

ASX Announcement

16 July 2020

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Q2 2020 BRIEFING TRANSCRIPT AND ADDITIONAL INFORMATION

Transcript of Q2 2020 results briefing

Attached is the transcript of the Q2 2020 investor teleconference conducted on 15 July 2020.

Additional information

Further to the comments on page 5 of the transcript, the percentage of contracted and spot LNG sold in Q2 2020 was:

	Sales volume %	Revenue %	Realised price \$/MMBtu
Contracted	54	76	7.0
Spot	46	24	2.6

The percentage of spot sales volume was influenced by the challenging market conditions. Primary drivers for the higher spot sales volume in the quarter included contractual flexibilities exercised by buyers (five cargoes, 16%), additional production due to strong operational reliability (two cargoes, 6%) and additional production due to maintenance deferred because of the COVID-19 pandemic (one cargo, 3%).

Additionally, the spot sales volume is expected to fluctuate quarter to quarter due to seasonality and cargo timing. The percentage of LNG spot sales volume in Q1 2020 was 13%.

Further exercise of downward quantity tolerance by buyers is not expected in H2 2020.

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This ASX announcement was approved and authorised for release by Woodside's Disclosure Committee.

Company: Woodside Petroleum Ltd.
Title: Q2 2020 Investor Teleconference
Date: 15 July 2020
Time: 9:30am AEST

Start of Transcript

Operator: Thank you for standing by and welcome to the Woodside Petroleum Ltd. market update. All participants are in a listen only mode. There will be a presentation, followed by a question and answer session. If you wish to ask a question, you will need to press the star key, followed by the number one on your telephone keypad. I would now like to hand the conference over to Mr Peter Coleman, CEO and Managing Director. Please go ahead.

Peter Coleman: Good morning everyone and thanks for joining me on the call. Our CFO, Sherry Duhe, is with me this morning as well. This morning we posted the Q2 results and it shows that Woodside has maintained safe and reliable operations through what is really an unprecedented, challenging time and of course during that period, delivered record production. Production was 7% higher than the previous quarter of 25.9 million barrels of oil equivalent, contributing to a record first half production of 50.1 million barrels of oil equivalent. That's a great result any time and it's even more impressive when you consider it was achieved at a time when the COVID-19 pandemic forced us to dramatically change the way we work, at both our operational assets and our offices. Even before the global pandemic was declared, our facilities had been through a severe cyclone in the first quarter.

When COVID-19 began to pose a very real risk, we rapidly overhauled our rosters at our assets to guard against infection and to ensure continuity of our operations. Our people adapted quickly. Some faced extended periods away from their families, while many were working from home juggling work and family responsibilities. In late March we outlined how we were responding to the financial challenges, including cutting spending and delaying projects.

Yesterday we announced that we've taken the difficult decision to impair assets, expecting to write down their non-cash after tax value by US\$3.92 billion. As we noted yesterday, approximately 80% of the expected impairment losses of the oil and gas properties is due to the significant and immediate reduction in oil and gas prices up to 2025. Other factors influencing the decision include greater uncertainty around longer-term demand and of course increasing risk of higher carbon pricing as we go out into the future.

The financial statements also include a US\$447 million provision, recognising the cost of meeting our future obligations under the Corpus Christi LNG contract. The impairments are a prudent decision reflecting the fact that our industry is confronted by a tsunami of challenges. Realised prices have dropped dramatically due to global oil oversupply and demand destruction from the pandemic. Our sales volume was up 13% from Q1 but the price plunge meant revenue was down. These are very difficult times for our industry and some external challenges are just simply beyond our control. But these quarterly results confirm that we're doing a good job in managing those things that are within our control and we are well placed to respond to the external challenges.

Our base business is solid and the fundamentals remain strong. You can see that we've taken a conservative approach on short-term oil pricing. Some analysts are more bullish, but we do see prices rising in the years ahead. We think the medium-term outlook for natural gas is good with the global LNG supply shortfall forecast later this decade. We also expect there will be opportunities for our targeted future products such as ammonia and hydrogen, building on Woodside's strengths. We are implementing the spending cuts that we committed to in March and are preparing our future growth projects to proceed when market conditions improve. In Q2 we submitted applications for production licences and retention leases for the Burrup Hub and Woodside is now targeting a final investment decision on Scarborough and Pluto Train 2 in H2 2021 and on Browse from 2023.

The global LNG shortfall is forecast from the middle of this decade and the work that we've done on our Burrup Hub projects means we're well positioned to take advantage of this. We've continued to progress committed activities, including in Senegal and building activities in Australia's north west for the Pyxis Hub and Julimar-Brunello Phase 2. We've made progress on carbon management, including commencing tree plantings with Greening Australia. The Q2 report we've released today underscores that despite all of the unprecedented challenges of 2020, we continue to demonstrate the strength of Woodside's base business. With that, I'll now open it up for questions.

Operator: Thank you. If you wish to ask a question, please press star one on your telephone and wait for your name to be announced. If you wish to cancel your request, please press star two. If you're on a speakerphone, please pick up the handset to ask your question. Your first question comes from Adam Martin from Morgan Stanley. Please go ahead.

Adam Martin: (Morgan Stanley, Analyst) Good morning Peter, Sherry, just on Scarborough and clearly the outlook's quite challenging, are you able to lower the cost structure further, either by reviewing the design concept or considering Scarborough back to North West Shelf, to save that \$5 billion on the Pluto Train 2 please?

Sherry Duhe: Okay, thanks very much for that question and I think we've mentioned this previously. We continue to use the opportunity that we have because of the delay in the FID schedule given the market conditions that we're experiencing, to optimise even further what the cost is on the total project, both on the onshore and the offshore and as well the timeline. It's also an opportunity to make sure that the RFSU dates for the offshore and the onshore are as close together as possible. In regard to the design concept, that is unchanged. We still are very much committed to our overall Burrup Hub strategy, where Browse is the natural resource to come into the North West Shelf and Scarborough is the natural resource to come into Pluto Train 2, so those are those plans that we're continuing to optimise to.

Adam Martin: (Morgan Stanley, Analyst) Okay, thank you. Just a second question, I see you've moved Browse FID back to 2023, can you just discuss how the backfill opportunities for North West Shelf are progressing? When do you expect those concepts to be firmed up to keep that plant full prior to Browse please?

Sherry Duhe: Yes, great question and we continue to make good progress on early ORO [Clarification: other resource owners] discussions, one of those of course being Pluto. The Pluto interconnector and the sending facilities, as you might be aware, are under construction and that is on target to achieve an RFSU of first half of 2022, so that's not changed. The other benefit of those commercial agreements that we have ongoing with Pluto and one other early resource owner into the North West Shelf will set some of principles that we've been trying to nut out on Browse as well, so that's all progressing at pace, even in the midst of the pandemic recovery response.

Adam Martin: (Morgan Stanley, Analyst) Okay, thanks, that's all from me.

Operator: Thank you. Your next question comes from James Byrne from Citigroup. Please go ahead.

James Byrne: (Citigroup, Analyst) Hi, thanks for taking my question. I have two burning questions this morning. The first is the realised LNG price for the quarter, sounds about 40% quarter-on-quarter, despite having flat JCC oil price, so I can only assume that there's been very large losses on cargos that you were trying to place into the spot market. Can you help us understand what happens with the realised LNG price and whether there's anything a little bit more exotic in there, such as a clawback for a Pluto price review?

Sherry Duhe: Yes, okay, so I'll hit the last part of it first, James. There's no clawback for a Pluto price review. Those conversations are still ongoing, so we still have provisional pricing that is being applied to that, so no impact or anything exotic there. In regards to the actual pricing, so there's a mix of JKM, some of the other indices that some of those prices come off of, some of them have lag, some of them do not and we also did see some exercising of downward flex

in our contracting mix in Q2, which is just part of the normal side of the contracting. So we've got Brent, we've got JCC, some JKM and then all the mix of that, plus additional spot is what's hitting that all together.

James Byrne: (Citigroup, Analyst) Okay, additional spot, okay, that makes sense. Okay, so at the sell-side briefing in February, after the results, Peter you admitted there was increased stranding risk for Browse if it was delayed further. We're now looking at an FID in 2023. Between now and then, I mean it's entirely conceivable that you see changes to carbon legislation that makes the baselines quite a bit more onerous and if the FID is coming later, you kind of miss your opportunity to grandfather the project from those changes. So I guess where I'm starting to worry here is that you see an increasing risk of committing to building Pluto Train 2 for Scarborough but Browse becomes stranded and so you've effectively locked yourself into capex for superfluous liquefaction capacity.

Now I might have preferred to have seen you use low oil prices in COVID as a means to impair Browse and pivot to having Scarborough going to the North West Shelf, as Adam alluded to in his question. Now look, don't get me wrong, I understand you need Pluto Train 2 to be a legitimate project to maximise your negotiating leverage in the North West Shelf, but in a competitive LNG environment and that uncertainty on carbon, our thesis is that you should just maximise returns by having the cheapest gas landed at the beach for North West Shelf, which in my opinion, is Scarborough. That also alleviates any balance sheet pressure and need to raise equity for the Burrup Hub strategy. So why is that thesis wrong and why is Browse or the current Burrup Hub strategy still fit for purpose against that outlook?

Peter Coleman: Sounds like more of a statement than a question, James. So let me help you with your thesis and of course I don't take issue with the basis of the thesis and as we've discussed previously, we are looking at all of our development plans in light of what we're seeing out of COVID-19 and in particular, what we're seeing in the changes of carbon, as you've said, globally, what we've seen our competitors do with respect to rebalancing their portfolios, particularly the super majors and there's been some significant announcements earlier this year with respect to rebalancing of portfolios. So we're not sure exactly what's happening in that regard or how they'll look at these sorts of projects in the future. We're looking then at optimising what our capital spend is.

The reality is we don't need to make a decision now, because we've got many months before we think we'll be seeing prices that are going to start to allow us to ramp up our engineering activities on these projects. So we're looking at all of those options at the moment. We've just got to stick to a base case though and the base case is the Burrup Hub. It's still an attractive case but there are other factors, and it might be minimising capex becomes more important than maximising NPV on the project. Those sorts of considerations are the things we need to look at.

There's also just a practical part to it as you mentioned. The commercial aspects of dealing with the North West Shelf, it's very difficult for me as the CEO to sit here and say that we have a pathway to completing any deal with the North West Shelf under its current equity ownership structure as evidenced by the difficulty we've had in completing the Browse gas processing agreement.

So under any circumstance where you say, well just simply switch it across and run different gas into North West Shelf, remember we haven't even completed the other ORO activity as well which is something that should be a very, very simple agreement is extraordinarily difficult for us. So it would be difficult for me to stand up in front of you and shareholders and say we've got a development plan that we are sure that we can deliver that requires an agreement with the North West Shelf under its current equity ownership structure. I think that's just the nub of it. That's the reality that we have to deal with.

James Byrne: (Citigroup, Analyst) Okay, I won't push you further in this forum on that. I guess - just sorry a third quick question. Corpus Christi - at the AGM in May you stated that there was an intention in the short term to be lifting cargoes there. Oil prices appreciated quite a bit since then. So are you currently lifting cargoes or are you still taking the penalty there at \$3.50?

Sherry Duhe: James I'll take that. So if you look at 2020 there are three cargoes that we have cancelled. Those were May through July and for the remainder of the year we've sold all but 1 cargo. Then of course we continue to actively monitor what's happening in 2021 and beyond. We've sold several cargoes already in 2021.

James Byrne: (Citigroup, Analyst) Okay great, that's helpful. Thanks very much.

Operator: Thank you. Your next question comes from Mark Samter from MST Marquee. Please go ahead.

Mark Samter: (MST Marquee, Analyst) Morning guys. Two questions if I can please. Just first of all obviously the realised LNG prices was - I think probably a surprise or hopefully a surprise - to all of us. Can you just confirm - I know obviously the adjustments as you alluded to yesterday in the release you're excluding the adjustments from the impairments on the dividend payment. Obviously with revenue so much weaker in the second quarter than most people were expecting can you confirm if you even are expecting an underlying positive NPAT to pay a dividend off, and whatever that dividend might be?

Sherry Duhe: I think that's a step too far from what I can confirm today. We'll have to see those results when they come out on 13 August 2020. I hope it will help you with your models is the line item guidance that we've given on quite a number of the items impacting P&L for the half.

Mark Samter: (MST Marquee, Analyst) Okay, thanks. Then just - Peter as you mentioned in response to...

Peter Coleman: Sorry Mark - I'm not going to let that one hang. We will have a positive NPAT in the first half. Let's not get out there that Woodside is going to have a negative NPAT. On an adjusted basis we'll have a positive NPAT.

Mark Samter: (MST Marquee, Analyst) Okay, great, thank you. Peter you mentioned in the answer to James' question or statement as you called it about the options of third-party gas deals and how hard things are to get done in the North West Shelf. I guess if we put ourselves in Chevron's shoes and there's potential buyers of their stake that obviously benefit from the vote on their decision of what comes through, do you think it's even possible to get a third-party deal done before Chevron are out of the way? Or does logic say Chevron have got to be removed before you can make those deals go binding?

Peter Coleman: Oh look it's difficult for me to say Mark. We're close to completing the deal on the other ORO as Sherry mentioned. But it's still been a very difficult and tortuous process. We are seeing changes in attitudes as people come to the negotiation table. But I think the reality is we've got a very short-term project in front of us. We've already committed to it. There's another player in the North West Shelf. We'd like to get their gas through it as well. So there's momentum on the positive side.

But when you start lining up alternate, very large resources like Browse and Scarborough going in there, you're into a different set of dynamics. So I would say at this point it's difficult for me to see - as I said with the current equity ownership - how we can come to an agreement that would satisfy everybody. At the end of the day, as much as people want to tell us that this is just about capex the reality is everybody will do their back of the envelope calculation of what's the cost of the alternatives to them. That will be the price that they then target for their toll.

So whatever the toll is that we've agreed for Browse today may not be the toll that's been ultimately agreed for Scarborough. Any value that we see in moving Scarborough across may be leaked away during those negotiations because people will then look at your alternative cost of development. So I think it's just the reality of commercial negotiations. So as I said in the answer to James is you have to be - when you put these things up in front of shareholders, up in front of your Board, you have to be very confident that you can deliver on them.

At the moment the development concept is one that we believe we can deliver on. Any changes to those development concepts we're going to have to see significant changes in the views and behaviours of others.

Mark Samter: (MST Marquee, Analyst) I know this is probably a question for Chevron but I guess the ramifications materially impact your shareholders - is there any indication your view on how long this could all take to play out to get what I guess we would probably all describe as a more rational North West Shelf JV with Chevron out of it?

Peter Coleman: Look, yes you're probably best talking to Chevron about that. They haven't spoken to us about their timeline with respect to the potential sale of their equity. So I would expect over the next 18 months that will play out and we'll have a better line of sight to that. We may see others over that period of time also form a view as to how long they wish to stay in the North West Shelf as well.

So my personal view, without having spoken to any of the houses, is I think the next 18 months will be an opportunity for each of the equity owners to determine whether they're going to stay in the North West Shelf for the long term or whether it's time for them to exit and go and deploy their capital elsewhere.

Mark Samter: (MST Marquee, Analyst) Great, thank you.

Operator: Thank you. Your next question comes from James Redfern from Bank of America. Please go ahead.

James Redfern: (Bank of America, Analyst) Good morning Peter and Sherry. I just want to confirm can you please tell me what's the proportion of spot LNG sales were in the quarter and also is the guidance for the full year still 15% to 20% of LNG sales to be sold at spot cargo?

Sherry Duhe: Sorry, can you repeat the first part of that question? You were - the audio wasn't good.

James Redfern: (Bank of America, Analyst) Sorry. My question is can you please confirm the proportion of spot LNG sales in the quarter? Is the guidance for 2020 - spot to account for 15% to 20% of total LNG sales?

Sherry Duhe: Sorry, I'm just checking if I've got the number for the quarter on hand for you. But I'll answer the second part first and hopefully we can come back to the first in just a second here. We will be slightly above the 20% for the year just due to a handful of cargoes that are being additionally put into the spot percentages because of the down flex that people are exercising on their contracts. Of course that year end number will be impacted by any additional activities really in the last quarter if that happens on additional down flex.

James Redfern: (Bank of America, Analyst) Okay, thank you.

Sherry Duhe: We'll come back on the spot number for the quarter itself. [Clarification: refer to comments on the first page of this announcement]

James Redfern: (Bank of America, Analyst) No, that's fine. Thank you very much. Maybe just a quick question on the capex. The current capex guidance for Pluto Train 2 and Scarborough is around about \$11 billion roughly. Just wondering - just going back to Adam Martin's question - we were seeing big cost inflation in the oil service industry because of the decline in global oil and gas capex. So I mean any comments you can please make in terms of what - so capex deflation we could see for that \$11 billion capex at Scarborough and Pluto Train 2 over the next six to 12 months.

Sherry Duhe: I think it actually goes in the other direction. Because of the slow-down that we're seeing in the global LNG set of activities, we see opportunities to at minimum hold and if not reduce, in particular on some of the offshore activities in certain categories around that. But that's still very much in progress. But if anything, it's neutral to downside on the cost that we see opportunity for given this delay.

James Redfern: (Bank of America, Analyst) Yes, exactly, which is what I was saying. I was wondering how much downside there might be to that capex forecast.

Sherry Duhe: I think it's too early to quantify, but yes.

James Redfern: (Bank of America, Analyst) Yes, okay thank you. That's useful. I'll hand it over.

Operator: Thank you. Your next question comes from Gordon Ramsay from RBC. Please go ahead.

Gordon Ramsay: (RBC Capital Markets, Analyst) Thanks for that. This may have been asked earlier but just on LNG pricing, you got US\$5/MMbtu for the quarter. I mean that just mirrors the oil price movement you're saying roughly 20% will be spot. That still doesn't explain the numbers. Have we seen some lower and re-contracted pricing come through in this quarter? Can you just give a little bit more granularity on why it's US\$5 and not higher?

Sherry Duhe: Yes, so the spot for the quarter - then we'll come back on the exact number - but it is above the 20%. So that's one piece of the impact. Then there is a mix in our cargoes on - JCC is about half. We've got the one fixed contract that goes into China that is fixed. Then the remainder is Brent linked. Then of course some of those have a lag and some of those do not. So that will give you the total in terms of that total delivered price.

Gordon Ramsay: (RBC Capital Markets, Analyst) Okay. I'm also just one other question, the carbon cost, the move to \$80 a tonne previously \$40, what drove that?

Sherry Duhe: That's just - that's a global number that we've introduced just to - as we said in our announcement yesterday - reflect the increased uncertainty and risk around increasing carbon pricing. Now that, as you will be aware, is a very generic observation because if you look at the reality in Australia and Canada, in other countries around the world, there isn't an effective or consistent carbon pricing mechanism that is in place. So we've just put that out there to note our global view on the uncertainty of that.

Peter Coleman: Gordon it depends on whether you're a believer in the 2 degree scenario or the 1.5 degree scenario. But you can pick a range of prices that will say, if you're really targeting 1.5 degrees you need to be in around that \$80 per tonne longer term for carbon pricing to get the sort of changes that you need across industry and also consumer behaviour. So it's long term. Investors keep asking us about sustainability of our projects and to carbon pricing. So we've put it in there even though it does not reflect government policy at this point in time. But we just think it's prudent that investors understand what the basis is that we're putting in our projects and in our current assets for future carbon. Because this could change very, very rapidly.

We just don't want to be caught out by that. So that's the basis. The basis is just some work that's been done internationally about what sort of price range do you need. BP came out. Their number is \$100. Ours is \$80. There's a landing point in there somewhere. It's not precise at this point in time. As Sherry mentioned it certainly does not reflect policy either here in Australia or in Canada at this point in time.

Gordon Ramsay: (RBC Capital Markets, Analyst) Just lastly Browse CO2 content is around 12% correct?

Peter Coleman: It actually averages about 10%. So it's reservoir dependent but it averages just on 10%.

Gordon Ramsay: (RBC Capital Markets, Analyst) Thank you very much.

Operator: Thank you. Your next question comes from Stefan Hansen from Nikko Asset Management. Please go ahead.

Stefan Hansen: (Nikko Asset Management, Analyst) Yes, hi, a couple of questions. Actually, just following up on the carbon price question, Sherry, you mentioned that the carbon price you put out there, to note the uncertainty, but it's not actually applied given the lack of government policy. Is that correct? So you haven't applied this to the potential impact of say Browse, for example, which is relatively high CO₂?

Sherry Duhe: That's a great question. Let me clarify. It is applied. What we were trying to clarify is that that's not in line with what actual government policy is today. So for purposes of our economics and for purposes of impairment testing for our oil and gas assets, we do utilise that. Exploration and evaluation assets are a bit different when you relate it to Browse, because the way that the accounting works around that is that you're not required to do an economic calculation. That being said, we do run our economics on Browse, and even with that higher carbon price it doesn't have a material impact to the economics of that project.

Stefan Hansen: (Nikko Asset Management, Analyst) Okay, thank you. I also wanted to get some more detail on the Wheatstone write-down. I mean it was the most significant relative to the previous carrying value. You mentioned that 80% of the impact of the overall write-down was due to oil price. Is that the same for Wheatstone? Or, as some reports that came out overnight are suggesting, there's some changes to contract assumptions in the long term? Could you give us some more detail on that, please?

Sherry Duhe: Yes. Okay, that's a great question. So I'll clarify for Wheatstone, and for all of our oil and gas properties, when we do the impairment testing what we do is we apply current contract pricing out to the end of that current contract pricing period. Then we revert, for impairment testing purposes, to our long-term trading values. So we assume that all of the pricing and all of the contracts across our assets go back to that value. Given the price deck that we've shared for you, that is a lower value than a number of those contracts today.

So it's a conservative assumption for impairment testing purposes and to be consistent on that. But it's not a reflection of what we would, of course, go out and attempt to negotiate in those contract pricing reviews. So you see that hitting Wheatstone, you see that hitting the other assets as well, once we get to the end of the current price review.

Stefan Hansen: (Nikko Asset Management, Analyst) Okay, no worries. So you're using the \$8 per MMBtu and \$65 long term throughout all assets from - well, I mean they're real 2020 numbers, but that's what you're applying, the deck that you gave us, to all assets?

Sherry Duhe: Yes. We've given you the deck for the Brent prices and for spot. We've not given you the LNG prices that go with that for the contracted, but it does revert to spot for those.

Stefan Hansen: (Nikko Asset Management, Analyst) Okay, sorry, so just to be clear, you don't revert all your LNG contract assumptions to say a single spot number...

Sherry Duhe: No, sorry, we...

Stefan Hansen: (Nikko Asset Management, Analyst) ...you've got a separate long-term contract assumption as well?

Sherry Duhe: No, we do post-contract. So for the contracted period, under the current price review, then we utilise that agreed price. If they come off of contract we use spot, and if they're in the next period of the price review we also use spot.

Stefan Hansen: (Nikko Asset Management, Analyst) All right, thank you. One final one, please. What's the status of the BHP Scarborough HoA? Has that expired or can that carry through given the COVID break in everything that we've had?

Sherry Duhe: Yes, we actually did extend that HoA out until the end of the year and we're making great progress on getting done with all of the commercial elements that go along with that. So that's not slowed down, but we gave ourselves some space just given the delay in the FID date.

Stefan Hansen: (Nikko Asset Management, Analyst) All right. Okay, thank you very much.

Operator: Thank you. Your next question comes from Saul Kavonic from Credit Suisse. Please go ahead.

Saul Kavonic: (Credit Suisse, Analyst) Hi, a few quick questions. Can you just come back to the Scarborough development via Train 2, the base case as you put it. Last year you highlighted that you saw that screening at 12% hurdle rate under your \$65 oil price assumption. Are you able to give us confirmation or clarity that you still see a Scarborough to Train 2 development clearing your 12% hurdle rate under say a mid-50s oil price and still using the recent LNG contract slope assumption?

Sherry Duhe: Do you want me to go for it? Okay, I think the short answer is no. Whenever a project screens out at \$65 is not going to be the same that it screened as at \$55, all else equal. Pre-COVID we've been consistent with talking about a couple of the price decks that we run. Not exhaustive, but a couple, being \$65 and \$50.

Of course, now we, like everyone else, are adjusting to the new world and the lower price deck that we put out there, to understand how we optimise cost and optimise schedule to claw back as much of that robustness as possible in a lower oil price environment. That's the work that's ongoing between now and 2021 when we get closer to FID to determine how much more competitive can we make that project, so that it's still resilient as it can be in the current price environment.

Saul Kavonic: (Credit Suisse, Analyst) Great, thanks. Also, I see you've applied for production licences for two of the Browse fields despite it being three years ahead of your target FID date. What's the driver of pursuing production licences given FID is so far away?

Peter Coleman: It's very simple, Saul. We had a decision point at the beginning of the year with respect to our ability to apply for retention leases over those resources. That window's closed. So we actually don't have an option anymore. So the joint venture chose that they would go to production licences on them in the expectation that we would develop. So that's the background. So we're just moving forward with production licences.

The history of production licences in Australia was the regulations have a time limit. The history is if you are under development those production licences will be extended. So that was the case for other major projects, so we expect that to be the same case for Browse.

Saul Kavonic: (Credit Suisse, Analyst) Just a follow-up on that. So under the terms of the production licences, does that encompass an FID in 2023? Or this is something that is subject to renewal or more frequent dates up until FID date?

Peter Coleman: So you have to have a plausible development concept that the regulator believes is economic under their price deck and their tests. So you can't just apply for a production licence. You do have to have a plausible development concept.

Saul Kavonic: (Credit Suisse, Analyst) Great, thanks. Just lastly, can you provide a bit more colour on how you apply the higher carbon tax assumptions when doing the impairment testing that you released overnight, and particularly just highlight what the baseline assumptions used for that?

Peter Coleman: Well, the North West Shelf, as you know, already has a baseline to it. So what we indicated is that we have also assumed a decline in that baseline. We haven't published what we think that decline is. But we do believe

government policy will continue to evolve in Australia, and that will include a reduction of current baselines in line with Australia's Paris commitments. So you can do the math on that. That's the decline that we've built into it. Of course, then anything above the baseline, the carbon tax is applied to that.

Saul Kavonic: (Credit Suisse, Analyst) Great, thank you.

Peter Coleman: Then on the new projects, Saul, there's a discussion paper out at the moment for government as to where the baselines should be set. Woodside's view is that those baselines should be set at the median of industry. So we've made assumptions in that regard with respect to the baseline, where it should be on Browse and Scarborough. Scarborough, as you know, has quite de minimis emissions and so is not very sensitive at all to baseline assumptions or to carbon pricing.

Saul Kavonic: (Credit Suisse, Analyst) Great, thank you.

Operator: Thank you. Once again, if you wish to ask a question, please press star one on your telephone and wait for your name to be announced. Your next question comes from Mark Wiseman from Macquarie. Please go ahead.

Mark Wiseman: (Macquarie Group, Analyst) Yes, good morning, Peter, Sherry. Thanks for the update today and last night as well. I just have a question on the balance sheet. You commented last night that post the provision and the impairments your gearing ratio would go up to 19%. I realise that's probably not what the banks or credit rating agencies would focus on as a metric, but have you had any comment from Standard & Poor's or Moody's since that update last night? Also, could you just comment on what level of balance sheet capacity you have to conduct acquisitions such as the stake in the North West Shelf, if you were to make an acquisition there?

Sherry Duhe: Okay, that's a good question. I think the short answer is, no, there hasn't been any explicit feedback overnight from S&P or Moody's. That being said, we talk to them very, very regularly. So things like impairments, etcetera, that have an impact on gearing are things that are quite normal for them to understand and pull into their metrics.

There is no - when you think about how low our gearing is right now, going to 19%, it's still very close to the bottom end of our gearing capacity. You'll be aware that we've got over \$7.5 billion of total liquidity right now, over \$4.5 billion of that in cash and over \$3 billion of undrawn facilities. So we've got significant capacity on our balance sheet, on a cash plus uncommitted facilities perspective, to fund our base operations, to fund the growth activity that is still ongoing even in our cash preservation mode and, of course, also to consider any opportunistic M&A activities.

Peter Coleman: Yes, look, I think the answer to that question is it will depend. It will depend on timing and it will depend on what else has been happening. It will depend on oil price between now and then. If you start adding a lot of things up you can't just pick one out. If you start adding a lot of things up and you say, well, you've got Browse potentially coming through, you've got Scarborough coming through, you've already got committed activities at Sangomar and so forth, and then you load on top of that an acquisition, it's all going to be dependent on timing.

We've already indicated that we can't do Scarborough and Browse together without needing to go back and raise equity at some point. But we've also said that any of those will need to stand on their own two feet. So we're not going to hide a project by drawing down on cash in the first instance, and then going to investors with the really nice one having just hidden the other one by using cash out of the bank. So we'll be very transparent on that, that each project will need to stand on its own.

With respect to acquisitions, of course, they all have a different characteristic. So acquisitions that are flowing barrels with minimal capex in front of it will have a completely different profile when you start to look at some of those ratios that

the rating agencies look at, compared to one that is mid-development, still requiring a lot of capex capital and some years away from first production.

Mark Wiseman: (Macquarie Group, Analyst) All right, thank you.

Operator: Thank you. Your next question comes from Joseph Wong from UBS. Please go ahead.

Joseph Wong: (UBS, Analyst) Hi, guys. Just two questions from me. One's on the dividend. Given the impairment coming through this half and the guidance yesterday saying depreciation will drop in the second half, what's the view to change dividend policy, given there should be, all else being equal, a lift in dividend in the second half because of this lower D&A cost?

Peter Coleman: Yes, look, Joseph, a good question. Just going back to the question that Mark asked, I expect that we will have a positive profit in the first half. I've got to say expect because, of course, it hasn't been approved by the Board yet. With respect to dividend, I also expect that we'll pay a dividend in the first half. With respect to payout ratios, time is very important to us. So we haven't formed a view. We've obviously had a discussion with the Board. We needed to have that discussion because we indicated in yesterday's announcement that any dividend that will be paid for the first half will be net of these extraordinary items with respect to the impairments.

So we've discussed it with the Board. But the way oil prices have been moving, we need to get confidence around demand returning into the market. Another month of driving data out of Europe and out of the US and China will be extremely important. That seems to be very positive at the moment. So if you look at the miles being travelled, they're getting back to pre-COVID levels pretty quickly. Probably the biggest unknown in the market at the moment is airline travel and I think expectations on airline travel now are lower than what they would have been even a month ago. And that has impacted roughly 3 million barrels per day in the market with respect to demand. And the question is when that comes back in.

So there's a lot of moving parts and all I would say is in a month's time when we announce our first half profit results, we will be much better informed because the Q3 is a very important quarter because it's the first quarter that everybody's predicting that supply and demand will come back into balance. In fact, demand will exceed supply. All of the Brent numbers at the moment are on a forward expectation, six weeks ahead that that will occur. As we look out into the future we'll see whether it actually has occurred and that will give us some confidence with respect to our ability then to pay the dividend, not only in the first half but also the second half.

Joseph Wong: (UBS, Analyst) Just to clarify, is that discussion on the actual payout ratio but no I guess decision on actually changing the - a policy more to a cash, free cashflow rather than NPAT?

Peter Coleman: Yes, so that payout ratio policy is 50%. The custom and practice since 2013 has been 80% payout ratio. It's been based on NPAT. NPAT has been - has worked well for us. We've obviously looked at other ratios and continued to review whether other ratios are appropriate. But every time we look at it, to be quite frank with you, we come back and say at least for our business NPAT is working for us. You can argue there are other ratios that are more appropriate for different businesses, but for ours at this point in time, NPAT continues to be in our view, the best ratio to use.

Joseph Wong: (UBS, Analyst) Got it. Just one final one, just to clarify that Wheatstone impairment, is the contract that you've got, you're assuming your forward looking estimate is that 12% slope you mentioned at the investor day as your assumption for the contracts?

Sherry Duhe: I didn't hear the last part of the sentence. Can you just repeat the very last part?

Joseph Wong: (UBS, Analyst) Just for the Wheatstone impairments, do you use that common assumption you put out at the IBD last year, that 12% sloping or has that changed as well?

Sherry Duhe: Sorry, that's not the sloping that we've used. We don't disclose what the exact sloping is that we have used. What we do, do just to be absolutely clear is that for Wheatstone and for our other oil and gas assets anywhere where we've got a current contract with a current pricing period we use the actual agreed amount for that. If a contract is rolling off and therefore the volumes are uncommitted we'll use a spot price. Also, if the contract goes over into a new contract pricing period we'll use a spot price. In all of that we've got a fairly complex model that we review and detail with management and with the Board to match that up to our view on supply and demand in each and every year for those long term pricing forecast. The 12% was a number that we used at IBD just to notionally talk about what's competitive or average in the market. So that's a different number altogether.

Peter Coleman: Look, the reason we do that is just simply we've been moving more and more towards a portfolio plan. So we look at all of our volumes now in the context of a portfolio and where we're moving to. It's a simplification that we use.

The reality is each contract has terms in it with respect to how much price can change or slope can change at each price review. Sometimes they're better than the assumptions that we've made but we just think from a total portfolio point of view, at least we have a common baseline for each one of our contracts and it's just easier for us to be able to communicate and understand that.

Joseph Wong: (UBS, Analyst) Yes, thanks Peter. Thanks guys.

Operator: Thank you. Your next question comes from Mark Busuttill from JP Morgan. Please go ahead.

Mark Busuttill: (JP Morgan, Analyst) Good morning everybody. Just wanted to get a sense for some of the costs that you've guided to last night and this morning. How much of that is going to be included within underlying profit and how much is not? The way you've highlighted your costs on slide 7, it seems like the Corpus Christi onerous contracts will be included in underlying the way you've highlighted within the trading costs line item. But then you've got an income tax benefit which presumably will be excluded because that's on the basis of those impairments you announced yesterday.

Sherry Duhe: The way that we will look at it when we adjust back to underlying is to remove all of the impacts of the transactions. So it's both the adjustments as well as any income tax impacts. We'll move all of that out so that you have an underlying as if the impairment and as if the onerous contract provision had not happened.

Mark Busuttill: (JP Morgan, Analyst) Okay, so if we have a look at that slide 7 then, the income tax benefit, that would be on the reported not the underlying?

Sherry Duhe: So all of the line item guidance is reported. So yes, we always guide from a line item guidance perspective to what will actually show up in the financials. We'll then take that for purposes of determining the appropriate dividend to pay subject to the Board guidance and do an offline calculation which is on a financial statement calculation. It's a management calculation for purposes of determining the dividend. So everything in this guidance includes both the impact of the impairments and of the onerous contract provision.

Mark Busuttill: (JP Morgan, Analyst) Okay, so out of those items on slide 7, the only two that need to be adjusted to get an underlying number and again for presumably purposes of calculating the dividend, would be the trading costs and the income tax. The others would be relevant for an underlying number?

Sherry Duhe: So all of the accounts that get hit from the P&L perspective, the onerous contract will hit cost of sales. So that's in the trading cost line item. Other expenses will be hit and you see that as the offsets from a P&L perspective to

the actual asset balances being adjusted. Then you will see an impact of PRRT. You didn't mention that but there is a PRRT net impact. So that PRRT benefit does include the impact of both the oil and gas assets and the exploration and evaluation assets.

Then last but not least as you said, income tax will be impacted by that. So those are all of the income tax or P&L statements that get hit or P&L balances that get hit by these two provisions.

Mark Busuttill: (JP Morgan, Analyst) Okay, great thanks so much.

Operator: Thank you. Your next question comes from Jodie Barns from ACSI. Please go ahead.

Jodie Barns: (ACSI, Analyst) Thanks for your time this morning. I'm just wondering how the new figures for oil, gas, for oil, LNG and carbon compared to the scenario analysis you undertook against the sustainable development scenario and if this changes the relative edge Woodside would have had compared to the figures in the low carbon economy?

Peter Coleman: Look, it's a good question. The - with respect to the scenario analysis, well obviously that's how we set our carbon pricing going out into the future and applied it in that way. With respect to being competitive against our peers, as I indicated in yesterday's announcement, I think you'll see adjustments across the sector with respect to the carrying value of assets. Some others have already come out and indicated that they'll be adjusting their carrying values.

With respect to the application of carbon pricing globally, I think there's a reality that at some point carbon pricing will come into the market. In our view the question is not a matter of if, it's just simply when. And our view is that carbon pricing won't simply apply to developed nations which is where you may get a direct pricing put on carbon, but it will also apply to undeveloped or developing nations who may not have those policies. But you will find over time customers will put an additional cost or price on products coming out of those particular countries or projects. We think there'll be a levelling across the board pretty quickly in that regard.

Look, the long term is still quite strong for the industry and it's one of those ones where it's not clear when demand will peak but demand is still going up as people switch. They use natural gas as a transition fuel. They see that. There's some questions at the moment as to whether COVID-19 will accelerate the transition to renewables. We'll wait and see with interest what China comes out with, with their next five-year plan as that will be announced early in 2021. That will give us some guidance as to what they're thinking. Their early indications are that gas will continue to be an increasing percentage of their mix. But of course, they'll start to increase their push into the use of electric vehicles and so forth. They have dropped off their subsidies to solar but they'll be looking at other energy sources such as hydrogen and even nuclear.

So all of those - there's a lot of moving parts to it at the moment with respect to what companies will need to do. I think the reality though is you can't sit still on these things and we need to make the right choices for us. But we are very good at what we do and we'll continue to invest in this part of the industry but also look at diversifying our product mix over time.

Operator: Thank you. Your next question comes from Daniel Butcher from CLSA. Please go ahead.

Daniel Butcher: (CLSA, Analyst) Yes, hi thanks. Just a couple of quick follow ups please. Just wondering, I mean you mentioned the current JV structure at North West Shelf and it's very hard to do a tolling agreement. Do you think if Chevron was out that alone would be enough to make it significantly easier or do you need to get a couple of the others out as well. And if so would your appetite to buy those as well or at least consider it strongly?

Peter Coleman: Look Daniel, I don't think it's fair to just focus on one partner in the North West Shelf. I think over time you'll find there will be one or two partners who will have differing views from the rest. It just happens to be at the moment that Chevron has been in focus but I think it's unfair to point the finger and say that Chevron is the impediment to moving forward. I think these things just change. But our view and I mentioned this some 18 months ago, is that the ownership structure at the North West Shelf will change. I think if it changes it will be positive because those coming in will have a particular investment thesis. And that thesis will be to maximise the throughput of the North West Shelf. And they'll be singularly focused on maximising the value of that asset rather than that asset being simply part of a global portfolio of many, many different assets.

So I think in my view, just in general, ownership change is positive from the point of view that whoever is coming in will be very much aligned with accelerating development plans and getting tolling agreements in place as a priority. Whether others choose to leave or not, I can't predict. We obviously have a view on it. It's not a view I'm willing to share. As I said, in answer to a previous question, I think the next 18 months will very likely see other partners indicate their long term intentions with respect to their North West Shelf ownership.

Daniel Butcher, (CLSA, Analyst) Right, okay thanks. The second question is just the country risk for Senegal, I'm just wondering why you've got that premium on the country risk? Is that partly to do with risk of fiscal terms changing or is there something else there that you see enhancing the risk of that offshore project?

Peter Coleman: Look, it's a good question. We actually see Senegal as a very low risk, particularly in Africa. In fact, it's arguable you have higher risk in states in the US than you do - in fact, you do have higher risk in states in the US in changing the fiscal terms than you do in Senegal. So we're very comfortable with the contract structure and so forth. However, our external auditors based on their rules, require us to apply a country risk to places like Senegal.

So it was just appropriate then to apply that country risk. But our view is though, the Senegalese have been very good up to this point to work with. We - there's obviously issues, always issues as countries start to develop significant resources for the first time, as they work through their fiscal and banking systems and so forth.

But the reality is that we haven't seen any issues that, to be honest with you, would be any more difficult than what we have to deal with in Western Australia for developments. So that's where our view is. But it's appropriate at this time to put that country risk on it. That's just a general accounting standard, and we fit in with what our external auditors are seeing others are doing in countries like Senegal. [Clarification: the discount rate applied to the Sangomar project for impairment testing purposes is 11%]

Daniel Butcher, (CLSA, Analyst) Sure, and just following up, how do you sort of think about the relative attractiveness of buying out FAR or even part of Cairn's stake? You may have had trouble funding it versus a Browse, North West Shelf or even Scarborough, Pluto investment.

Peter Coleman: Well, we look at all of our assets. I think - we've or I've already indicated previously that clearly at this point in time in the investment cycle assets that are known to us are either under development or I think are more attractive and will be more attractive to our investors. So that's what we look at.

So we kind of look at our Senegal assets in the same context, they're an asset that's currently under development. It still has development risk associated with it, so it's got a different profile than a flowing asset in Western Australia. But they're still attractive assets for us to look at should they come to market.

Daniel Butcher, (CLSA, Analyst) All right, thank you. I might - oh, one final question if you don't mind. Just on Wheatstone's contracts. Can I confirm that the next reopener is sort of late-2022, is that fair to assume?

Sherry Duhe: We will need to come back on that one just to make sure we're absolutely accurate on the next timing on that, what we've disclosed.

Daniel Butcher, (CLSA, Analyst) Okay, thank you.

Operator: Thank you. Your next question is a follow-up from Mark Samter from MST. Please go ahead.

Mark Samter: (MST Marquee, Analyst) Yes, I was just hoping to ask about Pluto in the context of WA-404-P. Obviously the current working plan is still Scarborough comes to Pluto. But I don't think I'm misquoting you, it's fair to say that you've discussed on the North West Shelf conversation that there is a concept where Scarborough comes to North West Shelf as well. But more importantly, the LNG market is still incredibly challenged. So I presume when you have an existing asset and you haven't sanctioned another project you have to have an alternative plan for the producing asset if the growth option doesn't happen.

So in the world where Scarborough doesn't come to Pluto, is [inaudible] for the contract? How shall we think about it now in the context of that 20% of reserves getting written down yesterday?

Peter Coleman: So Mark, are you referring to the Kansai Electric and Tokyo Gas contracts?

Mark Samter: (MST Marquee, Analyst) Yes, well - yes, just now that WA-404-P has been, the reserves have been written off. In a world where Scarborough doesn't come into Pluto what do we think the profile and longevity of Pluto production looks like?

Peter Coleman: Yes, look, we can't see a world where Scarborough doesn't come into Pluto. But I think the world that you're thinking of is a world where Train 2 is not built. So our view is that Scarborough will come into Pluto and with some modifications to the existing train that we can fill that train with Scarborough gas. Any excess gas under that particular scenario, which I will reiterate is not our base case, would then flow via the interconnector and potentially cross to North West Shelf, or into domestic gas.

Of course we're working hard to build our domestic gas market, and that domestic gas market pricing is expected to firm out over the next five years. There's a current oversupply in that market. But there's more demand coming in with the potential of the permanent urea plant moving forward. There's other supply dropping off in the market. So it could be that that gas doesn't go into LNG in the long-term, it may, a good portion of it actually may go into the domestic gas market as the pricing firms up in that market as well.

So yes, I just can't see a scenario at this point that would have us shutting down Pluto in totality. But I can see a scenario where there's different gas going in different places.

Mark Samter: (MST Marquee, Analyst) Then just to confirm, and I guess in the context of Qatar looming as well, I mean you're saying an FID in the next 12 months or so on Scarborough. Do you still, or what are we thinking on the amount of volume you would want contracted to take FID?

Peter Coleman: Look, normally we'd prefer as much as we can. We've indicated previously that 50% contracted would be fine for us. We're going to have to look at that again in the context of what we're seeing happening with spot pricing at the moment. We expect spot pricing will improve, but we've got to see the reality of that. That will drive our view then on that mix, to be honest with you Mark, whether we'd want it in long-term contracting or whether we are happy to still have it sitting there in the spot market.

I would point, and I'm glad you raised Qatar in the context of, there have not been any FIDs in industry this year on LNG projects. The major ones keep getting kicked out in time. The Qataris are yet to go to FID on theirs, although our

understanding is the offshore work is actually quite well advanced. But they still haven't gone into the trains yet. We expect some of that will move forward.

The question in my mind will be, whether all of it moves forward or whether it's actually phased over time differently to what the current concept is. But there are other - it's not just about the Qataris, as you know, there's other major projects that have been deferred as well. Our expectation is that will continue. We do not expect projects on the US Gulf Coast to move forward in any meaningful way in the near future at least. So there is a situation being built up in the market of when your supply is not coming in on a regular basis.

Mark Samter: (MST Marquee, Analyst) Just one really quick follow-up as well if I can. Just you've talked a fair bit about the potential for acquisitions. Would you like a bit more balance in your product mix, you're very WA LNG-centric at the moment. Would you, could you consider expanding beyond LNG in the acquisitions?

Peter Coleman: I've always said, I'd prefer more pipeline gas in my mix, particularly when you have an 80% payout ratio on your dividend. So you want to make sure that you've got something in there that is more predictable with respect to dividends. I think investors appreciate kind of less volatility with respect to NPAT. So we've been consistent in that. That's been a challenge for us ever since the North West Shelf contract changed equity from 50% to 16% here a few years' ago. Of course that contract has now dropped off.

So we're pleased that we're pushing more equity gas into the marketplace. But it's still a small market for us here in WA. So no, we've been clear about that over time. We've also said publicly, if the government builds a pipeline from west to east then we'd be happy to compete for putting gas into that pipeline, depending on the conditions of it. So we're not here to say whether that pipeline is economic or not, because we're not building it. That'll be up to the builders of the pipeline to determine whether it is or not. But again if there were other options then we'd do that.

Now I will point out that we do have an HOA in place with Perdaman to take all of the Scarborough domestic gas plus a little bit more. That project, and our understanding is it's still moving forward at a good pace with an FID expected next year. So we are diversifying our mix already without needing to go down the acquisition path.

Mark Samter: (MST Marquee, Analyst) Thanks.

Operator: Thank you. There are no further questions at this time. I will now hand back to Mr Coleman for closing remarks.

Peter Coleman: Look, thanks everybody this morning for joining the call. There was a lot of you joined the call this morning. So obviously there's a lot of interest, a lot of change happening in the marketplace. Thanks for your questions, they were very well thought through. I hope we have been able to answer them for you in a way that gives you the information that you need to be able to make your own analysis and communicate that to others.

Again, we really appreciate the support that you have for Woodside. I just again want to thank Woodside's, our employees and our contractors for the outstanding work they've done in the first half of this year in being able to deliver our operating results in what has been extraordinary circumstances. We have delivered record production, we have delivered outstanding safety results during this period. We haven't taken our eye off the ball and people have been having to do extraordinary things.

So again, let's put these results into context. We don't control pricing, unfortunately. What we do control though is how we respond to it. I think we have responded very well with respect to reallocating of our capital, reducing our operating expenses, and ensuring that our facilities are run at the very best reliability that they can.

So again, thanks very much for your questions. I think the next 12 months to 18 months are going to be extremely important in industry. It's going to be important for Woodside as to what our growth plans look like. All I would say is, our plans will reflect the reality of the marketplace. But the great thing, as we've talked about this morning, is we do have a lot of optionality in what we do. We will be making sure we exercise that optionality to get the best outcome for our shareholders. So again, thanks very much.

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