

ASX Announcement

Friday, 21 February 2014

ASX: WPL
OTC: WOPEY



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2013 FULL YEAR RESULTS – ANALYST/INVESTOR TELECONFERENCE

On Wednesday 19 February 2014 at 7.30am AWST Woodside hosted a 2013 Full Year Results analyst and investor teleconference.

The transcript of the briefing is attached, which includes clarifications to comments made during the call.

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Company: Woodside Petroleum
Title: Full Year Results Analyst/Investor Presentation
Date: 19 February 2014

This document should be read in conjunction with Woodside's 2013 Annual Report which is available on the company's website, www.woodside.com.au.

Start of Transcript

Operator: Ladies and gentlemen, thank you for standing by and welcome to the Woodside Full-Year Results presentation. At this time all participants are in a listen only mode. There will be a brief introduction, followed by a question and answer session at which time, if you wish to ask a question you will need to press * 1 on your telephone. I must advise you that this conference is being recorded today, Wednesday 19 February 2014. I would now like to hand the conference over to your first speaker today, Mr Peter Coleman, CEO and Managing Director. Thank you, please go ahead sir.

Peter Coleman: Well good morning everybody, thanks for joining us today for - to discuss our 2013 Full-Year Results. For those of you who are up early this morning, I mentioned at the media briefing that we've adopted a different approach this year where we first had a media briefing and now we're really following up with our investor focussed briefing so hopefully, you'll find the new format better for you and we'd appreciate any feedback you have later on. You'll also see we've issued our investor slide pack early this morning. In the past years we would issue a second version complete with speaker notes but this year our slides really speak for themselves so hopefully any remaining questions can be answered here this morning, and this morning is really focussed on a Q&A.

I'm joined this morning by Lawrie Tremaine, our CFO; Rob Cole, our Executive Vice-President in Corporate and Commercial, and Phil Loader, our Executive Vice-President for Global Exploration. I introduced Phil to you six months ago at our half year presentation and this morning I'd also like to introduce Mike Utsler, our Chief Operating Officer. I'd also - I'll make some opening remarks about the results before, as I mentioned we open it up Q&A and most of this morning will be Q&A. If I can point you to Slide 3 of the pack, first of all we're very pleased with our strong financial headlines. Our Net Profit after Tax was almost \$1.75 billion, the second highest result in the company's history and in line with analyst consensus figures of \$1.753 billion. You'll be aware that last year's record result included the one off sale of Browse Equity. We produced record volumes of 87 million barrels of oil equivalent despite our Vincent FPSO being off station for the majority of the year and this was in line with our mid-year guidance that we provided to the market.

Our disciplined capital management, record volumes and healthy profit also put us in a position to provide record full year dividends of US \$0.249 per share, and that's a significant 92% increase on 2012 dividends. On Slide 4 you'll see we made good progress on our Corporate Strategy, optimising our core business, leveraging our capabilities and growing our portfolio. We made good progress on

our projects, in October the \$5 billion Australian North Rankin redevelopment project achieved start up on time and on budget. On the Operations side we achieved major shutdowns on the LNG2 Train at North-West Shelf, and of course at Pluto, and we've improved our reliable production from both North-West Shelf and Pluto during the year. In terms of LNG reliability we're pursuing world-wide top quartile performance over the next three years, and in line with our internal productivity challenge - which was launched early this year - we'll be driving value through effective management of our third party spend.

Of particular note is our commitment to Capital Management and making disciplined investment decisions. I know this is the theme of the day at the moment but we're pleased to report we're making very good progress in that area. You'll be aware we took a decision not to proceed with the James Price Point development because it did not meet our commercial requirements for a positive investment decision. Moving all the way to Slide 15 if I may, you'll find we had a very good result in terms of free cash flow. Over the past two years we've generated in excess of US\$5.9 billion in free cash. This puts us in a very strong position to fund our growth aspirations, also in a great position in terms of liquidity to fund growth. Our net debt is down 20% to \$1.5 billion, gearing is 9%, and we have cash and undrawn facilities to fund growth. I think it's important to note we achieved our strong financial results and strategy progress alongside our ongoing commitment to sustainability.

If I can move you back to Slide 5 you see, among the highlights, we achieved a 27% improvement in personal safety performance, although further improvement is required for top quartile international benchmarks to be met. We established the \$20 million Woodside Development Fund which will focus on early childhood development. We launched the Leadership Management Framework for our employees, and we enhanced our graduate programme. I now pass over to Lawrie to discuss our Financial Results in more detail.

Lawrie Tremaine: Thanks Peter and good morning everyone. Peter's covered most of our financial highlights so I'm just going to discuss four topics in a little more detail. Firstly you'll see from Slide 8 that a change in product mixes negatively impacted our operating revenues compared to the prior year. High LNG sales volumes from a full year's production at Pluto combined with lower oil volumes due to the Vincent FPSO refurbishment and field decline at the Laminaria, Enfield and Stybarrow fields, resulted in the lower volume, weighted average realised and consequently an unfavourable Product mix variance of \$540 million. Slide 12 details our Impairment charges for the year. These mostly relate to late life oil assets. In each of these cases the impairments are mainly due to lower estimates of future production and increased, expected restoration costs.

On Slide 13 you'll see that our forecast investment expenditure is down \$100 million compared to our previous guidance. This related to Leviathan and reflects the lower equity of twenty-five per cent, and the later expected timing of the transaction completion and close.

Finally I'd like to draw your attention to the dividend calculation outlined on Slide 19. Consistent with our guidance in January and given the non-cash nature of impairments, we have added the After Tax impact back to profit for the purposes of calculating the final dividend. After that quick review I'll hand you back to Peter for an update of our growth opportunities.

Peter Coleman: Thanks Lawrie and as you can see we're continuing to pursue those opportunities that have a clear line of sight between our capabilities and future values, so the things that you see us do should be quite logical and understandable. If we can move to Slide 23 for Browse, we're progressing basis of design work for the Floating LNG development concept. The joint venture is targeting FEED for the second half of 2014 with an FID of in the second half of 2015.

On Slide 26, for Leviathan, we're working towards a fully termed agreement by the end of next month. You'll see that the Leviathan joint venture is making good progress on development options, with a final investment decision on Leviathan domestic gas, targeted for 2014.

On Slide 33 our ability to grow from already discovered resources is demonstrated. You can see we've got significant contingent resources contained in the Browse and Sunrise fields, and the opportunities presented to us by the Leviathan transaction. Of course the message here is that Woodside's very, very well positioned for future growth in that respect.

On Slide 29 we continue to grow our exploration portfolio in emerging provinces, mainly characterised by materiality and quality. This year will see seismic studies taking place in Ireland and New Zealand, and frontier drilling in Myanmar, and of course, closer to home, we'll be drilling three wells in the outer Canning basin of Western Australia.

On Slide 10 we committed last year that we'd be working hard on growing our margin. Our anticipated average realised price across all our products in 2014 is set to increase. This is a result of a couple of factors. One you've heard of before which is the additional oil volumes with the Vincent FPSO returning to full production in November last year, along with the impact of price renegotiations on some of our LNG contracts, which are already in hand.

On to Slide 34, in conclusion, we are well positioned for future growth. We've been getting the business into shape here over the last couple of years so I think we're well positioned now.

We do have a strong financial position as is evidenced by the profit in 2014 *[Clarification: 2013]*, but also in the balance sheet. Our LNG pricing is robust and we're seeing progress on key projects like Leviathan and Browse, and real progress on our global exploration strategy. We are looking forward to continued progress on our Corporate Strategy in 2014. It will be a significant year for Woodside in many respects. It's our 60th anniversary, and its 30 years of domestic gas production, and its 25 years of LNG exports. So on that note I'll finish and I'll open it up to questions.

Operator: Ladies and gentlemen, we will now begin the Question and Answer session. If you wish to ask a question, please press * 1 one on your telephone, and wait for your name to be announced. Your first questions comes from the line of Dale Koenders from Citigroup. Please ask your question.

Dale Koenders: (Citigroup, analyst) Hi Peter, Lawrie and team, I just had a question in terms of the Pluto LNG repricing. You've stated that 75% of the sale was on a basis of 4.3 million tonnes per annum will be recontracted by the third quarter, on my maths that gets to 3.25 million tonnes per annum of off-take versus the original contract volume at 3.75. Is there a portion that will be recontracted at a later date or not at all, or have you decided to have greater exposure to stock market?

Peter Coleman: Yeah I'll let Lawrie answer that one.

Lawrie Tremaine: Hi Dale, Lawrie. The price adjustment relates to our foundation customers and our foundation contracts and as you know there is - excuse me, I just chose this moment to lose my voice - as you know there is some optionality in those contracts so we talk about them, the contract volumes under those particular contracts ranging from 3.25 million tonnes per annum up to as much as 3.75 so the price review - we're entering into the second price period and it will relate to any volume sold under those contracts, including the option volumes.

Dale Koenders: (Citigroup, analyst) Okay and I guess there's no comment on pricing? Previously you stated a target of traditional Asian LNG pricing or towards prices from the region, are you still confident that the contracts are in line with regional pricing?

Lawrie Tremaine: We've been very, very careful Dale. We've - basically we've given the market the disclosures we think you need. Apart from that, you're going to have to wait and see our quarterly results in the first quarter. You'll start to see it coming through in the first quarter of next year - sorry, this year. I'm still living in 2013. And you'll see - we've provided you with the extent to which we believe those prices will impact in each quarter, so you should be able to work it out from there.

Peter Coleman: Dale, to put it another way, there's no change to our previous advice.

Dale Koenders: (Citigroup, analyst) Okay, okay. My understanding there's also a portion of North West Shelf contracts that we're going through a re-pricing agreement. Just wondering if you could provide an update as to where that process is, if you've reached binding agreements and if they will start in the second quarter '14 as per prior guidance.

Peter Coleman: Yes, those contracts are still being negotiated so we're still going through that. So the pricing guidance that we've given is consistent with our expectation of where both the Pluto and those contracts will land during the year, but at this point, we haven't built anything significant in for those North West Shelf negotiations. So you can assume these are a fairly conservative basis for those mixed numbers that we've put in there.

Dale Koenders: (Citigroup, analyst) Okay, very good. Thanks guys.

Operator: Your next question comes from the line of Adrian Wood from Macquarie. Please ask your question.

Adrian Wood: (Macquarie Securities, Analyst) Hi, just a follow up question on the Pluto pricing. Previously we sort of - I was of the understanding that this was going to be a step change in pricings from, sort of April 1st onwards. It seems now - this phased ramp up - I just wonder if that's in any way any reflection of push back from the customers. I know Tokyo Gas has been talking quite openly about LNG pricing in general over recent months. I just wondered if in any way this points to any tension with the customers?

Lawrie Tremaine: Adrian I think the simple answer is, no, it doesn't relate to any tension with the customers. It's just a negotiated outcome, and that's the whole story.

Adrian Wood: (Macquarie Securities, Analyst) Okay and just second then, on the growth projects. First of all looking at Browse, obviously Shell's have been talking a lot more about improving its capital and operating efficiency. Is there any chance of a change in operatorship at Browse to more fully engage Shell - obviously they are engaged already, but to somehow maybe hand over operatorship and secure access to the technology. And if that's the case, would it concern Woodside that your two big growth projects perhaps aren't operated?

Then second, just in Canada, can you just talk a little bit about the strategy there. Is there a risk that you're just maybe a little bit too late, and that buying your way into resources as we're seeing at Leviathan is nothing like as lucrative as finding it yourself? There's unlikely to be a first mover advantage in Canada given the projects that are already ahead of you.

Peter Coleman: Okay let me address the first one first on Browse. Let me give you an unequivocal no, there will be no change in operatorship, and all of the agreements we have in place give us full access to Shell's - both Shell's technology and also their project development teams. So the agreement we have - the joint venture has with Shell also includes use of personnel, processes and systems, so it's a very advantageous agreement for both Woodside, the joint venture and for Shell.

With respect to Canada and the strategy there, the strategy is quite simple. Canada has a lot of stranded gas at the moment and you're seeing announcements on a pretty regular basis from holders of that gas that they're delaying development plans as they move forward. So that's very consistent with the business model that we have at Canada that says, you don't need to get into the upstream at the moment because the upstream is stranded, essentially, and that's our view.

With respect to the business model in Canada, for us it's simply saying, the value will be created - actually for Woodside, and understanding Woodside's business model and capabilities are different to some of the onshore producers in Canada - so where do we add value? It's actually through the LNG manufacturing process and being able to evacuate that gas and get it to market.

So our view is, the first thing to do is to get a LNG footprint that we can be quite comfortable with, with respect to a manufacturing site, and that's what we've done at Grassy Point. We have quite a modest commitment to that and we have the three year evaluation, exclusive evaluation period on Grassy Point and we'll commence that work this year.

What I would say in that regard, Adrian - whilst we are a little later than others, I would suggest to you we've learnt from others, and what others are doing, we're very comfortable at this point with the site that we've secured access to. We'll develop the business model over the next year or so as we know more about the site, as we see what else is happening in Canada and also what's happening with pipeline routes, and we'll take a decision sometime in the future.

So this is just simply saying, there's a great opportunity there at some point; we can't see how it crystallises today, but we're taking an early move at this point for quite a modest investment.

Adrian Wood: (Macquarie Securities, Analyst) Great, thanks very much.

Peter Coleman: Okay.

Operator: Your next question comes from the line of Ben Wilson from JP Morgan. Please ask your question.

Ben Wilson: (JP Morgan, Analyst) G'day, guys. Firstly a quick question on Browse, it looks to have been a negative revision on the contingent resource estimate there. Can you explain how that's come about?

Peter Coleman: Yes, actually that's a great question, I'm glad you asked it, Ben. The key here on Browse is just the way that the reserves guys talk reserves, or resources. If you have a look at the previous onshore plant development, because gas is available for sale in the onshore - the gas that's used for fuel and flare is available for sale in the onshore plant scenario, then that's actually booked as a reserve. So simply by moving to offshore, that fuel is now designated as not being available for sale and so can't be booked as a contingent resource.

That's simply all it is; it's just saying, stuff that you'll use - gas that you'll use as part of the LNG processing, you actually back out of your resources because you actually can't - it doesn't have a saleable market to it.

The other part I would say is FLNG is actually helpful because it will improve the ultimate recovery of the fields. So you'll see that the balance there - there's a positive. The reason for that is that the reservoir pressure that we're able to draw down to is lower in the FLNG case because you don't have as much back pressure on pipelines to get it to shore. So there's actually an offsetting plus therefore, with respect to ultimate recovery.

Ben Wilson: (JP Morgan, Analyst) Okay, excellent. Secondly, with respect to capital management - and you've certainly highlighted you've had a record dividend year - I was just wondering if you can

discuss how you view the future potential capital commitment on a project like Browse, looking at FID towards the end of CY15 versus your current gearing at 9% and your strong free cash flow outlook for the next, I guess, couple of years heading into that FID. I guess the question is are you looking to sit on a portion of your balance sheet ahead of Browse, or are you happy to come to capital markets when and if you do sanction that project and look for funding that way?

Lawrie Tremaine: Yes Ben, it's Lawrie again. We'll come to capital markets when we need - only when we need to. Our view is the FLNG project at Browse is good from a funding position because it is phased, and so it's helpful in that regard.

As we look at the growth program that's ahead of us, our view is that we can fund that pretty much entirely from our balance sheet with no need for equity. Obviously, making a comment like that I have to take a position on future oil prices and so on, so we'll have to wait and see, but at least I say that for the main part, we would expect to be able to fund that directly off our balance sheet with debt raised - the way we'd raise our debt will depend on the project. There's some opportunity for us to use project financing, but for the main part I would imagine it would be corporate debt raised on a timely basis just as we need it.

Ben Wilson: (JP Morgan, Analyst) Okay, very good. I guess that leads to the question, what is your target gearing ratio through the cycle?

Lawrie Tremaine: I'd prefer to express our target - our capital management targets in a slightly different way, and that is, because of the size of our growth projects, we do need to maintain access to significant funds in the capital markets. So it means that we need to be a strong investment grade credit. As you know, from a S&P rating perspective, we're sitting at BBB+. It's always our goal to target holding that rating. If we do all of our projects at precisely the same time, we can see that rating coming under some pressure, but we would take action to defend a BBB rating. We don't want to see ourselves in a position where we're a BBB- credit.

So locking in at around about BBB+, BBB at worst, means that we need to have a funds from operation to debt ratio of around about 35%.

Ben Wilson: (JP Morgan, Analyst) OK

Lawrie Tremaine: So we use that metric because it's the one that's most relevant to our credit rating.

Ben Wilson: (JP Morgan, Analyst) Got you...

Peter Coleman: All of the modelling we're doing, Ben, is based on our expectation of forward price, which is - we think it's a good basis for us, and clearly if prices stay at current levels then things get pushed out in time with respect to having to take certain actions. So we're pleased with that, with the way that we've actually got our funding plan in place over the next few years.

Ben Wilson: (JP Morgan, Analyst) Okay excellent. Thanks very much, guys.

Operator: Your next question comes from the line of Stuart Baker from Morgan Stanley. Please ask your question.

Stuart Baker: (Morgan Stanley, Analyst) Morning gentlemen, can you hear this okay?

Peter Coleman: Yes, Stu.

Stuart Baker: (Morgan Stanley, Analyst) Thanks very much. I've just got two questions related to the reserve statement and the separate - first is just the reduction in oil where it's about 20% at the 2P level, obviously, and the two projects mentioned there. Just wondered if you could split it as to which was the biggest downgrade relative to Stybarrow and Neptune, and secondly walk us through the process as to how that kind of arose? Obviously forward oil prices is not price-related, and it just seems like a pretty big step down, 20% in one particular year.

Peter Coleman: It's a good question, Stu. I'll tell you, the bulk of it actually is Cimatti. So we took - we probably - we took an aggressive reserve position on Cimatti early on with the expectation that we were going to have an early development on Cimatti, and as you know, during the year we've reviewed the Cimatti development. We still believe that we'll go ahead, but we've taken the position at this point it's more prudent to move that into a contingent resource. So it's Cimatti is driving the majority of the reserve revision.

So what I'd say, the downward negative is - about half of it is Cimatti, and the rest is then a mix. We've got a positive on Vincent and that's offset by smaller negatives on Neptune and Enfield, Stybarrow. So there's just a little bit of a mix there.

Stuart Baker: (Morgan Stanley, Analyst) Thanks very much. Just got a follow up question, just looking at Pluto and this bit between the developed resource, 2P and undeveloped. It looks like there's about 2.1 Tcf of gas in there that's as yet undeveloped. Just looking at the Xena tie in which gets 250 Bcf of it, costing \$370 million. It just got me thinking about what the work program that sits out there in the future to bring that additional 2P of gas to the surface, what sort of development concepts you're looking at - subsea, do you need compression – and if you can give us some kind of feel of what sort of lump of capital that might take. I'm kind of thinking that when I see 2 Tcf needing to be developed is probably going to be \$3 billion or thereabouts. Just wondering if you can provide some colour around that thanks.

Peter Coleman: Yeah I'd say there are two things. Firstly, you're right the - you know, Xena brings in a smaller reserve base but it's going to be important to us particularly from a field management point of view, reserve preservation. What I would say is we're in no rush. Those future reserves are a mix of compression, being able to get down to lower pressures in the field and then also development of some of the resources we have in 4O4P. So from the point of view of capital management, it's a few years out from now before you'll start to see any significant dollars in that.

I can't give you an estimate at this point, Stu, that the guys would be comfortable with me sharing with you. But, as you know, we're working really, really hard on stripping the costs out of these things. So if you have a look at the development costs for Xena and where we think they'll end up is significantly different to the development costs you would have seen on Greater Western Flank for example. That was really a wake-up call for us as to what we needed to do with respect to our capital structure that we just didn't feel that was appropriate going out into the future to have that sort of cost structure in place. So where we'll end up on Xena I think will be far more positive and once we close on that project and we are on schedule, and doing quite well on that project, we'll be able to give you better guidance as to where we think that stuff will end up.

Stuart Baker: (Morgan Stanley, Analyst) Okay thanks very much for that. That's fine for me.

Peter Coleman: Thanks Stu.

Operator: Your next question comes from the line of Peter Harris, JCP Capital Partners. Please ask your question.

Peter Harris: (JCP Capital Partners, Analyst) Thank you for the presentation. Just to get a feel for the differing project opportunities and the potential shareholder return between Browse and Leviathan, there's some really different valuations out there so just if the Woodside Board or the investment gods forced to give you one of the projects away, which one would you keep between Leviathan and Browse?

Peter Coleman: Oh, I hope the gods are smiling on us Pete so...

Peter Harris: (JCP Capital Partners, Analyst) It would be interesting to see - because a lot of people give you a lot of valuation of Browse and nothing for Leviathan. But, you know...

Peter Coleman: Yeah I understand and I think the reasons for that is we haven't been able to give a lot of specifics to the market yet. The operator's been quite active on Leviathan as you know. But equally it's early days in resource development in Israel. So we understand it's difficult for people to ascribe full value to some of these opportunities. I would just simply go back and look at the quality of the resource. Leviathan is an absolute world-class resource and they drilled another well on it during the year which is often lost on the conversations. So we've actually de-risked it even more. The well came up with excellent results with respect to reservoir quality and so forth and underpinned our confidence in the resource side.

You saw a positive reserve revision or resource revision on Leviathan during the year which we fully support. So if you look at it, we think they're both world-class resources and that the advantage to them is that we can take a phased approach to the investment. So if you were to ask me that the investment gods made me make a choice, what I'd be doing is saying I'm going to move both forward and I'll do them in a way that is sensible to manage, to maintain capital discipline in our balance sheet. I don't want to give either of them up.

Peter Harris: (JCP Capital Partners, Analyst) Okay, thanks Peter.

Peter Coleman: I think the job at hand is for us to be able to demonstrate and communicate clearly to the market the value that we see and the opportunity and we'll be doing that over the next 12 to 24 months.

Operator: Your next question comes from the line of John Hirjee from Deutsche Bank. Please ask your question.

John Hirjee: (Deutsche Bank, Analyst) Yes good morning everyone. My question relates to Leviathan as well. A couple of questions there. Peter, you mentioned before about access to Shell technology for Browse for floating LNG. You're the operator of the LNG development for Leviathan, or the operator-elect if I can put it that way. What are your thoughts on the technology aspect for FLNG for Leviathan?

Peter Coleman: Yeah that's a good question John. We have, you know, quite strict IP rules in place with respect to the use of Shell's FLNG technology. So what I would read is that that technology will be limited to the Browse opportunity at this point and subject to the arrangements we have in place with Shell. Then also, you know, IP that's developed by the Browse Joint Venture over time. So internally we've set ourselves up to honour and respect that.

With respect to what's happening at Leviathan, we've been working quite actively with the operator now over the last 12 months in providing our knowledge and guidance with respect to how they would go about FLNG. We have our own internal FLNG technology in place now and we've been - you may recall at our investor day 18 months ago we mentioned that we were pursuing that. We now have that in place and we have agreements in place. The operator is about to go and issue ITTs. We've seen what the operator are doing. We've had input to that and we're very supportive of the joint venture arrangements that they're about to propose. So this will be different technology. It won't be the Shell technology but it's technology that we're very, very comfortable with.

John Hirjee: (Deutsche Bank, Analyst) Okay, thank you Peter. A follow up question, part of the attraction of Leviathan was the Leviathan deep prospect. Can you elaborate on further on when you think that potentially could be drilled and whether that is still in the current plan for testing of that particular prospect?

Peter Coleman: Yeah I'd go back and say the joint venture still believes that Leviathan deep will be drilled. As you're probably aware though, the joint venture couldn't get comfortable with it being the first well in the drill program of the new drilling vessel coming in. So the operator has taken it to the Gulf of Mexico to pursue other opportunities they have there. They haven't told us yet the timing for getting it back to drill Leviathan deep but I'd suggest to you it's 12 months away at least given the reschedules and will need to occur. So it's been pushed out in time but the actual prospects are still

there and the operator, nothing's changed with respect to the operator or joint venture's view of the prospect.

John Hirjee: (Deutsche Bank, Analyst) Alright, thank you very much Peter.

Peter Coleman: Thanks John.

Operator: Your next question comes from the line of Mark Samter from Credit Suisse. Please ask your question.

Mark Samter: (Credit Suisse, Analyst) Yeah morning guys, just a couple of questions if I can. Just the first one, I apologise, this is I think me being a simpleton. With the Pluto pricing again, just want to refer to the third quarter, the residual 25 per cent, it's not 75 per cent that's been repriced. Just to confirm that's - those are volumes that have already either been spot on a higher price. Or in other words, can you confirm that none of that residual 25 per cent is going to be on contracted, lower-price volumes?

Peter Coleman: Yeah we can. We can confirm that Mark. There is - as you know, Pluto has some - as Lawrie described before in the 3.2 [Clarification: 3.25] to 3.75 MTA, that the foundation buyers they have options as to whether they pick up that difference. And we're - some of that's been picked up and we're working through them with that - through that with them I should say. Then the volumes above that, as you know, we've just announced the Chubu deal over the next three years. So there's a little bit more there for us to play around with and optimise in the marketplace. We always like to keep a little bit spare because of reliability and deliverability concerns that we may have. That's why we have extra shipping now in the fleet to be able to deliver that so to ensure that we don't get into a tank-top situation and we don't get into a distressed-cargo situation.

I'd point to the fact that, as you know, LNG prices on the spot at the moment are north of \$19 so it's good timing if we've got any spare cargo to get it into the marketplace and we're not seeing discounts at this point, at least in these negotiations with respect to the pricing structures.

Mark Samter: (Credit Suisse, Analyst) Thank you. Just secondly with Leviathan, Shell have at least historically been pretty public about Israel being a place where they wouldn't operate. I mean, as your largest shareholder, did you involve them at all in discussions ongoing with the re-negotiation of the contract? Or have Shell been kept largely removed from that process?

Peter Coleman: Well we treat Shell like any of our other shareholders in that regard. We make investment decisions that are at best for all of Woodside shareholders. So, no, we would not contemplate nor ever approach Shell with respect to asking them whether it was appropriate to go into a particular country or not based on their own business model. Investors need to make that choice and we treat Shell like any other investor in the marketplace.

Mark Samter: (Credit Suisse, Analyst) Brilliant, thank you.

Peter Coleman: In short, no.

Mark Samter: (Credit Suisse, Analyst) I got that message, thank you.

Operator: Your next question comes from the line of Nik Burns from UBS. Please ask your question.

Nik Burns: (UBS, Analyst) Thanks guys. Look, just a couple of questions regarding your growth portfolio. Peter, I remember a couple of years ago you talked about relative to your peers, Woodside has been under investing in exploration. I think you had a target of \$800 million to \$900 million was appropriate for a company your size. This year, you're about half that amount. I'm just wondering in the context of your exploration portfolio as it stands, do you see exploration spend increasing to \$900 million over the next two or three years? Or do you anticipate you will be entering into new areas?

Peter Coleman: Yeah I'm glad you asked that question for clarification, Nik. No we - you may recall or at least the charts I recall said that some of our competitors were at that time spending in that order and magnitude of \$800 million and some even up to \$1.2 billion per year to replenish their portfolio. We chose to target a spend rate much lower than that. What we thought was appropriate for Woodside as we grew our opportunities. So, no, I wouldn't expect to see \$800 million or \$900 million but I would expect to see an increase in what you're seeing today and probably back to some levels you saw two or three years ago or three or four years ago with Woodside. That's kind of manageable for our organisation structure.

What you're seeing is different today though than maybe what we've seen in the past, is that we're getting into exploration areas early and we're taking significant positions in plays to make sure - Phil's here, he calls it - he has this phrase that he uses with me. He wants to become the Basin master. Meaning that if we can identify plays early and then we can take early positions at relatively low cost and commitment, then we can look through the play before anybody else does and form our own position and then create value in that way.

If you recall historically we've been slow into new plays and we've been chasing others in at a point in time when there wasn't - value had kind of eroded a little bit because prices had gone up and commitments were getting more difficult for us. And that's probably a lot of the Australian plays that as you saw that over the last 10 years, they became fully priced. So one of the reasons we've gone to a more global view of our exploration is that we're trying to make sure we get into plays at the right time, at the right price. And that's what Myanmar is, that's what Ireland is and that's what New Zealand is. So I hope that helps.

So, no, don't expect to see \$800 million or \$900 million of exploration spend over the next few years. Now having said that, equally Phil knows that he doesn't need to drill wells just to bring resources into the contingent resource base because as I know you've been studying this morning, our contingent resource numbers are very high and we need to be working down our contingent resource base. We don't need to be adding to that just to get exploration technical success. So the real focus of our

exploration team is on near term commercial success and making sure that we can bring barrels into the producing bucket as quickly as possible.

Nik Burns: (UBS, Analyst): Thanks for clearing that up. Just linking into what Ben said earlier and with your contingent resources, just trying to understand with what you're seeing – what you've got on your plate at the moment with Browse and Leviathan, assuming that deal completes in the next quarter. With the flexibility in your balance sheet are you anticipating that that's enough for Woodside for now or are you looking at further M&A opportunities over the next 12 to 18 months?

Peter Coleman: I'd say well you can see us continuing to pursue our corporate strategy which includes leveraging our capabilities and then also growing through organic. So nothing will change and certainly nothing will change around our capital discipline. So the key there is we'll look at these opportunities and you've seen our willingness to trade as well. Historically we've not traded actively and you saw us with the early equity sale on Browse that we were quite willing to trade where we saw value in the market. So no we're not binary any more Nik and we're trying to work that into our business model. So I'd never rule anything out to be quite frank.

Nik Burns: (UBS, Analyst): Great look just one final question if I can, just on Browse LNG marketing, we've seen a couple of your equity partners, so Mitsui and Mitsubishi, that participants in the Cameron LNG project in the US and they've signed up to take a considerable volume of LNG from those projects, has that weakened their appetite at all in your opinion to pursue Browse at this point?

Peter Coleman: No, in fact I could suggest it's probably strengthened their appetite in many ways as people understand the US market more and some of the variability in that. Equally my understanding is Mitsui is actually sold some of those volumes onto others. So I think those buyers, equity partners are looking at their portfolios across the board.

Nik Burns: (UBS, Analyst): Great, thank you.

Peter Coleman: Thanks.

Operator: Your next questions comes from the line of James Bullen from Merrill Lynch, please ask your question.

James Bullen: (Merrill Lynch, Analyst) Yeah good morning gentlemen, just a follow up on Leviathan, Noble has put forward quite a capital light solution for development there, including a plan to lease a floating LNG vessel. I'd just be keen to get your take on that.

Peter Coleman: Yeah, look James it's probably too early for me to comment on the vessels themselves and how we think that project will be financed. As Lawrie mentioned previously there's a number of different options with respect to financing and once we get into the joint venture we'll need to understand that a little bit better as to why the operator feels that a lease is the appropriate way to go. So we just haven't seen the lease arrangements on that. We're aware that the operator put that in

their recent update to market but we're not aware of the arrangements. Having said that, as you know, Woodside can finance this off our balance sheet, so that's not a driver with respect to it being a condition precedent for our entry into the joint venture. So to put it another way, leasing a vessel or keeping that capital off our books is not something that is an impediment to us investing into it.

James Bullen: (Merrill Lynch, Analyst) Great and then just to follow up on Canada, that would see you move away very much from the traditional E&P model and focus in on manufacturing. Are you concerned that that would dilute your returns, given that it's probably going to be treated more like infrastructure?

Peter Coleman: No not at all. In fact what I would say is we'll probably balance equity positions in that over time. So I actually see Canada as a more traditional LNG project than I would the Gulf of Mexico which is more infrastructure, as you mentioned. So no, all it says is there's no use buying any upstream assets in Canada unless you've got a way of monetising the assets. So simply what we're doing is – the market is quite used to a step-by-[step] process where you get the resource first and then you go build it. What we're saying is, I don't want to go spend a whole bunch of money on resources that I'm going to sell at AECO prices, that's a waste of time for me and it's not an area that we have a competitive advantage being onshore Canada. So you look at where you have advantage and our advantage is in being able to create value through the LNG manufacturing and sales process. So that's what we've done first.

We will then likely take equity position, either/or in the pipeline and in upstream but only once we've demonstrated there's actually a business model and a sustainable case there for us. No we're not moving away from a traditional E&P model, we're just simply the way we're approaching this particular opportunity because it's onshore and dispersed assets and so forth, we think this is the best way to do it. I would point maybe to some others who have developments along there who have taken early upstream positions who are now sitting on very significant investments without a clear line of sight as to how they're going to monetise it. So if you want to ask, well why are you doing it this way Peter, it's pretty simple, just have a look at some of the other investments in Canada over the last few years that now do not have a clear line of sight.

So that's our disciplined capital management coming back into it again, we're just saying guys, now is not the right time to go and do these things unless you can... Remember it gets back to my exploration point: Phil's not drilling wells just to put contingent resources onto our books. We've got to have a clear line of sight to monetising these things.

James Bullen: (Merrill Lynch, Analyst) Thank you very much.

Operator: Your final questions comes from the line of William Morgan from Intrinsic Investments, please ask your question.

William Morgan: (Intrinsic Investments, Analyst) Here to ask two questions, one to do with staffing and one a strategic question on pricing. Just with respect to staffing, 18 months ago you said that it would take 18 months to two years to build the team to where you thought you wanted it to be. I wonder if you could give a bit more colour whether it's specific percentage completes on building teams in four or five categories, just as a means of measuring benchmarks, especially since you're going into some new areas.

Peter Coleman: Yes, good question, Will, and I'm pleased that most of my staff are listening to this call so they'll be very interested to hear my answer. The point is we have been doing a lot of work both in our organisation structure and then also ensuring that we have the right people in the right places. You can see from this year's annual report our leadership team has changed considerably over the year, and over the last two years. I would say that work at the top of the house now is complete for us and we look forward to a period of stability, and they're all really happy and smiling at each other now. The period of stability in our leadership as we move forward so we can start to drive some of these things through, and if you look at the CVs of some of the individuals it becomes pretty obvious as to why we've built the team in this way. So I'm really pleased with the leadership team that we've been able to put together.

We do have some work further in the organisation as part of our productivity challenge. We're well-advanced in the exploration part of our business, we're well-advanced in our development part of our business. We've got some further work to do in our production and support areas, our functional support areas and we'll be doing that over the next 12 months as we kind of realign ourselves and make sure that we're set up for success. So we're ready, we've done all the work and now there's actually a great appetite within the organisation for us to start moving into the career stuff in that regard. So that's on staffing. You had a question on pricing?

William Morgan: (Intrinsic Investments, Analyst) Yes, just going back, it's obviously driving the industry, the owners crazy for some time, just the lack of -- I mean it's the lack of transparency on pricing, it's historical. I guess I'm interested in what you and your peer group and your customers' peer group may have learnt or observed from the change in the way that iron ore has been priced from secret longer term contracts to moving towards a spot market. I just wonder if you could give any colour around where you see that heading and what's the momentum in terms of negotiations and the way that you deal with your customer base?

Peter Coleman: Yes. Look, we have a view that the market is becoming more liquid and it's becoming more liquid quite quickly. As you know, there's about 25% of LNG volumes today are traded on the spot market. A lot of that is Japanese because of the great earthquake, but nonetheless there is a step change that's occurred in spot market pricing to what I would call shorter term contracts, and that's particularly related to expansion projects or some volumes that are available in existing contracts. So you can see that's already starting to move and you can already see buyers are getting more comfortable with source flexibility and sellers are demanding more

destination flexibility. That then plays into our strategy that we've enunciated which really says we need to get better at marketing and trading.

We've been doing that for a couple of years, and that's why we've established a trading office in Singapore this past year and we've bought two new vessels into our fleet, one dedicated to Pluto and one dedicated to international trading, because our belief is DES is the way to go in the future and it's the way to go today and we believe the market is going to become more liquid over time. What I can't tell you how fast it will become liquid and how fast some of these contracts roll off and so on. So whether it's five years or 10 years until you get to a fully liquid and transparent market I can't tell you, but all I can tell you is we're ready. We're not threatened by that at all, we're well-prepared and I would say it creates advantage for those who have well-established marketing and trading activities in their organisations. I'd probably not be comfortable if I was sitting there not having a competent marketing and trading activity.

William Morgan: (Intrinsic Investments, Analyst) Thank you.

Operator: I would now like to hand the conference back to Mr Peter Coleman for closing remarks. Thank you, and please go ahead, sir.

Peter Coleman: All right. Look, thank you very much again for spending time to listen to Woodside this morning. I know there are a number of other companies reporting today and so we appreciate very much that you've taken the time to hear our call. As I mentioned in the beginning, we're very pleased. While it's record profits, record dividends, very strong production, the future is very positive for us. We've continued to do the things that we said we would do and if you really think back, we said last year we'd focus on our capital management, we did that. We'd focus on our margins, we've done that. We've performed well in our base business and we've achieved bringing some growth opportunities into the hopper.

So we'll continue that this year. You'll start to see our exploration drilling program start to be executed after additional opportunities in the exploration space. You'll start to see our margins, enhanced margins come through to our bottom line, improved reliability and productivity within the organisation, all things that are going to drive our bottom line and importantly drive our return to our shareholders. As we mentioned our commitment is to maintain our payout ratio for as long as is reasonable, and at the moment our balance sheet and cash flow are very strong to do that. So again, thanks very much guys and we'll look forward to talking with you over the next days and weeks.

End of Transcript