ASX Announcement

Thursday, 21 August 2014

ASX: WPL
OTC: WOPEY

Woodside Petroleum Ltd.
ACN 004 898 962
Woodside Plaza
240 St Georges Terrace
Perth WA 6000
Australia
www.woodside.com.au

2014 HALF-YEAR RESULTS – TELECONFERENCE

On Wednesday 20 August 2014 at 7.30am AWST Woodside hosted a 2014 Half-Year Results teleconference.

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

Contacts:

MEDIA

Michelle Grady
W: +61 8 9348 5995
M: +61 418 938 660
E: michelle.grady@woodside.com.au

INVESTORS

Craig Ashton
W: +61 8 9348 6214
M: +61 417 180 640
E: investor@woodside.com.au

Company: Woodside Petroleum Limited
Title: 2014 Half-Year Results presentation
Date: 20 August 2014

This document should be read in conjunction with Woodside's 2014 Half-Year Report which is available on the company's website, www.woodside.com.au.

Start of Transcript

Peter Coleman: Good morning everyone and thanks for joining us for our 2014 half-year results. You would have already seen our ASX announcement, which includes our financial headlines and business achievements for the first half of the year and our half-year results briefing slide pack which gives you the details behind those headlines. We also issued our half-year report to the market earlier today.

This morning we are maintaining our more recent practice of providing some introductory remarks then opening up most of the call to Q-and-A. We do have investors and media on today's call. Feedback from those split calls for the full-year results was positive so we will keep that as a standard for the February update.

I am joined this morning by Lawrie Tremaine, our Chief Financial Officer, and Phil Loader, our Executive Vice President of Global Exploration.

Firstly, achievements and financial headlines. Our key achievements and financial headlines are captured on slides three and four in the briefing pack. Lawrie will talk in more detail about our financials but I want to say I am pleased with our results.

Our reported net profit after tax for the first half of 2014 was US$1.1 billion, a 27% increase on 2013 and a company first half record. This was underpinned by record production of 46.5 million barrels and a record operating revenue of $3.55 billion for the period. Our focus on productivity and improvement reliability is really starting to deliver tangible results across our business and Lawrie will have more to say about that.

Safety performance in the form of total recordable injury rate per million work hours worked has improved 49% from the first half of 2013. Good progress on our journey to achieve top quartile international health and safety performance and, as many of you know, this is a leading indicator that we use with respect to the health of the organisation and our performance.

We have also been focused on how we are growing our portfolio, rebalancing our exploration portfolio towards more emerging and frontier plays. In the past few months, we have acquired acreage in Tanzania, Morocco and Gabon, building on our recent entries into Myanmar, Ireland and New Zealand. These country entries are a good example of us delivering on our corporate strategy commitments and I will provide some more insights about this before we open for questions.

We do continue to drill in our home waters though, with success at Toro and during the half we completed five 3D marine science mixed surveys, four in Australia and one in Korea *[Clarification: during the half we completed six 3D marine science mixed surveys – five in Australia, one in Korea and one in Myanmar]*.

Open Briefing®

Browse continues to lead our development pipeline and remains on track for our front end engineering and design entry decision in the second half of 2014 while other infill and tie-back projects are progressing to plan.

We continue to assess new development opportunities, signing a sole proponent agreement with the Government of British Columbia to access land at Grassy Point to undertake feasibility studies for a potential LNG development.

And on Sunrise, the Australian and Timor-Leste governments remain in arbitration concerning the treaty on Certain Maritime Arrangements in the Timor Sea. While this is being resolved, the Sunrise joint venture has recommenced efforts to identify and progress an economic development of this world class resource.

On the sales and marketing side of the business, we signed mid-term sale and purchase agreements with Chubu and KOGAS early in the year and, just subsequent to the end of the half, we signed a sales and purchase agreement with Cheniere Energy to purchase LNG from the Corpus Christi project in the Gulf of Mexico from late 2019. This gives us a more flexible offering as a portfolio player in the marketplace to exposure to US shale gas in the future.

Before I hand over to Lawrie to take you through the numbers, I want to highlight two examples from the first half of 2014 that demonstrate our commitment to taking disciplined business decisions that are in the best interests of our shareholders.

In May, we took the decision not to proceed with Leviathan. While undoubtedly a world class resource, we just couldn’t see a way to deliver the value for our shareholders that we initially hoped for. To get the best results in the longer term, we need to take hard decisions and this was a difficult one. As one opportunity ends others emerge and our entry into Gabon is in partnership with Noble Energy, a welcome addition to the many partners that we work with.

On 17 June we executed an agreement with Shell Energy Holdings Australia, resulting in Shell's sell down of 9.5% of issued capital to institutional investors. The second part of the agreement was the proposed purchase by Woodside of a further 9.5% of Shell's shareholding through a selective buy-back subject to shareholder approval.

As all of you know, while we came close to securing the 75% shareholder approval required to pass the resolution, the final result was 72% in favour. Shell is now a 13.6% shareholder, a significant reduction from their 23% holding before the transaction.

Woodside retains a strong balance sheet. We are focused on shareholder returns and on disciplined capital management and we move forward on that basis.

On slide five, you will see we are well positioned for growth as a result of our strong operational performance. We know that the market is watching closely to see what we do next and we have a range of options available to us. Given the majority of our investors supported the proposed Shell buy-back, we will carefully consider our next steps. We continue to assess all capital management options while being mindful that our priority is to pursue growth that delivers superior shareholder returns.

With that, I will now pass over to Lawrie Tremaine to discuss our financial results in detail.

Lawrie Tremaine: Thanks, Peter. A very good morning to everyone. As Peter mentioned, we are not going to talk to every slide today so I am just going to discuss a few topics, starting with revenue on slide eight.

We achieved a record operating revenue for the first half, driven by increased Pluto pricing, the restart of production at Vincent following the FPSO refurbishment in 2013 and higher LNG production volumes, particularly at Pluto, due mainly to better plant reliability.

We have also booked over US$100 million in trading revenues. While this revenue has been largely offset by associated costs, it is positive to see the trading arm of our business starting to take shape.

Moving to slide nine, you will see that with Vincent producing, our unit production costs for oil have decreased. With our productivity improvement initiatives starting to deliver results, gas unit production costs have also decreased. We still have a lot of work to do in this area but this is a very promising start.

Slide 11 shows the year on year movement in reported profit. Our reported profit was a record for a first half, driven primarily by the increased revenue and the lack of impairments and charges compared to the corresponding period. Higher profits at Pluto and Vincent have resulted in us incurring a PRRT expense in the first half. Higher income tax is consistent with higher pre-tax profits.

On slide 12, you can see our expected investment expenditure for 2014 is US$1.1 billion with exploration expenditure representing US$480 million of this amount. This is all consistent with our most recent guidance.

These strong financial results have enabled the board to declare a record fully franked interim dividend of US 111 per share shown on slide 14. This represents a 34% increase on last year's interim dividend and a 71% increase on two years ago. This reinforces the company's commitment to superior shareholder returns.

Lastly I wanted to draw your attention to slide 16. We have achieved a 12% increase in our volume weighted average realised pricing with much of this improvement coming from Pluto. The full impact of second period pricing on Pluto sales will take affect from the start of the third quarter this year.

I will now hand you back to Peter for an update on our development projects and exploration activities.

Peter Coleman: Okay. Thanks, Lawrie. I know we are moving through the pack quickly but I think it will give people a lot more time in the Q and A. So it will allow us to catch up.

I do want to close out this part of the call though by giving you further details about our global exploration activities, highlighted in the back of the briefing pack on slides 22 to 27. I know there has been a lot of media this week about exploration activities in Australia and I want to reaffirm the fact that Woodside holds a very substantial position off the north-west coast. So whilst we will talk about international here over the next couple of pages, our core and our current focus today is on the north-west of Australia.

We are delivering our commitment to build drill ready inventories and testing plays through the analysis of the five seismic studies we have completed in Australia and Korea this year. [*Clarification: during the half we completed six 3D marine science mixed surveys – five in Australia, one in Korea and one in Myanmar*]

Further studies are planned across our portfolio during the second half of this year and through next year as we develop knowledge and understanding of our acreage.

Our strategy is to secure new international growth opportunities in frontier and emerging basins, characterised by materiality and quality. In line with this, we have acquired acreage in the Atlantic margins, Sub-Saharan Africa and Australasia and we are working to add to our portfolio this year.

On the Atlantic margins we are focused on proven but under-explored plays in a geographic region of increased industry focus. Sub-Saharan Africa opens up access to significant resources with high potential materiality and we continue to maximise and extend our core through gas opportunities in Australasia.

In Myanmar we secured four additional blocks during the first half of the year, adding to our existing acreage position there, and the execution of our seismic activities in acreage acquired as part of our global growth strategy will provide us with clear targets to drill for commercial hydrocarbons commencing in late 2015.

So that's a very quick overview of the results and the focus areas we have. As I mentioned, I also have Phil Loader, our Executive Vice President for Global Exploration with Lawrie and myself, and I'll open up the floor to questions.

Operator: Thank you ladies and gentlemen, welcome to the question and answer session. To queue for a question please press * followed by 1 on your telephone keypad and wait for your name to be announced. Your first question comes from the line of Adrian Wood from Macquarie Group. Please ask your question.

Adrian Wood: (Macquarie Group, Analyst) Yes, hi guys, just a couple of questions. First of all, can you just give us a quick update on the Western Australian Government's claims around the Browse resource, obviously that was breaking news back in May and I just wanted an update there. Also Apache's obviously got the Wheatstone stake on the market, but I wondered first of all if that would be something that you would be interested in and there's also obviously speculation that perhaps they could be contemplating a full Australian pull-out and would that larger portfolio interest you?

Then just finally, I notice a slight change in the terminology in the pack. You now refer to the Browse FEED decision as our FEED entry. I just wonder if you are in any way implying there that you could take a FEED position on Browse at a separate juncture to Shell? Thanks.

Peter Coleman: Okay Adrian, well let me address it. Firstly, on the WA Government claims, we're still working with NOPTA on actually understanding what the implications are with respect to the permit boundaries. We haven't seen that fully yet but we don't expect that it's going to be an impediment at all to progressing the project and, as I've said previously, I actually think it helps us with alignment because now the WA Government's a direct stakeholder particularly in Torosa. We do understand that the WA Government and the Federal Government are in talks at the moment on formalising the change, but there is some legislative activity that needs to take place to do that, is our understanding. So it's moving forward, we don't see any impediment to the project and it doesn't affect the profitability.

With respect to Apache and Wheatstone and their Australian assets of course we don't comment on activities that we've got around the M&A part of the world. I'd just say to you that we're continuing to look at those assets and other assets that are around the world and put them on our seriatim of opportunities. So if they're high enough up the list we'll look long and hard at it.

On Browse with respect to the FEED decision, we've indicated to market now for about a year that we had a pretty aggressive FEED schedule. We said we'd get there in the second half of 2014. That's still - we're still on plan to do that, but we're also recognising that it's probably moving out towards the back end of that window rather than the front end, and as you look at the individual approvals required for each of the houses - remembering there's five partners in this - we felt it prudent to show why Woodside was going to pre-commit to it and we couldn't speak on behalf of some of the other houses in that regard.

No impact at all Adrian on FID, it's just simply some of the administrative processes and recognising that.

Adrian Wood: (Macquarie Group, Analyst) Great, thank you very much Peter.

Operator: Thank you. Your next question comes from the line of Dale Koenders from Citigroup. Go ahead please.

Dale Koenders: (Citigroup, Analyst) Hi Peter, continuing on with the Browse theme, in December 2013 you mentioned that you might front up a HOA for Browse prior to moving into FEED. Just wondering if you could comment, is that still a requirement and how those marketing efforts have gone so far?

Peter Coleman: Dale, it's a preference. Clearly you'd like to understand what you're marketing is going to be before you go into that FEED decision. It's not a necessary prerequisite for us but it is a preference. The marketing activities are actually progressing pretty well. Our target market for Browse is clearly Japan, we have Japanese partners. We have a relationship, a marketing relationship, that we've carried on with MIMI and we're continuing to progress that. So I would say some of those discussions are quite advanced. Most of it's now down to the old tug of war on price and who's willing to blink.

So that's where we are in those discussions, but it's not a prerequisite for going into FEED at this point. Recognising the FEED decision for Browse now with FLNG is a much different capital decision than the one for James Price Point. The capital at risk of FEED in FLNG is quite a small percentage of what it is for a James Price Point land based option.

Dale Koenders: (Citigroup, Analyst) If we think about your 31% interest in the first 3.9 million tonne per annum vessel, how much of that volume do you want to sign under long term contracts and how much are you willing to maybe add to the trading business or manage some of the spot markets?

Peter Coleman: Yes, look it's - what we'd say is we've said previously we'd prefer - it's not a hard line at all to be quite honest which is why we're building flexibility in the portfolio, but rough rule of thumb on these sorts of numbers is you'd want 75%, 80% if you can but it's like what we've done at Pluto. But how that comes together we don't have a hard and fast rule internally that says we must have X signed up before we go to FID, which is the whole reason that we're developing more of a portfolio approach. We've said the best way to protect the value of these projects in fact is to not be at the mercy of when buyers are able to sign up. So I'd say rule of thumb on that Dale but nothing hard and fast.

Dale Koenders: (Citigroup, Analyst) Okay, very good, thanks.

Operator: Thank you. Your next question comes from the line of Stuart Baker from Morgan Stanley. Go ahead please.

Stuart Baker: (Morgan Stanley, Analyst) Good morning gentlemen, just wanted to get a bit of colour if you like on the Outer Canning exploration strategy. It looks pretty remote; it's obviously greenfield and it targets gas and it begs the question of why you'd want to do any of that given the timeline. It's a very long duration timeline it has taken to commercialise Browse and also given the fact that there have been gas assets around discovered resources, it maybe could have acquired which would perhaps bring you closer to commercialising via production than would a greenfield discovery in the Canning for example. So I just wanted to get a bit of colour around that please.

Peter Coleman: Yes, Stuart I'd probably argue with you around the remoteness of the Outer Canning. As you know, it's between Browse and the North West Shelf. It is greenfield, definitely greenfield, and there is no infrastructure there existing at the moment, so those points are definitely valid.

If you go back to the exploration strategy though, we really said that we needed to go after things that were material to us to move to dial. A lot of what we were drilling in our existing acreage was getting smaller and smaller and as costs had increased over the last 10 years, in particular, the commerciality of some of the smaller finds has been a challenge. So we really needed to open up the aperture and go after things that are material.

The Outer Canning wells that we're drilling, are chasing, are quite material multi-Tcf targets and so that's important to us. So that'd be the first thing I'd say, is why are you there. It's because these are play opening activities that if it works it works really, really well, and it's in a part of the world that we should be able to be successful in bringing it on quite quickly.

The past - the results of earlier this week are of interest to us. I know a number of people are probably wondering well now the results of Apache what does that mean and so forth. It just means that the explorers are going to look a little differently at the potential for liquids in some of these plays and so while we can - we're not going to provide comment over materiality of what others are finding.

I think the key takeaway there is some of the modelling or some of the thought process around the liquids content of some of these plays has changed and I would say that's a net positive to both our acreage in Outer Canning and also the acreage we have in the Beagle Basin.

Stuart Baker: (Morgan Stanley, Analyst) Thanks very much for that. Just a follow up question if I can please, in terms of the drilling schedule where you've outlined on page 27 of your slides, a lot of the prospects there being drilled in ‘14 and ‘15. Could you please just run through pretty briefly the split of which of those or which ones might be oil?

Peter Coleman: Yes Stuart if you don’t mind I'll get Phil Loader to just provide comment on that.

Phil Loader: Good morning Stuart, it's Phil Loader speaking. In terms of the longer-term plannings for 2014 and 2015, obviously the majority of the Australian portfolio is gas dominant, Malaguti being an exception. As always with a longer term drilling program there is an element of flexibility. Myanmar would be a gas prospect, Peru would be oil and Spain would be oil. So there's some degree of flexibility.

What you'll appreciate in our efforts to grow the portfolio is a number of the provinces we've entered into in the last few months have been predominantly oil dominated, so we're getting more of a balance to our oil versus gas portfolios in the longer term.

Stuart Baker: (Morgan Stanley, Analyst) Okay, thanks very much.

Operator: Ladies and gentlemen, just a reminder if you do wish to ask a question please press * followed by 1 and wait for your name to be announced. Your next question is from the line of John Hirjee from Deutsche Bank. Go ahead please.

John Hirjee: (Deutsche Bank, Analyst) Thank you, good morning everyone. A question on the exploration and the extent to which now you are putting your portfolio out there. Peter, or Phil, are you happy with the current portfolio in terms of geographic dispersion that you have or is there more targets on your agenda given that you're going to have to build it up over a period of time?

Peter Coleman: Yes, John thanks for that, because it's a question that exercises in our mind quite a lot, at what point do you become too geographically dispersed and you introduce complexity into the business and it's difficult to focus and manage on.

If you have a look - if you draw three circles around Australasia, around sub-Sahara in Africa and around the Atlantic margin, that's really where the focus would be. So if you see us entering anything additional, either in existing countries or complementary plays, think about our strategy as following some of those plays, then it will be essentially in those three circles, absent Peru which is a legacy asset for us and something that we continue to look at although quite positively these days. So no, if you do see anything new it is in those sorts of areas.

As Phil said the orientation for us, particularly outside of Australasia, has been to try and get more oil into that inventory and to be targeting oil prospects and chasing those sorts of plays. Again, you can see we're actually getting a strategy of a low entry cost, being able to take a large position working with the existing players there so that we can leverage their knowledge and expertise in those areas. So a number of places we're getting into were actually non-operator which is unusual historically for Woodside because we have gone for operatorship. We think that just helps us manage complexity of the business while being able to grow quite rapidly in the portfolio. So it's about resource capability and capacity and making sure that we've got that right balance for us.

John Hirjee: (Deutsche Bank, Analyst) Okay, thank you. Another question if I may, and this is referring to your trading element now of your business and particularly as now you've taken some volumes coming out of Corpus when that goes to FID. Can you give us some idea of the sort of risk appetite that Woodside's prepared to do in terms of the trading business? Because it'll be a marginal business, so if you could give us an idea of the sort of risk appetite that you're prepared to put on the balance sheet in terms of the element of LNG trading that you're about to embark on over the next while.

Peter Coleman: Yes, look it's a good question, that again exercises our mind a lot. The current strategy, as we've talked about, is really to ensure that the first step is to protect our existing projects and to provide maximum flexibility around that. While some of the trading numbers you'll see revenues just about balance costs, the reality is we've been able to create a lot of value in other parts of the business through that trading activity. Those profits get booked to that part of the business, not our trading business. So we're quite happy with the way that trading's working at the moment.

The Corpus Christi trade brings another element to it and how do you manage the risk of that. We're looking at that very hard because you go a couple of steps on from there and you're right, you're starting to develop more risk in the balance sheet with respect to that trading activity. I tell you today we're not there. We really need to - this is a strategy of incremental growth for us to make sure that we don't get ahead of ourselves. So we have no aspirations to take over the world trading market of LNG. You won't hear me say that. Equally, it's a good business to be in and so we want to walk towards this, not run towards it.

So you asked me where our appetite is, I'd say our appetite is closely linked to where I think our confidence in capabilities in the organisation and the other things that we're trying to do. Because as we take on more trading risk, it's also going to affect or potentially affect our investment grade and some of the other risks there and we've got to look at that compared to some of the capital investments we want to take. So as you can see, it's something we're talking about quite a lot. But what I would say is what you're seeing today is where we've agreed to get to. Let's get this right before we take the next step.

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

Peter Coleman: Thanks John.

Operator: Thank you. Next question does come from the line of Mark Samter from Credit Suisse. Go ahead please.

Mark Samter: (Credit Suisse, Analyst) Yes, hi, I've got three questions. I might go one by one because I'll probably forget what I asked by the time I get around to the third one, if not -- first one's just it's deemed reasonable in the market the Tangu project did get a price adjustment on its supply agreement with CNOOC, there's a common perception out there that both North West Shelf and Tangu projects didn't have price review clauses with CNOOC. Is there any active discussions between North West Shelf and CNOOC about the price formula and do you think there are any conditions that could challenge the ongoing supply on that contract?

Peter Coleman: That's a good question, Mark, I think you've been reading some of the wires. Look we don't comment on those sorts of discussions. Clearly we watch closely what's been happening with Tangu and the price reviews on Tangu. There are some subtle differences in the contracts, so they're not exactly the same, but it's something that we watch closely and if there's an opportunity to engage with our buyers on that, then I can assure you we'll do that.

Mark Samter: (Credit Suisse, Analyst) I mean it's fair to say that contract runs at a pretty material cash loss at present, obviously.

Peter Coleman: No, I wouldn't say runs at a cash loss. It'd be, without getting into too much of the details of the contract, clearly it's a good contract for our buyers in today's market.

Mark Samter: (Credit Suisse, Analyst) Sure. The next question on LNG marketing, I was interested you stated negotiations really just come down to price. I'm wondering if interruptability comes into it; so what, I guess, within that, to what extent the deal with Corpus Christi, we were all talking about it as bolstering trading, but actually is just having interruptability a necessary marketing tool in this day and age when your competitors, some of the recent contracts aren't given that element of interruptability, particularly to Japan with the uncertainty about nuclear restarts?

Peter Coleman: Yes, look I would say what we're seeing today is we've been able to build far more flexibility into our contracts, so one of the things that we pushed quite hard is being able to have source flexibility. That's been quite advantageous for Woodside. We've been able to get that into our recent negotiations because of the fact that we are such a reliable supplier at North West Shelf and Pluto. So the advantage that we have over some others who are trading in the market is we have physical volumes coming out of reliable sources.

So the flexibility that Corpus Christi brings with it is twofold. One, is it helps us even more with that trading activity, so you think about these contracts, then source flexibility becomes even more valuable to us. Then the second part to it is it allows us to phase our projects so they start up when they should, not when the buyer needs them. It allows us to meet the buyers' needs at the same time as making sure we actually did efficiently on the capital part of the project. So all the pieces of that puzzle come together and they're all complementary.

So going back to an earlier question, this is about putting all those pieces together and we've seen that flexibility this year. We've not been subject to some of the downward price pressures, either that you've seen in the spot market because of some of that trading activity or that flexibility with being able to negotiate into our contracts.

Mark Samter: (Credit Suisse, Analyst) Thank you. Then just one last question if I can, I guess we just saw a pretty near miss on the east coast with industrial action and the disputes over rostering et cetera. It looks like Gorgon's next in the firing line for the unions and I guess a similar thing, but they'll win eventually on this, which has impact of costs on any future development, any construction, be it brownfield or greenfield. I guess it depends where the gas is discovered to an extent, but do you think brownfield expansion out of Pluto, if you find gas somewhere reasonably proximal, are the economics still there, given a change in cost environment if industrial relations situation changes?

Peter Coleman: No, we -- that's a sort of, that's an open ended question. We could talk about this for hours. Look all I would go, say, is this, go back to Pluto and the industrial environment wasn't too dissimilar and it was at the other end of the cycle. You might recall we were trying to complete Pluto at a point in time where projects were ramping up everywhere and workforce had many options as to where they went to. We were able to complete the Pluto project with really no industrial disruption at all, as distinct from what you're seeing elsewhere. So that was a strategy we put in place in early 2011 and we knew one of the hardest things to do would be to actually finish the project with the people that we needed, given that new projects were starting up and those people had opportunities to go elsewhere. So if you have a look at overall, while we had some early industrial action at Pluto, the overall lost time was well under 1%.

Your question around costs, it is concerning to see negotiations occurring late in a project like where significant cost or rate increases are being agreed to. You know that's difficult because it won't be limited to that project, it'll flow then on to future projects. I would suggest to you that just says the decision on Browse and going to FLNG is even more robust in that particular scenario.

With respect to Pluto expansion, I don't see any issues at this point around the Pluto expansion, whether that would affect that and of course you know that the North West Shelf has a continuity of supply agreements. So with respect to some of the other industrial action, we don't expect any flow on disruptions to our current producing activities because of our continuity of supply agreements with the unions.

Mark Samter: (Credit Suisse, Analyst) Okay, good, that's it from me. Thank you, Peter.

Peter Coleman: Thanks Mark.

Operator: Thank you. Next question comes from the line of Ben Wilson from JP Morgan. Go ahead thanks.

Ben Wilson: (JP Morgan, Analyst) Good morning Peter. Just wanted to ask about the Toro discovery and whether that reinvigorates your efforts to chase down a scale resource and for potential expansion of Pluto or otherwise around the North West Shelf. Also, how much gas in some of those outer hubs do you need to justify a platform or is tie-backs an option there?

Peter Coleman: Yes, what I'd say Ben is Toro didn't quite get us there. We're still evaluating it as a commercial discovery and we expect that will be the case, but we haven't completed the work on that. It does tell us a lot about what we can expect in that Ragnar Hub area. I would tell you that the guys are actually now looking at additional ideas, so we learnt a lot out of Toro. But we're not at a point where I can tell you we have a commercial development around Toro that will tie into Pluto or anything at this point in time.

We actually think it's more likely to tie into an infield development and potentially into a domestic gas development out of that, rather than being an expansion of Pluto. Phil's looking at me at the moment. We actually took a review on exploration yesterday and the guys are working feverishly on a number of new play types that they're chasing. So I would say the opportunity and idea generation kitchen is working very hard at the moment and the team's quite excited by some of the things that they're seeing. So I think we're benefiting from the pause that we had in the exploration program. As you know, we've kicked it off again, but it's - we're benefiting from that ideas generation.

Too early for me to tell you though, that Toro is going to make or break any of that. It's positive that we've learnt where the gas is, we've learnt what the trap looks like, we learnt a lot more around what our seismic is telling us and so forth. But it's more likely to be a greater infield kind than something standalone for Pluto.

Ben Wilson: (JP Morgan, Analyst) Okay, thanks Peter.

Peter Coleman: Thanks Ben.

Operator: Thank you. Next question comes from the line of Nik Burns from UBS. Go ahead please.

Nik Burns: (UBS, Analyst) Thanks guys. So just a question on capital management, there's obviously heightened anticipation around what you may or may not do following the Shell buy-back not getting approved. I guess when we look at your gearing now at 3.9% and your target gearing of 25%, there seems to be surplus cash on your balance sheet at the moment. So the question I guess is what is the timing in which you're going to make a decision and how you're marrying that up with, I guess, your guidance in May where you talked about your investment side and looking at M&A opportunities in the AUD1 to AUD1.5 billion range? If you give back more cash now, is there a risk that that could hamper your ability to undertake material M&A in the next, say, six to 12 months?

Peter Coleman: Okay. Well Nik, thanks for asking the questions that six of your peers were not willing to ask before you. So I know and thank everybody for not leading with this one. The issues around capital management, as you know, the Shell buy-back was, you can term it what you want, it was an efficient use of capital for us to be able to leverage out a long term investor who had already indicated they wanted to exit the register. We achieved, to be fair, we achieved quite a lot of that and made good progress and got feedback from our shareholders.

We need to remember that Lawrie and I are about to go on roadshow and we need to be able to get some feedback from the 72% of shareholders who voted in favour of the Shell buy-back and then form a view and make a decision after that. We balance that by always saying that the first thing we want to do is look for growth, and we want to make sure that whatever we do in capital management doesn't impede in any way our ability to pursue our growth projects. And so I've consistently said to market we use a rule of thumb of about US$5 billion as we look at -- say, as a size of company what sort of growth opportunities can we be pursuing, what do they need to look like and how can we handle that in our balance sheet, and about US$5 billion plus or minus fits quite nicely for us. So as we look forward, anything we do we look and say can we maintain that sort of capacity, either within debt or equity raising as we move forward. And so all I would say Nik is that we're still considering all of those options and we'll probably form a view over the next few months as to what the best thing to do in that regard is.

We do have a view though that M&A opportunities are coming onto the market, they are better priced than what they were two years ago and we're going to look long and hard at those opportunities as well. So we're not being stagnant at all in our thought process or static, binary, whatever you want to call it, we're going back to the top of the list again that says how do we fund growth and what are the growth opportunities and what's the best use, and let's make sure that we don't do anything that prevents us from doing something else. I think that's the key. We've learnt from past experiences where we committed a lot to a certain outcome and then found that the world changed and we were locked into that particular strategy for a period of time and it made it very difficult for us, and we just don't want to be locked into that again.

Nik Burns: (UBS, Analyst) Okay, that's clear so thanks for that. And just a question on Pluto if I can. Just you had - on slide 27 you've highlighted you're planning to drill a well there in 2015. You recently sanctioned the Xena development. I'm just wondering, is there any concerns behind the scenes around the deliverability from the field in order to maintain output, or are these wells planned as part of the full field development going forward?

Peter Coleman: No questions around output or reserves. We may go and do work over on one of the Pluto wells next year and that's more initial deliverability out of that well. You may recall we only need three of the Pluto wells to keep the plant full and we have five wells, five wells drilled. So no, no issue on reserves or capacity. Xena really is acreage management or resource management and I'd point you to the proximity of others across the lease line. So it's just simply saying let's make sure that that resource remains in our hands and doesn't leak somewhere else. I wouldn't read anything more into that, Nik, than that's just simply us bringing forward a decision to ensure that we preserve the resource that we've booked on Xena.

With respect to the exploration well, I'd put it as an optional well. As we looked at our drilling program and ins and outs in the drilling program, the team have decided to put this one in but it's not of the size that I'd say look, if this is successful I'll guarantee you an extra train. It's substantial, it will be commercial but at the moment it's more of a filler in the program and if something else more attractive comes in then we'll pursue that. But don't read anything else into it than that.

Nik Burns: (UBS, Analyst) Okay, great. Thanks, guys.

Operator: Thank you. Your next question comes from the line of Craig Campbell from Northcape Capital. Go ahead, thank you.

Craig Campbell: (Northcape Capital, Analyst) Good morning, gentlemen. I've got two questions. Firstly, in terms of some of the regions where you're targeting exploration, some of the countries would be relatively new to having oil companies visit their shores. I'm just wondering how you manage fiscal terms before you go into places such as Myanmar. Do you get all of that fixed or does that tend to be work-in-progress, and are the fiscal terms production or risk-sharing agreements, or how does that work for you before you enter? And then I've got a follow-up question.

Peter Coleman: Craig, we do spend a lot of time looking at both the surface and subsurface risk as we look at new countries that we want to enter, and we look at the legal structure in the company, how is rule of law enforced, arbitration processes and then we look at the construct of the contract itself, the revenues received and distributed, the currencies that those revenues are in and so forth. All of that is around managing capital risk and ongoing revenue risk.

With respect to countries like Myanmar, for example, I would actually say Myanmar is a very mature oil and gas country. It's been producing onshore for about the better part of 100 years. We look at it, and it has -- so it actually has structures in place that don't exist in maybe some of the emerging East African countries. Myanmar is a good example because it's actually a country that has a very stable legal and regulatory structure behind its oil and gas activities, both onshore and offshore down to the south of the country.

Clearly the new exploration blocks that have been opened up in the Rakhine Basin are in new provinces but the agreements that were originally proposed by government were essentially a copy of the agreements that existed elsewhere in the country, so we knew what we were getting into when we bid on those blocks. The normal process though is you bid on blocks, you're then awarded the block and then you sit with government and negotiate the final fiscal terms. We are currently in that process of negotiating the final fiscal terms, so you'll find our wording in our announcement is quite deliberate. It says we've been awarded the blocks, we're in the final processes of negotiating those fiscal terms. And so we do that before we commit capital and that's how we manage our capital risk in those countries.

The other countries in West Africa are again all mature, hydrocarbon-producing regions. Gabon in particular has been producing for many, many years. Tanzania is probably the newest but it's had some offshore activity as you know and so we've already got a line of sight as to where Tanzania is going in their fiscal structures. So we do look very long and hard at the rule of law, the arbitration processes and so forth and over the last couple of years Woodside has hired external people to come in who have particular expertise in that area to make sure that we're able to enter those countries in a way and preserve it. It's not just those things, we get down to the levels of customs, duties and how you move things in and out because often it's not just the fiscal terms, it's actually you suddenly get slapped with a bill for customs because you didn't realise that a drilling rig was going to trigger a customs charge for you. So that's the sort of detail we get into.

Craig Campbell: (Northcape Capital, Analyst) All right. Thank you for that answer. Second question, it's related to the quite long-dated production profile for the North West Shelf joint venture. So looking at some of the analyst numbers it would appear that there's potentially one, maybe even two trains within the JV that might drop off from production just because of declining resource reserve availability and looking at the exploration, a lot of talk around maybe helping fill up Pluto. You've obviously got Browse. So my question is, is there actually a specific exploration effort that will be coming to try and keep the North West Shelf joint venture trains, all five of them, full or should we just expect that that runs down over time as analysts are forecasting?

Peter Coleman: Yes, I'll - a couple of things. One, is we've said to the market that we think ullage will start to appear in the North West Shelf sometime around the middle of next decade. We have really focused on a North West Shelf exploration program and we've just completed our Fortuna survey. In fact, I think it was the largest 3D survey we've ever done. So we've just completed that work with a view to filling that potential ullage that you're referring to.

We've not had a large seismic survey in the North West Shelf for about 10 years so the significance of this survey is very important to us. We expect we'll be drilling exploration drills around the North West Shelf commencing 2016 based on the results of that survey. So we're all aligned to you, there's ullage opportunity coming with the North West shelf in the next 10 years and given the lead time we're ahead of the curve on that. We've already run the survey, we're now into the interpretation phase and we expect to have drill rigging prospects in the inventory for 2016.

Craig Campbell: (Northcape Capital, Analyst) Right. So if I was to look at the balance of risk against what people are projecting in the market, it would be perhaps more to the upside than the downside if this exploration effort yields success?

Peter Coleman: Yes, what we would point to, and it's difficult to predict these things, but what we would point to is analogues elsewhere in the world, where we're now into the third phase of development of the North

West Shelf and so the types of things that we're looking for that you typically find they're tie-backs to existing facilities, which is why we're really focused on the development costs in that area. Yes, I would say we're working very diligently to ensure some of those forecasts get extended out in time, and the whole reason for this is to have a successful exploration program that we can then tie into existing facilities and extend the life. We're also spending money on the North West Shelf existing plant to extend its life out another 25 years, so clearly our intention is to continue the life of the North West Shelf and this exploration activity is designed to do that.

Craig Campbell: (Northcape Capital, Analyst) Great. Thanks very much.

Lawrie Tremaine: Craig, this is Lawrie. I just wanted to add that obviously we're in a phase now of developing projects, to tie-back opportunities, Greater Western Flank, Persephone and so on. The observation that I've made is that there's very, very good money in those investments and so IRRs are 20%, 25% plus. So any discoveries that we can make in and around the existing North West Shelf facilities are very economic it seems so far.

Craig Campbell: (Northcape Capital, Analyst) All right. Thanks very much, gents.

Operator: Thank you. Your next question comes from the line of Angela Macdonald-Smith from *The Australian*. Go ahead, please.

Angela Macdonald-Smith: (The Australian Financial Review, Journalist) Hi. Yes, it's the *AFR* actually. Look, Peter, you made some comments about Sunrise in your introductory remarks just about renewing efforts to progress development of that and I just really wanted to get a bit of an idea about what's happening there with that work and notwithstanding of course the arbitration that's going on at the moment?

Peter Coleman: Where is Sunrise going Angela? Well, that's a good question. What I would say is we maintain engagement with the Timorese around Sunrise while some of the issues around CMATS and maritime boundaries are discussed by the Government, it's at government level. I probably can't take it much further than that. We've maintained our office in Dili, we've maintained our social programs up there. We are maintaining our senior executive visits to the Timorese. So we have an - what I would say is we have an active engagement with them. What we're doing is preparing ourselves for the arbitration to be resolved. We don't want to just sit and wait and then the arbitration gets resolved one way or the other and we say, now what? We're actually preparing ourselves now as a joint venture and making sure that we maintain those relationships. Because the issues at hand are government to government. They're not things that the joint venture can resolve. So what we've said as a joint venture, we just need to get about our business and make sure that we have development plans and options placed that allow us to move forward very quickly as a joint venture, once we get a signal from both governments that the issues that are in hand are resolved. So read what you want into that. But what I would say is we've recommenced engagement.

Angela Macdonald-Smith: (The Australian Financial Review, Journalist) Okay. Thanks.

Operator: Thank you. Your next question comes from the line of Mark Wiseman from Goldman Sachs. Go ahead please.

Mark Wiseman: (Goldman Sachs, Analyst) Good morning, guys. Thank you for the update. Just a quick follow on question on the LNG trading business. You spoke to the margins in that business and the synergies with your other projects. I was just wondering if it's possible to - obviously Corpus Christi is a step change for that business in 2019. Is it possible to just talk to what the activities were for the half and what your expectations are from that business over the next one to two years?

Peter Coleman: Boy, Mark, you're testing memory. I mean, there were a couple of cargos really in the half that you can look at. So you can work it out and say what were the costs and look at cargo costs. But there were a couple of cargos that worked into the trading activity. Those cargos were both through Asia and through the Atlantic. So I think we took one out of the Atlantic and brought it across. So that's how the trading activity is working. So it's not just simply an Asia trade with getting Atlantic trades coming through. The real benefit from it, though, was actually in support - having the vessel capability to support our base business. Unfortunately, it's really difficult to get a look through into that.

But there were - you can imagine with the excellent production reliability we've got out of Pluto and the North West Shelf, there were opportunities that presented themselves in our base business that we were able to use that trading vessel to actually come down and help us move cargos on a DES basis in the base business. Of course, that's booked to the base business, not to the trading business. So I would say at the moment that activity just reflects a couple of cargos. Pretty good utilisation on the vessel. So it's - we're utilising the vessel, both our own charters and also sub-chartering it others. So it's not simply moving our cargos, as well. So we've been fortunate in that regard. But very early days.

Where does Corpus Christi fit into that? It just says, well, we've got till 2019 to work out how to do this and build our capability, both front office and back office in trading. We may do - continue to build on the Corpus Christi type opportunities over time, but we don't have anything under foot. But that's where it fits in. Corpus just opens options up. I think one of the earlier questions was does that help you with your major projects in Browse and so forth? The short answer to that is yes. One of the reasons that we took on Corpus was to enable us to have that source flexibility built into our contracts. So hopefully that answers your question. It's early days in the business. We think it's the right direction for us. We hope to see that margin continue increase over time.

Mark Wiseman: (Goldman Sachs, Analyst) That's great. Thank you. Just one more quick question, if I may. Your - based on what you're seeing in the FEED process for Greater Western Flank 2 - and for Persephone and the oil business, is the life extension guidance that you gave for the next several years of roughly US$300 million per year still what you're seeing for life extension capex?

Peter Coleman: Yes. Look, the short answer to that is yes. So yes. The short answer is yes. We're actually seeing a lot of - what should I say - efficiency improvements in that project, as we're able to execute and I'm pleased to report that all of our turnarounds this year have either met our targets or exceeded or been shorter than the durations that we had said. So a lot of performance you're seeing both out of North West Shelf and Pluto has actually been a turnaround performance. That's flowing then directly onto the costs, as well, for that. A large part of that in North West Shelf is the life extension activity. We've not found anything - we haven't found any bad surprises yet in the North West Shelf, as we've gone through the trains.

So we've not found anything yet that would - and don't expect to, find anything that would change our view on what that cost structure was going to be.

Mark Wiseman: (Goldman Sachs, Analyst) Perfect. Thanks, Peter.

Lawrie Tremaine: Mark, just to clarify, the US$300 million number that you threw out there sounds like it's across all of our assets; not just North West Shelf. I was just contemplating whether it was a 100% number. But I think it's - I think it sounds a little less than the 100% number for North West Shelf, but more like the sustaining capex across the whole business.

Mark Wiseman: (Goldman Sachs, Analyst) Yes. Perfect.

Peter Coleman: Yes. I think this might be a mix of gross versus net numbers in there. The guidance we've got on page 12 of the pack shows North West Shelf sustaining capex at about US$70 million net, yes, to Woodside. But that's what we expect to continue going on into the future. That includes that Karratha life extension activity. So you can read that we're well into that activity this year. You would have seen it - the shoulder of that occurring last year. We had a big turnaround on Train 2 last year. But this year, you're seeing the full effect of that activity. So I don't expect there to be much of an increase from that, if any.

Lawrie Tremaine: That's right.

Mark Wiseman: (Goldman Sachs, Analyst) Great. Thank you.

Operator: Thank you. Your next question comes from the line of Matt Chambers from *The Australian* newspaper. Go ahead, thanks.

Matt Chambers: (The Australian, Journalist) Hi, Peter. I was interested in what you said about M&A opportunities becoming a bit more prevalent. I'm just wondering if you can expand on that. Where they are and what's driving that?

Peter Coleman: I think there's a couple of things driving that, Matt. You're seeing a number of our peer group refocus their activities towards North America, in particular. So those companies that are North America focused with international assets are looking at those assets. I would also say you're seeing some of the super majors look at their - the efficiency of capital on their balance sheet. You've seen a lot of signals earlier this year talk about return on capital employed and trying to improve that. Really, the only way you can do that in the short term is to sell assets. There's no magic pudding to that one. It's very simple. As soon as they return - improved return on capital employed in the short term, it means sell assets. The other part to that is that the NOCs are out of the market, which in my view, brings a more rational market.

So the NOCs were heavy into the market a couple of years ago, as they were trying to build resource. Their need seems to have been satisfied for the most part, although they'll continue to be in that market. But there's a number of things happening amongst the NOCs, as you've seen, both in China, here and elsewhere. They've been asked to account for the value of some of their own acquisitions. So I would say to you that the markets are now coming to what I would say is a more rational phase and a more normal phase for it. We just go through these cycles. Where are the opportunities? Well, you've got to be careful on this. It's like all of us. We all generally sell things first that we don't want and then we move through the list.

So you have to be patient as you go through that and assets will have different value to different people. Woodside has been very clear on the types of assets that are important to us, so you won't see us picking around tiny assets. We could have been in that market some time ago. No. For us, it's more material type assets and we need that, because of the type of company we are and structures we have. So I would say that there's some of that. I think there's going to be more occur over the next two to three years, as investors focus more on profitability, as well. There are a number of companies out there that have grown in NAV, but have not grown profitability. I think there's going to be more of an actual evolution as people move from focusing on rationalisation of assets, balance sheet, where are you.

I think the easy things have been done. The refinancing, the going out and getting cheap debt, all those sorts of things. If you've not done it already, you've been asleep. All those things have been redone. I think people looking at portfolios, those things are well in play. The next step is going to be let's look at margin and what's the robustness and the profitability of your business. So it's just a natural part of the cycle.

Matt Chambers: (The Australian, Journalist) Okay. So not having done the Shell buy-back, does that put you in a better position to pursue this?

Peter Coleman: I don't think it puts us in a worse position. The - if we look at the Shell transaction, we'd always contemplated M&A as well. So we - as we look through that, we said, well, what sort of M&A capacity will we maintain in the balance sheet, if the right opportunity comes along? So no, I don't think it changes our view on our ability to execute the right transaction. But clearly the starting point is a different one. Lawrie starts with cash in the bank. So it's a different starting point, that's for sure.

Matt Chambers: (The Australian, Journalist) All right. Thanks, Peter.

Peter Coleman: Thanks, mate.

Operator: Thank you, ladies and gentlemen. That was the final question call for today. I'll now hand back to Mr Coleman for the closing remarks.

Peter Coleman: Look, everybody, thanks very much for staying on the line with us today and I take by the tone of the questions that we are delivering on the strategy that we said we would. I thank you for the enquiring nature of the questions and the positive nature in which the questions were posed to Lawrie and myself. As we said, our commitment is to continue to execute this strategy. You're probably seeing some progress in some areas of the strategy that had been a little faster than some may have expected in the marketplace. That's our intention. Our intention is to make sure that we over deliver on the commitments that we make. We are focused clearly on our base business and you've seen that in our performance of the base business. The lead indicator of safety performance, the excellent reliability we've been able to get in the business, the improvement in unit reduction costs that we're getting in the business.

So we're not simply focused on growth in other places. We are very much focused on getting as much as we can out of the existing business we have. We do have a commitment to continuing to extend that. That's indicated in the seismic surveys we've been running, the questions that we've had about North West Shelf and that extension, the drilling activity we currently have underway. We've got one drilling rig, we'll have another one coming in soon. The large prospectivity we have around the Outer Canning programs. So I think we're well exposed to all of the growth opportunities that the North West currently offers for us. We're working well through our development pipeline with Browse, re-engagement on Sunrise and so forth. Of course, the expansion or light expansion activities of Greater Western Flank and so forth.

Internationally, you've seen us; we've grown probably surprisingly fast for some in some of the most respected oil plays I think going around at the moment. That's a credit to our exploration team and the real hard work they've done over the last couple of years in identifying the places that we need to get into or move soon into an execution activity in those places and you'll start to see seismic and drilling programs come as early as 2015. So we'll start to see some things come into the hopper.

Of course the expansion of our marketing and trading activities, whilst early steps, you can clearly see the intent and where we're going to on how we want to manage that risk, both on a trading but also on a balance sheet risk as well. So I think we're moving forward in quite a rapid pace. The change is very important for us and of course we're continuing to work on our organisation effectiveness and our own cost structures.

So again, thank you very much for participating in this morning's call and I'm sure Lawrie will be talking to a number of you over the next few days as we go around on roadshow.

Operator: Thank you ladies and gentlemen. That does conclude our conference for today. Thank you for your attendance, you may now disconnect.

End of Transcript