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03 February 2017

Mr Michael Callaghan
PRRT Review
The Treasury
Langton Crescent
PARKES ACT 2600

Submission via email: PRRTReview@treasury.gov.au

Dear Secretariat

PETROLEUM RESOURCE RENT TAX REVIEW SUBMISSION

This submission to the PRRT Review team is made by INPEX Operations Australia Pty Ltd on behalf of all the INPEX group of companies within Australia.

INPEX Operations Australia Pty Ltd, hereafter referred to as **INPEX**, is making this submission in response to the review into the Petroleum Resource Rent Tax (**PRRT**) that was announced by the Government of Australia on the 30 November 2016.

INPEX appreciates the opportunity to respond to the Australian Government's PRRT review. INPEX has had operations in Australia for more than 30 years, and we have built positive, long-term relationships with the Australian Government. We are very appreciative of the government's ongoing support for INPEX's activities in Australia, most notably the development of our flagship Ichthys LNG Project.

INPEX understands the desire for the Government to review the PRRT and the industry's broader tax contribution to the Commonwealth, balancing the community's interest in ensuring the petroleum industry is paying a fair dividend for the development of Australia's oil and gas resources while also ensuring future investment is encouraged.

This submission is not intended to address every issue identified by the "Issues Note" and focuses on only the aspects that are considered relevant to INPEX's operations within Australia. INPEX has also provided evidence to support how particular potential amendments to the PRRT would impact on our business.

INPEX believes the PRRT is currently operating as it was originally intended. INPEX asks that the PRRT Review Team, when contemplating any changes to the PRRT, gives appropriate consideration to the international competitiveness of the Australian oil and gas industry. INPEX is keen to assist the PRRT Review Team to help achieve the Government's objectives without undermining the fiscal stability that has made Australia an attractive investment destination.

INPEX thanks the PRRT Review Team for the opportunity to make this submission and also for meetings held with INPEX in both Canberra and Perth as part of the PRRT review.

If you would like further information on this submission please do not hesitate to contact Mr Danny Gentili on (08) 6213 6738 or Mr Hein van Wyk on (08) 6213 6414.

Yours sincerely



Seiya Ito
President Director Australia

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1. EXECUTIVE SUMMARY – INPEX PRRT SUBMISSION

INPEX's submission outlines our company's investments in Australia, including the investment decision made in 2012, on sanctioning the Ichthys LNG Project, which was costed at the time at US\$34 billion. The Ichthys LNG Project is the second largest resources project in Australia's history by investment cost and the largest ever foreign investment by a Japanese company.

INPEX understands that reduced taxation revenue has placed increased pressure on the Australian Government to deliver taxation reforms to assist with bringing the budget back to surplus. Globally, there is a trend to reduce corporate taxation rates and so it is important the Australian Government recognise that foreign investment, particularly in the petroleum industry, is highly competitive in nature and any increase in taxation burden will in effect impact decisions in regard to attracting future Australian investment. The effect of which is a loss of future jobs and additional tax revenues for the Government.

The PRRT Review Team should also consider other taxation contributions, outside of the PRRT, such as corporate and payroll tax to acknowledge the petroleum industry's total taxation contribution to the Commonwealth. It is the total tax burden that determines industry investment competitiveness, and fairness of value dividend to the nation, not just PRRT alone.

INPEX believes the PRRT as designed is currently operating as it was originally intended. INPEX asks that the PRRT Review Team ensures it gives appropriate consideration as to how changes to the PRRT might hinder Australia's international competitiveness. Any revision that increases investment risk or reduces investment return will make future investment decisions for Australian projects more difficult.

INPEX would like to make the following summary comments:

- Based on factual evidence provided in this submission, the PRRT is clearly working as intended, encouraging investment in low return and high risk projects that might not otherwise proceed, whilst providing a dividend to the Australian community, proportionate to the profitability of the investment;
- The recent decline in Government PRRT receipts is due primarily to the dramatic decline in the oil price and decreased Australian oil production, commensurate with declining profits in the industry. Conversely, the earlier Government increase in PRRT receipts was due primarily to increases in both the oil price and oil production, commensurate with increasing profits in the industry. INPEX's Ichthys Project investment is forecast to generate PRRT revenue at oil prices above US\$70/boe (barrels of oil equivalent) and allow capital expenditure returns using the PRRT parameters as designed;
- Any revision to the PRRT that increases investment risk or reduces investment return will make future investment decisions more difficult and risk Australia losing LNG foreign investment to more competitive and highly prospective regions such as the United States (shale gas LNG exports) and the Middle East (e.g.: Qatar LNG);
- Remarkably, the Australian petroleum industry recorded a net operating loss in 2014/15, yet still made total tax payments (PRRT plus other taxes) in excess of AU\$5 billion to governments across Australia;
- Adjustments to the PRRT design and overall tax regime may be possible without undermining future investment decisions; for example revisions that do not reduce Investment Decision IRR or NPV. However, new investments which have not yet begun production, let alone recovered costs (e.g.: Ichthys LNG and Prelude FLNG) are particularly vulnerable to negative taxation effects.

2. INPEX'S INVESTMENT AND ECONOMIC CONTRIBUTION TO AUSTRALIA

INPEX CORPORATION is a global oil and gas Exploration & Production (E&P) company that is listed on the Tokyo Stock Exchange and is owned 18.9 percent by the Japanese Government. As the Japanese national flag oil and gas company, INPEX's mission is to provide a stable and efficient supply of energy to our customers by exploring and developing oil and natural gas resources throughout the world. Through our business, we aim to become an integrated energy company, which contributes to the community and makes it more liveable and prosperous. INPEX currently participates in more than 70 oil and gas projects spanning some 26 countries.

Ichthys LNG Project

In Australia INPEX is widely known for its world class Ichthys LNG Project investment currently under construction offshore in Western Australia and onshore at Darwin in the Northern Territory. INPEX owns a 62.245% participating interest in the Ichthys Project and is the Operator.

The Ichthys LNG Project is Japan's largest ever foreign investment, undertaken via the world's largest project financing of US\$20 billion from eight export credit agencies and 24 commercial banks. It is Australia's second largest resources project by investment cost.

The Ichthys Field, located in license areas WA-50/51-L, is a condensate and gas field situated in the Browse Basin off the Western Australian coast some 450 kilometres Northwest of Broome, with resource estimates of approximately 500 million barrels of condensate and 12 trillion cubic feet of gas. The field is approximately 40km long and 20km wide and comprises two discrete hydrocarbon pools.

INPEX was awarded the WA-285-P Exploration Permit in 1998 and has conducted three exploration drilling programmes, drilling a total of eight exploration wells. The first three-well drilling campaign, in 2000-2001, resulted in the discovery of the Ichthys gas-condensate field. These discoveries were further appraised in a second three-well drilling programme in 2003-2004. Most recently, a two-well drilling campaign was conducted in 2007-2008. Retention lease WA-37-R was awarded in September 2009 followed by granting the Production Licenses WA-50/51-L in March 2012.

On 13 January 2012, INPEX and its sole joint venture participant at the time, Total, made a Final Investment Decision (**FID**) with respect to the Ichthys LNG Project. The approved project calls for hydrocarbons from the Ichthys Field to undergo preliminary processing on a semi-submersible offshore Central Processing Facility (**CPF**) to remove water and raw liquids, including the greater portion of the condensate. The removed condensate is to be pumped to a Floating Production, Storage and Offloading (**FPSO**) facility anchored nearby, from which it will be offloaded to condensate carriers for delivery to international markets. The gas will be transported from the CPF, via an 890 kilometre gas export pipeline to LNG processing facilities in Darwin.

The Ichthys LNG Project is expected to produce 8.9 million tonnes of LNG and 1.6 million tonnes of LPG per annum, along with approximately 100,000 barrels of condensate per day at peak.

At FID, the total estimated cost of the Ichthys Project amounted to US\$34 billion, and the (then) 76% share of the development costs INPEX was to contribute represented not only the single biggest investment by a Japanese company into Australia, but the largest ever overseas investment by a Japanese company. The Ichthys LNG Project is expected to provide a long-term stable supply of cleaner energy to Japan and help to diversify its energy sources¹. The Ichthys Project will make a significant contribution to Australia's economic prosperity over its projected 40-year project life.

The 2012 FID decision was for a two train facility at the Darwin processing plant. The Ichthys Project has enough land available at the Bladin Point site in Darwin to accommodate expansion of up to another four LNG processing trains which could see output move to 25 million tonnes of LNG per annum. Any decision to expand the Darwin processing facilities would require significant additional capital expenditure. Additionally to identify resources to underpin such expansions increased exploration costs would be needed.

¹ Media Release: INPEX & Total make Final Investment Decision on Ichthys LNG Development, Australia; 13 January 2012; available from: <http://www.inpex.co.jp/english/news/pdf/2012/e20120113.pdf>

Bayu-Undan and Darwin LNG

INPEX is also a shareholder (11.37812% interest) in the Bayu-Undan oil, Liquefied Petroleum Gas (LPG) and corresponding Darwin LNG development operated by ConocoPhillips.

The Darwin LNG plant was officially commissioned in January 2006. Gas is sent via a 502 kilometre pipeline from the Bayu-Undan field to the plant in Darwin. The plant has an annual LNG production capacity of around 3.7 million tonnes per annum. Currently the joint venture participants are looking to invest in future gas project investments, to maintain gas supply into the facility. Darwin LNG has the potential for two additional LNG trains.

Other Production Projects

In addition to the Ichthys and Prelude Projects currently under construction, INPEX has also invested over AU\$5 billion in exploration, development and production projects since INPEX's first investment in Australia in 1986. INPEX's main interests in Australia currently include:

- a 47.499% stake in the Van Gogh oil field off Western Australia operated by Quadrant Energy;
- a 28.5% stake in the Ravensworth oil field off Western Australia operated by BHP Billiton Petroleum Pty Ltd; and
- a 47.499% stake in the Coniston Unit oil field off Western Australia operated by Quadrant Energy Corporation.

INPEX also held a stake in the Griffin oil field that ceased production in October 2010 and was operated by BHP Billiton Petroleum Pty Ltd.

By virtue of the Timor Sea Treaty that governs the Joint Petroleum Development Area between Australia and East Timor, INPEX also maintains:

- a 19.2458049% interest in the permit JPDA03-12 of which ConocoPhillips is the operator; and
- a 35% interest in the Kitan oil field operated by Eni S.P.A.;

10% of the income and expenditures on these projects are attributed to Australia for taxation purposes.

Prelude

On 16 March 2012, INPEX announced that it had acquired a 17.5 percent interest in the Shell-operated Prelude FLNG Project². The project consists of the Prelude and Concerto gas fields which are projected to produce at least 3.6 million tonnes per annum of LNG along with 0.4 million tonnes per annum of LPG and 36,000 barrels per day of condensate at peak.

Shell made the FID for Prelude in May 2011 with target production in early 2017. The likely cost for the entire project is US\$ 12 billion and accordingly INPEX will contribute more than USD 2.1 billion to the cost of development through its participating interest. As with the Ichthys Project, Prelude will contribute significant tax revenues to the Australian Government and be a significant employer both directly on the Project and indirectly through on-going maintenance and supply contracts.

The Prelude FLNG facility will be permanently moored for a 25 year period and then would be capable of being moved to other fields, which ordinarily may be considered too small for development. Re-fitting of the facility to move to different fields and the exploration spend to find smaller suitable gas fields would again constitute a significant investment decision that INPEX would have to make with its joint venture participants in Australia.

New Ventures & Exploration

In May 2012, INPEX CORPORATION released its medium to long term vision for INPEX's global business. This publicly released vision identified three growth targets and three management policies that would be foundations underpinning the growth of the Company. The first of the growth targets, which is a continuous enhancement of E&P activities, is of particular relevance to Australia.

INPEX has a strategic target to achieve a net production volume worldwide of 1 million boed (boe per day) within the next ten years³. This amounts to more than double INPEX's current net production level of 426 thousand

² Media Release: INPEX participates in the Prelude FLNG Project, offshore Australia; 16 March 2012; available: <http://www.inpex.co.jp/english/news/pdf/2012/e20120316-b.pdf>

³ INPEX Medium to long term vision of INPEX, page 7; 11 May 2012; available <http://www.inpex.co.jp/english/news/pdf/2012/e20120511.pdf>

boed. INPEX has committed additional funding for its exploration program and Australia has been identified as a core region for the company.

At present, INPEX holds 12 exploration permits within Australia⁴. Holding these exploration permits is conditional upon conducting genuine exploration activities, including seismic activities, surveys as well as drilling campaigns. Drilling campaigns are planned on permits held by INPEX over the next five years.

As referred to above, the FID on the Ichthys Project authorised a two LNG train facility at Darwin. Planning and analysis has commenced to investigate possible options to expand the planned LNG facility whilst maintaining a stable production profile. Options being considered include debottlenecking of the plant, backfilling of gas or an expanded LNG facility via the addition of additional LNG processing trains. All of these options are incremental to the existing project and INPEX would need to assess the incremental value added and expected returns that would be generated prior to making any investment decision.

Unconventional oil and gas prospectivity

INPEX globally has shown a willingness to move into new and unconventional hydrocarbon types such as oil sands projects and shale gas. Importantly, to the extent that these resources are predominantly located outside of Australia, these opportunities are competing for a share of the INPEX E&P budget against the exploration permits that INPEX holds within Australia.

In 2015, the Northern Territory government awarded INPEX the right to pursue onshore petroleum exploration acreage in the Northern Territory, EP(A)-318. The acreage consists of 50 blocks covering about 400,000 hectares in the Beetaloo basin, approximately 500 kilometres south east of Darwin. The acreage, once the exploration permit is granted, could provide INPEX with additional potential gas and oil resources and could secure future investment in Northern Australia.

INPEX notes there are substantial prospective shale oil and gas resources that exist in Australia. However, the shale gas industry in Australia is very immature and is currently at high risk due to the moratorium currently in place in the Northern Territory and across parts of Eastern Australia. INPEX also notes that shale is generally in remote areas far from domestic gas markets. With major LNG facilities now being developed shale gas could prove a significant option for expanding Australia's LNG production. It is, however, a high risk activity that is sensitive to a number of technical and economic parameters. A stable and supportive fiscal regime is therefore crucial to the development of this emerging industry.

3. THE AUSTRALIAN LNG INDUSTRY AND GLOBAL COMPETITION FOR LNG INVESTMENT

Prior to September 2009 only three LNG projects had ever been sanctioned within Australia⁵. Australian domestic gas demand is too small to underpin domestic gas investment, and global energy prices were insufficient to support the relatively high cost LNG projects in Australia. This investment environment changed when oil prices continued a dramatic rise from 2003, and the major global concern in regards to peak oil and insufficient energy supplies changed to meet the surging demand. Chevron was first to reach FID in this new investment environment in September 2009 with the Gorgon Project in Western Australia with a project cost estimated at the time at US\$43 billion. This was followed by a number of other approvals, namely:

- Queensland Curtis LNG (BG Group) – 3 November 2010 (US\$20.5 billion);
- Gladstone LNG (Santos) – 13 January 2011 (US\$18.5 billion);
- Prelude FLNG (Shell) – 20 May 2011 (US\$12 billion);
- Australia Pacific LNG (Origin Energy) – 4 July 2011 (US\$23 billion);
- Wheatstone (Chevron) – 26 September 2011 (US\$29 billion);
- Ichthys (INPEX) – 13 January 2012 (US\$34 billion)

These seven LNG projects, costed at a combined US\$180 billion, represented a major turning point in investment in the industry in Australia and importantly helped contribute to the resilience of the Australian economy in the aftermath of the global financial crisis. A key factor on reaching FID for these projects, even during a financial downturn, was the stability of the operating regime within Australia, including its taxation regime. In addition, there were clear policy intentions (including in the taxation area) by Government to ensure that Australia's regime for oil and gas projects was competitive internationally and therefore helped companies justify investing in these Australian projects.

⁴ Current permits: Operator - ACP/36, WA-285-P, WA-341-P, WA-343-P, WA-344-P; Non-operator – WA-274-P, WA-281-P, WA-410-P, WA-411-P, WA-155-p Part II, WA-357-P, WA-155-P EG 5 & 9, WA-155-P Sole, EG 6 & 10

⁵ North West Shelf, Pluto & Darwin LNG

INPEX, like other companies within the oil and gas industry, make investment decisions on a very long term basis (consider Ichthys, for example, with a 40 year operating life). Accordingly, INPEX requires as much certainty as possible with regards to the laws that will operate within a country, including tax laws when making an investment decision.

Whilst INPEX respects the paramount nature of governments to adjust laws based on prevailing circumstances, we encourage any changes to shield, to the maximum extent possible, past investment decisions (by either exclusion or by appropriate transitional rules which enable an affected taxpayer to mitigate their exposure). Retrospective application represents an increase in sovereign risk if it undermines the original FID economics. For future investments, perceived sovereign risk is reflected in the investment hurdle rate of return which means getting a new project to FID would be made more onerous.

Unfortunately for the recent projects noted above, the unexpected rise in shale oil and gas production in North America, and softening of demand growth in China, has again dramatically changed the future energy landscape. Henry Hub Gas first, and then in 2014 global oil prices have collapsed, effectively eliminating profits and forecast PRRT revenue for these new investments. There is no longer any thought of the world running out of oil.

In this new market, the United States (**US**) gas market is oversupplied and the US is set to become a net exporter of natural gas by 2019. This is a remarkable turn-around given that the US has historically been a net energy importer. Coupled with the expansion of the Panama Canal and a change in export restrictions, the increase in US gas production has resulted in LNG being exported to the Asian market from the United States' gulf coast. This recently sharply reduced prices in East Asian spot LNG cargoes and will certainly place downward pressure on future global contract gas prices. This new environment was evidenced as long ago as 2012 when Total signed an agreement with Kogas (Korea Gas) for the export of LNG from the Sabine Pass in the US⁶.

In the past five years alone, unconventional technologies have dramatically altered the outlook for US natural gas. Once considered to be in imminent danger of depletion, the US natural gas resource base is now widely agreed to be sufficient to last 100 years at current rates of consumption. Production costs have fallen and the natural gas price is expected to grow very slowly over the next 20 years, remaining much lower than prices for many other fuels. Extensive volumes of natural gas could be developed in the US with prices of less than US\$4-5 per million British thermal units (MMBtu), making supply responses to demand increases highly elastic. International oil prices are expected to remain three to four times higher than the Btu equivalent price of natural gas for many years into the future⁷.

Japan's Jera is a joint venture between Tepco and Chubu Electric and both a Buyer of Ichthys LNG and an equity participant in the Ichthys project. Jera is currently the largest importer of liquefied natural gas and took delivery of its first LNG cargo from the US on the 13 December 2016. The delivery to Chubu Electric's terminal is the first import of US LNG to Japan. The voyage to Japan was via the Panama Canal and Jera's view is that the purchase of US LNG will contribute to be a stable energy supply in Japan through the diversification of procurement regions and LNG price indices and going forward Jera⁸ advised that they intend to establish an LNG procurement portfolio that can flexibly respond to changes in the business environment by cutting their reliance on long term contracts and increasing their procurement ratio of LNG which is free from destination restrictions, through projects such as the Freeport LNG project in the US. It is likely that other LNG buyers will adopt a similar strategy.

Australia is particularly sensitive to the development of the US LNG industry as existing 15 – 20 year long term sales contracts which underpinned FID for these projects are currently priced with reference to international oil prices. A number of LNG buyers are actively attempting to price gas contracts from other jurisdictions based at least in part on Henry Hub pricing methodologies. It is uncertain how pricing for future extensions to LNG contracts for current projects will evolve, and what pricing methodologies LNG buyers will adopt in negotiations on new projects. Australia should not believe that buyers will always be able to pay higher prices that would be necessary to cover investment costs which include increased costs associated with taxation changes.

The reliance on oil-linked pricing within Australia is a result of another key feature of the oil and gas industry compared with many other industries – that being the extremely large initial capital outlays required in

⁶ Total signs a commercial agreement with Kogas for LNG; 13 September 2012, available: <http://www.total.com/en/about-total/news/news-940500.html?idActu=2863>

⁷ HIS CERA Fueling the Future with Natural Gas: Bringing It Home January 2014, available: <http://www.fuelingthefuture.org/assets/content/AGF-Fueling-the-Future-Study/>

⁸ LNG World News - Jera: first Sabine Pass cargo arrives at Joetsu LNG terminal, available: www.lngworldnews.com/jera-first-sabine-pass-cargo-arrives-at-joetsu-lng-terminal/

developing these projects and the very long development time. The period from exploration to FID can be many years, potentially decades, and development invariably takes five to seven years to complete before first production commences. This means that on an IRR/NPV basis there are large cash outflows in early years which actually work against a positive FID being granted. Any changes to taxation regimes that result in more cash tax being paid earlier in a project following development will therefore work against a positive FID outcome being possible, particularly for multi-national companies who can choose to deploy their capital anywhere in the world.

In addition, new previously under-explored areas around the world are currently undergoing significant exploration and some very large discoveries are being recorded. An example of a discovery that will disrupt the market is Eni S.P.A's recent increase of their reserves off Mozambique to 70 trillion cubic feet of gas⁹. Discoveries off Africa are significant given they are invariably cheaper to develop (in some cases less than half of an Australian project), and cheaper to export, making the projects less sensitive to oil price or Henry Hub pricing than those in Australia which rely on a higher oil pricing methodology. That is, the cost differential these projects bring mean that they are more likely to get to FID than an Australian project. It is also significant because the companies making these finds are global 'super-majors' with an existing presence in Africa and who are very capable of getting the gas from these fields to market.

Australia, in general, is a high cost operating environment. Construction costs, including labour costs are also considerably higher than virtually anywhere in the world. Unfortunately, this high cost environment is combined with low productivity. Both of these considerations work against the Australian oil and gas sector and future developments being made.

4. INPEX'S POSITION ON THE PRRT

Based on facts provided in this submission on a generic LNG project economics model, the PRRT is clearly working as intended, encouraging investment in low return and high risk projects that might not otherwise proceed, whilst providing a fair dividend to the Australian community, proportionate to the profitability of the investment.

The recent decline in Government PRRT receipts is due primarily to the decline in oil price and oil production, commensurate with declining profits in the industry. The earlier Government increase in PRRT receipts was due primarily to increase in oil price and oil production, commensurate with increasing profits in the industry. INPEX's Ichthys Project investment will generate PRRT at oil prices above US\$70/boe and allow capital expenditure returns using the PRRT parameters as designed.

Any revision to the PRRT that increases investment risk or reduces investment return will make future investment decisions more difficult and risk Australia losing LNG foreign investment to more competitive and highly prospective regions such as LNG projects in the US (shale gas LNG exports) and the Middle East (e.g. Qatar LNG).

The PRRT has been an important factor as to why Australia has attracted more than AU\$200 billion worth of new LNG investment in recent years. These projects will provide revenue, jobs and other benefits for Australia for decades to come.

The PRRT was introduced in the mid 1980s by the Hawke Government as a replacement for inefficient offshore production excise and royalty regimes which were found to be discouraging new projects and causing the premature closure of projects at times of low oil and gas prices. The PRRT has received bipartisan support for more than three decades, including in 2012, when it was extended to onshore petroleum activities. It is a global benchmark for such taxes.

Industry Tax Contribution

PRRT is one of several taxes paid by oil and gas companies. Others include company tax, payroll tax, production excise and Commonwealth/State royalties.

On average, the industry has paid an effective tax rate of more than 50 per cent over recent years. This is one of the highest tax rates paid by any industry in Australia. Other statistics, according to APPEA, include:

⁹ ENI: important new discovery in Mozambique; 1/8/2012, available: http://www.eni.com/en_IT/media/press-releases/2012/08/2012-08-01-eni-important-new-discovery-mozambique.shtml

- Total tax payments from the industry have totalled around AU\$7 billion per annum over the last five years.
- Since the 1970s, the industry has paid, in today's dollars, an estimated AU\$250 billion in taxes and resource charges to governments across Australia.
- The industry continues to make a significant tax contribution despite a combination of unprecedented capital investment, low commodity prices and falling oil production plunging the industry into a challenging economic environment.
- APPEA's latest financial survey of its members shows that despite recording an overall operating loss of more than AU\$600 million in 2014-15 (its first ever net loss), it still paid more than AU\$5 billion worth of taxes in the same period.

5. ICHTHYS PROJECT FINANCIAL DATA

INPEX understands that the Australian Petroleum Production & Exploration Association will be submitting a comprehensive submission that will include comments regarding the design and operation of the PRRT and a high level comparison between the fiscal regime in Australia and other comparable jurisdictions and INPEX will therefore not comment on those issues in this submission.

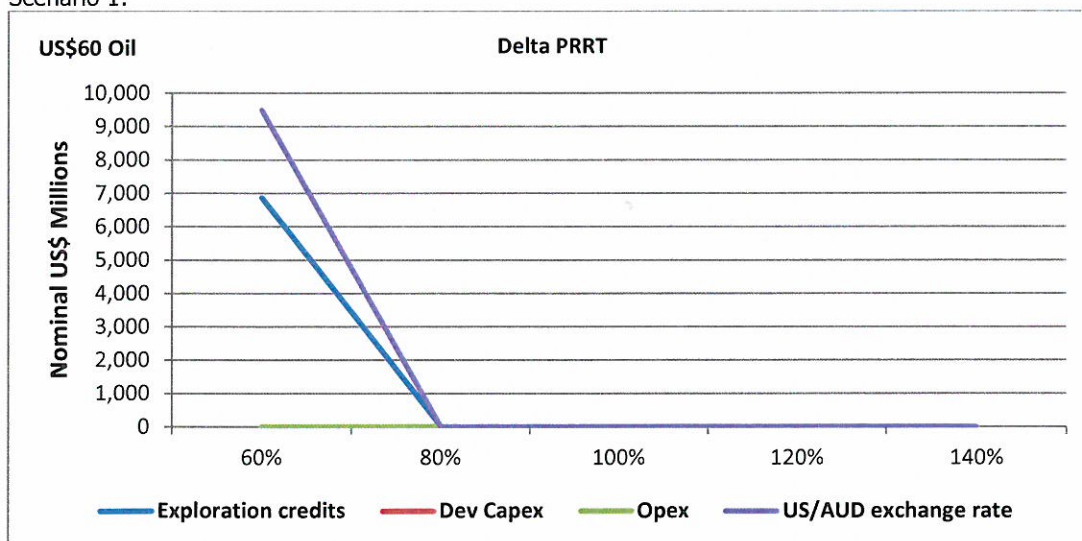
INPEX understands that Shell as operator will comment on the Prelude FLNG Project in their submission to the Review team and INPEX will therefore not include any financial data relating to the Prelude Project in this submission.

The purpose of this section is to demonstrate the impact of changes in variables on project returns and taxes (including PRRT) paid by INPEX relative to the Ichthys project. For the purpose of this analysis INPEX assumed that there will be no exploration expenditure from other permits/projects available for transfer to the Ichthys Project for set-off against PRRT profits generated by the Ichthys project, nor would available Ichthys carry-forward exploration expenditure be transferred to existing or possible new projects as the quantum and likelihood of any transfers are too uncertain at this stage.

Delta PRRT payable:

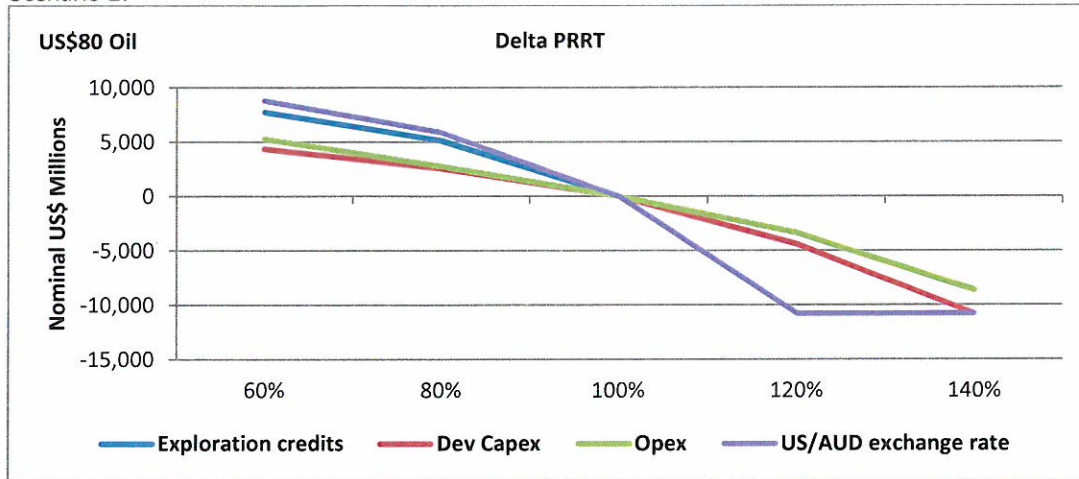
The graphs below describe the sensitivity of PRRT payments to 4 key variables, namely capital expenditure, operating expenditure, exchange rate and the balance of available augmented carry-forward exploration expenditure. The charts are plotted at three different nominal oil price levels (US\$60, US\$80 and US\$100). These charts are centred on a base case set of assumptions consistent with current projections of key project variables such as oil price, LNG price, USD/AUD exchange rate, long term bond rate etc.

Scenario 1:



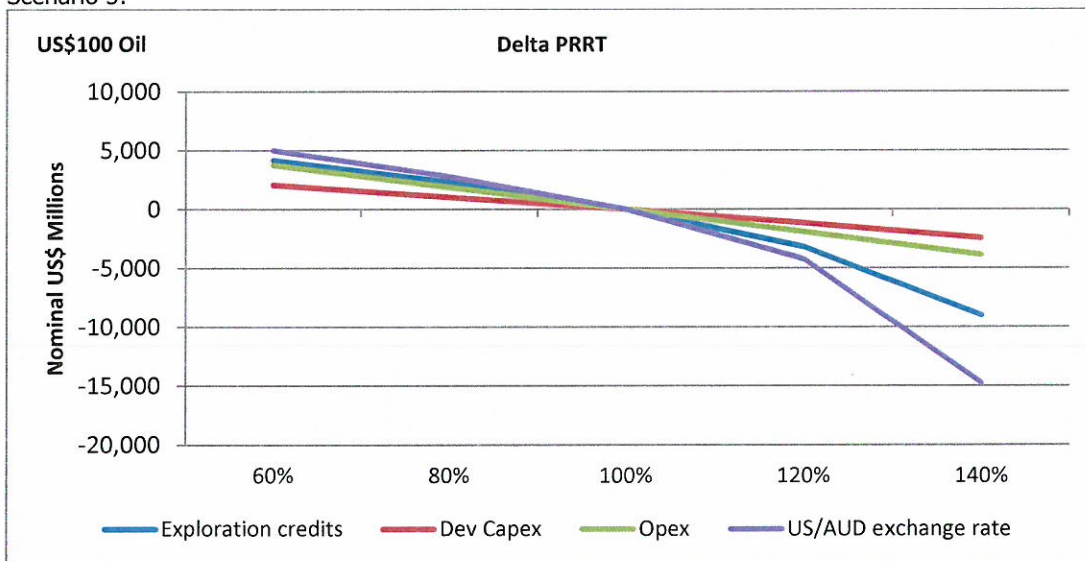
The chart above demonstrates that at a US\$60 nominal long term oil price, returns are extremely marginal and as a result INPEX will not pay any PRRT on central assumptions. This outcome is consistent with the design intent of PRRT as PRRT only becomes payable when capital expenditure and the base rate of return is recovered. In this low price scenario, the only cases where PRRT becomes payable are with at least a 20% deterioration in the exchange rate and if the value of carry-forward exploration credits is reduced.

Scenario 2:



At US\$80 nominal long term oil price, on central assumptions INPEX pays a total amount US\$11 billion of PRRT from 2033/34 onwards. The amount of PRRT paid is most sensitive to changes in exchange rate and value of exploration credits, ranging from zero to an increase of around 75%.

Scenario 3:



At a US\$100 oil price level, the project is highly profitable and pays PRRT from 2025/2026, seven years after commencement of operations. PRRT remains payable under all the sensitivities explored in key variables.

Overall, a reduction or increase in the future USD/AUD exchange rate has a far greater impact on the amount of PRRT payable than any of the other variables because the exchange rate directly affects the amount of AUD revenue generated, while the operating costs are largely in AUD. In INPEX's view these graphs show that the PRRT is working as it is intended as the uplift applied to carry forward expenditure protects project proponents from paying PRRT when returns are marginal, for example in the current low commodity price cycle. When oil prices are low and returns are marginal, as little as a 20% reduction in the amount of augmented exploration expenditure will cause INPEX to pay PRRT which is not what was intended with the PRRT's design. At high oil prices the profits generated are sufficient to reduce carry forward expenditure balances in a relatively short period of time and ensures that PRRT becomes payable when the investment expenditures have been recovered.

5. CONCLUSION

Australia is generally less prospective for hydrocarbon exploration than many other jurisdictions. The financial data above reflecting INPEX's position with respect to the Ichthys Project confirms, in our view, that the PRRT operates as intended as it protects INPEX during commodity cycle downturns and when project returns and cash flows are marginal. The data furthermore confirms that PRRT will be payable when commodity prices return to normal levels and when profits are sufficient to off-set uplifted exploration expenditure and therefore only apply extra tax after costs have been recovered and profits and cash flows exceed the benchmark rate of return. By

virtue of PRRT's design, payments will be high when commodity prices are high and low or absent when prices are low and it helps to keep projects viable during natural commodity cycle downturns. By only taking extra value when projects succeed, it encourages new investments in Australia where less economically efficient taxes would lower returns and halt projects that would otherwise proceed.

Adjustments to the PRRT design and overall tax regime may be possible without undermining the intent however investments which have not yet achieved cost recovery such as the Ichthys Project are particularly vulnerable to negative changes. A competitive, stable regulatory regime and competitive tax settings have helped to offset Australia's geological and geographical challenges. Projects which have recently taken investment decisions and are yet to reach full production should not be undermined. In developing the Ichthys Project, for example, INPEX has been investing money for nearly 20 years and has yet to generate any revenue, let alone profit and net cash flow. It seems reasonable to request that projects at this stage of development be largely shielded from any impacts from contemplated changes to the PRRT regime.

Unconventional technologies have dramatically altered the outlook of the global natural gas market over the past five years, i.e.: since FID was reached for the Australian LNG projects referred to above. Increasing the net tax take will damage Australia's competitive position in the global LNG market and would harm future investment in Australia. LNG projects make significant contributions to the Australian economy over and above the taxes that is paid to Government and the future is still strong despite the current downturn. We urge the Australian government to consider ways to attract more oil and gas investment to the country and to expand revenues by increasing the revenue base rather than by increasing the tax burden on existing projects.