

ASX Announcement

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FULL-YEAR 2019 RESULTS BRIEFING AND CORRECTION OF ANNUAL REPORT

Transcript of full-year 2019 results briefing

Attached is the transcript of the full-year 2019 results briefing conducted on 13 February 2020.

Correction of Annual Report 2019

On page 34 of the Annual Report 2019 released on 13 February 2020, under Browse 2020 Activities, the words “Apply for production licences over Calliance and Brecknock” should be replaced with “Apply for production licences over Calliance and Torosa”.

The corrected copy of the Annual Report 2019 is available on Woodside’s website.

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This ASX announcement was approved and authorised for release by Woodside’s Disclosure Committee.

Company: Woodside Energy

Title: Woodside Petroleum Full Year 2019 Results briefing

Date: 13 February 2020

Time: 7:30am AWST

This document should be read in conjunction with Woodside's Full-year 2019 Report and the Full-year 2019 Results and Briefing Pack which are available on the company's website, www.woodside.com.au

Start of Transcript

Peter Coleman: Good morning everyone and thanks for joining us. As you would have seen this morning, we released our 2019 full-year report and results briefing pack to the ASX. With me on today's call is our Chief Financial Officer, Sherry Duhe. As we've done in previous years, we'll make some introductory remarks before opening the call up to a question and answer session on the full year results.

Of course, please note the standard disclaimers and important notices 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 unless otherwise noted.

In the past year, we faced a range of challenges, including tough trading conditions, complex commercial negotiations and cyclone activity. Despite this, we've still achieved significant progress in our growth plans and delivered solid financial results.

Let's start by running through our key financial and business outcomes. Starting on slide 3 you can see our reported net profit after tax is \$343 million and our underlying profit is \$1.063 billion. Revenue and operating cashflow are strong, underscoring the capacity of our base business to support growth.

We've delivered a fully franked dividend for the year of US\$0.91 per share. The reported profit reflects the decision to impair the value of our Kitimat LNG asset in Canada. Disappointingly, depressed market conditions persisted in Western Canada where gas trades at a substantial discount to Henry Hub prices in the US. We've reviewed the development concept and are looking at the most capital efficient way to source gas for the LNG facility and timing of the development.

We still believe it to be an excellent opportunity and we'll continue to include it in our plans. The Woodside team has done a great job in improving the project fundamentals since acquisition, reducing the cost structure by about 30% and increasing the expected recovery from each well by about four times. Despite this, the Board and management have taken the view, based on current trends and the outlook for gas and carbon prices in Canada, that it is prudent to adjust the carrying value at this time.

The next three slides highlight our strength in our base business across a range of metrics. On slide 4, you can see that we achieved annual production of 89.6 million barrels of oil equivalent. That's a good outcome in a year which we completed major scheduled maintenance activities at both the Pluto and North West Shelf facilities.

I'm pleased to report that we had our best ever safety outcome in 2019 which I'll discuss shortly. Across our assets, we continued to demonstrate why we are known as a low-cost, high-margin producer.

Moving onto slide 5, the Greater Enfield project contributed more than four million barrels of production in 2019 after it was completed on schedule and on budget.

We have invested in the reliability of our facilities, which are at the core of our growth plans. Pluto LNG achieved record production rates after the first major scheduled maintenance turnaround since starting the plant in 2012. For 2020, we're targeting production of 97 to 103 million barrels of oil equivalent. And I note we've had a challenging start to the cyclone season, including the direct impact of tropical cyclone Damien this past week, which we understand is the largest cyclone that's directly hit our facilities since we've started.

I'm pleased to report though that the facilities withstood the cyclonic activity very well and we've only suffered minor damage and expect full production to resume in the next few days.

On slide 6, our focus on health and safety of staff and contractors has resulted in the best ever safety performance, with outstanding results on both personal and process safety. The total recordable injury rate, or TRIR, was 0.9 and lost time injuries 0.19 per million work hours.

Now let's move to slide 7 where you can see the progress across our key developments. We are delivering near-term growth, taking final investment decisions in 2019 on the Pyxis Hub project, Julimar-Brunello Phase 2 and the pipeline component of the Pluto to Karratha Gas Plant interconnector.

We recently sanctioned Greater Western Flank 3. These are sizeable projects that will keep our base business strong. Our major projects are also moving. Early in the new year, we announced FID for the Sangomar Field Development offshore Senegal. It's really a great achievement and we're now in execute phase and working to deliver first oil targeted for 2023.

We achieved breakthroughs on Scarborough, deploying technology that revealed a 52% increase in the estimated resource volume and agreeing the Pluto Train 2 tolling price. The momentum on Scarborough and Pluto Train 2 is building as we look to take FID this year. We've secured backing from customers, executing a sale and purchase agreement with Uniper for long term LNG supply.

On Browse, we completed the basis of design and submitted environmental approvals. Woodside is FEED-ready and we're targeting FID in late 2021. In Myanmar, the A-6 development is progressing towards commercialisation and in 2019, we completed concept select and commenced pre-FEED work after finalising fiscal terms with the Myanmar Government.

Now turning to slide 8, I talked about this at our Investor Briefing Day in November and it's worth repeating here. Our portfolio of proposed developments would triple our reserve space and deliver new production at a compound annual growth rate of greater than 6% through 2028. We're looking to unlock approximately 40 trillion cubic feet of gas resources through the Burrup Hub complex.

Now before I pass over to Sherry, I just want to talk briefly about our role in a lower-carbon future as outlined on slide 9. Now we know this matters to our investors and our community so I'm sure we're going to have many more discussions over the next months and years ahead.

Natural gas is essential to the energy transition in the decades ahead and can get the world's energy mix shifting in the right direction by displacing more carbon-intensive fuels. Our proposed Burrup Hub projects are well-timed to support global efforts to achieve the goal of net zero emissions by 2050, which is implicit in the Paris Agreement.

It's important to note that nearly all of the gas from Scarborough and Browse can be supplied to market within this timeframe, providing lower-emissions energy that the world sorely needs. We intend to develop it in a way that is carbon-efficient, managing emissions through offsets, energy efficiency and lower-carbon technologies.

In 2019, we put in place some of the tools to support this, including outlining a target for offsetting reservoir emissions and signing an agreement with Greening Australia to create offsets. Subsequent to the period, we finalised the acquisition of two properties in the south west of Western Australia and will start planting trees this year.

As our plans progress, we're going to have more to say on this front. I'm sure we'll have a lot more at our Investor Briefing Day later this year. I'll now hand over to Sherry to discuss our financial results in detail.

Sherry Dube: Thank you, Peter, and good morning everyone. The financial headlines, as shown on slide 11, reflect the strength of our base business and the work we've done throughout 2019 to prepare for the delivery of our growth plans. Peter has already discussed our underlying net profit after tax of \$1.063 billion. We finished the year with over \$4 billion cash on hand, low gearing and very strong liquidity.

As we look at the capital expenditure required over the coming years, we are focused on maintaining a strong financial position to ensure we have a buffer against market fluctuation. We're targeting to retain sufficient liquidity to cover 12 to 18 months of commitment through our growth phase.

Slide 12 shows a breakdown of the main factors impacting our profit for the year. Commodity price was of course a key driver, reflecting a 7% decline in portfolio realised price compared to 2018. We incurred additional impacts from the full-year application of a new leasing accounting standard and changes to our LNG processing agreements. And our depreciation costs increased with the completion of our Greater Enfield oil project and a full year of operation from Wheatstone LNG Train 2.

These expenses were offset by a 45% reduction in exploration spend and our continued disciplined management of production cost. Finally, our reported profit was impacted by the Kitimat impairment, but of course this does not affect our cash position nor the full-year dividend.

Our production cost performance is shown in slide 13. Production costs were \$505 million which is equivalent \$5.70 per boe across the entire portfolio. This is higher than previous years but does include the one-off cost and the production impact of the planned major Pluto LNG turnaround.

Adjusting these metrics for the increased cost and reduced production of the Pluto turnaround, the effective production cost is \$438 million, equivalent to \$4.50 per boe. We also had greater than usual turnaround activity at North West Shelf which has not been factored into these adjusted numbers.

The decrease in unit production cost is also due in part to increased production from Wheatstone and the Ngujima-Yin FPSO following completion of the Greater Enfield project.

Onto slide 14, a characteristic of our base business is the high margins it generates. Our gross margin has reduced just slightly in 2019 due to increased depreciation but is still very healthy at 44%. We have large cash margins across our whole portfolio for both our operated and non-operated assets.

Slide 15 shows another view of the cash generated by our operations. So reducing our expenditure, we have reduced our break-even price by 27% to \$22 per boe. This trend reflects our hard work over the last five years to strip out unnecessary costs and to make sure we are well prepared for growth. The cash generated by our business is a major source of funding for our future capital requirements.

Moving to slide 16, we were very active in the debt market in 2019, preparing our balance sheet for growth. We started the year in March with the issue of a \$1.5 billion bond in the US 144A market and continued to consolidate our debt maturity profile throughout the remainder of the year.

In doing this, we have managed to reduce our portfolio cost of debt from 3.9% to 3.6% and increase the average term to maturity from 4.7 to 5.2 years. We now have a solid platform from which we can fund our capital expenditure requirements in the coming years as we deliver our growth projects.

The full-year dividend distribution, now on slide 17, is a pleasing outcome and again is a function of our low-cost, high-margin business. In declaring a full-year dividend of US\$0.91 per share, we have maintained a payout of 80% of underlying profit.

Woodside has historically delivered a high yield to shareholders and 2019 is another solid result. We also reactivated the dividend reinvestment plan during the year which was well supported by our shareholders with a high participation rate of 39%. Shareholders use the DRP to reinvest their dividend at a discount and for us, it provides a steady contributor to fund our capital requirements. We will continue to review the payout ratio during the coming years to ensure we are delivering value to shareholders consistent with prudent capital management.

Before I hand back to Peter, I'll touch on what to expect in 2020 on slide 18. Our production guidance remains at 97 to 103 million barrels of oil equivalent. It has been a challenging start of the year with the two cyclones interrupting production already, most recently this past weekend with Tropical Cyclone Damien.

We had no injuries and we're proud of Woodside's excellent emergency response which integrated well with the community. Pluto LNG continued producing at near full rates throughout the cyclone period. As Peter has mentioned, North West Shelf LNG should resume full production in the coming days.

This year will see the start of our off-takes from Corpus Christi in the US. Our marketers have been planning for some years how best to incorporate these cargoes into our portfolio and have been successful in developing a suite of options to help maximise the value of the contract. A portion of the off-take in the first few years is already committed to customers. We will also consider hedging to protect margin when market conditions allow.

With respect to investment expenditure we are guiding to between US\$4.1 billion and US\$4.4 billion in 2020 noting that the overall quantum is quite sensitive to project phasing. We expect a large increase in capital spend this year as we commence execution on a number of work fronts. Sangomar is progressing the construction phase following the final investment decision last month.

Scarborough and Pluto Train 2 are headed for FID later in the year. To support our existing facilities as we are moving forward we are taking on several sub-sea tie-back projects including Pyxis Hub for Pluto, Greater Western Flank Phase 2 [*Clarification: Phase 3*] for North West Shelf and Julimar-Brunello Phase 2 for Wheatstone.

I will now pass back to Peter for his summary.

Peter Coleman: Okay, thanks Sherry. Look, in summary I want to discuss our current position in the energy market and provide a 2020 look ahead across our business. I'm sure you'll be very interested.

On slide 20, as expected, trading conditions were difficult during 2019. We anticipate more of the same in 2020 as new production enters the market and demand works to soak it up. Nevertheless, the fundamentals remain strong and we're confident the market will tighten as we see more coal-to-gas switching in key markets and as soft prices stimulate demand growth.

We are in a very competitive landscape. It's important that we maintain momentum on our projects. The reality is that the cost of services is likely to increase as demand picks up. That's why we moved early to lock in costs at the low point of the cycle.

Finally on slide 21 we have another busy year ahead as we maintain a strong base business and progress our growth plans. We're building the resilience of our Company through an increased focus on sustainability, including expanding our offset business and continuing to explore new energy options.

You've heard me talk for a few years now about our vision for the Burrup Hub. You can see on slide 22 that it is in some ways a simple equation. We're bringing together Woodside-operated resources and assets in a capital-efficient way to produce natural gas to meet global demand. It really does make a lot of sense, and we've been working hard to achieve our vision and unlock value for shareholders. We are not sugar-coating the task that lies ahead. We've come through a challenging year and we know that there's more to come. But we are ready for it.

It's worth remembering that 2019 marks 30 years of LNG exports from the North West Shelf. The path we're on now sets us up for another 30 years.

Finally, I want to comment briefly on the coronavirus or COVID19 as it's now been named. We've experienced no impact on LNG shipments. We expect softer prices for spot cargoes as Chinese LNG demand softens, but the market will rebound when the situation improves. Our financial exposure is limited as the majority of our portfolio is sold on long-term contracts with spot sales accounting for approximately 15% to 20% of total sales.

In the mid-term, as we move into project execution for our growth plans, there is potential impact on fabrication yards but that is still some months away. We continue to monitor the situation and plan accordingly.

Now that concludes our opening remarks. Thanks very much for listening. We'll now open up for questions.

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. Our first question comes from Saul Kavonic from Credit Suisse. Please go ahead.

Saul Kavonic: (Credit Suisse, Analyst) Hi. A few questions if I may? The first one just on Browse timing: it seems to be talking about a late 2021 FID which seems a delay on prior guidance. Could you give some colour on the reasons for that apparent delay?

Can you also provide some colour on what the plans are in terms of level of advancement of getting gas into the North West Shelf prior to Browse, now that Browse seems to be pushing back further?

Peter Coleman: Thanks Saul. Look, on the Browse - if we can we'll limit your questions to two or three and we'll just make sure we get through everybody - just on Browse timing we've talked about late 2021. Since we last spoke to you the Browse team has updated or has benchmarked the amount of time required to go through the FEED activities based on the complexity of the offshore facilities. To put it into context, the topsides for the offshore facilities are around about 45,000 tonnes which puts them into the top decile of complexity on a global scale. Not as complex as FLNG but certainly as complex as some of the larger FPSO facilities that you will see around the world.

For that IPA benchmarking recommended that the FEED period which is - as we know, that's where we make or lose value in these projects is through that early engineering - that that FEED period be extended by a few months. We're also recognising that the commercial negotiations are still not complete. We're down to the last three or four value items. But it's difficult for me to predict when that will actually be closed at the moment, Saul.

So we're taking an approach here that - just saying that the commercial negotiations will be completed when they're ready. It's not something that we can force. It's not something that we have control over given the multiple parties that are involved in those negotiations. But I can say to you we've made some good progress over the last - since Investor Briefing Day. But we're down to the last three or four significant items to close out.

Saul Kavonic: (Credit Suisse, Analyst) Thanks Peter. My second question is regarding the sell-down of Scarborough which has previously been spoken about and the timing of that. I just want to get an indication - for the sale of the - the integrated sell-down you've talked about for both Scarborough and Train 2 is that something you foresee could occur prior to the BHP final tolling agreement being signed? Or is that something that's only likely to occur after that point in time?

Peter Coleman: No. Actually Saul I'll come back and finish your first question if I can. You asked about the North West Shelf facilities.

Saul Kavonic: (Credit Suisse, Analyst) Oh yes, apologies.

Peter Coleman: Are they ready - no my apologies, I forgot. The North West Shelf facilities as we mentioned we have approved building the interconnector between Pluto and North West Shelf. The North West Shelf venture are yet to approve the receiving facilities on their side. But we expect that shortly. The pipeline right of way and survey activities have already commenced on that connector.

With respect to gas going through it, North West Shelf is in discussions already with multiple parties who are wishing to put gas into the facility, either through the interconnector which would be obviously Woodside operated resources, or separately into the plant. So we're hopeful that we're not going to see a lot of ullage in North West Shelf. The only issue that we would see is just the composition of the gas, the multiple compositions, and whether the capacity of the plant will be affected in any way by that composition change.

So we don't see a big gap, Saul, with any delay in Browse at this point. However if it does get to a point where the ullage in North West Shelf is larger than these multiple sources of gas can service, we can't wait forever. But at least in the short term that ullage is taken up.

Now back to Scarborough and Train 2 - on the sell-down part of it we have opened the data room this week, so it's very timely for Scarborough. With respect to the - we expect that process to complete around the middle of the year. We don't expect any binding agreements to be completed by then, but we expect certainly a line of sight to potential sell-down.

Now we are going out into the market to be honest in what I would call difficult conditions given the sentiment at the moment around coronavirus and the over-supply in the market and so forth. So it's just one of those points in time where we've always been very clear with shareholders we won't sell just simply to sell because this really is a tremendous asset. If we're not getting full value then we'll hold onto the asset, work our way through that and potentially sell at another time.

With respect to the timing with BHP agreements, we expect to complete the toll agreement in the next couple of months and have a binding toll agreement with BHP in the next couple of months with a view that we'll be able to go to full FID on Scarborough sometime around the middle of this year.

Saul Kavonic: (Credit Suisse, Analyst) Thanks. One quick last one if I may, just on the Phase 2 FID of Julimar-Brunello. Are you able to give some colour on how the reservoir is performing? Is the timing of this Phase 2 earlier than you expected compared to expectations when you bought into Wheatstone?

Peter Coleman: No. Timing of Phase 2 is as expected. The overall recovery from Julimar-Brunello is per our acquisition expectations. There's been some movement as you might guess because there are multiple reservoirs involved. As you look at each different reservoir there are plusses and minuses at each different reservoir. But no, the overall is pretty much the same.

We are dealing with some issues around mercury. But that's designed into Julimar Phase 2 and the funding for Julimar Phase 2. But other than encountering some mercury and having to put in the facilities to deal with that everything else is per expectation.

Saul Kavonic: (Credit Suisse, Analyst) Thanks very much Peter. I appreciate it.

Peter Coleman: Thanks Saul.

Operator: Our next question comes from Mark Samter from [MST Marquee]. Please go ahead.

Mark Samter: (MST Marquee, Analyst) Morning. Just a couple of questions if I can. There's all this talk about Uniper contract and we're allocating that to Scarborough in our minds. But I guess there's more North West Shelf contracts rolling off as you go through the next couple of years. Could you give us a feel for how much capacity - assuming Scarborough goes ahead - how much volume you think is uncontracted in 2025? Because I guess we can allocate it to one project or the other, but just get a Woodside in its totality perspective I guess is how you look at it.

Peter Coleman: Look, it's a good question Mark. But we haven't provided any guidance to the markets. Damien is looking at me shaking his head here at the moment. Poor old Damien. But you're right, there are a number of the legacy North West Shelf contracts rolling off. We expect to renew those contracts with the existing buyers but obviously they'll be under different terms to what we have historically had.

We'll give some guidance later in the year at IBD around the percentage of total volume that that represents out in 2025. I don't want to do it on the call because we haven't provided that guidance.

Equally, as you know the Scarborough - we've got Pluto price negotiations underway at the moment. We're still confident or comfortable with the guidance that we've provided at the Investor Briefing Day around the pricing outcomes that we expect from that.

Then of course Scarborough - marketing for Scarborough has been going well. We were targeting to get at least to get 50% or more of the volumes away - contracted by the time we go to FID. We still have a line of sight to that, but I would say to you some of that work is being done with customers who may be affected or who are affected by the coronavirus. So finalisation of some of that marketing with respect to making it binding is being delayed at the moment through the inability of being able to meet with those buyers.

So we're watching this one closely, Mark, and working out how we can finalise those negotiations remotely rather than face to face. But it's fair to say our buyers at the moment are - particularly Asian buyers - are very, very limited in their ability to travel indeed.

Mark Samter: (MST Marquee, Analyst) I might squeeze in two more quick questions if I can? First, really quickly on Corpus Christi; listening to what you said today about it, unless I'm wrong, you didn't [unclear] to pay and not take, is that an option that you've considered, although you have the ability to pay and not take if you want to, don't you?

Peter Coleman: Yes, we do under that contract, so we just have an ability to pay the processing fee simply and not take the volumes and of course, we watch the volumes very closely as to whether they're in the money or not, so this is simply if you consider the processing fee it's own cost and then what's the marginal price that you're receiving for the trading volume.

I think we need to put into context, between a third and a half of those volumes have already been put away into contracts, so it's already contracted for this year. So we're exposed to the remainder of that this year and we are

watching those trading conditions very closely. Sherry mentioned that we will also look at hedging through this process, so we have approval from our Board to go into limited hedging programs should we see opportunities in the market with those volumes and other volumes as we move forward.

So no, not a great time for us to be starting with Corpus volumes coming in. We've got to start to nominate in March what we are going to do with those volumes. You should get a signal from others in the market sometime here through February because we understand others under their contracts are required to make commitments in late February and for us, it's kind of in that late-March timeframe. So I would watch this space very closely at the moment.

Some are going to take the opportunity to trade through this. We'll have to consider our position as to whether we pick it up or not.

Mark Samter: (MST Marquee, Analyst) I guess talking about spot prices and where they are, and I completely get that spot is spot and Scarborough is a very long-term contract, but do you have any concerns that I guess the BHP Board - I presume the Board has to sign off on the binding tolling agreements and [unclear] Pluto spot price at the moment is sub-\$2.50 and the toll you told us is above \$3. Even just psychologically, do you have any concerns that the kind of environment makes it a harder decision for them or...

Peter Coleman: Oh, look, it's difficult for me to talk for the BHP Board as you know because I am not sitting in those conversations, so I'd go back to the basics; I mean BHP is a very sophisticated company and understands the long-term nature of commodities, so I'm confident that they can see through short-term perturbations in the market.

But there is a reality, it does drive sentiment, it's always nicer to do these things when price is high rather than price being low in the spot market. But you know, I would say to you we've been predicting that 2020 - 2021 would be difficult in the spot market for the last couple of years, just simply because of the new volume coming in from the US and Russia in particular. You hope these things don't play out, but you prepare for them and as it's turned out, it's also coincided with warm weather conditions in Europe, high tank level or high storage levels in Europe, and now the coronavirus which is impacting manufacturing demand in China.

So we forecast a condition and then these other existential things have come over the top and are leading to prices so sub \$3 in the marketplace at the moment. So we've always got to be positive about these things and the coronavirus will hopefully be passed us soon and then some of these other conditions will start to work in our favour as we move through the backend of 2021 into 2022.

Mark Samter: (MST Marquee, Analyst) Okay, great, thanks, Peter.

Peter Coleman: Thanks, Mark.

Operator: Our next question comes from James Byrne from Citi. Please go ahead.

James Byrne: (Citigroup, Analyst) Oh, good morning, Pete and Sherry. I've a question on the balance sheet; as you are both probably aware, we've been a little bit cautious here on what the balance sheet may look like if you're unable to sell assets, particularly Scarborough and Pluto by the time you take FID on those projects, and I think that view was somewhat vindicated by your credit rating agency releasing a report in December that said that they are forecasting that your credit metrics actually turn negative in that scenario.

So I wanted to understand a little bit about that scenario where you don't see the prices you would otherwise want in the sales process, you take an FID at your current working interest; what's your plan B there around the balance sheet? I appreciate that that's probably an open-ended question because it might depend upon the prevailing share prices to whether you want to raise equity or not, but aside from that raising equity, Sherry, I picked up on your comment about

reviewing the dividend payout ratio and I think that equity markets view that payout ratio of 80% as sacrosanct; is that not the case?

Peter Coleman: So James, let me have a go at that first and then Sherry will jump in. Firstly on the balance sheet, if you go back two years when we first acquired Scarborough, we raised equity and at the time, we came under some criticism for doing that, but we said we wanted to ensure that we one, maintained our credit rating and at that time, we had advice from the credit agencies that they would have put us on a negative watch or actually immediately downgraded us at that acquisition, so that's why we raised it.

At the same time, we said we did that because we want to make sure we can progress our growth projects because the commodity business is cyclical. As things invariably pan out for you, the time when you are getting ready to make a big decision, there will be a perturbation in the market and the price signals won't be working in your favour. It's rare that the price signals work in your favour.

So I think as you look at the way we've decreased our breakeven cost, we've redeployed our spend across the organisation and we've gone out and loaded up on longer-term debt at lower interest rates, you can see where our liquidity is at the moment, \$6.5 billion, \$4 billion in the bank. We've done well over the last two years at making sure we preserve our balance sheet, so we've got the opportunity to move into this growth phase, without needing price to work in our favour in the short-term.

Clearly though, selling equity is important, but there's two parts to that. There's a phasing of capital that we can look at. So, if we don't get the pricing that we expect on Scarborough upstream, there's also a phasing of capital, with respect to other projects that Woodside has in our portfolio. Clearly, getting Train 2 away is going to be important, but it's unlikely Train 2 equity will be solved before FID, based on the types of buyers that we're targeting. So, again, the strength of our balance sheet allows us that optionality in our decision-making, so we don't actually have to have equity sold at FID. Otherwise people are all looking at that and expecting a fire sale. That would be terrible for our shareholders.

James Byrne: (Citigroup, Analyst) Correct. Yes.

Peter Coleman: So, that's what we've been looking at. I'd also point out that the ratings agencies, I think, at the moment are using \$55 for their price deck, so they're being quite conservative. Having said that, if you looked at the price today, it's just above \$55, so you can argue that may or may not be right. So, all I'd say is, we've got a number of levers within the business itself that we will move around, including phasing of capital and so forth, before we then start going and looking at the other levers.

Now, on those other levers, of course Sherry mentioned dividend payout ratio. Payout ratio is one option for us to look at, although it's one that's very, very important to us, particularly if the value were to rise for us because of the franking credits that we still have. Equally, as you know, we've turned on the dividend reinvestment plan this year and it's non-underwritten as this point. So, there's another lever that we can pull on that if we choose to, which is to take that to be an underwritten reinvestment plan.

Then, of course, the final thing, after you go through equity sales, or phasing of capital and so forth is, of course, raising equity. But that's probably - it's in that order, James, for us.

James Byrne: (Citigroup, Analyst) Yes.

Peter Coleman: I'll let Sherry jump in.

Sherry Duhe: Yes. James, I think Peter has summarised it very well. I think also, going back to the earlier question that Saul asked and just to really be clear about that. We have said at our Investor Briefing Day that when we look for equity

partners coming in to Scarborough and Pluto, that we want the right partner or partners at the right time and at the right price. So, having flexibility around the timing of that dilution activity, both for integrated ownership between Scarborough and Pluto and also perhaps standalone participation in Pluto Train 2, those projects are even much more valuable to us than they were six months ago, now that we have de-risked further and are getting very close, technically, to a final investment decision.

Of course, because we now see materially higher resources in Scarborough than we saw at this time last year. So, we have all of these levers that we look at, but we look at them not in a binary manner, we really step back and say, at the end of the day, what is the best value for our shareholder, both in the short term and in the long term? Then how can we balance those things against each other? That's very important to us and the Board that we don't go and blindly optimise the one number, or blindly go into a transaction which might result in selling below optimal value. If that's not the best thing for our shareholder, given how strong these projects are and how much value that we see in them.

Now, that being said, the interest, even notwithstanding the coronavirus, is still very, very high from a large number of potential partners, both for the integrated sale and for the Train 2 only piece of things, so that we are actively working that in parallel. That remains very strongly our base case at this point in time.

James Byrne: (Citigroup, Analyst) Okay, can I perhaps ask you to be a little bit more explicit on the phasing of capital point, please?

Peter Coleman: Yeah, look, the phasing of capital point, James, as you look at it, we have options particularly on Browse. So, if you think about it, we've always indicated to market that a potential equity decision would be around Browse FID, just simply because we've got an overlay of our projects occurring. That overlay of the project was not based on optimising capital, or people resourcing. That overlay was based on what we felt were market conditions, timing and then also the retention lease requirements that we had. So, we needed to maintain rights to exploit the resource, which meant that those projects were accelerated and you had overlap.

As it's turning out, every month that Browse is delayed is quite significant with respect to the impact that it has on our debt loading and as we get new cashflow coming in. So, that phasing is actually naturally happening now anyway, with each month that Browse gets delayed through these commercial negotiations. It's assisting us in that capital hump that we've got to get through.

James Byrne: (Citigroup, Analyst) I guess, the push-back I have with that particular point though, Peter, is that the credit rating agency is only going to forecast out metrics on projects that are actually sanctioned. On that basis, they exclude construction CapEx for Browse and they still have the metrics turning negative.

Peter Coleman: They do. They do.

James Byrne: (Citigroup, Analyst) They have to do one or the other, basically, yes.

Peter Coleman: Yes, they do, James. Of course, what we didn't talk about is the other option is if - and you don't like to do this - but the other option is just look at that credit rating and decide just how important that is to equity owners, versus debt owners. The stark reality is, we have raised most of the debt that we need.

James Byrne: (Citigroup, Analyst) Yes.

Peter Coleman: So, if we feel that holding on to a credit metric is to the detriment of our equity owners, then that's a tough conversation we're going to have with the Board. That rating is just one of a number of metrics that we look at. As Sherry mentioned in her opening, the key for us is not necessarily credit metrics, but importantly the free cash coming out of our business and our ability to fund our projects. That's primacy. The rest is like, do I get a gold star, or a silver

star on things? We've still got a long way before we would be concerned about being non-investment grade. We certainly wouldn't let the Company get into that situation. But if it requires me to do something silly in the market just to maintain that investment credit metric, but that's just something we're not going to do.

Sherry Duhe: Yes. I would just add to that, because that's very important, James, like you say, that one piece of it is how the credit rating agencies look at things. But the way we're adjusting our overall capital management is looking at the total capital requirement that we have, in particular all the way out until 2024, when Scarborough and Pluto are onstream and producing. Because after that, things ease off quite significantly, even with Browse in full construction mode. So, we don't want to just look at how do we get through Scarborough and Pluto FID in early construction, but we want to look to our cash liquidity throughout that period at different oil prices and with different assumptions around phasing, including Browse and make sure we're strong throughout that period.

So, yes, the credit rating agencies will make different decisions around their assessment at FID, but we're looking at it continuously throughout. We think that's a more holistic and robust approach to our overall cash management needs through that period.

James Byrne: (Citigroup, Analyst) Got it. Yes, I mean, our view of your liquidity's still pretty good through there. I guess, it's just a view on that credit rating. So, that's very helpful disclosure. Thank you.

Peter Coleman: Yes. It's a judgement view, James, as to the value of that. Certainly, we wouldn't want to be going into FID having gone down a notch. But if, during the process we slip, and that's because we've made a conscious decision with respect to our shareholders, then that's something we'd be happy to explain at the time.

James Byrne: (Citigroup, Analyst) Great, thanks.

Operator: Our next question comes from Adam Martin from Morgan Stanley. Please go ahead.

Adam Martin: (Morgan Stanley, Analyst) Morning. Yes, first question. Just on gas contracts for Scarborough, you've historically talked about the 50% in terms of sales, securing that pre-FID. Yes, obviously things are bit tough in the market at the moment. Are you going to hold to that 50 percentile? Would you push out FID, or would you take some more risk if you can't get there to the 50%?

Peter Coleman: Good question, Adam. I think we'd take more risk. Because the key here on any project is the only thing you know on a project is how much you've spent. You only know that after the fact. We've got contracts in hand that have significant value, very significant value, hundreds of millions of dollars value in them, because we've hit the low point in the cost cycle. We are very concerned that if we continue to delay on Scarborough, then some of those contracts - well, we know some of those contracts will be opened up. Our view is there's only one way that they'll go which is to increase.

So, yes, you always want to line the marketing up and you sit a number out there. But we're comfortable that we can trade through it. We obviously will test it at different pricing conditions to make sure that we're not doing anything that puts us at risk. But I'm not going to be held to saying I need a 50% number. I mean, that's an appropriate thing, to be honest, if you need project financing, because you're having to meet your financier's needs. But for a Company like Woodside, who has an LNG portfolio, we don't want to be selling gas just for me to be able to meet a metric to tell somebody that we've got 50%.

Because the flip-side of that, as you know, Adam, is you don't see the contract I just sold it at. We're not going to give it away just to simply meet that metric. So, I'd say there's a bit of flex around it. I was very confident about it in October. The issue we've got at the moment is, as I mentioned in a previous discussion, is the coronavirus is preventing us in finalising negotiations with some of our potential buyers.

Adam Martin: (Morgan Stanley, Analyst) That makes sense. The second question, just on arbitration with FAR, I thought we were meant to get something pretty imminently about that first hearing. Can you just update the process there where we're at?

Peter Coleman: Yes, we thought we were too. In fact, I think we said that it was imminent. Well, that's certainly what the International Court of Arbitration told us. They've subsequently come back and said they made a mistake. Imminent wasn't what they were intending to say. So, it's still weeks, potentially months away. I can't tell you. They've gone very quiet now that they had to retract their previous advice. So, we simply don't know, to be honest with you.

Adam Martin: (Morgan Stanley, Analyst) Okay, that's fine.

Peter Coleman: I would say, on the positive side, we've had very successful outcome from a legal dispute with Bumi over in the Balnaves project here recently. So, that one's now behind us.

Adam Martin: (Morgan Stanley, Analyst) Okay, no, good. That's all from me, thanks. Cheers.

Peter Coleman: Thanks, Adam.

Operator: Our next question comes from Joseph Wong from UBS. Please go ahead.

Joseph Wong: (UBS, Analyst) Hi, guys. A question from me is just on the gearing position, I guess, how you look at it. You look at, I guess, the Investor Day back in - well, late last year. Giving the impairment that's come through, how do you see your gearing position over the next few years under your oil price assumptions?

Sherry Duhe: Joseph, good question. So, our gearing range remains unchanged. I think we've said previously, but just to reiterate on this one, that we've said within between 15% and 35% and that's been adjusted simply because of the leasing standards coming into effect. But we've also said that we'll match that up against credit rating metric outputs. So, it could be under certain scenarios that you wouldn't take all the way up to that 35% to maintain a given credit rating. The impairment of Kitimat actually has a fairly non-material impact on the gearing. You can probably calculate that out, but I would say, well less than 1%. So, that won't be a significant factor on our gearing as we go forward in time.

Peter Coleman: So, Sherry's right, Joseph, gearing is one metric, but as you know, it's a very simplistic one and it's certainly not one that the credit agencies use. So they use their own metrics, so you might find we go through one of their key metrics before we reach a gearing limit, or we may actually be able to get through a gearing limit before we hit one of their metrics. So it's multidimensional with respect to how we'll manage that balance sheet.

Joseph Wong: (UBS, Analyst) Yeah, fair enough. Just a second question, in terms of Pluto gas acceleration, can you provide any commentary, I guess you've got Pyxis FID, is there any update on the discussions with Pluto and North West Shelf on the tolling? Leading on to that, is there any discussions on onshore WA gas moving into North West Shelf ullage?

Sherry Duhe: Okay, great question. So Peter talked earlier about the fact that there are multiple parties right now engaging with North West Shelf on what we call early ORO, or other resource owner coming through. Pluto is right there in the mix as well as some other parties and there have certainly been interested parties both with offshore resources and with onshore resources. So that's something that for us, alongside with working through the final terms and conditions of the Browse gas processing agreement, getting to a final investment decision on the North West Shelf side, on the interconnector and getting these agreements in place is a key priority that we are actively progressing in 2020. Too soon to talk about which one of those parties are coming through when, but there are fairly advanced conversations with a couple of them in particular and others lined up behind that with a high level of interest.

Joseph Wong: (UBS, Analyst) Okay and then the last question I've got is more like in terms of the news for McDermott, if could provide any commentary of that impact on Woodside's contracting, if you can.

Sherry Duhe: Okay, so McDermott, that's a great question. So you'll be well aware that McDermott has entered into a formal Chapter 11 pre-packaged bankruptcy and restructuring process. We have been working very well and very transparently with McDermott really throughout the period, since this became a risk and as they are going through it. You'll be able to see directly from them all of the details of how they're packaging that and in particular, the Lummus asset sale that goes along with that. We continue to believe that we can work through that with the plans that we have around our contracting and we are also building in mitigations should they come up against any unforeseen issues with going through that restructuring.

The great thing that we see is that their order book remains strong, they seem to have a very good hold on retention from their senior leaders and in particular their project managers and we of course are watching that situation very closely to make sure that we can work collaboratively with them through that process.

Joseph Wong: (UBS, Analyst) Cool, that's all from me.

Operator: Our next question comes from James Redfern from Bank of America. Please go ahead.

James Redfern: (Bank of America, Analyst) Hi Peter and Sherry, two questions please. You mentioned earlier that the Scarborough sell down you might receive non-binding offers by the middle of the year, just wondering what the timing is for the sell down of Pluto Train 2, or is that process being run in conjunction with the Scarborough data room? Thanks.

Sherry Duhe: Yes, great question and just one very minor clarification, we had a preliminary data room out there for a while. We're updating that and we'll officially release that probably in the next one to two weeks. So it's almost complete and we're just doing the final assurances. We will open that up in parallel. We have a first priority on completing or continuing the conversations that we've had with potential partners that would like to have an integrated interest in Scarborough and Pluto. But we will be starting really in the next few weeks here to start to get additional indicators of interest on partners or potential partners that might be interested just in Pluto Train 2.

Like Peter said and I've mentioned it as well, we are flexible on the exact timing. The ideal of course would be to have one or both of those types of transactions concluded at FID, but we are flexible to go beyond final investment decisions should that bring the best value. If, for example, you had an infrastructure-type investor who came in and became our partner of choice for Pluto Train 2, it's more likely that they would feel more confident to come in and conclude a transaction after final investment decision. So we would be flexible on that, but you would most likely see a basis where we're seeing it now, that you might see one dilution on an integrated basis and then perhaps another one after that on just Train 2.

Peter Coleman: So, James, just so we're not confused about data rooms, the one I mentioned is the Scarborough upstream [*Clarification: integrated*] data room, which we can populate because there are no outstanding commercial agreements and so forth on that.

The Train 2 data room will open up fully once we've completed all of the agreements, both with the BHP and then also with Pluto Train 1 and common use facility owners. That's going to finish in the next few weeks [*Correction: months*]. Of course you can't sell Train 2 to that type of buyer without having those commercial agreements in place because that's really what they're interested in, whereas an upstream purchaser, they know that the value of their acquisition is very much driven by the quality of the resource and the development concept. So it's just a different lens that people would look through on that. I remind you that Train 2 at Pluto will be a lump sum contract, so once we've inked the final deal

with Bechtel on that, we'll be able to put that into the data room as well and they'll be able to see what sort of capital risk they have.

James Redfern: (Bank of America, Analyst) Okay, thanks. That's useful. Then just in terms of unit cost, unit costs were \$4.50 a boe, excluding the Pluto turnaround last year, so given the increase in production of 2020 and limited planned shutdowns, do you think it's reasonable that we could expect unit costs to be well below \$4.50? I note that \$4.50 was a record low for Woodside historically. Thanks.

Sherry Duhe: Yes, so we haven't guided specifically on unit cost for 2020. Indeed you should look at the Pluto cost in particular as being very cyclical in nature and not to be present again in 2020. Of course, you'll see a full year impact of Greater Enfield being on stream, Wheatstone's second year of full production. There will be turnaround activity in the North West Shelf, but not major, like we saw in Pluto last year.

James Redfern: (Bank of America, Analyst) Yes, okay, cool. All right, thank you very much.

Peter Coleman: So, we're going to have a crack at it, James.

James Redfern: (Bank of America, Analyst) Yes, thank you.

Operator: Our next question comes from Ben Wilson from Royal Bank of Canada. Please go ahead.

Benjamin Wilson: (Royal Bank of Canada, Analyst) G'day Peter and Sherry, I just had a quick question. I note your comments around the contracting or the potential for costs to go up should you delay Scarborough further. I just wanted to know whether you've seen any impact or predict any impact from the potential or probably deferral of the three train project up in PNG, both in respect of construction cost market, but also on the gas marketing front. Is it too early to see that or have you noticed anything out in the market?

Peter Coleman: It's a good question, Ben. We haven't seen it yet from a product point of view. The key, I think to look at that, is that you've got so many other projects that went to FID in 2019. It was a record amount that went to FID and of course they're in the market looking for things like compressors and so forth. That's where some of our pressure points are going to be, so I don't think the fact that anything may or may not happen in PNG is going to drive that, given the number of those particular projects. Now where we may see it will be on people, as we get into the construction phase, because - so that's a net positive to us. It'll take some pressure off the people because those people would have been sourced mainly out of Australia. So we think, we haven't factored it in, but I think there'll be some positives for us with respect to a lessening of the pressure on the workforce requirements for us.

Benjamin Wilson: (Royal Bank of Canada, Analyst) Did you address that on the gas markets, you haven't seen anything for that contract term 2025 plus where you're targeting similar customers in a similar timeframe?

Peter Coleman: No, we haven't seen it yet. It's an interesting one, because both projects would have a similar view with respect to the way that we'd want to market it, whereas, as you know, meaning that we would want contracts in place for a certain volume of it, we've seen an unusual situation in 2019 occur where some of the major players, including Novatec and so forth, have sanctioned projects without gas contracts in place and are willing to put it in to their global portfolios. So of course it's not transparent then what their actual positions are, whether they're long or short in those particular portfolios. We'll only know that as time plays out.

So I would expect we would have been targeting probably similar markets, similar buyers, so again, in that regard, whilst we haven't seen it directly at this point, it certainly doesn't hurt our marketing efforts. But like I said, we take no joy in seeing other's projects get delayed, we just - when you asked the direct question, it can only be helpful for us, I just haven't seen an impact though that I can share with you.

Benjamin Wilson: (Royal Bank of Canada, Analyst) Got you, I suspect so. Thanks very much, Peter.

Peter Coleman: Thanks Ben.

Operator: Thank you. We have time for one final quick question from Tom Prendiville from CLSA. Please go ahead.

Tom Prendiville: (CLSA, Analyst) Thanks guys, I've just got a quick question on Kitimat. Obviously Chevron has written off 100% of its book value, but Woodside has only written off 50%. I was just curious as to what gives you the confidence in throwing more money at this project when Chevron has seemed to have lost faith, at least for now. Cheers.

Peter Coleman: Yes, look thanks for the question, Tom. I think it just gets down to what you see in your portfolio. I wouldn't say Chevron's lost faith in it at all, but actually provides them a lot of room to maybe book a profit on sale at some point in the future. So you can look at this cup half empty or cup half full so to speak. With respect to Woodside's view of it, as I said, we've decreased the cost structure on it by a good 30%, actually the unit costs have come down even more, because we've increased the throughput from 10 million tonnes to 18 million tonnes, it will be the greenest project in the world by far because we'll use power from hydro and we've had good indications around what the costings of the pipeline will be in interest in the downstream plant.

The impairment was simply taking a pragmatic view of the Liard resource and looking at the timing of it and just saying, look it's now - because the current plan is to use gas in western Canada to feed the plant, the Liard resource is now getting pushed out into a period of time where we need to increase the risking on the discount rate that we used, we increased it quite significantly because just simply climate related risks and development related risks on that. We also then looked at the pricing and said, well we're not very good at forecasting pricing, so rather than have pricing with an assumption of potential growth in the future, just run it flat and see what it looks like. So the Board and management have taken a very conservative view of the asset.

But with respect to the fundamentals of the development, they're still very, very good, in fact it's improved significantly since acquisition. So at the moment this is just simply about oversupply in that particular market and we think a better phasing, a better use of capital by not going into and developing the Liard when we can actually purchase significant volumes off the grid at a lower capital cost and then just simply a view of what the potential pricing for the product is going to be and timing of other things. So no, I wouldn't read anything else into it. We're going to spend money on it again this year. We're actually hopeful we get a partner in there that really has the same view as we do on the asset and we'll be able to move it forward much faster. I think it's fair to say that Chevron was working on a different timeframe to Woodside, but I would look at other things in Chevron with respect to corporately what their view is with respect to their capital spend program and where they want to spend capital. I suspect Kitimat got caught up in those reviews, so I wouldn't read anything else into it.

Tom Prendiville: (CLSA, Analyst) Okay, great, thank you.

Peter Coleman: Okay, look everybody, thanks very much for being on the call this morning and thank you very much for your questions. I hope we've been able to give you some further insights that you'll be able to share with investors and your clients. Again, as I mentioned, we've done very well in managing our balance sheet through this period, getting our cost base and continuing to get it down, improving the performance of our base facilities. There were a couple of one-offs in our business that won't recur in 2020, so we'll have a much clearer year. We had some accounting changes with respect to leasing, we had internal tariff changes that have flowed through, so there were a number of changes in our accounts that we'll work with you, I know, over the next days and weeks to help you better understand where all the movements have been.

It is difficult market conditions for us at the moment. We're not sugar-coating that at all. But as I mentioned at the beginning of the call, our contracts have not been affected, to this point we've not received notice from any customers with respect to their intentions not to take our product and so at this point for Woodside it's business as usual, but we're continuing to monitor it very, very closely. Our growth projects are kicking off, as I said, on the major ones, Sangomar has gone to FID, the project team's in place and already moving globally to the offices to move that forward and we're focused on getting Scarborough to FID this year in the timeframes that we've indicated to you previously. Then of course we'll complete the Browse gas processing negotiations with North West Shelf this year as well.

So we are moving it forward, but we are under no misapprehension as to the challenges in front of us, both in the execution phase, the commercial phase now, the execution phase and then making sure that we maintain a robust cash flow coming into the Company so that we can both reward investors through continued distributions, but then also execute these growth projects, which are unprecedented for us with respect to their scale and the impact on the Company. So with that, I look forward to seeing you over the next days and weeks. Thanks very much for your time this morning.

End of Transcript