Mitsui & Co., Ltd.

Q&A session from teleconference on
"Final Investment Decision for the Waitsia Gas Project Stage 2 Development"

1. Time and date: December 23, 2020 (Wed.) 17:00-17:40

2. Presenters: Masaharu Okubo, Managing Officer, Chief Operating Officer, Energy Business Unit I
Kenichiro Yamaguchi, General Manager, E&P Division
Masahiro Ishikawa, Chief Operating Officer, Mitsui E&P Australia Pty Ltd
Masaya Inamuro, General Manager, Investor Relations Division

3. Q&A

[Speaker 1]

Q1: Please tell us about the quantitative scale, timing, and qualitative aspects of the project in terms of its competitiveness and contribution to earnings.

A1: We believe the project is highly competitive in terms of contribution to earnings as it uses mostly existing infrastructure and delivers access to large reserves. The new plant to be constructed is simple and is thus advantageous in terms of cost competitiveness. Production is expected to start in 2023 and contribute to earnings immediately after.

Q2: Please tell us more about Mitsui's operatorship capabilities and the prospects for their use in future. Would it be difficult to expand them to regions outside of Australia?

A2: When it comes to operatorship capabilities, we think in terms of people and platform. People who have been able to gain the experience of working as part of an operator can respond accordingly to local regulations. In terms of platform, the HSE management system and operational decision-making processes are already established. We were able to establish our own "Mitsui-like" operatorship capabilities through integration of AWE and MEPAU. Regarding expansion into other regions, we believe the region with most immediate potential is Oceania, or Australia and New Zealand. Other regions have their own unique rules and regulations which would need to be addressed. However, given that the foundation of the E&P business will not change, we believe that we will be able to expand the business in the future, adding what is necessary as we go forward.

[Speaker 2]

Q3: The gas plant will have a capacity of 250 TJ/day. Are we to understand that the entire amount will be liquefied and sold as LNG for the first five years and then switch the destination to Western Australia? Please provide a breakdown of and timeframe for sales activities.

A3: For the first five years, gas will basically be exported as LNG. After that, our basic policy is to sell the entire amount to the domestic market from 2029. With that said, the current outlook is that the supply and demand environment will change from around 2026-2027, when supply shortage is expected to arise. We are considering to respond to the situation with flexibly by gradually shifting to domestic sales from around 2026 and via other initiatives.

Q4: I understand that there is excess capacity for liquefaction at NWS. Is it correct to say that NWS can increase its utilization rate to contribute to earnings?

A4: We were able to reach an agreement on the liquefaction contract because of the prospect of some capacity when the production on this project starts. To utilize this excess capacity, Waitsia will pay a fee and NWS will generate revenue.

[Speaker 3]

Q5: It is my understanding that Australia prohibits the export of gas from domestic fields – what sort of arrangements have you made with the government? Can you confirm that the window for exports is five years?

A5: We have already secured approval from the Western Australian government for the amount to be exported this time. In future, if we decide to pursue opportunities for additional exports, we will again consult with the government and follow the formal application procedures.

Q6: Will the entire LNG sales contract be for spot basis or will it be sold through a JCC link? What's the price agreement for domestic sales? Regarding the price assumptions for the FID, I think the gap between the crude oil link price and that of the LNG spot market is growing – do you see any issues regarding profitability?

A6: We are already involved in the sale of LNG and will include sales of this LNG in our own portfolio. The timeframe for LNG contracts is over five years but we have not yet determined if this specific case will be long- or short-term sale under the contract. As for domestic sales, we have not yet reached agreement with customers. Our intention is to sell the product while monitoring market conditions in Japan, with a certain proportion earmarked for long-term contracts. We have set certain price assumptions in making the FID. Guided by an objective assessment of the market's outlook, we decided to make the investment based on our judgment that if we make conservative assumptions for profitability, we could enjoy an upside bonus if prices rise. Given these circumstances, we are confident about the project's profitability.

[Speaker 4]

Q7: Will the Waitsia gas field assume the price risk? If NWS becomes the liquefier, at what price will it be sold there? What's your policy on price risk indicators: spot LNG like JKM or linked to crude oil prices like JCC?

A7: Waitsia Joint Venture will assume 100 percent of the price risk. The arrangement with NWS is to pay a fee for liquefaction. The sales price index is yet to be determined as our LNG-related division will factor the price risk into the portfolio and sell LNG in accordance with the state of the portfolio at that time.

Q8: I recognize that NWS production and reserves in upstream gas fields will decline, but I would like to know if they will be advocating for liquefaction businesses and are envisioning a model in which they purchase gas from third parties.

A8: We are not in a position to comment.

[Speaker 5]

Q9: What's the current level of domestic gas prices in Western Australia? There is no spot price and it's difficult to understand. Is it higher than that of Eastern Australia, and if so, by how much? You explained that the supply/demand environment will change a few years from now. Do you see a contango market?

A9: The gas market in Western Australia is independent of and has no correlation to the market in Eastern Australia. It's currently hovering around A$5/GJ. We anticipate an upward trend in prices due to a tight supply/demand environment from 2026 onwards.

Q10: What technologies do you plan to use to reduce emissions by removing CO2 from raw gas? Have the removal costs been factored into the economics of the FID?

A10: Waitsia Joint Venture has an obligation toward the Western Australian government to reduce CO2 emissions from raw gas and will consider the best way to achieve this. Storing CO2 removed from production sites in the ground is costly. One way to offset emissions is through government-approved emission credits. Another option is to undertake a variety of projects that contribute to reducing CO2. Emission reductions are an obligation during a project's development phase, so the costs of meeting these obligations are factored in when estimating a project's profitability.

[Speaker 6]

Q11: What is the timeframe for this project?

A11: We made the FID on the assumption that the project would last 15 years. However, assuming that gas reserves are still available, and if the market environment would allow it, it is possible that the project could be extended with additional investment.

Q12: What are the differences in cost between gas for export and domestic sale? I understand that exports require pipelines and are subject to tolling fees. What are about royalties and other costs?

A12: We cannot answer this question as we do not disclose information on costs to the public.

[Speaker 7]

Q13: The gas plant has a production capacity of 250 TJ/day, but is this the volume from the wellhead or do you expect to the gas to be also supplied by a third party?

A13: We are designing and constructing a gas plant according to the volume of the gas field and do not expect to have gas supplied by a third party.

Q14: Is my understanding correct that the annual volume of LNG equivalent to Mitsui's interest is 700,000 MT, which means that the total volume of the project is 1.4 million MT? Also, what is the difference in cost between CCS and emissions credits?

A14: Your understanding of the annual LNG volume is correct. Regarding CCS, it is difficult to compare costs definitively as there are various factors in play such as location, collection methods, transportation, etc. Similarly, prices of emission credits vary.