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2014 FULL YEAR RESULTS – ANALYST/INVESTOR TELECONFERENCE

On Wednesday 18 February at 7.30am AWST Woodside hosted a 2014 Full Year Results analyst and investor teleconference.

The transcript of the briefing is attached.

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Company: Woodside Petroleum Limited
Title: 2014 Full-Year Results – Analyst/Investor presentation
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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 everyone and thanks for joining us today to discuss our 2014 full-year results, an important day of course in the lunar calendar. We received positive feedback last year in 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 make just a few opening remarks and then we'll open up the call to questions and I want to remind everyone that the figures that we quote today are in US dollars.

In summary, in 2014 we achieved strong financial and operating results. Our net profit after tax was $2.41 billion. High reliability at Pluto in the North West Shelf drove record production volumes at 95.1 million barrels of oil equivalent, a 9% increase on 2013 results. We also had a very good result in terms of free cash flow at $4.17 billion and we are in a strong position to fund our development and growth activities.

These results, together with our disciplined approach to capital allocation and a focus on driving down costs across the business, puts us in a position to provide a record full-year dividend of US 255 cents per share. This is particularly pleasing when you consider that in 2013 our full-year dividend result also included a 63 cent special dividend. Recognising the importance of dividends, 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.

Today's results also 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, we're achieving top quartile reliability for our assets and delivering $560 million in improvement benefits to date. We've leveraged our capabilities to grow - to develop new growth areas, diversifying sources of supply and building relationships in new markets, and we've filled our growth pipeline with new projects that 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 subject to transaction close, which we expect will happen by the end of Q1 2015. We also continued to rebalance and grow our 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 policy has created a structural shift. In the near-term we think the 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 six of the full-year briefing 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. We've achieved organisational efficiencies and will continue to seek more and we're driving down our cost base for our new projects. We're repricing our service and supply contracts as we speak.

Slide seven details our existing growth pipeline and LNG supply and demand forecast to 2030. We have a strong and diverse portfolio with the flexibility and capacity to meet future global demands.

With that introduction, I'll pass over to Lawrie for a few comments about the financial results.

Lawrie Tremaine: Thanks Peter and good morning everyone. Peter has covered a number of our financial highlights so I'm just going to discuss a few topics in a bit more detail. I'll start with slide 13.

As you'll see, we've reversed the trend with regard to production costs. In 2014, we achieved reductions in both total and unit costs. This is very pleasing but we're not done, which brings me to slide 15. At the investor briefing day back in May of last year, we announced our productivity improvement program. So far, we are progressing ahead of target. In 2014 we delivered significant additional value through increased production, reduced costs and reductions in the number of staff positions. This initiative was very timely. We had a large part of the company actively working on productivity and cost reduction long before the oil price started to fall in late 2014.

Slide 17 details our impairment charges for the year. Our after tax impairment charge is $196 million. The impairments mainly relate to the lower oil price environment, with a further driver being increases in restoration cost estimates for our mostly late-life oil assets. We have noted in the Annual Report that we expect end of field life for Stybarrow asset later this year.

On slide 18, our 2015 forecast investment spend for our base business is approximately $1.1 billion. Over the past month or so, we have reduced this by around 20% from our original plan. These savings will come from driving lower prices from our suppliers and service providers as well as deferring and eliminating activities. The final column on this chart shows the expected expenditure on the Apache asset acquisition. The transaction is expected to close by the end of the first quarter, as Peter said.

The column shows the impact of the acquisition, the purchase price adjustment reflecting the 1 July 2014 effective date and post close capital expenditures at both Wheatstone and Kitimat.

Next, to slide 20, you'll see from this slide that over the past three years, we've generated in excess of $10 billion in free cash flow. That is, operating less investing cash flows. This free cash has enabled us to declare over $5.2 billion in dividends for the three years and positions us with a strong balance sheet to not only weather the low oil price environment, but also to take advantage of any growth opportunities this environment presents. In less than two years, we'll also be further bolstering our operating cash flows with the start-up of the Wheatstone facility.

Finally I'd like to draw your attention to the dividend calculation outlined on slide 24. Consistent with our recent practice, we've added back to profit the after tax impact of impairments for the purposes of calculating the dividend. This reflects the non-cash nature of the impairments.

After that quick review, I'll hand you back to Peter.

Peter Coleman: Thanks Lawrie. Just before we open for questions, I want to give a couple of further updates on our business activities highlighted at the back of the briefing pack, on slides 28 to 41. Firstly, we made substantial progress towards global top quartile health and safety performance, achieving a 50% reduction in lost time injury frequency and process safety events, and a 37% improvement in personal safety performance. This is very pleasing for us.

For Browse, we completed the technical elements of basis of design and are now targeting FEED for mid-2015 with an FID in 2016. We're pursuing cost efficiencies to ensure we meet our targets and we're starting to see cost reductions flow through from contractors for a range of development opportunities. We also completed six 3D marine seismic surveys, covering almost 12,000 square kilometres and discovered gas at the Toro-1 well in the Exmouth sub-basin. In 2015, exploration activities include further drilling in Australia and up to three international wells with seismic surveys planned in five international basins.

In closing, look, we had a strong year of financial and operating results. We continue to reduce costs and will drive improved margins across our business because we believe this focus will deliver value for our shareholders. I'll close by saying that our strategy is working for us. Our business plan is in place. The changes in price that we saw late in 2014 have not impacted the base strategy of the company nor the base business plan. We promised investors that we would provide flexibility in our capital expenditures and focus on reducing costs. I think what you're seeing demonstrated is our ability to continue with the execution of our base business strategies while delivering those cost reductions that reflect the commodity price environment that we're in at the moment.

So with that, on that note I'll finish up and open it up to questions.

Operator: Thank you. Ladies and gentlemen, we will now begin the question and answer session. If you wish to ask a question, please press star one on your telephone and wait for your name to be announced. Our first question today comes from the line of Dale Koenders of Citigroup. Please ask your question.

Dale Koenders: (Citigroup, Analyst) Morning gentlemen. Just a question on the productivity incentives. At the strategy day, you set the target of an $800 million improvement, but noting that the 15% opex reduction targets the calendar year 2015. Is $800 million still the right number or are there new cost savings really on top of that?

Lawrie Tremaine: We've made a conscious decision to not move away from the $800 million target, so it's still our target. It's actually become a little harder to achieve because part of the $800 million comes from the production side of the productivity equation and of course that production is valued lower today than it was when we set the target, but we're still going after the $800 million, it's just a little tougher.

Peter Coleman: Dale, I would add to that, we're not taking the pressure off Lawrie on this one. So the - you saw how he jumped in straight away and wanted to answer that question. The $800 million is still out there for us. While it is a little harder, because of course, some of that $800 million came from improvements in our production side of the business, equally we expect that we'll see an acceleration of cost savings on the service provider part of the business. So we haven't gone away from that particular target at this point. As you saw in the pack, we're well on the way to achieving it.

Dale Koenders: (Citigroup, Analyst) Okay and the 15% opex savings targeted for this year, does that include the benefits of the FX coming off from parity?

Lawrie Tremaine: Just to be clear Dale, that was a 15% saving against the budget that we put together -

Dale Koenders: (Citigroup, Analyst) Correct, yes.

Lawrie Tremaine: - later in 2014. So we just - I guess the 15% is to show that we recognise we're in a different oil price environment and as a company, we need to respond to that. So I'd refer you back to our original targets which we talked about in the May briefing and say we're committed to those. We are - this isn't all promise and no delivery though. We saw cost reductions as well as production increases in 2014. I could literally give you a hundred anecdotes of what we're achieving through getting into our contracts and working hard to drive down price, but also to reduce our demand for services as well as just hitting them up for price.

Peter Coleman: Dale, let me be more direct. No, it's not a free kick from the change in forex assumptions. It's real cost reductions that we're chasing in the business. Of course there's a component of it which is forex but no, the main part of it is actual real cost reductions of the business and you're seeing that on the capital side as well. Now I would say we've been relatively conservative in some of these numbers at this point. We're not sure how it's going to flow into 2016.

We've based some of these service provider reductions based on real contracting that we're doing right at the moment and then also on expressions of interest that we're seeing with respect to some major equipment supplies.

So some of it's captured, some of it's indicative but the indicative numbers are based on what we're seeing in the industry.

Dale Koenders: (Citigroup, Analyst) Okay, and then one other quick question, just on Browse - I note in the presentation pack talking about marketing Browse volumes through Woodside's portfolio. Previously, Peter, you'd stated the requirement, or the preference to get a MOU before taking Browse into FEED. The choice to market Browse volumes through the portfolio, does this take away that requirement?

Peter Coleman: Really it's a reflection in many ways, Dale, for us, as the maturing of the company and the way that we're looking at marketing our LNG. You may recall, we said a couple of years ago what we wanted to do was preserve the integrity of the development schedule for these major projects. We had formed a view that major project schedules were being compromised through the marketing process. Either the late sale or the unrealistic expectations on delivery.

So we developed a strategy as a company to protect the integrity of the schedule because the only thing you know at the end of the day is how much you spend on a project. Price will be whatever price is. On Browse, this is just simply saying to the market, we still have a preference to have signed up buyers before we go into FEED. I think the reality of that though in today's environment is that we won't have buyers signed up before we enter into FEED, and we'll be working diligently to get there before we get to FID.

So we're willing at this point, based on what we're seeing in our marketing activities, the establishment of our trading activities in Singapore and so forth, we've got the confidence that we can run this through portfolio at this point in time. We'll have to make some additional decisions as we go through the year as to whether we market the entire Browse volumes or whether we do it on a vessel by vessel basis. They're tactics, I would say, as we go through the year and we see the appetite for the market.

We don't want to push volumes out into the market in a depressed price environment and end up finding that the second and third vessels have a depressed price as we go into it, because we were trying to push prices out there at some point in time.

Dale Koenders: (Citigroup, Analyst) Okay, so sorry, just finally, if you’ve removed marketing from the equation are there any hurdles before moving into FEED, that you still need to overcome?

Peter Coleman: No, just going through the quality assurance checks within the joint ventures. So in our view there are no external hurdles at this point. There are some internal quality checks or assurance checks that we need to go through with respect to cost and schedule and readiness of the project team to enter into FEED.

We have a meeting or a review that runs for a week or so with all the joint venture partners scheduled for the middle of March. And that is the main gate review that will then recommend the readiness of Browse to go to FEED. That will then go back to each of the joint venture participants for decisions by their own boards.

Dale Koenders: (Citigroup, Analyst) Okay, very good, thank you gentlemen.

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

Nik Burns: (UBS, Analyst) Thanks. First question just relates to your investment and expenditure guidance on slide 18. Just for the Apache acquisition, you've got the $2.75 billion there plus the adjustments and work program. I think prior guidance or expectations was the adjustment at close of the deal would be circa $1 billion. If we take it off that $2.3 billion, that leaves still $1.3 billion. I think the guidance you gave a couple of months ago on forward investment expenditure on the Apache assets was circa $600 million a year average over 3 years, which if you add it together gets up to $1.8 billion. Am I doing the numbers right here? Is this effectively saying that of the $1.8 billion you're going to spend $1.3 billion this year?

So is it very much front-end loaded? Or is there anything that you've seen in the last couple of months which may highlight to you that maybe Wheatstone expenditure might be higher going forward than you previously believed?

Lawrie Tremaine: Wow, Nik. I'm not quite sure how to answer all of that. Look, the - whether something is part of the adjustment or capital expenditure, it depends on the timing of the close. So some money is

moving around between those two. We don't think of it in terms of $1 billion for the adjustment plus the capex anymore, because our expectation of the close has moved out to March, the timing that we did our original estimates at.

Having said that, there's nothing about our capex, which - expectation for the Apache assets has changed. So we're still assuming the same, timing may move around a little bit but nothing has changed.

Peter Coleman: Nik, maybe if I can add to that. The nice mauvey colour there reflects the closing adjustment and also the forward capex we expect in the remainder of 2015. With respect to the timing of it - really no change on Wheatstone in this regard, with respect to the timing of expenditures and the quantum of expenditures. Clearly Wheatstone had a higher expenditure profile for 2015 than it does for 2016, as you would expect, because they'll be getting into the commissioning of the project late next year.

So all of that is consistent with our original guidance. In fact, based on the original expectation that we had, Kitimat expenditures are down quite a lot, as the operator has reviewed where they wish to put their efforts and we're very supportive of that. And those efforts, this year, will be in the delineation of the resource, particularly in the Liard Basin. So they'll be moving away from the site and FEED activities that they've been progressing at Bish Cove to more towards drilling wells up in Liard to ensure that we have the right resource base and development base for that.

I would actually say Wheatstone is very much as we expected and then Kitimat is redirecting capital expenditure to delineation of the upstream resource and your three year expenditure profile that you talked about is still a robust case.

Nik Burns: (UBS, Analyst) Great, thanks for that. My other question just relates to LNG pricing. Is there any insight you can give us in the relationship between oil price and your realised LNG price going forward? It's probably something we didn't focus on a lot when oil price was above $100 a barrel. But with a lower oil price environment and with a lag effect, we're all expecting to see lower realised LNG pricing going through over the next few quarters.

Should we be thinking that realised LNG prices should fall in proportion to oil price or is there some sort of S curve in there which provides some level of downside protection in LNG pricing?

Peter Coleman: It's a really good question and you know it's one I can't answer the specifics on, but you know how the contracts generally work. They're typically on a three month lag price formula, and then each of the contracts has their own little curve and slope and so forth. But you didn't believe me on the way up, Nik, if I recall so - with respect to what we were going to get out of Pluto pricing. So I would suggest to you that the contracts are strong contracts in that regard, but they will be affected by the crude pricing formula because they are oil-linked.

But whether it's a direct correlation or not, I can't talk to the specifics of that.

Lawrie Tremaine: It's less sensitive than a proportionate relationship, is probably the best guidance we can give you for now. You'll see it coming through.

Nik Burns: (UBS, Analyst) That's great, thanks guys, appreciate it.

Operator: Our next question today comes from the line of Kirit Hira of Macquarie. Please ask your question.

Kirit Hira: (Macquarie, Analyst) Morning, Peter and Lawrie. Just a couple of questions regarding the operating efficiencies. You talked about how, I guess, you're butting up against a wall regarding production improvements. I'm curious to understand the benefits you're getting from maintenance capex. I think you're talking about a $50 million reduction in maintenance capex at North West Shelf.

Just wondering where that's coming from, how you can actually get it that low? Given that it's going from $80 million to $30 million. What's been done to actually deliver those types of improvements?

Peter Coleman: Yeah, you're looking at page 18 and the sustaining capex number there, of $30 million?

Kirit Hira: (Macquarie, Analyst) That's right.

Peter Coleman: Look, there's two parts to that. In fact the North West Shelf has quite an active program of maintenance activities continuing. So the base maintenance program will continue for us. So no real change in the work that we're doing, and we'll continue with the turnaround programs that we have. It's a really good question of our commitment to ensuring that we maintain the plant in the best possible condition. We are doing that. These cost reductions are reflective of real reductions and real efficiencies in the business. They do not reflect us pushing out turnarounds in the future years and delaying essential maintenance capex.

The number you're seeing, though, does reflect a rephasing and efficiencies we're seeing in the Karratha life extension project. And that's just simply - we've moved that into what we call a major project status within the company. That means we've actually designated a full-time major project team to that. That's simply a realisation of the efficiencies that you can get once you start applying those major project approaches to these sorts of activities.

So that's all it is. Just simply, we're doing the same work a lot smarter, a lot more efficiently and we're seeing some of those service provider cost reductions come through in some of the materials and supply.

Kirit Hira: (Macquarie, Analyst) Okay that's great. And just a question on Browse. I mean last year you talked about, I guess, the potential for the cost reductions given the current environment and the reason being - that being the reason behind the deferral moving into FEED.

Is any of that coming through in terms of your initial discussions with the contractors? Just given the cost reductions you've delivered from the base business. Is that actually coming through?

Peter Coleman: We're starting to see the - firstly, we've been out to all of the contractors and suppliers. We've just received the first indications back late last week, early this week. So it's too early for me to give you any hard and fast numbers.

What I can tell you though is we've spoken to each one of those suppliers and told them what our expectations are with respect to cost reductions here over the next few months. We need to build those cost reductions into the base of the project. Because, as you know, we'll be funding this project in a price environment that's uncertain. And we need to make sure that when we make the decision on Browse it reflects the reality of our current price environment, not some future state.

So those contractors know that very, very well, they know the targets that we've set each one of them. As I said, it's just too early for me to tell you how far we've got on that because we've just received the first indications back this week.

Kirit Hira: (Macquarie, Analyst) Okay and just one last question on Canada. Just given that Chevron's obviously deferred some of the capex surrounding Kitimat, but also against the backdrop of you getting approvals for Grassy Point. Just wondering how both those options are being weighed up against each other, given the timeline seems to be merging onto the same critical path.

Peter Coleman: Firstly, we see both Grassy Point and Bish Cove, or Kitimat, to be very complementary to each other and we're working with Chevron to understand it, if there's a way that the two projects can be complementary. We firmly believe the Grassy Point site, in fact, is an excellent site for an LNG plant and the geotechnical work that we've carried out over the northern hemisphere summer would indicate that that in fact is the case.

So it's a great deep water site, it's nice and flat, and it will allow multiple train expansion. We've also recently received approval for export from that site. So that site's continuing to move forward.

With respect to LNG coming out of Canada in general. Our expectation has been for some time that it would be likely that only two or three projects would actually move forward in Canada, even though, as you know, there were many proposed. Over the last few months, you've seen a number of those proposals go by the wayside. Our expectation is that Kitimat will present itself very well and will be one of those projects that go ahead.

What we want to do, though, is make sure that we spend the right capital on it at the right time and that's what we're looking at with Chevron at the moment.

Kirit Hira: (Macquarie, Analyst) Okay that's great. Thanks Peter and Lawrie.

Peter Coleman: Thanks.

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

Mark Samter: (Credit Suisse, Analyst) Yeah morning. First question if I can on Browse. Obviously the rhetoric from Shell has been a little bit more, probably, circumspect around not just Browse but Aberdeen and various other projects of theirs around the world. I'm curious, is there a stage at which, if Browse continues to get pushed to the right where backfill gas at the North West Shelf becomes a viable option again? I guess historically we're talking five, ten years ago it was so distilled that even it was a higher IRR project at the time, value of money destroyed the NPV, versus alternatives. Do you think we can categorically rule that out or do you think there is scope for that to come back into the thinking if LNG is delayed?

Peter Coleman: Right well I think just on value creation and North West Shelf, Mark you would have seen at the end of last year we announced an LOI with Hess for getting their gas or getting third party gas across the North West Shelf and that's really been our focus. So with respect to where the North West Shelf

participants are, they're certainly in a mindset of creating future value for the Shelf and I think we've got a lot of opportunities there.

With respect to Browse itself, no, I take issue with your comment on Shell. When I look at their investor briefing pack, it's very clear that Browse is one of only a couple of LNG projects that will be in the FID decision window for Shell in 2015, 2016. So to me, that indicates a very strong support for the project and everything we've heard from Shell in recent times and demonstrated from Shell indicates continued strong support.

Mark Samter: (Credit Suisse, Analyst) Okay, and then going back to the portfolio and marketing side of things. Can you give us some feel for your aspirations of how much portfolio you are willing to take that's uncontracted and maybe in the light of that, how you're thinking about you may be looking to go actively marketing on the North West Shelf going forward and how everything's playing into that?

Peter Coleman: Look, it's a good question, as we've evolved in our marketing confidence. You know, for us you'll see that we announced, firstly, volumes coming out of Corpus Christi in 2019. So that's subject to a final FID on Trains 1 and Trains 2. So we'll have additional marketing volumes coming through in 2019. Of course we've got some Wheatstone volumes coming through and that will include some spot buy-ins that will be available.

North West Shelf, equity sales, the joint venture's still in discussions around what we do on equity volumes coming out of the North West Shelf. So we're actually looking very closely at this part of the business and understanding, does the current market situation, particularly with respect to an oversupply of shipping in the marketplace and also a proliferation - or a reduction in the cost of terminalling, does it provide additional opportunity for us to get into portfolio? Too early for me to tell you where that's going to head to. But I would say it's going to be a very active focus area for us in 2015, 2016 as we work to build out the shoulders of the organisation with respect to the value chain.

Mark Samter: (Credit Suisse, Analyst) Great, thanks guys.

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

Stuart Baker: (Morgan Stanley, Analyst) Good morning gentlemen. Excuse me. Just a question to expand a little bit more perhaps on the LNG market outlook, understand the nature of the contracts and what's been mentioned before. But reading page 32 of your full report on the LNG marketing in general sounds fairly bearish, including pressure in the current spot market, obviously where pricing's a bit more opportunistic and your share of spot volume has been increased of recent years.

I wonder if you could give us some kind of comment on the outlook for the near term structure of the LNG market, specifically with respect to 2015, maybe into 2016 as well?

Peter Coleman: Yeah Stu, thanks for the question. I would say the comments are pretty much industry-type comments. With respect to where Woodside's positioned ourselves over the last couple of years we've entered into contracts, short to mid-term contracts to actually take a little bit of the spot out of - exposure out

of the market for Woodside. We formed a view a couple of years ago that with all of the new production coming on stream over this period that there would be uncertainty and there would be pressure actually on the spot market, and we chose to actually lock in some mid-term sales. We've put options in those contracts and they've been quite beneficial to us during this period.

So I would counter the commentary and say, while those comments and the Annual Report are reflective of the general market conditions, Woodside prepared ourselves well for that over the last couple of years with our marketing activities and we've actually locked in mid-term sales contracts that allow us to put those volumes into the market and put them to buyers.

That's then complemented by our shipping activity which means we've now got ships that we can move to the right places. So please read that we're in rough waters or troubled waters at the moment from an industry point of view, but for the most part, particularly for the volumes we control as Woodside we've done a very good job at being able to manage that uncertainty.

Longer term, the comments are really around at some point buyers will need to come back. Buyers are not active at the moment in the market for long-term sales. There's some uncertainty in Japan as some of the marketing arrangements in Japan are changing, particularly with TEPCO and Chubu. There's some uncertainty happening in South Korea, particularly around KOGAS and their needs into the future.

So we look at it, the traditional buyers at the moment are uncertain in the market place. We recognise that and so we're off looking for where the growth is. So you will have seen me in the growth markets and I'm sure you read the press as to where we've been focusing. We think some of those growth markets provide tremendous opportunities, both from a marketing point of view and also the potential for getting capacity rights to terminals into those markets. So that's where our focus is, Stu.

Stuart Baker: (Morgan Stanley, Analyst) Thanks very much. Pretty comprehensive. Just a follow on question then, one which is a lot more general. I think on page five of your slide pack there you've indicated potential for a lower oil price and environment for an extended period I guess and no one knows how long for. Then just looking at your dividend policy, obviously a lot sharper higher capital spending this year. The caveat on your dividend payout ratio that it's subject to the needs of quote "further material changes in business environment".

Just kind of curious as to how material the change in oil price needs to be before the company sees it's prudent to batten down the hatches? I mean it's great if it's maintainable. But if we have a $30 oil price or three years at $50, you know, well, where do you draw the line in the sand?

Peter Coleman: Yes Stu, we've stress-tested our balance sheet out in the future in our business plan and so we're comfortable maintaining this payout ratio for the foreseeable future. Based on a scenario that says these current oil prices may - or close to it may stay in place for some period of time. So, or to put it another way, Woodside does not develop its business plans on the hope that price will get us out of trouble or will increase in the future. We make sure that even in a sustained price environment like we're seeing today, that the undertakings we make to investors are robust and we're able to deliver on those.

Stuart Baker: (Morgan Stanley, Analyst) Thanks very much. That's very helpful. Finally just a quick question if I may, running into 2016. Can you give us sort of a rough feel for what the residual spending in that year would be on completion of Wheatstone. I mean obviously we've got the figures there for 2015. But for 2016 are we looking at $1 billion, $1.5 billion, $2 billion? I'm guessing it will be lower than the 2015 figure. Just wondering if you can add a bit of colour to it in a very rough sense?

Peter Coleman: Yeah Stu look, as you know we'll get an update from the operator sometime later this year. But if you just look at normal capital spending profiles you can expect that it's going to be lower than this year. So as I indicated with one of the early questions that the profile for next year, we expect is going to be lower than this year. Of course subject to there not being any unforseen schedule changes that we're not aware of at this point and we don't expect there to be any schedule changes by the way. The project, as you know, is 55% complete and has just completed the domestic gas pipeline hook-up.

So, no we don't want to give guidance at this point because I really need the operator to do that. The one thing I would note and we talked about it during the initial investor briefing around the acquisition is that the expenditure from now on is very heavily A-dollar denominated. So we expect the future spending profile to be positively impacted by a lower A-dollar than what we went into the acquisition with.

Stuart Baker: Right, okay, thanks very much.

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

Ben Wilson: (J.P. Morgan, Analyst) Yeah good morning Peter and Lawrie. I just had a question in relation to slide five and the general comments you made on forward incentive pricing in the oil market to cater for underlying demand growth, versus what the comments you make about squeezing your supply chain and the cost reductions you are seeing coming through in the supply chain. So, in essence, how do you balance the two with respect to forward incentive pricing? Do you see enough coming out of the cost side of the equation to indicate that we're going to see a materially lower incentive price to meet marginal barrels in the future?

Peter Coleman: Yes Ben, it's a good question because there's a couple of things happening in the market as you know. There's an uncertainty around - this current price malaise is driven by supply as distinct from demand, which is a little different. You have to go back a long way to see when a supply-side or over-supply actually drove price down. It's normally been demand. So if you look at the nature of the supply coming into the market, its supply out of North America that is very closely related to capital spending, meaning if capital goes up that supply will go up. If capital goes down, that supply will go down. Which means it's very price-sensitive.

What's difficult for us to predict at the moment is when - at what point do investors in those companies start to demand better returns and better discipline around the way capital is being spent? So our expectation is you'll see behaviour in that market for the foreseeable future until that discipline gets in there that says if price goes up, you can expect capital will go up, which means production will go up, which means price will come down.

So you're going to have this rollercoaster for a period of time. Unless opex changes its position or unless there's a geopolitical - a very significant geopolitical issue arises that takes significant supply out of the market and of course we can't predict what that will be.

With respect to what we need to invest, it's very simple. Margin needs to get back into the market. Investors require and expect an appropriate margin for the risk we're taking in our business and at the moment, with the cost base that the business has, particularly for major projects, it doesn't reflect the current price environment and it doesn't provide an appropriate margin. So projects, major projects are not going to go forward at today's prices, period.

I mean that's a given. So if anybody's telling you to take a major project, greenfield project forward at today's prices, I'd question that. So margin needs to be re-established in the business. If price stays at this level for a long period of time, then necessarily costs will need to come down.

You will see suppliers write off inventory, they'll reset their cost base, but some of them - and you're seeing that across the commodity mix anyway. Some of them will have more ability to do that than others, so you may see consolidations in industry, you may see movement of supply coming out of different parts of the market. But at the end of the day, we need margin and so that's what we're talking to our suppliers about.

The other part to that then is on LNG. Our view is post-2021 and you saw that in that long-term chart. Unless new supply, new FIDs are taken very, very soon, you're going to start to see a supply shortfall occurring very soon post-2021. I believe there's an industry consensus starting to form around this position and it's a position we've put to the market now for a number of months, both publically and through briefings and it continues to stay that way.

So our view is that if FIDs are not taken in the next two years in the LNG business, then there is a real likelihood that you're going to see supply shortages or supply shortfall in that post-2021 area. That's not relying on China growth or anything else, that's just simply where we think the current supply and demand is going, without any exponential growth coming into the business.

What does that mean for us? We've now got a portfolio of projects that we think are going to be very cost competitive in an environment and we actually think we've got some good choices in front of us with respect to when we bring them into market.

Ben Wilson: (J.P. Morgan, Analyst) Excellent, thanks Peter.

Peter Coleman: Thanks Ben.

Operator: Thank you. We will take our final question from the line of John Hirjee of Deutsche Bank. Please ask your question.

John Hirjee: (Deutsche Bank, Analyst) Good morning everyone. Peter, I've got a couple of questions, but first let me focus on Pluto, given how important it is to your operations. You achieved a very good reliability in 2014, much better than in 2012 and 2013 according to your slide on 32, do you think that's sustainable and what do you think was the driver of the increase in your reliability there?

Peter Coleman: Well, thanks John for recognising it. You may recall when we first started up Pluto we said the thing we'll focus on was Pluto in three phases. The first one was starting-up reliably and safely, the

second one then was focusing on getting Pluto's up time or reliability up to the highest possible level, and then we would start on de-bottlenecking activities and looking for those opportunities.
So we're into that second phase. I would say we did all the things we should do last year. We did the maintenance we needed to do, we've gone through the improvement opportunities we need to do and we've scheduled a turnaround this year to continue to improve the plant reliability. So in my view, the results are good old-fashioned hard work and are indicative of the business learning how to run the plan reliably and my expectation is you can expect those sorts of reliability numbers as we go out into the future.
John Hirjee: (Deutsche Bank, Analyst) Alright, very good Peter, thank you. My next question relates to your trading - LNG trading strategy. Obviously given the downturn in pricing looks quite attractive perhaps, what's the view on taking principal positions in terms of LNG cargoes and what may be presenting itself given you're at the forefront of dealing with customers? What's the risk appetite for LNG trading in the context of taking principal risk?
Peter Coleman: It's growing as we grow confidence, I would say, John, and I've always said that. We didn't want to get ahead of ourselves on this, we wanted to make sure we learn as we go. But as I mentioned earlier, the market - we believe the market over the next couple of years is going to provide opportunity from the point of view of physical assets coming into the market at maybe just in distressed price situations, meaning there's an overbuild of LNG trading vessels at the moment coming out of shipyards, so there's an opportunity there if we chose to take a position in those.
Equally, there's new supply coming into the market and some of the new suppliers are not historic traders and so we think some - there's going to be opportunity where there'll be volumes in the marketplace that will come in at attractive pricing for us to push that trading. Then finally the last piece of that puzzle is as we go into trading activities, we recognise that you need to have somewhere to place your volumes in case you end up with volumes on water. So one of the things we're looking at closely is our positions around terminal capacity, capacity right, whether that's physical capacity or whether that's rights in terminals around the Asian region. So you'll find us over the next couple of years looking for opportunities as to where it might be appropriate for us to place physical volumes in that trading market as we expand those trading activities.
John Hirjee: (Deutsche Bank, Analyst) Very good and finally, in terms of M&A, given what the price has been doing in terms of the macro oil environment, how have you seen the asset prices and vendor expectations or is there much more discussion than what you had previously with potential asset sales and/or corporate interests?
Peter Coleman: Oh no, I don't think they're distressed enough yet. No, from my point of view, it's kind of like people hang on to the price of a house for as long as they can and - while they think there's hope that there might be price recovery. The reality is, John, I would characterise- the industry is going through a sea change and I'm sure investors are aware of this. But the sea change is not only occurring within the business models and within pricing, but there's a sea change in management. As we look across the board at the major national oil companies, at the major independents and so forth, there has been, in our view, an unprecedented change in leadership in those organisations over the last 12 months.

Our view - and so it's very, very difficult for me to predict at the moment the behaviours of that leadership and the board and the view that they will take, so I think we need to let this play out over the next 12 to 24

months. Our view is the main differentiator through this period is going to be the quality of management and the quality of management decisions and the information that management use. Those of us who have entered this period with advantage balance sheets need to make sure we maintain the advantage. We cannot sit idly on the sidelines and feel good with the fact that we've entered this period in good shape, because we actually need to exit this period in better shape, because we know our competitors will be doing that.

So that's what we're focused on, but I can't predict, to be honest with you, what people are going to do, other than it will be very unpredictable, is likely to be opportunistic and there are likely to be decisions out there that we all look at and sometimes we'll understand them and sometimes we won't. But I would say business as usual.

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

Peter Coleman: Thanks mate.

Operator: That concludes today's Q&A session. I will now hand back to Peter Coleman for closing remarks.

Peter Coleman: Look thanks very much for joining us this morning and thanks for your questions and your continued interest in Woodside. Look I'd just sum up, look 2014 was a very, very good year for us. We had best ever results in many facets of our business, so I'm very pleased that the business is performing well pretty much across the board. There is nothing I'm sitting here today saying is lagging significantly and there's nothing that's an outlier saying that it carries the rest of the business. The business is performing across the board.

Our strategy is still the right one. We'll continue to execute on that. Our business plans are very good and you saw the excellent progress we made in 2014 on developing those business plans. Our costs, unit costs are down, our capital execution costs are down, we've developed flexibility in the portfolio, we've got growth in the mid-term as we move forward. We've maintained strength in the balance sheet and our cash flows, we've grown our exploration portfolio, we've got some really interesting things we're doing in 2015 and we've expanded our marketing and trading activities and we've managed to put contracts in place that help us kind of weather this period of uncertainty, both from supply and commodity pricing.

As we move through 2015/2016, our planning base is this - things probably won't change a lot at this point in time. So it's always plan for the worst and hope for the best. So the business plan you see in front of you is one that reflects this type of commodity pricing continuing through the short to mid-term for us. We have some big decisions to make, we're confident we'll be able to move forward with those decisions, particularly around Browse. We're committed to our exploration portfolio and we're looking forward to getting the Apache assets into our portfolio and be able to create additional value as we get into that.

So I would say it's a Woodside with a clear plan in front of us, we're unwavering from that. The key for us always has been creation of shareholder value and that will be first and foremost in every decision we make as we look across the board from dividend policy to the way we use our cash and so forth.

Finally, I would be remiss if I didn't tell you that we've been very well supported by the banks at this point in time. We've took on board a bridging facility late last year with respect to the Apache asset. That bridging facility was very well supported by local banks and we’re very pleased with that and we're getting good indications from those banks that they would support any future activities that we had.

So across the board, we think Woodside's well positioned, but I can assure you, we are not sitting back at all, we're moving forward and we actually want to use this position in the market to create even further distance between ourselves and some of our competitors. So thanks very much for your support and we look forward to talking with many of you over the next days and weeks.

Operator: Ladies and gentlemen, that does conclude our conference for today. Thank you for participating and you may all now disconnect.