Acquisition of Interest in Rhodes Ridge Iron Ore Project in Australia

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Opening Remarks

Good afternoon I am Kenichi Hori, President and CEO of Mitsui. Thank you all for gathering here today on such short notice. Today we have announced the acquisition of a 40% interest in the Rhodes Ridge iron ore project. This investment, which exceeds 800 billion yen, represents the largest single investment in our company's history.

Rhodes Ridge is located in Western Australia, a region where we have been engaged in mining development since the 1960s, and where we hold the most expertise in relation to the iron ore business. This investment will boost the strength of our business foundation, which we have built up over the years. We are very familiar with this area of business, the location, and the partners. Given these factors, our Board of Directors has unanimously decided that we should make this investment.

For your reference, Rio Tinto has issued a release today welcoming our participation, touching on our long-standing partnership.

Project Overview

Let me first provide an overview of the Rhodes Ridge iron ore project.
Rhodes Ridge Joint Venture holds rights to a vast undeveloped iron ore deposit in Western Australia. Based on confirmed figures alone, the project has 6.8 billion tons of Mineral Resources, making it one of the largest undeveloped deposits in the world.

Currently, Rio Tinto holds 50% of the interest, while VOC and AMB hold 25% each. Mitsui is to acquire a total of 40% for around 5.3 billion US dollars. We have signed a sale and purchase agreement with VOC for a 25% interest and a heads of agreement with AMB to acquire a 15% interest from them. A definitive agreement for this 15% will be executed after conducting due diligence and further negotiations.

Iron ore is a core business for Mitsui and one in which we have significant strength. We have been committed to expanding long-term iron ore reserves as a key objective. Rhodes Ridge is a perfect fit as it has a tremendous resource base, large-scale production potential, and provides synergies with our existing iron ore business. Following negotiations that have taken place over many years, we have successfully reached an agreement regarding this acquisition.

Currently, the project is in its pre-feasibility stage, with first ore expected by 2030. The initial capacity is expected to be 40 million tons per annum or mtpa, with future expansion exceeding 100 mtpa. In terms of our investment return, Core Operating Cash Flow forecast net to Mitsui is approximately 100 billion yen at a production level of 40 mtpa, and around 250 billion yen at a production level exceeding 100 mtpa.

Competitiveness of Rhodes Ridge

Rhodes Ridge offers several competitive advantages. Firstly, Australia provides a politically stable environment with minimal country risk. In Addition, it has good access to China, and also the growing iron ore markets of India, and Southeast Asia. Western Australia is recognized as one of the world's largest iron ore producing regions. In particular, the Pilbara region is renowned for its vast reserves and cost competitive high-grade iron ore that requires minimal processing before export. Rhodes Ridge is one of the last remaining large-scale undeveloped iron ore deposits in the region.

As mentioned on this slide, some of the characteristics of the project are; *one of the world’s largest Mineral Resources*, it has *among the highest grade in Australia*, it is a *joint partnership with a proven operator*, and its *proximity to existing infrastructure lowering development costs and risk*, which is why some people call it the last remaining crown jewel in the Pilbara region.

First, as shown in the bubble chart, the Mineral Resources of the project are among the largest in the world, with significant expansion potential. As a single mine or mining area, it has the potential to become one of the largest operating sites globally. Furthermore, the average Fe content is 61.6%, surpassing that of other projects in Australia. This ensures long-term competitiveness, while some other major mines face production and grade declines. The project will be operated by Rio Tinto, a resource major with whom we have a longstanding partnership through the Robe River Joint Venture.

As I will elaborate in the next slide, the Rhodes Ridge deposit is located near the existing operating mine, which we anticipate will allow us to leverage established infrastructure for low cost and low risk development.

Synergy 1: Utilization of Existing Iron Ore Infrastructure

I will now explain the synergies with the existing businesses. The first synergy will be the utilization of existing iron ore infrastructure. Typically, new mine developments require substantial CAPEX for rail and port infrastructure, together with risks of construction delays. However, as Rhodes Ridge is adjacent to the Robe River Joint Venture and Rio Tinto's existing operations, it can utilize existing rail and port infrastructure, significantly reducing development costs and risks compared to other new mine developments, ensuring a quicker production start-up.

Furthermore, with both Rio Tinto and Mitsui participating in the adjacent Joint Ventures, Robe River and Rhodes Ridge, numerous synergy opportunities in areas such as development and operational efficiency can be expected. One example is the potential extension of existing infrastructure. The southern part of Rhodes Ridge tenement contains ore with now scarce, highly sought-after low-phosphorus content. By extending the existing infrastructure, access to this high-quality ore will be significantly enhanced. Through such initiatives, we aim to accelerate development and potentially unlock greater value for both Rhodes Ridge and our existing operations.

Synergy 2: Blending

The second synergy comes from the ore grade and marketing. Iron ore from Rhodes Ridge will be blended with ores from other Rio Tinto operated mines, including those in which we have equity stakes in, and will be shipped as Pilbara Blend. Pilbara Blend is the most traded iron ore brand globally and plays a critical role in maintaining stable operations of blast furnaces for steel manufacturers.

Across the industry, maintaining ore quality is becoming increasingly challenging as the reserves at existing mines deplete. In Western Australia, the rising phosphorus content in ore is a particular concern. Some ore from existing mines cannot be sold as Pilbara Blend due to its high phosphorus levels. The abundant low-phosphorus ore of Rhodes Ridge enables the effective utilization of high-phosphorus ore from existing mines, creating long-term synergies for existing operations.

Through the development of Rhodes Ridge, we will continue contributing to the stable supply of iron ore worldwide.

Production Outlook and Cash Generation of Rhodes Ridge

Next, I will speak on the production outlook and cash generation for Rhodes Ridge. As I mentioned at the outset, first ore is expected by 2030, with an initial production capacity of 40 mtpa. In the future, we anticipate expanding the capacity to exceed 100 mtpa.

The Core Operating Cash Flow forecast net to Mitsui is approximately 100 billion yen at a production level of 40 mtpa, and around 250 billion yen at a production level exceeding 100 mtpa.

IRR for the project is expected to exceed our investment hurdle rate as a base case. In addition, we will pursue upside potential through accelerated production ramp-up, expansion, and operational optimization with other mines.

Sustainable Development and Operations

Mitsui places great importance on sustainability in its corporate management. We are therefore committed to advancing sustainable development and operations at Rhodes Ridge as well. The Pilbara region of Western Australia is rich in natural capital, and to safeguard its environment and ecosystem, development plans have been formulated with the project operator Rio Tinto taking the lead. Rio Tinto has committed to net-zero emissions by 2050, a target shared by Mitsui.

Based on the MOU signed in 2022, we are actively exploring collaboration with Rio Tinto to implement low-carbon mining solutions, including switching to low-emission fuels and mining trucks, and renewable energy integration. Furthermore, we are committed to respecting indigenous heritage and fostering strong relationships with local communities through our partnerships with Rio Tinto and AMB.

Our History in Iron Ore

Ever since we started developing iron ore mines in Australia in the 1960s, for over half a century, we have built up extensive expertise and a solid track record.

In the 2000s, as demand from China increased, we focused on major expansions of our existing projects. This helped us form strong partnerships with the industry's three majors, Rio Tinto, Vale, and BHP, giving us a unique position in the market.

With that foundation, we set our sights on Rhodes Ridge, the last large-scale undeveloped iron ore deposit in Western Australia and a true crown jewel of the region. We have been building a relationship with the owner families since the 2000s.

Back then, there were many obstacles, and progress in discussions was limited. But by staying committed and strengthening our ties, passing down the baton from one generation to another, we finally secured the opportunity of an exclusive negotiation. Now, after 20 years of efforts, we have reached an agreement to acquire an interest in this incredibly scarce asset.

With the acquisition and development of Rhodes Ridge, we are looking to take our iron ore business, in which we have a competitive edge, to the next level.

Further Strengthening of our Iron Ore Business

Our iron ore business is operated in partnership with the three major players that cumulatively produce the majority of the global seaborne trade volume.

In addition to our joint ventures with Rio Tinto and BHP, we also have a direct equity stake in Vale. These three pillars, with their overwhelming cost competitiveness and production scale, have long been our largest source of earnings, generating 327.7 billion yen in FY March 2024.

By participating in Rhodes Ridge, we aim to establish a fourth pillar in our area of strength. This will further expand and solidify our iron ore business in the future.

Mitsui's Equity Share of Iron Ore Production

Next, I will speak on Mitsui's equity share of iron ore production, and how it is changing over time.

In 2015, our equity share of production volume was 50 mtpa. Since then, we have continued to expand our assets, increasing production to 60 mtpa as of today.

With our investment in Rhodes Ridge and the contribution from the existing assets, our equity share of production is expected to increase to 100 mtpa in the future. This will further strengthen and expand our long-term earnings base.

Steady Demand for Iron Ore in the Future

Next, I will touch on the business environment of iron ore.

While China's crude steel production is expected to decline gradually over time, strong growth in steel production is expected in India and Southeast Asia, leading to expectations for a continued long-term increase in global crude steel production.

However, there is expected to be an iron ore supply shortage, as some production from existing mines decline, and supply from both existing mines and new developments with a high probability of completion alone will not be sufficient to meet the growing demand.

Although the use of electric arc furnaces utilizing scrap is expected to increase to a certain extent, iron ore will remain essential for producing high-grade steel in any process. Therefore, we anticipate that the long-term supply-demand balance for iron ore will remain strong.

Future Potential of Rhodes Ridge Iron Ore

As the global push for decarbonization persists, the steel industry is also exploring various low-carbon steelmaking technologies.

In the short term, the transition from blast furnaces to electric arc furnaces, along with the use of direct reduced iron and scrap, has gained attention. However, the supply of high-quality scrap remains limited, and iron ore, as a low-impurity iron source, continues to be essential for producing high-grade steel. Additionally, the supply of high-grade iron ore suitable for direct reduction in existing processes is also limited, making it insufficient to fully achieve the steel industry's decarbonization goals.

Given this background, the industry is actively developing technologies in low-carbon steelmaking processes to utilize medium-grade iron ores which is the main product in countries such as Australia. One promising approach is to produce direct reduced iron with medium-grade iron ore as a raw material and using it in electric arc furnaces to manufacture high-grade steel.

Once these technologies are commercialized, the demand for Rhodes Ridge iron ore, which has a relatively high Fe content among Australian ores, is expected to expand beyond the conventional blast furnace applications, further increasing its market potential.

In addition to the direct reduced iron project in Oman that we are currently considering, we aim to contribute to the decarbonization of the steel industry through initiatives in hydrogen, CCS (carbon capture and storage), CCUS (carbon capture, utilization, and storage), and renewable energy.

Impact on Cash Flow Allocation

Finally, I will explain the impact of the acquisition on our cash flow allocation and balance sheet.

Under our current Medium-term Management Plan (MTMP), we had accounted for 500 billion yen under *investments for growth*, in order to expand our iron ore reserves over the medium- to long-term and specifically targeting the acquisition of a stake in Rhodes Ridge. After negotiations with VOC and AMB, we secured the opportunity to acquire a 40% interest in the project. Given the strategic value of this rare opportunity, we determined that it was worth committing an additional 300 billion yen from the Management Allocation, bringing the total acquisition cost to 800 billion yen.

Furthermore, we have decided to add 400 billion yen to the Management Allocation, from funds which we once used to reinforce the balance sheet at the end of the previous MTMP. As a result, the new balance of the Management Allocation will be 550 billion yen. Moving forward, while maintaining the cash flow allocation framework, through our substantial Management Allocation, we will make carefully selected investments for growth and flexible shareholder returns, as we head into the final year of the MTMP.

Conclusion

This concludes my presentation on the acquisition of interest in Rhodes Ridge. Over both the previous and current MTMPs, we have steadily strengthened our cash-generation capabilities. By effectively reallocating our cash gained from the combination of a solid COCF earnings base and asset recycling from portfolio reconfiguration, and through projects with leading partners across industries worldwide, we are committed to increasing the resilience of our business portfolio and further enhancing our corporate value.