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THE DEFENCE BOND FRAMEWORK

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THE DEFENCE BOND FRAMEWORK

BY VALSTYBĖS INVESTICINIS KAPITALAS, UAB

This document is the Framework of Valstybės investicinis kapitalas, UAB (hereinafter – UAB VIK) under the Nasdaq Defence Resilience and Infrastructure Bond Criteria ("NDRI"). Its purpose is to establish the principles for issuing European Defence Bonds by UAB VIK and to disclose key information, with a particular emphasis on safeguards and related considerations. The issuance of European Defence Bonds by UAB VIK aims to support companies in the Defence Sector by financing initiatives that defend European sovereignty against global threats. UAB VIK will serve as the issuing entity for the European Defence Bond. This Framework will also form part of UAB VIK's general policies and procedures.

Definition of Eligible Project Categories and Their Contribution to EU or NATO Member States' Defence, Resilience, or Infrastructure

UAB VIK's European Defence Bond Framework is designed to finance companies engaged in the Defence sector, either by virtue of their activities or their strategic importance to European sovereignty and security. Eligible projects may include the following areas: cybersecurity, research and development (including hypersonic weapons, artificial intelligence, and autonomous systems), weapons and ammunition, aerospace, defense infrastructure, marine technologies, dual-use innovations, and electronic warfare.

- UAB VIK will apply the following financing principles:
  Eligible Defence Projects are primarily targeted at firms operating or intending to operate in Lithuania. However, the economic and financial benefits may accrue directly or indirectly to European companies in EU member states.

- Eligible Defence Projects must be recognized as strategic and (or) large-scale by the Government of the Republic of Lithuania or belong to the existing defence sector's technological and industrial base.

- Final beneficiaries must be direct or indirect suppliers to the Ministry of Defence of the Republic of Lithuania. A significant portion of production or services should be dedicated to the Ministry's needs, with the remainder potentially exported to NATO member states.

UAB VIK will provide funding to strategic companies whose unique capabilities (expertise and know-how) and capacities (production volumes) are critical to the Ministry of Defence of the Republic of Lithuania. All companies or projects considered strategic for national security are determined according to Lithuanian State criteria.

Process for Selection and Evaluation

UAB VIK has demonstrated proven results in facilitating and financing a fund dedicated to supporting medium-sized and large enterprises in Lithuania affected by the COVID-19 outbreak. Following the conclusion of the fund's investment period on 30 June 2022, the fund continued to operate with the aim of managing and returning investments made under its strategy. UAB VIK, acting as a limited partner, invested EUR 200 million.

Following the approval of new strategic goals by the Ministry of Finance of the Republic of Lithuania in 2024, UAB VIK continues its operations with the following principal objectives:

- Invest in and contribute to the development of Lithuania's defence and security industry, including serving as a financing entity for this sector. This is the primary objective of this Framework.

- Support the implementation of objectives outlined in the National Energy Independence Strategy, the National Energy and Climate Action Plan, and other strategic national policy documents. UAB VIK provides partial information related to this objective.

Management and Reporting

UAB VIK is wholly owned by the Republic of Lithuania, represented by the Ministry of Finance. Its written decisions are deemed decisions of the General Meeting. The current registered and fully paid-in share capital of the Company is EUR 101.2 million. UAB VIK has a two-tier management system: the Management Board and the General Manager. The Management Board is a collegial body responsible for strategic management and adoption of economically feasible corporate decisions. The General Manager is responsible for operational administration in accordance with guidelines and regulations issued by the Management Board.

UAB VIK seeks to fund itself in a manner that ensures timely financing for Lithuania's defence and security industry. The Company may also channel funds to support capital commitments or equity injections into joint ventures, subject to applicable approvals and budgetary frameworks. The Company aims to maintain a broad investor base to diversify funding geographically and by investor type. Regarding risk management, the Company's activities are subject to state audit and annual financial audit.

All eligible Defence Projects will undergo UAB VIK's regular underwriting process. Financing decisions are made using a support decision tool comprising several components:

- All financing projects submitted to UAB VIK must have the status of a large-scale project approved by the Government of the Republic of Lithuania. The projects submit an application to the Ministry of Economy and Innovation. The project is evaluated against the criteria of the Investment Law of the Republic of Lithuania. The final decision to grant large-scale project status made by the Government of Lithuania is essential for activating the state guarantee for military project financing.

- Investments must address the needs of the Ministry of National Defence of the Republic of Lithuania. Close cooperation between UAB VIK and the Ministry ensures that substantial production capacities and military services are directed toward strengthening national security. The Government of the Republic of Lithuania enacted a resolution enabling direct procurement of ammunition and defence materiel from a UAB VIK financed enterprises

- Projects must demonstrate clear export potential and the ability to sell a significant portion of production in foreign markets. Arms exports in Lithuania are subject to thorough risk assessment, coordination, and collaboration among several ministries and institutions to ensure compliance with national and international laws. Export of military and defence equipment requires prior government authorization, and companies must apply for an export license for each transaction. In Lithuania, the export of military goods and other strategic items is strictly regulated under the Law on the Control of Strategic Goods. Ministry of National Defence, Ministry of the Interior, State Security Department – provide expert assessments related to national security, end-use, and end-user risks.

- Particular attention is given to the financial viability of projects and their projected cash flow. The company's financial condition, credit history, and equity contribution are evaluated. Significant focus is placed on identifying risks and establishing safeguards to ensure repayment of UAB VIK's investment. The final decision depends on the project's ability to generate stable income and create conditions necessary for servicing the investment.

UAB VIK pays close attention to OECD recommendations on environmental and social issues. As required by OECD Guidelines, environmental and social due diligence is performed at the project level. Where a project demonstrates significant potential impacts, additional ESG impact assessment, monitoring, and action plans may be required.

UAB VIK complies with all international conventions ratified by Lithuania, including those related to human rights, occupational health and safety, and labour standards.

Management of Proceeds

UAB VIK will issue and manage the European Defence Bond under this Framework, recognized as the approved Medium Term Note Programme. The management team is responsible for administering the net proceeds, which are invested in financing Eligible Defence Projects, and for updating and renewing the Medium Term Note Programme.

Capital raised through the European Defence Bond will be deposited in UAB VIK's general account and earmarked for allocation to Eligible Defence Projects in accordance with this Framework. These projects will be consolidated in UAB VIK's balance sheet under IFRS accounting regulations. All relevant information and data regarding the European Defence Bond will be maintained and monitored within UAB VIK's accounting systems.

UAB VIK will allocate the proceeds as soon as possible and report annually on investment progress until full allocation. The allocation report date will reflect the current loan balance and expenditure on Eligible Defence Projects. The allocation report of the Defence Bonds will be made public on the Issuer's website (www.vika.lt) by the end of the fiscal year.

In exceptional cases, when investment flows to Eligible Defence Projects are insufficient, unallocated proceeds will be managed by UAB VIK's management team to ensure investment in liquid, short-term, and secure instruments until additional projects are added to the bond allocation.

Regulation of unallocated capital falls under the authority of the Minister of Finance of the Republic of Lithuania. UAB VIK has internal methods and procedures for earmarking and allocating net proceeds from European Defence Bond issuances.

Reporting

The management team will publish allocation and output/outcome reports on UAB VIK's website. The allocation report will include, but is not limited to, financial information on UAB VIK's European Defence Bonds (ISN, currency, amount, main terms), an overview of financed Eligible Defence Projects, sector of industry/activity, maturity, remaining tenor, terms, investment size, etc. The output/outcome section will disclose information on jobs supported, defence contracts fulfilled for the Lithuanian sector, export figures, and other relevant data.

These reports will be controlled and reviewed by UAB VIK's management team, which is responsible for the quality of data, completeness of information, and presentation of tables and graphic elements in the annual report.

Final Notice

UAB VIK provides a clear statement regarding whether the proceeds of the Bonds may be allocated to the financing of lethal technologies. This statement is explicitly certifying that any allocation will strictly comply with all applicable international treaties and national regulations, and under no circumstances will be financing or be directed toward activities prohibited under international law, including the development, production, or proliferation of weapons of mass destruction or other unlawful military applications.

Aligned with

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