

*September 2012*



# PETROLEUM FUND ANNUAL REPORT

## FINANCIAL YEAR 2011





## **Petroleum Fund Annual Report 2011**

*The value of the Petroleum Fund was US\$ 9,310 million at the end of 2011, an increase of US\$ 2,406 for the year.*

*Total net petroleum revenue in 2011 amounted to US\$ 3,240 million. Net investment returns were US\$ 221 million (2.8 per cent nominal return). The Government transferred a total of US\$ 1,055 million from the Petroleum Fund to the Treasury's Account (CFET), which was US\$ 321 million above the Estimated Sustainable Income (ESI).*

*The National Parliament approved amendments to the Petroleum Fund Law in August 2011. The amended Law gives the Government more flexibility in developing the investment policy, employs principles of diversification, and improves good governance and reporting mechanisms.*

### **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 Law was amended with Petroleum Fund Law no 12/2011, which was promulgated on 28 September 2011.

The Government is responsible for the overall management of the Petroleum Fund. On behalf of the Government, the Ministry of Finance has entered into an agreement with the Banco Central de Timor-Leste (BCTL), delegating responsibility for the operational management of the Petroleum Fund.

### **Inflow and outflow of the Fund**

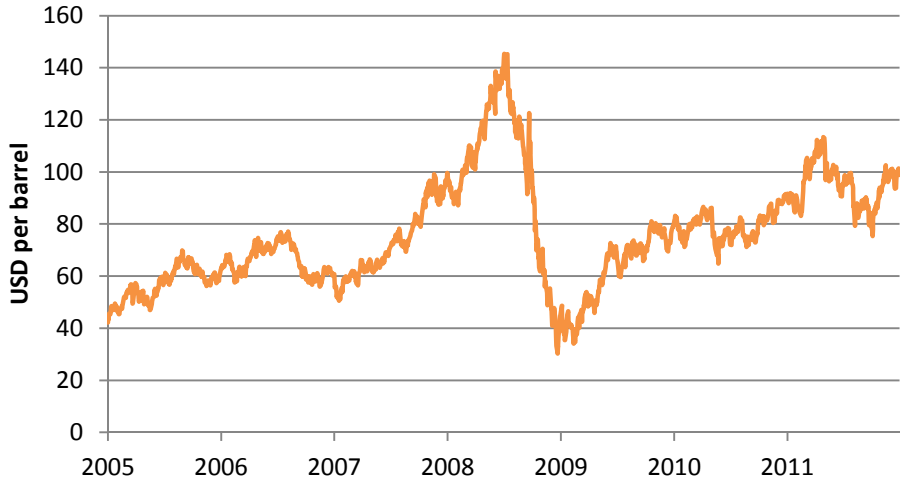
The Fund's balance is affected by three factors; a) petroleum revenues, b) net investment return, and c) withdrawals.

#### *Petroleum revenues*

A total of US\$ 3,242 million in petroleum revenues were paid to the Petroleum Fund during 2011, comprising of US\$ 1,333 million in petroleum taxes, US\$ 1,901 million in royalties and profit oil/gas, and US\$ 8 million in other petroleum revenues. The amounts were in accordance with Article 6.1 (a), (b) and (e) of the Petroleum Fund Law respectively. A total amount of US\$ 1.6 million was transferred for refunds of taxation, pursuant to Article 10 of the PF Law.

Petroleum revenue collection in 2011 was the highest on record due to higher oil price, more rigorous implementation of audit compliance and substantial penalties.

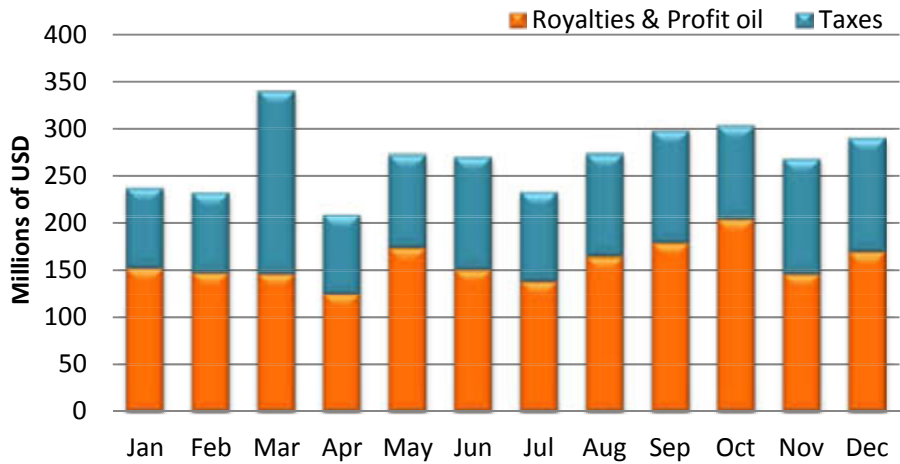
**Figure 1 - Oil Price (WTI)**



Source: Energy Information Administration (EIA)

The total petroleum revenue collection since the inception of the Fund, as of the end of 2011, was US\$ 11,338 million, including initial transfers of US\$ 80 million from the Timor Gap Account and US\$ 125 million from the Consolidated Fund of Timor-Leste (CFET).

**Figure 2 - Petroleum Revenue in 2011**



Source: MoF, Petroleum Fund Financial Statement 2011

*Net Investment Return*

The gross return on investments during 2011 was US\$ 227.5 million.<sup>1</sup> In accordance with the Operational Management Agreement between the Ministry of Finance and the BCTL<sup>2</sup>, a management fee is transferred from the Petroleum Fund to the BCTL. The fee amounted to

<sup>1</sup> Gross investment income of US\$ 244.9 million and a negative market revaluation of US\$ 17.4 million.  
<sup>2</sup> <http://www.bancocentral.tl/PF/laws.asp>

US\$ 6.3 million in 2011, covering both internal and external managing costs. The net investment return for 2011 was therefore US\$ 221.2 million, adding up to \$US 622.6 million since the inception of the Petroleum Fund.

The net investment return can be decomposed into three factors; 1) the coupon payment and dividend (investment income), which is a positive amount received on bonds and equities, respectively, 2) market revaluation, which may be positive or negative subject to market fluctuations, and 3) the management fee, which is deducted from the gross investment return. Table 1 shows the investment returns quarter by quarter in 2011.

**Table 1: Investment Returns in 2011 in US dollars**

Millions of USD	Q1	Q2	Q3	Q4	Total
<b>Investment Income</b>	57.3	60.0	61.6	66.0	244.9
<b>Market Revaluation</b>	(34.5)	47.7	(18.9)	(11.7)	(17.4)
<b>Management Fees</b>	(0.8)	(1.2)	(1.3)	(3.1)	(6.3)
<b>Net Results</b>	22.0	106.5	41.5	51.2	<b>221.2</b>

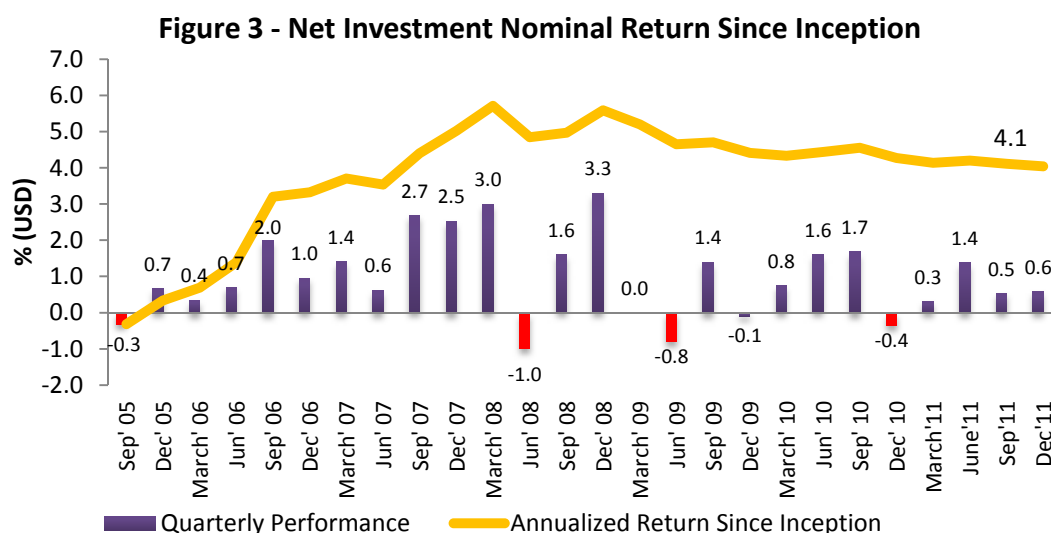
Source: BCTL, Q1-Q4 2011 Report

The net investment nominal return in 2011 was 2.8 per cent, compared with a net investment nominal return of 3.8 per cent in 2010. The lower return was a result of decreasing investment income on US Government treasuries. While the longer term bonds in the fixed income portfolio benefited from falling yields (and therefore positive market revaluation<sup>3</sup>), the shorter term bonds earned lower coupon payments. As bonds mature, their proceeds are reinvested in new bonds where the coupon payments reflect the prevailing market interest rate.

At 4 per cent at the end of 2011, the portion of equities in the portfolio was still too small to materially affect the overall performance of the portfolio. Since inception, the annualized nominal return of the Fund was 4.1 per cent at year end 2011<sup>4</sup>.

<sup>3</sup> Bond prices and market yields move in opposite directions. As yields fall, bond prices go up and vice versa. This results in mark to market profits or losses. Such profits and losses are unrealized unless the bond is sold, at which point they become realized.

<sup>4</sup> The since inception annualized return is the ‘average’ one year return since the inception of the Fund. As compounding effects are included, this ‘average’ is the geometric mean and not an arithmetic average.



Source: NDPF, Ministry of Finance

The fixed interest mandates performed somewhat better than their benchmark in 2011. BIS outperformed its composite bond benchmark by 0.03 per cent, while BCTL's investment return was 0.04 per cent below the US Government 0-5 years bond benchmark. Schroder, the equity manager, delivered a return of 1.55 per cent in excess of the MSCI World Equity index benchmark, see Table 2 below.<sup>5</sup>

**Table 2: Investment Nominal Returns in 2011 in per cent**

	% (USD)				
	Q1	Q2	Q3	Q4	2011
<b>Total Fund</b>	<b>0.31</b>	<b>1.38</b>	<b>0.52</b>	<b>0.59</b>	<b>2.83</b>
<b>Benchmark</b>	0.35	1.38	0.44	0.67	2.87
<b>Excess</b>	-0.04	0.00	0.08	-0.08	-0.04
<b>International Fixed Interest</b>	0.11	1.38	1.21	0.34	3.07
<b>Benchmark</b>	0.16	1.40	1.17	0.36	3.11
<b>Excess</b>	-0.05	-0.02	0.04	-0.02	-0.04
<b>International Equity</b>	5.22	0.82	-16.17	7.97	-3.99
<b>Benchmark</b>	4.80	0.47	-16.61	7.59	-5.54
<b>Excess</b>	0.42	0.34	0.44	0.38	1.55

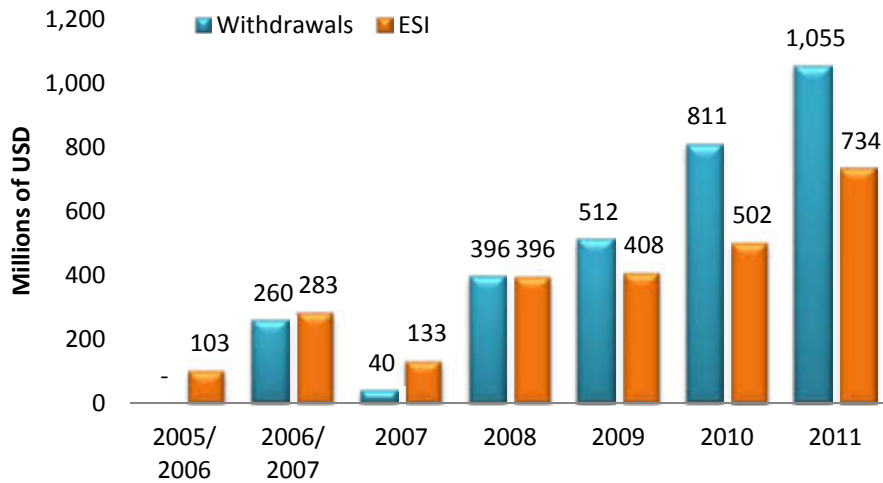
Source: BCTL, Q1-Q4 2011 Report

### Withdrawals

The Government withdrew a total amount of US\$ 1,055 million from the Fund to the Treasury's Account (CFET) during 2011. This was US\$ 321 million above the Estimated Sustainable Income (ESI). From inception to the end of 2011, the Government has withdrawn a total amount of US\$ 3,074 million (see Figure 4).

<sup>5</sup> The benchmarks are described in more detail in the BCTL quarterly reports, see <http://www.bancocentral.tl/en/main.asp>

**Figure 4 - Transfer to the State Budget**

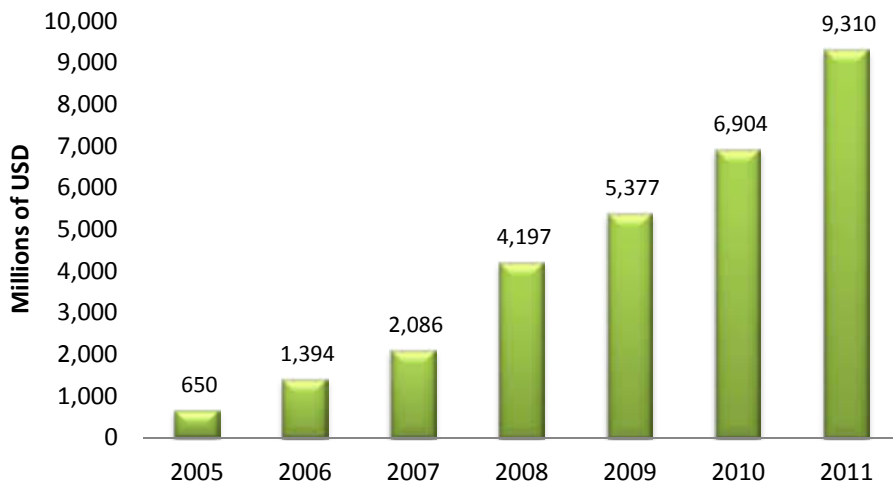


Source: NDPF, Ministry of Finance

### Petroleum Fund Balance

The market value of the Petroleum Fund as of 31 December 2011 was US\$ 9,310 million. This was an increase of US\$ 2,406 million during the year. Figure 5 shows the market value of the Petroleum Fund since inception of the Fund in September 2005.

**Figure 5 - Market Value of the Petroleum Fund**



Source: NDPF, Ministry of Finance

### Box 1: The Petroleum Fund Mechanism

The Petroleum Fund Law, passed in 2005 and amended in 2011, is designed to contribute to wise management of Timor-Leste's petroleum resources for the benefit of both current and future generations. The Petroleum Fund is a tool that contributes to sound fiscal policy, where appropriate consideration and weight is given to the long-term interest of Timor-Leste's citizens.

The Fund is actually an *account* held by the Ministry of Finance in the BCTL, whose returns are determined by the returns on a portfolio of financial assets. The BCTL has appointed a global custodian that holds all the investments and cash on behalf of the Petroleum Fund. At no time are the Petroleum Fund's assets held in custody at the BCTL or by an external manager.

The Fund is not a separate legal entity or institution. The Fund may be seen as a fiscal management tool integrated with the central government budget and the budget process to facilitate informed decision making or, in more simple terms, the government's long-term saving account. The Fund is *governed by law*. The Petroleum Fund and the central government budget are integrated:

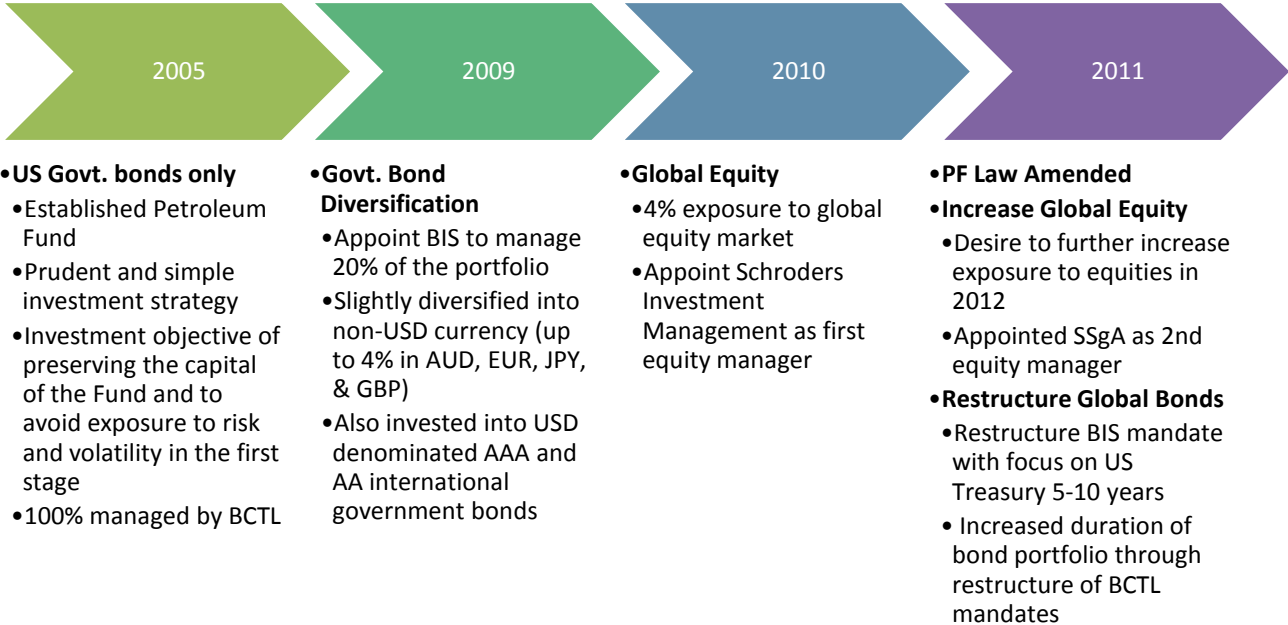
- *All income from upstream petroleum activities enters the Fund*. The law decides which income streams are parts of the petroleum revenues. There are mainly four types of Petroleum Fund receipts: a) tax revenues, b) first tranche petroleum (FTP) and profit oil, c) investment returns, and d) other type of revenues such as pipeline rental.
- Oil companies make *tax revenue* payments directly to the designated Petroleum Fund account managed by the BCTL and held at the Federal Reserve Bank of New York (Fed). *FTP and profit oil* payments are made to the Autoridade Nacional do Petróleo (ANP), which in turn makes the transfer to the designated account at the Fed. All *investment returns* are paid to the Fund.
- The Fund's only expenditure is a transfer to the central government budget, payment of operational management fees and refunds of overpaid taxation. By law, the transfer to the State budget requires an explicit decision of Parliament.

The Petroleum Fund construction supports *transparency* in the government's use of petroleum income by the fact that the transfer from the Fund to finance the non-oil budget deficit will reflect the use of petroleum revenues.

### Developing the Petroleum Fund Portfolio

Figure 6 summarizes the key milestones in the Petroleum Fund portfolio development since the inception of the Fund in 2005.

**Figure 6: The Evolution of the Petroleum Fund’s Investment Strategy**



Source: NDPF, Ministry of Finance

When the Petroleum Fund was established in 2005, a simple investment strategy was implemented. At least 90 per cent of the Fund was required to be invested in US Dollar denominated high rated bonds or cash deposits, and not more than 10 per cent invested in other financial instruments. This was deemed necessary to avoid exposure to risk and volatility while building capacity. It was also considered important to take time to build public support for the integrity and credibility of the Fund’s management.

From the outset in 2005, the Fund was invested entirely in US Government bonds, managed by the BPA (now BCTL). The Bank for International Settlements (BIS) was appointed as the Fund’s first external manager in June 2009 with a 20 per cent allocation in bonds. The BIS mandate involved some diversification to non-USD Government bonds and supranationals. In October 2010, Schrodgers Investment Management was appointed to manage a global equity mandate amounting to 4 per cent of the Fund.

The 2005 Petroleum Fund Law stated that the range of financial instruments included in the investment universe should be reviewed by the Government, and approved by the Parliament, at the end of the first five years of the Petroleum Fund’s existence, having regard to the size of the Petroleum Fund and the level of institutional capacity.



The Government started the review process in 2008. A Working Group in the Ministry of Finance was appointed to review the Law and to provide recommendations for amendments. Moreover, the Minister of Finance requested the Ministry’s external consultant on Petroleum Fund matters to carry out analysis and research with regard to various scenarios for future investment strategy options. The outcome of this work was made publicly available at several seminars.

Alongside the review of the Law, the flexibility within the existing Petroleum Fund Law was utilized. In 2011 the decision was made to increase the Fund’s allocation to equities from 4 per cent to 8 per cent. In order not to breach the 10 per cent constraint of “other financial instruments”, the BIS mandate was changed to include only US Government bonds 5-10 years. The BCTL mandate was also restructured into two segments of US Government bonds, 1-3 years and 3-5 years, see Table 3 (see also the advice from the Investment Advisory Board discussed in the next section).

**Table 3: Fixed Income Portfolio Benchmarks**

Manager	Old Benchmark	New Benchmark
<b>BCTL</b>	US Government 0-5 years	US Government 1-3 years US Government 3-5 years
<b>BIS</b>	US Government 0-5 years US Government 5-10 years Governments/ Supranational USD AAA Governments/ Supranational USD AA Australian Government Euro Governments United Kingdom Gilts Japan Government	US Government 5-10 years

Source: NDPF, Ministry of Finance

In September 2011, the Government established new investment rules as part of the Petroleum Fund Law amendments. The new investment rules stated that no more than 50 per cent of the Fund may be invested in equities, no less than 50 per cent should be invested in investment grade fixed income, and no more than 5 per cent can be invested in alternative instruments such as real estate, private equities and hedge funds.

As discussed at length in the Petroleum Fund Annual Report 2010, the Government appreciates that obtaining financial returns involves taking risks in terms of higher short-term volatility. Being a long-term investor, higher short-term volatility is of less economic significance. Not all types of risks are rewarded. The Investment Advisory Board establishes their investment advice on the publicly available *Investment Beliefs and Principles*<sup>6</sup> that sets out which factors the Board believes will give rise to higher return over time without taking unrewarded risk. According to long-term performance estimation, the Petroleum Fund Law

<sup>6</sup> See [http://www.mof.gov.tl/wp-content/uploads/2011/11/IAB\\_Investment\\_Beliefs\\_and\\_Principles.pdf](http://www.mof.gov.tl/wp-content/uploads/2011/11/IAB_Investment_Beliefs_and_Principles.pdf)

amendments give room for the Fund's portfolio to achieve a 3 per cent real return over time (although the return is not guaranteed). This would enable the sustainability of public spending.

Based on advice received from the Investment Advisory Board (IAB), the Minister of Finance instructed the BCTL to increase the allocation of equities to 20 per cent by June 2012 as a first stage in implementing a new investment policy. The increased exposure was to be passively managed and included the appointment of a new equity manager, State Street Global Advisors (SSgA).

The increased exposure to equities is expected to increase the long-term real return from 2.0 per cent to 2.6 per cent, while the short-term volatility is expected to increase from 2.6 per cent to 3.9 per cent. The Government is ready to accept the higher risk in order to pursue a higher average long-term return.

The Petroleum Fund continues to vigilantly review its portfolio and seeks to balance the risk and return from different investment options.

#### **Advice from the Investment Advisory Board**

The Investment Advisory Board (IAB) of the Petroleum Fund held six meetings and two workshops during 2011. The minutes from the meetings are available on [www.bancocentral.tl](http://www.bancocentral.tl). The Investment Advisory Board has provided seven recommendations (see Annex X) to the Minister of Finance in accordance with the requirements of Article 16 in the Petroleum Fund Law:

##### *1) Review of Petroleum Fund's Strategic Asset Allocation*

On 14 March 2011, the IAB recommended to increase the exposure to global equities market in developed countries from 4 per cent to 8 per cent in the Petroleum Fund's global benchmark within the provisions of Article 14.2 of the Petroleum Fund Law No. 9/2005.

In this recommendation, the IAB indicated that a new equity mandate should be developed with a different investment style to the existing mandate (managed by Schroders), although it would have the same benchmark. It was also recommended that a reconstruction of the mandate managed by the Bank for International Settlements (BIS) be undertaken so as to maintain the 90 per cent investment in Qualifying Instruments as required by the Petroleum Fund Law in existence at that time.

The Ministry of Finance (MOF) accepted the IAB's recommendation and instructed the BCTL to operationalize it.

##### *2) Advice on the BCTL Proposal to appoint a Transition Panel for the Petroleum Fund*

On 6 May 2011 the MOF requested the IAB to provide an opinion on the proposal from the BCTL to engage a Transition Panel for the Petroleum Fund of Timor-Leste.

The Panel comprised the following three transition managers, who may be required to manage assets of the Petroleum Fund on an interim basis:

- Russell investment Group Pte Ltd
- State Street Global Markets
- Citigroup Global Markets Australia Pty Ltd

In a letter dated 19 May 2011, the IAB recommended to the MOF to approve the proposal in compliance with the Article 12.2 and 12.3 of the Petroleum Fund Law.

Based on the recommendation, the MOF approved the BCTL proposal.

### *3) Review of the Petroleum Fund's Strategic Asset Allocation – New BIS Mandate*

As signaled in a letter from the IAB to the MOF dated 14 March 2011, and in a subsequent letter dated 4 August 2011, the IAB proposed a new mandate for the BIS with the 5-10 year US Treasury index as the benchmark.

The rationale for the recommendation were, a) to make room for the new equity mandate as indicated in the IAB's letter dated 14 March 2011 by limiting the BIS investment universe to the Qualifying Instruments in Article 15 of the Petroleum Fund Law; b) improve returns without taking unjustifiable risk by increasing the duration.

The MOF accepted the IAB's recommendation and instructed the BCTL to operationalize it.

### *4) Advice on appointing an equity manager for the Petroleum Fund*

On 23 August 2011 the MOF requested the IAB to review the proposal from the BCTL dated 12 August 2011 to engage State Street Global Advisors (SSgA) as the external manager for the indexed global equity mandate described in the Board's letter of advice dated 14 March 2011.

On its meeting on 14 September 2011 the IAB resolved to recommend that the MOF approve the aforementioned BCTL proposal.

The MOF accepted the IAB's recommendation and instructed the BCTL to operationalize it.

### *5) Proposal for signing a Memorandum of Understanding between the Ministry of Finance of Timor-Leste and the LGT Group Foundation*

On 7 October 2011 the MOF sought the IAB's opinion on the proposal for the signing of Memorandum of Understanding (MOU) between the Ministry of Finance of Timor-Leste and the LGT Group Foundation.

The IAB noted the intention of the MOU was to encourage cooperation and facilitate transfer of technical know-how and exchange of experiences.

The IAB's opinion on the proposed MOU was:

- a) the MOU should reflect only the spirit of cooperation between parties, therefore should not create any legally binding obligations to the parties;
- b) the MOU cannot over-rule the mechanism and procedures as outlined in the Petroleum Fund Law, in particular in Article 12, 14 and 15;
- c) the MOU should not place any obligation to the Operational Manager to conduct any form of due diligence or enquiry outside of whatever actions they may choose to perform by themselves in their ordinary conduct of business.

In the letter, the IAB also annexed in the letter a draft text to the MOU reflecting its opinion.

6) *Review of the Petroleum Fund's Strategic Asset Allocation – Restructuring BCTL Mandate*

In its meeting on 7 October 2011, the IAB reviewed the US Treasury Note mandate of the Petroleum Fund's fixed interest portfolio managed by the Banco Central de Timor-Leste (BCTL). The review identified three main points:

- a) Restructuring the mandate should take into consideration the likely short to medium term need for cash when increasing the allocation to equities or other securities.
- b) The shape of the yield curve suggested an environment that may give rise to higher expected return without unduly increasing the risk.
- c) A longer duration bond portfolio may have better diversifying properties coupled with equities than a shorter-term bond portfolio.

On this basis, the Board advised to the MOF in its letter dated 7 October 2011 to restructure the current BCTL's mandate from the existing 0-5 year US Treasury to a 3-5 year US Treasury index to increase the duration of bond portfolio and a 1-3 year US Treasury index for liquidity purposes.

The MOF accepted the IAB's recommendation and instructed the BCTL to operationalize it.

7) *Review of the Strategic Asset Allocation – short-term plan to increase the share of equities in the Petroleum Fund*

The IAB held its meeting on 2 December 2011 to discuss the implementation of the Government's new investment policy as recently enacted in amendments to the Petroleum Fund Law. The IAB resolved to provide a recommendation to the MOF.

In its letter on 12 December 2011, the IAB advised to increase the Petroleum Fund's exposure to global developed market equities to 20 per cent as a first priority which should be passively managed so that returns would closely track the benchmark index.

To prudently manage the risks associated with increasing the Fund's exposure to equities, the IAB provided guidelines on the transition period and the implementation schedule for the MOF to consider.

On this advice, the MOF instructed the BCTL to operationalize it.

#### **Audit of the Petroleum Fund**

Deloitte Touche Tohmatsu was appointed as the Independent Auditor of the Petroleum Fund for 2011. Deloitte Touche Tohmatsu produced a report in accordance with Article 35 of the Petroleum Fund Law. This report is available in Annex IX.

The previous report provided by the Auditor and included in the Petroleum Fund Annual Report based on Guidelines adopted by the Extractive Industries Transparency Initiative (EITI) is no longer deemed necessary as the Government has commenced issuing an annual EITI Report on a separate basis.

The Petroleum Fund 2011 Report is also available at [www.mof.gov.tl](http://www.mof.gov.tl) and [www.bancocentral.tl](http://www.bancocentral.tl).

Signed on 27 September 2012



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 the Petroleum Fund assets with the previous three fiscal years
- IV Comparison of nominal income on the investment of the Petroleum Fund assets to the real returns
- V Comparison of income derived from the investment of the Petroleum Fund assets with the benchmark performance index
- VI Comparison of the 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 the Petroleum Fund Receipts from Deloitte Touche Tohmatsu
- X Advice provided by the Investment Advisory Board

- a. The IAB letter dated 14 March 2011 regarding Review of the Petroleum Fund's Strategic Asset Allocation
- b. The IAB letter dated 19 May 2011 regarding Advice on the BCTL's Proposal to appoint a Transition Panel for the Petroleum Fund
- c. The IAB letter dated 4 August 2011 regarding Review of the Petroleum Fund's Strategic Asset Allocation – New BIS Mandate
- d. The IAB letter dated 14 September 2011 regarding Advice on appointing an equity manager for the Petroleum Fund
- e. The IAB letter dated 7 October 2011 regarding Proposal for signing a Memorandum of Understanding between the Ministry of Finance of Timor-Leste and the LGT Group Foundation
- f. The IAB letter dated 7 October 2011 regarding Review of the Petroleum Fund's Strategic Asset Allocation – Restructuring BCTL Mandate
- g. The IAB letter dated 12 December 2011 regarding Review of the Strategic Asset Allocation – short-term plan to increase the share of equities in the Petroleum Fund

XI Compliance of the Petroleum Fund with the Santiago Principles.

**PETROLEUM FUND OF TIMOR-LESTE**

**FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED**

**31 December 2011**

**Petroleum Fund of Timor-Leste**  
**Financial statements - for the year ended**  
**31 December 2011**

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**Petroleum Fund of Timor-Leste**  
**General Information**  
**31 December 2011**

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<b>Minister of Finance</b>	Emilia Pires
<b>Director of Treasury</b>	Sara Lobo Brites
<b>Members of Investment Advisory Board</b>	Olgario de Castro Abraão de Vasconcelos Torres Trovik Kevin Bailey Sara Lobo Brites
<b>Governor of Central Bank of Timor-Leste</b>	Abraão de Vasconcelos
<b>Executive Director of the Petroleum Fund</b>	Venancio Alves Maria
<b>Operational Manager</b>	Banco Central de Timor-Leste Avenida Bisopo Medeiros Dili Timor-Leste
<b>Investment Managers</b>	Banco Central de Timor-Leste Bank for International Settlements Schroder Investment Management Limited
<b>Members of Petroleum Fund Consultative Council</b>	Francisco M. de Vasconcelos Joãozito Viana Aurelio Guterres Oscar Lima Maria de Fatima X. Dias Nuno Rodrigues Antero Benedito da Silva
<b>Custodian</b>	J P Morgan Chase Bank N.A.
<b>Independent Auditor</b>	Deloitte Touche Tohmatsu

**Petroleum Fund of Timor-Leste**  
**Statement by the Director of Treasury**  
**31 December 2011**

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**BACKGROUND**

The Petroleum Fund Law No. 9/2005 promulgated on 3 August 2005 established the Petroleum Fund of Timor-Leste (“Petroleum Fund”). The Banco Central de Timor-Leste (“BCTL”), formerly known as the Banking & Payments Authority (“BPA”), 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 BCTL. BCTL is also responsible for maintaining the books of account for the Petroleum Fund on behalf of the Director of Treasury.

**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,
- Statement of financial position,
- Statement of changes in capital,
- Statement of cash flows, and
- Notes to the financial statements

These financial statements cover the year ended 31 December 2011.

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

**PETROLEUM FUND CAPITAL**

The Petroleum Fund had capital of US\$ 6.9 billion on 1 January 2011. During the period, taxes and other petroleum revenue under Article 6 of the Petroleum Fund were US\$ 3.2 billion. The Fund earned an income of US\$ 221 million during the period. A summary of transactions for the income is given in the “Statement of comprehensive income”.

US\$ 1.05 billion was transferred from the Petroleum Fund to the Consolidated Fund during the year. The capital of Petroleum Fund as at 31 December 2011 was US\$ 9.3 billion. A summary of the transactions is given in the “Statement of changes in capital”.

**BENCHMARKS AND PERFORMANCE**

**Summary of benchmarks**

<b>Benchmark Index</b>	<b>26 June 2009 to 7 October 2010</b>	<b>8 October 2011 to 14 December 2011</b>	<b>15 December 2011 to 31 December 2011</b>
<b>Fixed Interest</b>			
BOA Merrill Lynch US Government 0-5 Years	90.4%	86.4%	76.0%
BOA Merrill Lynch US Government 5-10 Years	2.0%	2.0%	20.0%
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>96.0%</i>	<i>96.0%</i>
<b>Global Equities</b>			
MSCI World	-	4.0%	4.0%
<i>Total Global Equities</i>	<i>-</i>	<i>4.0%</i>	<i>4.0%</i>
<b>Total Benchmark</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

**Petroleum Fund of Timor-Leste**  
**Statement by the Director of Treasury**  
**31 December 2011**

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**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 instruments during the year. The list of instruments held as at 31 December 2011 is given at note 17. The credit exposure by credit rating is given in the note 12(b)(iii) and the credit rating is higher than the minimum credit rating mandated in the Management Agreement. 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 Banco Central de Timor-Leste (BCTL) have been able to accomplish the stewardship and fiduciary role for the Petroleum Fund.

**Approval of Financial Statements**

The accompanying financial statements for the year ended 31 December 2011 have been approved on behalf of the Ministry of Finance by.



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Sara Lobo Brites  
Director of Treasury  
Ministry of Finance  
29 June 2012

## **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-Lest for the year ended 31 December 2011**

We have audited the accompanying financial statements of the Petroleum Fund of Timor-Leste, which comprises the statement of financial position as at 31 December 2011, the statement of comprehensive income, the statement of cash flows and the statement of changes in capital for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information.

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

The Government is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards and for such internal control as Government determine is necessary to enable the preparation and fair presentation of the financial statements that is 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 relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial statements is 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 of the Petroleum Fund of Timor-Leste presents fairly, in all material respects, the Petroleum Fund's financial position as at 31 December 2011 and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.



DELOITTE TOUCHE TOHMATSU

Chartered Accountants

Darwin

29 June 2012

**Petroleum Fund of Timor-Leste  
Statement of comprehensive income  
for the year ended 31 December 2011**

	<i>Note</i>	<i>Dec-2011 USD</i>	<i>Dec-2010 USD</i>
<b>Investment income</b>			
Interest income	5	236,255,085	205,290,455
Dividend income		9,072,783	1,184,917
Trust income		224,121	39,724
Other investment income		1,259	7,079
Net gains/(losses) on financial assets and liabilities at fair value through profit or loss	9	(17,177,091)	18,158,450
Net foreign exchange gains/(losses)		<u>(51,764)</u>	<u>21,739</u>
<b>Total investment income</b>		<b><u>228,324,393</u></b>	<b><u>224,702,364</u></b>
<b>Expenses</b>			
External management and custody fees		(3,838,452)	(1,822,783)
BCTL operational management fees		(2,429,127)	(1,671,085)
Other expenses		<u>(161,091)</u>	<u>-</u>
<b>Total expenses</b>		<b><u>(6,428,670)</u></b>	<b><u>(3,493,868)</u></b>
<b>Profit before tax</b>		<b>221,895,723</b>	<b>221,208,496</b>
Withholding taxes		<u>(661,544)</u>	<u>(69,174)</u>
<b>Profit for the year</b>		<b>221,234,179</b>	<b>221,139,322</b>
Other comprehensive income		<u>-</u>	<u>-</u>
<b>Total comprehensive income for the year</b>		<b><u>221,234,179</u></b>	<b><u>221,139,322</u></b>

The financial statements should be read in conjunction with the policies and notes on pages 10 - 49.

**Petroleum Fund of Timor-Leste**  
**Statement of financial position**  
**as at 31 December 2011**

	<i>Note</i>	<i>Dec-2011</i> <i>USD</i>	<i>Dec-2010</i> <i>USD</i>
<b>Assets</b>			
Cash and cash equivalents	8	24,627,157	7,409,687
Other receivables	6	2,218,364	548,778
Financial assets at fair value through profit or loss	9	<u>9,285,303,671</u>	<u>6,896,037,830</u>
<b>Total assets</b>		<b><u>9,312,149,192</u></b>	<b><u>6,903,996,295</u></b>
<b>Liabilities</b>			
Payables for securities purchased		999,993	-
Account payable		<u>828,000</u>	<u>-</u>
<b>Total liabilities</b>		<b><u>1,827,993</u></b>	<b><u>-</u></b>
<b>Net assets</b>		<b><u>9,310,321,199</u></b>	<b><u>6,903,996,295</u></b>
<b>Capital</b>		<b><u>9,310,321,199</u></b>	<b><u>6,903,996,295</u></b>

The financial statements should be read in conjunction with the policies and notes on pages 10 - 49.

**Petroleum Fund of Timor-Leste  
Statement of changes in capital  
for the year ended 31 December 2011**

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	<i>Note</i>	<i>Dec-2011 USD.</i>	<i>Dec-2010 USD</i>
<b>Capital at the beginning of the year</b>		<b>6,903,996,295</b>	<b>5,376,625,559</b>
Petroleum Fund Gross Receipts		<u>3,241,640,090</u>	<u>2,117,266,526</u>
<i>(pursuant to Article 6 of the Petroleum Fund Law)</i>		<b><u>10,145,636,385</u></b>	<b><u>7,493,892,085</u></b>
Transfers to the Consolidated Fund of Timor-Leste		(1,055,000,000)	(811,000,000)
<i>(pursuant to Article 7 of the Petroleum Fund Law)</i>			
Transfers for refunds of taxation		(1,549,365)	(35,112)
<i>(pursuant to Article 10 of the Petroleum Fund Law)</i>			
Total comprehensive income for the year		<u>221,234,179</u>	<u>221,139,322</u>
<b>Capital at the end of the year</b>		<b><u><u>9,310,321,199</u></u></b>	<b><u><u>6,903,996,295</u></u></b>

The financial statements should be read in conjunction with the policies and notes on pages 10 - 49.



**Petroleum Fund of Timor-Leste**  
**Statement of cash flows**  
**for the year ended 31 December 2011**

	<i>Note</i>	<i>Dec-2011</i> <i>USD</i>	<i>Dec-2010</i> <i>USD</i>
<b>Cash flows from operating activities</b>			
Proceeds from sale of financial assets at fair value through profit or loss	9	6,432,265,322	3,975,375,657
Purchases of financial assets at fair value through profit or loss	9	(8,832,419,705)	(5,472,783,373)
Interest received		229,616,456	198,037,034
Dividends received		8,061,358	827,306
Trust distributions received		194,133	21,227
External management and custody fees paid		(3,010,452)	(1,822,783)
Operational management fees paid		(2,429,127)	(1,671,085)
Other operating receipts		1,259	7,079
Other operating payments		<u>(161,091)</u>	<u>-</u>
<b>Net cash utilised in operating activities</b>	<b>13</b>	<b><u>(2,167,881,847)</u></b>	<b><u>(1,302,008,938)</u></b>
<b>Cash flows from financing activities</b>			
Petroleum Fund Gross Receipts		3,241,640,090	2,117,266,527
Transfer payments to the Consolidated Fund of Timor-Leste		(1,055,000,000)	(811,000,000)
Transfer payments for tax refund		<u>(1,549,365)</u>	<u>(35,112)</u>
<b>Net cash flows provided by financing activities</b>		<b><u>2,185,090,725</u></b>	<b><u>1,306,231,415</u></b>
Net increase in cash and cash equivalents		17,208,878	4,222,477
Cash and cash equivalents at the beginning of the year		7,409,687	3,161,653
Effects of foreign currency exchange rate changes on cash and cash equivalents		<u>8,592</u>	<u>25,557</u>
<b>Cash and cash equivalents at 31 December 2011</b>	<b>8</b>	<b><u>24,627,157</u></b>	<b><u>7,409,687</u></b>

The financial statements should read in conjunction with the policies and notes on pages 10 - 50.

**Petroleum Fund of Timor-Leste**  
**Notes to the financial statements**  
**for the year ended 31 December 2011**

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## 1. Fund information

The Petroleum Fund of Timor-Leste (“Petroleum Fund”) was established under the provisions of the Petroleum Fund law No. 9/2005 as amended by Law No. 12/2011 on 28 September 2011.

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 Banco Central de Timor-Leste (BCTL), formerly known as 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 BCTL.

These financial statements were authorized for issue by the Director of Treasury on 29 June 2012.

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

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

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

#### Amendments to IAS 24 Related Party Disclosures

IAS 24 (as revised in 2009) has been revised on the following two aspects:

- (a) IAS 24 (as revised in 2009) has changed the definition of a related party and
- (b) IAS 24 (as revised in 2009) introduces a partial exemption from the disclosure requirements for government-related entities.

The Fund managed by the Government of Timor-Leste and the Central Bank of Timor-Leste. The application of the revised definition of related party set out in IAS 24 (as revised in 2009) in the current year has not resulted in the identification of related parties that were not identified as related parties under the previous Standard. The related party disclosures set out in note 21 to the financial statements reflect the application of the revised Standard.

**Petroleum Fund of Timor-Leste**  
**Notes to the financial statements**  
**for the year ended 31 December 2011**

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

Amendments to IAS 32 Classification of Rights Issues	<p>The amendments address the classification of certain rights issues denominated in a foreign currency as either equity instruments or as financial liabilities. Under the amendments, rights, options or warrants issued by an entity for the holder to acquire a fixed number of the entity's equity instruments for a fixed amount of any currency are classified as equity instruments in the financial statements of the entity provided that the offer is made pro rata to all of its existing owners of the same class of its non-derivative equity instruments. Before the amendments to IAS 32, rights, options or warrants to acquire a fixed number of an entity's equity instruments for a fixed amount in foreign currency were classified as derivatives. The amendments require retrospective application.</p> <p>The application of the amendments has had no effect on the amounts reported in the current and prior years because of the Petroleum Fund has not issued instruments of this nature.</p>
Amendments to IFRIC 14 Prepayments of a Minimum Funding Requirement	<p>IFRIC 14 addresses when refunds or reductions in future contributions should be regarded as available in accordance with paragraph 58 of IAS 19; how minimum funding requirements might affect the availability of reductions in future contributions; and when minimum funding requirements might give rise to a liability. The amendments now allow recognition of an asset in the form of prepaid minimum funding contributions. The application of the amendments has not effect on the fund's financial statements as the fund does not have a defined benefit plan.</p>
IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments	<p>The Interpretation provides guidance on the accounting for the extinguishment of a financial liability by the issue of equity instruments. Specifically, under IFRIC 19, equity instruments issued under such arrangement will be measured at their fair value, and any difference between the carrying amount of the financial liability extinguished and the consideration paid will be recognised in profit or loss.</p> <p>The application of IFRIC 19 has had no effect on the amounts reported in the current and prior years because the fund has not entered into any transactions of this nature.</p>
Improvements to IFRSs issued in 2010	<p>Except for the amendments described earlier in section 2.1, the application of Improvements to IFRSs issued in 2010 has not had any material effect on amounts reported in the financial statements.</p>

**Petroleum Fund of Timor-Leste**  
**Notes to the financial statements**  
**for the year ended 31 December 2011**

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

### **2.2 New and revised IFRS 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 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:

<b>Standard/interpretation</b>	<b>Effective date (periods beginning on or after)</b>	<b>Expected to be initially applied in the financial year beginning</b>
Amendments to IFRS 7 Disclosures - Transfers of Financial Assets	1 July 2011	1 January 2012
IFRS 9 Financial Instruments	1 January 2015	1 January 2015
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
Amendments to IAS 1 Presentation of Items of Other Comprehensive Income	1 July 2012	1 January 2013
Amendments to IAS 12 Deferred Tax - Recovery of Underlying Assets	1 January 2012	1 January 2012
IAS 19 (as revised in 2011) Employee Benefit	1 January 2013	1 January 2013
IAS 27 (as revised in 2011) Separate Financial Statements	1 January 2013	1 January 2013
IAS 28 (as revised in 2011) Investments in Associates and Joint Ventures	1 January 2013	1 January 2013

## **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's) (formerly: "International Accounting Standards".)

### **Basis of preparation**

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

The preparation of financial statements in conformity with IFRS 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.

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 statement of financial position presents assets and liabilities in decreasing order of liquidity and does not distinguish between current and non-current items.

**Petroleum Fund of Timor-Leste**  
**Notes to the financial statements**  
**for the year ended 31 December 2011**

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### **3. Significant accounting policies (continued)**

The principal accounting policies are set out below.

#### **(a) Financial assets and liabilities**

##### *(i) Classification*

###### *Financial assets and liabilities at fair value through profit or loss*

These are equity and debt securities that are not held for trading but are managed. These financial instruments are designated upon initial recognition

The manner in which the Petroleum Fund is managed is set out in Annex 1 to the Management Agreement between the Banco Central de Timor-Leste and the Minister of Finance, which establishes the performance benchmark for the Petroleum Fund.

Financial assets of the Petroleum Fund are managed and performance is 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.

###### *Loans and 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 other short term receivables.

###### *Other financial liabilities*

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

##### *(ii) Recognition*

The Fund recognises a financial asset or a financial liability when, and only when, it becomes a party to the contractual provisions of the instrument.

Purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the marketplace (regular way trades) are recognised on the trade date, i.e., the date that the Fund commits to purchase or sell the asset.

##### *(iii) Initial Measurement*

###### *Financial Assets and Liabilities*

Financial assets and financial liabilities at fair value through profit or loss are recorded in the statement of financial position at fair value. All transaction costs for such instruments are recognised directly in profit or loss.

Derivatives embedded in other financial instruments are treated as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contract, and the host contract is not itself classified as held for trading or designated as at fair value through profit or loss. Embedded derivatives separated from the host are carried at fair value with changes in fair value recognised in profit or loss.

###### *Loans and receivables and other financial liabilities*

Loans and receivables and financial liabilities (other than those classified as held for trading) are measured initially at their fair value plus any directly attributable incremental costs of acquisition or issue.

**Petroleum Fund of Timor-Leste**  
**Notes to the financial statements**  
**for the year ended 31 December 2011**

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### **3. Significant accounting policies (continued)**

#### *(iv) Impairment of financial assets*

The Fund assesses at each reporting date whether a financial asset or group of financial assets classified as loans and receivables is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is an objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtor, or a group of debtors, is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and, where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred) discounted using the asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in profit or loss as 'Credit loss expense'.

Impaired debts, together with the associated allowance, are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Fund. If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a previous write-off is later recovered, the recovery is credited to the statement of comprehensive income.

Interest revenue on impaired financial assets is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

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

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. 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.

All changes to fair value, other than interest or dividend income and expense, are recognised in the profit and loss as part of net gain from financial assets or liabilities at fair value through profit or loss.

#### *(vi) Derecognition*

A financial asset (or, where applicable, a part of a financial asset or a part of a group of similar financial assets) is derecognised where:

- The rights to receive cash flows from the asset have expired

Or

- The Fund has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement, And
- Either (a) the Fund has transferred substantially all the risks and rewards of the asset; or (b) the Fund has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset

When the Fund has transferred its rights to receive cash flows from an asset (or has entered into a pass-through arrangement), and has neither transferred nor retained substantially all of the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Fund's continuing involvement in the asset. In that case, the fund also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the fund has retained.

The Fund derecognises a financial liability when the obligation under the liability is discharged, cancelled or expired.

#### *(vii) Offsetting*

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 either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRSs, eg for gains and losses arising from a group of similar transactions such as gains and losses from financial assets and liabilities at fair value through profit and loss.

**Petroleum Fund of Timor-Leste**  
**Notes to the financial statements**  
**for the year ended 31 December 2011**

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### **3. Significant accounting policies (continued)**

#### *(viii) 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 statement of financial position 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.

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

In accordance with Article 20 of the amended Petroleum Fund law, burdens or encumbrances, in any of their forms, may be put by way of contract or agreement on Petroleum Fund assets, up to a limit of 10% of the total value of the Petroleum Fund at the time the burden or encumbrances is put, provided that this is in compliance with the principles in general rules for creating, issuing and managing public debt.

### **(b) 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 currency assets and liabilities are translated into the functional currency using the exchange rate prevailing at the balance sheet date.

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 as part of the *'Net gains/ losses on financial assets and liabilities at fair value through profit or loss'*. Exchange differences on other financial instruments are included in profit or loss in the statement of comprehensive income as *'Net foreign exchange gains/(losses)'*.

### **(c) Petroleum Fund Gross 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 recognised as increases in the statement of changes in capital of the Petroleum Fund.
- Payments made by the Designated Authority in accordance with Article 6.1(b) are recognised as increases in the statement of changes in capital of the Petroleum Fund.
- Income earned by the Petroleum Fund from the investment of its assets is recognised 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 recognised as increases in the statement of changes in capital 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 recognised as reductions in the statement of changes in capital of the Petroleum Fund.

**Petroleum Fund of Timor-Leste**  
**Notes to the financial statements**  
**for the year ended 31 December 2011**

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### **3. Significant accounting policies (continued)**

#### **(d) Transfers to the Consolidated Fund**

Transfers to the Consolidated Fund are appropriations approved by National Parliament of Timor-Leste. The transfers are recognised in the statement of changes in capital when authorised and subsequently paid to the Consolidated Fund.

#### **(e) 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. It is recognised in the statement of comprehensive income.

#### **(f) Dividend income**

Dividend income from investments is recognised when the shareholder's right to receive payment has been established. Dividend income is presented gross of any non-recoverable withholding taxes, which are disclosed separately in the statement of comprehensive income.

#### **(g) Net gain or loss on financial assets and liabilities at fair value through profit and loss**

This item includes changes in the fair value of financial assets and liabilities held for trading or designated upon initial recognition as 'at fair value through profit or loss' and excludes interest and dividend income and expenses.

Unrealised gains and losses comprise changes in the fair value of financial instruments for the period and from reversal of prior period's unrealised gains and losses for financial instruments which were realised in the reporting period.

Realised gains and losses on disposals of financial instruments classified as 'at fair value through profit or loss' are calculated using the First-In, First-Out (FIFO) method. They represent the difference between an instrument's initial carrying amount and disposal amount, or cash payments or receipts made on derivative contracts (excluding payments or receipts on collateral margin accounts for such instruments).

#### **(h) 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 Banco Central de Timor-Leste (BCTL) and are covered by a management fee.

In accordance with Article 6.3 of the Petroleum Fund Law, the management fee paid to the BCTL 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 BCTL.

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.

#### **(i) Taxation**

The Petroleum Fund is exempt from paying taxes on income, withholding 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. For the purpose of the statement of cashflow. Cash inflows from investments are presented net of withholding taxes, when applicable.



**Petroleum Fund of Timor-Leste  
Notes to the Financial Statements  
for the year ended 31 December 2011**

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#### 4. Critical accounting estimates and judgments

Management of 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.

##### Judgements

In the process of applying the Fund's accounting policies, management has made the following judgements which have the most significant effect on the amounts recognised in the financial statements:

##### (i) Capital

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).

##### Estimates and assumptions

The fund based its assumptions and estimates on parameters available when the financial statements were prepared. However, existing circumstances and assumptions about future developments may change due to market changes or circumstances arising beyond the control of the Fund. Such changes are reflected in the assumptions when they occur.

##### (ii) Taxes

Uncertainties exist with respect to the interpretation of complex tax regulations and changes in tax laws on foreign withholding tax. Given the wide range of international investments, differences arising between the actual investment income and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax expense already recorded. The Fund establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities of the respective countries in which it invests. The amounts of such provisions are based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority. Such differences of interpretation may arise on a wide variety of issues depending on the conditions prevailing in the respective investment's domicile. As the Fund assesses the probability for litigation and subsequent cash outflow with respect to taxes as remote, no contingent liability has been recognised.

#### 5. Interest income

	<i>Dec-11</i>	<i>Dec-10</i>
	<i>USD</i>	<i>USD</i>
Interest from debt securities at fair value through profit or loss	236,191,435	204,976,634
Interest from cash and cash equivalents	<u>63,650</u>	<u>313,821</u>
	<b><u>236,255,085</u></b>	<b><u>205,290,455</u></b>

#### 6. Other Receivables

	<i>Dec-11</i>	<i>Dec-10</i>
	<i>USD</i>	<i>USD</i>
Dividends receivable	508,220	329,781
Withholding tax receivables	366,538	218,997
Trust distributions receivables	29,997	-
Interest receivables	<u>1,313,609</u>	<u>-</u>
	<b><u>2,218,364</u></b>	<b><u>548,778</u></b>

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## 7. Capital receipts and payments of the Petroleum Fund

During the year ended 31 December 2011 the sum of US\$ 1,055,000,000 (31 December 2010 - US\$ 811,000,000) was approved for appropriation by parliament from the Petroleum Fund. A sum of US\$ 1,055,000,000 (31 December 2010 - US\$811,000,000) was transferred from the Petroleum Fund to the State Budget account during the year.

During the year ended 31 December 2011 a total of US\$ 1,332,902,231 (31 December 2010 - US\$ 919,918,559) was received in Article 6.1(a) receipts. A total of US\$ 1,900,759,459 (31 December 2010 - US\$ 1,190,010,103) was received in Article 6.1(b) receipts. A total of US\$ 7,978,400 (31 December 2010 - US\$ 7,337,865) was received in Article 6.1(e) receipts.

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

Month	<i>2011</i>					
	<i>USD</i>					
	Article 6.1(a) receipts	Article 6.1(b) receipts	Article 6.1(e) Other receipts	To Consolidated Fund	Refunds of taxation	TOTAL
January	85,373,762	152,744,500	7,978,400	-	-	246,096,662
February	84,643,256	148,291,198	-	-	-	232,934,454
March	193,148,566	147,049,109	-	-	-	340,197,675
April	84,050,507	125,220,869	-	(300,000,000)	-	(90,728,624)
May	99,944,176	173,597,584	-	-	-	273,541,760
June	120,120,217	151,127,199	-	-	-	271,247,416
July	94,763,334	139,083,903	-	-	-	233,847,237
August	109,383,905	164,677,083	-	(125,000,000)	-	149,060,988
September	119,032,936	178,903,749	-	(125,000,000)	-	172,936,685
October	99,699,516	203,713,576	-	(125,000,000)	-	178,413,092
November	122,092,454	146,887,986	-	(150,000,000)	-	118,980,440
December	120,646,803	169,462,703	-	(230,000,000)	(1,536,566)	58,572,940
<b>Totals</b>	<b><u>1,332,899,432</u></b>	<b><u>1,900,759,459</u></b>	<b><u>7,978,400</u></b>	<b><u>(1,055,000,000)</u></b>	<b><u>(1,536,566)</u></b>	<b><u>2,185,100,725</u></b>
<b>Total Article 6.1</b>			<b><u>3,241,637,291</u></b>			

Month	<i>2010</i>					
	<i>USD</i>					
	Article 6.1(a) receipts	Article 6.1(b) receipts	Article 6.1(e) Other receipts	To Consolidated Fund	Refunds of taxation	TOTAL
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
<b>Totals</b>	<b><u>919,918,559</u></b>	<b><u>1,190,010,103</u></b>	<b><u>7,337,865</u></b>	<b><u>(811,000,000)</u></b>	<b><u>(35,112)</u></b>	<b><u>1,306,231,415</u></b>
<b>Total Article 6.1</b>			<b><u>2,117,266,527</u></b>			

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## 8. 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-11</i>	<i>Dec-10</i>
	<i>USD</i>	<i>USD</i>
Cash at bank	24,627,157	5,709,687
Overnight reverse repurchase agreements	-	1,700,000
	<u>24,627,157</u>	<u>7,409,687</u>

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

## 9. Financial assets valued through profit or 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-11</i>	<i>Dec-10</i>
	<i>USD</i>	<i>USD</i>
<b>Financial assets at fair value through profit or loss</b>		
<b>Opening fair value</b>	<b>6,896,037,830</b>	<b>5,373,463,906</b>
Purchase at cost	8,832,419,705	5,472,783,373
Proceeds from sales	(6,432,265,322)	(3,975,375,657)
Net gains/(losses) on financial assets at fair value through profit and loss	(17,177,091)	18,158,450
Net gains through interest income	6,288,549	7,007,758
<b>Closing fair value</b>	<b><u>9,285,303,671</u></b>	<b><u>6,896,037,830</u></b>

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-11</i>		<i>Dec-10</i>	
	<i>USD</i>		<i>USD</i>	
<b>Fixed interest securities</b>	<b>Fair Value</b>	<b>% of net assets</b>	<b>Fair Value</b>	<b>% of net assets</b>
United States treasury bills	-	-	16,995,811	0.26
European treasury bills	-	-	25,066,035	0.38
United States treasury notes	8,930,733,463	100	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	-	-	261,831,697	3.96
<b>Total Fixed Interest Securities</b>	<b><u>8,930,733,463</u></b>	<b><u>100</u></b>	<b><u>6,614,267,680</u></b>	<b><u>100</u></b>

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**9. Financial assets valued through profit or loss (continued)**

	<i>Dec-11</i>		<i>Dec-10</i>	
	<i>USD</i>		<i>USD</i>	
<b>Equity securities</b>	<b>Fair Value</b>	<b>% of net assets</b>	<b>Fair Value</b>	<b>% of net assets</b>
United States equities	183,170,503	52	140,572,479	50
Australia equities	10,694,237	3	10,141,622	4
Japan equities	32,628,226	9	27,645,811	10
United Kingdom equities	45,182,679	13	29,012,754	10
Europe equities	37,249,291	10	36,037,870	13
Equities from other countries	45,295,382	13	38,359,614	13
<b>Total Equity Securities</b>	<b><u>354,220,318</u></b>	<b><u>100</u></b>	<b><u>281,770,150</u></b>	<b><u>100</u></b>
<b>Derivatives</b>	<b>Fair Value</b>	<b>% of net assets</b>	<b>Fair Value</b>	<b>% of net assets</b>
United States share price index futures	349,890	100.00	-	-
	<b><u>349,890</u></b>	<b><u>100</u></b>	<b><u>-</u></b>	<b><u>-</u></b>
<b>Total Securities</b>	<b><u>9,285,303,671</u></b>		<b><u>6,896,037,830</u></b>	

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 quoted prices (unadjusted) 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).

<b>Financial assets</b>	<i>Dec-11</i>			
	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>
Financial Instruments designated at fair value through profit or loss				
Derivatives	349,890	-	-	349,890
Equity securities	354,220,318	-	-	349,890
Fixed interest securities	8,930,733,463	-	-	8,930,733,463
<b>Total</b>	<b><u>9,285,303,671</u></b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>9,285,303,671</u></b>

<b>Financial assets</b>	<i>Dec-10</i>			
	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>
Financial Instruments designated at fair value through profit or loss				
Equity securities	281,770,150	-	-	281,770,150
Fixed interest securities	6,614,267,680	-	-	6,614,267,680
<b>Total</b>	<b><u>6,896,037,830</u></b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>6,896,037,830</u></b>

There were no transfers between levels for the year ended 31 December 2011.

There were no movements in level 3 instruments for the year ended 31 December 2011.

A detailed schedule of financial assets at fair value through profit or loss is at Note 17.

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## **10. Derivative contracts**

Typically, derivative contracts serve as components of the Fund's investment strategy and are utilised primarily to structure and hedge investments, to enhance performance and reduce risk to the Fund (the Fund does not designate any derivative as a hedging instrument for hedge accounting purposes). The derivative contracts that the Fund holds include: futures and forward currency contracts.

The Fund primarily uses derivative financial instruments to economically hedge its risks associated with foreign currency fluctuations. Additionally, derivative financial instruments may also be used for trading purposes where the Investment Manager believes this would be more effective than investing directly in the underlying financial instruments. Derivatives often reflect, at their inception, only a mutual exchange of promises with little or no transfer of tangible consideration. However, these instruments frequently involve a high degree of leverage and are very volatile. A relatively small movement in the underlying of a derivative contract may have a significant impact on the profit or loss of the Fund. Over the counter ("OTC") derivatives may expose the Fund to the risks associated with the absence of an exchange market on which to close out an open position. The Fund sets limits on investments in derivatives with high risk profile. The Investment Manager is instructed to closely monitor the Fund's exposure under derivative contracts as part of the overall management of the Fund's market risk (see also Note 12).

During the year ended 31 December 2011, the Fund had positions in the following types of derivatives:

### **Forwards and futures**

Forward and futures contracts are contractual agreements to buy or sell a specified financial instrument at a specific price and date in the future. Forwards are customised contracts transacted in the OTC market. Futures contracts are transacted in standardised amounts on regulated exchanges and are subject to daily cash margin requirements. The main differences in the risk associated with forward and futures contracts are credit risk and liquidity risk. The Fund has credit exposure to the counterparties of forward contracts. The credit risk related to future contracts is considered minimal because the exchange ensures that these contracts are always honoured. Forward contracts are settled gross and, therefore, considered to bear a higher liquidity risk than the future contracts which are settled on a net basis. Both types of contracts result in market risk exposure.

## **11. Income tax expense**

As the Fund is exempt from all forms of taxation in Timor-Leste, the Fund has a statutory tax rate of 0%. Investment income and capital gains are subject to withholding tax in certain foreign jurisdictions and are the only items subject to taxation at an assumed average applicable withholding tax rate of 15% (2010: 15%) in such jurisdictions. The withholding tax attributable to the Fund in 2011 is \$661,544 (2010: \$69,174).

## **12. Financial risk and management objectives and policies**

### **Investment strategy**

The Petroleum Fund's objective is to meet benchmark returns on its capital within the risk limit provided in mandates and within the limits established in Articles 14 and 15 of the Petroleum Fund Law relating to Investment Policy and Investment Rules.

The Rules provide that in order to qualify as an eligible investment an investment must be issued or situated abroad in an internationally recognised jurisdiction.

The rules further provided that:

1. Not less than 50% of the Petroleum Fund shall be invested in eligible investments in the form of deposits or debt instruments that bear interest, namely fixed and variable rate obligations and bonds, or other fixed income assets, equivalent to interests, and provided that:
  - (a) Debt instruments are determined to have a quality at least equal to their investment grade; or
  - (b) Deposits are held with financial institutions with a rating corresponding to at least their investment grade.
2. Not more than 50% of the Petroleum Fund shall be invested in eligible investments in the form of variable income titles, namely listed equities, provided that:
  - (a) The variable income applications are traded in a regulated financial market; and
  - (b) No holding shall exceed 5% of the issued capital of the issuing company.
3. No more than 5% of the amounts in the Petroleum Fund may be invested in other eligible investments, provided that:
  - (a) The Minister has included the asset class to which the eligible investments belong in the proposed asset allocation presented to Parliament; and
  - (b) The rules and criteria for selecting, managing and valuing individual financial instruments within the asset class have been approved by the Minister and published.

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 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 Banco Central de Timor-Leste, which prepares daily management reports for senior management. The Petroleum Fund is subject to periodic audit by the Internal Audit Office of the Banco Central de Timor-Leste, which has operational independence from the management of the Petroleum Fund. The Internal Audit Office provides formal monthly reports to the Governor, and quarterly reports to the Governing Board of the Banco Central de Timor-Leste.

### **(a) 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 Banco Central de Timor-Leste, as the operational manager of the Petroleum Fund, manages the operational risks associated with the operations of the Petroleum Fund. Operational risk management includes 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 policies and departmental internal control systems are managed by an active internal audit function, and specific provision in the daily management 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.

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## **12. Financial risk and management objectives and policies (continued)**

### **(b) Credit risk**

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

#### *(i) 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:

1. Not less than 50% of the Petroleum Fund shall be invested in eligible investments in the form of deposits or debt instruments that bear interest, namely fixed and variable rate obligations and bonds, or other fixed income assets, equivalent to interests, and provided that:
  - (a) Debt instruments are determined to have a quality at least equal to their investment grade; or
  - (b) Deposits are held with financial institutions with a rating corresponding to at least their investment grade.
2. Not more than 50% of the Petroleum Fund shall be invested in eligible investments in the form of variable income titles, namely listed equities, provided that:
  - (a) The variable income applications are traded in a regulated financial market; and
  - (b) No holding shall exceed 5% of the issued capital of the issuing company.
3. No more than 5% of the amounts in the Petroleum Fund may be invested in other eligible investments, provided that:
  - (a) The Minister has included the asset class to which the eligible investments belong in the proposed asset allocation presented to Parliament; and
  - (b) The rules and criteria for selecting, managing and valuing individual financial instruments within the asset class have been approved by the Minister and published.

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 maximum 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 and Equity Securities issued by developed markets.

#### *(ii) 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-11</i>	<i>Dec-10</i>
	<i>USD</i>	<i>USD</i>
<b>Fixed interest securities and money market securities</b>		
<b>Sovereign issuers:</b>		
United States Government	8,930,733,463	6,113,445,146
Australia Government	-	91,952,177
Japan Government	-	24,039,642
United Kingdom Government	-	21,475,776
European Governments	-	101,081,460
<b>Non sovereign issuers:</b>		
United States denominated non sovereign	-	<u>262,273,479</u>
<b>Equity securities</b>		
	<u><b>8,930,733,463</b></u>	<u><b>6,614,267,680</b></u>

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## 12. Financial risk and management objectives and policies (continued)

### (iii) 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-11</i>	<i>Dec-10</i>
	<i>USD</i>	<i>USD</i>
<b>International fixed interest securities and money market securities</b>		
AAA	-	6,547,787,857
AA+	8,930,733,463	-
AA	-	24,039,642
A+	-	42,440,181
<b>Total</b>	<b><u>8,930,733,463</u></b>	<b><u>6,614,267,680</u></b>

### (iv) 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 96% (2010: 88.61%) 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.

### (c) Market risk

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

The Petroleum Fund manages its investment portfolio to a benchmark with the risk limit defined by a maximum tracking error.

### (i) Equity price risk

Equity price risk is the risk of unfavourable changes in the fair values of equities or equity-linked derivatives as the result of changes in the levels of equity indices and the value of individual shares. The equity price risk exposure arises from the Fund's investments in equity securities, from equity securities sold short and from equity-linked derivatives. The Fund manages this risk by investing in a variety of stock exchanges and by limiting exposure to a single industry sector to 3% of net assets (consistent with Article 15.5a of the Petroleum Fund Law). The Fund's constitution limits equity investments to no more than 5% of the share capital of a particular issuer (consistent with Article 15.3b of the Petroleum Fund Law).

Management's best estimate of the effect on the profit or loss for a year due to a reasonably possible change in equity indices, with all other variables held constant is indicated in the table below. There is no effect on 'other comprehensive income' as the Fund has no assets classified as 'available-for-sale' or designated hedging instruments. In practice, the actual trading results may differ from the sensitivity analysis below and the difference could be material. An equivalent decrease in each of the indices shown below would have resulted in an equivalent, but opposite, impact.

### Summarised sensitivity analysis

The following table summarises the sensitivity of the Fund's operating profit and net assets to price risk. The analysis is based on reasonably possible movements in the benchmark with all other variables held constant and the fair value of the Fund's portfolio moving according to the movement in the benchmark. The reasonably possible movements in the risk variables have been determined based on the Investment Managers' best estimates, having regard to a number of factors, including historical levels of changes in market index, security prices and/or benchmark returns and interest rates. However, actual movements in the risk variables may be greater or less than anticipated due to a number of factors, including unusually large market shocks resulting from changes in the performance of the economies, markets and securities to which the variable is exposed. As a result, historic variations in risk variables are not a definitive indicator of future variations in the risk variables.

	<b>Price risk</b>	
	<b>Impact on operating profit / Net assets (in USD millions)</b>	
	<b>-10.00%</b>	<b>+10.00%</b>
	<b>(Dec-10: -10.00%)</b>	<b>(Dec-10: +10.00%)</b>
<b>31 December 2011</b>	(35,457)	35,457
31 December 2010	(32,096)	32,096



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## 12. Financial risk and management objectives and policies (continued)

### (c) Market risk (continued)

#### (ii) 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 and tracking error limit. The assets and liabilities of the Petroleum Fund will re-price within the following periods:

		<i>Dec-11</i>					
		<i>USD</i>					
<b>FINANCIAL ASSETS</b>	<b>Statement of financial position</b>	<b>Non-interest sensitive</b>	<b>6 months or less</b>	<b>6 to 12 months</b>	<b>1 to 2 years</b>	<b>2 to 5 years</b>	<b>5 to 10 years</b>
Cash and cash equivalents	24,627,157	-	24,627,157	-	-	-	-
Other receivables	2,218,364	2,218,364	-	-	-	-	-
Financial assets at fair value through profit or loss	9,285,303,671	354,570,208	1,004,294,663	878,039,511	3,166,231,852	2,624,481,746	1,257,685,691
<b>Total assets</b>	<b>9,312,149,192</b>	<b>356,788,572</b>	<b>1,028,921,820</b>	<b>878,039,511</b>	<b>3,166,231,852</b>	<b>2,624,481,746</b>	<b>1,257,685,691</b>
<b>Weighted average interest rate</b>			4.50%	3.88%	3.60%	1.88%	3.42%

		<i>Dec-10</i>					
		<i>USD</i>					
<b>FINANCIAL ASSETS</b>	<b>Statement of financial position</b>	<b>Non-interest sensitive</b>	<b>6 months or less</b>	<b>6 to 12 months</b>	<b>1 to 2 years</b>	<b>2 to 5 years</b>	<b>5 to 10 years</b>
Cash and cash equivalents	7,409,687	-	7,409,687	-	-	-	-
Other receivables	548,778	548,778	-	-	-	-	-
Financial assets at fair value through profit or loss	6,896,037,830	320,415,980	592,659,912	683,898,014	1,858,624,344	3,440,439,580	-
<b>Total assets</b>	<b>6,903,996,295</b>	<b>320,964,758</b>	<b>600,069,599</b>	<b>683,898,014</b>	<b>1,858,624,344</b>	<b>3,440,439,580</b>	<b>-</b>
<b>Weighted average interest rate</b>			4.49%	4.43%	3.74%	2.69%	- %

#### Summarised sensitivity analysis

The following table summarises the sensitivity of the Fund's operating profit and net assets to interest rate risk. The analysis is based on reasonably possible movements in the benchmark with all other variables held constant and the fair value of the Fund's portfolio moving according to the movement in the benchmark. The reasonably possible movements in the risk variables have been determined based on the Investment Managers' best estimates, having regard to a number of factors, including historical levels of changes in market index, security prices and/or benchmark returns and interest rates. However, actual movements in the risk variables may be greater or less than anticipated due to a number of factors, including unusually large market shocks resulting from changes in the performance of the economies, markets and securities to which the variable is exposed. As a result, historic variations in risk variables are not a definitive indicator of future variations in the risk variables.

	<b>Interest rate risk</b>	
	<b>Impact on operating profit / Net assets (in USD millions)</b>	
	<b>-1.00%</b>	<b>+1.00%</b>
	<b>(Dec-10: -1.00%)</b>	<b>(Dec-10: +1.00%)</b>
<b>31 December 2011</b>	268,363	(268,363)
31 December 2010	163,041	(163,041)

In determining the impact of an increase/decrease in net assets arising from market risk, management of the Fund has considered prior period and expected future movements of the portfolio based on market information.

**Petroleum Fund of Timor-Leste  
Notes to the Financial Statements  
for the year ended 31 December 2011**

## 12. Financial risk and management objectives and policies (continued)

### (c) Market risk (continued)

#### (iii) Currency risk

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

The Petroleum Fund is required by the Petroleum Fund law to manage this risk by investing in the following manner:

1. Not less than 50% of the Petroleum Fund shall be invested in eligible investments in the form of deposits or debt instruments that bear interest, namely fixed and variable rate obligations and bonds, or other fixed income assets, equivalent to interests, and provided that:
  - (a) Debt instruments are determined to have a quality at least equal to their investment grade; or
  - (b) Deposits are held with financial institutions with a rating corresponding to at least their investment grade.
2. Not more than 50% of the Petroleum Fund shall be invested in eligible investments in the form of variable income titles, namely listed equities, provided that:
  - (a) The variable income applications are traded in a regulated financial market; and
  - (b) No holding shall exceed 5% of the issued capital of the issuing company.
3. No more than 5% of the amounts in the Petroleum Fund may be invested in other eligible investments, provided that:
  - (a) The Minister has included the asset class to which the eligible investments belong in the proposed asset allocation presented to Parliament; and
  - (b) The rules and criteria for selecting, managing and valuing individual financial instruments within the asset class have been approved by the Minister and published.

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

#### 31 December 2011

FINANCIAL ASSETS	USD	EUR	AUD	GBP	JPY	Other	
						Currencies	Total
Cash and cash equivalents	23,531,754	123,595	75,414	252,239	253,748	390,407	24,627,157
Other receivables	1,581,977	84,066	202,134	167,937	56,903	125,347	2,218,364
Financial assets at fair value through profit or loss	9,116,015,971	35,172,568	10,694,237	44,474,710	32,628,226	46,317,959	9,285,303,671
<b>Total assets</b>	<b>9,141,129,702</b>	<b>35,380,229</b>	<b>10,971,785</b>	<b>44,894,886</b>	<b>32,938,877</b>	<b>46,833,713</b>	<b>9,312,149,192</b>

#### 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	7,409,688
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	6,516,291,111	137,119,083	102,093,794	50,488,529	51,685,452	38,359,860	6,896,037,829
<b>Total assets</b>	<b>6,519,691,537</b>	<b>137,638,421</b>	<b>104,710,547</b>	<b>51,125,945</b>	<b>52,091,383</b>	<b>38,738,462</b>	<b>6,903,996,295</b>

**Petroleum Fund of Timor-Leste**  
**Notes to the Financial Statements**  
**for the year ended 31 December 2011**

## 12. Financial risk and management objectives and policies (continued)

### (c) Market risk (continued)

#### (iii) Currency risk (continued)

##### Summarised sensitivity analysis

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.

	<b>Dec-11</b>	<b>Dec-10</b>
EUR impact	(3,538,023)	(13,763,842)
AUD impact	(1,097,179)	(10,471,055)
GBP impact	(4,489,489)	(5,112,595)
JPY impact	(3,293,888)	(5,209,138)
Other currencies impact	(4,683,371)	(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.

### (d) Liquidity risk

Liquidity risk is the risk that the Petroleum Fund will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity may result from an inability to sell a financial asset quickly at close to its fair value. The Fund invests primarily in marketable securities and other financial instruments which, under normal market conditions are readily convertible to cash.

### (e) 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.

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

	<i>Dec-11</i>	<i>Dec-10</i>
	<i>USD</i>	<i>USD</i>
<b>Profit for the year</b>	<b>221,234,179</b>	<b>221,139,322</b>
Increase in financial assets at fair value through profit or loss	(2,389,265,840)	(1,522,599,482)
Increase in receivables	(1,678,179)	(548,778)
Increase in accounts payable	828,000	-
Increase in payables for securities purchased	999,993	-
<b>Net cash flow from operating activities</b>	<b><u>(2,167,881,847)</u></b>	<b><u>(1,302,008,938)</u></b>

**Petroleum Fund of Timor-Leste  
Notes to the Financial Statements  
for the year ended 31 December 2011**

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## 14. Personnel

The Fund did not employ any personnel during the year (2010: the same).

## 15. Contingent assets, contingent liabilities and commitments

There are no contingent assets, contingent liabilities or commitments as at 31 December 2011.

## 16. Related party disclosures

The following parties are considered related parties of the Fund:

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

### The Government

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.

The Petroleum Fund makes transfers to the Consolidated Fund of Timor-Leste pursuant to Article 7 of the Petroleum Fund Law) as disclosed in the statement in changes in capital.

### Investment managers

#### Banco Central de Timor Leste

The Banco Central de Timor-Leste ("BCTL") is the operational manager of the Petroleum Fund, in accordance with Article 11.3 of the Petroleum Fund Law.

This means that the Operation Manager is, in particular, responsible for oversight of the investment managers and service providers, collection of dividends, interest and proceeds of matured securities, the exercise of options and, in general, for any other operation concerning the day-to-day administration of the securities and other assets and liabilities of the Fund.

The management fee covers the operational management of the Petroleum Fund which is undertaken by the BCTL, in accordance with the provisions of Article 11.3 of the Petroleum Fund Law. The audit fee and expenses incurred within the Ministry of Finance relating to the overall management of the Petroleum Fund are met directly from the State budget. The management fee paid to the BCTL for the period was composed as follows:

	<i>Dec-11</i>	<i>Dec-10</i>
	<i>USD</i>	<i>USD</i>
Custody and external management services (see below)	3,010,452	1,822,783
Investment Advisory Board expenses	35,345	-
Accrued custody and external management fees	828,000	-
BCTL operating expenses	<u>2,429,127</u>	<u>1,671,085</u>
<b>Total</b>	<u>6,302,924</u>	<u>3,493,868</u>

Banco Central de Timor-Leste is entitled to receive a management and advisory fee for its respective services in terms of the agreement dated 2 February 2011. These fees amount to an aggregate of 0.07% per annum of the net assets of the Fund. Management fees are payable monthly in arrears. Total management fees for the year amounted to \$6,302,924 (2010: \$3,493,868).

The management fees payable as at 31 December 2011 are \$828,000 (31 December 2010: nil).

### The Autoridade Nacional do Petroleo (ANP)

The 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 2011**

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**17. Schedule of financial assets valued through profit and loss**

**(a) Fixed interest securities**

Security	Fair Value USD
US T 3.625% 15AUG19	98,439,201
US T 3.625% 15FEB21	346,538,935
US T 3.75% 15NOV18	114,483,701
US T 1.375% 30SEP18	10,089,040
US TN 1.0% 31OCT16	521,169,935
US TN 1.25% 31OCT15	438,851,010
US TN 1.375% 30NOV18	15,069,603
US TN 1.875% 30APR14	706,821,703
US TN 2.00% 30APR16	711,773,632
US TN 2.375% 31OCT14	694,226,419
US TN 2.5% 30JUN17	104,910,538
US TN 2.50% 30APR15	510,758,423
US TN 2.75% 31MAY17	123,944,883
US TN 2.75% 31OCT13	845,005,447
US TN 3.125% 15MAY21	62,753,434
US TN 3.125% 30APR13	301,785,073
US TN 3.125% 30APR13	618,393,210
US TN 3.125% 30APR17	163,384,629
US TN 3.50% 15MAY20	118,955,754
US TN 3.875% 15MAY18	197,968,194
US TN 3.875% 31OCT12	878,039,511
US TN 4.00% 15AUG18	288,667,932
US TN 4.50% 30APR12	1,004,294,663
US TN 8.00% 15NOV21	4,719,896
US TN 0.875% 30NOV16	49,688,695
<b>Total fixed interest securities</b>	<b>8,930,733,463</b>

**(b) Equity securities**

Security	Fair Value USD
ANZ BANKING GROUP	728,416
BHP BILLITON LTD	1,511,696
CAMPBELL BROTHERS	42,896
CARDNO LTD	19,894
CFS RETAIL PROPERTY	109,174
COCA-COLA AMATIL LTD	350,478
COCHLEAR	142,997
COMMONWEALTH BANK	545,467
CSL LIMITED	465,531
ENERGY RES OF AUST	32,621
FLEETWOOD CORP LTD	162,128
FORGE GROUP LTD.	23,320
FORTESCUE METALS LTD	74,686
GRANGE RESOURCES LTD	157,666

**Petroleum Fund of Timor-Leste**  
**Notes to the Financial Statements**  
**for the year ended 31 December 2011**

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

INDUSTREA LTD	75,985
IOOF HOLDINGS LTD	45,346
JB HI-FI LTD	158,710
KINGSGATE CONSOL LTD	73,203
LINC ENERGY LTD	45,345
M2 TELECOMMUNICATION	28,248
MACQUARIE GROUP LTD	169,828
MINERAL RESOURCES	100,934
MONADELPHOUS GROUP	209,479
NATIONAL AUST BANK	708,529
NAVITAS LTD	126,986
NEWCREST MINING	341,907
NRW HLDINGS LTD	117,848
OZ MINERALS LTD	365,146
PANORAMIC RESOURCES	51,894
PLATINUM ASSET MGT	24,730
QBE INSURANCE GROUP	208,158
RAMSAY HEALTH CARE	81,483
RIO TINTO LIMITED	109,730
SMS MGT AND TECH	16,862
SONIC HEALTHCARE LTD	420,771
TELSTRA CORP	702,734
WESTFIELD GROUP	319,071
WESTPAC BANKING CORP	536,959
WOODSIDE PETROLEUM	425,769
WOOLWORTHS LIMITED	583,227
WORLEYPARSONS LTD	179,008
WOTIF.COM HOLDINGS	99,378
<b>AUSTRALIA TOTAL</b>	<b>10,694,237</b>
<hr/>	
ERSTE BANK DER OST	81,848
LENZING AG	279,309
MAYR-MELNHOF KARTO	28,311
OESTERREICHISCHE POS	170,854
OMV AG	186,364
SEMPERIT AG HOLDING	21,417
VOESTALPINE AG	59,159
<b>AUSTRIA TOTAL</b>	<b>827,260</b>
<hr/>	
AGEAS	119,871
ARSEUS NV - W/I	15,352
BEFIMMO S.C.A	33,934
BEKAERT NV	218,112
BELGACOM SA	86,800
DELHAIZE GROUP	244,345
KBC GROEP NV	70,329
MOBISTAR SA	509,116
<b>BELGIUM TOTAL</b>	<b>1,297,859</b>
<hr/>	
AGRIUM INC	476,239
ALIMENTATION COUCHE	292,178
ARC RESOURCES LTD	350,952

**Petroleum Fund of Timor-Leste**  
**Notes to the Financial Statements**  
**for the year ended 31 December 2011**

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

BANK OF MONTREAL	762,128
BANK OF NOVA SCOTIA	279,216
BARRICK GOLD CRP	516,457
BAYTEX ENERGY CORP C	273,861
CAE INDS	225,392
CALFRAC WELL SERVICE	220,416
CAMECO CORPORATION	135,306
CANACCORD CAPITAL	29,760
CANADIAN NATL RAIL	613,352
CANADIAN OIL SANDS T	551,853
CANADIAN UTILITIES	265,880
CDN NATURAL RESOURSE	145,774
CENTERRA GOLD INC	154,610
CGI GRP INC 'A'	463,130
CRESCENT POINT ENERG	264,159
EMPIRE CO CLASS A	121,391
ENCANA CORP	140,991
ENSIGN ENERGY SERVI	193,618
GENWORTH MI CANADA I	64,330
GILDAN ACTIVEWEAR	150,376
GOLDCORP INC	478,138
GREAT WEST LIFECO	177,869
IGM FINANCIAL INC	342,301
INDUSTRIAL ALLIANCE	267,698
INMET MINING CORP	360,061
MANULIFE FINANCIAL	577,529
METRO-INC	344,581
NATL BK OF CANADA	269,219
NEO MATERIAL TECHNOL	155,278
NEXEN INC	238,645
OPEN TEXT CO	132,879
PETROMINERALS LTD	185,784
POTASH CO OF SASKATC	727,507
POWER CORP CANADA	571,446
POWER FINANCIAL CORP	283,207
RESEARCH IN MOTION	440,662
ROGERS COMMUNICATION	685,953
ROYAL BANK CANADA	1,223,747
SAPUTO INC	126,296
SHAW COMMUNICATION-B	220,528
SHERRITT INT CORP	168,289
SHOPPERS DRUG MART	358,884
STANLEY TECH GROUP	62,274
SUN LIFE FINANCIAL	209,520
SUNCOR ENERGY INC	1,116,627
TORONTO-DOMINION BAN	411,859
TRANSCANADA CORP	113,626
VERMILION ENERGY	190,834
YAMANA GOLD INC	67,673
<b>CANADA TOTAL</b>	<b>17,200,283</b>

COLOPLAST SER B	70,319
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**Petroleum Fund of Timor-Leste**  
**Notes to the Financial Statements**  
**for the year ended 31 December 2011**

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

D/S SVENDBORG ORD B	476,114
DANSKE BANK A/S	20,277
H LUNDBECK AS	544,456
NOVO NORDISK AS B	663,030
<b>DENMARK TOTAL</b>	<b>1,774,197</b>
KEMIRA OY	82,491
KONE CORP NEW	159,349
ORION OYJ	438,511
POHJOLA BANK PLC	46,404
SANOMA OYJ	42,419
STORA ENSO OYJ-R SHS	138,565
UPM-KYMMENE OY	209,169
WARTSILA OYJ-B	238,181
<b>FINLAND TOTAL</b>	<b>1,355,088</b>
AIR LIQUIDE	53,974
ARKEMA	245,690
AXA	467,579
BIC	395,752
BNP PARIBAS	639,482
CHRISTIAN DIOR	592,833
CNP ASSURANCES	191,864
CREDIT AGRICOLE SA	120,301
DASSAULT SYSTEMS	175,406
EULER HERMES SA	152,158
FONCIERE DES REGIONS	88,067
GDF SUEZ	130,004
LVMH MOET-HENNESSY	118,749
M6-METROPOLE TV	137,927
NATEXIS BANQUES	101,535
PLASTIC OMNIUM SA	157,096
SA DES CEMENTS VICAT	17,212
SANOFI	1,550,258
SCHNEIDER ELECTRIC	236,232
SCOR REGROUPE	245,045
SOCIETE GENERALE A	304,647
TOTAL SA	2,207,960
VALEO	93,406
VINCI SA	360,499
VIVENDI UNIVERSAL	793,020
<b>FRANCE TOTAL</b>	<b>9,576,696</b>
ALLIANZ AG	820,975
AXEL SPRINGER AG	127,049
BASF SE	1,554,058
BAYER AG DEM	301,180
BAYER MOTOREN WERK	681,372
BECHTLE AG	38,081
COMMERZBANK AG DEM5	63,482
DAIMLER AG	291,723
DEUTSCHE BANK AG	379,114



**Petroleum Fund of Timor-Leste**  
**Notes to the Financial Statements**  
**for the year ended 31 December 2011**

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

DEUTSCHE TELECOM AG	102,282
E.ON AG	146,940
FRESENIUS MEDICAL	293,256
FUCHS PETROLUB AG -P	59,814
GERRY WEBER INTERNAT	131,162
HANNOVER RUECKVERS	161,476
HUGO BOSS - PFD	60,527
K + S AG	314,148
LANXESS	146,894
LEONI AG	98,267
LINDE AG NPV	284,519
MAN AG	191,760
MUENCHENER RUECKVER	396,941
NORDDEUTSCHE AFFINER	248,564
PROSIEBEN SAT.1	104,788
SAP AG NPV	533,434
SIEMENS AG	996,603
SMA SOLAR TECHNOLOGY	137,667
STO AG - PFD	14,561
VOLKSWAGEN NON VTG	540,033
WACKER CHEMIE AG	200,247
XING AG	72,872
<b>GERMANY TOTAL</b>	<b>9,493,787</b>
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ABERDEEN ASSET MGMT	275,494
AFREN PLC	46,668
AFRICAN BARRICK GOLD	301,970
AMEC PLC	133,444
ANGLO AMERICAN PLC	1,295,377
ANTOFAGASTA HLDGS	331,923
ARM HOLDINGS PLC	139,533
ASHMORE GROUP PLC	142,281
ASSOC BRITISH FOODS	104,694
ASTRAZENECA PLC	1,525,852
AVEVA GROUP PLC	45,260
AVIVA PLC	236,678
BARCLAYS	666,373
BEAZLEY PLC	162,850
BG GROUP PLC	965,977
BHP BILLITON	1,446,331
BP PLC	2,692,270
BRITISH AMER TOBACCO	2,035,088
BRITISH LAND CO	180,912
BRITISH SKY BROAD	419,491
BROWN (N) GROUP PLC	43,926
BUNZL PLC	161,786
CAIRN ENERGY PLC	417,209
CENTRICA PLC	622,384
COBHAM PLC	236,736
COMPASS GROUP PLC	728,264
DAILY MAIL & GENERAL	185,042
DIAGEO PLC.	1,158,828

**Petroleum Fund of Timor-Leste**  
**Notes to the Financial Statements**  
**for the year ended 31 December 2011**

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

DRAX GROUP PLC	110,684
ELECTROCOMPONENTS	195,330
ENSCO PLC-SPON ADR	243,984
FILTRONA PLC	50,137
FRESNILLO PLC	104,681
GKN PLC	376,875
GLAXOSMITHKLINE PLC	1,100,452
GREGGS PLC	214,547
GULFSANDS PETROLEUM	101,844
HALFORDS GROUP PLC	173,638
HALMA PLC	135,932
HAYS	190,813
HIGHLAND GOLD MINING	83,995
HOCHSCHILD MINING	81,599
HSBC HOLDINGS PLC.	2,578,407
ICAP PLC	295,928
IMI	313,534
IMPERIAL TOBACCO GRP	854,130
INVENSYS PLC	153,896
INVESTEC PLC	161,250
JKX OIL AND GAS PLC	50,308
JOHNSON MATTHEY	115,297
KAZAKHMYS PLC	201,251
KESA ELECTRICALS	71,234
LEGAL & GENERAL GRP	500,222
LLOYDS BANKING GROUP	58,976
MARKS & SPENCER	313,534
MICRO FOCUS INTERN	230,025
MITIE GROUP PLC	198,870
MORRISON (W) SUPER	611,962
NATIONAL GRID PLC	652,753
NEXT PLC	408,279
PARAGON GROUP CO PLC	89,347
PENNON GROUP PLC	130,345
PETROFAC LTD - W/I	264,699
PLAYTECH LTD	131,417
POLO RESOURCES LTD	35,259
PREMIER FARNELL PLC	45,206
PREMIER OIL PLC	53,466
PRUDENTIAL PLC	783,129
RECKITT BENCKISER	1,099,901
RESOLUTION LTD	157,593
RIO TINTO PLC	1,626,301
ROY DUT SHELL -B SHS	1,992,171
ROYAL & SUN ALLIANCE	224,365
ROYAL DUTCH SHELL PL	2,615,490
ROYAL DUTCH SHELL-A	463,985
SABMILLER PLC	255,315
SENIOR PLC	160,784
SHIRE PLC	192,333
SMITH & NEPHEW	357,142
SMITHS GROUP PLC	51,264

**Petroleum Fund of Timor-Leste**  
**Notes to the Financial Statements**  
**for the year ended 31 December 2011**

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

SPECTRIS PLC	257,176
SSE PLC	595,784
STAGECOACH GROUP PLC	276,958
STANDARD CHARTERED	384,336
TESCO	1,233,129
UNILEVER PLC	352,595
VEDANTA RESOURCES PL	85,774
VODAFONE GROUP PLC	2,331,366
WEIR GROUP	211,888
WH SMITH PLC	181,154
WOOD GROUP (JOHN) PL	98,376
XSTRATA PLC - WI	807,628
<b>GREAT BRITAIN TOTAL</b>	<b>45,182,679</b>
OPAP	304,613
<b>GREECE TOTAL</b>	<b>304,613</b>
CHEUNG KONG (HLDGS)	415,497
DAH CHONG HONG	122,756
EMPEROR INTL HOLDING	33,065
FIRST PACIFIC CO	481,237
GIORDANA INTL LTD	161,800
GREAT EAGLE HLDGS	41,099
HSBC HOLDINGS PLC	170,164
JARDINE MATHESON HLD	413,952
JARDINE STRATEGIC SR	248,400
KERRY PROPERTIES LTD	174,355
MIDLAND REALTY HOLDS	12,453
NEW WORLD DEVEL CO	208,246
SHENZHOU INTERNATION	21,713
SMARTONE TELECOM	395,965
SWIRE PACIFIC	482,579
TELEVISION BROADCT	284,725
TEXWINCA HOLDINGS	28,522
VODONE LTD	53,578
VTECH HOLDINGS	47,897
WHELOCK & CO	54,217
XINYI GLASS HOLDINGS	230,332
<b>HONG KONG TOTAL</b>	<b>4,082,555</b>
ACCENTURE PLC-CL A	766,512
PADDY POWER PLC	63,384
UNITED DRUG PLC IE	15,688
<b>IRELAND TOTAL</b>	<b>845,584</b>
BEZEK	183,002
BK HAPOALIM BM	254,074
BK LEUMI LE ISRAEL	135,245
CHECK POINT SOFTWARE	89,267
ISRAEL CHEMICALS LTD	580,824
UNITED MIZRAHI BANK	32,312
<b>ISRAEL TOTAL</b>	<b>1,274,725</b>

**Petroleum Fund of Timor-Leste**  
**Notes to the Financial Statements**  
**for the year ended 31 December 2011**

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

BANCA INTESA SPA	293,127
BANCA MONTE DEI PASC	40,920
BANCA POPOLARE	5,363
BANCO POPOLARE SPA	56,599
DANIELI & CO	144,134
ENEL SPA	468,553
ENI SPA	1,223,387
HERA SPA	92,538
MEDIASET	155,738
RECORDATI SPA	300,833
SAIPEM SCA	270,563
SNAM SPA	145,827
TERNA SPA	156,682
TOD'S S.p.A	116,945
UNICREDIT SPA	184,825
UNIONE DI BANCHE ITL	42,057
<b>ITALY TOTAL</b>	<b>3,698,092</b>
<hr/>	
77TH BANK	64,726
AISIN SEIKI CO	173,391
ALPS ELECTRIC CO	50,096
ASAHI DIAMOND INDL	132,675
ASAHI GLASS CO	284,585
ASAHI KASEI CORP	156,122
BANK OF YOKOHAMA	372,719
BELLUNA CO LTD	18,521
BENESSE HOLDINGS	282,961
BML INC	25,906
CANON INC	128,152
CENTRAL JAPAN RAIL	294,775
CENTURY TOKYO LEASIN	47,115
CHARLE CO LTD	30,482
CHIBA BANK	365,973
CHOGOKU MARINE PAINT	67,767
CHUGAI PHARM CO	643,366
CHUO MITSUI TRUST HL	304,133
CIRCLE K SUNKUS CO	140,746
CMIC CO LTD	12,883
COCOKARA FINE INC	51,781
DACIEL CORP	151,092
DAI NIPPON PRINTNG	201,430
DAIDO METAL CO LTD	43,930
DAISHI BANK	19,418
DAITO TRUST CONSTR	214,128
DAIWA HOUSE INDUSTRY	309,540
DENA CO LTD	152,854
DIAMOND LEASE CO	93,642
DOSHISHA CO. LTD.	51,983
EAGLE INDUSTRY CO LT	63,218
EISAI CO LTD	505,030
EXEDY CORP	181,860

**Petroleum Fund of Timor-Leste**  
**Notes to the Financial Statements**  
**for the year ended 31 December 2011**

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

FAMILYMART CO	509,306
FANUC CORP	76,423
FCC CO LTD	97,323
FERROTEC CORP	75,905
FR HOLDING CO LTD	181,700
FUJI MACHINE MFG	19,529
FUJI SEAL	45,035
FURUKAWA-SKY ALUMIN	73,694
FUYO GEN LEASE CO	34,351
GENKY STORES INC	15,057
HIGO BANK	33,923
HITACHI CREDIT CP	87,041
HOKKOKU BANK	18,261
HONDA MOTOR	225,251
HOYA CORP	453,318
HYAKUGO BANK	142,709
INPEX CORPORATION	559,865
ISHIHARA SANGYO	99,506
ITO EN LIMITED	118,737
ITOCHU CORP	376,059
IYO BANK LTD	118,066
JAPAN PETROLEUM EXP	74,084
JAPAN RETAIL FUND	72,538
JAPAN STEEL WORKS	318,664
JGC CORP	408,318
JX HOLDINGS INC	46,536
KADOKAWA GROUP	176,982
KAKEN PHARMACEUTICAL	491,955
KANDENKO CO	24,110
KAYABA INDUSTRY CO	94,619
KDDI CORPORATION	822,667
KINTETSU WORLD EXPRE	185,911
KURARAY CO	419,840
KYORIN HOLDINGS INC	475,500
LAWSON INC	355,231
LINTEC CORP	177,174
MAEDA ROAD CONSTR	115,376
MARUBENI CORP	182,480
MATSUMOTOKIYOSHI HOL	105,230
MEGANE TOP CO. LTD.	82,911
MEIKO NETWORK JAPAN	81,136
MEITEC CORP	92,269
MIMASU SEMICONDUCTOR	24,993
MIRACA HOLDINGS INC	504,269
MITSUBISHI CHEMICAL	219,392
MITSUBISHI CORP	535,235
MITSUBISHI UFJ FIN	949,571
mitsui & CO	512,542
MITSUI ENG & SHIPBG	108,266
MIZUHO FINANCIAL GRP	635,215
MTI LTD	20,681
MUSASHI SEIMITSU	150,936

**Petroleum Fund of Timor-Leste**  
**Notes to the Financial Statements**  
**for the year ended 31 December 2011**

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

NAGASE & CO LTD	43,618
NGK SPARK PLUG CO	111,476
NIHON PARKERIZING	23,993
NIPPON CARBON CO	83,832
NIPPON ELEC GLASS	375,851
NIPPON LIGHT METAL	68,261
NIPPON SHOKUBAI CO	311,710
NIPPON SYNTH CHEM	51,820
NIPPON TEL & TEL CP	535,644
NIPPON THOMPSON CO	126,956
NIPPON ZEON CO	190,434
NISHI-NIPPON CITY BK	51,469
NISSAN MOTOR CO	172,186
NISSHIN FUDDSAN CO	31,661
NITORI HOLDINGS CO	243,306
NITTO DENKO CORP	400,894
NOMURA REAL ESTATE O	51,404
NOMURA RESEARCH INST	311,011
NTT DATA CORP	363,751
NTT DOCOMO INC	918,248
ORIX CORPORATION	277,744
ORIX JREIT INC	53,646
PACIFIC METALS CO	62,854
PRIMA MEAT PACKERS L	63,361
RENGO CO	55,836
RESONA HOLDINGS INC	335,628
RISO KAGAKU CORP	54,279
SAINT MARC HOLDINGS	26,966
SAN-IN GODO BANK LTD	172,186
SANTEN PHARM CO	333,201
SANYO DENKI CO LTD	25,604
SASEBO HEAVY INDS	16,116
SEKISUI CHEMICAL	263,270
SHIMACHU CO	128,464
SHIMAMURA CO	275,825
SHINSEI BANK LTD	96,699
SHIONOGI & CO	154,094
SHIP HEALTHCARE HOLD	185,820
SHIZUOKA BANK	389,043
SHOWA SHELL SEKIYU	22,174
SKY PERFECT JSAT HOL	51,607
SOFTBANK CORPORATION	682,069
SOGO MEDICAL CO LTD	20,198
SONY CORP	118,292
STUDIO ALICE CO LTD	70,360
SUGI HOLDINGS CO LTD	52,498
SUMITOMO CHEMICAL	123,733
SUMITOMO CORP	328,148
SUMITOMO METAL MNG	346,361
SUMITOMO MITSUI FIN	946,555
SUMITOMO PRECISION	104,068
TACHI-S CO LTD	92,650

**Petroleum Fund of Timor-Leste**  
**Notes to the Financial Statements**  
**for the year ended 31 December 2011**

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

TAIHEI KOGYO CO LTD	79,348
TAKEDA CHEMICAL INDS	1,077,488
TEIKOKU ELECTRIC MFG	19,558
THK COMPANY LIMITED	116,252
TOAGOSEI CHEMICAL	163,244
TOCALO CO. LTD.	93,273
TOKAI CORP	24,119
TOKAI RIKA CO	53,496
TOKAI RUBBER INDS	68,656
TOKYO TATEMONO CO	57,291
TONEN GENERAL SEKIYU	261,710
TOPPAN FORMS CO LTD	16,699
TORIDOLL CORP	85,854
TOWA CORPORATION	27,913
TOYO INK SC HOLDINGS	33,221
TOYOTA MOTOR CORP	711,479
TS TECH CO LTD	178,591
TSURUHA HOLDINGS INC	313,335
UNIPRES CORP	200,793
UNITED ARROWS LTD	154,510
USS CO LTD	141,614
VALCOR CO LTD	177,208
YAMADA DENKI	375,862
YAMAZEN CO	49,026
YAKO CO LTD	20,244
YOKOHAMA RUBBER CO	140,369
YOROZU CORPORATION	127,517
<b>JAPAN TOTAL</b>	<b>32,628,226</b>
AKER KVAERNER	204,607
DNB ASA	180,681
FRED OLSEN ENERGY	318,451
KONGSBERG GRUPPEN	36,990
KVAERNER ASA	42,750
LEROY SEAFOOD GROUP	23,729
MARINE HARVEST ASA	194,997
SEADRILL LTD	249,402
STATOILHYDRO ASA	909,635
TELENOR ASA	459,822
TGS NOPEC GEOPHYSICA	290,854
YARA INTERNATIONAL	413,988
<b>NORWAY TOTAL</b>	<b>3,325,905</b>
BCO COM POTUGUES	43,758
BCO ESPIR SANTO	82,113
JERONIMO MARTINS	110,919
PORTUGAL TELECOM SG	110,529
<b>PORTUGAL TOTAL</b>	<b>347,320</b>
CONFORTDELGRO GROUP	266,271
DBS GROUP HLDGS LTD	408,684
HO BEE INVESTMENT LT	50,881

**Petroleum Fund of Timor-Leste**  
**Notes to the Financial Statements**  
**for the year ended 31 December 2011**

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

JARDINE CYCLE & CAR	444,592
KEPPEL CORP LTD	631,882
MI LTD	28,805
SAKARI RESOURCES LTD	79,466
SEMBCORP INDUSTRIES	331,084
SEMBCORP MARINE LTD	135,518
SINGAPORE POST LTD	99,510
SINGAPORE TELECOMM	803,092
STARHUB LTD	102,880
YANGZIJIANG SHIPBUIL	190,892
<b>SINGAPORE TOTAL</b>	<b>3,573,558</b>
BANCO BILBAO VIZCAYA	608,241
BANCO DE SABADELL SA	119,424
BANCO POPULAR ESPANO	87,012
BANCO SANTANDER CENT	761,272
BANKINTER S.A	167,741
BCO ESP DE CREDITO	42,001
CAIXABANK	148,726
CORPORACION MAPFRE	201,095
ENAGAS SA	187,755
FERROVIAL SA	123,256
GESTEVISION TELE	100,557
INDRA SISTEMAS SA	188,011
RED ELECTRICA DE ESP	224,834
REPSOL YPF SA	510,964
TECNICAS REUNIDAS SA	33,052
TELEFONICA S.A.	687,943
<b>SPAIN TOTAL</b>	<b>4,191,883</b>
ATLAS COPCO AB-A SHS	372,664
AXFOOD AB	396,457
BILLERUD	57,064
BOLIDEN AB	269,581
ELECTROLUX AB-B	89,894
ERICSSON LM-B SHS	375,740
GETTINGE INDUSTRIER	226,852
HENNES & MARITZ AB-B	414,820
HOGANAS AB	147,976
INTRUM JUSTITIA AB	167,221
KINNEVIK INVESTMT AB	139,571
LUNDIN PETROLEUM AB	81,557
NORDEA BANK AB	372,096
SCANIA AB - B SHS	343,353
SKF AB-B SHARES	587,981
SVENSKA HANDLESBANK	248,583
TELE2 AB -B SHS	403,607
<b>SWEDEN TOTAL</b>	<b>4,695,017</b>
ABB LTD	1,131,174
ARYZTA AG	341,288
BALOISE- HOLDING AG	125,480



**Petroleum Fund of Timor-Leste**  
**Notes to the Financial Statements**  
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**17. Schedule of financial assets valued through profit and loss (continued)**

BOSSARD HOLDING AG-B	34,192
CREDIT SUISSE GROUP	400,057
EMMI AG-REG	14,298
HELVETIA HOLDINGS AG	92,434
NESTLE SA	2,436,778
NOVARTIS AG	1,737,970
PARGESA HOLDING SA-B	34,791
ROCHE HOLDINGS	2,533,927
SWISSCOM AG	193,290
SYNGENTA AG	513,875
UBS AG-REG	842,722
ZURICH FINANCIAL SVC	711,060
<b>SWITZERLAND TOTAL</b>	<b>11,143,338</b>

AEGON NV	148,515
AOT NV	166,874
ARCADIS NV	61,161
ASML HLDGS	499,649
BOSKALIS WESTMINSTER	374,007
FUGRO NV-CVA	319,131
ING GROEP	412,611
KENDRION NV	16,065
KONINKLIJKE DSM NV	529,024
SLIGRO FOOD GROUP	15,339
SNS REAAL	77,608
UNILEVER NV-CVA	916,929
<b>THE NETHERLANDS TOTAL</b>	<b>3,536,913</b>

3M CO	1,127,184
ABBOTT LABS COM NPV	1,943,482
ACE LTD	883,638
ADVANCE AUTO PARTS	313,155
AETNA US HEALTHCARE	506,280
AFLAC INC	813,288
AGREE REALTY CORP	53,438
ALASKA AIR GROUP INC	142,671
ALLIANCE RES PARTNER	279,609
ALLIED WORLD ASSURAN	207,570
ALLSTATE US 0.01	293,287
ALTERA CORP	229,958
ALTRIA GROUP INC.	151,266
AMAZON.COM INC	380,930
AMER FINL GROUP INC	346,766
AMERADA HESS CORP	522,560
AMERCO	35,284
AMERICAN CAPITAL AGE	120,701
AMERICAN ELEC POWER	487,458
AMERICAN EXPRESS CO	660,240
AMERICAN SAFETY INS	23,892
AMERICA'S CAR-MART I	105,732
AMERISOURCEBERGEN CP	613,140
AMGEN INC	982,413

**Petroleum Fund of Timor-Leste**  
**Notes to the Financial Statements**  
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**17. Schedule of financial assets valued through profit and loss (continued)**

AMPHENOL CORP	77,163
AMTRUST FINANCIAL SE	158,991
ANADARKO PETROLEUM	68,706
ANALOG DEVICES INC	336,144
ANNALY MORTGAGE MGMT	423,205
APACHE CORP	1,023,554
APOLLO GROUP INC	436,104
APPLE COMPUTER INC	6,115,349
APPLIED MATERIALS	339,190
ARBOR REALTY TRUST	21,420
ARCH CAPITAL GROUP	431,636
ARCH COAL INC	118,900
ARLINGTON ASSET INVE	51,072
ASCENA RETAIL GROUP	207,970
ASSURANT INC	209,406
ASSURED GUARANTY LTD	67,014
AT&T COMCAST CORP	298,746
AT&T INC.	2,727,963
AUTOLIV INC	90,933
AVX CORP	128,573
AZZ INC	140,802
BALL CORP	285,680
BANCFIRST CORP	22,440
BANK OF AMERICA	806,970
BANK OF KENTUCKY FIN	14,014
BANK OF NEW YORK MEL	109,450
BARD (CR) US 0.25	273,600
BAXTER INTL INC	647,795
BECTON DICKINSON+CO	762,246
BED BATH & BEYOND	260,865
BEMIS CO INC	150,450
BERKSHIRE HATH B SHS	198,406
BEST BUY COMPANY	292,000
BGC PARTNERS INC	152,401
BIGS LOTS INC	241,728
BIOGEN IDEC INC	506,230
BLOCK (H&R)INC	385,388
BMC SOFTWARE INC	458,780
BOEING CO	278,730
BOSTON BEER COMPANY	108,420
BP PRUDHOE BAY RT	57,000
BRIDGEPOINT EDUCATIO	190,568
BRINKER INTL INC	115,068
BRISTOL MYERS SQUIBB	1,468,674
BRISTOW GROUP INC	189,520
BROADRIDGE FINANCIAL	200,606
BROWN FORMAN CORP	152,988
CA INC	642,678
CACI INTL INC	296,164
CALAMOS ASSET MGMNT	97,500
CAPITAL ONE FINL	625,892
CAPSTEAD MORTGAGE CO	194,064

**Petroleum Fund of Timor-Leste**  
**Notes to the Financial Statements**  
**for the year ended 31 December 2011**

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

CAREER EDUCATION	134,862
CARIBOU COFFEE CO IN	73,935
CASH AMERICA INTL	228,536
CATERPILLAR INC	688,560
CATO CORP CLASS A	162,140
CEC ENTERTAINMENT	168,805
CELGENE CORP	114,903
CENTURYLINK INC	360,743
CF INDUSTRIES HLDGS	406,000
CHESAPEAKE ENERGY	541,647
CHEVRON CORP	3,828,240
CHIMERA INVEST CORP	94,627
CHUBB CORP	546,838
CIGNA CORP US 0.01	474,487
CIMAREX ENERGY	92,835
CISCO SYSTEMS	1,336,112
CITIGROUP INC.	1,535,862
CLEAN HARBORS INC	178,360
CLIFFS NATURAL RES	180,815
CLOROX CO	213,024
CLOUD PEAK ENERGY IN	249,099
CMS ENERGY US 0.01	68,510
CNO FINANCIAL GROUP	215,171
COACH INC	299,145
COCA-COLA CO	2,630,872
COGNIZANT TECH SOLUT	321,500
COINSTAR INC	200,772
COLGATE PALMOLIVE	1,015,850
COMMUNICATIONS SYSTE	22,384
COMTECH TELECOM CORP	163,134
CONOCOPHILIPS PETROL	1,858,440
CONSD EDISON CO NY	508,482
CONTENE CORP	281,231
CORNING INC	520,097
COSTCO WHOLESALE COR	491,529
COVANCE INC	45,750
CRAWFORD & CO-B	20,163
CSX CORP	785,538
CUMMINS INC	624,942
CVB FINANCIAL CORP	147,441
CVS/CAREMARK CORP	652,480
DARDEN RESTAURANTS	473,616
DARLING INTL INC	105,070
DAVITA INC	470,208
DEERE AND CO	889,525
DELL INC	631,584
DELPHI FINL GRP	270,474
DELUXE CORP	125,070
DENBURY RESOURCES	342,770
DEVON ENERGY CORP	843,336
DEVRY INC	330,842
DIAMOND OFFSHORE DRI	447,606

**Petroleum Fund of Timor-Leste**  
**Notes to the Financial Statements**  
**for the year ended 31 December 2011**

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

DIRECTV-CLASS A	149,660
DISCOVER FINANCIAL	381,441
DOLLAR TREE INC	199,464
DOMTAR CORP	135,966
DOVER CORP	598,018
DSW INC - CLASS A	181,138
DU PONT DE NEM	128,100
EASTMAN CHEMICAL	328,104
EMC CORP (MASS)	187,224
EMERSON ELECTRIC	386,697
ENERGEN CORP	309,814
ENTEGRIS INC	168,296
EQUIFAX INC	166,539
EXELON CORP	819,693
EXPRESS SCRIPTS INC	402,210
EXXON MOBIL CORP	6,791,336
FABRINET	71,136
FASTENAL	239,855
FBL FINANCIAL GROUP	71,421
FEDERATED INVESTOR	163,728
FIFTH THIRD BANCORP	602,454
FIRST COMMUNITY BANC	16,172
FLEXTRONICS INTL LTD	157,348
FLOWERS FOODS INC	241,740
FOREST LABS US 0.10	629,408
FRANKLIN RESOURCES	220,961
FREEMPORT-MCMOR C&G B	1,037,478
FRONTIER COMMUNICATI	48,830
GAP INC	363,776
GEN DYNAMICS CORP	776,997
GENERAL ELECTRIC CO	1,914,579
GENERAL MILLS INC	808,200
GEN-PROBE INC	65,032
GENUINE PARTS CO	189,627
GILEAD SCIENCES	904,553
GLOBAL PAYMENTS INC	118,500
GOLDMAN SACHS GROUP	949,725
GOOGLE INC - CL A	2,131,404
GRAINGER W W INC	262,066
GT ADVANCED TECHNOLO	76,744
GUESS? INC	157,834
HALLIBURTON CO	693,450
HARRIS CORP	461,312
HARTFORD FIN SERVICE	188,384
HECLA MINING CO	58,576
HEINZ (H.J.) CO.	750,878
HERBALIFE LTD	82,704
HEWLETT PACKARD CO	1,336,944
HICKORYTECH CORP	18,768
HILLENBRAND INC	227,562
HOME DEPOT INC	235,312
HONEYWELL INTL INC	157,528

**Petroleum Fund of Timor-Leste**  
**Notes to the Financial Statements**  
**for the year ended 31 December 2011**

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

HORACE MANN EDUCATORS	178,230
HORMEL FOODS CORP	319,152
HORNBECK OFFSHORE	89,929
HUBBELL INC	193,430
HUMANA INC	315,432
HUNTINGTON BANCSHARE	261,324
HUNTINGTON INGALLS	22,928
ILLINOIS TOOL WKS	714,204
INTEL CORP	2,361,950
INTERSECTIONS INC	47,515
INTL BANCSHARES CRP	177,801
INTL BUSINESS MACHIN	3,695,988
INVESCO MORTGAGE CAP	109,590
ITT CORP	218,542
ITT EDUCATIONAL SVS	216,106
J2 GLOBAL INC	230,666
JOHNSON & JOHNSON	3,329,940
JOS A BANK CLOTHIERS	199,916
JOY GLOBAL INC	134,946
JP MORGAN CHASE & CO	2,439,816
KEYCORP	409,108
KIMBERLY-CLARK CP	867,654
KLA TENCOR CORP	332,856
KOHL'S CORP	597,135
KRAFT FOODS INC A	388,440
KROGER CO	709,646
KULICKE & SOFFA INDS	155,400
L3 COMMUNICATIONS	173,368
LABORATORY CORP NEW	601,860
LAKELAND FINANCIAL C	113,784
LAM RESEARCH CORP	310,968
LENDER PROCESSING	164,045
LEXMARK INTL INC	324,086
LIFE PARTNERS HOLDIN	16,796
LILLY(ELI)& CO	1,263,120
LIMITED BRANDS INC	431,745
LINCOLN EDUCATIONAL	83,055
LINCOLN NATL CORP	353,444
LINEAR TECHNOLOGY	243,081
LOCKHEED MARTIN CORP	889,460
LORILLARD INC	820,440
LYONDELLBASELL INDU	246,848
M & T BANK CORP	381,700
MAIN STREET CAPITAL	131,440
MANTECH INTERNATIONAL	134,246
MARATHON OIL CORP	436,123
MARSH & MCLENNAN	382,602
MASTERCARD INC-CL A	186,450
MATTEL INC	452,488
MAXIM INTEGRATED	333,312
MAXIMUS INC	111,672
MCCORMICK & CO INC	272,160

**Petroleum Fund of Timor-Leste**  
**Notes to the Financial Statements**  
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**17. Schedule of financial assets valued through profit and loss (continued)**

MCDONALDS CORP	1,684,368
MCGRATH RENTCORP	63,756
MCGRAW HILL INC	570,992
MCKESSON CORP	303,693
MEADOWBROOK INSURANC	159,281
MEDTRONIC INC	1,273,392
MERCK & CO INC	1,552,828
METLIFE INC	966,580
METRO HEALTH	42,636
METTLER-TOLEDO INTER	132,984
MICROCHIP TECH	80,586
MICROSOFT CORP	3,569,500
MKS INSTRUMENTS INC	77,868
MOLEX INC	255,302
MOMENTA PHARMACEUTIC	105,957
MONSANTO CO	168,168
MORGAN STANLEY	623,356
MOSAIC CO/THE	297,537
MSC INDUSTRIAL DIR	78,716
MURPHY OIL CORP	601,992
NANOMETRICS INC	138,000
NATIONAL WESTERN LIF	13,504
NATURAL RESOURCE PAR	227,892
NEWMONT MINING CP	599,900
NEXTERA ENERGY INC	328,590
NIKE INC	558,946
NOBLE CORP	202,340
NORDSTROM INC	159,040
NORFOLK STHN CORP	750,458
NORTHROP CORP	257,312
OCCIDENTAL PETRLM	1,724,264
OMEGA PROTEIN	30,702
ORACLE SYSTEMS CORP	1,701,832
P G & E CORP	280,092
PALL CORP	114,260
PARKER-HANNIFIN CORP	495,690
PATTERSON - UTI	165,668
PENNYMAC MORTGAGE IN	141,185
PEPSICO INC	1,618,696
PETSMART INC	292,296
PFIZER INC	2,436,664
PHILADELPHIA SUBURB	138,915
PHILIP MORRIS INTERN	2,063,498
PLAINS ALL AMER PIPE	124,746
PNC FINANCE SERV GR	870,968
PORTLAND GENERAL ELE	136,620
PPG INDS INC	584,430
PPL CORPORATION	85,318
PRECISION CASTPARTS	362,516
PRESIDENTIAL LIFE	15,936
PRIMORIS SERVICES CO	162,519
PRINCIPAL FIN GRP	398,520

**Petroleum Fund of Timor-Leste**  
**Notes to the Financial Statements**  
**for the year ended 31 December 2011**

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

PROCTER & GAMBLE CO	2,253,108
PROTECTIVE LIFE CORP	200,784
PRUDENTIAL FINACIAL	571,368
PUBLIC STORAGE INC	389,934
QLOGIC CORP	271,319
QUALCOMM INC	1,005,928
QUEST DIAGNOSTICS	400,614
RALPH LAUREN CORP	179,556
RAYONIER INC	267,780
RAYTHEON COMPANY	348,408
RENT-A-CENTER INC	148,000
REPUBLIC BANCORP INC	36,496
ROCKWELL COLLINS	315,552
ROPER INDUSTRIES	156,348
ROSS STORES INC	256,662
RPC INC	107,675
RUTHS CHRIS STEAK	36,208
SAFEWAY INC	140,968
SAIC INC	387,135
SANDISK CORPORATION	172,200
SCHLUMBERGER	723,980
SCHNITZER STEEL IND	97,129
SEABOARD CORPORATION	113,738
SEACOR HOLDINGS INC	80,073
SIMON PROPERTY GROUP	464,184
SMUCKER (JM) CO	296,818
SOUTHERN CO	634,036
SOUTHSIDE BANCSHARES	88,806
SPARTAN STORES INC	212,290
ST JUDE MEDICAL	449,330
STANCORP FINANCIAL	190,944
STANDARD MOTOR PRD	90,225
STANDARD PARKING COR	23,153
STANDEX INTL CORP	68,320
STARBUCKS CORP	446,394
STARWOOD PROPERTY TR	160,950
STATE STREET CORP	76,570
STILLWATER MINING	53,346
STRAYER EDUCATION	213,862
STRYKER CORP	357,912
SUBURBAN PROPANE PRT	99,981
SYNAPTICS INC	105,455
T ROWE PRICE GR INC	153,684
TAL INTERNATIONAL GR	63,250
TARGET CORP	471,224
TEAM INC	74,275
TECHNE CORP	54,608
TELENAV INC	120,590
TELEPHONE & DATA SYS	111,284
TERADATA CORP	155,264
TERADYNE INC	219,121
TEXAS INSTRUMENTS IN	628,560

**Petroleum Fund of Timor-Leste**  
**Notes to the Financial Statements**  
**for the year ended 31 December 2011**

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

TEXTAINER GROUP HOLD	212,284
THE BUCKLE INC	228,928
THE WALT DISNEY CO	348,564
TIDEWATER INC	73,920
TIFFANY & CO	165,550
TIM HORTONS INC	174,312
TIME WARNER CABLE-WI	349,580
TIME WARNER INC	119,229
TJX COS INC	497,112
TOMPKINS FINANCIAL C	42,361
TORCHMARK CORP	104,136
TORO CO	97,072
TRACTOR SUPPLY CO	91,130
TRAVELERS COS INC	526,613
TRUSTCO BANK CORP NY	107,328
TRW AUTOMOTIVE HOLD	254,280
TUPPERWARE BRANDS CP	123,090
TYSON FOODS INC(DEL)	210,426
UNION PACIFIC CORP	985,242
UNITEDHEALTH GROUP	1,185,912
UNITIL CORPORATION	158,760
UNIVERSAL HEALTH	229,333
UNIVERSAL INSURANCE	15,265
UNIVERSAL TRAVEL GRP	28,045
UNUM GROUP	276,017
US BANCORP	132,545
US PHYSICAL THERAPY	47,112
UTD PARCEL SERVICE	819,504
UTD TECHNOLOGIES	1,351,980
VALMONT INDUSTRIES	281,356
VALUECLICK INC	205,128
VARIAN MEDICAL	248,344
VECTREN CORP	163,296
VERIZON COMM	2,084,680
VIRGINIA COMM BCORP	27,756
VISA INC-CLASS A SHS	355,390
VISHAY INTERTECH	117,638
VISTAPRINT NV	195,840
W&T OFFSHORE INC	178,080
W.P. CAREY & CO. LLC	90,068
WADDELL & REED FINAN	136,125
WAL MART STORES INC	2,299,605
WALGREEN CO	839,724
WARNACO GROUP INC	215,129
WATERS CORP	140,600
WEIS MARKETS INC	59,910
WELLPOINT HEALTH NET	198,780
WELLS FARGO CO	2,488,668
WESTAR ENERGY INC	74,854
WESTN DIGITAL CORP	389,970
WILEY(JOHN) & SONS	84,227
WINDSTREAM CORP	139,468



**Petroleum Fund of Timor-Leste  
Notes to the Financial Statements  
for the year ended 31 December 2011**

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

WOLVERINE WORLD WIDE	103,327
XCEL ENERGY INC	248,580
XILINX INC	208,260
YUM BRANDS INC	466,179
<b>UNITED STATES TOTAL</b>	<b>183,170,503</b>
<b>TOTAL EQUITIES</b>	<b>354,220,318</b>

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**(c) Derivatives**

<b>Security</b>	<b>Fair Value USD</b>
S&P500 EMINI	349,890
<b>TOTAL DERIVATIVES</b>	<b>349,890</b>

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The Petroleum Fund's overall exposure to price risk includes the futures derivative contracts notional exposure of \$13,401,750 (2010: Nil).

Equity securities are collated by Country. Individual security currencies may differ to the country currency.



República Democrática de Timor-Leste  
Ministério das Finanças  
Direcção-Geral de Finanças do Estado  
Direcção Nacional do Tesouro



*"Adem Conflito, Bemvindo Desenvolvimento"*

Dili, 30 June 2012  
Ofício n.º 17 / DNT /2012

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

Subject: Statement on accounting policy for Petroleum Fund the Fiscal Year 2011

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

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

Best Regards

Sara Lobo Brites

Director of Treasury

**Statement of comparison of income with last three years**  
**(As per Article 24.1 (e) of Petroleum Fund Law No. 12 / 2011)**

Please refer to the Income on statement of the Financial Statements for details.

(US dollars)

FY 2011	FY 2010	FY 2009
221,234,179	221,139,322	31,465,511

**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 (f) of Petroleum Fund Law No. 12 / 2011)**

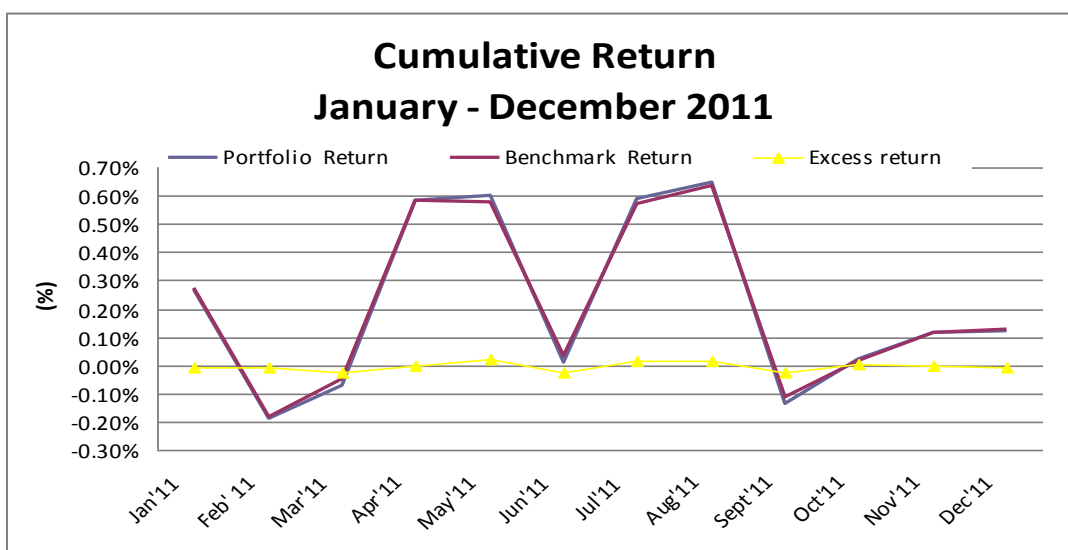
*The yield on the portfolio in the period is 0.03 per cent. The average coupon for the year of 2011 has been \$187.61 Million. The average yield to maturity of the investments made through the Financial Year 2011 has been estimated at 1.8 per cent.*

*During 2011 inflation in the USA was 3.0 % in which the real return of investment 2.83% minus 3.0 % of inflation resulted inflation decreased to -0.17.*

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

(As per Article 24.1 (g) of Petroleum Fund Law No. 12 / 2011)

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 2011

Period	Portfolio	Benchmark	Excess return
Jan'11	0.27%	0.27%	-0.01%
Feb' 11	-0.19%	-0.18%	-0.01%
Mar'11	-0.07%	-0.05%	-0.02%
Apr'11	0.58%	0.58%	0.00%
May'11	0.60%	0.58%	0.02%
Jun'11	0.01%	0.03%	-0.03%
Jul'11	0.59%	0.57%	0.02%
Aug'11	0.65%	0.63%	0.02%
Sept'11	-0.14%	-0.11%	-0.02%
Oct'11	0.02%	0.02%	0.01%
Nov'11	0.12%	0.12%	0.00%
Dec'11	0.12%	0.13%	-0.01%

**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 (h) of Petroleum Fund Law No. 12 / 2011)**

The total withdrawal from the Petroleum Fund for the financial Year 2011 has been 1,055,000,000 US dollars, which was 321,000,000 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.



República Democrática de Timor-Leste  
Ministério das Finanças  
Direcção-Geral de Finanças do Estado  
Direcção Nacional do Tesouro



*"Adeus Conflito, Bemvindo Desenvolvimento"*

Díli, 30 June 2012

Ofício n.º 08 / DNT / 2012

To,

Mr. Antonio Freitas,

Director General,

Policy Analysis and Research

Subject: Borrowings during the Fiscal Year 2011

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During the Fiscal Year 2011 from 1 January to 31 December 2011, there were no borrowings by the Government.

1

This may kindly be kept for record as required under the Petroleum Fund Law no 12/2011.

Best Regards



Sara Lobo Brites

Director of Treasury

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

### (As per Article 24.1 (j) of Petroleum Fund Law No. 12 / 2011)

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 the National Directorate of Treasury  
**Ms. Sara Lobo Brites**
- (iii) The members of the Investment Advisory Board

Name	Position
<b>Mr. Abraão Fernandes de Vasconcelos</b>	Governor of the Central Bank of Timor-Leste
<b>Mr. Kevin Bailey</b>	Principal and Private Client Adviser Shadforth Financial Group, Australia
<b>Mr. Olegário de Castro</b>	Special Adviser on Investments, Ministry of Finance
<b>Ms. Sara Lobo Brites</b>	Director of the National Directorate of Treasury
<b>Mr. Torres Trovik</b>	Adviser of the Petroleum Fund

- (iv) The External Investment Managers  
Bank of International Settlements (BIS) – 3 June 2009  
Schroder Investment Management (Schroder's) – 08 October 2010  
State Street Global Advisor (SSgA) – 14 September 2011 (implementation commence in January 2012)
- (v) The Governor of the Central Bank  
Mr. Abraão Fernandes de Vasconcelos  
Governor of the Central Bank of Timor-Leste



The Consultative Council was formally constituted 6 November 2006. For the Financial Year 2011 the members of the Consultative Council were:

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

## **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 2011**

On the basis of information provided by management we have compiled the attached list of aggregate amounts of payments made as Petroleum Fund Receipts for each Payer for the year ended 31 December 2011, in accordance with the International Standard on Related Services applicable to compilation engagements. The National Petroleum Authority and The National Directorate of Petroleum Tax Revenue 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.

Our procedures use accounting expertise to collect, classify and summarise the financial information, which Management provided, in compiling the financial statements. Our procedures do not include verification or validation procedures. No audit or review has been performed and accordingly no assurance is expressed.



DELOITTE TOUCHE TOHMATSU  
Chartered Accountants  
Darwin,  
30 June 2012

**PETROLEUM FUND 2011**  
**CAPITAL RECEIPTS COMPILATION**  
**12/31/2011**

**STATEMENT OF PETROLEUM FUND RECEIPTS FOR THE PERIOD 1 JANUARY TO 31 DECEMBER**  
**2011**

Payee	Receipt (US\$)
<b>Article 6.1(a) Receipts</b>	
Allomax Associates Limited	10,478
Amec Engineering Pty Ltd	181,348
AS Geoconsult Pty Ltd	145,406
AS Geoconsult Pty Ltd	3,775
Baker Hughes Australia Pty Ltd	304,568
Blue Services International Private Ltd	382,313
Brunel Energy Pty Ltd	106,653
Brunel Energy P/L	705
Bureau Veritas Asset (Intico Ptd Ltd)	12,157
Cape East Philippines Inc	79,631
Caterpillar of Australia Pty Ltd	5,637
Clough Amec JV (Amec Engineering Pty.Ltd. & C Engineering and Integrated S)	971,734
Compass Group (Australia Pty.Ltd.) (Eurest Servicos de Suporte Timor Leste) SA	53,816
Conoco Phillips (03-12) Pty.Ltd.	346,132,791
Conoco Phillips (03-13) Pty.Ltd.	71,047,681
Conoco Phillips (03-19) Pty.Ltd.	16,287
Conoco Phillips (Emet) Pty.Ltd.	11,239,310
Conoco Phillips (Timor Sea) Pty.Ltd.	94,418,369
Conoco Phillips (JPDA) Pty.Ltd.	178,477,943
Conoco Phillips	103,395
D Q Holdings Pty.Ltd.	8,914
Eni Timor Leste (PSC Area 1)	2,185,036
Eni JPDA (03-13) Ltd	143,670,678
Eni JPDA (06-105) Ltd	46,420,224
Expro Group Pty.Ltd.	27,732
Farstad Shipping (Indian Pacific) Pty.Ltd.	793,769
Fircroft Australia Pty Ltd (Code Engineering Services Pty Ltd)	843,178
FMC Technologies Australia Limited	284,088
Fugro Global Enviromental & Ocean Sciences Pty.Ltd.	1,021
Fircroft Australia Pty Ltd (Code Engineering Services Pty Ltd)	261,188
Geographe Energy Pty.Ltd.	271,870
Gulf Helicopter Company	13,471
Haliburton Australia Pty.Ltd.	374,382
Inpex Sahul Ltd	129,603,685
Timor Sea Ltd	17,494,253
Intervention Engineering Pty Ltd	18,846
Intervention Engineering Pty Ltd	29,751
Konnekto Unipessoal Lda	156,460
Konnekto Unipessoal Lda (Air Energy Group Singapore P/L)	75,330
Lloyd Offshore Helicopters Pty Ltd	691,685
M.I. Australia Pty.Ltd.	1,150
Minza Oil and Gas Ltd	11,766
Moduspec Australia Pty.Ltd.	2,894
Neptune Asset Integrity Services Pty Ltd	652,518

Oceaneering International AG	16,468
Offshore Marine Services Pty.Ltd.	8,170
Oil Tools International Pty.Ltd.	533,749
Oilex (JPDA 06-103) Ltd	337,406
Oleochem Project Management Ltd	4,636
Pae Singapore Pte.Ltd.	19,803
Peak Group Asia Pacific Pty Ltd	19,918
Peoplebank Australia Ltd.	232
Petronas Carigali SDN BHD	107
PGS Australia Pty.Ltd.	39,308
Reliance Exploration+ Production DMCC (Reliance Industries)	12,372
Reliance Exploration & Production DMCC (Reliance Industries Lda)	3,562,411
RPS Energy Pty.Ltd.	20,833
Saipem (Portugal) Comercio Maritimo (Sucursal Timor) SU LDA	64,926
Santos (JPDA 91-12) Pty Ltd	151,290,891
Sedco Forex International Inc (Aust)	2,667,103
SGS Australia Pty,Ltd	243,544
Skilled Group Ltd. (Prosafe international Pty.Ltd.)	208,966
Skilled Group Ltd.(Swan Contract Personnel Pty.Ltd.)	1,302
Solar Turbines International Co.	19,005
Solar Turbines International Co.	329,049
Spotless P and F Pty.Ltd.	140,644
Spotless P and F Pty.Ltd.	143,971
Survey Personnel Services Limited	1,400
Svitzer Asia Pte Ltd.	180,857
Svitzer Asia Pte Ltd (Riverwijs Offshore Marine Pty Ltd)	30,096
Talisman Oil Gas (Australia) Talisman Resources Pty.Ltd.	5,774,000
TCA Partners Pty.Ltd.	1,222
Tenaris Global Services Australia Pty.Ltd.	30,830
Tidewater Marine Australia Pty.Ltd.	314,108
Tokyo Timor Sea Resource P/L	117,886,546
Transocean Offshore International Ventures	600,272
Weatherford Australia Pty.Ltd.	100,975
Well OPS Sea Pty.Ltd.	259,206
Wood Group Energy Consultants Pty.Ltd.	810
Wood Group Production Facilities Darwin Pty.Ltd.	54,192
(Woodside Energy Ltd) Woodside Petroleum (Timor Sea 19) Pty Ltd	287,763
Worleyparsons Services P/L	94,458
<b>Total Article 6.1(a) receipts</b>	<b>1,332,889,432</b>
<b>Article 6.1(b) receipts</b>	
Authoridade Nacional Petroleo	1,900,759,459
<b>Total Article 6.1(b) receipts</b>	<b>1,900,759,459</b>
<b>Article 6.1(e) receipts</b>	
Annual Pipeline Fees	7,978,400
<b>Total Article 6.1(e) receipts</b>	<b>7,978,400</b>
<b>Total Petroleum Fund Receipts</b>	<b>3,241,627,291</b>

**PETROLEUM FUND TIMOR-LESTE**

**ADVICE PROVIDED BY**

**INVESTMENT ADVISORY BOARD (IAB)**

Strictly confidential in accordance with Article 32.2 (a) of the Petroleum Fund Law until the date the recommendations in this advice have been fully implemented

## Investment Advisory Board

Date: 14<sup>th</sup> March 2011

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

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**Subject: Review of the Petroleum Fund's Strategic Asset Allocation**

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In accordance with Article 16.1(a) of the Petroleum Fund law, the Investment Advisory Board has considered the Petroleum Fund's current asset allocation, and has determined that additional weight should be given to equities in the Petroleum Fund's global benchmark.

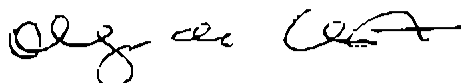
As a result of its considerations the Board advises that it would be appropriate to increase the current target exposure to global equities from 4% to 8%, with the new investment to be made in equity markets in developed countries. The 8% exposure to global equities is within the provisions of Article 14.2 of the Petroleum Fund law

Furthermore, the Board advises that the additional exposure should be managed passively so that returns will closely approximate the benchmark index. Although the proposed performance benchmark is the same as the existing equity mandate, the proposed investment style differs, so that the implementation of the new equity mandate will require the BPA to appoint a new external manager

In accordance with Article 16.1(h) of the Petroleum Fund law the Board annexes a suitable investment instruction to reflect its intentions.

Although it is proposed to fund the new mandate by reducing the size of the BPA mandate, the increase in asset allocation to global equities will require a reconstruction of the mandate currently managed by the Bank for International Settlements in order to maintain the 90% investment in Qualifying Instruments, as required by the Petroleum Fund law. The Board intends to provide advice on a new performance benchmark for the Bank for International Settlements in due course.

Yours sincerely



Olgario de Castro  
Investment Advisory Board  
Chairman

**Strictly confidential in accordance with Article 32.2 (a) of the Petroleum Fund Law until the date the recommendations in this advice have been fully implemented.**

Annex: **Equity Mandate**

### **Investment Universe**

All securities in the benchmark index.

### **Benchmark**

MSCI World Index Net Dividends Reinvested. Ticker NDDUWI.

### **Base Currency**

United States Dollars. By default the portfolio should remain unhedged in respect of its currency exposures.

### **Tracking Error**

The ex ante tracking error of the portfolio in comparison with the benchmark shall be less than 35 basis points. The tracking error shall be reviewed at the end of each month, and if it should exceed 35 basis points, the Manager shall reduce the tracking error within 30 days.

### **Management Style**

Passive Indexing

### **Derivatives**

The use of equity index futures and currency forwards is permitted, 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 this 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 Investment Guidelines are observed.

### **Cash Exposure**

The maximum limit on cash is 5% subject to an allowance for trade failures and margins on derivatives. This limit excludes cash used to back derivative positions.

The counterparties with whom cash deposits are held or that issue securities held for cash management purposes shall be rated Aa3 or higher by Moodys or AA- or higher by Standard and Poors.

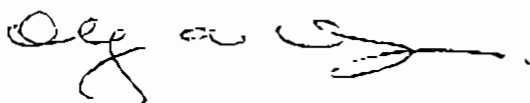
### **Other Terms and Conditions**

The assets shall be managed in a separate account.

Stock lending is not permitted.

Short selling is not permitted.

Gearing or leveraging the portfolio is not permitted.



Strictly confidential in accordance with Art. 32.2 (b) (iv) of the Petroleum Fund Law.

## Investment Advisory Board

Date: 19 May 2011

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

---

**Subject: Advice on the BPA's proposal to appoint a transition panel for the Petroleum Fund**

---

As requested by Your Excellency's letter dated 6 May 2011, the Investment Advisory Board (IAB) has reviewed the proposal from the Banking and Payments Authority (BPA) dated 31 March 2011 to engage a transition panel for the Petroleum Fund of Timor-Leste. The Panel comprises the following three transition managers, who may be required to manage assets of the Petroleum Fund on an interim basis:

Russell Investment Group Pte Ltd

- State Street Global Markets
- Citigroup Global Markets Australia Pty Ltd

According to Article 12.2 of the Petroleum Fund Law, the Central Bank may select and appoint external Investment Managers only if the Minister is satisfied that:

- a) the external Investment Manager is a legal person with sufficient equity capital and adequate guarantees and insurances against operational risks;
- b) the external Investment Manager has a sound record of operational and financial performance; and
- c) the references and reputation of the external Investment Manager in the field of fund management are of the highest standard.

It is the IAB's opinion that the stipulations in Article 12.2 of the Petroleum Fund Law are fulfilled by each of the proposed managers. The Board also notes that the BPA has followed due process in accordance with article 12.3 of the Petroleum Fund Law.

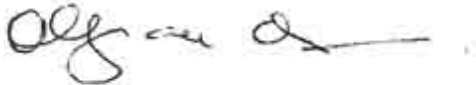
The IAB therefore advises Your Excellency to approve the proposal put forward by the BPA.





**Strictly confidential in accordance with Art. 32.2 (b) (iv) of the Petroleum Fund Law.**

Yours sincerely

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

Olgario de Castro  
Investment Advisory Board  
Chairman

Strictly confidential in accordance with Article 32.2 (d) of the Petroleum Fund Law until the date as the recommendations in this advice have been fully implemented.

## Investment Advisory Board

Date: 4 August 2011

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

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**Subject: Review of the Petroleum Fund's Strategic Asset Allocation - New BIS Mandate**

---

In accordance with Article 16.1(a) of the Petroleum Fund law, and as signaled in letter from IAB to the Minister on 14 March, the Investment Advisory Board has considered the mandate of Bank of International Settlements (BIS). The review, which also has benefitted from comments from Towers Watson, BIS and the Ministry of Finance in Norway, makes the main proposals:

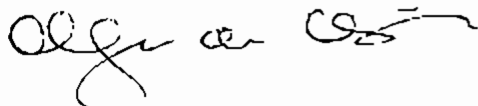
1. Limiting the BIS investment universe to the qualifying instruments in Article 15 of the Petroleum Fund law.
2. Increasing the duration of the BIS benchmark.

The rationale for the first proposal is to make room for the new equity mandate. The rationale for the second proposal is to improve returns without increasing risks unduly.

The Board has resolved that the BIS should be given a new mandate with the 5-10 year US Treasury index as the benchmark, with the same risk parameters as the existing mandate.

In accordance with Article 16.1(b) of the Petroleum Fund law the Board annexes a suitable global benchmark to reflect its intentions.

Yours sincerely



Olgario de Castro  
Investment Advisory Board  
Chairman

Strictly confidential in accordance with Article 32.2 (d) of the Petroleum Fund Law until the date as the recommendations in this advice have been fully implemented.

## 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. Equity Instruments meeting the conditions in Article 14 of the Petroleum Fund Law	No more than 5%

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

The Fixed Income External manager 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.

Strictly confidential in accordance with Article 32.2 (d) of the Petroleum Fund Law until the date as the recommendations in this advice have been fully implemented.

## B. Sub mandates

### MANDATE 1

---

<b>Manager</b>	Banking & Payments Authority of Timor-Leste
<b>Allocation</b>	74-78% of the value of the Fund, excluding amounts held for cash management purposes.
<b>Benchmark</b>	Merrill Lynch US Government Bond 0-5 years index
<b>Eligible instruments</b>	US Government fixed interest instruments
<b>Objective</b>	<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

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<b>Manager</b>	Bank for International Settlements
<b>Allocation</b>	19-21% of the value of the Fund, excluding amounts held for cash management purposes.
<b>Benchmark</b>	Bank of America Merrill Lynch 5-10 Year US Treasury Notes and Bonds Index ("G6O2")
<b>Eligible instruments</b>	The BIS may invest the portfolio in qualifying instruments as defined in Article 15.1 of the Petroleum Fund Law.
<b>Objective</b>	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.



Strictly confidential in accordance with Article 32.2 (d) of the Petroleum Fund Law until the date as the recommendations in this advice have been fully implemented.

### MANDATE 3

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<b>Manager</b>	Schroder Investment Management
<b>Allocation</b>	3-5% of the value of the Fund, excluding amounts held for cash management purposes.
<b>Benchmark</b>	MSCI World Index Net Dividends Reinvested.
<b>Eligible instruments</b>	Developed Markets Equity Universe as defined by MSCI, Equity Index Futures and Currency Forwards.
<b>Objective</b>	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.



Strictly confidential in accordance with Article 32.2 (d) of the Petroleum Fund Law until the date as the recommendations in this advice have been fully implemented.

## Investment Advisory Board

Date: 14 September 2011

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

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**Subject: Advice on appointing an equity manager for the Petroleum Fund**


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As requested by Your Excellency's letter dated 23 August 2011, the Investment Advisory Board (IAB) has reviewed the proposal from the Banking and Payments Authority (BPA) dated 12 August 2011 to engage State Street Global Advisors as the external manager for the indexed global equity mandate described in the Board's letter of advice dated 14 March 2011.

The IAB has reviewed the BPA's proposal and concluded that State Street Global Advisors meets the stipulations in Article 12.2 of the Petroleum Fund Law. The Board also notes that the BPA has completed a due process undertaken in accordance with article 12.4 of the Petroleum Fund Law.

The IAB therefore advises Your Excellency to approve the BPA's proposal to appoint State Street Global Advisors as an external manager to manage the global equity mandate for the Petroleum Fund.

Yours sincerely



Olgaia de Castro  
Investment Advisory Board  
Chairman

**Strictly confidential in accordance with Article 32.2 (d) of the Petroleum Fund Law until the date as the recommendations in this advice have been fully implemented.**

## Investment Advisory Board

Date: 07 October 2011

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

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**Subject: Proposal for signing a Memorandum of Understanding between Ministry of Finance of Timor-Leste and LGT Group Foundation**

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The Board would like to thank Your Excellency for seeking the Board's opinion on the proposal for the signing of Memorandum of Understanding (MOU) between Ministry of Finance of Timor-Leste and LGT Group Foundation in Your Excellency's letter dated 07 October 2011.

The Board noted the intention of the Memorandum of Understanding is to encourage cooperation and facilitate transfer of technical know-how and exchange of experiences. The Board also noted the possible visit of the Chairman of the LGT Group Foundation when the proposed MOU is expected to be signed by both parties.

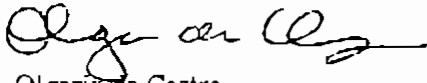
On this basis, the Board would like to draw Your Excellency's attention on the following:

1. The Memorandum of Understanding should not create any legally binding obligations for the Minister of Finance or Operational Manager to conduct due diligence on any third party, or require any party to do anything and therefore should only reflect the spirit of cooperation between the parties
2. The Memorandum of Understanding signed should respect the Petroleum Fund Law Article 12, which designates responsibility for hiring External Fund Managers to the Operational Manager and sets out procedures for appointing an external manager and Articles 14 and 15 regarding the investment policy and strategy of the Fund which is subject to rules and procedures that cannot be over-ruled by an MOU.
3. The Memorandum of Understanding should not place an obligation on the Operational Manager to conduct any form of due diligence or enquiry outside of whatever actions they may choose to perform by themselves in their ordinary conduct of business.



The Board has drafted a suitable text for the Memorandum of Understanding for Your Excellency to consider.

Yours sincerely



Olgario de Castro  
Investment Advisory Board  
Chairman

Attachment.

Draft Revised Memorandum of Understanding between Ministry of Finance of Timor-Leste and LGI Group Foundation.



## MEMORANDUM OF UNDERSTANDING

This memorandum of understanding ("MOU") is made and entered into as of this DD day of MM, 2011 by and between:

1. the Ministry of Finance ("MOF") of Timor-Leste, which is responsible for the overall management and investment strategy of the Petroleum Fund; and
2. LGT Group Foundation, a Foundation established in Liechtenstein, being the sole shareholder of LGT Bank in Liechtenstein and other related entities engaged in banking and financial services ("LGT")

The purpose of this MOU is to enable cooperation and strengthen the business relationship for mutual benefit between the parties, being MOF and LGT and related corporations (including subsidiaries and affiliates) (collectively the "LGT Group") to the extent that both parties would find it beneficial.

Subject to discussions and specific documentation between the parties and/or relevant representatives, being a Timor-Leste institution and/or a member of the LGT Group, the parties may wish to:

- (1) The parties may discuss the setting up of a framework and programme to enable nominated representatives from a Timor-Leste Institution to participate from time to time in an attachment/training programme at the LGT Group. The parties may exchange ideas from time to time, if it in the best interests of both parties.
- (2) subject to discussions, MOF may from time to time initiate and collaborate with LGT on joint investment activities;
- (3) on a best efforts basis, LGT shall, at the request of the MOF assist in the review and evaluation of future investment opportunities contemplated by a Timor-Leste Institution.

This MOU contains only the basic understanding of the parties and shall not be binding upon the parties. This MOU may be terminated by written notice sent by one party to the other without any liability to either party. Termination of the MOU shall take effect within 7 days from the date of such written notice.

This MOU creates no obligation for Timor-Leste financial institutions to conduct any form of due diligence or evaluation of investment programs, products or investment capability. LGT may, subject to the normal legal requirements and processes of its financial institutions be included in evaluation activities conducted by the institutions or agents on their behalf.



The parties hereto have caused this Memorandum of Understanding to be executed as of the date indicated above by their duly authorized representatives.

**The Government of Timor-Leste**

By: \_\_\_\_\_ -

Name: H.E. Ms Emilia Pires

Title: Minister of Finance

**LGT Group Foundation           XXX**

By: \_\_\_\_\_

Name: S.D. S.D. Prinz Philipp

von und zu Liechtenstein

Title: Member Foundation Board

By: \_\_\_\_\_

Name: Mr Felix Barrientos

Title: Power of Attorney



Strictly confidential in accordance with Article 32.2 (d) of the Petroleum Fund Law until the date as the recommendations in this advice have been fully implemented.

## Investment Advisory Board

Date: 07 October 2011

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

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**Subject: Review of the Petroleum Fund's Strategic Asset Allocation - Restructuring BCTL Mandate**

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In accordance with Article 16.1(a) of the Petroleum Fund law the Investment Advisory Board has reviewed the US Treasury Note portion of the Petroleum Fund's fixed interest portfolio, managed by the Central Bank of Timor-Leste (BCTL). The review identified three main points:

1. Restructuring the mandate should take into consideration the likely short to medium term need for cash when increasing the allocation to equities or other securities.
2. The current shape of the yield curve suggests an environment that may give rise to higher expected return without unduly increasing the risk.
3. A longer duration bond portfolio has better diversifying properties coupled with equities than a shorter-term bond portfolio.

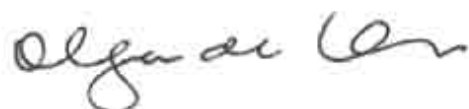
Based on this background, the Board has resolved that the BCTL should be given two mandates.

First, a US Treasury Note mandate for 40% of the Petroleum Fund benchmarked to the 3-5 year US Treasury index, with the same risk and other parameters as the existing 0-5 year US Treasury mandate.

Second, a short duration mandate for the balance of the Fund not otherwise invested in specific mandates (the "cash" mandate, cf. point 1 above) benchmarked to the 1-3 year US Treasury index.

In accordance with Article 16.1(b) of the Petroleum Fund law the Board has reviewed the global benchmark and attaches a benchmark that reflects its intentions.

Yours sincerely



Olgario de Castro  
Investment Advisory Board  
Chairman

Strictly confidential in accordance with Article 32.2 (d) of the Petroleum Fund Law until the date as the recommendations in this advice have been fully implemented.

## 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 Central Bank of Timor-Leste 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 four benchmarks as follows:

- 40 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
- 36 per cent of the benchmark defined under Mandate 4

#### *Eligible Instruments*

Asset Class	Allocation
A. Qualifying Fixed Interest Investments under Article 15.1 of the Petroleum Fund Law	Up to 100%
B. Equity Instruments meeting the conditions in Article 14 of the Petroleum Fund Law	No more than 5%

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

The Fixed Income External manager 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.

Strictly confidential in accordance with Article 32.2 (d) of the Petroleum Fund Law until the date as the recommendations in this advice have been fully implemented.

## B. Sub mandates

### MANDATE 1

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<b>Manager</b>	Banco Central de Timor-Leste (Core US treasury mandate)
<b>Allocation</b>	38-42% of the value of the Fund, excluding amounts held for cash management purposes.
<b>Benchmark</b>	Merrill Lynch US Government Bond 3-5 years index
<b>Eligible instruments</b>	US Government fixed interest instruments
<b>Objective</b>	<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

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<b>Manager</b>	Bank for International Settlements
<b>Allocation</b>	19-21% of the value of the Fund, excluding amounts held for cash management purposes.
<b>Benchmark</b>	Bank of America Merrill Lynch 5-10 Year US Treasury Notes and Bonds Index ("G602")
<b>Eligible instruments</b>	The BIS may invest the portfolio in qualifying instruments as defined in Article 15.1 of the Petroleum Fund Law.
<b>Objective</b>	<p>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.</p>



Strictly confidential in accordance with Article 32.2 (d) of the Petroleum Fund Law until the date as the recommendations in this advice have been fully implemented.

### MANDATE 3

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<b>Manager</b>	Schroder Investment Management
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<b>Allocation</b>	3-5% of the value of the Fund, excluding amounts held for cash management purposes.
<b>Benchmark</b>	MSCI World Index Net Dividends Reinvested.
<b>Eligible instruments</b>	Developed Markets Equity Universe as defined by MSCI, Equity Index Futures and Currency Forwards.
<b>Objective</b>	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.

### MANDATE 4

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<b>Manager</b>	Banco Central de Timor-Leste (Liquidity Mandate)
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<b>Allocation</b>	34-38% of the value of the Fund, excluding amounts held for cash management purposes.
<b>Benchmark</b>	Merrill Lynch US Government Bond 1-3 years index
<b>Eligible instruments</b>	US Government fixed interest instruments
<b>Objective</b>	<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>



**Strictly confidential in accordance with Article 32.2 (d) of the Petroleum Fund Law until the date as the recommendations in this advice have been fully implemented.**

### **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: 12 December 2011

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

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**Subject: Review of the Strategic Asset Allocation – short-term plan to increase the share of equities in the Petroleum Fund**

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In accordance with article 16.1(a) of the Petroleum Fund Law, the Investment Advisory Board has considered the implementation of the Government's new investment policy as recently enacted in amendments to the Petroleum Fund law.

The Board advises that the exposure to global developed markets equities should be increased to 20% as a first priority. This allocation will form the core of the future equity portfolio. Due to benefits of diversification the volatility is only expected to increase from 2.6% to 3.9%, which IAB considers to be acceptable. The additional equity exposure should be passively managed so that returns will closely approximate the benchmark index.

The Board notes the need to prudently manage the risks associated with increasing the Fund's exposure to equities, particularly market timing risk but also recognizing the practical implementation procedures. On this basis the Board advises that the equity portion of the global benchmark should be increased to 8% by the end of December 2011 (through the previously advised appointment of State Street Global Advisors), and 2% per month thereafter until the 20% exposure is reached at the end of June 2012. The effect on the Fund's global mandate during the transition period is shown in Annex 1.

The Board recommends that the Central Bank should fund the equity exposure in bi-monthly tranches in order to further reduce the market timing risk and to utilize the cash flows of the Fund.

The Board's timetable builds on the manager selection process already undertaken. State Street Global Advisors has already been approved to passively manage a developed market equity mandate. The investment manager tendering process for this mandate also gave two qualified runners-up; cf. proposal from BPA of 11 August 2011.

The Board advises that the target equity portfolio of 20% of the Fund should have a 5% allocation to Schroder Investment Management with the balance being allocated equally to passive MSCI World mandates managed by State Street Global Advisors and a new manager. Annex 2 contains a guideline showing how the Board's advice may be implemented.





**Strictly confidential in accordance with Art. 32.2 (b) (iv) of the Petroleum Fund Law.**

The IAB has commenced work on preparing investment benchmarks for the Fund in order to increase the overall equity exposure from 20% to 40% with the intention that implementation of this second stage begins in July 2012.

Yours sincerely



Olgario de Castro  
Investment Advisory Board  
Chairman

Attachments:

Annex 1 - Evolution of Petroleum Fund Global Benchmark, December 2011 to June 2012

Annex 2: Equity Implementation Guidelines, December 2011 to June 2012

Strictly confidential in accordance with Art. 32.2 (b) (iv) of the Petroleum Fund Law.

**Annex 1: Evolution of Petroleum Fund Global Benchmark, December 2011 to June 2012**

	MSCI World	BoA Merrill Lynch 1-3 year Treasury	BoA Merrill Lynch 3-5 year Treasury	BoA Merrill Lynch 5-10 year Treasury
Current	4	36	40	20
31 Dec 2011	8	32	40	20
31 Jan 2012	10	30	40	20
29 Feb 2012	12	28	40	20
31 Mar 2012	14	26	40	20
30 Apr 2012	16	23	40	20
31 May 2012	18	22	40	20
30 Jun 2012	20	20	40	20



Strictly confidential in accordance with Art. 32.2 (b) (iv) of the Petroleum Fund Law.

**Annex 2: Equity Implementation Guidelines, December 2011 to June 2012**

Target date	New equity tranche (% of Fund)	Cumulative exposure to equities	Manager
15 Dec 2011	2%	6%	State Street
31 Dec 2011	2%	8%	State Street
15 Jan 2012	1%	9%	State Street
31 Jan 2012	1%	10%	Schroders
15 Feb 2012	1%	11%	State Street
29 Feb 2012	1.5%	12.5%	State Street
31 Mar 2012	1.5%	14%	New Manager*
15 Apr 2012	1%	15%	New Manager
30 Apr 2012	1%	16%	New Manager
15 May 2012	1%	17%	New Manager
31 May 2012	1%	18%	New Manager
15 Jun 2012	1%	19%	New Manager
30 Jun 2012	1%	20%	New Manager

\* If New Manager appointment is not ready on time, State Street may be funded and the excess over 7.5% migrated to the New Manager.



## IMPLEMENTATION OF THE SANTIAGO PRINCIPLES

Based on the “Santiago Principles<sup>1</sup>”, the Petroleum Fund governance model is one of high degree of transparency and disclosure of information. This helps build public support for wise management of petroleum revenues and reduces the risk of bad governance. *Transparency* ensures that information can be used to measure the authorities' performance and also guards against any possible misuse of powers. One of the fundamental elements of the Fund's governance structure is that no one person or institution is responsible for making and implementing investment decisions, because each party is formally accountable to another for their role in the decision-making process. This degree of transparency serves to encourage *consensus* and enable *accountability*, which means authorities and whoever handles public money can be held responsible for their actions.

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"> <li>• Legal Framework: <ul style="list-style-type: none"> <li>○ Amended Petroleum Fund Law (Law no. 12/2011)</li> <li>○ Operational Management Agreement (12 October 2005) with later amendments</li> </ul> </li> <li>• Annual Reports: <ul style="list-style-type: none"> <li>○ Petroleum Fund Annual Report (MoF)</li> </ul> </li> <li>• Quarterly Reports: <ul style="list-style-type: none"> <li>○ Petroleum Fund Quarterly Reports (BCTL)</li> <li>○ Petroleum Fund Monthly Reports (BCTL)</li> </ul> </li> <li>• Investment Advisory Board: <ul style="list-style-type: none"> <li>○ Minutes</li> <li>○ Statement of Investment Beliefs and Principles</li> </ul> </li> </ul> <p><a href="http://www.mof.gov.tl/budget-spending/petroleum-fund/?lang=en">http://www.mof.gov.tl/budget-spending/petroleum-fund/?lang=en</a></p> <p><a href="http://www.bancocentral.tl/PF/laws.asp">http://www.bancocentral.tl/PF/laws.asp</a></p>
<p>2. The policy purpose of the SWF should be clearly defined and publicly disclosed.</p>	<p><b>Amended Petroleum Fund Law Preamble:</b></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</p>

<sup>1</sup> 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.

	<p>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 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><b>Amended Petroleum Fund Law Preamble, Article 7, 8, 9 and Schedule 1:</b></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><b>Amended Petroleum Fund Law Articles 6-9, 13, 23:</b></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 BCTL.</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><a href="http://www.mof.gov.tl/category/documents-and-forms/petroleum-fund-documents/eiti-documents/?lang=en">http://www.mof.gov.tl/category/documents-and-forms/petroleum-fund-documents/eiti-documents/?lang=en</a></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><b>Budget and Financial Management Law, Amended Petroleum Fund Law Articles 13, 23 and 36:</b></p> <ul style="list-style-type: none"> <li>• General Budget statements (MoF)</li> <li>• Annual reports (MoF)</li> <li>• Independent Auditor Report (Deloitte)</li> <li>• Quarterly reports (BCTL)</li> <li>• Monthly reports (BCTL)</li> </ul>
<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</p>	<p><b>Amended Petroleum Fund Law Articles 11 and 12, Operational Management Agreement:</b></p> <p>The roles and the responsibilities of the Government,</p>

<p>management of the SWF to pursue its objectives.</p>	<p>as the asset owner, and the BCTL, as the asset manager, and the Investment Advisory Board (IAB), 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 BCTL.</p> <p><a href="http://www.bancocentral.tl/PF/laws.asp">http://www.bancocentral.tl/PF/laws.asp</a></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><b>Amended Petroleum Fund Law Preamble, Articles 11, 12, 16, 17, 25 and 26:</b></p> <p>The objective of the Fund is detailed in the legislation. In addition to mandating the BCTL as operational manager of the Fund, the legislation also defines the IAB and the Petroleum Fund Consultative Committee (PFCC).</p> <p>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><a href="http://www.mof.gov.tl/wp-content/uploads/2011/11/IAB_Investment_Beliefs_and_Principles.pdf">http://www.mof.gov.tl/wp-content/uploads/2011/11/IAB_Investment_Beliefs_and_Principles.pdf</a></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><b>Amended Petroleum Fund Law Articles 16, 17, 25 and 26:</b></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, role, and authority of PFCC, laid out in the legislation, safeguard the proper management of the Fund. By law, members of the PFCC are required to have significant experience in 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><b><i>Amended Petroleum Fund Law Articles 11 and 12, Operational Management Agreement. BCTL founding law:</i></b></p> <p>The role and responsibility of the operational manager are clearly defined in the legislation and further detailed in the Management Agreement. The BCTL has statutory legal, operational, administrative, and financial autonomy from any other person or entity, including the government to enable it to fulfill its operational management responsibilities in an independent manner.</p> <p><a href="http://www.banccentral.tl/en/statutes.asp">http://www.banccentral.tl/en/statutes.asp</a></p>
<p>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>	<p><b><i>Amended Petroleum Fund Law Articles 11-13, 19, 23,24 Operational Management Agreement:</i></b></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>
<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>	<p><b><i>Amended Petroleum Fund Law Articles 21, 23 and 24:</i></b></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>
<p>12. The SWF's operations and financial statements should be audited annually in accordance with recognized international or national auditing</p>	<p><b><i>Amended Petroleum Fund Law Article 21, 22 and 34:</i></b></p> <p>The accounts, records and other documents relating to the Petroleum Fund are required to be audited every</p>

standards in a consistent manner.	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.
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><b>Amended Petroleum Fund Law Articles 16 and 17:</b></p> <p>The amended Law requires the members of the IAB 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> <p>All staff of the Operational Manager is bound by the BCTL's Code of Ethics which forms part of each individual's employment contract.</p> <p><a href="http://www.bancocentral.tl/en/cconduct.asp">http://www.bancocentral.tl/en/cconduct.asp</a></p>
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.	<p><b>Amended Petroleum Fund Law Articles 12, 14 and 15:</b></p> <p>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.</p>
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.	<p><b>Amended Petroleum Fund Law Article 14:</b></p> <p>The amended Law 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.</p>
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.	<p><b>Amended Petroleum Fund Law Articles 11-13, 16, 17, 23, 24, 25 and 26, Operational Management Agreement:</b></p> <p>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</p>



	<p>the Petroleum Fund Annual Report. The framework clearly establishes the roles, independence and accountability arrangements between the entities.</p>
<p>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.</p>	<p><b>Amended Petroleum Fund Law Articles 13, 23, 24 and 36:</b></p> <p>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.</p>
<p>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.</p> <p>18.1. The investment policy should guide the SWF's financial risk exposures and the possible use of leverage.</p> <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><b>Amended Petroleum Fund Law Articles 2, 11-15:</b></p> <p>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 amended Law 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 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 amended Law 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><a href="http://www.bancocentral.tl/PF/laws.asp">http://www.bancocentral.tl/PF/laws.asp</a></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</p>	<p><b>Amended Petroleum Fund Law Articles 11, 12 and 14:</b></p> <p>The Executive's obligation to seek to maximize risk-adjusted financial returns is established in the</p>

<p>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>legislation, 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 amended Law.</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><b>Amended Petroleum Fund Law Article 14:</b></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 disclose its general approach to voting securities of listed entities, including the key factors guiding its exercise of ownership rights.</p>	<p>A policy on shareholder ownership rights has not been established. In the absence of a formal policy being adopted, voting decisions are determined on the basis of the ISS proxy voting guidelines.</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><b>Amended Petroleum Fund Law Article 14:</b></p> <p>The amended Law 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><b>Amended Petroleum Fund Law Article 13:</b></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</p>

	and report their investment results. The GIPS standards promote transparency, ethics and best practice. The amended Law requires GIPS to be the designated basis for performance reporting.
24. A process of regular review of the implementation of the GAPP should be engaged in by or on behalf of the SWF.	The first review was done in 2010. This second review takes into account changes made to the amended Petroleum Fund Law. The Fund intends review its implementation of GAPP annually.

**Democratic Republic of Timor-Leste**  
**Ministry of Finance**

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