

First Petroleum Fund Quarterly Report

MEDIA RELEASE

The Banking & Payments Authority (BPA) today released the first Quarterly Report of the Petroleum Fund of Timor-Leste showing total assets under management of \$247 million.

The report shows that the government transferred \$205 million to the Petroleum Fund on 9 September, including \$80 million of First Tranche Petroleum revenues that had been accumulated in the special “Timor Gap” account opened at the BPA in late 2000. In addition companies had paid \$US43 million directly into the Fund via the BPA’s account with the US Federal Reserve Bank in New York.

Announcing the release of the report the General Manager of the BPA, Mr Abraão de Vasconcelos, said the fund was now fully operational and had already earned more than US\$600,000 in interest in the first quarter alone. All interest earnings are reinvested into the Fund.

“The BPA has been working closely with the Ministry of Planning and Finance throughout the process of preparing the Petroleum Fund law, which involved wide public consultation, prior to presentation of the law to Parliament and promulgation in August. I am pleased to say that the systems and procedures for the management and investment of the Petroleum Fund’s assets at the BPA are fully operational.”

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. All taxes and royalties derived from the nation’s petroleum wealth and related activities are required to be deposited into the BPA’s account with the US Federal Reserve. This is an additional transparency requirement as it means that petroleum revenues do not have to bypass Consolidated Revenue before they go into the Fund.

The Minister of Planning and Finance, supported by an Investment Advisory Board, is responsible for setting the overall investment strategy for the Fund. The mandate in the initial period is for investments in US Government bonds. Details are contained in the Management Agreement signed by the Minister and the BPA on 12 October 2005.

Mr de Vasconcelos added: “The BPA achieved almost identical returns to the benchmark index in this first period, which shows the commitment of the BPA to manage the Fund to the mandate it has been given.”

Like many financial market indexes, such as stock exchange indexes, the bond index selected as the benchmark for the Petroleum Fund rises or falls daily according to market conditions. As a result of an adverse market in the United States during September the value of the benchmark index had actually fallen by one-third of one percent during the month. These fluctuations are not of any real concern to Timor-Leste because the BPA

intends to hold on to its investments until maturity, thereby recovering the capital value of the bonds in addition to the interest earned over the life of the investment portfolio.

Mr de Vasconcelos noted that the movements in the September quarter were driven by increases in the price of oil, which on the balance is good news for Timor-Leste.

“These temporary market adjustments will reverse over time, because the bonds pay a fixed rate of interest and will be redeemed by the United States Government at face value on maturity date. The market variations that occur between the bond purchase and redemption dates are reported in accordance with a requirement to measure the value of the Fund according to international accounting standards,” he explained.

Highlights of the first quarterly report, which covers a period of just over one month ending on 30 September 2005, include:

- An opening balance of \$125 million transferred from the Consolidated Fund
- The transfer of \$80 million from the “Timor Gap” account at the BPA
- Receipts from taxpayers for August and September of \$43 million.
- An investment portfolio at the end of September valued at \$247 million.
- Interest income of \$611,000 earned by the Fund in the period since its inception.

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 and from the Timor-Leste petroleum transparency website www.transparency.gov.tl

Further information may be obtained from:

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Ends

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