ASX Announcement

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2015 FULL-YEAR RESULTS – MEDIA TELECONFERENCE

On Wednesday 17 February at 7.30am AWST Woodside hosted a 2015 Full-Year Results media teleconference.

The transcript of the briefing is attached.

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This document should be read in conjunction with Woodside's 2015 Full-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 today for our 2015 full year results. What we'll do is we'll follow the usual format we've had over the last couple of years where we're starting with a media briefing and we'll follow that on with a call to investors and analysts later this morning. Joining me is our Chief Financial Officer, Lawrie Tremaine. I'll open with just a few opening remarks and then I'll hand the call over to questions. I'm sure you have a number of questions and before we get into the pack, I'll draw your attention to our disclaimer slide on page two and while it's fairly standard, it's important to know this presentation does include some forward looking statements and of course we report in US dollars, so unless otherwise stated.

So I'll probably open up and say what a difference a year makes. A year ago we were reporting a record net profit for Woodside and the industry had come through a number of years of growth and significant investment and now we're sitting in a period that we've not seen for some time and it's required companies to substantially challenge their business models and look at what's important for them as they move forward. What I want to do is we set the scene for this morning and we'll get into more of the numbers soon, is start on slide three and really be very clear that our business is in good shape, although of course we're not immune to the external environment that we're in. So life's feeling relative at this point in time.

We are a resilient organisation. We've demonstrated that through the year with a number of the challenges that have been thrown at us and we do have a resilient business model and I'll spend a few moments to explain why. Our low cost of operations continue to generate significant cash to support what is still a very, very strong balance sheet. We've maintained strong levels of liquidity and flexibility during the year through disciplined capital management and we finished the year with $1.7 billion in cash and undrawn facilities. As we've heard over the last couple of years, we've had an unwavering focus on productivity and reliability and its delivered production volumes of 92.2 million barrels of oil equivalent, our second highest production result on record and despite the current environment, we continue to execute our strategy and we're very much delivering on the things that we control.

If you look at slide four, we outlined some of our key achievements for the year. We delivered on our operating and development commitments. We achieved reserves and resources growth and we continued our focus on financial discipline. Along with an excellent production result, our progress towards achieving international top quartile health and safety performance remains on track with a 60% improvement in our performance since 2012. Our proved plus probable developed and undeveloped reserves increased by 13%, underpinned by the acquisition of Wheatstone and the acquisition of Kitimat LNG and the Pyxis gas discovery increased our 2C contingent resources by approximately 150% from 2014. Of course more recently we've had two exciting discoveries in Myanmar in the recent months.

Our continued financial discipline is reflected in our breakeven cash costs of sales, dropping 33% from 2013 to around $11 per barrel of oil equivalent and we've retained strong liquidity and took advantage of market conditions to raise $4.1 billion last year to bring our pre-tax portfolio cost of debt to a very competitive 2.9% at year end. Finally, we have low levels of capital commitments and our average term to maturity is 4.7 years with negligible debt maturities in 2016 and 2017. So with that as an opener, we'll get to our financial results on page five.

Our reported net profit after tax for 2015 was $26 million, driven substantially by the sharp fall in commodity prices during the year and we'll talk some more in detail about that. Net profit after tax excluding one-off non-cash items was $1.1 billion. We also reported asset impairments, mostly driven by the collapse in near term forward crude oil prices and an approximately 20% reduction in our long term forward price assumptions for the purposes of determining asset values.

This year the Board elected to maintain our 80% dividend payout ratio, providing a full year dividend of $1.09 per share and this will be underwritten by a Dividend Reinvestment Plan which we've reactivated, allowing us to balance returns to our shareholders and maintain a strong balance sheet and retain flexibility.

Cash flow from our operating assets was $2.4 billion and following asset acquisitions, our gearing has increased to 23% consistent with our 10% to 30% target range across the commodities cycle.

Moving to slide six, you can see our safety and environment results remain positive and as I mentioned earlier, our progress towards international top quartile safety performance continues. This is very important as they lead performance indicators for companies, particularly those in the oil and gas industry.

Slide seven gives some performance comparisons over the last five years as we believe our strategy really is delivering value. Over this period we've delivered $7 billion in fully franked dividends to shareholders. Our unit product cost is down 9% and this is despite bringing on a new asset in Pluto in 2012 and of course our maturing oil assets. Production is up 43% and even better, our barrel of oil equivalent for full time equivalent employee ratio is up some 60%, reflecting the increased productivity we have in the organisation. We've also grown our exploration acreage by 95% as we've worked to rebalance and grow our global portfolio.

Looking at slide eight, you can see we had to make some tough choices in 2015 and the resilience of our strategy was demonstrated by our response to a very challenging external environment. We got off to a quick start to the year. We reduced costs, we reduced the size of our organisation. We reorganised ourselves. We reduced our capital spending and our disciplined approach to capital management enabled us to maintain our balance sheet and deliver on our operating and development commitments. We're continuing the proactive approach in 2016 and you'll see on slide nine that our forward business planning is based on $35 per barrel of oil. We've turned on our Dividend Reinvestment Plan to preserve cash and we will maintain a strong balance sheet and we will make prudent decisions to protect our credit rating.

With that, I'll stop. The pack itself is more comprehensive. I think you've probably had time to go through each of the pages on it so I think our time is best spent giving you an opportunity now to ask any questions that you have and I'll answer those to the best of my ability. So with that, I hand over to Q&A.

Operator: Thank you. Ladies and gentlemen, if you would like to ask a question today, please press star followed by one on your telephone keypad and wait for your name to be announced. If you wish to cancel your request, please press the pound or hash key. Your first question today comes from the line of Angela Macdonald-Smith from the Australian Financial Review. Angela, please go ahead.

Angela Macdonald-Smith: (Australian Financial Review, Journalist): Hi Peter. Look, I just really wanted to get some clarity as to where you stand on Browse floating LNG and how that's looking. It looks tough to make it work at $35 and I see you haven't reiterated the second half target for FID. Can you just explain where you're at with that on marketing and cost reductions?

Peter Coleman: Yes. Look, thanks Angela. I would say, you know, on the things we control we've made excellent progress through the year. As we look at it now, we've made very good progress since we entered FEED on reducing our costs and also improving value on the project through increasing capacity throughput on the vessel itself. Unfortunately a lot of the gains that we've managed to achieve during that period - and we've had significant cost reductions - have been offset by the forward - lower forward price outlook and so each of the joint venture partners are now considering what that means for us and we've got some decisions in front of us, probably around the middle of this year, where the joint venture will get together and decide the value proposition for Browse.

For me, with respect to the marketing and so forth, those activities did progress but it's fair to say today that we don't have firm sales in hand and the key for us as we go forward and think about this project, particularly given the long term nature of the capital commitments is it really does need to be economically robust across a range of scenarios, not the least of which includes price, cost and schedule, so the things we've all been talking about in the industry over the last few years. So I would say nothing new with respect to the hurdles that we're setting for Browse economically and so forth. We've had some tailwinds with respect to cost reductions. The team's done an excellent job on improving capacity but we are as you pointed out, now in an environment where the oil price is significantly lower than when we started on this journey. It's something that each of the joint venture partners is going to have to reflect on and make decisions on as we go through the rest of the year.

Angela Macdonald-Smith: (Australian Financial Review, Journalist): Right. Could I just get your reflections more broadly on where we are with oil prices? It does seem to have come down lower than people expected and now everyone's expecting maybe 2016, we won't see a recovery now maybe until next year. Could I just get your perspective on where we are and what your expectations are for this period in the cycle?

Peter Coleman: Right. Well there's probably three elements to that. Firstly we've been planning our business on what is now commonly called a lower for longer view of the world and that's reflected in the forward pricing assumptions that we've put in place to test our asset values. So I mentioned we've actually got that forward pricing by just on 20% in the longer term. It's a little more in the shorter term. We also believe there's going to be a lot of continued volatility in the market both from a trading point of view and you're seeing fluctuations or most on a daily basis of 5% and 10% in price at the moment and giving false storms and false sunsets, so to speak, in the marketplace.

So I would say to investors at this point is please bear with us with respect to the volatility. I think it's going to be in the market for some period of time, and our view is while the signs are that there may be a strengthening towards the second half of this year, I would be very wary of that and I would certainly counsel on that being an appropriate planning basis to run a business like we have that have long term capital repayments in it.

So, put more succinctly, don't expect price is going to help you out in the short term if you've gone and overcommitted in your business. I really just don't think the price has anything at the moment underneath it that would suggest that you're going to see a firming in the short to medium term much above what we've seen in the last 12 months.

Angela Macdonald-Smith: (Australian Financial Review, Journalist): Okay, thank you.

Operator: Your next question today comes from the line of Sonali Paul from Reuters. Sonali please go ahead.

Sonali Paul: (Reuters, Journalist): Hi Peter. I was wondering if you could give us some colour on how promising the Myanmar finds are and how large a reserve you're hoping to get there?

Peter Coleman: Well we're obviously very keen on Myanmar on the Rakhine Basin and we were an early mover and so the two wells that you've seen us drill in the last three months are in two blocks that we actually entered into or farmed into prior to Myanmar being opened up to the general industry, and of course the general gazettal bidding round that occurred in 2013.

So we've got an early mover advantage. We deliberately targeted these blocks because we actually thought they had an early pathway to commerciality, and in particular the latest discovery in Block AD-7 is some 60 kilometres away from an existing facility. The first discovery we made actually has some optionality as to whether it goes down south to existing facilities or maybe even goes into a small power plant onshore, but those things need to be finalised.

I think the key thing for us is what we've managed to do so far is identify a number of different play types in the Basin. It's very early days but those play types are counter to what used to be conventional thinking, and the conventional thinking was, is that this basin is one of, if not, the largest sedimentary basin in the world and very under-explored.

The general thinking used to be that the sedimentary environment came from the north, from the Bengali and in fact the Woodside team developed a counter theory to that which was the sedimentary deposition environment came from the Irrawaddy, which is to the east.

It appears that our view is playing out and if that's the case that means that we have much better quality reservoir available to us, and now the importance of these two discoveries in the exploration world is it means our explorers now have the combination to the lock. So we know now what we're looking at when we see the seismic. We now have de-risked the depositional environment and the theories behind the depositional environment, and all that leads to is a higher confidence level as we move forward with respect to the prospects and leads that we're looking at.

With respect to those prospects and leads look it’s early days, but we are running a significant amount of 3D seismic over the four blocks that we were awarded last year. The early indications of those are quite promising but I would say we're only halfway through so it's very, very early days, but you will certainly hear more about it as we go through this year.

Sonali Paul: (Reuters, Journalist): Thanks.

Operator: Your next question today comes from the line of Matt Chambers from The Australian. Matt please go ahead.

Matt Chambers: (The Australian, Journalist): Hi Peter. Can I please get you just to clarify the long term oil price assumptions used on the impairments? I'm just having a look at the annual report and it says it's about $83 which doesn't seem that much lower than where it was before. Is that there was a 20% reduction?

Lawrie Tremaine: Hi Matt, its Lawrie Tremaine here. I'll do my best. Yes, look we used the forward price curve for three years from 31 December 2015, so that's the first three years. We had a couple of years following that which were Woodside's own forecasts which took us out to 2020 and at that point we started with a price that's essentially $75 real terms price in 2016. So that means 2016 - $75 and then escalate that at 2% per annum.

Peter Coleman: Matt, its Peter. I think it's a really good question and it's one that we need to clarify just in general terms and I think the industry needs to clarify it. I apologise if I'm telling you something you already know, but in general when industry talks about price forecasting we internally within the industry we talk about real price forecasting, meaning prices that will be escalated based on what we believe world GDP growth will be.

So when we quote for example a number of $85 or $75 in our forward pricing assumptions that's basically a real price not a dollar of the day of what we call a nominal price. I think you were referring to what is a dollar of the day price or nominal price. So if you think about it, our previous assumptions were on a higher price forecast. I think we disclosed it last year which was $85 for impairments on a 2.5% escalation per year. Our current price forecasts are $75 on a 2% escalation per year, and as Lawrie mentioned, the slowdown for reaching those is between basically now and 2020.

Lawrie Tremaine: It's actually 2021. I've just opened up the annual report myself, so that real price kicks in from 2021 so it is quite real.

Peter Coleman: Yes, so if you think about it we pushed out when it starts to increase and go back to the long term number, and then the starting point obviously is much lower because a year ago our prices were about double where they are now. So if you roughly draw a straight line from where we are today to 2021 and then that's the difference, and then from 2021 onwards it's on a $75 basis escalated 2% from 2016; whereas last year it was on an $85 basis escalated at 2.5% from 2015.

Lawrie Tremaine: That's right.

Matt Chambers: (The Australian, Journalist): Okay, alright, thanks guys. Just another on the impairments if I could - most of those from Wheatstone which was acquired last year, do you feel that's an accurate reflection that it wasn’t a good buy, particularly given the Board's commitment to capital discipline?

Peter Coleman: No, I don't think - well look I don't want to be dismissive of the process at all because I think impairments are a window into capital discipline and into the capital assumptions that you make, so I'm not going to be dismissive of the process at all.

What I would say is that impairments are complex in the fact that they use an undiscounted rate and we try and back that back to what we would have - sorry, a pre-tax rate I should say, and then we try and back that back to what the post-tax effective rate would be on these assets. So you'll find that Wheatstone is being impaired on a pre-tax rate that's in double figures, double digits, and then we're bringing that back.

Look Matt we're disappointed by it. There's no doubt about, we're disappointed by it. We allowed a number of scenarios including cost escalations, scheduled deferral and we also hit it with what we thought at the time was a low price case. You do all of those and it was still a robust investment.

We've actually had a couple of those happen to us so it's one of these things that how many jeopardy things can you put in there when you get an asset and we've actually had more than one of them hit us at this stage being at this point schedule and of course price.

So we're not pleased that we're reporting an impairment, but equally the quality of the asset is still there. There's no doubt about that the quality of the asset was still there, and one thing I will be reminding shareholders of is that this is an asset that once it's built then the capital sustaining commitments for capital on it are quite modest.

So at least we can see the end point on this and I think the guidance that's been given by the operator is appropriately prudent at this point with respect to schedule, and we certainly concur with the guidance we've given for the middle of next year as a start-up. You can imagine we'll work really hard and make sure we beat that.

Matt Chambers: (The Australian, Journalist): Okay, good, thanks Peter, thanks Lawrie.

Operator: Your next question today comes from the line of Russell Searancke from Upstream. Russell please go ahead.

Russell Searancke: (Upstream, Journalist): Morning Peter, I've just got a couple of questions, first about Myanmar and then I also wanted to ask you about the Hess agreement with the North West Shelf. Just with Myanmar, congratulations there, it was a nice start. Just in terms of your gas markets, in Myanmar or presumably in Myanmar, what exactly - there must be a limited market - what exactly is the monetisation plan?

Peter Coleman: Look good question Russell. As I mentioned, at the moment the two discoveries are at both ends of the Basin. If I can go to the first discovery in Block A-6, that discovery has two monetisation options for us and read that this one will be an accumulation. So we've got a number of prospects that we've identified within the block and you'll see from our presentation that we're planning to drill another well or two in that block next year subject to joint venture approval. So it will be accumulating in a pretty good sized discoveries, but it's not in the mega discovery size, but these are good size discoveries, good size commercial discoveries we believe.

The monetisation part, as I mentioned, is either to the south and tying into existing assets to the south, and are we yet to fully explore the potential of that, although I would note that the farm-in of Total for us was a strategic farm-in, based on Total's existing infrastructure in Myanmar and also their many, many years of experience in doing business in Myanmar. Equally, as I said, there's another option that could go onshore and tie into a small power generation plan.

With respect to the markets themselves, there are three markets that are available to us. There's obviously the domestic market in Myanmar which by any measure is under-serviced. In fact just very, very simply the power generation market itself is at least 40% under-serviced today in its demand.

To the south, which is an export option as you know across into Thailand and then the discovery AD-7 to the north, we're quite excited by it because that's an early commercialisation option through that southern corridor pipeline that runs up into China. We've been looking at that with great interest because we think that's actually a new corridor for gas going into China.

Russell Searancke: (Upstream, Journalist): Okay, terrific. Good luck on that. Then lastly, the agreement with Hess regarding tolling through the North West Shelf, is there any update on that, Peter, in terms of your commercial negotiations, whether the North West Shelf has a requirement for that gas at any particular time?

Peter Coleman: No, I would say the negotiations are continuing to move on in a positive way. So all of the enabling agreements that are required to move a project forward are being finalised, so they've made very good progress over the last 12 months in the enabling agreements. There's a normal arm wrestle over what the final toll will be, but the parties are still in commercial negotiations over that.

So with respect to ullage in the North West Shelf, we've consistently signalled that there'll be ullage available in the North West Shelf some time mid next decade. So the Hess opportunity obviously is an opportunity that can target some of that ullage.

Russell Searancke: (Upstream, Journalist): Okay, thank you.

Operator: Your next question today comes from the line of James Paton from Bloomberg News. James, please go ahead.

James Paton: (Bloomberg News, Journalist): Good morning everyone. Peter, just going back to Browse for a sec, can you provide any colour on what kind of oil price you would need to make Browse economically viable and just to clarify, is the second half of 2016 for final investment decision, is that still possible or is that no longer the target?

Peter Coleman: Look James, we haven't come out, like some of our joint venture partners and said general break even numbers. What I would say, we have some internal numbers and we've said through last year to investors that our expectation on break even costs was about the price at the time and that price at the time was in that $50 to $55 range. I would say that's just one indicator.

Break-even price is important, but equally I would say for large capital projects like this and industry has learnt this lesson many times, they really do need to be robust throughout the entire investment cycle. So the challenge that we have in front of us as a joint venture at the moment is understanding are we at the bottom of the cycle? Are we going through a fundamental structural change in oil and gas? We won't know that; that will play out during the year and we'll have to form a view.

So I would expect the joint venture will meet a number of times as we consider our final investment decision on Browse as we also start to form a collective view on where we think pricing is going to go. This is not the time to be reckless at all with respect to capital deployment and this is not the time to make bets that the future is going to be rosier, just simply because we hope it will be. Again, they're lessons we've learnt.

What's not clear to me today is are we in the middle of a fundamental structural change in the industry or is this just a short term disruption where we'll go back to the long term trends in a relatively short period of time? I think it's with that sort of eye that we're looking at all of our investment decisions to date.

With that, I believe that's really the end of our questions. If I can and I think it's very important for our media partners, I just really, before we finish the call today, firstly thank you for your questions; they're clearly designed to understand our business in a better way to be able to ensure that we communicate more broadly as well as we possibly can, so I really do appreciate personally and I know on behalf of Woodside the effort that you're putting in to understanding our business and our decision making.

Just before I want to finish the call, I do want to acknowledge to this group, we've also had quite significant change in recent times in leadership in the oil and gas industry or the resources sector here within Australia and that change, at the political level, and I want to acknowledge the very significant contributions of Ian Macfarlane and Gary Gray. Gary, of course, announced last night that he's not going to seek re-election at the next federal election. They've been tremendous ministers, I would say and they've made very courageous decisions on behalf of the industry and I think Australia will benefit greatly from the foresight and also the bipartisan approach that we've seen amongst our resource ministers over the recent years. So that's just a personal acknowledgement and acknowledgement on behalf of the employees at Woodside.

So with that, I'd like to again thank you very much for your time this morning and I look forward to catching up with you over the next days and weeks.

End of Transcript