

**Financial Year  
2008**

# Petroleum Fund Annual Report



National Directorate of the Petroleum Fund  
Ministry of Finance

Democratic Republic of Timor- Leste

August 2009



**REPÚBLICA DEMOCRÁTICA DE TIMOR-LESTE**  
**MINISTÉRIO DAS FINANÇAS**  
**GABINETE DA MINISTRA**

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## **Petroleum Fund Annual Report 2008**

The Petroleum Fund of Timor-Leste was established under the provisions of the Petroleum Fund Law no 9/2005 which was promulgated on 3 August 2005. The first investments of the Petroleum Fund started on 9 September 2005. The Banking and Payments Authority of Timor-Leste (BPA) is responsible for the operational management of the Fund, in accordance with a Management Agreement between the Ministry of Finance and the BPA dated 12 October 2005 and partially modified by agreement dated 10 January 2007 and 27 July 2007.

Taxes and other petroleum revenue totaling 2,284.2 million US dollars were paid to the Petroleum Fund during the Financial Year 2008. 895.8 million US dollars of the total amount were according to Article 6.1 (a) and 1,388.4 million US dollars according to Article 6.1 (b) in the Petroleum Fund Law. The total petroleum revenue paid since the inception of the Fund is 4,338.8 million US dollars, including transfers of 79.6 million US dollars from the Timor Gap Account and 125 million US dollars from the Consolidated Fund of Timor-Leste (CFET).

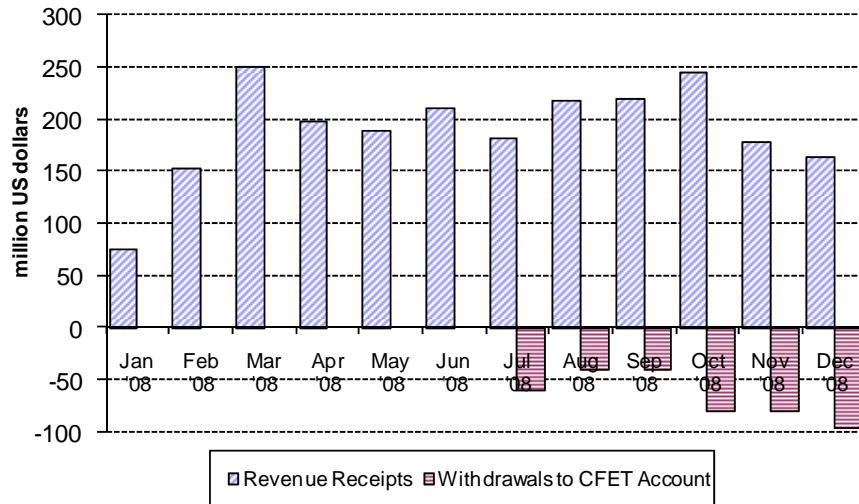
In accordance with the Management Agreement the Fund is invested in debt instruments issued by the Government of the United States. The investments shall track the 0-5 year government bond index (Merrill Lynch). The mandate of BPA is to keep the duration of the portfolio within a range of +/- 0.2 year of this benchmark portfolio.

The return on investments during the Financial Year 2008 was 223.7 million US dollars. In accordance with the Operational Management Agreement, a management fee to BPA of 1.1 million US dollars has been withdrawn from the Petroleum Fund. Thus, the net income for the period is 222.6 million US dollars, totaling 369.7 million US dollars since the inception of the Petroleum Fund. The profit for the Financial Year 2008 is affected by a further decline in the yield of the US Government bonds during the period, increasing the price of the bonds and hence the market value of the portfolio.

The Government has withdrawn a total amount of 396.0 million US dollars to the CFET during the transition period, which is in accordance with the certified Estimated Sustainable

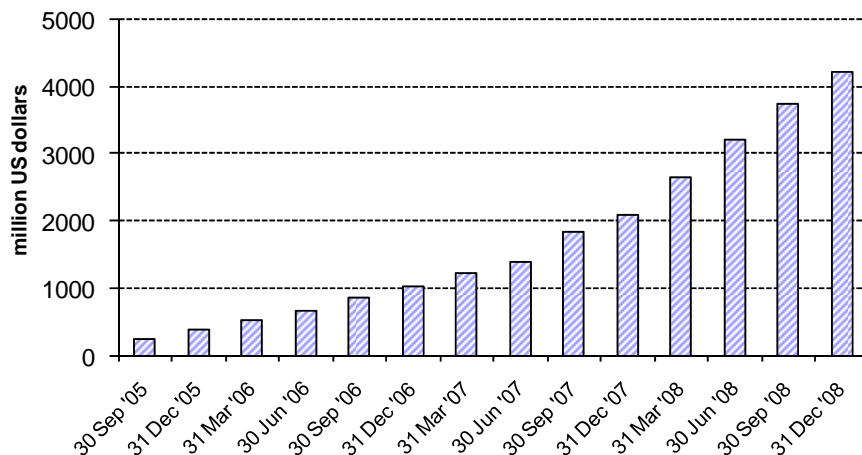
Income for the same period. Figure 1 shows the payments to and transfers from the Petroleum Fund during the Financial Year 2008.

**Figure 1**  
**Payments to and transfers from the Petroleum Fund**  
**Fiscal Year 2008**



The market value of the Petroleum Fund as of 31 December 2008 was 4,197.0 million US dollars. This is an increase of 2,110.8 million US dollars during the year. Figure 2 shows the market value of the Petroleum Fund quarter by quarter since inception of the Fund in September 2005.

**Figure 2**  
**Market value of the Petroleum Fund**



The BPA has managed its investment mandate in accordance with the Management Agreement. The yield on the portfolio in the period is 6.9 per cent and it has generally been in line with the yield on the benchmark portfolio (there is a difference in favor of the portfolio of

0.06 percentage points). The average yield to maturity of the investments made through the Financial Year 2008 has been estimated at 2.0 per cent.

During 2008 inflation in the USA was 3.0 per cent. The real return on the investments, based on the yield on the portfolio and the yield to maturity, is 3.9% and -1.0% respectively.

The Investment Advisory Board (IAB) of the Petroleum Fund had five meetings during 2008. The minutes from the meetings are available on [www.bancocentral.tl](http://www.bancocentral.tl). The Investment Advisory Board has provided two recommendations in accordance with the requirements of Article 16 in the Petroleum Fund Law:

1) *Investment guidelines and outsourced amount – Bank for International Settlements*

In August 2008 the Investment Advisory Board (IAB) recommended that the Minister:

- invest one billion US dollars in a fixed income mandate benchmarked by a composite index based on instruments meeting the requirements of Articles 14 and 15 of the Petroleum Fund Law, including investments in bonds denominated in YEN, AUD, EURO and GBP;
- request the BPA to outsource the management of the mandate to the Bank for International Settlements (BIS); and
- amend the Management Agreement between the Ministry of Finance and the BPA to reflect these arrangements.

Based on the IAB's recommendation, the Minister requested the BPA to enter into contract negotiations with the BIS. In January 2009 the BPA submitted a recommendation to the Minister to appoint the BIS and the Minister, on advice from the IAB, approved the appointment in April 2009. The management of an amount of one billion US dollars was transferred to the BIS in June 2009.

2) *Further diversification of the Petroleum Fund portfolio*

In December 2008 the Investment Advisory Board recommended that the Fund be further diversified, and that the Minister:

- invest 3-5% of the Fund (approximately \$200 million based on the PF value at that date) in a global equity mandate benchmarked by MSCI World Free Index (developed countries);
- invest 12-18% of the Fund (approximately \$600 million) in a fixed income mandate benchmarked by a composite index based on eligible instruments in Article 15 of the Petroleum Fund Law;
- implement a passive (indexed and enhanced index) management approach by adopting a tracking error of 100 basis points for the equity mandate and 50 basis points for the fixed income mandate; and
- request the BPA to outsource the management of these mandates to external commercial managers.

The Minister has requested the BPA to implement the mandates in accordance with the IAB's recommendations. The process of selecting external managers is in progress.

Deloitte Touche Tohmatsu has been appointed Independent Auditor of the Petroleum Fund for 2008. Deloitte Touche Tohmatsu has produced two separate reports in accordance with Article 35 of the Petroleum Fund Law and Guidelines for Extractive Industries Transparency Initiative (EITI). These reports are available in this report as Annex IX and X.

The Petroleum Fund 2008 Report is also available at [www.mof.gov.tl](http://www.mof.gov.tl) and [www.bancocentral.tl](http://www.bancocentral.tl).

Signed on 31 August 2009

Emilia Pires  
Minister of Finance

Annexes:

- I Statement by the Director of Treasury
- II Audited Financial Statements
- III Comparison of income derived from the investment of Petroleum Fund assets with previous three Fiscal Years
- IV Comparison of nominal income on the investment of Petroleum Fund assets to real returns
- V Comparison of income derived from the investment of Petroleum Fund assets with the benchmark performance index
- VI Comparison of Estimated Sustainable Income with the sum of transfers from the Petroleum Fund
- VII Statement on borrowings
- VIII A list of persons holding positions relevant for the operations and performance of the Petroleum Fund
- IX Article 35 report on Petroleum Fund Receipts from Deloitte Touche Tohmatsu
- X EITI report from Deloitte Touche Tohmatsu

**PETROLEUM FUND OF TIMOR-LESTE**

**FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED**

**31 December 2008**

# **DIRECTOR OF TREASURY MINISTRY OF FINANCE**

## **Director's Report**

### **BACKGROUND**

The Petroleum Fund Law No. 9/2005 was promulgated on 3 August 2005 and it established the Petroleum Fund of Timor-Leste. Banking & Payments Authority (BPA), which functions as the Central Bank of Timor-Leste, is responsible for the operational management of the Fund. In accordance with a Management Agreement dated 12 October 2005 between the Ministry of Finance and the BPA. BPA is also responsible for maintaining the books of account for the Fund on behalf of the Director of Treasury.

### **FINANCIAL STATEMENTS**

As per Article 21 of the Petroleum Fund Law, the financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). The statements are:

*Income statement,  
Balance Sheet,  
Statement of Changes in Capital,  
Cash flow statement, and  
Notes to the Financial Statements*

These financial statements cover the period from 1 January 2008 to 31 December 2008.

The accounts and the financial statements have been externally audited by Deloitte, Touche & Tohmatsu whose audit opinion is attached with this report.

### **PETROLEUM FUND CAPITAL**

The Petroleum Fund had capital of US\$ 2.086 billion on 1 January 2008. During the period, taxes and other petroleum revenue under Article 6 of the Petroleum Fund were US\$ 2.284 billion.. The Fund earned a profit of US\$ 222.61 million during the period. A summary of transactions for the profit is given in the "Income Statement".

An amount of US\$ 396.00 million was transferred from the Petroleum Fund to the State General Account during the period. The capital of Petroleum Fund as on 31 December 2008 was US\$ 4.197 billion. A summary of the transactions is given in the "Statement of Changes in Capital".

## INVESTMENTS AND PERFORMANCE

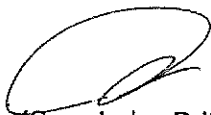
### *Mandate*

The Management Agreement provides that the assets of the of the Fund shall be invested in *Debt instruments issued by the United States and other qualifying sovereign governments* and the *Merrill Lynch 0-5 year government bond index* shall be used as benchmark to measure the performance of the Fund. The mandate is to passively manage the Fund close to the benchmark, so that in normal circumstances the objective shall be to achieve a return within 25 basis points<sup>1</sup> of the benchmark. Further, the difference in the modified duration<sup>2</sup> between the portfolio and the benchmark shall be less than 0.2 year.

### *Performance*

In accordance with the Article 24.1(a) of the Petroleum Fund and the provisions of the Management Agreement, the Petroleum Fund assets were invested in US Treasury Notes during the year. The list of instruments held as on 31 December 2008 are given at note 9. The credit exposure by credit rating is given in the note 13(c) and the credit rating is higher than the minimum credit rating mandated in the Petroleum Fund. The interest rate duration (modified duration) of the portfolio was 2.047 years as compared to benchmark duration of 2.047 years at 31 December 2008 (note 11 on risk management refers). The performance of the Petroleum Fund during the period has been in accordance with the mandate of the Management Agreement.

During the period, Ministry of Finance together with the Banking & Payments Authority have been able to accomplish the stewardship and fiduciary role for the Petroleum Fund.



(Sara Lobo Brites)

Director of Treasury  
Ministry of Finance

23 June 2009

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<sup>1</sup> 100 basis points is the same as 1 percentage point.

<sup>2</sup> "modified duration" is a measure of the percentage decline (increase) in the market value of the Petroleum Fund due to a 100 basis point increase (decline) in the level of interest rates.



## **Auditor's Report to the Ministry of Finance, Democratic Republic of Timor-Leste in respect of the Annual Financial Statements of the Petroleum Fund of Timor-Leste for the year ended 31 December 2008**

We have audited the accompanying financial statements of the Petroleum Fund of Timor-Leste which comprise the balance sheet as at 31 December 2008, and the income statement, statement of changes in capital and cash flow statement for the year ended, and a summary of significant accounting policies and other explanatory notes.

### *The Government's Responsibility for the Financial Statements*

The Government as represented by the Minister of Finance is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### *Auditors Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the evidence obtained is sufficient and appropriate to provide a basis for our opinion.

*Opinion*

In our opinion, the financial statements present fairly, in all material respects the financial position of the Petroleum Fund of Timor-Leste as at 31 December 2008 and of its financial performance and its cashflows for the year ended in accordance with the International Financial Reporting Standards.

*Deloitte Touche Tohmatsu*

DELOITTE TOUCHE TOHMATSU

Chartered Accountants

Darwin,

*31/6/9*

**Petroleum Fund of Timor-Leste  
Income Statement  
For the Year Ended 31 December 2008**

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	<i>Note</i>	<i>Dec-08 USD 12 months</i>	<i>Dec-07 USD 6 months</i>
<b>Investment income</b>			
Interest on investments	3	115,969,341	32,771,609
<b>Gains and losses on investments</b>			
Gains/(losses) on fair value through profit or loss assets	5	<u>107,692,562</u>	<u>59,593,509</u>
<b>Total investment income/(loss)</b>		<b><u>223,661,903</u></b>	<b><u>92,365,118</u></b>
<b>Expenses</b>			
Management fee	8(b)	<u>(1,053,088)</u>	<u>(521,392)</u>
<b>Total expenses</b>		<b><u>(1,053,088)</u></b>	<b><u>(521,392)</u></b>
<b>Profit/(loss) for the year</b>		<b><u>222,608,815</u></b>	<b><u>91,843,726</u></b>

The above statement is to be read in conjunction with the policies and notes on pages 7 - 17.

**Petroleum Fund of Timor-Leste**  
**Balance Sheet**  
**As at 31 December 2008**

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	<i>Note</i>	<i>Dec-08</i> <i>USD</i>	<i>Dec-07</i> <i>USD</i>
<b>Assets</b>			
Cash and cash equivalents	7	634,535	646,636
Interest receivable	4	22,405,960	10,733,300
Investments at fair value through profit or loss	5,9	<u>4,173,931,238</u>	<u>2,074,777,149</u>
<b>Total assets</b>		<u><b>4,196,971,733</b></u>	<u><b>2,086,157,085</b></u>
<b>Net Assets</b>		<u><b>4,196,971,733</b></u>	<u><b>2,086,157,085</b></u>
<b>Capital</b>			
Capital		<u>4,196,971,733</u>	<u>2,086,157,085</u>
<b>Total Capital</b>		<u><b>4,196,971,733</b></u>	<u><b>2,086,157,085</b></u>

The above statement is to be read in conjunction with the policies and notes on pages 7 - 17.

**Petroleum Fund of Timor-Leste  
Statement of Changes in Capital  
For the Year Ended 31 December 2008**

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	<i>Note</i>	<i>Dec-08 USD</i>	<i>Dec-07 USD</i>
<b>Capital at the beginning of the year</b>		<b>2,086,157,085</b>	<b>1,394,222,729</b>
Transfers to the Petroleum Fund pursuant to Article 6 of the Petroleum Fund Law			
Petroleum Fund gross receipts	6	<u>2,284,231,607</u>	<u>640,090,630</u>
		<b><u>4,370,388,692</u></b>	<b><u>2,034,313,359</u></b>
Transfers to the Consolidated Fund <i>(pursuant to Article 7 of the Petroleum Fund Law)</i>	6	(396,000,000)	(40,000,000)
Refunds of taxation <i>(pursuant to Article 10 of the Petroleum Fund Law)</i>	6	(25,774)	-
Profit for the year		<u>222,608,815</u>	<u>91,843,726</u>
<b>Capital at the end of the year</b>		<b><u>4,196,971,733</u></b>	<b><u>2,086,157,085</u></b>

The above statement is to be read in conjunction with the policies and notes on pages 7 - 17.

**Petroleum Fund of Timor-Leste**  
**Cash Flow Statement**  
**For the Year Ended 31 December 2008**

	<i>Note</i>	<i>Dec-08 USD 12 months</i>	<i>Dec-07 USD 6 months</i>
<b>Cash flows from funding activities</b>			
Petroleum Fund receipts		2,284,231,607	640,090,630
Transfers to the Consolidated Fund		(396,000,000)	(40,000,000)
Refunds of taxation		<u>(25,774)</u>	<u>-</u>
<b>Net cash inflow/(outflow) from funding activities</b>	<b>6</b>	<b><u>1,888,205,833</u></b>	<b><u>600,090,630</u></b>
<b>Cash flows from investing activities</b>			
Proceeds from sale of investments	5	2,722,472,230	763,905,397
Purchases of investments	5	<u>(4,713,933,757)</u>	<u>(1,392,308,182)</u>
<b>Net cash inflow/(outflow) from investing activities</b>		<b><u>(1,991,461,527)</u></b>	<b><u>(628,402,785)</u></b>
<b>Cash flows from operating activities</b>			
Interest received		104,296,681	29,068,922
Operating expenses paid		<u>(1,053,088)</u>	<u>(521,392)</u>
<b>Net cash inflow/(outflow) from operating activities</b>	<b>17</b>	<b><u>103,243,593</u></b>	<b><u>28,547,530</u></b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b><u>(12,101)</u></b>	<b><u>235,375</u></b>
Cash and cash equivalents at the beginning of the year		<u>646,636</u>	<u>411,261</u>
<b>Cash and cash equivalents at the end of the year</b>	<b>7</b>	<b><u>634,535</u></b>	<b><u>646,636</u></b>

The above statement is to be read in conjunction with the policies and notes on pages 7 - 17.

**Petroleum Fund of Timor-Leste**  
**Notes to the Financial Statements**  
**For the Year Ended 31 December 2008**

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## 1. General Information

The Petroleum Fund of Timor-Leste (the "Petroleum Fund") was established under the provisions of the Petroleum Fund Law No. 9/2005 of the Democratic Republic of Timor-Leste enacted on 3 August 2005.

Pursuant to Article 139 of the Constitution of the Republic, petroleum resources are owned by the State and are to be used in a fair and equitable manner in accordance with national interests, with the income derived there from leading to the establishment of mandatory financial reserves. The Petroleum Fund is a means of contributing to the wise management of petroleum resources for the benefit of both current and future generations, and a tool that contributes to sound fiscal policy where appropriate consideration and weight is given to the long-term interests of Timor-Leste's citizens. The Petroleum Fund is integrated into the State budget.

The Banking and Payments Authority of Timor-Leste (BPA), having its office at Avenida Bispo Medeiros, Dili, Timor-Leste, is responsible for the operational management of the Petroleum Fund, and is the registered owner of all the assets of the Petroleum Fund. The management of the Petroleum Fund is undertaken according to a Management Agreement between the Ministry of Planning and Finance and the BPA.

Following the change of the Government financial year under Law No. 8/2007 the Balance Sheet date of the fund has changed from 30 June to 31 December each year. Accordingly, the comparative period in these financial statements covers a six-month period from 1 July 2007 to 31 December 2007. The financial results and balances reported in these financial statements are not rounded.

These financial statements were authorized for issue by the Director of Treasury on 23 June 2009.

## 2. Significant Accounting Policies

### Basis of accounting

In accordance with Article 21 of the Petroleum Fund Law, the financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) which comprise standards and interpretations approved by the International Accounting Standards Board (IASB) and International Accounting Standards and Standing Interpretations Committee interpretations approved by the International Accounting Standards Committee (IASC) that remain in effect at the Petroleum Fund's balance date.

The financial statements are presented in United States dollars. They are prepared on the historical cost basis, except for the revaluation of certain financial instruments.

The preparation of financial statements in conformity with international accounting standards requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expense. The estimates and associated assumptions are based on historical experience and other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values and assets and liabilities that are not readily apparent from other sources. Actual results may vary from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision, and future periods if the revision affects both current and future periods.

Judgments made by management in the application of international accounting standards that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 10.

## **2. Significant Accounting Policies (continued)**

The accounting policies have been consistently applied by the Petroleum Fund. The Petroleum Fund has adopted the IFRSs that were effective at balance date.

The Petroleum Fund is not required to report segment information.

The balance sheet presents assets and liabilities in increasing order of liquidity and does not distinguish between current and non current items.

The principal accounting policies are set out below.

### **(a) Foreign currency translation**

#### *(i) Functional and presentation currency*

Items included in the Petroleum Fund's financial statements are measured and presented in United States dollars, being the official currency of the Democratic Republic of Timor-Leste.

#### *(ii) Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement.

### **(b) Financial instruments**

#### *(i) Classification*

##### *Investments*

The manner in which the Petroleum Fund is managed is set out in Annex I to the Management Agreement between the Banking & Payments Authority and the Minister of Finance, which establishes the Merrill Lynch 0-5 year government bond index as the performance benchmark for the Fund.

The investment portfolio of the Petroleum Fund, being managed and having its performance measured and reported in accordance with documented risk management and investment strategies, has accordingly been designated at fair value through profit or loss for accounting purposes.

##### *Interest and other receivables*

Financial assets that are classified as loans and receivables include cash balances due from financial intermediaries from the sale of securities, receivables from reverse repurchase agreements with a maturity of more than one business day, and accounts receivable.

Financial liabilities that are not at fair value through profit and loss include balances payable to financial intermediaries for the purchase of securities, and accounts payable.

#### *(ii) Recognition and de-recognition*

##### *Investments*

The Petroleum Fund recognizes financial assets and financial liabilities on its balance sheet from the date the Petroleum Fund becomes a party to the contractual provisions of the instrument. The Petroleum Fund offsets financial assets and financial liabilities if the Petroleum Fund has a legally enforceable right to set off the recognized amounts and interests and intends to settle on a net basis.

Investments are derecognized when the rights to receive cash flows from the investments have expired or the Petroleum Fund has transferred substantially all risks and rewards of the ownership.

Financial liabilities are derecognized when the obligation specified in the contract is discharged or cancelled or expired.

##### *Interest and other receivables*

Other receivables and payables are recognized on an accruals basis.



## **2. Significant Accounting Policies (continued)**

### *(iii) Measurement*

#### *Investments*

Financial instruments are measured initially at fair value.

Investments are designated at fair value through profit or loss on initial recognition. As the Petroleum Fund's business is investing in financial assets according to a defined mandate with a view to profiting from their total return in the form of interest, dividends or increases in fair value, listed securities and fixed income securities are designated as fair value through profit and loss on initial recognition.

The Petroleum Fund manages and evaluates the performance of these investments on a fair value basis in accordance with its investment mandate, with information about the performance of the investments and their related benchmarks being regularly published.

Financial assets designated as at fair value through profit and loss are measured at subsequent reporting dates at fair value, based on the bid price.

Changes in the fair value of such investments (including impairment losses and foreign exchange gains and losses) are recognized in the income statement until the financial asset is derecognized.

#### *Interest and other receivables*

Other receivables do not carry interest and are short-term in nature and accordingly are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts.

### *(iv) Impairment*

Financial assets that are stated at cost or amortized cost are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such indication exists, an impairment loss is recognized in the income statement as the difference between the asset's carrying amount and the present value estimated future cash flows discounted at the original effective interest rate.

If in a subsequent period the amount of an impairment loss recognized on a financial asset carried at amortized cost decreases and the decrease can be linked objectively to an event occurring after the write-down, the write-down is reversed through the income statement.

### *(v) Fair value measurement principles*

The fair value of financial instruments is based on their quoted market prices at the balance sheet date without any deduction for estimated future selling costs. Financial assets held or a liability to be issued are priced at current bid prices, while financial liabilities held and assets to be acquired are priced at current asking prices.

### *(vi) Specific instruments*

#### *Cash and cash equivalents*

Cash comprises current deposits with banks. Cash equivalents are short-term highly liquid investments that are readily convertible to known amounts of cash, are subject to an insignificant risk of changes in value, and are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes.

#### *Repurchase and reverse repurchase transactions*

Securities sold subject to a simultaneous agreement to repurchase these securities at a certain later date at a fixed price (repurchase agreements) are retained in the financial statements and are measured in accordance with their original measurement principles. The proceeds of sale are reported as liabilities and are carried at amortized cost.

Securities purchased under agreements to resell (reverse repurchase agreements) with a maturity period of greater than one financial day are reported not as purchases of securities, but as receivables and are carried in the balance sheet at amortized cost.

Interest earned on reverse repurchase agreements and interest incurred on repurchase agreements is recognized as interest income or interest expense over the life of each agreement using the effective interest method.

### *(vii) Encumbrances on the assets of the Petroleum Fund*

The Petroleum Fund is not permitted to encumber its assets. In accordance with Article 20 of the Petroleum Fund law any contract, agreement, or arrangement, to the extent that it purports to encumber the assets of the Petroleum Fund, whether by way of guarantee, security, mortgage or any other form of encumbrance, is null and void.

**Petroleum Fund of Timor-Leste**  
**Notes to the Financial Statements**  
**For the Year Ended 31 December 2008**

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## **2. Significant Accounting Policies (continued)**

### **(c) Recognition of Petroleum Fund Receipts**

The Petroleum Fund Law requires certain parties to deposit taxes and other petroleum-related payments payable to the Government of Timor-Leste directly into the Petroleum Fund. The Petroleum Fund recognizes these and other transactions affecting the capital of the Petroleum Fund as follows:

- Payments made as Petroleum Fund receipts in accordance with Article 6.1(a) are recognized as income in the State accounts, and accordingly are credited directly to the capital account of the Petroleum Fund.
- Payments made by the Designated Authority in accordance with Article 6.1(b) are recognized as income in the State accounts, and accordingly are credited directly to the capital account of the Petroleum Fund.
- Income earned by the Petroleum Fund from the investment of its assets is recognized in the Income Statement and credited to the capital of the Petroleum Fund in accordance with Article 6.1(c).
- Management fees paid from the gross receipts of the Petroleum Fund pursuant to Article 6.2 are recognized in the Income Statement.
- Refunds of taxation made pursuant to Article 10 are shown as reductions in the capital of the Petroleum Fund.

### **(d) Interest income**

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's carrying amount.

### **(e) Expenses**

In accordance with the provisions of the Petroleum Fund Law, all expenses of the Petroleum Fund, not relating to the purchase or sale of securities and recognized in the sale or purchase price, are met by the Banking and Payments Authority of Timor-Leste and are covered by a management fee.

In accordance with Article 6.3 of the Petroleum Fund Law, the management fee paid to the Banking and Payments Authority is recognized as a deduction from the gross receipts of the Petroleum Fund, although it is accounted in the income statement of the Petroleum Fund. Management and performance fees payable to external fund managers are met from the management fee payable to the Banking and Payments Authority.

Expenses which are incidental to the acquisition of an investment are included in the cost of that investment.

Expenses that are incidental to the disposal of an investment are deducted from the disposal proceeds of the investment.

### **(f) Taxation**

The Petroleum Fund is exempt from paying taxes on income, profits or capital gains under the current system of taxation in the Democratic Republic of Timor-Leste.

**Petroleum Fund of Timor-Leste**  
**Notes to the Financial Statements**  
**For the Year Ended 31 December 2008**

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### 3. Interest Income

Interest was earned during the year from the following sources:

	<i>Dec-08</i>	<i>Dec-07</i>
	<i>USD</i>	<i>USD</i>
	<i>12 months</i>	<i>6 months</i>
Fixed interest debt securities	115,607,189	32,461,205
Cash and cash equivalents	<u>362,152</u>	<u>310,404</u>
	<b><u>115,969,341</u></b>	<b><u>32,771,609</u></b>

### 4. Interest Receivable

The amount of interest accrued at balance date was as follows:

	<i>Dec-08</i>	<i>Dec-07</i>
	<i>USD</i>	<i>USD</i>
Fixed interest debt securities	22,405,960	10,733,267
Cash and cash equivalents	<u>-</u>	<u>33</u>
	<b><u>22,405,960</u></b>	<b><u>10,733,300</u></b>

### 5. Financial Assets

Aside from short-term cash management activities, the Petroleum Fund has invested solely in United States Government Treasury Notes from its inception to balance date. Sales of securities have taken place to periodically rebalance the investment portfolio to the benchmark.

	<i>Dec-08</i>	<i>Dec-07</i>
	<i>USD</i>	<i>USD</i>
<b>Fair value through profit or loss assets</b>		
Opening fair value	2,074,777,149	1,386,780,855
Purchases at cost	4,713,933,757	1,392,308,182
Proceeds from sales	(2,722,472,230)	(763,905,397)
Net gain or (loss)	<u>107,692,562</u>	<u>59,593,509</u>
<b>Fair value of investment assets at the end of the year</b>	<b><u>4,173,931,238</u></b>	<b><u>2,074,777,149</u></b>

There were no impairment losses at balance date.

The carrying amount of these assets approximates their fair value.

**Petroleum Fund of Timor-Leste**  
**Notes to the Financial Statements**  
**For the Year Ended 31 December 2008**

**6. Capital Receipts and Payments of the Petroleum Fund**

As per Article 7 of the Petroleum Fund Law, the only debits permitted to the Petroleum Fund are electronic transfers to the credit of a single State Budget account. The total amount transferred from the Petroleum Fund for a Fiscal Year must not exceed the appropriated amount approved by Parliament for the year.

During the year ended 31 December 2008 the sum of US\$686,800,000 (6 months to 31 December 2007 - US\$40,000,000) was approved for appropriation by parliament from the Petroleum Fund. The Court of Appeal subsequently reduced the appropriation to US\$396,100,000. A sum of US\$396,000,000 (6 months to 31 December 2007 - US\$40,000,000) was transferred from the Petroleum Fund to the State Budget account during the year.

The following table shows the capital receipts and payments of the Petroleum Fund.

Month	<i>Dec-08</i>				
	<i>USD</i>				
	Article 6.1(a) receipts	Article 6.1(b) receipts	To Consolidated Fund	Refunds of taxation	TOTAL
January 2008	66,268,241	9,896,825	-	-	76,165,066
February	70,341,211	82,793,739	-	-	153,134,950
March	85,126,474	165,319,180	-	-	250,445,654
April	88,942,387	109,117,746	-	-	198,060,133
May	64,975,502	124,809,268	-	-	189,784,770
June	79,550,769	131,413,035	-	-	210,963,804
July	95,598,715	86,969,071	(60,000,000)	-	122,567,786
August	86,880,451	130,544,828	(40,000,000)	-	177,425,279
September	74,354,399	145,522,331	(40,000,000)	-	179,876,730
October	76,617,217	167,754,062	(80,000,000)	(25,774)	164,345,505
November	54,030,310	123,744,891	(80,000,000)	-	97,775,201
December	<u>53,137,207</u>	<u>110,523,748</u>	<u>(96,000,000)</u>	-	<u>67,660,955</u>
<b>Totals</b>	<b><u>895,822,883</u></b>	<b><u>1,388,408,724</u></b>	<b><u>(396,000,000)</u></b>	<b><u>(25,774)</u></b>	<b><u>1,888,205,833</u></b>

Month	<i>Dec-07</i>				
	<i>USD</i>				
	Article 6.1(a) receipts	Article 6.1(b) receipts	To Consolidated Fund	Refunds of taxation	TOTAL
July	74,299,611	68,883,266	-	-	143,182,877
August	14,859,542	96,137,238	-	-	110,996,780
September	27,057,360	100,309,175	-	-	127,366,535
October	19,379,905	90,025,432	-	-	109,405,337
November	22,412,526	95,388,564	-	-	117,801,090
December	<u>26,431,647</u>	<u>4,906,364</u>	<u>(40,000,000)</u>	-	<u>(8,661,989)</u>
<b>Totals</b>	<b><u>184,440,591</u></b>	<b><u>455,650,039</u></b>	<b><u>(40,000,000)</u></b>	<b>-</b>	<b><u>600,090,630</u></b>

**Petroleum Fund of Timor-Leste**  
**Notes to the Financial Statements**  
**For the Year Ended 31 December 2008**

## 7. Cash and Cash Equivalents

The Petroleum Fund invests surplus cash in overnight markets with banks or through reverse repurchase agreements. For the purposes of the cash flow statement, cash and cash equivalents comprise the following balances with original maturity of less than 90 days:

	<i>Dec-08</i>	<i>Dec-07</i>
	<i>USD</i>	<i>USD</i>
Cash at bank	234,535	246,636
Overnight reverse repurchase agreements	<u>400,000</u>	<u>400,000</u>
	<u><b>634,535</b></u>	<u><b>646,636</b></u>

The cash at bank represents the balance at the Federal Reserve Bank of New York, in the earmarked receipts account held by the BPA in accordance with Article 5.2 of the Petroleum Fund law.

The carrying amounts of cash and cash equivalents approximates their fair value.

## 8. Related Party Transactions

The ultimate controlling party of the Petroleum Fund is the Democratic Republic of Timor-Leste.

The following are related parties:

- (a) The government, as stipulated in Article 11.1 of the Petroleum Fund Law, is the overall manager of the Petroleum Fund.

The Petroleum Fund receives revenues on behalf of the government, as disclosed in note 2(c). The government, through the State budget, meets the expenses of the Petroleum Fund, including the audit fee, not otherwise covered by the management fee.

- (b) The Banking and Payments Authority of Timor-Leste is the operational manager of the Petroleum Fund, in accordance with Article 11.3 of the Petroleum Fund Law.

The management fee covers the operational management of the Petroleum Fund which is undertaken by the Banking & Payments Authority of Timor-Leste (BPA), in accordance with the provisions of Article 11.3 of the Petroleum Fund Law. The audit fee, expenses of the Investment Advisory Board, and expenses incurred within the Ministry of Finance relating to the overall management of the Petroleum Fund are met directly from the State budget. The management fee paid to the BPA for the period was composed as follows:

	<i>Dec-08</i>	<i>Dec-07</i>
	<i>USD</i>	<i>USD</i>
BPA operating expenses	907,210	521,392
Custody and related services	<u>145,878</u>	<u>-</u>
<b>Total</b>	<u><b>1,053,088</b></u>	<u><b>521,392</b></u>

## 9. Qualifying Instruments

		<i>Dec-08</i>		
		<i>USD</i>		
US Treasury Notes		Face Value	Fair Value	% of net assets
3 <sup>7</sup> / <sub>8</sub> %	15 May 2009	645,000,000	653,648,783	15.6
3 1/2%	15 Nov 2009	629,700,000	646,562,305	15.5
3 <sup>7</sup> / <sub>8</sub> %	15 May 2010	656,300,000	687,865,356	16.5
4 <sup>1</sup> / <sub>2</sub> %	15 Nov 2010	397,400,000	426,751,444	10.2
4 <sup>7</sup> / <sub>8</sub> %	30 Apr 2011	211,900,000	232,233,778	5.6
4 5/8%	31 Oct 2011	289,700,000	319,764,562	7.7
4 1/2%	30 Apr 2012	233,300,000	258,277,966	6.2
3 <sup>7</sup> / <sub>8</sub> %	31 Oct 2012	255,200,000	282,367,297	6.8
3 <sup>1</sup> / <sub>8</sub> %	30 Apr 2013	298,500,000	322,983,470	7.7
2 <sup>3</sup> / <sub>4</sub> %	31 Oct 2013	<u>323,200,000</u>	<u>343,476,277</u>	<u>8.2</u>
<b>Total</b>		<u><b>3,940,200,000</b></u>	<u><b>4,173,931,238</b></u>	<u><b>100.0</b></u>

**Petroleum Fund of Timor-Leste**  
**Notes to the Financial Statements**  
**For the Year Ended 31 December 2008**

**9. Qualifying Instruments (continued)**

		<i>Dec-07</i>		
		<i>USD</i>		
<b>US Treasury Notes</b>		<b>Face Value</b>	<b>Fair Value</b>	<b>% of net assets</b>
2 5/8%	15 May 2008	457,600,000	456,419,378	22.0
3 3/8%	15 Nov 2008	289,400,000	289,376,839	13.9
2 7/8%	15 May 2009	277,200,000	280,099,506	13.5
3 1/2%	15 Nov 2009	276,500,000	278,938,741	13.4
3 7/8%	15 May 2010	147,700,000	150,491,529	7.3
4 1/2%	15 Nov 2010	104,000,000	108,135,038	5.2
4 7/8%	30 Apr 2011	117,100,000	123,339,092	5.9
4 5/8%	31 Oct 2011	128,300,000	134,453,265	6.5
4 1/2%	30 Apr 2012	124,400,000	129,948,239	6.3
3 7/8%	30 Apr 2012	121,200,000	123,575,519	6.0
<b>Total</b>		<b><u>2,043,400,000</u></b>	<b><u>2,074,777,146</u></b>	<b><u>100.0</u></b>

**10. Critical Accounting Estimates and Judgments**

The Petroleum Fund makes estimates and assumptions that affect the reported amounts of assets and liabilities. Estimates are continually evaluated and based on historical experience and other factors, including expectations of the future events that are believed to be reasonable under the circumstances.

Estimates use observable data to the extent practicable. However, areas such as credit risk, volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

Judgments have been made as to whether certain transactions should be recognised as capital or revenue. The basis for these judgments is outlined in Note 2(c).

**11. Risk Management**

**Investment Strategy**

The Petroleum Fund's objective is to meet benchmark returns on its capital in accordance with the management agreement and within the limits established in Articles 14 and 15 of the Petroleum Fund Law relating to Investment Rules and Qualifying Instruments.

The Rules provide that not less than 90% of the amounts in the Petroleum Fund shall be invested only in the qualifying instruments and the balance may be invested in other financial instruments that are issued abroad, are liquid & transparent, and are traded in a financial market of the highest regulatory standard.

The Rules further provide that a qualifying instrument is:

- (a) an interest bearing debt instrument in US dollars which is rated Aa3 or higher by Moody rating agency or AA- or higher by Standard & Poor's rating agency, or is issued by or guaranteed by World Bank or a sovereign state (other than Timor-Leste) provided the issuer or guarantor is rated as above; or
- (b) interest bearing US dollar denominated debt instrument or US dollar deposit issued by Bank for International Settlements, or European Central Bank, or central bank of a sovereign state (other than Timor-Leste) or any other bank with a long term currency ratings as above.
- (c) A derivative instrument which is solely based on (a) or (b) above provided its acquisition reduces the financial exposure to the risks associated with the underlying instruments

Furthermore, the average interest rate duration of the qualifying instruments shall be less than 6 years.

**Petroleum Fund of Timor-Leste**  
**Notes to the Financial Statements**  
**For the Year Ended 31 December 2008**

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## 11. Risk Management (continued)

These Articles in the law, together with the mandate in the Operational Management Agreement, define the framework within which risks are to be managed.

The interest rate duration (modified duration) of the benchmark and the portfolio at 31 December 2008 was 2.047 years and 2.047 years respectively.

The Petroleum Fund did not enter into any transactions of a derivative nature during the period covered by these financial statements, whether for hedging purposes or otherwise.

The Petroleum Fund investment portfolio of assets at fair value through profit or loss (excluding cash and cash equivalents) complied with the legislative and contractual requirements outlined above throughout the period.

The financial risks associated with the Petroleum Fund are monitored by the Risk Management Division of the Petroleum Fund Department at the Banking and Payments Authority, which prepares daily reports for senior management. The Petroleum Fund is subject to periodic audit by the Internal Audit Office of the Banking and Payments Authority, which has operational independence from the management of the Petroleum Fund. The Internal Audit Office provides formal monthly reports to the General Manager, and quarterly reports to the Governing Board of the Banking and Payments Authority.

## 12. Operational Risk

Operational risk is the risk of loss in both financial and non-financial terms resulting from human error and the failure of internal processes and systems.

The Banking and Payments Authority, as the operational manager of the Petroleum Fund, manages the operational risks associated with the operations of the Petroleum Fund. Operational risk management includes corporate policies that describe the standard of conduct required of staff, and specific internal control systems designed around the particular characteristics of the Petroleum Fund.

Compliance with corporate policies and departmental internal control systems are managed by an active internal audit function, and specific provision in the daily reports prepared by the Risk Management Division for the reporting of all issues that arise in connection with operational matters. The purpose of this section of the reports is to notify senior management promptly of unexpected operational issues, and provide them with the opportunity to provide advice or take remedial action.

J.P. Morgan was appointed custodian of the Fund on June 2008. As part of the custodial agreement their responsibilities include holding the Funds assets. The Fund relies on the due diligence of the custodian upon appointment. Operational risks arising from this arrangement is managed through the continual monitoring of the custodian against key service level standards including receiving audited internal control reports and existence reports over the assets held.

## 13. Credit Risk

Credit risk is the risk of loss arising from counterparty to a financial contract failing to discharge its obligations.

### (a) Credit risk management

The framework for managing credit risk is broadly provided for in Article 15 of the Petroleum Fund Law, which states that the only instruments that may be acquired by the Petroleum Fund are interest bearing debt instrument in US dollars which are rated Aa3 or higher by Moody rating agency or AA- or higher by Standard & Poor's rating agency, or are issued by or guaranteed by World Bank or a sovereign state (other than Timor-Leste) provided the issuer or guarantor is rated as above.

In recognition of the mandate in the Operational Management Agreement that the performance of the Petroleum Fund will be measured against a benchmark index comprising United States Government treasury notes, the Banking and Payments Authority has invested the assets of the Petroleum Fund in such notes, which carry the highest credit rating. The maximum loss that the Petroleum Fund would suffer as a result of a default by the United States Government is the value disclosed in the Balance sheet.

### (b) Concentration of Credit Exposure

The Petroleum Fund's significant end-of-year concentrations of credit exposure by the industry of the issuer were as follows:

	<i>Dec-08</i>	<i>Dec-07</i>
	<i>USD</i>	<i>USD</i>
Sovereign Issuers:		
United States Government	<u>4,196,971,733</u>	<u>2,086,157,085</u>
	<u>4,196,971,733</u>	<u>2,086,157,085</u>

**Petroleum Fund of Timor-Leste**  
**Notes to the Financial Statements**  
**For the Year Ended 31 December 2008**

### 13. Credit Risk (continued)

#### (c) Credit Exposure by Credit Rating

The following table presents the Petroleum Fund's balance sheet classified according to the Standard and Poor's credit rating of the issuer. AAA is the highest rating possible and indicates that the entity has an extremely strong capacity to pay interest and principal. AA is a high grade rating, indicating a very strong capacity, and A is an upper medium grade, indicating a strong capacity to pay interest and principal. BBB is the lowest investment grade rating, indicating a medium capacity to pay interest and principal. Ratings lower than AAA can be modified by + or - signs to indicate relative standing within the major categories.

	<i>Dec-08</i>		<i>Dec-07</i>	
	<i>USD</i>		<i>USD</i>	
<b>FINANCIAL ASSETS</b>	<b>Balance Sheet</b>	<b>AAA</b>	<b>Balance Sheet</b>	<b>AAA</b>
Cash and cash equivalents	634,535	634,535	646,636	646,636
Interest receivable	22,405,960	22,405,960	10,733,300	10,733,300
Investments at fair value through profit or loss	<u>4,173,931,238</u>	<u>4,173,931,238</u>	<u>2,074,777,149</u>	<u>2,074,777,149</u>
<b>Total Assets</b>	<b><u>4,196,971,733</u></b>	<b><u>4,196,971,733</u></b>	<b><u>2,086,157,085</u></b>	<b><u>2,086,157,085</u></b>

#### (d) Credit Exposure by Counterparty as a percentage of the Petroleum Fund's Capital

The assets of the Fund exposed to the United States Government amounted to 100% of the Petroleum Fund's capital.

### 14. Interest Rate Risk

Interest rate risk is the risk of loss arising from a change in interest rates.

The Petroleum Fund manages this risk by investing passively according to well-defined industry benchmarks. The assets and liabilities of the Petroleum Fund will re-price within the following periods:

	<i>Dec-08</i>					
	<i>USD</i>					
<b>FINANCIAL ASSETS</b>	<b>Balance Sheet</b>	<b>No-interest sensitive</b>	<b>6 months or less</b>	<b>6 to 12 months</b>	<b>1 to 2 years</b>	<b>2 to 5 years</b>
Cash and cash equivalents	634,535	-	635,535	-	-	-
Interest receivable	22,405,960	22,405,960	-	-	-	-
Investments at fair value through profit or loss	<u>4,173,931,238</u>	<u>-</u>	<u>653,648,783</u>	<u>646,562,305</u>	<u>1,114,616,801</u>	<u>1,759,103,349</u>
<b>Total Assets</b>	<b><u>4,196,971,733</u></b>	<b><u>22,405,960</u></b>	<b><u>654,284,318</u></b>	<b><u>646,562,305</u></b>	<b><u>1,114,616,801</u></b>	<b><u>1,759,103,349</u></b>

<b>Weighted average interest rate</b>	3.88 %	3.50 %	4.11 %	3.88 %
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	<i>Dec-07</i>					
	<i>USD</i>					
<b>FINANCIAL ASSETS</b>	<b>Balance Sheet</b>	<b>No-interest sensitive</b>	<b>6 months or less</b>	<b>6 to 12 months</b>	<b>1 to 2 years</b>	<b>2 to 5 years</b>
Cash and cash equivalents	646,636	-	646,636	-	-	-
Interest receivable	10,733,300	10,733,300	-	-	-	-
Investments at fair value through profit or loss	<u>2,074,777,149</u>	<u>-</u>	<u>745,796,218</u>	<u>280,099,506</u>	<u>429,430,270</u>	<u>619,451,155</u>
<b>Total Assets</b>	<b><u>2,086,157,085</u></b>	<b><u>10,733,300</u></b>	<b><u>746,442,854</u></b>	<b><u>280,099,506</u></b>	<b><u>429,430,270</u></b>	<b><u>619,451,155</u></b>

<b>Weighted average interest rate</b>	3.32 %	3.38 %	3.05 %	3.22 %
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**Petroleum Fund of Timor-Leste**  
**Notes to the Financial Statements**  
**For the Year Ended 31 December 2008**

## 15. Currency Risk

Currency risk is the risk of losses arising from changes in foreign exchange rates.

The Petroleum Fund is required by the Petroleum Fund law to manage this risk by investing at least 90% of the Fund's assets in United States dollar denominated instruments, the United States dollar also being the official currency of Timor-Leste.

The assets of the Petroleum Fund in United States dollars are set out in the following table:

FINANCIAL ASSETS	Dec-08		Dec-07	
	Balance Sheet	USD	Balance Sheet	USD
Cash and cash equivalents	634,535	634,535	646,636	646,636
Interest receivable	22,405,960	22,405,960	10,733,300	10,733,300
Investments at fair value through profit or loss	<u>4,173,931,238</u>	<u>4,173,931,238</u>	<u>2,074,777,149</u>	<u>2,074,777,149</u>
<b>Total Assets</b>	<b><u>4,196,971,733</u></b>	<b><u>4,196,971,733</u></b>	<b><u>2,086,157,085</u></b>	<b><u>2,086,157,085</u></b>

## 16. Liquidity, Capital and Market Risk

### (a) Liquidity risk

Liquidity risk is the risk that the Petroleum Fund will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity may result from an inability to sell a financial asset quickly at close to its fair value.

### (b) Capital risk

The Petroleum Fund is a mandatory financial reserve established with the objective of allocating financial wealth obtained from natural resources fairly and equitably between current and future generations of Timorese. The Fund's capital structure consists solely of paid in capital derived from petroleum revenues and other sources as described in Note 2(c). Each year the Government calculates Estimated Sustainable Income (ESI) which is defined as the maximum amount that can be appropriated from the Fund in a fiscal year and leave sufficient resources in the Fund for an amount of equal real value to be appropriated in all later fiscal years. The ESI calculation is submitted with the annual budget to Parliament, which is required to take the ESI into consideration when determining the amount of capital to be appropriated from the Fund.

There has been no change during the year in these objectives and policies for managing capital and the Fund has complied with all legislative requirements relating to the management of the Fund's capital.

### (c) Market risk

Market risk is the risk that the Petroleum Fund may encounter high market prices, giving low yields, at the point investments mature and the funds are available for reinvestment.

The Petroleum Fund manages its investment portfolio according to a passive investment mandate, and accordingly does not specifically manage this risk.

The principal tool used to manage and control market risk exposure for the bond portfolio is modified duration. The modified duration is an approximation equal to the percentage change in the value of the underlying bond portfolio for each percentage change in market yield.

The modified duration of the portfolio as at 31 December 2008 was 2.047 years (2007 – 1.830 years). A parallel shift in the yield curve representing a 1% increase/(decrease) in market interest rates would decrease/(increase) the fair value of the portfolio by \$86 million (2007 – \$38 million).

## 17. Reconciliation of Net Cash Flows with Reported Operating Surplus

	Dec-08	Dec-07
	USD	USD
	12 months	6 months
Reported Operating Profit	222,608,815	91,843,726
Add/(Subtract) Non-Cash Items		
Increase in interest receivable	(11,672,660)	(3,702,687)
Net unrealised gain	<u>(107,692,562)</u>	<u>(59,593,509)</u>
<b>Net Cash Flow from Operating Activities</b>	<b><u>103,243,593</u></b>	<b><u>28,547,530</u></b>



REPÚBLICA DEMOCRÁTICA DE TIMOR-LESTE  
MINISTÉRIO DAS FINANÇAS  
GABINETE DA TESOIRO

Díli, 13 August 2009  
Ofício n.º 301 /DNJ/MT/2009

To,  
Mr. Antonio Freitas,  
Director General,  
Policy Analysis and Research

Subject: Statement on accounting policy for Petroleum Fund the Fiscal Year 2008

With respect to the provisions of the Article 24.1 part (c) of the Petroleum Fund Law, following statement on the accounting policy may be kept for your record:

“In accordance with Article 21 of the Petroleum Fund Law, the Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRS) which comprise standards and interpretations approved by the International Accounting Standards Board (IASB) and International Accounting Standards and Standing Interpretations Committee interpretations approved by the International Accounting Standards Committee (IASC) that remained in effect at the Petroleum Fund’s balance date. The Financial Statements of the Petroleum Fund have also adopted *IFRS 7: Financial Instruments Disclosures*.”

Best Regards

Sara Lobo Brites  
Director of Treasury



**Statement of comparison of income with last three years*****(As per Article 24.1 (d) of Petroleum Fund Law No. 9/2005)***

Fiscal Year 2005-06 was the first year of operation of the Petroleum Fund. Please refer to the Income Statement of the Financial Statements for details.

(US dollars)

FY 2008	Jul-Dec 2007	FY 2006-07	FY 2005-06
222,608,815	91,843,726	48,292,979	7,048,296

**Statement of comparison of nominal income on the investment of Petroleum Fund assets with the real returns after adjusting for inflation**

***(As per Article 24.1 (e) of Petroleum Fund Law No. 9/2005)***

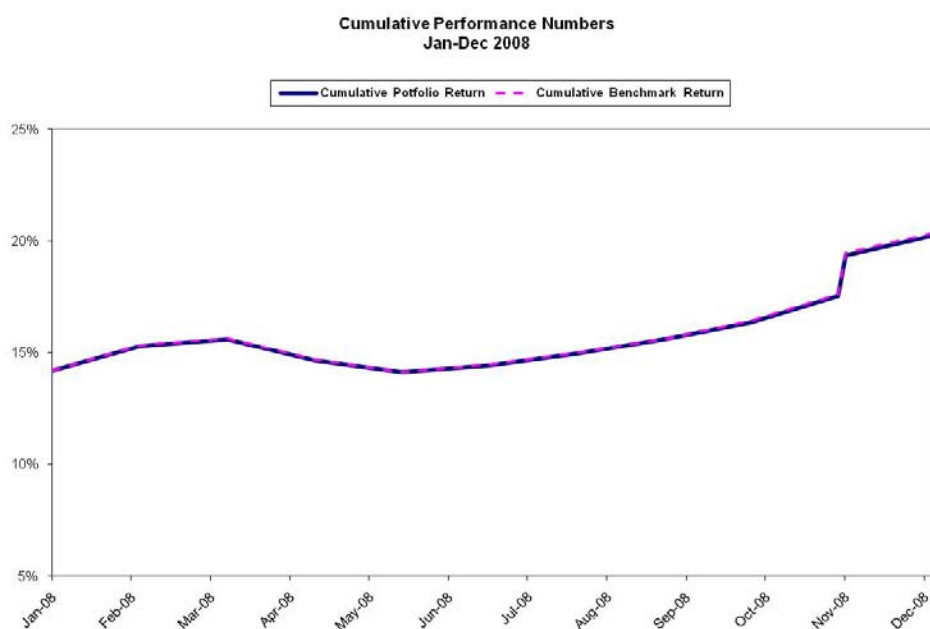
*The yield on the portfolio in the period is 6.9 per cent. The average yield to maturity of the investments made through the Financial Year 2008 has been estimated at 2.0 per cent.*

*During 2008 inflation in the USA was 3.0 per cent. The real return on the investments, based on the yield on the portfolio and the yield to maturity, is 3.9% and -1.0% respectively.*

## Statement of comparison of income on the investment of Petroleum Fund assets with the benchmark performance indices

**(As per Article 24.1 (f) of Petroleum Fund Law No. 9/2005)**

Statement of comparison of income on the investment of Petroleum Fund assets with the benchmark performance indices is given below:



**Petroleum Fund of Timor-Leste  
Year to Date (YTD) Performance  
January-December 2008**

Periode	Portfolio	Benchmark	Excess return	Cumulative Portfolio	Cumulative Benchmark	Cumulative Excess Return
Jan-08	1.74%	1.74%	-0.01%	14.197%	14.203%	-0.005%
Feb-08	0.97%	0.98%	0.00%	15.310%	15.317%	-0.006%
Mar-08	0.25%	0.29%	-0.04%	15.599%	15.654%	-0.047%
Apr-08	-0.83%	-0.84%	0.01%	14.640%	14.680%	-0.035%
May-08	-0.46%	-0.48%	0.03%	14.117%	14.126%	-0.007%
Jun-08	0.29%	0.31%	-0.02%	14.444%	14.478%	-0.029%
Jul-08	0.46%	0.44%	0.02%	14.97%	14.98%	-0.01%
Aug-08	0.53%	0.53%	0.01%	15.58%	15.59%	0.00%
Sep-08	0.67%	0.73%	-0.06%	16.36%	16.43%	-0.06%
Oct-08	1.00%	1.00%	0.00%	17.53%	17.60%	-0.06%
Nov-08	1.56%	1.59%	-0.03%	19.36%	19.47%	-0.09%
Dec-08	0.70%	0.73%	-0.04%	20.20%	20.34%	-0.12%
<b>YTD Performance</b>	<b>6.89%</b>	<b>7.02%</b>	<b>-0.12%</b>			

**Statement of comparison of Estimated Sustainable Income for  
the Fiscal Year with the sum of transfers from the Petroleum  
Fund for the year**

***(As per Article 24.1 (g) of Petroleum Fund Law No. 9/2005)***

The total withdrawal from the Petroleum Fund for the Financial Year 2008 has been 396,000,000 US dollars, which is identical to the Estimated Sustainable Income for the same period.

Please refer to Statement of changes in capital and note 6 of the Financial Statements for further details.



**REPÚBLICA DEMOCRÁTICA DE TIMOR-LESTE**  
**MINISTÉRIO DAS FINANÇAS**  
**GABINETE DA TESOIRO**

Díli, 13 August 2009  
Ofício n.º 302/DYI/VM/2009

To,  
Mr. Antonio Freitas,  
Director General,  
Policy Analysis and Research

Subject: Borrowings during the Fiscal Year 2008

During the Fiscal Year 2008 from 1 January to 31 December 2008, there were no borrowings by the Government.

This may kindly be kept for record as required under the Petroleum Fund Law no.9/2005.

Best Regards

Sara Lobo Brites  
Director of Treasury



## List of persons holding relevant positions for the operation and performance of the Petroleum Fund

**(As per Article 24.1 (i) of Petroleum Fund Law No. 9/2005)**

The list of persons holding relevant positions for the operation and performance of the Petroleum Fund is given below:

- (i) The Minister of Finance  
  
**Mrs. Emilia Pires**
- (ii) The Director of Treasury  
  
**Mr. Manuel Monteiro**
- (iii) The members of the Investment Advisory Board

Name	Position
<b>Mr. Abraão Fernandes de Vasconcelos</b>	General Manager of the Banking & Payments Authority of Timor-Leste
<b>Mr. Cristino Gusmao (- 19 Sept 2008)</b>	Coordinator of the Macro Economic & Tax Policy Unit, Ministry of Finance
<b>Mr. Kevin Bailey (19 Sep 2008 -)</b>	Managing Director of The Money Managers Ltd, Australia
<b>Mr. Vidar Ovesen ( - 29 January 2008)</b>	Fiscal Policy and Petroleum Fund Adviser, Ministry of Finance
<b>Mr. Olgario de Castro (29 January 2008 -)</b>	Special Adviser on Investments, Ministry of Finance
<b>Mr. Manuel Monteiro</b>	Director of the National Directorate of Treasury
<b>Mr. Torres Trovik</b>	Adviser of the Petroleum Fund

- (iv) The External Investment Managers  
  
**Not appointed**



- (v) The Administrator of the Central Bank

**Mr. Abraão Fernandes de Vasconcelos**

General Manager of the Banking & Payments Authority of Timor-Leste

- (vi) The Consultative Council was formally constituted 6 November 2006. For the Financial Year 2008 the members of the Consultative Council were:

Name	Representation	Position
<b>Mr. Francisco M. de Vasconcelos</b>	Religious Organizations	Coordinator
<b>Mr. Tomas Freitas</b>	Civil Society	Vice Coordinator
<b>Mr. Aurelio Guterres</b>	Substitution of the Former President of the National Parliament	Member
<b>Mr. Oscar Lima</b>	Private Business Sector	Member
<b>Mrs. Maria de Fatima X. Dias</b>	Civil Society	Member
<b>Mr. Nuno Rodrigues</b>	National Parliament	Member
<b>Mr. Antero Benedito da Silva</b>	National Parliament	Member

Mr. Alfredo Pires' position in the Consultative Council is currently vacant as he is the Secretary of State of National Resources. The Former Prime Minister, Mr. Mari Alkatiri and the Former Minister of Planning and Finance, Mrs. Maria Madalena Brites Boavida have asked for suspension as they currently are members of the National Parliament.

## **Compilation Report to the Ministry of Finance, Democratic Republic of Timor-Leste in respect of the Statement of Petroleum Fund Receipts for the year ended 31 December 2008**

On the basis of information provided by management we have compiled, in accordance with the International Standard on Related Services applicable to compilation engagements, the attached list of aggregate amounts of payments made as Petroleum Fund Receipts for each Payer for the year ended 31 December 2008. The National Petroleum Authority and The Petroleum Tax Division are responsible for monitoring that all payments that should have been made under the Petroleum Fund Law (LAW No. 9 /2005) have been made for the year and it is the Petroleum Fund's management that are responsible for the information contained in the attached list. We have not audited or reviewed the attached list and accordingly express no assurance thereon.

*Deloitte Touche Tohmatsu*

DELOITTE TOUCHE TOHMATSU

Chartered Accountants

Darwin,

30/6/09

**Petroleum Fund of Timor-Leste**  
**Statement of Petroleum Fund Receipts**  
**for the period 1 January 2008 to 31 December 2008**

Payee	Receipt (USD\$)
<b>Article 6.1 (a) Receipts</b>	
Adia Centacom Australia Pty Ltd	11,647
Advance Well Technologies	97,205
Amec Engineering Pty Ltd	216,180
Baker Hughes Australia Pty Ltd	7,778
Brunel Energy Pty Ltd	121,209
Bureau Veritas Asset + R Reability Services Pty Ltd	33,500
Cape East Philippines Inc	60,605
Caterpillar of Australia Pty Ltd	3,192
Clough Amec	1,699,750
Coates Hire Limited	294,699
Code Engineering Services Pty Ltd	627,094
Compass Group (Australia) Pty Ltd	43,665
ConocoPhillips (03-12) Pty Ltd	63,809,557
ConocoPhillips Australia Pty Ltd	361,626,480
ConocoPhillips Groups	46,113,658
ConocoPhillips Joint Venture Company	48,605,779
ConocoPhillips Timor Leste Pty Ltd	91,904
Cosl Australia Pty Ltd	300,752
Engineering Services Pty Ltd	13,539
Eni JPDA 03-13 Ltd Branch	90,201,900
Eni JPDA 06-105 Pty Ltd	4,735,333
Eni Timor Leste Spa Branch	3,587,192
Expro Group Australia Pty Ltd	528
Farstad Shipping Pty Ltd	132,566
Geographe Energy Pty Ltd	134,725
GO Offshore Pty Ltd	2,764
Halliburton Australia Pty Ltd	791,819
Inpex Sahul Ltd	91,445,803
Intico Pty Ltd	5,496
Lloyd Helicopters Pty Ltd	498,009
National Petroleum Authority	238,224
Offshore Marine Services	130,394
Oil Tools International Pty Ltd	30,773
Oilex (JPDA 06-103) Ltd	2,592,332
Optima Solutions UK Limited	1,712
Pae Singapore Pty Ltd	28,958
PC (Timor Sea) Ltd	1,967,441

Prosafel Personnel Pty Ltd	118,012
Reliance Expo + Prod DMCC	80,857
Santos Ltd	96,413,949
Schlumberger Oilfield Eastern TL	564,837
SGS Australia Pty Ltd	90,014
Solar Turbines	25,210
Songa Venus AS	223,183
Submec Pty Ltd	76,684
Svitzer Far East Pty Ltd	578,678
SWG Offshore Pty Ltd	137,255
TAD Pty Ltd	26,861
Tidewater Marine Australia Pty Ltd	10,301
Tokyo Timor Sea Resources Pty Ltd	69,566,444
TS Marine Pty Ltd	55,815
Weatherford Australia Pty Ltd	145,463
Woodside Energy Ltd	62,947
Woodside Petroleum (Timor Sea 19)	11,010
	<b>888,491,682</b>
<b>Other Revenue</b>	
Annual LNG Tax Pipeline	7,331,200
	<b>7,331,200</b>
<b>Refunds</b>	
Tidewater Marine Australia Pty Ltd	(25,774)
	<b>(25,774)</b>
<b>Total receipts from Article 6.1 (a)</b>	<b>895,797,108</b>
<b>Article 6.1 (b) Receipts</b>	
National Petroleum Authority	1,388,408,724
<b>Total receipts from Article 6.1 (b)</b>	<b>1,388,408,724</b>
<b>Article 6.1 (c) Receipts</b>	
Interest received	115,969,340
<b>Total receipts from Article 6.1 (c)</b>	<b>115,969,340</b>
<b>Total Petroleum Fund Receipts</b>	<b>2,400,175,172</b>

## **Compilation Report to the Ministry of Finance, Democratic Republic of Timor-Leste in respect of the Extractive Industries Transparency Initiative Return for the year ended 31 December 2008**

On the basis of information provided by management we have compiled, in accordance with the International Standard on Related Services applicable to compilation engagements, the accompanying Extractive Industries Transparency Initiative Host Government Reporting Return ("the Return") of the Government of Timor-Leste for the period ended 31 December 2008. The Return has been prepared in accordance with the Reporting Guidelines of the Extractive Industries Transparency Initiative as detailed in "The Source book" which was produced in March 2005 by the International EITI Secretariat in the UK Department for International Development (DFID). The Return represents only benefit streams received by the Petroleum Fund of Timor-Leste. The Government, as represented by the Minister for Finance is responsible for the information contained in the Return. We have not audited or reviewed the Return and accordingly express no assurance thereon.

*Deloitte Touche Tohmatsu*

DELOITTE TOUCHE TOHMATSU  
Chartered Accountants  
Darwin,

*30/1/09*

# Extractive Industries Transparency Initiative Return of the Government of Timor-Leste

Host Country reporting on: Petroleum Fund of the Democratic Republic of Timor-Leste

Reporting Period: 1 January 2008 to 31 December 2008

## Scope 1 Benefit Streams

Line ref	Guidelines section 6 ref	Notes	Volume	Value \$USD
<b>1 Benefit Stream from International Companies only</b>				
1a)	Host Government Production Entitlement from International Companies	I		
	i) Production Stream – in kind			
	*[specify nature of production and units]	N/A	-	
	*[specify nature of production and units]	N/A	-	
	ii) Production Stream – in cash			-
<b>2 Benefit Stream from National State-Owned Companies</b>				
2a)	Host Government Production Entitlement from National State-Owned Company	I		
	i) Production Stream – in kind			
	*[specify nature of production and units]	N/A	-	
	*[specify nature of production and units]	N/A	-	
	ii) Production Stream – in cash			-
<b>3 Benefit Streams from International and National State-Owned Company</b>				
3a)	Profit taxes	Iii		880,912,586
3b)	Royalties	Iv		
	- in cash			
	- in kind			1,387,413,134
3c)	Dividends	V		-
3d)	Signing bonuses and production bonuses	Vi		-
3e)	License fees, rental fees, entry fees and other considerations for licenses/concessions	Vii		7,331,200
3f)	Other payments to Host Governments, specified as:	Viii		
	<u>Bidding Fees</u>		-	
	<u>Mapping Fees</u>		-	
	<u></u>		-	-

<b>Scope 2 Benefit Streams</b>
--------------------------------

Line ref	Volume	Value
<b>4 Scope 2 Benefit Streams (voluntary disclosure):</b> N/A _____ _____ _____ _____ _____	N/A _____ _____ _____ _____ _____	N/A _____ _____ _____ _____ _____

**Host Government sign off**

We acknowledge our responsibility for the fair presentation of the Reporting Template in accordance with the Reporting Guidelines, with the exception of:

- N/A \_\_\_\_\_ ;
- \_\_\_\_\_ ;
- \_\_\_\_\_ ;
- \_\_\_\_\_ ;

**Basis of Preparation**

This statement has been prepared in accordance with the Revised Draft Reporting Guidelines issued by the Extractive Industries Transparency Initiative on 23 May 2003. The reporting currency is the US dollar. Benefit Streams have been reported on the cash basis of accounting.

**Note 1 – Profit Taxes**

Profit taxes reported by the Host Government Reporting Entity excludes sub-contractors taxes of \$7,553,323 which has been reported as an aggregate amount of \$895,797,109 of Article 6.1(a) Receipts in the 31 December 2008 quarterly and year end reports.

**Note 2 – Royalties**

Royalties reported by the Host Government Reporting Entity excludes interest income of \$995,590 which has been reported as an aggregate amount of \$1,388,408,724 of 6.1(b) Article Receipts in the 31 December 2008 quarterly and year end reports.