Our Ref: GH:CJC-3554

24 June 1999

The Secretary
House of Representatives Standing Committee on
Employment, Education and Workplace Relations
R1 Suite 116, Parliament House
Canberra ACT 2600

Via internet email: eewr.reps@aph.gov.au

Dear Sir,

INQUIRY INTO EMPLOYEE SHARE OWNERSHIP IN AUSTRALIAN ENTERPRISES

As requested, I am pleased to provide the Committee with information on the Woodside Employee Share Plan.

1. Woodside's Employee Share Plan (WESP)

Our plan is simple in its design and contains the following main features.

a) The WESP rules are approved by shareholders at a general meeting and the number shares available shall not exceed 5% of issued capital.

b) Interest free loans are made to eligible employees and may only be used to purchase Woodside shares at market value (no discount).

c) Each loan is concessional in that:

   i) it is for the full cost of the Woodside shares ie no deposit, is payable by the employee,
   ii) no interest is charged on the loan,
   iii) repayment of the loan is limited to the value of the Woodside shares should the value of the shares fall below the loan balance,
   iv) repayment of the loan is with net dividends after tax.

d) The loans must be repaid on termination of employment although the rules provide varying periods depending on the reason for termination. However, other than on termination of employment the shares cannot be sold:

   i) until at least three years have elapsed after they are acquired, or
   ii) if the net proceeds from the sale of the shares will not cover the loan balance

e) There is no risk of forfeiture of ownership of the shares by the employees.

f) Employees shareholdings are built over a period of service through successive loans, initially over a period of three years. Top up loans are available to maintain an employee's loan balance entitlement which is determined as a multiple of salary.

2. Employees' Perspective

We believe that employees view the WESP extremely positively because:

a) Acceptance of the offer to participate is virtually ensured because of:
   i) no need to contribute cash as a deposit,
   ii) no need to fund repayments from employees' cash resources,
   iii) no risk of loss from a fall in the share price.

   Currently 100% of eligible employees participate in the WESP.

b) Employees gain through dividends and share price growth from the new wealth that is being generated by the Company for shareholders. They share in the success that they help to achieve.

c) This element of remuneration provides a unique opportunity for employees to accumulate a significant financial asset that may be accessed during employment (subject to the rules).

d) Employees assume two stakeholder roles being those of both employee and shareholder.

3. Woodside's Perspective

The Company's requirements of the WESP include the following:

a) The cost of the plan is clearly identifiable (interest on funds lent to employees). This is the only direct cost as the cost of delivering capital growth for employees is funded through the market. Employees remain responsible for income tax on dividends and CGT on capital growth.

b) The plan does not involve additional cost for the Company as the cost of loans constitutes part of the remuneration budget. The total remuneration for employees includes the cost of the WESP loans and is pitched at an appropriate market competitive level given Woodside's reward strategy.

c) It results in employees' interests being more closely aligned with those of other shareholders.

d) Employees are aware of the Company's obligations to its shareholders and the importance of corporate performance.

e) The WESP reflects an egalitarian and single status approach with all eligible employees from the Managing Director to the most junior employee participating in the same scheme.

f) Employees take a greater interest in the Company and have greater participation through being able to attend general meetings and vote on resolutions put to shareholders for approval.

g) The WESP helps stabilise the workforce as the greatest benefit is derived by long term employees.

h) The increased alignment of employees to the Company's performance has been a significant contributing factor to improved employee relations.

We are strongly of the view that the WESP aligns employees and encourages team contribution towards achieving the Company's business goals.

4. General Comments

The following observations are submitted for consideration by the Committee:

a) Although we are very pleased with our WESP we believe that there is no single plan type that is appropriate for all organisations. Different organisations have different circumstances and therefore may require different types of ESOPs.

b) Our plan does not utilise the tax deferral or exemption concessions contained in Division 13A of the Income Tax Assessment Act. Nevertheless believe that concessions are an important catalyst for expanding the use of ESOPs which we believe is highly desirable.

c) ESOPs have the potential to be a powerful force in improving workplace relations and productivity. To achieve this potential they should not be discouraged through regulatory impediments, or excessively regulated as organisations need to have flexibility to introduce plans that meet their circumstances and needs. Indeed ESOP's should be encouraged through a range of limited but focussed concessions.

d) In terms of the economy, ESOPs can:

   i) be cost neutral except to the extent of specific concessions because they are a means of remunerating employees from market growth,
   ii) help redistribute wealth within the economy by sharing with employees part of new wealth that is being created,
   iii) make employees more financially self sufficient and less reliant on the social security system.

A copy of the Woodside Employee Share Plan Rules and Explanatory Booklet are enclosed.

I trust that the foregoing submission is of assistance and would be pleased to provide additional information and/or comments if required.

Yours sincerely,
Woodside Petroleum Ltd.

Chris Cronin
General Manager, Human Resources,
Corporate and Public Affairs