



Woodside Petroleum Ltd.

Date of Lodgement: 12/4/13

Title: “Company Insight – Explains Delaying Browse LNG Project”

Highlights of Interview

- James Price Point not commercial.
 - Various options will be considered for developing the resource.
 - Browse LNG still a valuable asset.
 - Growth still a focus.
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Record of interview:

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Woodside Petroleum (ASX code: WPL, market capitalisation of ~\$29 billion) has just announced that it not going ahead with the current proposed onshore development for 12mtpa of Browse LNG at James Price Point near Broome, Western Australia. Woodside is a 31.3% equity holder and operator. Can you explain why you have not approved the current concept?

CEO & Managing Director, Peter Coleman

The current concept for Browse was one that the joint venture committed to as part of our retention lease conditions back in 2009. We’ve been meeting the requirements of the retention lease conditions, which included us progressing the development of Browse through a front-end engineering and design process up to and including the consideration of a Final Investment Decision (FID) by 30 June 2013. Woodside now believes we’ve satisfied those conditions. We’ve considered the FID and at this point we believe that it is not commercial to proceed with the James Price Point project.

Woodside will now recommend to the joint venture participants that we consider our path forward and make a submission to the Joint Authority in the near future.

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To what extent is this decision driven by the higher costs of operating in Australia? What was the expected capital cost for the Browse LNG development at James Price Point?

CEO & Managing Director, Peter Coleman

The cost escalation on Browse has been consistent with other projects in Australia. Unfortunately the cost escalation has been such that the total costs for Browse have resulted in the current development concept not being commercial.

Woodside does not discuss publicly the capital costs or the commercial terms used to evaluate the project, nor do we publicly discuss the hurdle rates of investment returns which would likely differ for each joint venture participant. Woodside has applied its usual commercial hurdles and we have decided not to proceed with the James Price Point onshore concept for Browse.

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Does the decision relate in any way to environmental or red tape issues and whether that has made investing in Australia prohibitive?

CEO & Managing Director, Peter Coleman

The decision is a commercial one. While we have seen an increase in both the environmental and administrative compliance requirements and procedures, Woodside is committed to the very highest standards in those areas. We have diligently worked through those requirements while we've assessed the James Price Point option.

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Was the decision influenced in any way by public policy issues?

CEO & Managing Director, Peter Coleman

No. Woodside takes into account the desires of all key stakeholders in Browse and we believe that we have worked very collaboratively with the State and Federal governments and the local communities. However, I stress again, that our decision is a commercial one. It is driven by commercial risk and reward considerations and the proposed concept doesn't provide the economic return required to proceed with the project.

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In an earlier ASX announcement regarding a sale of equity to MIMI (1 May 2012), you stated that the sale was a "strong demonstration of the value of the Browse LNG Development." Many approvals are in place with the Western Australian Government and the local native title claim group to secure the land required to build the onshore facilities and associated infrastructure within the Western Australian Government's Browse LNG Precinct. What therefore has changed the value of Browse?

CEO & Managing Director, Peter Coleman

The significant value of Browse has continued to be demonstrated through subsequent transactions which involved Shell and also BHP's proposed sale of equity to PetroChina. Woodside firmly believes that the Browse resource is world class and is valued accordingly, particularly when considered on a world scale. We are working to underpin this value by bringing forward the earliest possible development on Browse.

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Have you seriously considered alternatives in detail to your original preferred development option of onshore LNG processing facilities at James Price Point? What are the possibilities, particularly when some industry commentators consider Floating LNG facilities to be a cheaper option?

CEO & Managing Director, Peter Coleman

We've been monitoring different development options as we've been progressing our reference case. Over the past two to three years there have been a number of factors which have changed in the LNG industry, such as costs and technology for example. Those factors are well known.

One of the alternative solutions is Floating LNG technology and that is something we will recommend the joint venture consider as we move forward. There are other possibilities which we have looked at previously. We won't pre-empt what we might put forward in our proposed work program and budget to the Joint Authority, but those other options could include a pipeline to existing facilities in the Pilbara and a smaller onshore option around James Price Point. It's too early to say if any of those are commercial, but as I said we need to get together as a joint venture to work out the way forward and then make our submission to Joint Authority.

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Why haven't you seriously advanced viable development options for a potentially valuable project such as Browse LNG Project which has Contingent Resources of 15.5 TCF of dry gas and 417 million barrels of condensate? When do you expect to come up with other potential development alternatives? Is a development at James Price Point completely off the agenda?

CEO & Managing Director, Peter Coleman

The Contingent Resources you've mentioned are world-class. Since accepting the Retention Leases in 2009 the joint venture has invested much on the Browse development. We have achieved a top decile level of definition on the James Price Point Reference case and have determined that it is not commercial to proceed in its current format. We've reached the natural completion point of that work and the next step is to seek and pursue alternative development concepts to accelerate the development of Browse.

It's too early to be committing to the timing on when the joint venture may decide on alternative development options.

We worked the current James Price Point option very thoroughly and it's simply not commercial at the moment. Nonetheless we intend to recommend that the joint venture review a modified James Price Point development concept along with other development concepts.

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What are the implications for the Browse retention leases, particularly as the Western Australian Government was keen to proceed with the James Price Point option?

CEO & Managing Director, Peter Coleman

The current retention lease terms for Browse will continue until the end of 2014. There are certain conditions that we need to meet under those retention leases. We will continue to meet our obligations and we intend to meet with the Joint Authority soon to discuss activities to take us to the end of the current retention lease period.

We have been meeting the retention lease conditions and consequently expect to continue to hold the leases.

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What is Woodside's share of capital expenditure to date on Browse? Has that money been wasted? Will Woodside be required to make any significant write-downs as a result of this announcement?

CEO & Managing Director, Peter Coleman

The Browse Joint Venture has invested considerable resources on a work program to progress the James Price Point reference case.

That money has actually been very well spent as evidenced by the equity sales in the project over the past year. It's our aim to capture value in the asset. To create an understanding of the development options we'll be using a lot of the work to date to assess other development options. This work has been of the highest order and should enable the Browse Joint Venture to make a prudent and considered assessment.

We don't expect there to be any significant write-downs as a result of this announcement.

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Woodside successfully commissioned the large Pluto LNG project in April 2012 (WPL 90% and operator), which along with your other projects is providing substantial operating cash flow for Woodside (\$3.5 billion in 2012, up 55%). You are now delaying a Browse development meaning a lower capex profile for 2013 and 2014. Can you summarise your capital management approach including possible greater cash returns to shareholders? What about ongoing dividend policy and also the potential to transfer Woodside's significant franking credits to shareholders?

CEO & Managing Director, Peter Coleman

Our base business is generating significant cash which provides options. We've previously outlined that value adding growth remains our priority, along with maintaining and where appropriate, growing our dividends.

However if our growth opportunities are slower to come to fruition than expected we will consider additional measures to accelerate the return of capital to investors.

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On 18 September 2012, Woodside announced that it had sold a 14.7% interest in Browse to Japan Australia LNG (MIMI Browse) Pty Ltd (MIMI) for US\$2 billion. This reduced Woodside's interest to 31.3%. Will the delay in the project have any legal ramifications or penalties for Woodside given that the sale was concluded only 7 months ago?

CEO & Managing Director, Peter Coleman

No.

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As part of the Browse equity sale to MIMI, Woodside entered into a sales and purchase agreement to supply 1.5mtpa of Browse LNG. Will you have to pay any penalties with the delay in the project? Will this sales and purchase agreement need to be adjusted in any way?

CEO & Managing Director, Peter Coleman

We value our partnership with MIMI. The equity agreement between Woodside and MIMI included a sales and purchase agreement as well as a joint marketing arrangement for the sale of LNG from Browse. That agreement does not have any penalties attached if there is a delay in the project. We'll be speaking with MIMI to discuss extending that arrangement as we review alternative development options.

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Further on the issue of the marketing of the gas, there has been talk of Japan wanting to base LNG pricing on Henry Hub gas prices in the U.S. now that production from the U.S. shale gas industry is increasing strongly. If that scenario plays out, will that affect your ability to market the LNG from Browse and has that affected the decision to delay the project?

CEO & Managing Director, Peter Coleman

US shale gas was not a relevant consideration in our decision. LNG marketing was not an impediment in considering the potential LNG development at JPP.

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In the 2012 results announcement you described Pluto as having returned an "outstanding performance". Are there any meaningful comparisons you can make for Browse with Pluto?

CEO & Managing Director, Peter Coleman

The positive comparison I would make for Browse is that we have built in the lessons we learnt from developing Pluto, particularly regarding the front-end planning activities such as the quality and cost assurance required. We've shown that Woodside and the Browse Joint Venture participants are very disciplined in their approach to new developments.

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The local Indigenous community was expected to receive a package of benefits and initiatives in excess of \$1 billion. Will the delay in the project affect your relationships with the local Indigenous groups or the Western Australian Government?

CEO & Managing Director, Peter Coleman

We have met our commitments to date under the native title agreement and we will sit down and review the agreement in line with the next steps in the evaluation of the Browse resources. Additionally we will continue to support a range of voluntary social investment activities in the West Kimberley. We'll be working with the Government and local communities to make sure we maintain these very positive relationships.

We continue to value our relationships with the State and Federal governments. We've appreciated the support of both governments in helping us to move the James Price Point option forward, but as I've explained the reason we're not proceeding with Browse at this stage is purely commercial and in no way reflects on the support that we have received from governments.

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Browse was one of the key drivers for 2013 listed in your 2012 annual results presentation. Can you sustain growth that is adequate to satisfy the Board and shareholders now that Browse has been delayed? Can you give an update on your other main development projects?

CEO & Managing Director, Peter Coleman

Our aim is to add value for shareholders by focusing on the total shareholder return targets that we have set. Browse is an important part of that growth, but our focus is on profitable growth and the James Price Point option does not provide adequate returns. As I've said, we'll now be looking at more commercial ways of developing Browse and we're hopeful that we'll be able to bring those opportunities forward in the near term.

Be assured we won't be chasing growth for growth sake; it is all about adding value. Rigor and discipline will continue to be applied as we execute our current projects, pre-FID developments and longer-term opportunities.

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In summary for Woodside, what important issues can shareholders and potential investors look forward to in 2013 across the Company?

CEO & Managing Director, Peter Coleman

Woodside has four main focus areas for 2013. The first is to ensure we execute our core operations to the highest standard; the second is to pursue and capture our growth opportunities; the third is to execute our capital management strategy; and finally to enhance our margins, particularly through LNG contract renegotiations.

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Thank you Peter.

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