

INDICATIVE TERM SHEET

Seed/Acceleration and Start-up Fund

This Indicative Term Sheet is structured of:

Definitions and Abbreviations

- I. Disclaimer
- II. Introduction
- III. Indicative Terms and Conditions

Definitions and Abbreviations

| | |
|-----------------------------|---|
| BGN | Bulgarian Lev – National currency of Bulgaria |
| CPR | “Common Provisions Regulation” - Regulation (EU) No 1303/2013 of the European parliament and of the Council of 17 December 2013 laying down common provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund, the European Agricultural Fund for Rural Development and the European Maritime and Fisheries Fund and laying down general provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund and the European Maritime and Fisheries Fund and repealing Council Regulation (EC) No 1083/2006; OJ L 347/320, 20.12.2013 |
| DA | “Delegated Act” - Commission Delegated Regulation (EU) No 480/2014 of 3 March 2014 supplementing Regulation (EU) No 1303/2013 of the European Parliament and of the Council laying down common provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund, the European Agricultural Fund for Rural Development and the European Maritime and Fisheries Fund and laying down general provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund and the European Maritime and Fisheries Fund; OJ L 138, 13.5.2014 |
| EC | European Commission |
| EU | European Union |
| ESIF/ESI Funds | European Structural and Investment Funds |
| Eligibility period | In accordance with Art. 65, par. 2 of the CPR the end date of the eligibility period is 23.12.2023 |
| ERDF Regulation | Regulation (EU) No 1301/2013 of the European Parliament and of the Council of 17 December 2013 on the European Regional Development Fund and on specific provisions concerning the Investment for growth and jobs goal and repealing Regulation (EC) No 1080/2006; OJ L 347, 20.12.2013 |
| Ex-ante assessment | Means an ex-ante assessment as further specified in Art, 37, par. 2 of the CPR and on which the support with financial instruments is based. For other details see the ex-ante assessment for the financial instruments under OPIC: http://www.opcompetitiveness.bg/module3.php?menu_id=348 ; http://www.opcompetitiveness.bg/module0.php?menu_id=397 . |
| IP | Investment Priority |
| GBER | “General Block Exemption Regulation” - Commission Regulation (EU) No 651/2014 of 17 June 2014 declaring certain categories of aid compatible with the internal market in application of Articles 107 and 108 of the Treaty; OJ L 187, 26.6.2014 |
| Financial Instrument | Seed/Acceleration and Start-up Fund |
| FMFIB | The Fund Manager of Financial Instruments in Bulgaria |
| FoF | The Fund of Funds |

| | |
|--|--|
| Funding Agreement | The Funding Agreement signed between FMFIB and the Managing Authority of OPIC on 1 August 2016. |
| Market Test | The process of preliminary discussions with market participants and evaluation of the market environment for the implementation of the Financial Instrument. |
| OP | Operational Program |
| OPIC | Operational Program “Innovation and Competitiveness” 2014-2020 |
| Follow-on investment | Means additional investment in a company subsequent to one or more previous investment rounds. |
| Pari Passu | The implementation of pari-passu principle means “like risk, like reward” as further specified in section 2.1.1 of the Guidelines on State aid to promote risk finance investments ¹ . |
| Programme area | As per art. 2, par. 7 of the CPR means a geographical area covered by a specific programme or, in the case of a programme covering more than one category of region, the geographical area corresponding to each separate category of region. In the context of OPIC the programme area is the territory of Republic of Bulgaria. |
| Independent Private Investors | As per art. 2, par. 72 of the GBER and item 52, (xvii) of the Guidelines on State aid to promote risk finance investments ‘ independent private investor ’ means a private investor who is not a shareholder of the eligible undertaking in which it invests, including business angels and financial institutions, irrespective of their ownership, to the extent that they bear the full risk in respect of their investment. Upon the creation of a new company, private investors, including the founders, are considered to be independent from that company |
| Irregularity | Means any breach of Union law, or of national law relating to its application, resulting from an act or omission by an economic operator involved in the implementation of the ESI Funds, which has, or would have, the effect of prejudicing the budget of the Union by charging an unjustified item of expenditure to the budget of the Union |
| Seed/Acceleration Stage | Financing provided to research, assess and develop an initial concept before a business has reached the start-up stage ² . |
| Start-up Stage | Financing for product development and initial marketing. Companies have not sold their product commercially and are in the process of being set up, or are at the initial stage(s) of their development following their first commercial sale ³ . |
| Small and Medium Sized Enterprise (SME) | A micro, small or medium sized enterprise as defined in Commission Recommendation 2003/361/EC ⁴ and in the Annex 1 of the GBER as amended from time to time concerning the definition of micro, small and medium-sized enterprises. |

¹ OJ C 19, 22.1.2014

² As per the definition of Invest Europe

³ On the basis of the definition of Invest Europe supplemented to reflect the proposed structure of the financial instrument.

⁴ Commission Recommendation of 6 May 2003 concerning the definition of micro, small and medium-sized enterprises (OJ L 124, 20.5.2003, p. 36).

I. Disclaimer

The Term Sheet provided herein is prepared for information purposes only. The document summarises the key indicative characteristics of the Financial Instrument “Seed/Acceleration and Start-up Fund”, financed by Operational Program “Innovation and Competitiveness” (“OPIC”) and is subject to further changes and amendments. The document is prepared in view of conducting a Market Test for the Financial Instrument (“FI”). The final contents of this document are subject to review and approval by the Fund Manager of Financial Instruments in Bulgaria EAD (“FMFIB”) and the Managing Authority of OPIC.

II. Introduction

The Financial Instrument is implemented in accordance with Priority Axis 2, Investment Priority 2.1 of the Operational Program “Innovation and Competitiveness” (“OPIC”) which is focused on support to promote entrepreneurship and facilitate the access to finance for enterprises (both existing and newly created) and on improving the survival rate of SMEs including through development of entrepreneurship.

In accordance with the OP an important component of a successful entrepreneurial ecosystem consists of an array of early stage investors engaged in the development of an investment market that supports innovation, entrepreneurship and new business development.

Considering the above the ex-ante assessment on the implementation of FIs has established the need for implementation of Seed/Acceleration and Start-up fund. The use of FIs within the Investment Priority includes an instrument for equity and/or quasi equity investments in seed and start-up capital.

In order to address the established market inefficiencies and suboptimal investment situations through implementation of financial instruments, the Managing Authority of OPIC has appointed FMFIB as the manager of the Fund of Funds (“FoF”), according to the Funding Agreement between the Managing Authority of the Operational Program “Innovation and Competitiveness” within the Ministry of Economy and the “Fund Manager of the Financial Instruments in Bulgaria” EAD (“FMFIB”) signed on 1 August 2016 and according to Art. 38, par. 4, (b) of the CPR and Art. 5, par. 2 and 3 of the Management of Resources from the European Structural and Investment Funds Act.

In accordance with the Funding Agreement, FMFIB is managing the funds provided by OPIC to the FoF, to be invested as financial instruments by the FoF on behalf of the Managing Authority of OPIC. Therefore, FMFIB is implementing a number of processes in accordance with the Funding Agreement, including but not limited to:

- a) Identification, evaluation and selection of appropriate Financial Intermediaries which shall enter into Operational Agreements with the FoF for the implementation of the Financial Instrument which includes *inter alia*:
 - Analysis and preparation of indicative term sheet of the Financial Instrument;
 - Conducting consultations with market participants and evaluation of the market environment for the implementation of the Financial Instrument (Market Test);
 - Preparation and carrying out of a Selection Process for Fund Manager(s) to invest and manage the Financial Instrument;
- b) Negotiating, signing and if needed amending the Operational Agreements for the Financial Instrument with the Fund Manager(s);
- c) Management and monitoring of the Financial Instrument;
- d) Risk management, operational; and financial reporting.

The Selection Process by which FMFIB will appoint the Fund Manager(s) and the ongoing implementation shall be conducted in an open, transparent, proportional and non-discriminatory manner in accordance with applicable law and regulations including Art. 37, par. 5 of the CPR and Art. 6 and 7 of the DA

The current document includes an indicative term sheet for the Financial Instrument – “Seed/Acceleration and Start-up Fund” and outlines the key indicative terms to be used in discussions with market participants during the Market Test which is expected to continue until 10 March 2017.

III. Terms and Conditions of the Operational agreement

The Fund(s) or Financial Instrument

The Fund(s) will be established in accordance with the investment strategy of the Financial Instrument and legal acts governing the operations of the FMFIB and the Financial Instrument including but not limited to EU and national legislation on ESIF, state aid and public procurement rules, relevant standards and applicable legislation on the prevention of money laundering, the fight against terrorism and tax fraud as specified in the respective sections of this Term Sheet.

The Fund(s) shall be established as a closed-ended investment vehicle(s). The overall structure may consist of a General Partner / Investment Manager / Fund Manager, Investment Advisor and related entities, as well as Limited Partners / Investors.

Following discussions with market participants and analysis of the current market environment during the Market Test, one or more investment funds may be established in accordance with the investment strategy of the Financial Instrument, the rules and regulations specified herein and the laws of the country of incorporation of the Fund(s), including laws transposing EU legislation for the requirements to and the supervision of the investment funds.

Following the discussions with market participants during the Market Test, taking into account the prospective investment strategies and in accordance with the applicable regulations, two types of State Aid Regime (SAR) may be applied:

SAR I: Fund(s) structured in compliance with the GBER and attracting commitments from independent private investors within the following minimum thresholds:

SAR I(a): 10% for investments in eligible undertakings prior to their first commercial sale on any market and/or

SAR I(b): 40% for investments in eligible undertakings operating in any market for less than 7 years following their first commercial sale.

The Fund may target eligible undertakings in both development stages (as mentioned above in SAR I(a) and SAR I(b)). In such cases the minimum commitments required from independent private investors should represent at least the weighted average of minimum commitments required calculated on the volume of individual investments in the underlying portfolio.

The Fund manager shall monitor the portfolio and shall procure that the private participation at the fund and the portfolio companies' level are at all times in compliance with art. 21, par. 10 and 11 of the GBER.

SAR II: Funds(s) attracting a minimum of 30% commitments from Independent Private Investors, applying *pari passu* principle are subject to compliance with the Guidelines on State aid to promote risk finance investments (state aid free).

In both cases (SAR I and SAR II) the minimum private participation may be committed at the level of the Fund and/or through a co-investment model where the Fund co-invests with the independent private investors at the level of the Investees.

Fund(s) Objectives

To invest in a diversified portfolio of enterprises focused on supporting the entrepreneurial ecosystem in Bulgaria, in particular:

- investing in the Seed/Acceleration and/or Start-up stages related with development of the eligible SMEs;
- supporting the creation and development of new sustainable businesses;
- enhancing the successful implementation of new business ideas from development of initial concept through product, process and/or organizational

| | |
|--|---|
| | development to first commercial sale including initial marketing and/or business development support; |
| | <ul style="list-style-type: none">• increasing the entrepreneurial activity;• providing strategic value added support to the investees such as: offering an integrated package for entrepreneurial development incl. managerial training, networking sessions for new business creation and potential follow-on financing, mentoring sessions with experienced industry professionals in all fields, and strategic mentoring;• developing entrepreneurial ecosystem outside of Sofia as well. |
| Types of Investments | The Investments of the Fund(s) can be made in the form of equity or quasi-equity. |
| Target Group of Investees | Target Group of Investees may include: starting entrepreneurs, newly registered companies wishing to implement a business idea and start-up companies. |
| Eligible Investees / Eligible Investments | <p>The Fund(s) shall invest in Eligible Investees and Eligible Investments:</p> <p>1. Eligible Investees include enterprises which at the time of the initial investment are not listed and:</p> <ul style="list-style-type: none">i) Are micro, small or medium enterprises (SMEs);ii) have an establishment and/or branch and/or headquarters in the Republic of Bulgaria at the moment of investment as per state aid principles outlined in the EU regulations;iii) are not manufacturing, processing and marketing of tobacco and tobacco products as per art. 3, par. 3 (c) of the ERDF Regulation;iv) are not undertakings active in Section A - Agriculture, forestry and fishing as listed in NACE Rev. 2 <p>In case SAR I is applied (as per art. 1, par. 4 and art. 21, par. 5 and 10 of the GBER):</p> <ul style="list-style-type: none">v) are SMEs which have not been operating in any market⁵ or are operating in any market for less than 7 years following their first commercial sale⁶;vi) are not “undertakings in difficulty” according to Article 2, par. 18 of Regulation EU № 651/2014;vii) are not subject to an outstanding recovery order following a previous EC decision declaring an aid illegal and incompatible with the internal market, with the exception of aid schemes to make good the damage caused by certain natural disasters; <p>In case SAR II is applied (as per art. 3, par. 3 (d) of the ERDF Regulation):</p> <ul style="list-style-type: none">viii) are not “undertakings in difficulty” according to points 20 and 24 of the Guidelines on State aid for rescuing and restructuring non-financial undertakings in difficulty (OJ C 249, 31.7.2014); <p>2. Eligible Investments are:</p> <ul style="list-style-type: none">i) Investments that may be implemented outside of the programme area but within the European Union and where the benefit of the investment is for Bulgaria, subject to all meeting all conditions and thresholds as per art. 70 |

⁵ Before the first sale by a company on a product or service market, excluding limited sales to test the market

⁶ Subject to the private participation rates as per art. 21, par. 10 and 11 of the GBER

of the CPR are;

- ii) Investments that are not physically completed or fully implemented at the date of the investment decision as per art. 37, par. 4 of the CPR
- iii) Investments where the investment amount is: between EUR 25,000-50,000 for the Acceleration/ Seed Stage and/or up to EUR 1 m for the Start-up Stage, including follow-on investments;
- iv) Investments where there is transfer of property rights in enterprises, the transfer takes place between independent investors;
- v) Compliant with art. 37, par. 4 of the CPR.

In case SAR I is applied in accordance with art. 21, par. 6, 7, 14 of the GBER, :

- vi) Investments are based on a viable business plan, containing details of product, sales and profitability development, establishing ex-ante financial viability;
- vii) Investments that have a clear and viable exit strategy;
- viii) Investments in cases where replacement capital is envisioned support may be provided only if the latter is combined with new capital representing at least 50% of each investment round into the eligible undertakings;
- ix) follow-on investments are eligible in cases where the following conditions have been met:
 - a. the possibility of follow-on investments was foreseen in the original business plan;
 - b. total amount of risk finance is in compliance with Art.21, par. 9 of the GBER
 - c. the undertaking receiving follow-on investments has not become linked, within the meaning of Article 3(3) of Annex I of the GBER with another undertaking other than the financial intermediary or the independent private investor providing risk finance, unless the new entity fulfils the conditions of the SME definition;
 - d. the investment is made before the expiry of the 7 year period after the first commercial sale, otherwise the requirement for 60% private investors participation in accordance with art. 21, par.10, (c) of the GBER shall be applied.

Ineligible Investments

The Fund(s) shall not invest, complete investments or otherwise support the following activities:

- i) As per art. 3, par. 3 (a), (b) and (e) of the ERDF Regulation:
 - the decommissioning or the construction of nuclear power stations;
 - investing to achieve the reduction of greenhouse gas emissions from activities listed in Annex I to Directive 2003/87/EC;
 - investing in airport infrastructure unless related to environmental protection or accompanied by investment necessary to mitigate or reduce its negative environmental impact.
- ii) the financing of the same expenditure items where the conditions as per art. 37, par. 7, 8 and 9 of the CPR are not satisfied;
- iii) the refinancing or restructuring of existing loans or leases;
- iv) the pre-financing of a grant;

-
- v) any investment affected by an irregularity or fraud;
 - vi) pure financial activities or real estate development when undertaken as a financial investment activity;

In case SAR I is applied (as per Art. 1, par. 2, 3 and 5 of the GBER):

- vii) investment directly linked to the quantities exported, to the establishment and operation of a distribution network or to other current costs linked to the export activity;
- viii) investments contingent upon the use of domestic over imported goods or which are subject to the obligation for the investees to use nationally produced goods or national services;
- ix) investment to facilitate the closure of uncompetitive coal mines, as covered by Council Decision No 2010/787;
- x) investments restricting the possibility for the investees to exploit the research, development and innovation results in other Member States.

| | |
|-------------------------|---|
| Excluded sectors | In addition to the restrictions set out in section “Eligible Investees/Eligible Investments” and “Ineligible Investments” the Fund(s) may consider the harmonized exclusion list of the European Development Finance Institutions (EDFI). |
|-------------------------|---|

| | |
|-------------------------|---|
| State Aid regime | <p>The applicable State Aid regimes are:</p> <ul style="list-style-type: none">(i) In cases where the independent private participation is at least 10% to 40% of the Total Fund Commitments depending on the development stages of the investees under Art. 21, par. 10 and 11 of the GBER are subject to state aid scheme under Article 21 of the GBER (SAR I) – in such cases asymmetric return profiles can be considered or;(ii) In cases where the independent private participation is no less than 30% of the Total Fund Commitments and <i>pari passu</i> principle is applied – subject to state aid free measure as per Section 2.1 of the Guidelines on State Aid to promote risk finance investments. |
|-------------------------|---|

The elements of the State Aid regimes are incorporated in this term sheet.

| | |
|---|--|
| Domiciliation / Legal form / Governing law | <p>The domiciliation, legal form, documentation and governing law of the Fund(s), the Fund Manager(s) and related vehicles will be proposed and established by the Fund Manager(s) in the European Union,(unless otherwise agreed with FMFIB) and will be acceptable to FMFIB.</p> |
|---|--|

The Fund(s), the Fund Manager(s) and any other entities involved in the implementation of the Financial Instrument shall not be established, and shall not maintain business relations with, or invest in or through, entities incorporated in territories whose jurisdictions do not co-operate with the European Union in relation to the application of the internationally agreed tax standard and shall transpose such requirements in their agreements with Investees.

All relevant documentation in relation to the Selection Process will be in Bulgarian language.

The legal documentation of the Fund(s) may be in English language or bilingual with the English version prevailing.

| | |
|-----------------|---|
| Currency | The currency of the Fund(s) shall be BGN. |
|-----------------|---|

| | |
|---------------------------|--|
| Fund Size and Fund | The size of the Fund(s) will depend on the proposed terms and the investment |
|---------------------------|--|

| | |
|---|---|
| Closings | <p>strategy of the Fund Manager(s) and will comprise of the aggregate commitments from its Investors. The target fund size and minimum size of the First Closing will be determined following discussions with market participants at the Market Test.</p> <p>Typically the investment capital may be raised in stages (Fund Closings) where one or more Investors will unconditionally commit capital to the Fund(s). Unless otherwise agreed, the Investment Period of the Fund will start from the date of First Closing of the Fund(s) and FMFIB will participate in the First Closing of the Fund(s). After the Final Closing no commitments will be accepted by the Fund(s). The date of the Final Closing will be agreed with the Fund Manager(s).</p> |
| Indicative FMFIB Maximum Commitment | <p>FMFIB maximum commitment provided by the financial instrument will be a total of ~BGN 104.3m including Management Fee of the Fund Manager(s).</p> <p>The commitment of FMFIB will be conditional upon the Fund(s) achieving the conditions precedent to closing the Fund(s) that will be outlined in the operational agreements and the Final Term Sheet.</p> <p>The FMFIB commitment may be provided in tranches at each closing of the Fund. It will be determined in accordance with the applicable State Aid Regime and may be between 60% and 90% of the Total Fund Commitments in particular:</p> <ul style="list-style-type: none">i) In case of SAR I: FMFIB may commit between 60% and 90% of Total Fund Commitments to Fund(s) investing in enterprises that are SMEs outlined in art. 21, par. 5, (a) and (b) and within the thresholds of art. 21, par. 10 (a) and (b) and par. 11 of the GBER.ii) In case of SAR II: FMFIB may commit no more than 70% of Total Fund Commitments to Fund(s) investing in eligible SMEs within the Funds' objectives; |
| Minimum Commitments of the Independent Private Investors | <p>The Fund(s) will receive commitments of:</p> <ul style="list-style-type: none">i) In case of SAR I: no less than 10% and/or 40 % of Total Fund Commitments to Fund(s) in compliance with art. 21, par. 10 and 11 of the GBER <p>or</p> <ul style="list-style-type: none">ii) In case of SAR II: no less than 30% of Total Fund Commitments in eligible SMEs within the Funds' objectives. <p>The expected aggregate commitment to the Fund(s) to be attracted from Independent Private Investors shall be indicated in the Selection Process.</p> |
| Commitment of the Fund Manager(s) | <p>The Fund Manager(s) is expected to make a meaningful financial commitment to the Fund in order to enhance the alignment of interest between the Fund Manager(s) and the investors in the Fund.</p> <p>The Fund Manager(s) will include a proposal in relation to the level of financial commitment to the Fund(s) during the Selection Process.</p> <p>The commitment of the Fund Manager(s) will be considered as a commitment from an Independent Private Investor as per the requirements of art. 21, par. 10, (a) and (b) of the GBER.</p> |
| Portfolio diversification | <p>The Fund(s) may not invest more than BGN 1.96 million in one Investee including follow-on investments. Further diversification limits may be specified in the Final Term Sheet. During the operation of the Fund(s) these limits may be reviewed and waived with the prior approval of the Advisory Committee provided that such amounts shall not exceed the amount set out in art. 21, par. 9 of the GBER (in case of SAR I).</p> <p>In case of SAR I the Financial intermediary shall ensure an appropriate risk</p> |

| | |
|---|---|
| | diversification policy aimed at achieving economic viability and efficient scale in terms of size and territorial scope of the relevant portfolio of investments. |
| Fund Term | <p>The Fund(s) will have an initial fixed term of 10 years starting from the date of First Closing.</p> <p>With the approval of Investors, the Fund(s) may be terminated before the end of the Fund Term or the Fund Term may be extended with the approval of Investors by two consecutive one-year periods to provide for the orderly realisation of the investments.</p> |
| Investment Period | <p>The Investment Period will run from the date of First Closing and will end at the earlier of:</p> <ul style="list-style-type: none">(i) the end of the fifth anniversary of the date of First Closing;(ii) 31 December 2023;(iii) triggering of Investor protection clauses, such as Key-person clause etc. <p>If the capital commitments of the Fund(s) have not been fully drawn down during the Investment Period, the Investment Period may at the request of the Fund Manager, be extended by up to one year, subject to consent by the Investors and provided that the requested period of extension is before 31 December 2023.</p> |
| Follow-on Investments | <p>If (a) the Operational Agreement between the Fund(s) and FMFIB was signed before 31 December 2017 and (b) at least 55% of funding committed in the Operational Agreement has been drawn down for investment in Investees or payment of Management Fees until the end of the Eligibility Period, then up to 20% of the total disbursements (less realisations) until the end of the Eligibility Period may be available for follow-on investments for a period not exceeding four years after the end of the Eligibility Period, subject to the conditions set out in Article 42(3) of the CPR.</p> |
| Fund drawdowns | <p>Fund Commitments will be drawn down proportionately on as needed basis to make investments or to provide funds to satisfy the Management Fee of the Fund Manager(s). Investors will typically receive a minimum of 10 business days' prior written notice to disburse the commitments to the Fund.</p> <p>As per Art. 42 and art. 65, par. 2 of the CPR, the FMFIB Commitment should be disbursed to Investees and for payment of Management Fee in full before the end of the Eligibility Period.</p> |
| Ranking of FMFIB and the Independent Private Investors | <p>The ranking of FMFIB and the Independent Private Investors in the distribution cascade of the Fund(s) will be "pari-passu".</p> <p>Options for asymmetric return profiles i.e. potential for upside incentive and/or downside protection for Independent Private Investors can also be considered in case of SAR I and will be determined following the discussions with market participants at the Market Test.</p> |
| Distribution Cascade | <p>Typical distribution <i>pari-passu</i> cascade of the Fund(s) is as follows:</p> <p>After payment of the Management Fee of the Fund(s), any distributions which are made, will be completed as follows:</p> <ul style="list-style-type: none">(i) First, 100% to the Investors until the Investors (pro rata to the amount of their respective commitments) have received distributions equal to their aggregate capital contributions;(ii) Second, 100% to the Investors (pro rata to the amount of their respective commitments) until they have received the Hurdle Rate;(iii) Third, 100% to the Fund Manager until it has received an amount equal to |

25% of the Hurdle Rate (“Catch-up”), if any;

- (iv) Fourth, distribution to the Investors (pro rata to the amount of their respective Fund Commitments) and the Fund Manager (“Carried Interest”).

Hurdle Rate - the cumulative annual rate of preferred return to the Investors calculated on the drawn-down contributions that are not yet returned. The rate will be determined in accordance with market practice and the requirements of the Financial Instrument following the discussions with the market participants at the Market Test.

Carried Interest – the split of profits between the Investors and the Fund Manager(s) in the proceeds of the Fund(s) after the amounts in paragraphs (i), (ii), and (iii) above have been satisfied. The percentage split between i.e. rate of Carried Interest to be received by the Fund Manager(s) in the Fund(s) will be proposed by the Fund Manager(s) during the selection process.

The Distribution Cascade may be amended following discussions with market participants at the Market Test.

Management Fee

The Fund Manager(s) shall be entitled to Management Fee which shall be proposed by the Fund Manager(s) during the selection process and outlined in the agreements.

The Management Fee will be paid from First Closing until 31 December 2023 (the “Eligibility Period”), the Fund Manager will receive Management Fee on an annual basis and will be calculated as a percentage of the Total Fund Commitments during the investment period and as a percentage of the invested capital less realisations and/or write-offs and write-downs thereafter.

The Management Fee shall include any fees, expenses and costs necessary to set up and manage the Fund(s).

Indicative management costs and expenses may include:

Management costs of Fund Manager(s) related to the operation of the Fund Manager(s). including but not limited to: salaries and remuneration of the investment professionals, office expenses; Fund Manager costs related to the investment business of the Fund(s); costs related to legal, specialised and third-party services etc.;

Fund expenses incurred in relation to the administration and business of the Fund(s) Including its own annual audit and valuation fees, bank charges, legal fees and expenses, reasonable out-of-pocket expenses of the Advisory Committee or Investors’ Meetings, the costs of printing and circulating reports and notices, and costs reasonably and properly incurred and directly related to the purchase, holding or sale of Investees etc.;

Fund establishment costs including third party fees and expenses in connection with the organization and formation of the Fund(s).

Fee offset: Any money / fees or other payments (such as, but not limited to director fees, advisory fees, transaction fees, deal closing fees, syndication fees, abort fees, monitoring fees, nominee directors’ fees, investment banking or finder’s fees) received by or paid to the Fund Manager(s), are to be reported to the Investors and offset 100% against the Management Fee.

Management costs and fees to be paid after the Eligibility Period shall not exceed 1.5% per annum of the amounts paid to Final Recipients in the form of equity which have yet to be paid back to the Fund, calculated pro-rata temporis from the end of 31 December 2023 until the earlier of (i) repayment of the investment, (ii) the end of the recovery procedure in the case of defaults, or (iii) the period referred to in Article 42(2) of the CPR - 31 December 2029. The amount

corresponding to the capitalized (discounted) total value of the funds above at the end of the Eligibility Period should be allocated into an escrow account established by the Fund Manager(s) specifically for that purpose and shall be considered eligible expenses.

To the extent the Fund(s) have realized investments before or after the end of the Eligibility Period. Proceeds from the Investments may be used for Management Fee before or after 31 December 2029 if required.

Fund Manager(s)

The Fund Manager(s) selected by FMFIB will comprise of a team and/or an institution with dedicated investment professionals with experience and relevant skillset applicable to the management of the Fund(s) and the Fund(s) objectives. The Fund Manager(s) will manage the Fund(s) based on commercial principles and will operate according to best market practices and in compliance with professional standards issued by Invest Europe or Institutional Limited Partners Association or other recognised industry bodies, acceptable to FMFIB.

The Fund Manager(s) will be selected as a result of a Selection Process and shall act independently and on behalf of the Investors of the Fund(s).

The Fund Manager(s) shall ensure that it complies with relevant standards and applicable legislation on the prevention of money laundering, the fight against terrorism and tax fraud; and shall: (i) procure that the Fund and the Investees are not involved in money laundering or tax evasion schemes, fraudulent, coercive, collusive or corrupt practices or other criminal or terrorist activities, and (ii) confirm the integrity of the Independent Private Investors, each prospective Investee and the respective individuals associated with them.

The Fund Manager(s) shall fulfil the responsibilities and the requirements provided in art. 6 and art. 7, par. 1 of the DA.

In case SAR I is applied the Fund Manager(s) shall ensure compliance with conditions outlined in art. 21, par. 13-15 of the GBER.

The Fund Manager(s) will provide an Investment Proposal in order to demonstrate its capacity to be selected for consideration for managing the Fund(s). The Investment Proposal will cover the following areas:

- Market Opportunity
- Investment Strategy and Processes
- Fund Management Team and Track Record
- Fund Raising
- Fund Structure and Terms

For the avoidance of any doubt, during the Selection Process FMFIB will apply the award criteria specified in art. 7, par. 2 of DA.

Corporate Governance of the Fund(s)

A typical Fund corporate governance structure provides for:

Advisory Committee - The Fund(s) will have an Advisory Committee comprising of the most significant Investors in the Fund(s) that are independent of the Fund Manager(s) and are willing to appoint a member to the Advisory Committee. Indicative functions of the Advisory Committee will include – (i) providing overall guidance to the Fund Manager; (ii) reviewing the activities and governance of the Fund; (iii) reviewing and resolving conflicts of interest; (iv) carrying out such other duties that are required and/or specified in the agreements.

The Advisory Committee will not take part in management decisions.

FMFIB will be entitled for so long as it is an investor to nominate at least one representative to the Advisory Committee. Such nominee(s) may only be removed or replaced at the written request of FMFIB.

Investor Meetings - The Fund(s) will hold annual meetings offering investors the opportunity to review and discuss the Fund's investment activities.

The final structure of the Corporate Governance of the Fund(s) will be determined during the Market Test.

Investor protection clauses The operational agreements of the Fund(s) will include investor protection and Fund Manager removal clauses according to market practice, including but not limited to:

- Key-person event clause
- Clause for termination/suspension of the investment period
- Clause for removal with/without cause of the Fund Manager

The Investor protection clauses will be in principle triggered by relevant events and will take effect following a vote of the members of the Advisory Committee or Investors in the Fund(s).

The investor protection clauses will be implemented according to market practices following discussion with the market participants at the Market Test.

Reporting As a general rule, reporting shall be made in a complete and comprehensive manner and will be made periodically according to Invest Europe Guidelines. For avoidance of doubt it should be noted that additional reporting requirements may be implemented in accordance with the applicable regulations or law, including ESIF and state aid rules, as amended from time to time.

Investors shall receive the following documents within the reporting deadlines set forth below:

- Quarterly reports including unaudited financial statements for the Fund, a statement of such Investor's capital account and a report on the Fund's portfolio investments: 45 days after the end of each quarter;
- Annual audited financial statements for the Fund, which shall include a calculation of the carried interest entitlement: 90 days after the end of the relevant annual accounting period;

All financial statements will be prepared in accordance with IFRS (International Financial Reporting Standards) or other accounting principles acceptable to FMFIB and consistently applied.

Audit The Fund Manager(s) shall agree on behalf of the Fund(s) to keep all the supporting documents required to ensure an adequate audit trail in accordance with art. 9 and art. 25 of the DA, to provide access to their premises and to their documents related to the Financial Instruments and to be subject to regular monitoring, control and auditing from: FMFIB, European Court of Auditors, European Commission, OLAF (European Anti-fraud Office), the Managing Authority of OPIC, and other EU and national authorities entitled to assess the use of EU Structural and Investment Funds and Financial Instruments to the level of the Fund Investees. The Fund Manager shall arrange similar provisions in each investment agreements with the Investees.

The Fund Manager shall be responsible for keeping documents in order to be made available to the European Commission, the European Court of Auditors and other EU and national authorities upon request within the time limits of art. 140 of the CPR.

In the case the measure is implemented in accordance with SAR I detailed records with the information and supporting documentation necessary to establish that all the conditions laid down in the GBER are fulfilled shall be kept for 10

| | |
|--------------------------------|---|
| | years from the last aid was granted in accordance with the scheme as per art. 12 of the GBER. |
| Conflicts of Interest | <p>The Fund(s) will enter into all transactions on an arm's length basis.</p> <p>The Fund Manager(s) shall immediately refer and fully disclose to the Advisory Committee any activities which could create an opportunity for actual or potential conflicts of interest to arise and shall seek the advice of the Advisory Committee as to the course of action to be taken.</p> |
| Irregularity Management | <p>The Fund Manager(s) shall ensure prevention of Irregularities and take any other necessary actions in compliance with the procedures to be included in the Operational Agreement.</p> |
| Technical Support | <p>Subject to coordination with MA of OPIC a technical support may be organized and provided in the form of grant funding for the benefit of Investees. This may include: preparation for application for Fund investment, mentorship and support in the areas of management, marketing and technical advice, market analysis and commercialization of the concept in relation to the investments of the enterprises.</p> <p>Technical support may only be provided for the purpose of the technical preparation of the prospective investment and for the benefit of the respective final recipient The technical support is subject to state aid rules and the applicable category of aid and amount of technical support may (if applicable and agreed with MA) be determined following the Market Test.</p> |
| PR/ Communication | <p>The Fund Manager(s) shall procure that the Fund(s) and the Investees comply with the applicable EU and national regulations as well as with OPIC requirements (as amended from time to time) with respect to publicity, information and public communications including as specified in Annex XII to the CPR.</p> |
| OPIC Indicators | <p>The Fund Manager(s) is/are expected to achieve the Financial Instrument's contribution to the following result indicators in line with the OPIC:</p> <ul style="list-style-type: none">- Number of new enterprises supported;- Number of enterprises receiving financial support other than grants;- Employment increase in supported enterprises. |
