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

ASX Announcement

Friday, 27 June 2014

ASX: WPL
OTC: WOPEY

WOODSIDE RELEASES GENERAL MEETING BOOKLET

Woodside advises that it has today released the Notice of General Meeting and Explanatory Memorandum (Meeting Booklet) in relation to the previously announced buy-back of 78,271,512 Woodside shares from Shell Energy Holdings Australia Limited.

A copy of the Meeting Booklet follows this announcement and will be sent to Woodside shareholders in the coming days.

The Meeting Booklet contains a report by the Independent Expert, Grant Samuel, which concludes that the buy-back is fair and reasonable to Woodside shareholders (other than Shell and its associates).

Woodside has also obtained consent to the buy-back as required under a number of its facility agreements.

Completion of the buy-back is now subject only to Woodside shareholder approval at a General Meeting which will be at 10:00am (AWST) on Friday, 1 August 2014 at the Perth Convention and Exhibition Centre, 21 Mounts Bay Road, Perth, Western Australia.

The Woodside Board recommends that shareholders vote in favour of the buy-back for the following reasons:

- The buy-back is expected to deliver increased dividends per share due to increased earnings per share;
- The buy-back facilitates an orderly reduction in Shell's shareholding;
- The Independent Expert has concluded that the buy-back is fair and reasonable to non-Shell shareholders;
- Woodside is purchasing shares from Shell at a discount, significantly lower than the price Shell received in the sell-down on 18 June 2014;
- The buy-back is expected to increase the liquidity of Woodside's shares in the equity market; and
- The buy-back is an efficient and disciplined use of surplus capital that will optimise Woodside's near-term capital structure.

Further details on the reasons for the Board's recommendation are set out in section 2.3 of the Meeting Booklet. Dr Haynes and Dr Jamieson, who were originally nominated by Shell, abstained from voting when the buy-back was considered by the Board.

Shareholders with questions in relation to the buy-back can call the Woodside Shareholder Information Line on 1300 472 461 from within Australia or +61 3 9415 4326 from outside Australia.

Further information is also available on the Woodside website: www.woodside.com.au.

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NOTICE OF

General Meeting and Explanatory Memorandum

10 AM FRIDAY 1 AUGUST 2014
PERTH CONVENTION AND EXHIBITION CENTRE

Important information is outlined in this memorandum
about the proposed Buy-back of 78,271,512 of Shell's shares in Woodside.

The Board recommends that you vote in favour of the proposed Buy-back at the General Meeting.

The Independent Expert has concluded that the proposed Buy-back of Shell's shares is fair and reasonable to Woodside shareholders (excluding Shell and its associates).

Shareholders who are unable to attend the meeting are encouraged to complete and return the enclosed Voting Form by 10.00 am (AWST) on Wednesday, 30 July 2014. Alternatively visit www.investorvote.com.au.

If you have any questions in relation to the proposed Buy-back, please contact the Woodside Shareholder Information Line on 1300 472 461 from within Australia or +61 3 9415 4326 from outside Australia.

You should read this document carefully and in its entirety before deciding whether or not to vote in favour of the proposed Buy-back. If you are in any doubt as to what you should do, you should consult your broker, financial adviser or legal adviser.

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27 June 2014

Dear Shareholder

Proposed Buy-back of Shell shares

The Woodside Board is pleased to invite you to attend a General Meeting of the Company's shareholders on Friday, 1 August 2014.

The meeting is being held to give shareholders an opportunity to vote on the Buy-back of 78,271,512 Woodside shares from Shell for a total of US$2.68 billion. On 18 June, Shell sold down that same number of Woodside shares to institutional investors. Together these transactions would reduce Shell's shareholding in Woodside from 23.1% to 4.5%. The share Buy-back component must be approved by you, the Woodside shareholders.

It has been widely known in equity markets for some time that Shell planned to sell down its shareholding in Woodside. Such knowledge can create a level of concern and instability in capital markets, and Shell's shareholding has often been referred to as an overhang on our stock.

We have worked in cooperation with Shell to effect an orderly disposal of their shares, minimising any disruption to our market trading and delivering a good outcome for all shareholders.

Woodside has the financial capacity to comfortably fund this acquisition and we do so with the objective of creating value for all shareholders. It is important to note that we have agreed to buy back these shares at a price based on A$36.49 per share, which is an attractive discount on recent trading prices for Woodside shares.

Taking these shares off the market now means both our earnings and cash flow per share will increase, allowing us to pay shareholders a larger dividend per share than would have been the case in the absence of the transaction.

The Independent Expert, Grant Samuel & Associates, has reviewed this transaction and has concluded it is fair and reasonable for all non-Shell shareholders.

The Woodside Board believes this is a very attractive transaction for Woodside shareholders and we recommend you vote in favour (by proxy, direct online or in person) at the meeting in August.

This document contains all the information you need to decide how to vote in relation to this transaction. If you would like more information please contact the Woodside Shareholder Information Line on 1300 472 461 from within Australia or +61 3 9415 4326 from outside Australia.

On behalf of the Woodside Board, I look forward to seeing you at the meeting. If you are unable to join us, there will be a live webcast via the Woodside website.

Yours sincerely

Michael Chaney AO
Chairman
Woodside Petroleum Ltd

The Woodside Board recommends that shareholders vote in favour of the Buy-back for the following reasons:

The Buy-back is expected to deliver increased dividends per share due to increased earnings per share.

The Buy-back facilitates an orderly reduction in Shell's shareholding.

The Independent Expert has concluded that the Buy-back is fair and reasonable to non-Shell shareholders.

Woodside is purchasing shares from Shell at a discount, significantly lower than the price Shell received in the Sell-down on 18 June.

The Buy-back is expected to increase the liquidity of Woodside's shares in the equity market.

The Buy-back is an efficient and disciplined use of surplus capital that will optimise Woodside's near-term capital structure.

Further details on these benefits and other considerations relevant to your vote are provided in sections 2.3 and 2.4 on pages 6 to 8 of this booklet.

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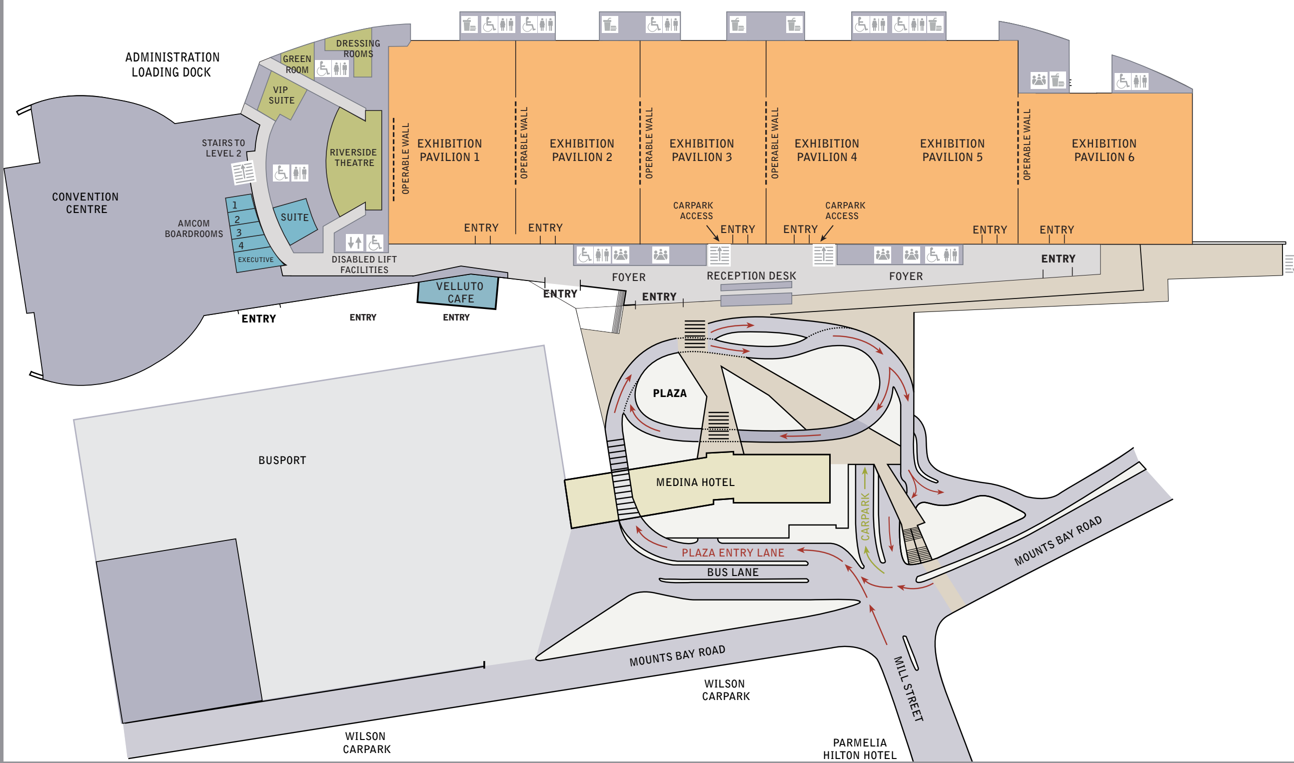
How to get to the General Meeting

LOCATION OF THE PERTH CONVENTION AND EXHIBITION CENTRE (PCEC)



PERTH CBD ROADWORKS AND CLOSURES

At the date of the General Meeting, Perth CBD may be affected by roadworks and closures.
For further information regarding roadworks and closures please call 138 138 or visit
https://www.mainroads.wa.gov.au/usingroads/roadtrafficinformation/roadworksclosures/pages/cbdprojects.aspx.

TRANSPORT AND PARKING INFORMATION

P PCEC Parking

The PCEC carpark usually fills early. Alternate parking is available at:

P Wilson Parking

- The Quadrant – entry via Mounts Bay Road
- Westralia Square – entry via Mounts Bay Road
- Central Park Carpark – entry via 152-158 St Georges Terrace

For more information on Wilson Parking please call 9415 2800 or visit www.wilsonparking.com.au.

P City of Perth Parking

- His Majesty's Carpark – entry via Murray Street

For more information on City of Perth carparks please call 1300 889 613 or visit http://www.perth.wa.gov.au/parking.

Parking bays for the disabled are available in the PCEC carpark, with nearby ramp/lift access available. For further information on City of Perth's special facilities within the carpark please call 1300 889 613 or email info.city@cityofperth.wa.gov.au.

Bus

Perth's central bus port is located adjacent to the PCEC.

Train

The Esplanade train station is located next to the PCEC.

For bus and train timetables and further information, visit www.transperth.wa.gov.au.

Key dates

Record date to determine entitlement to vote	5:00pm (AWST) on Wednesday, 30 July 2014
Closing date for lodgement of Voting Forms	10:00am (AWST) on Wednesday, 30 July 2014
Meeting	10:00am (AWST) on Friday, 1 August 2014
Expected payment of selective Buy-back funds to Shell and cancellation of shares*	Wednesday, 6 August 2014

*Assumes the Buy-back is approved at the Meeting.

Note: These dates are indicative only and are subject to change.

Woodside Shareholder Information Line

The Woodside Shareholder Information Line may be contacted on 1300 472 461 (from within Australia) or +61 3 9415 4326 (from outside Australia) Monday to Friday between 9:00am and 7:00pm (AEST).

Important notices

This booklet is dated 27 June 2014.

Forward looking statements

This booklet contains forward-looking statements that are subject to risk factors associated with oil and gas businesses.

It is believed that the expectations reflected in these statements are reasonable as at the date of this booklet, but they may be affected by a variety of variables and changes in underlying assumptions which could cause actual results or trends to differ materially, including but not limited to: price fluctuations, actual demand, currency fluctuations, drilling and production results, reserve estimates, loss of market, industry competition, environmental risks, physical risks, legislative, fiscal and regulatory developments, economic and financial market conditions in various countries and regions, political risks, project delay or advancement, approvals and cost estimates.

Neither Woodside nor any of its directors, officers or advisers gives any representation, assurance or guarantee that the events expressed or implied by any forward-looking statements in this booklet will actually occur.

Not investment advice

This booklet does not take into account the investment objectives, financial situation, tax position or particular needs of any shareholder of the Company or any other person. This booklet should not be relied upon as the sole basis for any decision in relation to shares in the Company or any other securities. Shareholders should seek independent advice before making any decision regarding the resolution to be put to the Meeting.

1. Notice of General Meeting

Notice is given that a General Meeting of shareholders of Woodside Petroleum Ltd (**Company**) will be held on Friday, 1 August 2014 at 10:00am (AWST) at the Perth Convention and Exhibition Centre, 21 Mounts Bay Road, Perth, Western Australia.

Buy-back of Shell's shares in the Company

To consider and if thought fit to pass as a special resolution:

That, for the purposes of section 257D(1)(a) of the Corporations Act and Listing Rule 10.1 and for all other purposes, approval be given for:

a) the terms and conditions of the Buy-back Agreement entered into on 17 June 2014 between the Company and Shell, details of which are set out in the Explanatory Memorandum accompanying this Notice of General Meeting; and

b) the Company to conduct a Buy-back of 78,271,512 fully paid ordinary shares in the capital of the Company from Shell on the terms and conditions set out in the Buy-back Agreement.

Voting exclusion statement

In accordance with the Corporations Act and the Listing Rules, the Company will disregard any votes cast on the proposed resolution by Shell or any of its associates.

However, the Company need not disregard a vote if:

- it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the Voting Form; or
- it is cast by the Chairman of the General Meeting as proxy for a person who is entitled to vote, in accordance with a direction on the Voting Form to vote as the proxy decides.

By order of the Board

Warren Baillie

Warren Baillie
Company Secretary
27 June 2014

NOTES

The accompanying Explanatory Memorandum and Independent Expert's Report form part of this Notice of General Meeting and should be read in conjunction with it. Unless the context otherwise requires, terms which are defined in the Explanatory Memorandum have the same meanings when used in this Notice of General Meeting.

Voting Entitlements

Pursuant to regulation 7.11.37 of the *Corporations Regulations 2001* (Cth), the Board has determined that, for the purpose of voting at the Meeting, shareholders are those persons who are the registered holders of shares in the Company at 5:00pm (AWST) on Wednesday, 30 July 2014. Accordingly, share transfers registered after that time will be disregarded in determining entitlements to attend and vote at the Meeting.

Proxies

All shareholders who are entitled to attend and vote at the Meeting have the right to appoint a proxy to attend and vote for them. The proxy does not have to be a shareholder of the Company.

Shareholders holding two or more shares can appoint either one or two proxies. If two proxies are appointed, the appointing shareholder can specify what proportion of their votes they want each proxy to exercise. If no proportion is specified, each proxy may exercise half the member's votes. Neither proxy may vote on a show of hands.

If the Chairman of the Meeting is appointed, or taken to be appointed, as a proxy, but the appointment does not specify the way to vote on the resolution, then the Chairman intends to exercise all available votes in favour of the resolution.

In accordance with the *Corporations Act 2001* (Cth), any directed proxies that are not voted on a poll at the Meeting will automatically default to the Chairman of the Meeting, who is required to vote proxies as directed.

Direct Voting

A direct vote will enable shareholders to vote on the resolution to be considered at the Meeting by lodging their votes with the Company prior to the Meeting. Direct voting will enable shareholders to exercise their voting rights without needing to attend the Meeting or appoint a proxy.

Please note that a shareholder who has cast a direct vote may attend the Meeting, but their attendance will cancel the direct vote.

Lodgement

A Voting Form for appointment of a proxy or direct voting is enclosed with this notice. If you wish to appoint a proxy or direct vote, please complete the Voting Form in accordance with the instructions on the back of the Voting Form and return it to the Share Registry:

- by post to GPO Box 242 Melbourne Victoria 3001 Australia; or
- by facsimile to 1800 783 447 (within Australia) or +61 3 9473 2555 (outside Australia).

Alternatively, you may register your voting or proxy instructions electronically at the Share Registry website: www.investorvote.com.au.

To be valid, Voting Forms or electronic voting instructions must be received by
10.00am (AWST) on Wednesday, 30 July 2014.

Bodies Corporate

A body corporate may appoint an individual as its representative to attend and vote at the Meeting and exercise any other powers the body corporate can exercise at the Meeting. The appointment may be a standing one. The representative should bring to the Meeting evidence of his or her appointment, including any authority under which the appointment is signed, unless it has previously been given to the Company.

Custodians and Nominees

For Intermediary Online subscribers only (custodians and nominees) please visit www.intermediaryonline.com to submit your voting intentions.

2. Overview of the Buy-back

2.1 Background

Please see the Glossary in Section 6.1 for an explanation of abbreviations used in this Memorandum.

Shell is Woodside's largest shareholder. Shell sold part of its shareholding in 2010 and has publicly indicated that it no longer views its shareholding in Woodside as a long-term strategic investment and it is considering divestments across its global portfolio of businesses.

On 17 June 2014, Woodside announced the following initiatives, which will result in Shell reducing its shareholding in Woodside to 4.5%:

(a) a selective buy-back by the Company of 78,271,512 shares (representing an approximate 9.5% interest) from Shell (**Buy-back**); and

(b) Shell selling to institutional investors 78,271,512 of the shares held or controlled by Shell (representing an approximate 9.5% interest) (**Sell-down**).

At the time of the announcement, Shell held 190,119,364 shares in Woodside (approximately 23% of the issued shares in the Company). Subject to shareholder approval of the Buy-back, following these divestments, Shell will retain approximately 33.6 million shares in Woodside, equating to approximately 4.5% of the issued shares in the Company after cancellation of the shares bought back from Shell.

The Sell-down was completed on 18 June 2014 at a price of A$41.35 per share reducing Shell's shareholding to approximately 13.6%.

Shell and Woodside entered into a Buy-back Agreement on 17 June 2014 that governs implementation of the Buy-back. Under this agreement the Company has agreed to buy back 78,271,512 shares (approximately a 9.5% stake in the Company prior to cancellation of the Buy-back shares) at a price of US$2,680 million. The Buy-back price is based on a share price of A$36.49[1], representing a 14% discount to the volume weighted average price (**VWAP**) of Woodside shares over the five trading days up to and including 16 June 2014. The Buy-back is subject to shareholder approval of the Buy-back in accordance with section 257D of the Corporations Act and Listing Rule 10.1.

The Board considers that the Buy-back is in the best interests of non-Shell shareholders. Dr Haynes and Dr Jamieson, who were originally nominated by Shell, abstained from voting when the Buy-back was considered by the Board.

2.2 Mechanics of the Buy-back

Following approval of the Buy-back by non-Shell shareholders the following will occur:

- total funds of US$2,680 million will be paid to Shell from existing cash and debt facilities; and
- the shares bought back from Shell will be cancelled pursuant to section 257H of the Corporations Act. This will reduce the total shares on issue from 823,910,657 to 745,639,145.

1 The Buy-back is priced in US$ based on an average of USD:AUD exchange rates over the six days up to and including 16 June 2014 of 1.0659 for a Buy-back price of US$34.24 per share.

2.3 Benefits of the Buy-back

The Board considers that the Buy-back is in the best interests of non-Shell shareholders for the reasons set out below. Dr Haynes and Dr Jamieson, who were originally nominated by Shell, abstained from voting when the Buy-back was considered by the Board.

1. The Buy-back is expected to deliver increased dividends per share due to increased earnings per share.

The Buy-back will result in an increase in dividends per share paid to Woodside shareholders, starting from the interim 2014 dividend. On a historical full-year 2013 pro-forma basis, the Buy-back would increase Woodside's dividends per share (**DPS**) by approximately 6%.

This increase in DPS is driven by earnings per share (**EPS**) accretion of approximately 6% and Woodside's current practice of paying out 80% of underlying net profit after tax in dividends. The Company plans to continue to target a dividend payout ratio of 80% of net profit after tax for the foreseeable future, subject to the demands of significant new capital investments or material changes in the Company's business environment.

On a historical full-year 2013 pro-forma basis, the Buy-back will also be accretive to cash flow per share (**CFPS**) by approximately 8%. There will be an aggregate decrease in shareholders' equity of US$2,680 million due to the cancellation of shares bought back from Shell, which will increase return on equity from 11.5% to 13.3%.

US$ million	12 months 31 December 2013 historic	Buy-back adjustments	12 months 31 December 2013 pro-forma	Accretion
EBITDA	3,756		3,756	
EBIT	2,538		2,538	
Net finance cost	(179)	(107)(1)	(286)	
PBT	2,359	(107)	2,252	
Income tax expense	(545)	32	(513)	
Non-controlling interest	(65)		(65)	
Reported NPAT	1,749	(75)	1,674	
Shareholders' Equity	15,225	(2,680)	12,545	
Weighted Average Shares on Issue	823	(78)	745	
EPS (US$)	**2.13**		**2.25**	6%
DPS (US$)(2)	**1.86**		**1.98**	6%
CFPS (US$)(3)	**4.52**		**4.89**	8%
Return on Equity	**11.5%**		**13.3%**	

Notes:

(1) The adjustment to net finance cost assumes the Buy-back is fully debt funded. The actual finance cost may be lower as a result of using Woodside's combined cash reserves and debt to fund the Buy-back.

(2) Pro-forma DPS has been calculated applying a consistent pay-out ratio to FY2013.

(3) Cash flow per share is calculated as: cash flows from operations plus exploration expense before changes in working capital adjustment.

2. The Buy-back facilitates an orderly reduction in Shell's shareholding.

In November 2010, Shell sold down approximately 78 million shares in Woodside (approximately 10% of the issued shares in the Company) via an institutional placement. Shell stated that it no longer viewed its stake in Woodside as a strategic holding and would consider a further divestment. In June 2014, Shell sold a further 9.5% interest in Woodside through the Sell-down.

The Woodside Board believes that the Company's future growth and share price stability will be better supported by a shareholder base that does not include a major shareholder seeking to exit its investment. The Buy-back facilitates a certain reduction in Shell's interest to below 5% through an orderly transaction that also delivers a number of other benefits to Woodside shareholders.

3. The Independent Expert has concluded that the Buy-back is fair and reasonable to non-Shell shareholders.

The Buy-back is supported by the Independent Expert, Grant Samuel and Associates, who has concluded that the Buy-back is fair and reasonable to non-Shell shareholders.

Shareholders are encouraged to read the Independent Expert's Report in full. A copy is attached to this Explanatory Memorandum as Annexure A.

4. Woodside is purchasing shares from Shell at a discount, significantly lower than the price Shell received in the Sell-down on 18 June.

The Board considers that the price at which the Company has agreed to buy back 78,271,512 of Woodside shares is fair and reasonable. The Buy-back price is based on a price of A$36.49[2] per share, which represents a discount to a range of pricing benchmarks for Woodside shares including:

- a 14.0% discount to the 5 day VWAP prior to announcement of the Sell-down and Buy-back;
- a 11.8% discount to the price paid by institutional investors for the Sell-down; and
- a 9.9% discount to the 3 month VWAP prior to announcement of the Sell-down and Buy-back.

5. The Buy-back is expected to increase the liquidity of Woodside's shares in the equity market.

At the time of the announcement on 17 June 2014, Woodside had approximately 77% of its shares freely traded on the ASX. Following the Sell-down, Woodside has approximately 86% of its shares freely traded on the ASX. If the Buy-back is approved, the Company will have more than 95% of its shares freely tradeable. With Shell's interest below 5%, 100% of Woodside's share capital will be eligible for inclusion in the benchmark S&P/ASX 200 index, further enhancing trading liquidity.

6. The Buy-back is an efficient and disciplined use of surplus capital that will optimise Woodside's near-term capital structure.

The Buy-back will be funded by existing cash and debt facilities, and will result in a more efficient capital structure for the Company. On a pro-forma basis, Woodside's gearing as at 31 December 2013 will increase from 9.2% to 25.2%, in line with the Company's target range of 10 to 30%. It is expected that gearing will trend towards 20% by the end of 2014 based on the Company's current asset portfolio.

Moody's and Standard & Poor's have confirmed Woodside's credit ratings at Baa1 and BBB+ respectively and Woodside will continue to target a strong investment grade credit rating.

Importantly, Woodside will also maintain capacity to develop its existing projects and make additional investments in new growth initiatives, as discussed in section 3.1.

As a result of the Buy-back, the Company will have a more efficient capital structure, with the positive impact of the reduced number of shares on issue outweighing the additional interest expense on the funds outlaid to buy back the shares.

The Board has carefully considered the full range of capital management initiatives available to Woodside, and has concluded that the Buy-back is in the best interests of shareholders because it is the only option that facilitates an orderly reduction of Shell's shareholding and delivers a number of other benefits for all shareholders.

For example:

- an equal access off-market buy-back would involve less certainty regarding the price and quantum of the Buy-back depending on shareholder participation. An equal access off-market buy-back would not provide an orderly reduction of Shell's shareholding in Woodside and may further exacerbate any overhang by either increasing Shell's ownership or reinforcing Shell's intention to reduce its holding in Woodside;
- an on-market buy-back would involve similar uncertainties to those of an equal access off-market buy-back, could take considerably longer to implement than Woodside's proposed Buy-back and would not provide an orderly reduction of Shell's shareholding in Woodside; and
- paying a special dividend or increasing Woodside's dividend payout ratio would not deliver any EPS or CFPS accretion benefits to shareholders, and would also not provide an orderly reduction of Shell's shareholding in Woodside.

2 The Buy-back is priced in US$ based on an average of USD:AUD exchange rates over the six days up to and including 16 June 2014 of 1.0659 for a Buy-back price of US$34.24 per share.

2.4 Other considerations

The Board considers that the Buy-back does not pose any material disadvantages to shareholders. However, in making their decision, shareholders should consider the factors set out below. Dr Haynes and Dr Jamieson, who were originally nominated by Shell, abstained from voting when the Buy-back was considered by the Board.

1. The Buy-back will increase Woodside's gearing.

As a result of the Buy-back, there will be an aggregate increase in net debt of US$2,680 million due to the impact of the new debt and cash outlaid to fund the Buy-back.

On a 31 December 2013 pro-forma basis, gearing will increase from 9.2% to 25.2%. The Board considers that this new capital structure will be appropriate, in line with stated targets and will not have an impact on Woodside's ability to pursue growth opportunities available to the Company, or affect its current credit ratings. Moody's and S&P have both confirmed Woodside's credit ratings at Baa1 and BBB+, respectively. Woodside will continue to target a strong investment credit rating.

The increased gearing following the completion of the Buy-back is not expected to affect Woodside's dividend policy.

		12 months 31 December 2013 historic	Buy-back adjustments	12 months 31 December 2013 pro-forma
Shareholders' equity	(US$m)	15,225	(2,680)	12,545
Net debt	(US$m)	1,541	2,680	4,221
Gearing	(%)	9.2		25.2

2. The Buy-back will reduce Woodside's franking credit balance.

The Buy-back will include a fully franked dividend component, which has been confirmed by a private ruling from the ATO. The balance of Woodside's unutilised franking credits is expected to reduce to approximately US$1,878 million if 78,271,512 shares are bought back at a price of US$34.24 per share.

Under its current dividend policy, Woodside will continue to generate annual franking credits in excess of distributions. The Board believes that the ability of Woodside to pay fully franked dividends in the future will not be affected by the release of franking credits under the Buy-back. Further, Woodside's significant remaining franking credit balance provides the flexibility to consider other capital management initiatives in the future.

3. The Buy-back will involve transaction costs.

Transaction costs of the Buy-back are estimated to be approximately A$6.4 million, representing approximately 0.22% of the value of the Buy-back. These costs include fees in relation to financial advisory, legal, Independent Expert, accounting and other fees.

2.5 What if the Buy-back does not proceed?

In the event that the Buy-back is not approved at the General Meeting, the relevant shares owned by Shell will not be bought back and cancelled and Shell will retain approximately 13.6% of the Company. The Sell-down was not conditional on shareholder approval and completed on 18 June 2014. Implications of the Buy-back not proceeding include:

- there will be continuing uncertainty in relation to Shell's residual stake in Woodside. This may cause the market to place a discount on Woodside shares on the basis that Shell is expected to sell a significant number of shares in the future. A share sale of this scale would often be at a discount to the market price, which in turn may lower the market price for the Company's shares. This uncertainty is likely to continue until Shell sells its residual shareholding in the Company;
- the Company may seek to re-engage in negotiation with Shell regarding other transactions to complete the objectives intended by the Buy-back. There can be no certainty as to the successful outcome or structure of such negotiation; and
- the expected DPS, EPS and CFPS accretion, and improvement in return on shareholders' equity resulting from the Buy-back will not be realised.

2.6 Approvals required to proceed

For the Buy-back to proceed, shareholders must pass the proposed resolution as a special resolution, meaning 75% of votes cast on the resolution (in person or by proxy) are cast in favour.

In accordance with the Corporations Act and the Listing Rules, the Company will disregard any votes cast on the proposed resolution by Shell or any of its associates.

2.7 Independent Expert's Report

As required by the Listing Rules and as recommended in ASIC Regulatory Guide 110, the Company appointed Grant Samuel and Associates as the Independent Expert to prepare a report on whether the Buy-back is, in the Independent Expert's opinion, fair and reasonable to non-Shell shareholders.

The Independent Expert has concluded that the proposed Buy-back is fair and reasonable to non-Shell shareholders, noting that:

"…shareholders are likely to be better off if the Buy-back Proposal is implemented than under the status quo."

The Independent Expert's Report is set out in full in Annexure A. The Board encourages you to read the report in full before deciding whether or not to vote in favour of the Buy-back.

2.8 Directors' recommendation

The Board considers that the Buy-back is in the best interests of the Company and recommends that non-Shell shareholders vote in favour of the resolution to approve the Buy-back. Dr Haynes and Dr Jamieson, who were originally nominated by Shell, abstained from voting when the Buy-back was considered by the Board.

3. Other effects of the Buy-back on the Company

3.1 Woodside will retain capacity to fund future growth

The Buy-back does not change Woodside's current growth prospects, nor Woodside's capacity to invest in those growth prospects.

The Company's diversified portfolio of strong cash flow generating assets, development assets as well as exploration assets allows Woodside to continue to focus on growth over the long term.

Woodside's key development asset Browse is making steady progress as FLNG plans are progressed. Woodside is also building a long-term foundation for growth through focus on extensive exploration assets, building from its Australian core to a balanced global footprint. These exploration assets are in emerging provinces of materiality and quality, including high potential opportunities in Ireland, Myanmar and New Zealand.

3.2 Increased shareholding in the Company for all non-Shell shareholders

The Buy-back will result in a material decrease in the holding of the largest shareholder on the Company's share register. Upon completion of the Buy-back and cancellation of the shares bought back, the proportionate shareholding of each non-Shell shareholder in the Company will increase by approximately 10.5%. For example, a shareholder holding 1.00% of the Company's shares prior to the Buy-back would hold approximately 1.10% after completion of the Buy-back. Accordingly, as the increase in the holding of each non-Shell shareholder would be relatively small, and proportionate to their existing shareholding, the Directors believe that the proposed Buy-back will not have a significant impact on the control of the Company.

3.3 On-going relationship with Shell

Woodside obtains goods and services from the Shell group of companies under various arm's-length contractual arrangements. Woodside does not consider that these arrangements will be materially affected by a full or partial divestment by Shell of its equity holding in Woodside.

Solen Verischerungen AG, a subsidiary of Shell's parent entity, currently participates in Woodside's insurance program. Following the Sell-down and Buy-back, Woodside will look to replace this insurance capacity from other insurers. This replacement capacity may incur some additional costs which are not expected to be material in the context of Woodside's operations.

4. Summary of the Buy-back Agreement

4.1 Number of shares and Buy-back consideration

Under the Buy-back Agreement, the Company has agreed to buy back 78,271,512 of Shell's shares, subject to certain conditions. The only outstanding condition is shareholder approval at the General Meeting.

If approved, the shares will be bought back at a price of US$34.24[3] per share.

At the date of this Explanatory Memorandum, the shares proposed to be bought back represent approximately 9.5% of the Company's issued share capital prior to cancellation.

The total consideration payable to Shell is US$2,680 million, which the Company will pay in cash upon completion of the Buy-back.

4.2 Conditions precedent

Completion of the Buy-back Agreement is now subject only to shareholder approval of the Buy-back for the purposes of the Corporations Act and the Listing Rules. The resolution to be put to the Meeting must be approved by 75% of the shareholders of the Company who vote on the resolution (excluding Shell and its associates).

If this remaining condition precedent is satisfied, completion of the Buy-back is expected to occur on or around 6 August 2014.

4.3 Effect of the Buy-back Agreement under Corporations Act

Under section 257H of the Corporations Act:

- all rights attaching to the shares subject to the Buy-back Agreement were suspended once the parties entered into the Buy-back Agreement;
- the Company must not dispose of the shares once they are bought back; and
- immediately after the registration of the transfer to the Company of the shares bought back, the shares must be cancelled.

4.4 Other provisions of the Buy-back Agreement

Warranties

Under the Buy-back Agreement, Woodside and Shell give mutual warranties as to status, authority, solvency and the binding nature of the agreement.

In addition, Shell represents and warrants to the Company that:

- Shell is the registered and beneficial owner of the shares the subject of the Buy-back Agreement which are free from all encumbrances;
- there is no restriction on the transfer of the shares which are the subject of the Buy-back Agreement; and
- as at the date of the Agreement, it is not in possession of any "inside information" within the meaning given in Part 7.10, Division 3 of the Corporations Act.

Further, the Company represents and warrants to Shell that:

- as at the date of the Meeting and as at completion of the Buy-back, it will have available to it sufficient funds to satisfy its obligation to pay the consideration in accordance with the Agreement;
- it will have sufficient franking credits available to it to pay the component of the Buy-back price deemed to be a dividend as a fully franked dividend;
- the franking percentage for the component of the consideration deemed to be a dividend will be 100% under section 203-35 of the *Income Tax Assessment Act 1997* (Cth);
- the component of the consideration debited against amounts standing to the credit of the Company's share capital account will be a specified amount per share;

3 The Buy-back is priced in US$ based on an average of USD:AUD exchange rates over the six days up to and including 16 June 2014 of 1.0659 for a Buy-back price of US$34.24 per share.

- the share capital account of the Company is not tainted for the purposes of Division 197 of the *Income Tax Assessment Act 1997* (Cth);
- as at the date of the Agreement, it has complied in all material respects with its continuous disclosure obligations under Listing Rule 3.1 and, other than in respect of the Buy-back, it is not relying on the carve-out in Listing Rule 3.1A to withhold any material information from public disclosure; and
- as at the date of the Agreement, it is not in possession of any "inside information" within the meaning given in Part 7.10, Division 3 of the Corporations Act.

Termination

The Buy-back Agreement may be terminated by either party if:

- the condition for shareholder approval is not satisfied by 30 September 2014;
- a majority of the Board change their recommendation that shareholders vote in favour of the Buy-back because of a change in conclusion by the Independent Expert; or
- there is a material breach of warranty.

4.5 Inspection of the Buy-back Agreement

A copy of the Buy-back Agreement is available for inspection by shareholders upon request at the Share Registry or at the registered office of the Company before the General Meeting.

5. Other information relevant to the Buy-back

5.1 Funding of the Buy-back

The Buy-back will be fully funded by Woodside's available existing cash and debt facilities. As at 31 May 2014, Woodside had liquidity of US$3.9 billion made up of cash and cash equivalents of US$2.3 billion and undrawn debt facilities of US$1.6 billion.

5.2 Legal and regulatory requirements

Financial statements

The Company released the audited financial statements for the Group for the financial year ended 31 December 2013 to ASX on 19 February 2014. Copies are available to shareholders, free of charge, on Woodside's website at www.woodside.com.au.

Requirements for shareholder approval

The Buy-back is a buy-back under the Corporations Act.

Under section 257A of the Corporations Act, the Company may only buy back its shares under a buy-back if:

- the buy-back does not materially prejudice the Company's ability to pay its creditors; and
- the Company follows the procedures set out in the Corporations Act for a buy-back.

The Board considers that the Buy-back will not materially prejudice the Company's ability to pay its creditors. Dr Haynes and Dr Jamieson, who were originally nominated by Shell, abstained from voting when the Buy-back was considered by the Board.

In relation to the procedures required by the Corporations Act, section 257D requires that the terms of a buy-back agreement for a buy-back be approved by a special resolution passed at a general meeting of the Company, with no votes being cast in favour of the resolution by any person whose shares are proposed to be bought back or by their associates.

Accordingly, the proposed resolution to approve the Buy-back Agreement is a special resolution and neither Shell (as the party whose shares will be bought back) nor any of its associates are permitted to vote in favour of the proposed resolution.

In addition, Listing Rule 10.1 prohibits the Company from acquiring a substantial asset from a substantial shareholder holding 10% or more of the Company's shares without shareholder approval.

As Shell holds more than 10% of the Company's shares, Listing Rule 10.1 applies to the acquisition by the Company of substantial assets from Shell.

An asset is a 'substantial asset' if its value, or the value of the consideration for it, is 5% or more of the equity interests of the Company as set out in its latest accounts given to ASX under the Listing Rules. The consideration to be paid by the Company for Shell's shares under the Buy-back Agreement makes the shares a 'substantial asset' for the purposes of this test.

Accordingly, the proposed resolution also seeks approval for the purposes of Listing Rule 10.1. In accordance with the Listing Rules, the Company must disregard any votes cast in favour of the resolution by Shell and its associates.

5.3 Share price information

The latest recorded sale price of the Company's shares on ASX before the date on which the Sell-down and Buy-back were announced was A$42.85 (as at close of trading on ASX on 16 June 2014).

The VWAP of shares sold on ASX over the 30 days leading up to the announcement date was approximately A$41.84.

The latest recorded sale price of the Company's shares on ASX before the date on which this Explanatory Memorandum was finalised was A$41.59 (as at close of trading on ASX on 26 June 2014).

Key trading data for the relevant periods are set out below.

Period	High	Low	VWAP
30 days prior to announcement (19 May 2014 – 16 June 2014)	A$43.05	A$40.19	A$41.84
7 trading days prior to the finalisation of this Notice (18 June 2014 - 26 June 2014)	A$41.87	A$40.73	A$41.31

Source: IRESS

5.4 Other information

There is no other information known to the Company that is considered material to a shareholder's decision as to how to vote on the proposed resolution.

No Director or any associate of a Director is participating in the Buy-back.

Any shareholder who has any doubt about the information provided in the Notice of Meeting or this Explanatory Memorandum, or the action that they should take, should consult their financial, taxation or other professional adviser.

6. Glossary and interpretation

6.1 Glossary

In this Explanatory Memorandum, words have the following meanings, unless the context requires otherwise.

Term	Meaning
ASIC	the Australian Securities and Investments Commission
ASX	ASX Limited ABN 98 008 624 691 and, where the context requires, the financial market that it operates
ATO	the Australian Taxation Office
Board	the board of Directors
Business Day	a weekday on which trading banks are open for business in Perth, Western Australia
Buy-back	the buy-back by the Company from Shell of 78,271,512 fully paid ordinary shares in the Company (representing an approximate 9.5% interest) on the terms and conditions set out in the Buy-back Agreement
Buy-back Agreement	the Buy-back Agreement dated 17 June 2014 between the Company and Shell
CFPS	cash flow per share
Company or Woodside	Woodside Petroleum Ltd ABN 55 004 898 962
Corporations Act	the *Corporations Act 2001*
Directors	the directors of the Company
DPS	dividends per share
EBIT	earnings before interest and tax
EBITDA	earnings before interest, tax, depreciation and amortisation
EPS	earnings per share
Explanatory Memorandum	the explanatory memorandum included in this document, including any annexure to it
Gearing	net debt / (net debt + shareholders equity)
General Meeting or Meeting	the general meeting of shareholders of the Company convened by the Notice of Meeting
Group	the Company and its Related Bodies Corporate
Independent Expert	Grant Samuel & Associates Pty Limited ABN 28 050 036 372
Independent Expert's Report	the report by the Independent Expert dated 27 June 2014, included as Annexure A to this Explanatory Memorandum
Listing Rules	the official listing rules of the ASX
Non-Shell shareholders	shareholders of the Company other than Shell and its associates
Notice of Meeting	the notice convening the General Meeting accompanying this Explanatory Memorandum
NPAT	net profit after tax
PBT	profit before tax
Related Body Corporate	the meaning given in section 50 of the Corporations Act
Sell-down	the sale by Shell of 78,271,512 Woodside shares, representing an approximate 9.5% interest, to institutional investors
Share Registry	Computershare Investor Services Pty Limited ABN 48 078 279 277
Shell	Shell Energy Holdings Australia Limited ABN 69 054 260 776
Voting Form	the voting form which accompanies this Explanatory Memorandum
VWAP	volume weighted average price

6.2 Interpretation

In this Explanatory Memorandum:

(1) other words and phrases have the same meaning (if any) given to them in the Corporations Act;

(2) words of any gender include all genders;

(3) words importing the singular include the plural and vice versa;

(4) an expression importing a person includes any company, partnership, joint venture, association, corporation or other body corporate and vice versa;

(5) a reference to a section or annexure, is a reference to a section, or annexure, of this Explanatory Memorandum as relevant;

(6) a reference to any legislation includes all delegated legislation made under it and amendment, consolidations, replacements or re-enactments of any of them;

(7) headings and bold type are for convenience only and do not affect the interpretation of this Explanatory Memorandum;

(8) a reference to time is a reference to AWST;

(9) an accounting term is a reference to that term as it is used in accounting standards under the Corporations Act, or, if not inconsistent with those standards, in accounting principles and practices generally accepted in Australia; and

(10) the words 'include', 'including', 'for example' or 'such as' when introducing an example do not limit the meaning of the words to which the example relates to, that example or examples of a similar kind.

Annexure A
Independent Expert's Report

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GRANT SAMUEL & ASSOCIATES

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27 June 2014

The Directors
Woodside Petroleum Ltd
Woodside Plaza
240 St Georges Terrace
Perth WA 6000

Dear Directors

Buy-back Proposal

1 Introduction

On 17 June 2014, Woodside Petroleum Ltd ("Woodside") announced that it had signed an agreement with Shell Energy Holdings Australia Limited ("Shell") to buy back 78.3 million Woodside shares (representing a 9.5% interest in Woodside) held by Shell for a total consideration of US$2.68 billion, or US$34.24 per share ("the Buy-back Proposal"). The consideration under the Buy-back Proposal is based on a price of A$36.49 per Woodside share, representing a 14% discount to the volume weighted average price ("VWAP") of Woodside shares traded on relevant Australian financial markets for the five days up to and including the close of trading on 16 June 2014 of A$42.43, converted at an exchange rate of A$1.00 = US$0.9382. The buy-back price of US$34.24 comprises:

- a capital return of US$7.95 per share; and
- a dividend of US$26.29 per share that will be fully franked.

The Buy-back Proposal will result in a debit to Woodside's franking account balance of US$995.3 million[1].

The Buy-back Proposal is part of a broader proposal ("the Transaction") pursuant to which Shell has also sold 78.3 million Woodside shares (representing a 9.5% interest in Woodside) to a group of institutional investors at a price of A$41.35 per share ("the Selldown"). The Selldown was completed on 18 June 2014.

The Buy-back Proposal is subject to the approval of Woodside shareholders other than Shell and its associates (the "non associated shareholders") in accordance with Section 257D of the Corporations Act, 2001 and Chapter 10 of the Listing Rules of the Australian Securities Exchange ("Listing Rule 10").

If the Buy-back Proposal is approved, Woodside will pay Shell a total of US$2.68 billion for 78.3 million shares in Woodside, to be funded from its existing cash balances and bank debt facilities. The shares bought back will be cancelled, reducing the number of issued shares in Woodside from 823.9 million to 745.6 million. Shell will have a residual interest in Woodside of 4.5%, compared to its shareholding immediately prior to announcement of the Transaction of 23.1%. Shell's right to nominate two directors to the board of Woodside will lapse but it is intended that the current directors who were nominated by Shell will remain on the Woodside board.

[1] Converted from A$ to US$ at the exchange rate at the close of trading on 16 June 2014 of A$1 = US$0.9411.

Woodside has engaged Grant Samuel & Associates Pty Limited ("Grant Samuel") to prepare an independent expert's report for the purposes of Listing Rule 10.1 stating whether, in Grant Samuel's opinion, the Buy-back Proposal is fair and reasonable to the non associated shareholders of Woodside. A copy of the report is to accompany the Notice of Meeting and Explanatory Memorandum ("Explanatory Memorandum") to be sent to shareholders by Woodside.

2 Opinion

In Grant Samuel's opinion, the Buy-back Proposal is fair and reasonable to the non associated shareholders of Woodside.

3 Summary of Key Conclusions

At a simple level, the purchase of shares from a related party at (or below) the prevailing share price is by definition fair unless the sharemarket is mispricing the company's shares (i.e. overvaluing the shares) or the buy-back has a material adverse impact on the company that will result in a fall in the share price.

Based on the analysis undertaken by Grant Samuel, there is no evidence to suggest that the market price immediately prior to announcement of the Buy-back Proposal did not represent the fair market value of Woodside shares at the time. The market for Woodside shares appears to be well informed and there is nothing to suggest that Woodside shares are mispriced:

- Woodside shares are trading at prices that are at three year highs having steadily increased since mid-2012. Although some company specific factors (such as termination of the Leviathan Joint Venture Memorandum of Understanding) may have had an impact on the share price, recent movements in the share price are consistent with the performance of Woodside's Australian listed peers and the market as a whole. In the two months leading up to the announcement of the Transaction, Woodside shares also closely tracked the S&P Commodity Producers Oil & Gas Exploration & Production Index (an index comprising many of the world's largest publicly-traded oil and gas companies);
- market metrics such as forecast price earnings multiples show that Woodside is trading at levels similar to those of its domestic and international peers. An analysis of dividend yields shows a similar result after taking into account differences in capital spending commitments and dividend payout ratios of the comparable companies;
- Woodside is closely followed by a wide range of analysts and commentators. While Woodside is trading above most brokers' 12 month price targets, many of the brokers have been influenced by Woodside's long term declining production profile whereas the current share price appears to be driven more by short term factors such as the strength of the oil price and Woodside's high dividend yield;
- management of Woodside has confirmed that there is no information about the business which, in its opinion, would materially affect the share price but is not in the public domain;
- the relatively high level of share turnover and the tight bid/ask spread for Woodside shares indicates that it is a reasonably liquid stock. Woodside has trading statistics similar to those of its peers, notwithstanding that its free float[2] is only approximately 77% of its shares in issue. Its share price volatility is also consistent with that of its peers; and
- analysis of reported short positions indicates that while reported short positions have increased as Woodside's share price has increased, Woodside's share price has not been impacted by any material level of short selling.

The effect of the Buy-back Proposal on ownership and control of Woodside and on its key financial metrics is unlikely to have an adverse impact on the Woodside share price.

[2] Free float is a term used to describe the shares that are freely tradeable on the securities exchange and excludes shares held in large blocks that are not expected to be sold in the foreseeable future.

However, in this case there is a further issue relating to fairness that needs to be addressed because the consideration payable to Shell partly comprises a capital return and partly a fully franked dividend. Accordingly, in addition to the cash payment, Shell receives franking credits with a face value of US$11.30[3] per share.

There is considerable debate and uncertainty about attributing value to franking credits. Nevertheless, in this case:

- the price for the Buy-back Proposal was calculated as a 14% discount to the five day VWAP preceding the announcement (i.e. effectively 14% below the prevailing market price). At least in part, this discount offsets the value of the franking credits that will be distributed to Shell. The discount is equal to approximately 50% of the face value of the franking credits;
- the 14% discount is in line with previous off-market buy-backs but, more importantly, corresponds to the maximum discount allowed by the Australian Taxation Office for any off-market buy-back. In other words, the purchase price of US$34.24 is equal to, or quite possibly less than, the price that would, theoretically, be paid by Woodside if it was to buy back the same quantity of shares (with the same dividend component) from shareholders other than Shell (e.g. through an open access tender); and
- in the absence of a material change in its business mix, Woodside expects to continue to generate sufficient franking credits from its Australian operations to cover its annual dividends (at the targeted payout ratio of 80%). Even after the debits to Woodside's franking account balance resulting from the Buy-back Proposal, Woodside will have surplus franking credits of approximately US$1.878 billion. This level of franking credits would be sufficient to fully frank a one-off dividend (whether by way of special dividend or through an off-market buy-back) of up to US$4.381 billion (US$5.88 per share)[4].

  Woodside will continue to pursue capital management opportunities (and cash flows are expected to be strong over the next few years) but cash returns to shareholders (over and above annual dividends) of greater than US$4.381 billion are well in excess of Woodside's current views on the level of surplus capital that might be potentially returned to shareholders in the medium term. As a result, the Buy-back Proposal appears unlikely to affect Woodside's ability to pay fully franked dividends as part of any future capital management initiatives.

  Accordingly, the franking credits being distributed to Shell are not credits that would otherwise have been available to other shareholders in the medium term (in the absence of a material change in circumstances). In this respect, non associated shareholders are not directly disadvantaged by the distribution of franking credits to Shell.

On this basis, the Buy-back Proposal is fair. As it is fair, it is also reasonable. In any event, the benefits and advantages of the Buy-back Proposal and the broader Transaction (including the Selldown) outweigh the disadvantages, risks and costs.

The major advantages and benefits for non associated shareholders if the Transaction is implemented are summarised below:

- it facilitates a move to a more efficient capital structure for Woodside. Woodside is currently undergeared (with gearing[5] at 31 December 2013 of 9.2%). If the Buy-back Proposal is implemented, Woodside's pro forma gearing at 31 December 2013 increases to 25.2%, consistent with Woodside's target gearing ratio of 25% and within its target range of 10-30% through the investment cycle;

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3 Converted from A$ to US$ at the exchange rate at the close of trading on 16 June 2014 of A$1 = US$0.9411.

4 Assuming a 30% corporate tax rate. If the corporate tax rate is reduced to 28.5% (as currently intended by the Commonwealth Government), the franking credits would be sufficient to fully frank a dividend of US$4,710 billion (US$6.32 per share).

5 Gearing is calculated as net borrowings divided by net assets attributable to Woodside shareholders plus net borrowings. This is consistent with the method of calculation adopted by Woodside in its annual reports.

- pro forma earnings per share will increase and there is therefore scope to increase dividends per share in the future (relative to dividends under the status quo) while maintaining the same dividend payout ratio should Woodside decide to do so. Both of these factors should have a positive impact on the Woodside share price. However, it should be recognised that the positive impact on earnings per share is largely the result of increasing the leverage in the capital structure (as well as buying back the shares at a discount);
- an increase in the liquidity of Woodside shares. The free float[6] will increase from approximately 77% to 95.5%, creating a larger pool of shares available to trade. Woodside's weighting in key indices will increase as 100% of Woodside's share capital will be eligible for inclusion in these indices. In particular, there should be greater demand for shares, at least initially, as index based investors adjust their portfolios;
- Shell's 23.1% shareholding creates an overhang[7] in the market for Woodside shares, particularly since Shell's initial selldown of 78.3 million shares in November 2010. Removal of this overhang would be beneficial for the non associated shareholders. The Transaction reduces Shell's holding from 23.1% to 4.5% but does not eliminate the overhang and, arguably, may exacerbate the issue in the short term (as it might be assumed Shell will want to realise its residual holding in a reasonably short time frame subject to the commitment it has made to retain its residual holding for a period of 90 days following completion of the Selldown). On the other hand, the Transaction is the critical step in facilitating an orderly exit for Shell. The residual 4.5% interest is below the reportable threshold for a substantial shareholder of 5% and is therefore a much more manageable holding to sell whether through the market or otherwise, without disclosure; and
- increased potential for a change of control transaction (which would include payment of a premium for control to Woodside shareholders), although in reality, this change is likely to have minimal impact given Shell's publicly stated intention to divest assets and uncertainty as to whether a foreign bidder would be permitted to acquire Woodside.

The disadvantages, risks and costs of the Transaction are:

- the Buy-back Proposal increases Woodside's net borrowings by US$2.68 billion and its gearing from 9.2% to 25.2%. It also reduces the funds available under Woodside's existing debt facilities. However:
  - the increase in debt and gearing is consistent with Woodside's target gearing ratio of 25% and within its target range of 10-30% through the investment cycle, resulting in a more efficient capital structure;
  - Woodside expects to retain its BBB+ and Baa1 credit ratings as it remains within key metrics required by Standard & Poor's Financial Services LLC ("S&P") and Moody's Investors Service Pty Limited ("Moody's"). Following announcement of the Buy-back Proposal, S&P released an update affirming Woodside's BBB+ credit rating but revising its outlook from positive to stable. While the Buy-back Proposal results in a weakening of Woodside's current strong key credit metrics, S&P believes that Woodside's key credit metrics remain well within the levels expected for the "modest" financial risk profile required for a BBB+ credit rating. Moody's confirmed that Woodside's Baa1 rating and stable outlook were unaffected by the Buy-back Proposal, stating that while the buy-back was credit negative, Woodside has sufficient headroom within the Baa1 rating to undertake the Buyback Proposal;
  - although the Buy-back Proposal results in a weakening of debt covenant ratios under Woodside's debt financing facilities, it does not result in Woodside coming close to breaching any of its existing covenants;

6 Free float is a term used to describe the shares that are freely tradeable on the securities exchange and excludes shares held in large blocks that are not expected to be sold in the foreseeable future.

7 An overhang is the downward pressure on the market price of shares which arises when the market expects a significant parcel of shares to be sold in the short term.

  - this higher level of gearing remains below that of its domestic peers, which have gearing levels at 31 December 2013 that range from 33% to 51%, and is not inconsistent with the range of gearing of international peers; and
  - Woodside believes it will continue to have the ability to fund its growth plans which, when combined with sustaining capital expenditure, are expected to require capital expenditure of US$1.2 billion in 2014, increasing to an average of US$2.0 billion per year over the 2015-2017 period (based on the current asset portfolio including the Browse Joint Venture). Apart from the remaining capacity within its existing facilities, Woodside has a number of funding alternatives for future capital expenditure including internal reserves (Woodside generated US$3.756 billion in earnings before net interest, tax, depreciation and amortisation in 2013 and this is expected to increase to approximately US$5 billion in 2014 and 2015, based on median consensus brokers' forecasts), increased or new debt facilities and equity;

- pro forma net tangible assets ("NTA") per share as at 31 December 2013 will decrease from US$18.48 to US$16.82 as a result of the Buy-back Proposal. However, NTA per share is not an important measure of value for a company such as Woodside and the reduction in NTA per share is unlikely to have any material negative impact on the Woodside share price;
- from a capital management perspective, an alternative to the Buy-back Proposal could have been an open access off-market buy-back of 78.3 million shares or a special dividend. An open access share buy-back would have been attractive to some categories of Woodside shareholders, in particular superannuation funds and other low tax rate investors resident in Australia. However:
  - such a transaction would not have met the fundamental objective of the Transaction, being the sale by Shell of the vast majority of its shareholding;
  - it would not provide a better outcome for Woodside itself or for all the other shareholders that did not participate in the open access tender; and
  - the opportunity cost for this subset of shareholders needs to be considered against the other benefits of the Buy-back Proposal.

  Similarly, a special dividend (combined with the Selldown) would not have achieved an acceptable outcome as Shell would have been left with a 13.6% shareholding in Woodside; and
- Woodside will incur costs of US$6.4 million in relation to the Transaction. These costs are one off and are not material in the overall context of Woodside.

The Woodside share price fell on the first day of trading subsequent to announcement of the Buy-back Proposal, closing at A$40.90. The reasons for this are not clear, but given the high volumes (over 20 million shares traded), the share price fall may have been the result of churning by institutions involved in the Selldown. The share price has since recovered, closing at A$41.59 on 26 June 2014, within 3% of the pre-announcement share price, but it may take several days for the share price to settle at a new equilibrium.

In summary, shareholders are likely to be better off if the Buy-back Proposal is implemented than under the status quo.

4 Other Matters

This report is general financial product advice only and has been prepared without taking into account the objectives, financial situation or needs of individual Woodside shareholders. Accordingly, before acting in relation to their investment, shareholders should consider the appropriateness of the advice having regard to their own objectives, financial situation or needs. Shareholders should read the Explanatory Memorandum issued by Woodside in relation to the Buy-back Proposal.

Voting for or against the Buy-back Proposal is a matter for individual shareholders based on their views as to value, their expectations about market conditions and their particular circumstances including risk profile, liquidity preference and tax position. Shareholders who are in doubt as to the action they should take in relation to the Buy-back Proposal should consult their own professional adviser.

Grant Samuel has prepared a Financial Services Guide as required by the Corporations Act, 2001. The Financial Services Guide is included at the beginning of the full report.

This letter is a summary of Grant Samuel's opinion. The full report from which this summary has been extracted is attached and should be read in conjunction with this summary.

The opinion is made as at the date of this letter and reflects circumstances and conditions as at that date.

Yours faithfully
GRANT SAMUEL & ASSOCIATES PTY LIMITED

Grant Samuel & Associates

woodside

Financial Services Guide
and
Independent Expert's Report
in relation to the
Buy-back Proposal

Grant Samuel & Associates Pty Limited

(ABN 28 050 036 372)

27 June 2014

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Financial Services Guide

Grant Samuel & Associates Pty Limited ("Grant Samuel") holds Australian Financial Services Licence No. 240985 authorising it to provide financial product advice on securities and interests in managed investments schemes to wholesale and retail clients.

The Corporations Act, 2001 requires Grant Samuel to provide this Financial Services Guide ("FSG") in connection with its provision of an independent expert's report ("Report") which is included in a document ("Disclosure Document") provided to members by the company or other entity ("Entity") for which Grant Samuel prepares the Report.

Grant Samuel does not accept instructions from retail clients. Grant Samuel provides no financial services directly to retail clients and receives no remuneration from retail clients for financial services. Grant Samuel does not provide any personal retail financial product advice to retail investors nor does it provide market-related advice to retail investors.

When providing Reports, Grant Samuel's client is the Entity to which it provides the Report. Grant Samuel receives its remuneration from the Entity. In respect of the Report for Woodside Petroleum Ltd ("Woodside") in relation to the Buy-back Proposal ("the Woodside Report"), Grant Samuel will receive a fixed fee of A$570,000 plus reimbursement of out-of-pocket expenses for the preparation of the Report (as stated in Section 5.3 of the Woodside Report).

No related body corporate of Grant Samuel, or any of the directors or employees of Grant Samuel or of any of those related bodies or any associate receives any remuneration or other benefit attributable to the preparation and provision of the Woodside Report.

Grant Samuel is required to be independent of the Entity in order to provide a Report. The guidelines for independence in the preparation of Reports are set out in Regulatory Guide 112 issued by the Australian Securities & Investments Commission on 30 March 2011. The following information in relation to the independence of Grant Samuel is stated in Section 5.3 of the Woodside Report:

> *"Grant Samuel and its related entities do not have at the date of this report, and have not had within the previous two years, any business or professional relationship with Woodside or Shell or any financial or other interest that could reasonably be regarded as capable of affecting its ability to provide an unbiased opinion in relation to the Buy-back Proposal.*
>
> *Grant Samuel commenced analysis for the purposes of this report in May 2014 prior to the announcement of the Buy-back Proposal. This work did not involve Grant Samuel participating in the setting the terms of, or any negotiations leading to, the Buy-back Proposal.*
>
> *Grant Samuel had no part in the formulation of the Buy-back Proposal. Its only role has been the preparation of this report.*
>
> *Grant Samuel will receive a fixed fee of A$570,000 for the preparation of this report. This fee is not contingent on the outcome of the Buy-back Proposal. Grant Samuel's out of pocket expenses in relation to the preparation of the report will be reimbursed. Grant Samuel will receive no other benefit for the preparation of this report.*
>
> *Grant Samuel considers itself to be independent in terms of Regulatory Guide 112 issued by the ASIC on 30 March 2011."*

Grant Samuel has internal complaints-handling mechanisms and is a member of the Financial Ombudsman Service, No. 11929. If you have any concerns regarding the Woodside Report, please contact the Compliance Officer in writing at Level 19, Governor Macquarie Tower, 1 Farrer Place, Sydney NSW 2000. If you are not satisfied with how Grant Samuel responds, you may contact the Financial Ombudsman Service at GPO Box 3 Melbourne VIC 3001 or 1300 780 808. This service is provided free of charge.

Grant Samuel holds professional indemnity insurance which satisfies the compensation requirements of the Corporations Act, 2001.

Grant Samuel is only responsible for the Woodside Report and this FSG. Complaints or questions about the Disclosure Document should not be directed to Grant Samuel which is not responsible for that document. Grant Samuel will not respond in any way that might involve any provision of financial product advice to any retail investor.

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1 Terms of the Transaction

On 17 June 2014, Woodside Petroleum Ltd ("Woodside") announced that it had signed an agreement with Shell Energy Holdings Australia Limited ("Shell") to buy back 78.3 million Woodside shares (representing a 9.5% interest in Woodside) held by Shell for a total consideration of US$2.68 billion, or US$34.24 per share ("the Buy-back Proposal"). Shell is a wholly owned subsidiary of Royal Dutch Shell plc[1].

The consideration under the Buy-back Proposal is based on a price of A$36.49 per Woodside share, representing a 14% discount to the volume weighted average price ("VWAP") of Woodside shares traded on the Australian Securities Exchange ("ASX") and on the financial market operated by Chi-X Australia for the five trading days up to and including the close of trade on 16 June 2014 of A$42.43. The consideration has been converted to US$ based on an average of A$/US$ exchange rates over the six days up to and including 16 June 2014 of A$1.00 = US$0.9382. The buy-back price of US$34.24 comprises:

- a capital return of US$7.95 per share; and
- a dividend of US$26.29 per share that will be fully franked.

The Buy-back Proposal will result in a debit to Woodside's franking account balance of US$995.3 million[2].

The Buy-back Proposal is part of a broader proposal ("the Transaction") pursuant to which Shell has also sold 78.3 million Woodside shares (representing a 9.5% interest in Woodside) to a group of institutional investors at a price of A$41.35 per share ("the Selldown"). The Selldown was completed on 18 June 2014.

The Buy-back Proposal is subject to the following remaining conditions:

- approval by special resolution of Woodside shareholders other than Shell and its associates (the "non associated shareholders") to be held on 1 August 2014; and
- an independent expert opining that the Buy-back Proposal is fair and reasonable to the non associated shareholders of Woodside.

The Buy-back Proposal was also subject to Woodside receiving all consents to the buy-back required under its debt facility agreements. These consents were received by 20 June 2014.

If the remaining conditions are not satisfied or waived by 30 September 2014, the agreement between Woodside and Shell may be terminated and the Buy-back Proposal will not be implemented.

If the Buy-back Proposal is approved:

- Woodside will utilise a total of US$2.68 billion from its existing cash balances and bank debt facilities and this amount will be paid to Shell in return for 78.3 million shares in Woodside;
- the shares bought back from Shell will be cancelled, reducing the number of issued shares in Woodside from 823.9 million to 745.6 million;
- Shell will have a residual holding in Woodside of 33.6 million shares. This holding will represent an interest of 4.5% in Woodside, compared to its shareholding immediately prior to announcement of the Transaction of 23.1% and below the reportable threshold for a substantial shareholder of 5%. As part of the Selldown, Shell has committed to retain its remaining shares in Woodside for 90 days following completion of the Selldown, subject to limited exceptions; and
- Shell's right to nominate two directors to the board of Woodside will lapse but it is intended that the current directors who were nominated by Shell will remain on the Woodside board.

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1 For the purposes of this report, Shell means either Shell Energy Holdings Australia Limited or the broader group comprising Royal Dutch Shell plc and its subsidiaries, depending on the context.

2 Converted from A$ to US$ at the exchange rate at the close of trading on 16 June 2014 of A$1 = US$0.9411. The amount of US$995.3 million includes an additional debit of US$110.6 million as a result of the application of Section 177EA(5)(a) of the Income Tax Assessment Act 1936 ("the Tax Act").

2 Scope of the Report

2.1 Purpose of the Report

The Buy-back Proposal is subject to the approval of Woodside shareholders in accordance with:

- Section 257D of the Corporations Act, 2001 ("Corporations Act") ("Section 257D"); and
- Chapter 10 of the Listing Rules of the ASX ("Listing Rule 10").

Section 257D deals with the shareholder approval process for selective buy-backs. Under Section 257D, a selective buy-back must be approved by a special resolution passed at a general meeting of the company, with no votes cast in favour of the resolution by any person whose shares are proposed to be bought back or by their associates, or alternatively, a resolution passed at a general meeting by all ordinary shareholders. Section 257D does not require the provision of an independent expert's report. However, Regulatory Guide 110 issued by the Australian Securities & Investments Commission ("ASIC") does provide that if a company proposes to buy back a significant percentage of its shares or the holding of a major shareholder, the company should consider providing an independent expert's report.

Listing Rule 10 deals with transactions between a listed company and persons in a position of influence over that company. In particular, Listing Rule 10.1 prohibits an entity from acquiring a substantial asset from a related party or a substantial shareholder without the approval of non associated shareholders. Substantial assets are defined as assets with a value exceeding 5% of shareholders' funds. Substantial shareholders are defined as persons entitled to at least 10% of the voting rights at any time in the six months prior to the transaction. Shell holds 23.1% of the voting shares in Woodside. Under the Transaction, Woodside will acquire part of that shareholding from Shell for US$2.68 billion, which exceeds 5% of Woodside's shareholders' funds of US$15.225 billion as at 31 December 2013. Therefore, approval of the non associated shareholders is required. Listing Rule 10.10 requires the notice of meeting at which such approval is sought to include an independent expert's report stating whether the transaction is fair and reasonable to the non associated shareholders.

Woodside has engaged Grant Samuel & Associates Pty Limited ("Grant Samuel") to prepare an independent expert's report for the purposes of Listing Rule 10.1 stating whether or not, in Grant Samuel's opinion, the Buy-back Proposal is fair and reasonable to the non associated shareholders. A copy of the report is to accompany the Notice of Meeting and Explanatory Memorandum ("the Explanatory Memorandum") to be sent to shareholders by Woodside.

This report is general financial product advice only and has been prepared without taking into account the objectives, financial situation or needs of individual Woodside shareholders. Accordingly, before acting in relation to their investment, shareholders should consider the appropriateness of the advice having regard to their own objectives, financial situation or needs. Shareholders should read the Explanatory Memorandum issued by Woodside in relation to the Buy-back Proposal.

Voting for or against the Buy-back Proposal is a matter for individual shareholders based on their views as to value, their expectations about future market conditions and their particular circumstances including risk profile, liquidity preference and tax position. Shareholders who are in doubt as to the action they should take in relation to the Buy-back Proposal should consult their own professional adviser.

Similarly, it is a matter for individual shareholders as to whether to buy, hold or sell shares in Woodside. This is an investment decision independent of a decision to vote for or against the Buy-back Proposal upon which Grant Samuel does not offer an opinion. Shareholders should consult their own professional adviser in this regard.

2.2 Basis of Evaluation

The ASX does not provide specific guidance as to the analysis required in assessing whether a proposed transaction is fair and reasonable to non associated shareholders for the purposes of Listing Rule 10. However, ASIC has issued Regulatory Guide 111 which establishes guidelines in respect of independent expert's reports under the Corporations Act. ASIC Regulatory Guide 111 differentiates between the analysis required for control transactions and other transactions. In the context of control transactions (whether by takeover bid, by scheme of arrangement, by the issue of securities or by selective capital reduction or buy-back), the expert is required to distinguish between "fair" and "reasonable". A proposal that was "fair and reasonable" or "not fair but reasonable" would be in the best interests of shareholders (if the transaction was being undertaken by way of a Scheme of Arrangement). For most other transactions the expert is to weigh up the advantages and disadvantages of the proposal for shareholders. If the advantages outweigh the disadvantages, the proposal would be in the best interests of shareholders.

ASIC Regulatory Guide 111 provides that where an expert assesses whether a transaction with a person in a position of influence requiring approval of shareholders under Listing Rule 10 is "fair and reasonable", this involves a separate assessment of whether the transaction is "fair" and "reasonable", as in a control transaction.

An asset acquisition under Listing Rule 10 will be "fair" if the value of the financial benefit being offered by the company to the person in a position of influence is equal to or less than the value of the assets being acquired. For this comparison, value is determined assuming a knowledgeable and willing, but not anxious, buyer and a knowledgeable and willing, but not anxious, seller acting at arm's length and, for control transactions, assuming 100% ownership of the target. In valuing the financial benefit offered and the assets being acquired by the company, all material terms of the proposed transaction should be taken into account.

The shares bought back by Woodside will be cancelled in accordance with the Corporations Act. Therefore, the Buy-back Proposal is not a control transaction (as there is no acquisition of, or increase in, a controlling stake in the company) and there is no requirement to value Woodside assuming 100% ownership.

Reasonableness involves an analysis of other factors (i.e. factors that do not bear directly on value) that shareholders might consider in their assessment of a proposal.

Fairness is a more demanding criteria. A "fair" proposal will always be "reasonable" but a "reasonable" proposal will not necessarily be "fair". A proposed transaction under Listing Rule 10 could be considered "reasonable" if there were valid reasons to vote in favour notwithstanding that it was not "fair".

Grant Samuel has determined whether the Buy-back Proposal is fair by comparing the value of the financial benefit being offered by Woodside to Shell with the value of the assets being acquired. The Buy-back Proposal will be fair if the consideration paid to buy back the Woodside shares is equal to or less than the fair market value of the Woodside shares acquired.

In considering whether the Buy-back Proposal is reasonable, the factors that have been considered include:

- the financial impact on Woodside if the Buy-back Proposal proceeds, including the impact on earnings per share, net tangible assets per share and financial position including gearing and its ability to finance growth opportunities;
- the impact of the Buy-back Proposal on ownership and control of Woodside;
- the likely impact of the Buy-back Proposal on investor sentiment, Woodside's share price and Woodside's market rating;
- the impact on Woodside's business and operations, including its ongoing relationship with Shell; and

- other factors including opportunity costs, alternative options and Woodside's bargaining position.

2.3 Sources of the Information

The following information was utilised and relied upon, without independent verification, in preparing this report:

Publicly Available Information

- the Explanatory Memorandum (including earlier drafts);
- Woodside annual report for the years ended 31 December 2011, 2012 and 2013;
- press releases, public announcements, media and analyst presentation material and other public filings by Woodside including information available on its website;
- credit rating reports prepared by Standard & Poor's Financial Services LLC ("S&P") and Moody's Investors Services Pty Limited ("Moody's");
- brokers' reports and recent press articles on Woodside and the Australian upstream oil and gas industry; and
- sharemarket data and related information on Woodside and Australian and international listed companies engaged in the upstream oil and gas industry.

Non Public Information provided by Woodside

- projections for the years ending 31 December 2014 and 2015 prepared by Woodside management;
- the debt covenants that apply under Woodside's existing debt facilities and calculation of these ratios for the years ending 31 December 2014 and 2015 under the status quo and assuming a US$2.68 billion buy-back; and
- other confidential documents, board papers, presentations and working papers.

In preparing this report, representatives of Grant Samuel held discussions with, and obtained information from, senior management of Woodside and its advisers.

2.4 Limitations and Reliance on Information

Grant Samuel believes that its opinion must be considered as a whole and that selecting portions of the analysis or factors considered by it, without considering all factors and analyses together, could create a misleading view of the process underlying the opinion. The preparation of an opinion is a complex process and is not necessarily susceptible to partial analysis or summary.

Grant Samuel's opinion is based on economic, sharemarket, business trading, financial and other conditions and expectations prevailing at the date of this report. These conditions can change significantly over relatively short periods of time. If they did change materially, subsequent to the date of this report, the opinion could be different in these changed circumstances.

This report is also based upon financial and other information provided by Woodside and its advisers. Grant Samuel has considered and relied upon this information. Woodside has represented in writing to Grant Samuel that, to its knowledge, the information provided by it was complete and not incorrect or misleading in any material aspect. Grant Samuel has no reason to believe that any material facts have been withheld.

The information provided to Grant Samuel has been evaluated through analysis, inquiry and review to the extent that it considers necessary or appropriate for the purposes of forming an opinion as to whether the Buy-back Proposal is fair and reasonable having regard to the interests of the non associated shareholders of Woodside. However, Grant Samuel does not warrant that its inquiries have identified or verified all of the matters that an audit, extensive examination or "due diligence" investigation might disclose. While Grant Samuel has made what it considers to be appropriate inquiries for the purposes of forming its opinion, "due diligence" of the type undertaken by companies and their advisers in relation to, for example, prospectuses or profit forecasts, is beyond the scope of an independent expert. Accordingly, this report and the opinions expressed in it should be considered more in the nature of an overall review of the anticipated commercial and financial implications rather than a comprehensive audit or investigation of detailed matters.

An important part of the information used in forming an opinion of the kind expressed in this report is comprised of the opinions and judgement of management. This type of information was also evaluated through analysis, inquiry and review to the extent practical. However, such information is often not capable of external verification or validation.

Preparation of this report does not imply that Grant Samuel has audited in any way the management accounts or other records of Woodside. It is understood that the accounting information that was provided was prepared in accordance with generally accepted accounting principles and in a manner consistent with the method of accounting in previous years (except where noted).

Woodside is responsible for the information contained in the management projections ("the forward looking information"). The forward looking information was utilised by Grant Samuel in its analysis but was not directly relied on for the purposes of forming its opinion as to whether the Buy-back Proposal is fair and reasonable to the non associated shareholders of Woodside.

Grant Samuel has no reason to believe that the forward looking information reflects any material bias, either positive or negative. However, the achievability of the forward looking information is not warranted or guaranteed by Grant Samuel. Future profits and cash flows are inherently uncertain. They are predictions by management of future events that cannot be assured and are necessarily based on assumptions, many of which are beyond the control of the company or its management. Actual results may be significantly more or less favourable.

The directors of Woodside have not publicly released any guidance about earnings for the years ending 31 December 2014 or 2015 and have decided not to include forecasts in the Explanatory Memorandum. Therefore this information has not been disclosed in this report.

To provide an indication of the impact of the Buy-back Proposal on the expected financial performance of Woodside, Grant Samuel has considered brokers' forecasts for Woodside (see Appendix 1). Grant Samuel has used the median of the brokers' forecasts to calculate parameters to enable comparison with its peers and the impact of the Buy-back Proposal. These medians are sufficiently close to Woodside's management projections to be useful for analytical purposes.

In forming its opinion, Grant Samuel has also assumed that:

- matters such as title, compliance with laws and regulations and contracts in place are in good standing and will remain so and that there are no material legal proceedings, other than as publicly disclosed;
- the information set out in the Explanatory Memorandum sent by Woodside to its shareholders is complete, accurate and fairly presented in all material respects;
- the publicly available information relied on by Grant Samuel in its analysis was accurate and not misleading;
- the Buy-back Proposal will be implemented in accordance with its terms; and
- the legal mechanisms to implement the Buy-back Proposal are correct and will be effective.

To the extent that there are legal issues relating to assets, properties, or business interests or issues relating to compliance with applicable laws, regulations, and policies, Grant Samuel assumes no responsibility and offers no legal opinion or interpretation on any issue.

3 Profile of Woodside

3.1 Background

Overview

Woodside was listed on the Melbourne Stock Exchange in July 1954 and on the ASX in November 1971. Its initial operations were in Victoria's Gippsland Basin, but it changed its focus to northern Western Australia in the early 1960s and has become one of the world's leading producers of liquefied natural gas ("LNG") from this region.

Woodside is Australia's largest independent oil and gas company with a current market capitalisation of approximately A$35 billion.

Business Operations

Woodside's major business operations are:

- **North West Shelf Project**

  Woodside is one of six joint venture participants in, and is the operator of, the North West Shelf Project ("NWS Project"), Australia's largest operating oil and gas resource development and one of the world's largest LNG producers. The NWS Project's principal offshore assets are located approximately 135 kilometres north west of Karratha in Western Australia. The NWS Project supplied its first gas to the domestic market in 1984 and its first LNG shipment to Japan in 1989. Offshore production facilities include four gas and condensate producing platforms (including the recently commissioned platform as part of the A$5 billion North Rankin Redevelopment Program) and the oil producing Okha floating production storage and offloading ("FPSO") vessel. Onshore facilities include five LNG processing trains, two domestic gas trains and three liquefied petroleum gas ("LPG") fractionation units. The project has an annual production capacity of 16.3 million tonnes of LNG. It is Western Australia's largest single producer of domestic gas.

  At 31 December 2013, Woodside's share of NWS Project proved plus probable reserves was 506.9 million barrels of oil equivalent ("MMboe"), representing approximately 12 years of current LNG production.

- **Pluto LNG**

  Woodside has a 90% interest in, and is the operator of, Pluto LNG. The Pluto gas field is located offshore in the Carnarvon Basin approximately 190 kilometres north west of Karratha in Western Australia. The foundation project comprises an offshore platform with gas piped to the onshore facility on the Burrup Peninsula (a single LNG processing train, two LNG and three condensate storage tanks and an LNG and condensate export jetty). Pluto LNG commenced operations in April 2012 and has an annual production capacity of 4.3 million tonnes of LNG. The project is underpinned by 15 year sales agreements with Kansai Electric Australia Pty Ltd ("Kansai Electric") and Tokyo Gas Australia Pty Ltd ("Tokyo Gas") (each of which owns a 5% interest in the project).

  At 31 December 2013, Woodside's share of Pluto LNG proved plus probable reserves was 884.6 MMboe, representing approximately 25 years of current LNG production.

- **Australia Oil (excluding NWS Project)**

  Woodside owns oil developments offshore from Western Australia, including a 60% interest in the Enfield and Vincent oil fields and a 50% interest in the Stybarrow oil field. These fields are located approximately 40-50 kilometres off the North West Cape in Western Australia. Woodside also owns a majority interest in the Laminaria-Corallina oil field in the Timor Sea (550 kilometres north west of Darwin). Enfield, Vincent and Laminaria-Corallina are operated by Woodside using FPSOs. Woodside has the largest fleet of FPSOs in Australia. Stybarrow production is also undertaken using an FPSO.

  These oil developments have contributed more than 300 million barrels of oil since production began in 1999 and are now in natural field decline. At 31 December 2013, Woodside's share of proved and probable reserves was 41.6 MMboe, representing approximately nine times the production from these assets in 2013[3]. Woodside is pursuing opportunities to offset natural field decline through infill wells, near-field tiebacks and increased production reliability.

Woodside is also active in exploration in Australia, with a focus on mature and emerging basins located around its existing infrastructure.

- **Browse**

  Woodside is the major equity holder in, and the operator of, the Browse Joint Venture, the fields of which are estimated to contain gross (100%) contingent resources of 14.9 trillion cubic feet ("Tcf") of dry gas and 441.2 million barrels of condensate (net Woodside share of 4.7 Tcf of dry gas and 138.1 million barrels of condensate). The Browse Basin is located offshore approximately 425 kilometres north of Broome in Western Australia. In September 2013, the Browse Joint Venture participants selected the use of floating LNG ("FLNG") technology as the development concept to commercialise the resource, combining Shell's FLNG technology and Woodside's offshore development expertise.

  Woodside is targeting a final investment decision ("FID") for the Browse Joint Venture in the second half of 2015. Once developed, the project is expected to have a life of 40-50 years.

- **Greater Sunrise**

  The Sunrise and Troubadour gas and condensate fields (collectively called the Greater Sunrise fields) are located approximately 150 kilometres south east of Timor-Leste and 450 kilometres north west of Darwin in the Northern Territory. The fields are estimated to contain gross contingent resources of 5.1 Tcf of dry gas and 225.9 million barrels of condensate (net Woodside share of 1.7 Tcf of dry gas and 75.6 million barrels of condensate). In April 2013, the Timor-Leste Government referred a dispute with the Commonwealth Government of Australia to international arbitration in accordance with the dispute resolution procedure in the Timor Sea Treaty. Woodside has a 33.44% interest in, and is committed to developing, the Greater Sunrise resource but development cannot proceed prior to resolution of this dispute. The first arbitration hearing occurred in December 2013 and an outcome is expected in late 2014.

- **International**

  Woodside has scaled back its presence in the Gulf of Mexico with the sale of its interest in the Power Play field in November 2013 and the sale of its interest in the Neptune oil field in 2014.

  In early 2014, Woodside entered into an agreement with the Government of British Columbia for the exclusive right to, and to potentially develop, an LNG export terminal at Grassy Point on Canada's west coast. Woodside is in the process of undertaking a technical feasibility assessment but any decision to proceed with this development is subject to a number of internal and external approvals.

  Woodside's other international assets include exploration assets in the Canary Islands, Peru and Korea. During 2013 and 2014, Woodside has expanded its exploration portfolio to include permits in New Zealand (70% interest and operator, in force from April 2014), Ireland (acquisition of majority interests and operator) and Myanmar (farm in rights of up to 40% and 50%, non-operator). Woodside's entry into four additional acreage blocks offshore Myanmar in March 2014 builds on its existing position in the Rakhine Basin.

  In February 2014, Woodside entered into a Memorandum of Understanding ("MoU") to acquire an interest in two petroleum licences in the Leviathan gas field, located offshore Israel. The Leviathan gas field is one of the largest recent gas discoveries worldwide. On 21 May 2014, Woodside announced that it had terminated the MoU on the basis that negotiations had failed to reach a commercially acceptable outcome.

3 During 2013 the Vincent FPSO was off station for planned maintenance and refurbishment. With the Vincent FPSO back on station production has returned to previous levels and Woodside's share of proved and probable reserves at 31 December 2013 represents closer to four times production.

Reserves

Woodside has experienced a decline in reserves over the last four years, reflecting its stage in the investment cycle where the focus has been on commissioning Pluto LNG rather than replacing and extending reserves. Finding costs have also increased significantly over the period:

Woodside – Reserve Replacement				
As at 31 December	**2010**	**2011**	**2012**	**2013**
Gas (Bcf)	8,025.0	7,769.0	7,505.0	7,092.0
Condensate (MMbbl)	154.7	138.7	130.9	125.2
Oil (MMbbl)	117.5	108.5	95.9	67.0
Total (MMboe)	**1,680.1**	**1,610.2**	**1,543.6**	**1,436.5**
Production (MMboe)[4]	71.4	63.7	88.4	90.3
Net reserve replacement (MMboe)	28.9	(69.9)	(66.6)	(107.1)
Reserve replacement ratio	*140%*	*-10%*	*25%*	*-19%*
Finding costs (US$/boe, 3 year average)	*6.12*	*12.67*	*14.09*	*30.43*

Source: Woodside Annual Reports (pages 34-35 of 2013 Annual Report for 2013 figures)

Woodside's reserves exclude contingent resources contained in the Browse and Greater Sunrise fields (of 955.6 MMboe and 376.7 MMboe respectively).

Relationship with Shell

Woodside has a close relationship with Shell. In the early 1960s, it joined with Shell and Burmah Oil Company Ltd ("Burmah Oil") (now BP plc) to form the North West Shelf consortium. The Broken Hill Proprietary Company Limited (now BHP Billiton Limited), ("BHP") subsequently replaced Burmah Oil in the consortium and BHP and Shell each became 40% shareholders in Woodside. In the early 1990s, BHP and Shell agreed to sell down their interests to 34.3% each before BHP sold its entire interest in October 1994.

In August 1998, the relationship was formalised with the signing of a broad ranging business alliance agreement covering oil and gas exploration, production, gas commercialisation and marketing. While the alliance agreement remained in place for a number of years, it has now been superseded by other arrangements.

Shell subsequently put two proposals to Woodside to acquire a majority interest in Woodside:

- in May 2000, Shell announced that a proposal had been presented to the Board of Woodside regarding an extension of this alliance under which Woodside would acquire all of Shell's exploration and production assets in Australia and New Zealand plus certain other international assets and liabilities in exchange for the issue of 428.9 million new shares in Woodside that would have increased Shell's shareholding to 60%. This proposal did not have the support of the directors of Woodside not appointed by Shell and could not be recommended to shareholders; and
- in November 2000, Shell made an offer for shares in Woodside for a cash payment of A$14.80 per share plus a call option (which was intended to provide shareholders with the right to buy back their shares at the offer price in certain circumstances). At the same time, Shell put a revised merger proposal to Woodside which involved Woodside acquiring certain of Shell's exploration and production interests in Australia plus certain other international assets and liabilities in exchange for the issue of 333.3 million shares in Woodside,

4 "Production" is the volume of dry gas, condensate and oil produced during the year and converted to MMboe for the specific purpose of reserves reconciliation and the calculation of reserves replacement ratios. These annual production volumes differ from those reported in Woodside's annual and quarterly reports due to differences between sale and reserves product definitions, reserves reported gross of downstream fuel and flare and the MMboe factors applied.

increasing Shell's interest in Woodside to 56.2%[5]. In April 2001, the Federal Treasurer prohibited Shell from acquiring additional shares in Woodside on the grounds that it would be contrary to the national interest and the offer and revised merger proposal did not proceed.

On 9 November 2010, Shell sold 78.3 million shares (representing 29.2% of its interest in Woodside and 10.0% of Woodside's issued capital), to institutional investors at a price of A$42.23 per share, reducing its shareholding in Woodside to 24.3%[6]. As part of this transaction, Shell committed to retain its remaining shares in Woodside for a minimum of one year, subject to limited exceptions (i.e. a sale to a strategic third party of an interest greater than 3% in Woodside provided that the purchaser agrees to be bound by the same escrow restrictions or acceptance of a takeover offer for Woodside). At the time of the sale, Shell stated that it would increasingly focus its investment in Australia through direct interests in assets and joint ventures, rather than indirect stakes and that it would manage its remaining position in Woodside over time in the context of its global portfolio.

3.2 Financial Performance

Historical Performance

The historical financial performance of Woodside (in its functional currency of US$) for the four years ended 31 December 2013 is summarised below:

Woodside – Financial Performance (US$ millions)				
	Year ended 31 December			
	2010	**2011**	**2012**	**2013**
Production volume (MMboe)	*72.7*	*64.6*	*84.9*	*87.0*
Sales volume (MMboe)	*72.2*	*63.9*	*83.8*	*85.7*
Volume weighted average realised price (US$/boe)	*59.14*	*75.11*	*74.26*	*67.43*
Revenue	**4,193**	**4,802**	**6,348**	**5,926**
Reported EBITDAX[7]	**3,334**	**3,426**	**5,371**	**4,073**
Exploration and evaluation	(329)	(587)	(392)	(317)
Reported EBITDA[8]	**3,005**	**2,839**	**4,979**	**3,756**
Depreciation and amortisation	(749)	(627)	(1,184)	(1,218)
Reported EBIT[9]	**2,256**	**2,212**	**3,795**	**2,538**
Net interest expense	18	(26)	(137)	(179)
Profit before tax	**2,274**	**2,186**	**3,658**	**2,359**
PRRT expense/(benefit)	(165)	(17)	523	224
Income tax expense	(532)	(660)	(1,137)	(769)
Non controlling interest (net of tax)	(2)	(2)	(61)	(65)
Reported profit after tax attributable to Woodside shareholders	**1,575**	**1,507**	**2,983**	**1,749**
Non recurring items (net of tax)	(157)	148	(922)	(47)
Underlying profit after tax attributable to Woodside shareholders	**1,418**	**1,655**	**2,061**	**1,702**

5 Assuming that all call options are exercised and all shares sold to Shell under the cash offer are bought back as Shell's intention in making the cash offer was to gain a majority interest in Woodside to enable the revised merger proposal to be implemented.

6 Shell's shareholding in Woodside has subsequently fallen to 23.1% as a result of additional shares being issued by Woodside.

7 Reported EBITDAX is earnings before net interest expense, tax, depreciation and amortisation and exploration and evaluation expense but after non recurring items.

8 Reported EBITDA is earnings before net interest expense, tax and depreciation and amortisation but after non recurring items.

9 Reported EBIT is earnings before net interest expense and tax but after non recurring items.

Woodside – Financial Performance (US$ millions)				
	Year ended 31 December			
	2010	**2011**	**2012**	**2013**
Statistics				
Reported earnings per share (US cents)	*204*	*190*	*366*	*213*
Underlying earnings per share (US cents)	*183*	*209*	*253*	*207*
Ordinary dividends per share (US cents)	*105*	*110*	*130*	*186*
Special dividends per share (US cents)	-	-	-	*63*
Dividend payout ratio[10]	*57.9%*	*53.1%*	*52.0%*	*90.1%*
Amount of dividend franked	*100%*	*100%*	*100%*	*100%*
Revenue growth	*20.2%*	*14.5%*	*32.2%*	*-6.6%*
Reported EBITDA growth	*-1.6%*	*-5.5%*	*75.4%*	*-24.6%*
Reported EBITDA margin	*71.7%*	*59.1%*	*78.4%*	*63.4%*
Net borrowings/reported EBITDA	*1.3x*	*1.8x*	*0.4x*	*0.4x*
Interest cover[11]	*nc*	*109.2x*	*36.3x*	*21.0x*

Source: Woodside and Grant Samuel analysis

Analysis and Commentary

Woodside reported significant growth in revenue and profit over the period from 2010 to 2012. It is more difficult to analyse growth in EBITDAX, EBITDA and EBIT as Woodside only adjusts profit after tax for non recurring items. However, it would be expected that the trend in underlying EBITDAX, EBITDA and EBIT would be similar.

Non recurring items primarily represent gain on sale of interests (Otway and Sierra Leone in 2010, Browse Joint Venture partial equity sale in 2012 and Mutineer Exeter and Gulf of Mexico in 2013), Pluto LNG delay migration costs (2011) and impairments (Neptune in 2010). Non recurring items in 2012 and 2013 did not include impairment of oil and gas assets of US$131 million and US$387 million respectively (before tax), which are therefore included in underlying profit after tax and account for a substantial proportion of the decline in underlying profit after tax in 2013.

Woodside's historical financial performance and growth has been underpinned by the NWS Project, which represented approximately 60% of Woodside's revenue prior to Pluto LNG commencing production in April 2012. A reduction in production volumes in 2011 was more than offset by higher commodity prices, although increased exploration expense impacted EBITDA, EBIT and profit.

The significant increase in volumes, revenue and earnings in 2012 resulted from commencement of production from Pluto LNG in April 2012 (although earnings below EBITDA were negatively impacted by an almost doubling of the depreciation and amortisation expense). Even subsequent to Pluto LNG, the revenue contribution from the NWS Project has remained above 50% (52% in 2012 and 55% in 2013). Together, the NWS Project and Pluto LNG contributed 75% of revenue in 2102 and 90% of revenue in 2013.

2013 represented the first full year of operation of Pluto LNG. While Woodside reported higher overall volumes, increased production from Pluto LNG was largely offset by the Vincent FPSO being off station for planned shipyard maintenance and refurbishment for much of the year as well as natural field decline. The decline in revenue reflected a combination of the impact of reduced

10 Dividend payout ratio is calculated as ordinary dividends paid or declared in respect of a financial year divided by underlying profit after tax attributable to Woodside shareholders.

11 Interest cover is reported EBITDA divided by net interest expense.

production from the Vincent FPSO (reduction in sales revenue of US$688 million compared to 2012) as well as a lower average realised price due to a change in the product mix to a higher proportion of Pluto LNG (lower price per boe) and a lower proportion of oil (higher price per boe). The decline in revenue had a corresponding impact on earnings and profit, which were also impacted by the increased impairments of US$387 million (before tax) (that were not treated as non recurring items).

Non-controlling interest represents the 10% of profit attributable to Kansai Electric and Tokyo Gas for their combined interest in companies associated with Pluto LNG (which has also increased following the commencement of production in 2012).

Woodside has paid increasing ordinary dividends per share over the period from 2010 to 2012 in line with the increase in its underlying profit after tax. The dividend payout ratio was around 50-60% and in August 2012, the Board approved a dividend policy consistent with this recent practice under which it would aim to maintain a minimum dividend payout ratio of 50% of underlying net profit after tax[12]. In April 2013, as a result of Woodside's growth prospects and strong cash flows, the Woodside Board declared a special dividend of US 63 cents per share and announced that, effective immediately, Woodside would target a dividend payout ratio of 80% of underlying profit after tax[12]. Based on current forecasts, the Woodside Board expects this payout ratio to be maintained for the foreseeable future[13]. This target was applied in 2013, but with underlying profit after tax adjusted for the impact of impairments of oil and gas properties of US$213 million (net of tax). All dividends paid over the last four years have been fully franked.

Outlook

Woodside has not publicly released earnings forecasts for the year ending 31 December 2014 or beyond, other than to provide guidance as to targeted production volumes (86-93 MMboe for 2014) and an increase in average realised prices across all products. To provide an indication of the expected future financial performance of Woodside, Grant Samuel has considered brokers' forecasts for Woodside (see Appendix 1):

Woodside – Outlook			
	Year end 31 December		
	2013 actual	Broker Consensus (Median)	
		2014	2015
Reported EBITDA	3,756	5,062	4,925
Reported EBIT	2,538	3,634	3,622
Underlying net profit after tax attributable to Woodside shareholders (US$ millions)	1,702	2,388	2,277
Underlying earnings per share (US cents)	*207*	*290*	*276*

Source: Grant Samuel analysis (see Appendix 1)

The improvement in performance in 2014 largely reflects:

- an increase in the average realised price from upward price adjustments for Pluto LNG foundation customers that apply progressively to cargoes shipped during 2014 (so that by the third quarter of 2014, the new price applies to approximately 75% of total project sales);
- the Vincent FPSO being in full production for the year; and
- the non recurrence of the impairments that impacted 2013 underlying profit after tax (US$213 million).

12 In determining the appropriate dividend payment, the Board will consider, among other things, Woodside's development profile, available cash flow and future funding requirements.

13 Subject to the demands of significant new capital investments or if business performance or external circumstances change materially.

The slight decline in performance in 2015 reflects the expectation of a softening in oil prices compared to expected oil prices in 2014.

The median consensus brokers' forecast indicates underlying net profit after tax for the year ending 31 December 2014 of US$2.388 billion and for the year ending 31 December 2015 of US$2.277 billion, which are sufficiently close to Woodside's management projections to be useful for analytical purposes.

3.3 Financial Position

The financial position of Woodside as at 31 December 2013 is summarised below:

Woodside – Financial Position (US$ millions)	
	As at 31 December 2013
Debtors and prepayments	476
Inventories	192
Creditors, accruals and provisions	(509)
Net working capital	**159**
Oil and gas properties	18,490
Exploration and evaluation assets	1,063
Other plant and equipment	80
Inventories	8
Deferred tax liabilities (net)	(363)
Provisions	(1,459)
Other (net)	(479)
Total funds employed	**17,499**
Cash and deposits	2,223
Borrowings	(3,764)
Net borrowings	**(1,541)**
Net assets	**15,958**
Non controlling interest	(733)
Net assets attributable to Woodside shareholders	**15,225**
Statistics	
Shares on issue at period end (million)	*823.9*
Total assets (US$ millions)	*23,770*
Net assets per share (US$)	*18.48*
Gearing[14]	*9.2%*

Source: Woodside and Grant Samuel analysis

The balance sheet shows the capital intensive nature of Woodside's business, with oil and gas properties and exploration and evaluation assets representing more than 80% of total assets as at 31 December 2013.

The majority of the provisions balance (US$1.191 billion or 82% of the total provision) is the provision for restoration of operating locations which represents the net present value of the estimated cost of legal and constructive obligations to restore operating locations, including removal of facilities, abandonment of wells and restoration of affected areas.

[14] Gearing is calculated as net borrowings divided by net assets attributable to Woodside shareholders plus net borrowings. This is consistent with the method of calculation adopted by Woodside in its annual reports.

Woodside has a number of committed financing facilities which totalled US$5.38 billion at 31 December 2013 and which were drawn to US$3.78 billion (excluding deferred borrowing costs):

- two dual currency 364-day revolving credit facilities totalling US$100 million;
- 12 bi-lateral loan facilities with terms of 3-5 years (all except for one of which are evergreen and can be extended continually by a year subject to the bank's agreement) totalling US$920 million;
- four unsecured fixed rate bonds issued to qualified institutional buyers in the United States totalling US$2.4 billion, including US$400 million (which matured in March 2014), US$700 million maturing in November 2014, US$600 million maturing in March 2019 and US$700 million maturing in May 2021;
- a US$1.5 billion loan facility with the Japan Bank for International Cooperation ("JBIC Facility)[15], which comprises a 15 year, US$1.0 billion tranche with JBIC ("JBIC Tranche") and a five year, US$500 million tranche with a syndicate of Australian and international banks arranged by The Bank of Tokyo-Mitsubishi UFJ, Ltd ("Commercial Tranche"). The Commercial Tranche was repaid in February 2013. As at 31 December 2013, the JBIC Tranche was drawn to US$833 million with the balance not available to be drawn; and
- a five year US$1.1 billion syndicated loan facility with 34 banks executed in December 2010 comprising a US$550 million term facility and a US$550 million revolving facility, of which only the term facility remains drawn.

Each of the financing facilities is subject to various covenants and a negative pledge restricting future secured borrowing. Due to the maturity of certain financing facilities subsequent to year end, Woodside currently has committed financing facilities of US$4.94 billion. As at 31 May 2014, these debt facilities were drawn to US$3.34 billion (excluding deferred borrowing costs).

Gearing at 31 December 2013 was very low at 9.2% compared to Woodside's average gearing ratio over the last five years of approximately 20%. While gearing can be expected to change year on year through the investment cycle, Woodside's current level of gearing is well below its target gearing ratio of 25% and is also below its target range of 10-30% through the investment cycle.

Prior to announcement of the Buy-back Proposal, Woodside had a BBB+ (positive outlook) corporate credit rating from S&P and a Baa1 (stable outlook) issuer rating from Moody's. Woodside's intention is to maintain a strong investment grade credit rating through all phases of the investment cycle.

15 Under the JBIC Facility, 90% of the receivables from certain Pluto LNG sale and purchase agreements are secured in favour of the lender through a trust structure, with a required reserve amount of US$30 million. To the extent that the reserve amount remains fully funded and no default or acceleration notice has been given, the revenue from Pluto LNG flows directly to Woodside from the trust account.

3.4 Cash Flow

Woodside's cash flow for the four years ended 31 December 2013 is summarised below:

Woodside - Cash Flow (US$ millions)				
	Year ended 31 December			
	2010	2011	2012	2013
Reported EBITDA	**3,005**	**2,839**	**4,979**	**3,756**
Changes in working capital and other adjustments[16]	1	219	(450)	347
Capital expenditure	(3,649)	(3,584)	(1,914)	(710)
Operating cash flow before net interest and tax and after capital expenditure	**(643)**	**(526)**	**2,615**	**3,393**
Tax paid	(803)	(628)	(864)	(1,013)
Net interest paid	(155)	(190)	(193)	(173)
Dividends paid	(547)	(652)	(867)	(1,748)
Other acquisitions and disposals	708	51	2,075	56
Proceeds from shares issues/underwriters of the DRP	1,060	648	320	-
Other	160	188	57	(138)
Net cash generated/(used)	**(220)**	**(1,109)**	**3,143**	**377**
Net borrowing – opening	*(3,732)*	*(3,952)*	*(5,061)*	*(1,918)*
Net borrowings – closing	*(3,952)*	*(5,061)*	*(1,918)*	*(1,541)*

Source: Woodside and Grant Samuel analysis

After two years of negative cash flow from operating activities (after capital expenditure but before financing costs and tax) due to high levels of capital expenditure (US$3.6 billion in each year), Woodside has generated substantial (and increasing) positive operating cash flow of more than US$2.5 billion in the year ended 31 December 2012 and US$3.4 billion in the year ended 31 December 2013. The increase in operating cash flow reflects a combination of:

- an increase in cash earnings arising from Pluto LNG production commencing in April 2012; and
- a considerable decline in capital expenditure over the last two years, almost halving (compared to the prior two years) in 2012 and falling by more than half again in 2013 to US$710 million as a result of completion of construction of Pluto LNG in 2012 and its commissioning in 2013.

Capital expenditure in 2012 and 2013 was below long term averages and this trend is expected to continue in 2014 with investment expenditure (which includes all capital and exploration expenditure) forecast to be US$1.2 billion, including US$110 million of sustaining capital expenditure (which is expenditure that does not develop additional reserves). However, Woodside expects investment expenditure to increase to an average of US$2.0 billion per year over the 2015-2017 period (based on the current asset portfolio), as expenditure on the Browse Joint Venture ramps up as part of the next phase of Woodside's growth.

This level of ongoing capital expenditure remains well below the level of EBITDA expected to be earned and, as a result, Woodside expects to continue to generate strong operating cash flow through to 2017.

Net cash generated was positively impacted in 2012 by the sale of a partial equity interest in the Browse Joint Venture in 2012 for US$2 billion and negatively impacted in 2013 by the payment of capital gains tax relating to this sale of US$0.4 billion and payment of the special dividend (US$518 million).

16 Includes adjustments for non cash items that have been included in reported EBITDA such as impairment of oil and gas properties and exploration and development assets.

3.5 Taxation Position

Under the Australian tax consolidation regime, Woodside and its wholly owned Australian resident entities have elected to be taxed as a single entity.

As at 31 December 2013, Woodside had:

- carried forward foreign income tax losses of US$774 million relating to foreign operations, none of which were recognised in the balance sheet due to uncertainty of future profit streams; and
- US$2.545 billion of accumulated franking credits.

As at 31 May 2014, Woodside's accumulated franking credits had increased to US$2.873 billion after taking into account the franking debit associated with payment of the 2013 final dividend (paid in March 2014) and franking credits generated through the payment of income tax for the period from 1 January 2014 to 31 May 2014.

All Australian assets (including the NWS Project from 1 July 2012) are subject to the Petroleum Resource Rent Tax ("PRRT"). PRRT is payable on the excess of revenue over expenses (including augmentation on general project and exploration expenditures) derived from petroleum projects. PRRT is assessed before company income tax and is deductible for the purpose of calculating company income tax. The PRRT rate is currently 40%.

3.6 Capital Structure and Ownership

3.6.1 Capital Structure

As at 26 June 2014, Woodside had 823.9 million ordinary shares on issue, including 0.9 million shares reserved for employees under employee share plans.

Woodside operates a number of employee share plans:

- equity rights are offered to eligible Woodside employees (other than the Chief Executive Officer ("CEO") and any executive director) under the Woodside Equity Plan. Each equity right represents a right to receive one fully paid share in Woodside on the vesting date (three years after the grant date) at no cost provided all terms and conditions are satisfied and the employee remains employed by Woodside at that date. Equity rights may vest prior to the vesting date in the event of a change of control or at the limited discretion of the CEO. No dividend or voting rights are attached to the equity rights prior to converting to shares. Shares will either be issued by Woodside or acquired on market to satisfy vesting equity right entitlements. As at 31 December 2013, there were 6.0 million unvested equity rights issued under the Woodside Equity Plan; and
- Woodside's CEO and senior executives are offered equity rights through Woodside's short- and long-term awards under the Executive Incentive Plan:
  - under the short-term award, part of any award, which is based on company and individual performance hurdles, is deferred equity in the form of fully paid ordinary shares in Woodside, the vesting of which is dependent on three years continuous service ("restricted shares"). Dividends are received on restricted shares during the deferral period. As at 31 December 2013, there were 0.3 million unvested restricted shares on issue; and
  - under the long-term award, variable pay rights (where each right represents a right to receive a fully paid ordinary share) linked to service and total shareholder return are granted. Variable pay rights are subject to a four or five year vesting period. As at 31 December 2013, there were 2.0 million unvested variable pay rights on issue.

Equity rights under the short and long-term awards are issued for nil consideration and may vest prior to the satisfaction of the vesting conditions provided certain conditions are met.

3.6.2 Ownership

Woodside has in excess of 200,000 registered shareholders. The top 20 registered shareholders account for approximately 70% of the ordinary issued shares[17].

Other than Shell, the top 20 registered shareholders are principally institutions or nominee companies. While approximately 97% of registered shareholders are classified as retail (i.e. holding 5,000 or fewer shares in Woodside), these shareholders hold only approximately 20% of issued shares.

Woodside received a substantial shareholder notice from Shell on 4 April 2012 disclosing a substantial shareholding in Woodside of 23.3%. Since this substantial shareholder notice was provided, Shell's interest in Woodside's issued capital has fallen to 23.1% as a result of additional shares being issued by Woodside. Woodside has no other substantial shareholders.

3.7 Share Price Performance

A discussion of Woodside's share price performance, the liquidity of trading in Woodside shares and the relative performance of Woodside shares is set out in Section 4.2.2.

[17] Source: Woodside 2013 Annual Report.

4 Evaluation of the Buy-back Proposal

4.1 Summary

In Grant Samuel's opinion, the Buy-back Proposal is fair and reasonable to the non associated shareholders of Woodside.

At a simple level, the purchase of shares from a related party at (or below) the prevailing share price is by definition fair unless the sharemarket is mispricing the company's shares (i.e. overvaluing the shares) or the buy-back has a material adverse impact on the company that will result in a fall in the share price.

Based on the analysis undertaken by Grant Samuel, there is no evidence to suggest that the market price immediately prior to announcement of the Buy-back Proposal did not represent the fair market value of Woodside shares at the time. Woodside shares are trading at prices that are:

- at three year highs having steadily increased since mid-2012; and
- above most brokers' target prices.

However, the movements over recent months are consistent with the performance of Woodside's peer group companies and the market as a whole. Similarly, Woodside's market rating (in terms of earnings multiples) is not out of line with its domestic and international peers.

The market for Woodside shares appears to be well informed and highly liquid and there is nothing to suggest that Woodside shares are mispriced. The effect of the Buy-back Proposal on ownership and control of Woodside and on its key financial metrics is unlikely to have an adverse impact on the Woodside share price.

However, in this case there is a further issue relating to fairness that needs to be addressed because the consideration payable to Shell partly comprises a capital return and partly a fully franked dividend. Accordingly, in addition to the cash payment, Shell receives franking credits with a face value of US$11.30 per share.

There is considerable debate and uncertainty about attributing value to franking credits. Nevertheless, in this case:

- the price for the Buy-back Proposal was calculated as a 14% discount to the five day VWAP preceding the announcement (i.e. effectively 14% below the prevailing market price). At least in part, this discount offsets the value of the franking credits that will be distributed to Shell. The discount is equal to approximately 50% of the face value of the franking credits;
- the 14% discount is in line with previous off-market buy-backs but, more importantly, corresponds to the maximum discount allowed by the Australian Taxation Office ("ATO") for any off-market buy-back. In other words, the price of US$34.24 is equal to, or quite possibly less than, the price that would, theoretically, be paid by Woodside if it was to buy-back the same quantity of shares (with the same dividend component) from shareholders other than Shell (e.g. through an open access tender); and
- in the absence of a material change in its business mix, Woodside expects to continue to generate sufficient franking credits from its Australian operations to cover its annual dividends (at the targeted payout ratio of 80%). Even after the debits to Woodside's franking account balance resulting from the Buy-back Proposal, Woodside will have surplus franking credits of approximately US$1.878 billion. This level of franking credits would be sufficient to fully frank a one-off dividend (whether by way of special dividend or through an off market buy-back) of up to US$4.381 billion (US$5.88 per share)[18].

[18] Assuming a 30% corporate tax rate. If the corporate tax rate is reduced to 28.5% (as currently intended by the Commonwealth Government), the franking credits would be sufficient to fully frank a dividend of US$4,710 billion (US$6.32 per share).

Woodside will continue to pursue capital management opportunities (and cash flows are expected to be strong over the next few years) but cash returns to shareholders (over and above annual dividends) greater than US$4.381 billion are well in excess of Woodside's current views on the level of surplus capital that might be potentially returned to shareholders in the medium term. As a result, the Buy-back Proposal appears unlikely to affect Woodside's ability to pay fully franked dividends as part of any future capital management initiatives.

Accordingly, the franking credits being distributed to Shell are not credits that would otherwise have been available to other shareholders in the medium term (in the absence of a material change in circumstances). In this respect, non associated shareholders are not directly disadvantaged by the distribution of franking credits to Shell.

On this basis, the Buy-back Proposal is fair to the non associated shareholders. As it is fair, it is also reasonable. In any event, the benefits and advantages of the Buy-back Proposal and the broader Transaction (including the Selldown) outweigh the costs, disadvantages and risks.

The major advantages and benefits for non associated shareholders if the Transaction is implemented are summarised below:

- it facilitates a move to a more efficient capital structure for Woodside. If the Buy-back Proposal is implemented, Woodside's gearing at 31 December 2013 increases from 9.2% to 25.2%, consistent with Woodside's target gearing ratio of 25% and within its target range of 10-30% through the investment cycle;
- pro forma earnings per share will increase (by approximately 7%) and there is therefore scope to increase dividends per share (relative to dividends under the status quo) while maintaining the same dividend payout ratio. However, it should be recognised that the positive impact on earnings per share is largely the result of increasing the leverage in the capital structure (as well as buying back the shares at a discount);
- an increase in the liquidity of Woodside shares. The free float[19] will increase from approximately 77% to 95.5%, creating a larger pool of shares available to trade. Woodside's weighting in key indices will increase as 100% of Woodside's share capital will be eligible for inclusion in these indices. In particular, there should be greater demand for shares, at least initially, as index based investors adjust their portfolios;
- the Transaction reduces the overhang[20] resulting from Shell's 23.1% shareholding. It does not eliminate the overhang as Shell will still have a holding of 4.5% and, arguably, may exacerbate the issue in the short term (as it might be assumed Shell will want to realise its residual holding in a reasonably short time frame subject to the commitment it has made to retain its residual holding for a period of 90 days following completion of the Selldown, subject to limited exceptions). On the other hand, the Transaction is the critical step in facilitating an orderly exit for Shell. The residual 4.5% interest is below the reportable threshold for a substantial shareholder of 5% and is therefore a much more manageable holding to sell without disclosure; and
- increased potential for a change of control transaction (which would include payment of a premium for control to Woodside shareholders), although in reality, this change is likely to have minimal impact given Shell's publicly stated intention to divest assets and uncertainty as to whether a foreign bidder would be permitted to acquire Woodside.

19 Free float is a term used to describe the shares that are freely tradeable on the securities exchange and excludes shares held in large blocks that are not expected to be sold in the foreseeable future.

20 Overhang is the downward pressure on the market price of shares which arises when the market expects a significant parcel of shares to be sold in the short term.

The disadvantages, risks and costs of the Transaction are:

- the Buy-back Proposal increases Woodside's net borrowings by US$2.68 billion and its gearing as at 31 December 2013 from 9.2% to 25.2% (on a pro forma basis). It also reduces the funds available under Woodside's existing debt facilities. However:
  - the increase in debt and gearing is consistent with Woodside's target gearing ratio of 25% and within its target range of 10-30% through the investment cycle, resulting in a more efficient capital structure;
  - Woodside expects to retain its BBB+ and Baa1 credit ratings;
  - while debt covenant ratios under Woodside's debt financing facilities will be weaker, the Buy-back Proposal does not result in Woodside coming close to breaching any of its existing covenants;
  - this higher level of gearing remains below that of its domestic peers and is not inconsistent with the range of gearing of international peers; and
  - Woodside believes it will continue to have the ability to fund its growth plans. Apart from the remaining capacity within its existing facilities, Woodside has a number of funding alternatives for future capital expenditure including internal reserves, increased or new debt facilities and equity;
- pro forma NTA per share as at 31 December 2013 will decrease from US$18.48 to US$16.82 as a result of the Buy-back Proposal. However, the reduction in NTA per share is unlikely to have any material negative impact on the Woodside share price;
- from a capital management perspective, an alternative to the Buy-back Proposal could have been an open access off-market buy-back of 78.3 million shares or a special dividend.

  An open access share buy-back would have been attractive to some categories of Woodside shareholders, in particular superannuation funds and other low tax rate investors resident in Australia. However, this alternative would not have met the fundamental objective of the Transaction, being the sale by Shell of the vast majority of its shareholding and it would not provide a better outcome for Woodside itself or for all the other shareholders that did not participate in the open access tender. The opportunity cost also needs to be considered against the other benefits of the Buy-back Proposal.

  Similarly, a special dividend (combined with the Selldown) would not have achieved an acceptable outcome as Shell would have been left with a 13.6% shareholding in Woodside; and
- Woodside will incur costs of US$6.4 million in relation to the Transaction. These costs are one off and are not material in the overall context of Woodside.

The Woodside share price fell on the first day of trading subsequent to announcement of the Buy-back Proposal, closing at A$40.90. The reasons for this are not clear, but given the high volumes (over 20 million shares traded), the share price fall may have been the result of churning by institutions involved in the Selldown. The share price has since recovered, closing at A$41.59 on 26 June 2014, within 3% of the pre-announcement share price, but it may take several days for the share price to settle at a new equilibrium.

In summary, shareholders are likely to be better off if the Buy-back Proposal is implemented than under the status quo.

4.2 Fairness

4.2.1 Approach

In a related party transaction, ASIC through Regulatory Guide 111 requires that:

> *"where the proposed transaction consists of an asset acquisition by the entity, it is "fair" if the value of the financial benefit being offered by the entity to the related party is equal to or less than the value of the assets being acquired".*

In this context, an assessment of whether the Buy-back Proposal is fair first requires a comparison of the price at which the share buy-back will take place with an estimate of the fair market value of that parcel of Woodside shares. At a simple level, the purchase of shares from a related party at (or below) the prevailing share price is by definition fair subject to the issues below. A price above the current market may, or may not, be fair depending on other factors.

It is normal practice to use the current market price as a starting point for fair market value, particularly for large companies such as Woodside that enjoy high levels of market liquidity and are closely followed by a significant number of analysts and other commentators.

Nevertheless, there are two questions to be addressed:

- is there any reason why the market price is not a true reflection of the fair market value of Woodside shares? and
- will the Buy-back Proposal, if implemented, have a material impact on the company's operations, financial metrics, growth prospects, risk profile or other factors that would be likely to result in an adverse change in the share price?

In considering these questions, Grant Samuel has, in Section 4.2.2:

- analysed recent trading in Woodside shares;
- analysed earnings and other multiples implied by the Woodside share price compared to its domestic and international peers;
- reviewed broker research on Woodside and its peers; and
- analysed the impact of the Buy-back Proposal on Woodside's key financial metrics.

However, in this case there is a further issue relating to fairness that needs to be addressed because the consideration payable to Shell partly comprises a capital return and partly a fully franked dividend. Accordingly, in addition to the cash payment, Shell receives franking credits with a face value of US$11.30[21] per share).

The franking credits form part of the "financial benefits being offered by the entity to the related party" and it is therefore necessary to consider how franking credits impact on the question of fairness. This issue is addressed in Section 4.2.3.

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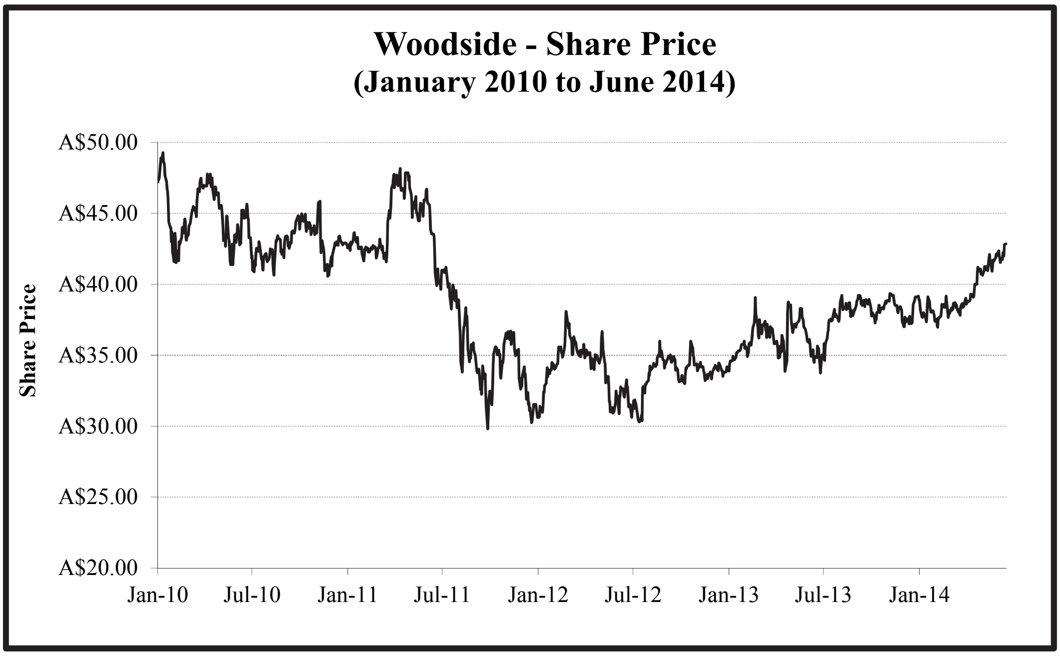
[21] Converted from A$ to US$ at the exchange rate at the close of trading on 16 June 2014 of A$1 = US$0.9411.

4.2.2 Analysis of Woodside's Share Price

(i) Background

The movement in Woodside's share price (which is denominated in A$) since January 2010 is shown below:



Source: IRESS. Chart shows unadjusted daily closing prices.

Following the announcement of a A$2.5 billion entitlement offer at A$42.10 per share in mid-December 2009 and consistent with broader trading conditions, Woodside's share price fell from just under A$50 to around A$42 at the end of January 2010. The share price rebounded over the following months, partially reflecting the release of full year earnings for 2009 consistent with expectations, further clarity around growth and exploration projects and the sale of Woodside's 51.6% interest in the Otway Gas Project in March 2010. Woodside shares generally traded in the range A$42-44 from mid-2010 until late March 2011. During this period Shell sold a 10% interest in Woodside (reducing its holding from 34.3% to 24.3%). The share price subsequently rose above A$48 amid takeover speculation.

After reaching an eighteen month intra-day high price of A$50.85 during April 2011, Woodside's share price fell sharply between June 2011 and September 2011. Factors including unexpected delays and increased costs associated with Pluto LNG, lower oil production guidance, speculation regarding delays to the Browse Joint Venture, reduced speculation as to potential takeover offer and negative overall market sentiment all contributed to Woodside's share price falling below A$30 by late September 2011. It is also possible that market commentary around this time regarding a further material divestment of Shell's interest in Woodside may have contributed to this weakness in the share price.

With improved operating performance in the final quarter of 2012 and Pluto LNG on track to deliver its first LNG in April 2012, Woodside's share price increased to as high as A$38 in February 2012 but then fell back to around A$30 reflecting broader macro-economic concerns and a decline in oil prices.

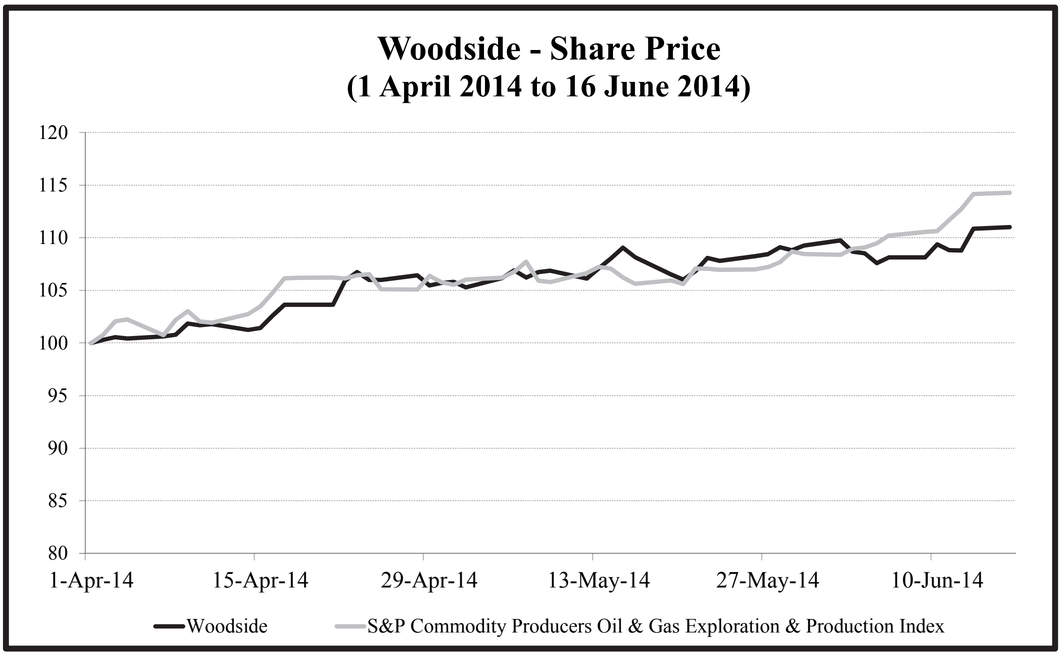
The Woodside share price has steadily recovered since mid-2012, reaching a 12 month high of A$39.21 on 20 February 2013, the same day as Woodside's full year 2012 earnings were announced (which included positive results from Pluto LNG). Woodside's announcement on 23 April 2013 of a US$0.63 per share special dividend and increased target dividend payout ratio of

80% also positively impacted trading in Woodside shares with prices consistently in the A$37-39 range for the remainder of 2013 and into 2014. In mid-April 2014 the share price rose above A$40 for the first time in nearly three years. On the back of solid results for the first quarter of 2014 and increased speculation by market commentators regarding Woodside's capital management alternatives, particularly following termination of the Leviathan MoU, the share price continued to strengthen during May and June 2014 closing at a three year high of A$42.85 on 16 June 2014, the day prior to the announcement of the Transaction.

The fundamental question is whether the recent performance and current share price reflect the rational view of a well informed market, or alternatively, are Woodside shares mispriced? This question requires consideration of factors such as the following:

- is the recent performance consistent with fundamental drivers?
- is Woodside out of line with its peers?
- is the market informed about critical issues affecting Woodside's business (e.g. the outlook for oil and gas markets, exploration results, expansion plans) or is there important information about the business which would affect the share price but is not in the public domain? and/or
- is trading in Woodside shares abnormal or being materially affected by factors such as short selling?

(ii) Overview of Recent Share Price Performance



Source: IRESS, Bloomberg. Chart shows daily closing prices.

Woodside's share price has gradually increased over the past few months reaching a three year intra-day high of A$43.05 per share on 13 June 2014 and closing at A$42.85 on 16 June 2014, the day prior to announcement of the Transaction.

Woodside's recent share price performance predominantly reflects broader market sentiment although company specific announcements have also had an impact, with the share price increasing following announcement of Woodside's first quarter results on 17 April 2014 and termination of the Leviathan Joint Venture MoU on 21 May 2014. However, movements on both of these days also coincided with positive movements in the overall market and in the share prices of international oil and gas producers.

More generally, over the past few months the increase in Woodside's share price has been consistent with broader market conditions and has closely tracked the S&P Commodity Producers Oil & Gas Exploration & Production Index. The S&P Commodity Producers Oil & Gas Exploration & Production Index includes Woodside and many of the global oil and gas producers that Woodside regards as its closest peers (refer to Section 4.2.2(iii) below). This close tracking of the S&P Commodity Producers Oil & Gas Exploration & Production Index indicates that the recent increase in Woodside's share price is being driven by factors affecting oil and gas companies generally, such as the strengthening in the oil price over this period.

(iii) Woodside Share Price Performance Compared to its Peers

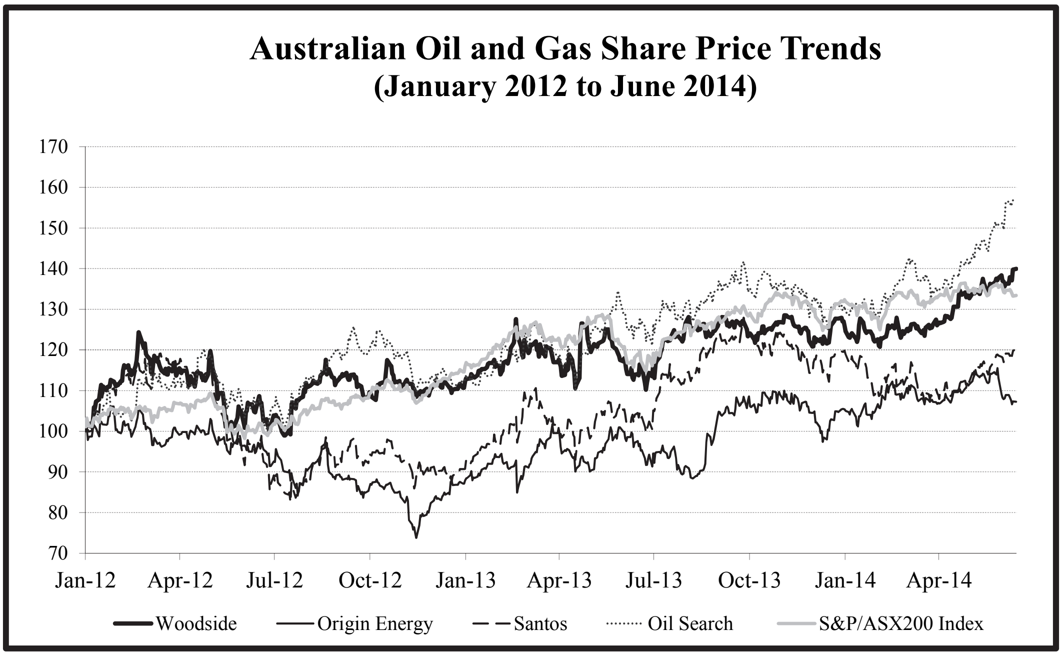
There are few Australian companies that are directly comparable to Woodside. Woodside's closest ASX listed peers are Oil Search Limited ("Oil Search"), Santos Limited ("Santos") and Origin Energy Limited ("Origin Energy"), all of which are less than half the size of Woodside in terms of market capitalisation. A brief overview of these companies is set out below:

- Oil Search is an oil and gas exploration and production company with the majority of its operations in Papua New Guinea ("PNG"). Oil Search's primary growth asset is its 29% interest in the ExxonMobil operated PNG LNG Project which shipped its first LNG cargo in May 2014;
- Santos is a diversified oil and gas producer with extensive domestic gas operations in addition to interests in several Australian and overseas LNG projects, including the Darwin LNG Project (producing asset, 11.5% interest), PNG LNG Project (producing asset, 13.5% interest), Gladstone LNG Project (under construction with first LNG expected in 2015, 30% interest) and the floating Bonaparte LNG Project (conceptual design stage, 40% interest); and
- Origin Energy is a vertically integrated energy company with oil and gas exploration and production assets in Australia and New Zealand, a broad portfolio of generation assets and more than 4 million retail customers. Origin Energy is the largest producer of coal seam gas in Australia and also has interests in LNG through its 37.5% stake in the Australia Pacific LNG Project.

Grant Samuel has also considered international companies, including Anadarko Petroleum Corporation, Apache Corporation, BG Group, ConocoPhillips, Eni SpA, Hess Corporation, Marathon Oil Corporation, Murphy Oil Corporation, Pioneer Natural Resources Company, Statoil ASA, Talisman Energy Inc. and Tullow Oil plc[22]. Woodside considers these companies (together with Oil Search) to be its closest peers for performance benchmarking purposes. While there are differences between Woodside and these oil and gas companies (e.g. scale, location of major growth projects, exposure to Australian assets, areas of specialisation, size of reserves and resources, levels of exploration and production, exposure to midstream and downstream operations, etc), all are major oil and gas producers and there are sufficient similarities between the businesses to make useful comparisons.

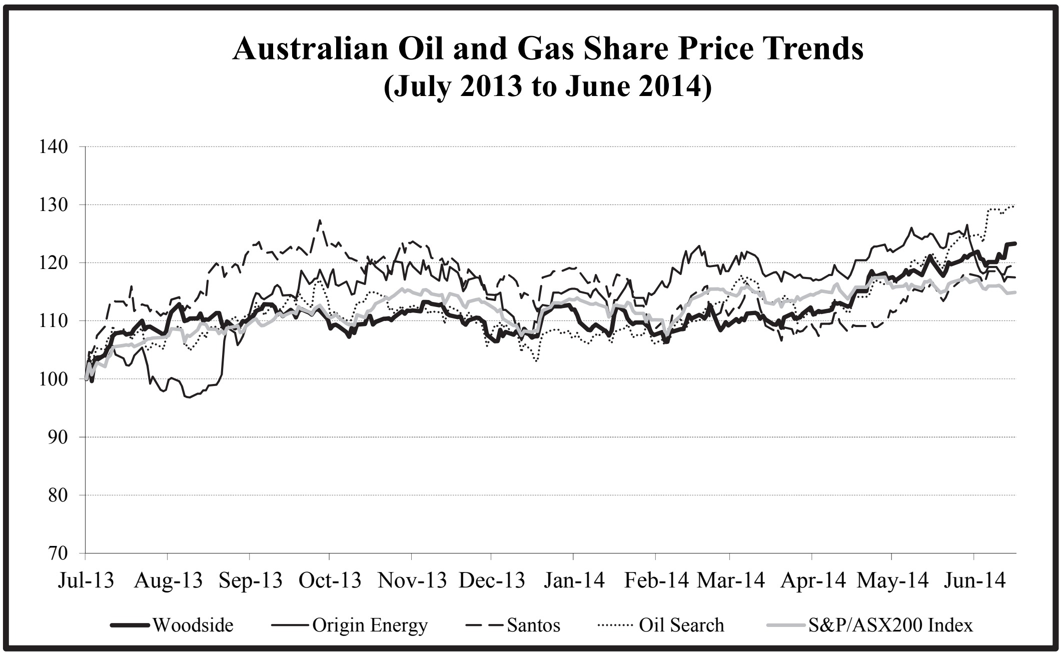
The relative share price performance of Australian oil and gas companies has been divergent over the period from January 2012. Woodside has outperformed Santos and Origin Energy while performing broadly in line with the S&P/ASX 200 Index. The relative underperformance of Santos and Origin Energy has been primarily due to company specific factors such as compressed retail electricity margins (Origin Energy) and market speculation and concerns during 2012 regarding capital expenditure and progress in relation to major LNG projects. Oil Search's recent outperformance predominantly reflects the successful development of, and increased production guidance associated with, the PNG LNG Project:

[22] Woodside also considers Talisman Energy Inc. to be an international peer. However, it has been excluded from the analysis in this report as it is undergoing a change in strategic direction which has had an impact on its share price and earnings multiples.



Source: IRESS

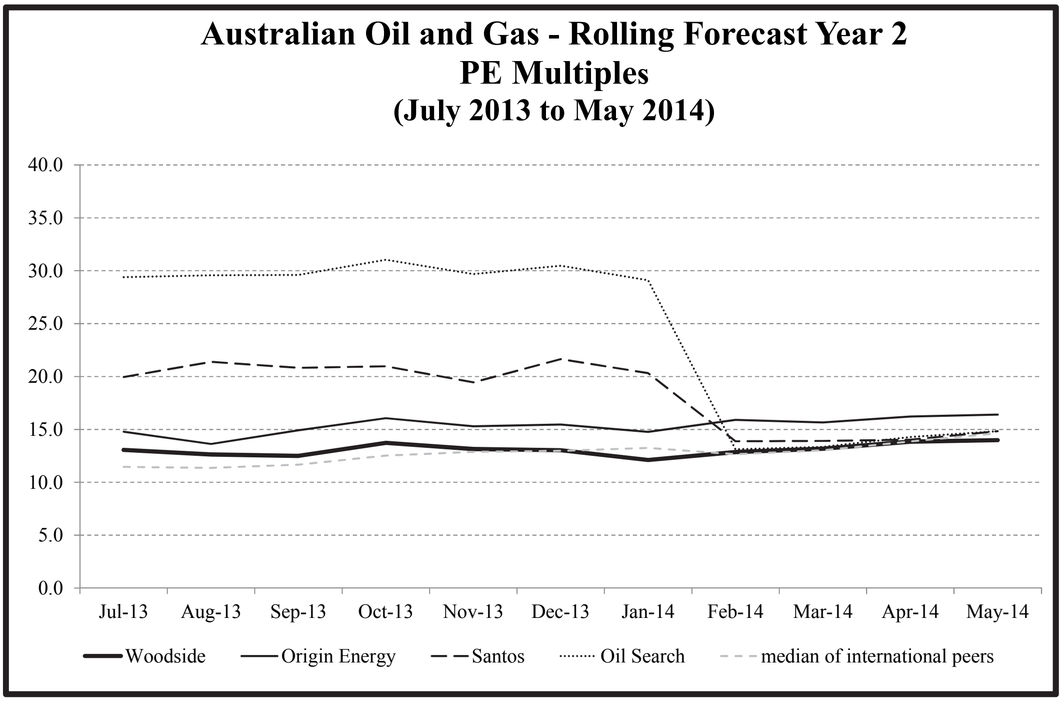
The relative share price performance of Australian oil and gas companies has been far more consistent over the last twelve months. Since July 2013, the relative performance of Woodside shares has been broadly in line with that of its peers:



Source: IRESS

(iv) Comparative Market Ratings

The market ratings, based on forecast price earnings multiples for Woodside and its listed peers, diverged widely until February 2014, primarily due to timing differences in the completion of their respective major growth projects, particularly for Oil Search and Santos. Over the past five months, the market ratings of Woodside and its listed peers has converged significantly[23]:



Source: S&P Capital IQ and Grant Samuel analysis. Chart shows forward price earnings multiples at each month end.

Value being attributed to the PNG LNG Project was the primary driver behind Oil Search trading at materially higher price earnings multiples than the other Australian peers in the lead up to 2014. The PNG LNG Project is transformational for Oil Search with production and earnings expected to quadruple by 2015. Although a smaller component of its overall oil and gas portfolio, Santos also has an interest in the PNG LNG Project (13.5% compared to Oil Search's 29.0%). This project combined with the Gladstone LNG Project, which is expected to ramp up during 2015, contributed to Santos trading at forecast multiples of around 20 times before the step change down in February 2014 to around 14-15 times (as emerging earnings were reflected in its forecasts). Origin Energy has continued to trade at premium to Woodside and the median of the international peers reflecting the value attributed to its interest in the Australia Pacific LNG Project which is 70% complete and on target to commence production in mid-2015.

Woodside has consistently traded in the range of 13-15 times forecast earnings, slightly above or in line with the median of the international peers. This is further illustrated in the table below, which shows the price earnings multiples of listed oil and gas companies based on share prices as at 16 June 2014:

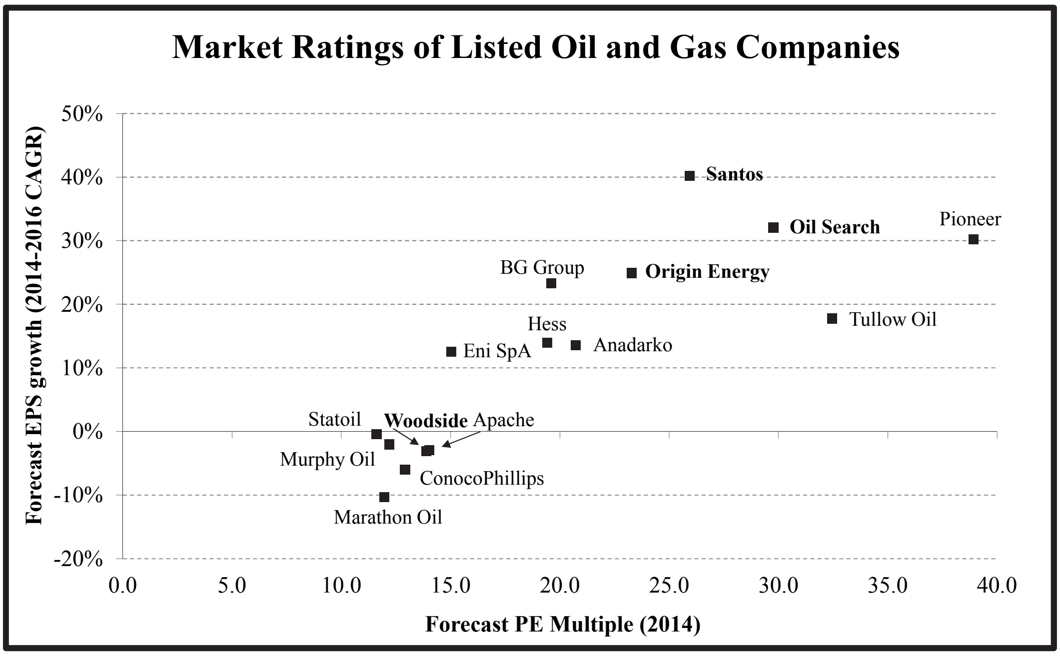
Listed Oil and Gas Companies – Price Earnings Multiples[23]

	2013 historical	2014 forecast	2015 forecast
Woodside	**16.9**	**13.9**	**14.6**
Origin Energy	22.1	20.6	15.5
Santos	26.9	25.9	14.9
Oil Search	nmf	29.8	14.8
Median of international peers	14.0	15.0	14.6

Source: IRESS, Bloomberg, company reports, brokers' reports. Share prices as at 16 June 2014.

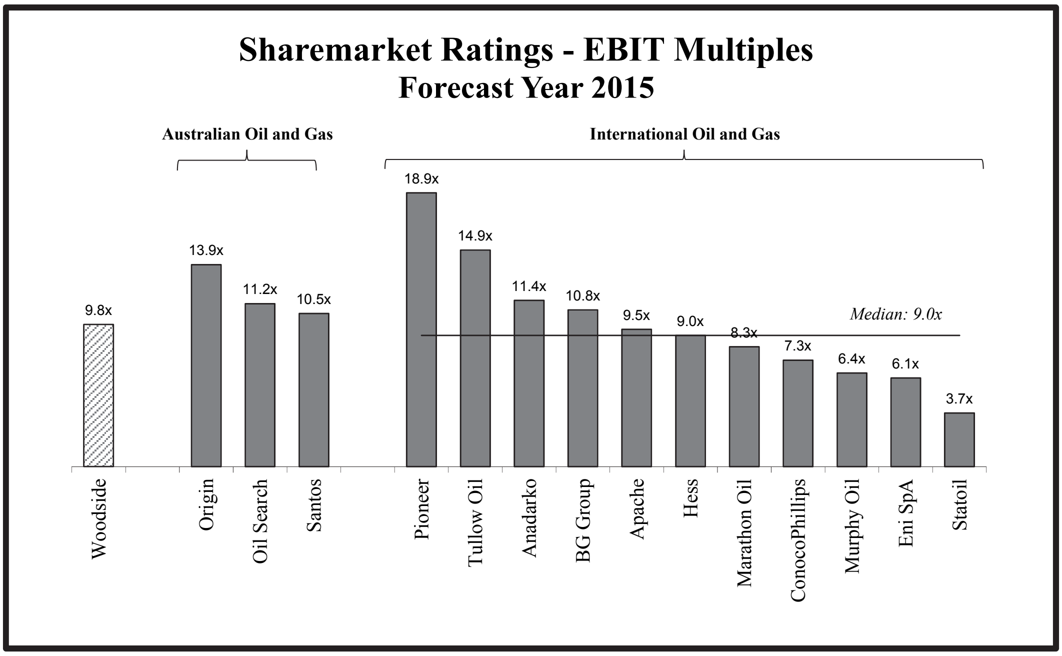
23 Each of the Australian listed companies has a 31 December year end other than Origin Energy, which has a 30 June year end. Each of the international listed companies has a 31 December year end. Price earnings multiples for Origin Energy have been calendarised to a 31 December year end.

The following chart further illustrates that Woodside is not trading at price earnings multiples that are out of line with its peers after taking into account the growth prospects of each company (with growth prospects being higher in some cases as a result of poor performance in the current year):



Source: IRESS, Bloomberg, company reports, brokers' reports, Grant Samuel analysis. Share prices as at 16 June 2014.
Note: Origin Energy's price earnings multiple and EPS growth percentage have not been calendarised as the majority of brokers are yet to provide forecast estimates for the 30 June 2017 financial year.

Market ratings in terms of other metrics such as EBIT[24] are more divergent and it is difficult to read much into the analysis. Nevertheless, it indicates that Woodside is straddling the peer group being slightly below its Australian peers but above the median of the international peers:



Source: IRESS, Bloomberg, company reports, brokers' reports, Grant Samuel analysis. Share prices as at 16 June 2014.
Note: EBIT multiples for Origin Energy have been calendarised to a 31 December year end.

24 EBIT for the purposes of this chart is earnings before net interest, tax, significant and non-recurring items.

Grant Samuel has also considered the dividend yields (based on share prices as at 16 June 2014) of Woodside and its domestic and international peers:

Listed Oil and Gas Companies – Dividend Yields			
	2013 historical	**2014 forecast**	**2015 forecast**
Woodside	**6.2%**	**5.8%**	**5.5%**
Origin Energy	3.5%	3.5%	3.8%
Santos	2.0%	2.3%	3.4%
Oil Search	0.4%	0.4%	1.5%
Median of international peers	1.3%	1.5%	1.6%

Source: IRESS, Bloomberg, company reports, brokers' reports. Share prices as at 16 June 2014.

Although Woodside's 80% dividend payout ratio is relatively high compared to other oil and gas producers, it reflects Woodside's different stage of development and the ongoing capital commitments associated with its major growth projects over the next few years. With strong cashflows generated from Pluto LNG and the NWS Project, and Woodside's Browse and Greater Sunrise projects still at relatively early stages of development, Woodside has greater flexibility to maintain a higher dividend payout ratio, which is reflected in its higher dividend yield.

By way of comparison, the scale and capital requirements of the PNG LNG Project (relative to Oil Search's other operations) has contributed to Oil Search having a low dividend yield historically, although dividends are expected to increase in 2015 as more stable and long term cash flows are generated. Origin Energy and Santos have more diversified operations and income streams than Oil Search and have higher dividend payout ratios of around 55-70%. These ratios are lower than Woodside's 80% dividend payout ratio as the earnings uplift from LNG growth projects are yet to fully materialise for these companies.

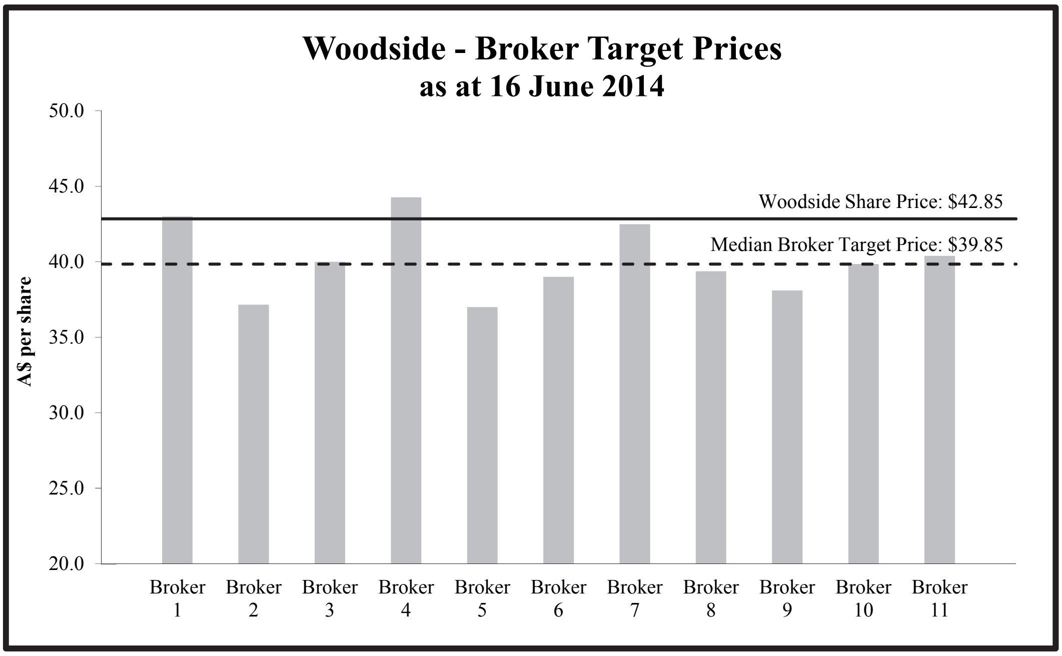
Woodside's dividend yield is also above the median of its international peers, which is not inconsistent with the lower dividend payout ratios for these companies, which are generally in the range 20-40%.

None of these factors suggest that Woodside is trading out of line with its peer group after taking into account the dividend payout ratios and ongoing capital commitments of each of the companies.

(v) Market Participant Perspectives

Woodside is closely followed by a wide range of analysts and market commentators. Broker coverage in particular generates interest in a stock which usually results in greater investment activity and liquidity. Woodside has a large broker following, with more than 10 brokers actively researching and providing views on Woodside's performance, share price, earnings, outlook and short and long term value. Brokers are often seen as disseminators of information regarding a company, independent of the company itself.

At its closing price on 16 June 2014 of A$42.85, Woodside shares were trading above brokers' estimates of its 12 month price target, which show a range from A$37.00-44.28 and a median target share price of A$39.85:



Source: Brokers' reports

While the premium of around 7.5% to the broker median target price indicates that brokers see downside pressure on Woodside's share price from its current level, the Woodside share price has increased since the release of these target prices. The most recent target prices for Woodside prior to announcement of the Buy-back Proposal were released by broker's following Woodside's termination of the Leviathan Joint Venture on 21 May 2014. Woodside shares traded at a VWAP of A$41.80 and closed at A$41.72 on 22 May 2014, before losing some of this gain the following day.

The brokers with the most pessimistic outlook for Woodside shares cite as a particular concern Woodside's long term declining production profile due to many of its Australian oil fields being in natural decline and the deferral of a FID on the Browse Joint Venture to the second half of 2015. However, these issues, while real, are not having a material impact on the current share price, which appears to be driven more by short term factors including the strength of the oil price and Woodside's high dividend yield.

Consequently, Grant Samuel does not believe that the premium of the current share price to the broker median target price indicates any material mispricing of Woodside shares.

(vi) Non Public Information

Under ASX Listing Rules, Woodside is required to keep the market informed of events and developments in a timely manner as they occur. In particular, once Woodside becomes aware of any information concerning it that a reasonable person would expect to have a material effect on the price or value of its shares, Woodside must immediately advise the ASX of that information (unless one of the exceptions applies).

Woodside management has confirmed to Grant Samuel that:

- while Woodside pursues business opportunities on an ongoing basis, it is not aware of any information relating to its existing business that has not been publicly disclosed as at the date of this report that it believes would have a material adverse impact on its share price; and
- current median consensus brokers' forecasts of profit after tax are not materially inconsistent with Woodside's internal management projections for the years ending 31 December 2014 and 2015.

(vii) Share Trading Issues

Grant Samuel has also considered other factors that may have impacted on the recent trading in Woodside shares and whether there is any evidence of abnormal trading in Woodside shares:

(a) Liquidity

The liquidity of the market for Woodside shares is evidenced by a number of factors:

- Trading volumes

  Average weekly volume and transactions for Woodside shares from 1 January 2012 to 13 June 2014 are summarised below:

Woodside – Share Trading		
Quarter ended	**Average Weekly Volume (millions)**	**Average Weekly Transactions**
30 June 2014[25]	9.3	54,880
31 March 2014	11.1	57,265
31 December 2013	9.8	59,467
30 September 2013	10.5	69,040
30 June 2013	13.1	77,221
31 March 2013	12.4	59,860
31 December 2012	9.5	43,599
30 September 2012	11.8	52,667
30 June 2012	12.8	53,588
31 March 2012	13.4	52,638

Source: IRESS and Grant Samuel analysis

  Woodside has been a reasonably liquid stock although its free float is only approximately 77% (i.e. excluding Shell's shareholding). The average weekly volume of shares traded and the average weekly number of transactions over the last two years has been relatively stable at around 10-13 million shares traded per week (representing approximately 1.5-2.1% of the free float) from an average of approximately 59,000 transactions per week. This represents annual turnover of around 75-110% of the free float. This level of liquidity is regarded as relatively high and is not inconsistent with that of Woodside's peers, which over the last 12 months have had average weekly trading volumes in the range 1.0-2.3% of their free floats.

  While there was an increase in the number of average weekly transactions in the June 2013 and September 2013 quarters, average weekly volumes have remained relatively stable, indicating a larger number of smaller transactions. There is nothing in the recent trading statistics to indicate any unusual trading in Woodside shares.

- Bid/ask spread

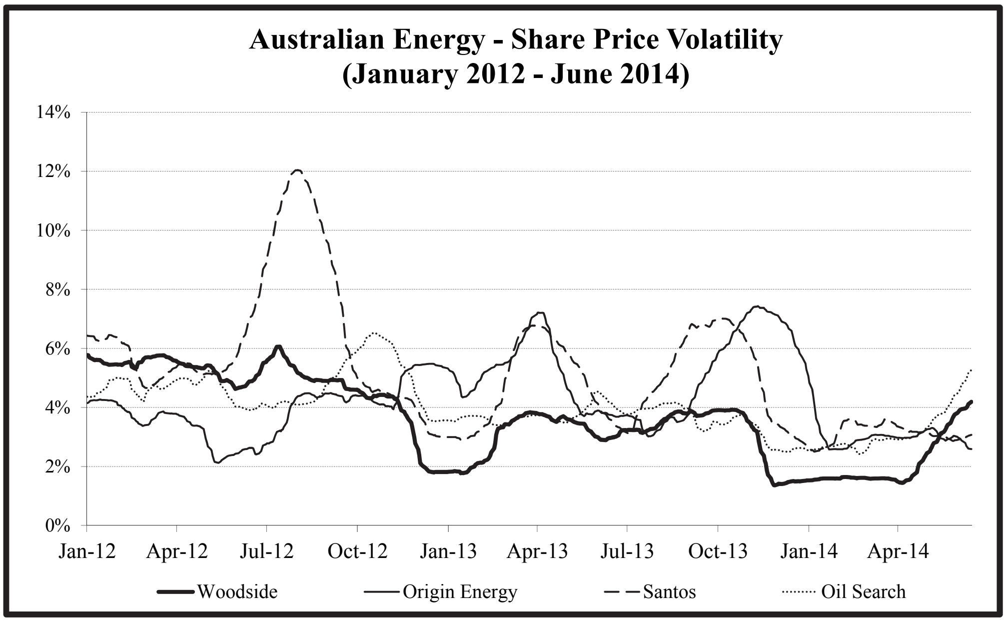
  The bid/ask spread for Woodside shares at the close of trade over the last two years has typically averaged 1-3 cents, with more recent bid/ask spreads at the low end of this range. A 1 cent bid/ask spread represents approximately 0.02% of the current share price. Although this percentage has declined over recent months as Woodside's share price has increased, the percentage has generally been below 0.1% of Woodside's share price at any particular point in time. These close of trade spreads are broadly consistent with, if not better than, those of

[25] Calculation of the average weekly volume and transactions for the quarter ended 30 June 2014 are based on data for the period from 1 April 2014 to 13 June 2014.

its Australian listed peers (approximately 0.08-0.24% of their share prices at the close of trade) as well as most other actively traded shares.

- Volatility

The volatility[26] of the Woodside share price compared to the volatility of the share prices of its peers is illustrated in the chart below:



Source: S&P Capital IQ and Grant Samuel analysis

Higher volatility means that the share price can change dramatically over a short time period in either direction. Lower volatility means that a company's share price does not fluctuate dramatically, but changes in value at a steady pace over a period of time. The volatility of Woodside shares (measured as the 100 trading day moving standard deviation from the average share price) over the last 2½ years has been in the range 1.5-6%. This level of volatility is broadly consistent with (or lower than) the recent volatility of Woodside's peers, which has generally been in the range 2-7%. While there has been an increase in volatility of Woodside's share price over recent months, this increase has:

- followed a period of particularly low volatility (compared to both the historical volatility of Woodside's shares and the shares of its peers); and
- brought the volatility of Woodside's shares more in line with the volatility of the shares of its peers. While immediately prior to announcement of the Transaction, the volatility of Woodside's shares was higher than that of Origin Energy and Santos at around 3%, it was lower than the volatility of Oil Search shares at around 5% and the increase in volatility in Woodside's shares is not inconsistent with the increase in the volatility of Oil Search's shares over the preceding month.

While the analysis is fairly crude, there is nothing to indicate that Woodside's shares have exhibited an unusually high level of volatility over the months prior to announcement of the Transaction.

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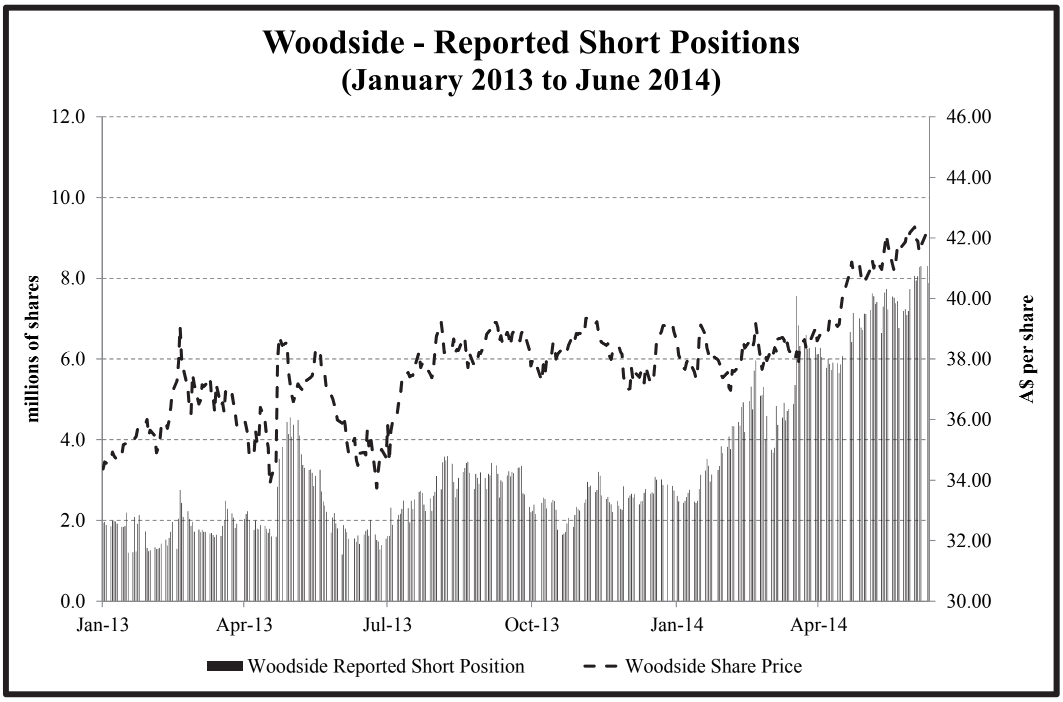
[26] Volatility on a particular date has been calculated as the standard deviation of the closing share prices divided by the average closing price for each company for the 100 trading days prior to that date. The standard deviation is a measure of how widely values are dispersed from the average value (the mean). In this case it reflects how widely a company's share price is dispersed from the mean of the share prices in that 100 trading day period.

(b) Short selling

Since the beginning of 2013, Woodside reported short positions have averaged 3.3 million shares representing 0.4% of Woodside's issued shares (or 0.5% excluding Shell's shareholding):



Source: ASIC

Reported short positions for Woodside have, until recent months, been relatively consistent at approximately 0.3% of issued capital. Since February 2014, Woodside's reported short positions have increased steadily from 0.5% to 1.0% of issued capital immediately prior to announcement of the Transaction. While recent reported short positions for Woodside are higher than the median of all ASX listed companies (which is approximately 0.4% of issued shares), it is well below the highest reported short positions which are more than 15% of issued capital. This indicates that Woodside's share price generally and, more specifically in recent months, has not been impacted by any material level of short selling.

(viii) Impact of the Buy-back Proposal

The impacts of the Buy-back Proposal on Woodside are considered in more detail in Section 4.3 addressing the issue of reasonableness. The key conclusions are that there is:

- an increase in pro forma earnings per share. This also provides scope for a commensurate increase in dividends per share;
- an increase in debt and gearing but this should not impact Woodside's interest margins or the ability to finance its development program and meet sustaining capital expenditure requirements;
- a slight reduction in NTA per share;
- no material impact on Woodside's operations;
- a reduction in the degree of control of Woodside because of the reduction in the shareholding of Shell from 23.1% to 4.5%; and
- an increase in Woodside's weighting in key S&P/ASX indices as a result of the Transaction.

None of these factors are likely to have a material adverse impact on the Woodside share price.

4.2.3 Franking Credits

The Buy-back Proposal comprises:

- a capital return of US$7.95 per share; and
- a fully franked dividend of US$26.29 per share.

Accordingly, in addition to the cash payment of US$34.24 per share, Shell will receive franking credits with a face value of US$11.30[27] per share.

This distribution of franking credits raises questions of equity in so far as:

- Shell receives additional value above the cash payment of US$34.24 to the extent it can utilise the franking credits[28]. If it could utilise 50% of the franking credits, the effective value received by Shell is US$39.89 (in line with the equivalent A$ market price) but if it could utilise 100% of the franking credits, the effective value received by Shell is US$45.54, which is a value greater than the value that Shell (or any other Woodside shareholder) could realise by selling its shares on the ASX; and
- it diminishes Woodside's franking credit balance by US$995.3 million[27] from approximately US$2.873 billion[27] (as at 31 May 2014) to US$1.878 billion[27] (on a proforma basis), a reduction of approximately 35%[29]. The available franking credits per Woodside share falls from US$3.49 to US$2.52 (a reduction of 28%).

However, in Grant Samuel's opinion, the distribution of franking credits to Shell as part of the Buy-back Proposal does not cause the Buy-back Proposal to become "not fair". The reasons for this view are summarised below:

- Shell is effectively "paying" for part of the benefit by selling the shares back to Woodside at a 14% discount to the prevailing share price (measured as the five day VWAP up to 16 June 2014). This discount provides Woodside and the non associated shareholders with a direct financial benefit of US$436.0 million (equivalent to US$0.58 per remaining Woodside share), or approximately 50% of the maximum potential value of the franking credits[30].

  This discount provides approximately US2 cents of the increase in earnings per share that will arise as a result of the Buy-back Proposal (approximately US20 cents per share);

27 Converted from A$ to US$ at the exchange rate at the close of trading on 16 June 2014 of A$1 = US$0.9411.

28 Grant Samuel has no knowledge of Shell's tax position or its ability to utilise the franking credits.

The general view is that overseas investors do not generate any value from franking credits attached to dividends. On the other hand, it is sometimes argued that the franking credits can be utilised to enable dividends to be remitted out of Australia without any withholding tax impost. While franked dividends do not attract withholding tax, withholding tax on unfranked dividends is 15% where the shareholder is resident in a country that has a tax treaty with Australia (and can be lower in some cases).

In this case, Shell is an Australian incorporated entity and subject to Australian tax so will not pay withholding tax on the dividend from Woodside (and would pay Australian corporate tax on any unfranked dividend, subject to available losses and deductions). However, it is a wholly owned subsidiary of Royal Dutch Shell plc and accordingly, the franking credits from the dividend can potentially be used to enable dividends (of up to the same amount) paid by Shell to its offshore parent to be free from withholding tax. To this extent, the franking credits may have a value equal to 50% of the face value (subject to any recoverability of withholding tax). There may be additional value to the extent Shell has unfranked income from other Australian sources that could also be repatriated without deducting withholding tax. However, while this saving is real, investors may well be able to offset any Australian withholding tax against taxes payable in their home jurisdiction in any event (at least where there are relevant tax treaties between that jurisdiction and Australia).

It should also be noted that, as a corporation, Shell will not be able to claim a capital loss for tax purposes from the sale of shares at an effective price of US$7.95 plus US$5.56. If Shell's costs base is less than this amount it will be subject to capital gains tax (assuming the shares are not pre CGT assets).

29 Including the additional debit of US$110.6 million as a result of the application of Section 177EA(5)(a) of the Tax Act.

30 Shell is paying approximately 40% of the maximum value if measured against the price of the selldown (its alternative realisable value) rather than the pre announcement price.

- following changes to the relevant legislation, buy-backs of shares (or share repurchases) have been taking place in Australia since 1989. Over the subsequent 25 years, they have become a common feature of the corporate landscape as part of capital management programs.

  Under Australian tax legislation, the buy-back price for an off-market buy-back will typically be deemed to be partly a capital return (broadly equal to existing subscribed capital per share) with the balance being deemed a dividend[31]. If the company has sufficient franking credits, the dividend will be fully franked. As a result of the dividend franking regime, there are significant tax benefits to some shareholders in participating in a buy-back that make it more attractive than selling on market (particularly shareholders with low tax rates such as superannuation funds). Accordingly, these shareholders may be willing to sell their shares through a buy-back at a discount to the prevailing share price (up to the point where the discount offsets the tax benefits). This situation is different to many other jurisdictions where a small premium is typically paid in buy-backs.

  As a result, a practice has evolved of undertaking off-market buy-backs through a tender process (usually referred to as a "Dutch Auction") under which (larger) shareholders tender their shares at nominated discounts to the prevailing market price. The final discount is designed to provide a "clearing price" which results in a buy-back of the predetermined number of shares. The discount achieved through this process will depend on the specific circumstances (e.g. size of the buy-back relative to the company as a whole, composition of the shareholder base in terms of tax position and the relative proportions of the capital component and the franked dividend component).

  Many companies also undertake fixed price off-market buy-backs (which include a franked dividend component) but the tender process provides some insight into a "market price" for the tax benefits.

  A study by Brown & Davis[32] showed that for Dutch Auction tender buy-backs conducted in Australia between 1996 and 2008:

  - the weighted average discount to the prevailing market price was approximately 13.0%; and
  - the weighted average discount was equivalent to 48.3% of the face value of the franking credits distributed (i.e. participating shareholders effectively paid a price equal to 48.3% of the face value of the franking credits). The ratio was reasonably consistently around this level in the later years of the study (2003 onwards).

  The following table sets out relevant data for selected off-market buy-back tenders that have taken place since 2008:

Selected Buy-backs Post 2008

Tender Date	Company	Amount Bought Back ($ millions)	Proportion of Total Capital (%)	Dividend Component (%)	Discount to Market Price (%)	Discount/ Face Value Franking Credits (%)	Scale Back[33] (%)
Oct 2010	Woolworths	704	2.2	88	14	43	88
Apr 2011	BHP	6,001	4.4	99	14	38	78
May 2011	JB Hi Fi	173	9.9	96	14	39	81
Oct 2011	Perpetual	70	7.5	56	10	46	68

  Some caution is warranted in interpreting this data and its applicability to the Buy-back Proposal:

[31] In contrast, on-market buy-backs are treated as entirely capital transactions.

[32] Brown C. and Davis K., (2012), "Taxes, Tenders and the Design of Australian Off Market Share Repurchases" *Accounting and Finance*, 52: 109-135.

[33] Percentage of shares tendered but not bought back (after taking into account priority parcels).

- the discount, at least since the mid 2000s, has been constrained by (and, in fact, largely determined by) the ATO's imposed maximum discount of 14%[34] (which was applicable for at least part of the time period studied by Brown & Davis). Without this constraint, it is likely that the discounts would have been higher (as evidenced by the fact that a number of buy-backs in the later part of the period had very significant scale backs). Accordingly, the observed tender discount is to some degree artificially low but reflective of regulatory limitations;
- the discount is, in part, a function of the proportion of the price that is deemed to be a franked dividend. In this context, it is notable that in the Perpetual buy-back, the dividend component was only 56% and its discount was 10% rather than the maximum of 14% (but still represented 46% of the face value of the franking credits). For the Brown & Davis study, the weighted average dividend component was approximately 72%[35] (compared to 76.8% for the Buy-back Proposal);
- the substantial level of scale backs even for the BHP and Woolworths buybacks probably reflects the very high dividend components (which means the effective "payment" is relatively low, even at the maximum discount) coupled with the relatively low proportion being bought back; and
- other tax laws and practices in relation to buy-backs have changed over the time period.

The discount implicit in the Buy-back Proposal is 14% which is equal to the maximum allowable by the ATO. On this basis, it is reasonable to conclude that the price paid in the Buy-back Proposal is equal to (or less than) the price that would be paid if Woodside was to acquire the same quantum of shares (and with the same level of franking) from parties other than Shell (for example, if Woodside undertook its own equal access buy-back tender). In fact, there is a possibility that the buy-back price of US$34.24 is lower than would be achieved in an open access tender given the dividend component (e.g. compared to BHP) coupled with the sheer scale (circa US$2.68 billion) and the fact it represents almost 10% of the issued capital (i.e. there may not be sufficient demand in an open access tender to generate a 14% discount); and

- Woodside's franking credit balance at 31 May 2014 was US$2.873 billion which would enable the payment of a fully franked dividend of approximately US$6.703 billion.

  Looking forward, Woodside expects to continue to generate significant franking credits from its operations (which are largely subject to Australian tax). Assuming there is no significant change in the geographic mix of its operations, Woodside expects that, over the medium term, there would be no material diminution of its franking credit balance even assuming a continuation of an 80% dividend payout ratio (in fact, the franking credit balance is expected to increase).

  Even after the Buy-back Proposal, Woodside will still have the capacity to frank a special dividend of up to US$4.381 billion (US$5.88 per share)[36]. A return of excess capital of US$4.381 billion is well in excess of Woodside's current views on the level of surplus capital that might be potentially returned to shareholders in the medium term. As a result, the Buy-back Proposal appears unlikely to affect Woodside's ability to pay fully franked dividends as part of any future capital management initiatives.

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34 The ATO released a Practice Note (PLSA 2007/9) in 2007 that set the maximum allowable discount in an off market buy-back at 14% (relative to the VWAP for the five days prior to the closing date of the repurchase). However, the ATO had been applying this maximum discount for some years prior to 2007 in its private rulings.

In 2008, the Board of Taxation recommended this limit be dropped because it adversely affected non participating shareholders. Enabling legislation was prepared but was never enacted. The current Commonwealth Government announced in late 2013 that it does not intend to proceed with the amendments.

35 The 72% is an approximation as it is based on grossing up the aggregate franking credits. Accordingly, its accuracy is impacted by changes in tax rates (between 1996 and 2000/01 it was either 34% or 36%) and the extent to which any dividends paid in buy-backs were unfranked.

36 Assuming a 30% corporate tax rate. If the corporate tax rate is reduced to 28.5% (as currently intended by the Commonwealth Government), the franking credits would be sufficient to fully frank a dividend of US$4,710 billion (US$6.32 per share).

Accordingly, the franking credits being distributed to Shell are not credits that would otherwise have been available to other shareholders in the medium term (in the absence of a material change in circumstances). In this respect, non associated shareholders are not directly disadvantaged by the distribution of franking credits to Shell.

Another possible approach to the assessment of fairness is to add a notional "value" for the franking credits distributed to Shell to the cash purchase price of US$34.24 and compare that to the market value of the Woodside shares acquired.

Grant Samuel does not believe this approach is appropriate because:

- franking credits do not have value to the company per se. They only have value to the shareholders when received in their hands;
- there is no agreed or widely accepted basis of valuation of franking credits. The issue is even more vexed if the franking credits are surplus credits unlikely to be distributed;
- the value of a franking credit is materially different to different types of shareholders. For some shareholders every dollar of franking credit is worth $1 in cash value. For others (such as foreign shareholders) they may well have zero value.
- Accordingly, the purported values (which tend to be around the 50% mark) are meaningless because they don't actually represent the value to anybody (which in general terms is either zero or 100%). The argument that it represents an "equilibrium value" is specious and the idea of a single market wide universal value is dangerous; and
- there is no evidence that franking credits actually affect the day to day market prices of listed securities (as opposed to having a value in a targeted transaction). If they did, the logical corollary is that the share prices of Australian companies would deliver expected returns below the required rate of return of offshore investors and that, accordingly, there would be no foreign investors in Australian shares. This is patently not the case. Indeed, there is a very high level of foreign investment, even in sectors with high, stable franked dividend payouts such as infrastructure. In Grant Samuel's opinion, the better view is that equilibrium share prices are set ignoring franking credits but that Australian investors who can utilise the credits earn a higher rate of return.

Nevertheless, to the extent that there is any validity in this approach, it confirms the "fairness" of the terms of the Buy-back Proposal. The Buy-back Proposal effectively attributes a value equal to approximately 50% of the face value of the franking credits (i.e. the purchase price plus 50% of the franking credits is equal to the prevailing market price prior to announcement of the Buy-back Proposal). This 50% valuation can be compared to:

- the implicit "market valuations" of franking credits from other off-market buy-backs;
  - an average in the Brown & Davis study (1996-2008) of 48%; and
  - the levels in more recent buyouts of 39-46%;
- the gamma factor of 0.5 (i.e. 50% valuation) adopted by Australian regulators, such as the Australian Energy Regulator, in their determinations of allowable rates or return on capital for regulated industries; and
- the levels observed in various academic studies (generally referred to as dividend drop-off studies). Historically, this was around 50% but more recently show lower levels (e.g. 25%).

4.2.4 Conclusion

Grant Samuel's key conclusions are:

- there is no evidence to suggest that the market price does not represent the fair market value of Woodside shares at the present time. The market for Woodside shares appears to be well informed and there is nothing to suggest that Woodside shares are mispriced;

- the effect of the Buy-back Proposal on Woodside is unlikely to have any adverse impact on its share price;
- the buy-back price represents a 14% discount to the market price of Woodside shares immediately prior to announcement of the Buy-back Proposal. This discount is in line with off-market buy-backs undertaken by way of tender over the past decade and, more importantly, is equivalent to the maximum discount allowed by the ATO for such transactions. In this respect, the price paid to Shell is no more than would be paid by Woodside if it was instead to acquire the same quantum of shares from other shareholders (e.g. through an open access off-market buy-back); and
- the buy-back price effectively attributes a value of 50% of the face value to the franking credits distributed to Shell. This value ratio is consistent with market norms and other approaches.

  In any event, the franking credits distributed to Shell arguably have marginal value as they can be considered to be "excess credits" that are unlikely to be distributed to Woodside shareholders in the foreseeable future. Even after the Buy-back Proposal, Woodside will have sufficient franking credits to fully frank a one-off dividend of up to US$4.381 billion (on top of franking annual dividends).

Accordingly, in Grant Samuel's opinion the Buy-back Proposal is fair.

4.3 Reasonableness

4.3.1 Advantages and Benefits

(i) Progress to a More Efficient Capital Structure

Woodside's gearing at 31 December 2013 was 9.2%. At this level, Woodside was regarded as undergeared (and therefore using its capital inefficiently) particularly having regard to cash flows expected to arise over the short term. The Buy-back Proposal increases Woodside's net borrowings by US$2.68 billion and its pro forma gearing from 9.2% to 25.2%:

Woodside – Pro Forma Impact on Financial Position at 31 December 2013

	Actual	Adjustment[37]	Pro Forma
Net borrowings (US$ millions)	1,541	2,680	4,221
Net assets attributable to Woodside shareholders (US$ millions)	15,225	(2,680)	12,545
Gearing[38]	*9.2%*		*25.2%*

Source: Woodside and Grant Samuel analysis

The pro forma gearing of 25.2% is consistent with Woodside's target gearing ratio of 25% and within its target range of 10-30% through the investment cycle. In this respect, the Buy-back Proposal facilitates the move to a more efficient capital structure.

37 The adjustment excludes the impact of transaction costs associated with the Buy-back Proposal. These costs have an immaterial impact on the analysis.

38 Gearing is net borrowings divided by net assets attributable to Woodside shareholders plus net borrowings.

(ii) Positive Impact on Earnings and Dividends

The Buy-back Proposal is expected to be accretive to earnings per share. The following analysis demonstrates the pro forma impact on underlying earnings per share for the year ended 31 December 2013 and the years ending 31 December 2014 and 2015:

Woodside – Pro Forma Impact on Underlying Earnings Per Share			
	Year ended 31 December 2013 historical	Year ending 31 December	
		2014 forecast[39]	2015 forecast[39]
Before Buy-back Proposal			
Underlying net profit after tax (US$ millions)	1,702	2,388	2,277
Number of shares on issue (millions)	823.0	823.9	823.9
Underlying Earnings per share (US cents)	*207.0*	*289.8*	*276.4*
After Buy-back Proposal			
Underlying net profit after tax (US$ millions)	1,702	2,388	2,277
Incremental interest expense (US$ millions)	(107)	(107)	(107)
Tax effect (30%) (US$ millions)	32	32	32
Pro forma underlying net profit after tax (US$ millions)	1,627	2,313	2,202
Number of shares on issue (millions)	744.7	745.6	745.6
Underlying Earnings per share (US cents)	*218.5*	*310.2*	*295.3*
Impact of Buy-back Proposal			
Increase in underlying earnings per share – US cents	***11.5***	***20.4***	***18.9***
Increase in underlying earnings per share - %	***5.5%***	***7.0%***	***6.9%***

Source: Woodside, IRESS, brokers' reports and Grant Samuel analysis

The Buy-back Proposal results in forecast earnings per share increasing by around 7%.

The key assumptions underlying this analysis are:

- the Buy-back Proposal is implemented effective from 1 January of the relevant year;
- underlying net profit after tax for the years ending 31 December 2014 and 31 December 2015 is the median consensus brokers' forecast (see Appendix 1 for details);
- Woodside buys back 78.3 million shares at a cost of US$34.24 per share (US$2.68 billion);
- the buy-back is fully debt funded and the interest rate on incremental debt is 4%. This is a conservative assumption as Woodside intends to utilise cash reserves (which total over US$2 billion) prior to drawing down on its debt facilities and accordingly the actual increase in earnings per share could be higher; and
- the corporate tax rate is 30%.

Other things being equal, an accretion to earnings per share should be positive for the Woodside share price. At the same time, it should be recognised that the increase is largely the result of increasing the leverage in the capital structure rather than any revenue gains or cost savings inherent in the Buy-back Proposal (albeit that Woodside does have a desire to move towards a more efficient capital structure with greater leverage). Buying back the shares at a discount (rather than at market value) also accounts for a small proportion of the uplift in earnings per share.

39 Forecasts for the years ending 31 December 2014 and 2015 represent median consensus brokers' forecasts (refer to Appendix 1 for details).

Assuming the same dividend payout ratio target of 80% of underlying profit after tax, the increase in pro forma earnings per share provides the capacity for Woodside to pay higher dividends to shareholders in the future than would otherwise be the case under the status quo. However, there is no guarantee that dividends will increase (relative to the status quo) and future dividend payments will be at the discretion of Woodside directors at the time.

(iii) Increased Liquidity and Index Weighting

The Buy-back Proposal should result in:

- an increase in Woodside's index weighting; and
- an increase in the liquidity of Woodside shares.

At present, Shell's shareholding is excluded from Woodside's weighting in the various S&P/ASX indices. As a result, the free float is deemed to be approximately 77%.

The Transaction will result in Woodside's index weighting increasing to 100% as Shell's residual interest of 4.5% is below the reportable threshold for a substantial shareholder of 5%. This increase in index weighting should be positive for the Woodside share price, at least in the short term (until portfolios are rebalanced), as it will drive increased demand for shares by both:

- index or "passive" funds (i.e. funds that invest in the stocks included in a particular index in as close as possible to the proportions in that index and seek to mirror its performance); and
- those active managers and institutions that, in terms of their equities performance, are benchmarked against an index and therefore tend not to stray too far from a portfolio composition that is broadly similar to the index.

In addition, the liquidity of the market for Woodside shares should improve (although it is already reasonably liquid) in so far as the pool of shares available for trading will increase by the number of shares acquired by the institutional investors in the Selldown component of the Transaction (i.e. the free float increases from 633.8 million shares to 712.1 million shares[40] or from A$26.9 billion to A$30.2 billion (at the five day VWAP prior to announcement of the Buy-back Proposal of A$42.43).

(iv) Reduction in Overhang

Shell's 23.1% shareholding creates an overhang[41] in the market for Woodside shares. This perceived overhang has probably existed for many years, but certainly since November 2010, when Shell sold 78.3 million shares (representing 29.2% of its interest in Woodside and 10.0% of Woodside's issued capital) to institutional investors. At the time of this selldown, Shell committed to retain its remaining shareholding in Woodside for a minimum of one year (subject to limited exceptions) but also stated that it would increasingly focus its investment in Australia through direct interests in assets and joint ventures, rather than indirect stakes and that it would manage its remaining position in Woodside over time in the context of its global portfolio. There has therefore been an expectation that Shell will sell its shareholding at some time subsequent to November 2010.

This expectation appears to have become more intense since the beginning of 2014 following:

- press reports in January 2014 that Shell could sell up to US$30 billion of assets following a drop in its profits and earlier comments by Shell's chief financial officer flagging a potential sale given the interest in Woodside was no longer strategic; and

[40] Assuming that the residual 33.6 million Woodside shares held by Shell are not included in the free float.

[41] An overhang is the downward pressure on the market price of shares which arises when the market expects a significant parcel of shares to be sold in the short term.

- Woodside's 21 May 2014 announcement that it would not be proceeding with its proposed investment in the Leviathan gas field, freeing up to US$2.5 billion of capital that would have been required to fund this investment.

Removal of this overhang would be beneficial for shareholders, increasing the likelihood that the share price was determined primarily by Woodside's fundamental performance and outlook.

The Transaction (through the Selldown and the Buy-back Proposal) reduces Shell's holding from 23.1% to 4.5%. This reduces this overhang but does not eliminate it. In fact, it may exacerbate the problem in the short term as it might be assumed that Shell will be unlikely to want to hold the residual stake for other than the minimum possible time. This will particularly be the case in the short term given Shell has agreed to retain its remaining shares in Woodside for 90 days following completion of the Selldown (subject to limited exceptions).

On the other hand, the Transaction can be considered a very substantial and critical step in the process of removing the overhang. It facilitates an orderly exit for the balance of Shell's shareholding and may well bring forward the timetable for realisation. The residual 4.5% shareholding is below the reportable threshold for a substantial shareholder of 5% and is therefore much more manageable to sell without disclosure. There will be a number of options available to Shell to sell its residual interest including further block sales/institutional placements.

(v) Reduced Level of Influence

Shell has a right to nominate two directors to the board of Woodside out of a total board of nine directors (including the Chief Executive Officer and Executive Vice President, Corporate and Commercial who are not regarded as being independent). Shell has historically exercised this right and Shell's current nominees to the Woodside board are Dr Christopher Haynes (a director since June 2011) and Dr Andrew Jamieson (a director since February 2005). Both directors had long term careers with Shell which included secondments to Woodside and both became directors of Woodside prior to their retirement from Shell. This right gives Shell the capacity to exercise influence over Woodside although these directors are classified as independent non executive directors under ASX guidelines.

Shell is also able to exert influence through the exercise of voting rights as a 23.1% shareholder. While this does not give it a veto over any matter requiring 75% shareholder approval, it probably does represent a very powerful voting bloc at shareholder meetings (given the percentage of shareholders that generally vote at such meetings).

If the Buy-back Proposal is implemented, Shell's right to nominate two directors to the board of Woodside will lapse although it is intended that the current directors that were nominated by Shell will remain on the Woodside board (subject to the provisions of Woodside's constitution in relation to retirement by rotation and re-election). Both Shell nominated directors are due to retire by rotation at Woodside's 2015 Annual General Meeting. Subject to putting themselves forward for re-election, Woodside shareholders will have the ability to re-elect these directors at that time. The Transaction therefore has no impact on the day to day control and directors of Woodside in the immediate future.

To the extent that Shell was able to influence the company as a shareholder, that ability will be substantially reduced, if not eliminated. If the Transaction is implemented, there will no longer be a third party with any level of control or significant influence over Woodside. The Transaction effectively increases the influence of all non associated shareholders and opens up control of the company. Shell will remain Woodside's largest shareholder with its shareholding of 4.5%, although Woodside will have no substantial shareholders.

(vi) Increased Potential for a Change of Control Transaction

Theoretically, the Transaction and the reduction of Shell's 23.1% shareholding to 4.5% opens up Woodside's' share register and increases the prospects of a takeover offer being made (which would include payment of a premium for control to Woodside shareholders). However, in reality the change is minimal:

- Shell's holding would not have been seen as an impediment given its publicly stated intention to divest assets. In fact, it may have been seen as an advantage because it would enable bidders to instantaneously gain a 19.9% foothold interest in Woodside; and
- in view of the rejection by the Federal Treasurer of Shell's takeover offer for Woodside in 2000 there must be serious doubts as to whether a foreign bidder would be allowed to acquire Woodside. Given Woodside's size, the number of potential domestic acquirers is extremely limited.

4.3.2 Disadvantages, Risks and Costs

(i) Increased Net Borrowings and Higher Gearing

The Buy-back Proposal increases Woodside's net borrowings by US$2.68 billion and its gearing as at 31 December 2013 from 9.2% to 25.2% (on a pro forma basis). The Buy-back Proposal also reduces the funds available to Woodside under its existing debt facilities (assuming the buy-back is funded by Woodside utilising its cash reserves prior to drawing down on its debt facilities). If Woodside's credit ratings were adversely impacted there would be a negative impact on the interest rate it pays and on its ability to raise funds.

While the increase in net borrowings and the reduction in undrawn funding is a disadvantage and risk of the Buy-back Proposal:

- Woodside expects to retain its BBB+ and Baa1 credit ratings as it remains within key S&P and Moody's credit metrics:

Woodside – Credit Metrics at 31 December 2013

	Criteria for BBB+/Baa1 Credit Rating	Actual	Pro Forma allowing for Buy-back Proposal
S&P			
Funds from operations ("FFO") to debt[42]	>45%	83.1%	71.3%
Debt/EBITDA[42]	<1.0x	0.9x	1.0x
Moody's			
Retained cash flow to net debt[43]	>35%	~52%	na

Source: Woodside, Grant Samuel analysis

S&P has stated that it would revise Woodside's outlook back to stable if it forecast that Woodside's FFO to debt ratio would fall to less than 60% (e.g. through developing large projects, a sizeable acquisition or large capital return to shareholders) and that downward rating pressure could arise if it was forecast that Woodside's FFO to debt ratio would fall to less than 45%. Moody's has stated that ratings could be lowered if retained cash flow to net debt falls below 35% on a sustainable basis.

Following announcement of the Buy-back Proposal, S&P released an update affirming Woodside's BBB+ credit rating but revising its outlook from positive to stable. S&P expects Woodside's FFO to debt ratio to fall to approximately 60% in 2014 and its debt to EBITDA ratio to increase to approximately 1.3 times. While this represents a weakening of Woodside's current strong key credit metrics, S&P believes that that Woodside's key credit metrics remain well within the levels expected for the "modest" financial risk profile required

[42] As defined by S&P.

[43] As defined by Moody's.

for a BBB+ credit rating. Moody's confirmed that Woodside's Baa1 rating and stable outlook were unaffected by the Buy-back Proposal, stating that while the buy-back was credit negative, Woodside has sufficient headroom within the Baa1 rating to undertake the Buyback Proposal. Moody's expects Woodside's retained cash flow to net debt ratio to average around 45-50% over the next 12-24 months.

S&P does not give any credit in its ratings for Shell's significant shareholding so the reduction in the holding should not have any adverse impact. While Woodside has retained its investment grade ratings, S&P and Moody's have stated that further shareholder friendly capital management initiatives may cause a downward revision to Woodside's credit rating in the future. Any reduction in Woodside's credit rating would have a negative impact on the interest rate it pays and on its ability to raise funds;

- the financial ratios incorporated as covenants within Woodside's financing facilities are less stringent than the credit rating criteria. Woodside has advised that the only relevant covenant is net gearing. While details of this covenant have not been disclosed to the market, Grant Samuel has reviewed analysis prepared by Woodside of the net gearing covenant under Woodside's financing facilities for the years ending 31 December 2014 and 2015 under the status quo and assuming a US$2.68 billion buy-back. While the Buy-back Proposal results in an increase in the net gearing ratio, the Buy-back Proposal does not result in Woodside coming close to breaching its net gearing covenant;

- the resultant level of gearing remains below that of its domestic peers and is not inconsistent with that of its international peers (albeit above the median of 19.6%):

Relative Gearing Levels at 31 December 2013

	Net Borrowings/Net Borrowings plus Net Assets Attributable to Shareholders
Woodside (pro forma after Buy-back Proposal)	**25.2%**
Origin Energy	38.7%
Santos	32.6%
Oil Search	51.1%
Median of international comparables	19.6%

Source: IRESS, Bloomberg, company reports, brokers' reports

While Woodside's pro forma gearing at 31 December 2013 is above the median of its international peers of 19.6%, it is within the range of gearing of international peers of 3.1-32.1%; and

- Woodside believes it will continue to have the ability to fund its growth plans. The capital required for these projects, combined with the necessary sustaining capital expenditure, is expected to be US$1.2 billion in 2014, increasing to an average of US$2.0 billion per year over the 2015-2017 period (based on the current asset portfolio including the Browse Joint Venture). However, Woodside has access to a number of sources for this funding including:
  - internal reserves. Annual EBITDA is expected to increase from US$3.756 billion in 2013 to approximately US$5 billion in 2014 and 2015 (based on median consensus brokers' forecasts);
  - capacity under existing facilities (even after the Buy-back Proposal is implemented) as well as the potential to obtain additional debt facilities. Even if existing facilities are fully drawn, Woodside's debt ratios are well within the ratings benchmarks and covenant levels (based on median consensus brokers' forecasts); and
  - equity. Entitlement issues may be more straightforward without the substantial holding by Shell.

(ii) Reduction in NTA

Pro forma NTA per share as at 31 December 2013 will decrease from US$18.48 to US$16.82 as a result of the Buy-back Proposal. However, NTA per share is not an important measure of value for a company such as Woodside and the reduction in NTA per share is unlikely to have any material negative impact on the Woodside share price.

(iii) Alternatives and Opportunity Cost for Some Categories of Shareholders

As a result of strong cash flows and lower capital investment, Woodside has surplus capital and has been considering a variety of options for capital management. In 2013, it paid a special dividend of US63 cents per share and, in the absence of the Buy-back Proposal, would have considered other alternative uses for this surplus capital including potentially pursuing other capital management initiatives.

From a capital management perspective, alternatives to the Buy-back Proposal could have included an open access off-market buy-back of 78.3 million shares or a special dividend.

Open Access Buy-back

An open access buy-back (with the same capital/dividend components) would have been attractive to some categories of Woodside shareholders, in particular superannuation funds and other low tax rate (or zero tax rate) investors resident in Australia. With the maximum discount of 14% allowed by the ATO, the terms would have enabled these investors to potentially generate a net return above the prevailing Woodside share price (including the value of any capital losses generated) and above the alternative of an on-market sale. For shareholders in this category, the Buy-back Proposal deprives them of this potential.

However:

- an open access buy-back available to all shareholders is not an alternative to the Buy-back Proposal because it would not meet a fundamental objective of the Transaction, being the orderly sale by Shell of the vast majority of its holding and removal of the overhang. A block trade of the entire 19% shareholding (market value approximately US$6 billion) that is being sold through the Transaction would be extremely difficult (if not impossible) to execute at an acceptable price and may have adverse consequences for Woodside's share price in the near term. If the buy-back component was switched to an open access tender the likely result would have been that Shell retained a holding well above 4.5% (and potentially above 10%) which would not meet its requirements and may well exacerbate the overhang issue;
- from the perspective of Woodside itself and all the other shareholders who would not participate in an open access tender (because they do not benefit from the tax aspects of the transaction), they would be no better off than under the Buy-back Proposal (as the shares would not be able to be bought back at a lower price because of the ATO's limit on the discount); and
- the opportunity cost needs to be considered against the benefits of the Buy-back Proposal, including:
  - the increase in earnings per share and, other things being equal, potentially dividends per share;
  - the removal of the overhang created by Shell's shareholding; and
  - the increase in Woodside's index weighting.

In any event, future open access off-market buy-backs with a high franked dividend component by Woodside are a possibility if future cash flows generate "excess capital" (although this is now less likely as the Buy-back Proposal has largely eliminated the current excess capital and put gearing in line with Woodside's target of 25%).

Special Dividend

Over the years there have been complaints from a variety of sources that buy-back tenders (and, equally, selective buy-backs such as the Buy-back Proposal) are inequitable to non participating shareholders even where they occur at a discount to the prevailing market price[44]. The essence of the argument appears to be that:

- the discount does not fully compensate for the loss of franking credits and that those who participate enjoy a substantial net after tax benefit not available to non participating shareholders; and
- franking credits "belong" to all shareholders equally and should not be directed to one sub group of shareholders. Generally, they advocate that, if a company wishes to return surplus capital, it should instead make special dividend payments to all shareholders thereby distributing franking credits pro rata.

However, in this case, a special dividend would not have achieved an acceptable outcome as Shell would be left with a 13.6% shareholding in Woodside.

In any event, in Grant Samuel's view, the views on dividends compared to buy-backs are misconceived:

- the non participating shareholders that the critics are concerned about are typically those on high marginal tax rates (e.g. individuals on the top rate of 45%[45]) because the tax effects of the buy-back are not attractive to people in this category. For the very same reasons, they would not necessarily benefit from a special franked dividend paid to all shareholders. Shareholders in this tax position are better off (in after tax terms) if the value of their shareholding is maintained (by the company retaining the cash or buying back other investors' shares) so that the maximum value is ultimately realised as a capital gain (taxed at concessional rates). Appendix 2 sets out a simplified worked example. In essence, even if there is no growth in value over time, high marginal tax rate investors are in essentially the same position under a buy-back compared to receiving a fully franked special dividend (in after tax terms). If there is growth in value over time, they are better off with a buy-back of other parties' shares (in after tax terms).

  In this respect:

  - returns of surplus capital by way of dividend may be value destructive (in after tax terms) for this category of shareholder; and
  - non participating shareholders are not disadvantaged and, to the extent franking credits are directed to shareholders who benefit from them and they pay something for them (through the discount), they are likely to be better off; and
- unlike assets of a company, franking credits are inherently of unequal value. They have very different value to different shareholders depending on that shareholder's individual tax position (from 100% of their face value to 0%). It makes no sense to treat them as if they are equally valuable because that will also lead to inequities. For example, franking credits are generally considered to have no value to foreign shareholders and they are therefore also usually non participants in these kinds of buy-backs. They may get no tax benefit from a special franked dividend and, from their perspective, they would be better off to the extent the franking credits can be used through a buy-back to generate a tangible benefit for the company (by it being able to acquire shares at a discount to market price). They would have a legitimate complaint if this opportunity was foregone.

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[44] See for example submissions by GR Sellars-Jones to the Board of Taxation's June 2008 "Review of the Taxation Treatment of Off-Market Share Buybacks".

[45] Plus Medicare Levy of 2.0%. In addition, under the current Commonwealth Budget there may be a further temporary 2% levy on tax payers in the top bracket.

(iv) Transaction Costs

Woodside has estimated that the total costs associated with the Transaction will be US$6.4 million. These costs are one off and are not material in the overall context of Woodside. Total costs represent less than 0.02% of the current market capitalisation of Woodside.

4.3.3 Other Factors

(i) Impact on Business Operations

Woodside has a number of business relationships with Shell. In addition to common investments in projects (such as the NWS Project and the Browse Joint Venture) which will continue, the Shell group of companies is also a supplier to and a customer of, Woodside in relation to the provision of certain goods and services. In particular:

- Woodside has in place a number of contractual arrangements under which Woodside receives goods and services (including software and applications) from the Shell group of companies. These arrangements are all on arm's length terms. Woodside does not expect that its contractual relationships with the Shell group of companies will be materially affected (including no material financial impact) by Shell reducing, or divesting in full, its shareholding in Woodside; and
- a subsidiary of Shell that is a captive insurer participates in Woodside's insurance program. Insurance premiums are negotiated at arm's length by Woodside's insurance brokers with the Shell subsidiary following the terms set by the lead insurers. The Shell subsidiary's participation in Woodside's insurance program will reduce following the Transaction and Woodside will need to replace this insurance capacity from other insurers. This may incur some additional costs although any increase in cost is not expected to be material in the context of Woodside's business operations.

Accordingly, the Transaction is not expected to have any material operational or financial impact on Woodside's business operations.

(ii) Regulatory Requirements

Paragraph 62 of ASIC Regulatory Guide 111 lists a number of factors that an expert might consider in assessing the reasonableness of transaction with a person in a position of influence that requires shareholder approval under Listing Rule 10. These issues are addressed below to the extent that they are relevant to Woodside and the Buy-back Proposal and have not been addressed elsewhere in this report:

- the Buy-back Proposal does not have any material opportunity costs (other than as outlined in Section 4.3.2(iii)) in that it does not inhibit Woodside from pursuing other transactions. In particular, the increase in net borrowings and gearing is not expected to impact Woodside's ability to fund its growth projects and sustaining capital expenditure (see Section 4.3.2(i));
- there is a large number of alternative transactions that could have been pursued including:
  - buy-backs at different price levels;
  - different mixes of institutional selldown and buy-back;
  - different levels of total shares acquired and residual holdings by Shell; and
  - different mechanisms including wider institutional placements and secondary public offerings.

  However, it would be meaningless to analyse the Transaction relative to all the potential alternatives. They are not "on the table" and Woodside is not the party driving the transaction in so far as it is up to Shell to determine whether or not it will sell its stake (and at what price and whether in whole or part).

The relevant test for shareholders is whether or not they are likely to be better off if the Buy-back Proposal is implemented compared to the status quo.

That said, it is worth noting that had Woodside elected not to participate in the Transaction by buying back part of Shell's holding:

- if the shares being bought back by Woodside could not otherwise be sold through the market, no transaction may happen at all (as Shell may not be prepared to sell only A$3.24 billion worth of Woodside shares through the Selldown alone);
- placing an additional 78.3 million shares with institutions (or using other means such as entitlement issues or secondary public offerings) would be demanding and may well have adverse impacts on Woodside's share price and the selling price achievable. In turn, this could undermine the ability to initiate the selldown process as it may not produce a price acceptable to Shell; and
- it could lead to a total selldown by Shell in more stages over a longer time frame; and

▪ it is difficult to evaluate the bargaining position of Woodside relative to Shell but it is noted that:

- Woodside is paying a lower price than the price to be paid by the institutional investors under the Selldown. These institutions are clearly acting at arm's length and are not under any duress to undertake the transaction;
- the discount to the prevailing market price of 14% is equal to the maximum allowable by the ATO for off-market buy-backs;
- Woodside is not under any financial stress; and
- the directors retained financial and legal advisers.

4.3.4 Conclusion

As the Buy-back Proposal is fair, it is also reasonable. In any event, the benefits and advantages of the Buy-back Proposal and the broader Transaction (including the Selldown) outweigh the disadvantages, risks and costs.

4.4 Shareholder Decision

The decision whether to vote for or against the Buy-back Proposal is a matter for individual shareholders based on each shareholder's views as to value, their expectations about future market conditions and their particular circumstances including risk profile, liquidity preference and tax position. If in any doubt as to the action they should take in relation to the Buy-back Proposal, shareholders should consult their own professional adviser.

Similarly, it is a matter for individual shareholders as to whether to buy, hold or sell securities in Woodside. This is an investment decision independent of a decision on whether to vote for or against the Buy-back Proposal upon which Grant Samuel does not offer an opinion. Shareholders should consult their own professional adviser in this regard.

5 Qualifications, Declarations and Consents

5.1 Qualifications

The Grant Samuel group of companies provide corporate advisory services (in relation to mergers and acquisitions, capital raisings, debt raisings, corporate restructurings and financial matters generally) and provides marketing and distribution services to fund managers. The primary activity of Grant Samuel & Associates Pty Limited is the preparation of corporate and business valuations and the provision of independent advice and expert's reports in connection with mergers and acquisitions, takeovers and capital reconstructions. Since inception in 1988, Grant Samuel and its related companies have prepared over 500 public independent expert and appraisal reports.

The persons responsible for preparing this report on behalf of Grant Samuel are Stephen Wilson MCom (Hons) CA (NZ) SF Fin and Jaye Gardner BCom LLB (Hons) CA SF Fin. Each has a significant number of years of experience in relevant corporate advisory matters. Lachlan Whittaker BCom (Liberal Studies)(Hons) CA assisted in the preparation of the report. Each of the above persons is a representative of Grant Samuel pursuant to its Australian Financial Services Licence under Part 7.6 of the Corporations Act.

5.2 Disclaimers

It is not intended that this report should be used or relied upon for any purpose other than as an expression of Grant Samuel's opinion as to whether the Buy-back Proposal is fair and reasonable to the non associated shareholders. Grant Samuel expressly disclaims any liability to any Woodside shareholder who relies or purports to rely on the report for any other purpose and to any other party who relies or purports to rely on the report for any purpose whatsoever.

Grant Samuel has had no involvement in the preparation of the Explanatory Memorandum issued by Woodside and has not verified or approved any of the contents of the Explanatory Memorandum. Grant Samuel does not accept any responsibility for the contents of the Explanatory Memorandum (except for this report).

5.3 Independence

Grant Samuel and its related entities do not have at the date of this report, and have not had within the previous two years, any business or professional relationship with Woodside or Shell or any financial or other interest that could reasonably be regarded as capable of affecting its ability to provide an unbiased opinion in relation to the Buy-back Proposal.

Grant Samuel commenced analysis for the purposes of this report in May 2014 prior to the announcement of the Buy-back Proposal. This work did not involve Grant Samuel participating in the setting the terms of, or any negotiations leading to, the Buy-back Proposal.

Grant Samuel had no part in the formulation of the Buy-back Proposal. Its only role has been the preparation of this report.

Grant Samuel will receive a fixed fee of A$570,000 for the preparation of this report. This fee is not contingent on the outcome of the Buy-back Proposal. Grant Samuel's out of pocket expenses in relation to the preparation of the report will be reimbursed. Grant Samuel will receive no other benefit for the preparation of this report.

Grant Samuel considers itself to be independent in terms of Regulatory Guide 112 issued by the ASIC on 30 March 2011.

5.4 Declarations

Woodside has agreed that it will indemnify Grant Samuel and its employees and officers in respect of any liability suffered or incurred as a result of or in connection with the preparation of the report. This indemnity will not apply in respect of the proportion of any liability finally determined by the courts to be caused by any conduct involving negligence or wilful misconduct by Grant Samuel. Woodside has also agreed to indemnify Grant Samuel and its employees and officers for time spent and reasonable legal costs and expenses incurred in relation to any inquiry or proceeding initiated by any person. Any claims by Woodside are limited to an amount equal to the fees paid to Grant Samuel. Where Grant Samuel or its employees and officers are finally determined to have been negligent or engaged in wilful misconduct Grant Samuel shall bear the proportion of such costs caused by its action and the limitation on liability shall not apply in respect of that proportion.

Advance drafts of this report were provided to Woodside and its advisers. Certain changes were made to the drafting of the report as a result of the circulation of the draft report. There was no alteration to the methodology, evaluation or conclusions as a result of issuing the drafts.

5.5 Consents

Grant Samuel consents to the issuing of this report in the form and context in which it is to be included in the Explanatory Memorandum to be sent to shareholders of Woodside. Neither the whole nor any part of this report nor any reference thereto may be included in any other document without the prior written consent of Grant Samuel as to the form and context in which it appears.

5.6 Other

The accompanying letter dated 27 June 2014 and the Appendices form part of this report.

Grant Samuel has prepared a Financial Services Guide as required by the Corporations Act. The Financial Services Guide is set out at the beginning of this report.

GRANT SAMUEL & ASSOCIATES PTY LIMITED
27 June 2014

Grant Samuel & Associates

Appendix 1

Broker Consensus Forecasts

Woodside has not publicly released earnings forecasts for the year ending 31 December 2014 or beyond. To provide an indication of the expected future financial performance of Woodside, Grant Samuel has considered brokers' forecasts for Woodside. The medians of these brokers' forecasts are sufficiently close to Woodside's management projections to be useful for analytical purposes.

Set out below is a summary of forecasts prepared by brokers that follow Woodside in the Australian stockmarket prior to announcement of the Transaction on 17 June 2014:

Woodside – Broker Forecasts

Broker	Date	Reported EBITDA (US$ millions)	Reported EBIT (US$ millions)	Underlying NPAT[1] (US$ millions)	Underlying Earnings per Share (US cents per share)
Year ending 31 December 2014					
Broker 1	29 May 2014	4,773	3,495	2,288	270
Broker 2	23 May 2014	4,925	3,634	2,505	304
Broker 3	23 May 2014	na	3,253	2,121	250
Broker 4	23 May 2014	5,585	4,233	2,788	338
Broker 5	22 May 2014	4,763	3,492	2,100	255
Broker 6	22 May 2014	5,286	4,079	2,563	311
Broker 7	22 May 2014	4,957	3,592	2,388	290
Broker 8	22 May 2014	5,464	4,109	2,459	298
Broker 9	22 May 2014	5,167	3,781	2,486	302
Broker 10	22 May 2014	5,239	3,801	2,346	285
Broker 11	22 May 2014	4,836	3,430	2,231	271
Minimum		*4,763*	*3,253*	*2,100*	*250*
Maximum		*5,585*	*4,233*	*2,788*	*338*
Median		***5,062***	***3,634***	***2,388***	***290***
Year ending 31 December 2015					
Broker 1	29 May 2014	4,955	3,681	2,428	286
Broker 2	23 May 2014	4,850	3,632	2,277	276
Broker 3	23 May 2014	na	3,167	2,147	252
Broker 4	23 May 2014	6,004	4,646	2,959	359
Broker 5	22 May 2014	4,899	3,622	2,184	265
Broker 6	22 May 2014	5,516	4,365	2,735	332
Broker 7	22 May 2014	4,926	3,571	2,340	284
Broker 8	22 May 2014	5,293	4,012	2,152	261
Broker 9	22 May 2014	4,923	3,566	2,325	282
Broker 10	22 May 2014	4,839	3,281	1,988	241
Broker 11	22 May 2014	4,570	3,173	2,077	252
Minimum		*4,570*	*3,167*	*1,988*	*241*
Maximum		*6,004*	*4,646*	*2,959*	*359*
Median		***4,925***	***3,622***	***2,277***	***276***

Source: Brokers' reports, Grant Samuel analysis

When reviewing this data the following should be noted:

[1] Underlying NPAT is net profit after tax before non recurring items.

- the forecasts presented above represent the latest available broker forecasts for Woodside;
- the brokers presented are those that have published research on Woodside following Woodside's announcement that it had terminated the memorandum of understanding ("MoU") in relation to the Leviathan Joint Venture on 21 May 2014;
- Grant Samuel is aware of only four other brokers that follow Woodside. These brokers have not released any research on Woodside that includes earnings forecasts subsequent to Woodside's announcement that it had terminated the MoU in relation to the Leviathan Joint Venture on 21 May 2014;
- Grant Samuel has not included brokers' forecasts for revenue in the above table as revenue is not shown on a consistent basis across all brokers' forecasts. Some brokers adjust revenue to exclude LNG processing revenue whereas others do not. Woodside includes LNG processing revenue in its reported revenue figures; and
- Woodside does not report underlying EBITDA or EBITA and it is difficult to calculate underlying EBITDA and EBIT that is comparable to underlying profit after tax based on Woodside's disclosures in its annual reports. The majority of brokers do not adjust EBITDA and EBIT for non recurring items and where they do, the adjustments made in the years ending 31 December 2014 and 2015 are not material and would not have any significant impact on the median EBITDA and EBIT. As a result Grant Samuel has used the EBITDA and EBIT figures disclosed by each of the brokers in calculating the median EBITDA and EBIT in the table above.

Appendix 2

Simplified Analysis of the After Tax Impact of Dividends vs. Buy-backs for High Tax Rate Individuals

The key assumptions underlying this analysis are set out below:

Assumptions	
Company	**$ millions**
Value of business operations (today)	90
Surplus cash	10
Equity value	**100**
Number of shares on issue (million)	100
Share price ($)	1.00
Value of Business Operations (+ 1 year)	
Case I	90
Case II	110
Dividend paid from earnings (+ 1 year)	5
Corporate tax rate	30%
Individual	
Holding (shares)	1,000
Marginal tax rate	45%[1]
Cost base per share ($)	0.50
Earnings on cash after tax	5%

The company has two options to return surplus capital ($10 million) today:

- pay a fully franked dividend of $10 million to all shareholders; or
- buy back 10 million shares at $1.00 (market price).

The impact on shareholder value assuming a sale in one year, with an annual dividend paid at the same time, under two scenarios (Case I where the value of the business remains the same and Case II where the value of the business increases) are set out below:

Impact on Shareholder Value Assuming Sale in One Year			
Case I		**Option A (Dividend) ($)**	**Option B (Buy-back) ($)**
Value of business operations (+ 1 year) ($ millions)		90	90
Surplus cash ($ millions)		-	-
Equity value ($ millions)		90	90
Number of shares on issue (millions)		100	90
Share price		0.90	1.00
Sale Proceeds	A	900.0	1,000.0
CGT gain	B	400.0	500.0
CGT payable	C = B x 0.245	98.0	122.5
Special dividend received	D	100.0	-
Additional tax payable on special dividend	E	24.3	-
Earnings on cash (one year)	F	5.0	-
Annual dividend	G	50.0	55.6
Additional tax payable on annual dividend	H	12.1	13.5
Net Proceeds	**I = (A – C) + (D – E) + F + (G – H)**	**920.6**	**919.6**

[1] Plus 2.0% Medicare Levy.

Impact on Shareholder Value Assuming Sale in One Year			
Case II		**Option A (Dividend) ($)**	**Option B (Buy-back) ($)**
Value of business operations (+ 1 year) ($ millions)		110	110
Surplus cash ($ millions)		-	-
Equity value ($ millions)		110	110
Number of shares on issue (millions)		100	90
Share price		1.10	1.22
Sale Proceeds	A	1,100.0	1,220.0
CGT gain	B	600.0	720.0
CGT payable	C = B x 0.245	147.0	176.4
Special dividend received	D	100.0	-
Additional tax payable on special dividend	E	24.3	-
Earnings on cash (one year)	F	5.0	-
Annual dividend	G	50.0	55.6
Additional tax payable on annual dividend	H	12.1	13.5
Net Proceeds	**I = (A – C) + (D – E) + F + (G – H)**	**1,071.6**	**1,085.7**

This analysis shows that even if there is no growth in value over time (Case I), high marginal tax rate investors are in essentially the same position under a buy-back compared to receiving a fully franked special dividend (in after tax terms). If there is growth in value over time (Case II), high marginal tax rate investors are better off with a buy-back of other parties' shares (in after tax terms).

Note that the analysis will be less favourable to the dividend option to the extent that:

- the corporate tax rate (and therefore franking) falls to 28.5%; and/or
- the individual top rate increases to 47% (including the temporary debt levy of 2%).

Corporate directory

Woodside

Woodside Plaza
240 St Georges Terrace
Perth WA 6000

Share Registry

Computershare Investor Services Pty Limited
Level 2, 45 St Georges Terrace
Perth WA 6000

Woodside Shareholder Information Line

Within Australia 1300 472 461
Outside Australia +61 3 9415 4326

woodside

Head Office:
Woodside Petroleum Ltd
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Postal Address:
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f: +61 8 9214 2777
e: companyinfo@woodside.com.au

Visit us at
www.woodside.com.au

woodside

Woodside Petroleum Ltd
ABN 55 004 898 962

Lodge your vote:

Online:
www.investorvote.com.au

For Intermediary Online subscribers only (custodians) www.intermediaryonline.com

By Mail:
Computershare Investor Services Pty Limited
GPO Box 242 Melbourne
Victoria 3001 Australia

In Person:
Computershare Investor Services Pty Limited
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By Fax:
(within Australia) 1800 783 447
(outside Australia) +61 3 9473 2555

For all enquiries call:
(within Australia) 1300 472 461
(outside Australia) +61 3 9415 4326

Voting Form

Vote online

Go to www.investorvote.com.au **or** scan the QR Code with your mobile device. Follow the instructions on the secure website to vote.

Your access information that you will need to vote:

Control Number: 137034

SRN/HIN:

PLEASE NOTE: For security reasons it is important that you keep your SRN/HIN confidential.

For your vote to be effective it must be received by 10.00am (Australian Western Standard Time) on Wednesday, 30 July 2014

How to Vote on Items of Business

Vote Directly - Mark Section A

Voting 100% of your holding: Mark either the For, Against or Abstain box opposite each item of business. Your vote will be invalid on an item if you do not mark any box or you mark more than one box for that item.
Voting a portion of your holding: Indicate a portion of your voting rights by inserting the percentage or number of shares you wish to vote in the For, Against or Abstain box or boxes. The sum of the votes cast must not exceed your voting entitlement or 100%.

Appoint a Proxy - Mark Section B

If you wish to appoint the Chairman of the meeting as your proxy, mark the box in Section B. If the individual or body corporate you wish to appoint as your proxy is someone other than the Chairman of the meeting, please write the name of that person in Section B.
Voting 100% of your holding: Direct your proxy how to vote by marking one of the boxes opposite each item of business. If you do not mark a box your proxy may vote as they choose. If you mark more than one box on an item your vote will be invalid for that item.
Voting a portion of your holding: Indicate a portion of your voting rights by inserting the percentage or number of shares you wish to vote in the For, Against or Abstain box or boxes. The sum of the votes cast must not exceed your voting entitlement or 100%.
Appointing a second proxy: You are entitled to appoint up to two proxies to attend the meeting and vote on a poll. If you appoint two proxies you must specify the percentage of votes or number of shares for each proxy, otherwise each proxy may exercise half of the votes. When appointing a second proxy write both names and the percentage of votes or number of shares for each in Step 1 overleaf.

A proxy need not be a securityholder of Woodside Petroleum Ltd.

Signing Instructions for Postal Forms

Individual: Where the holding is in one name, the securityholder must sign.
Joint Holding: Where the holding is in more than one name, all of the securityholders should sign.
Power of Attorney: If you have not already lodged the Power of Attorney with the registry, please attach a certified photocopy of the Power of Attorney to this form when you return it.
Companies: Where the company has a Sole Director who is also the Sole Company Secretary, this form must be signed by that person. If the company (pursuant to section 204A of the Corporations Act 2001) does not have a Company Secretary, a Sole Director can also sign alone. Otherwise this form must be signed by a Director jointly with either another Director or a Company Secretary. Please sign in the appropriate place to indicate the office held. Delete titles as applicable.

Attending the Meeting

Bring this form to assist registration. If a representative of a corporate securityholder or proxy is to attend the meeting you will need to provide the appropriate “Appointment of Corporate Representative” prior to admission. A form may be obtained from Computershare or online at www.investorcentre.com under the help tab, "Printable Forms".

Comments & Questions: If you have any comments or questions for the company, please write them on a separate sheet of paper and return with this form.

GO ONLINE TO VOTE,
or turn over to complete the form ➔

Change of address. If incorrect, mark this box and make the correction in the space to the left. Securityholders sponsored by a broker (reference number commences with '**X**') should advise your broker of any changes.

Please mark X to indicate your directions

Voting Form

STEP 1 Indicate How your Vote will be Cast *Select one option only*

At the General Meeting of Woodside Petroleum Ltd to be held at the Perth Convention and Exhibition Centre, 21 Mounts Bay Road, Perth, Western Australia on Friday, 1 August 2014 at 10.00am (Australian Western Standard Time) and at any adjournment or postponement of that meeting ("Meeting"), I/We being member/s of Woodside Petroleum Ltd direct the following:

A. Vote Directly

☐ Record my/our votes in accordance with the directions in Step 2 below.

PLEASE NOTE: You must mark FOR, AGAINST, or ABSTAIN on the item for a valid direct vote to be recorded.

OR

B. Appoint a Proxy to Vote on Your Behalf

I/We appoint

☐ **the Chairman of the Meeting** **OR** ____________________

PLEASE NOTE: Leave this box blank if you have selected the Chairman of the Meeting. Do not insert your own name(s).

or failing the individual or body corporate named, or if no individual or body corporate is named, the Chairman of the Meeting, as my/our proxy to act generally at the Meeting on my/our behalf and to vote in accordance with the following directions (or if no directions have been given, as the proxy sees fit).

PLEASE NOTE: If you do not select an option under Step 1 of this Voting Form (direct voting or proxy appointment), or you select both options, you will be taken to have appointed the Chairman of the Meeting as a proxy to vote on your behalf.

STEP 2 Item of Business

	For	Against	Abstain
Buy-back of Shell's shares in the Company	☐	☐	☐

The Chairman of the Meeting intends to vote undirected proxies in favour of the item of business.

PLEASE NOTE: If you have appointed a proxy and mark the **Abstain** box for an item, you are directing your proxy not to vote on your behalf on a show of hands or a poll and your votes will not be counted in computing the required majority.

SIGN Signature of Securityholder(s) *This section must be completed*

Individual or Securityholder 1	Securityholder 2	Securityholder 3
Sole Director and Sole Company Secretary	Director	Director/Company Secretary

Contact Name ____________________ Contact Daytime Telephone ____________________ Date ___ / ___ / ___

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