

Final Investment Decision for the Development of Vietnam Block B Gas Field
Online Briefing: Q&A Session

Date and time: Monday, April 1, 2024, 16:00~17:00

Speakers:

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Q1: Please tell us about the expected returns, namely profit after tax (PAT) and Core Operating Cash Flow (COCF).

A1: We expect the project to contribute to stable earnings over a long period of over 20 years, starting from the end of 2026 when production will start.

The power plants that will receive the gas will become operational in stages from 2026. The plan is for PAT and COCF to gradually increase as the power plants become operational. Although this figure is only for reference, we assume that we can expect PAT to be around the mid-single-digit billion yen range per year. We estimate COCF to be approximately twice the size of PAT.

Q2: I would like to know about the depreciation method and any contingency plan in the event of cost increases or slumps in the power demand.

A2: We expect depreciation to correspond to production volume. Costs are carefully examined and contingencies are added. The current situation in Vietnam is such that planned power cuts are occurring frequently, and so the probability of a slump in power demand is limited. Furthermore, based on our experience with the offshore business in Thailand, we believe that the risk of production issues is at a level that can be managed through operations.

Q3: Please give us information regarding the buyer of the gas, volume, and contract prices.

A3: The entire volume will be sold to PetroVietnam (PVN). I won't go into details regarding volume and prices due to confidentiality obligations, but compared to regular crude oil and gas assets, volatility will be limited.

Q4: Please tell us how interest rates and production volume increase will affect earnings.

A4: We will refrain from going into details regarding interest rates, but we have made certain assumptions and reflected them in our earnings forecast. Regarding production volume, while the entire volume will be sold to PVN, as power plants will become operational in stages up until around 2030, volume will increase in line with that and so too will PAT. Additionally, there is a scheme that allows development costs to be quickly recovered after production begins, which is common practice in the industry.

Q5: Please tell us the impact on your equity share of production.

A5: As a rough calculation, approximately 5% will be added to our current equity share of production.

Q6: You mentioned that you are participating in upstream and midstream businesses. I would like to know the structure and ratio of contribution to earnings by each.

A6: I cannot provide details on the upstream and midstream earnings ratio or structure. Earnings from the midstream business won't be that significant compared to the upstream business.

Q7: Please tell us about the strengths of PVN.

A7: As an operator, they are not only operating difficult and complex projects in Vietnam, but also are involved in operating projects overseas, such as in Algeria. They have extremely high expertise of Vietnam's strata and geology, so we see them as an excellent partner in Vietnam from the perspective of technical capabilities and expertise.

Q8: MOECO's cumulative PAT for the first nine-months of FY March 2024 was 3.7 billion yen, so after factoring in the impact of this project, the annual profit is estimated to be around 10 billion yen. It seems to me that the scale of profit is not enough to execute a next generation E&P with CCS/CCUS in mind but how do you think about this?

A8: Such projects are not something that MOECO will pursue on its own. MOECO is one of the core companies in Mitsui's global E&P business and our intention is to optimally develop the business based on Mitsui's global strategy.

Q9: Regarding the price at which the gas will be sold and the structure behind this, you explained that volatility would be limited compared to normal crude oil and gas assets. Please tell us the background and reasons why you decided to work on a different scheme compared to past E&P businesses. Also, will you be oriented toward that type of pricing structure when new gas projects come up in the future?

A9: The pricing structure was determined in discussions among the upstream operators, PVN, PTTEP, MOECO, and the gas buyer, PVN, based on their mutual needs. We will take various measures to reduce price volatility in new projects in the future, while at the same time, we will consider how we can capture the upside.

Q10: While some say there will be an oversupply of LNG in Asia in the future, you have said that you will focus on LNG in the energy transition. What is your company's view of LNG supply and demand, and how would a drop in Asian LNG spot prices affect your business performance?

A10: We believe that Asian LNG demand will grow. Renewable energy, biofuels, etc. are also available, but we do not expect them to dominate the market in the near future. We believe in the asset value of gas as a fuel to support energy security over the long term.

Vietnam also intends to increase the ratio of renewable energy, but the surplus capacity of hydropower, which

is currently the main source of renewable energy, is limited. The importance of gas is extremely high and we do not think this will change.

Q11: Please tell us about the project IRR assumed for the upstream business. Is it OK to assume that it is about 15% and less than 20%?

A11: I cannot comment in detail, but I can say that the return is above our Company-wide 10% hurdle rate for investment.

Q12: Some reports have indicated that the project was delayed from the original plan. While the shortage of power during Vietnam's period of economic growth has remained unchanged over the past several years, I would like to know the background of the delay and what the issue was. I am asking this question to consider whether this could lead to future risks.

A12: It took more time than expected for Vietnamese domestic legislation as well as coordination with various ministries and agencies. Having said that, with the recent frequent planned blackouts under strong economic growth, the present administration has recognized power shortages as a more pressing issue than ever before. Under the strong leadership of the current Prime Minister, we were able to reach the FID as a result of the cooperation of all parties involved. As such, we believe that future risks are limited.

Q13: I understand that the development block is adjacent to the offshore Thailand gas field in which MOECO has invested in. What is the potential for further expansion of the development block on the Vietnamese side?

A13: The estimated recoverable reserves are not limited to 3.95 TCF. The gas reservoir is expected to expand further, thus the reserves may increase, though I cannot provide you with specific figures.

Q14: I understand that the period of the project is approximately 20 years with reserves of 3.95 TCF. Is the joint venture expecting subsequent extension of the project as you have the pipeline infrastructure in place?

A14: The FID was made based on economic feasibility at the scale we have explained. Discussions regarding possible extension may take place among the parties concerned, taking into account the factors such as how much the reserves have increased at the end of the project period. Depending on this, project extension may be considered as an option.

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