

Petroleum Fund Quarterly Report

Quarter ended 30 September 2008

PRESS RELEASE

The Banking & Payments Authority (BPA) today released the Quarterly Report ended 30 September 2008 of the Petroleum Fund of Timor-Leste showing that the Capital of the fund as of 30 September 2008 was \$3,738.35 million compared to \$3,203.07 million at the end of June 2008.

The report shows that the gross cash inflows during the quarter were US\$619.87 million, consisting of taxpayer contributions to the Fund of US\$ 256.83 million and royalty contributions from the TSDA of US\$ 363.04 million.

The investment income of the Fund was \$55.41 million of which the coupon and interest received was \$32.08 million and the change in the market valuation was \$23.33 million. This resulted in a portfolio return of the Fund for the quarter of 1.64 %, while the benchmark return for the period was 1.71 %. The portfolio return for the quarter was therefore 7 basis points below the benchmark return and within the mandated target of ± 25 basis points.

At the request of government and within the amount appropriated by parliament an amount of \$140 million has been deducted from the Fund and transferred to the General State Budget account during the quarter.

The Petroleum Fund law specifies that the BPA, as the future central bank of Timor-Leste, is the agent responsible for the operational management of the Fund. The Ministry of Finance is responsible for setting the overall investment strategy for the Fund. The mandate given to the BPA is to manage the fund closely to the Merrill Lynch 0-5 years US Government Bond Index. The BPA has managed the portfolio close to the benchmark over the first 13th quarters. The difference in return between the portfolio and the benchmark since the inception of the fund in 2005 is -3 basis points within the target of ± 25 basis points.

Highlights of the XIII Quarterly Report, which covers the period from 1 July to 30 September 2008, include:

- The Opening Balance was \$3,203.07 million.
- Gross receipts during the quarter were \$619.87 million which consisted of taxpayer receipts of \$256.83 million and royalty receipts of \$363.04 million whereof the cash outflows was \$140 million for the transfers to the state budget. The net cash inflow was US\$479.80 million.
- The portfolio return was 1.64% for the quarter while the benchmark return was 1.71% within the mandate of ± 25 basis points.
- Investment income during the quarter was \$55.41 million consisting of interest income was \$32.08 million and market revaluations of \$23.33 million.

- The closing balance was \$3,738.35 million.

During the quarter, a project on implementation options has been developed in collaboration with Ministry of Finance officials and with support from an international consultancy company in response to the Investment Advisory Board's recommendation based on Minister's request to explore the full potential use of the Petroleum Fund Law to diversify the Petroleum Fund asset for a higher yield

Following the appointment of JPMorgan as the global custodian for the Petroleum Fund, the Petroleum Fund's US Treasury securities were successfully transferred from the Federal Reserve Bank of New York (FRBNY) to JPMorgan Chase Bank N.A. in late August 2008. These securities are now in the custody of JPMorgan Chase Bank N.A while the FRBNY will continue to execute trades of US Treasury Bonds for the Fund and hold the earmarked receipts account for petroleum revenues.

The global custodian also prepares regular management reports for the Fund, such as custody, performance, compliance and accounting services for the BPA in late August 2008 and the BPA intends to review the format of its future quarterly reports to take advantage of these new reporting services.

Contract negotiations with the Bank for International Settlements as a non-commercial external manager are continuing.

The quarterly report, as well as the Petroleum Fund law and Management Agreement, is available from the Banking & Payment Authority's website www.bancocentral.tl.

Further information may be obtained from:

Venancio Alves Maria
Executive Director
Petroleum Fund Management,
Banking & Payments Authority of Timor-Leste
Email: venancio.maria@bancocentral.tl
Telephone: (670) 3313718

Dili, 7 November 2008.