



21 September 2004

Attn: Mr Manuel de Lemos
Assistant Coordinator and Financial Manager
Timor Sea Office, Office of the Prime Minister
Timor-Leste Government
Room 27, Government Building 3
Nicolau Lobato Avenue
Dili, Timor-Leste

By Courier and E-mail

Dear Manuel

New East Timor Taxation Regime for JPDA

We refer to the draft Timor-Leste Petroleum Taxation Act 2004 (the "Act") and the draft revised UNTAET Regulation 2000/18 (the "Regulation"). We appreciate the opportunity to comment on this proposed legislation prior to its' enactment.

ConocoPhillips (03-12) Pty Ltd is writing this response on behalf of ConocoPhillips and Petroz as contractors in Production Sharing Contracts 03-12, 03-13, 03-19, 03-20, 03-16, and 03-21 and as potential investors in future Production Sharing Contracts (the "PSCs").

Our primary concern with the Regulation and Act is the growing complexity of the JPDA tax regime.

We note that the Act would not apply to PSCs 03-12, 03-13, 03-19 and 03-20. However, the revised Regulation would appear to apply to all activities other than Bayu-Undan. The changes to the Regulation together with the Act and the existing Bayu-Undan regime result in a multiplication of tax regimes applicable to various areas or projects within the JPDA. The sharing of services across multiple projects with different taxation regimes is likely to raise transfer pricing issues. We are concerned that this complexity will add significant cost to JPDA operations for all parties.

We have set out in the attached submission the issues that raise specific concerns and queries in the new Regulation and Act that we have identified to date. We note that we were not able to obtain a copy of the draft Regulation until 6 September and therefore have had limited time to evaluate this document. A number of our concerns relate to the certainty and transparency of the intent of the Act and Regulation.

We hope that our comments will assist the Timor Sea Office with its overall review of the proposed taxation regime so as to ultimately create a regime that encourages investment in the JPDA.

We believe that it would be beneficial for the Timor Sea Office to engage in further consultation before the regime is finalized. I advise that Mr Dane Paddon and Mr James Booth, members of our internal taxation group, will be in Dili on 24-26 November and we would welcome the opportunity to discuss our submission with you at that time.

Yours sincerely

Stephen R. Brand
President

Cc:

Mr Einar Risa
Executive Director
Timor Sea Designated Authority

Mr Angelo de Almeida
Commissioner of Taxation
Timor-Leste Revenue Service