Acquisition of Interest in Rhodes Ridge Iron Ore Project in Australia

Date	February 19, 2025 (Wednesday) 17:00-18:00	
Speakers	Kenichi Hori	Representative Director, President and CEO
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Moderator	Hiroaki Tanoi	Deputy General Manager of Investor Relations Division

Q1
You state that you expect Core Operating Cash Flow (COCF) of approximately 100 billion yen, based on the assumption of an initial production rate of 40 million tons per annum (mtpa). Aside from the acquisition itself, could you also provide other details such as those regarding development costs and iron ore price assumptions?

Inamuro
The CAPEX required for development is expected to become available after the pre-feasibility study (PFS) which is scheduled for completion in 2025. However, as this deposit contains a vast amount of Mineral Resources, we have the advantage of selecting from a wide range of options regarding sequencing and conditions for our long-term production plan, which we believe will contribute to cost competitiveness. Our iron ore price assumption has a degree of conservatism factored in and is largely in line with the 84 USD per ton (CFR China) medium- to long-term estimates made by external institutions.

Q2
Regarding cash flow allocation, you mentioned that 400 billion yen has been added from the balance sheet to the Management Allocation. Does this mean we should assume that the portion allocated to the balance sheet in the previous Medium-term Management Plan (MTMP) to strengthen your financial position has now been reallocated back to the Management Allocation? Additionally, for large-scale projects in the future, do you intend to flexibly allocate funds from your balance sheet? Furthermore, I took the increase in Management Allocation from 450 billion yen to 550 billion yen as a message that you will not be reducing shareholder returns but if there is another message here then please clarify this.

Hori
In our initial cash flow allocation, we had budgeted 500 billion yen for this project under *investments for growth*. However, since we were able to acquire an additional interest under favorable conditions, we increased the budget for this acquisition. This additional amount will be allocated from the Management Allocation set out in the MTMP, that we had planned for in the initial cash flow allocation framework.

At the end of the previous MTMP, we explained that we would temporarily use the unallocated Management Allocation to strengthen our financial position and reinvest if favorable investment opportunities arose. We believe this project falls into this category and, accordingly, rebolstered the Management Allocation by contributing 400 billion yen, not from the current MTMP's cash flow allocation framework, but from the balance sheet.

As a result, the Management Allocation has increased from 450 billion yen to 550 billion yen. In the remaining five quarters of the current MTMP, we intend to be even more disciplined in our investment approach and continue to raise the bar of our selection criteria in pursuing new investments for growth, and also ensure flexible shareholder returns. We have bolstered the Management Allocation and hope we are able to meet your expectations regarding cash flow allocation.

Q3
I understand that in the past few years, large-scale development projects in the energy or metal resources industries have often experienced delays to the payback due to cost overruns and construction delays caused by inflation. How do you plan to address these risks in this project?

Hori
We have decided to invest in this project, as we believe it to be a very competitive project, even when using our existing iron ore businesses as a benchmark. Generally, infrastructure construction is the most susceptible to the effects of inflation in undeveloped resource projects, but in this project, important infrastructure such as ports and railways already exist, and we believe that the additional costs required are highly predictable and sufficiently manageable. In addition, as a long-time partner of Rio Tinto, we are aware of their track record of thoroughly managing costs as the operator of multiple projects. In terms of iron ore prices, we believe that inflation will actually work in favor of enhancing the profitability of this project.

Q4
In the integrated report, you explained that the existing iron ore business is highly competitive in terms of cash costs. Please tell us about the cash costs of Rhodes Ridge.

Inamuro
Our existing iron ore business partners Rio Tinto, BHP, and Vale disclose that their cash costs are each around 20 USD per ton. Rhodes Ridge's cash costs will vary depending on the scale of development, but we believe they will be comparable to around 20 USD per ton.

Q5
You have said that initial production is expected to be 40 mtpa, with COCF of approximately 100 billion yen. However, considering that development costs are not included in the 800 billion yen acquisition cost, I estimate that the ROI at this stage will be around 10%. I would expect ROI to increase after expansion of production to 100 mtpa, but can you provide more details on timing?

Hori
On slide 6, COCF contribution is presented in two stages, but in both cases, figures given are the base case, with additional upside potential assumed. Regarding the timeline, please use the equity share of production graph on slide 10 as a guideline.

Additionally, please see slide 9, which details earnings from our existing iron ore business. While we have not disclosed specific profitability indicators for this project, we evaluate them to be on par with those of our existing iron ore operations. Furthermore, we anticipate synergies from this project, which we will communicate as they become visible through progress in the feasibility study.

The development costs for this project will be kept low by leveraging existing infrastructure, and the IRR exceeds our hurdle rate. We also aim to enhance the accuracy of upside forecasts through future feasibility study evaluations.

Q5 (follow-up)
Considering the price assumption of iron ore and the cost competitiveness of this project, it is my understanding that even based on production of 40 mtpa, you will exceed the project IRR hurdle rate. In addition, is it correct to understand that there is potential upside due to further reductions in cash costs through the infrastructure sharing, higher iron ore prices, and an increase in relative competitiveness due to a decline in iron ore grades in other regions?

Hori
Yes, your understanding is correct.

Q6
According to the tenement map on slide 4, it is my understanding that this project is close to the West Angelas mine and other mines, allowing for the use of existing infrastructure, which would result in lower cash costs and higher competitiveness. Is it possible to produce 40 mtpa, or even 100 mtpa, using only existing railways? Or do you need to make additional investments in railways and other facilities to reach a production capacity of 100 mtpa?

Inamuro
We believe that the existing railway lines shown on slide 4, can be used as they are. Marra Mamba ore, which will be produced in the green areas on the map, have low phosphorus and medium Fe content. Brockman ore, which will be produced in the blue area, have a relatively high phosphorus content. An optimal sequence of development of the Robe River JV and other Rio Tinto mines will be considered, but some of the low-phosphorus Marra Mamba ore and part of Brockman ore which is relatively high in phosphorous, will be shipped using the existing rail network. On the other hand, we anticipate that we may consider extending the existing railway for the production of low-phosphorus Brockman ore. Initially, we aim to stabilize the quality of Pilbara Blend using low-phosphorus Marra Mamba ore. In the medium- to long-term, we would like to develop the southern mining area while making considerations for extending the railway.

Q7

What is the expected payback period for the acquisition cost of 800 billion yen plus the expected development costs? Also, please tell us if you have any additional information on the economic rational and validity regarding the investment amount.

Hori

In terms of development costs, the scope of the CAPEX requirement is limited due to being able to use existing infrastructure, and this has greatly contributed to the improvement of the economics of the project.

With regard to the payback period, we expect to be able to recover it at a very early stage due to the size of the gross margin and profitability generated from the assets after the start of production. Cash generation will continue to be stable for decades. In a well-balanced company-wide manner, we will execute on projects that both contribute to earnings over the long-term, such as this one, and projects that contribute to generating cash at an early stage.

Regarding the amount of the investment, while keeping a close eye on the multiple at the time of investment in similar projects, we believe the project has good economics based on our many years of expertise cultivated in the iron ore business, so this is something we are confident about. The investment amount of 800 billion yen is large compared to the size of past investments, but we determined that there would be a high likelihood of payback and the project will contribute to the long-term strengthening of our portfolio, which led to the Board of Directors' unanimous approval.

Q8

There is the risk that development permits cannot be obtained for iron ore projects in Western Australian due to factors such as protection of rare species and indigenous sites, and regulations regarding these factors have become more stringent in recent years. How do you perceive such risks?

Inamuro

It has been confirmed that there are indigenous sites within the vast mining area of Rhodes Ridge. During the permitting process with the authorities, Rio Tinto decided to apply in a way that excludes these indigenous sites. The plan is to take the time to protect such sites and engage in dialogue with indigenous people, and we agree with that. Not only Rio Tinto but also AMB shares the same opinion on this and initiatives are being taken in addressing biodiversity and the environment. We will make full use of the expertise of both companies and steadily make progress regarding environmental initiatives.

Q9
Is there a risk that you will not be able to sell the high phosphorus content Brockman ore, or that it will be subject to discounts in the future?

Inamuro
As a result of many years of mining, there has been a general trend in the Pilbara region of shifting to ores with a higher phosphorus and lower Fe content. Under these circumstances, the low-phosphorus content of Marra Mamba ore plays a role in lowering the phosphorus content by blending it with the higher-phosphorus content Brockman ore. We believe that the use of Marra Mamba ore, of which Rhodes Ridge has abundant reserves, will help control impurities and phosphorus content and stabilize the grade of Pilbara Blend over time. We believe Rio Tinto are also not particularly concerned about Brockman ore becoming a risk factor.

Q10
Regarding existing mines, it is generally assumed that production will decline due to degradation of quality and difficulties in new development, but *Mitsui's Equity Share of Iron Ore Production* on slide 10 seems to assume that the production volume of existing interests will not decrease until Rhodes Ridge begins to contribute. Is my understanding correct?

Inamuro
Slide 10 shows the changes in Mitsui's equity share of production across all iron ore interests. For our holding and interest in Vale and BHP, these have not yet reached a phase of declining production. At Robe River JV, we think that as Rio Tinto continues to develop Rhodes Ridge, the production ratio with Robe River will be adjusted in an economically optimal manner. It does depend in part on Rio Tinto's future development plans, but the production volume on slide 10 is the current outlook that includes the future contributions from our equity share of production at Rhodes Ridge.

Q11
As a result of this acquisition, your ratio of investments in iron ore will become significant. Please tell us whether you intend to continue to actively acquire interests in high-quality iron ore mines in the future.

Hori

We recognize that the completion of the investment in Rhodes Ridge will significantly strengthen our iron ore portfolio and further increase its importance and contribution to the Mineral & Metal Resources segment. Based on this point, we believe that additional investments will taper off in the future. However, it is possible that we could make certain targeted investments, and we will execute those in a way that is manageable and reasonable while being mindful of appropriate timing.

Q12

The investment ratio of 40% in this project is large compared to your existing iron ore involvements. I presume that there were considerable negotiations that took place, so could you speak on the background behind the acquisition of such a large interest?

Hori

We believe that Rhodes Ridge is an extremely scarce and outstanding asset. We were able to acquire a 40% interest as a result of proceeding with negotiations based on our decision to seek a sizable acquisition for an asset of this quality. We also believed that an effective management structure could be established by forming a partnership in which Rio Tinto serves as operator, Mitsui participates, and AMB remains as a partner. The acquisition was made at this price based on a comprehensive judgment that took into account the level of equity interest held in Rhodes Ridge. Mitsui has a principle of portfolio management that focuses on the big picture, and that is something that I believe will not change into the future.

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