

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

**Cabinet
Vice-Minister**

Date, February 21, 2019

**Presentation to the National Parliament of the Rules and Criteria for
selection, management and evaluation of investments provided for in article
15.4(b) of Law no. 9/2005, of 3 August**

Your Excellency - President of the National Parliament;
Your Excellencies - Vice Presidents, Secretariat and Vice Secretaries of the National Parliament;
Your Excellencies - Ladies and gentlemen of all the political benches;
Excellencies Dear Colleagues, Members of the VIII Constitutional Government;
Distinguished Guests;
Ladies and gentlemen,

I have the honor, as Deputy Minister of Finance and acting Finance Minister and, as a consequence, as the member of the Government responsible for the overall management of the Petroleum Fund, to present to you the Rules and Criteria for selection, management and evaluation of the investment which the Fund will carry out through the Timor Gap, EP, with the acquisition of the interests of the oil companies Connoco Phillips (sic) and Shell in the Greater Sunrise Field.

The conditions of these acquisitions as well as the benefits which would accrue to the future economic development of the country were previously widely disseminated and are therefore well known to Your Excellencies.

As acting Finance Minister, it is my task to make known to the National Parliament the rules and criteria that I propose to approve in order to frame the relationship that the Central Bank, the Fund's operational manager, shall contract with the Timor Gap, the company to which will be attributed the specific management of this portion of the Fund's investment, as provided for in Article 15.4 of the Petroleum Fund Law and in paragraph 6 (sic) of the Petroleum Activities Law.

Thus, under Article 14.1 of the Petroleum Fund Law, it is incumbent upon me, as the acting Finance Minister, to establish the Fund's investment policy, that the Central Bank and managers of the Fund must comply with.

This policy should, in accordance with Article 14.5, be submitted by the Finance Minister to the National Parliament by means of a summary, together with the Annual Report of the Petroleum Fund or before taking any decisions involving changes in the allocation of the principal assets.

As Your Excellencies are aware, through Law No. 1/2019 of 18 January, amendments were made to Law no. 13/2005, of 2 September, (the "Petroleum Activities Law") which, inter alia, provides in Article 22.6 that:

The Petroleum Fund may be invested directly in Petroleum Operations, in the national territory or abroad, through the execution of commercial transactions, through TIMOR GAP, EP, under the terms set forth in article 15.4 of Law No. 9/2005, of 3 August, republished by Law no. 12/2011, of 23 September.

This new provision allows the State of Timor-Leste to use the Petroleum Fund to invest in petroleum operations, including through the financing of the acquisition by the State (through TIMOR GAP, EP or its subsidiaries) of participatory interests in the Greater Sunrise project, and in the development of this project. This investment will enable the State of Timor-Leste to advance with the development of this important and significant petroleum project, generating numerous financial, economic and social benefits for the People of Timor-Leste and allowing the diversification and development of the national economy.

A 5% allocation for "Other Eligible Investments" will be introduced in the allocation of assets from the Petroleum Fund. The percentage of variable income securities, namely shares will be reduced from 40% to 35% of the value of the Fund, while the allocation to bank deposits and debt instruments (namely, bonds) will remain the same. The management agreement between the Ministry of Finance and the BCTL will be revised to reflect the new investment.

This investment should be carried out as soon as possible, so as not only to accelerate the discussions for the development of the project but also to avoid the State having to pay contractual penalties for delays in concluding the transaction.

Thus, having reached the moment of operationalizing the aforementioned amendment to the Petroleum Activities Law, allowing payment to be made and concluding the transaction to acquire participatory interests in Greater Sunrise, I am standing before Your Excellencies to present a proposal to amend the Petroleum Fund's investment policy, with the view of Timor-Leste State investment in Petroleum Operations, as required by Article 15.4(a) of the Petroleum Fund Law and Article 22.6 of the Petroleum Activities Law.

According to the approved criteria, the investments made, as provided for in article 22.6 of the Petroleum Activities Law, must obey the following rules and criteria:

A. RULES

1. Create a new class of investments in the Petroleum Fund that will be called Other eligible investments, as provided for in article 15.4 of the Petroleum Fund Law, with a view to implementing the amendment of the Petroleum Activities Law;
2. This class of investment shall be considered as a single investment class and shall be included in the 5% of the Petroleum Fund provided for in article 15.4 of the Petroleum Fund Law;
3. The Petroleum Fund may invest through TIMOR GAP, directly or through its wholly-owned subsidiaries, in the form of interest-bearing debt instruments to finance the investment in Petroleum Operations, under the terms permitted by the Petroleum Activities Law.

B. CRITERIA

Selection

1. Investment of the Petroleum Fund through TIMOR GAP (directly or through its wholly-owned subsidiaries) shall be subject to terms agreed with the Operational Manager of the Petroleum Fund, the Central Bank of Timor-Leste.
2. TIMOR GAP shall use the value of the investment made by the Petroleum Fund to invest in Petroleum Operations satisfying the following criteria:
 - a) Assets resulting from the investment in Petroleum Operations must be held by commercial companies 100% owned by TIMOR GAP and therefore owned, indirectly and in full, by the State of Timor-Leste;

- b) The assets referred to in the previous paragraph must correspond to participatory interests in areas of petroleum exploration in which commercial discoveries of crude oil and/or natural gas have been made;
- c) The Petroleum Fund investment in Petroleum Operations shall, in accordance with duly substantiated technical studies, present an internal rate of return in accordance with the petroleum industry standards for investments of the same nature;
- d) The investment is expected to contribute to the development and diversification of the national economy through:
 - i. The creation of employment opportunities and qualified professional training for national workers;
 - ii. Creation of business opportunities for national suppliers of goods and services, or those registered in national territory;
 - iii. Contribution to the development and transmission of knowledge for national citizens and entities;
 - iv. Development of industrial activities and productive infrastructure;
- e) In view of the specific nature of the investment and its objectives, the remuneration from the investment of the Petroleum Fund through TIMOR GAP shall be set by agreement between TIMOR GAP and the Central Bank of Timor-Leste at a rate of 4.5% per annum;

Management

- 1. TIMOR GAP, as investment manager, must invest in petroleum operations prudently and in accordance with the best practices of the petroleum industry and conforming to the agreement to be concluded with the Operational Manager of the Petroleum Fund, the Central Bank of Timor-Leste;
- 2. The Central Bank of Timor-Leste and the Ministry of Finance may periodically inspect and request audits of the use of their investment;

Evaluation and reporting

- 1. Investment under other eligible investments, in accordance with article 15.4 of Law no. 9/2005, of 3 August, shall be evaluated by the BCTL as Operational Manager and included in the in the Accounts and Registries of the Petroleum Fund, as established in the Petroleum Fund Law;
- 2. TIMOR GAP shall prepare annual reports on the results of investments made in Petroleum Operations, within [90] days after the end of each calendar year;
- 3. From the date of the start of production from the Petroleum Operations, TIMOR GAP shall submit to the Central Bank of Timor-Leste an annual report on the performance of the investment, under the terms to be provided in the agreement with the Central Bank of Timor-Leste and other applicable legislation.

That's all I need to report.

Thank you