

PRELIMINARY FINANCIAL STATEMENTS 2016

INCORPORATING APPENDIX 4E

Woodside Petroleum Ltd
ABN: 55 004 898 962



PRELIMINARY FINANCIAL STATEMENTS

for the year ended 31 December 2016

This report is based on financial statements which are in the process of being audited.

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Appendix 4E

Results for Announcement to the Market

Revenue from ordinary activities	Decreased 19.0% to US\$4,075m
Profit from ordinary activities after tax attributable to members	Increased 3,238.5% to US\$868m
Net profit from the period attributable to members	Increased 3,238.5% to US\$868m

	Amount per security	Franked amount per security
Dividends		
Final dividend (US cents per share)	Ordinary 49¢	Ordinary 49¢
Interim dividend (US cents per share)	Ordinary 34¢	Ordinary 34¢
None of the dividends are foreign sourced.		
Previous corresponding period:		
Final dividend (US cents per share)	Ordinary 43¢	Ordinary 43¢
Interim dividend (US cents per share)	Ordinary 66¢	Ordinary 66¢
Ex-dividend date	2 March 2017	
Record date for determining entitlements to the final dividend	3 March 2017	
Payment date for the final dividend	29 March 2017	
	31 December 2016	31 December 2015
Net tangible asset per security	US\$17.61	US\$17.27

Significant changes in the current reporting period

The financial performance and position of the Group was particularly affected by the following events and transactions during the reporting period:

- The sale of the Group's interests in the Laminaria-Corallina joint operation in April 2016. The transaction resulted in an after tax gain on sale of US\$2 million.
- The purchase of 100% of the shares in ConocoPhillips Senegal B.V. on 28 October 2016, for a total purchase consideration of US\$446 million. For more detail, refer to Note B.5.
- The purchase of interests in BHP Billiton's Scarborough area assets on 14 November 2016, for a total purchase consideration of US\$252 million. For more detail, refer to Note B.5.

CONSOLIDATED INCOME STATEMENT

for the year ended 31 December 2016

	Notes	2016 US\$m	2015 US\$m
Operating revenue	A.1	4,075	5,030
Cost of sales	A.1	(2,234)	(3,073)
Gross profit		1,841	1,957
Other income	A.1	61	31
Other expenses	A.1	(514)	(1,547)
Profit before tax and net finance costs		1,388	441
Finance income		8	4
Finance costs	A.2	(56)	(89)
Profit before tax		1,340	356
Petroleum Resource Rent Tax (PRRT) benefit/(expense)	A.5	177	(131)
Income tax expense	A.5	(544)	(112)
Profit after tax		973	113
Profit attributable to:			
Equity holders of the parent		868	26
Non-controlling interest	E.9	105	87
Profit for the year		973	113
Basic and diluted earnings per share attributable to equity holders of the parent (US cents)	A.4	104.0	3.2

The accompanying notes form part of the preliminary financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2016

	Notes	2016 US\$m	2015 US\$m
Profit for the year		973	113
Other comprehensive income			
Items that may be reclassified to profit or loss in subsequent periods:			
Gain on available-for-sale financial assets reclassified to profit or loss		-	14
Exchange differences reclassified to profit or loss		17	3
Loss on cash flow hedges	C.5	(12)	-
Items that will not be reclassified to profit or loss in subsequent periods:			
Remeasurement (losses)/gains on defined benefit plan		(2)	12
Other comprehensive income for the year, net of tax		3	29
Total comprehensive income for the year		976	142
Total comprehensive income attributable to:			
Equity holders of the parent		871	55
Non-controlling interest		105	87
Total comprehensive income for the year		976	142

The accompanying notes form part of the preliminary financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 31 December 2016

	Notes	2016 US\$m	2015 US\$m
Current assets			
Cash and cash equivalents	C.1	285	122
Receivables	D.1	446	489
Inventories	D.2	149	170
Tax receivable	A.5	2	106
Other assets		18	47
Disposal group held for sale		-	145
Total current assets		900	1,079
Non-current assets			
Receivables	D.1	172	93
Inventories	D.2	5	19
Other financial assets		30	30
Other assets		8	8
Exploration and evaluation assets	B.2	3,228	2,528
Oil and gas properties	B.3	19,376	19,236
Other plant and equipment		69	76
Deferred tax assets	A.5	965	770
Total non-current assets		23,853	22,760
Total assets		24,753	23,839
Current liabilities			
Payables	D.3	546	813
Interest-bearing liabilities	C.2	76	77
Other financial liabilities		17	1
Other liabilities		31	42
Provisions	D.4	202	215
Tax payable	A.5	91	-
Liabilities associated with disposal group held for sale		-	156
Total current liabilities		963	1,304
Non-current liabilities			
Interest-bearing liabilities	C.2	4,897	4,364
Deferred tax liabilities	A.5	1,578	1,390
Other financial liabilities		20	11
Other liabilities		72	92
Provisions	D.4	1,561	1,653
Total non-current liabilities		8,128	7,510
Total liabilities		9,091	8,814
Net assets		15,662	15,025
Equity			
Issued and fully paid shares	C.4	6,919	6,547
Shares reserved for employee share plans	C.4	(30)	(27)
Other reserves	C.5	979	963
Retained earnings		6,971	6,743
Equity attributable to equity holders of the parent		14,839	14,226
Non-controlling interest	E.9	823	799
Total equity		15,662	15,025

The accompanying notes form part of the preliminary financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 31 December 2016

	Notes	2016 US\$m	2015 US\$m
Cash flows from operating activities			
Profit after tax for the period		973	113
Adjustments for:			
Non-cash items			
Depreciation and amortisation		1,346	1,539
Impairment of oil and gas properties		-	1,083
Loss on disposal of exploration and evaluation assets		-	2
Gain on disposal of oil and gas properties		(23)	(3)
Loss on disposal of investment		-	14
Change in fair value of derivative financial instruments		5	1
Net finance costs		48	85
Tax expense		367	243
Exploration and evaluation written off		54	131
Other		45	(28)
Changes in assets and liabilities			
Decrease/(increase) in trade and other receivables		21	(28)
Decrease in inventories		45	67
Increase in provisions		16	79
Increase in other assets and liabilities		(7)	(30)
(Decrease)/increase in trade and other payables		(81)	55
Cash generated from operations		2,809	3,323
Purchases of shares and payments relating to employee share plans		(54)	(45)
Interest received		8	5
Dividends received		7	8
Borrowing costs relating to operating activities		-	(20)
Income tax paid		(172)	(768)
PRRT received/(paid)		14	(10)
Payments for restoration		(25)	(16)
Payments for carbon tax		-	(2)
Net cash from operating activities		2,587	2,475
Cash flows used in investing activities			
Payments for capital and exploration expenditure		(1,608)	(1,819)
Borrowing costs relating to investing activities		(153)	(99)
Payments for disposal of oil and gas properties		(14)	-
Payments for acquisition of joint arrangements net of cash acquired	B.5	(698)	(3,637)
Net cash used in investing activities		(2,473)	(5,555)
Cash flows from/(used in) financing activities			
Proceeds from borrowings		545	1,867
Borrowing costs relating to financing activities		(18)	(33)
Contributions to non-controlling interests		(193)	(162)
Proceeds from underwriters of Dividend Reinvestment Plan (DRP)		277	-
Dividends paid (net of DRP)		(274)	-
Dividends paid outside of DRP		(286)	(1,730)
Net cash from/(used in) financing activities		51	(58)
Net increase/(decrease) in cash held		165	(3,138)
Cash and cash equivalents at the beginning of the period		122	3,268
Effects of exchange rate changes		(2)	(8)
Cash and cash equivalents at the end of the period	C.1	285	122

The accompanying notes form part of the preliminary financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2016

Notes	Issued and fully paid shares	Shares reserved for employee share plans	Employee benefits reserve	Foreign currency translation reserve	Cash flow hedge reserve	Investment fair value reserve	Retained earnings	Equity holders of the parent	Non-controlling interest	Total equity
	C.4 US\$m	C.4 US\$m	C.5 US\$m	C.5 US\$m	C.5 US\$m	US\$m	US\$m	US\$m	E.9 US\$m	US\$m
At 1 January 2016	6,547	(27)	187	776	-	-	6,743	14,226	799	15,025
Profit for the year	-	-	-	-	-	-	868	868	105	973
Other comprehensive income/(loss)	-	-	(2)	17	(12)	-	-	3	-	3
Total comprehensive income/(loss) for the year	-	-	(2)	17	(12)	-	868	871	105	976
Dividend Reinvestment Plan	372	-	-	-	-	-	-	372	-	372
Employee share plan purchases	-	(54)	-	-	-	-	-	(54)	-	(54)
Employee share plan redemptions	-	51	(51)	-	-	-	-	-	-	-
Share-based payments	-	-	64	-	-	-	-	64	-	64
Dividends paid	-	-	-	-	-	-	(640)	(640)	(81)	(721)
At 31 December 2016	6,919	(30)	198	793	(12)	-	6,971	14,839	823	15,662
At 1 January 2015	6,547	(38)	161	773	-	(14)	8,447	15,876	783	16,659
Profit for the year	-	-	-	-	-	-	26	26	87	113
Other comprehensive income	-	-	12	3	-	14	-	29	-	29
Total comprehensive income for the year	-	-	12	3	-	14	26	55	87	142
Employee share plan purchases	-	(45)	-	-	-	-	-	(45)	-	(45)
Employee share plan redemptions	-	56	(56)	-	-	-	-	-	-	-
Share-based payments	-	-	70	-	-	-	-	70	-	70
Dividends paid	-	-	-	-	-	-	(1,730)	(1,730)	(71)	(1,801)
At 31 December 2015	6,547	(27)	187	776	-	-	6,743	14,226	799	15,025

The accompanying notes form part of the preliminary financial statements.

NOTES TO THE PRELIMINARY FINANCIAL STATEMENTS

for the year ended 31 December 2016

About these statements

Woodside Petroleum Ltd (Woodside or the Group) is a for-profit entity limited by shares, incorporated and domiciled in Australia. Its shares are publicly traded on the Australian Securities Exchange. The nature of the operations and principal activities of the Group are described in the directors' report and in the segment information in Note A.1.

The preliminary financial statements were authorised for issue in accordance with a resolution of the directors on 22 February 2017.

Statement of compliance

The preliminary financial statements have been prepared in accordance with the requirements of the *Corporations Act 2001*, Australian Accounting Standards (AASBs) and other authoritative pronouncements of the Australian Accounting Standards Board. The preliminary financial statements comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

The accounting policies are consistent with those disclosed in the Financial Report 2015, except for the impact of all new or amended standards and interpretations. With the exception of AASB 2014-3, the adoption of these standards and interpretations did not result in any significant changes to the Group's accounting policies. The change in policy has had no impact on the preliminary financial statements as there were no such acquisitions in the period.

Currency

The functional and presentation currency of Woodside Petroleum Ltd and all its subsidiaries is US dollars.

Transactions in foreign currencies are initially recorded in the functional currency of the transacting entity at the exchange rates ruling at the date of transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated at the rates of exchange ruling at that date. Exchange differences in the consolidated preliminary financial statements are taken to the income statement.

Rounding of amounts

The amounts contained in these preliminary financial statements have been rounded to the nearest million dollars under the option available to the Group under Australian Securities and Investments Commission (ASIC) Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 dated 24 March 2016, unless otherwise stated.

Basis of preparation

The preliminary financial statements have been prepared on a historical cost basis, except for derivative financial instruments and certain other financial assets and financial liabilities, which have been measured at fair value or amortised cost adjusted for changes in fair value attributable to the risks that are being hedged in effective hedge relationships.

The preliminary financial statements comprise the preliminary financial results of the Group and its subsidiaries as at 31 December each year (refer to Section E). Subsidiaries are fully consolidated from the date on which control is obtained by the Group and cease to be consolidated from the date at which the Group ceases to have control.

The preliminary financial statements of subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. All intercompany balances and transactions, including unrealised profits and losses arising from intra-group transactions, have been eliminated in full.

The consolidated preliminary financial statements provide comparative information in respect of the previous period. A reclassification of items in the financial statements of the previous period have been made in accordance with the classification of items in the preliminary financial statements of the current period.

Non-controlling interests are allocated their share of the net profit after tax in the consolidated income statement, their share of other comprehensive income, net of tax in the consolidated statement of comprehensive income and are presented within equity in the consolidated statement of financial position, separately from parent shareholders' equity.

Key estimates and judgements

In applying the Group's accounting policies, management continually evaluates judgements, estimates and assumptions based on experience and other factors, including expectations of future events that may have an impact on the Group. All judgements, estimates and assumptions made are believed to be reasonable based on the most current set of circumstances known to management. Actual results may differ from those judgements, estimates and assumptions. Significant judgements, estimates and assumptions made by management in the preparation of these preliminary financial statements are found in the following notes:

Note A.5	Taxes	Page 11
Note B.2	Exploration and evaluation	Page 14
Note B.3	Oil and gas properties	Page 15
Note B.4	Impairment of oil and gas properties	Page 16
Note D.4	Provisions	Page 23
Note E.7	Joint arrangements	Page 28

Financial and capital risk management

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework, including review and the approval of the Group's risk management strategy, policy and key risk parameters. The Board of Directors and the Audit & Risk Committee have oversight of the Group's internal control system and risk management process, including the oversight of the internal audit function.

The Group's management of financial and capital risks is aimed at ensuring that available capital, funding and cash flows are sufficient to:

- meet the Group's financial commitments as and when they fall due;
- maintain the capacity to fund its committed project developments;
- pay a reasonable dividend; and
- maintain a long-term credit rating of not less than 'investment grade'.

The Group monitors and tests its forecast financial position against these criteria and, in general, will undertake hedging activity only when necessary to ensure that these objectives are achieved.

Other circumstances that may lead to hedging activities include the management of exposures relating to trading activities, the purchase of reserves and the underpinning of the economics of a new project. It is, and has been throughout the period, the Group Treasury policy that no speculative trading in financial instruments shall be undertaken.

The below risks arise in the normal course of the Group's business. Risk information can be found in the following sections:

Section A	Commodity price risk	Page 7
Section A	Foreign exchange risk	Page 7
Section C	Capital risk	Page 18
Section C	Liquidity risk	Page 18
Section C	Interest rate risk	Page 18
Section D	Credit risk	Page 21

NOTES TO THE PRELIMINARY FINANCIAL STATEMENTS A. EARNINGS FOR THE YEAR

for the year ended 31 December 2016

In this section

This section addresses financial performance of the Group for the reporting period including, where applicable, the accounting policies applied and the key estimates and judgements made. The section also includes the tax position of the Group for and at the end of the reporting period.

A. Earnings for the year

A.1	Segment revenue and expenses	Page 8
A.2	Finance costs	Page 10
A.3	Dividends paid and proposed	Page 10
A.4	Earnings per share	Page 10
A.5	Taxes	Page 10

Key financial and capital risks in this section

Commodity price risk management

The Group's revenue is exposed to commodity price fluctuations, in particular oil and gas prices are measured by monitoring and stress testing the Group's forecast financial position to sustained periods of low oil and gas prices. This analysis is regularly performed on the Group's portfolio and, as required, for discrete projects and acquisitions.

As at the reporting date, the Group had no financial instruments with material exposure to commodity price risk.

Foreign exchange risk management

Foreign exchange risk arises from future commitments, financial assets and financial liabilities that are not denominated in US dollars. The majority of the operations' revenue is denominated in US dollars. The Group is exposed to foreign currency risk arising from operating and capital expenditure incurred in currencies other than US dollars, particularly Australian dollars.

Measuring the exposure to foreign exchange risk is achieved by regularly monitoring and performing sensitivity analysis on the Group's financial position.

A reasonably possible change in the exchange rate of the US dollar to the Australian dollar (+10%/-10%), with all other variables held constant, would not have a material impact on the Group's equity or the profit or loss in the current period. Refer to Notes C.1, C.2, D.1 and D.3 for detail of the denomination of cash and cash equivalents, interest-bearing liabilities, receivables and payables held at 31 December 2016.

In order to hedge the foreign exchange risk and interest rate risk (refer to Section C) of a Swiss Franc (CHF) denominated medium term note, Woodside entered into a cross-currency interest rate swap during the period. The aim of this hedge is to convert the fixed interest CHF bond into variable interest US dollar debt.

NOTES TO THE PRELIMINARY FINANCIAL STATEMENTS A. EARNINGS FOR THE YEAR

for the year ended 31 December 2016

A.1 Segment revenue and expenses

Operating segment information

The Group has identified its operating segments based on the internal reports that are reviewed and used by the executive management team in assessing performance and in determining the allocation of resources.

Management monitors the operating results of the segments separately for the purpose of making decisions about resource allocation and performance assessment. The performance of operating segments is evaluated based on profit before tax and net finance costs and is measured in accordance with the Group's accounting policies.

Financing requirements, including cash and debt balances, finance income, finance costs and taxes are managed at a Group level.

Operating segments outlined below are identified by management based on the nature and geographical location of the business or venture.

Major customer information

The Group has two major customers which account for 21% and 17% of the Group's external revenue. The sales are generated by the Pluto and North West Shelf operating segments (2015: two customers; 18% and 16%).

Producing

North West Shelf Project – Exploration, evaluation, development, production and sale of liquefied natural gas, pipeline natural gas, condensate, liquefied petroleum gas and crude oil from the North West Shelf ventures.

Pluto LNG – Exploration, evaluation, development, production and sale of liquefied natural gas and condensate in assigned permit areas.

Australia Oil – Exploration, evaluation, development, production and sale of crude oil in assigned permit areas (Enfield, Vincent, Stybarrow and Balnaves).

Development

Browse – Exploration, evaluation and development of liquefied natural gas and condensate in the Browse area.

Wheatstone LNG – Exploration, evaluation and development of liquefied natural gas and condensate.

Other

Other segments – This segment comprises trading and shipping activities and activities undertaken in the United States, Canada, Senegal, Myanmar and other international locations.

Unallocated items – Unallocated items comprise primarily corporate non-segmental items of revenue and expenses and associated assets and liabilities not allocated to operating segments as they are not considered part of the core operations of any segment.

Geographical information

	Revenue from external customers ¹		Non-current assets ²	
	2016 US\$m	2015 US\$m	2016 US\$m	2015 US\$m
Australia	501	532	21,048	20,763
Asia	3,513	4,207	64	32
USA	37	77	-	-
Canada	11	-	1,285	1,171
Other	13	214	491	24
Consolidated	4,075	5,030	22,888	21,990

1. Revenue is attributable to geographic location based on the location of the customers.

2. Non-current assets exclude deferred tax of US\$965 million (2015: US\$770 million).

Recognition and measurement

Revenue

Revenue is recognised and measured at the fair value of consideration received or receivable to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured.

- **Revenue from sale of produced hydrocarbons**
Revenue from the sale of produced hydrocarbons is recognised when the significant risks and rewards of ownership have passed to the customer, which is typically at the point that title passes. This policy is applied to the Group's different operating arrangements.
Revenue is recognised on the basis of the Group's working interest in a producing field (the entitlement method).
Revenue from take or pay contracts is recognised in earnings when the product has been drawn by the customer and recorded as unearned revenue when not drawn by the customer.
- **Other operating revenue**
Revenue earned from LNG processing, ship chartering and other services is recognised as the services are rendered.
Trading revenue earned from sales of third party products is recognised when the risks and rewards of ownership of the products are transferred to the customer.

Expenses

- **Royalties and excise duty**
Royalties and excise duty under existing regimes are considered to be production-based taxes and are therefore accrued on the basis of the Group's entitlement to physical production.
- **Depreciation and amortisation**
Refer to Note B.3 for details on depreciation and amortisation.
- **Impairment**
Refer to Note B.4 for details on impairment.
- **Leases**
Refer to Note E.2 for details on leases.
- **Employee benefits**
Refer to Note E.3 for details on employee benefits.

NOTES TO THE PRELIMINARY FINANCIAL STATEMENTS A. EARNINGS FOR THE YEAR

for the year ended 31 December 2016

A.1 Segment revenue and expenses (cont.)

	Producing				Development				Other				Consolidated			
	North West Shelf		Pluto		Australia Oil		Browse		Wheatstone		Other segments				Unallocated items	
	2016 US\$m	2015 US\$m	2016 US\$m	2015 US\$m	2016 US\$m	2015 US\$m	2016 US\$m	2015 US\$m	2016 US\$m	2015 US\$m	2016 US\$m	2015 US\$m	2016 US\$m	2015 US\$m	2016 US\$m	2015 US\$m
Liquefied natural gas	801	1,028	1,950	2,067	-	-	-	-	-	-	-	-	-	-	2,751	3,095
Pipeline natural gas	292	295	-	-	-	-	-	-	-	-	-	11	1	-	303	296
Condensate	279	291	134	130	-	-	-	-	-	-	-	-	-	-	413	421
Oil	44	140	-	-	258	510	-	-	-	-	-	-	-	-	302	650
Liquefied petroleum gas	34	34	-	-	-	-	-	-	-	-	-	-	-	-	34	34
Revenue from sale of produced hydrocarbons	1,450	1,788	2,084	2,197	258	510	-	-	-	-	11	1	-	3,803	4,496	
Processing and services revenue	-	-	202	180	-	-	-	-	-	-	-	-	-	202	180	
Trading revenue	-	-	-	-	-	-	-	-	-	-	70	354	-	70	354	
Other revenue	-	-	202	180	-	-	-	-	-	-	70	354	-	272	534	
Operating revenue	1,450	1,788	2,286	2,377	258	510	-	-	-	-	81	355	-	4,075	5,030	
Production costs	(196)	(186)	(145)	(206)	(118)	(237)	-	-	-	-	(11)	(1)	(2)	(472)	(639)	
Royalties and excise	(179)	(215)	-	-	-	-	-	-	-	-	-	-	-	(179)	(215)	
Carbon costs	-	(2)	-	4	-	-	-	-	-	-	-	-	-	-	2	
Insurance	(6)	(7)	(11)	(12)	(3)	(3)	-	-	-	-	-	(1)	2	(18)	(28)	
Inventory movement	6	(15)	(16)	(31)	(6)	(23)	-	-	-	-	-	-	-	(16)	(69)	
Onerous lease provision	-	-	-	-	-	(128)	-	-	-	-	-	-	-	-	(128)	
Costs of production	(375)	(425)	(172)	(245)	(127)	(391)	-	-	-	-	(11)	(2)	-	(685)	(1,077)	
Land and buildings	(7)	(7)	(46)	(71)	-	-	-	-	-	-	-	-	-	(53)	(78)	
Transferred exploration and evaluation	(5)	(6)	(49)	(36)	(1)	(4)	-	-	-	-	-	-	-	(55)	(46)	
Plant and equipment	(261)	(315)	(820)	(746)	(103)	(303)	-	-	-	-	-	-	-	(1,184)	(1,364)	
Marine vessels and carriers	(7)	(7)	-	-	-	-	-	-	-	-	-	-	-	(7)	(7)	
Oil and gas properties depreciation and amortisation	(280)	(335)	(915)	(853)	(104)	(307)	-	-	-	-	-	-	-	(1,299)	(1,495)	
Shipping and direct sales costs	(34)	(39)	(93)	(100)	-	(2)	-	-	-	-	-	2	(14)	(141)	(148)	
Trading costs	-	-	-	-	-	-	-	-	-	-	(109)	(353)	-	(109)	(353)	
Other cost of sales	(34)	(39)	(93)	(100)	-	(2)	-	-	-	-	(109)	(351)	(14)	(250)	(501)	
Cost of sales	(689)	(799)	(1,180)	(1,198)	(231)	(700)	-	-	-	-	(120)	(353)	(14)	(2,234)	(3,073)	
Trading intersegment adjustments	-	-	(65)	(42)	-	-	-	-	-	-	65	42	-	-	-	
Gross profit/(loss)	761	989	1,041	1,137	27	(190)	-	-	-	-	26	44	(14)	1,841	1,957	
Other income	10	13	4	10	41	13	-	-	-	-	-	3	6	61	31	
Exploration and evaluation expenditure	(4)	(3)	(3)	(1)	(1)	(5)	-	-	-	-	(208)	(240)	-	(216)	(249)	
Amortisation	-	-	-	-	-	-	-	-	-	-	(26)	(22)	-	(26)	(22)	
Write-offs	-	-	-	-	-	(33)	-	-	-	-	(54)	(98)	-	(54)	(131)	
Exploration and evaluation	(4)	(3)	(3)	(1)	(1)	(38)	-	-	-	-	(288)	(360)	-	(296)	(402)	
General, administrative and other costs	(11)	5	-	9	(9)	29	-	-	-	-	(23)	(14)	(90)	(133)	(28)	
Impairment of oil and gas properties	-	(200)	-	-	-	(18)	-	-	-	(865)	-	-	-	-	(1,083)	
Depreciation of other plant and equipment	(1)	(1)	-	-	-	-	-	-	-	-	(1)	-	(19)	(21)	(22)	
Other ¹	4	(6)	(32)	1	-	-	-	-	-	-	(5)	-	(31)	(64)	(12)	
Other costs	(8)	(202)	(32)	10	(9)	11	-	-	-	(865)	(29)	(14)	(140)	(218)	(1,145)	
Other expenses	(12)	(205)	(35)	9	(10)	(27)	-	-	-	(865)	(317)	(374)	(140)	(514)	(1,547)	
Profit/(loss) before tax and net finance costs	759	797	1,010	1,156	58	(204)	-	-	-	(865)	(291)	(327)	(148)	1,388	441	

1. Other comprises foreign exchange gains and losses, losses on disposals of investments, restructuring costs as well as other expenses not associated with the ongoing operations of the business.

NOTES TO THE PRELIMINARY FINANCIAL STATEMENTS A. EARNINGS FOR THE YEAR

for the year ended 31 December 2016

A.2 Finance costs

	2016 US\$m	2015 US\$m
Interest on interest-bearing liabilities	163	132
Accretion charge	40	46
Other finance costs	16	21
Less: Interest capitalised	(163)	(110)
	56	89

A.3 Dividends paid and proposed

	2016 US\$m	2015 US\$m
(a) Dividends paid during the financial year		
Prior year fully franked final dividend US\$0.43, paid on 8 April 2016 (2015: US\$1.44, paid on 25 March 2015)	354	1,186
Current year fully franked interim dividend US\$0.34, paid on 30 September 2016 (2015: US\$0.66, paid on 23 September 2015)	286	544
	640	1,730
(b) Dividend declared subsequent to the reporting period end (not recorded as a liability)		
Final dividend US\$0.49 (2015: US\$0.43)	413	354
(c) Other information		
Franking credits available for the subsequent periods	1,887	2,808
Current year dividends per share (US cents)	83	109

A.4 Earnings per share

	2016	2015
Profit attributable to equity holders of the parent (US\$m)	868	26
Weighted average number of shares on issue	835,011,896	822,943,960
Basic and diluted earnings per share (US cents)	104.0	3.2

Earnings per share is calculated by dividing net profit for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares on issue during the year. The weighted average number of shares makes allowance for shares reserved for employee share plans.

Performance rights of 9,384,302 (2015: 9,305,660) are considered to be contingently issuable and have not been allowed for in the diluted earnings per share calculation.

There have been no transactions involving ordinary shares between the reporting date and the date of completion of these preliminary financial statements.

A.5 Taxes

	2016 US\$m	2015 US\$m
(a) Tax expense comprises		
PRRT		
Current tax benefit	(5)	(29)
Deferred tax (benefit)/expense	(172)	160
PRRT (benefit)/expense	(177)	131
Income tax		
Current year		
Current tax expense	368	283
Deferred tax expense/(benefit)	176	(168)
Adjustment to prior years		
Current tax benefit	(10)	(23)
Deferred tax expense	10	20
Income tax expense	544	112
Tax expense	367	243
(b) Reconciliation of income tax expense		
Profit before tax	1,340	356
PRRT benefit/(expense)	177	(131)
Profit before income tax	1,517	225
Income tax expense calculated at 30%	456	67
Non-deductible items	15	15
Foreign expenditure not brought to account	84	82
Adjustment to prior years	(2)	(2)
Foreign exchange impact on tax expense	(9)	(50)
Income tax expense	544	112
(c) Reconciliation of PRRT expense/(benefit)		
Profit before tax	1,340	356
Non-PRRT assessable profits	(1,452)	(341)
PRRT projects (loss)/profit before tax	(112)	15
PRRT (benefit)/expense calculated at 40%	(45)	6
Augmentation	(170)	(226)
Derecognition of quarantined exploration expenditure	-	363
Other	38	(12)
PRRT (benefit)/expense	(177)	131
(d) Deferred tax income statement reconciliation		
PRRT		
Production and growth assets	(36)	(56)
Provisions	13	67
Augmentation for current year	(170)	(226)
Derecognition of quarantined exploration expenditure	-	363
Laminaria-Corallina PRRT Impact	21	-
Other	-	12
PRRT deferred tax (benefit)/expense	(172)	160
Income tax		
Oil and gas properties	200	(183)
Provisions	36	61
PRRT liabilities	56	(42)
Exploration and evaluation assets	(49)	46
Unused tax losses and tax credits	(119)	-
Other	62	(30)
Income tax deferred tax expense/(benefit)	186	(148)
Deferred tax expense	14	12

NOTES TO THE PRELIMINARY FINANCIAL STATEMENTS A. EARNINGS FOR THE YEAR

for the year ended 31 December 2016

A.5 Taxes (cont.)

	2016 US\$m	2015 US\$m
(e) Deferred tax balance sheet reconciliation		
Deferred tax assets		
PRRT		
Production and growth assets	626	365
Augmentation for current year	170	226
Provisions	187	197
Other	(18)	(18)
	965	770
Deferred tax liabilities		
PRRT		
Production and growth assets	436	437
Provisions	(135)	(138)
Other	12	12
Income tax		
Oil and gas properties	1,438	1,238
Provisions	(524)	(560)
Exploration and evaluation assets	299	348
PRRT liabilities	197	141
Unused tax losses and tax credits	(119)	-
Other ¹	(26)	(88)
	1,578	1,390
(f) Tax (payable)/receivable reconciliation		
PRRT receivable	2	10
Income tax (payable)/receivable	(91)	96
	(89)	106
(g) Effective income tax rate: Australian and global operations		
Effective income tax rate ²		
Australia ³	30.5%	31.5%
Global	35.9%	49.8%
(h) Current year income tax payable reconciliation		
Profit before income tax	1,517	225
Income tax at the statutory tax rate of 30%	456	67
Non-temporary differences ⁴	99	97
Temporary differences: deferred tax	(176)	168
Current year income tax payable	379	332

1. US\$0.2 million (2015: US\$3 million) movement recognised in other comprehensive income.

2. Effective income tax rate = Income tax expense / Profit before income tax.

3. Excludes foreign exchange impact on tax expense.

4. Primarily expenditure in respect of foreign activities and operations.

Tax transparency code

Woodside has adopted the Board of Taxation's voluntary Tax Transparency Code (TTC). The TTC requires additional tax disclosures in two parts. The Part A disclosure requirements are addressed in the tables in this note. Part B disclosure requirements will be addressed in the Sustainable Development Report 2016.

Recognition and measurement

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised. The tax rates and laws used to determine the amount are based on those that have been enacted or substantially enacted by the end of the reporting period. Income taxes relating to items recognised directly in equity are recognised in equity.

Current taxes

Current tax expense is the expected tax payable on the taxable income for the year and any adjustment to tax payable in respect of previous years.

Deferred taxes

Deferred tax expense is the movements in the temporary differences between the carrying amount of an asset or liability in the statement of financial position and its tax base.

Deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised for deductible temporary differences, unused tax losses and tax credits only if it is probable that sufficient future taxable income will be available to utilise those temporary differences and losses.

Deferred tax is not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither accounting profit nor the taxable profit.

In relation to PRRT, the impact of future augmentation on expenditure is included in the determination of future taxable profits when assessing the extent to which a deferred tax asset can be recognised in the statement of financial position.

Offsetting deferred tax balances

Deferred tax assets and liabilities are offset only if there is a legally enforceable right to offset current tax assets and liabilities and when they relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities that the Group intends to settle its current tax assets and liabilities on a net basis. Refer to Notes E.9 and E.10 for detail on the tax consolidated group.

Key estimates and judgements

(a) Income tax classification

Judgement is required when determining whether a particular tax is an income tax or another type of tax. Accounting for deferred tax is applied to income taxes as described above, but is not applied to other types of taxes, e.g. North West Shelf royalties and excise. Such taxes are recognised in the income statement on an appropriate basis. PRRT is considered, for accounting purposes, to be an income tax.

(b) Deferred tax asset recognition

Australian tax losses: A deferred tax asset of US\$119 million has been recognised from carry forward unused tax losses of US\$108 million (2015: nil) and carry forward unused tax credits of US\$11 million (2015: nil). The Group has determined that it is probable that sufficient future taxable income will be available to utilise those losses and credits.

Foreign tax losses: Deferred tax assets of US\$407 million (2015: US\$334 million) relating to unused foreign tax losses that are available for offset against future taxable profits are not recognised. The Group has determined it is not probable that the assets will be utilised based on current planned activities in those regions.

PRRT: Deferred tax assets of US\$4,622 million (2015: US\$3,894 million) on the deductible temporary differences have not been recognised on the basis that deductions from future augmentation of the deductible temporary difference will be sufficient to offset future taxable profit. US\$3,592 million (2015: US\$3,028 million) relates to the transition of the North West Shelf Project, US\$425 million (2015: US\$363 million) relates to the quarantined exploration spend of the Pluto Project and US\$605 million (2015: US\$503 million) relates to the general expenditure of the Wheatstone Project. Future taxable profits were determined using the same assumptions disclosed in Note B.4 and a long-term bond rate of 2.2% (2015: 2.7%) for the purposes of augmentation.

Had an alternative approach been used to assess recovery of the deferred tax assets, whereby future augmentation was not included in the assessment, the estimated deferred tax assets would be recognised, with a corresponding benefit to income tax expense. It was determined that the approach adopted provides the most meaningful information on the implications of the PRRT regime, whilst ensuring compliance with AASB 112 *Income Taxes*.

NOTES TO THE PRELIMINARY FINANCIAL STATEMENTS B. PRODUCTION AND GROWTH ASSETS

for the year ended 31 December 2016

In this section

This section addresses the strategic growth (exploration and evaluation) and core producing (oil and gas properties) assets' position of the Group at the end of the reporting period including, where applicable, the accounting policies applied and the key estimates and judgements made. The section also includes the impairment position of the Group at the end of the reporting period.

B. Production and growth assets

B.1	Segment production and growth assets	Page 13
B.2	Exploration and evaluation	Page 14
B.3	Oil and gas properties	Page 15
B.4	Impairment of oil and gas properties	Page 16
B.5	Significant production and growth asset acquisitions	Page 17

NOTES TO THE PRELIMINARY FINANCIAL STATEMENTS B. PRODUCTION AND GROWTH ASSETS

for the year ended 31 December 2016

B.1 Segment production and growth assets

	Producing		Development				Other				Consolidated					
	North West Shelf		Pluto		Australia Oil		Browse		Wheatstone		Other segments		Unallocated items			
	2016 US\$m	2015 US\$m	2016 US\$m	2015 US\$m	2016 US\$m	2015 US\$m	2016 US\$m	2015 US\$m	2016 US\$m	2015 US\$m	2016 US\$m	2015 US\$m	2016 US\$m	2015 US\$m		
Balance as at 31 December																
Oceania	29	26	396	402	8	192	397	373	-	-	562	308	-	1	1,392	1,302
Asia	-	-	-	-	-	-	-	-	-	-	61	30	-	-	61	30
Africa	-	-	-	-	-	-	-	-	-	-	486	19	-	-	486	19
The Americas	-	-	-	-	-	-	-	-	-	-	1,286	1,173	-	-	1,286	1,173
Europe	-	-	-	-	-	-	-	-	-	-	3	4	-	-	3	4
Total exploration and evaluation	29	26	396	402	8	192	397	373	-	-	2,398	1,534	-	1	3,228	2,528
Balance as at 31 December																
Land and buildings	28	35	460	539	-	-	-	-	-	-	1	1	-	-	489	575
Transferred exploration and evaluation	54	40	368	417	3	8	-	-	-	-	-	-	-	-	425	465
Plant and equipment	2,499	2,532	10,932	11,589	276	359	-	-	271	284	3	3	-	-	13,981	14,767
Marine vessels and carriers	122	129	-	-	-	-	-	-	-	-	-	-	-	-	122	129
Projects in development	283	339	60	142	293	12	-	-	3,727	2,811	(4)	(4)	-	-	4,359	3,300
Total oil and gas properties	2,986	3,075	11,820	12,687	572	379	-	-	3,998	3,095	-	-	-	-	19,376	19,236
Additions to exploration and evaluation																
Exploration	-	-	-	32	-	33	-	-	-	-	94	122	-	-	94	187
Evaluation	1	10	-	(1)	15	19	30	131	-	-	862	1,072	-	(25)	908	1,206
Restoration	-	-	(6)	-	-	-	(6)	(5)	-	-	(13)	75	-	-	(25)	70
	1	10	(6)	31	15	52	24	126	-	-	943	1,269	-	(25)	977	1,463
Additions to oil and gas properties																
Oil and gas properties additions	239	151	111	234	95	154	-	-	755	3,755	-	-	-	-	1,200	4,294
Capitalised borrowing costs additions ¹	5	9	-	5	1	-	-	-	157	96	-	-	-	-	163	110
Restoration	(52)	(144)	(35)	(16)	3	(7)	-	-	(13)	109	-	-	-	-	(97)	(58)
	192	16	76	223	99	147	-	-	899	3,960	-	-	-	-	1,266	4,346

1. Borrowing costs capitalised were at a weighted average interest rate of 3.5% (2015: 3.9%).

Refer to Note A.1 for descriptions of the Group's segments.

NOTES TO THE PRELIMINARY FINANCIAL STATEMENTS B. PRODUCTION AND GROWTH ASSETS

for the year ended 31 December 2016

B.2 Exploration and evaluation

	Oceania US\$m	Asia US\$m	Africa US\$m	The Americas US\$m	Europe US\$m	Total US\$m
Year ended 31 December 2016						
Carrying amount at 1 January 2016	1,302	30	19	1,173	4	2,528
Additions	325	35	478	139	-	977
Amortisation of licence acquisition costs	-	(4)	(11)	(10)	(1)	(26)
Expensed	(38)	-	-	(16)	-	(54)
Transferred exploration and evaluation	(197)	-	-	-	-	(197)
Carrying amount at 31 December 2016	1,392	61	486	1,286	3	3,228
Year ended 31 December 2015						
Carrying amount at 1 January 2015	1,231	10	13	4	10	1,268
Additions	221	42	20	1,179	1	1,463
Amortisation of licence acquisition costs	-	(6)	(2)	(10)	(4)	(22)
Expensed	(100)	(16)	(12)	-	(3)	(131)
Transferred exploration and evaluation	(50)	-	-	-	-	(50)
Carrying amount at 31 December 2015	1,302	30	19	1,173	4	2,528
Exploration commitments						
Year ended 31 December 2016	43	81	183	30	13	350
Year ended 31 December 2015	142	130	25	124	53	474

Recognition and measurement

Expenditure on exploration and evaluation is accounted for in accordance with the area of interest method. The Group's application of the accounting policy for the cost of exploring and of evaluating discoveries is closely aligned to the US GAAP-based successful efforts method.

Areas of interest are based on a geographical area. All exploration and evaluation expenditure, including general permit activity, geological and geophysical costs and new venture activity costs, is expensed as incurred except for the following:

- where the expenditure relates to an exploration discovery that, at the reporting date, has not been recognised as an area of interest, because an assessment of the existence or otherwise of economically recoverable reserves is not yet complete; or
- where the expenditure relates to a recognised area of interest and it is expected that the expenditure will be recouped through successful exploitation of the area of interest, or alternatively, by its sale.

The costs of acquiring interests in new evaluation and exploration licences are capitalised. The costs of drilling exploration wells are initially capitalised pending the results of the well. Costs are expensed where the well does not result in the successful discovery of economically recoverable hydrocarbons and the recognition of an area of interest. Subsequent to the recognition of an area of interest, all further evaluation costs relating to that area of interest are capitalised.

Upon approval for the commercial development of an area of interest, accumulated expenditure for the area of interest is transferred to oil and gas properties.

In the statement of cash flows, those cash flows associated with capitalised exploration and evaluation expenditure, including unsuccessful wells, are classified as cash flows used in investing activities.

Exploration commitments

The Group has exploration expenditure obligations which are contracted for, but not provided for in the preliminary financial statements. These obligations may be varied from time to time and are expected to be fulfilled in the normal course of operations of the Group.

Key estimates and judgements

(a) Area of interest

An area of interest (AOI) is defined by the Group as an individual geographical area whereby the presence of hydrocarbons is considered favourable or proved to exist. The Group has established criteria to recognise and maintain an AOI. There is separate guidance for conventional and unconventional AOIs.

(b) Impairment of exploration and evaluation assets

The recoverability of the carrying amount of the exploration and evaluation assets is dependent on successful development and commercial exploitation, or alternatively, sale of the respective AOI.

Each potential or recognised AOI is reviewed half-yearly to determine whether economic quantities of reserves have been found or whether further exploration and evaluation work is underway or planned to support continued carry forward of capitalised costs. Where a potential impairment is indicated, assessment is performed using a fair value less costs to dispose method to determine the recoverable amount for each AOI to which the exploration and evaluation expenditure is attributed.

This assessment requires management to make certain estimates and apply judgement in determining assumptions as to future events and circumstances, in particular, the assessment of whether economic quantities of reserves have been found. Any such estimates and assumptions may change as new information becomes available. If, after having capitalised expenditure under the policy, the Group concludes that it is unlikely to recover the expenditure by future exploitation or sale, then the relevant capitalised amount will be written off to the income statement.

NOTES TO THE PRELIMINARY FINANCIAL STATEMENTS B. PRODUCTION AND GROWTH ASSETS

for the year ended 31 December 2016

B.3 Oil and gas properties

	Land and buildings US\$m	Transferred exploration and evaluation US\$m	Plant and equipment US\$m	Marine vessels and carriers US\$m	Projects in development US\$m	Total US\$m
Year ended 31 December 2016						
Carrying amount at 1 January 2016	575	465	14,767	129	3,300	19,236
Additions	-	-	(90)	-	1,364	1,274
Disposals at written down value	-	-	(3)	-	-	(3)
Depreciation and amortisation	(86)	(55)	(1,192)	(7)	-	(1,340)
Completions and transfers	-	15	499	-	(305)	209
Carrying amount at 31 December 2016	489	425	13,981	122	4,359	19,376
At 31 December 2016						
Historical cost	1,092	823	24,566	401	5,282	32,164
Accumulated depreciation and impairment	(603)	(398)	(10,585)	(279)	(923)	(12,788)
Net carrying amount	489	425	13,981	122	4,359	19,376
Year ended 31 December 2015						
Carrying amount at 1 January 2015	652	413	15,568	135	766	17,534
Additions	-	-	(119)	-	4,465	4,346
Disposals at written down value	-	(3)	(4)	-	-	(7)
Depreciation and amortisation	(78)	(46)	(1,364)	(7)	-	(1,495)
Impairment loss	-	-	(218)	-	(865)	(1,083)
Completions and transfers	1	101	904	1	(1,066)	(59)
Carrying amount at 31 December 2015	575	465	14,767	129	3,300	19,236
At 31 December 2015						
Historical cost	1,092	872	24,181	401	4,223	30,769
Accumulated depreciation and impairment	(517)	(407)	(9,414)	(272)	(923)	(11,533)
Net carrying amount	575	465	14,767	129	3,300	19,236

Recognition and measurement

Oil and gas properties are stated at cost less accumulated depreciation and impairment charges. Oil and gas properties include initial cost to acquire, construct, install or complete production and infrastructure facilities such as pipelines and platforms, capitalised borrowing costs, transferred exploration and evaluation assets, development wells and the estimated cost of dismantling and restoration.

Subsequent capital costs, including major maintenance, are included in the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably.

Depreciation and amortisation

Oil and gas properties and other plant and equipment are depreciated to their estimated residual values at rates based on their expected useful lives.

Transferred evaluation and exploration and offshore plant and equipment are depreciated using the unit of production basis over proved reserves or proved plus probable reserves. Onshore plant and equipment is depreciated using a straight-line basis over the lesser of useful life and the life of proved plus probable reserves. On a straight-line basis the assets have an estimated useful life of 5-50 years.

All other items of oil and gas properties are depreciated using the straight-line method over their useful life. They are depreciated as follows:

- Buildings – 24-40 years;
- Marine vessels and carriers – 10-40 years;
- Other plant and equipment – 5-15 years; and
- Land is not depreciated.

Impairment

Refer to Note B.4 for details on impairment.

Capital commitments

The Group has capital expenditure commitments contracted for, but not provided for in the preliminary financial statements of US\$553 million (2015: US\$520 million).

Key estimates and judgements

Reserves and resources

The estimations of reserves require significant management judgement and interpretation of complex geological and geophysical models in order to make an assessment of the size, shape, depth and quality of reservoirs, and their anticipated recoveries.

Estimates of oil and natural gas reserves are used to calculate depreciation, depletion and amortisation charges for the Group's oil and gas properties. Judgement is used in determining the reserve base applied to each asset. Typically, late life oil assets use proved reserves.

Estimates are reviewed at least annually or when there are changes in the economic circumstances impacting specific assets or asset groups. These changes may impact depreciation, asset carrying values, restoration provisions and deferred tax balances. If proved reserves estimates are revised downwards, earnings could be affected by higher depreciation expense or an immediate write-down of the asset's carrying value.

B.4 Impairment of oil and gas properties

Recognition and measurement

Impairment testing

The carrying amounts of oil and gas properties are assessed half-yearly to determine whether there is an indication of impairment. Indicators of impairment include changes in future selling prices, future costs and reserves. When assessing potential indicators of impairment a range of possible future commodity prices is considered. If any such indication exists, the asset's recoverable amount is estimated.

Oil and gas properties are assessed for impairment on a cash generating unit (CGU) basis. CGUs are determined on a field by field basis, except for Pluto and Wheatstone which are single CGUs respectively, and North West Shelf, which is split into an oil CGU and a gas CGU.

Impairment calculations

The recoverable amount of an asset or CGU is determined as the higher of its value in use and fair value less costs of disposal. Value in use is determined by estimating future cash flows after taking into account the risks specific to the asset and discounting it to its present value using an appropriate discount rate.

If the carrying amount of an asset or CGU exceeds its recoverable amount, the asset or CGU is written down and an impairment loss is recognised in the income statement.

Impairment reversals

The carrying amount of oil and gas properties which have previously been impaired are assessed half-yearly to determine if there is an indication of impairment reversal. Such indications include material increases in future selling prices or beneficial changes in future costs and reserves. When assessing potential indicators of reversal a range of possible future commodity prices is considered. If such an indication exists, the asset's recoverable amount is estimated.

If the recoverable amount exceeds the carrying amount, the impairment loss is reversed. The carrying amount of the asset or CGU is increased to the revised estimate of its recoverable amount, but only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Inputs to impairment calculation

Future cash flow information used for the value in use calculation is based on the Group's latest budget, five-year plan and project economic plans. Key estimates are disclosed in the 'Key estimates and judgements' section.

Recognised impairment and impairment reversal

The Group assessed each CGU to determine whether an indicator of impairment or impairment reversal existed. All impairment losses and reversals are recognised in other expenses. Refer to Note A.1.

	Impairment charge/ (reversal)	Recoverable amount
	2015 US\$m	2015 US\$m
Australia oil		
Enfield	18	8
Laminaria-Corallina	(95)	109
Vincent	85	220
Balnaves	10	-
NWS oil	200	224
Wheatstone	865	3,094
	1,083	3,655

No impairments or impairment reversals were recognised in 2016.

All impairment losses are recognised against plant and equipment, with the exception of Wheatstone which is recognised against projects in development.

Key estimates and judgements

Recoverable amount calculation key assumptions

In determining the recoverable amount of assets, in the absence of quoted market prices, estimates are made regarding the present value of future cash flows. These estimates require significant management judgement and are subject to risk and uncertainty, and hence changes in economic conditions can also affect the assumptions used and the rates used to discount future cash flow estimates. In 2015, Laminaria-Corallina was assessed using the fair value less costs to dispose method, all other assets were assessed in 2015 and 2016 using the value in use method. The basis for the estimates used for value in use assessments are set out below:

- Inflation rate – an inflation rate of 2.0% has been applied (2015: 2.0%).
- Foreign exchange rates – based on the forward exchange rates at the date of assessment for three years, reverting to management's assumptions, including \$0.76 AUD:USD (2015: \$0.75) after five years.
- Discount rate – a range of pre-tax discount rates have been applied between 9% and 11% (2015: 9% and 13%).

- LNG price – based on the terms set out in the relevant contracts between the Group and its customers. The majority of LNG sales contracts are linked to an oil price marker, accordingly the LNG prices used are consistent with oil price assumptions.
- Natural gas price – based on the terms set out in the relevant contracts between the Group and its customers.
- Oil price – oil prices were derived from forward price curves and long-term views of global supply and demand, building upon past experience of the industry and consistent with external sources. Prices are adjusted based on premiums and discounts applied to the oil price marker based on the nature and quality of the product produced at the field. The unadjusted oil prices (US\$/bbl) used were:

	2017	2018	2019	2020	2021	2022
2016	58.35	58.36	57.87	70.68	77.57	84.46
2015	47.58	51.90	65.68	74.24	82.81	84.46

Prices from 2022 onwards are escalated at 2%.

NOTES TO THE PRELIMINARY FINANCIAL STATEMENTS B. PRODUCTION AND GROWTH ASSETS

for the year ended 31 December 2016

B.5 Significant production and growth asset acquisitions

(a) Senegal

On 28 October 2016, Woodside completed the acquisition of 100% of the shares in ConocoPhillips Senegal B.V. for a purchase price of US\$350 million plus a closing adjustment of US\$92 million. The closing adjustment represents reimbursement of ConocoPhillips' share of net expenditure in the Senegal Joint Arrangement between the effective date, 1 January 2016, and closing. In addition to the purchase cash consideration, transaction costs of US\$4 million have been capitalised relating to the acquisition.

Under the terms of the Purchase and Sale Agreement, Woodside has acquired a 35% interest in a Joint Operation containing three offshore exploration blocks, which include the SNE and FAN deep water oil discoveries in Senegal.

(b) Scarborough

On 14 November 2016, Woodside completed the acquisition of half of BHP Billiton's Scarborough area assets in the Carnarvon Basin for an aggregate purchase price of US\$250 million plus a closing adjustment of US\$1 million. Transaction costs of US\$1 million have been capitalised in relation to the acquisition. In addition, a US\$150 million payment is contingent on a positive final investment decision to develop the Scarborough field. Under the terms of the Sale and Purchase Agreement, Woodside has acquired the following interests in Joint Operations:

- a 25% interest in WA-1-R and a 50% interest in WA-62-R, which together contain the Scarborough gas field;
- a 50% interest in WA-61-R which contains the Jupiter gas field; and
- a 50% interest in WA-63-R which contains the Thebe gas field.

The acquisition of the interests in the Scarborough assets and Senegal interests have been accounted for as asset acquisitions. The interests acquired have been classified as Joint Operations.

The consolidated preliminary financial statements include the results of the Joint Operations for periods from the acquisition dates of Senegal (28 October 2016) and Scarborough (14 November 2016).

Assets acquired and liabilities assumed

The identifiable assets and liabilities acquired as at the date of the acquisition inclusive of transaction costs were:

	Senegal US\$m	Scarborough US\$m
Exploration and evaluation assets	447	252
Net other assets and liabilities acquired	(1)	-
Total identifiable net assets at acquisition	446	252

Cash flows on acquisition

	Senegal US\$m	Scarborough US\$m
Purchase cash consideration	442	251
Transaction costs	4	1
Total purchase consideration	446	252
Net cash outflows on acquisition	446	252

In this section

This section addresses cash, debt and capital position of the Group at the end of the reporting period including, where applicable, the accounting policies applied and the key estimates and judgements made.

C. Debt and capital

C.1	Cash and cash equivalents	Page 19
C.2	Interest-bearing liabilities	Page 19
C.3	Financing facilities	Page 19
C.4	Contributed equity	Page 20
C.5	Other reserves	Page 20

Key financial and capital risks in this section

Capital risk management

Capital management is undertaken to ensure that a secure, cost-effective and flexible supply of funds is available to meet the Group's operating and capital expenditure requirements. A stable capital base is maintained from which the Group can pursue its growth aspirations, whilst maintaining a flexible capital structure that allows access to a range of debt and equity markets to both draw upon and repay capital.

The Dividend Reinvestment Plan (DRP) was approved by shareholders at the Annual General Meeting in 2003 for activation as required to fund future growth. The DRP was reactivated and fully underwritten for the 2015 final dividend.

A range of financial metrics is monitored, including gearing and cash flow leverage, and Treasury policy breaches and exceptions.

Liquidity risk management

Liquidity risk arises from financial liabilities of the Group and the Group's subsequent ability to meet its obligations to repay financial liabilities as and when they fall due. The liquidity position of the Group is managed to ensure sufficient liquid funds are available to meet its financial commitments in a timely and cost-effective manner.

The Group's liquidity position is continually reviewed including cash flow forecasts to determine the forecast liquidity position and maintain appropriate liquidity levels. At 31 December 2016, the Group has a total of US\$2,679 million (2015: US\$1,722 million) available undrawn facilities and cash at its disposal. The maturity profile of interest-bearing liabilities is disclosed in Note C.2, and trade and other payables are disclosed in Note D.3. Financing facilities available to the Group are disclosed in Note C.3.

Interest rate risk management

Interest rate risk is the risk that the Group's financial position will fluctuate due to changes in market interest rates.

The Group's exposure to the risk of changes in market interest rates relates primarily to financial instruments with floating interest rates including long-term debt obligations and cash and short-term deposits. The Group manages its interest rate risk by maintaining an appropriate mix of fixed and floating rate debt. To manage the ratio of fixed rate debt to floating rate debt, the Group may enter into interest rate swaps. During the period, Woodside entered into a cross-currency interest rate swap to hedge the foreign exchange risk (refer to section A) and interest rate risk of a CHF denominated medium term note.

At the reporting date, the Group was exposed to various benchmark interest rates that were not designated in cash flow hedges, US\$285 million (2015: US\$122 million) on cash and cash equivalents, US\$1,533 million (2015: US\$2,166 million) on interest-bearing liabilities (excluding transaction costs) and US\$3 million (2015: nil) on cross currency interest rate swaps.

A reasonably possible change in the USD London Interbank Offered Rate (LIBOR) (+1.0%/-1.0%), with all variables held constant, would not have a material impact on the Group's equity or the income statement in the current period.

NOTES TO THE PRELIMINARY FINANCIAL STATEMENTS C. DEBT AND CAPITAL

for the year ended 31 December 2016

C.1 Cash and cash equivalents

	2016 US\$m	2015 US\$m
Cash and cash equivalents		
Cash at bank	285	122
Total cash and cash equivalents	285	122

Recognition and measurement

Cash and cash equivalents in the statement of financial position comprise cash at bank and short-term deposits with an original maturity of three months or less. Cash and cash equivalents are stated at face value in the statement of financial position.

Foreign exchange risk

The Group held US\$23 million of cash and cash equivalents at 31 December 2016 (2015: US\$58 million) in currencies other than US dollars.

C.2 Interest-bearing liabilities

	2016 US\$m	2015 US\$m
(a) Interest-bearing liabilities (current)		
Debt facilities	76	77
	76	77
(b) Interest-bearing liabilities (non-current)		
Medium term notes	366	-
Bonds	3,087	2,289
Debt facilities	1,444	2,075
	4,897	4,364

Recognition and measurement

All borrowings are initially recognised at fair value less transaction costs. Borrowings are subsequently carried at amortised cost. Any difference between the proceeds received and the redemption amount is recognised in the income statement over the period of the borrowings using the effective interest method.

The CHF denominated medium term note designated as a hedged item is measured at amortised cost adjusted to record changes in the fair value of risks that are being hedged in fair value hedges. The changes in the fair value risks of the hedged item resulted in a gain of US\$12 million being recorded, offset by a loss of US\$15 million recorded on the hedging instrument.

All bonds and facilities are subject to various covenants and a negative pledge restricting future secured borrowings, subject to a number of permitted lien exceptions. Neither the covenants nor the negative pledges have been breached at any time during the reporting period.

Foreign exchange risk

All interest-bearing liabilities are denominated in US dollars, excluding the CHF175 million medium term note.

Fair value

The carrying amount of interest-bearing liabilities approximates their fair value, with the exception of the Group's four unsecured bonds (2015: three unsecured bonds) which have a carrying amount of US\$3,087 million (2015: US\$2,289 million) and a fair value of US\$3,151 million (2015: US\$2,310 million). The fair value of the bonds and notes was determined using quoted prices in an active market, classified as Level 1 on the fair value hierarchy. The Group's repayment obligations remain unchanged.

Unused facilities

As at the reporting date, the Group had the following facilities that were undrawn at balance date:

	2016 US\$m	2015 US\$m
Debt facilities	2,394	1,600

Maturity profile of interest-bearing liabilities

The table below presents the undiscounted cash flows associated with the Group's interest-bearing liabilities, representing principal and interest. The figures will not necessarily reconcile with the amounts disclosed in the consolidated statement of financial position.

	2016 US\$m	2015 US\$m
Due for payment in:		
1 year or less	264	236
1-2 years	962	237
2-3 years	1,078	1,127
3-4 years	197	1,387
4-5 years	880	155
More than 5 years	2,631	2,137
	6,012	5,279

Amounts exclude transaction costs.

C.3 Financing facilities

Details of loan facilities at the reporting date are as follows:

Medium Term Notes

On 28 August 2015, the Group established a US\$3,000 million Global Medium Term Notes Programme on the Singapore Stock Exchange. Two notes have been issued under this program as set out below:

- the 2022 US\$200 million medium term note has a floating three month USD LIBOR rate and matures on 15 July 2022; and
- the 2023 CHF175 million medium term note has a fixed rate coupon of 1.00% p.a. and matures on 11 December 2023.

The unutilised program is not considered to be an unused facility.

Bonds

The Group has four unsecured bonds issued in the United States of America as defined in Rule 144A of the *US Securities Act* as set out below:

- the 2019 US\$600 million bond has a fixed rate coupon of 8.75% p.a. and matures on 1 March 2019;
- the 2021 US\$700 million bond has a fixed rate coupon of 4.60% p.a. and matures on 10 May 2021;
- the 2025 US\$1,000 million bond has a fixed rate coupon of 3.65% p.a. and matures on 5 March 2025; and
- the 2026 US\$800 million bond has a fixed rate coupon of 3.70% p.a. and matures on 15 September 2026.

Interest on the bonds is payable semi-annually in arrears.

NOTES TO THE PRELIMINARY FINANCIAL STATEMENTS C. DEBT AND CAPITAL

for the year ended 31 December 2016

C.3 Financing facilities (cont.)

Bi-lateral loan facilities

The Group has 17 bi-lateral loan facilities totalling US\$2,144 million (2015: US\$2,100 million). Details of bi-lateral loan facilities at the reporting date are as follows:

Number of facilities	Term (years)	Currency	Extension option
8	5	USD	Evergreen
2	4	USD	Evergreen
7	3	USD	Evergreen

Interest rates are based on USD LIBOR and margins are fixed at the commencement of the drawdown period. Interest is paid at the end of the drawdown period. Evergreen facilities may be extended continually by a year subject to the bank's agreement.

Japan Bank for International Cooperation (JBIC) Facility

On 24 June 2008, the Group entered into a committed loan facility totalling US\$1,500 million (JBIC Facility). The JBIC Facility comprises a 15-year, US\$1,000 million tranche with JBIC (JBIC Tranche), and a five-year, US\$500 million commercial tranche with a syndicate of eight Australian and international banks arranged by the Bank of Tokyo-Mitsubishi UFJ, Ltd (Commercial Tranche). The Commercial Tranche has subsequently been repaid, with the final payment made on 28 February 2013. There is a prepayment option for the JBIC Tranche. Interest rates are based on USD LIBOR. Interest is payable semi-annually in arrears and the principal amortises on a straight-line basis, with equal instalments of principal due on each interest payment date (every six months) starting on 7 January 2012. Under the JBIC Facility, 90% of the receivables from designated Pluto LNG Project Sale and Purchase Agreements are secured in favour of the lenders through a trust structure, with a required reserve amount of US\$30 million. To the extent that this reserve amount remains fully funded and no default notice or acceleration notice has been given, the revenue from the Pluto LNG Project continues to flow directly to the Group from the trust account.

Syndicated facility

On 3 July 2015, the Group executed an unsecured US\$1,000 million syndicated loan facility. The syndicated loan facility comprises two tranches with tenors of three and five years at interest rates of USD LIBOR plus 0.9% and USD LIBOR plus 1.15% respectively. Interest is paid at the end of the drawdown period. On 22 March 2016, the Company exercised an option to increase the US\$1,000 million syndicated facility to US\$1,200 million.

C.4 Contributed equity

(a) Issued and fully paid shares

	Number of shares	US\$m
Year ended 31 December 2016		
Opening balance	823,910,657	6,547
DRP underwriting agreement		
Ordinary shares issued at A\$26.70 (2015 final dividend)	13,631,075	277
DRP		
Ordinary shares issued at A\$26.40 (2015 final dividend)	4,903,171	93
Share issue costs (net of tax)	-	2
Amounts at 31 December 2016	842,444,903	6,919
Year ended 31 December 2015		
Opening and closing balance	823,910,657	6,547

All shares are a single class with equal rights to dividends, capital, distributions and voting. The company does not have authorised capital nor par value in relation to its issued shares.

(b) Shares reserved for employee share plans

	Number of shares	US\$m
Year ended 31 December 2016		
Opening balance	985,802	(27)
Purchases during the year	2,515,145	(54)
Vested during the year	(2,349,772)	51
Amounts at 31 December 2016	1,151,175	(30)
Year ended 31 December 2015		
Opening balance	937,442	(38)
Purchases during the year	1,880,385	(45)
Vested during the year	(1,832,025)	56
Amounts at 31 December 2015	985,802	(27)

Recognition and measurement

Issued capital

Ordinary shares are classified as equity and recorded at the value of consideration received. The cost of issuing shares is shown in share capital as a deduction, net of tax, from the proceeds.

Reserved shares

The Group's own equity instruments, which are reacquired for later use in employee share-based payment arrangements (reserved shares), are deducted from equity. No gain or loss is recognised in the income statement on the purchase, sale, issue or cancellation of the Group's own equity instruments.

C.5 Other reserves

	2016 US\$m	2015 US\$m
Other reserves		
Employee benefits reserve	198	187
Foreign currency translation reserve	793	776
Cash flow hedge reserve	(12)	-
	979	963

Reserve	Nature and purpose
Employee benefits reserve	Used to record share-based payments associated with the employee share plans and remeasurement adjustments relating to the defined benefit plan.
Foreign currency translation reserve	Used to record foreign exchange differences arising from the translation of the financial statements of foreign entities from their functional currency to the Group's presentation currency.
Cash flow hedge reserve	Used to record gains and losses on hedges designated as cash flow hedges. Gains and losses accumulated in the cash flow hedge reserve are taken to the income statement in the same period during which the hedged expected cash flows affect the income statement.

NOTES TO THE PRELIMINARY FINANCIAL STATEMENTS D. OTHER ASSETS AND LIABILITIES

for the year ended 31 December 2016

In this section

This section addresses other assets and liabilities position at the end of the reporting period including, where applicable, the accounting policies applied and the key estimates and judgements made.

D. Other assets and liabilities

D.1	Receivables	Page 22
D.2	Inventories	Page 22
D.3	Payables	Page 22
D.4	Provisions	Page 23
D.5	Segment assets and liabilities	Page 23

Key financial and capital risks in this section

Credit risk management

Credit risk is the risk that a counterparty will not meet its obligation under a financial instrument or customer contract, leading to a financial loss to the Group. Credit risk arises from the financial assets of the Group, which comprise trade and other receivables and deposits with banks and financial institutions.

The Group manages its credit risk on trade receivables and financial instruments by predominantly dealing with counterparties with an investment grade credit rating. Customers who wish to trade on unsecured credit terms are subject to credit verification procedures. Receivable balances are monitored on an ongoing basis. As a result, the Group's exposure to bad debts is not significant. The Group's maximum credit risk is limited to the carrying amount of its financial assets.

NOTES TO THE PRELIMINARY FINANCIAL STATEMENTS D. OTHER ASSETS AND LIABILITIES

for the year ended 31 December 2016

D.1 Receivables

	2016 US\$m	2015 US\$m
(a) Receivables (current)		
Trade receivables ¹	198	227
Other receivables ¹	142	186
Loans receivable ²	104	74
Dividend receivable	2	2
	446	489
(b) Receivables (non-current)		
Loans receivable ²	162	80
Defined benefit plan asset	10	13
	172	93

1. Interest-free and settlement terms are usually between 14 and 30 days.

2. Loans receivable are due from non-controlling interests.

Recognition and measurement

Trade and other receivables, including receivables from related parties, are initially recognised at fair value and subsequently measured at amortised cost less an allowance for uncollectible amounts. Collectability and impairment are assessed on a regular basis. Subsequent recoveries of amounts previously written off are credited against other expenses in the income statement.

The Group's customers are required to pay in accordance with agreed payment terms. Depending on the product, settlement terms are 14 to 30 days from the date of invoice or bill of lading and customers regularly pay on time. There are no overdue trade receivables as at the end of the reporting period (2015: nil).

Fair value

The carrying amount of trade and other receivables approximates their fair value.

Foreign exchange risk

The Group held US\$101 million of receivables at 31 December 2016 (2015: US\$123 million) in currencies other than US dollars (predominantly Australian dollars).

D.2 Inventories

	2016 US\$m	2015 US\$m
(a) Inventories (current)		
Petroleum products		
Goods in transit	20	33
Finished stocks	46	42
Warehouse stores and materials	83	95
	149	170
(b) Inventories (non-current)		
Warehouse stores and materials	5	19
	5	19

Recognition and measurement

Inventories include hydrocarbon stocks, consumable supplies and maintenance spares. Inventories are valued at the lower of cost and net realisable value. Cost is determined on a weighted average basis and includes direct costs and an appropriate portion of fixed and variable production overheads where applicable. Inventories determined to be obsolete or damaged are written down to net realisable value, being the estimated selling price less selling costs.

D.3 Payables

The following table shows the Group's payables balances and maturity analysis.

	< 30 days US\$m	30-60 days US\$m	> 60 days US\$m	Total US\$m
Year ended 31 December 2016				
Trade payables ¹	114	5	78	197
Other payables ¹	301	-	-	301
Interest payable ²	3	-	45	48
Total payables	418	5	123	546
Year ended 31 December 2015				
Trade payables ¹	197	1	85	283
Other payables ¹	493	-	-	493
Interest payable ²	2	1	34	37
Total payables	692	2	119	813

1. Interest-free and normally settled on 30-day terms.

2. Details regarding interest-bearing liabilities are contained in Note C.2.

Recognition and measurement

Trade and other payables are carried at amortised cost when goods and services are received, whether or not billed to the Group, prior to the end of the reporting period.

Fair value

The carrying amount of payables approximates their fair value.

Foreign exchange risk

The Group held US\$373 million of payables at 31 December 2016 (2015: US\$507 million) in currencies other than US dollars (predominantly Australian dollars).

NOTES TO THE PRELIMINARY FINANCIAL STATEMENTS D. OTHER ASSETS AND LIABILITIES

for the year ended 31 December 2016

D.4 Provisions

	Restoration of operating locations US\$m	Employee benefits US\$m	Other US\$m	Total US\$m
Year ended 31 December 2016				
At 1 January 2016	1,574	141	153	1,868
Change in provision	(170)	14	13	(143)
Unwinding of present value discount	38	-	-	38
Carrying amount at 31 December 2016	1,442	155	166	1,763
Current	35	126	41	202
Non-current	1,407	29	125	1,561
Net carrying amount	1,442	155	166	1,763
Year ended 31 December 2015				
At 1 January 2015	1,724	172	48	1,944
Change in provision	(37)	(31)	105	37
Unwinding of present value discount	43	-	-	43
Transfer to liabilities held for sale	(156)	-	-	(156)
Carrying amount at 31 December 2015	1,574	141	153	1,868
Current	26	114	75	215
Non-current	1,548	27	78	1,653
Net carrying amount	1,574	141	153	1,868

Recognition and measurement

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Restoration of operating locations

Provision is made for the obligation to restore operating locations. The provision is first recognised in the period in which the obligation arises. The nature of restoration activities includes the removal of facilities, abandonment of wells and restoration of affected areas.

Restoration provisions are updated annually, with the corresponding movement recognised against the related exploration and evaluation assets or oil and gas properties.

Over time, the liability is increased for the change in the present value based on a pre-tax discount rate appropriate to the risks inherent in the liability. The unwinding of the discount is recorded as an accretion charge within finance costs. The carrying amount capitalised in oil and gas properties is depreciated over the useful life of the related asset (refer to Note B.3).

Costs incurred that relate to an existing condition caused by past operations and do not have a future economic benefit are expensed.

Employee benefits

Provision is made for employee benefits accumulated as a result of employees rendering services up to the end of the reporting period. These benefits include wages, salaries, annual leave and long service leave.

Liabilities in respect of employees' services rendered that are not expected to be wholly settled within one year after the end of the period in which the employees render the related services are recognised as long-term employee benefits.

These liabilities are measured at the present value of the estimated future cash outflow to be made to the employees using the projected unit credit method. Liabilities expected to be wholly settled within one year after the end of the period in which the employees render the related services are classified as short-term benefits and are measured at the amount due to be paid.

Key estimates and judgements**(a) Restoration obligations**

The Group estimates the future removal costs of offshore oil and gas platforms, production facilities, wells and pipelines at different stages of the development and construction of assets or facilities. In most instances, removal of assets occurs many years into the future. This requires judgemental assumptions regarding removal date, future environmental legislation, the extent of reclamation activities required, the engineering methodology for estimating cost, future removal technologies in determining the removal cost, and liability specific discount rates to determine the present value of these cash flows. The proportion of the non-current balance not expected to be settled within 15 years is 61%.

(b) Long service leave

Long service leave is measured at the present value of benefits accumulated up to the end of the reporting period. The liability is discounted using an appropriate discount rate. Management requires judgement to determine key assumptions used in the calculation including future increases in salaries and wages, future on-cost rates and future settlement dates of employees' departures.

D.5 Segment assets and liabilities

	2016 US\$m	2015 US\$m
(a) Segment assets		
NWS	3,191	3,417
Pluto	12,684	13,455
Australia Oil	599	764
Browse	393	368
Wheatstone	4,018	3,165
Other segments	2,490	1,599
Unallocated items	1,378	1,071
	24,753	23,839
(b) Segment liabilities		
NWS	663	743
Pluto	378	456
Australia Oil	614	789
Browse	11	38
Wheatstone	188	293
Other segments	179	267
Unallocated items	7,058	6,228
	9,091	8,814

Refer to Note A.1 for descriptions of the Group's segments. Unallocated assets mainly comprise cash and cash equivalents and the Group's deferred tax assets. Unallocated liabilities mainly comprise interest-bearing liabilities and deferred tax liabilities.

NOTES TO THE PRELIMINARY FINANCIAL STATEMENTS E. OTHER ITEMS

for the year ended 31 December 2016

In this section

This section addresses information on items which require disclosure to comply with Australian Accounting Standards and the Australian *Corporations Act 2001*, however, are not considered critical in understanding the financial performance or position of the Group. This section includes group structure information and other disclosures.

E. Other items

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NOTES TO THE PRELIMINARY FINANCIAL STATEMENTS E. OTHER ITEMS

for the year ended 31 December 2016

E.1 Contingent liabilities and assets

	2016 US\$m	2015 US\$m
Contingent liabilities at the reporting date		
Not otherwise provided for in the preliminary financial statements		
Contingent liabilities	44	48
Guarantees	6	5
	50	53

Contingent liabilities relate predominantly to actual or potential claims of the Group for which amounts are reasonably estimated but the liability is not probable and therefore the Group has not provided for such amounts in these preliminary financial statements. Additionally, there are a number of other claims and possible claims that have arisen in the course of business against entities in the Group, the outcome of which cannot be foreseen at present and for which no amounts have been included in the table above.

The Group has issued guarantees relating to workers' compensation liabilities.

E.2 Leases

	2016 US\$m	2015 US\$m
Operating lease commitments		
Rents payable on non-cancellable operating leases, due:		
Within one year	194	399
After one year but not more than five years	660	557
Later than five years	1,299	779
	2,153	1,735

Subject to the joint operation that utilises the lease, the Group's share of actual payments made under operating leases may be lower than the value of commitments disclosed.

The Group leases assets for operations including floating production, storage and off-take vessels, helicopters, supply vessels, cranes, land, mobile offshore drilling units, office premises and computers.

There are no restrictions placed upon the lessee by entering into these leases. Renewals are at the option of the Group. Certain leases contain a clause enabling upward revision of the rental charge on an annual basis based on the consumer price index. The Group made payments under operating leases of US\$332 million during the year (2015: US\$567 million). A portion of this amount relates to arrangements containing non-lease elements, which are not practicable to separate.

Recognition and measurement

Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term. Lease incentives received are recognised in the income statement as a part of total lease expense.

E.3 Employee benefits

(a) Employee benefits

Employee benefits for the reporting period are as follows:

	2016 US\$m	2015 US\$m
Employee benefits	239	239
Share-based payments	27	26
Defined contribution plan costs	31	28
Defined benefit plan expense	2	1
	299	294

Recognition and measurement

The Group's accounting policy for employee benefits other than superannuation are set out in Note D.4. The policy relating to share-based payments is set out in Note E.3(c).

All employees of the Group are entitled to benefits on retirement, disability or death from the Group's superannuation plan. The majority of employees are party to a defined contribution scheme and receive fixed contributions from Group companies and the Group's legal or constructive obligation is limited to these contributions. Contributions to defined contribution funds are recognised as an expense as they become payable. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payment is available. The Group also operates a defined benefit superannuation scheme, the membership of which is now closed. The asset for the defined benefit plan at 31 December 2016 was US\$10 million (2015: US\$13 million).

(b) Compensation of key management personnel

Key management personnel (KMP) compensation for the financial year is as follows:

	2016 US\$	2015 US\$
Short-term employee benefits	10,651,173	12,202,619
Post employment benefits	242,776	312,647
Share-based payments	7,944,266	7,084,981
Long-term employee benefits	268,620	250,114
Termination benefits	425,219	-
	19,532,054	19,850,361

(c) Share plans

The Group provides benefits to its employees (including KMP) in the form of share-based payments whereby employees render services for shares (equity-settled transactions).

Woodside equity plan (WEP) and supplementary Woodside equity plan (SWEP)

WEP is available to all Australian-based employees including executives, other than the CEO and any executive directors. The number of Equity Rights (ERs) offered to each eligible employee will be calculated with reference to salary and performance. The linking of performance to an allocation allows the Group to recognise and reward eligible employees for high performance. The ERs have no further ongoing performance conditions after allocation, and do not require participants to make any payment in respect of the ERs at grant or at vesting. SWEP is available to a number of employees identified as being retention critical. Participants do not make any payment in respect of the ERs at grant or at vesting. Each ER entitles the participant to receive a Woodside share on the vesting date three years after the grant date.

E.3 Employee benefits (cont.)

Executive incentive plans (EIP)

Short term awards (STA)

The STA are delivered in the form of restricted shares to executives, including all executive KMP. Restricted shares entitle their holder to receive dividends. There are no further performance conditions for vesting of deferred STA. Participants are not required to make any payments in respect of STA awards at grant or at vesting.

Long term awards (LTA)

LTA is granted in the form of Variable Pay Rights (VPRs) to executives, including all executive KMP. Vesting of LTA is subject to achievement of relative total shareholder return (RTSR) targets, with 33% measured against the ASX 50 and the remaining 67% tested against an international group of oil and gas companies. Modifications were made to the 2016 award for the executive KMP. These modifications reduced the value of the VPRs.

Participants are not required to make any payments in respect of LTA awards at grant or at vesting.

Recognition and measurement

All compensation under WEP, SWEP and executive share plans is accounted for as share-based payments to employees for services provided. The cost of equity-settled transactions with employees is measured by reference to the fair values of the equity instruments at the date at which they are granted. The fair value of share-based payments is recognised, together with the corresponding increase in equity, over the period in which the vesting conditions are fulfilled, ending on the date on which the relevant employee becomes fully entitled to the shares. At each balance sheet date, the Group reassesses the number of awards that are expected to vest based on service conditions. The expense recognised each year takes into account the most recent estimate.

The fair value of the benefit provided for the WEP and SWEP are estimated using the Black-Scholes option pricing technique. The fair value of the restricted shares is estimated as the closing share price at grant date. The fair value of the benefit provided for the RTSR VPRs was estimated using the Binomial or Black-Scholes option pricing technique combined with a Monte Carlo simulation methodology, where relevant, using historical volatility to estimate the volatility of the share price in the future.

The number of performance rights and movements for all share plans are summarised as follows:

	Number of performance rights			
	Employee plans		Executive plans	
	WEP	SWEP	STA	LTA
Year ended 31 December 2016				
Opening balance	6,116,840	38,270	784,270	2,366,280
Granted during the year ^{1,2}	1,925,944	-	303,699	587,156
Vested during the year	(2,190,958)	-	(198,818)	(2,228)
Forfeited during the year	(338,923)	-	(7,230)	-
Performance rights at 31 December 2016	5,512,903	38,270	881,921	2,951,208

	US\$m	US\$m	US\$m	US\$m
Fair value of rights granted during the year	38	-	6	7

	Number of performance rights			
	Employee plans		Executive plans	
	WEP	SWEP	STA	LTA
Year ended 31 December 2015				
Opening balance	6,286,402	38,270	626,123	2,232,777
Granted during the year	1,974,741	-	267,645	610,410
Vested during the year	(1,603,731)	-	(78,417)	(154,143)
Forfeited during the year	(540,572)	-	(31,081)	(322,764)
Performance rights at 31 December 2015	6,116,840	38,270	784,270	2,366,280

	US\$m	US\$m	US\$m	US\$m
Fair value of rights granted during the year	36	-	8	11

1. For the purpose of valuation, the share price on grant date for the 2016 WEP and SWEP allocations was US\$28.86 (2015: US\$20.89).

2. For the purpose of valuation, the share price on grant date for the 2016 STA and LTA allocations was US\$20.88 (2015: US\$31.15).

NOTES TO THE PRELIMINARY FINANCIAL STATEMENTS E. OTHER ITEMS

for the year ended 31 December 2016

E.4 Related party transactions

Transactions with directors

There were no transactions with directors during the year other than those disclosed in Note E.3(b).

E.5 Auditor remuneration

The auditor of Woodside Petroleum Ltd is Ernst & Young (EY)

	2016 US\$'000	2015 US\$'000
(a) Amounts received or due and receivable for an audit or review of the financial statements of the entity and any other entity in the Group by:		
EY Australia	1,526	1,532
Other EY firms	144	143
	1,670	1,675
(b) Amounts received or due and receivable for non-audit services in relation to the entity or any other entity in the Group by:		
EY Australia for other assurance services	437	742
EY Australia for other advisory services	151	400
EY Australia for taxation services	149	139
Other EY firms for other assurance services	25	3
	762	1,284

E.6 Events after the end of the reporting period

Since the end of the financial year and to the date of this report, no matter or circumstance has arisen that has significantly affected, or may significantly affect, the operations of the Company, the results of the Company or the state of affairs of the Company in subsequent financial periods.

E.7 Joint arrangements

(a) Interest percentage in joint operations

	Group interest %	
	2016	2015
Producing and developing assets		
Oceania		
North West Shelf	12.5 - 50.0	12.5 - 50.0
Enfield and Vincent	60.0	60.0
Laminaria-Corallina	-	59.9 - 66.7
Stybarrow	50.0	50.0
Balnaves	65.0	65.0
Pluto	90.0	90.0
Wheatstone	13.0 - 65.0	13.0 - 65.0
Exploration and evaluation assets		
Oceania		
Browse Basin	30.6 - 60.0	30.6 - 75.0
Carnarvon Basin ¹	15.8 - 75.0	15.8 - 75.0
Bonaparte Basin	26.7 - 35.0	26.7 - 35.0
Outer Canning Basin	55.0	55.0
New Zealand	70.0	70.0
Africa		
Morocco	25.0	25.0 - 75.0
Gabon ²	40.0	40.0
Cameroon	-	30.0
Senegal	35.0	-
The Americas		
Peru	35.0	35.0
Kitimat	50.0	50.0
Nova Scotia ³	20.0	20.0
Asia		
Republic of Korea	50.0	50.0
Myanmar	40.0 - 55.0	40.0 - 55.0
Europe		
Ireland	60.0 - 90.0	60.0 - 90.0
Canary Islands ⁴	30.0	30.0

1. The acquisition of 25% - 50% interests in Scarborough from BHP is included within the Carnarvon Basin.
2. As at 31 December 2016, the Luna Muetse No G4-246 block farm-in is pending final Government approval and subsequent execution of the documents.
3. The decision was made in November 2016 to release the interest in the Nova Scotia block. At 31 December 2016, Woodside still has tenure of the permit subject to the Canadian Ministry approval.
4. Permit relinquishment is awaiting formal approval by the Spanish Ministry.

The principal activities of the joint operations above are exploration, development and production of hydrocarbons.

for the year ended 31 December 2016

E.7 Joint arrangements (cont.)

(b) Interest percentage in joint ventures

Entity	Principal activity	Group interest %	
		2016	2015
North West Shelf Gas Pty Ltd	Marketing services for ventures in the sale of gas to the domestic market.	16.67	16.67
North West Shelf Liaison Company Pty Ltd	Liaison for ventures in the sale of LNG to the Japanese market.	16.67	16.67
China Administration Company Pty Ltd	Marketing services for ventures in the sale of LNG to international markets.	16.67	16.67
North West Shelf Shipping Service Company Pty Ltd	LNG vessel fleet advisor.	16.67	16.67
North West Shelf Lifting Coordinator Pty Ltd	Coordinator for venturers for all equity liftings.	16.67	-

Recognition and measurement

Joint arrangements are arrangements in which two or more parties have joint control. Joint control is the contractual agreed sharing of control of the arrangement which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control. Joint arrangements are classified as either a joint operation or joint venture, based on the rights and obligations arising from the contractual obligations between the parties to the arrangement.

To the extent the joint arrangement provides the Group with rights to the individual assets and obligations arising from the joint arrangement, the arrangement is classified as a joint operation, and as such the Group recognises its:

- assets, including its share of any assets held jointly;
- liabilities, including its share of any liabilities incurred jointly;
- revenue from the sale of its share of the output arising from the joint operation;
- share of revenue from the sale of the output by the joint operation; and
- expenses, including its share of any expenses incurred jointly.

To the extent the joint arrangement provides the Group with rights to the net assets of the arrangement, the investment is classified as a joint venture and accounted for using the equity method.

Key estimates and judgements

Accounting for interests in other entities

Judgement is required in assessing the level of control obtained in a transaction to acquire an interest in another entity; depending upon the facts and circumstances in each case, Woodside may obtain control, joint control or significant influence over the entity or arrangement. Judgement is applied when determining the relevant activities of a project and if joint control is held over them. Relevant activities include, but are not limited to, work program and budget approval, investment decision approval, voting rights in joint operating committees, amendments to permits and changes to joint arrangement participant holdings. Transactions which give Woodside control of a business are business combinations. If Woodside obtains joint control of an arrangement, judgement is also required to assess whether the arrangement is a joint operation or a joint venture. If Woodside has neither control nor joint control, it may be in a position to exercise significant influence over the entity, which is then accounted for as an associate.

The Group's interest in the Scarborough and Senegal exploration assets were assessed to be joint operations based upon the respective joint operating agreements.

E.8 Parent entity information

	2016 US\$m	2015 US\$m
Woodside Petroleum Ltd:		
Current assets	278	373
Non-current assets	7,732	7,073
Current liabilities	-	-
Non-current liabilities	(571)	(368)
Net assets	7,439	7,078
Issued and fully paid shares	6,919	6,547
Shares reserved for employee share plans	(30)	(27)
Employee benefits reserve	127	129
Foreign currency translation reserve	296	296
Retained earnings	127	133
Total shareholders' equity	7,439	7,078
Profit of parent entity	635	1,783
Total comprehensive income of parent entity	635	1,776

Guarantees

Woodside Petroleum Ltd and Woodside Energy Ltd (a subsidiary company) are parties to a Deed of Cross Guarantee as disclosed in Note E.9. The effect of the Deed is that Woodside Petroleum Ltd has guaranteed to pay any deficiency in the event of winding up of the subsidiary company under certain provisions of the *Corporations Act 2001*. The subsidiary company has also given a similar guarantee in the event that Woodside Petroleum Ltd is wound up.

Woodside Petroleum Ltd has guaranteed the discharge by a subsidiary company of its financial obligations under debt facilities disclosed in Note C.3. Woodside Petroleum Ltd has guaranteed certain obligations of subsidiaries to unrelated parties on behalf of their performance in contracts. No liabilities are expected to arise from these guarantees.

NOTES TO THE PRELIMINARY FINANCIAL STATEMENTS E. OTHER ITEMS

for the year ended 31 December 2016

E.9 Subsidiaries

(a) Subsidiaries

Name of entity	Notes
Ultimate Parent Entity	
Woodside Petroleum Ltd	(1,2,3)
Subsidiaries	
Company name	
Woodside Energy Ltd	(2,3,4)
Woodside Browse Pty Ltd	(2,4)
Woodside Burrup Pty Ltd	(2,4)
Burrup Facilities Company Pty Ltd	(5)
Pluto LNG Pty Ltd	(5)
Burrup Train 1 Pty Ltd	(5)
Woodside Energy (Algeria) Pty Ltd	(2,4)
Woodside Energy Australia Asia Holdings Pte Ltd ▲	(4)
Woodside Energy (Carbon Capture) Pty Ltd	(2,4)
Woodside Energy Holdings International Pty Ltd	(2,4)
Woodside Energy Mediterranean Pty Ltd	(2,4)
Woodside Energy International (Canada) Limited ◆	(4)
Woodside Energy (Canada LNG) Limited ◆	(4)
Woodside Energy (Canada PTP) Limited ◆	(4)
KM LNG Operating General Partnership ◆	(4,8)
KM LNG Operating Ltd ◆	(4)
Woodside Energy Holdings Pty Ltd	(2,4)
Woodside Energy Holdings (USA) Inc ▼	(4)
Woodside Energy (USA) Inc ▼	(4)
Gryphon Exploration Company ▼	(4)
Woodside Energy (Cameroon) SARL ■	(4)
Woodside Energy (Gabon) Pty Ltd	(2,4)
Woodside Energy (Ireland) Pty Ltd	(2,4)
Woodside Energy (Korea) Pte Ltd ▲	(4)
Woodside Energy (Myanmar) Pte Ltd ▲	(4)
Woodside Energy (Morocco) Pty Ltd	(2,4)
Woodside Energy (New Zealand) Limited ▽	(4)
Woodside Energy (New Zealand 55794) Limited ▽	(4)
Woodside Energy (Peru) Pty Ltd	(2,4)
Woodside Energy (Senegal) Pty Ltd	(2,4,9)
Woodside Energy (Tanzania) Limited ■	(6)
Woodside Energy Holdings (South America) Pty Ltd	(2,4)
Woodside Energia (Brasil) Investimento em Exploracao de Petroleo Ltda. ●	(7)
Woodside Energy Holdings (UK) Pty Ltd	(2,4)
Woodside Energy (UK) Limited ▲	(4)
Woodside Energy Holdings (Senegal) Limited ▲	(4,9)
Woodside Energy (Senegal) B.V. ●	(4,10)
Woodside Energy (France) SAS ○	(4)
Woodside Energy Iberia S.A. ●	(4)
Woodside Energy (N.A.) Ltd ▲	(4)
Woodside Energy (Julimar) Pty Ltd	(2,4)
Woodside Energy (Kenya) Pty Ltd	(2,4)
Woodside Energy (M.E.) Pty Ltd	(2,4)
Woodside Energy Middle East and Africa Pty Ltd	(2,4)
Woodside Energy (Norway) Pty Ltd	(2,4)
Woodside Energy (SL) Pty Ltd	(2,4)
Woodside Energy Technologies Pty Ltd	(2,4)
Woodside Energy Trading Singapore Pte Ltd ▲	(4)
WelCap Insurance Pte Ltd ▲	(4)

Name of entity	Notes
Woodside Energy Shipping Singapore Pte Ltd ▲	(4)
Woodside Guangdong Shipping (One) Pty Ltd	(2,4)
Woodside Guangdong Shipping (Two) Pty Ltd	(2,4)
Woodside West Africa Pty Ltd	(2,4)
Metasource Pty Ltd	(2,4)
Woodside Finance Limited	(2,4)
Woodside Petroleum (Northern Operations) Pty Ltd	(2,4,11)
Woodside Petroleum (Timor Sea 19) Pty Ltd	(2,4)
Woodside Petroleum (Timor Sea 20) Pty Ltd	(2,4)
Woodside Petroleum (W.A. Oil) Pty Ltd	(2,4,11)
Woodside Petroleum Holdings Pty Ltd	(2,4)
Mermaid Sound Port and Marine Services Pty Ltd	(2,4)

1. Woodside Petroleum Ltd is the ultimate holding company and the head entity within the tax consolidated group.
2. These companies were members of the tax consolidated group at 31 December 2016.
3. Pursuant to ASIC Class Order 98/1418, relief has been granted to the controlled entity, Woodside Energy Ltd, from the Corporations Act 2001 requirements for the preparation, audit and publication of accounts. As a condition of the Class Order, Woodside Petroleum Ltd and Woodside Energy Ltd are parties to a Deed of Cross Guarantee.
4. All subsidiaries are wholly owned except those referred to in Notes 5, 6, 7 and 8.
5. Kansai Electric Power Australia Pty Ltd and Tokyo Gas Pluto Pty Ltd each hold a 5% interest in the shares of these subsidiaries. These subsidiaries are controlled.
6. As at 31 December 2016, Woodside Energy Holdings Pty Ltd held a 99.99% interest in the shares of Woodside Energy (Tanzania) Limited and Woodside Energy Ltd held the remaining 0.01% interest.
7. As at 31 December 2016, Woodside Energy Holdings (South America) Pty Ltd held a 99.99% interest in the shares of Woodside Energia (Brasil) Investimento em Exploracao de Petroleo Ltda and Woodside Energy Ltd held the remaining 0.01% interest.
8. As at 31 December 2016, Woodside Energy International (Canada) Limited and Woodside Energy (Canada LNG) Limited were the general partners of the KM LNG Operating General Partnership holding a 99.99% and 0.01% partnership interest, respectively.
9. Woodside Energy (Senegal) Pty Ltd was incorporated on 27 January 2016 and Woodside Energy Holdings (Senegal) Limited was incorporated on 22 June 2016.
10. This subsidiary was acquired on 28 October 2016. It changed its name from ConocoPhillips Senegal B.V. to Woodside Energy (Senegal) B.V. on 26 January 2017.
11. These subsidiaries are under external administration and will be wound up voluntarily.

All subsidiaries were incorporated in Australia unless identified with one of the following symbols:

- Brazil
- Cameroon
- ◆ Canada
- France
- The Netherlands
- ▽ New Zealand
- ▲ Singapore
- Spain
- Tanzania
- ▲ UK
- ▼ USA

Recognition and measurement

Subsidiaries are all the entities over which the Group has the power over the investee such that the Group is able to direct the relevant activities, has exposure, or rights, to variable returns from its involvement with the investee and has the ability to use its power over the investee to affect the amount of the investor's returns.

NOTES TO THE PRELIMINARY FINANCIAL STATEMENTS E. OTHER ITEMS

for the year ended 31 December 2016

E.9 Subsidiaries (cont.)

(b) Subsidiaries with material non-controlling interests

The Group has two Australian subsidiaries with material non-controlling interests (NCI).

Name of entity	Principal place of business	% held by non-controlling interest
Burrup Facilities Company Pty Ltd	Australia	10%
Burrup Train 1 Pty Ltd	Australia	10%

The NCI in both subsidiaries is 10% held by the same parties (refer to footnote 5 above for details).

The summarised financial information (including consolidation adjustments but before intercompany eliminations) of subsidiaries with material NCI is as follows:

	2016 US\$m	2015 US\$m
Burrup Facilities Company Pty Ltd		
Current assets	673	579
Non-current assets	5,609	5,343
Current liabilities	(647)	(431)
Non-current liabilities	(468)	(427)
Net assets	5,167	5,064
Accumulated balance of NCI	517	506
Revenue	1,187	1,076
Profit	607	533
Profit allocated to NCI	61	53
Dividends paid to NCI	(50)	(44)
Operating	920	813
Investing	(7)	(10)
Financing	(913)	(803)
Net increase/(decrease) in cash and cash equivalents	-	-
Burrup Train 1 Pty Ltd		
Current assets	698	483
Non-current assets	3,244	3,151
Current liabilities	(544)	(395)
Non-current liabilities	(334)	(305)
Net assets	3,064	2,934
Accumulated balance of NCI	306	293
Revenue	2,017	1,796
Profit	442	337
Profit allocated to NCI	44	34
Dividends paid to NCI	(31)	(27)
Operating	672	519
Investing	(9)	(16)
Financing	(663)	(503)
Net increase/(decrease) in cash and cash equivalents	-	-

(c) Deed of Cross Guarantee and Closed Group

Woodside Petroleum Ltd and Woodside Energy Ltd are parties to a Deed of Cross Guarantee under which each company guarantees the debts of the other. By entering into the Deed, the entities have been granted relief from the *Corporations Act 2001* requirements for the preparation, audit and publication of accounts, pursuant to Australian Securities and Investments Commission (ASIC) Class Order 98/1418. The two entities represent a Closed Group for the purposes of the Class Order.

The consolidated income statement and statement of financial position of the members of the Closed Group are set out below:

	2016 US\$m	2015 US\$m
Closed Group Consolidated Income Statement and Statement of Retained Earnings		
(Loss)/profit before tax	(578)	210
Taxes	(127)	(56)
(Loss)/profit after tax	(705)	154
Retained earnings at the beginning of the financial year	4,061	5,637
Dividends	(640)	(1,730)
Retained earnings at the end of the financial year	2,716	4,061
Closed Group Consolidated Statement of Financial Position		
Current assets		
Cash and cash equivalents	48	99
Receivables	1,288	882
Inventories	64	59
Tax receivable	20	182
Assets held for sale	-	145
Total current assets	1,420	1,367
Non-current assets		
Inventories	2	6
Other financial assets	25,920	24,949
Exploration and evaluation assets	945	879
Oil and gas properties	3,581	3,476
Other plant and equipment	66	72
Deferred tax assets	28	30
Total non-current assets	30,542	29,412
Total assets	31,962	30,779
Current liabilities		
Payables	302	396
Other financial liabilities	17	21
Other liabilities	45	47
Provisions	112	131
Liabilities held for sale	-	156
Total current liabilities	476	751
Non-current liabilities		
Payables	19,638	17,208
Deferred tax liabilities	422	364
Other financial liabilities	14	11
Other liabilities	72	92
Provisions	878	936
Total non-current liabilities	21,024	18,611
Total liabilities	21,500	19,362
Net assets	10,462	11,417
Equity		
Issued and fully paid shares	6,919	6,547
Shares held for employee share plan	(30)	(27)
Other reserves	857	836
Retained earnings	2,716	4,061
Total equity	10,462	11,417

NOTES TO THE PRELIMINARY FINANCIAL STATEMENTS E. OTHER ITEMS

for the year ended 31 December 2016

E.10 Other accounting policies

(a) Summary of other significant accounting policies

Derivative financial instruments

Derivatives embedded in the Group's contracts that change the nature of a host contract's risk and are not clearly and closely related to the host contract are initially recognised at fair value on the date the contract is entered into. Subsequent fair value movements of the derivative are recognised in the income statement.

Derivatives that are designated within qualifying hedge relationships are initially recognised at fair value on the date the contract is entered into. For relationships designated as fair value hedges, subsequent fair value movements of the derivative are recognised in the income statement. For relationships designated as cash flow hedges, subsequent fair value movements of the derivative for the effective portion of the hedge are recognised in other comprehensive income and accumulated in reserves in equity; fair value movements for the ineffective portion are recognised immediately in the income statement. Amounts accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss.

Financial guarantees

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. Financial guarantee contracts are recognised initially as a liability at fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequently, the liability is measured at the higher of the best estimate of the expenditure required to settle the present obligation at the reporting date and the amount recognised less cumulative amortisation.

Tax consolidation

The parent and its wholly owned Australian controlled entities have elected to enter tax consolidation, with Woodside Petroleum Ltd as the head entity of the tax consolidated group. The members of the tax consolidated group are identified in Note E.9.

The tax expense/(benefit), deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax consolidated group are recognised in the separate financial statements of the members of the tax consolidated group, using the stand alone approach.

Entities within the tax consolidated group have entered into a tax funding arrangement and a tax sharing agreement with the head entity. Under the tax funding agreement, Woodside Petroleum Ltd and each of the entities in the tax consolidated group have agreed to pay or receive a tax equivalent payment to or from the head entity, based on the current tax liability or current tax asset of the entity.

The tax sharing agreement entered into between members of the tax consolidated group provides for the determination of the allocation of income tax liabilities between the entities, should the head entity default on its tax payment obligations. No amounts have been recognised in the preliminary financial statements in respect of this agreement as payment of any amounts under the tax sharing agreement is considered remote.

(b) New and amended standards and interpretations issued but not yet effective

A number of new standards, amendment of standards and interpretations have recently been issued but are not yet effective and have not been adopted by the Group as at the preliminary financial reporting date.

The Group has reviewed these standards and interpretations, and with the exception of the items listed below for which the final impact is yet to be determined, none of the new or amended standards will significantly affect the Group's accounting policies, financial position or performance.

Title	Application date of the standard	Summary
AASB 15 <i>Revenue from Contracts with Customers</i>	Periods beginning on or after 1 January 2018	AASB 15 provides a single, principles-based five-step model to be applied to all contracts with customers. Guidance is provided on topics such as the point at which revenue is recognised, accounting for variable consideration, costs of fulfilling and obtaining a contract and various related matters. New disclosures regarding revenue are also introduced. Based on an initial impact assessment, the new standard is not expected to significantly impact revenue recognition.
AASB 16 <i>Leases</i>	Periods beginning on or after 1 January 2019	AASB 16 provides a new lessee accounting model which requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee measures right-of-use assets similarly to other non-financial assets and lease liabilities similarly to other financial liabilities. Assets and liabilities arising from a lease are initially measured on a present value basis. The measurement includes non-cancellable lease payments (including inflation-linked payments), and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or not to exercise an option to terminate the lease. AASB 16 contains disclosure requirements for lessees.

E.10 Other accounting policies (cont.)

(c) New and amended Accounting Standards and Interpretations early adopted

The following Australian Accounting Standard will be adopted early by the Group as of 1 January 2017:

Title	Application date of the standard	Summary
AASB 9 <i>Financial Instruments</i>	Early adopted as at 1 January 2017	<p>AASB 9 replaces AASB 139 and includes a model for classification and measurement, a single 'expected loss' impairment model and a substantially redesigned approach to hedge accounting.</p> <p>On adoption of AASB 9, there are no expected material changes in the classification of financial assets and liabilities. Fair value changes resulting from credit risk are not expected to have a significant impact on future results. The introduction of the expected loss impairment model for determining credit provisions is not expected to have a material impact.</p> <p>The adoption of AASB 9 will mean the following key changes to Woodside's hedge accounting:</p> <ul style="list-style-type: none"> a) The cost of hedging on the cross currency interest rate swap will be separated from the hedging arrangement, recognised in other comprehensive income and amortised to the income statement over the remaining life of the hedging instrument. b) Effectiveness measurement testing will only be performed on a prospective basis. <p>As a result of adopting AASB 9, the accounting policies for financial instruments and hedging will be updated to align with AASB 9 and are applicable from 1 January 2017.</p> <p>The Group will apply AASB 9 on a retrospective basis.</p>