



Annual Report

2011

Table of Contents

I. Our Strategic Goals and Values	7
II. Organization Structure	8
2.1 Board of Directors.....	8
2.2. Single Auditor.....	9
2.3. Management Committee Meeting (MCM)	9
III. Joint Commission and Sunrise Commission.....	9
IV. Major Achievements in 2011	11
V. Administration and Organizational Development	13
5.1 Internal Audit	13
5.2 Institutional Development.....	13
5.2.1 Policies and Procedures	13
5.2.2 Human Resources Development	14
5.2.2.1 Staff Recruitment	14
5.2.2.2 Training and Employment	15
5.2.3. Procurement and Financial Statement.....	17
VI. Petroleum Exploration and Exploitation (Operators activities)	20
6.1. Exploration.....	21
6.1.1. TLEA (Timor-Leste Exclusive Area)	21
6.1.1.1 PSC S06-02 – PSC S06-05(Blocks B, C, E and H)	21
6.1.1.2. S06-06 (Block-K).....	22
6.1.2. JPDA (Joint Petroleum Development Area)	23
6.1.2.1. JPDA 06-101(A) (MINZA)	23
6.1.2.2. PSC JPDA 06-103.....	23
6.1.2.3. PSC JPDA 06-105.....	24

6.2	Development and Production	25
6.2.1	PSC JPDA 03-19 and 03-20, Greater Sunrise Field	25
6.2.2.	PSC JPDA 03-12 and 03-13, Bayu Undan Field	25
6.2.3.	PSC JPDA 06-105, Kitan Field.....	32
VII	Regulatory Performance	34
7.1	PSC Administration and Acreage Promotion	34
7.1.1.	PSC Administration	34
7.1.1.1	PSCs S06-01, S06-02, S06-03, S06-04, S06-05 (Blocks A, B, C, E, H)-Eni TL	34
7.1.1.2.	PSC S 06-06- Reliance.....	35
7.1.1.3	JPDA 06-101(A)-MINZA Oil Ltd.....	35
7.1.1.4	JPDA 06-103 (Oilex).....	35
7.1.1.5	Eni JPDA 06-105	35
7.1.2	Acreage Promotion	36
7.1.2.3	Pre-qualification guidelines and Bidding guidelines	37
7.2.	Inspections and Supervisions.....	38
7.2.5	HSE Activities	42
7.2.6	Commercial Audit.....	45
7.3	Local Content Development	45
7.3.1	Eni JPDA 06-105 Pty Ltd – Kitan Field	45
7.3.1.1	National Library Project	46
7.3.2	Eni TL SpA – PSCs S06-02, S06-03, S06-04, S06-05, TLEA	47
7.3.3.	Minza 06-101A	48
7.3.4.	Bayu – Undan 03-12 & 03-13.....	48
7.4.1	Downstream Decree-Law and Regulations.....	50
7.4.1.1	Downstream Decree-Law.....	50

7.4.1.2. Downstream Regulations	51
7.4.2. JPDA and TLEA Technical Regulations, and PSC Model Reviews	51
7.4.2.1. JPDA and TLEA Technical Regulations	51
7.4.2.2. Production Sharing Contract (PSC) Model Reviews	52
VIII.ANP Social Activities	53
Annexure 1 ANP 2011 Financial Report by Lochan & Co Audit Firm	54

List of Figures

FIGURE 1 ORGANIZATION STRUCTURE	8
FIGURE 2 PRESS CONFERENCE AND CELEBRATION FOR KITAN PRODUCTION.....	11
FIGURE 3 SOCIALIZATION OF DL	12
FIGURE 4 MAP SHOWING PSCS PORTFOLIO DURING THE PERIOD OF 2011	20
FIGURE 5 SAIPEM 10000 DRILL SHIP ON THE COVA-1 WELL SITE	21
FIGURE 6 DRILLSHIP DEEP WATER FRONTIER ON SERA-TLK-A1 WELL LOCATION	22
FIGURE 7 SEISMIC VESSEL CONDUCTING 3D SEISMIC SURVEY(LEFT) AND THE CURRENT SEISMIC DATA COVERAGE(RIGHT).....	24
FIGURE 8 TECTONIC ELEMENTS MAP WITH PSC JPDA 06-105, WELL LOCATIONS, OIL AND GAS FIELDS	24
FIGURE 9 TOTAL LIQUID AND WATER PRODUCTION	25
FIGURE 10 TOTAL EXPORTED GAS	26
FIGURE 11 2011 ANNUAL BU HEALTH AND SAFETY STATISTICS IN PIE CHART	27
FIGURE 12 2011 BU MONTHLY SAFETY STATISTIC	27
FIGURE 13 2011 BU FLARING	28
FIGURE 14 BAYU UNDAN FLARING SINCE 2005	28
FIGURE 15 2011 BU VENTING.....	29
FIGURE 16 BAYU UNDAN VENTING SINCE 2005.....	29
FIGURE 17 PERCENTAGES OF THE BU CONDENSATE BUYERS	30
FIGURE 18 REVENUE RECEIVED FROM BU LPG IN 2011	31
FIGURE 19 TOTAL ACTUAL RECEIPT OF FTP AND PROFIT GAS FROM LNG SOLD UNDER THE LONG TERM CONTRACT IN 2011.....	32
FIGURE 20 KITAN DAILY PRODUCTION PERFORMANCE MONITORING	32
FIGURE 21 KITAN 2011 FLARING	34
FIGURE 22 ANP IN THE 2011 WORLD FRONTIER EXPLORATIONS CONGRESS, HELD IN LONDON, UK ON DEC 13 – 15, 2011. ..	37
FIGURE 23 ANP IN THE DEEP WATER EXPLORATIONS IN KUALA LUMPUR AND PERTH, 16 TH ASIA OIL WEEK, 2011.	37
FIGURE 24 ANP'S INSPECTION ON WET COMMISSIONING SYSTEM 505 FPSO GD IN SINGAPORE	39
FIGURE 25 ANP INSPECTORS ON THE BU FSO FACILITY	41
FIGURE 26 ANP INSPECTOR OBSERVED KITAN-5 WELL TESTING AND CLEAN UP	42
FIGURE 27 HSE INSPECTION ON KITAN FPSO.....	44

List of Tables

TABLE 1 APPROVED CORPORATE POLICY AND PROCEDURES IN 2011	14
TABLE 2 DETAILS OF TRAININGS, WORKSHOPS AND PROFESSIONAL DEVELOPMENTS	16
TABLE 3 DETAILS OF THE INTERNSHIP AT THE ANP DURING 2011	17
TABLE 4 DETAILS OF SUCCESSFUL COMPANIES FOR 2011 ANP PROCUREMENT	18
TABLE 5 ANP'S AUDITED FINANCIAL STATEMENT FOR 2011.....	19
TABLE 6 SUMMARY OF TL EMPLOYMENT - KITAN PROJECT (AS AT SEPTEMBER 2011)	46
TABLE 7 TL EMPLOYMENT FOR THE BU PROJECT	48

Message from the President

To Whom It May Concern,

On behalf of the Board of Directors, Management Committee, and all ANP staff, I am pleased to present to you the 2011 Annual report of the Autoridade Nacional do Petróleo (ANP) Timor-Leste.

This annual report highlights updates on petroleum activities pertaining to the ANP's jurisdictions. These include the petroleum activities in the Exclusive Timor Leste areas, and in the Joint Petroleum Development Area. Additionally, it also presents updates on the ANP's activities both as a petroleum regulatory body and as an institution which includes continuous development of corporate related policies and procedures, HR Development for employees and the continuous development and establishment of petroleum legal framework required for the ANP's jurisdictional areas. This report has been prepared in such a way that oil companies activities are separated from the authority's functions, providing better understanding on the roles and functions from each of the two parties.

The year 2011 passed with significant challenges which brought ANP to achieve some important milestones highlighted in the way it exercised its petroleum regulatory functions. After all the hurdles involving document reviews, inspections, auditing, discussions with various stakeholders which by large served as a great learning experience, the ANP actively participated in the whole phases leading to the witnessing of the first production of the KITAN oil field in October, 2011. Further, the finalization of the draft Downstream Decree Law for the reviews and approval at the Council of Ministers in the same month of the year was a big relieve, considering the lengthy time involved in preparing the law which became the first of its kind to be implemented in Timor-Leste since its independence.

We hope that this report provides sufficient updates on the way in which the petroleum activities are undertaken in Timor-Leste Exclusive Areas and in the Joint Petroleum Development Area in the Timor Sea, and the way in which ANP as a petroleum regulatory authority undertakes its active roles in accordance with its mandate. Despite of the experiences gained, the ANP is committed to continuous learning and improvement to better serve all stakeholders in various respective interests. With that in mind, all constructive inputs and thoughts are mostly appreciated and welcomed for clear and friendly used reports in the years to come.

Sincerely,


Gualdino da Silva

I. Our Strategic Goals and Values

- **Vision**

To be a leading petroleum regulatory authority in the region and a model for institutional development in Timor-Leste

- **Mission**

- To maximize revenue and multiply economic benefits;
- To maximize the participation of Timor-Leste in the development of its petroleum sector;
- To promote best Health, Safety and Environmental practices;
- To develop the institutional capacity of the Timor-Leste petroleum sector

- **Our Values**

Collaboration	To conduct efficient and effective collaboration among (i) ANP's internal Directorates, and (ii) with its key stakeholders.
Openness	Openness, honesty and transparency — underpinned by a culture of trust and respect.
Unity	ANP promotes and displays a high degree of teamwork and integration amongst its employees and Directorates. Whilst appreciating and respecting the cultural and intellectual diversity of the individuals that works within it, the ANP is united in its ambition to become a world class organisation in Timor-Leste.
Responsibility	As true leaders, ANP team members take full responsibility for the results of their actions.
Accountability	ANP and its team members are fully accountable for their ethical standards, behaviour and performance — at all times. Furthermore, the ANP is accountable to the Governments of Timor-Leste. In performing the task in the JPDA ANP is accountable for Timor-Leste and Australia, acting on behalf of both countries.
Global View	Whilst operations for the ANP reside in Timor-Leste, its view is a global one. It works with and coordinates activities with operators that are multi-national in nature, size and scope.
Excellence	In line with developing a world class organisation, the ANP believes in excellence — in everything that it does.

- **Goals**

- Ensure that petroleum resources are effectively explored, developed, managed and regulated;
- Ensure that economic benefits are delivered to the contracting states;
- Maximize employment opportunities for Timor-Leste nationals;
- Develop organizational excellence;
- Promote and ensure best HSE practices;
- Regulate all downstream petroleum activities in Timor-Leste;
- Maximize economic activities of petroleum sector in Timor-Leste

II. Organization Structure

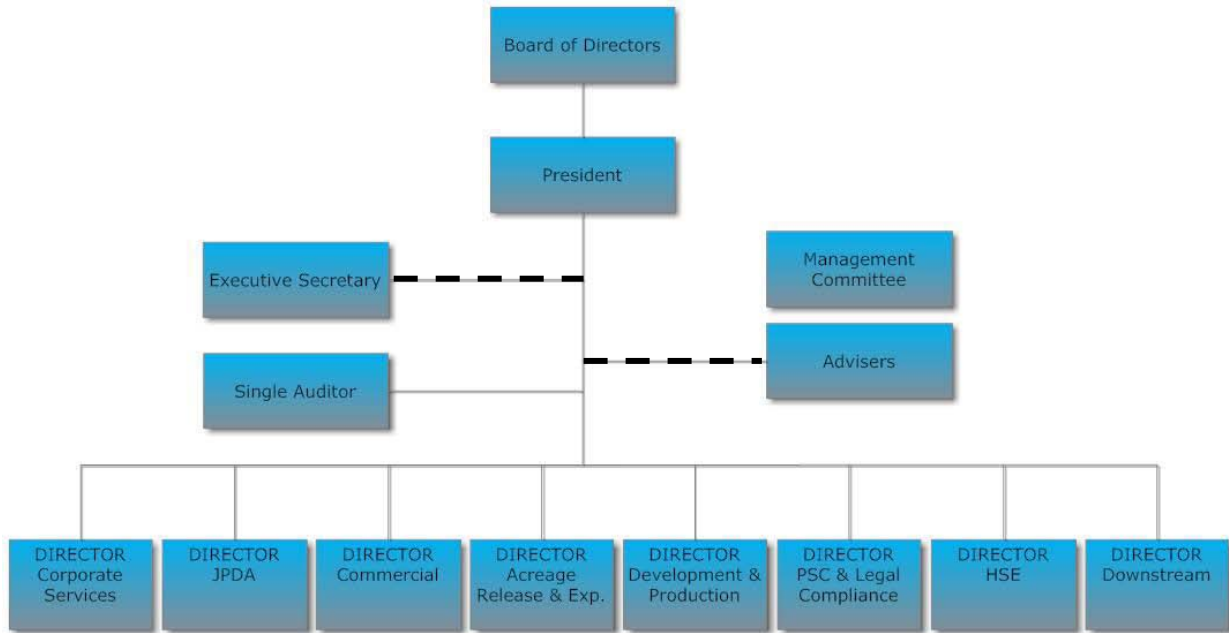


Figure 1 Organization Structure

By the end of FY 2011, the ANP had 69 employees. Several new employees were recruited throughout 2011 to execute function foreseen in the approved organization structure.

The activities of each of the organs within the ANP structure in 2011 are provided as below:

2.1 Board of Directors

The ANP's Board of Directors is the highest body in the organization responsible for defining directions and policies. In doing so, the board is responsible for approving corporate policies, strategic plans, technical regulations and directives required under the Petroleum Act; and approving the ANP's consolidated work plan and budget as prescribed under Article 7 of the Decree-Law no 20/2008.

a. Members of the ANP 's Board of Directors(BoDs):

Following is the list of the BoD Members for 2011:

- 1) Gualdino do Carmo da Silva – Chair
- 2) Francisco da Costa Monteiro, Member – Non-Executive
- 3) Vicente Pinto, Member - Non-Executive
- 4) Nelson de Jesus- Member-Executive
- 5) Jose Goncalves- Member-Executive

b. There were three (3) meetings conducted during 2011. Those meetings were conducted on the following days:

1. 21st March 2011; 20th Board of Directors' Meeting
2. 9th May, 2011;- 21st Board of Directors' Meeting
3. 9th August, 2011; 22nd Board of Directors' Meeting

2.2. Single Auditor

The functions of the Single Auditor are provided under Article 14 of the Decree Law on the establishment of the ANP, Law no 20/2008. The Single Auditor is the organ responsible for monitoring legality, regularity, and proper financial and patrimonial management of the ANP. Highlights of activities carried out by the Single Auditor during FY 2011 are provided under subchapter 5.1. Of this report.

Throughout this reporting period Ms. Cipriana Sousa is the head of the Single Auditor Department at the ANP.

2.3. Management Committee Meeting (MCM)

Management Committee Meeting is the meeting consists of all the executive directors, chaired by the President. The MCM is held at least once a month to address operational matters. The Committee also addresses regulatory or petroleum projects related subject which required further decision by either the Board, the Joint commission, or by the Sunrise Commission respectively depending on the types of projects or issues.

a. Following is the list of the MCM members for 2011:

- 1) Mr. Gualdino do Carmo da Silva, Chair
- 2) Mr. Jose Manuel Goncalves, JPDA Director
- 3) Mr. Emanuel Angelo Lay, Commercial Director
- 4) Mr. Rui Soares, Development and Production Director
- 5) Mr. Mateus da Costa, Acreage Release and Exploration Director
- 6) Ms. Verawati Corte Real de Oliveira, HSE Director
- 7) Mr. Nelson De Jesus, Downstream Director
- 8) Mr. Dionisio Martins, Corporate Services Director

III. Joint Commission and Sunrise Commission

In addition to the internal Structure as provided under chapter 2 of this report the ANP also, in respect of managing petroleum activities in the Joint Petroleum Development Area(JPDA) in the Timor Sea in accordance with the Timor Sea Treaty and all other relevant Treaties, participated in both Joint Commission and the Sunrise Commission Meetings throughout 2011.

a. Timor Sea Joint Commission Members

Following are the Timor Sea Treaty Joint Commission Members and the alternates for year 2011.

Timor-Leste Commissioners

Mr. Francisco da Costa Monteiro - Timor-Leste

Mr. Antonio Loyola - Timor-Leste

Mr. John Hartwell – Australia, (*)

Ms. Tania Constable

(*). *Note, Mr. Hartwell served his term until March 2011, and was further succeeded by Ms. Constable in the same month.*

Alternate Commissioners

Mr. Vicente Lacerda - Timor-Leste

Mr. Domingos Lequi Siga - Timor-Leste

Mr. Martin Squire - Australia

b. Timor Sea Treaty Joint Commission Meeting

There were 3 Joint Commission Meetings held for the Joint Petroleum Development Area (JPDA) in 2011,

- 29th March 2011; 30th Joint Commission Meeting in Dili, Timor-Leste
- 26th July 2011; 31st Joint Commission Meeting in Cairns, Australia
- 21st and 22nd November 2011; 32nd Joint Commission Meeting in Dili, Timor-Leste

c. 2011 Timor Sea Treaty Joint Commission Meeting major resolutions, amongst others, were:

- Approval of ANP 2011 Work Program and Budget
- Approval of Bayu Undan Abandonment and Decommissioning Cost Reserve
- Approval of Bayu Undan interest on delayed profit oil payment

Sunrise Commission

This Commission is established in accordance with Article 9 of the International Unitization Agreement (IUA) between the Government of RDTL and Australia.

Members of the Sunrise Commission in 2011 are provided as follows:

Mr. Francisco da Costa Monteiro (Timor-Leste)

Mr. John Hartwell (Australia)(*)

Ms. Tania Constable (Australia)(*)

Mr. Hugh Borrowman

(*). Note, Mr. Hartwell served his term until March 2011, and was further succeeded by Ms. Constable in the same month.

Alternate Commissioners were:
Mr. Vicente Lacerda (Timor-Leste)
Mr. Martin Squire (Australia)

Sunrise Commission Meetings

There were two Sunrise Commission Meetings held in 2011. Those meetings were:

- 8th Sunrise Commission meeting in Cairns, Australia
- 9th Sunrise Commission meeting in Dili, Timor-Leste

IV. Major Achievements in 2011

- ***Kitan First Oil***



Figure 2 Press Conference and Celebration for KITAN Production

On 11th April, 2008, the contract operator, Eni JPDA 06-105 Pty Ltd, declared Kitan field as a commercial discovery and ANP then subsequently declared the Kitan development area, on 18th May 2008. In accordance with the

PSC for the field, the operator submitted the Kitan FDP one year after the declaration of the development area, May 2009. The ANP undertook extensive assessments, discussions, and necessary inspections throughout the period, giving rise to the approval of the plan in May 2010. On 11th October 2011, the facility launched its first production and its first oil offtake in the subsequent fortnight. KITAN field produced as forecasted at around forty thousand barrels daily by the end of 2011.

Kitan field is located at a water depth of 305m to 335m, North West of the existing Gas Condensate field, Bayu Undan. The field has an oil density of 59^o API and the reservoir is at depth of 3,300 metres subsea. Using the Mid Case scenario (Most Likely Scenario), the Kitan field was estimated to contain 86.9 Million Stock Tank Barrels (Mstb) of Oil Initially in Place (STTOIP), with a recovery factor of 42.5%, indicating an ultimate recovery of up to 36.9 Mstb.

With due regards to OHSE requirements, Kitan field opens a new opportunity for employment and training for nationals or permanent residents of Timor Leste. Eni JPDA 06-105 Pty Ltd, in addition to the successful production of the KITAN, continues to explore means to further explore the potentials of the remaining block.

- ***Approval of Downstream Decree Law***



Figure 3 Socialization of DL

The Council of Ministers of the RDTL granted its approval to the draft Downstream Decree Law in October 2011. The approved Decree Law was further submitted for the promulgation of the President of RDTL in late 2011.

Downstream Decree Law is the first law of its kind ever established in Timor - Leste to regulate the Downstream Petroleum Sector ranging from Supply, Storage, Transportation, Processing, Trading, and Marketing of the petroleum products. The law granted the ANP rights and obligations to issue Downstream Business Licenses, conduct inspections to downstream petroleum facilities, and to issue administrative sanctions.

Following the promulgation of the Law by the RDTL President, the ANP will continue to establish all technical and administrative regulations foreseen under article seven of the said law. The ANP also is prepared to undertake a series of visits to all districts socializing the law to the public.

V. Administration and Organizational Development

5.1 *Internal Audit*

Upon the approval of Internal Audit Strategic Plan in 2010, the Single Auditor started to implement the plan on annual basis.

In due respect to other planned activities and resources available within the Single Auditor Department three internal audit projects were executed; JPDA directorate, Corporate Finance department, and the IT department.

As part of the ongoing capacity building program, various trainings and seminars were identified and attended, including:

1. Payroll system and Time Attendance Machine
2. Production Sharing Contract (PSC) Master class
3. IFRS for Professional Accountants and Auditors
4. Operation Auditing
5. Intensive English Course for Audit Officer

In addition to the execution of the said audits projects, the Single Auditor unit was also regularly providing advice and reviews on the system of internal control on monthly basis.

5.2 *Institutional Development*

5.2.1 Policies and Procedures

There was one ANP corporate policy approved by the Board of Directors in 2011. This policy sets out the basis for all administration works within the ANP.

Further, to ensure that the established corporate policies, including administration policy, are effectively implemented, a number of procedures were also finalized during the reporting year.

Following are the approved corporate policy and procedures in 2011.

Code	Name of Policies	Status
ANP/06/01/001	Administration Policy	Approved
ANP/06/01/002	Maintain ANP Office Stationary Procedure	Approved
ANP/06//01/003	Business Card Order Procedure	Approved
ANP/06/01/004	Kitchen Supply Order Procedure	Approved
ANP/14/02/002	Procurement Procedure	Approved
ANP/07/03/004	Managing ANP Petty Cash Procedure	Approved
ANP/07/01/004	Withholding of Tax to Non Residents Procedure	Approved
ANP/07/01/006	Withholding Tax Payment Procedure	Approved
ANP/05/06/005	Online Leave Application Procedure	Approved
ANP/05/06/006	Attendance Machine Procedure	Approved

Table 1 Approved corporate policy and procedures in 2011

5.2.2 Human Resources Development

As part of its strategic plan, ANP invested significantly in the capacity development for its employees. Details of the Human Resources Development for the ANP staff are highlighted under the following subheadings:

5.2.2.1 Staff Recruitment

As activities increase, new recruitments were also carried out to gradually fill up vacant positions. Through Training and Human Resources Department, the ANP recruited 9 new staff in 2011. Recruitments were made to the following vacant positions:

- Director - Health, Safety, and Environment
- Gas Marketing and Revenue Management Assistant
- Metering Assistant
- Gas Marketing and Revenue Management
- Payroll Officer
- Database Officer
- Supply Chain and Procurement Officer
- Public Relation Officer
- Metering Assistant.

5.2.2.2 Training and Employment

The ANP committed to developing competency of its staff through means such as training, conferences, secondment, workshop and professional development. Throughout 2011, ANP staffs were exposed to different trainings, workshops and professional developments in their respective areas of expertise to better perform at workplace. Detail of trainings, workshops and professional developments are provided in the following table.

No	Types of Training	Venues
1	Certificate in Business Skill	Dili, Timor Leste
2	English Language Training <ul style="list-style-type: none"> ➤ Intermediate (Level 6) ➤ Upper-Intermediate (7) ➤ Upper-Intermediate (8) 	
3	Fundamental of Procurement for Oil and Gas	
4	Basic First Aid training	
1	Payroll System & Time Attendance Machine	Sydney, Australia
2	Time Management	Jakarta, Indonesia
3	Negotiation & Dispute Resolution	KL - Malaysia
4	Setting Up Training and Development Process & working with different Personalities	Singapore
5	Financial Accounting, Audit and Taxation	Darwin - Australia
6	Ethical Hacker Certified for Security Analyst	KL - Malaysia
7	Stop the data Leaks and Secure the Code	KL- Malaysia
8	Information Technology Infrastructure Library	Jakarta - Indonesia
9	IFRS for Professional Accountants and Auditors	Hong Kong
10	Microsoft Office 2010 Basic to Advance Level	Jakarta - Indonesia
11	Mastering International Oil and Gas Accounting	Singapore
12	Human Resource Development	Tokyo - Japan
13	Ms. Access 2010 - Basic Level	Jakarta - Indonesia
14	Procurement Fraud Master Class	Jakarta - Indonesia
15	Leadership and Management Skill	Jakarta - Indonesia
16	International Financial Report System for Oil and Gas , Application of key standard and Update	KL - Malaysia
17	Fundamental of LPG Market (13 Jun) & Asia LPG Seminar (14-15 Jun)	Singapore
18	Review the LPG and Condensate Market (COP office)	Singapore
19	Leadership Management	Jakarta - Indonesia
20	English for Business Purposes	Brisbane - Australia
21	English for Business and IT	Adelaide - Australia

22	Exploration & Production Business Simulation	KL - Malaysia
23	Geological Operation	Perth - Australia
24	Reservoir Engineering (Secondment)	Perth - Australia
25	Production Engineering (Secondment)	Perth - Australia
26	Principle and Practices of Flow Measurement	Glasgow - UK
27	Drilling and Completion Programme(Secondment)	Perth - Australia
28	Classic Exploration & Reservoir Sedimentology	KL - Malaysia
29	Well Intervention and Productivity	KL - Malaysia
30	6th LNG World Conference	Perth - Australia
31	Drilling and Completion Programme (Secondment)	Perth - Australia
32	8 Weeks Petrad Course (Secondment)	Stavanger - Norway
33	International Gas Business	Bali - Indonesia
34	Verifying Fuel Dispenser	Adelaide - Australia
35	Petroleum Marketing and Oil Terminal (Secondment)	Osaka, Japan
36	International Technical Certificate in Oil & Gas operational safety	Bandung - Indonesia
37	International Petroleum Contracts and Practice in Negotiation	KL - Malaysia
38	Environmental Management for Refinery	Osaka, Japan
39	Risk Analysis and Incident Analysis	Singapore
40	Asset Integrity Management Summit	KL - Malaysia
41	Effective Time, Task & Work Planning Enhancing Key Skill toward Effective Administration	KL - Malaysia
42	Production Sharing Contract Master Class	KL - Malaysia
43	Legal issue of Oil and Gas & Gender Focus (Secondment)	Stavanger - Norway
44	Principles of Procedure for Negotiating, Drafting and Managing Oil & Gas contract	KL - Malaysia
45	Operating Auditing	KL - Malaysia
46	English for Business and IT studies	Adelaide - Australia

Table 2 Details of trainings, workshops and professional developments

In addition to own staff training and employment, the ANP also accommodated Timorese national students and graduates on internship programs in various identified areas, originated from both local and foreign universities.

Below are details of the internship at the ANP during 2011:

Internship Students Program		Types of Internship
1	Universitas Pembangunan Veteran Nasional (UPN), Yogyakarta	Final year - Environmental Engineering
2	Universidade da Paz (UNPAZ), Dili	Final Year - Management Studies focusing on Corporate Finance
3	Dili Institute of Technology (DIT), Dili	Final year - Petroleum Management Studies
4	Graduate Internship Program (GIP) Five TL graduates from Indonesia and one from Hawaii, USA.	Professional Exposure to the fields of Petroleum Geosciences, Petroleum Engineering & Environmental

Table 3 Details of the internship at the ANP during 2011

5.2.3. Procurement and Financial Statement

2011 Procurement

During 2011, the ANP through Corporate Services Directorate – Corporate Resource Management (CRM) section conducted several procurements for goods and services based on the ANP work Program and Budget. Details of successful companies and the respective services provided to ANP are listed in the below table.

Item No	Description	Contract Fees (USD)	Successful Company
Consultant Services			
1	External Financial Audit	\$ 25,000.00	Merit & Partners
2	Sunrise Resources Review	\$ 50,000.00	AGR - Tracs
4	Lafaek Data Base including Knowledge Centre	\$ 75,000.00	ISW Information Solution Work
6	BU Combined Process-HSE Inspection	\$ 174,700.00	Hertel Modern Pty. Ltd
7	JPDA&TLEA PSC's Model Review	\$ 60,000.00	Columbia Law School
8	2010 Condensate & LPG Sales Review	\$ 35,000.00	Purvin&Gertz
9	Safety Case Review on FSPO	\$ 104,500.00	Noetic Solutions
11	Drafting TLEA Offshore Regulation	\$ 104,500.00	Columbia Law School
12	Geological Prospect Review in TLEA and JPDA	\$ 200,000.00	SPS Perth
IT Hardware Improvement			
1	Laptop Purchasing (20 units)	\$ 44,000.00	Information Solution Work (ISW)

2	IT Cabling Installation and services	\$	7,855.00	Superindo
3	Finger Printer Machine	\$	20,000.00	Time and Attendance Pty Ltd
4	Network Assessing Storage (NAS) TS-805 PRO 16TB	\$	5,000.00	Superindo
5	Desktop Computer HP Z800 IT Security	\$	5,000.00	Superindo
6	Desktop Computer HP Z800 For Kingdom Software	\$	4,930.00	Superindo
	Corporate Procurement			
1	ANP Office Extension - Supervision of Kobe House	\$	4,500.00	Solomon Brothers
2	ANP Office Extension - Construction of Kobe House	\$	124,244.98	Terramor Construction
3	Furniture supply and services	\$	34,100.00	Superindo
4	Office Refurbishment and New Layout approval + Furniture	\$	24,036.00	Timau Construction and Safety Development & Leader Shop
5	Vehicle Maintenance and Services	\$	30,000.00	Dragon Workshop
6	Farol Office Security	\$	14,938.00	Gardamor Protective Services
7	Cleaning Services	\$	18,000.00	Mukun Timor Diak
8	Air Conditioner and Electrical Maintenance & Services	\$	7,200.00	New Town Enterprise
9	Farol Office Water Plumbing improvement services	\$	14,726.00	Lelo Construction
10	ANP Palacio Office Improvement and PSC Legal wall Improvement including New Kobe house toilet	\$	18,851.00	Timau Construction
11	ANP Palacio New generator - Kipor brand	\$	24,370.00	Startec Enterprise
12	3 Vehicles Purchase		\$76,500.00	Tokyo Vehicle & Aircon Car Dealer

Table 4 Details of successful companies for 2011 ANP Procurement

Financial Statement

The ANP is routinely monitoring its financial performance in order to ensure that the execution of budget is in line with the approved ANP work program and budget. In addition, the ANP also engage external party to audit ANP financial performance annually. In the year of 2011, the ANP engaged **Lochan & Co**, Chartered Accountants, an Indian based company to conduct the 2011 financial audit.

The full 2011 financial audit report is attached in Annexure 1 of this report.

Below is the summary of the ANP's audited financial statement for 2011 that are presented in United State Dollars (USD).

Financial Statement Per 31 December 2011		
	Actual	Budget
Income		
Development Fees	\$ 3,064,000.00	\$ 3,064,000.00
Contract Services Fees	\$ 959,520.00	\$ 960,000.00
Income from Timor - Leste Government	\$ 1,800,000.00	\$ 1,800,000.00
Interest	\$ 3,084.00	
Net Gain in Foreign Exchange	\$ 4,117.00	
Income from disposal of assets	\$ 14,100.00	
Other Income	\$ 5,000.00	
Total Income	\$ 5,849,821.00	\$ 5,824,000.00
EXPENSES		
Employee Cost	\$ 2,454,402.00	\$ 2,792,947.51
General and Administration	\$ 2,679,437.00	\$ 3,620,131.22
Depreciation and Amortisation	\$ 267,206.00	\$ 676,700.00
Contingency	\$ 138,753.00	\$ 320,653.64
Net Loss on Disposal of Plan & Equipment	\$ -	\$ -
Total Expenditure/Budget	\$ 5,539,798.00	\$ 6,733,732.37
Surplus	\$ 310,023.00	\$ (909,732.37)

Table 5 ANP's Audited financial statement for 2011

The ANP actual total expenditure for 2011 was \$5,539,798. This represents 94.70% of the total actual income received \$5,849,821.

VI. Petroleum Exploration and Exploitation (Operators activities)

During the period of 2011, the ANP were managing and administering five explorations PSCs within the Timor Leste Exclusive Area (TLEA), namely PSC S06-02 to S06-05 (Block B, C, E and H), operated by Eni TL SpA, PSC S06-06 operated by Reliance, and six explorations PSCs (Woodside JPDA 03-19 and 03-20, Minza JPDA 06 101A, Oilex JPDA 06 103, Eni JPDA 06 105) and two production fields namely the Bayu Undan gas condensate field (JPDA 03-12 and 03-13), operated by ConocoPhillips and Kitan oil field (Under JPDA 06 105) operated by Eni within the Joint Petroleum Development Area (JPDA). This section will highlight the overall operators' activities in the petroleum explorations and exploitations within both the TLEA and JPDA. The map below shows the location of each PSCs as per mentioned above.

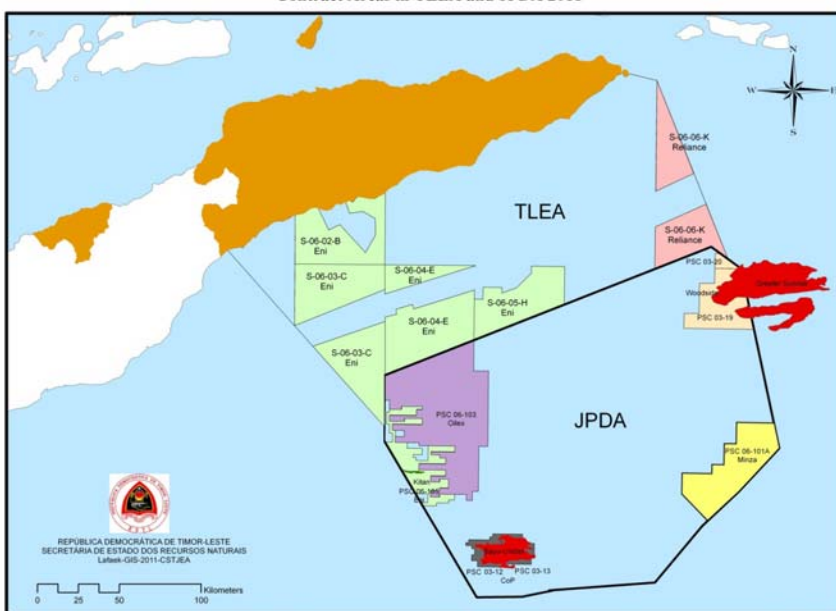


Figure 4 Map showing PSCs portfolio during the period of 2011

6.1. Exploration

6.1.1. TLEA (Timor-Leste Exclusive Area)

6.1.1.1 PSC S06-02 – PSC S06-05(Blocks B, C, E and H)

Eni Timor-Leste SpA (80% share) holds substantial acreage in the TLEA with JV partners GALP (10 % share) and KOGAS (10% share).

After the completion of Cova-1 drilling in December 2010, Eni TL and its JVs continued to carry out post well technical and G&G studies during the period of 2011. Completion Reports were submitted in December 2011. The Eni TL and its JVs proposed to perform further additional G&G studies such as the reprocessing of the current available 3D Seismic, re-interpretation and re-mapping of the geological structures post Cova-1 well results. Using outcomes of the post cova-1 well and the newly re-processed and re-interpreted seismic, the operator perform a 1 D and 3D regional petroleum system modeling to have better insights into petroleum system in the area. The studies are still ongoing and are expected to be completed in the year 2012.



Figure 5 Saipem 10000 drill ship on the Cova-1 well site

6.1.1.2. S06-06 (Block-K)

Reliance is an Indian based oil and gas company, participating in Bloc-K PSC through its wholly owned subsidiary REP DMCC (75% share) as Operator along with its JV partners Indian Oil Corporation Limited (12.5% share) and Oil India Limited (12.5% share).

Reliance completed the drilling of Sera-TLD-A-1 exploration well in December 2010. Following the well completion, Reliance and its JVs continued to carry out post well technical studies during the period of Q1 and Q2 of 2011. All reports for the post-well studies were submitted to the ANP in Q3 2011.

After delivering an unsuccessful drilling of Sera-TLK-A-1 well and completing the post well technical studies, Reliance and its JVs decided to submit their proposal for total relinquishment of the PSC in late 2011.



Figure 6 Drillship Deep water Frontier on Sera-TLK-A1 Well Location

6.1.2. JPDA (Joint Petroleum Development Area)

6.1.2.1. JPDA 06-101(A) (MINZA)

Minza Oil and Gas Limited is the operator of this contract area with 100% equity. This area is located at the south east of the JPDA covering up to 2,150km².

The operator (Minza Oil & Gas Ltd) had completed the interpretation of the Anita 2D Seismic survey and submitted for ANP's review. None the less, the results of 2D Interpretation is inconclusive. Minza have further reported that the quality of the 2D Seismic Data is not good enough for detailed depth mapping. Therefore, Minza has further proposed additional work commitment to conduct a 3D Seismic survey over the identified prospects to resolve the carbonate and the sub-marine canyon related velocities issues in order to map better the identified prospects and leads within the blocks prior to choosing a drillable prospect. Moreover, Minza has continued scouting for the availability of the drilling rigs as part of their preparation for one well drilling campaign.

6.1.2.2. PSC JPDA 06-103

JPDA 06-103 contract area is located in the northwest part of the JPDA and it covers approximately 3,741km².

The operator (Oilex JPDA 06-103 Pty Ltd.) and its Joint Venture Partners completed the Tutuala 3D Seismic acquisition at the Northwest of the PSC area in Q2 2011. Oilex and its JVs have further reprocessed the Maura 3D Seismic that covers the Bazartete prospect. It is expected that the processed interpretation of the Tutuala 3D and Bazartete 3D Post Stack Depth Migration can be completed in Q1 2012. Oilex and its JVs will advise ANP the next drillable prospect by Q2 2012 and it is expected the next Oilex well commitment can be delivered prior to January 2013.

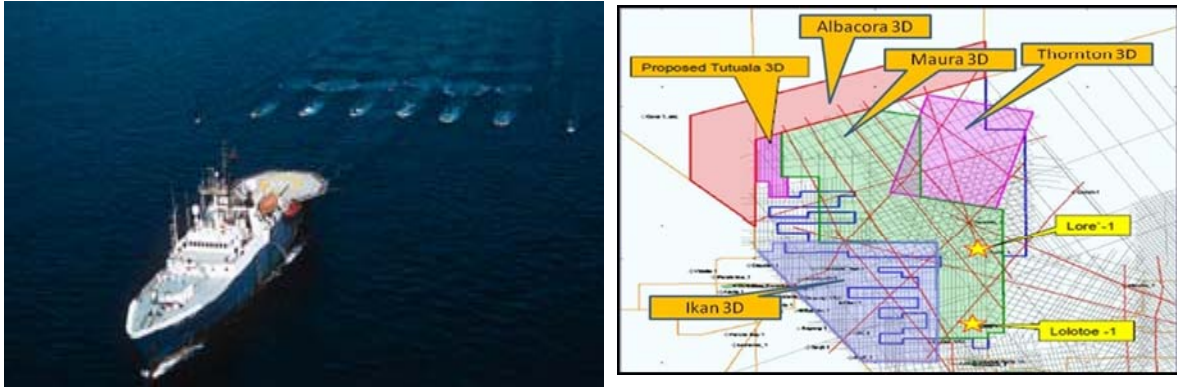


Figure 7 Seismic Vessel conducting 3D Seismic Survey(left) and the current Seismic data Coverage(right)

6.1.2.3. PSC JPDA 06-105

Eni JPDA 06-105 Pty Ltd, INPEX Timor Sea, Ltd. and Talisman Resources (JPDA 06-105) Pty Ltd are the JV partners for this contract.

The exploration program for this area is now completed and the operator, Eni and its JVs have fulfilled the minimum work commitment as per the contract. The operator and some of their JVs have submitted a proposal of additional work commitments and extensions of the PSC for certain period of times.

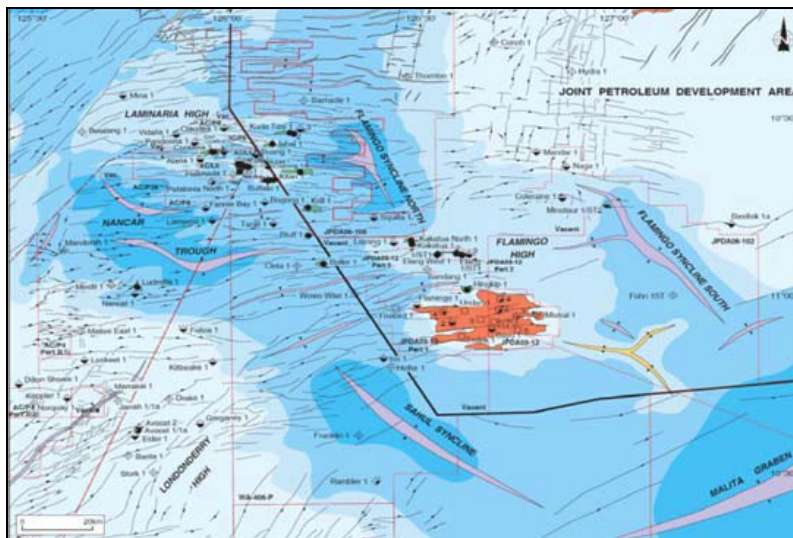


Figure 8 Tectonic Elements Map with PSC JPDA 06-105, Well Locations, Oil and Gas Fields

6.2 Development and Production

6.2.1 PSC JPDA 03-19 and 03-20, Greater Sunrise Field

Throughout FY 2011, ANP and Timor Sea Treaty stakeholders, particularly the Joint Commission and Sunrise Commission centralized discussions on the assessment to the reduction of the field's gas and condensate reserves confirmed by Woodside and its Sunrise JV Partners in late 2010. The process was still ongoing by end of 2011. In the meantime Woodside and its JV Partners undertook minimum work programs including maintaining its Dili Office. ANP continuously requested Woodside and its JV partners to proactively discuss with the two governments to secure an in principle agreement on a unique solution for the Development of the Greater Sunrise Project following differences raised on the concepts since 2008.

6.2.2. PSC JPDA 03-12 and 03-13, Bayu Undan Field

6.2.2.1. Production

The Bayu Undan Field produced with 11 producing wells. The average liquid production from January to December 2011 was 90.8. Kbpd.

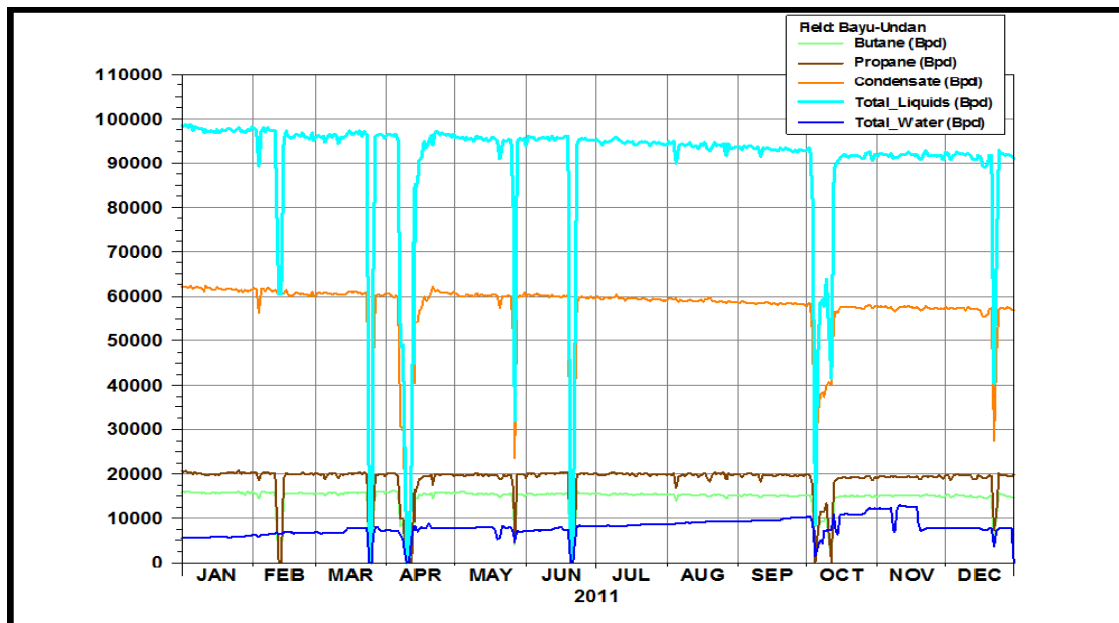


Figure 9 Total Liquid and Water Production

The decline in liquids was reportedly due to two facts; the lean gas breakthrough and the process issue included the efficiency of the cold train.

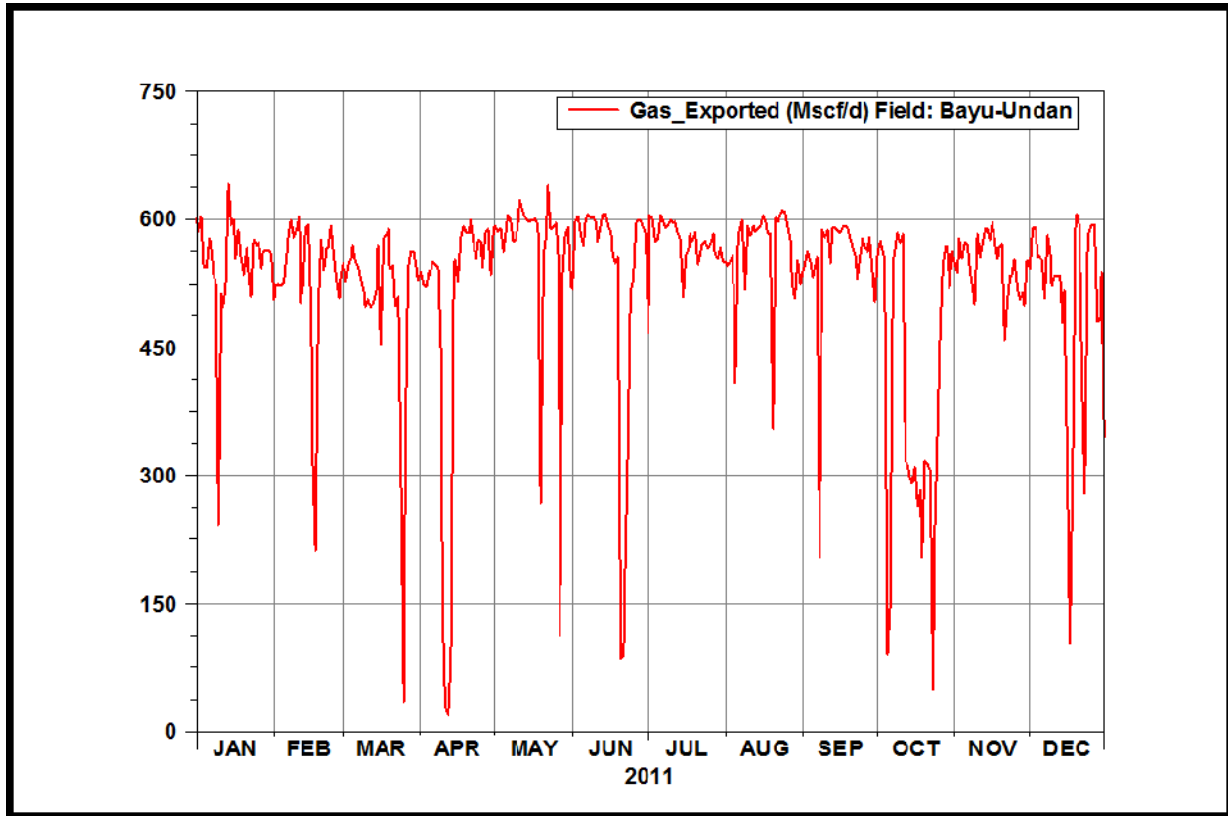


Figure 10 Total Exported Gas

Although average liquid production was lower, the average wet gas production and exported gas remains steady. Throughout the year, average wet gas production was 1.1 Bcf/day and lean gas exported to DLNG with an average of 550 Mscf/day.

6.2.2.2. Subsurface

Based on the updated geo-modeling built by CoP subsurface team towards the end of 2011, IGIP (Initial Gas In place) is 7.5 Tcf (post phase II development well) compared with the previous 2005 model of 8 Tcf.

6.2.2.1. HSE Performance

6.2.2.3.1 H&S Statistics

Incident recorded were 69% first aid, 29% near misses. Zero fatality recorded in the year 2011. Below are graphs representing 2011 percentage of each incident by category and the spread of each incident category across the month of the same year.

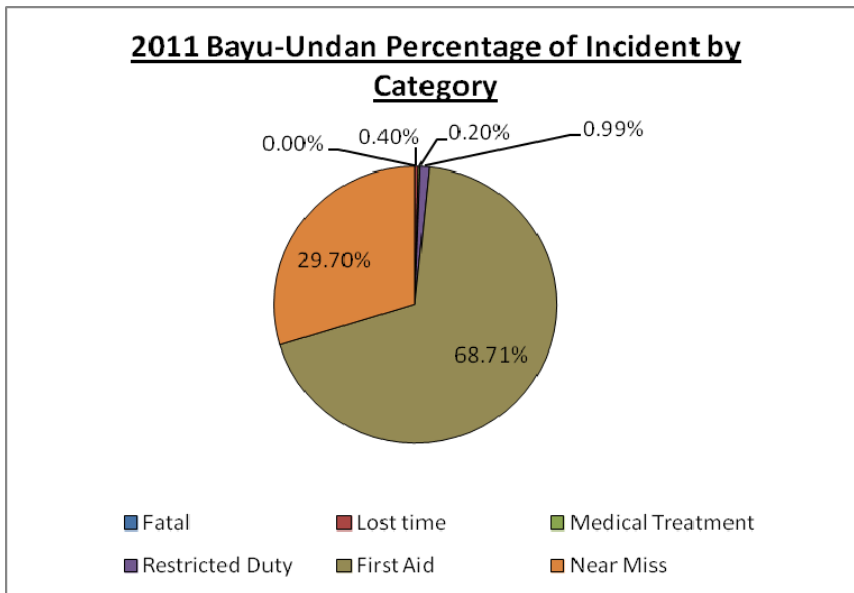


Figure 11 2011 Annual BU Health and Safety Statistics in Pie Chart

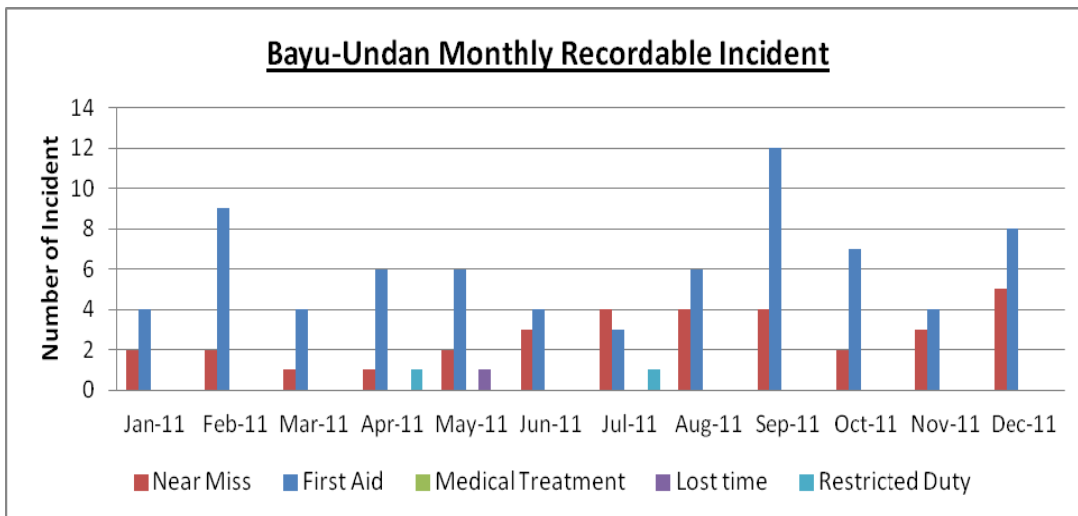


Figure 12 2011 BU Monthly Safety Statistic

6.2.2.3.2. Environment Statistics-Flaring and Venting

Flaring allowance is annually assessed and approved following the review of the activities for the year. The graph below shows flaring allowance versus actual flared gas for 2011.

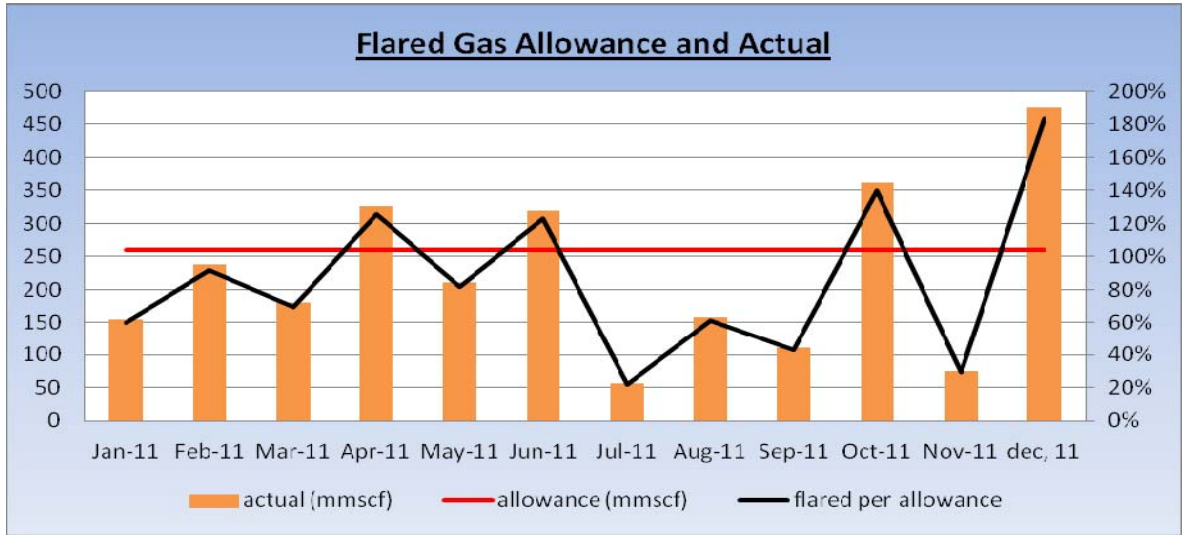


Figure 13 2011 BU Flaring

The graph below indicated that the volume of the flared gas since 2005 is within the approved allowance.

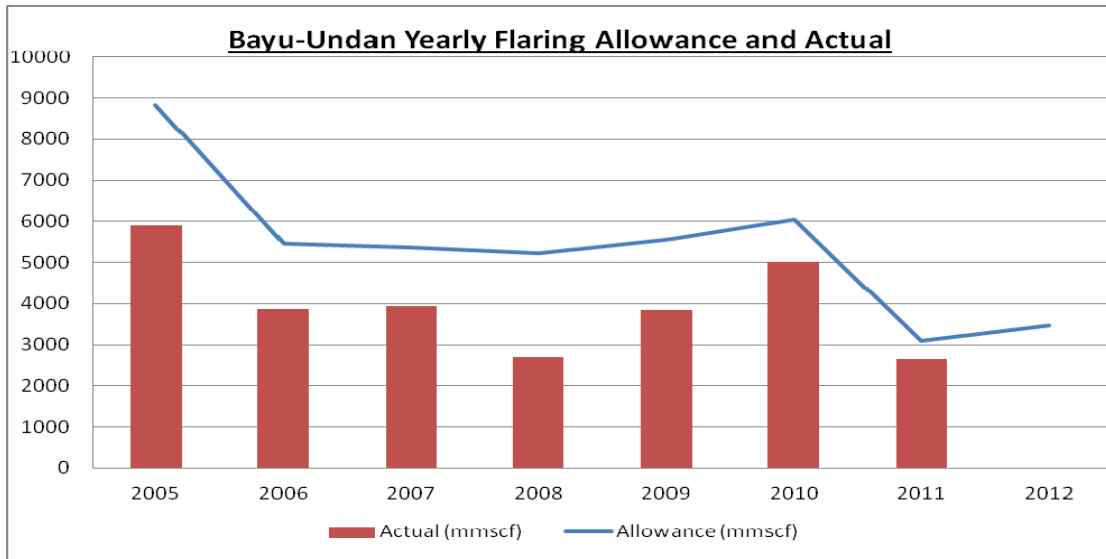


Figure 14 Bayu Undan Flaring since 2005

Similarly to flaring, volume of vented gas is also within the approved allowance.

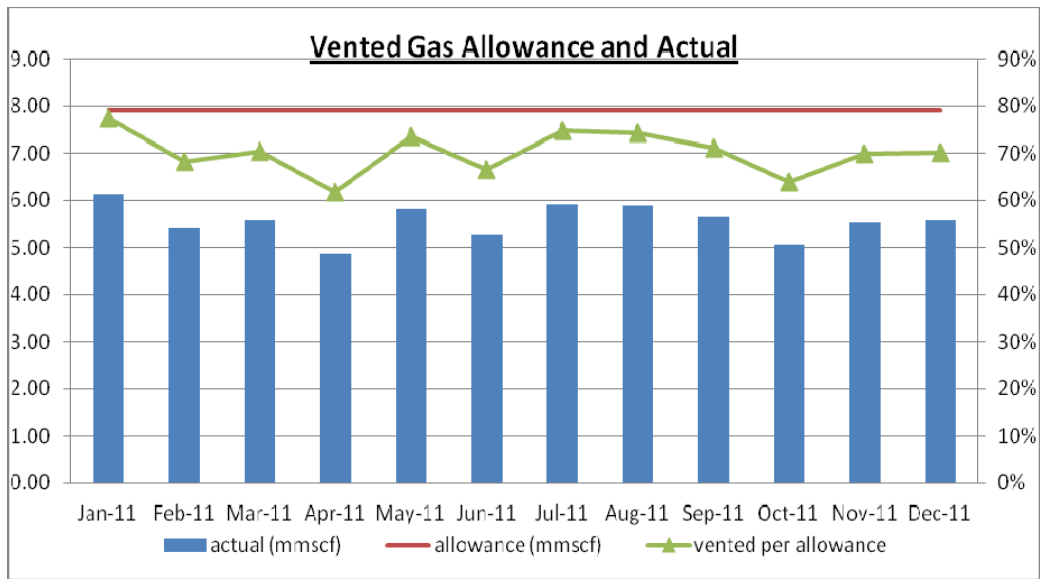


Figure 15 2011 BU Venting

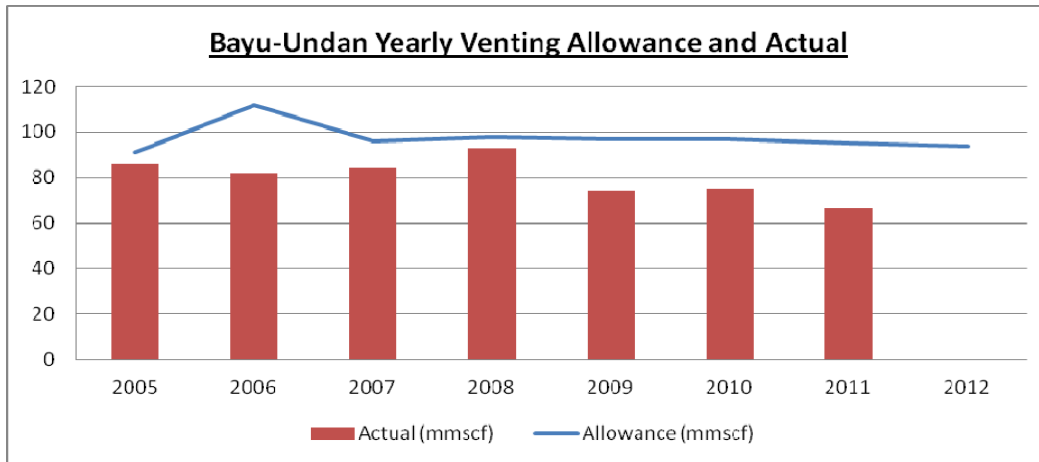


Figure 16 Bayu Undan Venting since 2005

Concerns raised on flaring emission had brought ANP through its HSE Directorate to start an in-depth discussion with the operator to reduce the amount of non-routine flaring in the Bayu-Undan. The Operator has had several in-house discussions to find ways and means to reduce the flaring volume for non-routine flaring. After review of operating procedures the Operator was able to achieve 35% reduction of the original allowance application estimation.

There is a significant reduction from the 2010 actual flaring volumes. With this milestone, 2012 flaring application was submitted and has included an assessment on all systems for improvement of flaring and venting in the Bayu-Undan.

6.2.2.4. Commercial

BU product marketing in 2011 continued to follow the existing arrangement, where condensate was sold under term contract and spot basis. In addition, LPG continued to be sold under term contract. For the LPG term contract, Astomos was the term buyer for 2011 volume. On the natural gas, buyers only managed to lift its Annual Contract Volume due to weak demand of LNG in Japan. DLNG had to sell the available cargoes to spot market in early 2011. Total of seven cargoes were sold to spot buyers. Japanese LNG demand was weak prior the twin disasters (Earthquake and Tsunami) that hit Japan in early March, where demand of LNG was shifted at later stage and shown positive sign later part of the year. With the shutdown of nuclear reactor post natural disaster, LNG demand was forecasted to be strong to replace power generation from nuclear power.

6.2.2.4.1. Sales of Products from Bayu-Undan

Condensate

As can be seen from the graph below that in 2011, GS Caltex continued to be the major term buyer of Bayu-Undan condensate, followed by Eni Trading and Shipping, CPC Formosa, and PTT Thailand. With hard work of the marketing agent, BU Condensate successfully sold to companies such as Eni Trading & Shipping, and Petrobras.

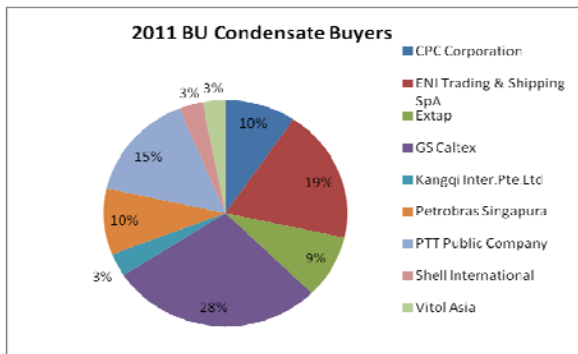


Figure 17 Percentages of the BU Condensate buyers

The ANP continues to encourage ConocoPhillips and Inpex as the marketer to explore for new market end users.

Liquefied Petroleum Gas (LPG)

Strong world crude price benefited LPG pricing in 2011. LPG demand in early year was strong with the increase of operating rate from petrochemical industry. Astomos Japan continued to be the term buyer for 2011 volume. There were 24 cargoes sold in 2011, similar to the previous year. However, 2011 lifted volume was lower than 2010 in metric tonnes. Total proceeds from LPG sold in 2011 was 18% higher than 2010. The increase of revenue collected from LPG sold in 2011 was driven by high LPG price in the early year and last quarter of 2011. Average realized LPG price was recorded at \$ 860/metric tonnes compared to 2010 was only \$ 724/metric tonnes.

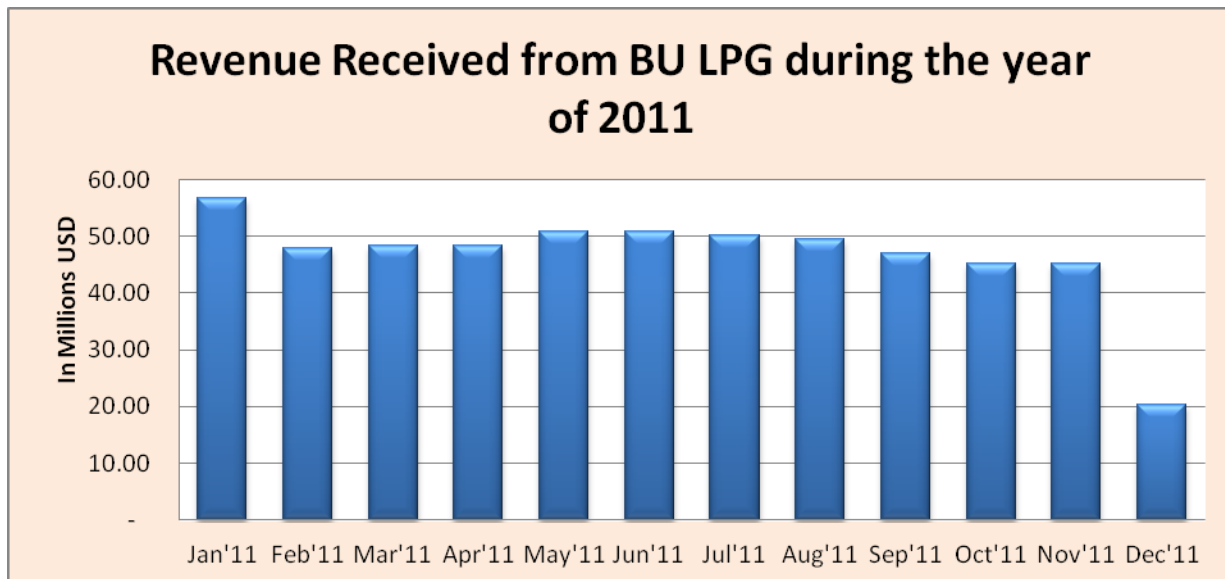


Figure 18 Revenue received from BU LPG in 2011

Liquefied Natural Gas (LNG)

LNG demand in Japan was weak in early 2011 due to stagnancy of Japanese ongoing economy. This has led to DLNG buyers unable to lift all the volume produced, only committed to its take or pay volume. Prior to the natural disaster in March, LNG demand outlook was not promising, however situation has shifted after nuclear radiation incident post-earth quake. There were 52 cargoes sold in 2011, this included 7 released cargoes that sold at spot market. This was considered higher than the previous year.

PWC made nomination of feed gas from Bayu-Undan in July 2011, the need for gas was driven by Blacktip shut-down for maintenance. As outline under the existing GSA, feed gas from BU to PWC is only for emergency purpose. PWC requested to amend the gas contract in order to better reflect the need of gas outside emergency purpose. The approval to the amendment of the GSA was granted in last quarter of 2011.

Graph below illustrated total revenue received in FY 2011 in comparison to FY 2010. It is obvious to note that the 2011 total revenue receipts from LNG was higher than the preceding year.

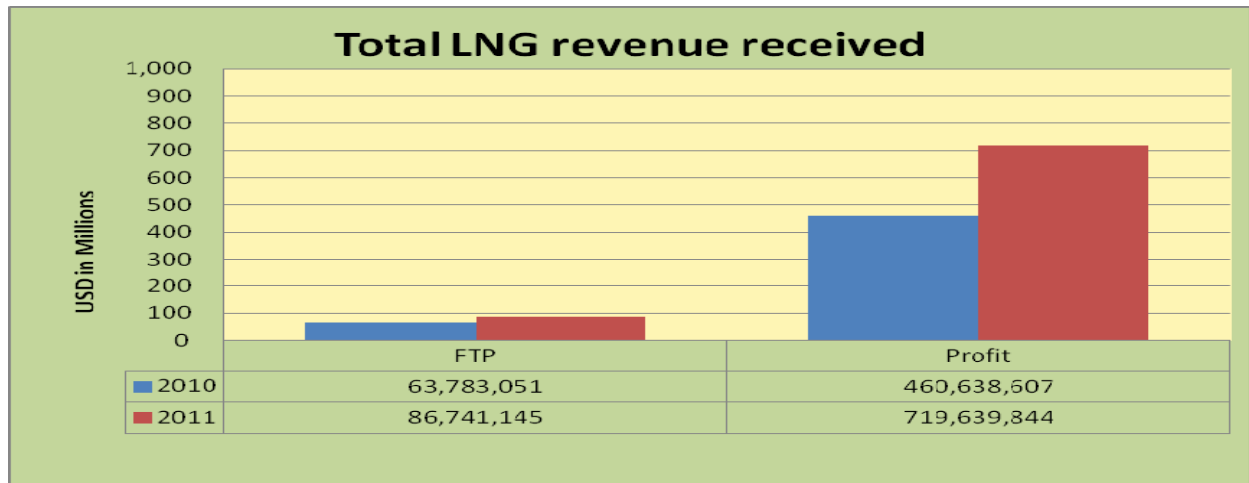


Figure 19 Total actual receipt of FTP and profit gas from LNG sold under the long term contract in 2011

6.2.3. PSC JPDA 06-105, Kitan Field

6.2.3.1 Production

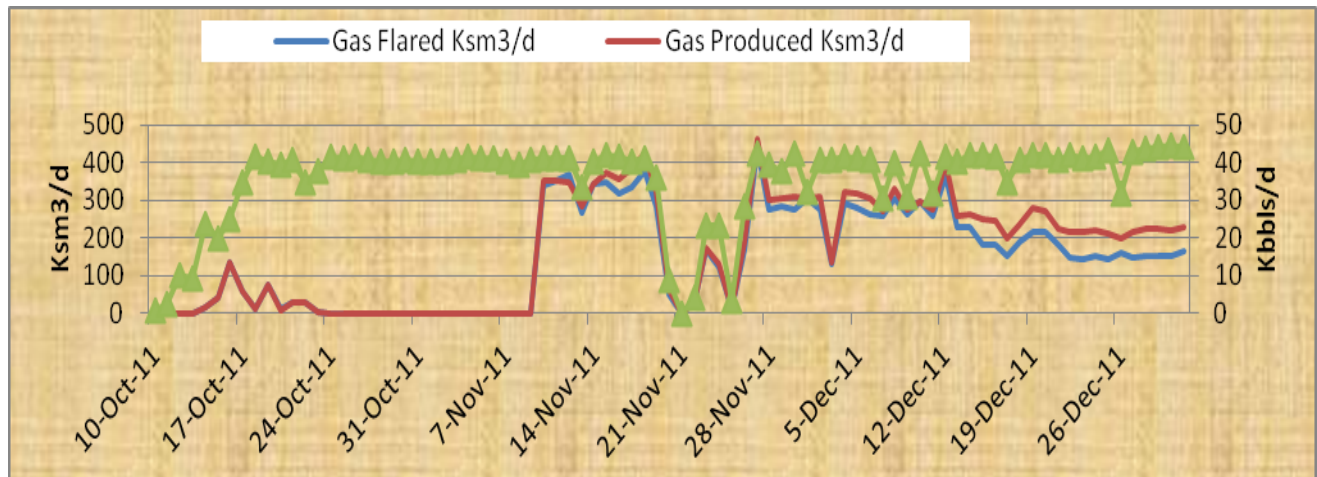


Figure 20 Kitan Daily Production Performance Monitoring

- Kitan field started to produce hydrocarbon on 11 October 2011. The average oil production in October 2011 was 31.3 Kbbbls/day, November 2011 was 33.9 Kbbbls/day and December 2011 was 40.03 kbbbls/d respectively.
- In October 2011 production was slightly impacted by Total SD due to fire gas trip, ESD 2 due to power outage. In November 2011, ESD3 triggered by gas detectors at Topside Boiler area and total process shut-in due to vessels collision incident. In December 2011, production slightly affected by process SD due to power generation issue.
- Total cumulative gas production at the end of December 2011 was 13.9 MMsm³. Early November 2011 the wells started to produce more gas with the highest gas produce was 460 Msm³. Small amount of gas is used for fuel gas consumption but mostly flared.

6.2.3.2 Subsurface

KITAN field production is resulted from three producing wells which are Kitan-2ST, Kitan-3 and Kitan-5. The field is estimated to contain Original Oil In Place (OOIP) of 86.9 MMSTB with recovery factor (RF) of 42.5%.

Water production begins to occur in October with a total of 345.95 bbls for that month, some 358.53 bbls in November, and some 25204.03 bbls in December. Water production was slightly higher due to increasing water cut in Kitan 5 well.

6.2.3.3. HSE Performance

Gas disposal arrangement for Kitan was approved following the *Study of Gas Disposal Alternatives*. Basing on this study, the recommendation to flare excess gas from Kitan was viewed as the preferred gas disposal option for Kitan as a standalone development.

The graph below shows flaring allowance versus actual flared gas for 2011.

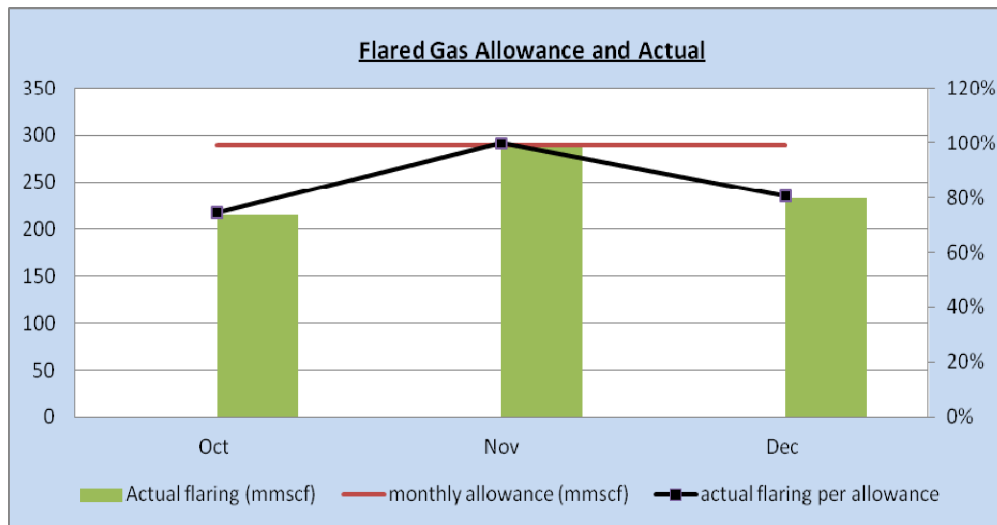


Figure 21 Kitan 2011 Flaring

6.2.4. Commercial

Kitan crude marketing started after the first oil in October 2011. First cargo was lifted successfully from the FPSO in the JPDA. A total of 5 cargoes were sold to end users in 2011, mostly to markets in Asia.

VII Regulatory Performance

7.1 PSC Administration and Acreage Promotion

7.1.1. PSC Administration

7.1.1.1 PSCs S06-01, S06-02, S06-03, S06-04, S06-05 (Blocks A, B, C, E, H)-Eni TL

Eni TLEA and ANP are discussing the way forward regarding the next well in TLEA. To its remaining commitments Eni TLEA has submitted the Bank Guarantee for Well Commitment in Block-C. ANP, the Eni TLEA and its JVs are discussing the newly proposed Bank Guarantee for the remaining PSCs commitment. The ANP expected to resolve this issue in early 2012. Eni has also submitted new work program variations for the ANP's review in November 2011 for the ANP review. After the review, the ANP expects to have further in depth discussions to resolve the differences between both parties in 2012.

7.1.1.2. PSC S 06-06- Reliance

Reliance had submitted the well completion reports following the drilling of SERA-1 well in 2010. By the end of 2011, ANP and Reliance undertook some discussions on the implementation of the Local Content Commitment. Both the ANP and Reliance are committed to settle all differences in 2012.

7.1.1.3 JPDA 06-101(A)-MINZA Oil Ltd.

ANP has completed its reviews to the Anita 2D seismic interpretation reports. ANP had further evaluated new proposal from MINZA for a 3D seismic acquisition over certain part of the contract area. Way forward on the program was planned to address with both MINZA and Joint Commission separately in early 2012.

7.1.1.4 JPDA 06-103 (Oilex)

ANP and Oilex JPDA addressed the expiry of the PSC in early 2012. Following a thorough analysis to the commitment and schedule in place, ANP with prior approval of the Joint Commission granted a final exploration extension to the Oilex, allowing for a drilling and its completion by January 2013.

7.1.1.5 Eni JPDA 06-105

ANP granted a three month “frozen period” in September 2011, allowing Eni JPDA and its JVs to undertake further assessment to the Jahal and Kuda Tasi oil Discoveries. Following various discussions and correspondences with both Eni JPDA and the Joint Commissions, and with further consultation to the legal framework in place, the ANP finally recommended granting a new PSC to Eni JPDA to further explore potentials in the contract area. ANP completed a revised version of the PSC JPDA 06-105 and further submitted to the Joint Commission for final approval.

7.1.2 Acreage Promotion

7.1.2.1. Geological Prospect Review

As part of the preparation for the upcoming Acreage Release, the Exploration and Acreage Release department conducted a third party petroleum geological prospect reviews using all the available 2D – Seismic and the open well data. Around 26K kms of 2D seismic and further details from more than fifty exploration wells were used in the study.

Collectively, over sixty prospects and leads were identified under which each of the individual structure is expected to accumulate few hundred million barrels to about two Billion barrels of un-risked Hydrocarbon resources in place.

7.1.2.2. Licensing round promotion

As part of the Acreage Release promotional campaigns, in year 2011 the Explorations and Acreage Release Directorate in cooperation with other relevant directorates participated in various international conferences throughout the Asia-Australasia regions and Europe, as keynote speaker panels and exhibitors. The aim of the promotional campaign was to alarm and provide early notification regarding the ANP plan for the upcoming Acreage Release and introduce the petroleum prospectivities in our jurisdictional areas.

Singapore, Kuala Lumpur, and Perth were the chosen cities considered representing most the Petroleum Industrial meeting venues in the regions. Whereas, London, UK was considered as one of the representing cities as an avenue or the meeting point for Oil and Gas Explorations - Productions companies in Europe. Further promotional events planned to be conducted throughout FY 2012.

Below are some pictures that highlighted the Acreage Release promotions activities in various international conferences:



Figure 22 ANP in the 2011 World Frontier Explorations Congress, held in London, UK on Dec 13 – 15, 2011.



Figure 23 ANP in the Deep water Explorations in Kuala Lumpur and Perth, 16th Asia Oil week, 2011.

7.1.2.3 Pre-qualification guidelines and Bidding guidelines

Apart from the reviews of the Technical regulations and the PSCs for both the TLEA and JPDA, in year 2011, under the coordination of the Exploration and Acreage Release directorate the ANP through various researches drafted in house two new pre-qualification guidelines for both the TLEA and JPDA. The aim of these guidelines is to pre-qualify operators and non-operators that are to participate in the upcoming licensing round and or to take in “an assignment of interest” in the upcoming newly award PSC within the ANP jurisdictional areas. The guidelines had been presented to the Joint Commissions (for the JPDA regime) and the ANP Board of Directors (for TLEA regime) for final comments prior to its final approval. Further, ongoing efforts have been focused on the bidding guidelines documents and the assessment procedures which expected to be completed in year 2012.

7.2. Inspections and Supervisions

7.2.1 Process Inspection and Supervision

ANP carried out first process inspection on the Bayu Undan Facility from 13 to 19 July 2011. The inspection was focusing on the System 10: CPP and WP1 Cooling and Separation and Production/Injection Manifolds; System 11: CPP Gas Dehydration; System 12: CPP Cold Process; System 13: CPP Gas Export and Gas Reinjection; System 14: Second Stage Separation; System 15: De-ethaniser and System 16: De-butaniser and Flash Gas Compression.

Hertel Modern was awarded contract to assist in conducting this process inspection along with ANP process Engineers.

The above inspection was carried out in combination with HSE inspection. The process part of inspection identified several issues which have been detailed in the inspection report. The total findings were 55 with 30 findings for no further recommendation and 25 findings required COP to take action accordingly. ANP is in close contact with CoP to ensure that the recommendations of findings are implemented.

On the Kitan Field, there was no process inspection during the period of 2011, however ANP Production team carried out observation for the commissioning of the FPSO Glass Dowlr at Sembawang Shipyard, Singapore. This observation was conducted from 23 to 31 May 2011.

The first oil from Kitan Field started up on 11th October 2011 and the first oil off take was conducted on 22-23 October 2011. Bluewater had completed 95 % of the commissioning prior to start producing oil from Kitan field. The remaining 5% which comprised of gas compression system for C5+ recovery, produced water overboard, topside instrument air and fast rescue craft were commissioned and tested post start up of production. The ANP was assured that the remaining 5% will not in any way compromising safety and efficiency of production facility as per approved design in the development plan. In addition temporary measures are taken by Eni and Bluewater by allowing the presence of infield support vessel (ISV) in the absence of un commissioned onboard fast rescue craft.

ANP also conducted regular meetings with the operator, Eni to ensure the FPSO facility performance is meeting its design objective.



Figure 24 ANP's Inspection on Wet Commissioning System 505 FPSO GD in Singapore

7.1.2. Metering Inspection and Supervision

The ANP metering personnel closely monitor and control the metering system at BU-CPP, BU-FSO, Darwin LNG, export gas to PWC Darwin and the Kitan FPSO through 6 monthly witnessing the calibration checks for the meters and auditing the metering system at each facility once a year.

The Metering team carried out field witnessing and audits on both Bayu Undan and Kitan production facilities during 2011 as stated below:

- Calibration of meters on the BU FSO from 5th -11th January 2011 and BU-CUQ on 10th – 13th February 2011. The failed instruments were replaced accordingly. The meter readings were within the acceptable tolerance limit. The report was completed and some issues and concerns were sent to ConocoPhillips.
- Calibration check for the PWC export gas meter at the Darwin LNG plant from 15th - 17th July 2011.

This metering calibration verification was conducted in conjunction with PWC gas intake for the purpose of the pigging operation for PWC gas pipeline from Wickham point receiving station up to Darwin City gate. The PWC gas meter at the DLNG plant was found to give reading within acceptable tolerance limit.

- Audit on DLNG Metering system from 20th – 28th September 2011. The audit concentrated on the leak detection meter (1X-1103) and Inlet gas meter (1X-1101), gas chromatograph operations and calibration, pressure transmitter calibration witnessing, temperature transmitter calibration witnessing, chemical laboratory operations and uplift of an LNG shipment.
- The Factory Acceptance Test (FAT) for Kitan Crude Oil offloading metering cabinet was conducted in Port Klang, Malaysia on 28th Feb to 1st of March 2011. The failed tests were repeated during onshore Site Acceptance Test (SAT) in Singapore on 14th - 21st April 2011.
- The failed and incomplete testing from FAT Skid (9th -11th December 2010) and FAT cabinet (28th Feb – 1st Mar 2011) was completed first prior of started the SAT protocol. The punch items from the onshore SAT will be completed offshore prior to commissioning activities.
- Bluewater had organized Krohne Oil and Gas to conduct the onshore Site Acceptable Test (SAT) for Kitan Glass Dowr metering system in Sembawang, Singapore from 14th -21st April 2011. The failed and incomplete testing from FAT Skid (9th -11th December 2010) and FAT cabinet (28th Feb – 1st Mar 2011) was completed first prior to implementing the SAT protocol.
- ANP conducted workshop on Kitan Metering System commissioning activity with Norwegian Petroleum Directorate (NPD) from 3rd – 6th October 2011 to establish common understandings prior to undertaking commissioning on GD-FPSO Kitan field.

- Offshore wet commissioning for crude oil fiscal measurement system on the Glass Dowl FPSO. This was carried out in JPDA06-105 area from 19th -24th October 2011. The commissioning was a continuation of the Factory Acceptance Tests (FAT) and Site Acceptance Tests (SAT) that had been carried out in Singapore since April 2011. During this commissioning, the metering team checked all outstanding punch lists that had not been performed and completed during FAT/SAT in Singapore. However, during the wet commissioning progress ANP metering team identified some new issues and all these issues were presented to Eni for further actions as necessary.
- First inspection and auditing for fiscal metering system on FPSO Glass Dowl Kitan field was conducted by ANP metering team accompanied by the NPD metering specialists from 19th – 21st December 2011.



Figure 25 ANP Inspectors on the BU FSO Facility

7.2.3 Subsurface Monitoring

ANP conducted Bayu Undan Subsurface Workshop with ConocoPhillips (CoP) on the subsurface modeling update. The ANP will receive subsurface report on BU reservoir performance quarterly. In addition, continues discussion on reporting content and format are ongoing between the ANP and CoP to ensure that important reservoir parameters are reported and monitored by CoP.

In 2011, ANP also finalized quarterly subsurface template report and further conducted quarterly meeting on reservoir performance of Kitan field with Eni JPDA.

7.2.4 Drilling Supervision

ANP observed the completion of Kitan-3 and Kitan-5 development wells in early 2011. The approval for well testing and clean-up of the Kitan-5 well was granted by ANP. All kitan development well completion reports were submitted to the ANP accordingly.



Figure 26 ANP Inspector observed Kitan-5 Well testing and Clean Up

7.2.5 HSE Activities

7.2.5.1 HSE approval

Vessel, Personnel, aircraft, and equipment to support petroleum activities are subject to HSE clearances. Total of 18 vessels were approved to enter and exit the JPDA for the purpose of providing support during the construction phases of the Kitan field and also providing support for Bayu-Undan operations. Timeframe for the approval expiry varied from couple of weeks to 1 year entry approval, depending on the function of each vessel.

Supply vessel and infield support vessel are generally granted an annual approval. In addition, the HSE Directorate had also approved a total of 64 offtake tankers on the reporting year.

HSE directorate also witnessed the commissioning of FPSO Glass Dowl in Singapore. Based on the review of all supporting documents, certification, and preliminary inspection, FPSO Glass Dowl was approved to enter the JPDA to enable phase II – IV construction of the Kitan field to be performed.

Review of Kitan Operations Safety Case was carried out on this reporting year. The review process consists of review of the Operations Safety Case and its supporting documents and verification inspection on the FPSO after the first oil. Safety Case addenda for Kitan Construction phases were reviewed and approvals were granted prior to the commencement of each phase. Provisional approval for Kitan Operations Safety Case was granted in October, 2011. This provisional approval is subject to the findings of Safety Case inspection and an acceptable Corrective Action Plan by the operator.

In addition to the Health and Safety related review and approvals, ANP HSE Directorate also evaluated and approved Environment related submissions. The Oil Spill Contingency Plan based on risk perception for Kitan field was reviewed and approved. This plan addressed many different oil spill scenarios that may arise during oil production in the Kitan field. The Operations Environmental Management Plan (EMP) and Environmental Monitoring Program for Kitan were also approved. EMP described the environment risks and its management in place, whilst the Environmental Monitoring Program described the frequency and parameters that are required to be monitored.

7.2.5.2 HSE inspection

Inspection is a powerful tool to ensuring Operators' compliance to the established Regulation and to ascertain that Operators adequately addressed health and safety risks and environment related issues.

In 2011, HSE in collaboration with Development and Production Directorate had successfully performed the first *Combined Process and HSE Inspection* in the Bayu-Undan facility on April, 2011. This inspection aimed to ensuring operational safety systems are properly managed according to the Bayu-Undan Operations Safety Case and its Performance Standards. In general, this inspection showed evidence that Bayu Undan operator has given great attention on to HSE performances on the facility.

ANP HSE Directorate also conducted an inspection on Kitan FPSO in December, 2011, after the first oil. This inspection was part of the Kitan Operations Safety Case provisional acceptance. This inspection was not only focused on the compliance to Regulation and Safety Case, but also to ensure that Safety Critical Equipments are functional, tested, and maintained for the safest operations of the Kitan oil field. This inspection concluded that there was good safety culture and safety management system in place.



Figure 27 HSE Inspection on KITAN FPSO

However, some recommendations for improvement were also identified and crucial to be closed-out prior to granting the final approval for Kitan Operations Safety Case. During the year, HSE also conducted an inspection in MHS helicopter facility in Dili, Timor-Leste. Additionally, HSE also inspected 10 vessels such as construction vessel, anchor handling vessel, tug boats, dive support vessel, supply vessel, and fast rescue craft which was used during construction phases on Kitan field Development and infield support vessel for Bayu-Undan operations.

7.2.6 Commercial Audit

Under the PSCs entered into with the Operators, there is a requirement for the Operators to provide an Independent Audit Statement on the Annual Reports provided to the ANP.

The PSCs list various reports that the Operators have to present to the ANP on a quarterly basis. The ANP only requires the Annual Report to be audited.

Within the JPDA, all Operators will be audited within the early months of 2012, for the 2011 expenditure, with the exception of Minza Oil & Gas Limited for JPDA 06-101A and Oilex 06-103. ANP did not manage to attend Minza PSC Returns Audit since the PSC was awarded, mainly due to the limited expenditure that was expected to be incurred under this PSC. Similarly, Woodside WP&B in 2010 was seen only covered for administrative purpose, and therefore an audit of 2010 expenditure would be of no benefit.

The following operator audits planned to be undertaken in 2012 for Expenditure incurred in 2011 year,

- Conoco Phillips JPDA Pty Ltd : for the Bayu Undan Project
- Woodside 03-19 & 03-20
- Eni – for JPDA06-105 (including Kitan development)
- Eni – for TLEA areas, S06-, 02, 03, 04 and 06

The major thrust of the audit procedure is to check expenditure items that the Operator claims under the PSC. Certain PSC audit has identified recoverability issue that subject to resolution between ANP and the PSC holders.

7.3 *Local Content Development*

7.3.1 Eni JPDA 06-105 Pty Ltd – Kitan Field

During 2011 Eni's Kitan local content program gave priority to the employment of Timorese nationals, provided training to the Timorese and utilized Timorese goods and services. The Kitan Project has achieved employment of Timorese nationals of over 40%.

Eni is committed to maximizing the use of Timor-Leste goods and services for the Kitan Project through the use of Timor-Leste based contractors and sub-contractors such as SDV, ESS and GAP-MHS. Significantly, the FPSO contractor for Kitan Operations utilises Dili Port as its supply base, allowing goods and services from Timor-Leste to be supplied directly where possible.

Throughout 2011 Eni itself employed 14 Timorese and as indicated in the table below, Eni's contractor (Bluewater) and sub-contractors (SDV, ESS & GAP-MHS) employed 63 Timorese for the Kitan project. The 22 Timorese recruited by Bluewater are working in the positions of Medic, Materials Coordinator, Fast Rescue Craft Crew, Deck Crew, Technical Trainees, Mechanical Trainees and Laboratory Technical Trainees.

Summary of employment statistics - Kitan Operations (as at September 2011):

Company	TL Employees	Total Employees
Eni	14	15
Contractor: Bluewater (core crew)	22	87
Subcontractor to Bluewater:		
SDV	18	38
ESS	16 plus 4 standby staff	24
GAP – MHS	3	9
TOTALS	77	173

Table 6 Summary of TL employment - Kitan Project (as at September 2011)

7.3.1.1 National Library Project

Construction of a National Library project is agreed as one of the local content projects associated to the Kitan field development. Eni has made commitments to contribute towards the establishment of the National Library, collaborating with the Ministry of Education, Secretary of State for Culture, SERN and ANP. During 2011, a library specialist was employed under this commitment to assist the Ministry of Education to identify and develop the legal framework and educational and cultural policies for the National Library, human resources, acquisition, collection and storage plans, as well as specific infrastructure and training requirements.

7.3.2 Eni TL SpA – PSCs S06-02, S06-03, S06-04, S06-05, TLEA

During the drilling program for the Cova-1 well in the first quarter of 2011, Eni through its contractors (Saipem, CHC Helicopters and other drilling services companies) were able to employ 33 Timorese.

During 2011, as part of Eni's local content projects associated to its TLEA PSCs, the company supported:

- A Petroleum Prospectivity project between SERN and the University of Western Australia has been ongoing. In association with this program, two TL national graduates in Geological studies were recruited to undertake post graduate diploma in the said University in Australia.
- A commitment to contribute to the establishment of a seismic data tape and core storage facility, in collaboration with SERN, to be carried out in 2012. Following an MOU between SERN and UNTL, several meetings were facilitated by ANP during 2011 to discuss the planning of this initiative.
- Additionally, Eni TLEA and its JVs also implemented several CSR programs as provided below:
 - Two Timorese national candidates successfully completed Masters Program in Energy and Environmental Management and Economics from the Eni Corporate University in San Donato, Milan, and returned to Timor-Leste.
 - A rehabilitation of a rural water scheme, implemented by a community-based organization and endorsed by the relevant authorities in Cacaven, Lautem District, was commenced and will be completed in 2012
 - The successful completion of a National Civic Education Curriculum program and materials for students and teachers developed through Timor Aid and the Ministry of Education, which has been distributed throughout pre-secondary and secondary schools in Timor-Leste

7.3.3. Minza 06-101A

During 2011 Minza recruited three new national staff in preparation for the upcoming drilling activities. These are two for geological related positions and one for petroleum engineering position. The new recruits had undergone several trainings in preparation for the upcoming drilling planned for in 2012.

7.3.4. Bayu – Undan 03-12 & 03-13

ConocoPhillips as the contractor of Bayu-Undan project in its local content program made its continuous efforts to contribute to the development of Timor Leste. And this is done through the project' operation and activities in the Dili airport, training and employment of Timorese nationals, Dili office operation and civic responsibility initiatives.

Timor Leste employment for the Bayu-Undan project by 1 December 2011

Company	TL Employees	Remarks
ConocoPhillips Timor Leste		
- Dili office	15	- 2 Sub-contractors – Under SDV Company
- Dili Heliport	6	- 8 Sub-contractors - Under RMS Company
- Bayu Undan Operation	11	- 5 COP Employees
- CHC	23	- 5 Sub-contractors– Under SDV Company
		- 1 COP Employees
		11 COP Employees
Clough Amec JV Maintenance Contract		
- CAJV/Caltech	5	
- Caltech (Clough Amec JV Capacity Development	8	
- PAE		
- Cape East	12	
- Alpha Blast	6	
- Geography Energy	4	
ESS – Support Service Catering Contract	4	
	31	
Svitzer Asia Pty. Ltd	5	
Worley Parson (WP)	9	
Totals	139	

Table 7 TL employment for the BU project

- **ConocoPhillips social contribution (CSR programs):** In 2011, ConocoPhillips contributed to several social activities including sponsoring Tour de Timor as part of President of Republic initiatives; mother&child health program with Alola program; rehabilitation work in a local school close to ConocoPhillips' Bidau office which is been done for several years now, supporting Canossian's sisters social activities and donations to other local organization. Alola education project: This is a pilot project run by Alola foundation to build Tetum teaching material and training of teachers for elementary education.

Bayu-Undan Project : In 2011, the project committed to undertake two cost recoverable local content projects. These projects are:

- **Fulbright-SERN Scholarship:** This scholarship program established through cooperation between the US government and the government of Timor-Leste through the Secretary of State for Natural Resources to send TL national graduate students for energy/natural resource study in US universities. The first cohort selection was started in 2011, resulting in 5 TL graduates are being prepared to be deployed to their respective Universities in the USA in 2012. The recruitment for the second batch of the program has planned for in the early 2012.
- **Horticulture Program:** This program is part of cooperation with US government (USAID-DOCIA), and the Government of Timor Leste through the Ministry of Agriculture and Fishery by replicating the existing Special Horticulture Area (SHA), facilities and processes in five new locations in the District of Aileu, along with additional intensive technical support (Expanded Program). The MoU of the said project has been extensively addressed between the parties could potentially be finalized in early 2012.

7.4.1 Downstream Decree-Law and Regulations

Decree-Law no. 20/2008, of 19 June 2008 created the National Petroleum Authority (ANP), entrusting it, amongst others, with the responsibility for regulating and supervising downstream activities in the country, including the use of petroleum infrastructure such as pipelines, terminals and transport infrastructure, as well as refining and processing activities.

7.4.1.1 Downstream Decree-Law

In 2011, ANP through its downstream directorate continuously carried out reviews to the draft Decree-Law that was initiated in 2010. After a sequence of approvals through the ANP Management Committee and Board of Directors (BOD) the referred Decree-Law was distributed for the opinions of the relevant government's ministries and agencies in mid-2011.

Upon compilation of all the opinions presented by relevant ministries and agencies, the final compiled was further submitted for the final approval of the Council of Ministers.

On 12th October 2011, ANP with the assistance of H.E. Secretary of State for Natural resources officially presented the draft law at the Council of the Ministers. The draft Decree Law was approved with further notes for amendments. The approved law was amended accordingly and further submitted for the promulgation of the President of Republic in December 2011.

ANP Downstream directorate planned to have socialization of the said Decree-Law after the promulgation by the President of RDTL, and further published at the Journal de República. The target parties for the socialization are the private sectors involving in petroleum products trading, retailing, and transportation, and the other government ministries and agencies including Environment, Tax, Registry and Notary, Economic Activity License, Port and border, and Transportation . Additionally, the referred socialization activity is planned for all 13 districts.

7.4.1.2. Downstream Regulations

Downstream directorate, Legal and HSE team have undertaken reviews to a number of draft regulations on the downstream sector while waiting promulgation of Law by President RDTL. There were seven drafts regulation initiated and two draft regulations ready to submit to the ANP Management Committee and BOD for their reviews and Approvals. The two regulations were Administration Procedure and Fee for granting the license, and Inspection Division.

7.4.2. JPDA and TLEA Technical Regulations, and PSC Model Reviews

Completion of necessary legal framework is considered to be one of the fundamental aspects of the licensing round preparations, in addition to the technical reviews to the petroleum potentials. The ANP through the coordination of the PSC Legal Compliance and Local Content Directorate is currently on an ongoing process having third party reviews on the Petroleum Sharing Contract Model for the JPDA and TLEA. Additionally, ANP also coordinated third party reviews to the JPDA interim technical regulations and the drafting of a new Offshore TLEA Technical Regulations.

7.4.2.1. JPDA and TLEA Technical Regulations

JPDA Regulation has been submitted to the Joint Commission for their appreciation and feed backs. Upon receiving the feed backs from the Commissioners, the ANP planned to release the draft regulation for public consultation prior to submitting for final approval of the Commissioners.

In August 2011, the ANP engaged Gaffney, Cline & Associates (GCA) as the consultant undertaking the drafting of the Offshore TLEA Technical Regulations. A scope of work was prepared by ANP based on the Petroleum Act (Law No.13/2005) served as the reference of the drafting works. The completed draft has been presented by GCA to the ANP and is under the ANP reviews prior to its public consultations planned for in 2012.

7.4.2.2. Production Sharing Contract (PSC) Model Reviews

The PSC models for both the JPDA and the TLEA have been reviewed by the Vale Colombian Center (VCC) from the Columbia University, USA. The first draft was submitted by VCC to the ANP in June 2011. The draft documents of both PSC models were under reviews at the ANP by the end of the reporting year. During 2011, there were also ongoing discussions between ANP and VCC to finalize the draft contract model prior to submitting for the initial appreciations of the Joint Commission, in case of that of the JPDA PSC model, and to the ANP Board of Directors for the TLEA PSC Model.

VIII. ANP Social Activities



The Big family of SERN in a photo session at the joined retreat in Maubisse, March 2011



Secretary of State for Natural Resource HE. Mr. Alfredo Pires, accompanied by ANP President some Directors met the Parish Priest in Maubisse, March 2011.



Sports friendly matches with various public institutions in Timor-Leste is a form of the ANP's outreach activities during 2011.



ANP-SERN women basketball team (green) in a photo session with ANZ team at GMT sport hall 2011.



"One family one goal" this message has strong highlighted in the SERN Christmas party at Timor Plaza, Dili 23 December 2011.



Annexure 1 ANP 2011 Financial Report by Lochan & Co Audit Firm