

Investment in FPSO Charter Projects for Petrobras in Brazil

Conference Call Q & A Session

1. Data & Time: May 14 (Fri), 2018 13:30-14:30

2. Speakers:

Mr. Yoshio Kometani, Managing Officer, COO

Infrastructure Project Business Unit

Mr. Koichi Wakata, GM of Third Projects Development Division

Mr. Yuji Mano, GM of Investor Relations Division

3. Q & A session

[Question 1]

This project is scheduled to start operation in 2021, and the total cost is reported to be around JPY150 billion. Tell us about the economics of the project, e.g, revenue contribution curve and size of investment.

Second, please comment on the strategy for the asset recycling.

[Kometani]

First, concerning the project's revenue contribution curve, this business generates stable revenue immediately following the beginning of operations throughout the 21 to 22 year charter period. Second, regarding the total asset size, we currently have 18 FPSOs including those under construction, with a total investment and loan amount of about JPY80 billion. We are planning to work with MODEC to get about two FPSO orders a year,

and we would like to continue accumulating orders for quality projects.

Thirdly, we always consider asset recycling very carefully, but it is likely that over the next one or two years, we will have a lot of new, high quality projects, especially in Brazil, so with the current timing we are focusing more on stocking up than selling off the projects. However, we do have some older FPSOs which we want to substitute for higher quality assets, while looking at the right timing for this substitution.

[Question 2] Could you go into more detail about what exactly MODEC's strengths are, and who they are competing against?

[Kometani]

This industry is dominated by just a few major companies, and our biggest competitor is the Dutch company SBM. MODEC's strengths are its experience in large, ultra-deep sea equipment, demonstrated by the track record of the projects with Petrobras in Brazil. There are about 170 FPSO vessels working around the world, but most of them are in comparatively shallow locations and smaller scale. Specializing in large-scale ultra-deep FPSO, MODEC has successfully differentiated themselves in this sector. MODEC is one of the most experienced companies in ultra-deep sea business sector, and often competes with SBM. In the meantime, there is a special factor for the MODEC/Mitsui group to take into account in that recently SBM has found it difficult to participate in bidding processes due to its corruption issue, which has served as a spur for us to win projects.

[Wakana]

For numbers 3 and below, we have BW Offshore from Europe,

Teekay Corporation from America, and Bumi Armada from Malaysia. However, all three of those companies have been rather limited in the ultra-deep field which, as Mr. Kometani explained earlier, is mostly dominated by MODEC and SBM.

[Question 3] The status of pre-salt oil field development and outlook.

[Kometani] As I explained earlier, since there are plenty of reserves, especially in the pre-salt in Brazil and its product costs are comparatively low, Petrobras has made pre-salt oil field development its top priority for investment. In the new 5-year business plan Petrobras announced last year we can see they are allocating the major portion of investment in the exploration and production of pre-salt oil fields. Recently, Brazil has begun to allow foreign investment in oil and gas fields, and international oil companies such as Total and Statoil are actively participating in the market. Foreign investors have also entered into the Mero field. This year, in addition to pre-salt development, 5 new FPSO bids have already been announced publicly, and we will also continue our policy of active bidding.

The development in the pre-salt field is progressing substantially, and the size of the reserves have been confirmed. The region has proven itself both technically and commercially, and production will continue to expand over the medium and long-term.

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