

**Transition Period  
Jul-Dec 2007**

# Petroleum Fund Report



Macro Economic and Tax Policy Unit

Ministry of Finance

Democratic Republic of Timor- Leste

June 2008



REPÚBLICA DEMOCRÁTICA DE TIMOR-LESTE  
MINISTÉRIO DAS FINANÇAS  
GABINETE DA MINISTRA  
*2008 – ANO DA REFORMA*

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## **Petroleum Fund 2007 Transition Period Report**

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.

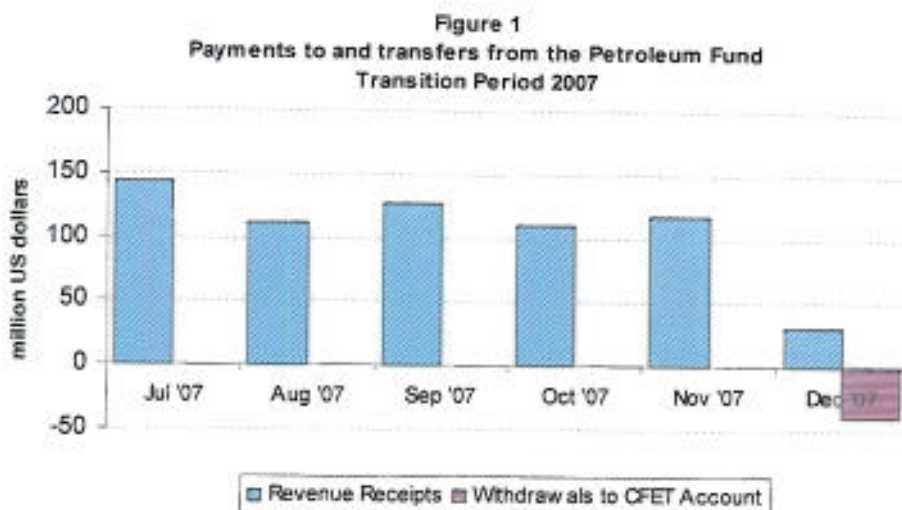
Taxes and other petroleum revenue totaling 640.1 million US dollars were paid to the Petroleum Fund during the transition period ended 31 December 2007. 184.4 million US dollars of the total amount were according to Article 6.1 (a) and 455.7 million US dollars according to Article 6.1. (b) in the Petroleum Fund Law. The total petroleum revenue paid since the inception of the Fund is 2,054.6 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.

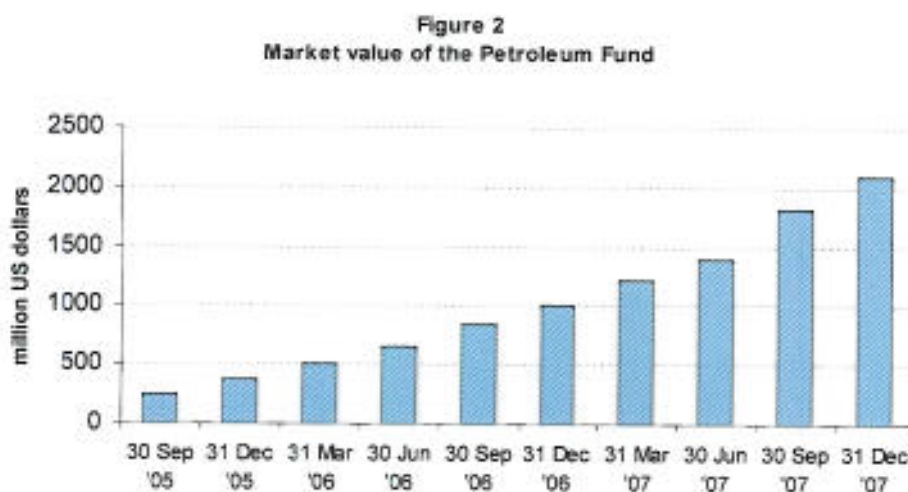
The return on investments during the transition period ended 31 December 2007 was 92.4 million US dollars. In accordance with the Operational Management Agreement, a management fee to BPA of 521 392 US dollars has been withdrawn from the Petroleum Fund. Thus, the profit for the period is 91.8 million US dollars, totaling 147.1 million US dollars since the inception of the Petroleum Fund. The profit in the period ended 31 December 2007 is affected by the 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 40.0 million US dollars to the CFET during the transition period, which is 93.0 million US dollars less than the Estimated

Sustainable Income for the same period. Figure 1 shows the payments to and transfers from the Petroleum Fund during the period ended by 31 December 2007.



The market value of the Petroleum Fund as of 31 December 2007 was 2,086.2 million US dollars. This is an increase of 692.0 million US dollars during the period. Figure 2 shows the market value of the Petroleum Fund quarter by quarter since inception of the Fund in September 2005.



The BPA has managed its investment mandate in accordance with the Management Agreement. The yield on the portfolio in the period is 5.28 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 0.04 percentage points).



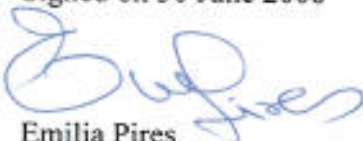
The average yield to maturity of the investments made through the period 1 July 2007 through 31 December 2007 has been estimated at 4.1 per cent. During the period from July 2007 to December 2007 inflation in the USA was 2.2 per cent, the real return on the investments, based on the yield to maturity, is accordingly 1.9 per cent.

The Investment Advisory Board of the Petroleum Fund had two meetings during the transition period. The minutes from the meetings are available on [www.bancocentral.tl](http://www.bancocentral.tl). The Investment Advisory Board has not given any recommendation to the Minister of Finance during the period.

Deloitte Touche Tohmatsu has been appointed Independent Auditor of the Petroleum Fund for the period. Deloitte Touche Tohmatsu has produced two separate reports in accordance with the 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 2007 Transition Period Report is also available at [www.mof.gov.tl](http://www.mof.gov.tl) and [www.bancocentral.tl](http://www.bancocentral.tl).

Signed on 30 June 2008



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 2007**

**DIRECTOR OF TREASURY  
MINISTRY OF PLANNING AND 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.

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,  
Statement of changes in capital,  
Balance Sheet,  
Cash flow statement, and  
Notes to accounts*

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

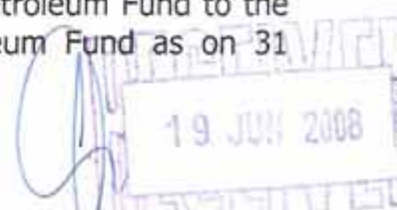
**CHANGE OF FINANCIAL YEAR**

In accordance with Articles 1 and 2 of the Law No 8 of 2007, the definition of budget period was changed to 1 January to 31 December from 1 July to 30 June; and the period 1 July to 31 December 2007 was considered as the Transition Budget Period. Accordingly these financial statements cover the six-month transition budget period from 1 July 2007 to 31 December 2007.

**PETROLEUM FUND CAPITAL**

The Petroleum Fund had capital of US\$ 1,394.22 million on 1 July 2007. During the period, taxes and other petroleum revenue under Article 6.1 (a) of the Petroleum Fund were US\$ 184.44 million. In addition, royalty revenues of US\$ 455.65 were received under Article 6.1 (b) in the Petroleum Fund making the gross receipts as US\$ 640.09 million during the period. The Fund earned a profit of US\$ 91.84 million during the period (refer to the "Income Statement").

An amount of US\$ 40.0 million was transferred from the Petroleum Fund to the State General Account during the period. The capital of Petroleum Fund as on 31

  
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December 2007 was US\$ 2,086.16 million. 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 2007 are given at note 10. The credit exposure by credit rating is given in the note 14(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 1.8297 years as compared to benchmark duration of 1.8039 years at 31 December 2007 (note 12 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.

  
(Manuel Monteiro)  
Director of Treasury  
Ministry of Finance



<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 six-months ended 31 December 2007**

We have audited the accompanying financial statements of the Petroleum Fund of Timor-Leste which comprise the balance sheet as at 31 December 2007, and the income statement, statement of changes in capital and cash flow statement for the six-months 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 of 31 December 2007 and of its financial performance and its cashflows for the six-months ended in accordance with the International Financial Reporting Standards.

*Deloitte Touche Tohmatsu*

DELOITTE TOUCHE TOHMATSU



**J Burton**

Partner

Chartered Accountants

Darwin, 10/4/08

## Income Statement

For the period ended 31 December 2007

	<i>Note</i>	<i>Dec-07</i> <i>6 months</i> <b>USD</b>	<i>Jun-07</i> <i>12 months</i> <b>USD</b>
<b>Investment income</b>			
Interest on investments	3	32,771,609	37,470,873
<b>Gains and losses on investments</b>			
Gains/(losses) on fair value through profit or loss assets	5	59,593,509	11,346,106
<b>Total investment income</b>		<b>92,365,118</b>	<b>48,816,979</b>
<i>Less:</i>			
Management Fee	9b	(521,392)	(524,000)
<b>Profit for the year</b>		<b>91,843,726</b>	<b>48,292,979</b>

The above statement is to be read in conjunction with the policies and notes on pages 7 to 23

**Statement of changes in capital**  
**For the period ended 31 December 2007**

	<i>Note</i>	<i>Dec-07</i> <b>USD</b>	<i>Jun-07</i> <b>USD</b>
<b>Capital at 1 July 2007</b>		<b>1,394,222,729</b>	<b>649,848,228</b>
Transfers to the Petroleum Fund pursuant to Article 6 of the Petroleum Fund Law			
<i>Transfers from the Consolidated Fund</i>	6	-	-
<i>Petroleum Fund gross receipts</i>	6	640,090,630	956,149,202
		<b>2,034,313,359</b>	<b>1,605,997,430</b>
Transfers to the Consolidated Fund <i>(pursuant to Article 7 of the Petroleum Fund Law)</i>	6	(40,000,000)	(260,067,680)
Refunds of taxation <i>(pursuant to Article 10 of the Petroleum Fund Law)</i>		-	-
Profit for the year		91,843,726	48,292,979
<b>Capital at 31 December 2007</b>		<b>2,086,157,085</b>	<b>1,394,222,729</b>

The above statement is to be read in conjunction with the policies and notes on pages 7 to 23



## Balance Sheet

As at 31 December 2007

	<i>Note</i>	<i>Dec-07</i> <b>USD</b>	<i>Jun-07</i> <b>USD</b>
<b>Assets</b>			
Cash and cash equivalents	8	646,636	411,262
Interest receivable	4	10,733,300	7,030,612
Investments at fair value through profit or loss	5,11	2,074,777,149	1,386,780,855
<b>TOTAL ASSETS</b>		<b>2,086,157,085</b>	<b>1,394,222,729</b>
<b>Net Assets</b>		<b>2,086,157,085</b>	<b>1,394,222,729</b>
<b>Capital</b>			
Capital		2,086,157,085	1,394,222,729
<b>TOTAL CAPITAL</b>		<b>2,086,157,085</b>	<b>1,394,222,729</b>

The above statement is to be read in conjunction with the policies and notes on pages 7 to 23

## Cash Flow Statement

**For the period ended 31 December 2007**

	<i>Note</i>	<i>Dec-07 6 Months USD</i>	<i>Jun-07 12 Months USD</i>
<b><i>Cash flows from funding activities</i></b>			
Transfers from Consolidated Fund		-	-
Petroleum Fund Receipts		640,090,630	956,149,202
Transfers to the Consolidated Fund		(40,000,000)	-260067680
<b>Cash flow from funding activities</b>	<b>6</b>	<b>600,090,630</b>	<b>696,081,522</b>
<b><i>Cash flow from investing activities</i></b>			
Proceeds from sale of investments	5	763,905,397	520,156,379
Purchase of investments	5	(1,392,308,182)	(1,249,457,943)
<b>Cash flow from investing activities</b>		<b>(628,402,785)</b>	<b>(729,301,564)</b>
<b><i>Cash flow from operating activities</i></b>			
Interest received		29,068,922	33,656,020
Operating expenses paid		(521,392)	(524,000)
<b>Cash flow from operating activities</b>	<b>18</b>	<b>28,547,530</b>	<b>33,132,020</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>235,375</b>	<b>(88,022)</b>
Cash and cash equivalents at 30 June 2007	8	411,262	499,284
<b><i>Cash and cash equivalents at 31 December 2007</i></b>		<b>646,636</b>	<b>411,262</b>

The above statement is to be read in conjunction with the policies and notes on pages 7 to 23

## Notes to the Financial Statements

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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 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 signed on 12 October 2005, and subsequent amendment of annex 2.

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 these

financial statements cover 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 07 March 2008.

## **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 12.

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 has also adopted *IFRS 7: Financial Instruments Disclosures*, the effective date for the standard was 1 January 2007.

The Petroleum Fund invests in financial markets in the United States of America. The Petroleum Fund is organized and operates as one segment (both in terms of business and geography). Consequently, no segment reporting is provided in the Petroleum Fund's financial statements.



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 using the currency of the primary economic environment in which it operates. This is the United States Dollar, which reflects the Petroleum Fund's primary activity of investing in US securities. This is also the currency of presentation as it is 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 and its performance measured is set out in Annex 1 to the Operational Management Agreement signed by the Minister of Planning and Finance and the General Manager of the Banking & Payments Authority on 12 October 2005. The Merrill Lynch 0-5 year government bond index is established therein as the performance benchmark, with the requirement that the Petroleum Fund be managed passively with the objective of achieving a return within 25 basis points while maintaining the modified duration of the investment portfolio within 0.2 years of the benchmark.

The investment portfolio of the Petroleum Fund, being managed and having its performance measured and reported in accordance with these 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.

*(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.

**(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.

**3. Interest Income**

Interest was earned during the year from the following sources:

	<b>Dec-07</b>	<b>Jun-07</b>
	<b>USD</b>	<b>USD</b>
Fixed interest debt securities	32,461,205	37,012,722
Cash and cash equivalents	310,404	458,151
	<b>32,771,609</b>	<b>37,470,873</b>

**4. Interest Receivable**

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

	<b>Dec-07</b>	<b>Jun-07</b>
	<b>USD</b>	<b>USD</b>
Cash and cash equivalents	33	72
Fixed interest debt securities	10,733,267	7,030,540
	<b>10,733,300</b>	<b>7,030,612</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.

	<b>Dec-07 USD</b>	<b>Jun-07 USD</b>
<b>Fair value through profit or loss assets</b>		
Opening cost at 1 July 2007	1,386,780,855	646,133,185
Gains/(losses) at 1 July 2007	-	-
<b>Opening fair value</b>	<b>1,386,780,855</b>	<b>646,133,185</b>
Purchases at cost	1,392,308,182	1,249,457,943
Proceeds from sales	(763,905,397)	(520,156,379)
Net gain or (loss)	59,593,509	11,346,106
Fair value of investment assets at 31 December 2007	<b><u>2,074,777,149</u></b>	<b><u>1,386,780,855</u></b>

There were no impairment losses at balance date.

The carrying amount of these assets approximates their fair value.

## 6. Transfers to the Petroleum Fund

The following table analyses the payments made as Petroleum Fund receipts by month of receipt:

US Dollars

Month	Dec-07				TOTAL
	Article 6.1(a) receipts	Article 6.1(b) receipts	To Consolidated Fund	From Timor Gap Account	
July 2007	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	26,431,647	4,906,364	(40,000,000)	-	(8,661,989)
January 2008	-	-	-	-	-
February	-	-	-	-	-
March	-	-	-	-	-
April	-	-	-	-	-
May	-	-	-	-	-
June	-	-	-	-	-
<b>Totals</b>	<b>184,440,591</b>	<b>455,650,039</b>	<b>(40,000,000)</b>	<b>-</b>	<b>600,090,630</b>

US Dollars

Month	Jun-07				TOTAL
	Article 6.1(a) receipts	Article 6.1(b) receipts	To Consolidated Fund	From Timor Gap Account	
July 2006	41,046,603	9,243,899			50,290,502
August	60,347,214	9,159,996	-	-	69,507,210
September	53,009,094	9,324,519	-	-	62,333,613
October	40,227,814	14,077,919	-	-	54,305,733
November	50,105,521	9,515,872	-	-	59,621,393
December	33,770,451	7,917,515	-	-	41,687,966
January 2007	44,548,961	35,743,628	-	-	80,292,589
February	47,017,424	56,672,927	-	-	103,690,351
March	34,833,321	91,323,786	(120,000,000)	-	6,157,107
April	30,162,022	64,837,114	(80,000,000)	-	14,999,136
May	29,415,144	70,341,812	(60,067,680)	-	39,689,276
June	33,987,893	79,518,753	-	-	113,506,646
<b>Totals</b>	<b>498,471,462</b>	<b>457,677,740</b>	<b>(260,067,680)</b>	<b>-</b>	<b>696,081,522</b>

## 7. Payments to State Budget Account

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 period ended 31 December 2007 the sum of US\$40,000,000 (30 June 2007 - \$260,067,680) was approved for appropriation by parliament from the Petroleum Fund. A sum of US\$ 40,000,000.00 (30 June 2007 - \$260,067,680) was transferred from the Petroleum Fund to the State Budget account during the period.

## 8. Cash and Cash Equivalents

Prior to investment the Petroleum Fund places surplus cash in the New York overnight money market 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:

	<b>Dec-07</b>	<b>Jun-07</b>
	<b>USD</b>	<b>USD</b>
Cash at bank	246,636	211,262
Overnight reverse repurchase agreements	400,000	200,000
	<b>646,636</b>	<b>411,262</b>

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 amount of cash and cash equivalents approximates their fair value.

## 9. 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 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 of the Petroleum Fund Law.

The Government entered into a management agreement with BPA on 12 October 2005 and subsequent amendment of annex 2 for the operational management of the Petroleum Fund. The management agreement provides the Banking and Payments Authority a management fee of US\$521,392 which reasonably represents the Banking and Payments Authority's cost of managing the Petroleum Fund, for the financial year ended 31 December 2007. The management fee has been drawn in equal monthly installments.

## 10. Qualifying Instruments

All financial assets are designated by the Petroleum Fund as at fair value through profit or loss upon initial recognition. In accordance with the provisions of Article 24.1(a) of the Petroleum Fund Law the qualifying instruments of the Petroleum Fund at 31 December 2007 were as follows

<b>US Dollars</b>					
<b>Dec-07</b>					
			Face Value	Fair Value	% of net assets
US Treasury Notes					
2 5/8%	15 May	2008	457,600,000	456,419,378	14.1
3 3/8%	15 Nov	2008	289,400,000	289,376,839	13.6
2 7/8%	15 May	2009	277,200,000	280,099,506	13.2
3 1/2%	15 Nov	2009	276,500,000	278,938,741	8.2
3 7/8%	15 May	2010	147,700,000	150,491,529	7.2
4 1/2%	15 Nov	2010	104,000,000	108,135,038	5.1
4 7/8%	30 Apr	2011	117,100,000	123,339,092	5.7
4 5/8%	31 Oct	2011	128,300,000	134,453,265	6.2
4 1/2%	30 Apr	2012	124,400,000	129,948,239	5
3 7/8%	30 Apr	2012	121,200,000	123,575,519	21.7
<b>Total</b>			<b>2,043,400,000</b>	<b>2,074,777,149</b>	<b>100</b>

**US Dollars**

US Treasury Notes		Jun-07		
		Face Value	Fair Value	% of net assets
3 %	15 Nov 2007	303,400,000	301,264,063	21.7
2 5/8%	15 May 2008	199,500,000	195,446,160	14.1
3 3/8%	15 Nov 2008	193,100,000	188,996,624	13.6
2 7/8%	15 May 2009	185,900,000	182,499,888	13.2
3 1/2%	15 Nov 2009	117,500,000	113,845,750	8.2
3 1/8%	15 May 2010	102,800,000	100,028,511	7.2
4 1/2%	15 Nov 2010	69,800,000	68,959,607	5.1
4 1/8%	30 Apr 2011	79,600,000	79,481,392	5.7
4 5/8%	31 Oct 2011	87,600,000	86,579,460	6.2
4 1/2%	30 Apr 2012	71,000,000	69,679,400	5.0
<b>Total</b>		<b>1,410,200,000</b>	<b>1,386,780,855</b>	<b>100.0</b>

## 11. Critical Accounting Estimates and Judgments

The Petroleum Fund makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. 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.

The Petroleum Fund has made a judgment that investments should be recognized on a fair value through profit or loss basis (rather than using the “available for sale” basis) and income recognized accordingly, because the performance of the Petroleum Fund is measured and reported on a fair value through profit or loss basis for the reasons outlined in Note 2(b)(i).

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).

## 12. 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.

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 2007 was 1.8039 years and 1.8297 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.

### **13. 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.

## 14. 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:

	<b>Dec-07 USD</b>	<b>Jun-07 USD</b>
Sovereign Issuers:		
United States Government	2,086,157,085	1,393,811,467
	<b>2,086,157,085</b>	<b>1,393,811,467</b>

### (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.

	Dec-07 US Dollars		Jun-07 US Dollars	
	Balance Sheet	AAA	Balance Sheet	AAA
<b>FINANCIAL ASSETS</b>				
Cash and cash equivalents	646,636	646,636	411,262	411,262
Interest receivable	10,733,300	10,733,300	7,030,612	7,030,612
Investments at fair value through profit or loss	2,074,777,149	2,074,777,149	1,386,780,855	1,386,780,855
<b>Total Assets</b>	<b>2,086,157,085</b>	<b>2,086,157,085</b>	<b>1,394,222,729</b>	<b>1,394,222,729</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.

## 15. 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:

	US Dollars					
	Dec-07 Balance Sheet	Non-interest sensitive	6 months or less	6 to 12 months	1 to 2 years	2 to 5 years
<b>FINANCIAL ASSETS</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	2,074,777,149	-	745,796,218	280,099,506	429,430,270	619,451,155
<b>Total Assets</b>	<b>2,086,157,085</b>	<b>10,733,300</b>	<b>746,442,854</b>	<b>280,099,506</b>	<b>429,430,270</b>	<b>619,451,155</b>
Weighted average interest rate			3.32%	3.38%	3.05%	3.22%

US Dollars

	Jun-07					
	Balance Sheet	Non-interest sensitive	6 months or less	6 to 12 months	1 to 2 years	2 to 5 years
<b>FINANCIAL ASSETS</b>						
Cash and cash equivalents	411,262	-	411,262	-	-	-
Interest receivable	7,030,612	7,030,612	-	-	-	-
Investments at fair value through profit or loss	1,386,780,855	-	301,264,063	195,446,160	371,496,512	518,574,120
<b>Total Assets</b>	<b>1,394,222,729</b>	<b>7,030,612</b>	<b>301,675,325</b>	<b>195,446,160</b>	<b>371,496,512</b>	<b>518,574,120</b>
Weighted average interest rate			4.88%	5.02%	4.95%	4.91%

## 16. 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 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:

	Dec-07		Jun-07	
	Balance Sheet	Currency of denomination : US Dollars	Balance Sheet	Currency of denomination : US Dollars
<b>FINANCIAL ASSETS</b>				
Cash and cash equivalents	646,636	646,636	411,262	411,262
Interest receivable	10,733,300	10,733,300	7,030,612	7,030,612
Investments at fair value through profit or loss	2,074,777,149	2,074,777,149	1,386,780,855	1,386,780,855
<b>Total Assets</b>	<b>2,086,157,085</b>	<b>2,086,157,085</b>	<b>1,394,222,729</b>	<b>1,394,222,729</b>
Net Assets	<b>2,086,157,085</b>	<b>2,086,157,085</b>	<b>1,394,222,729</b>	<b>1,394,222,729</b>

## 17. 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.

The Petroleum Fund manages this risk firstly by investing in instruments that do not give rise to commitments that may need to be met, and secondly by investing solely in United States Government Notes, for which a highly liquid and deep market exists.

## (b) 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 is modified duration. As an approximation<sup>1</sup>, we can use the portfolio's modified duration to calculate the change in the portfolio value for a given change in the interest-rate.

The modified duration of the portfolio as of 31 December 2007 was 1.8297 years (30 June 2007 – 1.80 years). A parallel shift in the yield curve with between -50 and 50 basis points, where 100 basis points are the same as 1%, would increase or decrease the value of the portfolio by \$19 million (30 June 2007 - \$12.5 million)

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

	<b>Dec-07 USD</b>	<b>Jun-07 USD</b>
<b>Reported Operating Profit</b>	91,843,726	48,292,979
<b>Add/(Subtract) Non-Cash Items</b>		
Increase in interest receivable	(3,702,687)	(3,814,853)
Net unrealised gain	(59,593,509)	(11,346,106)
<b>Net cash flow from operating activities</b>	<b>28,547,530</b>	<b>33,132,020</b>

<sup>1</sup> This is a good approximation when interest-rate changes are small. If we use Duration to measure the changes in prices for larger changes in interest-rate the estimation will be inaccurate due to the convexity effect (will always overestimate the changes in NAV).





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

**To :** Mr. Cristino Gusmao, Chief of Macroeconomic and Tax Policy Unit,

**Cc:** Mrs. Emilia Pires, Minister of Finance

**From :** Mr. Manuel Monteiro, Director of Treasury



Dili, 11 June 2008  
Ofício n.º 142/DNT/2008

Subject: Statement on accounting policy for Petroleum Fund the Transition Budget Period

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*; the effective date for the standard was 1 January 2007.”

Best Regards



## 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, therefore no comparison for previous three years can be given. However, the income for the Transition Period ended by 31 December 2007 is shown below together with the income for the Fiscal Year 2006-07 and 2005-06. Please refer to the Income Statement of the Financial Statements for details.

(US dollars)

Jul-Dec 2007	FY 2006-07	FY 2005-06	FY 2004-05
91,843,726	48,292,979	7,048,296	Not Applicable

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

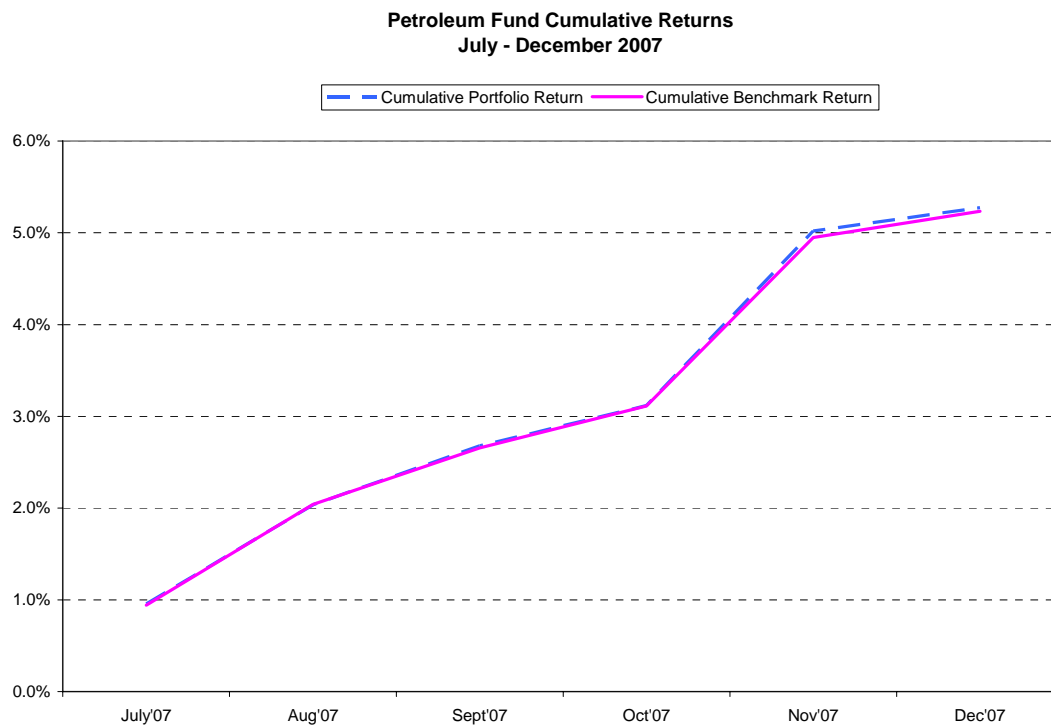
***(As per Article 24.1 (e) of Petroleum Fund Law No. 9/2005)***

*The average yield to maturity of the investments for the Transition Period ended by 31 December 2007 has been estimated at 4.1 percent. During the period from July 2007 to December 2007 inflation in US was 2.2 percent, the real return on the investments, based on the yield to maturity, is accordingly 1.9 percent.*

## 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**

**July - December 2007**

<b>Period</b>	<b>Portfolio Return</b>	<b>Benchmark Return</b>	<b>Excess return</b>	<b>Cumulative Portfolio Return</b>	<b>Cumulative Benchmark Return</b>	<b>Cumulative Excess Return</b>
July'07	0.96%	0.94%	0.01%	0.96%	0.94%	0.01%
Aug'07	1.07%	1.09%	-0.02%	2.04%	2.04%	0.00%
Sept'07	0.63%	0.60%	0.03%	2.68%	2.66%	0.02%
Oct'07	0.43%	0.44%	-0.02%	3.12%	3.11%	0.00%
Nov'07	1.85%	1.78%	0.06%	5.02%	4.95%	0.07%
Dec'07	0.24%	0.27%	-0.03%	5.28%	5.24%	0.04%
<b>YTD Performance</b>	<b>5.28%</b>	<b>5.24%</b>	<b>0.04%</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)***

Estimated Sustainable Income for the Transition Period 1 July to 31 December 2007 is 133,000,000 US dollars, while the total withdrawal from the Petroleum Fund has been 40,000,000 US dollars.

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 TESOUREIRO

**To :** Mr. Cristino Gusmao, Chief of Macroeconomic and Tax Policy Unit,

**Cc:** Mrs. Emilia Pires, Minister of Finance

**From :** Mr. Manuel Monteiro, Director of Treasury



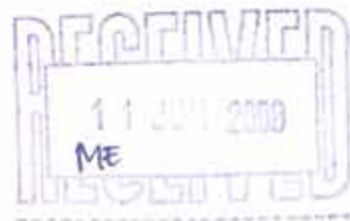
Díli, 11 June 2008  
Ofício n.º 142/ DNT/2008

Subject: Borrowings during the Transition Period

During the Transition Budget Period of 1 July to 31 December 2007, 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





## **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. Maria Madalena Brites Boavida (20 May 2002 – 7 August 2007)**

**Mrs. Emilia Pires (8 August 2007 - )**

- (ii) The Director of Treasury

**Mr. Manuel Monteiro**

- (iii) The members of the Investment Advisory Board

No.	Name	Position
1.	<b>Mr. Abraão Fernandes de Vasconcelos</b>	General Manager of the Banking & Payments Authority of Timor-Leste
2.	<b>Mr. Cristino Gusmao</b>	Coordinator of the Macro Economic & Tax Policy Unit, Ministry of Finance
3.	<b>Mr. Vidar Ovesen</b>	Fiscal Policy and Petroleum Fund Adviser, Ministry of Finance
4.	<b>Mr. Manuel Monteiro</b>	Director of the National Directorate of Treasury
5.	<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 period July to December 2007 the members of the Consultative Council were:

No.	Name	Representation	Position
1.	<b>Mr. Francisco M. de Vasconcelos</b>	Religious Organizations	Coordinator (Vice Coordinator until 23 Nov 2007)
2.	<b>Mr. Tomas Freitas</b>	Civil Society	Vice Coordinator (Member until 23 Nov 2007)
3.	<b>Mr. Aurelio Guterres</b>	Substitution of the Former President of the National Parliament	Member
4.	<b>Mr. Oscar Lima</b>	Private Business Sector	Member
5.	<b>Mrs. Maria de Fatima X. Dias</b>	Civil Society	Member (Coordinator until 23 November 2007)
6.	<b>Mr. Nuno Rodrigues</b>	National Parliament	Member
7.	<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 six-months ended 31 December 2007**

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 Statement of Petroleum Fund Receipts (the 'Statement') for the six-months ended 31 December 2007.

This special purpose report has been prepared in accordance with the requirements of Article 35 of the Petroleum Fund Law listing all payments made to the Petroleum Fund by payer. The Government, as represented by the Minister for Finance is responsible for the Statement.

As this is a Compilation Report we do not express a review statement or an audit opinion thereon.

*Deloitte Touche Tohmatsu*  
DELOITTE TOUCHE TOHMATSU



Jody Burton  
Partner  
Chartered Accountants  
Darwin, 10/4/08

**Petroleum Fund of Timor-Leste**  
**Statement of Petroleum Fund Receipts**  
**for the period 1 July 2007 to 31 December 2007**

Payee	Receipt (USD\$)
<b>Article 6.1 (a) Receipts</b>	
Adecco Australia Pty Ltd	4,213
Advance Well Technologies	1,493
Amec Engineering Pty Ltd	74,866
Baker Hughes Australia Pty Ltd	2,527
Bawana Margatama PT	1,603
Brunel Energy Pty Ltd	65,171
Cape East Philippines Inc.	43,637
Caterpillar of Australia Pty Ltd	3,574
Clough Amec Joint Venture	789,576
Code Engineering Services Pty Ltd	504,637
Compas Group (Australia) Pty Ltd	11,107
Conoco Phillips (03-12) Pty Ltd	83,872,894
Conoco Phillips (03-13) Pty Ltd	2,952,161
Conoco Phillips Timor Leste Pty Ltd	59,057
Conoco Phillips (Timor Sea) Pty Ltd	22,365,633
Conoco Phillips JPDA Pty Ltd	6,950,286
ConocoPhillips (Emet) Pty Ltd	2,629,028
Engineering Service Pty Ltd	3,510
Eni JPDA 03-13 Ltd Branch	5,703,450
Eni Timor Leste S.P.A (PSC Area 1)	270
Eni Timor Leste S.P.A (PSC Area 2)	457,334
Eni Timor Leste S.P.A (PSC Area 3)	967,393
Eni Timor Leste S.P.A (PSC Area 4)	616,386
Eni Timor Leste S.P.A (PSC Area 5)	30,729
Expro Group Australia Pty Ltd	377,301
Fong Teng Kee Keith	4,289
Geographe Energy Pty Ltd	112,980
Halliburton Australia Pty Ltd	502,596
Inpex Sahul Pty Ltd	9,173,792
Intico Pty Ltd	17,903
Intico WA Pty Ltd	6,869
Lloyd Helicopters Pty Ltd	223,806
Monsoon Maritime Services Pty Ltd	14,730
Oilex JPDA 06.103 JT Venture	20,675
Optima Solution UK Limited	68,955
Pae Singapore Pte Lte	13,061
Prosafe Personnel Pty Ltd	40,493

PT Bawana Margatama	7,500
PT Silo Bahari Nusantara	16,378
Reliance Industries Ltd	23,840
Santos Ltd	32,585,417
Schlumberger Oilfield Australia Pty Ltd	1,043,196
SGS Australia Pty Ltd	76,455
Skilled Group Limited	9,846
Solar Turbines International Company	12,554
TAD PTY LTD	24,276
Tidewater Marine Australia Pty Ltd	60,595
Timor Sea Designated Authority	179,191
Tokyo Timor Sea Resources Pty Ltd	11,577,855
Woodside Energy Ltd	6,274
Woodside Petroleum (Timor Sea 19) Pty Ltd	7,400
	<b>184,318,761</b>
<b>Other Revenue</b>	
Eni Timor Leste S.P.A (PSC Area 1)	121,830
	<b>121,830</b>
<b>Total receipts from Article 6.1 (a)</b>	<b>184,440,591</b>
<b>Article 6.1 (b) Receipts</b>	
Timor Sea Designated Authority	455,650,039
<b>Total receipts from Article 6.1 (b)</b>	<b>455,650,039</b>
<b>Article 6.1 (c) Receipts</b>	
Interest received	33,866,138
<b>Total receipts from Article 6.1 (c)</b>	<b>33,866,138</b>
<b>Total Petroleum Fund Receipts</b>	<b>673,956,768</b>

## **Compilation Report to the Ministry of Finance, Democratic Republic of Timor-Leste in respect of the Extractive Industries Transparency Initiative Return for the six-months ended 31 December 2007**

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 Return ("the Return") of the Government of Timor-Leste for the period ended 31 December 2007.

This special purpose report has been prepared in accordance with the Reporting Guidelines of the Extractive Industries Transparency Initiative for the purpose of disclosure in the Reporting Template of the Government of Timor-Leste. The Government, as represented by the Minister for Finance is responsible for the preparation of the Return.

As this is a Compilation Report we do not express a review statement or an audit opinion thereon.

*Deloitte Touche Tohmatsu*  
DELOITTE TOUCHE TOHMATSU



Jody Burton  
Partner  
Chartered Accountants  
Darwin, 10/4/08



# 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 July 2007 to 31 December 2007

## Scope 1 Benefit Streams

Line ref		Guidelines section 6 ref	Volume	Value \$USD
<b>1</b>	<b>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</b>	<b>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</b>	<b>Benefit Streams from International and National State-Owned Company</b>			
3a)	Profit taxes	Iii		184,318,760
3b)	Royalties	Iv		
	- in cash			455,650,039
	- in kind		-	
3c)	Dividends	V		-
3d)	Signing bonuses and production bonuses	Vi		-
3e)	License fees, rental fees, entry fees and other considerations for licenses/concessions	Vii		121,830
3f)	Other payments to Host Governments, specified as:	Viii		
	<u>Bidding Fees</u>		-	
	<u>Mapping Fees</u>		-	
			-	-

## Scope 2 Benefit Streams

Line ref		Volume	Value
4	<b>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.