16. LEASED ASSETS

The Corporation and certain of its subsidiaries lease gasoline stations, tankers, floating production systems, drilling rigs, office space and other assets for varying periods. At December 31, 2003, future minimum rental payments applicable to noncancelable leases with remaining terms of one year or more (other than oil and gas property leases) are as follows:

Millions of dollars	*Operating Leases*	*Capital Leases*
2004	$ 95	$13
2005	71	13
2006	71	13
2007	71	13
2008	71	2
Remaining years	924	1
Total minimum lease payments	1,303	55
Less: Imputed interest	—	7
Income from subleases	36	—
Net minimum lease payments	$1,267	$48
Capitalized lease obligations		
Current		$10
Long-term		38
Total		$48

Certain operating leases provide an option to purchase the related property at fixed prices.

Rental expense for all operating leases, other than rentals applicable to oil and gas property leases, was as follows:

Millions of dollars	**2003**	2002	2001
Total rental expense	**$190**	$160	$206
Less income from subleases	**52**	34	63
Net rental expense	**$138**	$126	$143

17. FINANCIAL INSTRUMENTS, NON-TRADING AND TRADING ACTIVITIES

On January 1, 2001, the Corporation adopted FAS No. 133, *Accounting for Derivative Instruments and Hedging Activities.* This statement requires that the Corporation recognize all derivatives on the balance sheet at fair value and establishes criteria for using derivatives as hedges.

The January 1, 2001 transition adjustment resulting from adopting FAS No. 133 was a cumulative increase in other comprehensive income of $100 million after income taxes ($145 million before income taxes). Substantially all of the transition adjustment resulted from crude oil and natural gas cash flow hedges. The transition adjustment did not have a material effect on net income or retained earnings.

Non-Trading: The Corporation uses futures, forwards, options and swaps, individually or in combination, to reduce the effects of fluctuations in crude oil, natural gas and refined product selling prices. The Corporation also uses derivatives in its energy marketing activities to fix the purchase prices of commodities to be sold under fixed-price contracts. Related hedge gains or losses are an integral part of the selling or purchase prices. Generally, these derivatives are designated as hedges of expected future cash flows or forecasted transactions (cash flow hedges), and the changes in fair value are recorded in other comprehensive income until the hedged transactions are recognized. The Corporation's use of fair value hedges is not material.

The Corporation reclassifies hedging gains and losses from accumulated other comprehensive income to earnings at the time the hedged transactions are recognized. Hedging decreased exploration and production results by $418 million before income taxes in 2003. Hedging increased exploration and production results before income taxes by $82 million in 2002 and $106 million in 2001 (including $82 million associated with the transition adjustment at the beginning of 2001). The ineffective portion of hedges is included in current earnings in cost of products sold. The amount of hedge ineffectiveness was not material during the years ended December 31, 2003, 2002 and 2001.