

Woodside Petroleum Ltd.

Executive Incentive Plan

Rules

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**WOODSIDE PETROLEUM LTD.
ABN 55 004 898 962**

EXECUTIVE INCENTIVE PLAN

RULES

Definitions and principles of interpretation that apply in these Rules are set out in rule 21

1. ESTABLISHMENT AND PURPOSE

1.1 Plan approved by Board and recommended to shareholders

On 15 February 2005 the Board of Woodside resolved to:

- (a) adopt the Plan, subject to shareholder approval; and
- (b) recommend to shareholders that they approve the Plan at the Annual General Meeting of Woodside on 19 April 2005.

1.2 Commencement of Plan

The date of commencement of the Plan will be determined by the Board. Subject to shareholder approval, the Board may resolve to apply the Plan to calculate remuneration for nominated executives for Performance Years commencing with the year commencing 1 January 2005.

1.3 Aim of Plan

The Plan is an integral part of Woodside's overall approach to competitive performance-based remuneration. The Plan aims to reward executives for meeting or exceeding their performance targets, while at the same time linking the reward to the creation of long-term, sustained wealth for shareholders.

2. OUTLINE OF PLAN

2.1 Performance conditions

The Plan uses 3 performance conditions to link the variable, or incentive-based, component of participating executives' remuneration to Company performance, individual performance and the sustainability of returns achieved. Following is a summary of how the performance conditions operate:

(a) Company performance – Economic Value Added (EVA) condition

- A Base Incentive Pool will be established for each Performance Year, by reference to market data on variable rewards. The Base Incentive Pool will be adjusted up or down after the end of the year, to produce an Annual Incentive Pool. The adjustment will reflect Company performance during the year, as measured by Woodside EVA – see rule 2.2.

(b) **Individual performance condition**

- The Annual Incentive Pool will be allocated among participating executives, on the basis of their individual performance, as a Variable Annual Reward (**VAR**).
- 40% of each executive's VAR will take the form of a Cash Incentive Payment, payable with April salary in the year following the relevant Performance Year.
- The remaining 60% of each executive's VAR will be in the form of Variable Pay Rights (**VPRs**). Each VPR is a conditional entitlement, linked in value to one Share.
- One third of VPRs (ie 20% of each executive's total VAR) will automatically vest in the executives 3 years after allocation, provided their employment has not terminated through Resignation or dismissal with cause – see rule 7.

(c) **Company performance – Total Shareholder Return (TSR) condition**

- The remaining two thirds of VPRs (ie 40% of each executive's total VAR) will be subject to a Total Shareholder Return (**TSR**) hurdle. These VPRs will vest in the executives if and only if:
 - the Company's TSR meets or exceeds a predetermined hurdle rate over a 30-day period ending between 3 and 5 years after allocation; and
 - their employment has not terminated through Resignation or dismissal with cause – see rules 2.3 and 8.

This additional test is intended to ensure that value created is sustained.

Under certain circumstances VPRs may lapse, or vesting may be accelerated – see rule 10.

2.2 **Woodside EVA[®] test**

Economic Value Added, or EVA, measures the value Woodside creates for shareholders over what is required to cover the cost of capital. Woodside uses **Woodside EVA**, which measures EVA as the change in Risked Asset Value (**RAV**) over a period, which may be positive or negative. After the end of each Performance Year the value created during the year will be calculated to determine a Performance Multiple representing Woodside EVA for that year, using the methodology described in rule 4.5.

EVA[®] is a registered trademark of Stern Stewart & Co.

2.3 **TSR test**

- (a) **TSR** or Total Shareholder Return is a measure of shareholder wealth creation, by reference to:

-
- (i) the growth in value of shares over a given period of time; plus
 - (ii) the value of dividends and other distributions paid out over that period.

The methodology for calculating the TSR of Woodside for a period is set out in Schedule 2.

- (b) Shareholders who invest in Woodside expect a minimum rate of return. For the purposes of the Plan the Board will:
 - (i) determine that minimum return, equivalent to the Cost of Equity Capital; then
 - (ii) by reference to the Cost of Equity Capital, set a **TSR Hurdle Rate** expressed as an annualised percentage.
- (c) The Board will determine the TSR Hurdle Rate applying to VPRs for any Performance Year, before they are allocated.
- (d) Executives will become finally entitled to VPRs that are subject to a TSR test if the TSR test is satisfied and, at that time, their employment has not terminated through Resignation or dismissal with cause.
- (e) The TSR test for a VPR will be satisfied if the TSR of Woodside, measured from allocation, is equal to or greater than the applicable TSR Hurdle Rate for 30 consecutive days ending between 3 and 5 years after allocation – see rules 8.3 to 8.5.

3. PARTICIPATION IN THE PLAN

3.1 Board to nominate Participants

The Board may determine which of the executives employed by Woodside will participate in the Plan, and the date when they become Participants.

3.2 Minimum contract term

Unless the Board decides otherwise, executives employed under contracts with a base term of less than 5 years will not be eligible to participate in the Plan.

3.3 Replacement of previous incentive arrangements

When the Board determines that an executive is to participate in the Plan, the remuneration payable to that executive under their contract of employment will be varied to substitute participation in the Plan for participation in the short term and long term incentive arrangements previously incorporated in that contract. Transition from the former incentive arrangements to the Plan will be governed by any rules made by the Board under rule 18.3.

4. **CALCULATION OF ANNUAL INCENTIVE POOL**

4.1 **Board to determine Variable Pay Percentage**

For each Performance Year, the Board will determine a **Variable Pay Percentage (VPP)** for each Participant, taking into account relevant data on levels of variable reward being offered in the market.

4.2 **Base Incentive Pool**

For each Performance Year a Base Incentive Pool will be calculated as the sum of each Participant's Fixed Annual Reward (**FAR**) multiplied by their Variable Pay Percentage.

Base Incentive Pool amount = $\Sigma(\text{FAR} \times \text{VPP})$

4.3 **Board to determine opening values for Woodside EVA calculation**

For each Performance Year the Board will determine, before or as soon as possible after the start of that Performance Year, the following values which are required for the calculation of the Performance Multiple (representing Woodside EVA) under rule 4.5:

- (a) the Weighted Average Cost of Capital;
- (b) the Internal RAV opening valuation, being the RAV baseline against which value created during the year is measured (calculated at fixed product prices and exchange rates, to exclude the effect of changes in these variables);
- (c) the External RAV opening valuation, being the RAV baseline against which value created during the year is measured (calculated at the price and exchange rate outlook current at the beginning of the year, to include the effect of changes in these variables); and
- (d) the External RAV Interval and the Internal RAV Interval.

4.4 **Board to determine Woodside EVA**

After the end of each Performance Year, the Board will review the performance of the Company during the year, and determine the Performance Multiple representing Woodside EVA for that year in accordance with rule 4.5.

4.5 **Annual Incentive Pool**

The Annual Incentive Pool for any Performance Year will be determined as follows:

Step 1: Woodside EVA adjustment

Annual Incentive Pool = Performance Multiple x Base Incentive Pool

where

Performance Multiple = $0.5(\Delta\text{IRAV}/\text{Internal RAV Interval} + \Delta\text{ERAV}/\text{External RAV Interval}) + 1$;

ΔIRAV is the change in Internal RAV during the Performance Year; and

ΔERAV is the change in External RAV during the Performance Year.

Step 2: Deduction of any prior year Pool Deficit

Where a Pool Deficit occurred in the previous Performance Year, the amount arrived at by Step 1 will be adjusted by deducting the amount of that Pool Deficit.

4.6 Pool Deficit

A Pool Deficit occurs in any Performance Year if the application of rule 4.5 reduces the Annual Incentive Pool to a negative amount. The negative amount is the Pool Deficit for that Performance Year. Participants will not be eligible to receive VAR for any Performance Year in which there is a Pool Deficit.

5. ALLOCATION OF ANNUAL INCENTIVE POOL

5.1 Determination of VAR

The amount of each Eligible Participant's VAR for any Performance Year will be a share of the Annual Incentive Pool as determined by the Board on the recommendation of the CEO, taking into account:

- (a) the Variable Pay Percentage and FAR for each Participant; and
- (b) each Participant's Individual Performance Assessment

subject to any adjustments applicable under rules 6.6 and 6.7.

5.2 Individual Performance Assessment

After the end of each Performance Year, Participants will receive an Individual Performance Assessment based on their performance during that year. This assessment will be:

- (a) made:
 - (i) by the Chairman of the Board, for the CEO; and
 - (ii) by the CEO, for all other Participants;
- (b) recommended to the Board by the Chairman (in the case of the CEO) or the CEO (in the case of all other Participants); and
- (c) approved by the Board, subject to any adjustment considered appropriate by the Board in its discretion.

5.3 Eligible Participants

Participants will become eligible to receive VAR for a Performance Year if and only if:

- (a) their employment by Woodside has not been terminated for cause or ceased due to Resignation before the end of that Performance Year;
- (b) they achieve at least an acceptable level of performance in their Individual Performance Assessments, taking into account the objectives identified in their annual performance agreements; and
- (c) there is no Pool Deficit for that Performance Year.

6. COMPONENTS OF ANNUAL INCENTIVE POOL ALLOCATION

6.1 Composition of VAR

Each Eligible Participant's VAR will be made up of the following components:

- (a) Cash Incentive Payment: 40%; and
- (b) VPRs: 60%

adjusted where necessary under rules 6.2, 6.6 and 6.7.

6.2 Value of VPRs

The number of VPRs to be allocated will be determined by dividing 60% of VAR by the volume-weighted average price (**VWAP**) of a Share as at the Pricing Date. If this does not produce a whole number, the result of the calculation will be rounded down to the next whole number.

6.3 Subdivision of VPRs

The VPRs allocated to each Eligible Participant will be further subdivided as follows:

- (a) TSR-tested VPRs: two thirds (being 40% of VAR); and
- (b) Time-tested VPRs: one third (being 20% of VAR).

6.4 Board to determine Allocation Date

The Board will determine a date, being not later than 15 March in the year following a Performance Year, when allocation of VAR for the Performance Year will take effect.

6.5 Entitlements to VAR

With effect from the Allocation Date, Eligible Participants:

- (a) will become entitled to the Cash Incentive Payment component of their VAR, which must be paid to them with their salary for the month of April next following the Allocation Date; and
- (b) provided their employment has not terminated through Resignation or dismissal with cause, will become conditionally entitled to the VPR component of their VAR, subject to the Vesting Conditions and rule 10.

6.6 Adjustments to VAR due to expiry of employment contract

Where a Participant ceases to be employed by Woodside prior to the end of any Performance Year because of the expiry or early termination (otherwise than for cause or by Resignation) of their employment contract, then their VAR for that Performance Year will be adjusted pro rata, based on the length of time they were employed by Woodside during the Performance Year.

6.7 Other adjustments to VAR

Where a Participant ceases to be employed by Woodside prior to the end of any Performance Year because of any of the following occurring:

- (a) Redundancy;
- (b) Total and Permanent Disablement;
- (c) death;
- (d) Retirement; or
- (e) other circumstances as determined by the Board at any time,

or a Participant's employment with Woodside during a Performance Year is affected by any of the following:

- (f) a period of Salary Continuance;
- (g) secondment to another employer which is not a member of the Group, where the other employer becomes responsible for remuneration of the secondee during the term of secondment;
- (h) leave without pay; or
- (i) other circumstances as determined by the Board at any time

the Participant's VAR for that Performance Year will be adjusted pro rata, based on the length of time the Participant was carrying out duties (or on sick leave at full salary) under their contract of employment with Woodside during the Performance Year.

6.8 Statements of entitlement

Within 30 days after the Allocation Date for a Performance Year, the Company must give each person who is an Eligible Participant a **VAR Statement** including the following information:

- (a) the date of the VAR Statement;
- (b) the name of the person;
- (c) the amount of the person's VAR for the Performance Year(if any) and information showing how it was calculated;
- (d) the amount of any Cash Incentive Payment the person is entitled to;
- (e) the Pricing Date to apply in calculating the VPR component (if any) of the person's VAR

and within 30 days after that Pricing Date, the Company must give any person entitled to VPRs a **VPR Statement** setting out:

- (f) the number and Vesting Date of the Time-tested VPRs allocated to the person;
- (g) the number of TSR-tested VPRs allocated to the person, and the TSR Hurdle Rate applicable to them; and
- (h) any other information or documents required to be notified to the person by any law or the ASX Listing Rules.

6.9 Adjustments to VPR holdings

If there is any variation in the share capital of Woodside, including any pro rata issue, consolidation or subdivision, the Board may (subject to the Corporations Act and the ASX Listing Rules) make a proportional adjustment to the number of VPRs held by Participants in order to maintain value equivalence between one VPR and one Share. If an adjustment is made under this rule Woodside must notify the holders of VPRs of their new holdings within 30 days after the Board decides to make the adjustment.

7. TIME-TESTED VPRS

7.1 Vesting Conditions

For Time-tested VPRs, the only Vesting Conditions are:

- (a) the expiry of 3 years from the Allocation Date; and
- (b) that the holder's employment with Woodside has not been terminated with cause or by Resignation prior to the expiry of 3 years from the Allocation Date.

7.2 **Company to confirm vesting**

When Time-tested VPRs vest, the Company will advise the holder within 30 days after the Vesting Date that:

- (a) the VPRs have vested, specifying the number; and
- (b) the estimated Final Entitlement Date (see rule 9.2).

8. **TSR-TESTED VPRS**

8.1 **Vesting Conditions**

For TSR-tested VPRs, the Vesting Conditions are that:

- (a) the TSR test is satisfied; and
- (b) the holder's employment with Woodside has not been terminated with cause or by Resignation prior to the satisfaction of the TSR test.

8.2 **Board to determine TSR Hurdle Rate**

Before the Allocation Date for each TSR-tested VPR, the Board will determine the Cost of Equity Capital and set a TSR Hurdle Rate which will apply to that VPR.

8.3 **TSR test**

For TSR-tested VPRs, the TSR test will be satisfied if and only if the TSR of Woodside (as calculated by the Board under rules 8.4 and 8.5, using the methodology in Schedule 2) is equal to or exceeds the applicable TSR Hurdle Rate for the periods from the Allocation Date up to and including each of 30 consecutive days, ending at any time after the third and before the fifth anniversaries of the Allocation Date.

8.4 **Testing procedure**

Within 21 days after the third anniversary of the Allocation Date, the Board will:

- (a) calculate the TSR of Woodside for the period from the Allocation Date to each of the 30 consecutive days ending on the day after the third anniversary of the Allocation Date; and
- (b) determine whether the TSR test has been satisfied.

If the determination is negative, then the Board will:

- (c) maintain a running calculation of the TSR of Woodside for the period from the Allocation Date; and
- (d) determine whether the TSR test has been satisfied,

from the third anniversary of the Allocation Date until the TSR test is satisfied or, if the TSR test is not satisfied before then, until the final review is carried out under rule 8.5.

8.5 **Final test**

If the TSR test has not previously been satisfied in relation to any TSR-tested VPRs, then the Board will within 21 days after the fifth anniversary of the Allocation Date:

- (a) carry out a final calculation of the TSR of Woodside for the periods from the Allocation Date to each of the 30 consecutive days ending with the fifth anniversary of the Allocation Date; and
- (b) make a final determination as to whether the TSR test has been satisfied.

If the Board determines that the TSR test has not been satisfied in relation to the relevant VPRs, then:

- (c) those VPRs will lapse; and
- (d) the Company will notify the holders within 14 days after the determination is made that the VPRs have lapsed.

9. **EFFECT OF VESTING OF VPRS**

9.1 **Board to determine whether satisfied in cash or Shares**

When any VPR vests, the Board must decide within 30 days after the Vesting Date whether it is to be satisfied by:

- (a) providing the holder with, or with the sole beneficial interest in, one Share; or
- (b) a payment in cash to the holder of an amount equal to the VWAP of a Share as at the Vesting Date.

Shares to be provided under paragraph (a) of this rule will be, or will already have been, acquired on-market for the purposes of the Plan. Woodside will not issue new Shares for this purpose.

9.2 **Company to give notice to holder**

When the Board makes a decision under rule 9.1, the Company must notify the holder of the decision within 30 days after it is made. The date of this notice is the **Final Entitlement Date**.

9.3 **Cash payments**

Where the Board decides under rule 9.1 that a VPR is to be satisfied by a cash payment, that payment must be made to the holder within 30 days after the Final Entitlement Date.

10. **WHEN VESTING OR LAPSE OF VPRS MAY BE ACCELERATED**

10.1 **Accelerated vesting on cessation of employment in certain circumstances**

Where a Participant ceases to be employed by Woodside due to Total and Permanent Disablement or death:

- (a) all unvested VPRs they hold will immediately vest; and
- (b) if they become entitled to further VPRs under rule 6.5 after cessation, those VPRs will vest immediately upon allocation.

10.2 **Accelerated vesting on Control Event**

If a Control Event occurs, all VPRs (including any VPRs yet to be allocated) will vest on the date of the Control Event.

10.3 **Accelerated lapsing**

Where a Participant's employment with Woodside is terminated with cause or by Resignation, all unvested VPRs held by that Participant will immediately lapse.

10.4 **Effect of lapse**

When VPRs lapse under rule 10.3, all rights in respect of those VPRs cease and no consideration or other compensation will be payable for or in relation to that lapse.

11. **LIMITATIONS ON VPRS**

11.1 **Conditional entitlement only until Vesting Date**

VPRs are conditional entitlements only and until they vest, they confer no:

- (a) rights to receive any dividend or other payment; or
- (b) interest in, or rights to receive any distribution or exercise any right in respect of, any Shares.

11.2 **No interest or right until allocation**

A Participant has no entitlement to VPRs unless and until they are allocated under rule 6.

11.3 **VPRs personal to Participant**

VPRs are personal to the Participant and are not transferable and no legal or equitable interest in a VPR may be assigned to any other person or body corporate except to the extent necessary to enable the Legal Personal Representative of a deceased Participant to receive rights which would otherwise have accrued to that Participant, in accordance with these rules.

11.4 **No creation of third party interests in VPRs**

A Participant must not dispose of or grant any Security Interest over or otherwise deal with any VPRs, or any legal or equitable interest in any VPRs.

12. **THE TRUST**

12.1 **Establishment and funding of Trust**

For the purposes of administering the Plan the Board may resolve to establish a Trust and appoint a Trustee for the purpose of giving effect to the Plan, to be funded by:

- (a) any dividends on Shares (other than Plan Shares) held in the Trust (less any Taxes); and
- (b) payments by Woodside under rule 14.1.

12.2 **Rules to apply where Trust established**

If the Board resolves to establish a Trust under rule 12.1, rules 12.3 to 12.6 will apply as long as the Trust is operating.

12.3 **Trustee may purchase Shares on market**

The Trustee may purchase Shares on market to satisfy entitlements which arise, or may in the future arise, pursuant to rule 9.1(a).

12.4 **Allocation of Shares**

Where an entitlement arising pursuant to rule 9.1(a) is to be satisfied by the allocation of a beneficial interest in a Share held in the Trust, then as from the Final Entitlement Date the person receiving the allocation:

- (a) becomes the beneficial owner of one Plan Share;
- (b) may exercise all voting and other rights and receive all dividends and other entitlements attaching to that Plan Share; and
- (c) may request the Trustee to sell that Plan Share, or to transfer it to the beneficial owner or any other person,

but the person's beneficial interest in the Plan Share will be forfeited if their employment with Woodside is terminated with cause.

12.5 **Request for sale or transfer of Plan Share**

A request under rule 12.4(c):

- (a) must be made in writing, in a form approved by the Trustee;

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- (b) must be referred by the Trustee to the Board, for consideration by the Board in its discretion; and
 - (c) must be complied with by the Trustee if and only if approved by the Board.

12.6 **Plan Shares remaining in Trust after Final Entitlement Date**

Participants who have become the beneficial owners of Plan Shares may allow those Shares to remain Plan Shares held by the Trust for a period not exceeding 10 years from the Final Entitlement Date. Prior to the tenth anniversary of the Final Entitlement Date (the **Final Transfer Date**) the Trustee will seek directions from the beneficial owner as to how the relevant Plan Shares are to be dealt with (by way of sale or transfer) on or before the Final Transfer Date. If instructions to sell or transfer the Shares are not received before the Final Transfer Date, the Trustee will sell the Shares and account for the net proceeds to the beneficial owner.

13. **ADMINISTRATION OF THE PLAN**

13.1 **Rules**

These Rules bind Woodside and each Participant.

13.2 **Administration of the Plan**

The Board may:

- (a) manage and administer this Plan for Woodside and has all powers necessary to do so, including the power to engage external consultants for the purpose of administering the Plan; and
- (b) from time to time make regulations and determine procedures for the proper and efficient administration and implementation of this Plan.

13.3 **Board discretions**

- (a) Where the Board has power to make any decision under these Rules, it may make that decision in its absolute discretion, subject only to these Rules and the law.
- (b) Where the Board considers that the application of these Rules to any Participant or class of Participants would be harsh, unreasonable, unfair or unjust the Board may modify these Rules as they apply to that Participant or class of Participants.
- (c) In making decisions under these Rules the Board will take into account recommendations made by the CEO and the Human Resources & Compensation Committee.

13.4 **Delegation to Committee**

The Board may delegate such functions and powers as it considers appropriate for the administration of this Plan to the Human Resources & Compensation Committee. The Board may direct the Human Resources & Compensation Committee how to exercise any

of its discretions under these Rules and the Human Resources & Compensation Committee must comply with any such direction of the Board.

13.5 Interpretation of Plan

Any decision of the Board (or the Human Resources & Compensation Committee, as the case may be) on any question of fact or opinion in applying or interpreting these Rules is final and binding.

13.6 Disputes

Any dispute or difference of any kind arising in relation to this Plan must be referred to the Board or, if the Board so directs, the Human Resources & Compensation Committee. The decision of the Board and/or the Human Resources & Compensation Committee on that dispute or difference is final and binding on each Participant and each company within the Group, and is a condition precedent to any legal proceedings in connection with that dispute or difference or its subject matter.

13.7 Payments by employing company

Any payments to be made to a Participant under the Plan are to be made by the company in the Group which employs the Participant.

13.8 Failure to give notice

Any failure to give notice or other communication under or in connection with the Plan will not affect any rights or entitlements of a Participant or Woodside under or in connection with the Plan.

13.9 Overriding restrictions

Nothing is to be done under the Plan if it would contravene the Corporations Act, the ASX Listing Rules, the Constitution of Woodside or Woodside's Securities Dealing Policy.

13.10 No derivative transactions

Participants must not enter into any transaction which would have the effect of hedging or otherwise transferring to any other person the risk of any fluctuation in the value of their entitlements under the Plan.

13.11 Manipulative action and contravention of Rules

If the Board considers that any Participant has taken or is taking action:

- (a) to manipulate entitlements under the Plan in a manner that is contrary to the spirit and intent of the Plan; or
- (b) which is in breach of any provision of the Plan, including without limitation rule 11.3, 11.4 or 13.10

it may direct the taking of appropriate action to rectify the effect of the action and/or to withdraw some or all of the benefits to which the relevant Participant is entitled under the Plan, as well as the taking of disciplinary action against the relevant Participant where appropriate. This rule does not limit any other power of the Board in relation to the Plan or under any contract of employment.

14. COSTS AND EXPENSES

14.1 Establishment and acquisition costs

Woodside will pay all costs and expenses in relation to the establishment, operation and administration of the Plan, including all costs and expenses in relation to the on-market purchase of Shares for the purposes of the Plan, to the extent that those costs and expenses are not met by the application of dividends under rule 12.1(a).

14.2 Taxes and Tax advice

Woodside is not responsible for:

- (a) any Taxes that may become payable in connection with Shares once registered in the name of a Participant, including any income tax or capital gains tax; or
- (b) providing advice to any Participant on any liability or potential liability for Tax on benefits received under the Plan

and Participants should seek their own financial and Tax advice in relation to their participation in the Plan.

14.3 Transaction costs

No transaction cost (for example, brokerage, commission or stamp duty) is payable by a Participant in relation to the receipt of Shares, and Woodside must pay all such costs.

15. TERMINATION AND SUSPENSION OF THE PLAN

15.1 Discretion of Woodside

The Board may terminate or suspend the operation of the Plan at any time without notice to Participants and in particular, must do so where the operation of the Plan would contravene the Corporations Act, the ASX Listing Rules, the Constitution of Woodside or Woodside's Securities Dealing Policy.

15.2 Effect of termination or suspension

Termination or suspension of the operation of this Plan will not affect any VAR already allocated under the Plan, and the terms of the Plan will continue to apply to such allocations as far as permitted by law.

16. AMENDMENT OF THE PLAN

16.1 Amendment

Subject to the ASX Listing Rules and rule 16.2, the Board may at any time by resolution amend these Rules, or any restrictions or conditions on any component of VAR awarded or proposed to be awarded under this Plan. An amendment may be retrospective in effect.

16.2 Amendment affecting rights of Participants

The Board must not make an amendment under rule 16.1 which reduces the rights of any Participant in respect of VAR allocated to them before the amendment, unless at least three-quarters of the affected Participants consent in writing to the amendment.

16.3 Amendment to operation of Company performance conditions

Without limiting rule 16.1, and notwithstanding rule 16.2 or any other provision of these Rules, the Board may vary the methodology used for calculation of:

- (a) the Performance Multiple or Woodside EVA; or
- (b) the TSR of Woodside

if in either case the Board, acting in good faith, determines that the methodology as set out in these Rules does not fairly reflect the intended operation of the relevant performance condition as a measure of Company performance.

16.4 Notice of amendment

The Board must as soon as reasonably practicable give notice in writing of any amendment to any Participant affected by it.

17. NOTICES AND CORRESPONDENCE

17.1 To Woodside

A notice, consent or other communication under this Plan by a Participant to Woodside is only effective if it is in writing, signed, addressed to the Company Secretary and either left at the principal place of business of Woodside or any other address of which Woodside gives notice, or sent to that address by mail or fax.

17.2 To a Participant

A notice, consent or other communication under this Plan by Woodside, the Board or the Human Resources & Compensation Committee to a Participant is only effective if it is in writing, signed and either left at his or her place of employment or at his or her last address given to Woodside, or sent to that address by mail or fax.

17.3 **When notice takes effect**

A notice, consent or other communication under this Plan sent by mail is taken to have been received on the next business day after it is posted. If sent by fax, it is taken to have been received when the addressee actually receives it in full and in legible form.

18. **CONNECTION WITH OTHER SCHEMES**

18.1 **Other schemes**

Woodside is not restricted to using the Plan as the only method of providing incentive rewards to Participants. Woodside may approve and adopt other employee incentive schemes.

18.2 **Effect of other schemes**

Except as provided by rule 3.3, participation in the Plan does not affect, and is not affected by, participation in any other employee incentive scheme of Woodside, unless the terms of that employee incentive scheme provide otherwise.

18.3 **Transition from existing schemes**

The Board may make rules governing the transition from participation in any other incentive scheme offered by Woodside to participation in the Plan.

19. **RELATIONSHIP OF PARTIES**

19.1 **Principal**

Woodside acts as principal in the operation of the Plan and not as a fiduciary for any person or as a trustee for Participants.

19.2 **Participants' rights**

These Rules:

- (a) do not give any Participant an expectation of becoming an Eligible Participant;
- (b) do not give any Participant the right to continue as an executive officer of Woodside;
- (c) do not affect any rights which Woodside may have to terminate the employment of a Participant; and
- (d) may not be used to increase damages in any action brought against Woodside in respect of that termination.

20. **GOVERNING LAW**

The Plan is governed by the law in force in Western Australia.

21. INTERPRETATION

21.1 Rules for interpreting this document

Headings are for convenience only, and do not affect interpretation. The following rules also apply in interpreting these Rules, except where the context makes it clear that a rule is not intended to apply:

- (a) A singular word includes the plural, and vice versa.
- (b) If a word is defined, another part of speech has a corresponding meaning.
- (c) If an example is given of anything (including a right, obligation or concept), such as by saying it includes something else, the example does not limit the scope of that thing.
- (d) A reference to **dollars** or **\$** is to Australian currency.
- (e) The words **financial year** and **subsidiary** have the same meanings as in the Corporations Act.

21.2 Business Days

If the day on or by which a person must do something under this document is not a Business Day:

- (a) if the act involves a payment that is due on demand, the person must do it on or by the next Business Day; and
- (b) in any other case, the person must do it on or by the previous Business Day.

21.3 Dictionary

In these Rules, the following definitions apply.

ASX means Australian Stock Exchange Limited ABN 98 008 624 691.

ASX Business Rules means the business rules of ASX from time to time with any modification or waivers in their application to Woodside which ASX may grant.

ASX Listing Rules means the official listing rules of ASX from time to time with any modification or waivers in their application to Woodside which ASX may grant.

Allocation Date means the date determined under rule 6.4.

Annual Incentive Pool means the amount determined in accordance with rule 4.5.

Base Incentive Pool means the amount determined in accordance with rule 4.2.

Board means the board of directors of Woodside.

Cash Incentive Payment means the payment referred to in rule 6.1(a).

CEO means the Chief Executive Officer of Woodside.

Company means Woodside.

Control Event means:

- (a) as a result of a Takeover Bid one person (by themselves, or together with persons who are their associates for the purposes of Chapter 6 of the Corporations Act) becomes, whether directly or indirectly, legally or beneficially entitled to 50% or more of the share capital of Woodside;
- (b) a Scheme of Arrangement in respect of Woodside is approved by shareholders of Woodside; or
- (c) Woodside passes a resolution for voluntary winding up or an order is made for the compulsory winding up of Woodside.

Corporations Act means the *Corporations Act 2001* (Cth).

Cost of Equity Capital means a percentage rate determined by the Board, representing the cost of equity capital to Woodside. In making the determination the Board will be guided (but not bound) by the calculation methodology set out below, and may determine the values of variables in its discretion:

$$Re = Rf + (\beta \times ERP)$$

Where:

Re = post-tax cost of equity to the company;

Rf = risk free rate, assumed to be the 10 year government bond rate;

ERP = equity risk premium, being the excess return that investors expect from an investment in the market sector; and

β = relative volatility of the Woodside share price when compared to the market, based on historical performance.

Director means a director of Woodside.

EVA or Economic Value Added is a measure of value created for shareholders, over what is required to cover the cost of capital.

EVA® is a registered trademark of Stern Stewart & Co.

Eligible Participant in relation to a Performance Year means a person who is eligible to receive VAR for that Performance Year under rule 5.3.

External RAV means RAV calculated in accordance with Schedule 1 on the basis of forecasts and valuations which take into account the influence of external factors affecting Woodside's business over which Woodside has no direct control, such as oil, gas and condensate prices and exchange rates.

External RAV Interval means a value defining the contribution of External RAV to the Performance Multiple in respect of any performance year, as determined by the Board pursuant to rule 4.3(d).

FAR or Fixed Annual Reward means the base salary, allowances and superannuation components of the total annual remuneration paid or payable to a Participant under their employment contract and where used in relation to any year, is determined as at 31 December of that year.

Final Entitlement Date has the meaning given in rule 9.2.

Final Transfer Date has the meaning given in rule 12.6.

Group means Woodside and its Subsidiaries.

Human Resources & Compensation Committee means the Human Resources & Compensation Committee established by the Board.

Individual Performance Assessment has the meaning given in rule 5.2.

Internal RAV means RAV calculated in accordance with Schedule 1 on the basis of forecasts and valuations excluding the influence of external factors affecting Woodside's business over which Woodside has no direct control, such as oil, gas and condensate prices and exchange rates.

Internal RAV Interval means a value defining the contribution of Internal RAV to the Performance Multiple in respect of any performance year, as determined by the Board pursuant to rule 4.3(d).

Legal Personal Representative means:

- (a) the executor of the will or an administrator of the estate of a deceased person;
- (b) the trustee of the estate of a person under a legal disability; or
- (c) any beneficiary of the estate of the deceased person as nominated by the executor, administrator or trustee.

Participants means executive officers (including executive directors) of Woodside who have been the subject of a determination by the Board under rule 3.1, or any person otherwise determined by the Board to be a participant in its absolute discretion.

Performance Multiple is a measure of Woodside EVA calculated in accordance with rule 4.5, step 1.

Performance Year means each successive financial year of Woodside, starting with the financial year commencing 1 January 2005.

Plan means the Woodside Petroleum Ltd. Executive Incentive Plan operated under these Rules.

Plan Share means a Share acquired by the Trustee, held by the Trust and allocated to a Participant in satisfaction of an entitlement arising under rule 9.1(a).

Pool Deficit has the meaning given in rule 4.6.

Pricing Date in relation to VPRs allocated in any year means a date fixed by the Board, being after Woodside issues its annual report for the previous year but not more than 30 days after the annual general meeting of Woodside in that year.

RAV or Risked Asset Value means an amount calculated in accordance with the methodology described in Schedule 1.

Redundancy means a termination or cessation of a Participant's employment with Woodside as a result of redundancy, as determined by the Board.

Resignation means a termination of employment initiated by the Participant, that is not a Retirement or a termination resulting from the non-renewal of an employment contract when it expires.

Retirement means a termination (otherwise than for cause) or cessation of employment with Woodside where the person has attained the age of 55 or more and in the Board's opinion, is permanently leaving the workforce.

Rules means these rules.

Salary Continuance means a period of leave due to illness, commencing after a Participant's sick leave entitlement has been exhausted.

Scheme of Arrangement means a compromise or arrangement between Woodside and its members under Part 5.1 of the Corporations Act, which if implemented will result in:

- (a) the amalgamation of Woodside with any other body corporate; or
- (b) one person (by themselves, or together with persons who are their associates for the purposes of Chapter 6 of the Corporations Act) becoming, whether directly or indirectly, legally or beneficially entitled to 50% or more of the share capital of Woodside.

Security Interest means a mortgage, charge, pledge, lien, encumbrance or other third party interest of any nature.

Share means a fully paid ordinary share in the capital of Woodside.

Subsidiary means a body corporate of which Woodside is a holding company in terms of section 9 and Division 6 of Part 1.2 of the Corporations Act.

Takeover Bid means an off-market or market bid for some or all of the Shares of Woodside made under Chapter 6 of the Corporations Act.

Tax includes any tax (whether direct or indirect), levy, impost, deduction, charge, rate, contribution, duty or withholding which is assessed (or deemed to be assessed), levied, imposed or made by any government or any governmental, semi-governmental or judicial entity or authority together with any interest, penalty, fine, charge, fee or other amount assessed (or deemed to be assessed), levied, imposed or made on or in respect of any or all of the foregoing.

Time-tested VPRs means VPRs allocated to an Eligible Participant under rule 6.3(b).

Total and Permanent Disablement means the Participant has, in the opinion of the Board, become permanently incapacitated to such an extent as to render the Participant unable or, in the opinion of the Board, unlikely to again engage in the Participant's primary occupation.

TSR or **Total Shareholder Return** has the meaning given in rule 2.3(a).

TSR-tested VPRs means VPRs allocated to an Eligible Participant under rule 6.3(a).

TSR Hurdle Rate has the meaning given in rule 2.3(b).

Trust means any trust established for the purpose of the Plan.

Trustee means any trustee or trustees for the time being appointed by the Board, in its discretion, for the purposes of the Plan.

VAR or **Variable Annual Reward** means the amount allocated to a Participant from the Annual Incentive Pool for a Performance Year, being the aggregate value of the Cash Incentive Amount and VPRs so allocated.

VAR Statement means the first statement to be provided to a Participant for each Performance Year in accordance with rule 6.8.

VPR Statement means the second statement to be provided to a Participant for each Performance Year in accordance with rule 6.8.

Variable Pay Percentage or **VPP** has the meaning given in rule 4.1.

VPRs or **Variable Pay Rights** mean rights awarded to an Eligible Participant as part of their VAR under these Rules, being rights (subject to the Vesting Conditions and to the other provisions of these Rules) to receive Woodside shares or cash as decided by the Board under rule 9.1.

vest, vested or **vesting** in relation to VPRs means the release of the VPRs from the requirement to satisfy the Vesting Conditions.

Vesting Conditions means:

- (a) for Time-tested VPRs, the conditions specified in rule 7.1; and

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- (b) for TSR-tested VPRs, the conditions specified in rule 8.1.

Vesting Date of any VPR means the date when all Vesting Conditions for that VPR are satisfied, or any earlier date on which vesting occurs under rule 10.

VWAP of Shares as at a date means the average of the daily volume-weighted average sale prices of Shares sold on ASX during the 5 trading days leading up to but excluding that date, excluding all:

- (a) transactions defined in the ASX Business Rules as "special";
- (b) crossings prior to the commencement of normal trading or during the after hours adjust phase;
- (c) overseas trades; and
- (d) transactions which are the exercise of options over ordinary shares in Woodside.

Weighted Average Cost of Capital means a nominal post-tax weighted average cost of capital for Woodside, determined by the Board. In making the determination the Board will be guided (but not bound) by the calculation methodology set out below, and may determine the values of variables in its discretion:

$$Re \times \frac{S}{V} + [(1 - T)Rd] \times \frac{D}{V}$$

Where:

- Re = post-tax cost of equity to the company, with no value attributed to imputation credits;
- Rd = pre-tax weighted average cost of debt;
- T = effective corporate tax rate;
- S = the market value of equity (being number of shares x share price);
- D = the market value of debt; and
- V = the market value of debt plus equity.

Woodside means Woodside Petroleum Ltd. ABN 55 004 898 962 and where the context permits, includes its Subsidiaries from time to time or any of them.

Woodside EVA has the meaning given in clause 2.2.

Woodside's Securities Dealing Policy means any policy or policies adopted by Woodside and notified to employees concerning trading by employees in securities, including Woodside Shares, as in force from time to time.

SCHEDULE 1: METHODOLOGY FOR CALCULATION OF RAV

At the start of each Performance Year, valuations are derived from production, cost and capital expenditure projections for the life of each asset. These projections are used to derive a forecast of current year cashflow and cashflows in later years. At the end of the Performance Year actual current year cashflows and new future projections are collected to derive a new valuation.

A Woodside valuation, known as **Risked Asset Value (RAV)** is derived for each asset at the beginning and end of the Performance Year (including actuals for the year). RAV reflects both uncertainty that a project will proceed at all, and uncertainty in intrinsic project value.

Uncertainty in a project proceeding is represented by the Project Progress Indicator (PPI) being a single percentage scalar unique to each project, which increases to 100% depending on the maturity of the project from discovery to sanction. Once sanctioned the PPI remains at 100% for the operating life of the project.

Uncertainty in intrinsic project value is due to reserves, costs, schedule, etc. and is represented by Expected Monetary Value (EMV), which is itself the weighted sum of an elective number of potential scenarios, usually a maximum of three. The net present value of the project under each of the selected scenarios is calculated and then weighted by the probability assigned to that scenario. The sum of the weighted scenarios represents the expected value of the project, to which the scalar is then applied.

So, at a point in time, the sum of the RAV of all the projects (including operating assets) related to discovered resources provides a measurable economic value for tracking added value.

Internal and External RAV

The above describes a single measure of RAV. However, in practice two measures, **Internal RAV** and **External RAV**, are calculated. The difference between the two relates to the manner in which product price and exchange rates are included.

The forecasts and valuations used in the calculation of External RAV include the changes in oil, gas and condensate prices and foreign exchange rates. The impact of these factors may be large and may contribute greatly to the shareholder experience. Therefore these external factors are taken into account to measure the value created for shareholders.

These external factors are outside Woodside's control. To measure the value creation for shareholders over which Woodside has direct control, an Internal RAV is calculated. The forecasts and valuations used in Internal RAV differ in that the impact of oil, gas and condensate prices and foreign exchange rates are held constant. Woodside's measure of Internal RAV reflects the shareholder value creation net of external factors.

Internal prices and exchange rates are agreed annually and Woodside uses forward market prices and exchange rates for external prices.

SCHEDULE 2: METHODOLOGY FOR CALCULATION OF TSR

Total Shareholder Return for a period is expressed as a percentage compound annual growth rate, before tax, on the initial share value according to the following formula:

$$100 \left((a_n + D) / a_0 \right)^{1/n} - 100$$

where:

a_0 is the closing price of a Woodside Share on the first day of the period, multiplied by the number of Woodside Shares then on issue ;

a_n is the closing price of a Woodside Share on the last day of the period, multiplied by the number of Woodside Shares then on issue ;

D is the total value of dividends and distributions paid on or in respect of all Woodside Shares during the period, subtracting new funds invested, and assuming that dividends or buyback payments are reinvested in Woodside Shares at the closing price on the first ASX trading day after the payment date; and

n is the number of years in the period.