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ASX Announcement

Tuesday, 14 July 2020

ASX: WPL
OTC: WOPEY

ASSET VALUE REVIEW AND OTHER ITEMS

Woodside has undertaken a review as of 30 June 2020 of the carrying values of its assets in accordance with the Group's accounting policies and the accounting standards.

As a result, the financial statements for the half-year ended 30 June 2020 (Financial Statements) are expected to recognise non-cash, post-tax impairment losses of US$3.92 billion,[1] comprising:

- $2.76 billion for oil and gas properties (including deferred PRRT and income tax assets/liabilities), and
- $1.16 billion for exploration and evaluation assets (including deferred PRRT and income tax assets/liabilities).

The Financial Statements are also expected to include a non-cash, post-tax onerous contract provision for the Corpus Christi LNG sale and purchase agreement of US$447 million.

The combined impact of the impairments and the onerous contract provision is a post-tax loss of US$4.37 billion.[2] Woodside's balance sheet strength and liquidity are not materially impacted.

Approximately 80% of the oil and gas properties impairment losses are due to the significant and immediate reduction in oil and natural gas prices assumed up to 2025, impacting Woodside's products in the prevailing economic climate. Additional contributors are increased longer term demand uncertainty impacted by the COVID-19 pandemic and macroeconomic dynamics, and increased risk of higher carbon pricing.

Despite the challenges of the current environment, the fundamentals of Woodside's business remain strong, particularly the outlook for our core product, natural gas to Asia, and the opportunities for Woodside's targeted future products such as hydrogen and ammonia. LNG is advantaged as an energy source in a decarbonising world.

Woodside CEO Peter Coleman said the company is in a strong position to take advantage of opportunities which will inevitably arise both during and subsequent to this period of unprecedented market uncertainty.

"We've taken some tough decisions over recent months in response to the COVID-19 pandemic and oversupply in our key markets, but Woodside's focus remains on cash preservation, capital discipline and maintaining the strength of our balance sheet. This will ensure we can deliver appropriate returns to shareholders and maintain our investment grade credit rating over the long term.

"We have low gearing and high liquidity, and announced significant expenditure reduction activities in March. Woodside's balance sheet provides a resilient, long-term basis for creating shareholder value.

"The unique confluence of events that has unfolded through 2020 will challenge all participants in the global energy sector and we expect to see adjustment of capital allocation priorities by other asset owners as the cycle plays out.

"Woodside's disciplined approach to financial management gives us options to pursue inorganic growth opportunities as and when they emerge, at the same time supporting our strategy to develop the Scarborough and Browse gas resources located offshore Western Australia through our proposed Burrup Hub when the time is right.

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[1] Pre-tax impairment losses of US$5.27 billion.
[2] Combined impact is a pre-tax loss of US$5.72 billion.

"Although these are difficult and uncertain times, the medium-term outlook for Woodside's growth prospects and for our core product, natural gas, is positive. In the longer term, our commitment to innovation and new technologies will ensure we can also take advantage of emerging markets for hydrogen and ammonia which will be a crucial part of the world's transition to a lower-carbon future," he said.

The outcome of the asset value review is subject to final Board approval and review by the external auditor, and will be published in the Financial Statements in the Half-year Report 2020 on 13 August 2020.

Impairment of oil and gas properties

The asset value review is expected to result in the impairment of the following assets ($ billion):

Asset	Impairment losses		Carrying value (adjusted)	Impairment drivers
	Pre-tax	Post-tax		
Pluto	0.86	0.84	8.80	Revision of short- and long-term oil price assumptions.
NWS Gas	0.45	0.32	1.90	
Wheatstone	1.40	0.98	3.02	
Okha	0.07	0.05	0.10	
Ngujima-Yin	0.61	0.26	0.89	
Sangomar	0.32	0.31	0.40	Revision of long-term oil price assumptions and increased discount rate to reflect country risk.
TOTAL	**3.71**	**2.76**	**15.11**	

The post-tax impairment losses above include:

- a $0.35 billion reduction of the PRRT deferred tax asset for Pluto, due to the revision of long-term oil price assumptions and the consequent reduction in recognised general expenditure to be deducted over the project life; and
- a $0.23 billion reduction of the PRRT deferred tax liability for Ngujima-Yin, due to the reduction in the asset's carrying value.

Impairment of exploration and expenditure assets

The asset value review is expected to result in the impairment of the following assets ($ billion):

Asset	Impairment losses		Carrying value (adjusted)	Impairment drivers
	Pre-tax	Post-tax		
WA-404-P	0.43	0.19	-	Increased uncertainty of development timing, given the prioritisation of the higher-value Scarborough resource. See the note below regarding the impact on Woodside's reserves.
Kitimat LNG	0.81	0.81	-	Revision of long-term oil and AECO[3] price assumptions, and a change to the development concept to a standalone LNG facility with different accounting requirements.
Sunrise	0.17	0.09	-	Increased uncertainty of regulatory conditions, fiscal terms and development concept.
WA-430-P (Ragnar/Toro)	0.15	0.07	-	Increased uncertainty of development timing.
TOTAL	**1.56**	**1.16**	-	

[3] AECO refers to the Alberta natural gas market spot price.

Change to Reserves Statement

The expected impairment of WA-404-P has resulted in a reclassification of the Greater Pluto (WA-404-P) Proved (1P) Undeveloped Reserves of 91 MMboe and Proved plus Probable (2P) Undeveloped Reserves of 123 MMboe, to Best Estimate (2C) Contingent Resources of 123 MMboe.

Woodside's overall Corporate Best Estimate (2C) Contingent Resources have increased from 5,950 MMboe to 6,073 MMboe, the overall Corporate Proved plus Probable (2P) Reserves have decreased from 1,213 MMboe to 1,090 MMboe, and the overall Corporate Proved (1P) Reserves have decreased from 871 MMboe to 780 MMboe.

The attached notes on petroleum resource estimates form part of this announcement.

Asset value review commodity pricing and discount rate assumptions

The Financial Statements will include a comprehensive disclosure of key estimates and judgements related to the asset value review. The Brent oil and spot LNG prices (real terms 2020) used are:

Year	H2 2020	2021	2022	2023	2024	2025
Brent oil ($/bbl)	35	44	55	58	62	65
Spot LNG ($/MMBtu)	3.0	4.4	6.3	6.7	7.1	8.0

The range of post-tax discount rate assumptions is 7.5-11%.

Woodside has revised its long-term Australian carbon price assumption to US$80/tonne.[4]

Onerous contract provision for Corpus Christi

The Financial Statements are also expected to include a non-cash, post-tax onerous contract provision for the Corpus Christi LNG sale and purchase agreement of US$447 million.

This provision reflects more closely connected global gas markets and Woodside's view of likely reduced margins available between North American and other gas markets. The applicable discount rate is the US 20-year Treasury long-term bond rate.

Under AASB 137 *Provisions, contingent liabilities and contingent assets*, a contract is considered onerous where the unavoidable cost of meeting obligations under the contract exceed the benefits expected to be received.

Other financial impacts

As a result of the impairment losses and onerous contract provision, Woodside's gearing at 30 June 2020 is expected to be approximately 19%. Woodside's target gearing range is 15-35%.

The depreciation expense for oil and gas properties in H2 2020 is expected to reduce by approximately $3/boe.

Dividend

Calculation of the 2020 interim dividend, to be announced on 13 August 2020, will exclude the impacts of the impairment losses and onerous contract provision on net profit after tax.

[4] Woodside applies carbon prices to Australian emissions that exceed facility-specific baselines in accordance with Australian regulations.

Investor teleconference

A teleconference and question and answer session will be hosted by Peter Coleman and Woodside CFO Sherry Duhe at 7.30am AWST (9.30am AEST) on Wednesday, 15 July 2020.

We recommend participants pre-register 5 to 10 minutes prior to the conference call via the following link:

https://s1.c-conf.com/diamondpass/10008597-invite.html

Following pre-registration, participants will receive the teleconference details and a unique access passcode.

Q2 2020 report

Woodside's second quarter report for the period ended 30 June 2020 will be uploaded to the ASX platform on Wednesday, 15 July 2020, prior to the investor teleconference.

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

Reporting of Woodside resource estimate for Greater Pluto (WA-404-P):

The Woodside Contingent Resource estimate for Greater Pluto (WA-404-P) is based on SPE-PRMS.

1. As at the date of this release, the Woodside estimate for WA-404-P gross (100%) Best Estimate (2C) Contingent Resource has increased by 123 MMboe to 174 MMboe.
2. The Woodside Contingent Resource estimate for WA-404-P has been calculated using deterministic and probabilistic methods.
3. Woodside is the operator and holds a 100% interest in WA-404-P. The Martell, Martin, Noblige, Remy and Larsen fields covered by the Contingent Resource estimate are contained within this exploration permit.
4. Future development of WA-404-P is proposed as backfill to the Pluto LNG Plant, developing four hydrocarbon pools through 8 subsea wells tied back to a semi-submersible processing platform, then via pipeline to the Pluto riser platform.
5. The expected impairment of WA-404-P has resulted in the reclassification of Undeveloped Reserves to Contingent Resources as the commercial maturity of the development is now uncertain.
6. Future technical and commercial maturation of a development concept will be required to re-classify the Contingent Resources as Reserves.

Notes on Petroleum Resource Estimates

1. Unless otherwise stated, all petroleum resource estimates in this announcement are quoted as at the balance date (i.e. 31 December) of the Reserves Statement in Woodside's most recent Annual Report released to ASX and available at http://www.woodside.com.au/Investors-Media/Announcements, net Woodside share at standard oilfield conditions of 14.696 psi (101.325 kPa) and 60 degrees Fahrenheit (15.56 deg Celsius). Woodside is not aware of any new information or data that materially affects the information included in the Reserves Statement. All the material assumptions and technical parameters underpinning the estimates in the Reserves Statement continue to apply and have not materially changed.
2. Assessment of the economic value of the project, in support of a reserves classification, uses Woodside Portfolio Economic Assumptions (PEAs). The PEAs are reviewed on an annual basis or more often if required. The review is based on historic data and forecast estimates for economic variables such as product prices and exchange rates. The PEAs are approved by the Woodside Board. Specific contractual arrangements for individual projects are also taken into account
3. The Reserves Statement dated 31 December 2019 has been subsequently updated by an ASX announcement dated 26 February 2020 and this announcement dated 14 July 2020.
4. Woodside reports reserves net of the fuel and flare required for production, processing and transportation up to a reference point. For offshore oil projects, the reference point is defined as the outlet of the Floating Production Storage and Offloading facility (FPSO), while for the onshore gas projects the reference point is defined as the inlet to the downstream (onshore) processing facility.
5. Woodside uses both deterministic and probabilistic methods for estimation of petroleum resources at the field and project levels. Unless otherwise stated, all petroleum estimates reported at the company or region level are aggregated by arithmetic summation by category. Note that the aggregated Proved level may be a very conservative estimate due to the portfolio effects of arithmetic summation.
6. 'MMboe' means millions (10^6) of barrels of oil equivalent. Dry gas volumes, defined as 'C4 minus' hydrocarbon components and non-hydrocarbon volumes that are present in sales product, are converted to oil equivalent volumes via a constant conversion factor, which for Woodside is 5.7 Bcf of dry gas per 1 MMboe. Volumes of oil and condensate, defined as 'C5 plus' petroleum components, are converted from MMbbl to MMboe on a 1:1 ratio.
7. The estimates of petroleum resources are based on and fairly represent information and supporting documentation prepared by qualified petroleum reserves and resources evaluators. The estimates have been approved by Ian Sylvester, Woodside's Vice President Reservoir Management, who is a full-time employee of the company and a member of the Society of Petroleum Engineers. Mr Sylvester's qualifications include a Master of Engineering (Petroleum Engineering) from Imperial College, University of London, England, and more than 20 years of relevant experience.