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This document should be read in conjunction with Woodside's Full-Year Report 2018 and the Full-Year 2018 Results and Briefing Pack which are available on the company's website, www.woodside.com.au.

Start of Transcript

Peter Coleman: Good morning everybody and thanks for joining us. As you would have seen this morning we released our 2018 Annual Report and Full Year Results Briefing Pack to the ASX. With me on today's call is our Chief Financial Officer, Sherry Duhe and our Chief Operations Officer, Meg O'Neill. As we have done in previous years we will make some introductory remarks before opening up the call to question and answer session on the full year results.

Please note the standard disclaimers on Slide 2 and a quick reminder that this presentation does include some forward looking statements and that our reported numbers are all in US dollars. We had a very productive year since I spoke to you last Valentine's Day so let me run through some of our key financial and business achievements.

Starting on Slide 3 you can see our net profit after tax is up by 28% on 2017 to $1.36 billion. A very pleasing result that allowed us to deliver a fully franked dividend for the year of US$1.44 per share. We increased free cash flow by 83% from 2017 to more than $1.5 billion. We generated $3.3 billion of operating cash flow, up 32% on 2017 and ended the period with liquidity of $3.9 billion. Our gearing reduced to 12% in a sign of our strong balance sheet. We are well positioned to deliver our growth plans. Indeed, I will explain shortly how we are making very good progress on this.

But first let's look on Slide 4 at our base business which performed exceptionally well across all facilities. We produced 91.4 million barrels of oil equivalent, up 8% on 2017. The North West Shelf Project reached a milestone with the delivery of the five thousandth cargo and we maintained a low LNG unit production cost of $3.60 per barrel of oil equivalent at both the Pluto LNG and the North West Shelf Project. This all contributed to a 32% increase in our operating revenue to $5.2 billion.

Onto Slide 5. We are delivering committed growth to underpin targeted production of approximately 100 million barrels of oil equivalent in 2020. Production at Wheatstone LNG exceeded expectations in 2018 with strong reliability to train 1 and quicker than expected ramp up at train 2. We also had a great result at Greater Western Flank Phase 2 which we delivered six months ahead of schedule and $630 million under total budget. Of course Greater Enfield is expected to come online later this year.

Slide 6 highlights the significant progress on our growth projects. After announcing last February we had increased our equity interest in Scarborough to 75% we assumed operatorship. We are on track to deliver our preferred development concept processing gas, processing Scarborough gas through a brownfield expansion of Pluto LNG. For the downstream we added FEED for Pluto Train 2 and for the upstream at Scarborough we awarded contracts for front-end engineering and design activity shortly after year end. At the same time we have advanced our proposal to process the Browse resources through the North West Shelf Project's Karratha Gas Plant signing a preliminary tolling agreement between the two joint ventures. In Senegal substantial progress was made in 2018 as we transitioned to operator and commenced feed activities for the SNE field development. We also secured environmental approvals and submitted the SNE development and exploitation plan.

If we move to Slide 7, our ongoing commitment to improving safety across our business helped us achieve our second best result on record for total recordable injury rate. This was achieved despite increased risk exposure due to work hours on site rising some 37% from 2017. We continue to implement our perfect HSE day program which aims to make every day injury free and incident free for all people on our sites.

Onto Slide 8 you can see that we are seeing a return to the market for long term contracts as buyers anticipate tightening supply. The continued strong growth in LNG demand from China and South East Asia is contributing to this market shift with more than half the LNG contracted on a long term basis in 2018 being from projects that are yet to be sanctioned. Of course if those projects don't progress those buyers will be back in the market looking to lock in alternative long term supply.

Now let me talk in more detail about how far we have come in the last year with our priority developments. On Slide 9 our vision for the Burrup Hub is taking shape as we develop an integrated regional LNG production centre using our proven facilities. This will supply domestic and export markets for decades to come and allow for the future development of other gas resources, including the Jupiter and Thebe fields.

On Slide 10 you can see the achievements since this time last year for both the upstream and downstream components of the Scarborough and Pluto Train 2 and the path for the year ahead with FEED activities and gas processing agreements to be finalised.

For Browse on Slide 11 it's been a significant year with the joint venture agreeing the development concept and the signing of non-binding preliminary tolling agreements. We are now converting this to a binding gas processing agreement and look forward to commencing FEED activities.

Internationally we have the SNE development in Senegal on Slide 12. This year we will focus on progressing FEED and project financing ahead of a final investment decision.

So we are delivering on our ambitious timelines for our growth plans while maintaining outstanding base business performance. With that introduction I will now hand over to Sherry Duhe to discuss our financial results in detail.

Sherry Duhe: Thank you Peter and good morning everyone. I will start on Slide 14 which refers again to our key financial metrics for 2018. As Peter mentioned, net profit after tax was up 28% to $1.36 billion with free cash flow of $1.52 billion. This financial result is indicative of our strong financial position as we execute our growth plans and our ongoing commitment to prudent financial management. Our strong cash position has allowed Woodside to pay out a fully franked full year dividend of US$1.44 per share.

The waterfall on Slide 15 provides a breakdown of the key drivers which contributed to our 2018 profits. We achieved higher sales revenue due to higher realised prices, complemented by our excellent production performance. 2018 also saw production from both LNG trains at Wheatstone for the first time, which naturally resulted in higher cost and depreciation for Wheatstone. Due to planned phasing of exploration activities are exploration expense was 49% lower in the second half of 2018 compared to the first half of the year.

Slide 16 demonstrates the outstanding performance of our base business from a cost perspective. Our overall unit production cost reduced to $5.10 per barrel of oil equivalent despite the Wheatstone start up on Train 2 and the planned Ngujima Yin FPSO suspension of operations. Excluding Wheatstone our unit production costs across all products were $4.90 per barrel of oil equivalent and we're targeting improvement in Wheatstone production costs now that reliable production has been achieved from both trains.

Turning over to Slide 17, the gross margin for our business has increased by 21% to $28.80 per barrel of oil equivalent. This increase was driven by the higher realised pricing with our gross margin for Pluto LNG being 56% and 55% for the North West Shelf Project.

On Slide 18, Woodside's portfolio continues to demonstrate competitively low cash cost. Pluto and North West Shelf, for example, had cash margins of 88% and 74% respectively. The lower cash margin for our Australia Oil segment was impacted by the planned Greater Enfield Project and the cessation of production from Enfield in late 2018.

As illustrated on Slide 19 we have been preparing our debt portfolio for growth with our gearing reduced to 12% by year end. As we referenced in our mid-year results call, our target range for gearing will increase from 10% to 30% up to 15% to 35% due to the commencement of the AASB 16 leasing standard on 1 January 2019. This change will not adversely affect our investment grade credit ratings as the rating agencies already consider these leases when determining their ratings. We have a competitive portfolio cost of debt of 3.9% and we will continue to actively manage our debt portfolio in 2019 and beyond as we approach and take FID on our major growth projects.

Slide 20 shows Woodside's practice of providing strong distributions to our shareholders and sharing the benefits of higher oil prices. A 2018 final dividend of US$0.91 per share has been declared. The final dividend reflects 2018 underlying net profit after tax of $1.416 billion and was adjusted to reflect our strong operating cash flow for the year due to higher realised prices, reliable production and low operating cost. Woodside continues to target a payout ratio of 80% of underlying net profit after tax, subject to market conditions and investment requirements. The value of the final divided payment is $852 million and the dividend will be fully franked for Australia taxation purposes.

Finally from me, on Slide 21 we reiterate our guidance for investment expenditure of $1.6 billion to $1.7 billion for 2019 and production guidance for the year of 88 to 94 million barrels of oil equivalent. This takes into account targeted additional production for the Greater Enfield Project in the middle of the year and of course a full year of production from the two LNG trains at Wheatstone. We have provided a further breakdown on our 2019 growth expenditure in the pie chart. All other information in this slide remains consistent with the guidance that was provided as part of the Q4 2018 announcement in January.

I will now pass you back to Peter to summarise our key priorities for the exciting year we have ahead of us in 2019.

Peter Coleman: Look, thanks Sherry. Before I take you through our 2019 priorities I want to talk you through the position of the market at the moment.

Onto Slide 23. Our strategy aligns well with market conditions as Asian demand growth continues and long term buyers are returning. Major economies across Asia will turn to LNG as their own domestic gas production runs out. We are also seeing rising LNG supply into Europe as local production declines and of course carbon pricing firms. Globally we see a supply gap emerging with an extra 230 million tonnes per annum required by 2030. Our growth plans are well timed to meet this emerging demand.

We are proud to be the pioneer of the LNG industry in Australia and have an LNG focused business model as you can see on Slide 24. We have strategically changed our portfolio mix and our LNG production has increased 235% since 2009 and we are now producing from eight trains. We have been exporting LNG for 30 years and our growth plan has set us up to continue supplying local and global markets for many decades to come.

Now let's take a look at our priorities for 2019. On Slide 25 you can see it's another big year ahead. In Senegal where we'll commence execute phase works and look to make a final investment decision. For Scarborough and Pluto Train 2 where we'll be working through FEED activities to prepare for targeted final investments decisions early next year, and for Browse we will execute binding gas processing agreements and aim to commence FEED ahead of our targeted final investment decision in late 2020.

I've already mentioned Greater Western Flank 2 commencing production in 2018 and we're on track for Greater Enfield to come online mid-2019. It's great to see Wheatstone performing so well and of course domestic gas production starts this year.

As you can see, we are delivering on our growth plans in a way that will unlock value for shareholders. Of course, all these priority activities are supported by outstanding base business performance which gives us safe, reliable and continued low cost production. We are pursuing growth plans that are well timed to take advantage of global market conditions and will set Woodside up for a bright future. Our Burrup Hub vision will double Woodside's equity LNG production by 2027, right at a time when the world will need more LNG. We really did make great progress in 2018 and intend to maintain that momentum in the year ahead.

Look, thanks for listening this morning and now I'll open up the floor to any questions that you have.

Operator: Ladies and gentlemen, we will now begin the question and answer session. If you wish to ask a question, please press star one on your telephone and wait for your name to be announced. If you wish to cancel your request, please press the pound or hash key. Your first question comes from the line of Andrew Hodge from Macquarie. Please ask your question.

Andrew Hodge: (Macquarie, Analyst) Thanks guys. I just had two questions. The first was just on the dividends and you guys have paid out essentially like more than 100% of earnings for the half and given all of the growth projects you talked about for Senegal, Scarborough, Browse, just wanted to get a sense of why you've paid such a large dividend and then I've got a second question afterwards.

Peter Coleman: Well, morning Hodgey. Look, I mean it's pretty simple. At the end of the day, we went to the market last year seeking equity. The basis of that equity was $65 flat real price forecast. We said we could invest in that through to an FID on Browse. Obviously prices last year were $71 per barrel. We looked at our cash position at the end of the year. We have about $1.7 billion sitting in the bank at the moment. We looked at our forward projection of our cash requirement, cash burn rate this year and got comfortable that we needed to - now is an appropriate time to return a dividend to our shareholders that reflected the performance of the Company, not just from a [inaudible - technical difficulty] but also the production was up this year compared to what we had forecast.

So it was just one of those ones where we looked at it, we said at the moment particularly as we're fully franked, we have a large franking balance still on our - still available to us, there's some potential changes that may or may not arise with respect to that. We thought it was best now to get it down to shareholders, given the position, liquidity position that we have. Of course, our target moving forward is still to pay an 80% payout ratio, so nothing's changed there. This is just indicative of the fact that our cash position was better than we forecasted at this time last year.

Andrew Hodge: (Macquarie, Analyst) Thanks Peter. I think the last point that you said was just one of the things I want to touch on just about the - a potential franking change? Is that I guess part of what's also been the driver?

Peter Coleman: Well I wouldn't say it's a primary driver at all but clearly it's an important one for some of our shareholders is - so we do listen to our shareholders in that regard but primarily we need to run the Company to ensure that we can deliver on our growth projects and as I said, we kind of ended up the year in a much better position than we'd forecast at this time last year and we felt the forecast last year was a fairly conservative one. As you know, we came under some criticism for raising equity at that point in time.

You've seen the market go up and down. I think the Q4 of last year would tell people that what goes up does come down with respect to pricing, but again, it was just a judgment call for us at this particular point in time. We ended up in a far better position than we expected and given everything that was going on, not just with our business but also some of the existential things that were going on, we thought it was appropriate to make this payment now.

Andrew Hodge: (Macquarie, Analyst) Okay and then my second question is probably more for Sherry. Was just trying to understand the AASB 16 changes. You guys had highlighted in sort of the back end of the notes that you will be recognising it - you won't be recognising the operating leases in gross profit but in D&A and interest. I just wanted to get a sense of if the full shift of that $242 million you guys had this year? Or how we should be thinking about it going ahead.

Sherry Duhe: Yes, great question and I assume a lot of interest in that, Andrew, so let me just walk you through that but the quick answer is no, because the P&L impact for this is actually going to be non-material. As you said yourself, what you do see is a decrease in the amount of expense that's going through for operating leases but you see offsets and depreciation and interest expense because of the way the standard is set up and how that impacts the asset and the liability that we've set up. So you should not actually expect to see a material impact at all on NPAT for the year. You're just going to see it in different line items on the income statement.

Andrew Hodge: (Macquarie, Analyst) Okay. So I just wanted to check to see if it will be taking ballpark that sort of $240 million-ish out of gross profit and moving it down fairly closely into D&A and interest?

Sherry Duhe: Yes that - yes I think we've given you the 2017 and 2018 numbers so that would be a good indicator going forward.

Andrew Hodge: (Macquarie, Analyst) Okay and one last question was just I noted you guys had downgraded the resource on Browse by 13%. I just wanted to get a sense of what work you guys have done. Is that just part of the FEED process or what's the change there?

Peter Coleman: Well there's two parts to it. What I'll do is I'll actually let Meg answer that question for you but it's really around the development plan changing.

Meg O'Neill: Yes, so Andrew, this is Meg O'Neill. So a couple of things have changed. We've obviously been working on the development concept and as we've matured the development concept, we've done a lot of work trying to optimise the plan to make sure we're putting together a project that's got the highest return. So the development concept has changed, the duration of the production life has changed and we've also been doing some additional subsurface studies to update our model, so it's a combination of factors.

Andrew Hodge: (Macquarie, Analyst) Okay. Thanks very much guys.

Meg O'Neill: I guess Andrew, just to build on that, as we've done this development plan optimisation, the cost has come down.

Andrew Hodge: (Macquarie, Analyst) You mean in terms of the onshore or offshore costs or the pipeline?

Meg O'Neill: Yes, the offshore costs. The offshore costs. So the previous version of the development plan accessed more resource, but it required more wells and as you go through the optimisation, we found that the optimum point actually was with fewer wells that would yield a higher return. So that's - you know, costs are down but return is up.

Andrew Hodge: (Macquarie, Analyst) Did that change the amount of upstream production you guys are expecting to be putting through?

Meg O'Neill: Not throughput.

Andrew Hodge: (Macquarie, Analyst) Okay. Thanks Meg.

Operator: Your next question comes from the line of Joseph Wong from UBS. Please ask your question.

Joseph Wong: (UBS, Analyst) Hi guys. Just wanted to ask, in terms of this decision to push forward Browse for 2020, is that I guess the JV partners now aligning with Woodside's I guess timeline, or what was the discussion point there?

Peter Coleman: Look, it's - you know, it's a fine point. I said really late 2020. So I would say at this point the partners have not taken an exception to that schedule. You know, whether it's Q4 2020 or Q1 2021, the precision is not there at this particular point in time but it's in that ballpark. So what we really wanted to indicate to the market is that it's not a late 2021 decision. It's actually an early 2021 but we're actually targeting Q4 in that kind of late 2020 sort of timeframe.

The partners are aligned on the work scope that we're moving forward. We've just got to recognise that when we get into some of these gate decisions, the partners themselves have their own internal processes. So again, it's one of those ones where Woodside as a Company, we can move through this quite rapidly. Our partners are all supermajors in their own right. They have their own internal processes and some of those processes take a little longer than it does for us as the operator.

Joseph Wong: (UBS, Analyst) Yep and just one question I had is on production costs, and it's good to see the production costs come down, but as we move towards I guess 2020 and 2021, how should we look at the production costs increasing, particularly as the gas from Pluto is tolled into the North West Shelf?

Sherry Duhe: I can take that one. So I think at this point we haven't finalised the agreements on any acceleration opportunities that Pluto might have into the North West Shelf. Those could come in as early as 2021 depending on how those commercial agreements work out, but there are also other sequencing options that are being discussed with the parties right now.

I would say for the next couple of years, I wouldn't put any significant changes on the operating costs on a unit basis for either Pluto or North West Shelf. As we've mentioned to you, we continue to work with Wheatstone and Chevron as operator for that to optimise the production costs for that asset now that it's up and running reliably. So that's our aim and we'll see how we can just bring down our average even a bit more than it is today over across the portfolio.

Joseph Wong: (UBS, Analyst) Yes, okay those are the questions I had.

Peter Coleman: Yes, sorry just for clarity on that though, we do have a major turnaround planned at Pluto this year.

Joseph Wong: (UBS, Analyst) Yes.

Peter Coleman: So we will have some one-off costs associated with that, but as Sherry mentioned, just the normal run rate or burn rate on production costs, we expect that to stay where it is now. We've been very disciplined throughout this entire part of the cycle to ensure that we continue to execute on our maintenance activities and so forth, so we don't have a big bank of non-executed maintenance works sitting there that we have to work through and this year is - for Pluto, it's the first time that we've had this major turnaround in the plant. So all of that's going to schedule.

Key for us and key to maintaining the type of production performance and reliability we have is that you must maintain your plants, you must stay disciplined on that and we've done that all the way through the cycle from 2015 onwards.

Joseph Wong: (UBS, Analyst) Yes. Cool, thank you.

Operator: Your next question comes from the line of James Byrne from Citi. Please ask your question.

James Byrne: (Citi, Analyst) Morning guys. Just following up from Hodgey on Browse. Can I just confirm that the CapEx guidance of $20.5 billion disclosed at the strategy day last year is still consistent, despite those optimisation of the concepts?

Sherry Duhe: James, this is Sherry. I'll take that one. So we haven't put out any new guidance on that. We'd love to be able to come back as we get closer to FID and give you some lower numbers there. We see some really good indications that we can get there but we're just not ready. It's just a fact that we're still pre-FEED on that project to give you updated guidance there.

Peter Coleman: James, what I would add is that as we were looking at Scarborough - so an early indicator of Scarborough is that our control estimates that we gave you last year are quite robust and so read that as a signal that the pricing we've received is on the lower end of the guidance that we've provided. Obviously, we've got to go through the FEED process this year and firm that up, but we're at a good starting point I would say with respect to the costing.

It would be - I'd feel uncomfortable if I was putting value engineering teams in place to try and bring it down at the moment. I'm actually on the other side of it. So as you know, as we go through FEED, there will be a firming up in some areas that have some uncertainty in them at the moment but the general indication is that the costing guidance that we gave you is pretty good at this point on Scarborough.

James Byrne: (Citi, Analyst) All right, that's very good. Now six months ago at the August results you'd mentioned that you had unpriced proposals for offtake at Scarborough, potentially including equity stakes. I'm wondering if you can give us an update on how these might have firmed up and whether you have actual price proposals on the table?

Sherry Duhe: So I can take that one as well. I think we're still in the situation where we're exploring with multiple counterparties and we've actually been the ones that are setting the pace on that because I think we've mentioned this previously, we've been very positively overwhelmed with the interest that folks have, both in Pluto Train 2 and in Scarborough.

But for [inaudible – technical difficulty] of that, which is well under way is to - for it to finalise [inaudible – technical difficulty] whole processing agreement that we're currently negotiating between BHP, our partner in Scarborough, and Pluto Train 2, which helps us set value between those two assets. Also progressing the technical work to a finer point of maturity now that we have awarded FEED contracts for Scarborough asset as well. And those are things that we need to start to put into a data room for interested parties, in particular, who are interested in equity.

Quite a number of those are also interested in significant offtake. So we aren't exactly at the point of having price proposals but we're certainly much closer than we were at the middle of last year. That's really something that we'll start to get into with those folks as we get into the middle of the year, sort of mid-Q2 and onwards.

James Byrne: (Citi, Analyst) Okay, I understand. And for Pluto Train 1 where 10% of the equity was gifted for the foundation contracts, is that the same sort of level that we should expect for Scarborough, 5% to 10%?

Peter Coleman: Well, there's two parts to that question. Firstly, we have offered equity to Tokyo Gas and Kansai Electric in the Scarborough project, consistent with those sorts of numbers. So you know, anywhere between 5% to 10% equity in total is available to them at this point in time. That door will close at some point. We're doing that simply because we want to make sure we have alignment.

That will not be gifted. That will be at market pricing and they're very clear on that. Then of course, ultimately, we want to be able to sell our equity position in the upstream down to somewhere between 40% to 60%. For round numbers, 50% might be a target level for us; 40%, I don't want to drop through that. Being operator and taking on all of the responsibilities of operator, I don't want to be less than 40%. So you can see that as a floor.

Then similarly on Train 2 in Pluto, we'd like to get that equity down to around 50% if we can. We may hold it at a tad more. But whatever the tolling will be, will be on commercial terms and will be on terms that deliver an upstream-type return rather than an infrastructure-type return.

Given that at the end of the day, these are aggregated projects and we need to make sure that we have a return across the entire investment chain.

James Byrne: (Citi, Analyst) Okay, that's good disclosure. But does that mean that Pluto Train 2 won't really be a tolling facility but perhaps it will be buying the gas at the beach? Is that the right way to think about that concept, if you're talking about an upstream return as opposed to an infrastructure return?

Peter Coleman: Yeah, I think - that option will be open to us. So we're actually setting it up so it can be set up as being a tolling facility. So the ownership structure or the way that we'll structure the companies that own it, will allow it to be a tolling facility. With respect to where the gas passes through, it will just depend on who the seller is. So you know, we've been in discussions with BHP about the options that they have. Whether they sell it to us at the beach, whether they run it through the facility, whether they become an investor in the facility. You know, Sherry mentioned that. That's ongoing work for us.

What access they may have through the interconnector and being able to take some of their equity gas across to North West Shelf as well. So you can see there's a lot of options here for us that the teams are currently working through. We hope to finalise those in the next few months. With respect then to other ORO gas coming through, you could probably say that's probably more a beach-type construct with respect to that. So you can see some of the smaller ORO coming through.

We do have an arrangement with Clio-Acme. They're interested in building some processing facilities on the Pluto site for Clio-Acme. They're interested in maintaining ownership of their gas as they go through the facility. So again, you can see there's lots of options here for us. Their option - they probably would not sell at the beach, they would run it through the facility and pay an appropriate fee for both the use of the common use infrastructure and also Train 2. So I'd say it's horses for courses.

What we're doing is we're setting up the facility, so it can accommodate any of those commercial constructs.

James Byrne: (Citi, Analyst) Okay, but then if you're buying gas at the beach, I guess that that means that you're probably - because you're taking on that reserves and commodity price risk, then you probably wouldn’t gear up Train 2 like you would an infrastructure asset, right? It's probably going to be more normally geared.

Sherry Duhe: Yeah, and so James, that's an excellent question because - so we haven't gotten to the point where we sorted all that out. You know, even if you sell it to base or constructs where you can give a price risk to the upstream players, that that's the exposure that they want into that. So you know, how that all gets sorted out, both with the discussions with Scarborough with Clio, et cetera, sets the stage for them what the final terms are. There's still quite a bit of flexibility in that.

Peter Coleman: There is. So what I would say for us, just to keep things simple at this point, is that we're assuming that the financing arrangements will be similar to a fully integrated project. Then what we're doing then is setting up the corporate structure so that we can pick that apart over time. So the best thing to do, right up front, is just set it up simply, something we know, and then we're looking for opportunities to then leverage that facility.

But we really can't do that because the type of player who might want to come in and join us there, wants more certainty with respect to the project execution. So you know as you go through the decision timelines, at this point, it's more an upstream player who is willing to take on upstream risk. As we get towards FID and even post-FID, then particularly the LNG train becomes more attractive to somebody who wants certainty of the revenue stream or the tolling structure, and then that allows more leverage. So I would just say, this will be a continued work in progress as we maximise the value of the assets. But to get them away in the first instance, we're just keeping it simple as an upstream concept.

James Byrne: (Citi, Analyst) Okay, that's really good disclosure, thanks very much, Peter and Sherry.

Peter Coleman: Thanks.

Operator: Thank you. Our next question comes from the line of James Redfern from Merrill Lynch, please ask.

James Redfern: (Merrill Lynch, Analyst) Good morning Peter and Sherry. Just a few questions please. So yeah, like it's really interesting this - the sell down discussion on Scarborough and Pluto. So I just want to confirm, so with Scarborough, you've kind of got 75% equity. If we assume that BHP exercise their option to go down to 65%, another 10% goes to Kansai Electric and Tokyo Gas so that takes it down to 55%.

Then you may sell another, let's call it possibly 15% to get you down to 40%. So that's going to bring in another one or two other joint venture partners. Is that correct?

Peter Coleman: Look, that's a construct that could play out. So that's kind of what's in play at the moment. So the people we're talking to would like somewhere between 15% to 20%. You know, we don't need lots of small players coming in, to be quite frank with you. We've got other joint ventures, as you know, where we've got those players and of course it's difficult to maintain alignment in the long term. So we're really looking for a partner that's going to bring a number of things to us but I would say to you, there's somewhere between 15% to 25% equity for sale.

James Redfern: (Merrill Lynch, Analyst) Yeah, okay, thank you. Then in terms of Pluto Train 2 selling down from 90% to 50%, how many joint partners would you be happy to have on board there?

Peter Coleman: Yeah, we're currently 100% in Train 2. So we've offered equity to TG and KE. They haven't - so again, similar process. You know, TG and KE first, and that would just make natural sense because they're in the same site. Of course, they're now starting to see some of the cost estimates. So I'll be up in Japan in the not too distant future talking through that again. With respect to the other parties, it's probably another two parties would come in would be my guess, probably taking 20% blocks.

James Redfern: (Merrill Lynch, Analyst) Yeah, okay, thank you. Okay, great. Now, just a question on SNE please. So I just want to understand the mechanics around SNE and FID, the target for the middle of the year. Assuming that a positive FID decision is made at the end of the year, I'm just wondering if the mechanics around funding the - development CapEx for the project. If one of your joint venture partners is unable to fund their share of CapEx, can Woodside buy their stake in the SNE development? And how would that stake be priced or valued?

Peter Coleman: What we can do is - well, obviously there's a dilution clause in the joint venture agreement. We'd hate to get down to that. I mean that's really an option of last resort. We're working with our partners, including Government, around project financing. And the project financing is going pretty well at this point. You can assume, you know, for rough numbers, that the indications we're getting back from the project financing lead, which is Soc-Gen, is that we'll get away about 50% of that required capital into the market.

So you know, for our joint venture partners, that's the sort of number that they need to be looking at for financing themselves. So this is a good project. I would expect that they're able to fund it or they'll find funding in the appropriate place once we get more certainty around it. But there is a fall back clause which basically says if that doesn't happen of course, then there'll be just a natural equity dilution. The exact formula of the way the equity dilution would occur, I'm not sure of so I'm not going to guess here without having that in front of me. But there is a methodology for it.

James Redfern: (Merrill Lynch, Analyst) Okay, thank you and just one more quick one please. Late last year, Shell and ConocoPhillips sold down or exited their equity stake in Sunrise, they sold it to the Timor Leste Government for what are appear to be very good prices. I'm just wondering if Woodside was approached to sell their stake as well? Or whether you were excluded from that?

Peter Coleman: No, we've been very clear that we're not a seller in Sunrise. If you look at it, yeah, the pricing on an equity basis looks fine. Although I mean, it's not knock-you-out pricing, but it's fair. Our view is that we look at Horizon-3 and we look at the growth opportunities we have and I've got to balance that up against going and finding alternate resources. But Sunrise is a keeper for us.

We have been working with the Timorese on development plans and how we minimise our risk exposure on the capital side and that's where the concept of an onshore plan came from that Timorese would fund. We're happy to invest in the offshore but we're certainly not comfortable in putting any significant capital into an onshore development at this point. But we've also offered, that if Shell and ConocoPhillips do exit, then we would be the technical operator for the onshore part of it.

So it's a very similar construct to what you see in Indonesia. It's the way that Petronas got kicked off in Malaysia as well. So it's a very familiar construct to some of us around the table who worked in those jurisdictions. And that's the one that we encouraged the Timorese to pursue. Of course, that sale hasn't been completed yet, so we'll watch with interest to see if they can actually close that sale.

James Redfern: (Merrill Lynch, Analyst) Okay, Peter. Thank you very much.

Peter Coleman: Thanks, James.

Operator: Your next question comes from the line of Saul Kavonic from Credit Suisse. Please ask your question.

Saul Kavonic: (Credit Suisse, Analyst) Hi Peter. A few questions if I may. The first couple on Pluto. The Pluto turnaround planned later this year, is there any additional work that's being done during that turnaround that might result in even higher plant performance post the turnaround?

Meg O'Neill: So Saul, this is Meg again.

Saul Kavonic: (Credit Suisse, Analyst) Hi Meg.

Meg O'Neill: Look, anytime you are doing major maintenance like this, the expectation and the goal is to come out of the turnaround delivering a plant that is running very smoothly. There's a number of operating vulnerabilities that the team has been managing over the course of the last couple of years, and will be able to address those vulnerabilities during the turnaround. We do expect that as we come out the backend of the turnaround to see quite strong and stable performance from the plant.

Saul Kavonic: (Credit Suisse, Analyst) Is that suggesting it could be above 4.9? You are still maintaining a 4.9 number?

Meg O'Neill: No, that 4.9 represents our expected average performance over a number of years. You would have seen in our announcements that in 2018 we actually produced 5 million tonnes. The 4.9 represents the average that we expect over the long haul.

Saul Kavonic: (Credit Suisse, Analyst) Okay, thank you.

Meg O'Neill: We'll see years that are better than that and we'll still see years that are maybe a little bit below that.

Saul Kavonic: (Credit Suisse, Analyst) Thank you. Also on Pluto, I noticed there's two Pluto - or the Pyxis and Pluto wells due to take FEED this year. Is that purely to provide additional supply and optionality once the interconnector comes in, or has there been any disruptions, or any disruptions to existing Pluto wells over the last 12 months?

Peter Coleman: No, Saul. It's Peter. It's really designed to target the interconnector. One of the things that we said at investor briefing day, I don't recall if it was last year or the year before, is we really wanted to look for opportunities, economic opportunities, that could provide near term cashflow for us. So, both Pluto 7 and Pyxis were two of those opportunities, so they're moving forward. We've incorporated those into the rig program now.

Equipment's been ordered, so you can assume - long-lead items have been ordered, so you can assume those two wells will be - get drilled. Then it's simply now a matter for us to complete the negotiations over the toll structure for the interconnector across to North West Shelf. We expect that will be completed in the next few months. That's all moving forward quite nicely, and that will give us a nice uptick in revenue coming through in that 2021-plus period.

Saul Kavonic: (Credit Suisse, Analyst) Got it, thanks. Also a couple on Scarborough. I noticed that previously you indicated Scarborough upstream capacity could be as high as 9 mtpa. I notice now it seems to have kind of firmed at the 7.5 mtpa number. What were the drivers behind going for 7.5 mtpa rather than a higher number?

Peter Coleman: Well there's two parts to it. So, remember on the 7.5 mtpa you need to add in the domestic gas. The offshore itself will still have 9 mtpa, but of course one-and-a-half of that is going into the Perdaman plant. Our assumption is that we'll meet our domestic gas commitment from day one. That may or may not play out. Of course, that plant hasn't gone to FID yet, but that's how that's been designed.

With respect to the offshore part of it, so increased capacity above that, we actually - there was a breakpoint in cost, so that's what it really was. One we got above this particular capacity, we had to add another compressor in the offshore. That then meant the weight of the offshore structure went up and the complexity went up. So, it's just simply a breakpoint in costs, Saul. Equally there is some opportunity, although we haven't forecast that, that domestic gas sales may be less in the near term, and of course then pick up to the 1.5 mtpa in the long term. *[Correction: 6.5mtpa LNG and 1 mtpa domestic gas]*

Saul Kavonic: (Credit Suisse, Analyst) Sorry, I might have just misread or my mind's muddled, but to be clear, the Scarborough platform and Scarborough pipeline, is that 7.5 or - 7.5 mpta including domestic gas, or excluding domestic gas?

Peter Coleman: Sorry, for clarity, it includes the domestic gas.

Saul Kavonic: (Credit Suisse, Analyst) Got it.

Peter Coleman: Yes. Yes. It's 6 - sorry, it's 6 through the plant, plus 1.5 (mtpa). *[Correction: 6.5mtpa LNG and 1 mtpa domestic gas]*

Saul Kavonic: (Credit Suisse, Analyst) Great, thank you. One more just quickly if I may, on Scarborough, regarding a potential sell-down. Are you considering selling down to a party who would not also be an offtaker? If so, what would be the reason for that?

Peter Coleman: I'm just trying to think through the people we're dealing with. It's up to them as to whether they want to offtake or not. I don't recall at the moment. I'm just looking at Sherry as to whether we have a party who does not want to take the gas. As you know, we'd be quite comfortable, if somebody comes and offers me a price to be in the upstream, and doesn't want to take the gas, I'm not sure who that would be, but if they don't then we'd be more than happy to put that in the portfolio and sell that.

As you can see, there's a real trend at the moment globally, and it's a good segue to a different discussion. You're seeing a real sea change now, moving to a different business model with respect to the LNG value chain. I would have said to you two years ago, the business model was going to a lowest cost into the market, a true commodity-type model. You're actually seeing the large players in the market, particularly the IOCs, now move to a portfolio-model. They're getting lowest cost of supply into that portfolio and they're maximising value through the portfolio and the logistics.

What that means for a buyer is of course, they may or may not have direct access to the lowest cost to supply, because the portfolio players are soaking that supply up now. So, it's a really interesting change in the market dynamic that we're seeing. It actually fits in with the model we have. We have a portfolio model. I'd say portfolio-light model, because we don't really trade on a substantive way. It really backs where we've been going in that regard.

Sherry Duhe: Yes, and I can just confirm with Peter, if I think about the folks that we've been talking to on an exploratory basis, all of them would like to also take offtake. A couple of them might - would like to have some help from us in marketing those volumes, particularly in the beginning but you can imagine that some of those also have aspirations, like Peter said, to become major portfolio players. You can imagine a bit of a transition plan there around the marketing.

Down the road, if you get into a situation where it starts to transition into more of an infrastructure-like asset, and other investors think about coming into that facility, such as just typical superannuation fund investors and things like that, they might not want to have offtake. That doesn't seem to be the first way that we would go, based on all the interest we have from folks that are players in this segment.

Saul Kavonic: (Credit Suisse, Analyst) Thanks. Just lastly, on the Pluto LNG truck loading, and potential bunkering opportunity, if we just - to look on perhaps a three-year time horizon, how large do you envisage that market could potentially be?

Peter Coleman: Three years is really the early part of the market. The LNG truck loading, as you know, we built that without a market. We had a view on the market. We felt that there was always a stand-off between the potential buyers and suppliers, and so we moved forward based on our assessment of market demand. We've got a contract on foot with Sheffield Resources. We're just waiting for them to go to FID. We're out at the moment tendering for the trucks to supply that, so we're confident that that will move forward. Of course, we can't bank it yet because Sheffield still hasn't reached FID, but they're close.

That facility has expansion capacity and availability at the site, and so you could - you can see a line of sight to that facility doubling, or even tripling, in the amount of trucks that will go through it. So, we think there will be - once the momentum starts on it, Saul, it will build very quickly.

On the bunkering side, we are currently out for expressions of interest on a bunkering vessel to supply Dampier Port and/or Port Hedland. We're just trying to finalise what the cost will look like on that, but again it's - that's a bigger decision for us. If we wanted to sole-risk that up front, we would want a pretty clear signal from one of the shippers, being one of the miners, that they were willing to underpin that bunkering vessel for us. I would say that's probably 12 to 18 months away before you'll see any decision on that.

Saul Kavonic: (Credit Suisse, Analyst) Perfect, thank you Peter.

Peter Coleman: Thanks Saul.

Operator: Your next question comes from the line of Mark Samter from MST. Please ask your question.

Mark Samter: (MST Marquee, Analyst) Yes, good morning guys. I have just one on Pluto reserve. Actually I should start with an apology, I've got fat fingers and couldn't do maths, and I thought there was a reserve downgrade in Pluto, which there wasn't, so I apologise for my error on that part. Just a question on Pluto really. I presume their current reserve bookings are done on the original development concept, and then I'm just curious as and when Scarborough sanctions, would you expect that we see any kind of reserve downgrade with Pluto reserves because of the change, versus the original development concept?

Meg O'Neill: Mark, this is Meg. The Pluto reserves, like any producing field, we continue to take a look at the production as time goes by, and we make adjustments periodically. We feel good about Pluto as it stands with the reserves that are booked today. When Scarborough comes online, the fields are totally independent, so there won't be any reserves impact on Pluto.

Mark Samter: (MST Marquee, Analyst) Okay. Even though the development timelines change, the tail gas and…

Sherry Duhe: Mark, maybe I can jump in there because I know we talked about this a lot last year when we did the equity raising. From a commercial perspective, the sequencing of some of those reserves is obviously what - open for conversation right now, as we move forward in time. But we're really talking about into the '20s, '30s time period, after you get past the initial plateau production period for Scarborough and also for Pluto. Those will always be conversations for sure as we move forward, but it will be more a commercial decision on sequencing rather than the policy of the resource.

Peter Coleman: I think the key there, Mark, of course, is 404-P. When we develop 404-P it comes with a fairly substantial capital price tag to it. We'll look at that. It's economic, those reserves will stay on our books. They're value-adding to Pluto, but we now have other options with respect to Clio-Acme coming through, Jupiter and Thebe coming in the back-end of Scarborough and so forth. So, I would say at the moment, that decision is still a few years away. The optionality that we have now is not linear, as it was before. So, we'll just make the right decision at the time based on what's the best outcome for Woodside and our shareholders.

Mark Samter: (MST Marquee, Analyst) Okay, thank you. Then Peter, this is a question for you, just you'd previously said that - I think I'm not misquoting you - that you'd be willing to bring Scarborough to market 50% uncontracted. You're highlighting that LNG markets are changing, and I guess there'll be a trade-off in any potential equity sale-down potentially between price and resource underpinning. Has your view evolved on that balance of risk that you're willing to go, and maybe the market opportunity, is your preference to try to contract more now?

Peter Coleman: No, it's probably firm to be honest with you, Mark. You're obviously a cup half empty guy. Let me be a cup half full. I would say 50% will be contracted, okay? The - and I just remind those on the call that we - when Train 5 at North West Shelf went ahead it was between 50% and 60% contracted. So, it's not unusual when you're trying to take advantage of low costs, that the pricing in the market doesn't suit you. So, our point on this is - and I suppose the point of the chart was the demand is there, the demand is definitely there in the market.

The issue for me at the moment is this juxtaposition of cost and pricing. So, we're actually seeing cost - early cost for Scarborough come in a little lower than the guidance that we provided. Now, we're obviously not going to change that at this point, because we need to complete the FEED work. Often there's a little bit of bounce during FEED. The good news is, it's starting on the lower side, not the upper side. So, I'm not - I don't have a value engineering team out there trying to pull costs out of it.

I'm actually trying to maintain the position that has been offered to us. That juxtaposition though of that sweet spot of cost then means that of course pricing is lower in the market. So it's difficult at the moment to achieve the sort of pricing outcomes that we believe that Scarborough should have. So I think that guidance around 50% is still pretty good guidance because - but now is really not the time to go give away your gas. It might feel good as a bit of a sugar pill. You think it's great and then in three or four years' time you wish you didn't do it.

So that's where we are at the moment on it. The marketing team is doing well. I think it also then plays to portfolio Mark. You're seeing all the big players, they are getting their projects ahead but they're not necessarily going to a buyer. They're running it into their portfolios. I mentioned previously that that business model is changing quite quickly. It's consistent with what we've talked about is that you need to develop some control over the way your portfolio moves so that your projects can move forward at the right time in the cost cycle.

So the old way of doing this was of course we used to wait until we sold the volumes. Well the reality is it's very likely that costs will have run away from us at that point in time. So our focus today is on costs. There is plenty of market there. I just want to make sure that I hit that market when I see a firming of pricing.

Mark Samter: (MST Marquee, Analyst) Yes then I guess to drink from my half empty glass again, isn't that also the exact risk that you're not exactly Robinson Crusoe in that view of the LNG world whereas the previous cycle people only built what was contracted. There's an awful lot of LNG capacity to come into market, a lot of it contracted. You don't all have to get your view wildly wrong in LNG demand to have a pretty saturated market. Again - we spoke about before - but you're asking equity to bear that risk. Obviously, it's not going to be project financed.

Peter Coleman: Yeah well that's - whether it's project financed or not at the end of the day, shareholders are going to bear that risk on the returns. Look, the answer is yes, LNG is becoming more and more starting to look like an oil commodity market. But what I would say is I get some comfort because of these portfolio players coming in because these guys are the disciplined ones in the market. Now having said that, today some of the pricing that I see even the most disciplined one's offering is not in my expectation. They're working their average cost - pricing across their portfolio. They're clearly taking positions where they want to be leaders in a particular market so they're going out and actually chasing market at this point.

But as we look at our volumes and how we fit into that there's still plenty of room for us to move in there. So I'm not losing sleep over it. It's something that of course we're focused on, but I've got a lot of confidence today. If I wanted to meet that I could go and sell more product.

Sherry Duhe: Mark if I could just add in two tiny points to further elaborate on that, quite a number of the parties that are interested in taking equity in Scarborough and Pluto may also be interested in disproportionately taking offtake from that. So that may also lead up to some of the 50% that we're targeting at FID. Also just to emphasise, it's not FID or it's open. We can continue to layer cake on that all the way out until we get into RFSU for both Scarborough and for Browse. That's the strength that we have because of our balance sheet that we don't have to tie any of that stuff into project financing, we can just do it when it makes sense which just gives us a huge amount of flexibility even though our portfolio is rather modest compared to some of these other big portfolio players.

Mark Samter: (MST Marquee, Analyst) Thanks. Just one final question. I apologise it's a slightly glass half empty one again. Just if we talk about the balance sheet and we're going through this investment phase. I guess we've gone through another year with the Kitimat carrying value untouched. It's certainly not racing away with excitement as a project. Can we just maybe have a comment on how you guys are viewing that?

Peter Coleman: Yeah, Kitimat is a Horizon III project for us. We're actually working with the operator at the moment on different development options. Meaning we're looking to see whether we can move from a bundled project to an unbundled project. The reason for that is of course the market in Canada at the moment is very attractive for you to go and buy gas off the grid. AECO pricing is - some days it's negative but of course it runs between US$1 to US$1.50 and seems to have a pretty infinite supply source at the moment. So we're actually looking at seeing how we can take advantage of that and maybe purchase some of that gas to get the project away and then bring the Liard in at a later time. What that means is the capital for us would be far less in the early years, as we would defer some of the development capital that we require for the Liard.

Mark Samter: (MST Marquee, Analyst) Perfect, thank you.

Operator: Your last question comes from the line of Daniel Butcher from CLSA. Dan can you ask one question?

Daniel Butcher: (CLSA, Analyst) I'll certainly ask a couple actually, but thanks anyway. Could I clarify just quickly Peter just the comments you made to Credit Suisse about - you said Scarborough's upstream is still 9 million tonnes per annum but downstream is 6 million tonnes in the LNG plant and 1.5 in domgas. I'm just wondering what the difference is between the 9 mpta and the 7.5 mpta please.

Peter Coleman: No, Dan that was my error. No I added rather than subtract. That was my error. So the number - the capacity offshore is 7.5 million tonnes. 1.5 million tonnes of that will go around the plant and will go into domestic gas and 6 million tonnes will go through the LNG liquefaction facilities. *[Correction: 6.5mtpa LNG and 1 mtpa domestic gas]*

Daniel Butcher: (CLSA, Analyst) Alright, perfect.

Peter Coleman: Now with the - of course the opportunity for us is that if that 1.5 million tonnes doesn't go into domestic gas, then we've got an interconnector that can go across to North West Shelf. Our view on the modelling that we've done is that North West Shelf can take roughly 1.5 million tonnes of Pluto gas with very modest facility modifications over there - modest enough. So that's kind of the operating envelope at the plant. Any more than 1.5 million tonnes you're getting to a point where there will need to be some capital spent at North West Shelf to take the Scarborough gas. So that's how we're modelling that.

Daniel Butcher: (CLSA, Analyst) Sure. If I can ask just very quickly I noticed in the annual report there's a new remuneration scheme with management incentives. I haven't had a chance to read through it yet, but could you maybe summarise how that improves alignments and what the key terms are there?

Peter Coleman: Yeah, there are a couple of things here. What it does is it moves a significant amount of the incentive scheme out of near term cash into long term stock. So basically, the near term cash is now at around about 12% of the total scheme - 12%, 12.5%. What it's done is - that's come down from 30% to 40% so it's come down quite significantly. Then that's moved into long term stock. We've then also increased the vesting period. So we've got two vesting periods for stock, one at three years and one at five years. So this is now some of the longest vesting periods that you'll find, at least in Australian industry. That very much aligns then with what shareholders will see.

We also believe as we talk to shareholders, particularly long-dated shareholders, five years is an investment horizon that they will look at. So it's really lining up their investment horizon with where a significant amount of equity stock will vest for the executives.

Daniel Butcher: (CLSA, Analyst) Sure. If you've got time just for one final one - I noticed also the annual report talked about India moving from 15% energy from gas by 2022. That seems pretty ambitious given the pace the China has managed and it's much more of a command economy than India. What's your read on a realistic timetable for India LNG growth?

Peter Coleman: We've been looking at the India LNG market for the better part of four years now. Look it continues to grow. The challenge in India as you know is structural change is difficult to implement based on the way the state arrangements are in place. But certainly, the demand is there. Certainly, India is starting to switch out their coal. So it's one of those ones, it's anybody's guess to be quite honest with you as to how fast India can do it. But the reality is India looks - if you look at some of the social issues that India is dealing with, it's not too dissimilar to where China was not too many years ago. The pollution there is just appalling on a good day. They've got some commitments that they've made with respect to greenhouse gases. Then India's domestic production is in terminal decline.

So all of those factors just kind of lead you to believe that there will be a substantial market in India. But how big that market is - I mean you've just got to believe the forecaster's guess. I can't give you any more insight than that. India by the way is not a target market for us. What you've seen is other factors [inaudible - technical difficulty]. So India might be growing. It may or may not grow.

Who forecast the demand in Europe this past year? Who forecast that Groningen was going to go off as quickly as it would? Who knows what's going to happen with Nord Stream 2, and so forth and so on? Who knows what's going to happen as Germany changes its policy and starts to move away from lignite and so forth. Will they follow a UK policy, where the UK is mostly gas now in their power generation - gas and nuclear.

So I'd say all of those factors are in there at the moment. There’s just there, this is a product that people want and they can use readily. The good thing is there's supply coming into the market now that allows people to take long term view on gas. That's always been my point. This is not a club any more. This is a commodity now that's opened up to the forces of the market. As people get access to that you can see they're finding new ways each and every day on using it.

Daniel Butcher: (CLSA, Analyst) Thanks. Maybe one quick one just on Myanmar. It doesn't get much attention, but it seemed to me after the last announcement it was probably in the commercial volume zone. Do you have any comments on that and potential date for it to move forward to the next stage? Will Woodside stay in the JV?

Peter Coleman: Yeah just quickly and I'll close on this question. With respect to Myanmar we believe we've reached commercial volumes with respect to Block A-6. We're currently finalising some discussions with both the Government and our joint venture partners, in particular Total, around the development concept and the timing in particular. I suggest you will see a lot more on Block A-6 as we progress through this year.

Thanks everybody for your time this morning. Thanks for your interest in Woodside. As you can see we've had an excellent year in 2018. We look forward to repeating our performance in 2019. We've got some major operational activities that will be underway including the turnaround of Pluto. Importantly our growth projects will come through. Greater Enfield is on schedule so per our expectation of getting it back in the field. Its work up in Singapore is well progressed.

The drilling of the wells have come in as expected or slightly better in some areas. So we're good with that. All the sub-sea kit is on the floor at the moment, on the seabed. So all of that is going very well for us. On our major projects, you will see continued movement on Scarborough. The key there is nailing a toll and moving that forward. You'll see some movement on equity we hope this year. Then for Browse they key to that is going to be unlocking the gas processing agreement with North West Shelf, so Sherry has got a big team working that at the moment. Once we get that gas processing agreement in place then everything else then starts to line up around those particular projects including the interconnector and so forth. So you'll hear a lot more about that this year.

The exploration program has been cut quite significantly. It will be only $200 million this year. We've got a couple of wells. We're in the process of completing one in Peru. Then we'll move on to Bulgaria in early April. So a lot on our plate this year but we're well prepared for it. The balance sheet is in great shape. The dividend obviously is strong. We'll make sure we maintain our 80% payout ratio for the foreseeable future. Thanks a lot. We look forward to catching up with you all as we go on roadshow.

End of Transcript