Woodside Petroleum Ltd.

2018 Annual General Meeting
Thursday, 19 April 2018

Chairman Michael Chaney

This meeting has a special significance for me as my eleventh and final AGM as Chairman, before I move on from a role that has capped off a 46-year association with Woodside.

I joined the company in 1972 as a petroleum geologist in my first job out of university, during an exciting time when major discoveries were being made on the North West Shelf; and came back as a director in 2005.

As I prepare to hand over to Richard Goyder later today, I am pleased to update you on Woodside's activities: your company is entering another exciting phase, with promising developments on the horizon.

But first, I can report that 2017 was a good year for Woodside, as the oil price rallied, profits grew, and the company positioned itself for growth. Profit increased 18% to more than $1 billion. We achieved low unit production costs and lifted gross margins to $23 per barrel of oil equivalent.

We maintained our 80% dividend payout ratio, paying a fully-franked dividend of 98 cents per share, up from 83 cents the previous year.

Over the past decade, we have seen the oil price vary from a high of $145 to a low of $30 per barrel. Despite these fluctuations and dramatic shifts in global financial conditions – Woodside has remained profitable over that period.

Throughout all this, we have been on the lookout for opportunities to grow our portfolio, when this presents value for shareholders. We've never pursued growth just for the sake of growth, but in recent years we have been able to make some important acquisitions that have set the company up now to take advantage of emerging demand.

In 2017, conditions improved as oil prices stabilised and then firmed, and in the second half of the year, LNG spot prices increased significantly. A cold northern winter, combined with China's switch from coal to natural gas for heating, fueled demand for LNG and led to a surge in spot prices for LNG, reminding buyers that more supply will be needed.

It's a simple equation really: investment in new supply globally has not kept up with growth in demand. Global LNG demand increased by around 30 mtpa last year but only one new LNG project, for 3.4 mtpa, was approved.

This is the backdrop against which Woodside has unveiled its plans for new production to meet anticipated rising global demand from the 2020s. In preparation for this, we undertook a A$2.5 billion equity issue in recent months.

We think the equity offer presented a win-win proposition for shareholders, with those who took it up securing extra shares at a discounted price and those who chose not to take it up receiving a payment representing the premium those entitlements attracted at subsequent sale.

The capital we raised with your support allows us to maintain our prudent financial position and ensures we are well-placed to develop our planned projects.

That bodes well for you as shareholders but also for the people of this state and this nation, who will benefit from the supply of energy, as well as the employment and the revenue associated with development of the plentiful gas resources off Western Australia.

At the same time as launching our rights issue, we also announced we were increasing our stake in the Scarborough resource, giving Woodside greater control, alignment and certainty over its development.

As a shareholder, I am pleased the company was able to acquire the increased stake in Scarborough at a favourable price and has come up with a cost-effective approach to developing the abundant gas resources from both Scarborough and Browse.

The successful development of the Pluto Project was one highlight of my time as Chairman and it is pleasing that the Pluto facility will now provide the avenue for development of other gas resources.

Back when I joined the company, it was a junior explorer with a market capitalisation around A$12 million. Now it is Australia's largest independent oil and gas producer with a market value of around A$28 billion. The plans we have outlined in the past year mean that Woodside's future should be as successful as its past.

When I think back to my early days with the company, I recall how the outlook for the industry was shaped by political forces at the time. Shortly after I joined, the Whitlam Government came to power in Canberra and Rex Connor was appointed Minerals and Energy Minister.

He soon made statements about Woodside that seemed to threaten the company's rights to develop the North West Shelf gas it had discovered. In early 1973, Woodside wrote to Minister Connor asking for clarification of his policy. The response, from his department, consisted of just one sentence, stating bluntly that the Government would buy all of the gas at the well-head and arrange its downstream distribution.

Woodside fought back against this de facto nationalisation policy but Connor would not budge. As a result, expenditure on exploration in Australia all but dried up.

It is no different today: statements and decisions by our politicians shape business conditions.

Amid increasing global competition for capital, it is disappointing that Federal Opposition parties in Australia continue to stymie the Commonwealth Government's proposal to reduce the corporate tax rate for all companies.

It's blindingly obvious that a lower corporate tax rate sets up a virtuous circle by attracting investment that leads to increased tax revenue and employment and higher wages. By contrast, if the current impasse continues, jobs and investment will leave our shores. Australia cannot afford to have a corporate tax rate out of kilter with the rest of the world.

The standoff over corporate tax is symptomatic of a polarisation of political debate that jeopardises common sense outcomes. The erosion of public trust in the role of businesses is alarming, particularly if it is fueled by populist politicians, who seek to impose a greater regulatory burden on corporations that in turn restricts their ability to deliver the investment and employment that Australia needs.

On another matter, as Chairman, I have met with many of our investors to discuss your expectations of us. One change we have made recently in response to those expectations was an overhaul of our Executive Incentive Framework. The revised scheme, which applies for awards for the 2018 performance year, is geared to promote share ownership and support the company's strategy, while ensuring Woodside is able to attract and retain the best leaders.

On that note, I would like to thank the Woodside team for their hard work and CEO and Managing Director Peter Coleman and his executive team for their astute management.

I would also like to thank all the outstanding directors I have been privileged to work with since I joined the Board 12 years ago.

In the interests of a smooth transition, Richard Goyder joined the Board as a non-executive director in August and will become Chairman at the conclusion of this AGM. I know that your shareholdings – and mine – will be in good hands.

Following the address by Peter, we shall move to the formal business of the meeting. I will now hand you over to Peter.

CEO and Managing Director Peter Coleman

Thank you Michael, and good morning everybody.

This morning I want to reflect on 2017, and discuss our plans for the months and years ahead.
As you know, we have in recent months shared more detail of these plans.

We are excited about what lies ahead. Woodside is preparing to deliver new production right at a time when the world will need more LNG. We have the world-class resources, the facilities and the expertise. We have proximity to the markets that matter, where demand is already growing.

And we are pleased that many of you, our shareholders, have shown your support for our growth plans by participating in our recent entitlement offer.

I want to talk in just a moment about that offer and the developments it will support as we unlock the Burrup Hub here in Western Australia and progress our plans in Senegal. But first, let's run through some of the highlights from 2017. As Michael has already outlined, it was a good year for Woodside, and one that has set us up for our next phase of growth.

Our net profit after tax increased by 18% to more than $1 billion, driven by higher prices for our products and sustained low production costs.

In 2018, we expect production costs to be impacted by a full-year of production from Wheatstone Train 1 and the start-up of Train 2, together with maintenance work to be undertaken on the Vincent FPSO as part of the Greater Enfield Project.

In 2017, we generated free cash flow of $832 million, while maintaining investment in growth projects and developments.

These strong financial results supported an 18% increase in shareholder distributions, to 98 cents per share.

Our industry is emerging from several challenging years into a period when we see opportunity on the horizon.

The market conditions for the start of this year have been positive, but we are prepared for headwinds as new LNG supply is delivered into the market ahead of a global supply gap from the early 2020s.

Woodside is ready to grasp the opportunities: our finances are sound and our reputation for operational excellence is firmly intact. We have promising prospects, both in Australia and internationally.

Our commitment to ongoing safety improvements is evident in the fact we achieved our lowest ever total recordable injury rate in 2017.

In the past year, we progressed all of our priorities, in Australia, Africa and Asia.

The safe start-up at Wheatstone was an important milestone for us. We will continue to support the operator to optimise performance as it progresses delivery this year of LNG Train 2 and the domestic gas facility.

By delivering the $1 billion Persephone project 30% under budget and six months ahead of schedule we demonstrated that we keep our commitments.

In 2017, we completed our drilling program in Senegal ahead of schedule and under budget. We have also completed two wells in Gabon. Later this year, we'll be progressing initial engineering and design work on SNE-Phase 1, our offshore development in Senegal, ahead of an anticipated Final Investment Decision in 2019.

We made a third gas discovery in Myanmar last year and have a further two exploration wells planned for 2018.

Closer to home, we have just commenced drilling an exploration well at Ferrand-A, in the Carnarvon Basin, off Western Australia.

We have a lot of activity planned in WA in the years ahead, as we prepare for first production in 2019 from the Greater Enfield and Greater Western Flank-2 Projects.

And our vision for the Burrup Hub is taking shape. It's a vision that is bold but simple, involving a fresh wave of investment in natural gas for domestic and export markets. It's bold because of the sheer scale of it, supporting the eventual development of some 20 to 25 trillion cubic feet of gross dry gas resources.

It's simple because it relies on proven facilities, rather than building new ones.

And Woodside is in a unique position to deliver it, as operator of all the resources and facilities: the Scarborough and Browse resources and the Pluto and North West Shelf facilities.

We intend to deliver extra LNG right when a global supply shortfall is emerging from the 2020s.

Many of you will have read the material we sent you as part of the entitlement offer, so you will be aware of what we are proposing.

But just a quick recap: we this year lifted our stake in the Scarborough Gas Field off Western Australia to 75%, and plan to develop it through the Pluto LNG facility, where our ownership is 90%.

To do this, we intend to expand the Pluto gas plant, and have already completed feasibility studies to identify the best option.

As I flagged at last year's AGM, we also plan, with joint venture partners, to pipe gas from the Browse fields 900km to Karratha to fill spare capacity at the North West Shelf's Gas Plant, extending the life of that facility for 25 years or more.

And we plan to build an interconnector linking the Pluto and the North West Shelf facilities, which will enhance their value by providing additional optionality.

In broad terms, that's how we see the Burrup Hub evolving, as we work towards developing and delivering gas from both Scarborough and Browse with a view to gaining early mover advantage as the market gap emerges.

We know there will be demand enough to support both projects. Indeed, we are already talking to potential customers.

We see opportunity emerging as the rising demand for LNG from Asia follows a period of time in which very few projects were being sanctioned globally. Clearly, new supply will be needed.

Suppliers like Woodside that can progress lower-cost and faster-to-market brownfield developments will be able to take advantage of this market shift.

Our vision for the Burrup Hub has captured the imagination of the State Government, which has recognised the significant employment opportunities it offers, but it is timely to remind all governments that these opportunities can only be realised if the business environment remains competitive.

We were particularly pleased that most of our shareholders, both retail and institutional investors, recognised the value in what we have outlined and took up our entitlement offer.

The A$2.5 billion raised through this equity offer supports the Scarborough acquisition and the development of both the Scarborough and SNE-Phase 1 projects, as well as progressing Browse to a Final Investment Decision.

On the Burrup Hub, we started construction this week of an LNG truck-loading facility at Pluto. This will open up new uses for our product as a low-emissions transport fuel and for remote power generation, while underlining our commitment to the provision of gas in Western Australia.

This complements our work with the mining and shipping industries, which has taken on a new urgency ahead of the International Maritime Organisation's 2020 deadline for ships to switch to low-sulphur fuels. We are doing our bit to ensure the fuel and facilities are there for ships to comply and we encourage governments to consider what incentives and regulatory changes could support this transition to cleaner fuels.

We are committed to improving our own energy efficiency and to being part of the solution to the global challenge of climate change.

As Australia's largest independent oil and gas company, we know we have an important role to play as countries strive to reduce emissions and preserve air quality while extending access to energy.

The LNG that Woodside supplies into Asia makes a significant contribution to that task, providing a cleaner burning energy source. Indeed, we have seen demand from China surge in the past year as the government there mandated a switch from coal to gas for heating in certain provinces in a bid to improve air quality and reduce smog.

We are conscious that we need to work on reducing emissions from our own operations and are looking at options for integrating renewables at our facilities. We are also pioneering the use of a battery for spinning reserve on an offshore platform.

This month we signed up to guiding principles for reducing methane emissions across the natural gas value chain. These principles have been agreed by major industry players globally on the advice of groups including the United Nations Environment Program, outlining a path to not only reduce emissions but also ensure accurate reporting of emissions data.

Climate change action is one of the five United Nations Sustainable Development Goals that we have in the past year identified as goals to which Woodside can make a meaningful contribution.

I've talked about how Woodside operates the resources and facilities on the Burrup Hub. I've referred to the emerging demand for those resources and how Woodside can capture those markets. The final element is having the right people in place to do this.

In my seven years at Woodside to date, I have been privileged to work with an executive team that has done an outstanding job of leading the company to world-class performance.

As we enter a growth and construction phase, I have taken the opportunity in the past year to refresh our leadership team, carefully selecting executives whom I know have the competence and drive to deliver.

I intend to stay around for a while yet - and it would not surprise me at all if my successor were to emerge from amongst this talented team of executives, who will work together to lead the company through this next stage.

Finally, I want to thank Michael for the support, guidance and mentorship he has shown during his years as Chairman. We welcomed Richard Goyder to the Board last August and look forward to working with him as Chairman.

But most of all thanks to you, our shareholders, for your continued support.