INVESTOR UPDATE

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Woodside Petroleum (ASX: WPL) & Santos (ASX: STO)

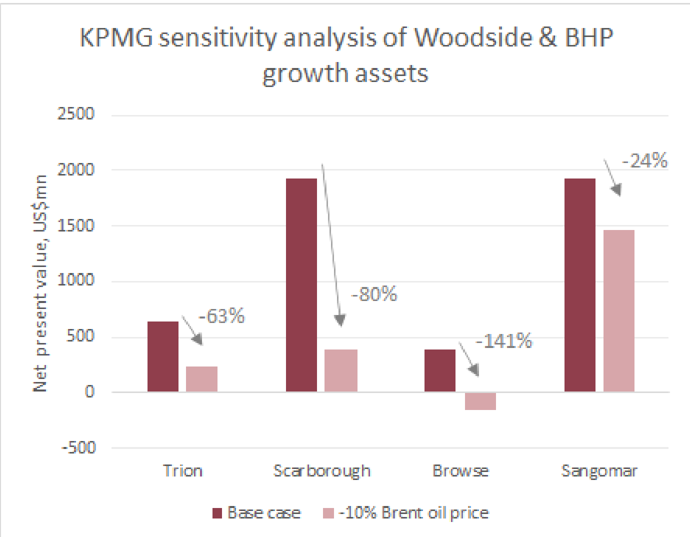
Two recent reports confirm the unacceptable stranded asset risk facing Woodside and Santos' plans to significantly expand oil and gas production, increasing the justification for investors to vote at the upcoming Woodside and Santos AGMs:

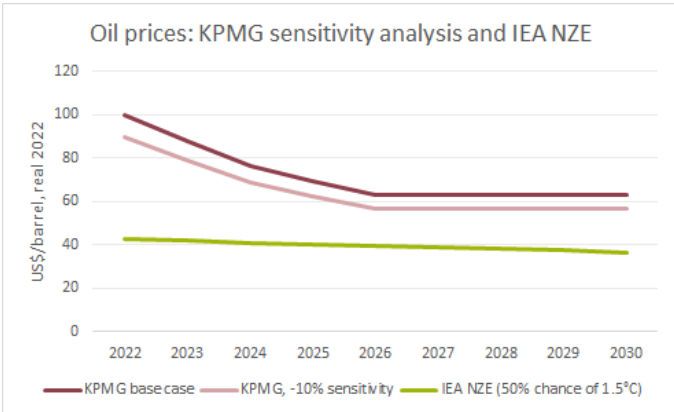
- FOR the 'Capital Protection' shareholder proposals;
- AGAINST the companies' own climate change reporting resolutions; and
- AGAINST the Chairs of each company's Sustainability Committee.

Market Forces provides this update in addition to our previously-published investor briefing and update.

Woodside's growth assets decimated by shift towards Paris goals

The Independent Expert Report on the proposed merger between Woodside and BHP Petroleum shows even just **a 10% fall in long-term oil prices would decrease the net present value (NPV) of Woodside's recently sanctioned Scarborough gas project by 80% to just $383 million.**[1] The chart on the left below shows that a 10% fall below KPMG's base case price projections would also see the NPV of Woodside's Sangomar and Trion assets fall by 24% and 63% respectively, while its more prospective **Browse project would become NPV-negative, becoming a $158 million liability**.





Sources: April 2022 Independent Expert Report (KPMG and GaffneyCline analysis) - Scarborough includes both Woodside and BHP equity share; IEA World Energy Outlook 2021. Figures rebased to 2022 real terms using 2.5% inflation rate.

[1] All dollar values in USD

As shown in the chart on the right above, even the **International Energy Agency's Net Zero by 2050 scenario (NZE2050) models an oil price more than 40% below KPMG's base case by 2030**. Woodside's oil price assumptions for impairment testing are $73/bbl in 2022, falling to $65/bbl from 2024 (2022 real). By comparison, BP and Shell use 2030 oil prices of $60/bbl (2020 and 2021 real respectively).

The conclusion is clear: in anything close to a Paris-aligned scenario, or even applying peers' price assumptions, the value of Woodside's growth assets would be decimated.

Woodside's decision to sanction Scarborough, the value of which relies on the world failing to move towards Paris-alignment at all, represents an abject failure of corporate governance and risk management, which investors must act to address at the upcoming AGM.

Betting against Paris

The immense stranded asset risk facing oil and gas assets under Paris-aligned or net zero by 2050 emissions scenarios is not limited to Woodside. The Investor Group on Climate Change (IGCC) last week published a report showing **all new Australian gas projects assessed would "record lower cash flow under [two] 1.5°C scenarios"**. The report, which presented Wood Mackenzie analysis, covered the majority of Woodside's and Santos' gas project pipeline.[2]

IGCC's report notes "Projects slated for export, or have higher production-related emissions, or are located in remote geographies and/or carry higher development costs have higher risk exposure." These findings should be particularly concerning for Woodside and Santos investors, given the companies' recently sanctioned projects include:

Woodside	Santos
Scarborough + Pluto LNG • Sanctioned December 2021 • New remote offshore gas field (Scarborough) for LNG export (Pluto 2) • Total capex cost: ~$12 billion	Barossa • Sanctioned March 2021 • New offshore gas field for LNG export • Extremely high CO_2 content • Total capex: ~$3.6 billion • Financiers have suspended loan due to lawsuit filed by Traditional Owners
Trion • Targeting mid-2022 final investment decision • New deepwater offshore oil • Total capex cost: ~$8.3 billion	Dorado • Targeting 2022 final investment decision • New remote offshore oil • Total capex cost (Phase 1): ~$1.9 billion

[2] Santos: Muruk, Elk/Antelope, Barossa, Narrabri. Woodside: Scarborough, Browse.

Our recent investor update highlighted Santos' own analysis, showing the value of its oil and gas portfolio would halve in value under a net zero scenario.

The fact that investors felt the need to commission their own independent scenario analysis demonstrates the inadequacy of Woodside and Santos' own disclosures, governance and risk management processes.

Given the major capex commitments these companies have made on new oil and gas projects facing significant stranded asset risk, and the scale of potential future spending on more projects out of line with a net zero by 2050 pathway (detailed in Market Forces earlier investor briefing), **investors must step in and demand these companies change course**.

At the upcoming AGMs (Santos 3 May, Woodside 19 May), investors are urged to vote:

- **FOR the 'Capital Protection' shareholder proposals;**
- **AGAINST the companies' own climate change reporting resolutions; and**
- **AGAINST the Chairs of each company's Sustainability Committee.**