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ASX Announcement

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GENERAL MEETING – FREQUENTLY ASKED QUESTIONS

On 17 June 2014, Woodside announced that it had entered into a negotiated agreement with Shell which will reduce Shell's shareholding in Woodside from 23.1% to 4.5%.

The first component of the agreement, the sell-down by Shell of 78.3 million shares to institutional investors, completed on 18 June 2014. The second component, Woodside's buy-back of 78.3 million shares from Shell, is subject only to shareholder approval at a General Meeting scheduled to take place on 1 August 2014 (all other conditions having now been satisfied).

Woodside's Board of Directors recommends that shareholders vote in favour of the buy-back[1]. Details of the buy-back, including reasons for the Board's recommendation, are set out in the Notice of Meeting and Explanatory Memorandum sent to shareholders in late June.

To facilitate clear and concurrent communication with all shareholders, the Annexure to this announcement provides a summary of frequently asked questions and Woodside's response to them.

Shareholders with other questions can call the Woodside Shareholder Information line on 1300 472 461 from within Australia or +61 3 9415 4326 from outside Australia.

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[1] Dr Haynes and Dr Jamieson, who were originally nominated by Shell, abstained from voting when the buy-back was considered by the Board.

Annexure: Frequently Asked Questions

Q1. What is the commercial rationale for Woodside entering the transaction that sees Shell ceasing to be a substantial shareholder? Why is reducing Shell's shareholding through this transaction important?

Shell is Woodside's largest shareholder and has publically disclosed an intention to sell down its remaining shares. In the absence of this agreement, any on-market exit by Shell may potentially be a protracted process. This could have an on-going negative impact on the trading of Woodside shares and the Company's ability to effectively plan for and execute future growth to the extent equity is required.

- The Woodside Board believes that an exit by Shell on the terms and timing agreed in this transaction is in the best interests of the Company and all shareholders.
    - Shell sold down approximately 30% of its shares in Woodside in 2010, and has made clear that it no longer views its stake in Woodside as strategic and may consider future divestment. The sell-down by Shell in 2010 took place without any advance notice being provided to the Company and did not follow an agreed process such as provided by this transaction. Woodside would not have any input or influence on the terms or timing of any future on-market sale of Shell's shareholding.
    - Shell's two sell-downs, in 2010 and in June 2014, represent Australia's two largest block trades, therefore an exit from a 13.6% residual shareholding may require multiple on-market transactions.
    - Woodside has sufficient funding to comfortably complete this transaction, maintaining its credit ratings and flexibility to pursue growth opportunities in its business. Therefore, Woodside's management consider this is the right time to facilitate Shell's shareholding reduction.
- Woodside believes that the Company needs an equity base that is supportive of long term capital decisions.
    - The nature of Woodside's business is capital intensive and its capital deployment decisions are inherently long term.
    - If Woodside needed to undertake a pro-rata equity raising to support a growth opportunity in the future, the ability to do so could be impacted if Shell as a major shareholder did not participate.
    - Woodside's ability to raise equity to fund growth could be diminished if Shell decided to sell a significant shareholding in the same timeframe, creating an over-supply of Woodside shares.
- Woodside's share price may be adversely impacted by the "overhang" of Shell's shareholding and associated uncertainty.
    - Woodside believes that having a major shareholder that is a known seller may reduce the potential for Woodside's share price to be determined by the Company's fundamental performance and outlook.
    - For example, it may limit demand from institutional buyers of Woodside shares who may believe they can acquire stock at a discount through a future sell-down by Shell.
    - Shell's June 2014 sell-down of 9.5% at $41.35 indicates to the market an acceptable sale price for Shell, which may act as a cap on Woodside's share price if the buy-back does not proceed. This view is supported by Woodside share price performance in the years following the 2010 sell-down by Shell.

- Following completion of the proposed transaction, the Board charter will no longer allow Shell to nominate Directors to Woodside's Board.
  - The Board charter currently allows Shell to nominate Directors to Woodside's Board. This may in the future create the potential for conflicts of interest given Shell is also a competitor of Woodside.
- The reduction of Shell's shareholding below 5% confirms Woodside's independence in the eyes of the international oil and gas industry.
  - Woodside's independence will be viewed positively by potential commercial partners.

Q2. Why is it important to reduce Shell's shareholding now?

- The overhang associated with Shell's shareholding has been an ongoing commercial issue for Woodside for a number of years, particularly since the sell-down of its interest in 2010. Accordingly, the Woodside Board has been considering options to facilitate an orderly reduction of Shell's shareholding for some time.
- If Shell's exit did not take place through this agreed transaction, Woodside would have no control over the timing or terms of any future sell down.
- A future sell-down by Shell may potentially take place over a protracted period, with Shell's shareholding continuing to create uncertainty for Woodside shareholders. As outlined in the response to Question 1, this could have an ongoing impact on the Company's ability to raise equity for future growth and potentially place a cap on the Company's share price.
- Woodside has sufficient funding to comfortably complete this transaction, maintaining its credit ratings and flexibility to pursue growth opportunities in its business. Therefore, Woodside's management view this as a good time to facilitate Shell's shareholding reduction.
- Furthermore, implementing the buy-back now will ensure that the earnings per share (**EPS**) and dividend per share (**DPS**) accretion benefits will be immediately delivered to all shareholders.

Q3. Why is the transaction being executed as a selective buy-back rather than an equal-access buy-back?

- The Woodside Board is committed to acting in the best interests of all shareholders, and to treating shareholders equally in its capital management initiatives. Woodside's pro-rata equity raising in 2009 and special dividend in 2013 are evidence of this commitment.
- However, Woodside embarked on this process looking for the most efficient mechanism to reduce Shell's shareholding rather than executing a buy-back in some form.
- Woodside believes that the commercial benefits of reducing Shell's shareholding to below 5% are in the best interests of all shareholders, and hence decided to proceed with a selective buy-back.
- An equal access buy-back would not achieve the objective of removing the overhang, and therefore results in continuing uncertainty regarding Shell's stake. An equal access buy-back:
  - would not have facilitated the Shell sell-down completed in June;
  - would reinforce Shell as a seller with a larger residual shareholding; and
  - could indicate to the market an acceptable sale price for Shell, potentially capping Woodside's share price.
- Shell's residual shareholding under an equal access buy-back would be uncertain. Assuming Shell participated, Woodside estimates that due to potential scale-backs Shell's residual shareholding will be materially higher than the residual shareholding of 4.5% that will result under the selective buy-back.
  - The potential scale-back would also reduce the number of shares that other participating shareholders would be able to sell into any equal access buy-back and dilute the total benefits received.

- The other financial benefits of the transaction such as increased DPS would be uncertain, given an equal-access buy-back would be a tender process. There would be no guarantee that the end result would be a buy-back at a discount as high as 14% to the then current market price for Woodside shares (a pricing result that was achieved for the selective buy-back). A lower discount would result in less EPS and DPS accretion for all Woodside shareholders.

Q4. Why is Woodside providing Shell with the benefits of the distribution of franking credits?

- Woodside believes the excess franking credits utilised under the buy-back would not have been distributed to shareholders in the foreseeable future, and are therefore currently of marginal present value to shareholders. This transaction uses less than one third of Woodside's franking credit balance, in a period where the Company is annually generating substantial additional franking credits.
- The Independent Expert also concluded that "*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*."
- The structure of the transaction enabled Woodside to negotiate a buy-back price that is a 14% discount to the 5 day volume weighted average price up to the day prior to announcement of the transaction. This discount enhances the EPS and DPS accretion for all shareholders. It is important to note that the 14% discount is the maximum discount allowed by the Australian Taxation Office for any off-market buy-back.
- The excess franking credits utilised under the buy-back do not earn income for the Company or add to balance sheet value.

Q5. Will the buy-back impact the future ability for investors to access franking credits / receive fully franked dividends?

- Woodside plans to continue a dividend payout ratio of 80% for the foreseeable future, subject to the demands of significant new capital investments or material changes in the Company's business environment.
- Woodside will retain a substantial residual franking balance after this transaction (approximately US$1.9bn), and continue to generate franking credits in excess of distributions.
- Woodside dividends will therefore continue to be fully franked.
- As a result of the EPS accretion created through the buy-back, all shareholders will benefit from increased fully franked dividends per share.
- After this transaction, Woodside will retain a strong balance sheet, which will enable management to pursue further capital management initiatives.

Q6. Is the Shell "overhang" still an issue given Shell's shareholding has now reduced to 13.6%?

- Yes, Woodside believes that the commercial rationale outlined in the answer to Question 1 remains relevant with Shell's shareholding at 13.6%. While the recent sell-down reduced Shell's shareholding from 23.1% to 13.6%, this remains a material shareholding in the Company.
- Shell has shown a desire to materially reduce its shareholding in Woodside and this transaction re-emphasises that position. If the buy-back did not proceed, Shell could be expected to continue to seek to reduce its shareholding. The reduction through a single transaction would be larger than Australia's largest ever block trade. An exit may therefore need to take place over multiple transactions, creating ongoing uncertainty in the market for Woodside shares which may act as a cap on the Company's share price.
- Woodside would have no control over the timing or nature of a future substantial exit by Shell. It could occur at a time that is undesirable for the Company from a funding, markets or project standpoint.
- The buy-back will reduce Shell's shareholding in Woodside to 4.5%, which is below the 5% substantial shareholder level that requires public disclosure. This will enable Shell to manage its residual stake in a much more efficient manner that will have less impact on Woodside.

Q7. Why does this transaction not result in a complete exit by Shell of its shareholding in Woodside?

- The size of the transaction had to take into account the natural constraints of:
  - the capacity of the market to absorb the block trade sell-down (Shell's two sell-downs, in 2010 and in June 2014, represent Australia's two largest block trades in history); and
  - Woodside's capacity to optimise its capital structure through the buy-back.
- Given these constraints, while the transaction does not reduce Shell's stake to 0%, Woodside believes the reduction in Shell's shareholding to 4.5% is optimal, as it will enable Shell to manage its residual stake in a much more efficient manner that will have less impact on Woodside.
- At the 4.5% level, Shell would also no longer be able to nominate Directors under the Board Charter and would not report on the ASX as being a substantial holder in Woodside.
- Woodside is comfortable that any further exit by Shell could be easily digested by the market over time and is unlikely to be disruptive. Shell has agreed to retain its remaining shares in Woodside for 90 days from completion of the sell-down transaction.

Q8. How does this transaction benefit non-Shell shareholders?

- The Woodside Board considers this transaction to be in the best interests of all shareholders.
- Not only does the transaction remove the Shell overhang, but in buying Shell's shares at a 14% discount, Woodside will create substantial value for all shareholders in the form of ongoing EPS and DPS accretion (commencing at the interim 2014 dividend).
- On a pro forma FY13 basis, this would result in a 6% uplift to every shareholder's DPS.
- A full list of benefits of the buy-back can be found in section 2.3 of the Explanatory Memorandum released in June 2014.