

Takeover Offer to acquire AWE Limited, an Oil and Gas Company in Australia
Telephone Conference Q&A

1. Time : 18 May 2018 (Fri) 17:00~17:50
2. Presentator : Masaharu Okubo (Chief Operating Officer of Energy Business Unit 1)
Kensuke Togawa (Director & General Manager, Mitsui E&P Australia Pty Ltd)
Yuji Mano (GM, Investor Relations Div)

3. Questions & Answers :

- Q1
- Understand that AWE will be consolidated into Mitsui as of end May. What is the quantitative impact for FY ending March 2019, and also FY ending March 2020 when Waitsia starts production during 2020 and starts contributing full year?
 - As for Mitsui's equity share of production, do you have a definitive target for the mid to long term? As for equity reserves, and do you have a target balance between oil and gas?
- A1
- Based on a set of assumptions, we have included AWE's contribution from the FY ending March 2019. This includes contribution from existing production assets such as Bass Gas and Casino Gas, which will however be offset by costs for Waitsia development. We have yet to finalize the development plan for Waitsia, and so we cannot elaborate on its future contribution at this moment.
 - We do not have a definitive production target. Our goal is to build a strong asset portfolio that can cope with changes in the environment, and which can contribute to profits in the long term.
- Q2
- What is the prospect for AWE's profitability before and after Waitsia's start-up? What is the difference in the price and environment for gas markets in Eastern parts of Australia and Western parts of Australia? Can we assume that Waitsia is cost competitive due to its onshore location?
 - What are the potential synergy effects in acquiring operatorship capabilities?
- A2
- Since around 2015, 3 LNG export projects have started up on the East coast, which has caused a large surge in demand in the Eastern Australian gas market. This has caused a shortage in the domestic gas supply especially in South East Australia, which has become a nationwide issue, and the price has continuously increased over time. In 2017, the federal government has announced a policy to restrict LNG export, and although the market is settling down, the fundamental supply and demand situation has not changed.

As a seller of natural gas, we think it is a good environment to increase our stake in gas assets such as Bass Gas and Casino projects through the acquisition of AWE.

In Western Australia, there are several LNG projects that are up and running, which owe an obligation to supply 15% of gas produced to the domestic market, thus the supply demand is well balanced. However, production from the current gas fields are expected to decline, resulting in a potential tightening of supply.

We think that Waitsia is cost competitive due to its onshore location and also its proximity to existing pipeline network.

As for gas sales contracts in Eastern Australia, although there are some spot contracts, the majority are long term contracts on a 3-15 years basis. Therefore it is difficult to indicate a market price, although we can say that price in Western Australia is relatively lower compared to the price in Eastern Australia.

- The biggest effect of acquiring operatorship capabilities is to lift the mindset of staff, to be able to sit in the driver' s seat of an existing operation. Historically, our focus has been to provide influence to the operator, but since the acquisition, we expect an improvement in staff' s motivation, and a shift in mindset to proactively pursue or develop the project. We hope this will have a ripple effect on the whole of our E&P business which will have positive effects including improved presence in the industry, proactive action from staff and better recruiting.

Q3

- Through the exploration activities in the area, how do you rate the potential for upside in reserves?
- We understand that the first step as the operator is the development of Waitsia, then expanding into its surrounding blocks, and then into the greater Australia and New Zealand areas. Does AWE already own discovered yet undeveloped reserves, or is that going to be the target of further exploration? Please elaborate on the image of how you plan to step up the operatorship capabilities.

A3

- Waitsia was discovered in a geological formation that was separate from the original target. Since then, the potentiality for Perth Basin has greatly improved. Already, we have identified several potentials for gas reserves in adjacent blocks, which we are currently considering to extract the most value out of.
- After Waitsia development, we do not have definitive projects as such. The value of acquiring operatorship is the sophistication of accountability and risk management capabilities in addition to change in staff' s mindset and motivation. rules and regulations vary in different jurisdictions and we think it is natural to expand our operations in Australian and New Zealand where AWE has expertise.

We do not think we can leapfrog into an operator capable to operate anywhere in the world. We would like to consider expanding in to other areas once we are confident that the operations in Australia and New Zealand are satisfactory.

- Q4
- Please elaborate on the background of the several extensions in the TOB process.
 - Once 100% acquisition has been achieved, we understand management of AWE including authority to manage human resources will be transferred to Mitsui. How is the transfer going?

- A4
- Firstly, a Chinese company had announced its intention to buy AWE, then the local mining company Mineral Resources followed, and we were third in the line. We presume AWE' s shareholders were expecting 4th or 5th competitor to show up, and were not so quick to accept our offer. In Australia, it is normal to have 2 to 3 extensions, and we acted flexibly in the best interest of the deal.
 - We understand that is a question in relation to how the PMI is proceeding. The PMI process has already started, and I have dispatched the GM responsible to AWE' s office to explain the background of our offer. Since we have worked in several projects in the past, there are staffs on the ground that know each other well, and the AWE staff were very receptive and positive. Of course the acquisition includes human assets. We think that a PMI is only successful if both parties' competitiveness are demonstrated, and we do not intend to push down Mitsui' s way in all the things we do.

Mitsui has experience in operating a small scale onshore oil field owned by Siam MOECO Limited, a subsidiary of MOECO. There are a number of technical people within our Mitsui E&P group companies, some of whom have experience working as an operator. So on a global basis, we can say we have operatorship experience and knowledge on a piece by piece basis. However the acquisition of AWE has brought to us a full set of capabilities and functions. Out of the 40 AWE staff in Perth office and 20 in Sydney office, technical people amounts to about 30. On a consolidated global basis, the number of technical people is about 100.