ASX Announcement

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2014 FULL YEAR RESULTS – MEDIA TELECONFERENCE

On Wednesday 18 February at 6.30am AWST Woodside hosted a 2014 Full Year Results media teleconference.

The transcript of the briefing is attached.

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This document should be read in conjunction with Woodside's 2014 Annual Report and associated presentation pack which is available on the company's website, www.woodside.com.au.

Start of Transcript

Peter Coleman: Good morning, everybody. Thanks for joining us today for our 2014 full year results. We received positive feedback last year on splitting our media and investor briefings so we'll continue that practice today. Joining me this morning is our Chief Financial Officer Lawrie Tremaine. I'll just make a few opening remarks before we open up the call to questions and I just want to remind everybody that the dollars we talk about today will be US dollars.

Firstly, in 2014, as you can see from the results, we achieved very strong financial and operating results. Our reported net profit after tax was $2.41 billion. High reliability of Pluto and the North West Shelf drove record production volumes of 95.1 million barrels of oil equivalent. That's a 9% increase on our 2013 results. We also had very good results in terms of free cash flow of $4.17 billion and we're in a strong position to fund our development and growth activities. These results, together with our unwavering, I'd say disciplined, approach to capital allocation and a focus on driving down costs across the business has put us in a position to provide a record full-year dividend of 255 US cents per share. This is particularly pleasing when you consider that in 2013 our full-year dividend result also included a special dividend of 63 cents.

Recognising the importance of dividends to our shareholders, the Board expects to maintain the current 80% dividend payout ratio for the foreseeable future, of course subject to the demands of significant new capital investments or further material changes in the business environment. Both our 2014 NPAT and the dividend result are consistent with consensus broker forecasts. Today's results demonstrate the strategy we put in place in early 2012 is delivering the right results for our business. We've maximised value from our base business, achieving top quartile reliability from our assets and delivering $560 million in improvement benefits. We've leveraged our capabilities to develop new growth areas, we've diversified sources of supply and are building relationships in new markets, and we feel our growth pipeline with new projects will add significant production capacity to our portfolio.

In December we entered into a binding agreement to acquire Apache's Wheatstone LNG, Balnaves Oil and Kitimat LNG project interests for an aggregated purchase price of $2.75 billion excluding the closing adjustment. This is of course subject to transaction close which we expect will happen by the end of Q1 2015. We also continued to rebalance and grow our global exploration portfolio and we will now concentrate on aggregating positions around existing focus areas.

2014 was a challenging year for our industry. As you all know, towards the end of the year oil prices dropped about 50%. Our analysis of the causes is simply a new dynamic in the market. The increase in unconventional oil from North America combined with current OPEC policies created a structural shift. In the near term we think that prices will be driven by the cost of incremental supply, but looking further forward prices will need to recover to attract sustained investment into the industry. In response, we've revised our business plan.

Slide 6 of the full year results pack provides some details. We've reduced our 2015 operating expenditure by about 15% and our investment expenditure by about 20% relative to our original plan that we only completed late last year. We've achieved organisational efficiencies and will continue to seek more. We're driving our costs down, our cost base for new projects, and we're repricing service and supply contracts as we speak.

Slide 7 of that pack details our existing growth pipeline and LNG supply and demand forecasts to 2013. We now have a strong and diverse portfolio with the flexibility and capacity to meet future global demand.

In closing, we had a year of strong financial and operating results. We start 2015 well-positioned to take advantage of opportunities that will arise in this price environment and I'm pleased that the work we've done really puts us well ahead of the curve. We'll continue to reduce costs and drive improved margins across our business because we know this focus will deliver value for our shareholders in the long term. On that note, thanks for listening. I'll now open it up for questions.

Operator: Ladies and gentlemen, we'll now begin the question-and-answer session. If you would like to ask a question, please press star 1 on your telephone and wait for your name to be announced. The first question comes from Angela Macdonald-Smith from *The Australian Financial Review.* Please ask your question.

Angela Macdonald-Smith: (Australian Financial Review, Journalist) Hi, Peter. Just wanted an update on Browse floating LNG. I see you're still flagging a FEED decision midyear. Can you just give us a bit of an outline as to how it's going in terms of trying to reduce costs, development costs there, and also on the marketing front please?

Peter Coleman: Good morning, Angela. I'd say there are three things we're pursuing at the moment as we head into the FEED activities. The first of those is finalising commercial agreements and the commercial structure within the joint venture. That relates to the way the joint venture operates as we move forward with the investment decision. That work is almost complete. We expect to have that finalised early next month. The second part then is working with government around what we're doing on domestic gas and also on supply chain activities, particularly support of those activities out of Western Australia, and again those conversations are progressing quite well and we expect that to be finalised in the very near future.

The third part then is the joint venture, working with all of the suppliers and contractors for Browse to ensure that the cost base as we enter into FEED reflects the pricing outlook over the next four to five years. We've already engaged with those contractors, both here and overseas. As you know, the main contractor for the building of the vessel is in Korea, the design is done elsewhere and of course we've also got drilling contractors and so forth that we're working through. So we've been out and seeking new cost bases for all of those. I can tell you we've just received them. In the past few days we've received some updates. It's too early for me to give you an indication as to where those costs are going. We have some expectations in the venture though as to where that needs to finally end up, so we'll be driving that pretty hard.

Angela Macdonald-Smith: (Australian Financial Review, Journalist) Just in the - in discussions with government though, can you give any sort of indication as to how the domestic gas obligation requirement will be satisfied?

Peter Coleman: Yes. We've had extensive discussions with government and it's probably too early to tell me that we've landed on a final position with government, but we are landing on a position I think that will be acceptable to all, which will include an economic test around the delivery of domestic gas. We understand the obligations that we have, particularly around the State's ownership of the resources, and we're working with the State to ensure that we have the right economic tests in any domestic gas decision.

Angela Macdonald-Smith: (Australian Financial Review, Journalist) Okay. If I can just squeeze one more in on mergers and acquisitions opportunities. Obviously you're just still completing the Apache deal, but what are you seeing in terms of your ability to go ahead and to maybe capture some other opportunities that might be thrown up given the current oil price environment?

Peter Coleman: Right. Well, the first one is for us to complete the Apache deal and that's progressing quite well. So we've received - firstly, there's been no pre-emptions within the joint ventures and we've received a number of approvals, both from the Canadian Government and also within the joint ventures. We're waiting on ACCC and FIRB for approval for the Australian part of that acquisition. We expect that's going to come through some time in March so we're looking to close at the end of the first quarter. So there's been nothing at this point that would lead us to believe that the transaction won't go ahead as planned and we've got transition teams already in place working alongside the Apache people.

With respect to new opportunities out there in the market we'd like to settle this transaction down first and we'll then look at our requirements for cash. We expect though that there could be some things, Angela, that free up in the marketplace that interest us, but we're not betting our future on that. I think for us market perturbations are interesting and they provide opportunities but you can't base a business plan off that, to be quite honest. So we'll be looking for more opportunities for sure, we have capacity within our balance sheet to do that. We have particularly strong cash flow coming out of the business and we have choices as to where we allocate our capital. Very importantly, we've not committed significant capital to any major projects at this point in time. So Woodside's in an envious position in being able to make choices with respect to where we allocate our capital over the next two to three years.

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

Operator: Next question comes from the line of Matt Chambers from News Corp, please ask your question.

Matt Chambers: (News Corp, Journalist) Morning Peter. I had a couple of follow ups probably to Angela's questions. On - just on acquisitions, are you still - or opportunity - do you still allow that $1 billion to $5 billion range you mentioned last year, is that still where you'd still be operating?

Peter Coleman: Yes, we are Matt. The - we've talked about it for a long time, we wanted to develop a business plan that no matter where we were in the cycle, it still gave us that sort of headroom. And when we go through the details of what we've been able to do on a capital program in response to oil price, you can see we've maintained the flexibility in our capital program that we've been telling people for the last two to three years that we would do. So for us we still have adequate headroom in our balance sheet for $1 to $5 billion acquisitions. And we can do most of that through debt.

Matt Chambers: (News Corp, Journalist) Yes - okay, thanks. On Browse, sticking with the 2016 FID target, has anything happened to the time that that might take to - from FID to first production? Just as far as that might have - might be looking better or worse or there might be more considerations there?

Peter Coleman: I think that's something that there's a lot of opinions on at the moment to be honest. So if I go up to the shipyard and talk to the shipyard owners, they've got an opinion and others have a different opinion. I would say within the venture, there's been no material change with respect to that timing. But we'll firm that up as we come into the FEED decision. So where I am today, we've got one significant review that the joint venture will conduct. That's scheduled for mid-March and that will be the final gate that each - that we go through with the joint venture before it goes back to each of the houses for a decision to go into FEED.

So that's scheduled - that's in the calendar and that'll be the time that we settle on what we think that timing will be.

Matt Chambers: (News Corp, Journalist) And I noticed that Kitimat doesn't feature on the growth pipeline chart that you put up and I'm just wondering where you stood on the potential for that project?

Peter Coleman: Look, it's just how far you go out in time. The project itself we actually think has got tremendous potential. The - but this year, this current year, what we've done is worked with the operator to refocus the efforts on the upstream delineation of the resource, particularly in the Liard Basin. So you'll see the work activities for 2015, 2016 will really be focused on ensuring that we’re understanding the quality and quantity of the resource in the Liard which we think has the big upside in this particular project.

With respect to the execution, the operator as you know has indicated that they're reviewing schedule on it. So we've chosen at this point not to place an FID in our numbers but we do expect one in the next few years. So it's not that it's been delayed significantly. It's just a refocus of efforts at the moment to the resource. And it's how far you want to take that chart out to be honest. If I took it out an extra couple of years, you may find some other projects come into the chart as well.

Matt Chambers: (News Corp, Journalist) Okay, thanks. And one more on the broader market if I could. I think it's Shell, BG and Santos have all sort of mentioned a $90 longer term price out beyond three to five years that they would - that they're basing their valuations and future investment decisions on. Is that a sort of level that you guys are working with too and do you think that's conservative enough?

Peter Coleman: Yes look, we don't talk about future investment decisions but certainly we've got some notes in the Annual Report around valuations and how we did calculate our impairments. We think we've taken a conservative approach to that. We've based that on an $85 oil price into the future based on 2014 real numbers.

Lawrie Tremaine: That $85 is real 2014, it's from the sixth year out. So we've used a forward curve to the first five years and as we look across the industry it seems to be quite consistent with what others are doing.

Matt Chambers: (News Corp, Journalist) Yes, okay terrific. Thanks guys.

Peter Coleman: Thanks.

Operator: Our next question comes from the line of Peter Klinger from The West Australian, please ask your question.

Peter Klinger: (The West Australian, Journalist) Yes, good morning to Peter and Lawrie. Just a couple of questions first of all on your efforts to reign in expenditure and costs. Can you give some sort of quants or indicate some sort of quantum on the number of jobs you expect to eliminate this year? You did 320 last year. And then also on the exploration budget, I've - if I've got the numbers right here, you're still targeting to spend about half a billion dollars on exploration. Just wondering if that's changed at all from sort of late last year, your expectations.

Peter Coleman: Firstly, you're right, we've been working on expenses now for some period of time and so we're well positioned as we come into 2015 because we already had momentum going. We have eliminated 320 positions in the company. We did that through soaking up attrition and reassigning people. So with respect to how we've gone about that, it's been through improving the productivity and efficiency, taking out layers in the organisation, expanding reporting lines and so forth.

We'll continue that through 2015. We haven't set any hard targets on that because we're - we'd rather be more and more efficient. We'd rather have a natural landing point on where we think that is. But I wouldn't be surprised if we're able to achieve similar sorts of results through 2015 as we have through 2014. So if you're looking for quantums, I'd say we're looking for a similar outcome by the time we finish 2015, as to what we achieved in 2014.

Peter Klinger: (The West Australian, Journalist) Thank you.

Peter Coleman: On exploration, exploration you've got to take a long-term view; you've got to look at exploration in three to five year chunks of time, otherwise you're turning things on and off like a tap. For us the original exploration budget for 2015 was going to be around $650 million, so we've been able -that's where the 20% comes from. In that budget we've been able to redirect and reallocate. What that really means is, we'll continue our Australian activities though; most of that's come out of the international portfolio where we had more flexibility. We're continuing to drill in Australia and we're still on the Outer Canning wells in that commitment program.

Lawrie Tremaine: So that's essentially - that budget change is essentially deferring activity rather than cancelling anything.

Peter Klinger: (The West Australian, Journalist) Yes, ok. And two quick follow ups. One: I'm just wondering what you guys have picked up anecdotally about the production that might be shut down in the US from the unconventional players, what sort of impact the collapse of the oil price has had over there.

Peter Coleman: Look, Pete, I didn’t have a Christmas break. I spent all my time getting around the globe trying to understand what the implications were going to be from this change that we're seeing. I spent the first part of January in the US. The consensus there at the time, and I think it's starting to play out, is that production in the US will actually continue to grow through the first half of this year as people work through bringing on line capacity that had already been drilled and to finish up those programs. I think most of us expect you'll start to see that drop off by the second half of the year, and you'll probably see an impact of it in 2016. Having said that, our view is the way unconventional oil works, or unconventional gas works, is that there's a very direct correlation between - a very close correlation between expenditure and production increases and vice versa.

So any price signal in the market that would indicate a strengthening of price we expect capacity to come straight back into the market. So we're expecting the potential for an extended period where you're going to see small fluctuations in price as capacity comes in and out of the market. But it's going to come… it's going to be a response very quickly because of the nature of that drilling activity.

Peter Klinger: (The West Australian, Journalist) And final question if I may, Peter: Sunrise seems to have dropped off the development pipeline.

Peter Coleman: Yes, well Sunrise is up there competing like all of our projects. Where we are on Sunrise is, as you know, we've been working very hard with both governments over the last 18 months to look for a development concept that works for everybody. Where we are today is, we're at a point where we've pretty well exhausted the activities that we can progress at this time without getting certainty around a regulatory and fiscal framework.

And so, for us, we're at a point where we're looking at Sunrise and saying, it's really very difficult to spend any material amount of time or money on Sunrise in the short term until we actually see certainty around the regulatory and fiscal framework. And that's quite understandable: there's just a point where you've worked through all of your options; you know what the next step is, but before you take that next step you need to know who you're paying your rent to, and at this point in time we don't know what the regulatory framework is, we don't know what the fiscal framework will be, so we can't evaluate this project and we can't put it up to buyers as to being a viable project that they would be interested in. So it's at a point where we've just got to make a choice, and so we're working with both governments to encourage them to provide that certainty so we can take that next step.

Peter Klinger: (The West Australian, Journalist) Is that disappointing, Peter?

Peter Coleman: Oh, it's… I wouldn't use the word disappointing. I think it's a good example, Pete, of why you've got to maintain options in what you do. From our point of view, we'd like to move forward with this project as soon as we can, so if those matters can be put in place then you'll see us spending significant effort on progressing this project as fast as we can and getting it out into the market and selling it to buyers.

Peter Klinger: (The West Australian, Journalist) Thank you.

Operator: The next question comes from the line of Sonali Paul, from Reuters. Please ask your question.

Sonali Paul: (Thomson Reuters, Journalist) Hi Peter, I'm just following up on the Sunrise question. First of all, what exactly are the governments discussing now, and can you see that being resolved in the near term, especially with Xanana Gusmao stepping down? Is that going to make any difference?

Peter Coleman: Well look, the governments have got other matters they're discussing, its environment at the moment, which includes maritime boundary discussions which don't involve the joint venture. So they're working through that process. They've not given us an indication yet as to when they think those discussions will be complete, so I really can't tell you that I know any more than that at this point in time. But they need to work through that; they've got a list of things to work through. Once they've worked through their list and they can get to regulatory and fiscal framework and they can provide certainty on that, then we'll move forward with progressing to the next step of the project.

Sonali Paul: (Thomson Reuters, Journalist) Peter, is the change in leadership in East Timor going to make any difference to this, in how fast this is resolved?

Peter Coleman: Well, that's not clear to me that that's an important part of this at all. With respect to leadership changes, across governments what we want is certainty of fiscal and regulatory frameworks that last for many, many years. So, no, I wouldn't expect that changes in leadership at any particular time are going to make fundamental changes to the way this moves forward.

We need to remember that Xanana Gusmao will still remain as part of government, he'll be a minister and retain a very important ministerial position, so he'll remain quite influential I would expect.

Sonali Paul: (Thomson Reuters, Journalist) Ok, and just another question: on the dividend, a lot of focus has been paid on Woodside's dividend and that was attracting investors and I think the analyst outlook is for you to cut your dividend by more than half for 2015 in the year ahead. Is there any way to avoid that? Or what can you do to avoid that?

Peter Coleman: Yes, look, what we've decided to do is maintain our current dividend policy and that's with a payout ratio of 80% of our underlying profit. Now, any changes in that the Board will consider that when we look at our uses of cash going out into the future as we've done in the past. But you can expect the same dividend policy to stay in place for us. That dividend policy follows our profit.

Sonali Paul: (Thomson Reuters, Journalist) So is there any way to avoid a halving in the dividend this time next year?

Peter Coleman: Oh, I wouldn't want to speculate on that. That's going to come down to what oil price is and what we're doing with our cash flows and so forth, so I'm not going to make any predictions on where dividend is other than we understand very well the importance of dividend to our shareholders and the commitment we've made to our shareholders to make those distributions as timely as possible.

Sonali Paul: (Thomson Reuters, Journalist) OK, thanks.

Operator: The next question comes from the line of James Patten from Bloomberg. Please ask your question.

James Patten: (Bloomberg, Journalist) Hi, good morning guys. I know you said, in terms of potential M&A you're not betting your future on more deals, you have lots of choice. I guess if opportunities did arise after you've completed the Apache deal what kinds of assets or geographies might make sense for you at this stage, might be a good fit?

Peter Coleman: Well James, I'd look at the geographies we're already in. Those geographies make sense to us on a risk profile. If you look at… our business model's very simple: we supply energy to the Asian market and we source that energy from multiple locations around the world. So anything we do will be really focussed on ensuring that we're able to move that energy into the Asian market, that's really our business model, because that's where we operate best.

And as I've mentioned in my opening, that we'll be looking to consolidate positions around existing focus areas for the business. So you could expect anything we do is more likely to be focussed in areas that we already know or we are already establishing positions in.

James Patten: (Bloomberg, Journalist) OK, and can you talk a little bit about the credit pressures that all oil companies are under right now, including Woodside - obviously relatively better shape than some - and how that's affecting your ability to fund future opportunities with oil prices, as you expect, to continue to languish?

Lawrie Tremaine: Hi James, this is Lawrie. We're fortunate in that we came into this period with a strong balance sheet so we have a net cash rather than a net debt position. We did put in place some bridging finance just late in the year to support the Apache acquisition and ensure that we had a clear buffer over and above that and the capital we needed to continue with the Wheatstone development. That bridging activity was really well supported by the banks, by our banking group, and so with that experience I would say that we don't see any near term problem for Woodside in terms of funding to support our investments.

James Patten: (Bloomberg, Journalist) OK, thank you.

Operator: Thank you very much. I'll now hand the conference back to Mr Coleman for closing remarks.

Peter Coleman: Guys, look thanks very much for joining us this morning and hopefully this pre-session before we talk to investors is helpful for you. If I just reiterate, the strategy's delivering for us. It delivered in 2014, we built our growth portfolio, we did it in a sensible way, we said we'd always do it in a way that provided us flexibility. At the end of the year, guess what? The market provided us with an opportunity to demonstrate to you the flexibility we have in that portfolio. You're seeing it now with respect to the reductions we have in our operating cost and our capital expenditure as we go out into the future, and we're very well positioned to navigate through this period of uncertainty that we have with respect to commodity prices. And we already had plans in place that we were executing.

Our belief is that, the next few years companies will be fundamentally differentiated by the quality of the management and their decisions. Intellectual property and the barriers to entry are coming down. The market is becoming more and more commoditised. The key going forward though is going to be making the right choices at the right times and using the right information to base those choices on. There's a lot of change going on in our industry, there's a lot of leadership change happening at many companies, the next 12 to 24 months is going to provide a lot of uncertainty, companies are going to make choices. Some of those choices will work, some of them won't. I'm here to assure you that Woodside's well prepared for this. Our business plan's in place. We haven't changed the business plan, we haven't changed our strategy. We'll continue to build on it and we're demonstrating the flexibility and the strength that we said we'd build into that.

So thanks for your time this morning, and I'm sure some of you will join us for the investor call later on.

Operator: Thank you very much ladies and gentlemen, that does conclude our conference for today. Thank you so much for your attendance; you may all disconnect.