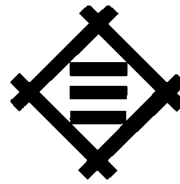

ANNUAL REPORT 2006

April 1, 2005 - March 31, 2006

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, 2006 and 2005, and the related consolidated statements of income, shareholder's equity and cash flows for the years then ended. 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 generally accepted auditing standards as established by the Auditing Standards Board (United States) and in accordance with the auditing standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Mitsui & Co. (U.S.A.), Inc. and subsidiaries at March 31, 2006 and 2005, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 15 to the consolidated financial statements, the accompanying consolidated balance sheet as of March 31, 2005 and the related consolidated statement of cash flows for the year then ended have been restated.

Deloitte & Touche LLP

New York, NY
August 8, 2006

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

CONSOLIDATED BALANCE SHEETS

MARCH 31, 2006 AND 2005

	March 31, 2006	March 31, 2005
	(In Thousands)	(As restated)
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents (Note 1)	$ 144,973	$ 106,206
Marketable securities (Notes 1, 3 and 13)	5,975	6,510
Accounts and notes receivable (Notes 1 and 13):		
Customers	774,012	781,838
Parent and affiliated companies (Note 15)	785,319	927,392
Allowance for doubtful receivables	(6,173)	(18,407)
Inventories (Note 1)	947,442	904,872
Advance payments to suppliers	8,851	12,156
Other current assets	166,392	238,443
Total current assets	2,826,791	2,959,010
INVESTMENTS:		
Investment in and advances to associated companies (Notes 1 and 3)	401,806	421,649
Financing leases (Note 8)	505,100	518,449
Other investments (Notes 1, 3 and 13)	106,662	117,237
Property leased to others—net (Note 8)	98,860	92,985
Total investments	1,112,428	1,150,320
PROPERTY AND EQUIPMENT—NET (Notes 1 and 4)	285,145	253,112
NONCURRENT ADVANCES, RECEIVABLES AND OTHER—NET (Notes 5, 9 and 13)	121,490	166,405
Total	$4,345,854	$4,528,847

See Notes to Consolidated Financial Statements.

(continued)

CONSOLIDATED BALANCE SHEETS

MARCH 31, 2006 AND 2005

	March 31,	
	2006	2005
	(In Thousands)	(As restated)
LIABILITIES AND SHAREHOLDER'S EQUITY		
CURRENT LIABILITIES:		
Notes, acceptances and accounts payable:		
Trade creditors	$ 707,550	$ 653,514
Parent and affiliated companies (Note 15)	294,481	360,779
Other	955	827
Notes and loans payable (Notes 6 and 13)	527,951	689,216
Advances received on contracts	18,373	8,753
Current maturities of long-term debt (Notes 6 and 13)	426,330	300,144
Accrued taxes on income	9,420	2,944
Accrued expenses and sundry	207,152	232,501
Total current liabilities	2,192,212	2,248,678
LONG-TERM DEBT, LESS CURRENT MATURITIES (Notes 6 and 13)	1,152,264	1,434,716
CAPITAL LEASE OBLIGATIONS (Note 8)	74,674	74,305
DEFERRED INCOME TAXES (Note 7)	167,157	144,038
OTHER LIABILITIES (NOTE 9)	105,126	57,966
COMMITMENTS AND CONTINGENCIES (Notes 7, 8, 10, 11, 12 and 13)		
MINORITY INTEREST IN SUBSIDIARIES	95,299	64,304
SHAREHOLDER'S EQUITY:		
Capital stock, no par value, authorized and outstanding, 1,000 shares	350,000	350,000
Retained earnings	212,746	156,860
Accumulated other comprehensive loss (Notes 1, 3, 9 and 12)	(3,624)	(2,020)
Shareholder's equity	559,122	504,840
Total	$4,345,854	$4,528,847

See Notes to Consolidated Financial Statements. (concluded)

CONSOLIDATED STATEMENTS OF INCOME

MARCH 31, 2006 AND 2005

	March 31, 2006	March 31, 2005
	(In Thousands)	
REVENUES (NOTES 1, 12 and 14)		
SALES OF PRODUCTS	$6,319,465	$5,453,321
SALES OF SERVICES	249,870	156,341
OTHER SALES	74,557	71,096
TOTAL REVENUES	6,643,892	5,680,758
[TOTAL TRADING TRANSACTIONS 2006—$12,401,487,000 2005—$12,468,059,000]		
COST OF REVENUES (NOTES 1, 12 and 14)		
COST OF PRODUCTS SOLD	6,078,337	5,213,574
COST OF SERVICES SOLD	11,463	10,763
COST OF OTHER SALES	53,670	58,347
TOTAL COST OF REVENUES	6,143,470	5,282,684
GROSS PROFIT (Notes 1 and 14)	500,422	398,074
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	(308,123)	(279,747)
INTEREST EXPENSE (NET OF INTEREST INCOME OF $79,007,000 AND $56,011,000 for the Years Ended March 31, 2006 and 2005, respectively) (Note 1)	(26,353)	(417)
OTHER INCOME—NET (NOTES 4 and 12)	31,239	31,789
INCOME BEFORE INCOME TAXES, MINORITY INTEREST IN EARNINGS OF SUBSIDIARIES AND EQUITY IN EARNINGS OF ASSOCIATED COMPANIES	197,185	149,699
PROVISION FOR INCOME TAXES (Notes 1 and 7)	65,536	59,489
INCOME BEFORE MINORITY INTEREST IN EARNINGS OF SUBSIDIARIES AND EQUITY IN EARNINGS OF ASSOCIATED COMPANIES	131,649	90,210
MINORITY INTEREST IN EARNINGS OF SUBSIDIARIES	(47,301)	(22,437)
EQUITY IN EARNINGS OF ASSOCIATED COMPANIES—NET (AFTER INCOME TAX EFFECT) (Note 1)	13,390	33,366
NET INCOME	$ 97,738	$ 101,139

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDER'S EQUITY

MARCH 31, 2006 AND 2005

(In Thousands)

	Comprehensive Income	Capital Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholder's Equity
Balance, April 1, 2004		$350,000	$ 90,251	$ 4,942	$445,193
Comprehensive income:					
Net income	$101,139		101,139		101,139
Other comprehensive income (loss):					
Foreign currency translation adjustments	3,277			3,277	3,277
Unrealized gain on derivatives used as cash flow hedges, net of tax of $328	611			611	611
Unrealized loss on marketable securities, net of tax of $1,738	(2,656)			(2,656)	(2,656)
Reclassification adjustments on marketable securities, net of tax of $4,440	(6,660)			(6,660)	(6,660)
Minimum pension liability adjustments, net of tax of $1,022	(1,534)			(1,534)	(1,534)
Comprehensive income	$ 94,177				
Dividends declared			(38,000)		(38,000)
Reorganization of certain subsidiaries, etc.			3,470		3,470
Balance March 31, 2005		350,000	156,860	(2,020)	504,840
Comprehensive income:					
Net income	$ 97,738		97,738		97,738
Other comprehensive income (loss):					
Foreign currency translation adjustments	578			578	578
Unrealized loss on derivatives used as cash flow hedges, net of tax of $1,053	(1,326)			(1,326)	(1,326)
Unrealized gain on marketable securities, net of tax of $3,179	4,839			4,839	4,839
Reclassification adjustments on marketable securities, net of tax of $5,203	(7,804)			(7,804)	(7,804)
Minimum pension liability adjustments, net of tax of $1,405	2,109			2,109	2,109
Comprehensive income	$ 96,134				
Dividends declared			(40,000)		(40,000)
Reorganization of certain subsidiaries, etc.			(1,852)		(1,852)
Balance, March 31, 2006		$350,000	$212,746	$(3,624)	$559,122

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

MARCH 31, 2006 AND 2005

	March 31,	
	2006	2005
	(In Thousands)	(As restated)
Cash Flows From Operating Activities:		
Net income	$ 97,738	$ 101,139
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, depletion and amortization	55,603	70,169
Provision for losses on receivables, etc.	(4,916)	1,924
Gain on sales of marketable securities and other—net	(40,980)	(9,797)
Loss on write-down of investments	3,043	7,890
Financing leases	(25,725)	(29,813)
Equity in earnings of associated companies—net, less dividends received	(1,246)	22,027
Deferred income taxes	14,844	41,677
Minority interest in subsidiaries	47,301	22,437
Gain on sales of fixed assets	(20,703)	(22,580)
Loss on sales of fixed assets	1,311	2,511
Impairment loss on fixed assets	16,444	3,550
Other	732	3,753
Changes in operating assets and liabilities:		
Decrease in accounts and notes receivable (Note 15)	137,458	16,519
Increase in inventories	(42,570)	(343,337)
Decrease in advance payments to suppliers	3,305	292
Decrease (increase) in other current assets	62,678	(76,349)
Decrease (increase) in noncurrent advances, receivables and other	15,672	(20,969)
Increase in notes, acceptances and accounts payable (Note 15)	25,866	91,071
Increase (decrease) in advances received on contracts	9,620	(13,823)
Increase (decrease) in accrued taxes on income	6,476	(20,295)
(Decrease) increase in accrued expenses and sundry	(38,653)	135,618
Increase in noncurrent other liabilities	8,488	48,364
Net cash provided by operating activities	331,786	31,978
Cash Flows From Investing Activities:		
Decrease in marketable securities and other investments	35,236	73,428
Decrease (increase) in investments in and advances to associated companies	27,933	(138,283)
Acquisition of business	—	(86,621)
Proceeds from financing leases	64,470	34,890
Issuance of financing leases	(43,796)	—
Proceeds from sales of fixed assets	34,122	48,018
Capital expenditures	(105,393)	(63,330)
Net cash provided by (used in) investing activities	12,572	(131,898)
Cash Flows From Financing Activities:		
Decrease in short-term notes and loans payable	(149,490)	(11,892)
Issuance of long-term debt	361,428	626,911
Payments on long-term debt	(422,935)	(444,857)
Repayment of capital lease obligations	(288)	—
Minority interest in subsidiaries	(16,306)	(6,925)
Dividends paid	(78,000)	(52,000)
Net cash (used in) provided by financing activities	(305,591)	111,237
Net Increase in Cash and Cash Equivalents	38,767	11,317
Cash and Cash Equivalents, Beginning of Year	106,206	94,889
Cash and Cash Equivalents, End of Year	$ 144,973	$ 106,206
Supplemental Cash Flow Information:		
Interest paid	$ 96,594	$ 52,280
Income taxes paid	$ 25,575	$ 14,992

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 products, iron & raw materials and non-ferrous metals, machinery & project, chemicals, energy, foods, and life style, consumer services & other, each having a diverse customer base.

Total trading transactions, as presented in the accompanying Consolidated Statements of Income, is a voluntary disclosure as permitted by Emerging Issues Task Force (“EITF”) Issue No. 99-19, and represents the gross transaction volume or the aggregate nominal value of the sales contracts in which the Company acts as principal and transactions in which the Company serves as agent. Total trading transactions should not be construed as equivalent to, or a substitute or a proxy for, revenues, or as an indicator of the Company’s operating performance, liquidity or cash flows generated by operating, investing or financing activities. The Company has included the gross transaction volume information because similar Japanese trading companies have generally used it as an industry benchmark. As such, management believes that total trading transactions is a useful supplement to the results of operations information for users of the consolidated financial statements.

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 coffee and grain) are stated at an amount which approximates cost. At March 31, 2006 and 2005, such commodities inventories comprise approximately 1.1 percent and 0.2 percent, respectively, of total inventories.

SECURITIZATION OF ACCOUNTS RECEIVABLE

The Company had an asset-backed securitization facility that was discontinued on March 31, 2006. Under this securitization facility, certain accounts receivable were sold through a wholly-owned special purpose entity to a third party. The securitization facility allowed for the Company to sell eligible accounts receivable on a monthly revolving basis.

At March 31, 2005, the unpaid balance of accounts receivable sold was $94 million. The Company continued to service these receivables and maintained a retained interest in the receivables sold during the current year.

As of March 31, 2005, the retained interest in the receivables sold totaled $50.4 million. The retained interest did not have a readily available market value. The initial fair value of the retained interest approximated the carrying value of the excess receivables sold to the wholly-owned special purpose entity over the amount funded to the Company because the receivables sold were strictly limited to those of creditworthy obligors. Obligor payment histories are reviewed monthly and receivables deemed not to be creditworthy are replaced with higher quality receivables on a revolving basis. In addition, the wholly-owned special purpose entity received payment for the receivables sold shortly after the date purchased. More than 85% of the receivables sold were due within 90 days of the original billing date. A

subsequent fair value remeasurement of the retained interest was made if any significant change in credit risk exposure of the receivables sold occurred before the next monthly review date.

In connection with the sale of accounts receivable, the Company recorded a loss, net of interest income, of $1.1 million and $1.4 million for the years ended March 31, 2006 and 2005, respectively.

INVESTMENTS AND MARKETABLE SECURITIES

The Company classifies certain investments in marketable securities 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 loss on a net-of-tax basis in accordance Statement of Financial Accounting Standards (''SFAS'') No. 115, ''Accounting for Certain Investments in Debt and Equity Securities''. Non-marketable equity securities are carried at cost. When an other-than-temporary decline in the value of a non-marketable equity security below its cost occurs, the investment is reduced to its fair market value and an impairment loss is recognized. Various factors, such as the financial condition and the near-term prospects of the issuer, are reviewed to judge whether it is an other-than-temporary decline. 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

In accordance with SFAS No. 133, ''Accounting for Derivative Instruments and Hedging Activities,'' as amended by SFAS No. 138, ''Accounting for Certain Derivatives Instruments and Certain Hedging Activities—an amendment of FASB Statement No. 133,'' and SFAS No. 149, ''Amendment of Statement 133 on Derivative Instruments and Hedging Activities,'' all derivative instruments are recognized and measured at fair value as either assets or liabilities in the consolidated balance sheets.

The Company enters into agreements for derivative commodity instruments, such as futures, forwards, options and swap contracts, as a part of its trading activities, principally for non-ferrous metals, petroleum products 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 as sales of products or cost of products sold when the hedged transactions affect earnings. Changes in the fair value of the ineffective portion of the hedges, as well as in commodity derivative instruments that do not meet the hedge requirements of SFAS No. 133, are recognized in sales of products or cost of products sold immediately.

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 interest expense as offsets to changes in the fair value of the hedged items. Changes in the fair value of the ineffective portion of the hedges are recognized in interest expense immediately.

Changes in the fair value of foreign exchange forward contracts and currency swap agreements, designated and effective as cash flow hedges for changes in the cash flows of 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 accumulated other comprehensive (loss) income and reclassified into earnings as foreign exchange gains or losses when the hedged transactions affect earnings. Changes in the fair value of the ineffective portion of the hedges are recognized in foreign exchange gains or losses immediately.

Changes in the fair value of derivative financial instruments for which hedge requirements are not met under SFAS No. 133 are recognized currently in interest expense for interest rate swap agreements and in other income—net for foreign exchange forward contracts and currency swap agreements.

PROPERTY AND EQUIPMENT

Property and equipment are recorded at cost. Depreciation of property and equipment is provided over the estimated useful lives (ranging from 3 to 33 years) of the property and equipment using primarily the straight-line method. Leasehold improvements are amortized using the straight-line method over the lesser of the useful life of the improvement or the term of the underlying lease. Significant renewals and additions are capitalized at cost. Maintenance, repairs, and minor renewals and betterments are charged to expense as incurred.

GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill and other intangible assets arise principally from business acquisitions and are recorded in other non-current advances, receivables, and other—net. Goodwill represents the excess of the purchase price over the fair value of identifiable net assets acquired. Other intangible assets include primarily customer relationships, trademarks, patents and other technology. The fair value of identifiable intangible assets is estimated based upon discounted future cash flow projections. Other intangible assets are amortized on a straight-line basis over their estimated economic lives (ranging from 5 to 20 years). In accordance with SFAS No. 142, ''Goodwill and Other Intangible Assets,'' goodwill is not amortized but tested for impairment annually or more frequently if impairment indicators arise. Identifiable intangible assets with a finite useful life are amortized over their respective estimated useful lives and reviewed for impairment in accordance with SFAS No. 144, ''Accounting for the Impairment or Disposal of Long-Lived Assets'' (''SFAS No. 144''). Any identifiable intangible asset determined to have an indefinite useful life is not amortized, but instead tested for impairment in accordance with SFAS No. 142 until its useful life is determined to be no longer indefinite.

RECOVERABILITY OF LONG-LIVED ASSETS

In accordance with SFAS No. 144, 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 future undiscounted cash flows, profitability and other factors, such as business plans. When the 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.

REVENUE PRESENTATION

The Company recognizes revenues when they are realized or realizable and earned. Revenues are realized or realizable and earned when the Company 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. In addition to this general policy, the following are specific revenue recognition policies:

Sales of products

Sales of products include the sales of various products as a principal in the transactions and the manufacture and sale of a wide variety of products such as metals, chemicals, foods and general consumer merchandise. The Company recognizes those revenues at the time the delivery conditions agreed with customers are met. These conditions are usually considered to have been met when the goods are received by the customer or the title to the warehouse receipts is transferred.

Sales of services

Sales of services include the revenues from trading margins and commissions related to various trading transactions in which the Company acts as a principal or an agent. Specifically, the Company charges a commission for the performance of various services, such as logistic and warehouse services, information services and technical support. For some back-to-back sales and purchase transactions of

products, the Company acts as an agent and records the net amount of sales and purchase prices as revenues. The Company also facilitates conclusion of contracts between manufacturers and customers and deliveries for products between suppliers and customers. The Company recognizes revenues from services-related businesses when the contracted services are rendered to third-party customers pursuant to the agreements.

Other sales

Other sales principally include the revenues from the leasing of petrochemical tanks.

INCOME TAXES

Income tax expense is based on reported earnings before income taxes. Deferred income taxes reflect the impact of temporary differences between assets and liabilities recognized for financial reporting purposes and such amounts recognized for tax purposes and tax loss carryforwards. These deferred taxes are measured using the currently enacted tax rates in effect for the year in which the temporary differences or tax loss carryforwards are expected to reverse. Valuation allowances are established when it is more likely than not that some or all of the deferred tax assets will not be recognized.

The Company's Federal income tax return is prepared on a consolidated basis. Provision for income taxes on undistributed earnings of associated companies accounted for under the equity method 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 reclassification adjustments) on a net of tax basis where applicable. Accumulated other comprehensive income (loss), which is the cumulative amount of other comprehensive income (loss), is a separate component of total shareholder's equity.

GUARANTEES

In accordance with Financial Accounting Standards Board (''FASB'') Interpretation (''FIN'') No. 45, ''Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others—an Interpretation of FASB Statements No. 5, 57 and 107 and the rescission FASB Interpretation No. 34,'' the Company recognizes, at the inception of a guarantee, a liability for the fair value of the obligation undertaken for the guarantee issued or modified after December 31, 2002.

RECLASSIFICATIONS

Certain reclassifications have been made to the 2005 consolidated financial statements to conform to the current year presentation.

NEW ACCOUNTING STANDARDS

The meaning of other-than-temporary impairment and its application to certain investments

During the year ended March 31, 2006, the Company adopted FASB Staff Position (''FSP'') Nos. FAS 115-1 and FAS 124-1, ''The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments.'' FSP Nos. FAS 115-1 and FAS 124-1 provide guidance on determining when an investment is considered impaired, whether that impairment is other than temporary, and the measurement of an impairment loss. FSP Nos. FAS 115-1 and FAS 124-1 also include accounting considerations subsequent to the recognition of an other-than-temporary impairment and require certain quantitative and qualitative disclosures about unrealized losses on debt and equity securities. The effect

of the adoption of this guidance on the Company's consolidated financial position and results of operations was immaterial.

Inventory costs

In November 2004, the FASB issued SFAS No. 151, "Inventory Costs—an amendment of ARB No. 43, Chapter 4." SFAS No. 151 requires that abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage) should be recognized as current period charges. In addition, SFAS No. 151 requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. SFAS No. 151 is effective for inventory costs incurred during fiscal years beginning after June 15, 2005. The effect of the adoption of this statement on the Company's consolidated financial position and results of operations is not currently known and cannot be reasonably estimated until further analysis is completed.

Exchanges of nonmonetary assets

During the year ended March 31, 2006, the Company adopted SFAS No. 153, "Exchanges of Nonmonetary Assets—an amendment of APB Opinion No. 29." SFAS No. 153 eliminates the exception to fair value measurement for nonmonetary exchanges of similar productive assets and replaces it with a general exception to fair value measurement for exchanges of nonmonetary assets that do not have commercial substance. A nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. The effect of the adoption of this statement on the Company's consolidated financial position and results of operations was immaterial.

Share-based payment

In December 2004, the FASB issued SFAS No. 123 (revised 2004), "Share-Based Payment" ("SFAS No. 123R"). SFAS No. 123R requires the compensation cost from share-based payment transactions to be recognized in a company's financial statements. The amount of the compensation cost is measured based on the grant-date fair value of the equity instruments issued or the liabilities incurred. In addition, the award of liability instruments will be remeasured at the end of each reporting period. The compensation cost is recognized over the requisite service period. In April 2005, the U.S. Securities and Exchange Commission adopted a new rule which amends the effective dates for SFAS No. 123R. Under the new rule, SFAS No. 123R is effective for fiscal years beginning after June 15, 2005. The effect of the adoption of this statement is not expected to have a material impact on the Company's consolidated financial position and results of operations.

Conditional asset retirement obligations

In March 2005, the FASB issued FIN No. 47, "Accounting for Conditional Asset Retirement Obligations—an interpretation of FASB Statement No. 143." FIN No. 47 clarifies that an entity is required to recognize a liability for the fair value of a legal obligation to perform asset retirement activities that are conditional on a future event if the amount can be reasonably estimated. FIN No. 47 also clarifies when an entity would have sufficient information to reasonably estimate the fair value of an asset retirement obligation. FIN No. 47 was effective for fiscal years ending after December 15, 2005. The effect of the adoption of this interpretation on the Company's consolidated financial position and results of operations was immaterial.

Accounting for purchases and sales of inventory with the same counterparty

In September 2005, the EITF reached a consensus on Issue No. 04-13 ("EITF No. 04-13"), "Accounting for Purchases and Sales of Inventory with the Same Counterparty." EITF No. 04-13 requires that two or more inventory purchase and sales transactions with the same counterparty that are entered into in contemplation of one another should be combined for purposes of applying Accounting Principles Board ("APB") Opinion No. 29, "Accounting for Nonmonetary Transactions." EITF No. 04-13 also requires that all nonmonetary exchanges of inventory within the same line of business other than those whereby an entity transfers finished goods inventory in exchange for the receipt of raw materials or work-in-process inventory should be recognized at the carrying amount of the inventory transferred. EITF No. 04-13 is effective for new arrangements entered into, and modifications or renewals of existing arrangements,

beginning in the first interim or annual reporting period beginning after March 15, 2006. The effect of the adoption of this consensus is not expected to have a material impact on the Company's consolidated financial position and results of operations.

Accounting changes and error corrections

In June 2005, the FASB issued SFAS No. 154, ''Accounting Changes and Error Corrections, a replacement of APB Opinion No. 20 and FASB Statement No. 3.'' This statement replaces APB Opinion No. 20, Accounting Changes, and SFAS No. 3, ''Reporting Accounting Changes in Interim Financial Statements,'' and changes the requirements for the accounting for and reporting of a change in accounting principle. This statement applies to all voluntary changes in accounting principle. It also applies to changes required by an accounting pronouncement in the unusual instance that the pronouncement does not include specific transition provisions. When a pronouncement includes specific transition provisions, those provisions should be followed. This statement is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005.

Accounting for certain hybrid financial instruments

In February 2006, the FASB issued SFAS No. 155, ''Accounting for Certain Hybrid Financial Instruments—an amendment of FASB Statements No. 133 and 140.'' One of the amendments to SFAS No. 133 and SFAS No. 140 is that SFAS No. 155 permits an entity to elect fair value remeasurement for any hybrid financial instrument in its entirety with changes in fair value recognized in earnings, in which the hybrid financial instrument contains an embedded derivative that otherwise would require bifurcation. SFAS No. 155 is effective for all financial instruments acquired, issued, or subject to a remeasurement event occurring after the beginning of an entity's first fiscal year that begins after September 15, 2006. The effect of the adoption of this statement on the Company's consolidated financial position and results of operations is not currently known and cannot be reasonably estimated until further analysis is completed.

Accounting for servicing of financial assets

In March 2006, the FASB issued SFAS No. 156, ''Accounting for Servicing of Financial Assets—an amendment of FASB Statement No. 140.'' SFAS No. 156 requires all separately recognized servicing assets and servicing liabilities to be initially measured at fair value, if practicable, and permits an entity to choose either the amortization method or the fair value measurement method for subsequent measurement of each class of separately recognized servicing assets and servicing liabilities. SFAS No. 156 is effective as of the beginning of its first fiscal year that begins after September 15, 2006. The effect of the adoption of this statement on the Company's consolidated financial position and results of operations is not currently known and cannot be reasonably estimated until further analysis is completed.

2. Business Combination

On December 21, 2004, Cornerstone Research & Development, Inc., a wholly-owned subsidiary of Mitsui USA, agreed with Cornerstone Nutritional Labs, LLC (''Cornerstone'') to take over its business by acquiring substantially all of the assets used in the business for $86.6 million. Cornerstone provides a complete set of manufacturing of nutritional supplements and vitamins, such as raw material sourcing, blending, encapsulation and packaging, in addition to new product development, and sells its products to wholesalers mainly throughout the United States and Canada.

Demand for nutraceuticals in the U.S. market, which is one of the largest supplements markets in the world, has been continuously growing. By acquiring Cornerstone's business through Cornerstone Research & Development, Inc., Mitsui USA, which had sold raw materials for supplements to Cornerstone, has established a series of business structures from raw material sourcing to manufacturing end products and considers that the acquisition will contribute to the Company's business performance. This acquisition is consistent with the Company's core strategy, which focuses on making strategic investments in the medical and health care fields.

The consolidated financial statements for the year ended March 31, 2005 include the operating results of Cornerstone from the date of acquisition.

The purchase price was determined based on the expected future cash flows Cornerstone is expected to generate. The excess of the purchase price over the fair value of net assets acquired was recorded as goodwill. The significant factors that contributed to the determination of the purchase price that resulted in the recognition of goodwill include the following: (1) growth potential of Cornerstone's supplements business due to increased demand by major supplement makers to contract with manufacturers including Cornerstone to provide a complete set of manufacturing and (2) synergies that might be achieved from combining the operations with Mitsui Japan's and Mitsui USA's supplements businesses.

In connection with this acquisition, $42 million and $33 million were assigned to intangible assets subject to amortization and goodwill, respectively. The intangible assets subject to amortization consist primarily of customer relationships of $39 million with an amortization period of ten years.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition:

	(In million)
Current assets	$ 20.5
Property and equipment	2.0
Intangible assets	42.2
Goodwill	33.0
Total assets acquired	97.7
Less: current liabilities acquired	(11.1)
Net assets acquired	$ 86.6

3. Investments and Marketable Securities

At March 31, 2006 and 2005, the cost, fair value and gross unrealized holding gains and losses on available-for-sale securities are as follows:

	(In Thousands)				
			Unrealized Holding Gains (Losses)		
	Cost	Fair value	Gains	Losses	Net
March 31, 2006					
Marketable equity securities	$1,313	$ 5,883	$4,575	$ (5)	$4,570
Debt securities	5,975	5,975	—	—	—
March 31, 2005					
Marketable equity securities	$7,950	$17,924	$9,990	$(16)	$9,974
Debt securities	13,059	13,059	—	—	—

Included in other noncurrent investments at March 31, 2006 and 2005 are investments other than marketable available-for-sale securities which are carried at a cost of $100,779,000 and $92,764,000, respectively.

The proceeds from sales of available-for-sale securities and the gross realized gains and losses on those sales, which are recorded in Other Income—Net, determined using the specific identification method, for the years ended March 31, 2006 and 2005 are shown below:

	March 31,	
	2006	2005
	(In Thousands)	
Proceeds from sales	$23,230	$15,744
Gross realized gains	$13,233	$13,661
Gross realized losses	—	(15)
Net realized gains	$13,233	$13,646

Investments in associated companies (investees owned 20% to 50% and other investees over which the Company has the ability to exercise significant influence) are accounted for under the equity method. Such investments include, but are not limited to, the Company's investments in Mitsui Machinery Distribution, Inc. (50%), Gentris Corporation (44.29%), Mitsui & Co. Precious Metals, Inc. (40%), Wilsey Foods, Inc. (20%) and Raw Materials Development Co., Ltd. (20%). Associated companies are engaged primarily in the manufacture and distribution of various products.

Mitalco Inc. (20%) is primarily engaged in the aluminum smelting business in the United States. Due to Mitalco's inability to negotiate favorable terms during the renewal of power purchase contracts, which would have resulted in a significant adverse effect to smelting costs to Mitalco, the Company recorded a loss of approximately $25 million (net of tax effect) in Equity in Earnings of Associated Companies—Net in the Consolidated Statement of Income for the year ended March 31, 2006.

During May 2006, the Company paid $175 million to Mitsui E&P (USA) LLC (50%) for the acquisition of the oil and gas field assets of Pogo Producing Company. Pogo Producing Company, headquartered in Houston, Texas, is engaged in the exploration, development and production of oil and natural gas reserves.

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

	March 31,	
	2006	2005
	(In Thousands)	
Investments in capital, at cost	$331,672	$294,005
Share of equity earnings—net	68,860	66,504
Advances, etc.	1,274	61,140
Total	$401,806	$421,649

The carrying value of the investments in associated companies exceeded the Company's equity in underlying net assets of such associated companies by $39,641,000 and $39,167,000 at March 31, 2006 and 2005, respectively. The excess is attributed first to certain fair value adjustments on a net-of-tax basis at the time of the initial investment and subsequent investments in those companies, with the remaining portion considered as equity method goodwill. The fair value adjustments are generally attributed to intangible assets which consist primarily of favorable contracts and customer relationships amortized over their respective estimated useful lives (principally 5 to 11 years) using the straight-line method, and franchise rights which are not amortized because of their indefinite useful lives.

Summarized financial information for associated companies at March 31, 2006 and 2005, and for the years then ended are, as follows:

	March 31,	
	2006	2005
	(In Thousands)	
Current assets	$6,366,394	$4,370,201
Property and equipment—net of accumulated depreciation and amortization	728,578	948,001
Other assets	910,090	1,039,258
Total assets	$8,005,062	$6,357,460
Current liabiities	$5,881,259	$4,089,931
Long-term liabilities	1,278,564	1,315,174
Shareholders' equity	845,239	952,355
Total liabilities and shareholders' equity	$8,005,062	$6,357,460
The Company's equity in the net assets of associated companies	$ 360,891	$ 321,342

	March 31,	
	2005	2005
	(In Thousands)	
Revenues	$10,877,970	$13,543,033
Gross profit	2,140,926	1,998,289
Net income	20,618	217,264

4. PROPERTY AND EQUIPMENT

Property and equipment, including those under capital leases (see Note 8), consists of the following:

	March 31	
	2006	2005
	(In Thousands)	
Land and land improvements	$ 36,166	$ 35,188
Building, structures and improvements	400,485	359,942
Equipment and fixtures, including leasehold improvements	168,372	170,798
Total	605,023	565,928
Less—Accumulated depreciation and amortization	(319,878)	(312,816)
Net	$285,145	$253,112

During the year ended March 31, 2006, the Company sold a warehouse in Vernon, California, which resulted in a gain of approximately $9.8 million. The Company also sold a property in Scarsdale, New York, which resulted in a gain of approximately $3.4 million.

During the year ended March 31, 2005, the Company sold a part of its warehouse property in Long Beach, California, including a warehouse building and land, which resulted in a gain of approximately $17 million.

During the years ended March 31, 2006 and 2005, the Company recorded impairment losses of approximately $16.4 million and $3.6 million, respectively, which are included in Other Income—Net on the consolidated statements of income. The Company's operating cash flow forecasts and analyses indicated that the carrying amount of these assets might not be recoverable. Accordingly, the Company reduced the carrying amounts of certain property and equipment to reflect their current fair value, which was computed using the discounted future cash flows.

5. Intangible Assets

Intangible assets subject to amortization at March 31, 2006 and 2005 consist of the following:

	2006		
	Gross Carrying Amount	Accumulated Amortization	Net
		(In Thousands)	
Customer relationships	$39,290	$ 5,017	$34,273
Trademarks	1,910	244	1,666
Noncompete agreement	500	127	373
Proprietary technology	350	89	261
Patented technology	140	9	131
Software	23,891	16,279	7,612
Total	$66,081	$21,765	$44,316

	2005		
	Gross Carrying Amount	Accumulated Amortization	Net
		(In Thousands)	
Customer relationships	$39,290	$ 1,088	$38,202
Trademarks	1,910	53	1,857
Noncompete agreement	500	28	472
Proprietary technology	350	19	331
Patented technology	140	2	138
Software	19,465	12,987	6,478
Total	$61,655	$14,177	$47,478

Total amortization expense on the Company's intangible assets for the years ended March 31, 2006 and 2005 was $7,588,000 and $4,718,000, respectively.

Estimated future amortization expense is as follows:

	(In Thousands)
2007	$ 5,566
2008	5,566
2009	5,566
2010	5,396
2011	5,396
Thereafter	16,826
Total	$44,316

6. Debt and Other Financing Agreements

The Company had commercial paper of approximately $139 million and $99 million outstanding at March 31, 2006 and 2005, respectively. Such commercial paper can be sold on a discount or interest-bearing basis in denominations of not less than the equivalent of $100,000, with maturities of not more than 270 days. Interest rates on such debt were approximately 4.60 to 4.85% at March 31, 2006 and 2.74 to 3.12% at March 31, 2005, respectively.

At March 31, 2006 and 2005, the Company had short-term notes payable of approximately $211 million and $355 million, respectively, and loans payable of approximately $178 million and $235 million, respectively. The weighted-average interest rates on short-term notes and loans payable outstanding at Match 31, 2006 and 2005 were 1.9% and 1.3%, respectively.

Long-term debt is comprised of the following:

	March 31,	
	2006	2005
	(In Thousands)	
Parent and affiliated companies—maturing through 2008—0.02% to 5.35%	$ 22,227	$ 24,916
Other:		
Financial institutions—maturing through 2018 at fixed or floating rates, principally 0.27% to 5.26%	619,595	691,695
Medium-term notes—maturing through 2016, principally at rates of 0.02% to 5.2%	936,772	998,749
Others—maturing through 2007 at 2.3%	—	19,500
Total principal amount	1,578,594	1,734,860
Less—Current maturities	(426,330)	(300,144)
Net	$1,152,264	$1,434,716

The Company has Japanese yen denominated liabilities, which are included in long-term debt (U.S. dollar equivalent of approximately $900 million and $1.1 billion at March 31, 2006 and 2005, respectively).

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

	(In Thousands)
2007	$ 426,330
2008	395,381
2009	171,954
2010	215,150
2011	90,771
Thereafter	279,008
Total	$1,578,594

7. Income Taxes

At March 31, 2006 and 2005, the total of all deferred tax assets were $121,356,000 and $118,710,000, respectively, and the total of all deferred tax liabilities were $264,785,000 and $236,825,000, respectively. At March 31, 2006 and 2005, 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, 2006 and 2005, deferred tax liabilities consisted primarily of the tax effects of accelerated tax depreciation and financing leases.

At March 31, 2006, the Company had net operating loss carryforwards of approximately $35 million for Federal income tax purposes that expire through the year ending March 31, 2024. Based on the periods

in which reversals or taxable temporary differences are expected, the Company is of the opinion that it is more likely than not that the benefit of these deductible differences will be realized before expiration.

The provision for income taxes consists of the following for the years ended March 31, 2006 and 2005:

	March 31, 2006	March 31, 2005
	(In Thousands)	
Current:		
Federal	$39,365	$13,800
State	11,327	4,012
Total current	50,692	17,812
Deferred	14,844	41,677
Total income taxes	$65,536	$59,489

For the years ended March 31, 2006 and 2005, the effective tax rate for the reported amount of income tax expense differs from the domestic Federal statutory rate of 35 percent mainly due to state and local income taxes and certain non-deductible expenses.

For open years (subsequent to 2003), the Company is of the opinion that amounts accrued in the consolidated balance sheets for Federal income taxes are adequate to cover amounts, if any, that may be due as a result of Internal Revenue Service examinations.

8. Leases

The Company is engaged, as a lessor, in lease financing consisting of certain direct financing and leveraged leases, which are classified as investments. Investments in financing leases (primarily collateralized by aircrafts and railcars) are comprised of the following:

	March 31, 2006	March 31, 2005
	(In Thousands)	
Direct financing leases:		
Net minimum lease payments—(approximately $229,139,000 collectible through March 31, 2011 on an approximately ratable annual basis; the remaining balance is collectible through 2021)	$ 597,173	$ 599,943
Estimated unguaranteed residual value of leased assets	135,868	140,283
Less—Unearned income	(270,900)	(271,610)
Allowance for doubtful accounts	(6,253)	(5,541)
Investment in direct financing leases	455,888	463,075
Less—Current portion	(17,355)	(19,208)
Net investment in direct financing leases	$ 438,533	$ 443,867
Leveraged leases:		
Minimum lease payments—(net of principal and interest on third-party nonrecourse debt—approximately $547,000 collectible through March 31, 2011 on an approximately ratable annual basis; the remaining balance is collectible through 2022)	$ 40,105	$ 43,184
Estimated unguaranteed residual value of leased assets	47,636	58,561
Less—Unearned income	(21,174)	(24,449)
Allowance for doubtful accounts	—	(2,714)
Investment in leveraged leases	66,567	74,582
Less—Deferred tax liabilities arising from leveraged leases	(61,788)	(67,530)
Net investment in leveraged leases	$ 4,779	$ 7,052

Future minimum lease payments to be received, by year and in aggregate, from direct financing and leveraged leases with initial or remaining terms of one year or more during the future periods ending March 31 are as follows:

	Direct Financing and Leveraged Leases
	(In Thousands)
2007	$ 46,471
2008	46,460
2009	46,450
2010	46,855
2011	43,450
Thereafter	407,592
Total minimum payments	$637,278

The Company's property under operating leases, by asset class, as of March 31, 2006 and 2005 is as follows:

	March 31, 2006			March 31, 2005		
	Cost	Accumulated depreciation	Net	Cost	Accumulated depreciation	Net
		(In Thousands)			(In Thousands)	
Terminal elevator facilities	$ 77,301	$(36,030)	$41,271	$ 72,103	$(35,110)	$36,993
Railcars	19,910	(1,323)	18,587	19,910	(186)	19,724
Aircraft	18,400	(767)	17,633	12,825	(3,010)	9,815
Warehouse	14,455	(4,069)	10,386	14,253	(3,870)	10,383
Factory facilities	13,660	(5,521)	8,139	13,660	(4,117)	9,543
Other miscellaneous equipment	4,659	(1,815)	2,844	11,625	(5,098)	6,527
Total	$148,385	$(49,525)	$98,860	$144,376	$(51,391)	$92,985

Future minimum payments to be received, by year and in aggregate, from operating leases with initial or remaining terms of one year or more during the future periods ending March 31 are as follows:

	Operating Leases
	(In Thousands)
2007	$11,218
2008	7,732
2009	7,656
2010	5,070
2011	4,716
Thereafter	23,842
Total minimum payments to be received	$60,234

The Company is a lessee in certain capital and operating leases involving primarily equipment and office space. The following is a summary of property and equipment held under capital leases:

	March 31,	
	2006	2005
	(In Thousands)	
Equipment and fixtures, including leasehold improvements	$ 42,277	$ 43,576
Less—Accumulated amortization	(24,904)	(25,429)
Net	$ 17,373	$ 18,147

Future minimum payments, by year and in the aggregate, under capital leases and operating leases, in which the Company is a lessee, 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)	
2007	$ 2,927	$ 76,165
2008	3,122	48,646
2009	2,969	24,720
2010	27,503	16,905
2011	12,821	12,181
Thereafter	44,253	28,657
Total minimum payments required*	93,595	$207,274
Less: Amount representing interest	(18,921)	
Long-term obligations	$ 74,674	

* Minimum payments have not been reduced by minimum sublease rentals of $14,761,000 under operating leases due in the future under noncancelable subleases.

Rental expenses relating to operating leases were $101,839,000 and $85,246,000 for the years ended March 31, 2006 and 2005, respectively. Sublease rental income was $40,579,000 and $41,037,000 for the years ended March 31, 2006 and 2005, respectively.

9. Pension Plan and Other Postretirement Benefits

Net periodic pension and other postretirement benefit costs are comprised of the following for the years ended March 31, 2006 and 2005:

	Pension Benefits March 31,		Other Postretirement Benefits March 31,	
	2006	2005	2006	2005
	(In Thousands)		(In Thousands)	
Service cost	$1,935	$1,787	$223	$255
Interest cost	3,566	3,430	300	375
Expected return on assets	(3,674)	(3,358)	—	—
Amortization of unrecognized amounts:				
Transition obligation	—	—	187	187
Prior service cost	132	197	(73)	(73)
Recognized net actuarial loss	1,501	1,349	—	17
Net periodic cost	$3,460	$3,405	$637	$761

The Company measures the obligations and related asset values for its pension and other postretirement benefit plans as of March 31st of each year.

Changes in the projected benefit obligation, plan assets and funded status are comprised of the following for the years ended March 31, 2006 and 2005, respectively:

	Pension Benefits March 31,		Other Postretirement Benefits March 31,	
	2006	2005	2006	2005
	(In Thousands)		(In Thousands)	
Changes in projected benefit obligation:				
Benefit obligation at beginning of year	$ 63,257	$ 57,145	$ 6,245	$ 7,652
Service cost	1,935	1,787	223	255
Interest cost	3,566	3,430	300	375
Benefits paid	(2,303)	(2,160)	(507)	(476)
Change in plan provisions	168	—	—	(923)
Actuarial (gain) loss	(1,560)	3,055	(1,114)	(638)
Benefit obligation at end of year	$ 65,063	$ 63,257	$ 5,147	$ 6,245
Changes in plan assets:				
Fair value of plan assets at beginning of year	$ 42,121	$ 38,412	$ —	$ —
Actual return on plan assets	3,595	1,950	—	—
Employer contributions	4,000	3,919	—	—
Benefits paid	(2,303)	(2,160)	—	—
Fair value of plan assets at end of year	$ 47,413	$ 42,121	$ —	$ —
Funded status:				
Funded status at end of period	$(17,650)	$(21,136)	$(5,147)	$(6,245)
Unrecognized net loss (gain)	19,257	22,071	(256)	858
Unrecognized prior service cost	499	631	(777)	(850)
Unrecognized transition obligation	—	—	1,313	1,500
Net amount recognized	$ 2,106	$ 1,566	$(4,867)	$(4,737)
Amounts recognized in the consolidated balance sheets consist of:				
Noncurrent advances, receivables and other—net	$ 499	$ 631	$ —	$ —
Other liabilities	(11,373)	(15,559)	(4,867)	(4,737)
Accumulated other comprehensive loss	12,980	16,494	—	—
Total amount recognized	$ 2,106	$ 1,566	$(4,867)	$(4,737)
Assumptions used in the computations are as follows:				
Discount rate	6.00%	5.75%	6.00%	5.75%
Expected long-term rate of return on plan assets	8.50%	8.50%	—	—
Rate of increase in future compensation levels	3.00%	3.00%	—	—

Assumed health care cost trend rates have been used in the valuation of postretirement health insurance benefits. During the year ended March 31, 2006, the medical health care cost trend rate was 8.0%, 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 $5,945,000 or by 15.5%, and the aggregate of the service and interest cost components of the net periodic other postretirement benefit cost would increase from $523,000 to $630,000 or by 20.5%, including life insurance. Decreasing the health care cost trend rate by 1.0% would decrease the total accumulated postretirement benefit obligation to $4,512,000 or by 12.3%, and the aggregate of the service and interest cost components of the net periodic postretirement benefit cost would decrease from $523,000 to $441,000 or by 18.6%, including life insurance.

The Company's pension plan weighted-average asset allocations based on the fair value of such assets as of March 31, 2006 and 2005 are as follows:

	March 31,		
	2006	2005	Target Allocation
Equity Securities:			
Large Capitalization	67.3%	70.5%	55%-85%
Small to Mid-Capitalization	5.2%	5.1%	0%-20%
Debt Securities	13.7%	15.6%	0%-30%
Cash	13.8%	8.8%	0%-30%
Total	100.0%	100.0%	

The expected long-term rate of return is based on the expected return for each of the above categories, weighted based on the median of the target allocation for each asset category. Based on the respective market indices, equity securities are expected to return 8% to 10% over the long-term while cash and fixed income is expected to return between 4% and 6%. The Company expects that the pension plan's asset manager will provide a modest premium to the respective market benchmark indices.

The Company expects to make payments to its pension and other postretirement benefit plans during the years ending March 31 as follows:

	Pension Benefits	Other Postretirement Benefits
	(In Thousands)	
2007	$ 2,668	$ 249
2008	2,882	261
2009	2,944	267
2010	2,990	268
2011	3,144	286
2012-2016	18,392	1,503

The Company also has defined contribution retirement plans covering most employees in the United States. The defined contribution plan expense was $3,384,000 and $3,002,000 for the years ended March 31, 2006 and 2005, respectively.

10. Commitments and Contingencies

At March 31, 2006 and 2005, unused letters of credit amounted to approximately $16 million and $11 million, respectively.

At March 31, 2006 and 2005, commitments to extend additional credit to or invest in various entities aggregated approximately $10 million (through 2020) and $23 million (through 2020), respectively.

The Company customarily enters into long-term purchase contracts (usually with related sales contracts) for certain inventories. At March 31, 2006 and 2005, long-term purchase contracts at fixed or basic purchase prices amounted to approximately $311 million (through 2008) and $242 million (through 2008), 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, 2006 and 2005, the aggregate amount of liabilities related to such guarantees was approximately $99 million and $45 million, respectively, with a maximum potential amount due under these guarantees of $109 million and $68 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, 2006 and 2005, as is customary, the Company had performance bond guarantees and stand-by letters of credit outstanding which aggregated approximately $254 million and $258 million, respectively.

11. Legal Matters

Mitsui USA's 80-percent owned subsidiary Bioproducts Inc. ("Bioproducts"), which had been producing and selling choline chloride, an ingredient used in animal feed and pet foods, was named as a defendant in lawsuits together with other third-party choline chloride manufacturers. In these cases, manufacturers of choline chloride allegedly violated United States antitrust laws.

Although Mitsui USA and Mitsui Japan were neither manufacturers nor sellers of choline chloride in the United States, they were also named as defendants in a class action lawsuit, based on the plaintiffs' allegation that Mitsui USA and Mitsui Japan were also involved in the violation of the United States antitrust laws. During the course of legal proceedings, Mitsui USA and Mitsui Japan consistently denied any wrongdoing. However, in a trial before the Federal District Court for the District of Columbia in June 2003, the jury rendered a verdict stating that the defendants participated in the violation of antitrust laws. Mitsui USA and Mitsui Japan considered undertaking legal proceedings necessary to overrule the verdict, but given the circumstances, it was determined that a settlement with the class plaintiffs would be in the best interest of the companies and their shareholders. Mitsui USA, Mitsui Japan and Bioproducts entered into an agreement for settlement with the class plaintiffs by paying $53 million as a settlement amount. The settlement was subject to court approval, which was obtained on April 27, 2005. A provision for the settlement amount was recorded by Bioproducts during the year ended March 31, 2004 and was included in the Company's consolidated financial statements for the year ended March 31, 2004.

Mitsui USA, Mitsui Japan and Bioproducts were also named as defendants in other lawsuits filed by plaintiffs who opted out of that class action, but entered into an agreement for settlement with most of the plaintiffs in February 2004. Under this settlement, Mitsui USA, Mitsui Japan and Bioproducts were released from the legal proceedings and were required to pay these opt-out plaintiffs $73.5 million as a settlement amount. This amount was paid by Bioproducts in February 2004 and was included in the Company's consolidated financial statements for the year ended March 31, 2004.

For other related lawsuits that are still pending, although there can be no assurance of the ultimate results, management believes that there is less than a reasonable possibility that losses in addition to amounts that have been reserved for possible litigation losses will occur, and that the amount, if any, of any such additional losses would not have a material impact on the consolidated financial position, results of operations or cash flows of the Company.

The Company is also 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 the information presently available, such claims and legal actions, including those referred to above, will not have a material adverse effect on the Company's consolidated financial position, results of operations or cash flows.

12. Derivatives Instruments and Hedging Activities

The Company is exposed to market risks related to foreign currency exchange rates, interest rates and commodity prices in the ordinary course of business. In order to offset or reduce these risks, the Company uses derivative instruments, such as foreign exchange forward contracts, currency swap agreements, interest rate swap agreements, commodity futures, forward, option and swap contracts to hedge the exposure to changes in the fair value or expected future cash flows of recognized assets and liabilities, unrecognized firm commitments and forecasted transactions.

At March 31, 2006, the Company had oil swap agreements maturing through December 31, 2006 with notional quantities of 607,000 metric tons and 7,437,000 barrels, to pay variable prices and receive fixed prices. The Company also had oil swap agreements maturing through December 31, 2006 with notional quantities of 179,000 metric tons and 5,319,000 barrels, to pay fixed prices and receive variable prices. The Company also had interest rate and currency swap agreements maturing through September 30,

2017 with an aggregate notional amount of approximately $1,577,615,000. The net unrealized loss and fair value of such open swap agreements at March 31, 2006 was approximately $72,955,000.

At March 31, 2005, the Company had oil swap agreements maturing through December 31, 2005, with notional quantities of 405,000 metric tons and 4,217,000 barrels, to pay variable prices and receive fixed prices. The Company also had oil swap agreements maturing through December 31, 2005, with notional quantities of 426,000 metric tons and 2,473,000 barrels, to pay fixed prices and receive variable prices. The Company also had interest rate and currency swap agreements maturing through March 9, 2015 with an aggregate notional amount of approximately $1,699,796,000. The net unrealized gain and fair value of open swap agreements at March 31, 2005 was approximately $43,807,000.

At March 31, 2006, the Company had outstanding forward physical contracts for petroleum products purchases and sales of approximately $280,201,000 and $390,251,000, respectively, with an unrealized gain of approximately $9,074,000. A portion of these contracts contain an option feature on the volume of purchase or sale of petroleum products. At March 31, 2006, the unrealized gain on options in the forward physical contracts for petroleum products totaled approximately $648,000.

At March 31, 2005, the Company had outstanding forward physical contracts for petroleum products purchases and sales of approximately $418,367,000 and $306,213,000, respectively, with an unrealized loss of approximately $3,738,000. A portion of these contracts contain an option feature on the volume of purchase or sale of petroleum products. At March 31, 2005, the unrealized gain on options in the forward physical contracts for petroleum products totaled approximately $609,000.

At March 31, 2006 and 2005, the Company had net mark to market adjustments on petroleum products futures and options agreements with unrealized losses of approximately $13,328,000 and $7,880,000, respectively.

Derivative instruments recorded as assets amounted to approximately $18,120,000 and $119,468,000 at March 31, 2006 and 2005, respectively. Derivative instruments recorded as liabilities amounted to $94,594,000 and $49,544,000 at March 31, 2006 and 2005, respectively.

The Company designates certain future contracts, interest rate swaps, currency swaps, paper swaps, and forward physical contracts as fair value hedges when the hedging instrument is highly effective in offsetting the risk of changes in the fair value of hedged item. The hedge strategies represent fair value hedges of the variable price risk associated with exposure to fluctuations in the prices of petroleum-related products primarily related to inventories and interest rate and foreign exchange rate exposure. For all derivatives designated as fair value hedges, the Company documents the relationship between the hedging instrument and the hedged item, as well as the risk management objective and strategy for using the hedging instrument. The Company assesses whether a change in the value of the designated derivative is highly effective in achieving offsetting changes in fair value of hedged items both at the inception of the hedge and on an ongoing basis. The Company utilizes regression analysis and pricing models to determine hedge effectiveness. Changes in the fair value of such derivative financial instruments and changes in the fair value of hedged assets attributable to the hedged risk which are determined to be effective are recorded in current period earnings. Accordingly, the net amount recorded in the Company's consolidated statements of income is referred to as hedge ineffectiveness. During the years ended March 31, 2006 and 2005, the Company recognized losses of approximately $5,861,000 and $6,804,000, respectively, related to hedge ineffectiveness in the accompanying consolidated statements of income. Losses on the above derivative financial instruments are recognized in net income and are included in cost of products sold and other income (loss) in the accompanying consolidated statements of income.

The Company designates certain future contracts and paper swaps as cash flow hedges when the hedging instrument is highly effective in offsetting the exposure of variations in cash flows for the forecasted sale transactions. Anticipated transactions must be probable of occurrence, and their significant terms and characteristics must be identified. For hedging instruments used in cash flow hedges, the Company documents the relationship between the hedging instrument and the hedged item (forecasted purchases and sales of petroleum products), as well as the risk management objective and strategy for using the hedging instrument. The Company assesses whether a change in the value of the designated derivative is highly effective in achieving offsetting cash flows attributing to the hedged item, both at the inception of the hedge and on an ongoing basis. Any changes in fair value of derivatives that are considered highly effective are reported in accumulated other comprehensive loss (''AOCL''), while

changes in fair value of derivatives that are not effective are recognized currently in earnings as sales of products or cost of products sold. Amounts recorded in AOCL are recognized in earnings during the period that the hedged items are recognized in earnings. At March 31, 2006, the Company had an unrealized loss of approximately $1,326,000 (net of tax benefit) in accumulated other comprehensive loss related to designated cash flow hedges. The net loss of $1,326,000 included in AOCL is expected to be reclassified from AOCL and to be recognized in earnings during the next twelve months. The actual amounts that will be recognized in earnings during the next twelve months will vary from the expected amounts as a result of changes in market prices. Most of the designated hedging instruments as of March 31, 2006 have a term of less than 12 months. When it is determined that a derivative is not highly effective as a hedge, that it has ceased to be a highly effective hedge or a hedged forecasted transaction is no longer probable, the Company discontinues the use of hedge accounting.

13. Risk Management and Fair Value of Financial Instruments

As explained in Notes 1 and 12, 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 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 other 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. The 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. The 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 No. 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 years ended March 31, 2006 and 2005, 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, 2006 and 2005:

	March 31, 2006	
	Carrying Amount	Estimated Fair Value
	Assets (Liabilities) (In Thousands)	
Assets:		
Marketable securities and other investments	$ 11,858	$ 11,858
Noncurrent advances, receivables and other	38,559	38,559
Liabilities:		
Debt	(2,106,545)	(2,106,545)
Derivative financial instruments:		
Assets	18,120	18,120
Liabilities	(94,594)	(94,594)

	March 31, 2005	
	Carrying Amount	Estimated Fair Value
	Assets (Liabilities) (In Thousands)	
Assets:		
Marketable securities and other investments	$ 30,983	$ 30,983
Noncurrent advances, receivables and other	41,288	41,288
Liabilities:		
Debt	(2,424,076)	(2,424,076)
Derivative financial instruments:		
Assets	119,468	119,468
Liabilities	(49,544)	(49,544)

14. Business Segments

The Company's principal business activities have been classified into the following operating segments: Steel Products, Iron & Raw Materials and Non-Ferrous Metals, Machinery & Project, Chemicals, Energy, Foods, Life Style, Consumer Service & Other and Corporate Adjustments & Eliminations.

The media-related business oriented to consumers was transferred to "Life Style, Consumer Service & Other" from "Machinery & Project". The operating segment information for the year ended March 31, 2005 has been restated to conform to the current year presentation.

Business segments are based on products and services for sale. The following are those amounts which are based on products and services for sale and are used by the Company in managing its business for the years ended March 31, 2006 and 2005:

	Steel Products	Iron & Raw Materials and Non-Ferrous Metals	Machinery & Project	Chemicals	Energy	Foods	Life Style, Consumer Service & Other	Corporate Adjustments & Eliminations	Total
March 31, 2006									
(In Thousands)									
Total Trading Transactions	$2,298,811	$304,541	$403,521	$2,299,056	$5,143,306	$1,559,802	$448,772	$ (56,322)	$12,401,487
Gross Profit	164,214	1,947	16,712	108,157	146,358	35,815	25,595	1,624	500,422
Net Income (Loss)	47,609	(23,384)	8,105	(9,234)	28,830	11,346	25,286	9,180	97,738
Total Assets	820,998	50,613	918,189	794,012	710,907	316,313	401,610	333,212	4,345,854

	Steel Products	Iron & Raw Materials and Non-Ferrous Metals	Machinery & Project	Chemicals	Energy	Foods	Life Style, Consumer Service & Other	Corporate Adjustments & Eliminations	Total
March 31, 2005									
(In Thousands)									
Total Trading Transactions	$2,357,816	$803,243	$571,314	$2,433,600	$4,285,109	$1,555,324	$614,453	$ (152,800)	$12,468,059
Gross Profit	132,856	25,087	20,685	99,472	33,390	32,202	47,897	6,485	398,074
Net Income	30,797	9,722	9,476	5,502	4,627	4,574	29,542	6,899	101,139
Total Assets	866,052	114,487	969,561	801,682	496,860	316,663	405,315	558,227	4,528,847

All of the Company's segments derive a significant portion of trade transactions from Mitsui Japan and its affiliates. For the years ended March 31, 2006 and 2005, total trading transactions with Mitsui Japan and its affiliates represent approximately 25 percent and 27 percent, respectively, of total trading transactions. Other than Mitsui Japan and its affiliates, no other single customer represents a significant portion of the Company's total trading transactions.

The following table provides geographic information for total trading transactions, which is based on the location of customers for the years ended March 31, 2006 and 2005:

	March 31, 2006	March 31, 2005
	(In Thousands)	
United States	$ 8,079,268	$ 7,604,428
Japan	1,573,770	2,090,742
Other foreign countries	2,748,449	2,772,889
Total	$12,401,487	$12,468,059

15. Restatement

Subsequent to the issuance of the Company's consolidated financial statement for the year ended March 31, 2005, the Company determined that certain amounts due from and to the parent and affiliated companies, which had originally been presented on a net basis, should be shown on a gross basis. Accordingly, the consolidated balance sheet as of March 31, 2005 and the related consolidated statement of cash flows for the year then ended have been restated to reflect these amounts on a gross basis.

A summary of the restated amounts included in the 2005 consolidated financial statements is as follows:

	As previously reported	As restated
	(In Thousands)	
Consolidated Balance Sheet:		
Accounts and notes receivable—		
Parent and affiliated companies	$ 566,613	$ 927,392
Notes, acceptances and accounts payable—		
Parent and affiliated companies	—	$ 360,779
Total current assets	$2,598,231	$2,959,010
Total assets	$4,168,068	$4,528,847
Total current liabilities	—	$2,248,678
Consolidated Statement of Cash Flows:		
Cash Flows From Operating Activities—		
Decrease in accounts and notes receivable	$ 32,742	$ 16,519
Increase in notes, acceptances and accounts payable	$ 74,848	$ 91,071

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