

Minutes of Meeting

Petroleum Fund of Timor-Leste Investment Advisory Board

Held on 17th October 2006

At the Office of the Banking and Payments Authority

Present:

Abraão de Vasconcelos, General Manager of BPA (Chairman)
Cristino Gusmão, Director of Macroeconomic
Sigurd Klakeg, Fiscal and Petroleum Advisor
Manuel Monteiro, Deputy Director of Treasury
Tørres Trovik

In attendance:

Venancio Alves, A.i. Executive Director of Petroleum Fund Dept, BPA
Terje Iversen, Petroleum Fund Advisor, BPA
Gastão de Sousa, Chief Economist, BPA

The Chairman declared the meeting open at 14.00 o'clock.

The Board reviews the agenda and agreed to include an additional agenda item, "outlook for Petroleum Fund revenue and withdrawal from Petroleum Fund.

Minutes of Previous Meeting

The minutes of previous meeting held on 18th April 2006 was approved without amendment.

Business arising from the minutes not otherwise include in the agenda

There are no other businesses arising from the minutes.

Outlook for Petroleum Fund revenue and withdrawal from PF

The Minister of Planning and Finance representatives briefed the board on the new estimates on petroleum revenue and the process of withdrawing money from the Petroleum Fund to finance the CFET budget. Against the background of higher oil prices than assumed in the current Budget of the State oil revenues will be significantly higher than budgeted. If there are continued high oil prices petroleum revenue will be higher than projected in the Budget for the coming years. The Petroleum Fund could become larger than projected, and preparations for the management of the Fund should reflect the possibility of such an event.

As to the withdrawals from the Fund the representative of MOPF informed that there will be no withdrawals until the Government has sent the report from the Independent Auditor on Sustainable Income to the Parliament. As this will only happen at the end of November there will be a withdrawal at the earliest in December. In accordance with the Management Agreement of the Petroleum Fund MOPF will send a report on the plans for monthly

withdrawals from Fund. These reports are to be sent to BPA not later than 15 days before the start of each quarter.

Study: Non-Commercial external Manager

Mr. Venancio Alves briefed the board on the preliminary study of non-commercial candidates for external management of the fund. The study was preliminary due to delays in the evaluation process arising from the civic unrest in Timor-Leste. Further talks with one of the candidates will commence in the near future. Following an upcoming assessment of the internal capacity regarding investment management in the BPA, the BPA will propose an explicit plan of action in terms of contracting external investment managers at the next IAB meeting. The board noted the need for the Ministry of Planning and Finance to approve such a plan according to the Petroleum Fund Law and the Management Agreement.

The study concluded that a new assessment of the strategic asset allocation should be performed in conjunction with the prospective use of external managers. The board supported this conclusion and asked BPA to present an analysis for its next meeting.

Rebalancing issues

The BPA presented the current rebalancing procedure for the fund. An IMF-MFD mission in October 2005 gave recommendations on this issue in its mission report. It advised to collect incoming cash flows during the month in a separate cash account to avoid costly and time-consuming rebalancing activities in the Petroleum fund account.

While supporting the general idea of simplifying the rebalancing regime for the fund through establishing a dedicated account with the FRBNY, the board noted the need for explicit investment guidelines for a new short term portfolio to minimize a possible reduction in expected return arising from such a change. The Board requested BPA to analyze this issue by its next meeting.

Other Business

There were no other businesses, and the Chairman declared the meeting closed at 16.15.

Chairman

Minute Secretary