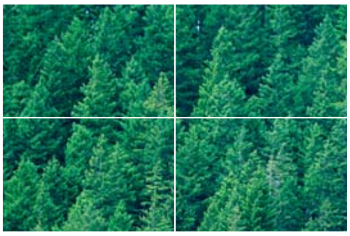




# MITSUI ANNUAL REPORT 2005

## creating global partnerships

Mitsui & Co. (Australia) Ltd

ACN 004 349 795

Financial Report for the Financial Year Ended 31 March 2005

# ANNUAL FINANCIAL REPORT

for the Financial Year Ended 31 March 2005

## Contents



# MESSAGE FROM CHAIRMAN AND MANAGING DIRECTOR

The major contribution to Mitsui Australia's record net profit in the year ending 31 March 2005 came primarily from a substantial increase in dividends from our Iron Ore Division. Our Coal and Energy Divisions also contributed strongly to the total of dividends received.

The record net profit after tax of $56.8 million was up 84% from last year, and total trading transactions for the period rose 13.8% to $6.4 billion and represent the value of transactions by Mitsui Australia, acting both as principal and as agent.

Based on the substantial price increases in the current financial year for iron ore, coking coal and thermal coal, largely on the back of continuing strong demand from China, we could expect another solid result next year. However, we need to closely monitor world events, particularly in Asia where there may be some adjustments in economic growth, which could have implications for iron ore and coking coal exports in the future.

The majority of Mitsui Australia's exports go to Japan and the Japanese economy is recovering moderately, led by private demand and consumer spending, and the banking sector's bad loan problem has seemingly been solved. The major risks for that economy are high crude oil prices and sluggish exports.

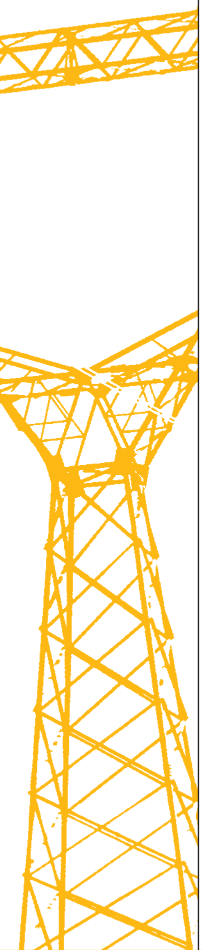
The business environment within Mitsui Australia has changed greatly in the last 2 or 3 years. The importance of compliance and corporate social responsibility have been strongly re-emphasized, also, we are focussing more on business investment.

Our main investment and trading activities in Australia relate to natural resources, namely, iron ore, coal, oil, gas, salt and woodchips. These traditional business areas for Mitsui continue to expand and continue to provide net economic benefits for Australia. On the other hand, we are allocating increasing resources to emerging industries related to the environment and infrastructure. We see these activities contributing to the sustainable development of society.

I said in my message last year that we will work towards better communicating our activities from 3 aspects of sustainability – economic, environmental and social. Sustainability, I find, is interchangeable with Corporate Social Responsibility and I commend you to read the CSR section of this annual report which is being included for the first time. It is an important aspect of our reporting that will be continued.

AKIO IKEDA
CHAIRMAN AND MANAGING DIRECTOR

July 2005



# CORPORATE SOCIAL RESPONSIBILITY AT MITSUI

## Mitsui's Approach to Corporate Social Responsibility:

Mitsui believes that corporate social responsibility related activities are increasingly important and it is no longer sufficient for a company merely to pursue higher earnings. In the context of economic globalisation, an increasingly information-oriented society, growing sensitivities to demands of consumers, and a maturing society, the quality of the value a company adds to its products and services has become all-important. Realising that maximising shareholder returns and corporate value requires that a company address not only the interests of economic stakeholders but also the concerns of social, environmental, and other stakeholders as well, Mitsui considers corporate social responsibility as a means of contributing to the society through our business.

## Mitsui's Global CSR Policy:

**1** We will fulfil our role in the economy and continually strive to improve our corporate value by engaging in conscientious activities giving full consideration to the social significance of Mitsui & Co's presence and strong awareness of our ties with the environment.

**2** We will raise the awareness of each employee with regard to CSR and solidify our management base for practising CSR through strengthening corporate governance and fully reinforcing internal control. We will also make efforts towards actively contributing to society.

**3** We will place importance on interactive communication with our stakeholders. We will fulfil our accountability with respect to CSR and continually work to improve our CSR activities based on the responses of our stakeholders.

## Mitsui Australia's Basic CSR Policy:

Considering Mitsui's global CSR policy, we aim to add further value to our company's activities in Australia by:

a) working directly to help solve environmental and infrastructure issues through our business activities, and enhance our reputation via those activities.

b) live in harmony with Australian communities and continue to contribute to them in meaningful ways.

## Environmental and Infrastructure Initiatives:

From an environmental perspective, our businesses can be broadly divided into 2 categories. Firstly, environmental businesses where we work directly to resolve environmental issues. Examples of our activities are the purchase of emission rights from an Australian waste project, investments in such areas as plantations, fuel cells, and a pre-feasibility study on ethanol. We are also studying opportunities related to water, wind and hydro power. Secondly, to reduce any adverse environmental impact from such things as infrastructure construction we may undertake in contributing to the advancement of society.

# CORPORATE SOCIAL RESPONSIBILITY AT MITSUI continued

## Support for the Community:

We have long recognised the importance of contributing positively to the community activities in Australia. Mitsui's contribution to the community via partnerships and sponsorship has real value in terms of those that we assist, the positive image it provides the company and enhanced relations with stakeholders, including our staff.

Our main activities include:

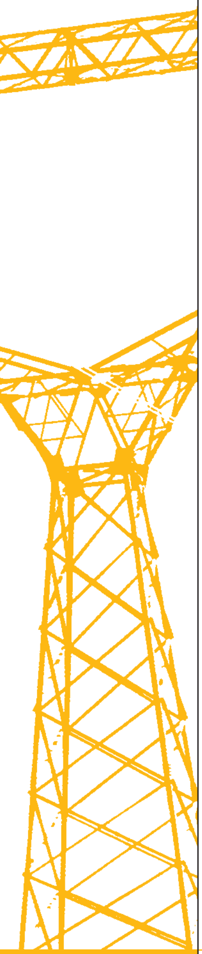
- Mitsui Educational Foundation – MEF is based on our desire to build stronger ties and promote mutual understanding and friendship between Japan and Australia, by introducing Australian university students to aspects of Japanese culture, history, business, industry and contemporary lifestyles. MEF selects a total of 8 students from 8 universities around Australia per year to participate in an 18 day tour of Japan commencing in November. The tour is fully paid by MEF and since 1972 a total of 255 students have benefited from this unique experience.
- Opera Australia – This is our 25th year of support to this world class company and we have the privilege of sponsoring principal soprano, Anke Hoppner – a 7 year partnership.
- Australian Ballet – For 11 years we have contributed to AB's outstanding creativity.
- West Australian Symphony Orchestra – This is a 3 year sponsorship from 2005 as part of WASO's "World Artist" program.
- Care Australia Southern Tsunami Appeal – January 2005 saw Mitsui Australia donate $A50,000 directly and also matched staff donations.

## Strengthening Employee Relations:

The strength of Mitsui lies in its people. We are convinced that true professionals are nurtured by having employees emerse themselves in rewarding assignments, doing their very best to succeed. In recognition of our obligation as a company to provide opportunities for individual employees to reach their full potential and contribute to society, we have adopted a personnel system that maximises the value of our human resources.

## Economic Performance:

Mitsui recognises that the pursuit of higher earnings, a stronger management foundation and sustainable growth are essential to our contributing to society. We seek to reward the trust placed in us by customers and society by reinforcing our business foundation so as to realize our aspirations for new growth, while making this foundation more transparent and sound. In the year ending 31 March 2005, Mitsui Australia achieved a record after tax profit of $56.8 million, thanks primarily to minerals and energy related divisions, namely, iron ore, coal and energy. We are expecting another solid result for the current financial year.



# DIRECTORS' REPORT

The directors of Mitsui & Co. (Australia) Ltd., submit herewith the financial report of the consolidated entity for the financial year ended 31 March 2005. In order to comply with the provisions of the Corporations Act 2001, the directors report as follows:

## Directors

The names and particulars of the directors of the company during or since the end of the financial year are:

**Mr A Ikeda**
Director since 23 April 2004. Joined Mitsui Group in 1970.Currently Managing Director, Mitsui & Co. (Australia) Ltd. Previously Managing Officer, Mitsui & Co., Ltd, Head Office, Japan and Chief Operating Officer, General Merchandise Unit, Mitsui & Co., Ltd, Head Office, Japan. Graduated from Kansei Gakuin University, majoring in Commerce. During the financial year he attended 6 of the 6 directors' meetings held whilst he was a director.

**Mr Y Satake**
Director since 22 June 2001 until his resignation on 23 April 2004. Joined Mitsui Group in 1969. Most recently Managing Director, Mitsui & Co. (Australia) Ltd. Previously General Manager, Foodstuff Administration Division, Mitsui & Co., Ltd, Head Office, Japan. Graduated from Kansei Gakuin University, majoring in Law. During the financial year he attended 1 of the 1 directors' meetings held whilst he was a director.

**Mr Y Fukatsu**
Director since 10 May 2004. Joined Mitsui Group in 1972. Currently Deputy Managing Director, Mitsui & Co. (Australia) Ltd and General Manager, Corporate Planning Division, Mitsui & Co. (Australia) Ltd. Previously General Manager, Raw Materials Business Division, Iron & Steel Raw Materials Unit, Mitsui & Co., Ltd, Head Office, Japan. Graduated from Osaka University, Japan, majoring in Economics. During the financial year he attended 4 of the 5 directors' meetings held whilst he was a director.

**Mr S Hashimoto**
Director since 19 May 2005. Joined Mitsui Group in 1977. Currently Deputy Managing Director, Mitsui & Co. (Australia) Ltd and General Manager of Melbourne Office, Mitsui & Co. (Australia) Ltd. Previously Executive Vice President & Chief Operating Officer Mitsui Coal Holdings Pty Ltd. Graduated from Tokyo University, Japan, majoring in Law. During the financial year he attended none of the directors' meetings held, as he was not appointed as director until after year-end.

**Mr F Kawashima**
Director since 2 July 2003 until his resignation on 19 May 2005. Joined Mitsui Group in 1976. Most recently Deputy Managing Director, Mitsui & Co. (Australia) Ltd and General Manager of Melbourne Office, Mitsui & Co. (Australia) Ltd. Previously Deputy General Manager, Natural Gas First Division, Mitsui & Co., Ltd, Head Office, Japan. Graduated from Hitotsubashi University, Japan, majoring in International Economics. During the financial year he attended 4 of the 4 directors' meetings held whilst he was a director.

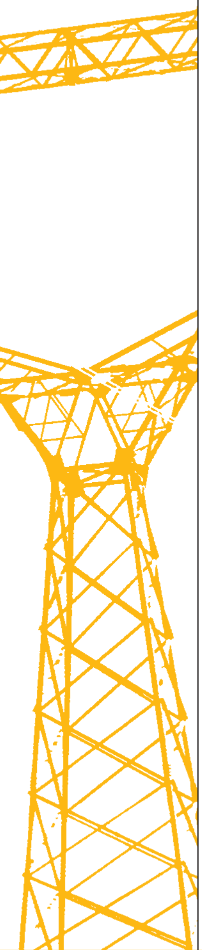
**Mr M Tanaka**
Director since 11 November 2002 until his resignation from the Board on 30 September 2004. Joined Mitsui Group in 1972. Most recently General Manager, Perth Office, Mitsui & Co. (Australia) Ltd. Previously, Operating Officer, Iron & Steel Raw Materials Unit, Mitsui & Co., Ltd, Head Office, Japan. Graduated from Waseda University, Japan, majoring in Politics and Economics. During the financial year he attended 3 of the 5 directors' meetings held whilst he was a director.

**Mr T Nitta**
Director since 11 December 2000 until his resignation from the Board on 23 April 2004. Joined Mitsui Group in 1977. Most recently General Manager of Brisbane Office, Mitsui & Co., (Australia) Ltd. Previously Deputy General Manager of Thermal Coal Division, Iron & Steel Raw Materials Unit, Mitsui & Co., Ltd, Head Office, Japan. Graduated from Tokyo Foreign Studies University, Japan, majoring in Indo-Chinese Languages & International Relations.During the financial year he attended none of the 1 directors' meetings held whilst he was a director.

**Mr Y Kohata**
Director since 14 May 2002 until his resignation from the Board on 10 May 2004. Joined Mitsui Group in 1978. Most recently General Manager, Corporate Planning Division, Mitsui & Co. (Australia) Ltd. Previously Secretariat, Mitsui & Co., Ltd, Head Office, Japan. Graduated from Tokyo University, Japan, majoring in Law. During the financial year he attended 2 of the 2 directors' meetings held whilst he was a director.

**Mr M Furukawa**
Director since 1 August 2003 until his resignation from the Board on 30 September 2004. Joined Mitsui Group in 1979. Currently General Manager, Accounting, Treasury & Information Systems Division, Mitsui & Co. (Australia) Ltd. Previously, Deputy General Manager, Planning & Administration Department, Finance Division, Mitsui & Co., Ltd, Head Office, Japan. Graduated from Hitotsubashi University, Japan, majoring in Commerce. During the financial year he attended 5 of the 5 directors' meetings held whilst he was a director.

# DIRECTORS' REPORT
continued



## Principal Activities of the Consolidated Entity

The consolidated entity's principal activities in the course of the financial year were investing in resource entities, exporting, importing, and the provision of finance to related bodies corporate. There was no significant change in the nature of these activities during the financial year.

## Dividends

The amounts paid or declared by way of dividend by the company since the start of the financial year were:

In respect of the year ended 31 March 2004, as detailed in the directors' report for that financial year, an interim dividend amounting to $11,000,000 fully franked at 30% paid on 30 June 2004, and a final dividend amounting to $10,000,000 fully franked at 30% paid $5,000,000 on 30 September 2004, and $5,000,000 on 22 December 2004.

In respect of the financial year ended 31 March 2005, the directors approved an interim dividend amounting to $40,000,000 fully franked at 30% with $20,000,000 paid on 28 April 2005 and $20,000,000 to be paid on 30 September 2005.

## Results

A summary of consolidated results is set out below:

| | **2005 $'000** | **2004 $'000** |
|---|---|---|
| Trading Transactions | 6,443,366 | 5,662,105 |
| Total Revenue | 1,541,991 | 1,387,021 |
| Profit from ordinary activities before income tax expense | 58,234 | 32,067 |
| Income tax expense relating to ordinary activities | (1,421) | (1,184) |
| Net profit attributable to members of the parent entity | 56,813 | 30,883 |

## Review of Operations

Sales revenue this year rose by 9% compared to sales revenue of the prior year. Gross profit, however, fell by 16% reflecting more difficult trading conditions. Despite the reduction in gross profit, the consolidated entity recorded a record profit after tax amounting to $56.8 million. A major cause of the increase in profit was the increase in dividend income from $19.9 million last year to $53.7 million this year. Record dividends were received in the current year from various resource entities in Australia which are jointly held by Mitsui & Co., Ltd, Japan and Mitsui & Co. (Australia) Ltd.

## Changes in State of Affairs

During the financial year, there was no significant change in the state of affairs of the consolidated entity other than that referred to in the financial statements or notes thereto.

## Subsequent Events

There has not been any matter or circumstance, other than that referred to in the financial statements or notes thereto, that has arisen since the end of the financial year, that has significantly affected, or may significantly affect, the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in future financial years.

## Future Developments

Disclosure of information regarding likely developments in the operations of the consolidated entity in future financial years and the expected results of those operations is likely to result in unreasonable prejudice to the consolidated entity.Accordingly, this information has not been included in this report.

## Environmental Regulations

The consolidated entity is not subject to any particular or significant environmental regulations under a law of the Commonwealth or of a State or Territory.

## Indemnification of Officers and Auditors

During or since the financial year the company has not indemnified or made a relevant agreement to indemnify an officer or auditor of the company or of any related body corporate against a liability incurred as such an officer or auditor.In addition, the company has not paid, or agreed to pay, a premium in respect of a contract insuring against a liability incurred by an officer or auditor.

## Rounding Off of Amounts

The company is a company of the kind referred to in ASIC Class Order 98/0100, dated 10 July 1998, and in accordance with that Class Order, amounts in this directors' report and in the financial report have been rounded off to the nearest thousand dollars, unless otherwise indicated.

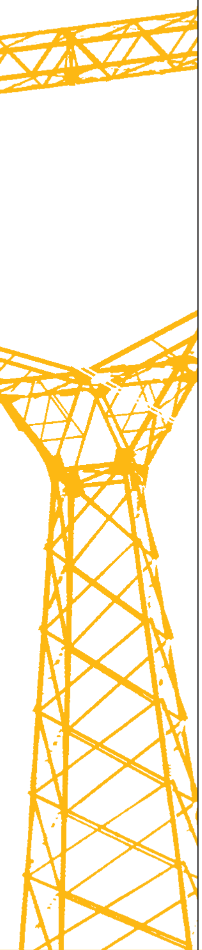
Signed in accordance with a resolution of the directors made pursuant to section 298(2) of the Corporations Act 2001.

On behalf of the Directors

A Ikeda
Director

Sydney, 29 July 2005

# INDEPENDENT AUDIT REPORT



## Independent Audit Report to the Members of Mitsui & Co. (Australia) Ltd

**Deloitte.**

**Scope**

**The financial report and directors' responsibility**

The financial report comprises the statement of financial position, statement of financial performance, statement of cash flows, accompanying notes to the financial statements, and directors' declaration for both Mitsui & Co. (Australia) Ltd (the company) and the consolidated entity, for the financial year ended 31 March 2005 as set out on pages 9 to 39. The consolidated entity comprises the company and the entities it controlled at the year end or from time to time during the financial year.

The directors of the company are responsible for the preparation and true and fair presentation of the financial report in accordance with the Corporations Act 2001. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

**Audit approach**

We have conducted an independent audit of the financial report in order to express an opinion on it to the members of the company. Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal controls, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to form an opinion whether, in all material respects, the financial report is presented fairly in accordance with the Corporations Act 2001 and the Accounting Standards and other mandatory professional reporting requirements in Australia so as to present a view which is consistent with our understanding of the company's and the consolidated entity's financial position, and performance as represented by the results of their operations and their cash flows.

Our procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial report, and the evaluation of accounting policies and significant accounting estimates made by the directors.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

The audit opinion expressed in this report has been formed on the above basis.

**Independence**

In conducting our audit, we followed applicable independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001.

**Audit Opinion**

In our opinion, the financial report of Mitsui & Co. (Australia) Ltd is in accordance with:

(a) the Corporations Act 2001, including

  i. giving a true and fair view of the company's and consolidated entity's financial position as at 31 March 2005 and of their performance for the year ended on that date; and

  ii. complying with Accounting Standards in Australia and the Corporations Regulations 2001; and

(b) other mandatory professional reporting requirements in Australia.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

S C Gustafson
Partner
Chartered Accountants

Sydney, 29 July 2005

# DIRECTORS' DECLARATION

The directors declare that:

(a) in the directors' opinion, there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable;

(b) in the directors' opinion, the attached financial statements and notes thereto are in accordance with the Corporations Act 2001, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the consolidated entity.

Signed in accordance with a resolution of the directors made pursuant to section 295(5) of the Corporations Act 2001.

On behalf of the Directors

A. Ikeda

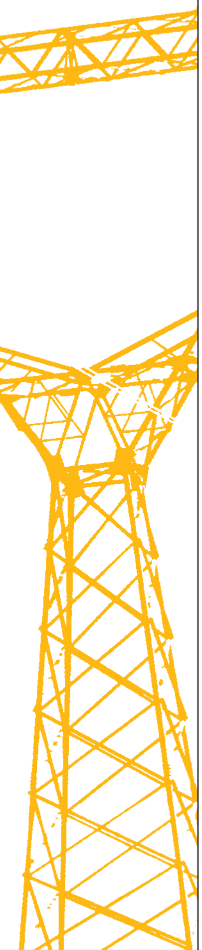
A Ikeda
Director

Sydney, 29 July 2005

# STATEMENT OF FINANCIAL PERFORMANCE

for the Financial Year Ended 31 March 2005

| | NOTE | CONSOLIDATED | | COMPANY | |
|---|---|---|---|---|---|
| | | **2005 $'000** | **2004 $'000** | **2005 $'000** | **2004 $'000** |
| **Trading Transactions** | 28 | 6,443,366 | 5,662,105 | 6,443,310 | 5,662,105 |
| Sales revenue (sales of goods and services) | 24 | 1,406,104 | 1,288,020 | 1,406,048 | 1,288,020 |
| Cost of goods and services sold | | (1,378,857) | (1,255,418) | (1,378,801) | (1,255,418) |
| **Gross Trading Profit From Ordinary Activities** | | 27,247 | 32,602 | 27,247 | 32,602 |
| Other revenue from ordinary activities | | 134,594 | 99,001 | 124,098 | 96,272 |
| Selling, general and administrative expenses | | (27,599) | (29,278) | (26,813) | (28,559) |
| Borrowing costs | | (75,496) | (66,451) | (67,572) | (64,920) |
| Other expenses from ordinary activities | | (512) | (3,807) | (2,062) | (3,985) |
| **Profit From Ordinary Activities Before Income Tax Expense** | 24 | 58,234 | 32,067 | 54,898 | 31,410 |
| Income tax expense relating to ordinary activities | 26 | (1,421) | (1,184) | (930) | (999) |
| **Net Profit Attributable To Members Of The Parent Entity** | | 56,813 | 30,883 | 53,968 | 30,411 |
| **Total Changes In Equity Other Than Those Resulting From Transactions With Owners As Owners** | | 56,813 | 30,883 | 53,968 | 30,411 |



**Notes to the financial statements are included on pages 13 to 39**

# STATEMENT OF FINANCIAL POSITION

as at 31 March 2005

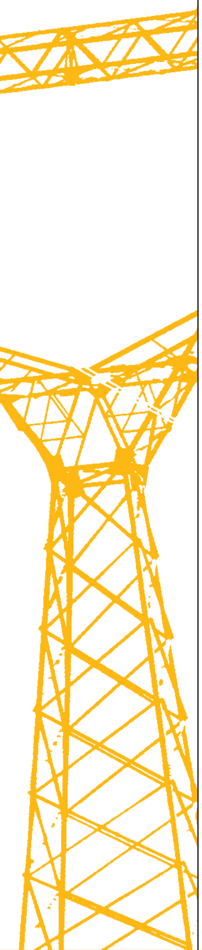
| | NOTE | CONSOLIDATED | | COMPANY | |
|---|---|---|---|---|---|
| | | 2005 $'000 | 2004 $'000 | 2005 $'000 | 2004 $'000 |
| **Current Assets** | | | | | |
| Cash assets | | 22,414 | 6,860 | 11,507 | 4,965 |
| Receivables | 2 | 493,010 | 425,592 | 441,647 | 334,520 |
| Current tax asset | 3 | 74,439 | - | 74,439 | - |
| Inventories | 4 | 6,643 | 10,189 | 6,643 | 10,189 |
| Other | 5 | 401 | 530 | 378 | 468 |
| **Total Current Assets** | | 596,907 | 443,171 | 534,614 | 350,142 |
| **Non-Current Assets** | | | | | |
| Receivables | 6 | 151,081 | 77,400 | 102,487 | 108,211 |
| Property, plant and equipment | 7 | 9,897 | 9,994 | 8,665 | 9,458 |
| Deferred tax assets | 8 | 32,391 | 3,763 | 32,391 | 3,694 |
| Other financial assets | | | | | |
| Investments | 9 | 201,262 | 198,628 | 200,835 | 198,373 |
| **Total Non-Current Assets** | | 394,631 | 289,785 | 344,378 | 319,736 |
| **Total Assets** | | 991,538 | 732,956 | 878,992 | 669,878 |
| **Current Liabilities** | | | | | |
| Payables | 10 | 117,122 | 135,295 | 116,954 | 135,369 |
| Interest bearing liabilities | 11 | 331,291 | 271,113 | 186,532 | 140,762 |
| Current tax liabilities | 12 | - | 4,660 | - | 4,429 |
| Provisions | 13 | 41,263 | 21,940 | 40,831 | 21,641 |
| Other | 14 | 215 | 47 | 187 | 25 |
| **Total Current Liabilities** | | 489,891 | 433,055 | 344,504 | 302,226 |
| **Non-Current Liabilities** | | | | | |
| Payables | 15 | 34,364 | 34,543 | 34,364 | 34,625 |
| Interest bearing liabilities | 16 | 60,590 | 87,545 | 99,082 | 158,255 |
| Deferred tax liabilities | 17 | 210,810 | 391 | 210,810 | 144 |
| Provisions | 18 | 822 | 768 | 779 | 737 |
| Other | 19 | 1,594 | - | 1,594 | - |
| **Total Non-Current Liabilities** | | 308,180 | 123,247 | 346,629 | 193,761 |
| **Total Liabilities** | | 798,071 | 556,302 | 691,133 | 495,987 |
| **Net Assets** | | 193,467 | 176,654 | 187,859 | 173,891 |
| **Equity** | | | | | |
| Contributed equity | 21 | 20,000 | 20,000 | 20,000 | 20,000 |
| Reserves | 22 | 84,939 | 84,939 | 84,939 | 84,939 |
| Retained profits | 23 | 88,528 | 71,715 | 82,920 | 68,952 |
| **Total Equity** | | 193,467 | 176,654 | 187,859 | 173,891 |

**Notes to the financial statements are included on pages 13 to 39**

# STATEMENT OF CASH FLOWS

for the Financial Year Ended 31 March 2005

| | NOTE | CONSOLIDATED | | COMPANY | |
|---|---|---|---|---|---|
| | | 2005 $'000 | 2004 $'000 | 2005 $'000 | 2004 $'000 |
| **Cash Flows From Operating Activities** | | | | | |
| Receipts from customers | | 1,409,137 | 1,338,129 | 1,409,559 | 1,338,108 |
| Payments to suppliers and employees | | (1,392,365) | (1,336,346) | (1,391,630) | (1,336,080) |
| Dividends received | | 53,880 | 30,780 | 53,880 | 30,780 |
| Interest received | | 102,374 | 55,812 | 93,283 | 53,850 |
| Interest paid | | (101,922) | (56,950) | (95,119) | (55,232) |
| Income tax (paid)/refunded | | (3,320) | (245) | (2,918) | 26 |
| Consideration for tax losses transferred | | (614) | (611) | (706) | (726) |
| Net cash provided by operating activities | 35(a) | 67,170 | 30,569 | 66,349 | 30,726 |
| **Cash Flows From Investing Activities** | | | | | |
| (Increase)/decrease in short term deposits | | (3,902) | 12,549 | (3,902) | 12,549 |
| Decrease/(increase) in current loans receivable | | 36,201 | (98,190) | (4,953) | (4,406) |
| (Increase)/decrease in non-current loans receivable | | (73,880) | 16,813 | 5,544 | (11,079) |
| Payment for investments | | (2,592) | (8,688) | (2,762) | (8,688) |
| Payments for investments in regenerative assets | | (122) | (97) | - | - |
| Proceeds from sale of investments | | - | 76 | - | 76 |
| Payment for property, plant and equipment | | (825) | (524) | (603) | (524) |
| Proceeds from sale of property, plant and equipment | | 2,594 | 6,154 | 2,585 | 6,101 |
| Net cash (used in) investing activities | | (42,526) | (71,907) | (4,091) | (5,971) |
| **Cash Flows From Financing Activities** | | | | | |
| Net proceeds/(repayment) of short term borrowings | | 38,865 | 33,906 | 24,457 | (27,623) |
| (Net repayment of)/net proceeds from long term borrowings | | (26,955) | 25,569 | (59,173) | 44,450 |
| Dividends paid | | (21,000) | (42,000) | (21,000) | (42,000) |
| Net cash(used in)/provided by financing activities | | (9,090) | 17,475 | (55,716) | (25,173) |
| **Net Increase/(Decrease) In Cash Held** | | 15,554 | (23,863) | 6,542 | (418) |
| **Cash At The Beginning Of The Financial Year** | | 6,860 | 30,723 | 4,965 | 5,383 |
| **Cash At The End Of The Financial Year** | 35(b) | 22,414 | 6,860 | 11,507 | 4,965 |



**Notes to the financial statements are included on pages 13 to 39**

# NOTES TO THE FINANCIAL STATEMENTS
for the Financial Year Ended 31 March 2005

## 1. Summary of Accounting Policies

**Financial Reporting Framework**
The financial report is a general-purpose financial report which has been prepared in accordance with the Corporations Act 2001, applicable Accounting Standards and Urgent Issues Group Consensus Views, and complies with other requirements of the law.

The financial report has been prepared on the basis of historical cost and except where stated, does not take into account changing money values or current valuations of non-current assets. Cost is based on the fair values of the consideration given in exchange for assets.

**Significant Accounting Policies**
Accounting policies are selected and applied in a manner, which ensures that the resultant financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions and other events is reported.

The following significant accounting policies have been adopted in the preparation and presentation of the financial report:

**(a) Principles of Consolidation**
The consolidated financial statements have been prepared by combining the financial statements of all the entities that comprise the consolidated entity, being the company (the parent entity) and its controlled entities as defined in Accounting Standard AASB1024 "Consolidated Accounts". A list of controlled entities appears in Note 37 to the financial statements. Consistent accounting policies have been employed in the preparation and presentation of the consolidated financial statements.

The consolidated financial statements include the information and results of each controlled entity from the date on which the company obtains control and until such time as the company ceases to control such entity.

In preparing the consolidated financial statements, all intercompany balances and transactions, and unrealised profits arising within the consolidated entity are eliminated in full.

**(b) Investments**
The Consolidated entity's interests in entities that are not controlled (other than joint venture entities) are brought to account at cost or directors' valuation, on the basis that the Consolidated entity does not exert significant influence. Therefore, these investments have not been accounted for under the equity method. Dividends are taken to income on a receivable basis.

**(c) Foreign Currency**
All foreign currency transactions during the financial period have been brought to account using the exchange rate in effect at the date of the transaction. Foreign currency monetary items at balance date are translated at the exchange rate existing at that date.

Exchange differences are brought to account in the statement of financial performance in the financial period in which they arise except that exchange differences on transactions entered into in order to hedge the purchase or sale of specific goods or services are deferred and included in the measurement of the purchase or sale.

**(d) Depreciation**
Buildings, plant, motor vehicles and furniture are depreciated over their estimated useful economic lives using either the reducing balance method or prime cost method. The following estimated useful lives are used in the calculation of depreciation:

- Buildings 25 years
- Plant, motor vehicles and furniture 3-8 years

**(e) Inventories**
Finished goods on hand and in transit are valued at the lower of cost and net realisable value. Costs are assigned to inventory by the method most appropriate to each particular class of inventory with the majority being valued on a specific identification basis.

**(f) Income Tax**
Tax effect accounting principles have been adopted whereby income tax expense has been calculated on pre-tax accounting profits after adjustment for permanent differences. The tax effect of timing differences, which occur when items are included or allowed for income tax purposes in a period different to that for accounting, is carried forward in the balance sheet as a provision for deferred income tax or a future income tax benefit at the income tax rates prevailing when the timing differences are expected to reverse.

**(g) Recoverable Amount of Non-Current Assets**
Non-current assets are written down to recoverable amount where the carrying value of any non-current asset exceeds recoverable amount. In determining the recoverable amount of non-current assets, the expected net cash flows have not been discounted to their present value.

# NOTES TO THE FINANCIAL STATEMENTS
continued

## 1. Summary of Accounting Policies (Cont'd)

**(h) Joint Ventures**

**Joint Venture Operations**

Interests in joint venture operations have been reported in the financial statements by including the consolidated entity's share of assets employed in the joint ventures, the share of liabilities incurred in relation to joint ventures and the share of any expenses incurred in relation to joint ventures in their respective classification categories.

**Joint Venture Entities**

Interest in joint venture entities, which are partnerships, have been accounted for under the equity method in the company and consolidated financial statements.

**(i) Regenerative Assets**

Forest holdings are classified as a separate asset in accordance with accounting standard AASB 1037 "Self Generating and Regenerating Assets" ("AASB1037") (SGARA's). AASB 1037 requires SGARA's to be measured at net market value. Forest holdings consists solely of Eucalyptus trees. They are initially measured at cost until the trees are at least 6 years old and considered established. Once the trees are established, they are valued at net market value. Net market value has been determined in accordance with a director's valuation. It is derived from the net present value of cash flows expected to be generated by the SGARA's discounted at a rate which reflects the risks associated with the various cash flow streams.

**(j) Employee Entitlements**

Provision is made for benefits accruing to employees in respect of wages and salaries, annual leave and long service leave when it is probable that settlement will be required and they are capable of being measured reliably.

Provisions made in respect of wages and salaries, annual leave, long service leave, and other employee entitlements expected to be settled within 12 months, are measured at their nominal values.

Provisions made in respect of annual leave and long service leave entitlements which are not expected to be settled within 12 months are measured as the present value of the estimated future cash outflows to be made by the consolidated entity in respect of services provided by employees up to the reporting date.

**(k) Receivables**

Trade receivables and other receivables are recorded at amounts due less any provision for doubtful debts. Bills of exchange are recorded at amortised cost, with revenue recognised on a effective yield basis.

**(l) Accounts Payable**

Trade payables and other accounts payable are recognised when the consolidated entity becomes obliged to make future payments resulting from the purchase of goods and services.

**(m) Interest Bearing Liabilities**

Interest bearing liabilities, including commercial paper issued at a discount, are carried at the amount received. Interest, including the discount from face value of commercial paper, is recognised on an accruals basis.

**(n) Derivative financial instruments**

Derivative transactions including swaps and options on interest rates, exchange rates and commodities are entered into principally for hedging purposes. These transactions are accounted for under the principles of hedge accounting and income is recognised on the same basis as that of the underlying item being hedged. Further details of derivative financial instruments are disclosed in note 40 to the financial statements.

**(o) Interest Rate Swaps and Forward Rate Agreements**

Interest payments and receipts under interest rate swap contracts and forward rate agreements are recognised on an accruals basis in the statement of financial performance as an adjustment to interest expense during the period.

**(p) Capital Gains Tax**

No provision has been made for capital gains tax, which may arise in the event of sale of revalued assets as no decision has been made to sell any of these assets.

**(q) Borrowing Costs**

Ancillary costs incurred in connection with the arrangement of borrowings are deferred and amortised over the period of the borrowing.

# 1. Summary of Accounting Policies (Cont'd)

**(r) Revenue Recognition**

**Sale of Goods and Disposal of Assets**
Revenue from the sale of goods and disposal of other assets is recognised when the consolidated entity has passed control of the goods or other assets to the buyer.

**Rendering of Services**
Revenue from a contract to provide services is recognised by reference to the stage of completion of the contact.

**(s) Tax Consolidation**
The company, and wholly owned Australian resident entities of the ultimate parent entity in Japan, have decided to form a tax-consolidated group under Australian taxation law, effective 1 April 2004. The decision to consolidate for tax purposes has not been formally notified to the Australian Taxation Office. Mitsui & Co. (Australia) Ltd is the head entity in the tax consolidated group. The tax expense/income of the members of the tax-consolidated group is recognised in the separate financial statements of the members of the tax-consolidated group. Current tax assets and liabilities and deferred tax assets and deferred tax liabilities of the tax-consolidated group are recognised by the company (as head entity in the tax-consolidated group).

Due to the existence of tax funding agreements between the entities in the tax-consolidated group, amounts are recognised as payable or receivable by the company and each member of the group in relation to the tax contribution amounts paid or payable between the company and the other members of the tax-consolidated group.

**(t) Comparative Amounts**
Comparative amounts are, where appropriate, reclassified so as to be comparable with the amounts presented for the current financial year.

**(u) Leased Assets**
Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance lease are initially brought to account at an amount equal to the present value of the minimum lease payments, and are amortised on a straight line basis over the estimated useful life of the asset. Finance lease payments are allocated between interest expense and a reduction of lease liability over the term of the lease.

Operating lease payments are recognised as an expense on a basis which reflects the pattern in which economic benefits from the leased asset are consumed.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefits of incentives are recognised as a reduction in rental expense on a straight line basis.

**(v) Goods and Services Tax**
Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except:

i. where the amount of GST incurred is not recoverable from the taxation authority it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or
ii. for receivables and payables which are recognised inclusive of GST.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables.

Cash flows are included in the statement of cash flows on a gross basis. The GST component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the taxation authority is classified as operating cash flows.

**(w) Acquisition of Assets**
Assets acquired are recorded at the cost of acquisition, being the purchase consideration determined as at the date of acquisition plus costs incidental to the acquisition.

| | CONSOLIDATED 2005 $'000 | CONSOLIDATED 2004 $'000 | COMPANY 2005 $'000 | COMPANY 2004 $'000 |
|---|---|---|---|---|

## 2. Current Receivables

| | CONSOLIDATED 2005 $'000 | CONSOLIDATED 2004 $'000 | COMPANY 2005 $'000 | COMPANY 2004 $'000 |
|---|---|---|---|---|
| Trade debtors | 159,300 | 144,800 | 159,304 | 144,800 |
| Provision for doubtful debts | (1,805) | (1,807) | (1,805) | (1,807) |
| | 157,495 | 142,993 | 157,499 | 142,993 |
| Loans to: | | | | |
| Controlled entities | - | - | 84,629 | 84,858 |
| Provision for doubtful debt | - | - | (1,056) | - |
| | - | - | 83,573 | 84,858 |
| Related bodies corporate: | | | | |
| Wholly owned group (Note 36b) | 155,575 | 206,395 | 22,046 | 31,483 |
| Other parties | 44,840 | 30,217 | 44,840 | 30,217 |
| Directors (Note 36c) | 46 | 50 | 46 | 50 |
| Other debtors | 130,855 | 45,640 | 129,444 | 44,622 |
| Short term deposits | 4,199 | 297 | 4,199 | 297 |
| | 335,515 | 282,599 | 284,148 | 191,527 |
| | 493,010 | 425,592 | 441,647 | 334,520 |

## 3. Current Tax Asset

| | CONSOLIDATED 2005 $'000 | CONSOLIDATED 2004 $'000 | COMPANY 2005 $'000 | COMPANY 2004 $'000 |
|---|---|---|---|---|
| Income tax paid in advance | 74,439 | - | 74,439 | - |

## 4. Current Inventories

| | CONSOLIDATED 2005 $'000 | CONSOLIDATED 2004 $'000 | COMPANY 2005 $'000 | COMPANY 2004 $'000 |
|---|---|---|---|---|
| Finished goods on hand and in transit: | | | | |
| At cost | 6,643 | 10,189 | 6,643 | 10,189 |

## 5. Other Current Assets

| | CONSOLIDATED 2005 $'000 | CONSOLIDATED 2004 $'000 | COMPANY 2005 $'000 | COMPANY 2004 $'000 |
|---|---|---|---|---|
| Prepayments | 401 | 530 | 378 | 468 |

## 6. Non-Current Receivables

| | CONSOLIDATED 2005 $'000 | CONSOLIDATED 2004 $'000 | COMPANY 2005 $'000 | COMPANY 2004 $'000 |
|---|---|---|---|---|
| Long term loans to: | | | | |
| Other parties | 695 | 445 | 695 | 445 |
| Controlled entities | - | - | 51,848 | 55,000 |
| Related bodies corporate: | | | | |
| Wholly owned group (Note 36b) | 115,982 | 42,299 | 15,540 | 18,129 |
| Directors (Note 36c) | 41 | 94 | 41 | 94 |
| | 116,718 | 42,838 | 68,124 | 73,668 |
| Other debtors | 34,363 | 34,562 | 34,363 | 34,543 |
| | 151,081 | 77,400 | 102,487 | 108,211 |

## 7. Property, Plant And Equipment

CONSOLIDATED

| | Freehold Land at cost $'000 | Buildings at cost $'000 | Furniture & Fittings at cost $'000 | Plant & Equipment at cost $'000 | Motor Vehicles at cost $'000 | Total $'000 |
|---|---|---|---|---|---|---|
| **Gross Carrying Amount** | | | | | | |
| Balance at 31 March 2004 | 2,680 | 8,528 | 2,612 | 1,761 | 276 | 15,857 |
| Additions | 655 | 1,291 | 876 | 146 | 52 | 3,020 |
| Disposals | (737) | (1,400) | (626) | (362) | (274) | (3,399) |
| Balance at 31 March 2005 | 2,598 | 8,419 | 2,862 | 1,545 | 54 | 15,478 |
| **Accumulated Depreciation** | | | | | | |
| Balance at 31 March 2004 | - | 2,552 | 1,816 | 1,287 | 208 | 5,863 |
| Depreciation expense | - | 559 | 187 | 274 | 5 | 1,025 |
| Disposals | - | (362) | (406) | (328) | (211) | (1,307) |
| Balance at 31 March 2005 | - | 2,749 | 1,597 | 1,233 | 2 | 5,581 |
| **Net Book Value** | | | | | | |
| As at 31 March 2004 | 2,680 | 5,976 | 796 | 474 | 68 | 9,994 |
| As at 31 March 2005 | 2,598 | 5,670 | 1,265 | 312 | 52 | 9,897 |

COMPANY

| | Freehold Land at cost $'000 | Buildings at cost $'000 | Furniture & Fittings at cost $'000 | Plant & Equipment at cost $'000 | Motor Vehicles at cost $'000 | Total $'000 |
|---|---|---|---|---|---|---|
| **Gross Carrying Amount** | | | | | | |
| Balance at 31March 2004 | 2,155 | 8,528 | 2,612 | 1,753 | 230 | 15,278 |
| Additions | - | 1,291 | 876 | 146 | - | 2,313 |
| Disposals | (735) | (1,400) | (626) | (362) | (230) | (3,353) |
| Balance at 31 March 2005 | 1,420 | 8,419 | 2,862 | 1,537 | - | 14,238 |
| **Accumulated Depreciation** | | | | | | |
| Balance at 31 March 2004 | - | 2,552 | 1,816 | 1,282 | 170 | 5,820 |
| Depreciation expense | - | 559 | 187 | 273 | 2 | 1,021 |
| Disposals | - | (362) | (406) | (328) | (172) | (1,268) |
| Balance at 31 March 2004 | - | 2,749 | 1,597 | 1,227 | - | 5,573 |
| **Net Book Value** | | | | | | |
| As at 31 March 2004 | 2,155 | 5,976 | 796 | 471 | 60 | 9,458 |
| As at 31 March 2005 | 1,420 | 5,670 | 1,265 | 310 | - | 8,665 |

# NOTES TO THE FINANCIAL STATEMENTS
continued

| | CONSOLIDATED | | COMPANY | |
|---|---|---|---|---|
| | 2005 $'000 | 2004 $'000 | 2005 $'000 | 2004 $'000 |
| **7. Property, Plant And Equipment (Cont'd)** | | | | |
| The aggregate current market values of land and buildings | 16,678 | 18,110 | 15,500 | 18,110 |

Current market values of land and buildings were assessed by the directors at 31 March 2005. The land and buildings are staff houses and land held for forestry activities. The directors' assessment of current market value at 31 March 2005 of staff houses is based on independent kerbside opinions of value at March 2004 by L.J. Hooker, Hocking Stuart, Re Max, White Real Estate, and Ockerby Real Estate.

Aggregate depreciation allocated as an expense during the year is disclosed in note 24(c) to the financial statements.

## 8. Deferred Tax Assets

| | CONSOLIDATED 2005 $'000 | CONSOLIDATED 2004 $'000 | COMPANY 2005 $'000 | COMPANY 2004 $'000 |
|---|---|---|---|---|
| Future income tax benefit attributable to timing differences | 32,391 | 3,763 | 32,391 | 3,694 |

## 9. Non-Current Investments

| | CONSOLIDATED 2005 $'000 | CONSOLIDATED 2004 $'000 | COMPANY 2005 $'000 | COMPANY 2004 $'000 |
|---|---|---|---|---|
| **Non quoted investments** | | | | |
| Shares in controlled entities: | | | | |
| At cost | - | - | 950 | 950 |
| Provision for diminution in value | - | - | (300) | - |
| | - | - | 650 | 950 |
| Shares in related bodies corporate: | | | | |
| At cost | 181,276 | 179,454 | 181,276 | 179,454 |
| Shares in other corporations: | | | | |
| At cost | 27,925 | 27,803 | 27,925 | 27,803 |
| Provision for diminution in value | (9,016) | (9,834) | (9,016) | (9,834) |
| | 18,909 | 17,969 | 18,909 | 17,969 |
| Investment in regenerative forests: | | | | |
| At valuation | 1,077 | 1,205 | - | - |
| | 201,262 | 198,628 | 200,835 | 198,373 |

## 10. Current Payables

| | CONSOLIDATED 2005 $'000 | CONSOLIDATED 2004 $'000 | COMPANY 2005 $'000 | COMPANY 2004 $'000 |
|---|---|---|---|---|
| Short term interest-free borrowing – other | - | 19,488 | - | 19,488 |
| Trade creditors – unsecured | 85,404 | 61,197 | 85,470 | 61,197 |
| Other creditors | 31,718 | 54,610 | 31,484 | 54,684 |
| | 117,122 | 135,295 | 116,954 | 135,369 |

| | CONSOLIDATED | | COMPANY | |
|---|---|---|---|---|
| | **2005 $'000** | **2004 $'000** | **2005 $'000** | **2004 $'000** |

## 11. Current Interest-Bearing Liabilities

| | | | | |
|---|---|---|---|---|
| **Unsecured:** | | | | |
| Trade creditors | 13,360 | 11,535 | 13,360 | 11,535 |
| Short term borrowings: | | | | |
| Controlled entities | - | - | 134,232 | 96,107 |
| Ultimate parent entity | - | 544 | - | 544 |
| Related bodies corporate: | | | | |
| Wholly-owned group | 101,750 | 77,936 | 4,159 | 4,030 |
| Other related parties | 46,384 | 62,767 | - | - |
| Other parties | 169,797 | 118,331 | 34,781 | 28,546 |
| | 331,291 | 271,113 | 186,532 | 140,762 |

## 12. Current Tax Liabilities

| | | | | |
|---|---|---|---|---|
| Income tax payable | - | 4,660 | - | 4,429 |

## 13. Current Provisions

| | | | | |
|---|---|---|---|---|
| Dividends | 40,000 | 21,000 | 40,000 | 21,000 |
| Employee entitlements (Note 20) | 887 | 693 | 831 | 641 |
| Exchange loss | 376 | 247 | - | - |
| | 41,263 | 21,940 | 40,831 | 21,641 |

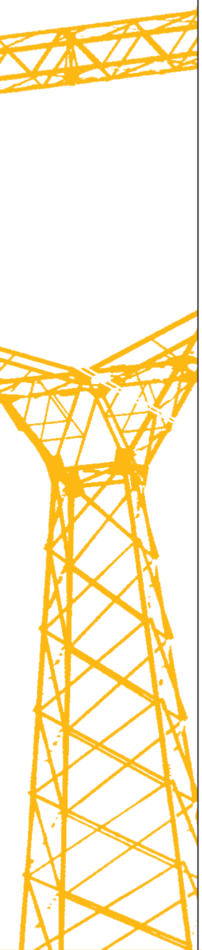
## 14. Other Current Liabilities

| | | | | |
|---|---|---|---|---|
| Deferred revenue – other | 215 | 47 | 187 | 25 |

## 15. Non-Current Payables

| | | | | |
|---|---|---|---|---|
| Other creditors | 34,364 | 34,543 | 34,364 | 34,625 |

# NOTES TO THE FINANCIAL STATEMENTS
continued



| | CONSOLIDATED | | COMPANY | |
|---|---|---|---|---|
| | **2005 $'000** | **2004 $'000** | **2005 $'000** | **2004 $'000** |
| **16. Non-Current Interest-Bearing Liabilities** | | | | |
| **Unsecured:** | | | | |
| Long term borrowings from: | | | | |
| Ultimate parent entity | 15,541 | 17,586 | 15,541 | 17,586 |
| Controlled entities | - | - | 48,541 | 70,873 |
| Related bodies corporate: | | | | |
| Wholly-owned group | 10,049 | 163 | - | - |
| Other parties | 35,000 | 69,796 | 35,000 | 69,796 |
| | 60,590 | 87,545 | 99,082 | 158,255 |
| **17. Deferred Tax Liabilities** | | | | |
| Deferred income tax | 210,810 | 391 | 210,810 | 144 |
| **18. Non-Current Provisions** | | | | |
| Employee entitlements (Note 20) | 822 | 768 | 779 | 737 |
| **19. Other Non-Current Liabilities** | | | | |
| Lease liability | 1,594 | - | 1,594 | - |
| **20. Employee Entitlements** | | | | |
| The aggregate employee entitlement liability recognised and included in the financial statements is as follows: | | | | |
| Provision for employee entitlements: | | | | |
| Current (Note 13) | 887 | 693 | 831 | 641 |
| Non-current (Note 18) | 882 | 768 | 779 | 737 |
| | 1,769 | 1,461 | 1,610 | 1,378 |
| Accrual for bonus | 198 | 300 | 198 | 300 |
| | 1,967 | 1,761 | 1,808 | 1,678 |
| | **2005 No.** | **2004 No.** | **2005 No.** | **2004 No.** |
| Number of employees at end of financial year | 105.0 | 109.5 | 101.0 | 106.5 |

| | CONSOLIDATED | | COMPANY | |
|---|---|---|---|---|
| | **2005 $'000** | **2004 $'000** | **2005 $'000** | **2004 $'000** |

## 21. Contributed Equity

| | | | | |
|---|---|---|---|---|
| 10,000,000 ordinary shares fully paid (2004: 10,000,000) | 20,000 | 20,000 | 20,000 | 20,000 |

Fully paid ordinary shares carry one vote per share and carry the rights to dividends

## 22. Reserves

| | | | | |
|---|---|---|---|---|
| **Asset revaluation reserve** | | | | |
| Balance at beginning of financial year | 84,939 | 84,939 | 84,939 | 84,939 |
| Movements | - | - | - | - |
| Balance at end of financial year | 84,939 | 84,939 | 84,939 | 84,939 |

The asset revaluation reserve arose from revaluation of non-current investments in related bodies corporate in the year ended 31 December 1997

## 23. Retained Profits

| | | | | |
|---|---|---|---|---|
| Balance at beginning of financial year | 71,715 | 72,832 | 68,952 | 70,541 |
| Net profit | 56,813 | 30,883 | 53,968 | 30,411 |
| Dividends provided for or paid (Note 27) | (40,000) | (32,000) | (40,000) | (32,000) |
| Balance at end of financial year | 88,528 | 71,715 | 82,920 | 68,952 |

## 24. Profit From Ordinary Activities

Profit from ordinary activities before income tax includes the following items of revenue and expense:

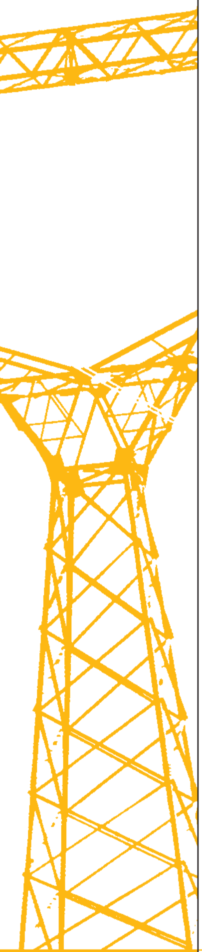
| | | | | |
|---|---|---|---|---|
| **(a) Operating Revenue** | | | | |
| Sales revenue: | | | | |
| Sale of goods | 1,370,921 | 1,253,140 | 1,370,865 | 1,253,140 |
| Rendering of services | 35,183 | 34,880 | 35,183 | 34,880 |
| | 1,406,104 | 1,288,020 | 1,406,048 | 1,288,020 |
| Dividends: | | | | |
| Related bodies corporate: | | | | |
| Wholly-owned group | 42,073 | 7,034 | 42,073 | 7,034 |
| Other related parties | 4,745 | 2,113 | 4,745 | 2,113 |
| Other parties | 6,922 | 10,718 | 6,922 | 10,718 |
| | 1,459,844 | 1,307,885 | 1,459,788 | 1,307,885 |

# NOTES TO THE FINANCIAL STATEMENTS
continued

| | CONSOLIDATED | | COMPANY | |
|---|---|---|---|---|
| | 2005 $'000 | 2004 $'000 | 2005 $'000 | 2004 $'000 |

## 24. Profit From Ordinary Activities (Cont'd)

| | | | | |
|---|---|---|---|---|
| **(b) Non-Operating Revenue** | | | | |
| Proceeds on the disposal of: | | | | |
| Property, plant and equipment | 2,594 | 6,154 | 2,585 | 6,101 |
| Investments | - | 76 | - | 76 |
| Precious metals business release fee | 734 | 144 | 734 | 144 |
| Net transfers from provisions: | | | | |
| Employee entitlements | - | 127 | - | 127 |
| Doubtful debts | 2 | 3,162 | 2 | 3,162 |
| Foreign exchange gain | 173 | 71 | 128 | - |
| Interest revenue: | | | | |
| Ultimate parent entity | 1,557 | 1,375 | 1,557 | 1,375 |
| Controlled entity | - | - | 6,946 | 5,004 |
| Related bodies corporate: | | | | |
| Wholly-owned group | 49,110 | 31,237 | 34,955 | 24,623 |
| Other parties | 24,983 | 34,061 | 22,073 | 32,871 |
| Management fees: | | | | |
| Ultimate parent entity | 1,069 | 1,124 | 1,069 | 1,124 |
| Controlled entities | - | - | 475 | 475 |
| Related bodies corporate: | | | | |
| Wholly-owned group | 1,482 | 654 | 1,394 | 554 |
| Other related parties | - | 585 | - | 585 |
| Other parties | 347 | 323 | 195 | 154 |
| Net (decrement)/increment in net market value of SGARA's | (80) | 6 | - | - |
| Other income | 176 | 37 | 16 | 32 |
| | 82,147 | 79,136 | 72,129 | 76,407 |
| | 1,541,991 | 1,387,021 | 1,531,917 | 1,384,292 |



| | CONSOLIDATED | | COMPANY | |
|---|---|---|---|---|
| | 2005 $'000 | 2004 $'000 | 2005 $'000 | 2004 $'000 |

## 24. Profit From Ordinary Activities (Cont'd)

| | | | | |
|---|---|---|---|---|
| **(c) Expenses** | | | | |
| Interest: | | | | |
| Ultimate parent entity | 453 | 242 | 453 | 242 |
| Controlled entities | - | - | 8,824 | 6,865 |
| Related bodies corporate: | | | | |
| Wholly-owned group | 13,114 | 28,693 | 7,735 | 27,742 |
| Other related parties | 3,363 | 2,563 | - | - |
| Other parties | 58,566 | 34,953 | 50,560 | 30,072 |
| Management fees: | | | | |
| Controlled entities | - | - | 243 | 273 |
| Other | 163 | 594 | 154 | 546 |
| Operating lease rental expense | 3,595 | 3,957 | 3,588 | 3,951 |
| Net transfers to provisions: | | | | |
| Employee entitlements | 247 | 33 | 232 | - |
| Doubtful debts | - | - | 1,056 | - |
| Depreciation of fixed assets: | | | | |
| Freehold land and buildings | 559 | 576 | 559 | 576 |
| Plant, motor vehicles and furniture | 466 | 546 | 462 | 543 |
| Diminution in value of investments -controlled entity | - | - | 300 | - |
| Foreign exchange loss | - | 2,008 | - | 2,008 |

## 25. Sale of Assets

Sales of non-current assets have given rise to the following profits and losses:

| | | | | |
|---|---|---|---|---|
| **Net Profits:** | | | | |
| Property, plant and equipment | 1,226 | 5,129 | 739 | 5,122 |
| Investments | - | 76 | - | 76 |
| **Net Losses:** | | | | |
| Property, plant and equipment | 217 | 28 | 217 | 28 |

# NOTES TO THE FINANCIAL STATEMENTS
continued

| | CONSOLIDATED 2005 $'000 | CONSOLIDATED 2004 $'000 | COMPANY 2005 $'000 | COMPANY 2004 $'000 |
|---|---|---|---|---|
| **26. Income Tax** | | | | |
| (a) The prima facie income tax expense on pre-tax accounting profit reconciles to the income tax expense in the financial statements as follows: | | | | |
| **Profit From Ordinary Activities:** | 58,234 | 32,067 | 54,898 | 31,410 |
| Income tax expense calculated at 30% of profit from ordinary activities | 17,470 | 9,620 | 16,469 | 9,423 |
| **Permanent Differences:** | | | | |
| Non-assessable dividends | (16,122) | (5,960) | (16,122) | (5,960) |
| Non deductible entertainment and other items | 189 | 197 | 188 | 197 |
| Non deductible investment provision | - | - | 90 | - |
| Non deductible loan provision | - | - | 317 | - |
| Revaluation of SGARA's | 24 | - | - | - |
| Provision for deferred income tax no longer required | - | (1,500) | - | (1,500) |
| Excess of accounting profit over capital gain on disposal of non current assets | (164) | (1,433) | (19) | (1,433) |
| Capital loss utilised | (199) | - | (199) | - |
| Additional (reduced) income tax arising under Advance Pricing Arrangement | 968 | (1,090) | 968 | (1,090) |
| (Recovery of additional income tax)/payment of reduced income tax arising under Advance Pricing Arrangement: | | | | |
| Ultimate parent entity | (968) | 1,090 | (968) | 1,090 |
| Under provision of income tax in prior year | 223 | 260 | 206 | 272 |
| Income tax expense attributable to profit from ordinary activities | 1,421 | 1,184 | 930 | 999 |
| **(b) Future Income Tax Benefits Not Brought To Account:** | | | | |
| Potential future income tax benefit arising from certain tax losses and timing differences have not been recognised as an asset because recovery is not virtually certain or beyond reasonable doubt: | | | | |
| Timing differences: | | | | |
| On capital account | 5,383 | 5,383 | 5,383 | 5,383 |
| Tax losses: | | | | |
| On capital account | - | - | - | - |
| | 5,383 | 5,383 | 5,383 | 5,383 |

The taxation benefits of tax losses and timing differences not brought to account will only be obtained if:

i. assessable income is derived of a nature and of amount sufficient to enable the benefit from the deductions to be realised;
ii. conditions for deductibility imposed by the law are complied with; and
iii. no changes in tax legislation adversely affect the realisation of the benefit from the deductions.

| | CONSOLIDATED | | COMPANY | |
|---|---|---|---|---|
| | **2005 $'000** | **2004 $'000** | **2005 $'000** | **2004 $'000** |

## 27. Dividends

| | 2005 $'000 | 2004 $'000 | 2005 $'000 | 2004 $'000 |
|---|---|---|---|---|
| Interim dividends paid, fully franked at 30% | - | 22,000 | - | 22,000 |
| Dividend proposed, fully franked at 30% | 40,000 | 10,000 | 40,000 | 10,000 |
| | 40,000 | 32,000 | 40,000 | 32,000 |
| Adjusted franking account balance | 14,056 | 12,778 | 14,056 | 12,778 |

## 28. Trading Transactions

Trading transactions represent the total value of merchandise transactions handled by the company and thus includes the value of transactions in which the company acts as a principal as well as the value of those transactions in which the company acts as an agent.

## 29. Remuneration of Directors

The directors of Mitsui & Co. (Australia) Ltd during the year were:

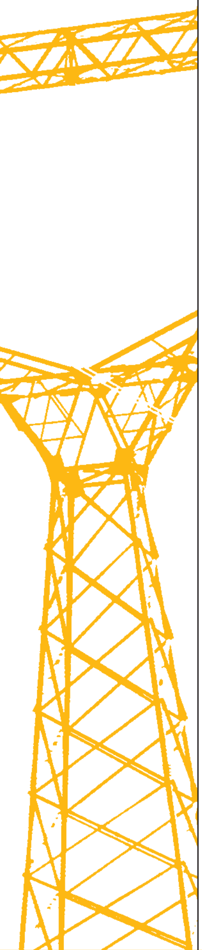
A Ikeda
Y Satake
Y Fukatsu
F Kawashima
M Tanaka
T Nitta
Y Kohata
M Furukawa

| | **2005 $** | **2004 $** | **2005 $** | **2004 $** |
|---|---|---|---|---|
| The aggregate of income paid or payable, or otherwise made available, in respect of the financial year, to all directors of the company, directly or indirectly, by the company or by any related party | | | 1,726,719 | 2,016,875 |
| The aggregate of income paid or payable, or otherwise made available, in respect of the financial year, to all directors of each entity in the consolidated entity, directly or indirectly, by the entities in which they are directors or by any related party | 2,006,020 | 2,289,092 | | |

# NOTES TO THE FINANCIAL STATEMENTS
continued

## 29. Remuneration of Directors (Cont'd)

| | 2005 No. | 2004 No. |
|---|---|---|
| The number of directors of the company whose total income falls within the following bands of income. | | |
| \$ 0 - \$ 9,999 | 1 | - |
| \$ 20,000 - \$ 29,999 | 2 | - |
| \$ 70,000 - \$ 79,999 | - | 1 |
| \$ 90,000 - \$ 99,999 | 1 | - |
| \$120,000 - \$129,999 | - | 1 |
| \$150,000 - \$159,999 | - | 1 |
| \$190,000 - \$199,999 | 1 | - |
| \$200,000 - \$209,999 | - | 1 |
| \$330,000 - \$339,999 | - | 2 |
| \$350,000 - \$359,999 | - | 1 |
| \$410,000 - \$419,999 | 1 | - |
| \$420,000 - \$429,999 | - | 1 |
| \$450,000 - \$459,999 | 1 | - |
| \$510,000 - \$519,999 | 1 | - |



## 30. Remuneration Of Auditors

| | CONSOLIDATED | | COMPANY | |
|---|---|---|---|---|
| | 2005 \$ | 2004 \$ | 2005 \$ | 2004 \$ |
| Auditing the financial report | 245,355 | 253,585 | 221,400 | 230,920 |
| Other services | 300,809 | 288,137 | 288,409 | 274,662 |
| | 546,164 | 541,722 | 509,809 | 505,582 |

## 31. Joint Venture Operations

| Name Of Entity | Principal Activity | OUTPUT INTEREST 2005 % | OUTPUT INTEREST 2004 % |
|---|---|---|---|
| Bunbury Treefarm Project Joint Venture | Afforestation | 3 | 3 |
| Victoria Treefarm Project Joint Venture | Afforestation | 6.67 | 6.67 |
| Green Triangle Treefarm Project Joint Venture | Afforestation | 10 | 10 |
| Portland Treefarm Project Joint Venture | Afforestation | 6.67 | 6.67 |

The following amounts represent the consolidated entity's share of the above joint venture operations. The amounts are included in the consolidated financial statements under their respective asset and liability categories:

| | CONSOLIDATED | | COMPANY | |
|---|---|---|---|---|
| | 2005 $'000 | 2004 $'000 | 2005 $'000 | 2004 $'000 |
| **Current Assets** | | | | |
| Cash | 48 | 75 | - | - |
| Receivables | 5 | 4 | - | - |
| Other | 6 | 47 | - | - |
| **Non-Current Assets** | | | | |
| Property, plant and equipment | 1,181 | 1,184 | - | - |
| Investment in regenerative forests | 1,247 | 1,205 | - | - |
| Receivables | - | 19 | - | - |
| **Current Liabilities** | | | | |
| Accounts payable | - | (1) | - | - |
| Unearned revenue | (16) | (13) | - | - |
| **Non-Current Liabilities** | | | | |
| Other | - | - | - | - |
| **Net Assets** | 2,471 | 2,520 | - | - |
| Share of joint venture operating costs | 77 | 13 | - | - |

For details of capital expenditure commitments arising from the consolidated entity's interest in joint venture operations, refer to Note 32.

Non-cancellable operating lease commitments arising from the consolidated entity's interest in joint venture operations, amounting to $1,177,743 (2004: $1,219,459) are included in Note 32.

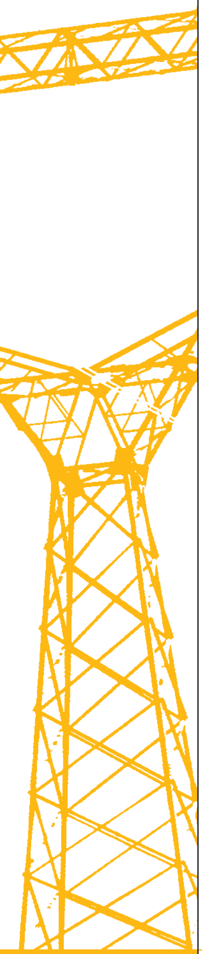
# NOTES TO THE FINANCIAL STATEMENTS
continued

## 32. Expenditure Commitments

| | CONSOLIDATED 2005 $'000 | CONSOLIDATED 2004 $'000 | COMPANY 2005 $'000 | COMPANY 2004 $'000 |
|---|---|---|---|---|
| **(a) Lease Commitments** | | | | |
| Non cancellable operating leases relating to office premises, office equipment, land and motor vehicles: | | | | |
| Not later than one year | 3,683 | 2,569 | 3,627 | 2,514 |
| Later than one year but not later than five years | 8,425 | 3,192 | 8,201 | 2,970 |
| Later than five years | 5,774 | 942 | 4,877 | - |
| | 17,882 | 6,703 | 16,705 | 5,484 |
| **(b) Commodity Purchase Commitments** | | | | |
| Aggregate purchase commitments contracted for at balance date but not provided for in the financial statements: | | | | |
| Not later than one year | 201,938 | 257,315 | 201,938 | 257,315 |
| Later than one year but not later than five years | - | 8,700 | - | 8,700 |
| | 201,938 | 266,015 | 201,938 | 266,015 |

## 33. Contingent Liabilities

| | CONSOLIDATED 2005 $'000 | CONSOLIDATED 2004 $'000 | COMPANY 2005 $'000 | COMPANY 2004 $'000 |
|---|---|---|---|---|
| Contingent liabilities at the end of the financial year are: | | | | |
| (a) Guarantees given in respect of borrowings by controlled entities | - | - | 236,376 | 206,956 |
| (b) The company has given performance guarantees in respect of various contracts to other corporations | 3,466 | 4,917 | 3,466 | 4,917 |



## 34. Financing Arrangements

| | CONSOLIDATED 2005 $'000 | CONSOLIDATED 2004 $'000 | COMPANY 2005 $'000 | COMPANY 2004 $'000 |
|---|---|---|---|---|
| **(a) Bank overdraft facility:** | | | | |
| amount used | - | - | - | - |
| amount unused | 21,466 | 21,664 | 21,466 | 21,664 |
| | 21,466 | 21,664 | 21,466 | 21,664 |
| **(b) Committed term loan facilities:** | | | | |
| amount used | - | 91,027 | - | 91,027 |
| amount unused | 115,000 | 95,000 | 85,000 | 65,000 |
| | 115,000 | 186,027 | 85,000 | 156,027 |
| **(c) Uncommitted term loan facilities** | | | | |
| amount used | 288,521 | 166,096 | 272,254 | 196,455 |
| amount unused | 225,219 | 287,685 | 115,219 | 177,685 |
| | 513,740 | 453,781 | 387,473 | 374,140 |
| **(d) Commercial paper:** | | | | |
| amount used | 90,000 | 90,000 | - | - |
| amount unused | 110,000 | 110,000 | - | - |
| | 200,000 | 200,000 | - | - |

## 35. Notes To Statement Of Cash Flows

| | CONSOLIDATED | | COMPANY | |
|---|---|---|---|---|
| | 2005 $'000 | 2004 $'000 | 2005 $'000 | 2004 $'000 |
| **(a) Reconciliation Of Profit From Ordinary Activities After Income Tax To Net Cash Flows From Operating Activities:** | | | | |
| Profit from ordinary activities after income tax | 56,813 | 30,883 | 53,968 | 30,411 |
| Add/(less): | | | | |
| (Profit) on disposal of property, plant & equipment | (1,226) | (5,129) | (739) | (5,122) |
| Loss on disposal of property, plant & equipment | 217 | 28 | 217 | 28 |
| Depreciation and amortisation | 1,025 | 1,122 | 1,021 | 1,119 |
| Net unrealised exchange losses | 129 | 247 | - | - |
| Amortisation of lease liability | (94) | - | (94) | - |
| (Profit) on disposal of investments | - | (76) | - | (76) |
| (Increase)/decrease in future income tax benefit | (28,628) | (183) | (28,697) | (133) |
| Increase/(decrease) in current income tax provision | (4,660) | 4,971 | (4,429) | 4,753 |
| Increase in current tax asset | (74,439) | - | (74,439) | - |
| (Decrease)/Increase in provision for deferred income tax | 210,419 | (3,370) | 210,666 | (3,231) |
| Provision for diminution of investment | - | - | 300 | - |
| Net increment in SGARA's market value | 80 | (6) | - | - |
| **Changes in assets and liabilities** | | | | |
| **(Increase)/decrease in assets:** | | | | |
| Trade receivables | (14,500) | 40,595 | (14,504) | 40,595 |
| Other receivables | (84,887) | (2,174) | (84,552) | (1,342) |
| Inventories | 3,546 | (6,500) | 3,546 | (6,500) |
| **Increase/(decrease) in liabilities:** | | | | |
| Accounts payable | 2,961 | (26,539) | 2,637 | (26,434) |
| Other payables | 168 | (44) | 162 | (53) |
| Other provisions | 246 | (3,256) | 1,286 | (3,289) |
| **Net cash provided by operating activities** | 67,170 | 30,569 | 66,349 | 30,726 |

**(b) Reconciliation of Cash**

For the purposes of the statement of cash flows, cash includes cash on hand and in banks and money market investments readily convertible to cash within one working day, net of outstanding bank overdrafts. Cash at the end of the financial year as shown in the statement of cash flows is reconciled to the related items in the balance sheet as follows:

| | CONSOLIDATED 2005 $'000 | CONSOLIDATED 2004 $'000 | COMPANY 2005 $'000 | COMPANY 2004 $'000 |
|---|---|---|---|---|
| Cash | 22,414 | 6,860 | 11,507 | 4,965 |
| Bank overdraft | - | - | - | - |
| | 22,414 | 6,860 | 11,507 | 4,965 |

# NOTES TO THE FINANCIAL STATEMENTS
continued

## 36. Related Party Disclosures

**(a) Controlling Entities**

The ultimate parent entity is Mitsui & Co., Ltd, incorporated in Japan.

**(b) Transactions within the wholly-owned group**

Details of dividend and interest revenue, management fees and interest expense are disclosed in Note 24.

Other transactions that occurred between entities in the wholly-owned group are:

- Commission on trading transactions, at rates agreed between the parties;
- Transfer of tax balances to Mitsui & Co. (Australia) Ltd, as head entity of a tax consolidated group, pursuant to Tax Funding Agreements; and
- Loan facilities are at normal commercial terms and conditions and in some cases, interest free.

**(c) Directors' Loans**

The aggregate amount of loans advanced during the period to directors of the consolidated entity was $88,724 (2004: $123,500). The aggregate amount of loans repaid during the year by directors of the consolidated entity was $93,126 (2004: $84,840) and the directors concerned are A Ikeda, Y Fukatsu, M Tanaka, M Furukawa, F Kawashima, and Y Kohata. Interest paid during the year in respect of these loans amounted to $5,199 (2004: $4,574).

Directors' loans in existence as at the reporting date are disclosed in Notes 2 and 6.

**(d) Transactions With Other Related Parties**

Details of interest revenue, interest expense and management fees received are disclosed in Note 24.

**(e) Outstanding Balances With Entities Within The Wholly Owned Group**

Loans receivable and payable are disclosed in Notes 2, 6, 11 and 16.

| Related Party | Transaction Type | 2005 $'000 | 2004 $'000 | Terms and Conditions |
|---|---|---|---|---|
| Ultimate Parent Company | Trade debtors | | | |
| | - Current | 42,741 | 63,263 | Commercial terms and conditions |
| | Other debtors | | | |
| | - Current | 968 | 1,044 | Commercial terms and conditions |
| | Trade creditors | | | |
| | - Current | 32,284 | 26,475 | Commercial terms and conditions |
| | Other creditors | | | |
| | - Current | 540 | 22 | Commercial terms and conditions |

| Related Party | Transaction Type | 2005 $'000 | 2004 $'000 | Terms and Conditions |
|---|---|---|---|---|
| Related Bodies Corporate | Trade debtors | | | |
| Wholly-owned group | - Current | 1,875 | 17,262 | Commercial terms and conditions |
| | Other debtors | | | |
| | - Current | 118,298 | 12,280 | Commercial terms and conditions |
| | - Non-Current | 5,113 | 3,689 | |
| | Trade creditors | | | |
| | - Current | 2,757 | 2,302 | Commercial terms and conditions |
| | Other creditors | | | |
| | - Current | 17,601 | 31,291 | Commercial terms and conditions |
| | - Non-Current | 29,314 | 30,854 | |

## 36. Related Party Disclosures (Cont'd)

**(f) Outstanding Balances With Other Related Parties**

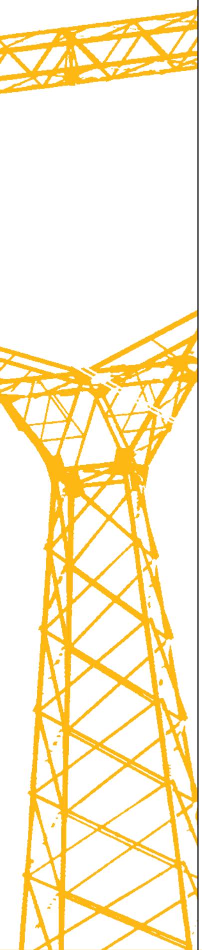
| Related Party | Transaction Type | 2005 $'000 | 2004 $'000 | Terms and Conditions |
|---|---|---|---|---|
| Bodies Corporate not 100% owned within wholly-owned group | Trade debtors | | | |
| | - Current | 810 | 134 | Commercial terms and conditions |
| | Other debtors | | | |
| | - Current | 72 | 443 | Commercial terms and conditions |
| | Trade creditors | | | |
| | - Current | - | 71 | Commercial terms and conditions |
| | Other creditors | | | |
| | - Current | 1 | 196 | Commercial terms and conditions |

## 37. Details of Controlled Entities

| | Country of Incorporation | OWNERSHIP INTEREST 2005 % | OWNERSHIP INTEREST 2004 % |
|---|---|---|---|
| **Parent Entity** | | | |
| Mitsui & Co. (Australia) Ltd. | Australia | | |
| **Controlled Entity** | | | |
| Mitsui & Co. Financial Services (Australia) Ltd | Australia | 100 | 100 |
| MCA Afforestation Pty Ltd | Australia | 100 | 100 |
| Mitsui Accounting Services (Australia) Pty Limited | Australia | 100 | 100 |

## 38. Economic Dependency

The group was dependent during the financial year upon its ultimate parent company, Mitsui & Co., Ltd, Japan, for a significant volume of its trading transactions.



## 39. Financial Reporting By Segments

The operations of the group are conducted from Australia. For management purposes, the consolidated entity is organised into business divisions based on trading, investing and providing services for particular product lines as tabled below:

**Segment Revenues**

| | EXTERNAL SALES | | OTHER | | TOTAL | |
|---|---|---|---|---|---|---|
| | **2005 $'000** | **2004 $'000** | **2005 $'000** | **2004 $'000** | **2005 $'000** | **2004 $'000** |
| Steel | 62,389 | 74,146 | - | - | 62,389 | 74,146 |
| Iron ore | 5,519 | 6,745 | 40,945 | 8,580 | 46,464 | 15,325 |
| Coal | 6,203 | 7,448 | 7,778 | 10,267 | 13,981 | 17,715 |
| Metal | 554,797 | 393,036 | 1,290 | 207 | 556,087 | 393,243 |
| Machinery | 31,950 | 26,339 | 176 | 175 | 32,126 | 26,514 |
| Chemical | 169,993 | 114,477 | 13 | 13 | 170,006 | 114,490 |
| Energy | 152,715 | 130,508 | 3,290 | 347 | 156,005 | 130,855 |
| Food | 413,813 | 356,899 | 248 | 276 | 414,061 | 357,175 |
| General Merchandise | 7,907 | 175,717 | - | - | 7,907 | 175,717 |
| Other | 818 | 2,705 | - | - | 818 | 2,705 |
| Total of all segments | 1,406,104 | 1,288,020 | 53,740 | 19,865 | 1,459,844 | 1,307,885 |
| Eliminations | | | | | - | - |
| Unallocated | | | | | 82,147 | 79,136 |
| Consolidated | | | | | 1,541,991 | 1,387,021 |

| | **2005 $'000** | **2004 $'000** |
|---|---|---|
| **Segment Results** | | |
| Steel | (255) | 1,056 |
| Iron ore | 45,365 | 14,269 |
| Coal | 9,670 | 14,667 |
| Metal | 1,394 | (267) |
| Machinery | 467 | (50) |
| Chemical | 696 | 33 |
| Energy | 2,531 | (642) |
| Food | 1,176 | 1,847 |
| General Merchandise | (270) | 551 |
| Finance & administration | (6,599) | (7,556) |
| Other | (861) | (794) |
| Total of all segments | 53,314 | 23,114 |
| Eliminations | 75 | 75 |
| Unallocated | 4,845 | 8,878 |
| Profit from ordinary activities before income tax | 58,234 | 32,067 |
| Income tax relating to ordinary activities | (1,421) | (1,184) |
| Profit from ordinary activities after related income tax | 56,813 | 30,883 |

## 39. Financial Reporting By Segments (Cont'd)

**Segment Assets and Liabilities**

| | ASSETS | | LIABILITIES | |
|---|---|---|---|---|
| | 2005 $'000 | 2004 $'000 | 2005 $'000 | 2004 $'000 |
| Steel | 14,037 | 20,987 | 14,401 | 21,237 |
| Iron ore | 109,520 | 107,879 | 7,156 | 7,198 |
| Coal | 83,111 | 106,285 | 87,390 | 109,874 |
| Metal | 66,046 | 44,647 | 64,036 | 44,579 |
| Machinery | 21,178 | 19,436 | 21,766 | 20,967 |
| Chemical | 43,462 | 24,296 | 42,623 | 23,681 |
| Energy | 32,081 | 34,986 | 29,738 | 34,321 |
| Food | 23,774 | 17,666 | 23,966 | 17,643 |
| General Merchandise | 6,697 | 7,985 | 8,078 | 8,018 |
| Finance | 430,772 | 372,792 | 425,026 | 368,380 |
| Finance and administration | 479,086 | 285,711 | 391,979 | 208,469 |
| Total of all segments | 1,309,764 | 1,042,670 | 1,116,159 | 864,367 |
| Eliminations | (321,646) | (313,037) | (321,882) | (311,432) |
| Unallocated | 3,420 | 3,323 | 3,794 | 3,367 |
| Consolidated | 991,538 | 732,956 | 798,071 | 556,302 |

| | 2005 $'000 | 2004 $'000 |
|---|---|---|
| **Acquisition of Segment Assets** | | |
| Other | 3,020 | 524 |
| **Depreciation of Segment Assets** | | |
| Other | 1,025 | 1,122 |

**Geographical Segments**

The consolidated entity's operations are conducted from Australia. The consolidated entity's customers, however, are located in 3 principal geographic locations – Japan, Australia, and the United Kingdom. The products and services that the consolidated entity trades are not linked to specific geographic segments.

Details of geographic segments are as follows:

| | EXTERNAL SALES | | SEGMENT ASSETS | | SEGMENT ASSETS ACQUIRED | |
|---|---|---|---|---|---|---|
| **Geographical Segments** | 2005 $'000 | 2004 $'000 | 2005 $'000 | 2004 $'000 | 2005 $'000 | 2004 $'000 |
| Japan | 887,753 | 868,086 | - | - | - | - |
| Australia | 232,613 | 174,920 | 985,454 | 722,367 | 3,020 | 524 |
| United Kingdom | 788 | 190 | 3,202 | 3,202 | - | - |
| Other | 284,950 | 244,824 | 2,882 | 7,387 | - | - |
| | 1,406,104 | 1,288,020 | 991,538 | 732,956 | 3,020 | 524 |

# NOTES TO THE FINANCIAL STATEMENTS
continued

## 40. Financial Instruments

### (a) Significant Accounting Policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which revenues and expenses are recognised, in respect of each class of financial asset and financial liability, are disclosed in Note 1 to the accounts.

### (b) Objectives of Derivative Financial Instruments and Significant Terms and Conditions

The consolidated entity enters into various derivative financial instruments in the normal course of business. It does so to meet the needs of its customers for foreign exchange, interest rate and price protection, to earn trading and fee revenue, and to manage its own exposure to fluctuations in foreign exchange rates and commodity prices. The primary classes of derivatives used by the consolidated entity are foreign exchange contracts, cross currency swaps, interest rate swaps, and options.

Since most of the consolidated entity's derivative transactions are related to hedges of underlying business exposures, market risk in those derivative instruments is basically offset by equal and opposite movements in the underlying exposure.

The consolidated entity acts as an agent for an overseas related party, entering into interest rate swaps and cross-currency swaps on a back-to-back basis and has no exposure to market risks on these transactions. Accordingly, disclosures in respect of these financial instruments are not considered meaningful and have therefore not been included in the disclosures below.

**Commodity Trading**

The consolidated entity has entered into contracts to purchase and sell various commodities in the future. Since the consolidated entity has the discretion to either settle these transactions in cash or by physical delivery, these contracts are not considered financial instruments. Committed commodity purchases are disclosed in Note 32.

### (c) Interest Rate Risk

The consolidated entity is exposed to various risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows.

The following table details the consolidated entity's exposure to interest rate risk for recognised financial assets and liabilities as at the reporting date.

| | | | Fixed Interest Rate Maturity | | | | |
|---|---|---|---|---|---|---|---|
| 2005 | Average Interest Rate % | Variable Interest Rate $'000 | Less than 1 Year $'000 | 1 to 5 Years $'000 | More than 5 Years $'000 | Non-Interest Bearing $'000 | Total $'000 |
| **Financial Assets** | | | | | | | |
| Cash | 2.62 | 22,414 | - | - | - | - | 22,414 |
| Trade debtors | - | - | - | - | - | 159,300 | 159,300 |
| Other debtors | - | - | - | - | - | 165,218 | 165,218 |
| Short term deposits | 5.40 | 4,199 | - | - | - | - | 4,199 |
| Short term loans receivable | 6.39 | 31,831 | 168,155 | - | - | 475 | 200,461 |
| Long term loans receivable | 6.46 | - | - | 67,484 | 49,234 | - | 116,718 |
| Interest rate swaps (i) | 5.35 | (99,170) | 67,125 | 32,045 | - | - | - |
| | **6.16** | **(40,726)** | **235,280** | **99,529** | **49,234** | **324,993** | **668,310** |
| **Financial Liabilities** | | | | | | | |
| Trade Creditors | 2.64 | - | 13,360 | - | - | 85,404 | 98,764 |
| Other Creditors | - | - | - | - | - | 66,082 | 66,082 |
| Short term borrowings | 5.95 | 258,869 | 59,062 | - | - | - | 317,931 |
| Long term borrowings | 5.26 | - | - | 42,196 | 18,394 | - | 60,590 |
| Interest rate swaps (ii) | 6.00 | (156,487) | 51,325 | 71,520 | 33,642 | - | - |
| | **5.73** | **102,382** | **123,747** | **113,716** | **52,036** | **151,486** | **543,367** |

# 40. Financial Instruments (Cont'd)

**(c) Interest Rate Risk (Cont'd)**

| 2004 | Average Interest Rate % | Variable Interest Rate $'000 | Fixed Interest Rate Maturity: Less than 1 Year $'000 | Fixed Interest Rate Maturity: 1 to 5 Years $'000 | Fixed Interest Rate Maturity: More than 5 Years $'000 | Non-Interest Bearing $'000 | Total $'000 |
|---|---|---|---|---|---|---|---|
| **Financial Assets** | | | | | | | |
| Cash | 1.56 | 6,860 | - | - | - | - | 6,860 |
| Trade debtors | 2.99 | 1,070 | 35,187 | - | - | 108,543 | 144,800 |
| Other debtors | - | - | - | - | - | 80,202 | 80,202 |
| Short term deposits | 5.15 | 297 | - | - | - | - | 297 |
| Short term loans receivable | 6.01 | 169,186 | 47,988 | - | - | 19,488 | 236,662 |
| Long term loans receivable | 6.07 | - | 2,589 | 30,499 | 9,750 | - | 42,838 |
| Interest rate swaps (i) | 5.15 | (136,230) | 57,400 | 78,830 | - | - | - |
| | **5.56** | **41,183** | **143,164** | **109,329** | **9,750** | **208,233** | **511,659** |
| **Financial Liabilities** | | | | | | | |
| Trade Creditors | 2.00 | - | 11,535 | - | - | 61,197 | 72,732 |
| Other Creditors | - | - | - | - | - | 54,610 | 54,610 |
| Short term borrowings | 5.47 | 205,074 | 54,504 | - | - | 19,488 | 279,066 |
| Long term borrowings | 4.62 | - | 2,046 | 80,319 | 5,180 | - | 87,545 |
| Interest rate swaps (ii) | 7.07 | (127,771) | 16,000 | (17,584) | 129,355 | - | - |
| | **5.15** | **77,303** | **84,085** | **62,735** | **134,535** | **135,295** | **493,953** |

(i) Comprises $99,170,000 (2004: $147,230,000) floating to fixed swaps offset by $Nil (2004: $11,000,000) fixed to floating swaps, and $Nil (2004: $214,867,000) cross currency floating to floating swaps.

(ii) Comprises $156,487,000 (2004: $201,119,000) of floating to fixed swaps offset by $Nil (2004: $73,348,000) fixed to floating swaps.

**Interest Rate Swaps**

The consolidated entity enters into interest rate swaps to hedge its interest rate exposures. Under interest rate swap contracts, the consolidated entity agrees to exchange the difference between fixed and floating rate interest calculated on agreed notional principal amounts.

The following table details the notional principal amounts and remaining terms of interest rate swap contracts outstanding as at the reporting date.

| Outstanding Contracts | AVERAGE INTEREST RATE 2005 % | AVERAGE INTEREST RATE 2004 % | NOTIONAL PRINCIPAL AMOUNT 2005 $'000 | NOTIONAL PRINCIPAL AMOUNT 2004 $'000 |
|---|---|---|---|---|
| Less than 1 year | 5.60 | 5.34 | 118,450 | 94,631 |
| 1 to 2 years | 5.31 | 5.43 | 27,045 | 130,450 |
| 2 to 5 years | 6.04 | 5.67 | 76,520 | 105,812 |
| 5 years and more | 5.94 | 6.30 | 33,642 | 316,671 |
| | | | 255,657 | 647,564 |

The average interest rate is based on the outstanding balances at the start of the financial period.

# NOTES TO THE FINANCIAL STATEMENTS
continued

## 40. Financial Instruments (Cont'd)

**(d) Foreign Exchange Risk**

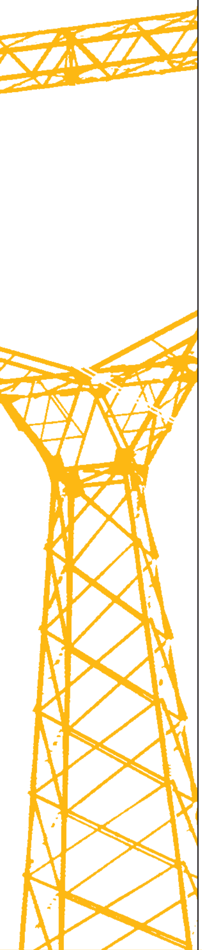
The consolidated entity is exposed to various risks associated with the effects of fluctuations in the exchange rates of foreign currencies on its financial position and cash flows. The consolidated entity enters into forward foreign exchange contracts and cross currency swaps for the purpose of reducing its foreign exchange risk.

**Forward Foreign Exchange Contracts**

It is the policy of the consolidated entity to enter into forward foreign exchange contracts to hedge foreign currency receivables and payables. Under forward foreign exchange contracts, the consolidated entity agrees to exchange specified amounts of various currencies at an agreed future date at a specified exchange rate.

The following table details the forward foreign currency exchange outstanding as at the reporting date.

| | AVERAGE EXCHANGE RATE | | PRINCIPAL AMOUNT | |
|---|---|---|---|---|
| **Outstanding Contracts** | **2005** | **2004** | **2005 $'000** | **2004 $'000** |
| **Sell US Dollars** | | | | |
| Less than 3 months | 0.76 | 0.57 | 3,766 | 1,564 |
| 3 to 6 months | 0.77 | 0.52 | 2,403 | 814 |
| Longer than 6 months | 0.76 | 0.55 | 1,397 | 2,398 |
| **Buy US Dollars** | | | | |
| Less than 3 months | 0.76 | 0.74 | 9,312 | 5,474 |
| 3 to 6 months | 0.77 | 0.75 | 6,501 | 64 |
| Longer than 6 months | 0.77 | 0.50 | 158 | 1,710 |
| **Sell Japanese Yen** | | | | |
| Less than 3 months | 69.63 | 65.39 | 2,939 | 1,662 |
| 3 to 6 months | 54.53 | 60.53 | 1,077 | 1,267 |
| Longer than 6 months | 55.19 | 56.55 | 2,211 | 2,193 |
| **Buy Japanese Yen** | | | | |
| Less than 3 months | 78.45 | 79.00 | 1,319 | 639 |
| 3 to 6 months | 79.64 | 80.04 | 231 | 169 |
| Longer than 6 months | 79.64 | - | 461 | - |
| **Buy US Dollars Sell Japanese Yen** | | | | |
| Less than 3 months | 103.06 | 105.87 | 2,288 | 426 |
| 3 to 6 months | 102.84 | 115.13 | 2,003 | 762 |
| Longer than 6 months | 103.28 | - | 1,179 | - |



# 40. Financial Instruments (Cont'd)

**(d) Foreign Exchange Risk (Cont'd)**

**Cross Currency Swaps**

Under cross currency swap contracts, the consolidated entity agrees to exchange specified principal and interest foreign currency amounts at an agreed future date at a specified exchange rate. Such contracts enable the consolidated entity to mitigate the risk of adverse movements in foreign exchange rates.

The following table details the cross currency swaps outstanding as at the reporting date.

| | AVERAGE EXCHANGE RATE | | PRINCIPAL AMOUNT | |
|---|---|---|---|---|
| **Outstanding Contracts** | **2005** | **2004** | **2005 $'000** | **2004 $'000** |
| Buy Japanese Yen | | | | |
| Less than 1 year | - | 70.65 | - | 21,231 |
| Buy US Dollar | | | | |
| 2 to 5 years | - | 0.6325 | - | 12,639 |
| 5 years and more | - | 0.5415 | - | 312,101 |
| | | | - | 345,971 |

The interest rate exposure pursuant to the cross currency swap contracts are included in the tables in note 40(c).

**(e) Credit Risk**

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the consolidated entity. The variety of businesses within the consolidated entity have diverse customers and suppliers which inherently reduces the concentration of credit risk. The consolidated entity deals with selective international financial institutions to minimise the credit risk exposure of financial instruments with off-balance sheet risks. Management does not expect any losses as a result of counterparty default on financial instruments with off-balance sheet risk. Credit risk is managed through the credit line approval by management and by monitoring the counterparties periodically.

The carrying amount of financial assets recorded in the financial statements, net of any provisions for losses, represents the consolidated entity's maximum exposure to credit risk in respect of those financial assets.

Credit risk in respect of derivatives arises from the potential failure of counterparties to meet their obligations under the respective contracts at maturity and is summarised as follows:

| | **2005 $'000** | **2004 $'000** |
|---|---|---|
| **Unrecognised Financial Assets** | | |
| Favourable foreign exchange contracts | 1,828 | 24,039 |

## 40. Financial Instruments (Cont'd)

**(f) Net Fair Value**

Except as noted below the carrying amount of financial assets and financial liabilities recorded in the financial statements represents their respective net fair values, determined in accordance with the accounting policies disclosed in Note 1 to the accounts.

**Fixed rate financial assets and financial liabilities**

The consolidated entity has entered into fixed rate financial assets and financial liabilities as disclosed in note 40(c) on a back to back basis to facilitate its trading operation. Accordingly, any net fair value increments would be offset by net fair value decrements such that individual net fair value disclosures are not considered meaningful and therefore have not been disclosed.

**Non-interest bearing short term loans receivable and short term borrowings**

Non-interest bearing short term loans receivable have been funded by equal and off-setting non-interest bearing short term borrowings. Accordingly, any net fair value increments would be offset by net fair value decrements such that individual net fair value disclosures are not considered meaningful and have not therefore been disclosed.

The net fair value of financial assets and financial liabilities have been determined as follows:

- The net fair value of the financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices;
- Where amounts are payable or receivable within 12 months, the carrying amount is taken to approximate the net fair value; and
- The net fair value of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow theory.

## 41. Impacts of Adopting the Australian Equivalents to International Financial Reporting Standards

In accordance with the Financial Reporting Council's strategic directive, Mitsui & Co. (Australia) Ltd will be required to prepare financial statements that comply with the Australian equivalents to the International Reporting Standards ("A-IFRS") for annual reporting periods beginning on or after 1 January 2005. Accordingly, the company's and consolidated entity's first annual financial report prepared under A-IFRS will be for the year ended 31 March 2006.

During the reporting period, the Company established a committee to manage the transition to A-IFRS. The committee conducted a high level scoping exercise as part of its awareness training to obtain an idea of the effect and effort involved in adopting A-IFRS on the company. Part of this scoping exercise involved identifying key areas of impact that will arise on adoption of A-IFRS. Now that the company has this information, it intends to conduct a study to determine the approximate impact and best options for the consolidated entity for future reporting periods, and to begin a process to redesign and build systems and processes in order to capture information necessary to allow the preparation of financial statements which are fully compliant with A-IFRS.

**First-time adoption of A-IFRS**

On first-time adoption of A-IFRS, the company will be required to restate its comparative balance sheet such that the comparative balances presented comply with the requirements specified in the A-IFRS. That is, the balances shown in this report may not be the balances presented as comparative numbers in the financial report for the year ended 31 March 2006. Further, as most adjustments on the first-time adoption are made against opening retained earnings, the amount of retained earnings as shown in the financial report at 31 March 2005 may differ significantly to the amounts shown in the financial report as at 31 March 2006.

Various voluntary and mandatory exemptions are available to the company on first-time adoption, which will not be available on an ongoing basis. The exemptions provide relief from retrospectively accounting for certain balances, instruments and transactions in accordance with A-IFRS. The impact on the company of the changes in accounting policy on first-time adoption of A-IFRS will be affected by choices made. The company is evaluating the effect of the options available on first-time adoption in order to determine the best possible outcome for the company.

## 41. Impacts of Adopting the Australian Equivalents to International Financial Reporting Standards (Cont'd)

**Income tax**

The company currently recognises deferred taxes by accounting for the differences between accounting profits and taxable income, which give rise to "permanent" and "timing" differences. Under A-IFRS, deferred taxes are measured by reference to the "temporary" differences determined as the difference between the carrying amount and the tax base of the assets and liabilities recognised in the balance sheet.

Because A-IFRS has a wider scope than the entity's current accounting policy, it is likely that the amount of deferred taxes recognised in the balance sheet will increase.

Adjustments to the recognised amounts of deferred taxes will also result as a consequence of adjustments to the carrying amounts of assets and liabilities resulting from the adoption of other A-IFRS. The likely impact of these changes on the deferred tax balances has not currently been determined.

**Financial assets and financial liabilities**

Under current Australian GAAP, financial assets and financial liabilities are recognised at cost, at fair value, or at net market value. On adoption of A-IFRS, the company will be required to classify these financial instruments into various specified categories. The classification of the instrument will affect the instrument's subsequent measurement – at amortised cost using the effective interest rate method, fair value with movements recognised through equity or fair value recognised through the profit and loss. The company is evaluating the different options available, but has not made any determination at reporting date of the accounting to be adopted, and consequently, the impact of the change on the financial statements cannot yet be quantified.

**Hedge accounting**

The company enters into forward exchange contracts, interest rate swaps and forward rate agreements in order to hedge its exposure to fluctuations in exchange rates and interest rates. The current accounting policy for hedging is described in note 1(n) and (o). Under A-IFRS, hedges are designated as fair value hedges or cash flow hedges, and the accounting differs depending on the designation. Where a hedge is designated as a fair value hedge, changes in the fair value of the hedged item to the extent of the risk hedged are recognised in profit and loss. Changes in the fair value of hedging instruments classified as cash flow hedges are recognised as equity to the extent that they are effective hedges, and are recycled to the income statement when the hedged transaction affects the profit and loss. Any movement in the fair value of the hedged instrument that is not effective is recognised immediately in profit and loss.

The designation, documentation and effectiveness requirements under A-IFRS may result in some hedges no longer qualifying for hedge accounting. It is not possible to determine the impact of the change in hedging requirements until a full analysis of the impact of the standard (including no longer accounting for hedging instruments under hedge accounting) has been conducted.

**Revenue from ordinary activities**

Although not impacting the net profit of the company and the consolidated entity, the adoption of A-IFRS will result in a number of transactions being recorded at "net" rather than a "gross' basis. In addition, the adoption of A-IFRS results in the reclassification of proceeds from sale of non-current assets from "revenue from ordinary activities" to other income and expense items in the statement of financial performance. The likely impact of these changes on revenue from ordinary activities has not currently been determined.

**Property, plant and equipment**

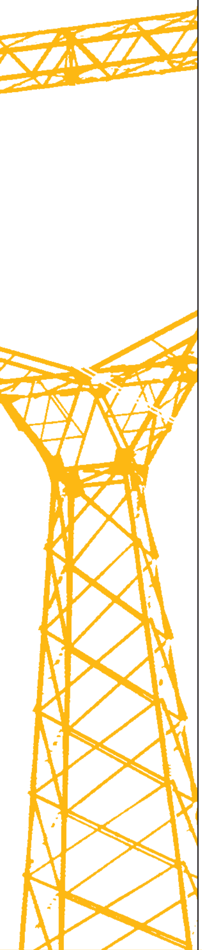
On transition to A-IFRS the company and consolidated entity has several options in the determination of cost of each tangible asset, and can also elect to use cost or fair value basis for the measurement of each class of property, plant and equipment after transition. At the date of this report, the company has not decided which options and measurement basis will be adopted and the likely impacts therefore cannot be determined.

## 42. Additional Company Information

Mitsui & Co. (Australia) Ltd is a company incorporated and operating in Australia.

| **Principal Registered Office** | **Principal Place of Business** |
|---|---|
| Level 46, Gateway | Level 46, Gateway |
| 1 Macquarie Place | 1 Macquarie Place |
| Sydney, NSW, 2000. | Sydney, NSW, 2000. |

# CONTACT DETAILS



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