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

Woodside Petroleum Ltd

Annual General Meeting
Wednesday, 24 April 2013

Report by Chairman Michael Chaney

Good morning and welcome to Woodside's 2013 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 also 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 Kim Collard, a Balladong man of the Nyoongar Nation of the south west of Western Australia, to the stage to deliver a Welcome to Country for us.

[Kim Collard delivers Welcome to Country]

Thank you Kim.

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, Rob Cole, Frank Cooper, Chris Haynes, Andrew Jamieson, David McEvoy and Sarah Ryan.

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.

Woodside had a standout year in 2012.

Against a backdrop of global market uncertainty, your company reported a record net profit after tax of $2.98 billion.

This figure included a profit on sale of part of our Browse interest of $974 million. But even on an underlying basis, net profit was still a record $2.06 billion.

Sales revenue increased by 30% to $6.22 billion, largely the result of record production of 84.9 million barrels of oil equivalent following the successful start-up of Pluto LNG almost a year ago.

This record performance has resulted in a considerable increase in Woodside's cash flow and enabled a reduction in the company's net debt.

Our strong balance sheet comes with a responsibility to maintain a disciplined approach to capital management. With gearing at just over 11% at year end, adequate liquidity and a solid credit rating, we continue to strengthen the company's financial position.

This gives Woodside the ability to focus on our strategy and only pursue growth opportunities that are a strong fit with our company's capabilities and, most important of all, create long-term value.

This of course brings me to the Board's decision two weeks ago not to proceed with the proposed Browse LNG Development in its current form, and begin a process of reviewing alternative development options for the Browse resources.

This was a difficult decision, but one that we are convinced is in the best interests of our shareholders. Following a very rigorous evaluation of the upstream and downstream scopes of work, it was clear that the existing James Price Point development concept would not deliver the commercial returns necessary for a positive final investment decision.

With the other Browse Joint Venture participants, we now immediately turn our attention to alternative development options for the Browse fields, so that this resource can deliver long-term benefits for our shareholders and the broader community.

We are proud of the benefits that Woodside and the Browse Joint Venture have already delivered as a result of pre-FID work on Browse.

This includes more than A$30 million injected into the local economy, with more than 170 Kimberley-based organisations engaged to provide Browse-related goods and services; more than A$2.9 million delivered to West Kimberley communities through our social investment program; and more than 100 Kimberley Indigenous people directly employed or in training through the Browse Indigenous Employment and Training Strategy.

As we demonstrated once again in 2012, this focus on growth can co-exist with strong dividends to shareholders. In 2012 the Board declared a final dividend of 65 cents per share, giving a full year payout of $1.30 per share.

It is fair to say that Woodside finds itself in a very fortunate position at the present time – with, on the one hand, a number of promising growth prospects ahead of it and, on the other, very strong cash flows.

I shall describe the growth prospects in a moment, but given the lead times involved with these and the strong cash flow we expect to experience going forward, the Board concluded that we should take the opportunity to return some cash to shareholders.

Thus the two initiatives which we announced yesterday in a release to the ASX; the first to pay a special dividend of US63 cents per share, with a record date of 6 May 2013; and the second to increase our target dividend payout ratio to 80% of underlying net profit after tax.

Based on current forecasts, this payout ratio is expected to be maintained for several years. The ratio will be reviewed in the event of significant new capital investments or if business performance or external circumstances change materially.

These initiatives reflect the Board's commitment to disciplined capital management and desire to distribute additional franking credits to our shareholders. At the same time, they preserve appropriate flexibility so that we can continue to pursue growth opportunities where we believe they will create value for shareholders.

Turning to our strategic direction, 2012 saw Woodside clearly define its future path through a renewed focus on three elements – maximising our core business, leveraging our capabilities, and growing our portfolio.

Our core business was boosted by the above-expectation start-up and ongoing reliability of Pluto LNG.

This resulted in Woodside's equity share of LNG production almost doubling – with more upside to come as we complete our first full year of production in 2013.

The project also serves to demonstrate Woodside's exceptional LNG capabilities. Your company has built six of the seven operating LNG trains in Australia and we have a track record of safe and reliable LNG operations spanning more than two decades.

It all started with the first LNG production from the North West Shelf Project in the late 1980s. We have come a long way since then, delivering our 3,500th cargo from the project in August last year.

While it would be easy to look back with a sense of satisfaction on this history of success, we continue to enhance the value of the North West Shelf through major projects such as the North Rankin Redevelopment and Greater West Flank Phase-1.

These are just two examples of Woodside's ongoing efforts to maximise the value of our base business.

Before I talk about our progress on our growth opportunities, let me put this into the context of the global LNG market.

Liquefied natural gas has become one of the 21st century's most sought after fuels and despite some softening of economic growth in China during the year, demand for LNG from the Asia Pacific region is forecast to grow by more than 90 million tonnes per annum between 2012 and 2020. This is equivalent to the output of about 20 new LNG trains.

Natural gas is playing an increasingly large role in the energy mix of many countries around the world as they look for cleaner energy alternatives; and we are also seeing the potential for greater use of LNG in transportation.

With Australia home to seven of the 13 LNG projects under construction globally, it is destined to become the world's largest supplier before the end of the decade. But even with this growth in supply, there will still be unmet demand.

This presents Woodside with a great opportunity to reinforce our position as an energy supplier of choice, both through uncontracted cargoes from producing facilities and our growth projects.

Woodside and the Sunrise Joint Venture continued to actively engage with both the Timor-Leste and Australian governments to achieve an aligned development outcome for Greater Sunrise. We shall continue to build on dialogue with both governments to reach agreement on a development which satisfies the requirements of all parties.

In a move to add further depth to the company's portfolio of assets, we have actively pursued a number of new international growth opportunities in the past year and we are seeing early results.

Late last year, we reached an in-principle agreement to acquire a 30% participating interest in two petroleum licences offshore Israel which contain the Leviathan gas field – one of the largest recent gas discoveries worldwide.

We are working closely with the joint venture participants to finalise this agreement, which provides the opportunity for Woodside to play a role in the potential development of an LNG industry in Israel.

The company also obtained in-principle agreements to farm-in to two Production Sharing Contracts located offshore Myanmar, which have since been finalised. Acquisition of seismic data has commenced in one block located within the prospective frontier exploration area of the Rakhine Basin.

While key fundamentals are in place to set us up for long-term growth, success is not guaranteed in a more competitive environment.

Internationally, new sources of potential energy supply to the Asia Pacific are emerging, including shale projects in North America and offshore gas discoveries in East Africa.

The sector continues to face cost pressures and productivity challenges and Australia remains at the top of the international cost curve in terms of LNG developments. The Business Council of Australia has calculated that productivity on Australian resource projects is 30 to 35% lower than on comparable projects in the United States.

Reducing cost pressures and improving productivity will require action and cooperation from industry and government alike.

Industry must keep finding new capacity through innovation and technology and we have an obligation to continue to up-skill our people to deliver value to our shareholders, customers and partners.

From government, we require a supportive and efficient regulatory environment which encourages flexibility and productivity in the workplace and stability in government policy.

In addition, continuous improvement in the areas of safety, sustainable development and community contribution remains a key priority for Woodside. Maintaining and enhancing our licence to operate is this company's highest priority.

Before I close, I would like to spend some time updating you on the changes to your Board.

After ten years of service on Woodside's Board of Directors, Pierre Jungels retired in December 2012 and Erich Fraunschiel retired in February 2013.

Both directors made a substantial contribution to your company over the past decade and the Board thanks them for their efforts.

Pleasingly, we have added to the Board's experience, with Sarah Ryan joining in December 2012 as a non-executive director and Frank Cooper joining on 1 February 2013, also as a non-executive director.

We welcome both Dr Ryan and Mr Cooper to the Board.

Woodside has delivered a strong 2012 performance and on behalf of the Board, I would like to thank the Woodside team, led by Chief Executive Officer and Managing Director, Peter Coleman, for all their efforts.

I will now hand you over to Peter.

Report by CEO and Managing Director Peter Coleman

Thank you Michael, good morning everybody. It is great to see so many of Woodside's shareholders here today.

As Michael mentioned, we were very pleased to announce yesterday the return of additional cash to shareholders via a special dividend and increased payout ratio. This reinforces our focus on creating and returning superior value to those who invest in our company, which I assure you will continue in 2013 and beyond.

This morning I will briefly review Woodside's performance over the past year, and outline our progress against the strategic direction I shared with you at last year's meeting. I will also detail some measures we are taking to deliver long-term success in a competitive Australian and global environment.

But first, I would like to address up-front the very important decision we took two weeks ago to not proceed with a final investment decision for the proposed Browse LNG Development in its current form.

This was not an easy decision for our Board to take, particularly in view of the strong relationships we have developed with communities in the West Kimberley, and the valued support of governments at all levels throughout the evaluation of the James Price Point Development.

But we firmly believe that it is the right decision for our shareholders.

We invested more than four years - and about 4.5 million work hours - in the technical, environmental and commercial studies associated with the James Price Point development concept.

This rigorous and disciplined evaluation enabled us to conclude with certainty that this development concept does not meet Woodside's commercial requirements for a positive final investment decision.

From the initial decision in 2009 to commence Basis of Design work for James Price Point, development costs rose significantly for the full field development. While commodity prices have risen over the same period, this increase was not sufficient to provide commercially acceptable returns.

While our announcement on 12 April signals the closing of a chapter, it is by no means the end of Woodside's plans to develop the world-class Browse resources.

We now immediately turn our attention to other development options for the 15.5 trillion cubic feet of dry gas and 417 million barrels of condensate contained within the Browse fields.

We have already re-engaged the Browse Joint Venture participants and intend to begin evaluation of other development concepts.

The high-quality work carried out on the James Price Point reference case to date will be very useful in assessing these other development options.

We will propose a work program and budget to the Joint Venture for the remaining 20 months of the Retention Leases with a commitment to the development of the Browse resources at the right time, and in the right way.

I am confident that we can begin Basis of Design work on new concepts in the near future, paving the way for another phase of front-end engineering and design, and ultimately a final investment decision.

Our decision on Browse does not overshadow a very successful 2012 for Woodside, nor does it divert us from our very clear strategy for future growth.

Let me now turn briefly to Woodside's recent achievements, beginning with the excellent performance of Pluto LNG.

You will recall that when we gathered here in May last year, I was able to share with you footage of the just-completed Pluto LNG Plant, and note that the first cargo of LNG had been delivered to foundation customers in Japan.

Almost 12 months on, Pluto has already produced more than 33 million barrels of oil equivalent, and delivered more than 50 LNG cargoes to long-term and spot market customers.

The plant ramped up to 89% average capacity utilisation within its first six months of operation, against our forecast of 65% based on the equivalent start-up performance of North West Shelf trains 4 and 5.

The strong early performance of Pluto LNG has cemented Woodside's status as Australia's leading LNG operator. And it has also helped to deliver a great set of numbers for Woodside in 2012.

As you've heard this morning we achieved strong improvement across all the key financial metrics in 2012. Record sales revenue, record underlying profit and strong growth in operating cash flow.

This strong financial position is integral to our growth strategy. It enables us to fund continuous improvement of our base business, and also provides the ability to compete globally for high-value assets, as demonstrated by our conditional entry into the world-class Leviathan gas field.

Of course, what underpinned these strong financials in 2012 was our record annual production of 84.9 million barrels of oil equivalent, an increase of 31% on 2011.

This year we will achieve a further increase in Woodside's production, within the range of 88 to 94 million barrels of oil equivalent outlined to the market in February.

We expect Pluto to continue ramping up towards full capacity and account for about 40% of our total in 2013. This will enable us to achieve a new production record despite a busy program of maintenance to ensure maximum value from our producing assets.

As the Chairman explained, Woodside operates in a dynamic global market in which the drivers of supply and demand rarely stand still. Maintaining our market-leading position requires a strategy that makes the most of our capabilities and provides us with a clear, disciplined approach to generating new value.

I'm pleased to report that Woodside continues to make very good progress against all three strategic elements that I outlined to you last year: maximising our core, leveraging our capabilities and growing our portfolio.

Beyond Pluto, we maximised our core business through the first full year of operation from the Okha FPSO at the North West Shelf, adding 2.5 million barrels of oil to our production.

We also extracted close to an extra 1 million barrels of oil from the Vincent field, the result of three infill wells brought on line between late 2011 and May 2012.

As reported in our first quarter update, we will not take the Cimatti oil development to a final investment decision in 2013 as originally planned. Cimatti will now be part of a Greater Enfield development which includes the Laverda field.

The North Rankin Redevelopment remains on track for start-up of the North Rankin B Platform later this year, which will access five trillion cubic feet of undeveloped low-pressure gas reserves to maintain production levels at the Karratha Gas Plant.

We secured some great outcomes in 2012 that leveraged Woodside's capabilities across the value chain. As the Chairman mentioned, we realised early value from the Browse resource by selling a minority portion of our equity to Japan Australia LNG, or MIMI, for $2 billion, resulting in a $974 million after tax profit for Woodside.

Securing conditional entry into the Leviathan gas field offshore Israel, one of the biggest recent gas discoveries worldwide, was also a key step in executing our strategy during 2012.

Leveraging our capabilities in areas such as deepwater development, project execution and LNG operation enabled us to emerge as the Leviathan Joint Venture's preferred partner following a very competitive international bidding process.

Our entry into two production sharing contracts offshore Myanmar, both of which were finalised during the first quarter this year, was also recognition of Woodside's strong deepwater capabilities.

The promising acreage that we now have access to in the Rakhine Basin provides a good opportunity to grow our portfolio in the years ahead, alongside an active program of exploration in Australia and other international locations in 2013.

Looking at our portfolio of assets, we have a strong platform from which to secure Woodside's long-term success.

But in an increasingly competitive environment, we realise that the oil and gas we produce does not on its own guarantee our future.

Woodside is taking a values-led and disciplined approach to everything we do in 2013 and beyond, structured around the three themes of people, process and performance.

Through our Woodside Compass, we are instituting a program of cultural change to ensure our people are fully engaged and enabled, and establish a clear link between values and behaviours and performance.

We are committed to ensuring that our internal processes are as efficient and effective as possible, and support our vision to be a global leader in upstream oil and gas.

For example, in 2013 we are rolling out new performance measures for process and personal safety based on global benchmarks, driven by our goal of achieving top quartile health and safety performance by 2017.

And in terms of performance, there will be a very strong focus in 2013 on capital management and capturing greater margins, including through the further strengthening of our marketing and commercial capabilities.

In short, our capital and operating spend must pass the highest scrutiny to ensure maximum flexibility for funding growth and returning dividends.

We will also continue to step up our efforts to be a market and cost leader in the area of technology, leveraging our capabilities to capture new opportunities and sharpen our competitive edge.

Before handing back to the Chairman, can I emphasise that while 2012 was a year of delivery for Woodside, we are not pausing for breath in 2013.

We have a busy program of activity underway in Australia and beyond, across a broad opportunity set.

And, as our decision on Browse shows, we will continue to make the right decisions on behalf of our shareholders, even when they are not easy.

Underpinned by our strategic direction, and guided by the Woodside Compass, we will continue our relentless focus on delivering superior shareholder returns.

Thank you very much.