,515
Issuance of financing leases	(9,909)	(243,539)
Capital expenditures—net	(26,125)	(72,117)
Other	—	(242)
Net cash used in investing activities	(24,154)	(332,190)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Increase in short-term notes and loans payable	180,996	26,458
Issuance of long-term debt	397,742	163,468
Payments on long-term debt	(343,059)	(380,864)
Payments on capital lease obligations	(10,407)	(1,664)
Minority interest in subsidiaries	(1,445)	955
Dividends paid	(31,000)	(36,780)
Net cash provided by (used in) financing activities	192,827	(228,427)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	8,267	(27,683)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	188,493	216,176
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 196,760	$ 188,493
SUPPLEMENTAL CASH FLOW INFORMATION:		
Interest paid	$ 48,507	$ 118,352
Income taxes paid—net	$ 27,074	$ 55,772

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. (''Mitsui USA''), 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 period ended March 31, 2001 is as follows:

	Three-Month Period Ended March 31, 2001
	(In Thousands)
Total trade transactions	$2,041,470
Revenue—gross trading profit	66,166
Net income	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 an amount which approximates cost. At March 31, 2003 and 2002, such commodities inventories comprise approximately 3 percent and 9 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 (loss) 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. The initial transition adjustment recorded upon adoption of SFAS No. 133 was immaterial.

The Company enters into agreements for derivative commodity instruments, such as futures, forwards 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 the 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 and changes in interest rates, are recorded in earnings.

Changes in the fair value of derivative financial instruments for which hedge requirements are not met under SFAS No. 133 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 and equipment 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 adjustment to the carrying values or 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 business plans. When carrying value is greater than the undiscounted cash flows, 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

Total trade transactions is a financial measure commonly used by similar Japanese trading companies resulting from dealings in which the Company acts as principal or agent in the legal form of trading transactions to earn trading profits. Total trade transactions include the contract value of all transactions in which the Company participates regardless of the form of the transactions. A substantial portion of total trade 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. Total trade transactions is not meant to represent sales or revenues in accordance with accounting principles generally accepted in the United States of America. Total trade transactions should not be construed as equivalent to, or a substitute for, revenues, or as an indicator of liquidity or cash flows generated by operating, investing or financing activities. The Company has disclosed total trade transactions because similar Japanese trading companies have historically used it as an industry benchmark and the Company believes that it is a useful supplement to results of operations information as a measure of its performance.

Revenue-gross trading profit represents gross margin with respect to purchase and sales transactions in which the Company acts as principal or agent and commissions with respect to agency transactions and manufacturing and other activities. 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.

The following chart presents gross trading profit on trading transactions and revenues from manufacturing and other activities for the year ended March 31, 2003 and for the fifteen-month period ended March 31, 2002, separately. Revenues from trading activities are presented on a net basis and manufacturing and other activities are presented on a gross basis. Manufacturing and other activities include transactions where the Company provides a service, manufactures products or distributes goods.

	March 31,	
	2003	2002
	(In Thousands)	
Gross trading profit on trading transactions	$ 76,520	$ 113,235
Manufacturing and other activities	2,820,551	2,421,895
Total revenues	2,897,071	2,535,130
Manufacturing and other costs	(2,593,481)	(2,183,470)
Revenue-gross trading profit	$ 303,590	$ 351,660

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) in the consolidated statements of shareholder's equity). 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, minimum pension liability adjustments, unrealized gains (losses) on derivatives accounted for as cash flow hedges and unrealized gains (losses) on marketable securities, net of taxes and reclassification adjustments. Accumulated other comprehensive income (loss), which is the cumulative amount of other comprehensive income (loss), 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, 2003 and 2002, the unpaid balance of accounts receivable sold was $152 million and $128 million, respectively.

The Company continues to service these receivables and maintains a retained interest in the receivables sold. The retained interest totaling $76.9 million and $52.7 million as of March 31, 2003 and 2002, respectively, represents the current market value of 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 $1.7 million and $4.3 million for the year ended March 31, 2003 and for the fifteen-month period ended March 31, 2002, respectively.

RECLASSIFICATIONS

Certain reclassifications have been made to the 2002 consolidated financial statements to conform with the current period presentation.

RECENT ACCOUNTING PRONOUNCEMENTS

In June 2001, the Financial Accounting Standards Board (''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 any 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 adopted by the Company effective April 1, 2002. The adoption of SFAS No. 142 did not have any 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 certain provisions of 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 were required to be adopted by the Company effective April 1, 2002. The adoption of SFAS 144 did not have any impact on the Company's 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. The Company does not expect the adoption of SFAS No. 145 to have a material impact on its consolidated financial statements.

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities," which addresses financial accounting and reporting for costs associated with exit or disposal activities. SFAS No. 146 nullifies Emerging Issues Task Force Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity." The provisions of SFAS No. 146 are effective for exit and disposal activities that are initiated after December 31, 2002.

In November 2002, the FASB issued Financial Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" ("FIN 45"), which provides accounting and disclosure requirements for certain guarantees. The accounting provisions of FIN 45 are effective for certain guarantees issued or modified beginning January 1, 2003. The adoption of FIN 45 did not have a material impact on the Company's consolidated financial statements. The disclosure requirements of FIN 45 are addressed in Notes 8 and 10 to the consolidated financial statements.

In January 2003, the FASB issued Financial Interpretation No. 46, "Consolidation of Variable Interest Entities" ("FIN 46"). FIN 46 deals with off-balance sheet assets, liabilities, and obligations and gives guidance for determining which entities should consolidate the respective assets and liabilities associated with the obligations. For fiscal years beginning after June 15, 2003, corporations must fully consolidate in their financial statements assets and liabilities of entities for which they are the primary beneficiary. The Company is currently evaluating the impact, if any, that FIN 46 will have on its consolidated financial statements.

In April 2003, the FASB issued SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities." SFAS No. 149 amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities under SFAS No. 133. SFAS No. 149 is effective for contracts entered into or modified after June 30, 2003 and for hedging relationships designated after June 30, 2003. The Company is currently evaluating the impact, if any, that SFAS No. 149 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,	
	2003	2002
	(In Thousands)	
Investments in capital, at cost	$182,799	$199,558
Share of equity earnings-net	46,655	28,786
Advances, etc	90,091	84,234
Total	$319,545	$312,578

The Company has a 32.5 percent equity interest in a partnership which produces methyl tertiary butyl ether ("MTBE"). At March 31, 2003 and 2002, the Company's carrying value of its investment in the partnership (including notes receivable), net of guarantees and other items, approximated $22 million and $26 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. Legislators continue to debate the future of the ''Oxygenate Mandate'' which required the addition of MTBE in gasoline. The Company is currently evaluating its options regarding the continued production of MTBE and, in 2003, it is possible that the MTBE operations could be shut down. Accordingly, an additional reserve may be required during the year ending March 31, 2004.

Mitsui USA has a 10 percent equity interest in Novus International Inc. (''Novus''), which is accounted for under the equity method. Novus, together with certain other third-party methionine manufacturers, as well as Mitsui USA and Mitsui Japan, has been named in various class action and individual lawsuits in the United States alleging anticompetitive practices. In May 2002, Mitsui USA, Mitsui Japan and Novus reached an agreement for settlement with the class action plaintiffs, pursuant to which Novus paid $37.8 million as a settlement amount. Such settlement was approved by the court in August 2002. In November 2002, Mitsui USA, Mitsui Japan and Novus reached an agreement for settlement with all but one of the plaintiffs who opted-out of the class action lawsuit and initiated their own suits against Mitsui USA, Mitsui Japan and Novus. Pursuant to such settlement agreement, Novus paid $58.2 million. In March 2003, Mitsui USA, Mitsui Japan and Novus reached an agreement for settlement with the sole remaining opt-out plaintiff, pursuant to which Novus paid $0.3 million as a settlement amount. All other related lawsuits are pending. 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 consolidated financial position, results of operations or liquidity.

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

	March 31,	
	2003	2002
	(in Thousands)	
Direct financing leases:		
Net minimum lease payments—(approximately $188,249,000 collectible through March 31, 2008 on an approximately ratable annual basis; the remaining balance is collectible through 2021)	$ 522,334	$ 536,583
Estimated residual value of leased assets	138,352	130,336
Less—Unearned income	(249,689)	(247,846)
Allowance for doubtful accounts	(6,166)	(5,276)
Investment in direct financing leases	404,831	413,797
Less—Current portion	(20,698)	(18,496)
Net investment in direct financing leases	$ 384,133	$ 395,301
Leveraged leases:		
Minimum lease payments—(net of principal and interest on third party non-recourse debt)—approximately $1,181,000 collectible through March 31, 2008 on an approximately ratable annual basis; the remaining balance is collectible through 2022	$ 43,613	$ 35,690
Estimated residual value of leased assets	78,985	74,384
Less—Unearned income	(32,952)	(32,214)
Investment in leveraged leases	89,646	77,860
Less—Deferred tax liabilities arising from leveraged leases	(39,856)	(25,555)
Net investment in leveraged leases	$ 49,790	$ 52,305

At March 31, 2003 and 2002, included in other noncurrent investments are marketable securities classified as available-for-sale with aggregate fair values of $81,548,000 (cost of $76,060,000) and

$105,545,000 (cost of $101,197,000), respectively. Investments other than marketable available-for-sale securities were carried at a cost of $98,519,000 and $109,609,000 at March 31, 2003 and 2002, respectively.

The proceeds from sales of available-for-sale securities and the gross realized gains and losses on those sales, determined using the specific identification method, for the year ended March 31, 2003 and for the fifteen-month period ended March 31, 2002 are shown below:

	March 31,	
	2003	2002
	(In Thousands)	
Proceeds from sales	$21,799	$7,691
Gross realized gains	$ 272	$4,327
Gross realized losses	(662)	(1,675)
Net realized (losses) gains	$ (390)	$2,652

3. Property and Equipment

Property and equipment, including capital leases (see Note 6), consists of the following:

	March 31,	
	2003	2002
	(In Thousands)	
Property leased to others	$ 57,979	$ 62,495
Land and land improvements	33,705	25,503
Buildings and structures	354,997	347,610
Equipment and fixtures, including leasehold improvements	230,825	223,849
Total	677,506	659,457
Less—Accumulated depreciation and amortization	(340,808)	(318,243)
Net	$ 336,698	$ 341,214

4. Debt and Other Financing Agreements

At March 31, 2003 and 2002, the Company had short-term notes payable of approximately $548 million and $350 million, respectively, and loans payable of approximately $148 million and $165 million, respectively. The average weighted interest rates on short-term notes and loans payable outstanding at March 31, 2003 and 2002 were 0.5% and 2.0%, respectively.

Long-term debt is comprised of the following:

	March 31, 2003	March 31, 2002
	(In Thousands)	
Parent and affiliated companies—maturing through 2004—1.3 to 1.7%	$ 27,343	$ 106,381
Other:		
Financial institutions—maturing through 2011—at fixed or floating rates, principally 1.5 to 7.2%	639,275	408,144
Medium Term Notes—maturing through 2014—principally 0.2 to 4.6%	493,693	487,662
Others—maturing through 2007—1.4 to 7.7%	26,384	27,285
Total principal amount	1,186,695	1,029,472
Less—Current maturities	(312,479)	(176,128)
Net	$ 874,216	$ 853,344

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

	(In Thousands)
2004	$ 312,479
2005	253,823
2006	286,071
2007	62,435
2008	184,983
Thereafter	86,904
Total	$1,186,695

5. Income Taxes

During 2002, the Company finalized an agreement with the Internal Revenue Service 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 as a result of future examinations.

At March 31, 2003 and 2002, the total of all deferred tax assets were $47,384,000 and $21,943,000, respectively, and the total of all deferred tax liabilities were $155,193,000 and $139,527,000, respectively. At March 31, 2003 and 2002, 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, 2003 and 2002, deferred tax liabilities consisted primarily of the tax effects of accelerated tax depreciation and financing leases.

The (benefit) provision for income taxes consists of the following for the year ended March 31, 2003 and for the fifteen-month period ended March 31, 2002:

	March 31, 2003	March 31, 2002
	(In Thousands)	
Current:		
Federal	$ 893	$29,209
State	(2,501)	6,773
Total current	(1,608)	35,982
Deferred	(4,412)	11,186
Total income taxes	$ (6,020)	$47,168

The effective tax rates for the reported amounts of income tax (benefit) expense differ from the domestic Federal statutory rate of 35 percent mainly due to state and local income taxes, non-deductible expenses and the liquidation of certain investments in associated companies for which deferred tax benefits had previously not been reflected.

6. Leases

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

	March 31, 2003	March 31, 2002
	(In Thousands)	
Equipment and fixtures, including leasehold improvements	$ 43,576	$ 43,576
Less—Accumulated amortization	(23,101)	(21,879)
Net	$ 20,475	$ 21,697

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)	
2004	$ 425	$26,496
2005	425	21,603
2006	425	8,487
2007	425	6,559
2008	425	5,645
Thereafter	36,846	9,503
Total minimum payments required*	38,971	$78,293
Less—Amount representing interest	(2,971)	
Long-term obligations	$36,000	

* Minimum payments have not been reduced by minimum sublease rentals of $7,164,000 under operating leases due in the future under noncancelable subleases.

Rental expense relating to operating leases was $17,035,000 for the year ended March 31, 2003 and $22,635,000 for the fifteen-month period ended March 31, 2002. Sublease rental income was $4,409,000 for the year ended March 31, 2003 and $2,853,000 for the fifteen-month period ended March 31, 2002.

7. Pension Plan and Other Postretirement Benefits

Net periodic pension and other postretirement benefits costs are comprised of the following for the year ended March 31, 2003 and for the fifteen-month period ended March 31, 2002:

	Pension Benefits March 31,		Other Postretirement Benefits March 31,	
	2003	2002	2003	2002
	(In Thousands)		(In Thousands)	
Service cost	$ 1,391	$ 1,693	$ 227	$ 284
Interest cost	3,124	3,613	571	648
Expected return on assets	(2,775)	(3,208)	—	—
Amortization of unrecognized amounts:				
Transition obligation	15	19	187	234
Prior service cost	197	244	—	—
Other	289	60	(89)	54
Net periodic cost	$ 2,241	$ 2,421	$ 896	$1,220

Changes in the projected benefit obligation, plan assets and funded status are comprised of the following for the year ended March 31, 2003 and for the fifteen-month period ended March 31, 2002:

	Pension Benefits March 31,		Other Postretirement Benefits March 31,	
	2003	2002	2003	2002
	(In Thousands)		(In Thousands)	
Changes in projected benefit obligation:				
Benefit obligation at the end of prior period	$ 42,414	$37,578	$ 7,368	$ 6,638
Service cost	1,391	1,693	227	284
Interest cost	3,124	3,613	571	648
Benefits paid	(1,743)	(1,830)	(400)	(435)
Change in plan provisions	—	26	—	—
Actuarial loss	7,118	1,334	1,325	233
Benefit obligation at end of period	$ 52,304	$42,414	$ 9,091	$ 7,368
Changes in plan assets:				
Fair value of plan assets at beginning of period	$ 30,838	$29,033	$ —	$ —
Actual return on plan assets	(3,451)	(1,030)	—	—
Employer contributions	4,660	4,665	—	—
Benefits paid	(1,743)	(1,830)	—	—
Fair value of plan assets at end of period	$ 30,304	$30,838	$ —	$ —
Funded status:				
Funded status at end of period	$(22,000)	$(11,576)	$(9,091)	$(7,368)
Unrecognized net loss	20,873	7,819	2,924	1,510
Unrecognized prior service cost	1,025	1,222	—	—
Unrecognized transition obligation	13	27	1,874	2,061
Net amount recognized	$ (89)	$(2,508)	$(4,293)	$(3,797)
Assumptions used in the computations are as follows:				
Discount rate	6.50%	7.50%	6.50%	7.50%
Expected long-term rate of return on plan assets	8.50%	8.50%	—	—
Rate of increase in future compensation levels	3.00%	3.00%	—	—

Assumed health care cost trend rates have been used in the valuation of postretirement health insurance benefits. During 2002, the medical health care cost trend rate was 12.0%, decreasing to 4.5% by the year 2006, 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 $10,445,000 or by 14.9% and the aggregate of the service and interest cost components of the net periodic other postretirement benefit cost would

increase from $798,000 to $930,000 or by 16.5%, including life insurance. Decreasing the health care cost trend rate by 1.0% would decrease the total accumulated postretirement benefit obligation to $7,996,000 or by 12.0% and the aggregate of the service and interest cost components of the net periodic postretirement benefit cost would decrease from $798,000 to $694,000 or by 13.0%, including life insurance.

The Company also has defined contribution retirement plans covering most employees in the United States. The defined contribution plan expense was approximately $1,836,058 and $3,086,742 for the year ended March 31, 2003 and the fifteen-month period ended March 31, 2002, respectively.

8. Commitments and Contingencies

At March 31, 2003 and 2002, unused letters of credit amounted to approximately $20 million and $5 million, respectively.

At March 31, 2003 and 2002, commitments to extend additional credit to or invest in various entities aggregated approximately $52 million (through 2018) and $54 million (through 2018), respectively.

The Company customarily enters into long-term purchase contracts (usually with related sales contracts) for certain inventories. At March 31, 2003 and 2002, long-term purchase contracts at fixed or basic purchase prices amounted to approximately $113 million (through 2007) and $197 million (through 2007), 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 to facilitate its trading activities. At March 31, 2003 and 2002, the aggregate amount of liabilities related to such guarantees was approximately $70 million and $66 million, respectively, with a maximum potential amount due under these guarantees of $122 million and $120 million, respectively. The maximum potential amount due represents the amounts without consideration of possible recoveries under recourse provisions or from collateral held or pledged that the companies could be obliged to pay if there were defaults by guaranteed parties or there were changes in an underlying which would cause triggering events under market value guarantees and indemnification contracts. Such amounts bear no relationship to the anticipated losses on these guarantees and indemnifications, and they greatly exceed anticipated losses. Additionally, at March 31, 2003 and 2002, as is customary, the Company had performance bond guarantees and stand-by letters of credit outstanding which aggregated approximately $150 million and $66 million, respectively.

9. Legal Matters

Mitsui USA's subsidiary, Bioproducts Inc., which produces choline chloride, an ingredient used in animal feed and pet foods, was named as a defendant in currently pending lawsuits together with other third party choline chloride manufacturers. In these cases, manufacturers of choline chloride allegedly violated U.S. antitrust laws.

Although Mitsui USA and Mitsui Japan (collectively, ''Mitsui'') are neither manufacturers nor sellers of choline chloride in the U.S., they were also named as defendants together with the manufacturers in a class action lawsuit, based on the plaintiffs' allegation that Mitsui was involved in the violation of the antitrust laws. During the course of legal proceedings, Mitsui has consistently denied and continues to deny any wrongdoing. However, on June 13, 2003, in the trial before the Federal District Court for the District of Columbia, the jury rendered a verdict against Mitsui and the other defendants in the amount of $49.5 million, which amount is trebled pursuant to the U.S. antitrust laws to $148.5 million, plus legal fees and court costs. Thus far, judgment has not yet been entered. If and when entered, the judgment will be joint and several against Mitsui and the other defendants.

Mitsui continues to argue that the allegations in this case are completely without merit and intends to ask the Court to overrule the verdict rendered against Mitsui. While there can be no assurance as to the outcome, the Company's management believes at this moment that the amount the Company may ultimately be required to pay in this lawsuit will not have a material adverse effect on the Company's consolidated financial position or liquidity.

All other related lawsuits, where Mitsui and Bioproducts Inc. are named as defendants, are pending.

The Company also is a defendant in various other claims and legal actions arising out of the conduct of the Company's businesses. Although some claims and actions are in a preliminary stage and definitive conclusions cannot be made as to those claims and actions, the Company is of the opinion that, based on information presently available, such claims and legal actions will not have a material adverse effect on the Company's consolidated 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 or, if quoted prices are unavailable, 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.

Financial Commitments: The Company provides various guarantees and financial commitments for its customers and associated companies in the ordinary course of business, which include letters of credit and financial guarantees, among others. For financial guarantees of indebtedness and financial commitments issued on or prior to December 31, 2002, liabilities are recorded when, and if, payments become probable and estimable. Pursuant to the requirements of FIN 45, certain guarantees and financial commitments that are issued or modified after December 31, 2002 are to be initially recorded on the balance sheet at fair value on a prospective basis. During the three-month period ended March 31, 2003, the fair value of guarantees issued by the Company was not material.

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 summarize the carrying amount and fair market values of financial instruments as of March 31, 2003 and 2002:

	March 31, 2003	
	Carrying Amount	Estimated Fair Value
	Assets (Liabilities) (In Thousands)	
Assets:		
Marketable securities and other investments	$ 167,975	$ 167,975
Noncurrent advances, receivables and other	35,077	35,077
Liabilities:		
Debt	(1,882,611)	(1,882,611)
Derivative financial instruments:		
Assets	53,322	53,322
Liabilities	(68,117)	(68,117)

	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)

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, 2003 and 2002, for the year ended March 31, 2003 and for the fifteen-month period ended March 31, 2002:

	Iron and Steel	Non-Ferrous Metals	Machinery	Chemicals	Foods	Energy, Real Estate & Other	Corporate	Total
March 31, 2003 (In Thousands)								
Total Trade Transactions	$1,254,953	$ 922,471	$ 716,690	$1,765,891	$1,299,284	$2,761,738	$ —	$8,721,027
Revenue—Gross Trading Profit	64,353	17,733	30,643	95,924	33,943	60,945	49	303,590
Net Income (Loss)	12,960	2,977	(741)	(272)	9,289	11,417	(19,988)	15,642
Total Assets	336,003	169,452	780,236	552,584	242,649	456,719	896,775	3,434,418

	Iron and Steel	Non-Ferrous Metals	Machinery	Chemicals	Foods	Energy, Real Estate & Other	Corporate	Total
March 31, 2002 (In Thousands)								
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

All of the Company's segments derive a significant portion of trade transactions from Mitsui Japan and its affiliates. For the year ended March 31, 2003 and for the fifteen-month period ended March 31, 2002, total trade transactions with Mitsui Japan and its affiliates represent approximately 30 percent and 33 percent, respectively, of total trade transactions. Other than 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 year ended March 31, 2003 and for the fifteen-month period ended March 31, 2002:

	March 31, 2003	March 31, 2002
	(In Thousands)	
United States	$4,898,908	$5,080,928
Japan	1,783,410	2,349,187
Other foreign countries	2,038,709	2,136,130
Total	$8,721,027	$9,566,245

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