

**Company:** Woodside Petroleum Ltd  
**Title:** 2017 Full-Year Results Briefing (Investors)  
**Date:** 14 February 2018  
**Time:** 7.30am AWST (10:30am AEDT)

*This document should be read in conjunction with Woodside's Annual Report and associated presentation pack which is available on the company's website, [www.woodside.com.au](http://www.woodside.com.au).*

## Start of Transcript

Operator: Ladies and gentlemen, thank you for standing by and welcome to the Woodside Petroleum 2017 Full-Year Results teleconference. At this time, all participants are in a listen only mode. There will be a presentation followed by a question and answer session. At which time, if you'd like to ask a question, you'll need to press star 1 on your telephone. I'd now like to hand the conference to your first speaker today, CEO Peter Coleman. Thank you, please go ahead.

Peter Coleman: Good morning everyone, thanks for joining us. With me on today's call is our recently appointed CFO Sherry Duhe. Today's call is in two parts, and both will have times for questions. I think you'll probably want more questions in the second half than the first half. You'll see from the documents we released earlier, that along with our Full-Year 2017 results, today we're announcing the acquisition of an additional 50% interest in Scarborough for about \$0.4 billion and a planned A\$2.5 billion equity raising.

To make sure that we cover everything fully, we will spend about 30 minutes on our Full-Year results, before turning our attention to the Scarborough acquisition and associated equity raising. We'll stick to the usual format of introductory remarks and then we'll open for questions on the Full-Year Results only. Turning to our Full-Year Results pack, I want to point to the standard disclaimers on the first slide that I know you've all read studiously. Please take a moment to read it though.

Starting on slide 3, net profit after tax is pleasingly up 18% on 2016 to more than \$1 billion, delivering a fully franked dividend for the year of \$0.98 per share. 2017 was a good year for Woodside, we increased both profit and free cash flow, while continuing to invest in our growth projects. Free cash flow increased to \$832 million and free cash flow break-even was just on \$36 per barrel, significantly below current oil prices. Moving to slide 4, this is the window in to our organisation and the way we operate sustainably. You can see our total recordable injury rate has decreased by 21%. This demonstrates our ongoing commitment to safety improvements across all of our business.

In our base business, you'll see on slide 5 that improvements at Pluto increased the facility's annualised production rate, our FPSOs achieved record reliability and Persephone was delivered 30% under budget and 6 months early. We continue to build market for our product, we signed a long term agreement with Pertamina for up to 1.1 million tonnes per annum, from 2019, and approved development of an LNG truck loading facility at Pluto.

Start up at Wheatstone was an important milestone for us during 2017, and once fully operational, it will contribute to a significant increase in our production profile. In Senegal Woodside achieved concept select, all SNE-Phase 1, and we're on track for an FID in 2019. Of course, our overarching objective is always to unlock shareholder value, and we're making good progress on this through both today's Scarborough announcement and ongoing commercial discussions, between the Browse joint venture and the North West Shelf joint venture.

The progress on our committed production growth is tracking well, as you can see on slide 6. Key here is Wheatstone Train 2, scheduled to start up at mid-year, with domestic gas flowing sometime in Q3 of this year. Including Wheatstone, we're targeting production growth from our current projects of around 15 million barrels of oil equivalent by

2020. Next to Scarborough on slide 7, we've agreed to acquire Exxon's 50% interest in WA-1-R, containing 7.3 Tcf Scarborough gas field for an initial consideration of \$444 million, and a contingent payment of \$300 million, at a positive FID. I should note that this is subject to pre-emption and customary approvals.

On completion a 75% interest in Scarborough delivers Woodside greater control, alignment and certainty for the project as a global supply gap emerges from the early 2020s. Key to this is our onshore commercial structure at Pluto, which supports low cost expansion at a facility that was designed to allow efficient brownfield development. We've talked in the past about our vision for the Burrup Hub and how Woodside is ideally positioned to progress it, owning equity in both offshore gas and the infrastructure needed to develop it. Today's announcement underscores this and brings our plans for the Burrup Hub a step closer.

The chart on slide 8 clearly shows the opportunity ahead of us. Robust demand growth from Asia and low investment in new supply have created an opportunity to develop the most competitive LNG projects and deliver significant returns to shareholders. China is of particular interest, because it is forecast to grow at a compound annual growth rate of 7% until 2025, and is taking radical steps to reduce air pollution by moving to cleaner fuels such as gas. Woodside also has the marketing capability and relationships to work with customers on innovative and flexible contracts and can contract short to mid-term and longer term contracts that protect customers from spot volatility, but meet buyers' needs in a changing market.

On slide 9, you can see we've made progress on projects and activities across our three time horizons. In Horizon I we've achieved all the key milestones we set ourselves. We're securing lower capital intensity developments through Scarborough and SNE. Wheatstone production is already generating revenue and Greater Enfield start-up in 2019 will add further new revenue. We're preparing for Horizon II growth through the Scarborough acquisition and progressing Browse, and new growth platforms are targeted through exploration acreage in West Africa, including high impact drilling that's planned in Gabon and Morocco. We're expanding the LNG market through new customers and uses for our product.

Now with that as an intro, I'll hand over to Sherry Duhe and Sherry's going to talk us through our financial results.

Sherry Duhe: Thank you Peter. I will start on slide 11, with a summary overview of our financial performance. Our 2017 reported profit was \$1,024 billion - that's an 18% increase relative to 2016. Improved market conditions had a positive impact on our realised prices, which increased by approximately 10% to \$44 per boe, to support additional sales revenue of \$258 million. Lower volumes had a negative impact of \$392 million on sales revenue, mainly due to a reduction in North West Shelf pipeline gas volumes, from an anticipated change in venture equity share, combined with lower customer demand.

LNG sales volumes were also slightly lower relative to 2016, impacted by planned maintenance and unplanned production interruptions. Additionally an increase in Pluto year end LNG inventory of \$1.1 million boe, which is simply a timing difference, also contributed to the reduction. Lower depreciation was largely the result of positive reserves movement, for Pluto and Greater Enfield, and slightly lower LNG production. The release of the provision related to the Balnaves FPSO lease positively impacted profits, whilst tax expense was higher, due to higher profit, but also included two specific non-recurring adjustments that are worth calling out. A \$31 million one-off, non-cash prior year adjustment and a \$15 million one off, FX timing difference that arises because we report taxes in USD, but pay taxes in AUD.

Moving on to slide 12, our total production cost decreased by a further 9% in 2017 and our unit production cost remained low. Excluding the impact of Wheatstone and reduced North West Shelf pipeline volumes, our overall unit production costs was flat with 2016 at \$5.00 per boe. On slide 13, our 2017 gross margin has increased by 19% to \$23 per boe, and our cash break even cost of sales remains low at \$10 per boe. Our high margin, low cost operations continue to support both increased profit and strong cash flow.

On slide 14, our strong operating cash flow, allowed us to generate \$832 million positive free cash flow, after investing \$1.6 billion in our business. Peter outlined earlier our progress in delivering committed growth. We also continued to

invest in global exploration with wells drilled in Myanmar, Senegal, Gabon and Australia during this period. Moving to slide 15, higher 2017 profit has resulted in increased shareholder distributions. Total declared dividends for 2017 were \$0.98 per share, up 18% relative to 2016, and we have maintained our dividend payout ratio at 80% of NPAT. On slide 16, we look at the strength of our balance sheet. At the end of 2017, our gearing remains unchanged at 24% within our target range of 10% - 30% and our strong investment grade rating has been maintained through 2017.

We have actively managed our debt portfolio with the support of both banks and debt capital markets. In September 2017 we issued an \$800 million 144A bond with a 10.5 year maturity and a coupon of 3.7%. As at the end of 2017, our average term for maturity of our debt has been extended from 4.5 to 4.7 years and our portfolio cost of debt remains competitive at 3.7%.

We ended 2017 with increased liquidity of \$2.9 billion, up from \$2.7 billion at the end of 2016.

To summarise on slide 17, we have achieved strong financial performance in the year delivering a profit increase of 18%. We've generated free cash flow of \$832 million, increased dividends by 18% and maintained a strong balance sheet.

Moving on to our 2018 outlook on slide 18, our planned 2018 production is forecast to increase largely due to the higher contribution from Wheatstone.

Low liquids production is largely due to the Ngujima-Yin FPSO being off station from May 2018 ahead of processing Greater Enfield production.

2018 will also be the first full year of North West Shelf pipeline gas reverting to the 16.67% Woodside share.

On slide 19 we have included an update to our 2018 investment expenditure guidance. Updated for the acquisition of Exxon Mobile's interest in the Scarborough gas field, our 2018 investment spend is expected to be approximately \$2 billion.

Our 2018 budget, excluding the acquisition expenditure, is cash flow neutral at Brent \$35 per barrel.

I will now hand you back to Peter to talk more about the 2018 priorities.

Peter Coleman: Thanks, Sherry. Let me close by talking about our 2018 priorities. Of course we will continue to work closely with the operator on the safe start-up of Train 2 and the domestic gas facility at Wheatstone. I'm pleased to report that Train 1 is running very well at the moment. It's running at nameplate capacity while supporting of course the operator in the longer term to optimise some of the lifting costs and maximise production rate.

So this year really is about safe and reliable start-up of Wheatstone and then getting a good run plan in place to reduce operating costs over time and of course we're targeting operating cost to be at similar rate to existing facilities that Woodside operates in the northwest.

Greater Enfield and Greater Western Flank 2 remain on budget and schedule and as Sherry mentioned, Ngujima-Yin will go off station later this year and up to Singapore for the work that she needs to have done in the yard. But the drilling activities are commencing on the Greater Enfield project and we're on schedule there.

We'll continue to advance our Burrup Hub concept by reaching concept select for Scarborough to Pluto and of course also progressing Browse to North West Shelf.

We're targeting FEED entry to the Pluto to North West Shelf interconnector and the truck loading facility will begin operating.

Overseas, Woodside will progress SNE-Phase 1 to FEED. We have drilling planned at a number of derisked structures in Myanmar and we will continue to progress plans in West Africa and of course that drilling is frontend loaded in the first half of the year.

All of these activities are supported by base business excellence which gives us safe, reliable and continued low cost production.

We have a clear plan across three time horizons. We operate an outstanding base business and we're progressing growth options that unlock value for our shareholders.

Before I hand back to the operator to open the call for questions, I do need to mention that for legal reasons we must ensure that there is a clear demarcation between this results call and the next call. In this part of the call, we can only take questions on our 2017 results. We'll discuss Scarborough and the entitlement offer in detail shortly. I'll close this call after questions and hand back to the operator to open the next call.

But due to legal restrictions, people located in the United States will not be able to participate in the next briefing call, so please drop off from this call after questions if you are in the United States or acting for the account or benefit of any person in the United States. I apologise for that, but it's just legal restrictions that we have.

So thank you for listening through the opening and we'll start and open up to questions.

Operator: Thank you. Ladies and gentlemen, we will now hold a question and answer session. If you would like to ask a question please press star one on your telephone and wait for your name to be announced.

Our first question comes from Adam Martin from Morgan Stanley. Please go ahead.

Adam Martin: (Morgan Stanley, Analyst) Good morning, Peter. Just a question on Wheatstone. You've given us 2020 production guidance. Just trying to understand '19 and what we should be thinking there and is there still a ramp up of that project during '19 or should we expect a full year in '19?

Peter Coleman: No, Adam, progress is very good at Wheatstone as I've mentioned during the opening. Train 1 reached nameplate capacity run rates last week. So we're pleased with the way that Train 1 is ramping up.

We've taken a lot of the learnings from Train 1 across to Train 2. Train 2 is almost complete with respect to the construction and early commissioning works have started, so we're still on schedule for a mid-year start-up on Train 2. We're taking those learnings across.

So we expect to exit the year with the plant operating at full rate and so you can expect a pretty clear run in 2019.

Adam Martin: (Morgan Stanley, Analyst) Okay. Just a broader question on LNG buyers' appetite. Historically you've talked about buyers being a couple of years away from underpinning large projects. We've obviously seen spot prices move a lot higher over the last six months. What's your sense around LNG buyer appetite? How is it changing?

Peter Coleman: Look, our view, and we alluded to it in some of our public commentary, is that the nature of contracting is going to change. It will depend on the buyer. But the appetite is definitely coming back into the business and we're being approached by buyers and also people seeking equity to move into projects. So I think those who can see past kind of the fog that we've had in front of us for the last couple of years are now starting to come out.

With respect to the nature of the contracts, our view is the contracts are likely to be shorter in duration and of smaller quantities. So those who have got established marketing businesses, those will need to expand those businesses to be able to attract more customers to be able to underpin these projects.

But we see the buyers' appetite is definitely there and certainly the peaking in spot prices over this current Northern winter has reminded people again that we do need new supply coming into the marketplace. As you know, in 2018 there was only one small project that went to FID and it's unlikely that there will be any projects this year. Maybe one will go to FID.

So that difference between supply and demand is opening up very, very quickly and of course, all you need is a policy change like we saw late last year in China which we actually foresaw some time ago and mentioned that these things would come. It was just a matter of when. That has occurred and then of course the other one out there that may be a catalyst for us, Adam, is understanding what's going to happen with shipping regulations and the IMO are starting to firm up on what they will do and the insurers are as well. So I think there is even more growth catalysts in the market for us.

Adam Martin: (Morgan Stanley, Analyst) Okay, thanks. That's all from me, Peter.

Peter Coleman: Thanks.

Operator: The next question comes from James Redfern from Merrill Lynch. Please go ahead.

James Redfern: (Merrill Lynch, Analyst) Good morning. It's James here. So the first question is just keeping the question to the result, I just wanted to touch on unit production costs. They only rose 4% in 2017 despite 11% fall in production which is a good result. I'm just wondering how we should think about unit pricing costs in 2018 given the ramp-up of Wheatstone.

Then the second question is I just wanted to ask about the higher interest and taxation costs. Thank you.

Peter Coleman: Yeah, James, you know, on a total cost basis of course things will change this year as more and more of Wheatstone starts to come into the mix.

Last year was a transition year, as you know. We got more Opex in than what we had originally planned because Wheatstone started up and we had to expense some of what we had been capitalising previously and we didn't receive a lot of volume help in that regard.

So yes, Wheatstone is in the base business. If you take out Wheatstone we expect our costs to stay where they've been. We've indicated this previously that we're now looking at some of our longer term supply contracts or service contracts and making sure that we're able to lock in where we currently are in the market.

But Wheatstone will come in and those costs will go up slightly because Wheatstone is a higher unit cost. But we're working with the operator on challenging those assumptions because we believe there is a lot of room to move down in their assumptions at the moment.

So, to be fair, it's very early days for them. We need to make sure that they've got all the support they need, but you will see some upward pressure this year in unit costs simply because of Wheatstone's higher unit cost. But over the next couple of years we will work that down.

Then your other question, I'll hand over to Sherry.

James Redfern: (Merrill Lynch, Analyst) Thank you.

Sherry Duhe: Thank you, James. I think just a quick comment on the interest cost, or the net financing cost. That's just a normal fluctuation in the variable interest rate instruments that we have. You've heard the comments that we made in the summary presentation around our overall competitive cost of debt and financing.

I would like to call out your question around the tax expenses. We do have a slide in our annual results release that also walk through that in detail. But when you look at the breakdown of what drove the higher tax expense across the year, which was a total of \$79 million, there are really four components of that.

The two that I called out in my commentary were around one-off adjustments to prior period deferred income tax and that was really a normal reconciliation of the tax and accounting balances mainly for our Wheatstone asset and that's again just a normal part of capitalising the assets on start-up.

We did also see the unfavourable foreign exchange movement on income tax because of our debt instruments and so you saw that as well, just the FX impact of that.

We did of course also see higher taxable income. That had a \$121 million effect and we also saw lower non-deductible and foreign spend and higher augmentation and other items which impact income tax of \$88 million.

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

Peter Coleman: Thanks, James.

Operator: Our next question comes from John Hirjee from Deutsche Bank. Please go ahead.

John Hirjee: (Deutsche Bank, Analyst) Good morning everyone. Peter, my question is related to the dividends where on your slide that you talk about where you've got a yield of 5.4% last year and you maintain your 80% payout ratio. Do you think, given the amount of capital that you're going to have to consume over the next let's say four or five years with the projects that you're wanting to develop, that you can sustain an 80% payout ratio?

Peter Coleman: That's a good question, John, and one we get asked quite often and it's probably getting over into the next call. But you will find that as we look at our funding plan, we try and keep ahead of where that payout ratio is going to be and what it needs to be from our funding. So we like to be at least two years ahead with trying to understand any movements at all in that.

Clearly, we've got some decisions over the next few years with respect to that payout ratio. It's a target, as you know. Our commitment is 50%, but the 80% is the target.

We're also very sensitive to it, understanding that many shareholders, particularly some of the longer-dated shareholders, enjoy that payout ratio and so as we are looking at our funding plans, we build it in as a base case. But, to be honest with you, I can only look out a couple of years.

So our commitment is as we think about any potential changes to that as we are spending more capital, it will be something that we will work through and it will be something that we signal very early to shareholders as to where we're going.

John Hirjee: (Deutsche Bank, Analyst) Alright, thank you. In the context of Wheatstone, you mentioned before that Train 2 is progressing well. Do you expect that to ramp up quicker than expected? Or do you think the ramp up schedule will be as previously prognosed?

Peter Coleman: It's a good question. All I could say is we've already basically [degreased] the warm end of the plant, which is good news for us. On [punch] list items, which you know are the carry over items, we are now - we have 75% less punch list items than we did at the same point on Train 1. So these are all carryover work, kind of niggly work, as you know, that affect your ability to start up cleanly. We're very hopeful that we're going to get a good ramp up on this.

The other thing to note John is we did spend some capital to increase the capacity of the compressors in Train 2. We didn't get in early enough on Train 1 to do that. We expect Train 2 will also have some additional capacity because we



built that into the compression. Look, all I can say is I am very hopeful that early indications are quite positive for us. But our planning, you know, we like to be on the conservative side of our forecasts. I think that held us in good stead last year. We fell to the bottom end of our range but we didn't drop through it. This year, of course, you know, our commitment is to get back and to nail it.

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

Peter Coleman: Alright, thanks. I think we've got one more call or not?

[Unidentified Male]: No.

Peter Coleman: No one else. So we're going to end the call there. Thanks for your questions and your interest in the profit, but I know that you probably want to get on to the next call as quickly as we can. So with that, we'll put it back to the operator and then we'll start the next call.

Operator: Thank you Mr Coleman. We'll now move to the second part of today's session, focussed on Woodside's Entitlement Offer.

**End of Transcript**