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

Woodside Petroleum Ltd.

2017 Annual General Meeting
Friday, 5 May 2017

Report by Chairman Michael Chaney

Good morning and welcome to Woodside's 2017 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 Joanna Wolny from the Western Australian Youth Orchestra for entertaining us prior to the start of the meeting. Woodside has been a proud supporter of the Orchestra since 1991.

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 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, Larry Archibald, Melinda Cilento, Frank Cooper, Chris Haynes, Ian Macfarlane, David McEvoy, Ann Pickard, Sarah Ryan and Gene Tilbrook.

Trevor Hammond 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 performed well over the last year, despite external challenges.

Our 2016 net profit after tax was $868 million, a strong result given oil prices dropped dramatically early in the year and were, on average, almost 20 per cent lower than the previous year.

Woodside has long been known for its operational excellence and that proved crucial this year. We were able to mitigate the negative impact of a low oil price through continuing strong operating performance, particularly in our LNG business.

We generated cash flow from operating activities of $2.6 billion, reflecting success in increasing production and reducing costs, while also achieving record sales volumes and improved reliability. We achieved a 28% reduction in unit production costs in 2016, bringing the reduction since 2013 to 40%.

Earnings per share were 104 US cents. Our strong financial position has allowed us to maintain an 80% dividend payout ratio, with fully-franked dividends for the year of 83 cents.

Given the taxation benefits of fully franked dividends, particularly for Australian shareholders, your board is keen to ensure that imputation credits are distributed to members efficiently. Importantly, the company's strong cash flow has enabled us to achieve this through maintaining a high dividend payout ratio without hindering our growth prospects.

The 2016 year provided a good illustration of this, where we made some important growth investments. Over recent years, your company has been very active in pursuing potential acquisition opportunities. Our objective in this was always the creation of shareholder wealth rather than growth for growth's sake, and, consequently, we have in previous years walked away from some opportunities that we considered overpriced.

This rigour paid off in 2016, when we were able to take advantage of a low oil-price environment to acquire a major oil interest in Senegal and a significant interest in the Scarborough, Thebe and Jupiter gas fields on the Australian North West Shelf. The price paid for these quality resources was recognised as being well below most analysts' expectations.

The acquisitions provide substantial production growth potential going forward and demonstrate our strategic approach to diversifying our portfolio. Through exploration and acquisitions we added 694 million barrels of oil equivalent to our 2C contingent resources in 2016, a 16% increase.

In Senegal, we acquired a material position in a highly prospective emerging oil province, via a 35% interest in a Production Sharing Contract with the Government of Senegal covering three offshore exploration blocks.

This interest includes the SNE deep water oil discovery which presents the opportunity for first oil production from 2021 to 2023.

The acquisition of the Scarborough area assets off Western Australia in November 2016 increases our resource base close to our existing infrastructure. That's significant because it gives us the chance to explore options for attracting new production to those existing assets, maximising their value. Peter will have more to say about that shortly.

We had a rewarding year in Myanmar, where we announced back-to-back discoveries, adding 82 million barrels of oil equivalent of 2C contingent resources in 2016. In 2017, we are continuing to pursue the commercial development of these resources.

Let me put these developments in the context of what's happening in global energy markets.
At the moment, there is an abundance of LNG globally. When combined with the availability of regasification technology, this abundance is stimulating new demand that could bring forward an expected tightening of the global LNG market.

There are other drivers of market growth: natural gas is likely to be in high demand for decades because of its relatively low emissions profile. It will play an increasingly important role in the energy mix as countries around the world look for cleaner energy alternatives.

In short, it is a good time to be focusing on the potential for production growth in the years ahead. That's what we are doing, with our Australian and international assets.

Some commentators have raised concerns that the rise of renewables could leave some energy resources “stranded”. We are confident this will not apply to Woodside's assets, given anticipated demand for LNG and the short time horizons involved in commercialising our oil interests.

The international oil price remains the biggest factor in determining the value of petroleum assets. It appears unlikely we will see a return to the oil price lows of early 2016, but in any event, as last year demonstrated, Woodside showed that it has the balance sheet strength to manage such fluctuations.

Another major factor affecting the welfare of all companies operating in Australia is government policy and there are several issues of concern in this regard at the present time.

Firstly, we are currently awaiting news of how the federal Government will respond to a review it commissioned of the Petroleum Resource Rent Tax.

Woodside has consistently made the case that the PRRT is functioning as intended, facilitating the development of Australian resources and delivering a fair return to the Australian people. We urge the Government to consider the impact of any changes on future projects. Although we have diversified our portfolio, we want to continue investing in Australia.

Secondly, it was extremely disappointing to see the opposition from the Labor and minor parties to the Federal Government's proposed cut in the corporate tax rate for all companies. This was a surprising outcome given the public endorsement over the years by both Mr Shorten and Mr Bowen of lowering the corporate tax rate on the basis that doing so was good for investment, economic growth, employment and wages. It is very clear to anyone involved in business that having a corporate tax rate higher than that in other countries would result in Australia missing out on new investment. We urge all political parties in Canberra to keep this issue under review and ensure that our international competitiveness does not suffer further.

Thirdly, the recent Federal Government announcement of changes to the 457 visa program threatens to rob the country of badly needed skills at all levels of employment. It will be much harder to attract highly skilled international employees to Australia if they are not confident of being able to stay here beyond an initial two year period. We urge the government to provide flexibility in the new arrangements where it is clear that the skills being sought are not readily available domestically.

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

Since our last AGM, we have welcomed two new directors. Ian Macfarlane joined the Board in November 2016, bringing a wealth of experience in government and particularly the resources portfolio.

Larry Archibald, who has deep experience in international oil and gas exploration, joined us in February 2017. Larry was selected to replace David McEvoy, who retires from Woodside today.
David has made invaluable contributions during his 11-year tenure on the Board, drawing on his extensive exploration knowledge and in his role as Chair of the Sustainability Committee. We thank him for his service and wish him well.

I am pleased to be standing again for re-election as a director but have announced that I shall retire at next year's AGM. We were delighted to announce that Richard Goyder will succeed me as Chairman. To ensure a smooth transition, Richard will join the Board as a non-executive director in August and become Chairman immediately after our 2018 AGM.

Through an extensive business career, Richard has demonstrated his focus on delivering value to shareholders and I know he will provide outstanding leadership through Woodside's next phase of growth.

It is fair to say that Woodside finds itself in a very strong position, with exciting plans for the year ahead. On behalf of the Board, I would like to thank the Woodside team, led by Chief Executive Officer and Managing Director Peter Coleman.

Following the address by Peter, we shall move to the formal business of the meeting, consideration of the 2016 financial report, the election and re-election of directors, and voting on the company's Remuneration Report.

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 2016, and discuss what you can expect to see in the months and years ahead.

As you've just heard, your company performed exceptionally well last year as we passed through what we hope is the low point of the commodity cycle.

During this period, we continued investing in future supply while also distributing dividends to shareholders.

We have emerged in good shape and with exciting growth prospects.

I will share those with you in just a moment, but first, let's recap a few of the highlights from 2016 – we delivered profit of $868 million and increased net cash flow from operating activities to $2.6 billion.

Pleasingly, we generated free cash flow of $114 million in a year which started with oil prices as low as $28 a barrel and included two significant acquisitions.

At the same time, our gearing is 24% and well within our target range of 10 to 30%.

We remain one of the few in our peer group that was able to maintain its credit rating.

These are solid financial results, particularly when you consider the challenges posed in 2016 by global commodity markets and abundant LNG supplies. To an extent, risk and volatility are part of our business and we proved in 2016 that, at Woodside, we manage risk and volatility well.

Last year, I told you I was especially proud of our production result. This year, it's even better. We again exceeded our forecast, producing 94.9 million barrels of oil equivalent, our second highest level on record.

This reflected the outstanding reliability of both our Karratha and Pluto gas plants in 2016. Pluto achieved record annual LNG production, with reliability over 99% - well above industry standards.

Our focus on cost efficiencies and reliability has enabled us to increase production while reducing operating expenditure.

We achieved a 28% reduction in our unit production costs and nothing demonstrates this better than our record low Pluto unit production costs of US$3.30 per barrel of oil equivalent.

Our break-even cash cost of sales dropped again last year, down 23%, to US$8.50 per barrel of oil equivalent.

We were able to achieve this increase in production and reduction in costs while continuing to improve our safety performance. We reduced our total recordable injury rate for the fifth year in a row.

Our environmental performance was also strong, with a 33% reduction in flaring intensity.
I've already mentioned the challenging external environment last year but the upside for Woodside was that these conditions also brought opportunities to acquire new assets at favourable prices.
We have been smart about the assets we acquired.

Early in 2016 we announced play-extending discoveries in Myanmar and during the year completed significant acquisitions in Senegal and Australia at an average acquisition cost of approximately $1.10 per barrel of oil equivalent.

Discoveries and acquisitions in the past two years added more than 30 years of reserves and resources to our portfolio.

Significantly, the assets we acquired offer near-term value growth.

We expect about a 15% increase in production from 2017 through 2020 based on existing operations and currently sanctioned projects.

This focus on near-term value growth is clear in our priorities for 2017. You will hear us talk a lot about Wheatstone, Senegal, Myanmar and Pluto.

That's not to detract from the other opportunities we are pursuing, but we see these as priorities for this year.

When fully operational, Wheatstone will add more than 13 million barrels per year of annual production to our portfolio. This year we are making our expertise available to the operator to support a smooth start up of Train 1.

At the SNE oil field in Senegal, an appraisal program is underway to improve our understanding of the reservoir and inform development planning ahead of targeted first oil between 2021 and 2023.

In Myanmar, a significant drilling program has started, with a firm well schedule for 2017 increased to five, including a minimum two appraisal and three exploration wells. This program will improve our understanding of the resource base and form the basis for identifying a pathway to commerciality.

Closer to home, we're evaluating opportunities to maximise our investment in Pluto by undertaking further capacity enhancements and mid- to large-scale expansion.

We are looking at how we create value through accelerating development time frames and production, capturing unallocated resources from the Carnarvon and Browse Basins and creating new markets.

As part of our drive to grow the LNG fuel market, we're finalising plans to support supplying LNG from Pluto to fuel the local mining and marine sectors, which currently rely heavily on imported diesel.

Supporting the development of LNG as a low-emissions transport fuel has both economic and environmental benefits for Australia, as well as potential long-term commercial benefits for Woodside. To bring these opportunities together, we're focused on creating a Burrup Hub that will maximise value from existing facilities.

Woodside is in a unique position in the Pilbara of having equity in both key onshore infrastructure and offshore resources. In fact, we're the only company with equity in both the largest undeveloped offshore resources and the two onshore plants that have the most ready expansion capability.

As you know, we have worked for some years to find the right development concept for the world-class Browse resources. I'm very excited about where we are headed.

Now conditions are aligning for us to look closely at an opportunity to basically double the life of the North West Shelf by bringing the Browse resources into it. Utilising the existing facilities has the dual advantage of ensuring the most efficient use of capital while minimising risk by relying on proven technologies.

As operator of both Browse and the North West Shelf, Woodside is well-placed to make this happen and we are talking to joint venture participants in both assets.

It's still early days but we think this is a compelling option and could be achieved at a competitive price and in a reasonable timeframe.

Michael has already referred to the global conditions that may accelerate a tightening in LNG supplies – the growth in demand from new markets and the current challenging conditions for new large-scale developments.

These factors point to a supply shortfall in the 2020s, adding to the case for developing Browse. We anticipate that first gas from Browse could enter the North West Shelf plant from the mid-2020s, coinciding with the forecast supply crunch.

As you can see, we have promising projects on the horizon, both in Australia and internationally.
As the federal Government considers the future of the Petroleum Resource Rent Tax, we urge it to avoid any changes that could deter investment here in Australia. It is vital that the fiscal regime continues to enable the development of Australian resources, which generates jobs, tax revenue and domestic energy supplies. We welcome the Government's commitment to consult with industry on this in the months ahead.

We are the leading Australian oil and gas producer and – even though we have diversified our portfolio internationally - we want to continue developing Australian resources on behalf of the Australian people.

Most of our 3,500 staff are based here in Australia. We are a diverse workforce with a strong culture of respect and inclusion.

Over and above our commitment to being responsible stewards of the environment, we at Woodside are proud of our social contribution, our economic contribution and our contribution to energy security.

We build meaningful and genuine relationships with communities and contribute to social development, with a particular focus on Indigenous outcomes, corporate volunteering, science and technology and early childhood development. Our economic contribution includes paying a range of taxes, totaling more than $6 billion in the past five years. We are also proud of the contribution we have made for more than thirty years to energy security here in Western Australia through the provision of domestic gas, establishing a reliable supply that is now the envy of the Eastern States.

Before handing back to the Chairman, let me sum up: we have come through a challenging economic period with our finances in good shape, our reputation for operational excellence reinforced and an expanded portfolio of assets offering promising growth prospects.

We have done everything we said we would – reducing costs, increasing production and continuing to deliver value for shareholders. We've set ourselves exciting goals and will continue working hard to maximise the value of our existing asset base while also pursuing the commercialisation of new resources.

Our focus remains firmly on our shareholders and we thank you for joining us today and for your continued investment in Woodside.

Thank you.