

**DECREE-LAW No. 31/2011**

**of 27th of July**

**TIMOR GAP – TIMOR GÁS &  
PETRÓLEO, E.P.**

Having defined the legal framework governing the activities in the oil sector, as determined in the Petroleum Activities Law and subsequent Decrees, the Government hereby creates TIMOR GAP - *Timor Gás & Petróleo, Empresa Publica* (TIMOR GAP, E.P.) for the purposes of holding and managing, under a corporate structure and in accordance with business principles, the assets owned by the State of Timor-Leste in the oil sector assigned by law.

With the creation of TIMOR GAP, E.P., the business activities concerning upstream exploration and production, including provision of services, to be carried out onshore or offshore, within or outside of the national territory, are now entrusted to TIMOR GAP, E.P.. The new company hereby created is also entrusted with the carrying out of downstream business activities, including the storage, refining, processing, distribution and sale of petroleum and its by-products, as well as natural gas and any other hydrocarbons, and also the industrial processing of oil by-products and the carrying out of other activities in the petrochemical industry.

Thus, the responsibilities in connection with business activities previously exercised by the body of the State's direct administration responsible for supervising the oil industry are transferred to a State-owned company – TIMOR GAP, E.P. – which pursuant to this decree-law is subject to the supervisory powers of the Government agency with oversight over the oil

sector, which exercises at all times control powers over the legality of its actions.

The Timorese State is not formally empowered to intervene as a party in oil contracts through the body of the direct administration responsible for the oil sector, or that a wholly state-owned autonomous entity ensures such an intervention. In view of this, this development to the oil industry framework configures a scenario of allocation of a business activity to a corporate entity, which is specialized and possesses higher management efficiency, so it can carry out such activity in the interest of the State.

It is envisaged that TIMOR GAP, E.P. may, when fully operational, optimize the economic benefits derived from the oil resources and from the activities in connection therewith available to Timor-Leste, attracting technologies, developing qualified human resources and also ensuring the Country's energy security, taking on the role of one of the main drivers of economic and social development.

In the exercise of its economic activities, TIMOR GAP, E.P. shall always respect and undertake to protect Health, Safety and Environment and promote Social Responsibility.

Thus, the Government decrees, pursuant to paragraphs 115.1(e) and 115.3 of the Constitution of the Republic, in conjunction with the provisions set out in Article 3 of Decree-Law No 14 / 2003 of 24 September, and Article 32 of Decree-Law 7/2007, of 5 September, as republished by Decree-Law No 14/2009 of 4 March, that the following be law.

**Article One  
Creation**

TIMOR GAP - Timor Gás & Petróleo, E.P., abbreviated as TIMOR GAP, E.P. shall hereby be incorporated.

**Article Two**  
**Nature and industry supervision**

1. TIMOR GAP, E.P. is a state-owned company under the supervision of the Secretariat of State for Natural Resources, or such other body of the direct administration of the State as may replace it in the supervision of the oil sector.

2. Notwithstanding the autonomous nature of the TIMOR GAP, E.P., all business activities and strategic direction of the company shall be aligned in accordance with the Government strategic direction and objective for the sector, as set by the Secretariat of State for Natural Resources, or such other body of the direct administration of the State as may replace it in the supervision of the oil industry;

3. The Government member responsible for exercising oversight powers over TIMOR GAP, E.P. may at any time request that the Company be subject to external audits, including audits conducted by the Court of Auditors or international audit firms.

**Article Three**  
**Regime**

1. TIMOR GAP, E.P., shall be governed by this Decree-Law, its by-laws, the internal regulations and, on a subsidiary basis, by Decree-Law 14/2003, of 24 September, and the additional legal framework applicable to State-owned companies.

2. The articles of association of TIMOR GAP, E.P., are published as an annex to

this decree-law and form an integral part hereof.

**Article Four**  
**Object**

1. The object of TIMOR GAP, E.P., is to participate in any Petroleum Operations as defined in Article 2 of Law 13/2005, of 2 September (Petroleum Activities Law), as well as in operations of the same or a similar nature carried out in the Joint Petroleum Development Area (JPDA) established by the Timor Sea Treaty, and also inside and outside of the national territory, to be carried out onshore or offshore.

2. TIMOR GAP, E.P., may also pursue, within or outside of the national territory, onshore or offshore:

a) Any activities to provide services in connection with the Oil Operations, including the construction, operation and maintenance of facilities and equipment;

b) Any activities for the storage, refining, processing, import, export, transport, distribution, marketing and sale of oil and its by-products, as well as natural gas and other hydrocarbons, including the construction, operation and maintenance of infrastructures such as oil pipelines and gas pipelines, terminals, and storage, transport, distribution, marketing and other oil-related activities;

c) Any accessory or ancillary activities, including industrial processing of oil by-products and the carrying out of activities in the petrochemical industry.

3) TIMOR GAP, E.P. and its subsidiaries shall comply with the principles of financial caution when pursuing its object and purposes.

**Article Five**  
**Subsidiaries and participation**

1. In order to pursue any activities related to its object, TIMOR GAP, E.P. shall be authorised to constitute subsidiaries, which may be associated with other national or foreign companies.

2. TIMOR GAP, E.P and its subsidiaries may encumber or dispose of shareholdings they possess in any company.

### **Article Six Participation in Petroleum Operations**

1. TIMOR GAP, E.P., and its subsidiaries shall hereby be authorized to form consortia or other forms of joint ventures with national or foreign companies, for the purposes of engaging, inside and outside of the national territory, in any Petroleum Operations or similar activities, or in other activities covered by its object as defined in Article 4.

2. The actual participation of TIMOR GAP, E.P., or any of its subsidiaries in Petroleum Operations within the national territory shall always be subject to the provisions of Article 22.1 of Law 13/2005, of 2 September (Petroleum Activities Law).

### **Article Seven Delegation of rights**

By direct operation of this law, in pursuing its purpose as defined in Article 4.1, TIMOR GAP shall act under a delegation by the State of the rights to participate in any Petroleum Operations provided for in Articles 22.3 and 22.4 of Law 13/2005, of 2 September (Petroleum Activities Law).

### **Article Eight**

### **Initial incorporation fund, property and property management**

1. TIMOR GAP shall receive from the State, as an initial incorporation fund, all its operational business assets connected to the oil sector, as well as the rights referred to in the preceding article, which shall be assigned to the management of TIMOR GAP.

2. The inventory of assets and rights comprising TIMOR GAP, E.P.'s initial incorporation fund shall be defined in a list to be approved by joint order of the Minister of Finance and the Secretary of State for Natural Resources within ninety (90) days of the effective date of this statute and be published in Series II of the Official Journal.

3. In addition to the assets and rights referred to in the previous article, the property of TIMOR GAP, E.P., shall comprise the assets, rights and obligations it may receive or acquire as a result of its activities, as well as the proceeds it may earn.

4. TIMOR GAP, E.P., shall freely manage and dispose of the assets and rights comprising its property, without being subject to the rules governing the private domain of the State, but subject to such budgets and programmes as it prepares on an annual basis and as are approved by the member of Government responsible for the oil sector.

### **Article Nine First mandate of governing bodies**

The first mandate of the governing bodies of TIMOR GAP, E.P. shall last until 31<sup>st</sup> December 2012 but shall be extended for a period set out in the articles of association should up to such date nothing to the contrary is determined by the responsible authority.

**Article Ten  
Registration**

1. The creation of TIMOR GAP, E.P., and any subsequent amendments thereto shall be recorded with the Companies Registry, pursuant to the law.

2. The incorporation of TIMOR GAP, E.P., shall not require the execution of a public deed and the relevant registration shall be made ex officio, based on the Official Journal in which its articles of association are published.

**Article Eleven  
Effective date**

1. This statute shall become effective on the day immediately following the date of its publication.

2. The articles of association of TIMOR GAP, E.P., contained in Annex I hereto shall, irrespective of their registration, become effective as regards third parties as of the effective date of this legal diploma.

Approved by Council of Ministers on 25 May 2011.

The Prime Minister,

Kay Rala Xanana Gusmão

Promulgated on 20/7/11

To be published.

The President of the Republic,

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José Ramos-Horta

**Annex  
(Referred to in Article 3.2)**

**ARTICLES OF ASSOCIATION OF  
TIMOR GAP - TIMOR GAS & OIL,  
E.P.  
(TIMOR GAP, E.P.)**

**CHAPTER I**

**NAME, NATURE, LOCATION,  
PURPOSE AND STATUTORY  
CAPITAL**

**Article One  
Name and nature**

TIMOR GAP - Gas & Oil Timor, E.P., hereinafter referred to as TIMOR GAP, E.P., is a state-owned company with legal personality and judicial capacity, as well as property and administrative and financial autonomy, and which is governed by the rules on State-Owned Companies, these Articles of Association and the other rules on private law.

**Article Two  
Supervisory body**

TIMOR GAP, E.P., shall be subject to the supervision of the Secretary of State for Natural Resources or such other body of the direct administration of the State as may replace it in the supervision of the oil sector.

**Article Three  
Headquarters and the geographical  
area of activity**

1. TIMOR GAP, E.P., has its registered offices in Dili and carries out its activities in the country and abroad, where it may establish representations, delegations, subsidiaries, agencies, branches or offices.

2. TIMOR GAP, E.P., acting directly or through subsidiaries and whether or not associated with third parties, may carry out within the Territory of Timor-Leste or abroad any of the activities comprising its object.

#### **Article Four Object**

1. The purpose of TIMOR GAP, E.P., is to participate in any Petroleum Operations as defined in Article 2 of Law 13/2005 of 2 September (Petroleum Activities Law), as well as in operations of the same or a similar nature carried out in the Joint Petroleum Development Area (JPDA) established by the Timor Sea Treaty, and also outside of the national territory, to be carried out onshore or offshore.

2. TIMOR GAP, E.P., may also pursue, within or outside of the national territory, onshore or offshore:

a) Any activities to provide services in connection with the Petroleum Operations, including the construction, operation and maintenance of facilities and equipment;

b) Any activities for the storage, refining, processing, importation, exportation, transport, distribution, marketing and sale of petroleum and its by-products, as well as natural gas and other hydrocarbons, including the construction, operation and maintenance of infrastructures such as oil pipelines and gas pipelines, terminals, and storage, transport, distribution, marketing and other oil-related activities;

c) Any accessory or ancillary activities, including industrial processing of petroleum by-products and the carrying out of activities in the petrochemical industry.

#### **Article Five**

#### **Subsidiaries and affiliates**

1. In carrying out any activities covered by its purpose, TIMOR GAP, E.P., is hereby authorised to incorporate subsidiaries, which may associate themselves with other national or foreign companies.

2. TIMOR GAP, E.P., and its subsidiaries may acquire, encumber and dispose of shareholdings in any companies.

3. Subsidiaries which are majority owned by TIMOR GAP, E.P., are tied to the directives and strategic planning, as well as common corporate rules providing technical, administrative, accounting, financial or legal guidance, which are approved by the Board of Directors.

#### **Article Six Initial statutory capital**

The initial share capital of TIMOR GAP, E.P., shall be of \$ 2,500,000 (two million five hundred thousand U.S. dollars), subscribed and paid by appropriation from the General State Budget.

### **CHAPTER II CORPORATE BODIES**

#### **Article Seven Bodies**

TIMOR GAP, E.P., shall have the following corporate bodies:

- a) The Board of Directors; and
- b) The Audit Board.

#### **Section I Board of Directors**

#### **Article Eight Board of Directors**

1. TIMOR GAP, E.P., shall be managed by a Board of Directors comprising five members, with deliberative responsibilities.

2. The Chairman of the Board of Directors shall be appointed and removed by the member of Government responsible for the oil sector, with the approval of the Council of Ministers.

3. The Minister of Finance shall appoint one member to represent the Ministry of Finance and the member of Government responsible for the oil sector shall be responsible for appointing and dismissing the other members.

4. The appointment of the members of the Board of Directors shall be made in accordance with criteria of recognised technical and management capabilities.

5. The term of office of the members of the Board of Directors shall be four (4) years and may be renewed for equal periods.

### **Article Nine Powers**

The Board of Directors is the body responsible for the superior direction and management of TIMOR GAP, E.P., and shall, amongst other issues:

- a) Define the general direction of TIMOR GAP, E.P.'s businesses, approving strategic targets and guidelines;
- b) Review and vote on the strategic plan, as well as on the multiannual plans, and the annual expenditure and investment plans and respective budgets;
- c) Approve the participation of TIMOR GAP, E.P., in any Petroleum Operations, without prejudice to Article 22.1 of Law 13/2005 of 2 September (Petroleum Activities Law);

d) Approve the participation of TIMOR GAP, E.P., in operations similar to those referred to in the preceding article, carried out in the Joint Petroleum Development Area as well as abroad;

e) Approve the participation of TIMOR GAP, E.P., in any other projects resulting from strategic guidelines of the sectoral supervisory body within the scope of its object;

f) Approve all operations respecting the title to portfolio assets or their equivalent, including participating interests in production sharing contracts, authorisations for refining, transport, importation and exportation of oil, its by-products and natural gas;

g) Incorporate subsidiaries, define their strategic planning directions and guidelines, as well as common corporate rules, by means of technical, administrative, accounting, financial and legal guidelines, as well as acquire, encumber and dispose of shareholdings in any companies;

h) Decide on the issue of bonds, participating securities or other unsecured fixed return securities;

i) Define the general policies, including commercial, financial, investment, environment and human resources strategic management policies;

j) Appoint the members of the Executive Management and supervise their management;

k) Approve on an annual basis the amount beyond which the acts, contracts or operations, that although within the powers of the Executive Management, shall be submitted for approval of the Board of Directors;

l) Approve the Internal Regulations and the amendments thereto, to be submitted to the Government member responsible for the oil sector;

m) Approve the Structure and the Basic Organisation Plan;

n) request that the Company be subject to annual audits, conducted by

independent auditors when deemed necessary;

o) Enter into arrangements or contracts with bodies of the direct or indirect administration of the State;

p) Deal with such matters that, by virtue of a legal provision or a determination of the Council of Ministers or the member of Government responsible for the oil sector, require discussion by the Board of Directors.

### **Article Ten Proceedings**

1. The Board of Directors normally meets once each quarter, with the attendance of the majority of its members, convened by the President and, extraordinarily, whenever necessary.

2. The Board of Directors meets in extraordinary sessions, on its own initiative or when called by the President or the request of some of its members.

3. The matters submitted to the review of the Board of Directors shall be accompanied by the proposal for a decision from the Executive Management, as well as the technical, financial or legal departments' opinions when so required for reviewing the matter in question.

4. The Chairman of the Board of Directors, on his/her own initiative or by request of any member, may invite staff from TIMOR GAP E.P. to attend meetings and provide clarification or further information about the matters under consideration.

5. Resolutions of the Board of Directors shall be adopted by majority vote of members present and recorded in the meeting record book.

6. In case of tie, the Chairman of the Board of Directors shall have the casting vote.

7. The detailed operations of the Board of Directors shall be defined in internal regulations.

### **Article Eleven Chairman**

1. The Chairman of the Board shall coordinate and direct the activities of the Board of Directors and Executive Management and, in particular, convene and chair the meetings of these bodies.

2. The Chairman of the Board shall, in particular, ensure that the Executive Management adequately manages the Company, in accordance with the determinations of the Board of Directors and the guidelines of the Government member responsible for the oil sector.

### **Article Twelve Executive Management**

1. The Executive Management is composed of a Chairman of the Executive Management/"Chief Executive Officer" (CEO) who is the Chairman of the Board of Directors by virtue of his capacity, and five or more members, appointed for a term not exceeding 4 (four) years, and who may be reappointed.

2. The Board of Directors shall appoint the members of the Executive Management.

3. Members of the Executive Management may be dismissed at any time, by a duly grounded decision of the Board of Directors.

4. In selecting the members of the Executive Management, the Board of Directors shall seek to observe the

criteria of management capacity and knowledge and expertise in the respective areas of competence.

5. Members of the Executive Management shall exercise their duties on an exclusive basis. However, they shall be allowed the simultaneous exercise of management duties of subsidiaries and affiliates of TIMOR GAP, E.P. by appointment of the Board of Directors.

### **Article Thirteen Mission and powers**

1. The Executive Management shall exercise the everyday affairs of TIMOR GAP, E.P., according to the mission, objectives, strategies and guidelines approved by the Board of Directors.

2. The Executive Management shall, without prejudice to the generality of the preceding paragraph, prepare and submit for approval by the Board of Directors:

- a) expenditure and investment budgets;
- b) proposals for raising funds, borrowing and financing in the country or abroad, including through the issuance of bonds;
- c) proposals for the provision of guarantees, subject to the applicable law and contractual provisions;
- d) proposals for the acquisition of immovable property, vessels and drilling and production units, as well as for the encumbering or disposal of said assets;
- e) performance assessment, at all levels of the organisation.
- f) manuals and rules on operation, accounting, finance, personnel management, procurement and execution of works and services, acquisition and disposal of materials and equipment, and such other manuals and rules as are required for the operation;

- g) rules on the assignment for use, rental or lease of real property;
- h) annual insurance plan;
- i) human resources internal regulations, including the rules on hiring, careers, benefits and disciplinary regime.

3. The Executive Management shall, without prejudice to the generality of paragraph 1, be responsible for:

- a) Technical and economic evaluation criteria for investment projects, with the relevant plans for delegation of execution and implementation responsibilities;
- b) criteria for the economic exploitation of production areas, subject to specific laws;
- c) pricing policy of the Company;
- d) Accounting plans, basic criteria for assessing results, amortization and depreciation and changes in accounting practices;

### **Article Fourteen Proceedings**

The Executive Management shall meet regularly once a month, with a majority of its members, including the CEO, and the CEO or the remaining four or more Directors may call extraordinary meetings.

### **Section II Audit Board**

#### **Article Fifteen Audit Board**

The Audit Board is the body responsible to monitor the legality, correctness and sound financial and asset management of TIMOR GAP, E.P. ensuring compliance with laws, statutes and regulations in force, as well as budget, financial and asset management of the Company.

#### **Article Sixteen**

## **Composition and appointment**

The Audit Board comprises three members appointed by joint ministerial order of the Minister of Finance and the Government member responsible for the oil sector for a term of 3 (three) years, renewable only once.

### **Article Seventeen Powers and proceedings**

1. Without prejudice to other duties under the law, the Audit Board shall:
  - a) Ensure prudent financial management of TIMOR GAP, E.P., through periodic review of books, accounting records and financial documents;
  - b) Monitor the execution of the annual budgets and the activities and investment programmes;
  - c) Issue an opinion on the annual financial management report;
  - d) Verify the accuracy of financial and tax reports, and submit on an annual basis to the Board of Directors a detailed report on them;
  - e) State its views on the legality and correctness of acts having financial impacts on the Company in accordance with legal requirements or at the request of the Board;
  - f) Inspect, acting through any of its members, the acts of directors and verify compliance with their legal and statutory duties.
2. The procedural rules of the Audit Board shall be defined in internal regulations.

## **CHAPTER III DECLARATION OF PERSONAL ASSETS**

### **Article Eighteen Declaration of Assets**

All members of the Board of Directors, Audit Board and Executive

Management shall submit a declaration of their assets before taking up their duties.

### **Article Nineteen Legal Deposit of Declared Assets List**

1. The list of assets declared under the previous article shall be submitted and filed with the office of member of Government responsible for the oil sector and with the Court of Appeal.
2. The declaration of personal assets can only be publicly disclosed by court order.

## **CHAPTER IV PERSONNEL LEGAL FRAMEWORK**

### **Article Twenty Contractual regime**

The employees of TIMOR GAP, E.P., shall be subject to the individual employment contract legal framework, in accordance with the statutory provisions and rules of procedure of the company.

### **Article Twenty-One Hiring**

The hiring of personnel by TIMOR GAP, E.P., and the subsidiaries of which it has majority control shall obey a public selection process, as approved by the Executive Management.

### **Article Twenty-Two Management positions**

1. The duties of senior management and the powers and responsibilities of the respective members shall be defined in the Company's Basic Organisational Plan.

2. The duties referred to in this article may, exceptionally and at the discretion of the Executive Management, be entrusted to technicians or specialists who are not permanent staff of the Company.

3. The management duties comprised in the other levels of the Company's organisational structure shall have such powers and responsibilities as defined in the rules of procedure.

## **CHAPTER V ORGANISATION PLAN AND ECONOMIC AND FINANCIAL MANAGEMENT**

### **Article Twenty-Three Basic Organisation Plan**

The activities of TIMOR GAP, E.P., shall observe a Basic Organisation Plan approved by the Board of Directors, which shall contain the general structure and define the nature and responsibilities of each body, and the subordination, coordination and control relationships required for its operation.

### **Article Twenty-Four Management Principles**

The management of TIMOR GAP, E.P., shall observe the principles of good corporate governance and efficient corporate management, ensuring the economic feasibility and the financial stability of the Company, aimed at protecting the interests of the State and in accordance with the National Development Plan.

### **Article Twenty-Five Revenues**

1. Unless otherwise specifically allocated by law, the following shall constitute the revenues of TIMOR GAP, E.P.:

- a) Those resulting from business activities covered by its object;
- b) Those resulting from the sale of other goods or assets and the provision of services;
- c) The earnings or proceeds from the sale of private property or rights thereto;
- d) Any other income or amounts resulting from its activities or to which, pursuant to law, regulation, contract or donation, may belong to it.

2. Revenues of TIMOR GAP, E.P., may also include funds received from the state, in consideration for carrying out activities of general economic interest and which are determined or contracted for by the state, as well as shares, government budget appropriations or subsidies granted to TIMOR GAP, E.P..

### **Article Twenty-Six Creation of reserves and funds**

1. TIMOR GAP, E.P. may create reserves, funds and provisions whenever the Board of Directors deems it appropriate for investing in development projects and programmes such as training programmes, research and technological development of the company, in line with the objectives the company.

2. TIMOR GAP, E.P. shall create reserves for the constitution of fixed assets, as well as to bear the expenses relating to the participation in operations comprised in its corporate object, including social responsibility projects.

### **Article Twenty-Seven Fiscal year and Annual Report**

1. The fiscal year of TIMOR GAP, E.P., coincides with the calendar year, ending on 31 December each year.

2. The Annual Report shall be submitted to the Council of Ministers by the Chairman of the Board, accompanied by his/her sectoral oversight, and published within six months after the end of each fiscal year.

## **CHAPTER VI TRANSITIONAL AND FINAL PROVISIONS**

### **Article Twenty-Eight Initial Staffing**

1. For an initial transition period of one year, the staff of TIMOR GAP, E.P. shall consist of officials of the State Secretariat of Natural Resources and other relevant government agencies, assigned temporarily by decision of the Secretary of State for Natural Resources, after careful analysis of their technical and professional competence and suitability for the duties to be carried out.

2. Notwithstanding the preceding paragraph for the transitional period of one year, the recruitment of staff to work in TIMOR GAP, E.P. shall always be undertaken through competitive recruitment procedures, merit, with respect, inter alia, for the principles of transparency, fair competition, non-discrimination, quality and economic value.

3. The secondment and placement of a public servant in TIMOR GAP shall observe Public Service rules and procedures.