woodside

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2015 HALF-YEAR RESULTS – TELECONFERENCE

On Wednesday 19 August at 7.30am AWST Woodside hosted a 2015 Half-Year Results teleconference.

The transcript of the briefing is attached.

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This document should be read in conjunction with Woodside's 2015 Half-Year 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 for our 2015 half-year results. Our financial headlines and business achievements for the first half of the year are available in our ASX announcement and our half-year briefing slide pack. Both provide the detail behind the headlines today. We also issued our half-year report to the market earlier today. Following the usual format, I'll make some opening remarks before we open up the call to Q&A. We'll try and focus on the Q&A session today. As usual, joining me this morning is our Chief Financial Officer, Lawrie Tremaine.

If I can start us off by turning to slide 3. Opening with our key achievements and financial headlines, you can see that we achieved some significant milestones during the first half of 2015. As you're all aware, the period posed some real challenges for the industry as the lower oil prices prevailed through the period, coming off highs in the middle of 2014, to some numbers that we've not seen for some period of time.

Pleasingly, Woodside was able to continue to deliver and we've delivered on all of our operating and investment commitments during the half. We entered the front-end engineering and design phase for the Browse FLNG Development, an important step for us towards developing the world-class Browse resource. And we were able to take advantage of the lower cost environment and accelerate the Greater Enfield Development, which is important for us, it's been a development that's been around for a number of years.

With the addition of Wheatstone, Balnaves and Kitimat to our portfolio, our proved plus probable reserves increased by just on 19.5 per cent and our best estimate contingent resources increased by more than 150 per cent. We also had a gas discovery, Pyxis-1, which has future tie-back potential to Pluto, and this adds an additional net 2C contingent resources of around 68 million barrels for Pluto. Significantly though, through the first half, we were able to maintain a strong financial position, in order to fund our development and growth activities. We are in the market and we refinanced 3.75 billion dollars of debt at very competitive rates and we decreased our pre-tax portfolio cost of debt to just on 2.6 per cent per annum.

Our key financial results are on slide 4. Lawrie will provide more detail, but I want to briefly talk about the headlines. Our reported net profit after tax was 679 million dollars, consistent with market consensus and reflecting the impact of the falling commodity prices over the past year. This was underpinned by production of 42 million barrels and operating revenue of 2.55 billion dollars for the period. Our reported earnings were US 83 cents per share, reflecting our operating revenue result. I think it's important to note that our interim dividend of US 66 cents per share is a strong return in today's environment and reflects our continued commitment to an 80 per cent dividend payout ratio. We were able to do this because we have a resilient business model, which we believe is well positioned to capitalise on the oil price uncertainty in front of us.

This brings me to slide 5. Our view is that the oil market is going to remain structurally oversupplied for some time. However, we are seeing world oil demand growth and we saw some 1.4 million barrels of growth per day occurring in 2015, which is around double the growth we saw last year. So the oil market is rebalancing but it's going to take some time to rebalance completely. As you can see from our half-year results, we have strong cash flows and we have been very active in accelerating our cost reduction initiatives.

Our continuing challenge to cost structures, and our drive to improve efficiency and reliability across our business, very much underpins our achievements.

I want to single out a couple, in particular our highlight for the first half was the completion of a major turnaround at our Pluto LNG plant. This was the first major turnaround for this plant since its start-up and we were able to complete that ten days ahead of schedule, along with making significant gains in the rest of our business through our productivity program. We're still targeting 800 million dollars in enduring benefits, to be delivered to the bottom line by the end of 2016.

Looking ahead, our existing LNG contracts will continue to provide a solid base for revenue. Our strong balance sheet and ongoing reliability means we're well positioned to provide both yield and growth. Of course, in all of this our commitment to health and safety remains steadfast, as you can see from the charts. I'll now pass over to Lawrie Tremaine. Lawrie's going to discuss the financial results and I'll come back and close at the end.

Lawrie Tremaine: Thanks Peter and good morning everyone. Starting with profit on slide 8, it should be no surprise to anyone on this call that our profit in the first half has declined with lower oil prices and, to a lesser extent, the planned turnaround at Pluto. Partially offsetting these hits to profit, we have achieved net cost reductions of 163 million dollars, and lower PRRT and income tax in line with lower pre-tax profits. The cost reductions come from a range of sources, including lower royalty and excise due to reduced prices, and the rapidly growing impact of our cost reductions efforts.

We've provided context for our first half results, by comparing our profit and cash flow per barrel with those of our oil and gas peer group who have already reported half-year results to date. This comparison is shown on slide 9. Only three of the ten peers have posted a first half profit. We're also well positioned on a cash flow basis, noting that this chart doesn't reflect the higher sustaining capital burden of many of our peers.

Moving to slide 10. Our first half production was a good outcome, especially considering the impact of cyclones and the unplanned outage at the North West Shelf gas plant. The cyclone, which resulted in the Atwood Osprey drill rig breaking its mooring and drifting near to the Pluto flowlines, is a major component of the 2.9 million barrels of oil equivalent shown in the chart. On a positive side, our production team maintained high reliability in the LNG and oil facilities, and the major Pluto turnaround was completed ten days, or 30 per cent, ahead of the original schedule.

With that, we are maintaining our 2015 full year production guidance range of 86 to 94 million barrels of oil equivalent.

You can see on slide 11 that the decline in LNG pricing has not been as large as the fall in the Brent oil price, particularly at Pluto. There are a couple of reasons for this. The JCC lags changes in the Brent oil price and the full half-year impact of the Pluto price review.

On slide 12, you can start to see a downward production cost trend in both oil and gas, the latter after adjusting for the additional costs associated with the Pluto turnaround. The impact of our cost reduction efforts are building and will become more apparent over time. In our results to date, the cost reductions have been partly masked by the investments we are making to achieve the savings.

At our investor briefing day in May last year, we announced our productivity program. Slide 13 shows you our focus areas and a few examples of how we are tracking against them. Our full year investment expenditure guidance on slide 14 is materially unchanged from what we presented to you in the investor day back in May.

Next I'd like to recognise the work done by our treasury team to refinance our debt portfolio. As Peter said earlier, we've raised 3.75 billion dollars in debt so far this year, we've pushed out our average term to maturity to well over four years and we've done this at historically low interest rates, resulting in a current portfolio cost of debt of just 2.6 per cent.

Finally, we've maintained our 80 per cent dividend payout, providing an interim dividend of US 66 cents per share. Whilst in US dollar terms the dividend is 40 per cent lower than the 2014 interim, the decrease in the Australian dollar dividend will likely be much smaller, depending on the final exchange rate.

With that, I'll hand you back to Peter.

Peter Coleman: Look thanks Lawrie. I want to close out this part of the call by giving you an update on our global exploration and development activities. As you can see on slide 18, we've worked hard this year to progress the Browse FLNG Development. As I mentioned earlier, we announced entry in to the front-end engineering and design phase of the development during the first half. I'm also pleased to let you know that the primary approvals have significantly progressed as well and on Monday of this week we received Commonwealth environmental approval. This is a significant milestone and concludes the 20 month environmental impact assessment process and means that we now have all primary environmental approvals for Browse in place. Moving forward, we'll continue to pursue cost efficiencies on the project as we work towards a final investment decision in the second half of 2016.

For Wheatstone, the Woodside operated Julimar Brunello Project is 65 per cent complete and is targeting ready for start-up in the second half of 2016. Then work also continues with Chevron on the appraisal of the Liard Basin in Canada, to underpin the Kitimat LNG Development, so a lot of work underway in the development part of our business.

Now to our global exploration program, our emphasis is really transitioning from capturing growth opportunities to execution. We undertook a number of seismic studies during the first half and we're appraising these studies with a view to building our drill-ready inventory and I must say, we've been able to enjoy a much lower day rate for our seismic vessel cost during this period.

We have an exciting drilling program underway in the second half. Cheetah-1 well offshore Cameroon was spudded on 3 July with results expected later this quarter, and further wells are planned for offshore Korea in Q3 and offshore Myanmar in the fourth quarter of this year.

So to sum it up, our global development and exploration activities are progressing well and to our plan. As I mentioned, our operating revenue is down for the same period as last year, simply reflecting the lower oil price environment, but we have transformed our business and we're well positioned for the future, we believe. We'll continue to focus on disciplined capital management, no change there, underpinned by strong safety performance and operational excellence. In the second half of 2015 you can expect to see progress on Browse FLNG, including progress on driving down costs to enable a final investment decision next year. You'll also see progress on the Julimar Project and the three high-impact exploration wells that I mentioned in Cameroon, Korea and Myanmar.

So on that positive note, I'll finish up and I'll open up to your questions.

Operator: Ladies and gentlemen, we will now take questions via the telephone. If you wish to ask a question, please press star one on your telephone and wait for your name to be announced. If you wish to cancel your request, you can always press the pound or hash key. Once again ladies and gentlemen, to ask a question via the telephones, it is star one on your telephone key pad. Thank you. We do have multiple questions to ask. Your first question comes from Mr Mark Samter from Credit Suisse. Please ask your question.

Mark Samter: (Credit Suisse, Analyst) Morning guys, I was just wondering if I could ask the question, you highlighted how much your cost of debt has dropped, we're in a world at the moment where there's the haves and haves not in terms of balance sheets and whilst you've got that as your funding source, both domestically here but certainly internationally we're seeing guys where maybe debt markets are closing up to them and their incremental cost of capital is either equity or it's selling assets. We can see what's happened to listed asset prices. Can you give us a feel, are you starting to see more distress at the asset levels from some of these companies that do need capital rather rapidly or do you think we've still not hit the point where unlisted assets are at attractive prices?

Lawrie Tremaine: Look Mark I might just start by talking about the capital markets that we've participated in first and then I'll make some comments about the - as it applies to other businesses and other assets and Peter will probably chime in as well at that point. So firstly, obviously we've raised 3.75 billion dollars and so the capital markets have been open to us and I always take the opportunity to thank the markets that support us. We've been very well supported in both the bond market and the bank market both in Australia and also in our region, so some of the support came from Asian banks.

The support has been strong and has enabled us to go through that refinancing activity and come out with a great result in terms of interest rate, but of course, as I noted in the presentation in my comments, we've also pushed out our average period to maturity, which is great. Basically we've taken advantage of this good environment.

As that relates to others, we only have a narrow window into the situation for others. I have seen reports that some of the capital - so there was a wall of capital being provided to oil and gas players around the world, particularly in the later part of 2014, we saw a number of dead issuances in particular at that time. We saw equity issuance in the first part of this year, but anecdotally, it looks like it's starting to dry up, particularly at the poorer quality end of the industry. But it is anecdotal and with that, I'll pass over to Peter.

Peter Coleman: Yes, Mark, let me address the asset part of it. With respect to asset sales, potential asset sales or potential M&A activity between companies, I'm guessing that's where you're heading.

Mark Samter: (Credit Suisse, Analyst) Yes.

Peter Coleman: We've always had a belief that it would take a consistent period of two to three quarters of low oil prices for companies to start to really focus on assets that would be of interest to other players in the market in a low price environment. What does that mean? It simply says when you're in low prices, as you saw in Lawrie's chart, not many companies are generating enough free cash after their investment requirements to actually go out and acquire anything. So it becomes a bit of a chicken and egg in that you'd all love to go out and acquire assets, but the willing-buyer willing-seller scenario is that there actually aren't that many buyers in the traditional market that have enough free cash to go and make asset acquisitions and if they were to do so, they would typically go after the higher quality assets which, as you know, are the assets that are often underpinning the strength of balance sheets of companies that are distressed.

So it's one of those things that people aren't going to let go of high quality assets until they feel like there's not many other choices left to them. Then the market may actually not be there for buyers to go and pay cash for those assets. As Lawrie mentioned, some of the early assets sales we saw, particularly in North America earlier this year, were actually done on the back of equity issuances which was reasonably unusual for that market at that time. Then some of the larger transactions of late have been based on scrip for scrip which is again some hedge on commodity prices coming into that, but it's also people being able to use their stock rather than having to dip into cash and debt.

So what does all that mean? It's actually really difficult to sell an asset in today's environment. It's equally difficult to buy one because the sellers aren't distressed to the point where they're willing to sell an asset for what we believe the current market would see as a reasonable price for those particular assets. So I think we've got another quarter in front of us before we really start to see any significant number of asset sales come into the market. Then comes the challenge, there'll be some who move early and will soak up the available capacity in the market to purchase and those who hold too long will be left standing with their asset, in my view, and may need to sell those assets to non-traditional buyers or non-traditional players in the marketplace.

Mark Samter: (Credit Suisse, Analyst) So it sounds like it's fair to say you're not really seeing any meaningful narrowing of the bid/offer spread at the moment then.

Peter Coleman: I think that the offer spread - the offers are still over long-term oil price basis and the reality is, as you know, we've got to pay for it based on today's pricing, or at least today's five year scrips because that's the environment which we've got to monetise these assets. So that will close, though, over time I

believe, but we've got another quarter of this to get through. That's simply because there's going to be some choppiness in commodity pricing and so you'll see some false positives and we saw that during the second quarter where WTI bumped up around 60 dollars. As soon as you give that group any oxygen, they feed off it really quickly and today we're below 50 dollars, so they're in this kind of malaise of they're not feeling happy about themselves. But give them the sniff of 60 dollars and they'll be back there again. So we'll see this oscillation in the market, we believe, through a good way through next year, potentially through the end of next year.

Mark Samter: (Credit Suisse, Analyst) I might just pinch one more question quickly if I can, just on the - your guys' view on the spot LNG market, there's a lot of commission and cargoes that's going to come out of the various trains as they ramp up on the east and west coast of Australia, but it also appears that destination restrictions being left in a couple of east coast projects and therefore could put further pressure on the spot market in the coming couple of years, just get a view of how you guys are seeing the spot market for the next couple of years.

Peter Coleman: Yes, look we're fortunate because we don't have a huge exposure to the spot market at the moment; we got in early. You might recall back in late 2013, early 2014, we announced to the market that we'd actually entered into some mid-term contracts with a couple of buyers. At that point we could see that there was going - one of the reasons for that is we could see that there was going to be some uncertainty with a lot of new projects coming online, so we simply wanted to lock in some pricing. We had some put options around some of those cargoes and we've exercised those put options, meaning we've placed them to buyers, even though buyers may have had a cheaper alternative if they had gone to market.

We do have some spot in the first half of this year that is a little higher than we'd originally planned, but the reason for that is simply Pluto turnaround was a lot shorter than we planned and so we ended up with some more spot cargoes and then the unplanned outages around the cyclone events and the substation fire at the North West Shelf caused us then to get into the spot market. But they're unusual events and we actually see our exposure to spot being much smaller than that as we go out over the next 12 to 18 months.

Having said that, what do you expect in the spot market? There's plenty of shipping. What we're seeing is that the cross rates for shipping, if you look at the current shipping rates they're really at historic lows. We're not seeing cargoes coming out of - come into Asia from the Middle East; they're going into Europe now because the pricing differential doesn't justify it. So we don't see a lot of assistance coming from the market to increase spot prices over the next 18 months. I would expect a similar sort of spot pricing environment over the next 18 months. Again, those who know how to market, those who have control of their shipping we believe will be advantaged in that market; those who don't have control of their shipping are going to have to be quick on their feet I think to get their cargoes away.

Mark Samter: (Credit Suisse, Analyst) Brilliant. Thanks for that guys.

Peter Coleman: Thanks, Mark.

Operator: Thank you. Your next question comes from Mr Kirit Hira from Macquarie. Mr Kirit Hira, please ask your question.

Kirit Hira: (Macquarie, Analyst) Good morning, guys. Listen, just a question on the cost efficiencies targeted, it does seem like you are delivering on those cost initiatives fairly proactively this year in terms of what's been targeted. I'm just wondering, is there any possibility that you might look to extend effectively the 800 million dollar target of recurring benefits? Just given we find ourselves in probably a weaker oil price environment than many anticipated.

Lawrie Tremaine: Morning, Kirit. Look, the 800 million dollars, we always described it as 800 million dollars in benefits because it's a mix of cost reduction and volume increases, bearing in mind it started life as a productivity program. Obviously the target to hit the 800 million dollars has become more difficult because if you value the increased production at 50 dollars that's less value than if you value it at 100 dollars, where we started. So the target is more difficult today in that regard. Equally, there's probably more tailwinds helping us from a cost reduction point of view but on balance we decided not to change the target. I assume you can understand that reasoning. What I will say though, and Peter mentioned it in his notes, he talks about us having accelerated the cost reduction program. There has been a build in effort and I can tell you now that groups of people across Woodside that have added cost reduction and improvement to their job descriptions over the last year that perhaps weren't there previously.

Peter Coleman: Kirit, I would add to that and say we've been having conversations here recently about do we extend the program, do we make changes to target margins. We've actually concluded that maybe the best thing to do is to close out the program when we originally said it, which is 2016, but make sure that it becomes sustainable and embedded in the organisation. I think that's the key differentiator that we're looking for. These are not short-term high cost reductions, these are not deferrals of projects where people are taking credit.

Kirit Hira: (Macquarie, Analyst): No, agreed.

Peter Coleman: And capital that they'll have to spend at some time in the future, and trying to make sure that you're going to continue to see this in the bottom line. We always get asked this on these programs, well show me the money. I would suggest to you if you have a look at our reliability numbers where that's improved from you can see the production coming through there. Then equally, and probably the best indicator for this on an industry basis is the unit operating cost. On page 12 of the presentation pack you can see we're making significant inroads there to our unit operating costs, and that's not all forex driven. We get a little bit of forex help this year but it's not all forex driven at all.

Kirit Hira: (Macquarie, Analyst): Okay. Then just a question on Pyxis, 400 Bcf yet it's only been booked as resource. Obviously a more difficult tie-back and also presumably a backfill gas. What's impacting I guess the technical constraints there? I understand the commercial headwinds but curious to understand what I guess the technical constraints are.

Peter Coleman: Yes. Well, I'm glad you asked the question because there are no technical constraints. It's actually quite a straightforward tie-back so there's no technical complexity with respect to reservoir or the development itself. So it's a pretty straightforward subsea tie-back. The reason we've booked it at this point as a contingent resource is just simply the maturity of our reserves booking process. So we just need to do a little bit more work on the subsurface to move that forward and also we need to do some more work on

firming up the development and the field development plant for that. So please don't read anything more into it than simply it's at the point really of our assessment and development process. It's got nothing to do with the complexity of the development or the cost structure of the development.

Kirit Hira: (Macquarie, Analyst): Okay, and just one question I can squeeze in for Lawrie. The cash tax seemed quite high this half. Is there anything there that's driving that? It seemed quite high versus previous half.

Lawrie Tremaine: Yes, it's just taxes that need to be paid on 2014 profits so it's just the carryover from 2014 into payments in '15.

Kirit Hira: (Macquarie, Analyst): Presumably that's on higher oil prices obviously so that could be quite high. Okay.

Lawrie Tremaine: All right, yes.

Kirit Hira: (Macquarie, Analyst): Okay. Thanks, guys.

Operator: Your next question comes from Mr Dale Koenders from Citigroup. Mr Dale, please ask your question.

Dale Koenders: (Citigroup, Analyst) Morning, gentlemen. Firstly, just on the Browse project. I guess you've spoken about a targeted cost out previously 20 per cent plus and I know a lot of the majors are talking about higher cost given sustaining lower oil prices - or sorry, higher cost-out. Obviously I understand other JV partners have already signed MoUs for their share of volumes in the project and you're looking to do something in the second half. Can you provide some comments in terms of closing that gap between realised LNG price and oil price outlook and what that infers for an investment case for an IRR? Obviously you've spoken about a 12 per cent to 15 per cent range previously and Peter, you mentioned about, for one of the prior questions, investment cases at 60 dollars a barrel oil. Is that the hurdle, 60 dollars a barrel or 12 per cent IRR?

Peter Coleman: You're trying to lock me into a number, Dale, so well done. What you've quoted back to us is certainly some of the guidance we've indicated to market is the scenarios that we certainly consider. Let me give you an update on the costs if I can, then I'll come back to the marketing and then we'll close on the investment case. Just on the cost side we've indicated previously we're seeing cost reductions in the upstream part of the project in the order of 20 per cent plus and some of those are up at 30 per cent, so we're seeing the range that we need of cost reductions starting to flow through to the upstream part of the project. The upstream is the drilling subsea flow lines to the SURF part of it, the things that Woodside will be directly responsible for with respect to the development part of it.

You may recall the cost structure of the project is that the investment requires - about 50 per cent of the investment goes into the upstream and about 50 per cent of it goes into the processing facilities in the vessel. So on 50 per cent of the investment case we're seeing strong indications of cost reductions hitting the target range that we're looking for. On the downstream part of it we've still got work to do. We needed to get into the FEED part of the project to really be able to knuckle down on that work and firm up just what we

can do with respect to the construction costs in the yard in Korea and getting efficiencies in the build of the vessel. We can do that now because Woodside is now novated on some of the contracts that were between Technip and Samsung and we're able to get in there and directly work with the project team on getting those cost targets down.

What I can tell you is at the top of the house across all of the joint venturers, we're all fully aligned as to what we need to do to get the project going, so there's no doubt in that regard. You'll hear more progress on that as we go through the year, but it's still early. We have some numbers in mind and we're working on that very, very hard.

With respect to the timing of development and so forth, the good news is we're still targeting, as we said, second half of next year for an FID and that will line up nicely with completion of activities at Prelude in the yard. So Prelude will be out of the yard around the same time that we're going to FID so that's good news for us in that regard. That was, you may recall, one of the key things for us in trying to de-risk this project.

With respect to marketing, one of the keys for marketing given that we're developing as a portfolio player is to actually get a real project, and in today's environment buyers are reluctant to enter into meaningful conversations unless you've got in their mind a real project for them to consider. Now that Browse has gone into FEED we have a real project and so the buyer interest now has obviously gone up quite significantly and we'll be aggressively marketing Browse through the second half of this year so we expect to be able to give you an update on that towards the end of this year or early next year, but that's the key to that.

I can tell you we've got some choices that we need to make with respect to how much volume we place in the market, what the phasing of that volume needs to be and then the diversity of the buyer group that we want and we've got strategies all around that. So I think we're well-progressed with respect to the buying in our strategies but we've got some other things that we need to do. Of course as you know, we're targeting opening up of other markets as well as our traditional buyers. Our focus is on our traditional buyers at this point.

The investment case, it's always one where we're likely to be making a decision on the investment at a point in time when the oil price is not reflecting our long-term view of oil pricing. We've been very clear with our project teams and our partners in this regard, is that the project will need to deliver an acceptable return, at the current expectations of oil pricing, meaning it needs to break-even at the sorts of low oil prices that we're seeing in the marketplace today. That's a break-even, that's not a 12 per cent return. That's a breakeven. The kind of low returns we talked about, the low range of DCF returns, 12 to 15per cent, that needs to be delivered at our long-term forecast. So if you think about it, the investment decisions we made with two considerations. One is what's our expectation of long-term oil pricing and does that meet our investment criteria, and then equally in a world where oil prices never recover can we assure ourselves that in fact the investment will break-even at those sorts of prices. I think that's a pretty harsh test but we are…

Dale Koenders: (Citigroup, Analyst) Is break-even cash break-even or cost to capital?

Peter Coleman: It'll be a WACC break-even, maybe a WACC plus a little bit, you want to put some margin in there. So probably not too much different to the numbers you guys run on our books, given our WACC is

lower than that though. So each investor will have those sorts of - sorry, each partner will have their own - we run a joint venture set of books on this and we'll be running - each joint venture will make their own choices. So that is a change of style in the investment tests, but I think it's an appropriate one given that we don't want to get caught like our industry has historically in betting on the future's always going to be better than today. We need to assure ourselves that we can manage this project, phase the spending and manage the cost and price expectations appropriately.

Dale Koenders: (Citigroup, Analyst) Given the movement into FEED, is it fair to assume that there's a level of confidence that early indications on cost out in LNG pricing to support that sort of investment decision?

Peter Coleman: Well we don't - we didn't move into FEED on a hope and a prayer. We've moved into FEED with the belief that we'll get the project across the line, but we're also under no delusion that there's some more work to do and as I said, the majority of that work to do is on the cost structure of the downstream part of the project.

Dale Koenders: (Citigroup, Analyst) Okay and then just one quick question on Wheatstone. You've mentioned that forecast expenditure is unchanged from the purchase economics. That is different to saying that it's on schedule and on budget. The operator's been talking about challenges with the mod yards and a shift of work from Malaysia to Indonesia and a possible slide in Train 2 timing. Can you provide a little bit more sort of certainty on your view of cost on that project and schedule?

Peter Coleman: Yes you're quite right to say our investment case had some contingency in there based really simply based on the knowledge that we had at the time of the acquisition. We'll be providing, you know, firmer guidance on this later in the year as the operator updates their final numbers so I wouldn't want to get out there and get ahead of the operator in that regard but I think it's fair to say the operator gave some guidance in the recent past that they were still targeting an end of 2016 start-up but recognised the challenge of that. If there's any slippage from that, I think it'll be nominal, to be honest with you Dale. That's our assessment of where it is and our investment case is still robust in that regard. So we - you know, we recognise the uncertainty of these projects in the investment case.

The only assurance I can give you is that the current expectations and market guidance is certainly our investment case is robust with respect to that guidance given by the operator.

Lawrie Tremaine: So Dale, I think we've said before, in our investment case, we did build in some extra dollars and we did build in some extra time because that's a prudent basis to invest on and we're still well within that, given the operator's current guidance.

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

Peter Coleman: Good chat.

Operator: Your next question comes from Sonali Paul from Reuters. Sonali, please ask your question.

Sonali Paul: (Reuters, Journalist) Hi Peter and Lawrie. I just wanted to know in terms of production costs, what are you hoping to achieve by the end of this year in terms of cutting costs?

Lawrie Tremaine: I think in one of the charts, we put in an estimate for cost reduction for the year, just going to try and find that…

Sonali Paul: (Reuters, Journalist) Sorry.

Lawrie Tremaine: Yes it's on page 13. It's one I didn't stop and talk about to a great extent, but yes there's an operating expenditure and capital expenditure reduction forecast, if you like, in there. What – but behind those numbers, so there's been a great deal of activity but the - delivering that through to the bottom line takes time - so for example, if we renegotiate an annual contract today, well you're only going to see less than half of that impact in the 2015 results. So those sorts of things have been going on for the last year or so and so the cost reductions are building, but that's our best estimate today of the impact by year end.

Peter Coleman: Sonali, Lawrie also mentioned that you don't see the full impact of some of the initiatives yet because we've actually had to spend money to save money. I hear that a lot in some areas of our business but the - but we are seeing the savings come through. I think the easier one to point to and understand is the staff reductions that we've had in the organisation this year. Staff reductions come with the cost. The numbers that you are seeing include the cost of those reductions in them so I haven't given the guys a free pass and said well, you know, the implementation costs are free and then I'll give you all the credits.

No, we've made the organisation ensure that we focus on the fact that these decisions do have a cost with them and that you need to deliver on the total outcome because investors need to see a bottom line impact and just simply always giving yourself credit for the saving without including the cost component of it is not a fair reflection of the value of the initiative. So you're seeing that come through. So 2015, there's been a lot of initiatives that included additional cost for us to implement. You won't see the full impact of those initiatives on a net basis until 2016 because of implementation costs.

Sonali Paul: (Reuters, Journalist) Okay thanks.

Operator: Your next question comes from Mr Nik Burns from UBS. Mr Nik Burns, please ask your question.

Nik Burns: (UBS, Analyst) Yes, thanks guys. Look, just a question on your exploration program for 2016. It looks very much first half weighted. I'm just wondering if there's any plans to add to that through the year, in particular I think at your investor briefing earlier this year you talked about the Fortuna 3D Survey over the North West Shelf area and that could lead to some exploration drilling sometime next year. That doesn't seem to be there at this point. I'm just wondering if there's plans to add further wells to that program.

Peter Coleman: Yes Nik, we're drilling - sorry, we're developing what we call a drill ready inventory. We're about 50 per cent of the way through that build and really as an internal target for ourselves based on the size of spend that we have, we want to have about 30 wells sitting in that drill-ready inventory. We're about halfway through that. We were hoping the Fortuna survey would deliver some of those wells for the North West Shelf. Unfortunately the interpretation of that survey has been delayed due to some issues that we've had with the quality of the data. So that's just delayed it a few months. We're cleaning up that data and we expect we'll get good resolution of that, but that has affected some of the back end of 2016.

So we'll be looking for additional opportunities there and we'll - I'm pretty confident we'll fill the back end of 2016. This is a market where we're going to have to stay very disciplined though that we don't drill wells that we don't need to, and so this program that you have in front of us also reflects our commitment to our drilling rigs. The current drilling rig we have, drilling exploration, the Deepwater Millennium, the contract for that expires in the first half of next year and we've got a decision as to whether we extend that contract or whether we bring a new rig in. So what I would say is this is as much a reflection of the discipline we have in our capital management and that we're showing you things that we have committed to, rather than things that we have an opportunity for.

So the opportunity space is much greater, but we haven't committed yet to that particular drilling program so we haven't put it on the chart. If we do commit to that program, then we expect daily rig rates to be significantly lower than what we're seeing on the current program because it's a legacy program. It's a contract that was entered into some 18 months ago and so that's the sort of thing we're seeing in the market. I can tell you in the seismic market and I mentioned that during the call, we're seeing rate reductions that's up to 50 per cent on some of the seismic that we're running in different parts of the world. So we are open to take advantage of the current market conditions in that space.

Nik Burns: (UBS, Analyst) Okay and is Phil Loader still out there looking for more exploration opportunities for you?

Peter Coleman: Yes, Phil's listening to you. Yes we are and we're focusing on the areas, the thematic areas that we've talked about previously, so the Atlantic Margin area, Sub-Saharan Africa, the Asia area or the Australasia area for us. We also - you know, it’s noteworthy what you don't see in exploration is the development drilling or the appraisal drilling that we're doing in the Liard Basin and so some people may put some of that in there - they're not strictly exploration because of the nature of the resource, but we're drilling two quite significant wells in the Liard Basin this year and we'll drill another two next year. That's to prove up that Liard resource.

So we are directing our monies, you know, across the entirety of our business, so Nik, what you don't see what I call classic exploration in the context of exploration, we are still proving up resources through that appraisal drilling in the Liard.

Nik Burns: (UBS, Analyst) Okay and just a final one from me. Just on your development pipeline under that chart on slide 21, looks like Greater Enfield FEED is now going through to the end of 2016. I think previously at the start of the year that was I think you were hoping to get in FEED in mid -2016. Just wondering what's behind any change in scope there or delay in FID?

Peter Coleman: No, there's no delay. In fact, we're working hard to accelerate it's just the precision of the graphs, meaning the way that we develop the graphs, we're not precise enough to call something that may be a few weeks into the second half of the year, so please don't read any slippage into that or any lack of commitment. In fact the team's been challenged to accelerate entering of FEED - sorry, FID, so you may actually - the target actually is much more aggressive than what you see on this graph.

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

Operator: Thank you. Once again ladies and gentlemen, just a reminder, if you wish to ask a question, it is star one on your telephone and your next question comes from Mr James Patten from Bloomberg News. Please ask your question.

James Patten: (Bloomberg News, Journalist) Hi good morning everyone. I wanted to ask about Sempra LNG and US LNG, is that progressing according to plan and do you see any opportunity to expand further in the US LNG market?

Peter Coleman: Good question, James. As you know, we signed an MoU with Sempra earlier this year to study the development of an LNG plant at Port Arthur in Texas on a site that Sempra owned. We had an aggressive schedule on that to make a decision as to whether we should move forward on it or not. What I can tell you is that's progressing quite well and we've entered into a phase now where we've agreed to start sharing costs on that project. That's an important milestone that basically says we are starting to form a view that there is a commercially viable development there and once you get into a cost sharing arrangement, that says that you believe there's something there.

The work at the moment though is still quite preliminary, but we obviously see a development case there that is an attractive one and it's attractive enough for us to spend time and effort through the end of this year to try and firm up. What's happening generally in the market there, the normal amount of everybody wants to build an LNG plant and the cost structures are still there and so forth. Look I would say to you, in our view the market's about to play out the way we expected. The early plants were developed on the back of the balance sheet of the buyers because the developers themselves didn't have the balance sheet capacity to fund the plant through debt themselves and the project financing costs were prohibitive if they didn't have buyers underpinning the contracts. We're now seeing a market place where the buyers - there are less buyers who have the capacity to underpin those contracts or are less willing to underpin those contracts.

I believe that's a market where the combination of Woodside and Sempra actually then start to differentiate. So in a market where anybody can build a plant, it's hard to differentiate in a market where the balance sheet capacity confidence of the operator and so forth and so on, become differentiators. That's one where Woodside plays very well.

So I - it's too early for us to say with any confidence that there will be a development there. All I can say is, the market conditions are starting to form such that a Woodside joint venture with an excellent partner like Sempra is starting to become more positive.

James Patten: (Bloomberg News, Journalist) Okay and just quickly to follow up on that. I think you said that you were expecting spot prices to be similar over the next 18 months, if I heard you correctly? Can you provide any colour on what's happening in the market, just with regard to supply and demand, what's behind your expectation for spot prices at those levels?

Peter Coleman: Yes, look it's hard to predict the spot market because it will depend on plant start-ups and who's in the market at particular points in time and what nuclear does and so forth. But, spot will have more volatility naturally based on weather conditions and what buyers need and what - where sellers are with being able to predict when volumes come into the market.

So, my view is that we'll trade in a range that you've been seeing for the last six months or so. I just wouldn't plan for anything different to that. If it's better than that, that's fantastic. It's difficult to see sustained periods that are lower than that. Having said that, as I mentioned during the call, we believe if you control your shipping you would be advantaged in that market.

If you're selling FOB it's going to be more difficult because you're now relying on a buyer with respect to getting the shipping to you. So, all I would say is this, there's just - the market is over supplied during this period with respect to spot. We always thought that would be the case. That was always our view. We think it's a short to medium term issue that will get worked through as new projects come in to play.

So, all we're seeing is what we expected would happen. These things are always - when you're standing in the middle of the storm it's a lot different than when you're looking at it coming at you. At the moment, we're in the middle of the storm, it will pass. It will pass and those who have prepared themselves for it, will weather it particularly well. Those who haven't, I can't predict what that will look like.

James Patten: (Bloomberg News, Journalist) Thank you.

Peter Coleman: Thanks James.

Operator: Your next question comes from Mr Stuart Baker from Morgan Stanley, please ask your question.

Stuart Baker: (Morgan Stanley, Analyst) Good morning gentlemen, just a couple of things, given quite a few questions have been asked already. If I could just get a little update on the timelines around the Liard Basin testing program. I understand wells have been drilled and completed and the testing is to be undertaken this half year. I was just wondering whether or not, when we should expect to see some results from those wells? That's the first question.

The second one is regarding where you're at regarding third-party processing and tolling for North West Shelf and whether other parties are more or less likely to develop their fields in the current environment to an overview to get some gas into those plants, plus 2020?

Peter Coleman: Stuart let me give you some context to the decisions that we will be making on Kitimat and then I'll ask Mike Utsler our Chief Operating Officer, just to give a little colour around the wells and then I'll come back to the North West Shelf.

With respect to Kitimat, the decision processes for us remain the same, which is to really focus on proving up the resource in the Liard Basin and gain confidence that we can deliver on a cost structure for the development of those wells that enable us to make an investment decision and of course, as you know very well, in US unconventional shale which is what Liard Basin is, it's a manufacturing process and you have to be able to convince yourself and get confident that you can drive the cost structure down over time and take advantage of that manufacturing process.

So we're at the very early days of drilling wells in Liard. So from a cost point of view, we've been working with the operator on understanding how we're going to drive down costs and we expect over the next 12 to 18 months we'll see some excellent progress there.

The second part then was just the productivity of the wells. There's some vertical wells that have been drilled, we'll now be drilling some horizontal wells and we just to test the productivity of the wells and that will happen over the next 18 months, and Mike will give you some more colour around that. The second part of the decision process for the Kitimat project was around the midstream and downstream cost structure.

We've been working again, with the operator, with our joint venture partner there to ensure that we bring all of Woodside's knowledge with respect to execution of LNG plant construction techniques and so forth for that. It's early in that process, but we expect by the end of this year, early next year, we'll have a better feel for that and of course the pace of spend that will have on the project is slowed to reflect the process we're going through here to reduce the cost structure.

So we don't want to be spending ahead of our headlights on the project. We've worked with Chevron to ensure that the pace of spend reflects the decision process we're going through. So I'll let Mike give you a bit more colour around the wells and then I'll come back and talk about the North West Shelf.

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

Michael Utsler: Good morning Stuart, regarding the Liard drilling efforts, currently the two critical deep horizontal tests of the Liard Reservoir have progressed to point in which the wells are now drilled and we're staging for the completion space of that, which will require fracturing of the horizontal sections. Both of those wells should be worked towards completion of the fracking stages in October and November to then be flow tested in November and December of this year.

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

Peter Coleman: Just on the third-party through the North West Shelf, Stu, look, it's taken many years for the North West Shelf to get its mind around third party access to the facilities. We have an aligned view of that now, which has been an important step. We also have an aligned view of the appropriate tolling structure for third parties accessing the North West Shelf.

We've seen the first indications of that with the LoI that was signed with Hess for their development. I can tell you the discussions around that, the commercial activities around the Hess opportunity are progressing per plan and we'll have some decision points here over the next 12 months. Although the ball is mainly in Hess' court, in this regard, with respect to that.

So, I would just say that's on plan and that's still moving through. With respect to other third-party access, we have approached other third parties that we know have discovered undeveloped resources. We've been discussing with them similar tolling structures and we've been sharing some of those structures with them. We're waiting on their response to that.

So, I would say the North West Shelf is doing what you would expect the North West Shelf joint venture to do, which is to maximise the life value of that asset and I'm pleased with where we are today. But I haven't landed anything yet. So I can't tell you I've landed anything, but we're in the right place.

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

Operator: Thank you and your final question comes from Mr John Hirjee from Deutsche Bank. Mr John Hirjee, please ask your question.

John Hirjee: (Deutsche Bank, Analyst) Thank you. Good morning everyone. A question Peter on the Pluto turnaround costs. Were they budgeted as per your requirements or did you feel that the costs seemed to be a little high in terms of this particular turn around?

Peter Coleman: John this was always going to be an expensive turnaround for us because we basically had to get in to the majority of the vessels in the plant, under the - our integrity assurance requirements for a brand new plant, you need to be able to get in and set a baseline for yourself.

So we had a baseline on start-up. Then the first turnaround, the major turnaround you hit the plant very hard and you basically open as much as you can. That then establishes a baseline for you. We expect - and that baseline then gives you the basis upon which you can forecast future inspection requirements.

I can tell you that the plant was in excellent shape, excellent shape and so we were very pleased in that regard. The actual turnaround came in significantly under budget, for us, so the guys were able to execute the turnaround, not only in a shorter time period, but significantly under budget, with respect to using new technology and techniques in the plant. So it simply wasn't time driven, but it was technology driven.

Probably the biggest headline for us is, we did do some things to improve the capacity of the plant. We haven't had enough run time yet to give guidance to the market on what those capacity increases can be expected to be in the future, but early indications are positive in that regard.

Then, on the reliability side, one of the key things for us is when we started up Pluto, we were running some of our compression equipment at higher firing temperatures, than industry had a lot of experience with. The good news, and that was - the good news is the inspections have given us some confidence now that we may be able to extend the next inspection period from around three and a half years out to four and a half years. But it's too early for us to commit to that yet. But that's where we're targeting.

So I would say, touch wood, everything out of that turnaround was positive for us, both on what we found when we went into the vessels, what we found with respect to our ability to execute the program and then of course what we found with respect to the period in which we were able to then extend the next turnaround to.

So all positive indicators and then also a little bit of a capacity increase. But give us a few months run-time with the plant. We know, I don't want to over promise on these things too early. We want to make sure that we can deliver it to you.

John Hirjee: (Deutsche Bank, Analyst) Okay thank you. A question on the data now you give on flare gas intensity. What sort of baseline are you thinking that you want to get that down to? Given I see the trend is down, but what are you trying to get to in terms of that particular metric?

Peter Coleman: Look I can't - I know the metric, we've got some numbers that run - we believe first quartile in this area is between eight to ten tonnes per kilotonne. They're the sorts of internal targets we run in the business. So that's what we want to drive that to. One of the key components on flare gas intensity as you

know though, is reliability. The best way to get flare gas intensity down is to make your plant more reliable. That means you're not having flaring events and process shut downs.

I can assure you this also reflects - we bought on some new assets into the asset mix and we're working to improve the performance of the new assets as well. So that's where we are. We're not driven by an intensity number per se, it's something that's important to us because it's reflection of how well we're running our business. We're driving towards world-class performance on reliability which has a direct correlation to intensity.

I would add, the numbers you're seeing for the first half include Balnaves coming into it and of course that had an upward impact on those numbers. So, in fact they would be much better than what you're seeing if we'd not bought the Balnaves asset in, and the team's working very hard at the moment on getting the reliability of Balnaves to a level that is consistent with our other Woodside assets.

John Hirjee: (Deutsche Bank, Analyst) Sure and finally if I may, a question on the broader LNG outlook, you mentioned that you're in marketing or about to start marketing Browse significantly. What are the customers saying to you in terms of the uncertainty with regards to their own demands and how they think they can think about contracting at this point in the market, given as we've seen with Japan, restart of a nuclear reactor, seemingly much more reliance on nuclear and coal in Korea, those sort of dynamics and how they're playing into the demand outlook when you're trying to contract some volumes in the short-term?

Peter Coleman: Look we look at the market in two ways. We look at absolute growth in the market and I must say I always look at those numbers with a deal of scepticism and the reason for that is when you look at the overall LNG numbers on a global basis, they're based on an assumption firstly of how much energy is going to be required globally in totality and then the percentage of that energy that will go into gas and more particular, LNG. So there's some - don't get too caught up on an absolute number for LNG because there's some other overriding assumptions in the first instance. I believe that LNG needs to earn its place in the energy mix, it's not naturally that LNG will take a place, it needs to earn its place in that energy mix. So we look at that with that eye, so please don't go away and we think the world's always rosy.

The second part of that and the thing that gives us more confidence is where we differentiate ourselves as a supplier into that marketplace and how we will differentiate. We actually think some of the M&A activities that are occurring will actually benefit Woodside with respect to our differentiation as a supplier into that marketplace. The second part we looked at, John, is very simply recontracting, and if you look at recontracting volumes, notwithstanding if you assume no growth in Japan, Japan will recontract some 60 per cent of its existing supply between now and 2020. So we look at it and say, as a buyer, do you want to recontract with an old plant that may have a limited life if you have to pay price X, or if you're going to pay that same price for a brand new plant that you can stream more supply into the market.

We keep telling our people, think like a buyer, think like a buyer. If you're a buyer, you want more supply, you want to underpin new projects coming into the marketplace, but they have to be competitive with the existing price structure. So those who can get volumes into the market that are competitive with existing projects, I

believe, will always have a place in the market and that will either be in the growth element or will be in the recontacting element. So that's kind of where we're targeting; we're looking at both and saying there's a mix here. There may be some existing that we can replace and also maybe some new growth that we get into. We're having those conversations with buyers now; too early for me to give you a lot of indication because you travel to Asia as we do and a lot of the buyers - it's a buyers' market at the moment. But let's be fair, we have to differentiate in a period where there's a buyers' market and we're under no delusion in that regard. The world does not owe us a living. We must go and make our way in the world, we must make our place in the world and in this instance we're going to have to work a little harder than we would have three or four years ago.

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

Peter Coleman: Thanks John.

Operator: Thank you. That is all the questions for today. Mr Peter Coleman, please continue with any closing remarks.

Peter Coleman: Look thanks everybody, thanks again for the interest in Woodside, thanks for the depth and breadth of the questions that we've had. I hope you enjoyed the format and you were able to ask Q&A with a bit of an introduction at the front. As I mentioned in the overview, Woodside has a business plan and a strategy that we believe is a robust one. We've introduced some new words into our vocabulary; we are a resilient organisation today, we believe our business model is a resilient model and we believe the last six to 12 months have demonstrated the resilience of our model, both in the delivery of our operating performance in the face of some external challenges both from a pricing point of view, from a market point of view and also with some environmental challenges coming through and we've demonstrated an excellent resilience.

I think our production resilience is coming through, our focus on cost initiatives and restructuring our business is starting to come through and at the same time, our people have delivered. Our people have been through some significant challenges this year as we've made our organisation smaller, we've asked them to take on more responsibilities and we've also asked them to share in some of the cost reductions that we've had to make in the industry and we've shared that together and the organisation is pulling together on that.

With all of that, we still have a commitment to growing and refreshing our organisation. We are still recruiting graduates at a very high rate. That's our long-term commitment to the business. I think as you look at Woodside and the things we do and the way we go about our business, we are sensitive to the environment in which we're in. We're sensitive to the needs of our investors. We have a robust business model, but in no way do we believe that the world will always deliver something for us. We do reflect the changes in the industry, we try to be nimble in our approach, we make consistent decisions based on a consistent set of values and we stay disciplined in that regard.

Our focus has been and always will be to make the very best returns that we can for our shareholders, but they will be consistent returns and will maintain our discipline in the face of often some competing and confusing indicators out there in the marketplace, you can be assured that we're working our hardest to do the very best for our shareholders.

Again, I thank you for your interest in Woodside and I look forward to talking with a number of you over the next days and weeks. Thanks very much.