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BHP approves Phase 1 of the Scarborough Project

Further to the announcement today that BHP Group (**BHP**) and Woodside Petroleum Ltd (**Woodside**) have entered into a share sale agreement to merge their respective oil and gas portfolios, BHP has approved US\$1.5 billion in capital expenditure for development of the Scarborough upstream project located in the North Carnarvon Basin, Western Australia. Final investment decisions have also been made by Woodside and the Scarborough Joint Venture.

A US\$150 million payment is payable to BHP Petroleum (North West Shelf) Pty Ltd by Woodside upon this Financial Investment Decision (**FID**) of the Scarborough project pursuant to the 2016 divestment of BHP's 25 per cent Scarborough Joint Venture interest to Woodside¹.

The approved capital expenditure represents BHP's 26.5 per cent participating interest in Phase 1 of the upstream development. Woodside holds the remaining 73.5 per cent interest and is the operator of the project.

The development of the Scarborough field (WA-61-L and WA-62-L titles) comprises 13 subsea wells, a semi-submersible Floating Production Unit and a 430km subsea export pipeline to the Woodside operated Pluto LNG Facility in Karratha in Western Australia. Field development will be completed in two phases with eight wells drilled in Phase 1. The upstream production facilities will be installed to supply 8 Mtpa LNG and 180 TJ/day of domestic gas, with first cargo expected in the 2026 calendar year.

LNG and domestic gas will be processed onshore under a Processing and Services Agreement (**PSA**) executed today by the Scarborough and Pluto Train 2 Joint Venture Participants, which provides long term access to existing and planned Pluto LNG processing facilities operated by Woodside. The PSA is subject to conditions precedent including regulatory approvals.

Scarborough via Pluto will be one of the lowest carbon emissions intensity global LNG projects projected to be in production in 2030 and will have the lowest carbon emissions intensity of an Australian originated LNG project at around 0.5 tonnes CO₂ per tonne of LNG². The project will minimise its greenhouse gas footprint through development of low CO₂ reservoir fluids coupled with energy efficient LNG processing, in close proximity to the end market – meeting market demand at lower emissions intensity.

Phase 1 of the Scarborough upstream project was approved by BHP following a thorough evaluation of its risk and return metrics, including the economics and technical assessment of the integrated project, under BHP's Capital Allocation Framework and seeks to create long-term, sustainable value and returns for shareholders.

¹ If the proposed merger with Woodside completes, the US\$150m FID payment would be included in the net cash flow that accrues to Woodside from the merger effective date of 1 July 2021.

² Represents CO₂ associated with production, liquefaction and shipping.

On completion of the proposed merger, BHP shareholders will benefit from exposure to the fully integrated value chain of both the upstream project and the downstream Pluto LNG processing facilities due to their approximate 48 per cent shareholding in Woodside.

The integrated project offers stable returns with an unlevered IRR of 13 per cent³, a payback of approximately six years from first production⁴ and a low breakeven LNG price of less than US\$7/MMBtu⁵. The integrated project will benefit from the brownfield expansion of the existing downstream Pluto LNG processing facilities.

BHP CEO Mike Henry said: “Scarborough will be amongst the lowest carbon incremental sources of LNG to world markets.

“Scarborough will provide a reliable source of LNG for global customers and secure gas supply for the domestic market, as well as ongoing employment in Western Australia.

“Scarborough will provide important cash flows and value for shareholders of the enlarged Woodside.”

In addition to the approval of the Scarborough development announced today, BHP also holds an option for it to sell its 26.5 per cent interest in the Scarborough Joint Venture and its 50 per cent interest in the Thebe and Jupiter Joint Ventures to Woodside if the Scarborough Joint Venture makes a FID for the Scarborough project by 15 December 2021 and the merger does not complete. This option is exercisable by BHP in the second half of the 2022 calendar year. If exercised, consideration of US\$1 billion is payable to BHP with adjustment from an effective date of 1 July 2021. The US\$150 million payment payable to BHP Petroleum upon FID of the Scarborough project would remain with BHP Petroleum. An additional US\$100 million is payable contingent upon a future FID for a Thebe Development.

³ Based on BHP resource assumptions and does not account for Pluto train 2 sell down or send or pay contractual arrangements; nominal IRR.

⁴ Based on Wood Mackenzie's most recent long-term gas price forecast of Japan LNG DES price (2026-2035 average: US\$8.35/MMBtu, real 2021).

⁵ Integrated LNG DES North Asia. At 10% discount rate.

Further information on BHP can be found at: **bhp.com**

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