Our Reference: #1591053

21 September 2004

Mr Einar Risa and Mr Jose Soares
Timor Sea Designated Authority
PO Box - 113 DILI
Dili, Timor-Leste

Dear Gentlemen,

RE: DRAFT MODEL PSC & PMC FOR THE JPDA

Woodside Petroleum (Timor Sea 1) Pty Ltd, as Operator for, and on behalf of the JPDA 03-01 Joint Venture also comprising Inpex Timor Sea Ltd and Santos (JPDA 91-01) Pty Ltd, welcomes the opportunity to comment on drafts of the Petroleum Mining Code (`PMC') and Production Sharing Contract ('PSC') for the JPDA released by the Timor Sea Designated Authority (DA') on 26 July 2004.

The JPDA 03-01 participants are involved in various production sharing contracts in the JPDA. In principle, all JPDA 03-01 participants remain committed to their respective existing development opportunities and further exploration opportunities within the JPDA area, and in particular, those located within JPDA 03-01. We believe that it is important for the DA to recognise the specific commercialisation issues associated with JPDA 03-01, and in particular, that small undeveloped fields such as Jahal and Kuda Tasi are not disadvantaged. In our opinion, JPDA 03-01 has only modest remaining potential for oil in terms of future discoveries that are likely to be large enough to justify commercialisation, and even these commercial oil discoveries are likely to be marginal in size.

The following comments on the draft model PSC and PMC documents are provided with the aim of assisting the DA put in place an exploration and development regime which is attractive for oil and gas investments in JPDA acreage.

When reviewing the draft model PSC and PMC for the JPDA, the JPDA 03-01 participants considered whether these agreements as currently drafted would provide a fiscal regime which is attractive for oil exploration and development, given our assessment of JPDA 03-01 related issues. We also looked at what parts require clarification or what changes would be needed to streamline PSC administration.

In the JPDA 03-01 participant's opinion, the draft model PSC and PMC contain a number of clauses which would reduce the attractiveness of exploration or development investment in the JPDA. These are documented in Attachment 1 and 2, and broadly fall within the following categories:

1. State Take is high given the JPDA's limited past exploration and development success, the marginal nature of undeveloped oil fields, its remoteness from infrastructure, and

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deep water. It is also worth noting that the State Take under the proposed PMC and PSC has increased relative to the old ZOCA terms.

Other factors to note include the absence of protection against possible future increases in fees levied by the DA or in other taxes, duties and the like levied by the Timor Leste or the Australian Government, and that ring fencing of exploration costs within PSCs means that the effective after tax cost of exploration is high.

2. DA consent and approval would be required for virtually every activity thereby creating a very large administrative burden, delays and cost increases. Contractors need to have the freedom to run their business efficiently subject to a set of overriding principles.

3. From an administrative perspective, the amount and detail of information that must be provided to the DA is onerous and atypical of PSC's in other countries.

4. Uncertainty through regulation by discretion will result in contractors facing major regulatory issues due to the inclusion of significant discretionary powers of the DA. There are many avenues by which the DA could act to change the requirements on Contractors and the way in which the PSC operates.

5. A series of risks relating to force majeure and title to product, which typically are shared by host governments and contractors, are put onto the contractor. These risks, combined with the termination rights of the DA under the PSC leave the contractor significantly exposed.

The JPDA 03-01 participants believe that the development of a petroleum regime with acceptable tenure and fiscal terms is a prerequisite to provide all stakeholders with the best possible chance of maximising the value from the resources located within JPDA 03-01. The JPDA 03-01 participants are looking forward to receiving a new PSC specifically in relation to the Jahal and Kuda Tasi fields, and are committed to working with the DA to develop a regime for JPDA 03-01 that will support further exploration investment and the development of marginal oil fields.

Yours sincerely,

VINCE SANTOSTEFANO
Director Australia Business Unit
Woodside Petroleum (Timor Sea 1) Pty Ltd

For, and on behalf, of the JPDA 03-01 Joint Venture