

CREATION OF PETRONATIL – PETRÓLEO E GÁS DE TIMOR-LESTE, E.P.¹

Decree-Law ___/___, of ...

- 1 After defining the legal framework governing the activities in connection with the petroleum industry, as determined in the Petroleum Activities Law and the subsequent Decrees, the Government hereby creates PETRONATIL – Petróleo e Gás de Timor-Leste, E.P. (PETRONATIL, 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 petroleum industry business activities.

With the creation of PETRONATIL, E.P., the business activities respecting to upstream exploration and production, including provision of services, to be carried out onshore or offshore, within or outside of the national territory, are removed from the State of Timor-Leste's scope of activity in the petroleum sector. 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 petroleum by-products and the carrying out of other activities in the petrochemical industry.

- 2 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 – PETRONATIL, E.P. –, which pursuant to this decree-law is subject to the supervisory powers of the Government body responsible for the oil industry, which exercises at all times control powers over the legality of its actions.
- 3 From a formal standpoint, it is not decisive that the Timorese State intervenes as a party in petroleum contracts through the body of the direct administration responsible for the oil and gas industry, or that a wholly state-owned autonomous entity ensures such an intervention – given that the Petroleum Fund proceeds regime is safeguarded. In view of the foregoing, 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 managerial efficiency, so it can carry out said activity in the interest of the State.

It is envisaged that PETRONATIL, E.P. may, when fully operational, optimize the economic benefits derived from the petroleum 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 safety, taking on the role of one of the main drivers of economic and social development.

Now, therefore, pursuant to Articles 115.1(e) and 115.3 of the Constitution of the Democratic Republic of Timor-Leste, combined with Article 3 of Decree-Law 14/2003, of 24 September 2003, and Article 33 of Decree-Law 14/2009, of 4 March 2009, the Government enacts into law the following.

Article 1 Creation

PETRONATIL – Petróleo e Gás de Timor-Leste, E.P., referred to in short as PETRONATIL, E.P., is hereby created.

¹ Consideration was given to the possibility of proposing the denomination PETROTIL, further to a previous preliminary draft. However, a company named PETROTIL – Petróleos Timor Laran, Lda is already registered.

Article 2

Nature and industry supervision

PETRONATIL, 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 petroleum industry.

Article 3

Legal framework

- 1 PETRONATIL, 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 2003, and the additional legal framework applicable to State-owned corporations.
- 2 The by-laws of PETRONATIL, E.P., are published as an annex to this decree-law and form an integral part hereof.

Article 4

Purpose

- 1 The purpose of PETRONATIL, E.P., is to participate in any Petroleum Operations as defined in Article 2 of Law 13/2005, of 2 September 2005 (the Petroleum Activities Law), as well as in operations having the same or a similar nature carried out in the Joint Petroleum Development Area (JPDA) established in the Timor Sea Treaty, and also outside of the national territory, to be carried out onshore or offshore.
- 2 PETRONATIL, E.P., may also engage, within or outside of the national territory, onshore or offshore, even if they do not qualify as Petroleum Operations, in:
 - (a) Any service provider activities 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 any 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 infrastructures;
 - (c) Any accessory or ancillary activities, including the industrial processing of petroleum by-products and the carrying out of activities in the petrochemical industry.

Article 5

Subsidiaries and affiliates

- 1 In carrying out any activities covered by its purpose, PETRONATIL, E.P., is hereby authorized to incorporate subsidiaries, which may associate themselves with other national or foreign companies, both as majority or minority shareholders.
- 2 PETRONATIL, E.P., and its subsidiaries may acquire, encumber and dispose of shareholdings in any companies.

Article 6

Participation in Petroleum Operations

- 1 PETRONATIL, E.P., and its subsidiaries are hereby authorized to form consortiums or other forms of joint ventures with national or foreign companies, for the purposes of engaging, within and outside of the national territory, in any Petroleum Operations or similar activities, or in other activities covered by its purpose as defined in Article 4.
- 2 The actual participation of PETRONATIL, 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 2005 (the Petroleum Activities Law).

Article 7

Delegation of rights

By direct operation of this statute, in pursuing its purpose as defined in Article 4.1, PETRONATIL, E.P., 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 2005 (the Petroleum Activities Law).

Article 8

Initial incorporation fund, property and property management

- 1 PETRONATIL, E.P., shall receive from the State, as initial incorporation fund, all operational business assets in connection with the petroleum industry owned by the State, as well as the rights referred to in Article 7 above, the management of which PETRONATIL, E.P. shall ensure.
- 2 The inventory of assets and rights comprising PETRONATIL, E.P.'s initial incorporation fund shall be defined in a list to be approved by joint order of the Minister of Planning and Finance and the Secretariat of State for Natural Resources within [ninety] [(90)] days of the effective date of this statute and to be published in the 2nd Series of the Official Gazette.
- 3 In addition to the assets and rights referred to in Article 8.2 above, the property of PETRONATIL, 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 PETRONATIL, 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 programs as it prepares on an annual basis and as are approved by the industry supervisory body.

Article 9

Registration and exemptions

- 1 The creation of PETRONATIL, E.P., and any subsequent amendments thereto shall be recorded with the Companies Registry, pursuant to the law.
- 2 The incorporation of PETRONATIL, E.P., shall not require the execution of a public deed and the relevant registration shall be made *ex officio*, based on the Official Gazette in which its by-laws are published.
- 3 All acts to be performed in implementing the provisions of this statute shall be exempt from any duties, taxes, official fees and any other legal charges due to any entities, including:
 - (a) The registration of PETRONATIL, E.P.'s by-laws , and any subsequent amendments thereto;
 - (b) The appointment of the members of the relevant corporate bodies;
 - (c) The registration of the transfer of assets provided for in this statute.

Article 10

Effective date

- 1 This statute shall become effective on the first day of the second month following the date of its gazetting.
- 2 The by-laws of PETRONATIL, E.P., contained in Annex I hereto shall, irrespective of their registration, become effective as regards third parties as from the effective date of this statute.

Annex

(referred to in Article 3.2)

BY-LAWS OF PETRONATIL – PETRÓLEO E GÁS DE TIMOR-LESTE, E.P. (PETRONATIL, E.P.)

Chapter I

Corporate name, nature, registered offices, purpose and share capital

Article 1

Corporate name and nature

PETRONATIL – Empresa Nacional de Petróleo e Gás de Timor-Leste, E.P., referred to in short as PETRONATIL, 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 By-laws and the other private law rules.

Article 2

Supervisory body

PETRONATIL, E.P., is subject to 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 industry.

Article 3

Registered offices and geographic area of activity

- 1 PETRONATIL, 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 PETRONATIL, 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 purpose.

Article 4

Purpose

- 1 The purpose of PETRONATIL, E.P., is to participate in any Petroleum Operations as defined in Article 2 of Law 13/2005, of 2 September 2005 (the Petroleum Activities Law), as well as in operations having 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 PETRONATIL, E.P., may also engage, within or outside of the national territory, onshore or offshore, and even if they do not qualify as Petroleum Operations, in:
 - (a) Any service provider activities 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 any 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 infrastructures;

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

Article 5 Subsidiaries and affiliates

- 1 In carrying out any activities covered by its purpose, PETRONATIL, E.P., may be authorized by resolution of the Board of Directors to incorporate subsidiaries, which may associate themselves with other national or foreign companies, both as majority or minority shareholders.
- 2 PETRONATIL, E.P., and its subsidiaries may acquire, encumber and dispose of shareholdings in any companies.
- 3 The subsidiaries in which PETRONATIL, E.P. holds majority shareholdings are bound to such directions and strategic planning, as well as to such common corporate rules as determined by such technical, administrative, accounting, financial or legal guidelines as may be approved by the Board of Directors.

Article 6 Share capital

The share capital of PETRONATIL, E.P., is of _____ million United States dollars (US\$ _____), subscribed and paid up by appropriation from the General State Budget.²

Chapter II Corporate Bodies

Article 7 Bodies

PETRONATIL, E.P., shall have the following corporate bodies:

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

Section I Board of Directors

Article 8 Board of Directors

- 1 PETRONATIL, E.P., shall be managed by a Board of Directors comprising five or seven members, with deliberative responsibilities.
- 2 The Prime-Minister shall appoint and remove the Chairman of the Board of Directors and the Secretary of State for Natural Resources shall determine the total number of members of the Board of Directors within the parameters defined in Article 8.1 above, and appoint and remove the remaining members.
- 3 The appointment of the members of the Board of Directors shall be made in accordance with criteria of recognized technical and management capabilities.
- 4 The term of office of the members of the Board of Directors shall have a duration of four (4) years, and may be renewed for equal periods.
- 5 In its first meeting, the Board of Directors shall appoint the member who shall replace the Chairman in his/her absences and impediments.

² The inclusion of an item in the GB for 2010 should be considered as of now, so as to satisfy this provision.

Article 9 Powers

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

- (a) Define the general direction of PETRONATIL, 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 PETRONATIL, E.P., in any Petroleum Operations, without prejudice to Article 22.1 of Law 13/2005, of 2 September 2005 (the Petroleum Activities Law);
- (d) Approve the participation of PETRONATIL, E.P., in operations similar to those referred to in Article 9(c) above, carried out in the Joint Petroleum Development Area as well as abroad;
- (e) Approve the participation of PETRONATIL, E.P., in any other projects resulting from strategic guidelines of the industry supervisory body within the scope of its purpose;
- (f) Approve all operations respecting the title to portfolio assets or their equivalent, including participating interests in production sharing contracts, authorizations 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) Resolve on the issue of bonds, participating securities or other unsecured fixed return securities;
- (i) Define the general policies, including the commercial, financial, investment, environment and human resources strategic management policies;
- (j) Appoint the members of the Executive Management and supervise their managing performance;
- (k) Approve on an annual basis the amount beyond which the acts, contracts or operations, that although within the powers of the Executive Management, are to be submitted to the approval of the Board of Directors;
- (l) Approve the Internal Regulations and the amendments thereto, to be submitted to the Ministry responsible for the oil industry;
- (m) Approve the Basic Organization Plan;
- (n) Select and remove independent auditors, with PETRONATIL, E.P., being prevented for the duration of the contract from procuring any consulting services from said auditors, even if free of charge;
- (o) Propose to the industry supervisory body the constitution of financial funds or reserves for investment purposes;
- (p) Enter into arrangements or agreements with bodies of the direct or indirect administration of the State;
- (q) Deal with such matters as, by virtue of a legal provision, a determination of the Council of Ministers or the Ministry responsible for the oil industry, are dependent on a resolution of the Board of Directors.

Article 10 Proceedings

- 1 The Board of Directors shall hold an ordinary meeting each quarter, called by the Chairman, and with the attendance of the majority of its members, and special meetings whenever required.
- 2 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.
- 3 The Chairman of the Board of Directors may, on his/her own initiative or at the request of any member, invite staff from PETRONATIL, E.P., to attend the meetings and provide clarifications or information on the matters under review.
- 4 The resolutions of the Board of Directors shall be adopted by the majority vote of the members in attendance, and recorded in the proper minutes book.
- 5 In the event of a tie, the Chairman of the Board of Directors shall have the casting vote.
- 6 The detailed procedural rules of the Board of Directors shall be defined in internal regulations.

Article 11 Chairman

- 1 The Chairman of the Board of Directors shall be responsible for the coordination and direction of the activities of the Board of Directors and the Executive Management, and in particular for calling and chairing the meetings of these bodies.
- 2 The Chairman of the Board of Directors shall, in particular, be responsible for ensuring that the Executive Management adequately manages the Company, in accordance with the determinations of the Board of Directors and the guidelines of the industry supervisory body.

Article 12 Executive Management

- 1 The Executive Management shall comprise an Executive Manager, who shall, by reason of his/her capacity, be the Chairman of the Board of Directors, and two members, appointed for a term of office not exceeding four (4) years and who may be reappointed.
- 2 The Board of Directors shall appoint the members of the Executive Management, from amongst its members.
- 3 Without prejudice to Article 8.2, the members of the Executive Management may be removed 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 criteria of management capability and know-how and expertise in the respective areas of responsibility.
- 5 The members of the Executive Management shall exercise their duties on an exclusive basis. However, the members of the Executive Management are allowed the simultaneous exercise of management duties in subsidiaries and affiliates of PETRONATIL, E.P., by appointment of the Board of Directors.

Article 13 Mission and powers

- 1 The Executive Management shall manage the day-to-day affairs of PETRONATIL, E.P., in accordance with such mission, targets, strategies and guidelines as approved by the Board of

Directors.

- 2 Without prejudice to the generality of Article 13.1 above, the Executive Management shall prepare and submit to the approval of the Board of Directors:
 - (a) The expenditure and investment budgets;
 - (b) Proposals for the obtainment of resources, contracting of loans and financings in the Country or abroad, including through the issuance of securities;
 - (c) Proposals for the posting of guarantees, subject to the relevant statutory and contractual provisions;
 - (d) Proposals for the acquisition of immoveable 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 organization.
- 3 Without prejudice to the generality of Article 13.1 above, the Executive Management shall approve:
 - (a) Criteria for the technical-economic evaluation of investment projects, with the relevant plans for the delegation of execution and implementation responsibilities;
 - (b) Criteria for the economic exploitation of production areas, subject to the specific laws;
 - (c) Price policy and basic price structures;
 - (d) Accounting plans, basic criteria for the assessment of results, amortization and depreciation, and changes to accounting practices;
 - (e) 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;
 - (f) Rules on the assignment for use, the lease or the letting of immoveable property;
 - (g) The annual insurance plan;
 - (h) The human resources internal regulations, including the rules on hiring, careers, benefits and disciplinary framework.

Article 14 Proceedings

The Executive Management shall hold ordinary meetings once a month, with the attendance of the majority of its members, including the Executive Manager, and special meetings called by the Executive Manager or the other two Managers.

Section II Audit Board

Article 15 Audit Board

The Audit Board is the body entrusted with the supervision of PETRONATIL, E.P., and is responsible for ensuring compliance with the statutory, corporate and regulatory rules in force, as well as for supervising the budgetary, financial and property management of the Company.

Article 16

Composition and appointment

The Audit Board comprises three members appointed by a joint Ministerial Statute of the Minister of Planning and Finance and the Secretariat of State for Natural Resources, for a term of office of three (3) years, renewable once only.

Article 17

Powers and proceedings

- 1 Without prejudice to other responsibilities resulting from the law, the Audit Board shall:
 - (a) Supervise the management of PETRONATIL, E.P., by means of the periodic examination of the books, accounting records and financial documents;
 - (b) Monitor the execution of the annual budgets and the activities and investment programs;
 - (c) Issue an opinion on the annual management report;
 - (d) Verify the accuracy of the financial and tax reports, and submit on an annual basis to the Board of Directors a detailed report thereon;
 - (e) State its views on the legality and correctness of acts having financial impacts on the Company, as required by law or at the request of the Board of Directors;
 - (f) Inspect, acting through any of its members, the acts of the directors and verify compliance with their statutory and corporate duties;
 - (g) Approve its internal regulations.
- 2 The procedural rules of the Audit Board shall be defined in the internal regulations referred to in Article 17.1(g) above.

Chapter III

Personnel's Legal Framework

Article 18

Contractual regime

The employees of PETRONATIL, E.P., shall be subject to the individual employment contract legal regime, in accordance with the statutory provisions and the internal regulations of the Company.

Article 19

Hiring

- 1 The hiring of personnel by PETRONATIL, E.P., and its subsidiaries which PETRONATIL, E.P. controls in terms of majority shareholdings, shall observe a public selection process, as approved by the Executive Management.
- 2 The internal regulations referred to in Article 13.3(h) may provide that a share of the employees' remuneration be linked to the Company's productivity and results.

Article 20

Management positions

- 1 The senior management duties and the powers and responsibilities of the relevant members shall be defined in the Company's Basic Organization Plan.
- 2 The duties referred to in this Article may, on an exceptional basis and at the discretion of the

Executive Management, be entrusted to technicians or specialists that are not permanent staff of the Company.

- 3 The management duties comprised in the other levels of the Company's organizational structure shall have such powers and responsibilities as defined in the internal regulations.

Chapter IV Organization Plan and Economic and Financial Management

Article 21 Basic Organization Plan

The activities of PETRONATIL, E.P., shall observe a Basic Organization 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 22 Management principles

The management of PETRONATIL, 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 safeguarding the interests of the State and in accordance with the National Development Plan.

Article 23 Proceeds

- 1 Unless otherwise specifically allocated by law, the following shall constitute the proceeds of PETRONATIL, E.P.:
 - (a) Those resulting from the business activities covered by its purpose;
 - (b) Those resulting from the sale of other goods or assets and the provision of services;
 - (c) The earnings or proceeds of the disposition of PETRONATIL, E.P.'s assets, or of rights created thereon;
 - (d) Any other income or sums resulting from its activities or to which, pursuant to law, regulation, contract or gratuity, PETRONATIL, E.P. may become entitled.
- 2 The sums received from the State by way of consideration for the carrying out of activities having a general economic interest and which are determined by or contractually agreed with the State shall also constitute the proceeds of PETRONATIL, E.P., as shall the contributions, budgetary appropriations or allowances granted to it.

Article 24 Creation of reserves and funds

- 1 PETRONATIL, E.P., may create reserves, funds and provisions whenever the Board of Directors deems appropriate for investing in projects, in keeping with the Company's objectives.
- 2 PETRONATIL, E.P., shall mandatorily 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 purpose.

Article 25 Allocation of profits

- 1 PETRONATIL, E.P., shall allocate a share of at least __ percent (__%) of the net profits verified

in its Annual Balance Sheet to the creation of a special reserve, intended to finance the Company's empowerment, research and technological development programs.

- 2 Subject to the laws in force and with the authorization of the industry supervisory body and the finance supervisory body, PETRONATIL, E.P., may allocate a share of its annual results for distribution amongst its employees on account of profit sharing, in accordance with the criteria approved by the Board of Directors.

Article 26
Financial year

The financial year of PETRONATIL, E.P., shall coincide with the calendar year, and shall end on 31 December each year.