Programme Agreement C6/036
between
the Norwegian Ministry of Foreign Affairs and
the Government of the Democratic Republic of Timor-Leste regarding
Development Cooperation concerning
Assistance in Management of Petroleum Resources

WHEREAS the Government of the Kingdom of Norway (Norway) and the Government of the Democratic Republic of Timor-Leste (Timor-Leste) have entered into a Memorandum of Understanding dated 20 May 2008 regarding development cooperation in Timor-Leste,

WHEREAS Norway has supported the Petroleum Sector Administration in Timor-Leste through an agreement dated 3rd February 2003,

WHEREAS Timor-Leste in a letter dated 15th February 2008 has requested Norway for continued support for Assistance in Management of Petroleum Resources, and

WHEREAS the Norwegian Ministry of Foreign Affairs (MFA) has decided to comply with the request,

NOW THEREFORE MFA and Timor-Leste (the Parties) have reached the following understanding which shall constitute an Agreement between the Parties:

Article I Scope and objectives
1. This Agreement sets forth the terms and procedures for MFA’s support to Assistance in Management of Petroleum Resources (the Programme) as outlined in the Agreed Programme Summary in Annex I and further described in the Programme Description document “Assistance in Management of Petroleum Resources”.

2. The Goal of the Programme is to assist Timor-Leste to manage petroleum activities in such a way that the petroleum sector delivers the greatest possible benefit to the people of Timor-Leste.

The Purpose of the Programme is to increase competence and capacity in Timor-Leste such that the public sector can manage all petroleum activities, specifically in technical, legal, and Health, Safety and Environment (HSE) compliance, and revenue management.

3. The Parties may agree on extending existing or including new Programme elements within the Programme, as well as on re-allocating funds within the Programme. Any such agreement shall be in writing, e.g. recorded in the Agreed Minutes from the consultations mentioned in Article VI.

Article II Cooperation – Representation
1. The Parties shall communicate and cooperate fully with the aim to ensure that the Goal and Purpose are successfully achieved. The Parties further agree to cooperate on preventing corruption within and through the Programme, and undertake to take rapid legal action to stop, investigate and prosecute in accordance with applicable law any person suspected of misuse of resources or corruption. The Parties shall immediately
inform each other of any indication of corruption or misuse of resources related to the Programme.

2. In matters pertaining to the implementation of the Programme the Royal Norwegian Embassy in Jakarta (the Embassy) through the Embassy Section in Dili (the Embassy Section) and the Timor-Leste State Secretariat for Natural Resources (SERN) shall be competent to represent MFA and Timor-Leste respectively. All communication to MFA in regard to the Agreement shall be directed to the Embassy Section.

Article III Contribution of MFA
1. MFA shall, subject to Parliamentary appropriations, make available to Timor-Leste a financial grant (the Grant) not exceeding NOK 67.235.000,00 million (Norwegian Kroner sixtysevenmillion twohundredandthirtyfivethousand) to be used exclusively to finance the Programme in the planned period 2008 to 2013.

2. Any accrued interests on the Grant may be used for the benefit of the Programme if agreed on by the Parties in writing.

3. Any unspent disbursed funds and accrued interests shall be returned to MFA upon completion of the Programme.

Article IV Contributions and obligations of Timor-Leste
Timor-Leste shall through SERN as supervising agency be responsible for implementing the Programme, and shall hereunder:

1. Have the overall responsibility for the planning, reporting and monitoring of the Programme,

2. provide other resources required in addition to the Grant

3. ensure that the Grant is used according to approved work plans and budgets, and that Programme funds, which shall include any accrued interests, are properly accounted for.

4. promptly inform Norway of any circumstances that interfere or threaten to interfere with the successful implementation of the Programme,

5. defray any customs duties, sales taxes and other taxes, fees and levies on all equipment, materials and supplies financed by the Grant and imported into Timor-Leste for the benefit of the Programme,

6. ensure that all permits, import licenses and foreign exchange permissions that may be required are granted,

7. undertake the obligations set out in Annex II with regard to technical assistance personell/consultants financed by the Grant.

8. ensure that representatives of Norway are permitted to visit any part of Timor-Leste for purposes related to the Agreement and examine any relevant records, goods and documents.

9. enter into the following contract (the Contract):

Institutional Cooperation Contract between the Timorese cooperating institutions The Ministry of Finance, The State Secretariat for Natural Resources and the State Secretariat for Environment on the one side and the Norwegian cooperating institutions The Ministry of Petroleum and Energy, the Ministry of the Environment and the Ministry of Finance on the other side, as well as their underlying directorates as the ministries deem relevant.
The contract and any subsequent amendments shall be submitted to MFA for approval before signing and entering into force.

Article V Disbursements

1. MFA will effect payment for services rendered and costs incurred direct to the Norwegian cooperating institutions in accordance with the terms and procedures set forth in the Contract and upon receipt of a request with enclosed invoices in original and copies of vouchers issued by the Norwegian institutions and certified by Timor-Leste.

MFA shall report payments made according to this clause to Timor-Leste.

2. Programme advisory staff based in Dili (Advisors) will make semi-annual written requests to MFA for funds to cover 1) “petty cash” disbursements and 2) costs related to education assistance under the Programme. Two separate bank account have been established for this purpose. All withdrawals from the accounts require two signatures.

Request for funds shall be based on the financial needs of the Programme and on approved work plans and budgets. When determining the amount to request, Advisors shall take into account unspent disbursed amounts and income from all sources as well as any accrued interests which the Parties have agreed on using for the benefit of the Programme according to Article III, Clause 2.

Along with the requests, except the first request, Advisors shall state the cash balance of the actual part of the Programme and submit a statement of bank balances from the bank.

Funds will be transferred upon MFA's approval of the requests to the respective bank accounts, and shall be made available to the Programme immediately. Advisors shall immediately, in writing, acknowledge receipt of the funds. The date of the receipt shall be stated as well as the exchange rate applied.

Article VI Annual Meeting and Steering Committee

1. Representatives of the Parties shall have an Annual Meeting within the first quarter of each year in order to:

   - Discuss the progress of the Programme, including results and fulfillment of agreed obligations,
   - discuss and approve annual work plans and budgets for the following year,
   - discuss issues of special concern for the implementation of the Programme, such as the major risk factors set out in the Agreed Programme Summary in Annex 1, and how to manage such risks/issues.

In addition to SERN, Timor-Leste will be represented by The Ministry of Finance and the State Secretariat for Environment.

Each of the Parties may include others to participate as observers or as advisors to their delegations.

2. The documentation specified in Articles VII and IX shall form the basis for the consultations.

3. The Annual Meeting shall be called by the Secretary of State for Natural Resources and chaired by the Secretary of State for Natural Resources.

4. Main issues discussed and points of view expressed as well as any decisions shall be recorded in Agreed Minutes. The Agreed Minutes shall be drafted by Timor-Leste and be submitted to MFA for comments no later than four weeks after the Annual Meeting.
5. The Contract will establish a Steering Committee for the Programme, which shall meet during the last quarter of each year. The Steering Committee shall consist of the Norwegian and the Timorese cooperating institutions. An annual progress report, work plans and budgets in accordance with Article VII will be prepared by the Steering Committee and forwarded to Timor-Leste.

Article VII Reports

1. Timor-Leste shall submit to MFA the reports and documentation specified below. MFA shall respond within four weeks upon reception of the reports and documentation.

2. A progress report shall be submitted annually four weeks before the Annual Meeting. The progress report shall include the following information:
   - A description of actual outputs compared to planned outputs (as defined in the work plans),
   - a brief summary of the use of funds compared to budget,
   - an assessment of the efficiency of the Programme (how efficiently resources/inputs are converted into outputs),
   - an explanation of major deviations from plans,
   - an assessment of problems and risks (internal or external to the Programme) that may affect the success of the Programme,
   - an assessment of the need for adjustments to activity plans and/or inputs and outputs, including actions for risk mitigation,
   - a brief assessment of achievements in relation to Purpose.

3. A work plan shall be submitted annually four weeks before the Annual Meeting. The work plan shall specify planned outputs and time schedules for the next calendar year.

4. The following annual financial statements and budget shall be submitted within four weeks before the Annual Meeting each year:

   1.1. Financial statements for the Programme consisting of:

   i) A statement showing cash receipts/income and expenditures for the previous period structured as and compared to approved budgets for such previous period as well as accumulated for the Agreement period. The statement shall capture all sources of funding, with sufficient segregation of data to permit identification of individual sources of funds and disbursements on major Programme activities or types of expenditure,

   ii) a statement of cash and bank balances,

   iii) relevant notes to the above mentioned statements including a description of the accounting policies used and any other explanatory material necessary for transparent financial reporting of the Programme.

   1.2. Budget for the Programme for the coming calendar year showing estimated income from all sources and planned expenditures.

The financial statements and budget(s) shall give complete and detailed information on the financing of the Programme.
5. A final report shall be submitted within three months after the completion of the Programme. If the Programme is not completed by end 2013, a status report shall be submitted to MFA by the said date. The final report shall include:

- The topics listed in Clause 2 above for the whole Agreement period,
- an assessment of the effectiveness of the Programme, i.e. the extent to which the Purpose has been achieved,
- an assessment of impact (if possible), i.e. the changes and effects positive or negative, planned and unforeseen of the Programme seen in relation to target groups and others who are affected,
- an assessment of sustainability of the Programme, i.e. an assessment of the extent to which the positive effects of the Programme will still continue after the external assistance has been concluded,
- a summary of main "lessons learned".

**Article VIII Procurement**

1. Procurements shall be performed in accordance with generally accepted procurement principles, good procurement practices and the procurement regulations of Timor-Leste. Norwegian suppliers shall be given the same opportunities as other suppliers to compete for deliveries.

2. The highest ethic standards shall be observed during the procurement and execution of contracts, and shall ensure in its national legislation adequate and effective means to punish and prevent illegal or corrupt practices.

3. No offer, gift, payment or benefit of any kind, which would or could, either directly or indirectly, be construed as an illegal or corrupt practice, e.g. as an inducement or reward for the award or execution of procurement contracts, shall be accepted. Invitations to make offers as well as the procurement contracts shall, respectively, include a clause stating that the offer will be rejected and/or the contract cancelled in case any illegal or corrupt practices have taken place in connection with the award or the execution of the contract.

4. Contracts entered into exceeding one million Norwegian Kroner shall be submitted to MFA for information.

5. Advisers shall upon request furnish MFA with all relevant information on its procurement practices and actions taken, and provide access to all related records and documents. MFA may require access to information even during the stage in the procurement procedure when it is restricted to the officers performing the procurement. Restrictions on such information shall be respected until the information can be made public without any risk of detriment to the result of the procurement.

**Article IX Audit**

1. The Programme funds which are channeled through the Norwegian institutions in accordance with Article V 1) will be subject to audit by the Norwegian Auditor General. All other Programme funds shall be subject to a final audit covering the entire Programme period after the completion of the Programme.
2. The final audit of Programme funds shall be performed by an independent professional accountant/accountancy firm in public practice (external auditor/audit firm) acceptable to MFA in accordance with principles for governmental sector auditing.

The cost of the audit shall be covered by the Grant.

3. The audit shall be carried out in accordance with international auditing standards. The auditor shall state in the report which auditing standards that have been applied.

4. The audit report shall state the auditor’s opinion/findings as to:
   - Whether the financial statements present fairly, in all material respects, the Programme’s cash receipts/income and expenditures as well as the cash/bank/financial position in accordance with an acceptable financial reporting framework,
   - whether the audit has uncovered any material weaknesses in relevant internal control(s),
   - whether the audit has uncovered any illegal or corrupt practices,
   - whether funds have been used exclusively to cover Programme expenditures,
   - whether cash receipts/income and expenditures are properly accounted for.

5. The audit report and any other report from the auditor significant to the implementation of the Programme shall be submitted to MFA within 6 months after the completion of the Programme. Timor-Leste shall comment upon the auditor’s findings. MFA shall respond within four weeks upon reception of the report.

**Article X Reviews – Evaluation**

1. A review of the initial phase of the Programme shall be carried out in the third quarter of 2009 to assess the progress, effectiveness and success of the Programme seen in relation to the original plans and to any alterations that may have taken place in the Timor-Leste petroleum administration. This review will form the basis for potential alterations to the Programme, or, if significant and negative developments have occurred in terms of governance of the sector, for a Programme closure.

2. A mid-term and an end review focusing on progress to date and the effectiveness of the Programme, i.e. the extent to which the Purpose is being/has been achieved, shall be respectively carried out by December 2010 and December 2013. An assessment of the Programme’s impact may also be included in the reviews.

3. The cost of the reviews shall be covered by the Grant.

4. Norway reserves the right to carry out independent reviews or evaluations of the Programme as and when MFA deems it necessary. The cost for such reviews will be covered by funds over and above the Grant.

**Article XI Reservations**

1. MFA reserves the right to withhold disbursements at any time in case e.g.:
   - The Programme develops unfavorably in relation to the Goal and Purpose,
   - substantial deviations from agreed plans or budgets occur,
   - the documentation specified in Articles VII and IX has not been submitted as agreed,
   - the financial management of the Programme has not been satisfactory,
   - the contract(s) referred to in Article IV, Clause 10 is breached or terminated before all obligations therein are fulfilled.

2. MFA has the right to cancel the Agreement or portion of the Agreement, and has the right to demand the cancellation of any contract financed under the Agreement, with immediate effect if it determines that corrupt or fraudulent practices were engaged in by representatives of Timor-Leste or by a beneficiary of Programme funds during
procurement or execution of the contract without Timor-Leste having taken timely and appropriate action satisfactory to Norway to remedy the situation.

3. Before MFA withholds disbursements, reclaims funds or cancels the Agreement, the Parties shall consult with a view to reaching a solution in the matter.

Article XII Distribution of the Agreement
The Parties shall distribute copies of the Agreement to the respective ministries, authorities and other institutions involved in the Programme or otherwise in need of information on its content.

Article XIII Entry into force – Termination – Disputes
1. The Agreement shall enter into force on the date of its signature, and shall remain in force until the Parties have fulfilled all obligations arising from it. Whether the obligations are fulfilled, shall be determined in consultations by the Parties.

2. Notwithstanding the previous clause each Party may terminate the Agreement upon three months written notice.

3. If any dispute arises relating to the implementation or interpretation of the Agreement, the Parties shall consult with a view to reaching a solution.

IN WITNESS WHEREOF the undersigned, acting on behalf of their respective Governments, have signed the Agreement in two originals in the English language.

Signed in Dili, this 20th of May of the year 2008

For the Norwegian Ministry of Foreign Affairs

Erik Solheim
Minister for Development and the Environment

For the Government of the Democratic Republic of Timor-Leste

Zacarias Albano da Costa
Minister for Foreign Affairs

Annexes:
I. Agreed Programme Summary
II. Obligations with regard to personnel/consultants
Annex I Agreed Programme Summary

Identification of the Programme

- Programme Title/Name: Assistance in Management of Petroleum Resources
- Agreement parties:
  The Government of the Democratic Republic of Timor-Leste
  Ministry of Foreign Affairs Norway
- Implementing institutions:
  State Secretariat of Natural Resources,
  Ministry of Finance,
  State Secretariat for the Environment
- Norwegian and/or other Partner institutions:
  Norwegian Ministry of Petroleum and Energy,
  Ministry of Finance,
  Ministry of the Environment:
  Directorates and other institutions as deemed relevant by the Norwegian ministries.

Description of the Programme

Goal: to assist Timor-Leste to manage petroleum activities in such a way that the petroleum sector delivers the greatest possible benefit to the people of Timor-Leste.

The Purpose of the Programme is to increase competence and capacity in Timor-Leste such that the public sector can manage all petroleum activities, specifically in technical, legal, and Health, Safety and Environment (HSE) compliance, and revenue management.

Main indicators

- The National Petroleum Authority functions well as a Regulatory Authority, covering both upstream and downstream activities
- Petroleum Tax Division of MoF controls tax revenues professionally
- Fiscal policy is sound and recognised internationally as such
- Petroleum Fund is managed well and soundly invested
- Conformity with the EITI principles is recognised internationally
- Adequate numbers of Timorese staff are available to carry out most tasks without major use of external resources.

Outputs:
The Parties and the Implementing Institutions shall cooperate to implement the following tasks:

For The Secretariat of State for Natural Resources

- Establish the National Petroleum Authority (NPA)
- Facilitate access to petroleum and economic related education for Timorese students
- Implement professional development programs for NPA staff
- Provide up to 10 post-graduate scholarships in Norway
- Manage Production Sharing Contracts, to ensure compliance with technical, legal and HSE regulations
- Implement Resource Management systems, including establishment of a petroleum database
- Implement Revenue management for the Royalties and Profit Oil collected by NPA, as well as control of deductible expenses of the Oil companies.
- Assist studies of the gas pipeline and LNG plant for Greater Sunrise Field
- Engage short-term consultants
- Revise the Petroleum Laws
For the Ministry of Finance
- Build a professional Petroleum Tax Division in MoF which can monitor tax revenues
- Provide advice to both Government and tax payers on petroleum tax issues
- Audit petroleum tax revenues to ensure correct and transparent payments
- Calculate the petroleum wealth and sustainable income
- Make revenue projections and macroeconomic forecasts as input to national budget
- Formulate sound investment strategies for the petroleum fund
- Develop Timorese capacity in macroeconomics

For the Secretariat of State for the Environment
- Build a professional section to handle environmental matters related to the petroleum industry
- Develop Timorese capacity in Strategic Environmental Assessments, Environmental Impact Assessments, and Emergency response Plans
- Establish a Metadata database for environmental information

Inputs

Funds:
Norway will provide NOK 67,235,000 over the period 2008 to 2013

Technical assistance:
Norway will provide technical advice and assistance in the form of full-time and part-time advisors on long term and short term contracts, and access to reference groups in Norway.

Major risk factors (internal and external):
- Political instability
- Security concerns
- Changes in government policy
- Lack of availability of high quality advisors

Overall budget
MFA contributes the total budget.

Tentative budget in NOK 000's

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Total | 4740 | 4330 | 5400 | 7100 | 8850 | 5000 | 39900 |
Annex II – Obligations with regard to personnel/consultants made available to Timor-Leste

Permissions, taxes

Timor-Leste shall provide or cause to be provided:

to the personnel/consultants provided (hereinafter the personnel) by MFA and their families, free of charge, necessary entry, re-entry, exit and other permits including employment permits and ID-cards for the personnel;

exemption from professional registration and licence requirements;

exemption from income taxes and any other direct taxes on emoluments paid to the personnel for services in Timor-Leste under the Agreement;

exemption from payment of import and export duties, taxes and other fees on equipment imported to Timor-Leste in connection with the services performed under the Agreement;

exemption from any currency or foreign exchange controls on financial resources brought into Timor-Leste by the personnel for the purpose of the Agreement;

exemption from payment of import and export duties and taxes on used household goods and personal effects brought into Timor-Leste from Norway by the personnel or their families within six months of their first arrival in Timor-Leste

the right for the personnel to import free of duty and sales tax (or purchase from bond) one television, one personal computer, one printer, one deep freezer, one refrigerator and one air conditioning unit for each member of the family, however at least two per household;

the right for the personnel to import free of duty and sales tax (or purchase from bond) of one motor car within six months of first arrival in Timor-Leste. If the motor car is damaged beyond repair or worn out or otherwise lost without neglect on the part of the personnel or their families, the personnel shall irrespective of any time limit be entitled to import a second vehicle in replacement of the first one.

If any of the items mentioned in Clauses 2.4, 2.7 and 2.8 above are disposed of in Timor-Leste otherwise than to a person entitled to the same exemptions, appropriate duty and tax shall be paid thereon.

Indemnity – Arrest

Timor-Leste shall indemnify MFA and the personnel serving in Timor-Leste under the Agreement and hold them harmless against any liability, suits, actions, demands, damages, costs or fees claimed by third parties on account of death, injuries to person or property, or any other losses resulting from or connected with words spoken or written or any act performed or omission made in the execution within the territory of Timor-Leste of assistance under the terms of the Agreement, short of acts amounting to gross negligence or wilful misconduct of such personnel. In case of gross negligence or wilful misconduct, Timor-Leste will be liable to third parties to the same extent as it would be in respect of its own employees. In all cases Timor-Leste shall be entitled to exercise and enforce the benefit of any defence or right of set off, counterclaim, insurance, indemnity, contribution or guarantee to which such personnel become entitled.

If claims arise in a case where gross negligence or wilful intention on the party of the personnel has been established by a court of law in Timor-Leste, Timor-Leste may hold the person concerned liable according to applicable law.