



Financial Year
2010

Petroleum Fund Annual Report



Language:
English

National Directorate of the Petroleum Fund
Ministry of Finance
Democratic Republic of Timor- Leste
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Petroleum Fund Annual Report 2010

The value of the Petroleum Fund at year end 2010 was USD 6,904 million, an increase of USD 1,527 million for the year.

Total petroleum revenue receipts in 2010 were USD 2,117 million and net investment returns USD 221 million, a return of 3.8 per cent on the Fund's assets. The Government transferred a total of USD 811 million to Treasury's Account (CFET), USD 309 million above the Estimated Sustainable Income (ESI) and within the amount appropriated by Parliament.

In October 2010, Schroder Investment Management Ltd. became the Fund's second external manager and its first equity manager. Schroder manages 4% of the Fund in global equities.

The Fund established in 2005

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 Government is responsible for the overall management of the Petroleum Fund, while the Banking and Payments Authority of Timor-Leste (BPA) is responsible for the operational management. The Ministry of Finance, on behalf of the Government, entered into a Management Agreement with the BPA on 12 October 2005. It has been modified over the years to accommodate the evolution of the Fund's investment strategy.

In- and outflow of the Fund

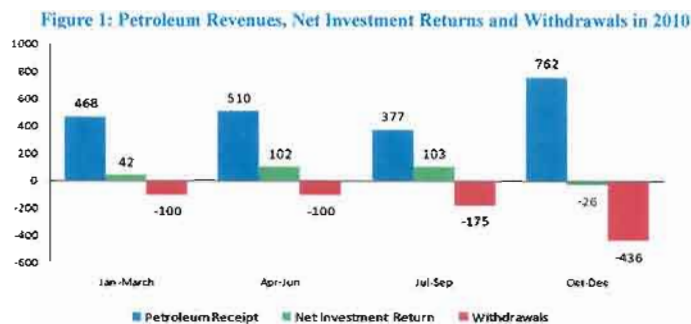
The Fund's balance is affected by three factors:

- a) petroleum receipts,
- b) net investment returns, and
- c) withdrawals.

a) Petroleum receipts

Taxes, royalties, profit oil/gas and other petroleum receipts totaling USD 2,117 million were paid to the Petroleum Fund during the Financial Year 2010 comprising of USD 920 million of petroleum taxes, USD 1,190 million royalties and profit oil/gas and, USD 7 million other petroleum receipts. The amounts were in accordance with Article 6.1 (a), (b) and (e) of the Petroleum Fund Law respectively.

Petroleum receipts varied between USD 377 million and 762 million over the four quarters in the year. The highest amount was received in the fourth quarter (figure 1). Petroleum receipts were affected by the oil price which increased towards the end of 2010.



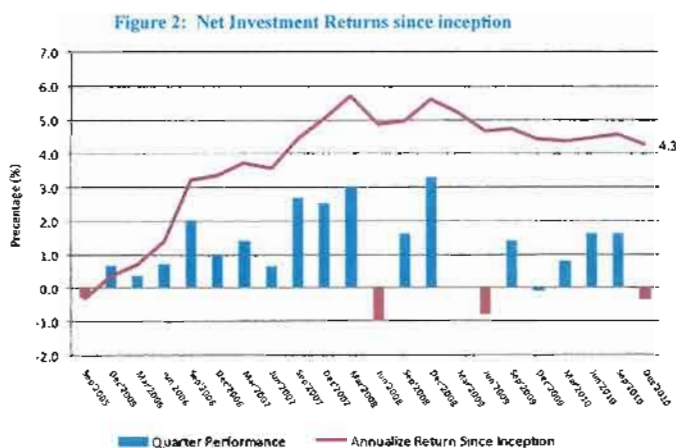
Total petroleum receipts paid since the inception of the Fund was USD 8,095 million, including initial transfers of USD 80 million from the Timor Gap Account and USD 125 million from the Consolidated Fund of Timor-Leste (CFET).

b) Net Investment Returns

The gross return on investments for the financial year 2010 was USD 224.6 million. In accordance with the Operational Management Agreement, a management fee to the BPA of USD 3.5 million was withdrawn from the Petroleum Fund. Thus, the net investment return for the year was USD 221.1 million, in total USD 622.6 million since the inception of the Petroleum Fund.

The net investment return for 2010 was equivalent to +3.8 per cent of the portfolio assets, compared with a net investment return of +0.6 per cent for 2009. The increase return was a result of upward market revaluation of the portfolio due to a decrease in US Treasury bond yields. Bond prices and yields are inversely related.

US Government bond yields decreased during the first three quarters of 2010, resulting in a return of 1.6 per cent in third quarter. Conversely yields increased in the fourth quarter resulting in a negative return of 0.4 per cent (figure 2). The increase in yields arose in part from the Federal Reserve's announcement of a USD 600 billion Treasury bond purchase program in the fourth quarter. In addition, the US Government with the opposition agreed on more extensive tax reliefs than expected by the market.



Global equities were added to the portfolio towards the end of the year. The equity mandate, however, was too small to have had an impact on the overall performance of the portfolio. Figure 2 shows that since inception the annualized return of the Fund has been 4.3 per cent as at year end 2010.

The net investment returns on the fixed income instruments consist of three factors: (1) the coupon rate is the fixed return received from holding bonds, (2) market revaluation which may be positive or negative depending on bond yields, and (3) the management fee including

fees to external managers, which is deducted from the gross investment return of the Fund. Table 1 shows the investment return, in US dollars, quarter by quarter in 2010 arising from these factors.

Table 1: Investment Return in 2010

million US dollars	Jan-March	Apr-June	Jul-Sep	Oct-Dec	Total
Investment Income	47.0	52.4	53.3	53.5	206.2
Market revaluation	(4.2)	50.2	50.4	(77.9)	18.4
Management Fee	(0.5)	(0.7)	(0.9)	(1.4)	(3.5)
Net Result	42.2	101.9	102.8	(25.8)	221.1

Headline inflation in the USA has been on average 1.7 per cent since the inception of the Fund in September 2005 to December 2010. The nominal return on the Fund during this period has been 4.3 per cent, resulting in a real return of 2.6 per cent for the period.

The fixed income instrument and equity mandates performed better than their benchmark in 2010. BIS outperformed its composite bond benchmark by 9 basis points, whilst the BPA's investment return was 5 basis points above the US Government 0-5 years bond benchmark. Schroders delivered a return of 10 basis points in excess of the MSCI World index benchmark since commencing its equity mandate in the fourth quarter.

c) Withdrawals

The Government withdrew a total of USD 811 million to the CFET during the financial year 2010. This was USD 309 million above the Estimated Sustainable Income (ESI). The withdrawals since inception are shown in Table 2 together with petroleum receipts, net investment returns and the ESI.

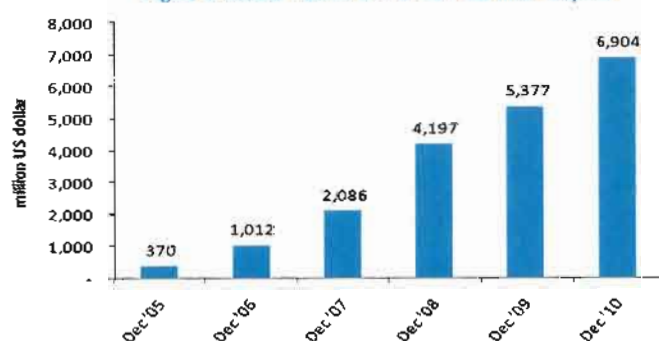
Table 2: Petroleum Revenues, Net Investment Return, Withdrawals and ESI

million US dollars	2005/06	2006/07	Trans 2007 (6 Months)	2008	2009	2010
Opening balance	205	650	1,394	2,086	4,197	5,377
Petroleum revenues	438	956	640	2,284	1,660	2,117
Net Investment return	7	48	92	223	32	221
Withdrawals	-	(260)	(40)	(396)	(512)	(811)
ESI	103	283	133	396	408	502
Closing balance	650	1,394	2,086	4,197	5,377	6,904

Petroleum Fund Balance

The market value of the Petroleum Fund as of 31 December 2010 was USD 6,904 million. This is an increase of USD 1,527 million for the year. Figure 3 shows the market value of the Petroleum Fund since inception of the Fund in September 2005.

Figure 3: Market Value of Petroleum Fund since inception

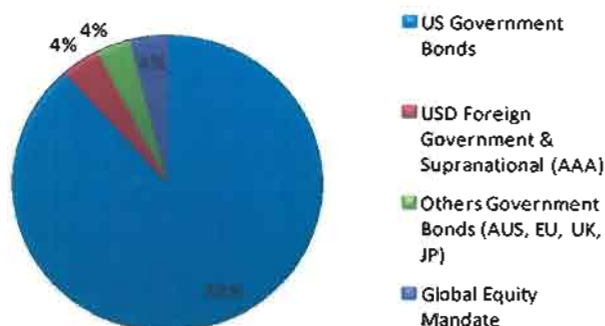


The Investment Policy

The Petroleum Fund Annual Report 2009 explained in detail how the investment strategy has developed since the inception of the Fund in 2005. From the outset, a conservative and simple investment strategy was implemented in order to avoid exposure to risk and volatility while building capacity. The Fund was invested entirely in US Government bonds, managed by the BPA.

In June 2009 the Bank for International Settlements (BIS) was appointed as the Fund's first external manager. BIS manages 20 per cent of the total Petroleum Fund. The BIS benchmark comprises both US Government bonds, Government bonds issued by Australia, EU, UK and Japan in local currencies and foreign Government and Supranational bonds denominated in USD. In October 2010 Schroder Investment Management was appointed to manage a global equity mandate amounting to 4 per cent of the total Petroleum Fund. Figure 4 shows the asset allocation of the total Fund portfolio.

Figure 4: Petroleum Fund Portfolio



The Petroleum Fund Law, adopted by the National Parliament in 2005, allows for a narrow investment universe. At least 90% must be invested in US Dollar denominated highly rated bonds, mainly issued or guaranteed by Governments and cash deposits, and not more than 10% invested in other financial instruments.

The Petroleum Fund Law states that the range of financial instruments included in the investment universe shall be reviewed by the Government, and approved by National Parliament, at the end of the first five years of the Petroleum Fund existence, having regard to the size of the Petroleum Fund and the level of institutional capacity.

The Government has finished this review in June 2011 and has submitted the Petroleum Fund Law amendments to Parliament.

Developing the investment policy

One of the key documents consulted in the Government's review of the Petroleum Fund Law was the International Working Group's "Sovereign Wealth Funds: Generally Accepted Principles and Practices", otherwise known as the *Santiago Principles*. The Santiago Principles result from an international cooperative effort to identify best practices for Sovereign Wealth Funds, particularly in the areas of governance and policy. The Timor-Leste Petroleum Fund is internationally recognized for its high standard of governance, transparency and accountability, and the Government reviewed the Law with these new principles in mind to ensure that the Fund would continue to be an example of international best practice with regard to funds management. Annex XI shows a table that summarises the compliance of the Petroleum Fund with the Santiago principles incorporating the proposed PF Law amendments.

The Government has also applied the principle of *diversification* when reviewing the Fund's investment policy. Obtaining financial returns involves taking risk. Where capital is systematically allocated to assets other than those which deliver a risk-free rate of return (in practice 3 month US Treasury bills), investors expect a higher return as a reward for the additional risk they are taking.

That is, risk and expected return are related. Over time, market-wide risk is generally rewarded, while individual security risk is not. This means that including a bigger portion of many different equities in the portfolio will give the investor a higher return over the long term, than if only invested in less risky bonds.

Diversification is the process of exposing an investment portfolio to a number of different asset classes, risk factors, and individual financial assets, rather than being concentrated in any one of these singularly. Diversification is the antidote to many avoidable risks. The key to the diversification process is that different asset classes and other portfolio risk factors will usually not move in unison. Combining assets with returns that are less than perfectly correlated mitigate risks and volatility.

For example, in a period when bond markets are performing poorly, equity markets may be performing well. Having an exposure to both equities and bonds reduces the risk compared to being only exposed to a single asset class. Investment portfolios that are comprehensively diversified are generally rewarded over time. Time horizon is a crucial factor. Being a *long-term investor*, Timor-Leste's Petroleum Fund can afford the increased short-term fluctuations to pursue the longer-term expected rewards. Table 3 shows the relationship between risk and return based on modeling by the Ministry of Finance's external consultant on Petroleum Fund matters, Towers Watson.

Starting from the left, the table shows how the expected real return increases with a higher portion to equities. Allocating 50% to equities is estimated to deliver 4% real return in the long run. This means that there is a 60% probability for the portfolio to deliver a 3% real return over a period of ten years. Increasing the portion of equities further will increase expected return, but not by as much as in the beginning. It is very difficult to achieve more than 5% real return without exposing the Fund to undue risks.

Moving rightwards in the table, higher expected return is commensurate with higher risk. In pursuing the long-term expected returns, stakeholders must be prepared to experience short term losses. Modeling predicts that the Fund may suffer loss in 21 out of 100 years with a 50% allocation of the portfolio to equities. In 5 out of 100 years, the 50% proposed asset allocation may incur a loss of 6.7% or more representing a loss of USD 536 million or more on a Fund balance of USD 8 billion.

It is important for all stakeholders to understand and be comfortable with the risk-return trade-off. A necessary condition for reaping the long-term higher expected returns is to maintain the chosen investment policy. Market-timing is considered a risky activity that is not rewarded consistently over time. The equity and bond portfolios will be automatically re-balanced when the actual portfolio weights deviate from the benchmark weights to maintain the Fund's risk strategy.



Table 3: Expected risk and returns for a range of investment strategies

Investment strategy	Expected real return		Range of nominal returns in two out of every three years		Frequency of negative returns (years in every 100)	Poor outcome return (5 years in every 100)	
	% pa	USD millions*	% pa	USD millions*		% pa	USD millions*
Current	1.9%	152	1.8% to 7.2%	144 to 576	4	Return of 0.2% or worse	Gain of 16 million or worse
50% equities	4.0%	320	-1.4% to 15.2%	-112 to 1,216	21	Return of -6.7% or worse	Loss of 536 million or worse
100% equities	5.2%	416	-6.9% to 24.7%	-552 to 1,976	29	Return of -16.9% or worse	Loss of 1,352 million or worse

*Based on a PF balance of USD 8 billion.

Technical note: Calculations are forward-looking (to 2030), based on normative assumptions¹ and passive management

Source: Towers Watson

The Petroleum Fund has only one expenditure: transfers to the State Budget. The legislation links the Fund's transfer to the Estimated Sustainable Income (ESI). The ESI is defined as the maximum amount that can be appropriated from the Petroleum Fund in the Fiscal Year to leave sufficient resources in the Fund to be appropriated in later Fiscal Years. The ESI is estimated at 3% of the petroleum wealth.

A necessary condition for the ESI to actually be sustainable is that the Fund's investments earn a real return of 3%. The real return of the portfolio from inception of the Fund in September 2005 to the end of 2010 has been 2.6 per cent. As reported in table 3, economic models predict that the current asset allocation (96% bonds) will earn 2% real return over time. The current investment policy is therefore not aligned with the fiscal policy. The Government proposes to allow for a maximum of 50% of the Fund to be invested in equities. Modelling predicts this will give a reasonable probability of achieving a 3% real return over time with a risk level the Government is willing to accept, thus aligning the Petroleum Fund investment policy with the ESI budget spending guideline.

Advice from the Investment Advisory Board

The Investment Advisory Board (IAB) of the Petroleum Fund held nine meetings during 2010. The minutes from the meetings are available on www.bancocentral.tl. The Investment Advisory Board has provided three recommendations to the Minister of Finance in accordance with the requirements of Article 16 in the Petroleum Fund Law:

- 1) *Advice on the BPA's proposal of engaging an external portfolio manager of a global equity mandate for the Petroleum Fund*

¹ For long term modeling and projection purposes, like is the case in Timor-Leste, Towers Watson uses so called "normative assumptions" about developments in financial markets. Such normative assumptions are intended to be long term equilibrium return and risk expectations that represent the returns that an investor might expect to receive over the long term as mispricing relative to equilibrium "balance out". In a sense they take into account the full economic cycle. Normative assumptions are best used to set a strategic asset allocation.

On 23 February 2010 the Minister of Finance sought advice from the IAB regarding a proposal from the BPA to engage Schroder Investment Management (Schroders) as an external portfolio manager of a global equity mandate for the Petroleum Fund.

In its letter dated 16 April 2010 the Board recommended the appointment of Schroders as an external manager of the Petroleum Fund and to manage four per cent (4%), or about USD 260 million, of the total Fund's portfolio. The Board made some recommendations regarding use of derivatives and advised on amendments to the Management Agreement between the Ministry of Finance and the BPA accordingly.

Based on the IAB's recommendation, the Minister approved the appointment of Schroders as the external portfolio manager of the Fund and amended the Investment Guidelines in line with the proposal from the IAB. The BPA signed a contract with Schroders and outsourced the management of USD 260 million in October 2010.

The appointment of Schroders as the Fund's first equity manager marked an important step to diversify the investment of the Petroleum Fund to increase its return and better diversify risks.

2) *Advice on the BPA's proposal of engaging an external portfolio manager of a fixed interest mandate for the Petroleum Fund*

In the same letter to the IAB dated 23 February 2010, the Minister also requested the Board to provide an opinion regarding the BPA's proposal to engage an external manager to manage a fixed income mandate for the Petroleum Fund.

In a letter dated 28 April 2010 the IAB recommended to not implement the BPA's proposal to appoint a new fixed income manager although it was initially recommended by the Board in December 2008. The Board's recommendation was based on its recent advice regarding the review of Article 14 and 15 of the Petroleum Fund Law amendments which is in Parliament for implementation, and unexpected developments in the financial market post global financial crisis.

On that basis, the Minister declined the BPA's proposal to engage an external manager of a fixed income mandate.

3) *Statement of Investment Beliefs and Principles*

In a letter dated 14 September 2010 the IAB informed the Minister that it has adopted a *Statement of Investment Beliefs and Principles* which will serve as the basis of the Board's future advises to the Minister on the management of the Petroleum Fund and recommended the Minister publicize the content of the document.

The Minister then published the [IAB's Statement of Investment and Principles](#) at the MoF website.

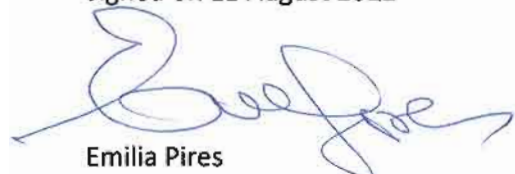


Audit of the Petroleum Fund

Deloitte Touche Tohmatsu has been appointed Independent Auditor of the Petroleum Fund for 2010. Deloitte Touche Tohmatsu has produced a report in accordance with Article 35 of the Petroleum Fund Law, and which is available in this report as Annex IX.

The Petroleum Fund 2010 Report is also available at www.mof.gov.tl and www.bancocentral.tl.

Signed on 11 August 2011



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 Advice provided by the Investment Advisory Board
 - a) Advice on the BPA's proposal of engaging an external portfolio manager of a global equity mandate for the Petroleum Fund
 - b) Advice on the BPA's proposal of engaging an external portfolio manager of a fixed interest mandate for the Petroleum Fund
 - c) Statement of Investment Beliefs and Principles
- XI Compliance of the Petroleum Fund with the Santiago principles

PETROLEUM FUND OF TIMOR-LESTE

FINANCIAL STATEMENTS

FOR THE YEAR ENDED

31 December 2010

Petroleum Fund of Timor-Leste
Annual report - for the year ended
31 December 2010

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**Petroleum Fund of Timor-Leste
Directors' report
31 December 2010**

BACKGROUND

The Petroleum Fund Law No. 9/2005 was promulgated on 3 August 2005 and it established the Petroleum Fund of Timor-Leste ("Petroleum Fund"). The Banking & Payments Authority (BPA), which functions as the Central Bank of Timor-Leste, is responsible for the operational management of the Petroleum 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 Petroleum Fund on behalf of the Director of Treasury.

A revised management agreement including a new investment mandate between the Ministry of Finance and the BPA was signed on 25 June 2009 and its annex 1 has further updated on 8 October 2010. In addition, Schroder Investment Management Limited (Schroders) was appointed as an external manager in September 2010. BPA Internal Management manages 76% of global portfolio, BIS manages 20% of the global portfolio and Schroders manages 4% of the global portfolio.

FINANCIAL STATEMENTS

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

- Statement of comprehensive income,
- Balance sheet,
- Statement of changes in capital,
- Statement of cash flows, and
- Notes to the financial statements

These financial statements cover the period from 1 January 2010 to 31 December 2010.

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

PETROLEUM FUND CAPITAL

The Petroleum Fund had capital of US\$ 5.376 billion on 1 January 2010. During the period, taxes and other petroleum revenue under Article 6 of the Petroleum Fund were US\$ 2.117 billion. The Fund earned an income of US\$ 221.139 million during the period. A summary of transactions for the income is given in the "Statement of comprehensive income".

US\$ 811 million was transferred from the Petroleum Fund to the Consolidated Fund during the year. The capital of Petroleum Fund as on 31 December 2010 was US\$ 6.904 billion. A summary of the transactions is given in the "Statement of changes in capital".

BENCHMARKS AND PERFORMANCE

Summary of benchmarks

Benchmark Index	1 January 2009 to 25 June 2009	26 June 2009 to 7 October 2010	8 October 2010 to 31 December 2010
Fixed Interest			
BOA Merrill Lynch US Government 0-5 Years	100%	90.4%	86.4%
BOA Merrill Lynch US Government 5-10 Years	-	2.0%	2.0%
BOA Merrill Lynch Governments/Supranationals AAA	-	2.6%	2.6%
BOA Merrill Lynch Governments/Supranationals AA	-	1.4%	1.4%
BOA Merrill Lynch Australian Government	-	1.4%	1.4%
BOA Merrill Lynch Euro Governments	-	1.4%	1.4%
BOA Merrill Lynch UK Gilts	-	0.4%	0.4%
BOA Merrill Lynch Japan Government	-	0.4%	0.4%
<i>Total Fixed Interest</i>	<i>100%</i>	<i>100%</i>	<i>96.0%</i>
Global Equities			
MSCI World	-	-	4.0%
<i>Total Global Equities</i>			<i>4.0%</i>
Total Benchmark	100%	100%	100%

**Petroleum Fund of Timor-Leste
Directors' report
31 December 2010**

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 mandated financial assets during the year. The list of financial assets held as on 31 December 2010 are given at note 20. 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 Management Agreement. The interest rate duration (modified duration) of the fixed interest securities portfolio was 2.61 years as compared to benchmark duration of 2.53 years at 31 December 2009 (refer note 11 on risk management). 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
30 June 2011



Independent 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 2010

We have audited the accompanying financial statements of the Petroleum Fund of Timor-Leste, which comprise the balance sheet as at 31 December 2010, and the statement of comprehensive income, the statement of changes in capital and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

The Government's Responsibility for the Financial Statements

The Government is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and for such internal control as the Government determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report 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 whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit 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 report 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 the Government, as well as evaluating the overall presentation of the financial report.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the fund's financial position as at 31 December 2010 and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

A handwritten signature in black ink that reads "Deloitte Touche Tohmatsu". The signature is written in a cursive, flowing style.

DELOITTE TOUCHE TOHMATSU
Chartered Accountants
Darwin

30 June 2011

**Petroleum Fund of Timor-Leste
Statement of comprehensive income
for the year ended 31 December 2010**

	<i>Note</i>	<i>Dec-10 USD</i>	<i>Dec-09 USD</i>
Investment income			
Investment income	4	206,515,096	177,132,573
Other investment income		7,079	24,806
Gains and losses on investments			
Gains/(losses) on financial assets valued through profit or loss	5	18,158,450	(143,235,827)
Net foreign exchange gains		<u>21,739</u>	<u>155,662</u>
Total investment income		<u>224,702,364</u>	<u>34,077,214</u>
Expenses			
Management fees	8(b)	<u>(3,493,868)</u>	<u>(2,611,703)</u>
Total expenses		<u>3,493,868</u>	<u>(2,611,703)</u>
Profit before tax		221,208,496	31,465,511
Withholding taxes		<u>(69,174)</u>	<u>-</u>
Profit for the year		221,139,322	31,465,511
Other comprehensive income		<u>-</u>	<u>-</u>
Total comprehensive income for the year		<u>221,139,322</u>	<u>31,465,511</u>

The financial statements should be read in conjunction with the policies and notes on pages 9 - 44.

Petroleum Fund of Timor-Leste
Balance sheet
as at 31 December 2010

	<i>Note</i>	<i>Dec-10</i> <i>USD</i>	<i>Dec-09</i> <i>USD</i>
Assets			
Cash and cash equivalents	7	7,409,687	3,161,653
Other receivables	5	548,778	-
Financial assets at fair value through profit or loss	9	<u>6,896,037,830</u>	<u>5,373,463,906</u>
Total assets		<u>6,903,996,295</u>	<u>5,376,625,559</u>
Net assets		<u>6,903,996,295</u>	<u>5,376,625,559</u>
Capital			
Capital		<u>6,903,996,295</u>	<u>5,376,625,559</u>
Total capital		<u>6,903,996,295</u>	<u>5,376,625,559</u>

The financial statements should be read in conjunction with the policies and notes on pages 9 - 44.

**Petroleum Fund of Timor-Leste
Statement of changes in capital
for the year ended 31 December 2010**

	<i>Note</i>	<i>Dec-10 USD</i>	<i>Dec-09 USD</i>
Capital at the beginning of the year		5,376,625,559	4,196,971,733
Transfers to the Petroleum Fund pursuant to Article 6 of the Petroleum Fund Law			
Petroleum Fund Gross Receipts	6	<u>2,117,266,526</u>	<u>1,660,299,285</u>
		7,493,892,085	5,857,271,018
Transfers to the Consolidated Fund <i>(pursuant to Article 7 of the Petroleum Fund Law)</i>	6	(811,000,000)	(512,000,000)
Refunds of taxation <i>(pursuant to Article 10 of the Petroleum Fund Law)</i>	6	(35,112)	(110,970)
Total comprehensive income		<u>221,139,322</u>	<u>31,465,511</u>
Capital at the end of the year		<u>6,903,996,295</u>	<u>5,376,625,559</u>

The financial statements should be read in conjunction with the policies and notes on pages 9 - 44.

Petroleum Fund of Timor-Leste
Statement of cash flows
for the year ended 31 December 2010

	<i>Note</i>	<i>Dec-10 USD</i>	<i>Dec-09 USD</i>
Cash flows from funding activities			
Petroleum Fund Gross Receipts		2,117,266,527	1,660,299,285
Payments to the Consolidated Fund		(811,000,000)	(512,000,000)
Refunds of tax receipts		<u>(35,112)</u>	<u>(110,970)</u>
Net cash inflow from funding activities	6	<u>1,306,231,415</u>	<u>1,148,188,315</u>
Cash flows from investing activities			
Proceeds from sale of financial assets	9	3,975,375,657	4,266,587,757
Purchases of financial assets	9	<u>(5,472,783,373)</u>	<u>(5,577,112,377)</u>
Net cash outflow from investing activities		<u>(1,497,407,716)</u>	<u>(1,310,524,620)</u>
Cash flows from operating activities			
Investment receipts		198,885,567	167,294,658
Operating expenses paid		(3,493,868)	(2,611,703)
Other receipts		<u>7,079</u>	<u>24,806</u>
Net cash inflow from operating activities	17	<u>195,398,778</u>	<u>164,707,761</u>
Net increase in cash and cash equivalents		<u>4,222,477</u>	<u>2,371,456</u>
Cash and cash equivalents at the beginning of the year		3,161,653	634,535
Effects of foreign currency exchange rate changes on cash and cash equivalents		<u>25,557</u>	<u>155,662</u>
Cash and cash equivalents at the end of the year	7	<u>7,409,687</u>	<u>3,161,653</u>

The financial statements should read in conjunction with the policies and notes on pages 9 - 44.

Petroleum Fund of Timor-Leste
Notes to the financial statements
for the year ended 31 December 2010

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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 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 Finance and the BPA.

These financial statements were authorized for issue by the Director of Treasury on 30 June 2011.

2. Application of new and revised International Financial Reporting Standards (IFRSs)

2.1 New and revised IFRSs applied with no material effect on the financial statements

The following new and revised IFRSs have also been adopted in these financial statements. Their application of these new and revised IFRSs has not had any material impact on the amounts reported for the current and prior years but may affect the accounting for future transactions or arrangements.

Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards – Additional Exemptions for First-time Adopters

The amendments provide two exemptions when adopting IFRSs for the first time relating to oil and gas assets, and the determination as to whether an arrangement contains a lease.

Amendments to IFRS 2 Share-based Payment – Group Cash-settled Share-based Payment Transactions

The amendments clarify the scope of IFRS 2, as well as the accounting for group cash-settled share-based payment transactions in the separate (or individual) financial statements of an entity receiving the goods or services when another group entity or shareholder has the obligation to settle the award.

Amendments to IFRS 5 Non-current Assets Held for Sale and Discontinued Operations (as part of Improvements to IFRSs issued in 2008)

The amendments clarify that all the assets and liabilities of a subsidiary should be classified as held for sale when the Group is committed to a sale plan involving loss of control of that subsidiary, regardless of whether the Group will retain a non-controlling interest in the subsidiary after the sale.

Petroleum Fund of Timor-Leste
Notes to the financial statements
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2. Application of new and revised International Financial Reporting Standards (IFRSs)
(continued)

Amendments to IAS 39 Financial Instruments: Recognition and Measurement - Eligible Hedged Items	The amendments provide clarification on two aspects of hedge accounting: identifying inflation as a hedged risk or portion, and hedging with options.
IFRIC 17 Distributions of Non-cash Assets to Owners	The Interpretation provides guidance on the appropriate accounting treatment when an entity distributes assets other than cash as dividends to its shareholders.
IFRIC 18 Transfers of Assets from Customers	The Interpretation addresses the accounting by recipients for transfers of property, plant and equipment from 'customers' and concludes that when the item of property, plant and equipment transferred meets the definition of an asset from the perspective of the recipient, the recipient should recognise the asset at its fair value on the date of the transfer, with the credit being recognised as revenue in accordance with IAS 18 Revenue.
Improvements to IFRSs issued in 2009	The application of Improvements to IFRSs issued in 2009 has not had any material effect on amounts reported in the financial statements.

2.2 New and revised IFRSs in issue but not yet effective

Management has not yet had an opportunity to consider the potential impact of the adoption of standards and interpretations in issue but are not yet effective.

Management of the Petroleum Fund anticipates that these amendments will be adopted in the Petroleum Fund's financial statements as outlined below:

Standard/interpretation	Effective date (periods beginning on or after)	Expected to be initially applied in the financial year ending
Improvements to IFRSs (2010)	1 July 2010, 1 January 2011	1 January 2011
IFRS1 First-time Adoption of International Financial Reporting Standards – Replacement of 'fixed dates' for certain exceptions with 'the date of transition to IFRSs'	1 July 2011	1 January 2012
IFRS1 First-time Adoption of International Financial Reporting Standards – Replacement of 'fixed dates' for certain exceptions with 'the date of transition to IFRSs'	1 July 2011	1 January 2012
Amendments to IFRS 1 Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters	1 July 2010	1 January 2011
Amendments to IFRS 7 Disclosures - Transfers of Financial Assets	1 July 2011	1 January 2012
IFRS 9 (as amended in 2010) Financial Instruments	1 January 2013	1 January 2013
IFRS 10 Consolidated Financial Statements	1 January 2013	1 January 2013
IFRS 11 Joint Arrangements	1 January 2013	1 January 2013
IFRS 12 Disclosure of Interests in Other Entities	1 January 2013	1 January 2013
IFRS 13 Fair Value Measurement	1 January 2013	1 January 2013
IAS 1 Presentation of Financial Statements — Amendments to revise the way other comprehensive income is presented	1 July 2012	1 January 2013
IAS 12 Income Taxes — Limited scope amendment (recovery of underlying assets)	1 January 2012	1 January 2012
IAS 19 Employee Benefits — Amended Standard resulting from the Post-Employment Benefits and Termination Benefits projects	1 January 2013	1 January 2013

Petroleum Fund of Timor-Leste
Notes to the financial statements
for the year ended 31 December 2010

2. Application of new and revised International Financial Reporting Standards (IFRSs) (continued)

IAS 24 (revised in 2009) Related Party Disclosures	1 January 2011	1 January 2011
IAS 27 Consolidated and Separate Financial Statements – Reissued as IAS 27 <i>Separate Financial Statements</i> (as amended in 2011)	1 January 2013	1 January 2013
IAS 28 Investments in Associates – Reissued as IAS 28 <i>Investments in Associates and Joint Ventures</i> (as amended in 2011)	1 January 2013	1 January 2013
IAS 32 Classification of Rights Issues	1 February 2010	1 January 2011
Amendments to IFRIC 14 Prepayments of a Minimum Funding Requirement	1 January 2011	1 January 2011
IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments	1 July 2010	1 January 2011

3. Significant accounting policies

Statement of compliance

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

Basis of preparation

The financial statements are presented in United States Dollars. They are prepared on the historical cost basis, except for certain financial assets that are measured at fair value, as explained in the accounting policies below.

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 11.

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 noncurrent items.

The financial statement presentation has changed from the prior year to reflect the updated mandate.

The principal accounting policies are set out below.

Petroleum Fund of Timor-Leste
Notes to the financial statements
for the year ended 31 December 2010

3. Significant accounting policies (continued)

(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 Statement of comprehensive income.

(b) Financial instruments

(i) Classification

Financial assets

The manner in which the Petroleum Fund is managed is set out in Annex 1 to the Management Agreement between the Banking & Payments Authority and the Minister of Finance, which establishes the performance benchmark for the Petroleum 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 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.

Financial Assets 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 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 Statement of comprehensive income until the financial asset is derecognized.

Petroleum Fund of Timor-Leste
Notes to the financial statements
for the year ended 31 December 2010

3. Significant accounting policies (continued)

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 Statement of comprehensive income 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 Statement of comprehensive income.

(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.

Reverse repurchase transactions

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 as follows:

- Payments made as Petroleum Fund receipts in accordance with Article 6.1(a) 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 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 Statement of comprehensive income in accordance with Article 6.1(c).
- Payments received by Timor-Leste relating directly to Petroleum Fund resources not covered in paragraphs (a) to (d) are credited directly to the capital account of the Petroleum Fund.
- Management fees paid from the gross receipts of the Petroleum Fund pursuant to Article 6.2 are recognized in the Statement of comprehensive income.
- Refunds of taxation made pursuant to Article 10 are shown as reductions in the capital of the Petroleum Fund.

Petroleum Fund of Timor-Leste
Notes to the financial statements
for the year ended 31 December 2010

3. Significant accounting policies (continued)

(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) Dividend income

Dividend income from investments is recognised when the shareholder's right to receive payment has been established.

(f) 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 Statement of comprehensive income 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.

(g) 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.

Income of the Petroleum Fund earned in foreign jurisdictions is subject to the withholding taxes levied in those jurisdictions. Income or gains are recorded gross of withholding taxes in the statement of comprehensive income. Withholding taxes, to the extent that they are not recoverable, are shown as a separate line item in the statement of comprehensive income.

(i) Forward currency contracts

Forward currency contracts are primarily used by the Petroleum Fund to hedge against foreign currency exchange rate risks on its non-United States dollar denominated trading securities. The Petroleum Fund agrees to receive or deliver a fixed quantity of foreign currency for an agreed upon price on an agreed future date. Forward currency contracts are valued at the prevailing bid price at the reporting date. The Petroleum Fund recognises a gain or loss equal to the change in fair value at the reporting date.

4. Investment income

	<i>Dec-10</i>	<i>Dec-09</i>
	<i>USD</i>	<i>USD</i>
Interest from fixed interest securities	204,976,634	177,105,772
Interest from cash and cash equivalents	313,821	26,801
Dividends	1,184,917	-
Trust distributions	39,724	-
	<u>206,515,096</u>	<u>177,132,573</u>

5. Other Receivables

	<i>Dec-10</i>	<i>Dec-09</i>
	<i>USD</i>	<i>USD</i>
Dividends receivable	329,781	-
Withholding tax receivable	218,997	-
	<u>548,778</u>	<u>-</u>

Petroleum Fund of Timor-Leste
Notes to the financial statements
for the year ended 31 December 2010

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 2010 the sum of US\$ 811,000,000 (31 December 2009 - US\$ 589,000,000) was approved for appropriation by parliament from the Petroleum Fund. A sum of US\$ 811,000,000 (31 December 2009 - US\$ 512,000,000) was transferred from the Petroleum Fund to the State Budget account during the year.

During the year ended 31 December 2010 a total of US\$ 919,918,559 (31 December 2009 - US\$ 661,345,525) was received in Article 6.1(a) receipts. A total of US\$ 1,190,010,103 (31 December 2009 - US\$ 993,712,960) was received in Article 6.1(b) receipts. A total of US\$ 7,337,865 (31 December 2009 - US\$ 5,240,800) was received in Article 6.1(e) receipts.

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

<i>2010</i>						
<i>USD</i>						
Month	Article 6.1(a)	Article 6.1(b)	Article 6.1(e)	To	Refunds of	TOTAL
	receipts	receipts	Other receipts	Consolidated	taxation	
				Fund		
January	83,171,968	89,904,006	-	-	-	173,075,974
February	61,314,329	70,065,248	7,041,600	-	-	138,421,176
March	71,816,936	85,022,870	-	(100,000,000)	-	56,839,807
April	91,687,445	91,278,513	-	(50,000,000)	-	132,965,958
May	53,310,694	108,491,643	-	(50,000,000)	(35,112)	111,767,225
June	44,873,218	120,403,285	-	-	-	165,276,504
July	70,130,268	33,180,112	-	-	-	103,310,380
August	79,396,855	29,228,956	-	(100,000,000)	-	8,625,810
September	73,206,885	91,578,364	-	(75,000,000)	-	89,785,248
October	77,633,478	121,330,152	-	(75,000,000)	-	123,963,629
November	76,402,121	131,927,840	-	(150,000,000)	-	58,329,962
December	136,974,363	217,599,114	296,265	(211,000,000)	-	143,869,742
Totals	919,918,559	1,190,010,103	7,337,865	(811,000,000)	(35,112)	1,306,231,415
Total Article 6.1			2,117,266,527			

<i>2009</i>						
<i>USD</i>						
Month	Article 6.1(a)	Article 6.1(b)	Article 6.1(e)	To	Refunds of	TOTAL
	receipts	receipts	Other receipts	Consolidated	taxation	
				Fund		
January	131,553,337	84,833,293	-	-	-	216,386,630
February	39,847,973	64,685,585	5,240,800	-	-	109,774,358
March	56,239,632	167,594,780	-	-	(110,970)	223,723,442
April	45,746,229	87,667,325	-	(100,000,000)	-	33,413,554
May	22,654,288	89,688,208	-	(50,000,000)	-	62,342,496
June	48,508,498	89,715,643	-	(50,000,000)	-	88,224,141
July	49,909,949	33,902,610	-	-	-	83,812,559
August	39,606,280	68,623,221	-	-	-	108,229,501
September	71,979,762	68,275,135	-	-	-	140,254,897
October	54,566,108	70,400,531	-	(60,000,000)	-	64,966,639
November	52,239,051	81,228,790	-	(100,000,000)	-	33,467,841
December	48,494,418	87,097,839	-	(152,000,000)	-	(16,407,743)
Totals	661,345,525	993,712,960	5,240,800	(512,000,000)	(110,970)	1,148,188,315
Total Article 6.1			1,660,299,285			

**Petroleum Fund of Timor-Leste
Notes to the Financial Statements
for the year ended 31 December 2010**

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 Statement of cash flows, cash and cash equivalents comprise the following balances with original maturity of less than 90 days:

	<i>Dec-10</i>	<i>Dec-09</i>
	<i>USD</i>	<i>USD</i>
Cash at bank	5,709,687	2,561,653
Overnight reverse repurchase agreements	<u>1,700,000</u>	<u>600,000</u>
	<u>7,409,687</u>	<u>3,161,653</u>

The cash at bank includes 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 approximate 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 receipts on behalf of the government, as disclosed in note 3(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 management fee paid to the BPA for the period was composed as follows:

	<i>Dec-10</i>	<i>Dec-09</i>
	<i>USD</i>	<i>USD</i>
Custody and external management services	1,822,783	1,257,703
BPA operating expenses	<u>1,671,085</u>	<u>1,354,000</u>
Total	<u>3,493,868</u>	<u>2,611,703</u>

- (c) The Autoridade Nacional do Petróleo (ANP) manages the royalty split between Timor-Leste and Australia, and transfers the Timor-Leste portion to the Petroleum Fund as Article 6.1(b) receipts as disclosed in Note 3(c).

**Petroleum Fund of Timor-Leste
Notes to the Financial Statements
for the year ended 31 December 2010**

9. Financial assets valued through profit & loss

Transactions in financial assets, which arise either from the investment of new funds or the periodic rebalancing of the investment portfolio, are summarised as follows:

	<i>Dec-10</i> <i>USD</i>	<i>Dec-09</i> <i>USD</i>
Financial assets at fair value through profit or loss		
Opening fair value	5,373,463,906	4,196,337,198
Purchases at cost	5,472,783,373	5,577,112,377
Proceeds from sales	(3,975,375,657)	(4,266,587,757)
Net gains/(losses) on financial assets at fair value through profit and loss	18,158,450	(143,235,827)
Net gains through interest income	7,007,758	9,837,915
Closing fair value	<u>6,896,037,830</u>	<u>5,373,463,906</u>

There were no impairment losses at balance date.
The carrying amount of these assets approximates their fair value.

A summary of securities is as follows:

	<i>Dec-10</i> <i>USD</i>	
	Fair Value	% of net assets
Fixed interest securities		
United States treasury bill	16,995,811	0.26
European treasury bill	25,066,035	0.38
United States treasury notes	6,096,891,123	92.18
Australian government bonds	91,952,173	1.39
Japanese government bonds	24,039,641	0.36
United Kingdom government bonds	21,475,776	0.32
Other European government bonds	76,015,424	1.15
United States non sovereign bonds	<u>261,831,697</u>	<u>3.96</u>
Total Fixed Interest Securities	<u>6,614,267,680</u>	<u>100</u>
Equity securities		
United States equities	140,572,479	49.89
Australian equities	10,141,622	3.60
Japanese equities	27,645,811	9.81
United Kingdom equities	29,012,754	10.30
European equities	36,037,870	12.79
Equities from other countries	<u>38,359,614</u>	<u>13.61</u>
	<u>281,770,150</u>	<u>100</u>
Total Securities	<u>6,896,037,830</u>	

	<i>Dec-09</i> <i>USD</i>	
	Fair Value	% of net assets
United States treasury notes	4,901,355,770	91.2
Australian government bonds	77,885,749	1.4
Japanese government bonds	20,755,467	0.4
United Kingdom government bonds	15,834,147	0.3
Other European government bonds	75,807,617	1.4
Other public sector bonds	8,116,140	0.2
United States non sovereign bonds	<u>273,709,016</u>	<u>5.1</u>
Total	<u>5,373,463,906</u>	<u>100.0</u>

**Petroleum Fund of Timor-Leste
Notes to the Financial Statements
for the year ended 31 December 2010**

9. Financial assets valued through profit & loss (continued)

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from unadjusted quoted prices in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

		<i>Dec-10</i> <i>USD</i>		
	Level 1	Level 2	Level 3	Total
Financial Instruments designated at Fair Value through Profit or Loss				
Equity Securities	281,770,150	-	-	281,770,150
Fixed Interest Securities	<u>6,614,267,680</u>	-	-	<u>6,614,267,680</u>
Total	<u><u>6,896,037,830</u></u>	<u>-</u>	<u>-</u>	<u><u>6,896,037,830</u></u>

		<i>Dec-09</i> <i>USD</i>		
Financial assets by level	Level 1	Level 2	Level 3	Total
Financial Instruments designated at Fair Value through Profit or Loss				
Equity Securities	-	-	-	-
Fixed Interest Securities	<u>5,373,463,906</u>	-	-	<u>5,373,463,906</u>
Total	<u><u>5,373,363,906</u></u>	<u>-</u>	<u>-</u>	<u><u>5,373,363,906</u></u>

There were no transfers between levels for the year ended 31 December 2010.

There were no movements in level 3 instruments for the year ended 31 December 2010.

A detailed schedule of financial assets at fair value through profit and loss is at Note 20.

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 3(c).

**Petroleum Fund of Timor-Leste
Notes to the Financial Statements
for the year ended 31 December 2010**

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's 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.

Up to 10% of the amounts in the Petroleum Fund may be invested in other financial instruments, provided that they are issued abroad, liquid and transparent, and traded in a market of the highest regulatory standard.

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 2010 and 31 December 2009 was 2.61 years and 2.53 years respectively.

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 Petroleum Fund on June 2008. As part of the custodial agreement their responsibilities include holding the Petroleum Fund's 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.

Petroleum Fund of Timor-Leste
Notes to the Financial Statements
for the year ended 31 December 2010

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

As described under Note 12, "Investment Strategy", the framework for managing credit risk is broadly provided for in Articles 14 and 15 of the Petroleum Fund law, which state that 90% of the portfolio must be invested in interest-bearing debt instruments in US dollars which are rated Aa3 or higher by Moody's rating agency, or AA- or higher by Standard & Poor's rating agency, or are issued or guaranteed by the World Bank or a sovereign state (other than Timor-Leste) provided the issuer or guarantor is rated as above. Up to 10% of the portfolio may be invested in other financial instruments that are issued abroad, liquid and transparent, and traded in a financial market of the highest regulatory standard.

The mandate in the Operational Management Agreement prescribes that the performance of the Petroleum Fund shall be measured against a benchmark index, restricts the permissible investment universe to highly rated financial instruments, and establishes tracking error limits restricting the permissible deviation of the portfolio investments from the benchmark. The loss that the Petroleum Fund would suffer from the default of a single issuer is the amount disclosed below with respect to investments in Treasury Notes issued by the United States Government.

(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-10</i>	<i>Dec-09</i>
	<i>USD</i>	<i>USD</i>
Fixed interest securities		
Sovereign issuers:		
United States Government	6,113,445,146	4,905,943,536
Australia Government	91,952,177	78,845,893
Japan Government	24,039,642	20,845,955
United Kingdom Government	21,475,776	21,161,596
European Governments	101,081,460	76,119,563
Non sovereign issuers:		
United States denominated non sovereign bonds	<u>262,273,479</u>	<u>273,709,016</u>
	<u>6,614,267,680</u>	<u>5,376,625,559</u>

(c) Credit exposure by credit rating

The following table presents an analysis of the Petroleum Fund's debt securities classified according to the Standard and Poor's and Fitch'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-10</i>	<i>Dec-09</i>
	<i>USD</i>	<i>USD</i>
Fixed interest securities		
AAA	6,547,787,857	5,314,128,038
AA+	-	7,299,661
AA	24,039,642	20,755,467
AA-	-	3,084,040
A+	<u>42,440,181</u>	<u>28,196,700</u>
Total	<u>6,614,267,680</u>	<u>5,373,463,906</u>

**Petroleum Fund of Timor-Leste
Notes to the Financial Statements
for the year ended 31 December 2010**

13. Credit Risk (continued)

(d) Credit exposure by counterparty as a percentage of the Petroleum Fund's capital

The assets of the Petroleum Fund exposed to the United States Government amounted to 88.61% (2009: 91.25%) of the Petroleum Fund's capital. A change in the credit ratings of the Petroleum Fund's counterparties may have an impact on the future financial performance of the Petroleum Fund.

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 according to well-defined industry benchmarks with specified duration target. The assets and liabilities of the Petroleum Fund will re-price within the following periods:

FINANCIAL ASSETS	Balance sheet	Non-interest sensitive	Dec-10 USD			
			6 months or less	6 to 12 months	1 to 2 years	2 to 5 years
Cash and cash equivalents	7,409,687	-	7,409,687	-	-	-
Other Receivable	548,778	-	-	-	-	-
Financial assets at fair value through profit or loss	<u>6,896,037,830</u>	<u>320,964,758</u>	<u>592,659,912</u>	<u>683,898,014</u>	<u>1,858,624,344</u>	<u>3,440,439,580</u>
Total assets	<u>6,903,996,295</u>	<u>320,964,758</u>	<u>600,069,599</u>	<u>683,898,014</u>	<u>1,858,624,344</u>	<u>3,440,439,580</u>

Weighted average interest rate			4.49%	4.43%	3.74%	2.69%
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FINANCIAL ASSETS	Balance sheet	Non-interest sensitive	Dec-09 USD			
			6 months or less	6 to 12 months	1 to 2 years	2 to 5 years
Cash and cash equivalents	3,161,653	-	3,161,653	-	-	-
Financial assets at fair value through profit or loss	<u>5,373,463,906</u>	<u>32,243,875</u>	<u>607,965,162</u>	<u>476,150,142</u>	<u>1,319,524,146</u>	<u>2,937,580,581</u>
Total assets	<u>5,376,625,559</u>	<u>32,243,875</u>	<u>611,126,815</u>	<u>476,150,142</u>	<u>1,319,524,146</u>	<u>2,937,580,581</u>

Weighted average interest rate			3.76%	4.34%	4.10%	3.22%
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**Petroleum Fund of Timor-Leste
Notes to the Financial Statements
for the year ended 31 December 2010**

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 Petroleum 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:

31 December 2010

FINANCIAL ASSETS	USD	EUR	AUD	GBP	JPY	Other Currencies	Total
Cash and cash equivalents	3,225,300	503,059	2,414,045	572,565	368,175	326,544	7,409,687
Other receivables	175,126	16,279	202,708	64,851	37,756	52,058	548,778
Financial assets at fair value through profit or loss	<u>6,516,291,111</u>	<u>137,119,083</u>	<u>102,093,794</u>	<u>50,488,529</u>	<u>51,685,452</u>	<u>38,359,860</u>	<u>6,896,037,830</u>
Total assets	<u>6,519,691,537</u>	<u>137,638,421</u>	<u>104,710,547</u>	<u>51,125,945</u>	<u>52,091,383</u>	<u>38,738,462</u>	<u>6,903,996,295</u>

31 December 2009

FINANCIAL ASSETS	USD	EUR	AUD	GBP	JPY	Other Currencies	Total
Cash and cash equivalents	1,509,103	311,946	960,143	289,974	90,487	-	3,161,653
Financial assets at fair value through profit or loss	<u>5,178,143,451</u>	<u>75,807,617</u>	<u>77,885,749</u>	<u>20,871,622</u>	<u>20,755,467</u>	<u>-</u>	<u>5,373,463,906</u>
Total assets	<u>5,179,652,554</u>	<u>76,119,563</u>	<u>78,845,892</u>	<u>21,161,596</u>	<u>20,845,954</u>	<u>-</u>	<u>5,376,625,559</u>

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 Timor-Leste citizens. The Fund's capital structure consists solely of paid in capital derived from petroleum receipts and other sources as described in Note 3(c). Each year the Government calculates Estimated Sustainable Income (ESI) which is defined in the Petroleum Fund law as the maximum amount that can be appropriated from the Petroleum Fund in a fiscal year and leave sufficient resources in the Petroleum 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 Petroleum Fund.

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

Petroleum Fund of Timor-Leste
Notes to the Financial Statements
for the year ended 31 December 2010

16. Liquidity, capital and market risk (continued)

(c) Market risk

(i) Interest rate 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 to a benchmark with the risk limit defined by a maximum tracking error.

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 2010 was 2.61 years (31 December 2009 - 2.53 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 \$172 million (31 December 2009 - \$172 million).

(ii) Currency risk

The Petroleum Fund is primarily exposed to the Euro, Australian Dollars, Pound Sterling and Japanese Yen.

The following table details the Petroleum Fund's sensitivity to a 10% increase and decrease in the United States Dollar against the relevant foreign currencies. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in foreign currency rates. The sensitivity analysis includes cash and cash equivalents, interest receivable and qualifying instruments. A negative number below indicates a decrease in profit where the United States Dollar strengthens 10% against the relevant currency. For a 10% weakening of the United States Dollar against the relevant currency, there would be a comparable impact on the profit, and the balances below would be a positive.

	Dec-10	Dec-09
EUR impact	(13,763,842)	(7,611,956)
AUD impact	(10,471,055)	(7,884,589)
GBP impact	(5,112,595)	(2,116,160)
JPY impact	(5,209,138)	(2,084,595)
Other currencies impact	(3,873,846)	-

This is mainly attributable to the exposure outstanding on all relevant foreign currencies relating to cash and cash equivalents, interest receivable and qualifying instruments in the Petroleum Fund at the end of the reporting period.

17. Reconciliation of net cash flows from operating activities with profit for the year

	<i>Dec-10</i>	<i>Dec-09</i>
	<i>USD</i>	<i>USD</i>
Profit for the year	221,139,322	31,465,511
Add/(subtract) non-cash items		
Net (gains) through interest income	(7,007,758)	(9,837,915)
Net (gains)/losses on financial instruments held at fair value through profit or loss	(18,184,008)	143,080,165
Increase in other receivables	(548,778)	-
Net cash flow from operating activities	<u>195,398,778</u>	<u>164,707,761</u>

18. Events occurring after Balance sheet date

The Petroleum Fund Law is currently being revised. The investments and associated risks of the Petroleum Fund may change following amendments to the Petroleum Fund Law.

19. Contingent assets, liabilities and commitments

There are no contingent assets, liabilities or commitments as at 31 December 2010.

Petroleum Fund of Timor-Leste
Notes to the Financial Statements
for the year ended 31 December 2010

20. Schedule of financial assets valued through profit and loss

(a) Fixed interest Securities

Security	Currency	Nominal Value	Fair Value
BUBILL TBILL 30MAR11	EUR	18,700,000.00	25,066,035
US T-BILL 17MAR11	USD	17,000,000.00	16,995,838
ASIA 1.375% 02MAY12	USD	30,000,000.00	30,720,630
EIB 1.75% 14SEP12	USD	30,000,000.00	30,695,910
EIB 2.625% 16MAY11	USD	1,965,000.00	1,986,939
EIB 4.625% 20OCT15	USD	3,004,000.00	3,347,766
EIB 4.875% 15FEB36	USD	1,929,000.00	2,007,865
EIB 5.125% 30MAY17	USD	8,810,000.00	9,981,069
EIB 5.25% 15JUN11	USD	30,000,000.00	30,710,220
IBRD 7.625% JAN23	USD	1,927,000.00	2,653,968
KFW 1.875% 14JAN13	USD	30,000,000.00	30,826,830
KFW 2.00% 17JAN12	USD	12,992,000.00	13,299,599
KFW 4.125% 15OCT14	USD	21,102,000.00	23,127,898
NIBCAP 2.80% 02DEC14	USD	25,000,000.00	25,825,250
Q 4.625% 14MAY18	USD	987,000.00	1,073,851
SFEFR 3.375% 05MAY14	USD	52,500,000.00	55,573,875
ACGB 5.25% 15MAR19	AUD	9,807,000.00	10,041,808
ACGB 5.75% 15APR12	AUD	21,595,000.00	22,625,381
ACGB 5.75% 15MAY21	AUD	21,123,000.00	22,141,686
ACGB 6.00% 15FEB17	AUD	13,726,000.00	14,800,764
ACGB 6.50% 15MAY13	AUD	21,000,000.00	22,342,533
BKO 1.25% 11MAR11	EUR	3,948.00	5,359
BPTS 4.50% 01MAR19	EUR	982,000.00	1,334,154
BTNS 1.50% 12SEP11	EUR	1,961,094.00	2,657,451
BTPS 3.00% 01MAR12	EUR	8,980,000.00	12,263,826
BTPS 4.00% 01FEB17	EUR	10,480,000.00	14,218,882
BTPS 4.25% 01AUG2013	EUR	7,000,000.00	9,815,409
DBR 3.50% 04JUL19	EUR	2,800,000.00	4,008,864
FRTR 4.00% 25OCT38	EUR	2,946,574.00	4,061,248
FRTR 4.25% 25OCT23	EUR	8,175,147.00	11,816,131
ITALY 5.375% 15JUN33	USD	2,923,000.00	2,757,248
JGB 0.40% 15APR11	JPY	24,300,000.00	300,095
JGB 0.40% 15MAR11	JPY	498,900,000.00	6,161,965
JGB 0.70% 20MAR13	JPY	190,500,000.00	2,379,834
JGB 0.80% 20DEC13	JPY	341,400,000.00	4,280,583
JGB 1.20% 20JUN15	JPY	28,300,000.00	361,563
JGB 1.40% 20MAR18	JPY	563,050,000.00	7,296,694
JGB 2.10% 20MAR29	JPY	159,600,000.00	2,065,982
JGB 2.30% 20JUN35	JPY	90,850,000.00	1,192,926
NETHER 4.00% 15JAN37	EUR	10,600,000.00	15,834,101
QUEBEC 7.5% 15SEP29	USD	700,000.00	976,811
UK TREAS 5.0% MAR25	GBP	2,939,929.00	5,239,952
UKT 2.25% 07MAR14	GBP	2,301,437.00	3,704,532

Petroleum Fund of Timor-Leste
Notes to the Financial Statements
for the year ended 31 December 2010

20. Schedule of financial assets valued through profit and loss (continued)

(a) Fixed interest Securities (continued)

Security	Currency	Nominal Value	Fair Value
UKT 3.25% 07DEC11	GBP	980,921.00	1,577,202
UKT 4.00% 07SEP16	GBP	2,480,270.00	4,235,592
UKT 4.50% 07MAR13	GBP	981,274.00	1,670,607
UKT 4.75% 07DEC38	GBP	2,941,306.00	5,047,890
US T-NOTE 15MAY16	USD	15,745,000.00	18,244,724
US T-NOTE 4.25 NOV14	USD	33,400,000.00	37,108,055
US TN 0.375% 30SEP12	USD	43,000,000.00	42,938,729
US TN 1.00% 15JUL13	USD	41,500,000.00	41,895,892
US TN 1.125% 15JAN12	USD	83,000,000.00	84,096,016
US TN 1.25% 31OCT15	USD	290,100,000.00	281,373,314
US TN 1.375% 15FEB12	USD	93,100,000.00	94,630,900
US TN 1.75% 15APR13	USD	92,900,000.00	95,382,288
US TN 1.75% 15NOV11	USD	42,418,000.00	43,041,294
US TN 1.875% 30APR14	USD	367,800,000.00	377,342,691
US TN 2.375% 31OCT14	USD	398,000,000.00	413,579,980
US TN 2.50% 30APR15	USD	432,300,000.00	448,774,853
US TN 2.625% 31JUL14	USD	52,000,000.00	54,955,891
US TN 2.75% 15FEB19	USD	11,500,000.00	11,471,207
US TN 2.75% 31OCT13	USD	488,400,000.00	515,692,742
US TN 2.75% 31OCT13	USD	54,587,800.00	57,638,272
US TN 3.125% 30APR13	USD	289,100,000.00	306,954,298
US TN 3.125% 30APR13	USD	223,700,000.00	237,515,312
US TN 3.125% 31OCT16	USD	19,700,000.00	20,655,001
US TN 3.25% 30JUN16	USD	21,700,000.00	22,880,161
US TN 3.375% 15NOV19	USD	10,400,000.00	10,662,505
US TN 3.50% 15MAY20	USD	49,000,000.00	50,417,286
US TN 3.50% 31MAY13	USD	28,800,000.00	30,796,615
US TN 3.625% 15FEB20	USD	21,400,000.00	22,502,191
US TN 3.875% 15MAY18	USD	4,951,000.00	5,351,878
US TN 3.875% 31OCT12	USD	697,700,000.00	744,818,988
US TN 4.50% 30APR12	USD	747,900,000.00	794,827,870
US TN 4.625% 31OCT11	USD	614,900,000.00	641,604,659
US TN 4.75% 15AUG17	USD	54,500,000.00	62,779,944
US TN 4.875% 30APR11	USD	503,900,000.00	515,724,743
US TN 7.25% MAY16	USD	5,904,000.00	7,498,765
Total Fixed Interest Securities		8,173,549,700	6,614,267,680

Petroleum Fund of Timor-Leste
Notes to the Financial Statements
for the year ended 31 December 2010

20. Schedule of financial assets valued through profit and loss (continued)

(b) Equity Securities

Security	Currency	No. of Shares	Fair Value
3M CO	USD	11,000	949,190
77TH BANK	JPY	10,000	53,018
AAREAL BANK AG	EUR	7,586	231,221
ABBOTT LABS COM NPV	USD	21,300	1,020,483
ABNQUE CANTONALE VAU	CHF	434	228,617
ACCENTURE PLC-CL A	USD	12,300	596,181
ACE LTD	USD	11,000	684,640
ACOM CO	JPY	5,580	69,144
ADVANCE AUTO PARTS	USD	2,900	191,806
AEON CO LTD	JPY	23,000	287,837
AETNA US HEALTHCARE	USD	12,000	366,120
AFFILIATED MANAGERS	USD	1,400	138,894
AFLAC INC	USD	8,000	451,440
AFREN PLC	GBP	79,643	183,922
AFRICAN BARRICK GOLD	GBP	9,391	89,762
AGEAS	EUR	154,078	353,463
AGF MANAGEMENT LTD	CAD	4,700	92,141
AIR LIQUIDE	EUR	1,232	156,420
AKER KVAERNER	NOK	8,927	152,431
ALASKA AIR GROUP INC	USD	5,500	311,795
ALFA LAVAL AB	SEK	19,338	407,594
ALIMENTATION COUCHE	CAD	9,400	255,800
ALLIANCE RES PARTNER	USD	3,100	203,453
ALLIANT ENERGY CORP	USD	2,100	77,217
ALLIANZ AG	EUR	8,677	1,033,106
ALLIED WORLD ASSURAN	USD	2,100	124,824
ALLSTATE US 0.01	USD	12,400	395,312
ALTERA CORP	USD	10,800	384,372
ALTRIA GROUP INC.	USD	5,100	125,511
AMAZON.COM INC	USD	4,200	755,622
AMEC PLC	GBP	9,467	170,305
AMER FINL GROUP INC	USD	6,800	219,572
AMERADA HESS CORP	USD	1,800	137,772
AMERICAN ELEC POWER	USD	11,900	428,162
AMERICAN EXPRESS CO	USD	14,000	600,880
AMERIGAS PARTNERS	USD	2,600	126,750
AMERIPRISE FIN W/I	USD	11,800	678,618
AMERISOURCEBERGEN CP	USD	10,600	361,672
AMGEN INC	USD	11,800	647,820
AMPHENOL CORP	USD	6,300	332,451

Petroleum Fund of Timor-Leste
Notes to the Financial Statements
for the year ended 31 December 2010

20. Schedule of financial assets valued through profit and loss (continued)

(b) Equity Securities (continued)

Security	Currency	No. of Shares	Fair Value
ANADARKO PETROLEUM	USD	900	68,544
ANALOG DEVICES INC	USD	7,400	278,758
ANDRITZ AG	EUR	5,096	470,422
ANGLO AMERICAN PLC	GBP	9,084	474,316
ANHEUSER-BUSCH INBEV	EUR	11,428	656,177
ANNALY MORTGAGE MGMT	USD	16,100	288,351
ANTOFAGASTA HLDGS	GBP	26,834	676,824
ANZ BANKING GROUP	AUD	17,590	421,015
AOYAMA TRADING CO	JPY	6,800	122,828
APACHE CORP	USD	4,200	500,766
APPLE COMPUTER INC	USD	11,100	3,579,528
ARBOR REALTY TRUST	USD	6,000	35,760
ARC ENEY TRUST UNITS	CAD	20,100	513,803
ARCADIS NV	EUR	6,986	162,652
ARCHER DANIELS MIDLD	USD	12,500	376,000
ARKEMA	EUR	4,090	295,197
ARM HOLDINGS PLC	GBP	38,448	254,750
ARRIS GROUP INC	USD	17,300	193,933
ASAHI GLASS CO	JPY	47,000	549,941
ASAHI KASEI CORP	JPY	26,000	169,903
ASHMORE GROUP PLC	GBP	32,374	169,799
ASPEN INSURANCE HOLD	USD	1,900	54,378
ASSIC GENERALI	EUR	19,658	373,958
ASSURANT INC	USD	5,100	196,452
ASTRAZENECA PLC	GBP	23,056	1,054,592
AT&T COMCAST CORP	USD	35,800	786,884
AT&T INC.	USD	73,400	2,156,492
ATLAS COPCO AB-A SHS	SEK	12,274	309,824
AUST STOCK EXCHANGE	AUD	6,854	264,166
AUTOBACS SEVEN CO	JPY	900	35,343
AUTOLIV INC	USD	1,700	134,198
AVEVA GROUP PLC	GBP	2,038	51,468
AVIVA PLC	GBP	15,766	96,984
AXA	EUR	31,584	527,525
AXFOOD AB	SEK	983	36,715
BALOISE- HOLDING AG	CHF	1,822	177,880
BANCA INTESA SPA	EUR	52,898	143,350
BANCA MONTE DEI PASC	EUR	126,087	143,948
BANCO BILBAO VIZCAYA	EUR	93,483	947,990
BANCO POPULAR ESPANO	EUR	18,583	95,731
BANCO SANTANDER CENT	EUR	84,086	894,322
BANK OF AMERICA	USD	117,900	1,572,786
BANK OF EAST ASIA	HKD	13,200	55,356

Petroleum Fund of Timor-Leste
Notes to the Financial Statements
for the year ended 31 December 2010

20. Schedule of financial assets valued through profit and loss (continued)

(b) Equity Securities (continued)

Security	Currency	No. of Shares	Fair Value
BANK OF MONTREAL	CAD	12,300	710,903
BANK OF NEW YORK MEL	USD	5,500	166,100
BANK OF NOVA SCOTIA	CAD	7,200	413,240
BANKINTER S.A	EUR	37,046	206,549
BANNER CORP	USD	6,400	14,848
BARCLAYS	GBP	164,330	673,053
BARD (CR) US 0.25	USD	3,400	312,018
BASF SE	EUR	16,446	1,320,919
BAXTER INTL INC	USD	11,000	556,710
BAYER AG DEM	EUR	10,052	741,150
BAYTEX ENERGY TST	CAD	7,400	346,969
BB & T CORPORATION	USD	6,000	157,740
BCO COM POTUGUES	EUR	74,490	58,160
BCO ESPIR SANTO	EUR	47,099	181,848
BEACH ENERGY LTD	AUD	126,017	111,089
BECTON DICKINSON+CO	USD	5,600	473,312
BED BATH & BEYOND	USD	7,400	363,636
BELGACOM SA	EUR	12,517	421,903
BEMIS CO INC	USD	5,000	163,300
BERKSHIRE HATH B SHS	USD	2,400	192,240
BEST BUY COMPANY	USD	14,800	507,492
BG GROUP PLC	GBP	45,172	916,224
BGC PARTNERS INC	USD	4,100	34,071
BHP BILLITON	GBP	31,236	1,247,313
BHP BILLITON LTD	AUD	27,249	1,263,904
BIC	EUR	4,908	423,504
BIOGEN IDEC INC	USD	6,200	415,648
BJ'S WHOLESALE CLUB	USD	2,900	138,910
BNP PARIBAS	EUR	12,880	822,661
BOEING CO	USD	2,000	130,520
BOLIDEN AB	SEK	18,407	374,281
BOLSAS Y MERCADOS	EUR	3,713	88,765
BP PLC	GBP	210,823	1,536,500
BRADKEN LTD	AUD	5,209	48,055
BREWIN DOLPHIN HLDGS	GBP	6,207	15,422
BRIDGESTONE CORP	JPY	18,700	361,526
BRINKER INTL INC	USD	4,300	89,784
BRISTOL MYERS SQUIBB	USD	22,300	590,504
BRITISH AMER TOBACCO	GBP	29,367	1,132,449
BRITISH LAND CO	GBP	62,427	512,152
BROADRIDGE FINANCIAL	USD	8,900	195,177

Petroleum Fund of Timor-Leste
Notes to the Financial Statements
for the year ended 31 December 2010

20. Schedule of financial assets valued through profit and loss (continued)

(b) Equity Securities (continued)

Security	Currency	No. of Shares	Fair Value
BROOKFIELD PROP CORP	CAD	9,100	160,176
BROWN FORMAN CORP	USD	1,900	132,278
BRUKER BIOSCIENCES	USD	4,300	71,337
BUCKEYE PARTNERS LP	USD	2,100	140,322
BUNGE LTD	USD	3,400	222,598
BUNZL PLC	GBP	18,281	205,647
CA INC	USD	17,100	417,753
CAMECO CORPORATION	CAD	7,500	303,804
CAMPBELL BROTHERS	AUD	867	34,838
CANADIAN NATL RAIL	CAD	9,300	620,062
CANON INC	JPY	6,100	316,263
CAPE LAMBERT IRON OR	AUD	79,978	40,581
CAPSTEAD MORTGAGE CO	USD	6,100	76,799
CARREFOUR SUPERMARCH	EUR	10,590	438,215
CATERPILLAR INC	USD	8,400	786,744
CDN NATURAL RESOURSE	CAD	19,800	882,148
CENOVUS ENERGY INC	CAD	10,200	340,086
CENTERPOINT ENERGY	USD	19,000	298,490
CENTERRA GOLD INC	CAD	14,300	285,381
CENTRICA PLC	GBP	115,179	597,794
CENTURY TOKYO LEASIN	JPY	2,500	40,719
CEPHALON INC	USD	2,200	135,784
CF INDUSTRIES HLDGS	USD	4,500	608,175
CGI GRP INC 'A'	CAD	15,000	259,196
CHALLENGER LTD	AUD	18,158	87,480
CHECK POINT SOFTWARE	USD	3,200	147,968
CHEVRON CORP	USD	25,700	2,345,125
CHIBA BANK	JPY	16,000	103,964
CHIMERA INVEST CORP	USD	37,700	154,947
CHRISTIAN DIOR	EUR	2,596	370,730
CHUBB CORP	USD	7,700	459,228
CHUGOKU BANK	JPY	4,000	48,480
CIMAREX ENERGY	USD	1,500	132,795
CINCINNATI FIN CORP	USD	5,700	180,633
CISCO SYSTEMS	USD	73,900	1,494,258
CITIGROUP INC.	USD	237,400	1,122,902
CLIFFS NATURAL RES	USD	1,900	148,219
CLOSE BROTHERS GROUP	GBP	13,302	177,232
CMS ENERGY US 0.01	USD	9,300	172,887
CNA FINANCIAL CORP	USD	8,900	240,389
CNP ASSURANCES	EUR	14,065	254,730
COACH INC	USD	6,800	376,108

Petroleum Fund of Timor-Leste
Notes to the Financial Statements
for the year ended 31 December 2010

20. Schedule of financial assets valued through profit and loss (continued)

(b) Equity Securities (continued)

Security	Currency	No. of Shares	Fair Value
COAL & ALLIED	AUD	886	108,529
COCA-COLA CO	USD	26,000	1,710,020
COCA-COLA WEST COMPA	JPY	3,100	56,225
COCHLEAR	AUD	3,375	278,009
COGNIZANT TECH SOLUT	USD	5,000	366,500
COLGATE PALMOLIVE	USD	7,300	586,701
COLOPLAST SER B	DKK	488	66,591
COLRUYT SA	EUR	2,090	106,588
COMMONWEALTH BANK	AUD	17,513	911,228
COMPASS GROUP PLC	GBP	53,417	485,486
COMSYS HOLDINGS CORP	JPY	12,000	127,686
CONOCOPHILIPS PETROL	USD	20,300	1,382,430
CONSD EDISON CO NY	USD	7,400	366,818
COOPER INDUSTRIES PL	USD	7,100	413,788
CORIO NV	EUR	2,577	165,478
CORNING INC	USD	5,900	113,988
CORPORACION MAPFRE	EUR	63,125	175,976
COSTCO WHOLESALE COR	USD	5,900	426,039
COVANCE INC	USD	1,100	56,551
CREDIT AGRICOLE SA	EUR	20,287	258,661
CREDIT SUISSE GROUP	CHF	16,958	685,343
CRESCENT POINT ENERG	CAD	8,600	382,290
CRITERIA CAIXACORP	EUR	51,576	275,522
CSL LIMITED	AUD	12,969	481,238
CSX CORP	USD	8,600	555,646
CULLEN/FROST BANKERS	USD	3,800	232,180
CUMMINS INC	USD	4,700	517,000
CVS/CAREMARK CORP	USD	21,900	761,463
DAI NIPPON PRINTNG	JPY	27,000	368,189
DAIHATSU MOTOR CO	JPY	13,000	199,556
DAIMLER AG	EUR	1,920	130,927
DAISHI BANK	JPY	6,000	18,569
DAITO TRUST CONSTR	JPY	2,300	157,672
DAIWA HOUSE INDUSTRY	JPY	17,000	208,976
DARDEN RESTAURANTS	USD	9,300	431,892
DASSAULT SYSTEMS	EUR	2,185	165,383
DAVITA INC	USD	4,000	277,960
DEERE AND CO	USD	8,000	664,400
DELHAIZE GROUP	EUR	4,522	335,295
DELL INC	USD	38,300	518,199
DEUTSCHE BANK AG	EUR	9,969	521,048
DEUTSCHE TELECOM AG	EUR	33,734	435,361

Petroleum Fund of Timor-Leste
Notes to the Financial Statements
for the year ended 31 December 2010

20. Schedule of financial assets valued through profit and loss (continued)

(b) Equity Securities (continued)

Security	Currency	No. of Shares	Fair Value
DEVON ENERGY CORP	USD	9,400	737,994
DIAMOND LEASE CO	JPY	6,060	240,592
DIONEX CORP	USD	1,000	118,010
DIRECTV-CLASS A	USD	16,700	666,998
DOWNER EDI LTD	AUD	19,484	90,673
DPL INC	USD	7,600	195,396
DU PONT DE NEM	USD	4,800	239,376
E.ON AG	EUR	4,685	143,427
EARTHLINK INC	USD	5,900	50,740
EASTMAN CHEMICAL	USD	3,700	311,096
EBAY INC	USD	22,300	620,386
EISAI CO LTD	JPY	7,500	271,870
ELECTROCOMPONENTS	GBP	64,155	266,880
ELISA CORPORATION	EUR	7,431	162,097
ELPIDA MEMORY INC	JPY	24,400	283,997
EMC CORP (MASS)	USD	36,400	833,560
EMERSON ELECTRIC	USD	13,700	783,229
EMS-CHEMIE HOLDING	CHF	266	47,316
ENBRIDGE ENERGY PART	USD	1,600	99,808
ENCANA CORP	CAD	18,400	537,751
ENEL SPA	EUR	23,832	119,415
ENERGEN CORP	USD	6,200	299,212
ENERGY RES OF AUST	AUD	25,975	296,077
ENI SPA	EUR	38,035	830,701
ENSCO PLC-SPON ADR	USD	8,500	453,730
ENSIGN ENERGY SERVI	CAD	5,400	81,681
ENTERGY CORP	USD	1,400	99,162
ENTERPRISE PRODUCTS	USD	5,900	245,499
EQUIFAX INC	USD	5,500	195,800
ERICSSON LM-B SHS	SEK	22,514	261,715
ESPRIT ASIA	HKD	47,200	224,960
ESSILOR INTL	EUR	4,530	292,770
ETRION CORP	SEK	3,141	2,163
EXEDY CORP	JPY	5,000	162,197
EXPEDIA INC	USD	6,300	158,004
EXPRESS SCRIPTS INC	USD	9,000	486,360
EXXON MOBIL CORP	USD	51,000	3,729,120
FABEGE AB	SEK	10,343	120,848
FAIR ISAAC & CO INC	USD	4,400	102,784
FAMILY DOLLAR STORES	USD	5,600	278,320
FASTENAL	USD	5,000	299,550
FEDERAL REALTY INVS	USD	4,500	350,685

Petroleum Fund of Timor-Leste
Notes to the Financial Statements
for the year ended 31 December 2010

20. Schedule of financial assets valued through profit and loss (continued)

(b) Equity Securities (continued)

Security	Currency	No. of Shares	Fair Value
FEDERATED INVESTOR	USD	5,300	138,595
FILTRONA PLC	GBP	8,483	32,247
FIRSTMERIT CORP	USD	4,900	96,971
FLEETWOOD CORP LTD	AUD	7,435	99,000
FLOWERS FOODS INC	USD	4,300	115,713
FLOWSERVE CORP	USD	2,500	297,900
FLUOR CORP	USD	3,400	225,250
FONCIERE DES REGIONS	EUR	1,369	131,867
FOREST OIL CORP	USD	2,100	79,716
FORTESCUE METALS LTD	AUD	17,101	114,467
FORTUM OYJ	EUR	8,428	254,737
FOSSIL INC	USD	2,500	176,050
FRASER AND NEAVE	SGD	54,000	270,200
FRED OLSEN ENERGY	NOK	3,017	133,708
FREEPORT-MCMOR C&G B	USD	3,500	420,280
FRESNILLO PLC	GBP	4,414	115,203
FRONTIRE COMMUNICATI	USD	9,500	92,435
FUEL SYSTEMS SOLUTIO	USD	3,400	99,892
FUGRO NV-CVA	EUR	2,245	185,224
FURUKAWA-SKY ALUMIN	JPY	30,000	87,664
FUYO GEN LEASE CO	JPY	1,000	32,760
GALLAGHER (AJ) & CO	USD	2,800	81,312
GARMIN LTD	USD	14,600	452,162
GEN DYNAMICS CORP	USD	9,800	695,408
GENERAL ELECTRIC CO	USD	90,500	1,655,245
GENERAL MILLS INC	USD	5,200	185,068
GEN-PROBE INC	USD	1,100	64,185
GENUINE PARTS CO	USD	1,800	92,412
GETTINGE INDUSTRIER	SEK	6,132	128,517
GILEAD SCIENCES	USD	4,300	155,832
GIVAUDAN REQ	CHF	153	165,623
GLAXOSMITHKLINE PLC	GBP	70,489	1,367,926
GOLDCORP INC	CAD	13,400	617,507
GOLDMAN SACHS GROUP	USD	5,000	840,750
GOODRICH CORPORATION	USD	4,800	422,736
GOOGLE INC - CL A	USD	3,100	1,841,028
GRAINGER W W INC	USD	2,400	331,464
GREAT EAGLE HLDGS	HKD	21,000	65,240
GREAT WEST LIFECO	CAD	12,900	342,217
GRIFOLS S.A.	EUR	8,075	110,497
GUESS? INC	USD	2,800	132,496
H LUNDBECK AS	DKK	10,254	195,671

Petroleum Fund of Timor-Leste
Notes to the Financial Statements
for the year ended 31 December 2010

20. Schedule of financial assets valued through profit and loss (continued)

(b) Equity Securities (continued)

Security	Currency	No. of Shares	Fair Value
HACHIJUNI BANK	JPY	12,000	67,172
HAITIAN INTERNATIONA	HKD	42,000	43,817
HAKUHODO DY HOLDINGS	JPY	980	56,186
HALFORDS GROUP PLC	GBP	7,915	56,620
HALLIBURTON CO	USD	2,600	106,158
HAMMERSON PLC	GBP	14,864	97,067
HANG LUNG PROPERTIES	HKD	16,000	74,817
HANNOVER RUECKVERS	EUR	4,851	260,542
HARRIS CORP	USD	9,600	434,880
HASBRO INC	USD	5,600	264,208
HCC INSURANCE HOLDIN	USD	7,500	217,050
HEALTH CARE PPTYs	USD	6,400	235,456
HECLA MINING CO	USD	11,200	126,112
HEINZ (H.J.) CO.	USD	10,200	504,492
HELVETIA HOLDINGS AG	CHF	293	112,928
HENNES & MARITZ AB-B	SEK	12,926	430,684
HERBALIFE LTD	USD	4,800	328,176
HEWLETT PACKARD CO	USD	32,700	1,376,670
HIGO BANK	JPY	48,000	248,567
HIROSE ELECTRIC CO	JPY	2,200	247,654
HISCOX PLC	GBP	20,514	122,465
HITACHI CREDIT CP	JPY	6,300	97,485
HITACHI KOKI CO	JPY	2,900	27,353
HITACHI LTD	JPY	47,000	250,342
HO BEE INVESTMENT LT	SGD	65,000	82,198
HOCHSCHILD MINING	GBP	13,613	136,298
HOGANAS AB	SEK	4,785	187,191
HOME DEPOT INC	USD	7,600	266,380
HONDA MOTOR	JPY	11,700	463,788
HONEYWELL INTL INC	USD	14,200	754,872
HORMEL FOODS CORP	USD	4,700	240,922
HORNBECK OFFSHORE	USD	6,100	127,368
HOSIDEN CORP	JPY	4,600	54,278
HOSPIRA INC	USD	4,900	272,881
HSBC HOLDINGS PLC.	GBP	169,197	1,724,521
HUBBELL INC	USD	4,700	282,611
HUGO BOSS - PFD	EUR	819	61,727
HYSAN DEVELOPMENT	HKD	43,000	203,006
IG GROUP HOLDINGS PL	GBP	26,334	210,066
IGM FINANCIAL INC	CAD	9,300	405,919
IHI CORPORATION	JPY	95,000	212,009

**Petroleum Fund of Timor-Leste
Notes to the Financial Statements
for the year ended 31 December 2010**

20. Schedule of financial assets valued through profit and loss (continued)

(b) Equity Securities (continued)

Security	Currency	No. of Shares	Fair Value
INDUSTRIAL ALLIANCE	CAD	4,000	147,899
INERGY LP	USD	3,800	149,112
INMARSAT PLC	GBP	12,198	128,528
INPEX CORPORATION	JPY	73	427,532
INTEL CORP	USD	75,400	1,586,416
INTL BANCSHARES CRP	USD	9,700	194,388
INTL BUSINESS MACHIN	USD	17,400	2,553,450
INTL POWER PLC	GBP	49,519	339,191
INVESTEC PLC	GBP	17,250	142,194
ISRAEL CHEMICALS LTD	ILS	28,376	487,075
ISRAEL CORP LTD	ILS	82	99,562
ISUZU MOTORS	JPY	80,000	363,973
IT HOLDINGS CORP	JPY	9,900	132,073
ITO EN LIMITED	JPY	6,900	114,851
ITOCHU CORP	JPY	37,000	374,995
ITT CORP	USD	6,900	359,559
JACK HENRY & ASSOCIA	USD	6,800	198,356
JAPAN PETROLEUM EXP	JPY	3,200	121,916
JAPAN RETAIL FUND	JPY	49	94,007
JARDINE CYCLE & CAR	SGD	15,000	428,554
JARDINE MATHESON HLD	USD	6,400	281,600
JB HI-FI LTD	AUD	4,429	81,174
JERONIMO MARTINS	EUR	9,717	148,609
JKX OIL AND GAS PLC	GBP	23,846	117,492
JOHNSON & JOHNSON	USD	35,100	2,170,584
JOHNSON MATTHEY	GBP	8,337	265,886
JOS A BANK CLOTHIERS	USD	2,000	80,640
JOY GLOBAL INC	USD	3,000	260,100
JOYO BANK	JPY	30,000	132,051
JP MORGAN CHASE & CO	USD	44,000	1,866,040
K+S AG	EUR	2,513	190,884
KAISER ALUMINUM CORP	USD	3,600	180,324
KAMIGUMI CO	JPY	6,000	50,453
KANDENKO CO	JPY	5,000	33,598
KANEKA CORP	JPY	20,000	138,586
KAZAKHMYS PLC	GBP	13,977	352,974
KBC GROEP NV	EUR	3,361	114,978
KDDI CORPORATION	JPY	74	427,914
KELLOGG COMPANY	USD	7,100	362,668
KEMIRA OY	EUR	13,881	216,947
KEPPEL CORP LTD	SGD	56,000	494,844

Petroleum Fund of Timor-Leste
Notes to the Financial Statements
for the year ended 31 December 2010

20. Schedule of financial assets valued through profit and loss (continued)

(b) Equity Securities (continued)

Security	Currency	No. of Shares	Fair Value
KEWPIE CORP	JPY	9,600	121,798
KIMBERLY-CLARK CP	USD	2,900	182,816
KINDER MORGAN ENERGY	USD	3,000	210,780
KINETIC CONCEPTS INC	USD	1,000	41,880
KINGSGATE CONSOL LTD	AUD	24,938	275,566
KLA TENCOR CORP	USD	6,900	266,685
KON KPN NV	EUR	27,021	395,850
KONE CORP NEW	EUR	3,909	218,155
KONGSBERG GRUPPEN	NOK	1,928	43,950
KONICA MINOLTA HLDGS	JPY	34,000	353,813
KONINKLIJKE DSM NV	EUR	8,989	513,782
KRAFT FOODS INC A	USD	10,400	327,704
KUNGSLEDEN AB	SEK	10,343	94,232
KYOWA EXEO CORP	JPY	3,000	30,886
L3 COMMUNICATIONS	USD	2,600	183,274
LABORATORIOS ALMIRAL	EUR	11,852	108,438
LABORATORY CORP NEW	USD	3,500	307,685
LAFARGE SA	EUR	3,175	199,554
LAM RESEARCH CORP	USD	5,400	279,504
LANDI RENZO SPA	EUR	19,578	78,269
LANXESS	EUR	2,851	224,322
LEGAL & GENERAL GRP	GBP	181,898	275,391
LEIGHTON HOLDINGS	AUD	6,903	217,585
LENDER PROCESSING	USD	1,900	56,031
LEXMARK INTL INC	USD	6,000	208,920
LIFEPOINT HOSPITALS	USD	3,500	128,625
LILLY(ELI)& CO	USD	16,600	581,332
LIMITED BRANDS INC	USD	8,100	248,913
LINDE AG NPV	EUR	1,910	291,725
LINTEC CORP	JPY	2,400	63,680
LLOYDS BANKING GROUP	GBP	146,520	150,692
LOCKHEED MARTIN CORP	USD	6,600	461,406
L'OREAL	EUR	2,438	271,697
LORILLARD INC	USD	1,100	90,211
LUNDIN PETROLEUM AB	SEK	13,760	171,211
LVMH MOET-HENNESSY	EUR	1,303	215,184
M6-METROPOLE TV	EUR	10,537	253,174
MACQUARIE GROUP LTD	AUD	6,969	264,312
MAN GROUP PLC	GBP	27,817	128,869
MANULIFE FINANCIAL	CAD	14,500	249,535
MARINE HARVEST ASA	NOK	280,786	297,573

Petroleum Fund of Timor-Leste
Notes to the Financial Statements
for the year ended 31 December 2010

20. Schedule of financial assets valued through profit and loss (continued)

(b) Equity Securities (continued)

Security	Currency	No. of Shares	Fair Value
MARKS & SPENCER	GBP	64,891	374,790
MARSHALL & ILSLEY	USD	13,300	92,036
MARUBENI CORP	JPY	61,000	428,703
MATTEL INC	USD	13,000	330,590
MAUREL ET PROM	EUR	3,202	45,319
MCCORMICK & CO INC	USD	3,600	167,508
MCDONALDS CORP	USD	13,600	1,043,800
MCGRATH RENTCORP	USD	700	18,354
MCGRAW HILL INC	USD	4,900	178,409
MCKESSON CORP	USD	6,600	464,508
MEDIASET	EUR	27,482	166,830
MEDTRONIC INC	USD	15,900	589,731
MELROSE PLC	GBP	21,883	106,518
MERCK & CO INC	USD	27,300	983,892
METCASH LTD	AUD	40,472	170,092
METLIFE INC	USD	9,600	426,528
METSO OYJ	EUR	7,832	438,878
METTLER-TOLEDO INTER	USD	1,400	211,694
MICROSOFT CORP	USD	103,100	2,876,490
MIDLAND REALTY HOLDS	HKD	24,000	19,636
MINCOR RESOURCES	AUD	35,850	69,270
MIRACA HOLDINGS INC	JPY	4,000	161,272
MITSUBISHI CHEMICAL	JPY	33,000	224,191
MITSUBISHI CORP	JPY	10,100	273,717
MITSUBISHI HEAVY IND	JPY	76,000	285,802
MITSUBISHI UFJ FIN	JPY	231,900	1,255,213
MITSUMI & CO	JPY	30,000	496,024
MITSUMI ENG & SHIPBG	JPY	127,000	335,096
MITSUMI ELECTRIC CO	JPY	9,400	172,921
MIZUHO FINANCIAL GRP	JPY	363,400	685,533
MIZUHO SECURITIES CO	JPY	42,000	120,658
MOBISTAR SA	EUR	1,487	95,655
MOCHIDA PHARM CO	JPY	2,000	21,429
MONADELPHOUS GROUP	AUD	4,175	78,316
MONSANTO CO	USD	10,000	696,200
MORGAN STANLEY	USD	23,600	642,156
MORRISON (W) SUPER	GBP	103,756	434,542
MOSAIC CO	USD	2,300	175,536
MSC INDUSTRIAL DIR	USD	3,400	219,912
MTU AERO ENGINES HLD	EUR	4,525	305,590
MUENCHENER RUECKVER	EUR	5,175	790,406
NAGASE & CO LTD	JPY	9,000	116,627

Petroleum Fund of Timor-Leste
Notes to the Financial Statements
for the year ended 31 December 2010

20. Schedule of financial assets valued through profit and loss (continued)

(b) Equity Securities (continued)

Security	Currency	No. of Shares	Fair Value
NATIONAL AUST BANK	AUD	29,598	718,741
NATL BK OF CANADA	CAD	8,300	571,181
NATL HEALTH INVEST	USD	2,100	94,542
NATURAL RESOURCE PAR	USD	8,400	278,880
NAVITAS LTD	AUD	5,072	19,756
NESTLE SA	CHF	44,553	2,616,969
NEW CST PLC	GBP	24,199	144,994
NEW WORLD DEVEL CO	HKD	201,000	376,989
NEWCREST MINING	AUD	11,267	466,589
NEWMARKET CORP	USD	1,300	160,368
NEWMONT MINING CP	USD	12,800	786,048
NEXTERA ENERGY INC	USD	5,200	270,348
NGK INSULATORS	JPY	13,000	211,898
NIKE INC	USD	6,600	563,772
NIPPON CARBON CO	JPY	24,000	77,825
NIPPON ELEC GLASS	JPY	30,000	432,772
NIPPON LIGHT METAL	JPY	52,000	96,172
NIPPON MEAT PACKER	JPY	15,000	195,672
NIPPON PAPER GROUP	JPY	4,000	105,000
NIPPON TEL & TEL CP	JPY	10,500	475,772
NISHI-NIPPON CITY BK	JPY	18,000	54,818
NISSHIN OIL MILLS	JPY	4,000	20,221
NITTO DENKO CORP	JPY	10,500	495,191
NOBLE CORP	USD	6,700	239,525
NOKIA OYJ	EUR	55,749	578,501
NOMURA REAL ESTATE O	JPY	10	72,005
NOMURA RESEARCH INST	JPY	3,100	69,105
NORDDEUTSCHE AFFINER	EUR	3,838	226,679
NORDEA BANK AB	SEK	47,993	522,202
NORFOLK STHN CORP	USD	10,900	684,520
NOVARTIS AG	CHF	30,264	1,784,151
NOVO NORDISK AS B	DKK	8,030	909,272
NSK	JPY	24,000	216,904
NTT DATA CORP	JPY	136	470,521
NTT DOCOMO INC	JPY	393	687,102
NUSTAR ENERGY LP	USD	2,200	152,856
NUTRECO NV	EUR	2,412	182,824
NV ENERGY INC	USD	9,700	136,285
NYSE EURONEXT	USD	13,400	401,732
OCCIDENTAL PETRLM	USD	10,300	1,010,430

Petroleum Fund of Timor-Leste
Notes to the Financial Statements
for the year ended 31 December 2010

20. Schedule of financial assets valued through profit and loss (continued)

(b) Equity Securities (continued)

Security	Currency	No. of Shares	Fair Value
OESTERREICHISCHE POS	EUR	2,727	90,216
OLAM INTERNATIONAL	SGD	55,000	134,811
OMNICOM GROUP INC	USD	9,500	435,005
OMV AG	EUR	6,188	260,086
ORACLE SYSTEMS CORP	USD	54,600	1,708,434
ORIENTAL LAND CO LTD	JPY	2,400	222,526
ORION OYJ	EUR	10,714	235,292
ORIX CORPORATION	JPY	3,230	318,201
ORIX JREIT INC	JPY	13	83,509
OZ MINERALS LTD	AUD	233,276	411,286
P G & E CORP	USD	9,000	430,560
PACIFIC METALS CO	JPY	24,000	204,180
PADDY POWER PLC	EUR	1,090	44,885
PALL CORP	USD	2,000	99,160
PARAGON GROUP CO PLC	GBP	31,433	88,584
PAREXEL INTERNATIONA	USD	4,900	104,076
PARGESA HOLDING SA-B	CHF	529	45,062
PARMALAT SPA	EUR	82,552	227,033
PARTNERS GROUP	CHF	269	51,081
PEPSICO INC	USD	21,400	1,397,848
PETROFAC LTD - W/I	GBP	18,260	453,418
PETROMINERALES LTD	CAD	11,500	381,809
PFIZER INC	USD	65,600	1,148,656
PHARMACEUTICAL PRO	USD	8,000	217,280
PHILIP MORRIS INTERN	USD	16,800	983,304
PLASTIC OMNIUM SA	EUR	814	57,877
PNC FINANCE SERV GR	USD	9,900	601,128
POHJOLA BANK PLC	EUR	4,763	57,317
POLO RALPH LAUREN	USD	1,500	166,380
PORTUGAL TELECOM SG	EUR	25,862	290,745
POTASH CO OF SASKATC	CAD	1,700	264,003
POWER CORP CANADA	CAD	9,800	272,504
POWER FINANCIAL CORP	CAD	7,700	237,591
POWER-ONE INC	USD	12,900	131,580
PPG INDS INC	USD	2,900	243,803
PRECISION CASTPARTS	USD	3,000	417,630
PREMIER OIL PLC	GBP	2,370	72,319
PREPAIS LEGAL SERV	USD	900	54,216
PRIME SUCCESS INTL	HKD	44,000	41,036
PROCTER & GAMBLE CO	USD	35,100	2,257,983
PROGRESS ENERGY INC	USD	7,900	343,492

Petroleum Fund of Timor-Leste
Notes to the Financial Statements
for the year ended 31 December 2010

20. Schedule of financial assets valued through profit and loss (continued)

(b) Equity Securities (continued)

Security	Currency	No. of Shares	Fair Value
PROTECTIVE LIFE CORP	USD	8,900	237,007
PRUDENTIAL FINACIAL	USD	3,200	187,872
PUBLIC STORAGE INC	USD	2,900	294,234
PUBLICIS GROUPE	EUR	9,971	521,353
PZ CUSSONS PLC	GBP	5,151	32,307
QBE INSURANCE GROUP	AUD	23,758	441,035
QUALCOMM INC	USD	18,400	910,248
QUEST DIAGNOSTICS	USD	5,800	313,026
QUEST SOFTWARE INC	USD	4,700	130,425
RAMSAY HEALTH CARE	AUD	4,192	76,272
RAYONIER INC	USD	4,000	210,000
RAYTHEON COMPANY	USD	10,900	505,106
RECKITT BENCKISER	GBP	11,428	630,523
RECORDATI SPA	EUR	20,716	195,097
RED ELECTRICA DE ESP	EUR	4,641	219,098
REGAL BELOIT	USD	3,600	240,336
RENGO CO	JPY	8,000	54,251
REPSOL YPF SA	EUR	15,128	423,150
RESEARCH IN MOTION	CAD	9,500	554,330
RESMED INC	USD	5,000	173,150
RESOLUTION LTD	GBP	40,352	147,834
RESTAURANT GROUP PLC	GBP	4,755	20,465
REYNOLDS AMERICAN	USD	12,000	391,440
RICOH CO	JPY	22,000	322,249
RIO TINTO PLC	GBP	11,437	803,278
ROCHE HOLDINGS	CHF	9,633	1,415,858
ROCKWELL COLLINS	USD	4,100	238,866
ROGERS COMMUNICATION	CAD	10,900	378,563
ROHM CO	JPY	6,400	418,223
ROSS STORES INC	USD	5,600	354,256
ROUND ONE CORP	JPY	24,000	148,252
ROY DUT SHELL -B SHS	GBP	37,090	1,227,889
ROYAL & SUN ALLIANCE	GBP	172,372	337,613
ROYAL BANK CANADA	CAD	20,200	1,061,178
ROYAL DUTCH SHELL PL	GBP	50,526	1,691,287
SA DES CIMENTS VICAT	EUR	301	25,125
SABMILLER PLC	GBP	13,795	487,254
SAFEWAY INC	USD	13,100	294,619
SAIC INC	USD	23,300	369,538
SAIPEM SCA	EUR	9,496	466,260
SAMPO OYJ - A SHS	EUR	6,776	182,261

**Petroleum Fund of Timor-Leste
Notes to the Financial Statements
for the year ended 31 December 2010**

20. Schedule of financial assets valued through profit and loss (continued)

(b) Equity Securities (continued)

Security	Currency	No. of Shares	Fair Value
SANDISK CORPORATION	USD	8,600	428,968
SAN-IN GODO BANK LTD	JPY	5,000	35,879
SANOFI-AVENTIS	EUR	16,252	1,043,267
SANTEN PHARM CO	JPY	1,300	45,169
SANTOS	AUD	6,667	89,731
SAP AG NPV	EUR	5,099	260,420
SCANA CORP NEW	USD	4,100	166,460
SCHLUMBERGER	USD	10,600	885,100
SCOR REGROUPE	EUR	10,455	266,352
SEADRILL LTD	NOK	11,801	400,371
SEALED AIR CORP	USD	12,100	307,945
SEB SA	EUR	1,717	178,517
SEKISUI CHEMICAL	JPY	32,000	230,023
SEKISUI HOUSE	JPY	24,000	242,352
SEMBCORP INDUSTRIES	SGD	85,000	340,385
SEMBCORP MARINE LTD	SGD	124,000	519,792
SEMPERIT AG HOLDING	EUR	565	30,016
SENIOR PLC	GBP	30,452	71,802
SEVEN & I HOLDINGS	JPY	18,500	494,976
SHAW COMMUNICATION-B	CAD	14,900	319,398
SHERRITT INT CORP	CAD	31,500	267,242
SHERWIN WILLIAMS CO	USD	3,900	326,625
SHIMACHU CO	JPY	5,600	131,257
SHINKO ELECTRIC INDS	JPY	16,800	188,082
SHINSEI BANK LTD	JPY	94,000	121,694
SIEMENS AG	EUR	5,116	638,362
SIKA FINANZ AG	CHF	94	206,838
SIMON PROPERTY GROUP	USD	3,600	358,128
SINGAPORE TELECOMM	SGD	135,000	321,416
SINO BIOPHARMACEUTIC	HKD	300,000	111,145
SKY PERFECT JSAT HOL	JPY	103	39,813
SLIGRO FOOD GROUP	EUR	575	17,896
SMITH & NEPHEW	GBP	27,432	290,335
SMK CORP	JPY	10,000	55,114
SMS MGT AND TECH	AUD	3,647	24,897
SMUCKER (JM) CO	USD	3,800	249,470
SOCIETE GENERALE A	EUR	5,153	278,041
SODEXHO ALLIANCE	EUR	2,404	166,318
SOLVAY SA	EUR	2,633	281,701
SONOVA HOLDING	CHF	1,961	253,935
SONY CORP	JPY	6,600	238,106

Petroleum Fund of Timor-Leste
Notes to the Financial Statements
for the year ended 31 December 2010

20. Schedule of financial assets valued through profit and loss (continued)

(b) Equity Securities (continued)

Security	Currency	No. of Shares	Fair Value
SOUTHERN CO	USD	16,000	611,680
SOUTHERN UNION CO	USD	6,500	156,390
ST JUDE MEDICAL	USD	9,100	389,025
STANCORP FINANCIAL	USD	4,500	203,085
STANDARD CHARTERED	GBP	39,147	1,057,261
STARBUCKS CORP	USD	9,700	311,467
STARHUB LTD	SGD	14,000	28,742
STATE STREET CORP	USD	1,900	88,046
STATOILHYDRO ASA	NOK	20,858	497,362
STILLWATER MINING	USD	5,100	108,885
STOCKLAND	AUD	11,537	42,337
STORA ENSO OYJ-R SHS	EUR	13,983	144,162
STRAITS ASIA RESOURC	SGD	56,000	108,848
STRYKER CORP	USD	7,200	386,568
SUBURBAN PROPANE PRT	USD	2,100	117,432
SUMITOMO CORP	JPY	29,500	417,557
SUMITOMO ELEC INDS	JPY	38,400	533,590
SUMITOMO MITSUI FIN	JPY	24,800	884,305
SUMITOMO RUBBER IND	JPY	11,600	121,142
SUMITOMO TRUST&BANK	JPY	53,000	333,272
SUN HUNG KAI PROPERT	HKD	6,000	99,181
SUNCORP GROUP LTD	AUD	35,104	309,457
SUZUKEN CO LTD	JPY	3,700	113,137
SUZUKI MOTOR CORP	JPY	18,300	450,590
SVENSKA HANDLESBANK	SEK	9,415	300,956
SWEDISH MATCH CO	SEK	5,415	156,823
SWIRE PACIFIC	HKD	23,500	386,344
SYMANTEC CORP	USD	14,600	244,550
SYMRISE AG	EUR	3,735	102,318
SYSCO CORP	USD	11,800	346,920
T ROWE PRICE GR INC	USD	2,700	174,177
TAIYO YUDEN CO	JPY	16,000	244,029
TARGET CORP	USD	12,900	775,548
TEC CORPORATION	JPY	11,000	53,166
TECK RESOURCES LTD	CAD	7,200	446,499
TECNICAS REUNIDAS SA	EUR	917	58,576
TELE2 AB -B SHS	SEK	24,988	518,876
TELECOM CORP OF NZ.	NZD	26,155	44,338
TELEFONICA S.A.	EUR	39,607	901,431
TELENOR ASA	NOK	28,020	456,997
TELEPHONE & DATA SYS	USD	4,300	157,165

Petroleum Fund of Timor-Leste
Notes to the Financial Statements
for the year ended 31 December 2010

20. Schedule of financial assets valued through profit and loss (continued)

(b) Equity Securities (continued)

Security	Currency	No. of Shares	Fair Value
TELIASONERA AB	SEK	61,572	488,154
TELSTRA CORP	AUD	119,235	340,999
TERADATA CORP	USD	4,900	201,684
TERADYNE INC	USD	22,800	320,112
TERNA SPA	EUR	67,204	284,447
TESCO	GBP	121,390	807,636
TESSENDERLO CHEMIE	EUR	960	34,889
TEXAS INSTRUMENTS IN	USD	21,600	702,000
TEXWINCA HOLDINGS	HKD	26,000	32,577
THE WALT DISNEY CO	USD	28,800	1,080,000
TIDEWATER INC	USD	1,500	80,760
TIM HORTONS INC	USD	5,300	218,519
TIME WARNER CABLE-WI	USD	7,100	468,742
TIME WARNER INC	USD	27,000	868,590
TJX COS INC	USD	12,600	559,188
TOKAI RIKA CO	JPY	15,600	295,055
TOKAI RUBBER INDS	JPY	15,600	216,194
TOKYO TATEMONO CO	JPY	19,000	87,849
TOKYU CORP	JPY	47,000	214,993
TOKYU LAND CORP	JPY	45,000	226,373
TOPPAN FORMS CO LTD	JPY	2,200	22,568
TORCHMARK CORP	USD	3,000	179,220
TORO CO	USD	2,800	172,564
TOROMONT INDUSTRIES	CAD	1,100	34,052
TORONTO-DOMINION BAN	CAD	14,800	1,103,688
TOTAL SA	EUR	28,704	1,526,836
TOYO INK MFG CO	JPY	9,000	44,165
TOYOTA AUTO BODY CO	JPY	4,100	76,586
TOYOTA MOTOR CORP	JPY	36,600	1,453,079
TRACTOR SUPPLY CO	USD	1,300	63,050
TRANSCANADA CORP	CAD	13,300	507,559
TRAVELERS COS INC	USD	7,300	406,683
TREND MICRO INC	JPY	6,000	197,892
TRUSTMARK CORP	USD	8,700	216,108
TRW AUTOMOTIVE HOLD	USD	7,800	410,982
TS TECH CO LTD	JPY	5,500	106,738
TSX GROUP INC	CAD	3,200	118,963
TULLOW OIL	GBP	16,555	326,584
TUPPERWARE BRANDS CP	USD	4,700	224,049
UBS AG-REG	CHF	31,648	521,185
UGI CORP	USD	4,300	135,794
UMICORE	EUR	5,771	301,167

Petroleum Fund of Timor-Leste
Notes to the Financial Statements
for the year ended 31 December 2010

20. Schedule of financial assets valued through profit and loss (continued)

(b) Equity Securities (continued)

Security	Currency	No. of Shares	Fair Value
UNIBAIL-RODAMCO	EUR	1,440	285,911
UNICREDITO ITAL SPA	EUR	105,456	219,002
UNILEVER NV-CVA	EUR	8,621	269,476
UNILEVER PLC	GBP	3,913	120,200
UNION PACIFIC CORP	USD	9,200	852,472
UNIONE DI BANCHE ITL	EUR	10,553	92,731
UNISYS CORP	USD	2,900	75,023
UNITEDHEALTH GROUP	USD	19,400	700,534
UNIVERSAL TRAVEL GRP	USD	7,100	43,452
UPM-KYMMENE OY	EUR	26,475	469,187
US BANCORP	USD	6,200	167,214
UTD PARCEL SERVICE	USD	11,000	798,270
UTD TECHNOLOGIES	USD	11,900	936,768
VARIAN MEDICAL	USD	4,700	325,616
VECTREN CORP	USD	5,400	137,052
VEDANTA RESOURCES PL	GBP	5,443	214,409
VENTAS INC	USD	3,900	204,672
VEOLIA ENVIRONMENT	EUR	7,038	206,493
VERIZON COMM	USD	39,400	1,409,338
VERMILION ENERGY	CAD	8,100	376,448
VF CORP	USD	3,400	292,876
VIACOM INC-CLS B W/I	USD	13,000	514,930
VINCI SA	EUR	10,756	587,001
VISA INC-CLASS A SHS	USD	1,800	126,684
VISHAY INTERTECH	USD	28,900	423,963
VODAFONE GROUP PLC	GBP	464,044	1,204,224
VOSSLOH AG	EUR	2,251	287,910
VTECH HOLDINGS	HKD	4,800	55,943
WACKER CHEMIE AG	EUR	765	134,700
WADDELL & REED FINAN	USD	4,000	141,160
WAL MART STORES INC	USD	26,600	1,434,538
WALGREEN CO	USD	15,100	588,296
WARTSILA OYJ-B	EUR	6,065	464,594
WASTE MANAGEMENT INC	USD	13,000	479,310
WATERS CORP	USD	4,400	341,880
WATSON PHARMACEUTICA	USD	4,800	247,872
WEIR GROUP	GBP	6,713	186,977
WELLS FARGO CO	USD	41,800	1,294,964
WESTAR ENERGY INC	USD	5,900	148,444
WESTN DIGITAL CORP	USD	12,600	427,140
WESTPAC BANKING CORP	AUD	39,356	895,589
WH SMITH PLC	GBP	4,893	37,300

**Petroleum Fund of Timor-Leste
Notes to the Financial Statements
for the year ended 31 December 2010**

20. Schedule of financial assets valued through profit and loss (continued)

(b) Equity Securities (continued)

Security	Currency	No. of Shares	Fair Value
WHARF (HLDGS)	HKD	66,000	507,715
WHEELOCK & CO	HKD	8,000	32,366
WHIRLPOOL CORP	USD	1,000	88,830
WILEY(JOHN) & SONS	USD	3,300	149,259
WOOD GROUP (JOHN) PL	GBP	14,514	126,913
WOOLWORTHS LIMITED	AUD	11,248	310,727
WORLD WRESTLING FED	USD	4,200	59,808
WORLEYPARSONS LTD	AUD	6,842	187,538
WYNDHAM WORLDWIDE CO	USD	9,000	269,550
XCEL ENERGY INC	USD	8,100	190,755
XEROX CORP	USD	30,300	349,056
XINYI GLASS HOLDINGS	HKD	366,000	301,326
XL GROUP PLC	USD	11,900	259,539
XSTRATA PLC - WI	GBP	32,381	762,995
YAMATAKE CORPORATION	JPY	6,000	142,408
YAMATO HOLDINGS CO	JPY	19,000	270,575
YANGZIJANG SHIPBUIL	SGD	272,000	405,542
YARA INTERNATIONAL	NOK	10,334	599,150
YOKOHAMA RUBBER CO	JPY	40,000	206,646
YUM BRANDS INC	USD	10,300	505,215
ZIMMER HLDGS INC	USD	5,800	311,344
ZURICH FINANCIAL SVC	CHF	2,081	540,734
Total Equity Securities		16,149,881	281,770,151



Dili, 30th June 2011
Ref. n.º 71/DNT/VI/2011

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

Subject: Statement on Accounting Policy for Petroleum Fund the Fiscal Year 2010

With respect to the provisions of the Article 24.1 part (c) of the Petroleum Fund Law, the financial 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 International Accounting Standards (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 National of Treasury



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

Please refer to the Income Statement of the Financial Statements for details.

(US dollars)

FY 2010	FY 2009	FY 2008
221,139,322	31,465,511	222,608,815

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)

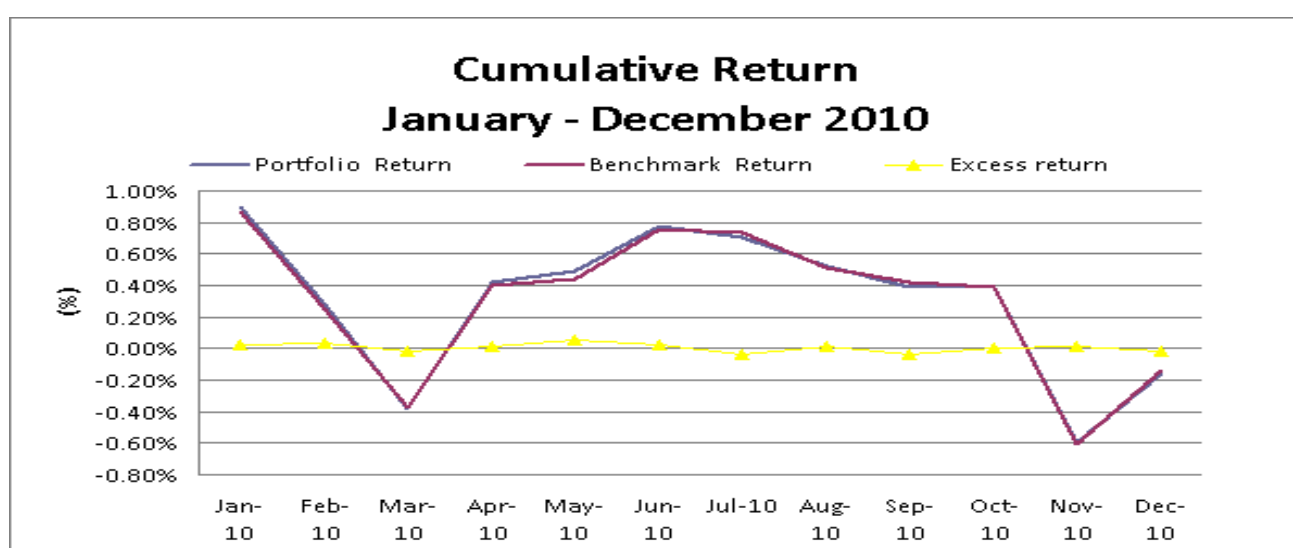
The yield on the portfolio in the period is 0.3 per cent. The average coupon for the year of 2010 has been \$169.06 Million. The average yield to maturity of the investments made through the Financial Year 2010 has been estimated at 1.6 per cent.

During 2010 inflation in the USA was 1.5 per cent. The real return on the investments is 2.3 % which is return 3.8 % minus inflation 1.5.

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 Monthly Cumulative Performance Numbers January - December 2010

Period	Portfolio	Benchmark	Excess return
Jan-10	0.89%	0.87%	0.03%
Feb-10	0.28%	0.25%	0.03%
Mar-10	-0.38%	-0.37%	-0.01%
Apr-10	0.42%	0.40%	0.01%
May-10	0.49%	0.44%	0.05%
Jun-10	0.78%	0.75%	0.02%
Jul-10	0.70%	0.74%	-0.04%
Aug-10	0.52%	0.51%	0.01%
Sep-10	0.39%	0.42%	-0.03%
Oct-10	0.39%	0.39%	0.00%
Nov-10	-0.59%	-0.60%	0.01%
Dec-10	-0.16%	-0.14%	-0.02%

**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 2010 has been 811,000,000 US dollars, which was 309,000,000 US dollars higher than the Estimated Sustainable Income.

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



"Adeus Conflito, Bemvindo Desenvolvimento"

Dili, 30th June 2011
Ref. n.º 72 /DNT/VI/2011

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

Subject: Borrowings during the Fiscal Year 2010

During the Fiscal Year 2010 from 1 January to 31 December 2010, 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 National 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
Ms. Emilia Pires
- (ii) The Director of Treasury
Ms. Sara Lobo Brites
- (iii) The members of the Investment Advisory Board

Name	Position
Mr. Abraão Fernandes de Vasconcelos	General Manager of the Banking & Payments Authority of Timor-Leste
Mr. Kevin Bailey	Principal and Private Client Adviser Shadforth Financial Group, Australia
Mr. Olgario de Castro	Special Adviser on Investments, Ministry of Finance
Ms. Sara Lobo Brites	Director of the National Directorate of Treasury
Mr. Torres Trovik	Adviser of the Petroleum Fund

- (iv) The External Investment Managers
Bank of International Settlements (BIS) – 3 June 2009
Schroder Investment Management (Schroders) – 08 October 2010
- (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 2010 the members of the Consultative Council were:

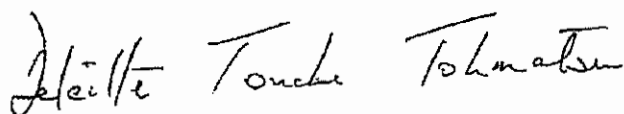
Name	Representation	Position
Mr. Francisco M. de Vasconcelos	Religious Organizations	Coordinator
Mr. Joãozito Viana	Civil Society	Vice Coordinator
Mr. Aurelio Guterres	Substitution of the Former President of the National Parliament	Member
Mr. Oscar Lima	Private Business Sector	Member
Ms. Maria de Fatima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

Mr. Alfredo Pires' position in the Consultative Council is currently vacant as he is the Secretary of State of Natural Resources. The Former Prime Minister, Mr. Mari Alkatiri and the Former Minister of Planning and Finance, Ms. 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 2010

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 2010.

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

Chartered Accountants
Darwin

Petroleum Fund of Timor-Leste
Statement of Petroleum Fund Receipts
for the period 1 January 2010 to 31 December 2010

Payee	Receipt (USD\$)
Article 6.1(a) Receipts	
Access Management (WA) Pty.Ltd.	66,452
Australian International Petro-Consultants Pty. Ltd.	70,651
Baker Hughes Australia Pty.Ltd.	2,874,262
Brunel enegy Pty.Ltd.	97,181
Bureau Veritas Asset Integrity and Reliability Pty. Ltd. (Intico Pty Ltd.)	35,132
Cape East Philippines Inc	219,849
Caterpillar of Australia Pty.Ltd. (Solar Turbines Australia)	137,708
Clough Amec IV (Amec Engineering Pty.Ltd.)	1,442,059
CMHS Aviation TL Unipessoal Lda.	27,460
Compass Group (Australia) Pty.Ltd.	513,358
Conoco Phillips JPDA Pty Ltd.	131,623,344
Conoco Phillips (03-12) Pty Ltd	270,637,517
Conoco Phillips (03-13) Pty.Ltd.	46,500,570
Conoco Phillips (03-19) Pty.Ltd.	6,558
Conoco Phillips (Emet) Pty.Ltd.	7,735,099
Conoco Phillips (Timor Sea) Pty.Ltd.	66,440,406
Conoco Phillips Timor Leste Pty.Ltd.	105,006
Diamon Offshore International Ltd.	2,647,687
Elang EPS Pte.Ltd.	45,807
Engineering Services Pty.Ltd.(Wood Group Production)	24,328
Eni JPDA 03-13 Ltd	80,799,596
Eni JPDA 06-105 Pty.Ltd.	6,579,354
Eni Timor Leste SPA (PSC Area 1)	70,254
Eni Timor Leste SPA (PSC Area 3)	5,980
Ensco Offshore International Inc.	1,727,137
Expro Group Australia Pty.Ltd	135,510
Farstad Shiping (Indian Pacific) Pty.Ltd.	547,327
Fircroft Australia Pty.Ltd. (Code Engineering Services Pty.Ltd.)	1,261,769
FMC Technologies Australia Limited	20,415
Fugro Survey Pty.Ltd.	11,070
Geographe Energy Pty.Ltd.	161,540
Geoservices Australasia P/L	18,808
Haliburton Australia Pty.Ltd.	1,137,623
Inpex Sahul, Ltd.	105,862,951
Japan Energy E and P JPDA Pty.Ltd.	11,375
Konnekto Unipessoal Lda.	11,753
LLoyd Offshore Helicopters Pty.Ltd.	777,418
Lothway TBS P/L	13,244
Minza Oil and Gas Ltd.	10,330
OCB Oilfield Services FZCO	145,691
Offshore Marine Services Pty Ltd	6,238
Oilex (JPDA 06-103) Ltd.	4,394,161

Pae Singapore Privated Limited	23,830
Peoplebank Australia Ltd.	13,008
Petronas Carigali SDN BHD (PC/Timor Sea 06-102) Ltd.	11,564,779
Prosafe Rigs Pty.Ltd.	1,324,543
Reliance Exploration & Production DMCC (Reliance Industri Lda)	51,240
Santos (Zoca 91-12) Pty.Ltd	97,388,317
Scomi Oiltools P/L (Oil Tools International Pty.Ltd.)	684,643
Sedco Forex International Inc.(Aust)	2,907,204
SGS Australia Pty.Ltd.	193,174
Skilled Group Limited	17,737
Skilled Group Ltd (Prosafe Personnel Pty.Ltd)	183,989
Skilled Group Ltd. (Swan Contract Personnel Pty.Ltd.)	29,477
Sodexo Singapore Pte.Ltd.	16,458
Songa Offshore Se	305,984
Spotless P and F Pty.Ltd.	151,508
Subsea 7 Australia Pty.Ltd.	162,378
Svitzer Asia East Pte.Ltd.	138,773
Svitzer Asia Pte.Ltd.(Riverwijs Offshore Marine Pty.Ltd.)	28,410
SWG Group (SWG Offshore Pty.Ltd.)	182,068
Swire Pacific Offshore P/L	64,686
TAD Pty.Ltd.	8,764
TCA Partners Pty.Ltd.	19,762
Tidewater Marine Australia Pty.Ltd.	757,807
Tokyo Timor Sea Resources P/L	67,056,666
Wavefield Inseis Asa	88,075
Weatherford Australia Pty.Ltd.	804,705
Wood Group Energy Consultants Pty Ltd (Proteus Global Energy Consultants)	337,456
Wood Group Production Facilities Darwin Pty.Ltd.	28,638
Woodside Energy Ltd.	369,050
Worley Parsons Services P/L	55,418
Total Article 6.1(a) receipts	919,918,521

Article 6.1(b) Receipts

Autoridade Nacional do Petróleo	1,190,010,103
Total Article 6.1(b) receipts	1,190,306,368

Article 6.1(e) Receipts

Ausaid (Annual pipeline fees)	7,041,600
Reliance Explo Prod DMCC	53,640
Eni Timor Leste SPA (PSC Area 1)	242,625
Total Article 6.1(e) receipts	7,337,865

Total Petroleum Fund Receipts

2,117,266,489

PETROLEUM FUND TIMOR-LESTE
ADVICES PROVIDED BY
INVESTMENT ADVISORY BOARD (IAB)
IN 2010

Investment Advisory Board

Date: 16th April 2010

To
H.E. Mrs. Emilia Pires
Minister of Finance
Democratic Republic of Timor-Leste

Subject: Advice on the BPA's proposal of engaging an external portfolio manager of a global equity mandate for the Petroleum Fund

As requested in Your Excellency's letter dated 23 February 2010, the Investment Advisory Board has reviewed the proposal from the Banking and Payments Authority (BPA) dated 19 February 2010 to engage Schroder Investment Management (Schroders) as an external manager of a global equity mandate for the Petroleum Fund, and wishes to advise Your Excellency as follows.

Recommendation of Schroders as an External Manager

The Board supports the BPA's recommendation to appoint Schroders to manage the global equity mandate.

Use of derivatives

The Board recommends permitting Schroders to use equity index futures and currency forwards, provided that the use of these instruments is restricted to:

- (i) Reducing the risk to the portfolio from the underlying instrument or instruments or to facilitate the efficient implementation of asset exposure;
- (ii) The risk from the derivative instrument is not larger than that which could be had by direct exposure to the underlying assets in accordance with the mandate;
- (iii) The credit quality of the counterpart shall be of investment grade, with exposures being collateralized in accordance with best market practice; and
- (iv) All other conditions in the mandate are observed.

Global Mandate

The Board advises that the Management Agreement between the Ministry of Finance and the BPA should be amended to reflect the introduction of equities into the Petroleum Fund's investment portfolio.



The Board has drafted a suitable text for an amended Annex 1 of the Management Agreement forming the Attachment to this letter, which includes the Investment Instructions in the form of an Investment Mandate from the Minister to the BPA.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Olgario de Castro', with a long horizontal flourish extending to the right.

Olgario de Castro
Investment Advisory Board
Chairman

Attachment:

Amendments to Annex 1 of the Management Agreement

Annex 1: Qualifying Instruments, Benchmark and Investment Mandate

This mandate has a hierarchical structure.

The Global Mandate describes the Minister's overall investment strategy for the Petroleum Fund in terms of a benchmark and eligible instruments, including applicable constraints and limitations.

The Sub Mandates describe in more detail the manner in which the Minister expects the investment of the Fund to be implemented. They describe the management structure of investment portfolios that shall be created, including the style of investment management, risk tolerances, and benchmark against which the performance of each sub-mandate shall be measured and reported, and as at the date of the Management Agreement, the managers appointed to manage the sub-mandates.

A. Global Mandate

The BPA is responsible for the operational management of the aggregate Fund according to the following mandate:

Aggregate Benchmark

The benchmark for the global mandate is the weighted ratio of the three benchmarks as follows:

- 76 per cent of the benchmark defined under Mandate 1
- 20 per cent of the benchmark defined under Mandate 2
- 4 per cent of the benchmark defined under Mandate 3

Eligible Instruments

Asset Class	Allocation
A. Qualifying Fixed Interest Investments under Article 15.1 of the Petroleum Fund Law	Up to 100%
B. Fixed Interest and Equity Instruments meeting the conditions in Article 14 of the Petroleum Fund Law	No more than 10%

Eligible currencies for fixed interest investments shall be United States dollars, Australian Dollars, Euro, Great Britain Pounds, and Japanese Yen.

Eligible currencies for equities shall be determined by the composition of the equities benchmark.

Fixed Income External managers shall be permitted to use derivative instruments, provided it complies with Article 15.4 of the Petroleum Fund Law.



Equity derivatives may be used solely for risk management and efficient implementation purposes.

B. Sub mandates

MANDATE 1

Manager	Banking & Payments Authority of Timor-Leste
Allocation	74-78% of the value of the Fund, excluding amounts held for cash management purposes.
Benchmark	Merrill Lynch US Government Bond 0-5 years index
Eligible instruments	US Government fixed interest instruments
Objective	<p>The investment objective shall be to passively manage the portfolio close to the benchmark, so that in normal circumstances the objective shall be to achieve a return within 25 basis points per year of the benchmark.</p> <p>The difference in the modified duration between the portfolio and the benchmark shall be less than 0.2 year.</p>

MANDATE 2

Manager	Bank for International Settlements
Allocation	19-21% of the value of the Fund, excluding amounts held for cash management purposes.
Benchmark	<p>The following group of indexes will, together, form the composite benchmark for the Portfolio:</p> <ul style="list-style-type: none">(a) 52% Merrill Lynch 0-5 Years US Treasury Notes and Bonds Index ("GVQA");(b) 10% Merrill Lynch 5-10 Year US Treasury Notes and Bonds Index ("G6O2");(c) 7% Merrill Lynch Australian Governments Index ("G0T0");(d) 7% Merrill Lynch EMU Direct Government Index ("EG00");(e) 2% Merrill Lynch U.K. Gilts Index ("G0L0");



- (f) 2% Merrill Lynch Japanese Governments Index (“G0Y0”);
- (g) 13% Merrill Lynch US Dollar Foreign Government and Supra National, AAA Rated Index (“GS10”); and
- (h) 7% Merrill Lynch US Dollar Foreign Government and Supra National, AA Rated Index (“GS20”).

Eligible instruments

The BIS must invest at least 80 % of the portfolio in accordance with the qualifying instruments defined in Article 15.1 of the Petroleum Fund Law.

The BIS may invest a maximum of 20% of the Portfolio in deposits with, or debt instruments denominated in Australian Dollar (AUD), Euro (EUR), Japanese Yen (JPY) and Pounds Sterling (GBP) and issued by, entities that have been designated with a long-term foreign currency rating of Baa3 or higher by the Moody's rating agency or BBB- or higher by the Standard & Poor's rating agency, provided that the debt instruments are issued outside of Timor-Leste, are liquid and transparent, and traded in a financial market of the highest regulatory standard.

Objective

The expected outperformance of the portfolio gross of management fees is 25 basis points over the benchmark performance, on an annual basis over a rolling three year period, while maintaining the ex ante tracking error within 100 basis points.

MANDATE 3

Manager	Schroder Investment Management
Allocation	3-5% of the value of the Fund, excluding amounts held for cash management purposes.
Benchmark	MSCI World Index Net Dividends Reinvested.
Eligible instruments	Developed Markets Equity Universe as defined by MSCI, Equity Index Futures and Currency Forwards.
Objective	The portfolio shall be managed in an enhanced passive indexing style and maintained within a tracking error relative to the benchmark that does not normally exceed 100 basis points, and with load differences maintained within 0.5% (security level) and 2.5% (country and sector levels). At no time shall the ex ante tracking error exceed 150 basis points.

C. Cash management

Short-term liquidity may be maintained by the Fund for operational purposes but shall be limited to cash received pending investment or allocation to external managers, cash and securities in transition to or between external managers and short-term instruments held to fund appropriations to the state budget account.

The Central Bank shall be accountable for the return on these instruments.



Investment Advisory Board

Date: 26th April 2010

To
H.E. Mrs. Emilia Pires
Minister of Finance
Democratic Republic of Timor-Leste

Subject: Advice on the BPA's proposal of engaging an external portfolio manager of a fixed interest mandate for the Petroleum Fund

As requested in Your Excellency's letter dated 23 February 2010, the Investment Advisory Board has reviewed the proposal from the Banking and Payments Authority (BPA) dated 19 February 2010 proposing the appointment of an external manager to manage a diversified fixed interest mandate for the Petroleum Fund.

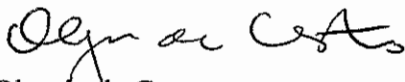
The fixed interest mandate was the subject of a recommendation made by the Board in December 2008.

Since that time the Board has provided Your Excellency with advice in connection with the legislated review this year of the investment provisions in the Petroleum Fund law. If the recommendations are adopted and substantially enacted into law, the Board will need to determine a new investment strategy for the Fund. The Board believes that the transition from the present strategy to a new one will be more easily and economically achieved if an additional fixed interest manager is not appointed at this time.

Furthermore the lessons from the Global Financial Crisis are still emerging. Looking forward, institutional investor opinions on the prudence of taking the additional duration and other risks inherent in the proposed fixed interest mandate are currently divided.

Accordingly, the Board recommends that the fixed interest mandate be withdrawn and consequently that the appointment recommended in the BPA's proposal not be made.

Yours sincerely



Olgario de Castro
Investment Advisory Board
Chairman

Investment Advisory Board

Date: 14th September 2010

To
H.E. Mrs. Emilia Pires
Minister of Finance
Democratic Republic of Timor-Leste

Subject: Statement of Investment Beliefs and Principles

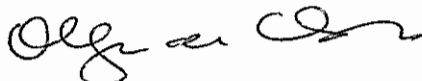
Dear Minister,

The Investment Advisory Board believes that it is important to communicate the key factors that shape its investment advice. Furthermore the Board is required to ensure that transparency mechanisms are applied to the manner in which it operates. Accordingly, the Board has adopted a *Statement of Investment Beliefs and Principles* that will assist the Board when developing for the Minister performance benchmarks of desired returns from, and appropriate risks of, the investments of the Petroleum Fund.

The Board trusts that the *Statement* will also inform a wider range of stakeholders that a consistent framework with broad academic and market support has been developed and will guide the Board's future advice. For example, the Board believes that long-term investors are generally rewarded by maintaining appropriate long-term investment strategies throughout the investment cycle. Such a policy may from time to time appear to run contrary to popular investment opinion as expressed in the press or elsewhere. Because personal and sovereign investment decisions are often based on quite different sets of beliefs and principles, misunderstandings can arise when the two are confused. The *Statement* is therefore designed to inform the Petroleum Fund's stakeholders of the Board's position.

The Board cordially submits for Your Excellency's information its *Statement of Investment Beliefs and Principles* and recommends that Your Excellency take advantage of such opportunities as may arise to publicise its contents to other stakeholders in the Petroleum Fund.

Yours sincerely



Olgario de Castro
Investment Advisory Board
Chairman

Attachment:
Statement of Investment Beliefs and Principles

STATEMENT OF INVESTMENT BELIEFS AND PRINCIPLES

Investment Advisory Board, Petroleum Fund of Timor-Leste

September 2010



CONTENTS

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SUMMARY

The IAB has adopted a mission statement, investment objectives, beliefs and principles which will guide the Board in all its recommendations to fulfil its duties in accordance with the Petroleum Fund Law. This mission statement relates to the principles and beliefs that the Investment Advisory Board holds and it informs how advice will be given in relation to the maintenance of the objectives of the Timor-Leste Petroleum Fund

MISSION STATEMENT

The mission of the Investment Advisory Board is to provide advice to the Minister of Finance so that the investment of the Petroleum Fund assets will benefit current and future generations of Timor-Leste's citizens by maximizing the long-term value of the savings from Timor-Leste's non-renewable resources through the prudent investment of those savings.

INVESTMENT OBJECTIVES

The investment objective is to manage the Petroleum Fund assets so that with a reasonable probability over the long term the Fund will be able to provide transfers to government at a sustainable level (the Estimated Sustainable Income) while maintaining the real long-term value of the assets.

INVESTMENT BELIEFS

Obtaining financial returns involves taking risk. In general, higher risks are rewarded with higher expected returns, but returns may take time to emerge from the underlying risks.

Financial markets are generally efficient, with prices trending towards fundamental value over the long term, though possibly deviating from fundamental value in the short term.

Known factors, called rewarded risk factors, provide systemic returns which can be captured over time through a structured investment approach.

Diversification is the primary means of capturing systemic returns. Concentrated risk-taking is not rewarded over time, whereas the systematic investment in multiple asset classes with less than perfectly correlated risks/returns is, noting that the diversifying properties of assets may change.

A long-term investment horizon allows systemic returns to be captured because the volatility of returns decreases over time and the probability of receiving positive returns increases.

Non-systemic returns, which are those not explained by rewarded risk factors, can from time to time give rise to other investment opportunities. Opportunities may exist that could add value on the margin to a portfolio that is efficiently exposed to long term premia from rewarded risk factors. Such opportunities are less reliable than factor returns and are of secondary importance. An ability to identify such opportunities and to control the principal agent relationship in delegated investment management are required conditions to add value in this manner.

Disciplined skills, systems and procedures can be applied to optimize returns after costs. Financial and operational risks cannot be avoided, but can be identified and managed. Discipline during adverse



investment cycles is rewarded, whereas opportunistic strategies generally are not. Costs are important with foregone returns arising from costs compounding over time.

Transparency builds confidence and enables a long-term disciplined approach to be implemented, because investment decisions with wide public acceptance can be maintained through difficult times, and a high level of public trust enables discipline to prevail over expediency.

INVESTMENT PRINCIPLES

Determining the strategic asset allocation is the first order decision, because it is the most important contributor to portfolio performance, and involves articulating the expected return for a specific level of risk.

Risks must be managed with an appropriate risk profile, avoiding concentrations, and based on careful selecting and monitoring of managers and risks.

Unnecessary complexity should be avoided to achieve efficient returns from the risk taken, and implies a general approach of passively managing a limited number of asset classes.

The investment objective should be achieved through investments in listed bonds and equities in the immediate future.

Passive management should be the main investment style because the evidence points to this being a prudent and effective means of managing this type of portfolio.

External managers should be hired to achieve the optimal risk/return exposure in order to avoid internal capacity constraints, to gain access to selected markets, and as a source of knowledge.

There should be a structured review process for the strategic asset allocation, without giving up discipline and a systematic rebalancing of the portfolio to manage market risk.

Capacity is paramount to develop the investment strategy across all key stakeholders. This involves understanding international markets, the features of asset classes, and the nature of risks, – all of which are a necessary precursor to further diversification.

Evaluation based on carefully collected fund returns and appropriate benchmarks is important to foster institutional learning. Databases should be maintained to record the history of the Fund.

CONTEXT

1 PURPOSE

The Investment Advisory Board (IAB) is responsible for developing performance benchmarks to measure the returns from, and appropriate risks of, the investments of the Petroleum Fund in Timor-Leste and for advising the Minister of Finance on investment instructions that the Minister shall provide to the Investment Managers of the Fund. Moreover, the IAB is responsible for advising the Minister on the need for changes in the overall investment strategy or management of the Petroleum Fund, including the making of recommendations as to such changes.

This document is intended to provide a transparent description of the framework that the IAB will follow in recommending changes in the overall investment strategy, the types of investments the Fund will invest in, the investment philosophy and the types of risks that it will recommend that the Fund will adopt.

2 LEGISLATION AND ORGANISATIONAL FRAMEWORK

The Petroleum Fund of Timor-Leste was formed by the enactment of the Petroleum Fund Law Number 9/2005 promulgated in August 2005 (the Law).

The Law specifies that the Fund “shall be managed prudently in accordance with the principle of good governance for the benefit of current and future generations.” (*Article 11.4 of the Law*)

The Government of Timor-Leste, represented by the **Minister of Finance** (the Minister), is responsible for the overall management of the Petroleum Fund. The Ministry makes strategic decisions.

The **Investment Advisory Board** is responsible for developing appropriate benchmarks and investment instructions for the Minister of Finance, assessing the performance of external investment managers, and advising the Minister on the need for changes in the overall investment strategy or management of the Fund. The Board, aside from two *ex officio* positions, is appointed by the Minister of Finance.

The **Banking and Payments Authority** (BPA) is responsible for the operational management of the Fund, i.e. the implementation of the investment strategy and policies, under a management agreement with the Minister.

3 REVIEW

This document is a public document of the Investment Advisory Board and is intended to provide a transparent description of the framework within which the Board’s investment advice will be developed. It is recognised that the theory and practice of investment management will change over time, as will the capabilities of the Ministry, Board and BPA, and that accordingly this document will be subject to regular review and amendment as the detail of the Fund’s strategy is implemented.

MISSION STATEMENT

The mission statement reflects the purpose of the Investment Advisory Board and provides a framework within which the IAB's investment strategy will be formulated.

The Mission of the Investment Advisory Board is to provide advice to the Minister of Finance so that the investment of the Petroleum Fund assets will benefit current and future generations of Timor-Leste's citizens by maximizing the long-term value of the savings from Timor-Leste's non-renewable resources through the prudent investment of those savings.

INVESTMENT OBJECTIVES

The IAB believes the Fund should have investment objectives which maximise the benefits arising from its long-term investment time horizon having regard to the purpose for which the Fund has been established, the legislative provisions and the Fund's mission.

The Fund's transfer rules clearly link the Estimated Sustainable Income (ESI) determination to expected long term real returns on Fund assets. The IAB has therefore established the following long term investment objective to guide the IAB's role in maintaining the real value of Timor-Leste's petroleum wealth for future generations.

The investment objective is to manage the Petroleum Fund assets so that with a reasonable probability over the long term the Fund will be able to provide transfers to government at a sustainable level (the Estimated Sustainable Income) while maintaining the real long-term value of the assets.

INVESTMENT BELIEFS

The IAB has established a set of investment beliefs upon which the formulation and implementation of the Fund's investment strategy is based.

- **OBTAINING FINANCIAL RETURNS INVOLVES TAKING RISK.**

Investors are entitled to their share of the capital market rate of return on their assets over time. This is accomplished by exposing capital to various available investment opportunities in an expert fashion. Where capital is systematically allocated to assets other than those which deliver a risk-free rate of return, investors expect a higher return as a reward for the additional risk they are taking. That is, risk and expected return are related.

Standard financial theory states that the higher the risk of an investment portfolio (measured as the volatility or standard deviation of annual returns), the higher the expected return.

Systemic (market wide) risk and non systemic (individual security) risk can be taken. Non systemic risks that involve single outcomes that vary from the market as a whole can be diversified away.

Systemic risks are generally rewarded over time whereas concentrated, non-systemic risks are typically unrewarded.

The capital market rate of return is available to every investor at a reasonable price and the rate of return generated over the long term has proved to be attractive. The expected return achieved from choosing to invest in an asset class or take an exposure to a risk factor can however take long periods to emerge.

- **FINANCIAL MARKETS ARE GENERALLY EFFICIENT.**

Prices for financial assets will trend towards the inherent value or "fundamental value" of a security over the long term. Deviations away from fundamental value can occur at the individual security level and at the broad market level.

In the short term, prices normally find equilibrium quickly and it is difficult to consistently predict and profit from any perceived inefficiencies in market prices.

Prices can however deviate significantly away from fundamental value over short or even medium term periods, but such deviations are often due to behavioural influences.

- **KNOWN FACTORS, CALLED REWARDED RISK FACTORS, PROVIDE SYSTEMIC RETURNS.**

There are a number of identifiable factors of market risk that provide returns beyond those attributable to the performance of generic market indexes.

For example, an equity portfolio can take advantage of factors such as the size of the company, or its book value compared to its market value. A bond portfolio can take advantage of factors such as credit or duration.

Accordingly the allocation of investment funds to broad market exposures as well as factor exposure is rewarded over time.

Risk premia associated with broad market and factor exposures ebb and flow over time depending on prevailing economic and market conditions. Exposure to particular assets and

factors will therefore generate varying levels of returns (a function of their respective risk premia) over short and medium time periods.

A systematic exposure to the broad market factors generates overall market and factor return (less fees) with a reasonable degree of confidence.

- **DIVERSIFICATION IS THE PRIMARY MEANS OF CAPTURING SYSTEMIC RETURNS.**

Diversification is the process of exposing an investment portfolio to a number of different asset classes, risk factors, and individual financial assets, rather than being concentrated in any one of these.

Diversification is the antidote to many avoidable risks. The key to the diversification process is that different asset classes and other portfolio risk factors will usually not move in unison. Combining assets with returns that are less than perfectly correlated reduces risk and volatility.

For example, in a period when equity markets are performing poorly, bond markets may be performing well. Having an exposure to both equities and bonds reduces the risk compared to being only exposed to a single asset class.

Investment portfolios that are comprehensively diversified across and within asset classes and factors are generally rewarded over time.

The diversifying properties of assets, such as correlation and volatility, change over time and, in certain market environments, can temporarily disappear.

- **A LONG-TERM INVESTMENT HORIZON ALLOWS SYSTEMIC RETURNS TO BE CAPTURED.**

The relationship between risk and return becomes more stable over time as the average return over the period approaches the long-term mean.

Investors who remain invested in risky assets over the long term, including during adverse investment periods, are able to collect the related market risk premia.

Long term investors who are prepared to remain invested in an asset class are less likely to realise a permanent capital loss. Long-term investors can therefore benefit from an ability to ride through adverse investment cycles if discipline is maintained. In the shorter term, the potential difference in returns can be dramatic (both positive and negative).

- **NON-SYSTEMIC RETURNS, WHICH ARE THOSE NOT EXPLAINED BY REWARDED RISK FACTORS, CAN FROM TIME TO TIME GIVE RISE TO OTHER INVESTMENT OPPORTUNITIES.**

In general, efforts to short-cut expected long-term returns based on a constant exposure to rewarded risk factors are speculative, and may introduce unnecessary and unrewarded risks into the portfolio.

There is the possibility of returns from participating in the market clearing process through active management. Although the *average* manager cannot add value (overall active returns in the market being by definition a zero-sum game) individual managers can potentially outperform due to superior forecasting skill, superior access to information or superior access to deal flow.

Superior skill is a necessary but not sufficient condition for active outperformance. Skilful managers must also overcome the costs of implementing their active decisions in order to outperform.

It is not clear that active gains in general are passed on to the investor when delegated to management through external managers.

Investors can add value by planning for returns from systemic exposure to be obtained at a lower cost while ensuring that active returns, potentially obtained at a higher cost, are indeed generated from non-explained premia.

Additional return for the investor relies on a capacity to pick the best managers, understand their business and investment approach. The investor must also have the skills to monitor the managers' performance, and manage the principal agent relationship through contracts.

- **DISCIPLINED SKILLS, SYSTEMS AND PROCEDURES CAN BE APPLIED TO OPTIMIZE RETURNS AFTER COSTS.**

Investors face a wide variety of financial and operational risks.

Financial risks are those that contribute to the performance of an investment being different than expected, including the possibility of losing all or part of the original investment.

Operational risk is the risk of financial loss due to mismanagement, error, fraud or unauthorised use of techniques and/or financial products. High quality risk management systems supported by procedures implemented using accepted best practice standards minimise operational risk.

Costs erode returns and have a compounding effect over time. Unlike financial risks arising from volatility in the financial markets, investment cost is a predictable factor that investors can control. All other things being equal, lower investment costs are better than higher investment costs. Keeping management fees and transaction costs low contributes to the achievement of competitive returns.

- **TRANSPARENCY BUILDS CONFIDENCE AND ENABLES A LONG-TERM DISCIPLINED APPROACH TO BE IMPLEMENTED.**

Internal transparency means that key strategic decisions are identified, addressed explicitly and made visible to all levels of an investor's management structure. Clear and effective communications ensure all parties are working to achieve the investor's financial goals while managing the risks associated with managing it in a coordinated manner.

A transparent relationship between the stakeholders in an investment process and the stewards of the investment assets (i.e. those who set the investment policies and put them into practice) means that the stakeholders better understand the beliefs and principles adopted in the stewardship process. This enables a disciplined approach to be maintained over time, and in particular minimises the risk of emotional and potentially costly decisions being made during periods of market instability.

INVESTMENT PRINCIPLES

While the set of investment beliefs outlines the IAB's fundamental beliefs regarding the financial market, the investment process and risk and return factors, this section outlines the main investment principles which will drive the advice and recommendations provided to the Minister of Finance in the short and medium term.

The investment principles will evolve with the level of institutional capacity and the size of the Petroleum Fund and will be subject to more frequent changes over time than the underlying beliefs.

- **DETERMINING THE STRATEGIC ASSET ALLOCATION IS THE FIRST ORDER DECISION**

The process of diversifying financial assets across different asset classes and risk factors is often referred to as the process of 'Strategic Asset Allocation', and is arguably the most important contributor to portfolio performance over the long run. The IAB specifically advocates Strategic Asset Allocation rather than deviating from the strategic weights over time by exercising Tactical Asset Allocation (or trying to forecast news and events, and time the direction of the market). The dominant contributor to portfolio performance is the relative exposure of capital to the various asset classes, sub-asset classes and rewarded risk factors.

The Petroleum Fund portfolio should therefore be constructed according to a long term, strategic asset allocation benchmark that aims for an expected return for a specific level of risk. This helps remove the temptation to 'switch' investment asset classes to potentially achieve a higher return or protect the capital. Such approaches are generally unrewarded, because future prices for financial assets are difficult to predict and the negative impact of costs when switching financial assets or asset classes is considerable.

- **RISKS MUST BE MANAGED**

In advising on risk exposure the IAB will adopt the following principles for risk management:

- The IAB will recommend that the stakeholders adopt a risk profile that is commensurate with the return objective and time horizon of the Fund. That risk profile should be determined after careful analysis of the prospective risk and return characteristics of each asset class in which the Fund might invest;
- Concentration of risk should be avoided by ensuring there is adequate diversification between and within asset classes;
- Selection and monitoring of managers should be carefully assessed to ensure there is sufficient confidence that each manager warrants the allocation of capital to them;
- The composition of the portfolios of managers should be monitored to ensure that there are no unintended bias away from the investment strategy; and
- External managers should be evaluated relative to strategic factor exposures.

Additionally the IAB will encourage the development of high quality risk management systems and procedures by all institutions associated with the management of the Fund.

- **UNNECESSARY COMPLEXITY SHOULD BE AVOIDED**

The level of complexity of the investment strategy must take into account the skills and capacity among key stakeholders. The optimal relationship between risk and return should be achieved in the most efficient manner while avoiding unnecessary complexity in order to provide transparency, accountability and minimization of the operational and reputational risks.

The IAB believes a carefully designed strategic portfolio for the Fund with the right structured exposures to the main asset classes and rewarded risk factors will achieve the same targets as a more complex strategic portfolio over time.

- **THE INVESTMENT OBJECTIVE SHOULD BE ACHIEVED THROUGH INVESTMENTS IN LISTED BONDS AND EQUITIES**

The IAB believes that appropriate exposure to return and risk can be achieved by investing in listed equities and publicly traded bonds. Although a variety of asset classes, including real estate, private equity, and infrastructure projects may provide additional diversification, these asset classes also add complexity and operational challenges which may exceed the benefit of those investments in the short and medium term.

- **PASSIVE MANAGEMENT SHOULD BE THE MAIN INVESTMENT STYLE**

The IAB believes that the systematic investment of the Petroleum Fund in a diversified portfolio of assets exposed to a number of different asset classes and rewarded risk factors will provide the great majority of returns over the longer term. On this basis the IAB believes that a passive management approach based on suitably defined benchmark indices should be the main method of targeting most of the Petroleum Fund's longer term return objectives.

Management resources should be allocated to opportunistic (active management) exposure only when they can add expected value in excess of fully implemented market exposure to factors, and after costs.

- **EXTERNAL MANAGERS SHOULD BE HIRED TO ACHIEVE THE OPTIMAL RISK/RETURN EXPOSURE**

The IAB believes that external management adds value to the Fund's management on several levels:

- a) Avoiding internal capacity constraints in designing the investment strategy
- b) Ensuring optimal asset allocation and gaining access to markets which one otherwise would not be able to get exposure to
- c) Providing knowledge transfer and capacity building within the Operational Manager

When diversifying the investments, the IAB believes external managers should be hired to allow the Fund to be invested in various asset classes and sub asset classes in a prudent and responsible manner. As skills and capacity develop, internal management could be considered for various instruments and securities.

- **THERE SHOULD BE A STRUCTURED REVIEW PROCESS FOR THE STRATEGIC ASSET ALLOCATION, WITHOUT GIVING UP DISCIPLINE**

From time to time, investment portfolios move away from their strategic asset allocation benchmarks. This occurs because asset classes and sub-asset classes behave in different ways at different times. Their returns differ periodically (as intended), therefore there will be a need to monitor and rebalance the portfolio back in line with its strategic asset allocation from time to time. There are many approaches to

portfolio rebalancing. In general, automatic rebalancing regimes are preferable to avoid arbitrary tactical positions and a tendency to reduce market risk after market declines.

The Strategic Asset Allocation should be subject to periodic review in light of the changing requirements of the fund and developments in market research.

- **CAPACITY IS PARAMOUNT TO DEVELOP THE INVESTMENT STRATEGY**

Developing the Fund's investment strategy requires increasing capacity among key stakeholders. Exposing the Fund to unnecessary risks is not appropriate before the Fund is able to manage these risks and the key stakeholders understand international financial market volatility in the short and medium term. Hence, developing the investment strategy must go along with increased institutional capacity as well as a broad consensus among key stakeholders.

The translation of investment strategy into a portfolio of market investments requires a degree of skill and experience. For this reason the internal investment process should be clearly documented with an emphasis on an institutional rather than an individual footprint. The development of institutional skills and experience takes time, and the process of evaluating and understanding investment performance contributes to the acquisition of skills and experiences.

The IAB believes there is a need for increased capacity in the MoF, BPA and other stakeholders before the Fund commences investing in asset classes other than equities and bonds.

- **EVALUATION BASED ON CAREFULLY COLLECTED FUND RETURNS AND APPROPRIATE BENCHMARKS IS IMPORTANT TO FOSTER INSTITUTIONAL LEARNING.**

The systematic collection of performance and benchmark data should provide the basis for reviewing the Fund's performance against its benchmarks as well as providing the basis for analysing and predicting performance under a range of hypothetical scenarios.

The Petroleum Fund should establish a database for all realized returns broken down to its integral parts to facilitate future evaluation of its history. There should be specific guidelines for how such a database is maintained.

Investment portfolios should be constructed and maintained with costs and taxes in various jurisdictions in mind. Costs and taxes may be implicit or explicit in an investment portfolio.

Annex XI: Implementation of the Santiago Principles

As detailed in the Petroleum Fund Law of 2005, the legislation is required to be reviewed after five years. One of the key documents consulted was the International Working Group's "Sovereign Wealth Funds: Generally Accepted Principles and Practices", otherwise known as the Santiago Principles. The Principles identify a framework of generally accepted principles and practices that properly reflect appropriate governance and accountability arrangements as well as the conduct of investment practices by Sovereign Wealth Funds (SWFs) on a prudent and sound basis. The table below depicts how the Santiago Principles are implemented in the Petroleum Fund Law.

Principle	Implementation and reference material
<p>1. The legal framework for the SWF should be sound and support its effective operation and the achievement of its stated objective(s).</p> <p>1.1. The legal framework for the SWF should ensure legal soundness of the SWF and its transactions.</p> <p>1.2. The key features of the SWF's legal basis and structure, as well as the legal relationship between the SWF and other state bodies, should be publicly disclosed.</p>	<ul style="list-style-type: none"> • Legal Framework: <ul style="list-style-type: none"> ○ Petroleum Fund Act (Law no. 9/2005) ○ Management Agreement (25 June 2009) ○ Amendment to Management Agreement (11 March 2010) ○ Amendment to Management Agreement (08 October 2010) • Annual Reports: <ul style="list-style-type: none"> ○ Petroleum Fund Annual Report (MoF) • Quarterly Reports: <ul style="list-style-type: none"> ○ Petroleum Fund Quarterly Reports (BPA) ○ Petroleum Fund Monthly Reports (BPA) • Investment Advisory Board: <ul style="list-style-type: none"> ○ Minutes ○ Statement of Investment Beliefs and Principles <p>http://www.mof.gov.tl/en/par/DPF/default.htm http://www.bancocentral.tl/PF/laws.asp</p>
<p>2. The policy purpose of the SWF should be clearly defined and publicly disclosed.</p>	<p>Petroleum Fund Law Preamble:</p> <p>"The Petroleum Fund shall contribute to a wise management of the petroleum resources for the benefit of both current and future generations. The Petroleum Fund shall be 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."</p>
<p>3. Where the SWF's activities have significant direct</p>	<p>Petroleum Fund Law Preamble, Article 7, 8, 9 and</p>



<p>domestic macroeconomic implications, those activities should be closely coordinated with the domestic fiscal and monetary authorities, so as to ensure consistency with the overall macroeconomic policies.</p>	<p>Schedule 1:</p> <p>The Petroleum Fund is to be coherently integrated into the State Budget, and shall give a good representation of the development of public finances. The Petroleum Fund is required to be prudently managed and operate in an open and transparent fashion, within the constitutional framework.</p> <p>The tool of fund/budget integration is the <i>Estimated Sustainable Income</i> (ESI). This is assumed to be the amount that can be transferred from the fund to the budget without depleting the long-term real value of petroleum wealth.</p>
<p>4. There should be clear and publicly disclosed policies, rules, procedures, or arrangements in relation to the SWF's general approach to funding, withdrawal, and spending operations.</p> <p>4.1. The source of SWF funding should be publicly disclosed.</p> <p>4.2. The general approach to withdrawals from the SWF and spending on behalf of the government should be publicly disclosed.</p>	<p>Petroleum Fund Law Articles 6-9, 13, 23:</p> <p>The legislation defines petroleum fund receipts and requirements for withdrawals. The information is publicly disclosed in the Petroleum Fund annual reports and the General Budgets from the Ministry of Finance as well as in the Petroleum Fund's quarterly and monthly reports from the BPA.</p> <p>A complete list of all taxpayers and others depositing money to the Petroleum Fund is published annually. Timor-Leste was accepted as an EITI (Extractive Industries Transparency Initiative) compliant country on 1 July 2010.</p>
<p>5. The relevant statistical data pertaining to the SWF should be reported on a timely basis to the owner, or as otherwise required, for inclusion where appropriate in macroeconomic data sets.</p>	<p>Budget and Financial Management Law, Petroleum Fund Law Articles 13, 23 and 36:</p> <ul style="list-style-type: none"> • General Budget statements (MoF) • Annual reports (MoF) • Independent Auditor Report (Deloitte) • Quarterly reports (BPA) • Monthly reports (BPA)
<p>6. The governance framework for the SWF should be sound and establish a clear and effective division of roles and responsibilities in order to facilitate accountability and operational independence in the management of the SWF to pursue its objectives.</p>	<p>Petroleum Fund Law Articles 11 and 12, Operational Management Agreement:</p> <p>The roles and the responsibilities of the Government, as the asset owner, and the BPA, as the asset manager, and the Investment Advisory Board, as the developer of the investment benchmarks, are detailed in the legislation.</p> <p>Further detail is provided by the operational management agreement between MoF and BPA.</p> <p>http://www.bancocentral.tl/PF/laws.asp</p>

<p>7. The owner should set the objectives of the SWF, appoint the members of its governing body(ies) in accordance with clearly defined procedures, and exercise oversight over the SWF's operations.</p>	<p><i>Petroleum Fund Law Preamble, Articles 11, 12, 16, 17, 25 and 26:</i></p> <p>The objective of the fund is detailed in the legislation. In addition to mandating the BPA as operational manager of the fund, the legislation also defines the Investment Advisory Board (IAB) and the Petroleum Fund Consultative Committee (PFCC). The responsibility of the IAB is to develop the investment benchmarks and advise the executive (the Government represented by the Minister of Finance) in petroleum fund matters. In support of transparency the Board has issued its Investment Beliefs and Principles.</p> <p>http://www.mof.gov.tl/en/par/DPF/Statement_of_Investment_Beliefs_and_Principles.pdf</p> <p>The responsibility of the PFCC is to advise the legislator (Parliament) in petroleum fund matters. Selection and selection procedures of the members of IAB and PFCC are detailed in the legislation.</p> <p>A complete list of persons holding relevant positions for the operation and performance of the Petroleum Fund is given in the Petroleum Fund annual reports.</p>
<p>8. The governing body(ies) should act in the best interests of the SWF, and have a clear mandate and adequate authority and competency to carry out its functions.</p>	<p><i>Petroleum Fund Law Articles 16, 17, 25 and 26:</i></p> <p>The Executive is accountable to the Parliament through reporting requirements. Its mandate and authority is established in the Constitution and the Petroleum Fund Law. The Executive needs to seek advice from the IAB before making decisions related to the Petroleum Fund. The composition of the IAB is outlined in the legislation. The Board's secretariat is staffed by officials of the Ministry of Finance and the central bank.</p> <p>The composition of PFCC, laid out in the legislation, safeguards significant experience in financial management, public finances and policy making.</p>
<p>9. The operational management of the SWF should implement the SWF's strategies in an independent manner and in accordance with clearly defined responsibilities.</p>	<p><i>Petroleum Fund Law Articles 11 and 12, Operational Management Agreement. BPA founding law:</i></p> <p>The role and responsibility of the operational manager is clearly defined in the legislation and further detailed in the Management Agreement. The BPA has statutory "legal, operational, administrative, and financial autonomy from any other person or entity, including the government" to enable it to fulfil its</p>

	operational management responsibilities in an independent manner.
10. The accountability framework for the SWF's operations should be clearly defined in the relevant legislation, charter, other constitutive documents, or management agreement.	<p><i>Petroleum Fund Law Articles 11-13, 19, 23,24 Operational Management Agreement:</i></p> <p>Accountability arrangements are detailed in the legislation. The executive delegates responsibility to the operational manager. Subject to the Executive's agreement, the operational manager may further delegate specific operational mandates. The operational manager is statutorily required to report quarterly to the Executive on performance, decomposed by mandate, with the reports requiring to be published. The Executive reports to Parliament. When required by Parliament, the executive is required to provide Parliament with all advice given by the IAB. The advice given by the IAB is required to be annexed to the Annual Report unedited.</p>
11. An annual report and accompanying financial statements on the SWF's operations and performance should be prepared in a timely fashion and in accordance with recognized international or national accounting standards in a consistent manner.	<p><i>Petroleum Fund Law Articles 21, 23 and 24:</i></p> <p>Legislation requires the Government to submit an Annual Report for the Petroleum Fund for the Fiscal year to the Parliament, at the same time as the annual financial statements of that year are submitted to Parliament. The Director of Treasury is responsible for maintaining the Petroleum Fund Accounts and records in accordance with the International Accounting Standards.</p>
12. The SWF's operations and financial statements should be audited annually in accordance with recognized international or national auditing standards in a consistent manner.	<p><i>Petroleum Fund Law Article 21, 22 and 34:</i></p> <p>The accounts, records and other documents relating to the Petroleum Fund are required to be audited every six months by the bodies responsible for internal audits of each of the entities involved. Additionally, an internationally recognized accounting firm is required to audit the annual financial statements. The Independent Auditor's report is presented in accordance with International Auditing Standards.</p>
13. Professional and ethical standards should be clearly defined and made known to the members of the SWF's governing body(ies), management, and staff.	<p><i>Petroleum Fund Law Articles 16 and 17:</i></p> <p>The <i>proposed Law</i> requires the members of the Investment Advisory Board on the occasion of their appointment and as appropriate when providing advice to the Minister to signify in writing an affirmation that their appointment or advice does not present a conflict with any of their other interests. The Minister may request members of the Board, as necessary, to submit a declaration concerning their assets to avoid any conflict of interest.</p>

	All staff of the Operational Manager is bound by the BPA's Code of Ethics which forms part of each individual's employment contract.
14. Dealing with third parties for the purpose of the SWF's operational management should be based on economic and financial grounds, and follow clear rules and procedures.	<i>Petroleum Fund Law Articles 12, 14 and 15:</i> The legislation provides for the operational manager to appoint external investment managers based on investment mandates set by the Executive. The requirements are based on professional and commercial standards and the responsibility of the Investment Manager is to maximize the return of the Petroleum Fund having regard to the appropriate risk as set out in the law. The investment managers and other service providers are required to be selected and contracted subject to tendering procedures and in compliance with the substantive provisions of Timor-Leste's law.
15. SWF operations and activities in host countries should be conducted in compliance with all applicable regulatory and disclosure requirements of the countries in which they operate.	<i>Petroleum Fund Law Article 14:</i> The <i>proposed Law</i> requires the management of the Petroleum Fund to be conducted in compliance with all applicable regulatory and disclosure requirements of the countries in which investments are made.
16. The governance framework and objectives, as well as the manner in which the SWF's management is operationally independent from the owner, should be publicly disclosed.	<i>Petroleum Fund Law Articles 11-13, 16, 17, 23, 24, 25 and 26, Operational Management Agreement:</i> The governance framework and objectives of the Executive and Operational Manager, as well as of the IAB and the PFCC, are set out in the legislation and in the Petroleum Fund Annual Report. The framework clearly establishes the roles, independence and accountability arrangements between the entities.
17. Relevant financial information regarding the SWF should be publicly disclosed to demonstrate its economic and financial orientation, so as to contribute to stability in international financial markets and enhance trust in recipient countries.	<i>Petroleum Fund Law Articles 13, 23, 24 and 36:</i> An annual report based on audited financial statements is publicly disclosed by the Owner. In addition, the Operational Manager issues quarterly and monthly updates on investment performance.
18. The SWF's investment policy should be clear and consistent with its defined objectives, risk tolerance, and investment strategy, as set by the owner or the governing body(ies), and be based on sound portfolio management principles. 18.1. The investment policy should guide the SWF's financial risk exposures and the possible use of leverage.	<i>Petroleum Fund Law Articles 2, 11-15:</i> The investment policy is decided by the Executive, pursuant to the advice of the IAB, reflecting the risk preference of the Timor-Leste people. The <i>proposed Law</i> sets out the principles on which the overall investment policy shall be based. The investment policy is publicly disclosed and a summary of the proposed investment policy shall be presented in the Annual Report to Parliament each year and prior to

<p>18.2. The investment policy should address the extent to which internal and/or external investment managers are used, the range of their activities and authority, and the process by which they are selected and their performance monitored.</p> <p>18.3. A description of the investment policy of the SWF should be publicly disclosed.</p>	<p>decisions on major asset allocation changes. The Annual Report is required to also include a statement setting out how the investment policy has been applied during the year.</p> <p>The <i>proposed Law</i> defines the investment policy as the risk profile, the allocation of the Fund's assets, investment universe, benchmarks, investment principles, and other issues related with the overall investment policy.</p> <p>The advice of the IAB is based on publicly disclosed Investment Beliefs and Principles. The selection of External Investment Managers is based on professional and commercial criteria. The external managers are measured according to clearly defined mandates, where the goal is to achieve the highest possible risk-adjusted return.</p> <p>The investment policy is summarized into the investment mandate which is annexed to the Management Agreement, a publicly available document.</p> <p>http://www.bancocentral.tl/PF/laws.asp</p>
<p>19. The SWF's investment decisions should aim to maximize risk-adjusted financial returns in a manner consistent with its investment policy, and based on economic and financial grounds.</p> <p>19.1. If investment decisions are subject to other than economic and financial considerations, these should be clearly set out in the investment policy and be publicly disclosed.</p> <p>19.1. The management of an SWF's assets should be consistent with what is generally accepted as sound asset management principles.</p>	<p><i>Petroleum Fund Law Articles 11, 12 and 14:</i></p> <p>The Executive's obligation to seek to maximize risk-adjusted financial returns is established in the legislation, including return and risk parameters, subject to an over-riding requirement that the Fund be managed prudently. The road map towards this goal is further detailed in the operational management agreement and external investment mandates under the legislation. The overall asset management principles are set out in the <i>proposed Law</i>.</p>
<p>20. The SWF should not seek or take advantage of privileged information or inappropriate influence by the broader government in competing with private entities.</p>	<p><i>Petroleum Fund Law Article 14:</i></p> <p>The Petroleum Fund can only invest in instruments issued or situated abroad in an internationally recognized jurisdiction.</p>
<p>21. SWFs view shareholder ownership rights as a fundamental element of their equity investments' value. If an SWF chooses to exercise its ownership rights, it should do so in a manner that is consistent with its investment policy and protects the financial value of its investments. The SWF should publicly</p>	<p>No policy on shareholder ownership rights is so far established.</p>

<p>disclose its general approach to voting securities of listed entities, including the key factors guiding its exercise of ownership rights.</p>	
<p>22. The SWF should have a framework that identifies, assesses, and manages the risks of its operations.</p> <p>22.1. The risk management framework should include reliable information and timely reporting systems, which should enable the adequate monitoring and management of relevant risks within acceptable parameters and levels, control and incentive mechanisms, codes of conduct, business continuity planning, and an independent audit function.</p> <p>22.2. The general approach to the SWF's risk management framework should be publicly disclosed.</p>	<p>Petroleum Fund Law Article 14:</p> <p>The <i>proposed Law</i> requires the Minister and the Operational Manager to develop and maintain policies, systems and procedures to ensure that the risks associated with the implementation of the investment strategy are identified, monitored and managed.</p>
<p>23. The assets and investment performance (absolute and relative to benchmarks, if any) of the SWF should be measured and reported to the owner according to clearly defined principles or standards.</p>	<p>Petroleum Fund Law Article 13:</p> <p>Legislation requires the Central Bank to provide the Minister with quarterly reports on the performance and activities on the Petroleum Fund.</p> <p>The Central Bank applies GIPS (Global Investment Performance Standards) as the basis for their performance reporting. GIPS is a set of standardized industry-wide ethical principles that provide investment firms with guidance on how to calculate and report their investment results. The GIPS standards promote transparency, ethics and best practice. The <i>proposed Law</i> requires GIPS to be the designated basis for performance reporting.</p>
<p>24. A process of regular review of the implementation of the GAPP should be engaged in by or on behalf of the SWF.</p>	<p>This review was prepared in December 2010. References in this document to the <i>proposed law</i> refer to proposed amendments to the Petroleum Fund law that were circulated for public discussion in November 2010. It is intended that this document will be updated following the enactment of the amendments to the Petroleum Fund law.</p>