ASX Announcement

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

2016 HALF-YEAR RESULTS – TELECONFERENCE

On Friday 19 August at 7.30am AWST Woodside hosted a 2016 Half-Year Results teleconference.

The transcript of the briefing is attached.

Contacts:

MEDIA

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

INVESTORS

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

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This document should be read in conjunction with Woodside's 2016 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 everybody and thanks for joining us for our 2016 half year results. As you would have seen this morning, we released our half year statement report and slide pack to the ASX. These include details of our key financial and business achievements for the half. Joining me this morning on our call is our Chief Financial Officer, Lawrie Tremaine, and for the first time on the call, our Chief Operations Officer, Mike Utsler. Mike will be providing an overview of our business activities this morning. As we've done in previous years, we'll make some introductory remarks before opening the call up to a question and answer session.

If I can, I'll note the disclaimers on page 2. I know you read that in lots of detail and then move onto slide 3. You'll see the focus for us has been on operational excellence, managing risk and volatility and building near term value growth across the business. We've increased our 2016 production guidance from a range of 86 million to 93 million barrels of oil equivalent up to 90 million to 95 million barrels, supported by a very strong first half production of just under 46 million barrels of oil equivalent, which is 9% higher than the first half of 2015.

Our unit production costs at $5.20 per barrel was 38% lower than the same time last year, driven by operational efficiencies and higher facility throughput, combined with an absence of turnarounds. Our focus is on managing risk and volatility by creating certainty where it's practical. We're targeting for 85% to 90% of expected 2017/18 LNG production to be committed under term contracts and we're currently extending our debt maturity profile and capacity. In addition to near term production from Wheatstone, Persephone, Greater Western Flank 2 and Greater Enfield, we continue to capture and build growth, highlighted by the back-to-back discoveries earlier this year in Myanmar and the proposed acquisition of ConocoPhillips' interests in Senegal.

On slide 4, our net profit after tax for the first half of 2016 was $340 million and our operating cash flow, more than $1.2 billion [*Correction: $1.12 billion*]. The profit result is down almost 50% on first half 2015, driven by lower oil prices, partly supported by better production and cost performance. Our interim dividend for the half is 34 cents per share, and that's of course US cents per share.

On slide 5, Woodside continues to focus on long term performance and is delivering peer-leading results across some of the key financial metrics. Here we've provided EBITDA margins and return on average capital employed.

On slide 6, it really shows that the oil market is beginning to rebalance as we indicated we felt it would earlier this year. In this environment, we're continuing to look for business opportunities as competitors retreat to onshore US, international assets are sold and project investment decisions are being deferred.

On slide 7 you can see a change is happening in the LNG market as new LNG buyers are emerging as prices reduce and floating storage and regasification units become commonplace. With nearly 40 million tonnes per annum of future production deferred since the beginning of this year, we remain of the view that new supply will need to be sanctioned from 2018 onwards to meet market demand from the mid-2020s.

I'll end for now on slide 8 and you can see in addition to our strong base, we have significant near term value growth. We're currently developing more than 400 million barrels of oil equivalent, with production to commence from next year through to 2019. Our competitive position in Myanmar provides us with substantial resource potential that is located close to existing infrastructure and assets. Additionally, we're excited about our high-impact exploration drilling prospects and continue to pursue appropriate M&A activities. With regard to M&A activity, you can expect that we will pursue acquisitions that match and complement our capabilities, technology and regional focus areas.

Lawrie will now talk about our financials in more detail, before he hands over to Mike to cover some of the business activities. Over to you, Lawrie.

Lawrie Tremaine: Thanks Peter and good morning everyone. I'll start with our profit bridge on slide 10. Oil price had a significant impact on profit in the first half, however the full impact has been partially mitigated by the quality of our LNG contract portfolio and strong business performance. Average realised prices were 26% lower than the first half of 2015, whilst the Japan Custom Cleared price was as much as 46% lower over the same period. This demonstrates the quality of our LNG contracts.

First half production volumes were 9% higher, as shown on slide 11. Aside from the timing impacts of major LNG plant turnarounds, facility utilisation was the major driver of this strong result. Capacity increases and improved reliability, particularly at Pluto, contributed 2.5 million barrels of oil equivalent increase in production. Pluto reliability has been outstanding. We've only had two minor trips in the past 12 months, a great result for a single train facility. Pluto capacity is outperforming our assumptions at FID; an example of how we've achieved this is vibration management. We've added additional bracing in strategic areas of the plant to reduce vibration, enabling the plant to operate at higher rates.

As Peter has mentioned, our strong first half result has enabled us to lift our full year production guidance range. Taking a closer look at Pluto on slide 12, after adjusting for the additional costs associated with the Pluto turnaround in 2015, our production costs have continued to decline year on year. At FID, we assumed a unit production cost would stabilise at around $5 per barrel of oil equivalent. We achieved this target within three years of start-up and have continued to deliver efficiencies since. The implementation of a technology-enabled, Perth-based operations support centre is an example of an initiative which helped deliver the $3 a unit production costs achieved in the first half.

Moving to slide 13, this chart compares our production costs and average realised prices with that of our peers. Our low production costs and high realised prices are delivering peer-leading margins and explains the resilience of our business in the current market environment.

As shown on slide 14, our strong margins in the first half resulted in cash from operations of $1.1 billion which funded our investment spending and delivered $160 million of free cash flow. The Wheatstone development was the largest component of investment spend in the first half. Mike will provide an update on progress of Wheatstone in his presentation.

Next to slide 15, we have maintained gearing at 23%, well within our target range. We continue to fund investment through the strength of our balance sheet and operating cash flows, whilst the majority of our peers have either curtailed investment or have much higher gearing. As Peter mentioned, one of our key achievements in the first half was managing risk and volatility, both in our balance sheet and our revenue stream.

On slide 16 you can see our progress on extending debt maturities and managing liquidity. We have secured over $600 million in funding, diversified our funding sources and maintained a portfolio cost of debt below 3%. At June we had liquidity of $2 billion; our BBB+ and Baa1 credit ratings were reaffirmed during the first half.

Slide 17 provides an update on our LNG contracting position. Our objective is to reduce our spot exposure on Pluto and North West Shelf volumes to between 10% and 15%. The shaded section of the chart indicates new mid-term contracts close to finalisation and equivalent volume is under negotiation and is also expected to be finalised by year end.

Finally, there has been some misunderstanding of the risk associated with buyers taking lower volumes under LNG sales contracts. This flexibility is referred to as the downward quantity tolerance. In practice, DQT is used infrequently and only for operational reasons. In the first half of 2016, less than 1% of our volumes were impacted by buyer DQTs.

With that quick summary of our financial performance, I'll pass to Mike to provide a review of our growth activities.

Mike Utsler: Thanks Lawrie and good morning everyone. It's my pleasure to be able to take you through some of the key business activities that are ongoing for us. I start with slide 19 and a review of Wheatstone. Wheatstone consists of essentially three major areas of activities: the drilling and completions and development of the reservoirs, which are now essentially complete; the installation and tieback of the offshore central processing facility, which is ongoing; and a construction onshore of two LNG facilities, a domgas facility and the loading jetties associated with that operation.

For the onshore LNG Train 1, all the modules are on site and work is progressing to enable first LNG cargoes to be loaded mid-2017. The export jetties and LNG loading platforms are complete and Train 2 LNG is expected to be completed six to eight months following mid-2017 per the schedule. We continue to work very closely with Bechtel and the operator in sharing our construction, our commissioning and our start-up expertise by seconding people and sharing our learnings and experiences associated with that.

I'll now move to slide 20 and a review of Greater Enfield. Just prior to the end of the first half of 2016, Woodside and our joint venture partner, Mitsui, approved this exciting project. It's leveraging our technologies, the lower cost market capabilities and existing infrastructures to enable us to drill and complete 12 wells to subsea tie-back using multiphase pumping capacity to connect to the existing Ngujima-Yin FPSO. This will enable us to develop 41 million barrels of oil Woodside share, and demonstrates an ability to significantly reduce the incremental cash costs in developing and producing these resources. We're planning for first oil in mid-2019 with the Woodside share expected to be greater than 24,000 barrels of oil a day post ramp-up.

Now I'll move us to slide 21 and look at Myanmar. Again, an exciting area for our opportunity set. Two exciting discoveries, as Peter referenced, made in late 2015, early 2016 have identified 2.4 trillion cubic feet of gas discovered to date. We are looking at how we can access and pursue options to commercialise these discoveries. We're processing and evaluating currently more than 31,500 [*square*] kilometres of newly acquired high-quality seismic data across this basin and we're preparing for a drilling campaign in 2017 with our JV partners and the Myanmar Government. We have a significant and well-positioned offshore acreage position in this portfolio and we see this as an exciting and significant emerging basin.

As I move to slide 22, we'll take a look at Senegal. Subsequent to the first half, we entered into a $350 million agreement to acquire 100% of ConocoPhillips' shares in the COP Senegal BV. This company holds a 35% stake in the recognised world-class oil discovery known as the SNE field. This acquisition is subject to Senegal Government approval and while this acquisition is a great example, we believe, of Woodside delivering on our commitments that we've made to secure positions in material and quality frontier and emerging basins in our defined focus areas.

I think importantly this has been possible due to the fact that we bring, and are recognised for bringing, our technical capabilities and expertise in deep water drilling, and subsea developments and operating experiences, in our FPSO operating experiences and our proven HSE track records in challenging environments. This, combined with the financial strength and fiscal discipline, gives us the opportunity to be a partner of choice in supporting the development of this opportunity.

Finally, on slide 23, we've been able to accomplish a significant rebalancing of our global exploration portfolio since 2012. As this slide depicts, our portfolio has moved from 25% oil to now being 47% plus oil based and significantly refocusing where we're looking into emerging and frontier basins. We've leveraged our capabilities in meeting our stated objectives and we expect those capabilities to enable us to have a greater than 25% commercial discovery success rate across our portfolio, to look at replacing 120% of our annual yearly production and to be able to deliver a finding cost of $3 per BOE. This, while we continually high grade our portfolio drillable exploration opportunities.

I think as you can see from these activities, we're strongly leveraging our capabilities as a company, we're capturing and executing new opportunities and we have an exciting set of growth opportunities in front of you. Thank you for your time and I'll now hand it back to Peter to close.

Peter Coleman: Thanks Mike. Just wrapping up on slide 24, you can see the focus here has been in three areas. Really operational excellence, that's continuous improvement, squeezing the business, maximising the value of our existing asset base. Secondly, managing risk and volatility where practical and we've focused both on the revenue side of that equation but also on our funding side. It's not just funding to allow us to survive through what's been a very volatile period, but importantly, a funding base that's allowed us to take opportunities that have come our way as commodity prices have been low and set ourselves up for really what's an exciting future of growth.

Then of course focusing on building that near-term value growth, we recognise that a number of our assets were long dated in their growth profile. You can see we're working hard now to bring near-term growth forward. We have two assets already underway, under development, one being Wheatstone, the other being Greater Enfield. We look forward to joining the SNE joint venture and that will bring additional growth into that five year window for us.

So with that as an introduction, I'll start with your Q&A.

Operator: Thank you sir. Ladies and gentlemen, if you wish to ask a question, you'll need to press star/one on your telephone and wait for your name to be announced. If you wish to cancel your request, you need to press the pound or hash key. Once again, that is star/one on your telephone and wait for your name to be announced.

Your first question comes from the line of Dale Koenders of Citigroup, please ask your question.

Dale Koenders: (Citigroup, Analyst): Morning gentlemen, just a couple of quick questions. Firstly on your production guidance, could you provide a bit of colour as to what areas you're seeing that upside? I guess at the start of the year you gave a breakdown between LNG, domgas, liquids and Canada. Could you maybe indicate where that's coming from?

Mike Utsler: Yes. As Lawrie stated, first of all we see the improvements in reliability delivering greater LNG volumes from both Pluto and from the North West Shelf operations. We're seeing increased delivery out of our Kitimat operations with regards to the gas wells producing into the domestic grid there. But overall, it's predominantly from our associated LNG production.

Dale Koenders: (Citigroup, Analyst) Okay and then in terms of I guess some questions on the costs, production costs down $100 million versus first half 2015, I know half of that is obviously from Pluto workovers, but where are you seeing that cost out in your asset base?

Lawrie Tremaine: Dale, it's Lawrie. There are a huge number of factors impacting our cost. Obviously we don't have the Balnaves facility operating and we don't have Laminaria Coralina. So if you're doing a first half on first half comparison, you first have to take that into account.

Obviously you've seen though a consistent cost-down trend now over the last three years, driven by all of the initiatives that we've talked about over that time, and also supported by production increases. So when you talk about unit cost, that's obviously been a significant factor as well. So you shouldn't be surprised, and I guess we've been working towards this 2016 result for three years now.

Peter Coleman: Dale, it's Peter. I'd probably add to that. We do have a couple of study costs that are coming through at the corporate level this year that will wash out of our future costs as well. So to kind of balance some of Lawrie's comments about the fact that we've had some assets leave the asset mix, equally we've had a couple of studies that we were previously committed to completing, both at Grassy Point and with Sempra at Port Arthur that will be completed in early second half. So some of those costs will naturally wash out of the system as those activities are completed.

Dale Koenders: (Citigroup, Analyst) That was the next question. Corporate costs are quite high; what is the right level on an ongoing basis?

Peter Coleman: That's right. We've got a couple of studies in there that will wash out in second half, and we expect that to be a much lower cost base as we go forward in 2017.

Dale Koenders: (Citigroup, Analyst) Okay. Final question, just the other costs line item was quite high as well, which I know it includes FX gains and losses. Can you provide a bit of colour as to what was in that number?

Lawrie Tremaine: Yes, there is some FX in there, Dale, and also some fair value adjustments, particularly relating to some housing. So we've revalued some housing.

Dale Koenders: (Citigroup, Analyst) So should we think about most of that other cost being non-cash?

Lawrie Tremaine: I would consider it as being - we're counselled against saying non -recurring, but I wouldn't expect it to be that same level going forward, put it that way.

Dale Koenders: (Citigroup, Analyst) Thanks very much, guys.

Peter Coleman: Dale, the message there is we looked at our housing stock up in Karratha and have chosen to revalue the base of that housing stock over the period based on our expectations of future use. So you've seen that come through in the first-half numbers. That's where Lawrie's reluctance to say it's non-recurring, but it's certainly the first time its occurred since I've been with Woodside. So if that's non-recurring, it's non-recurring. Obviously, the valuation was unfortunately triggered at the bottom of the market up there but nonetheless we think it's an appropriate valuation of those assets.

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

Operator: Your next question comes from the line of James Redfern from Merrill Lynch. Please ask your question.

James Redfern: (BofA Merrill Lynch, Analyst) Good morning, everyone. First question is on offshore Senegal; the transaction is due to complete end of the year. Just wondering how much insight you've got into when we could expect FID? Cairn are talking about targeting FID mid-2019 but is there any scope to bring that forward, given the successful drill results to date?

Then the second question is around LNG contracting. You're saying that you're targeting 85% to 90% of expected production under term take-or-pay contracts, so does that mean that you are not necessarily too concerned about trying to recontract those volumes rolling off at Pluto next year, the two midterm contracts that are expiring in April? Thanks.

Peter Coleman: Okay, James. Firstly, on Senegal I think it would be a little presumptuous for us to make comment on where the joint venture thinks they are on FID, although I would suggest to you there's probably two steps that the joint venture will go through. The first one is taking a really good look at entire acreage position and understanding exactly what is required to delineate the full resource opportunity within the acreage. Cairn mentioned in their update earlier this week in fact that they thought there was a fairly significant undiscovered resource opportunity there within the existing acreage.

So we have to get into the joint venture and really understand where their position is. Having said that, our view is supportive of that position and so I won't say we'll be diametrically opposed, we'll be just simply working out what's the best plan of calling commerciality on the existing discovery and delineating that further, or do we put our efforts into further exploration and delineation of the resource potential in the blocks? So they're the issues that we'll be dealing with. We hope to close on this by the end of the year but obviously we're hoping to be in the joint venture a lot sooner than that. ConocoPhillips are working through the closing process and as we mentioned, the final part of that is approval by the Senegalese Government and we expect that to be forthcoming. There's nothing we're aware of at the moment that would slow down that process.

On LNG contracting, the Pluto contracts are the midterms that roll off next year, yes. They're in those target numbers that we're saying that we'll put back into term. So we're looking at whether that will come through a portfolio sale or whether that will be a direct sale out of Pluto, but those volumes are certainly in the mix for us to deal with next year.

James Redfern: (BofA Merrill Lynch, Analyst) Thank you. So we should expect an announcement over the next say six months in relation to recontracting those volumes?

Peter Coleman: They're in that mix of numbers. So whether it's specifically those volumes or other volumes, but they're in the total mix. So for us, LNG is LNG and once it gets on the ship, as you know, we just sell it on a heating value basis. So in the total portfolio when you look at the mix it will be a mix of Pluto, it will be a mix of other equity volumes that we have.

Noting, James, there's been a change since 1 July. Of course, we now get the opportunity to sell equity volumes out of the North West Shelf that previously weren't available for us to put into our portfolio. So there is additional opportunity for us with respect to this coming forward.

James Redfern: (BofA Merrill Lynch, Analyst) Okay, great.

Lawrie Tremaine: So James, whether we disclose any particular contract just depends on its materiality. As you can see from slide 17 in our pack, we're looking at a number of midterm contracts of - we talk about 12 to 20 cargoes over that 2017 to 2019 period. So depending on how that falls out, any given outcome might be material or it may not be. So we won't necessarily individually disclose; however, given that we've provided this chart a couple of times now we're likely to update it periodically into the future.

James Redfern: (BofA Merrill Lynch, Analyst) Okay, great. Okay, Peter and Lawrie, thank you very much.

Operator: Your next question comes from the line of John Hirjee from Deutsche Bank. Please ask your question.

John Hirjee: (Deutsche Bank, Analyst) Good morning, everyone. I have a few questions also, asking about the cost line. I'm referring to your slide 29 in your appendix slides. I wanted to get an understanding of the gas production costs which have materially stepped down by about 38% from the averages of the previous numbers you quote there. I guess a question, Mike, is do you think that's sustainable at $3.40, I think you quote there, per unit? Is that sustainable going forward in terms of the gas business that you currently operate?

Mike Utsler: Yes, we do, James. We have confidence in the nature of our work operations - or John, excuse me. We have confidence in our operations and the planning processes that we've implemented to drive core campaign and graded annual turnaround activities that are underpinning this.

John Hirjee: (Deutsche Bank, Analyst) Right. Obviously with Wheatstone starting up, you'll have some impact there from the start-up costs, but do you think that from your current foundation, legacy assets I guess, that $3.40 is a sustainable number?

Lawrie Tremaine: Look, I don't want to lock us into a forecast of a particular number, but I think if I were you I would look at the trend, bearing in mind if you look at $3 at Pluto, that's a pretty low number and I think it will be difficult to replicate each period. It also reflects - the Pluto number, for example, reflects the fact that the major shutdown was in '15 not in '16. So of course it will vary depending on the timing of shutdowns and how many major shutdowns we have in any given year. But the trend is the important bit of information.

Peter Coleman: John, I'm a little more positive. A couple of things that happened at Pluto. Firstly, with respect to is this sustainable, yes it is, and the reason for that is we're doing the things that we should do. These results, and we've said this consistently, are on the back of continuing to do the maintenance programs that we said we would, ensuring that the work that is required to keep these assets at their very best is being done in a proper way. So these results have not been achieved through deferring things, and you won't see a bank of activities come at you in two or three years' time when we come and apologise for not having done things that we should have done. So we have not walked away from our principles that these assets must be maintained and must be maintained in the highest integrity.

With respect to the timing of turnarounds and so forth Lawrie mentioned, one of the good things that Mike and his team have been able to achieve is extending the turnaround period on Pluto, and we've extended that now from three years to four years. One of the things that is important in these results as you're looking at dollar averaging over periods of time is that we've actually now taken what was a very substantial turnaround out of our base and been able to move it out by a year. Really that's either - depending on what denominator you use, so that's over a 33% or 25% extension of that period of time.

So no, I'd say the results are on a very sound financial and operating base. We continue to focus on them, but as Lawrie said, there'll be some fluctuations depending on turnaround timing, but I don't expect these to bump up at all. The challenge for us is can we continue the downward trend and where is the bottom. Mike tells me that we haven't found the bottom yet but we're obviously going to continue to work towards that.

John Hirjee: (Deutsche Bank, Analyst) Sure, okay. Well, nonetheless those cost reductions are very impressive. Can I ask a question on your trading operations? Again, you give the slide in our appendix slides of 32. I just wanted to understand the reconciliation in deriving of gross profit from trading about the optimisation opportunities and exercising the seller options. Could you give us some examples of those? You quantified them there in this particular example, so I just wanted to get an idea of what those actually are.

Lawrie Tremaine: John, we've talked for a little time now about benefits from our trading business back into our core businesses of Pluto, in particular, but in the future also North West Shelf. What we've tried to do is isolate a trading result, which takes into account outcomes from sales that exceed what the business would normally expect. So for example, if Pluto has out-produced, as they did in the first half, so produced more than we planned for, then we've allocated a spot price equivalent into the Pluto business segment and taken any incremental value generated by that transaction and reported it in the trading segment. So I think that's the best and simplest example I can provide you, but as you can imagine in a world where we're looking for geographic swaps, for example - other examples could get much more complicated.

John Hirjee: (Deutsche Bank, Analyst) Sure, but I guess prima facie it looks as though if you - other than those optimisation opportunities you've highlighted, you're actually buying and selling LNG at a loss. Is that fair, or are the trading costs unrepresentative, what you highlight here?

Lawrie Tremaine: Generally, we wouldn't expect to make a loss on any buyer-resell, which is what's reported in that third-party trading line. More likely to be a small amount of overhead associated with the business, but more particularly shipping costs.

Peter Coleman: So, John, if you recall, we've got a couple of ships in this fleet, one of them has a legacy, or what I would say are 2013, 2014 operating costs associated with it. So as the shipping rates fell down, of course these ships are also used to move third-party cargoes. As the shipping rates have fallen down to historic lows, of course we're bearing a loss on that particular vessel. The latest of our vessels, the one that came into the fleet early this year, is actually trading slightly positively, because in fact we negotiated a much lower rate for that, and the new vessel that comes in in the beginning of next year has also had similar very low rates on it. So it's just really one of the vessels that was a legacy vessel from 2013 that is trading at those higher rates.

John Hirjee: (Deutsche Bank, Analyst) Okay, yes, I see. Finally, a question, I guess, Lawrie, for you. We appreciate your RRT guidance that you give us. But do you expect to see continual benefit from RRT going forward? Or we know it's a bit of a black box but what's your expectation?

Lawrie Tremaine: I'm glad you appreciate it's a bit of a black box, but generally speaking the benefits are driven by augmentation, and whilst oil prices are low, the augmentation tends to exceed the PRRT that's accessible on margins from our PRRT assets. So the short answer is, in the short to medium term, yes.

John Hirjee: (Deutsche Bank, Analyst) You don't want to give us a guide as to what oil prices it triggers, where it goes into you pay PRRT?

Lawrie Tremaine: I can't give you those guidance figures, I don't know specifically the answer. This area, we keep promising you - and we will deliver - some more guidance on PRRT, but particularly augmentation, to help you forecast more readily. Obviously the ability to do that means you need to understand the position of our un-deducted cost base at any point in time. So we'll see if we can help you more with that.

John Hirjee: (Deutsche Bank, Analyst) Alright, I'll probably have to write a thesis on it, but anyway, thank you very much.

Lawrie Tremaine: Yes, John, it is a complicated situation, I agree. But the complication is enshrined in the law, so…

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

Operator: Your next question comes from the line of Mark Samter from Credit Suisse, please ask your question.

Mark Samter: (Credit Suisse, Analyst) Yes, morning guys. Just a question of clarity on the DQT statement, and I guess LNG is broadly two thirds of production, contracted is broadly 80% of that. So actually contracted LNG is only about ish ish 50% of production. Shall we read 5% DQT being of total production and therefore it's 10% of contracted volumes, or it's 5% of contracted volumes?

Lawrie Tremaine: The way I put it in my presentation I think is the correct way, in that the DQT is roughly - the highest potential DQT is around about 5% of production, so total output if you like. But, as I said, that really DQT exists for operational, to deal with operational issues, not to deal with portfolio flexibilities for buyers. And therefore, the actual experience of DQT has been around about 1%, a bit less than 1% recently. But I focussed on the first half, obviously because it's relevant to this presentation. But, in fact, around about 1% has been a historic average as well.

Mark Samter: (Credit Suisse, Analyst) Yes, I mean I think there have been – like time, maybe it was a decade ago or so, I think one of the Japanese had buyers. I mean DQT, certainly a lot of the other companies are saying they fully expect DQT to be unrealised, as you say, it's theoretical only operationally, but LNG contracts are a lot about…

Peter Coleman: Yes, look, Mark, it's Peter. It is an interesting question, as you look at your buyer base and so forth. Look, the only guidance we can give you is the behaviour of buyers historically and what we're seeing with them today. The relationship with buyers in the North West Shelf is still very strong, and you saw that as part of the price reviews. In fact, we saw an increase in pricing out of the recent reviews. So those buyers are very much honouring both the terms of the contract and also the spirits of the contract that they have, and they're taking their quantities. With respect to the Pluto buyers, well of course the exposure there for us, as we've talked about, is the mid-terms that are rolling off next year. We fully expect that – or we're targeting to recontract most, if not all, of those volumes by the time that they roll off. So we do recognise that there may be buyers out there in the market that are thinking of exercising DQT, not necessarily in the spirit of the contract, but we don't see that amongst our buyer group. So what may, or may not, be happening elsewhere in the marketplace, we watch that. But the only guidance I can give you is there's absolutely no indication within our buyer group that anybody is considering doing that. So the numbers we've provided you are the facts and I think we all just need to make a judgement on where we think that goes.

Mark Samter: (Credit Suisse, Analyst) I mean presumably fair to say, currently contract spot price is pretty close to contract price. It's fair to say you would expect, both with your view of oil and probably with the spot LNG market, you know those conversations get harder next year. Actually I'm curious if you've got any further thoughts, there's been some press speculation about Japanese pushing or challenging the legality of the destination restriction. Yet all of these things, as a quid pro quo, 2017 probably looks like a harder year for conversations with your customer about these things, is that fair?

Peter Coleman: No, look, I'd say those conversations about destination clauses come up from time to time, so it's not the first time that the destination clause has come up as an issue. But, equally, with respect to opening up existing contracts, absent a law change, the Japanese customers have been very good in understanding that when these clauses are put in there's something else that was also given on the other side. So it's this a bilateral negotiation and you can't just pick on one part of the contract and say, I don't like that, because often it was traded against something else in the contract that the seller gave up. So you start going down that path and then you start to look and say, well does the contract itself still deliver equitably amongst the parties. I don't see a trigger for that occurring, to be honest, unless there's a law change, and of course then we have to respond to the law changes.

With respect to new contracts coming into the market, I expect that those destination clauses will come under negotiation and some scrutiny. So on a going forward basis I think it's going to be quite difficult to get destination clauses in contracts, and that's just a natural evolution of the market. The formation of JIRA is a pretty strong signal that the Japanese buyers are heading in that direction.

Mark Samter: (Credit Suisse, Analyst) Sure and then just one last question, if I can, I apologise I couldn't get onto the call at the start of it, so you might have mentioned this already. With the mid-term sales, I appreciate you're not going to be able to give us a price on them, but should we be thinking of those as closer to a spot price, or closer to a long-term contract price?

Peter Coleman: Obviously you've got to contract things at where the market is today. So we've been fortunate, we've got some legacy contracts, so it's all about dollar averaging. We've got some legacy contracts that were contracted at a different point in the market. All I can say is what we're contracting today reflects where the market is. We obviously try and get the best deals we can but they'll reflect market pricing. We're not a distressed seller though into the market, and that's the advantage we have of our portfolio and trading activity and also having control of our shipping. So, as we go into these conversations, we're not a distressed seller in the marketplace. So in that regard, all I can say is I think we'll get competitive pricing. Just one thing to remind ourselves, we are still seeing the formulas linked to oil price. So there's been some speculation over time that there'd be a move away from oil pricing. In fact, in all of the contracts we're negotiating at the moment, there's still a strong linkage to oil price in those contracts.

Mark Samter: (Credit Suisse, Analyst) Okay and let's just say I might be really rude and sneak in one final, final quick question, if I can. Just with Gorgon's made a relatively inauspicious start to producing live. Presumably there's nothing of any concerns that cause any issues with thinking about Wheatstone, things that might have been done the same way?

Peter Coleman: Look, Mike would love to jump in and give you more on it, but I'll try and cut it short. Two things I would point to, and of course we're not across all of the - we don't understand Gorgon as well as we do Wheatstone, but the things I would point to on Wheatstone, Mark, is simply, one, the technology, the technology that is already well understood in Australia, and we've just seen three plants start up on the east coast with the same technology. So Gorgon is a different technology, as I'm sure you're aware. So that gives us some confidence. We are seeing the Bechtel team start to - what should I say - they're bringing people across from the east coast that participated in those start-ups, so that's important for us. Then we're not seeing any issues at the moment that would lead us to believe that there'll be any problems. We have put - we are in the process of, and we have already placed people in the start-up team, start-up and commissioning team. It's something that we think that Woodside can add to that joint venture, and so we're looking forward to a flawless start-up there. They're working alongside the Bechtel people. Then finally, the operator is meeting their productivity targets that we collectively set at the beginning of this year. They're fairly tough targets that they've set themselves, they're now consistently meeting those targets. That gives us some confidence, both in schedule and cost.

Mark Samter: (Credit Suisse, Analyst) Brilliant, thank you. Hope that it's third time lucky for Chevron hopefully.

Peter Coleman: Well, we've got our fingers crossed.

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

Peter Coleman: Thanks.

Operator: Your next question comes from the line of Nik Burns of UBS, please ask your question.

Nik Burns: (UBS, Analyst) Thanks guys, look just another questions on your LNG contracts. I just note that at the investor briefing you were targeting 80% to 90% of expected production under term take-or-pay contracts. You've tweaked that up marginally here to 85% to 90%, just wondering is that uptick, is that driven by you've now got better line of sight on completion of some of these mid-term contracts? Or does it reflect an increase in your desire to get more volumes under mid-term contracts?

Peter Coleman: That's a good question, Nik, and the answer is a little bit of both. So, from a marketing point of view, the team now have a much clearer line of sight than we did during the IBD. So we had these opportunities in front of us at the IBD, they were immature at the time and so we were reluctant to put numbers in there that we couldn't meet. We now have a much clearer line of sight and we're into final discussions on some of them, as we speak. So that's what we're alluding to in the pack.

With respect to the percentage, obviously as you get a clearer line of sight to it, the CEO, me, wants to ensure that our investors can see that we've got resilience, both on the revenue stream and then on our financing stream. And so two things we've been doing during the half is getting more predictability and resilience into the revenue stream to take out some of that volatility that will come into the LNG market, and we actually think there might be more volatility through 2017 as more volumes come in. So we're trying to take that out to the extent we can. And then on the funding side of it, as Lawrie mentioned, we've completed some funding arrangements during the first half, we think at very competitive rates. They've managed to push the tenor out for us so we're trying to move some of - take advantage of where the market is and move some of that tenor out as well.

Nik Burns: (UBS, Analyst) Okay, that's clear. Look, just a final question from me, just on - you mentioned that these midterm contracts, a feature of them will be they will continue to be oil-linked. Is a feature - I guess one of the characteristics of your LNG portfolio is there is a significant downside protection at lower oil prices. Should we assume that the new midterm contracts are unlikely to have that feature?

Peter Coleman: Yes. Look, the only thing I can tell you, Nik, is the contracts will reflect where market is today. What I would say where market is today it's hard to get protection on either side of that; the buyers feel pretty emboldened with it. So we'll always look for those protections where we can but I'd equally say it's difficult in this market environment.

Nik Burns: (UBS, Analyst) Great. Thanks, Peter. Cheers.

Peter Coleman: Thanks.

Operator: Your next question comes from the line of Andrew Hodge from Macquarie. Please ask your question., Andrew.

Andrew Hodge: (Macquarie, Analyst) Thanks, guys. The only question I wanted to ask as a follow-up, you might have said it more at the beginning, was just Cairn obviously reported earlier on this week and talking about, I guess, disappointing for them at least in terms of numbers that's happening in Senegal. I just wanted to get a bit more clarity around how you guys are viewing it now and what your plan is going forward.

Peter Coleman: Sorry, Andrew, I read the Cairn release. I'm not sure about the numbers you're talking about; the resource upgrade that Cairn mentioned?

Andrew Hodge: (Macquarie, Analyst) Yes, that's right. So not quite I guess getting to the numbers that you guys have been talking about in the initial numbers there.

Peter Coleman: No. Look, without - I haven't spoken to Cairn specifically about this matter, but the thing I would point to is our numbers are consistent with other joint venture partners in SNE. Equally, Cairn have taken what I think is probably a conservative approach. You've seen their numbers consistently lag the updates in the other joint venture partners' numbers. So I would read what they've put in as positive. They just seem to have a slightly different process. Certainly when you look at the minimum economic field size, they're starting to put guidance out there that would be consistent with our view of SNE, and then also their plans for delineating further the resource are very consistent with ours as well. So no, when you look at the total resource size itself, how much oil is in the bucket, we have a similar view. I think this is more about recovery factors and how many wells and so forth we may need to drill. It's just Cairn's own internal view is more conservative than the view we've taken and the other partners in the joint venture. So I wouldn't read anything more into it than that.

Andrew Hodge: (Macquarie, Analyst) Okay. Fair enough, thank you.

Operator: Your next question comes from the line of Mark Wiseman from Goldman Sachs. Please ask your question.

Mark Wiseman: (Goldman Sachs, Analyst) Morning guys, thanks for the update. You've really smashed the gas opex target, you've upgraded production guidance. It seems like a lot of the controllables in the base business, you've achieved a lot in the last few years. I guess the question is just around where is the next tranche of value that you see. As you're looking across your dashboard in the M&A markets, the North West Shelf backfill, exploration, whereabouts are you seeing that easiest tranche of value at the moment, and where could this potentially come from in the next 12 months?

Peter Coleman: It's a good question, Mark, and obviously we're at a point here where we're looking out over the next two years and saying yes, we did get ahead of the curve with respect to our production efficiency initiatives and our cost initiatives. So there is a point in time where they'll flatten out; you can't get any more than 100% reliability out of an asset, although Mike is trying really hard. So we've been looking at that. I think we're at a fortunate point when you look at the guidance we've given. As we said, we had about $1 billion of capacity within our current balance sheet to be able to go and pursue opportunistic M&A, and that was asset-based M&A. I think SNE is a pretty good call on that, and you look at any of the numbers on that, SNE looks like a very attractive acquisition at the right point in the market for us, and it's long term. So it's got enough in it that any uncertainties we have in it should be able to be managed through the economic cycle.

It's a lot different to smaller asset acquisitions as you're aware, where you sail a little bit closer to the wind and I'd probably put our Balnaves acquisition with Apache into that bucket where it was a small asset and unfortunately the reservoir didn't deliver like it needed to for us to make that asset work. So I think you could expect us to see more of SNE type opportunities coming in. Obviously our preference is for oil. I've already mentioned long-dated gas, it's difficult to see for us how that creates long-term value at this point in the cycle, although there may be some opportunistic things. With respect to the North West Shelf, Canning, Exmouth Basin, our view is the owners of those assets will be reviewing them over the next couple of years as to what they do. We have a footprint in three of those four assets, being North West Shelf, Pluto and now Wheatstone. We feel we're very well positioned to take advantage of any asset movement that may occur in there and we'll also be the benefactor of any tolling that will take place. So we're quite positive about where we think the backfill for North West Shelf will come from. It's too early for us to give guidance on it, but we are starting to see a line of sight now in our view to assets that can come through the North West Shelf and we'll provide more guidance on that as we go through the year.

Mark Wiseman: (Goldman Sachs, Analyst) Great, thanks Peter.

Operator: There's no further questions at this time. I would like to hand the call back to Mr Peter Coleman for closing remarks. Please continue.

Peter Coleman: Look, thanks everybody this morning for firstly your interest. I know there's some other reporting going on today and it's been a busy couple of days across the energy sector. I apologise, everything just seemed to pile up for us from a reporting point of view, but sometimes we just can't avoid that. With respect to the messages as I said up front, it's really about squeezing our existing assets and Mike and his team being able to get the very, very most out of what is a world class asset base for us that's already developed. It's about extending the life of those assets and as we've talked about, there's some opportunities that we can start to see line of sight to, to extend the life of the existing asset base, so we're pleased that that's now starting to occur.

It's about managing our revenue stream, making sure that we not only maximise that stream, the value of that stream but also providing certainty around that with respect to the volatility in the market to the extent that we can and of course working on our funding and making sure our balance sheet remains in good shape to be - not only fund our projects going forward, but for us to be able to take care of acquisitions. I think some of the comparisons we showed with respect to our peer group where others are being forced or choosing to retreat in this part of the cycle, in fact Woodside's now being able to take advantage of our balance sheet capacity and make what we think is some really value adding acquisitions and additions to our portfolio.

Then finally of course we do have the capacity to fund the decline that we have in our base and continue to grow. We're looking forward to working with Chevron and getting Wheatstone up there and making sure it is third time lucky with respect to moving those things forward. We're looking forward to getting some of the productivity out of Wheatstone that we're seeing in our other assets and sharing that with the operator, and then of course Greater Enfield as Mike mentioned, is a great example of taking advantage of the market conditions but also picking the sweet spots in assets.

On SNE we look forward to working with the government of Senegal and of course ConocoPhillips to close that transaction and we think it fits nicely into the competencies that we have in deep water, FPSOs and it gives us some oil back into our portfolio that is something that we've been looking for, for some period of time.

With respect to the profit numbers and so forth, the only thing I'd remind you is there's a lag always in our pricing. So we're expecting overall prices in the market to firm as we come through second half. We also expect some of the first - obviously the first quarter pricing effects to wash out of some of our LNG contracts in that period of time. So we're looking forward to keeping that cash flow going through.

With respect to exposure for us in the business, our exploration drilling program is complete this year and we're looking forward to gearing it up for next year's program but if you think about where cost exposure is in our business, exploration is basically complete. Our seismic is complete. So it's mainly G&A activities at this point in time as we go forward. Obviously Wheatstone, we're starting to see a ramp down now in the number of people at site at Wheatstone. That site's delivering its productivity efficiencies that we're targeting. We now have Woodside people seconded into some key roles and start-up and commissioning teams, so - and of course as Mike mentioned, the Julimar Brunello development which Woodside is operator for, is essentially complete and is tied into the central processing facility.

Then finally of course, we are committed to returning funds to our shareholders. We've turned off the dividend reinvestment plan for this period. A number of you may have questioned why we turned it on at the beginning of the year. Of course there was a lot of volatility in the marketplace at that point in time. We did see opportunities coming forward for us. We made a choice to, in some ways, protect our balance sheet while providing us with the capacity to pursue opportunities and we don't see the need to do that in our funding plans as we go out into the future of course unless market circumstances change for us. So you can expect back to business as normal in at least in our forward projections.

So that's where we are today. Thanks very much again for your interest in Woodside and I look forward to catching - Lawrie and I look forward to catching up with a number of you next week as we go through briefings.

End of Transcript