Address by Chairman Michael Chaney and CEO and Managing Director Peter Coleman

Woodside Petroleum Ltd.

2016 Annual General Meeting
Thursday, 21 April 2016

Report by Chairman Michael Chaney

Good morning and welcome to Woodside's 2016 annual general meeting.

My name is Michael Chaney, and as Woodside's Chairman I would like to thank shareholders, Woodside staff and guests for attending today's meeting.

I would also like to thank Jasmine Middleton, Kate Milligan, Jessica Porter-Langson, and Jade Hansen from the Western Australian Youth Orchestra for entertaining us prior to the start of the meeting.

I extend my welcome to those joining us via our webcast.

Before we commence, please take a few seconds to familiarise yourselves with the evacuation procedures shown on the screen above which would apply in the unlikely event of an emergency.

In furthering the process of reconciliation it is important for us to acknowledge the past and present Traditional Owners of this land on which we are gathering today.

I invite Dr Richard Walley OAM, a Whadjuck man of Nyoongar country in the South West of Western Australia, to the stage to deliver a Welcome to Country for us.

[Richard Walley delivers Welcome to Country]

Thank you Richard.

On stage with me is our Chief Executive Officer and Managing Director Peter Coleman, our Executive Vice President and Chief Financial Officer Lawrie Tremaine, and our Company Secretary Warren Baillie.

I would like to introduce our board of directors who are sitting in the front row. They are, and I ask them to stand as I mention them, Melinda Cilento, Frank Cooper, Chris Haynes, Andrew Jamieson, David McEvoy, Ann Pickard, Sarah Ryan and Gene Tilbrook.

Russell Curtin from Ernst & Young, the company's auditors, is also present.

Just a reminder that as Woodside reports its results in US dollars, any reference to dollars this morning will be in US currency unless stated otherwise.

It is a pleasure to be reporting to you again on Woodside's activities and I look forward to any questions you may have later in this meeting.

I am pleased to report that your company has delivered solid results in what has been – and continues to be – a constrained business environment.

Our 2015 net profit after tax, prior to the deduction of one-off non-cash items, was 1.1 billion dollars. Statutory net profit after tax was 26 million dollars, the reduction being due to the recognition of impairments in some of our asset values.

Pleasingly, cash flow from operations was almost 2.4 billion dollars and we raised 4.1 billion dollars in new and refinanced debt facilities.

These are strong results in the current environment, and they build on your company's track record of progress. Compared to five years ago, we are a leaner organisation, with more assets, more development opportunities and almost double the acreage in our exploration portfolio.

Since 2011, we've increased production by 43 per cent and increased contingent resources by 106 per cent. Importantly, over five years, our strong balance sheet has enabled us to pay a total of more than 7 billion dollars in dividends to you, our shareholders.

In 2015, we elected to maintain our eighty per cent dividend payout ratio and we have declared fully franked dividends for the year of 109 cents. Consistent with our commitment to a strong balance sheet and retaining flexibility during this time of oil price weakness, the Dividend Reinvestment Plan was reactivated and the 2015 final dividend of 43 cents per share was fully underwritten.

Activating the Dividend Reinvestment Plan at this time enabled us to balance returns to our shareholders with the preservation of cash. We consider it very important to maintain balance sheet flexibility given the uncertainty around oil price recovery.

Our focus remains on providing superior shareholder returns throughout the commodities cycle.

This financial discipline has – and will continue to be – a hallmark of Woodside's strategy and operations. It means that we're a strong and resilient organisation, and we're able to withstand the volatility of commodity price cycles.

It is this core discipline that has seen us achieve significant savings through our productivity program and improvements in asset reliability. I know Peter will have more to say about that later.

This discipline also drives our growth strategy.

We have had some good results on this front in the last 12 months, with demonstrated growth potential from our exploration portfolio. Our footprint is significant – 52 exploration titles in 11 countries with more than 214,000 square kilometres gross acreage.

We're especially pleased with our recent exploration success in Myanmar where we have announced two gas discoveries over the last six months.

These back-to-back discoveries are at opposite ends of the Rakhine Basin. We believe the proximity of these wells to nearby infrastructure and our strong partnerships in Myanmar enhance commercialisation possibilities.

Overall, we now have interests in a total of six blocks in Myanmar – a 47,000 square kilometre acreage position – and our early mover strategy is delivering a competitive advantage. We are close to completing more than 30,000 square kilometres in 3D seismic surveys over the permits.

The two discoveries in Myanmar build on the success of the Pyxis-1 gas discovery off the coast of Western Australia in early 2015. Significantly, this discovery increased net contingent resources by 68 million barrels of oil equivalent with tieback potential to the existing Pluto LNG infrastructure.

An example of our exploration strategy execution was the entering into an agreement with Impact Oil & Gas in February this year to acquire a 65 per cent participating interest in a Production Sharing Contract and associated joint operating agreement in the AGC Profond block located in the joint development area between Senegal and Guinea-Bissau.

This is a very prospective area and it builds on our other recent acreage acquisitions in Cameroon, Gabon and Morocco.

In the lower oil price environment we continue to look for potential acquisitions around the globe. In September we submitted an informal proposal to the Board of Oil Search Limited to merge our two companies, a proposal which we believed would have been to the benefit of both companies' shareholders. After the Oil Search Board declined to engage in any discussions, we advised them of our withdrawal of the proposal.

In the long-term, we remain firmly of the view that LNG is a growth business. Globally, concerns about climate change and air quality are shaping future demand. During the past year, we have seen numerous governments around the world adopt more stringent clean energy policies.

There is broad consensus about the key role that LNG is expected to play in the future energy mix. Gas is the cleanest burning fossil fuel, it is easily transportable and reliable, and it complements renewables to provide large scale uninterrupted and peak power.

We expect that after 2022, a total of 200 million tonnes of LNG will need to come online to meet anticipated 2030 demand. That equates to about 20 million tonnes per annum through project life extensions and new supply.

Nonetheless, we are also aware that the LNG market is changing. There is increasing supply competition, providing customers with more choices in terms of geography, pricing and product. In future, we can expect to see the first-ever LNG developments in Canada, competing with the United States, Australia, Africa and the Middle East.

We are very focused on enhancing our marketing and trading capabilities to reflect the increasing flexibility in the LNG market.

In broad terms, your company's track record of 27 years' experience as a safe and reliable LNG supplier to Asia's growing economies means we are well-regarded and ideally placed to supply existing and new customers into the future.

Following the address by our Chief Executive, Mr Peter Coleman, we shall move to the formal business of the meeting, the election and re-election of directors, and voting on the company's Remuneration Report.

Before we do so, I just wanted to make a few remarks about the Remuneration Report.

I am disappointed to report that in the proxies received to date, quite a few shareholders have voted against the Remuneration Report and, while the votes cast at this meeting will need to be taken into account, it appears that a little over 25 per cent of the votes cast will be against the resolution and we will thus record what is called a "first strike".

Within Australia, a great majority of shareholders have supported the Remuneration Report – with about 75 per cent of the negative votes coming from shareholders offshore, where other oil and gas companies have had the same experience.

This is, as I say, a disappointing result. The company's Human Resources and Compensation Committee and Board take their responsibilities in this area very seriously. We endeavour to structure remuneration which is competitive and which incentivises management to strive for superior shareholder returns over the long term; and we believe that our current structure does that.

For example, we believe that the remuneration outcomes in 2015 appropriately reflect the position of strength which Woodside enjoys today compared to most oil and gas companies. That position is a result of management that is disciplined, focused on cost control and productivity and on long-term shareholder returns.

I have to say it is a real challenge trying to come up with a remuneration structure that satisfies all shareholders. Some shareholders are passionately in favour of some elements of the system and others passionately against the same elements. Last year our Remuneration Report – and thus remuneration structure – was overwhelmingly supported. This year a quarter of those same shareholders are voting against a remuneration structure which hasn't changed.

Notwithstanding that, I can assure shareholders that the Human Resources and Compensation Committee and the Board take the outcome of the vote very seriously and accept it as an indication of concern about our remuneration. We shall now set about discussing the structure with shareholders further and endeavour to understand and, if possible, accommodate their concerns.

Finally, let me provide you with an update on the changes to your Board.

After 11 years of service on Woodside's Board of Directors, Dr Andrew Jamieson will retire at today's meeting. Dr Jamieson, with his wealth of international engineering, oil and gas experience, has made a substantial contribution to the Board and we are indebted to him for his efforts. We shall miss his wise counsel.

We were delighted to announce in February this year that Ms Ann Pickard had accepted our invitation to join the Board. Ann recently retired from Shell, where she had a distinguished career. She is also a former director of Westpac Banking Corporation.

In closing, let me say that Woodside's strong performance in 2015 is a testament to our people, led by Chief Executive Officer Peter Coleman. On behalf of the Board of Directors I thank all our staff for their hard work and dedication to the company. We look forward to continuing our progress in 2016.

I will now hand you over to Peter.

Report by CEO and Managing Director Peter Coleman

Thank you Michael, good morning everybody.

This morning I want to reflect on 2015, and what you can expect to see in the months and years ahead.

Looking back on 2015, it's clear that our strategy, our assets and our people were tested amid the pressures of a significantly lower oil price. I'm pleased that we demonstrated an ability to deliver despite the volatilities of the external environment.

Our efforts throughout the year meant that we achieved solid underlying financial results. They are a credit to the strength of our business model and our whole-of-company commitment to operational excellence and continuous improvement.

I'm especially proud of our production result – 92 million barrels of oil equivalent was above guidance and is actually our second highest production result on record.

As you've heard from Michael, our 2015 net profit after tax, prior to the deduction of one-off non-cash items, was 1.1 billion dollars and our statutory net profit after tax was 26 million dollars. Our profit was disappointingly affected by the sharp fall in commodity prices and asset impairments.

Despite the economic climate, we achieved solid operating cash flows of almost 2.4 billion dollars, generated through our strong operating performance and our low cost of production. We have maintained our low levels of committed capital expenditure.

We ensured strong levels of liquidity with negligible debt maturities over the next two years and 1.7 billion dollars in cash and undrawn facilities as at 31 December.

We also took advantage of market conditions to raise 4.1 billion dollars in the bond and bank markets, bringing our pre-tax portfolio cost of debt to a competitive 2.9 per cent at year end.

Among our business highlights, in December, we started producing from the Greater Western Flank Phase 1 Project at the North West Shelf. First gas was delivered ahead of schedule.

We also took a final investment decision on the Greater Western Flank Phase 2 Project. This is the fourth major gas development for the North West Shelf Project in the past seven years.

We boosted production from our Vincent field and achieved record continuous runtime of 125 days at our Karratha Gas Plant and we implemented enhancements at Pluto that resulted in production rates of 4.8 million tonnes for 2015, almost 12 per cent higher than the expected annual capacity.

Our Xena Phase 1 project was completed ahead of schedule and commenced production in June.

The Chairman has already shared some insights on our exploration growth opportunities, which we are aiming to have decision-ready in the near-term.

I want to say a bit about our development pipeline, which includes Wheatstone, Julimar, Greater Western Flank 2 and Greater Enfield.

Importantly, the addition of the Wheatstone and Kitimat interests last year increased our proved plus probable developed and undeveloped reserves by 19 per cent and 2C contingent resources by 151 per cent.

The Wheatstone Project joint venture is targeting first LNG in mid-2017. We're confident in the long-term value of this project. When operating, Wheatstone will generate significant long-term returns for Woodside shareholders.

The Woodside-operated Julimar Project remains on target to achieve start-up on budget and schedule in the second half of this year.

I'm very pleased with the progress we're making on Greater Enfield, where work continues to achieve further cost savings to enhance development value and the business case. We're targeting FID on this project later this year.

And I remain positive about our development opportunities in Canada. The joint venture has drilled some appraisal wells in Kitimat. The initial production rates are very encouraging and confirm that the Liard Basin is a truly world-class resource.

You will be aware that we took a tough decision in March not to progress with the Browse FLNG Development at this time.

I want to assure you all today that Woodside remains committed to the earliest commercial development of the world-class Browse resource and to FLNG as the preferred solution, but the economic environment is not supportive of a major LNG investment at this time.

As I've mentioned, the economic environment has been challenging, but I feel our staff have performed well and delivered for the business and for you, as our shareholders.

Our people were critical to the success of our productivity program, which has delivered more than 700 million dollars in benefits in 2015 to Woodside and more than 1.2 billion dollars in cumulative benefits since it began just two years ago.

Initiatives aimed at not only reducing cost but driving improvements and achieving efficiencies have enabled us to safely increase our production while reducing operating expenditure.

This contributed to our break-even cash cost of sales dropping by a third since 2013 to around US$11 per barrel of oil equivalent. All of this was done while reducing the size of our workforce by almost ten per cent.

This focus on efficiency did not diminish our overriding commitment to safety. We reduced our total recordable injury rate for the fifth year in a row.

Pleasingly, we were injury free in each of our two major maintenance turnarounds in 2015, both of which were also completed well ahead of schedule.

Our environmental performance was also strong, with a reduction in flared gas intensity.

Along this theme of sustainability, we were able to attract a quality graduate intake at numbers comparable with previous years. Pleasingly, 50 per cent of our graduate intake for 2016 are women, and the proportion of women in our total workforce increased to 28 per cent in 2015, double the current resources industry average of 14 per cent.

We accelerated our efforts in technology and innovation in order to drive down our cost base over the next two to three years. We want to be positioned for final investment decisions that ideally provide LNG supply in the early to mid-2020s to meet what we believe will be renewed market demand.

Along these lines, we're pursuing the next generation of modular construction techniques. We've also introduced data analytics and a cognitive computing system, allowing us easier access to 30 years of Woodside knowledge and enabling industry-leading, data-driven decision making.

To sum up, we're an experienced, reliable operator, and we are evolving as the world demands it.

I think we've aptly demonstrated in 2015 that we have a robust and resilient model, albeit one which is adaptable given the challenges of this lower oil price environment.

We'll continue to seek growth opportunities, making disciplined decisions about what we choose to pursue and when.

And, as I've just mentioned, we're very focused on enhancing our competitive advantage at this point of the cycle – embracing technologies that leverage our experience and continuing our long-established productivity program to drive further efficiencies.

The constant in all of this of course is that we're committed to creating long-term value for you, our shareholders. Thank you.