



## Sabiedrība ar ierobežotu atbildību "iCotton"

Registration No. 42103057947

LEI: 984500B8889AO47PC797

### TERMS OF THE NOTES ISSUE

<b>ISIN:</b>	LV0000802783
<b>Type of security:</b>	Secured Notes
<b>Nominal:</b>	EUR 1,000.00 (one thousand Euro)
<b>Nominal value of the issue:</b>	EUR 20,000,000.00 (twenty million Euro)
<b>Annual Coupon Rate:</b>	3M EURIBOR + 6.0%
<b>Maturity:</b>	30 June 2027

*These Terms of the Notes Issue are not a prospectus for the purposes of the Prospectus Regulation and no competent authority of any Member State has examined or approved the contents thereof. These Terms of the Notes Issue have been prepared on the basis that all offers of the debt securities are issued by the Issuer according to these Terms of the Notes Issue and will be made pursuant to an exemption from the obligation to publish a prospectus under the Prospectus Regulation.*

*The issue of the Notes is a private placement and there is no intention of the Issuer to list the Notes on a regulated market for the purposes of the Markets in Financial Instruments Directive 2014/65/EU, as amended ("MiFID II").*

*The Issuer is a company incorporated and existing under the Applicable Laws of the Republic of Latvia and the Applicable Laws allow for the Issuer to record the issue with the central securities depository of Latvia – Nasdaq CSD.*

*The decision of the Issuer to organize the issue of the Notes has been passed in compliance with the Applicable Laws of the Republic of Latvia. The issue of the Notes, including the relationship between the Issuer and prospective investors or any third parties, and their respective rights and duties attached to the Notes is governed by the Applicable Laws of the Republic of Latvia.*

*These Terms of the Notes Issue do not constitute an offer to sell or a solicitation of an offer to buy the Notes in any jurisdiction to any person to whom it is unlawful to make such an offer or solicitation in such jurisdiction.*

*MiFID II product governance - solely for the purposes of each manufacturer's product approval process, the target market assessment in respect of the Notes has led to the conclusion that (i) the target market for the Notes is eligible counterparties, professional clients and retail clients, each as defined in MiFID II; and (ii) all channels for distribution of the Notes to eligible counterparties, professional clients and respective retail clients are appropriate. Any person subsequently offering, selling, or recommending the Notes should take into consideration the manufacturer's target market assessment. However, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturer's target market assessment) and determining appropriate distribution channels.*

*Article 5f of Regulation (EU) No. 833/2014 (as amended by Council Regulation (EU) No. 2022/328) and Article 1f of Regulation (EC) No. 765/2006 (as amended by Council Regulation (EU) No 2022/398) prohibit the sale of euro denominated transferable securities issued after 12 April 2022 or units of undertakings for collective investment (UCIs) providing exposure to such transferable securities, to any Russian or Belarusian national, any natural person residing in Russia or Belarus or to any legal person, entity or body established in Russia or Belarus. This prohibition does not apply to nationals of a Member State or to natural persons holding a temporary or permanent residence permit in a Member State of the European Union.*

*Before deciding to purchase the Notes, prospective investors must make their own assessment as to the suitability of*

*investing in the Notes. In particular, each prospective investor should:*

- (i) have sufficient knowledge and experience to make a meaningful evaluation of the Notes and the merits and risks of investing in the Notes;*
- (ii) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact the Notes will have on its overall investment portfolio;*
- (iii) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including where the currency for principal or interest payments is different from the potential investor's currency;*
- (iv) understand thoroughly the terms of the Notes and be familiar with the behaviour of any relevant financial markets; and*
- (v) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.*

*In addition, before deciding to purchase the Notes, prospective investors should carefully review and consider the risk factors described herein. Should one or more of the risks materialize, this may have a material adverse effect on the cash flows, results of operations, and financial condition of the Issuer. If any of these risks materialize, the market value of the Notes and the likelihood the Issuer will be in a position to fulfil its payment obligations under the Notes may decrease, in which case the Noteholders could lose all or part of their investments.*

*Any previous discussions or presentations provided to prospective investors were solely for information purposes and the Notes are issued in accordance with these Terms of the Notes Issue. A prospective investor should not make an investment decision relying solely upon the information provided in the prospective investor presentation or otherwise.*

Arranger:



13 December 2023

## TABLE OF CONTENTS

TERMS OF THE NOTES ISSUE.....	1
DEFINITIONS.....	4
RISK FACTORS.....	18
REPRESENTATIONS AND WARRANTIES, RESPONSIBILITY STATEMENT .....	28
INFORMATION ON NOTES.....	30
TAXES .....	48
TERMS OF THE PRIVATE OFFERING .....	51
GENERAL INFORMATION.....	53
BUSINESS DESCRIPTION .....	55

## DEFINITIONS

<b>Accounting Principles:</b>	International Financial Reporting Standards (IFRS) within the meaning of Regulation 1606/2002/EC (or as otherwise adopted or amended from time to time).
<b>Agent:</b>	Authorised representative of the Noteholders under these Terms of the Notes Issue.
<b>Altum Fund:</b>	Komandītsabiedrība AIF “ALTUM KAPITĀLA FONDS”, a Latvian alternative investment fund registered in the Enterprise Register of the Republic of Latvia under registration No. 40203252367, managed by akciju sabiedrība “Attīstības finanšu institūcija Altum”, a Latvian state-owned development finance institution registered in the Enterprise Register of the Republic of Latvia under registration No. 50103744891.
<b>Altum Fund’s Security:</b>	<p>Collaterals granted by the Issuer in favour of Altum Fund:</p> <ul style="list-style-type: none"><li>(a) 2<sup>nd</sup> ranking commercial pledge over the Issuer’s shares owned by the Existing Shareholder, commercial pledge act No. 100198875, with a maximum secured amount of EUR 15,000,000.00 (fifteen million Euro);</li><li>(b) 2<sup>nd</sup> ranking commercial pledge over the Issuer’s shares owned by the Issuer, commercial pledge act No. 100198876, with a maximum secured amount of EUR 15,000,000.00 (fifteen million Euro);</li><li>(c) 2<sup>nd</sup> ranking commercial pledge over all assets of the Issuer as an aggregation of things and future components of such aggregation of things, commercial pledge act No. 100195280, with a maximum secured amount of EUR 15,000,000.00 (fifteen million Euro);</li><li>(d) 2<sup>nd</sup> ranking mortgage over Latvian Real Property with a maximum secured amount of EUR 15,000,000.00 (fifteen million Euro),</li></ul> <p>and collateral granted by the Guarantor in favour of Altum Fund:</p> <ul style="list-style-type: none"><li>(a) 1<sup>st</sup> ranking registered pledges over fixed assets and inventory (Nos. 2697574, 2699069 and 2701101) and Trademarks</li></ul>

(Nos. 2697573 and 2697575) owned the Guarantor and registered with the Polish Register of Pledges, which is a judicial register of pledges established in accordance with the Polish Law of December 6, 1996, as amended, “*On registered pledges and the register of pledges*”;

- (b) 1<sup>st</sup> ranking mortgage over the Polish Real Property registered with the Polish Land and Mortgage Register maintained by the Land and Mortgage Courts established under the Polish Law of 6 July 1982, as amended, “*On Land and Mortgage Registers and Mortgages*”;
- (c) a guarantee issued in the form of a notarial deed whereby the Guarantor undertakes to fulfil the Issuer’s obligations against the Altum Fund;
- (d) blank (blanco-type) debt notes issued by the Guarantor to the Altum Fund with an authorisation to the Altum Fund to enforce the debt notes in an amount up to EUR 15,000,000.

**AML:**

Anti-money laundering and counter terrorism and proliferation financing.

**Applicable Laws:**

Any applicable law, including without limitation: (a) the regulations of the Bank of Latvia, Nasdaq Riga and Nasdaq CSD; (b) corporate, securities, tax or other laws, statutes, rules, requirements or regulations, whether state, local, foreign, or EU; and (c) the laws and regulations of the Republic of Latvia and any legal acts in each country in which the Issuer and/or the Guarantor operates.

**Arranger:**

Signet Bank AS, a Latvian credit institution registered in the Enterprise Register of the Republic of Latvia under registration No. 40003043232.

**Auditor:**

Any auditor from the following list that is licensed to practice in the Republic of Latvia:

- SIA “Deloitte Audits Latvia” (registration number: 40003606960);
- SIA “PriceWaterhouseCoopers” (registration number: 40003142793);
- SIA “ERNST & YOUNG BALTIC” (registration number: 40003593454);

- SIA "KPMG Baltics SIA" (registration number: 40003235171);
- SIA "BDO ASSURANCE" (registration number: 42403042353);
- SIA "Grant Thornton Baltic Audit" (registration number: 50003946031);
- AS "Nexia Audit Advice" (registration number: 40003858822).

**Bank of Latvia:**

Bank of Latvia (in Latvian: *Latvijas Banka*).

**Base Rate:**

3M EURIBOR reference rate (%) determined by the Calculation Agent on the Coupon Reset Date and is fixed for the subsequent Coupon Period. If on any Coupon Reset Date the 3M EURIBOR rate is less than 0%, 3M EURIBOR shall mean 0%.

**BluOr Bank:**

BluOr Bank AS, a Latvian credit institution registered in the Enterprise Register of the Republic of Latvia under registration No. 40003551060.

**Business Day(s):**

Business Day(s) is a day when Nasdaq CSD system is open and operational to effectuate T2S-eligible securities settlement transactions.

**Calculation Agent:**

A reputable person appointed to determine the Coupon by calculating it in accordance with these Terms of the Notes Issue, who is an independent nationally recognized third-party expert with experience in corporate bonds, initially Signet Bank AS, a Latvian credit institution licensed by the Bank of Latvia and registered in the Enterprise Register of the Republic of Latvia under registration No. 40003043232 and with a registered address at: Antonijas iela 3, Riga, LV-1010, the Republic of Latvia, e-mail: info@signetbank.com, phone number: +371 67 080 000.

**Cash and Cash Equivalents:**

Cash and cash equivalents of the Group according to the most recent Financial Report.

**Change of Control:**

The occurrence of an event or series of events whereby, a person (natural person or legal entity) or group of persons acting in concert (directly or indirectly) acquires the influence (whether by way of ownership of shares, contractual arrangement or otherwise) to:

- (a) cast or control the casting of more than 50% (fifty percent) of the maximum number of votes that might be cast at a

general meeting of the shareholders of the Issuer; or

- (b) appoint or remove or control the appointment or removal of a majority of the management board or supervisory board members.

**Collateral Agent Agreement:**

The agreement entered into between the Issuer and the Collateral Agent which stipulates the rights and obligations of the Collateral Agent in relation to the enforcement of the Collaterals and Guarantee, as provided in these Terms of the Notes Issue, in the interests of the Noteholders, as well as the Collateral Agent's compensation. The Collateral Agent Agreement is enclosed as Annex 1 to these Terms of the Notes Issue and constitutes an integral part thereof.

**Collateral Agent:**

A reputable person authorized to act with the Collaterals in favour of all the Noteholders in accordance with these Terms of the Notes Issue and the Collateral Agent Agreement, who has professional experience in capital markets transactions and expertise for the fulfilment of the tasks as a collateral agent, initially TGS Baltic zvērīnātu advokātu birojs SIA, a law firm registered with the Latvian Bar Association and registered with the Enterprise Register of the Republic of Latvia under registration No. 40203331582 and with a registered address at: Elizabetes iela 63 - 11, Riga, LV-1050, the Republic of Latvia, e-mail: latvia@tgsbaltic.com, phone number: +371 67 888 9999. The Collateral Agent's professional liability shall be insured in the course of the performance of the Collateral Agent's functions.

**Collateral Agreements:**

The agreements concluded or to be concluded on the provision of the Collaterals referred to in Clause 21.1.1 (*Collaterals*) between the Collateral Agent in the interests of the Noteholders and the Issuer or the Guarantor and governed by the Applicable Laws.

**Collateral Coverage Ratio:**

The ratio of the Value of Collaterals divided by the Secured Financial Indebtedness of the Group.

**Collaterals:**

Collaterals that are described in Clause 21.1.1 (*Collaterals*), which serve as security for the fulfilment of the Issuer's obligations towards the Noteholders and under the Notes in accordance

	with these Terms of the Notes Issue.
<b>Consolidated EBITDA:</b>	<p>Net profit of the Group for the Relevant Period calculated according to the most recent Financial Reports:</p> <ul style="list-style-type: none"><li>(a) increased by any amount of tax on profits, gains or income paid or payable;</li><li>(b) increased by any interest expense, fees for financing agreements and lease expenses;</li><li>(c) before taking into account any exceptional items which are not in line with the ordinary course of business and any non-cash items (such as e.g., asset revaluation or write-down);</li><li>(d) before taking into account any gains or losses on any foreign exchange gains or losses;</li><li>(e) increased by any amount attributable to the amortization, depreciation or depletion of assets;</li><li>(f) increased by dividends received from associated undertakings as defined in the applicable legislative acts.</li></ul>
<b>Coupon Payment Date:</b>	Coupon payments shall be made four times per year – on every 31 March, 30 June, 30 September, and 31 December.
<b>Coupon Period:</b>	The period of time between the First Settlement Date and the last date of the subsequent calendar quarter, which is 31 March 2024 or between the last dates of two calendar quarters.
<b>Coupon Reset Date:</b>	The second Business Day before the start of the Coupon Period on which the Calculation Agent determines the Coupon rate for the following Coupon Period.
<b>Coupon:</b>	Interest on the Notes calculated in accordance with Clause 10 ( <i>Coupon</i> ).
<b>Custodian:</b>	Nasdaq CSD participant directly or a licensed credit institution or an investment brokerage company that has a financial securities custody account with a Nasdaq CSD participant.
<b>Debt Service Charges</b>	The sum of the Group's scheduled principal payments pursuant to the agreements on Financial Indebtedness and interest payments, including (a) interest swap payments on Financial Indebtedness and (b) interest payments on Subordinated Debt (if payable),



	calculated for the Relevant Period.
<b>Debt Service Coverage Ratio or DSCR</b>	measures the ability of the Group to service its Financial Indebtedness and is calculated as: Consolidated EBITDA divided by the Debt Service Charges over the Relevant Period.
<b>Equity Ratio:</b>	<p>Ratio of the Total Equity of the Group to total assets of the Group, calculated according to the most recent Financial Report.</p> <p>As long as any treasury shares are outstanding, the ratio shall be calculated as the Total Equity of the Group reduced by the amount of treasury shares, divided by the total assets of the Group reduced by financial assets associated with the treasury shares, according to the most recent Financial Report.</p>
<b>EUR:</b>	Euro (the single currency of the Member States of the European Monetary System).
<b>Event of Default:</b>	Any event or circumstance set out in Clause 14(j) ( <i>Events of Default</i> ) of these Terms of the Notes Issue.
<b>Existing Shareholder:</b>	Maralbek Gabdsattarov, Latvian personal ID number 160977-18023 (holding 61.14% of the Issuer's shares). The remaining 38.87% of the Issuer's shares are owned by the Issuer itself.
<b>Existing Subordinated Loan:</b>	Existing loan to the Issuer from the Issuer's Related Person in the amount of EUR 1 500 000 (one million five hundred thousand Euro) with a maturity date after the Maturity Date subordinated to the Notes.
<b>Fair Market Value:</b>	With respect to any asset, the value that would be paid by a willing buyer to an unaffiliated willing seller in a transaction not involving any distress of either party, determined in good faith by the management board of the Issuer.
<b>Financial Indebtedness:</b>	<p>The outstanding aggregate amount of total indebtedness of the Group according to the most recent Financial Report, including:</p> <ul style="list-style-type: none"><li>(a) monies borrowed and debt balances at banks or other financial institutions;</li><li>(b) any amount raised pursuant to the issue of notes or any similar instrument, including the Notes;</li><li>(c) the amount of any liability in respect of any financial lease;</li></ul>

- (d) any amount borrowed from other lenders, excluding (i) any intragroup loans between the Issuer and the Guarantor; (ii) any Subordinated Debt (loans from shareholders, affiliate lenders or other subordinated loans) and (iii) excluding any liabilities arising from the daily business operations if such liabilities result from delivery of all types of products and services;
- (e) any counter-indemnity obligation in respect of a guarantee or any other instrument issued by a bank or financial institution;
- (f) any obligation under an advance or deferred purchase agreement if (a) one of the principal reasons for such entering into such an agreement is to raise financing or financing of the purchase or construction of a specific asset or service; (b) the obligation arises from the acquisition of another business entity or specific asset and the entire payment or part thereof is due more than 180 (one-hundred-eighty) days after the transaction date excluding obligations arising from the daily business operations;
- (g) any derivative transaction based on mark-to-market value; and without double-counting any assurance against financial-loss in respect of a type referred to the above items (a) to (f).

**Financial Report:**

From the Issue Date, consolidated annual management reports of the Group and consolidated quarterly interim unaudited reports of the Group prepared in accordance with Accounting Principles.

Starting from 1 January 2025, the annual consolidated audited financial reports of the Group and consolidated quarterly interim unaudited reports of the Group prepared in accordance with Accounting Principles.

**Financial Year:**

For the Issuer, each year starting on 1 January and ending on 31 December.

**First North:**

The Multilateral Trading Facility (MTF) First North, operated by Nasdaq Riga.

**First Settlement Date (Issue Date):**

The date on which interest on the Notes starts to accrue: 22 December 2023.

<b>Force Majeure Event:</b>	Has the meaning set forth in Clause 17 ( <i>Force Majeure</i> ).
<b>Group:</b>	The Issuer and its Subsidiaries.
<b>Guarantee:</b>	Guarantee (in Latvian: <i>galvojums</i> ) made by the Guarantor as the primary obligor for the fulfilment of the Issuer's obligations towards each of the Noteholders under the Notes in favour of the Noteholders as creditors governed by Latvian law.
<b>Guarantor:</b>	Harper Hygienics S.A., a company registered with the District Court for the capital city of Warsaw, 12th Business Division of KRS with registration No. 0000289345 and with a registered address at Aleje Jerozolimskie 96, XIII P, 00-807, Warsaw, Poland.
<b>IFRS:</b>	International Financial Reporting Standards within the meaning of Regulation 1606/2002/EC (or as otherwise adopted or amended from time to time).
<b>Intercreditor Agreement:</b>	The agreement executed between the Collateral Agent and Altum Fund including its amendments, if any, regarding their respective status of a creditor and pledgee and the exercise of the rights arising therefrom.
<b>Issue:</b>	The issue of Notes on the Issue Date in the amount of EUR 20,000,000 that may be increased to EUR 30,000,000 in case of the creation and issue of any additional Notes in accordance with Clause 13(e) ( <i>Undertakings</i> ).
<b>Issuer:</b>	Sabiedrība ar ierobežotu atbildību "iCotton", a company registered in the Enterprise Register of the Republic of Latvia with registration No. 42103057947 and with registered address at: Krūmu iela 74, Liepāja, LV-3405, Latvia.
<b>Issuer's webpage</b>	Issuer's webpage at domain <a href="https://www.icotton.eu/en/">https://www.icotton.eu/en/</a> .
<b>Latvian Real Property</b>	The real property and right of superficies owned by the Issuer located at:  (a) Krūmu iela 74, Liepāja, entered in Liepāja City Land Register Folio No. 5024, cadastral number 17000110178, consisting of a land unit (cadastral designation 17000110178) with an area of 10,820 m <sup>2</sup> , a building (cadastral designation 17000110178001) and a structure (cadastral designation

17000110178002);

(b) right of superficies to the real property: "Pulvera iela 4A, Liepāja" (Liepāja City Land Registry Folio No. 100000528761, cadastral No. 17000100453), consisting of a land unit with an area of 11,453 m<sup>2</sup> with cadastral designation 17000100453, registered in Liepāja City Land Registry Folio No. 100000528761 - AT001, including building built in accordance with the right of superficies with cadastral designation 17000100453001.

**Majority Noteholders:**

The Noteholders who collectively hold in aggregate the Notes with the Nominal Value representing at least 1/2 (one half) of the aggregate Nominal Value of all outstanding Notes plus at least one additional Note.

The Issuer, its direct or indirect shareholders and the Related Parties holding any such Notes are not eligible for voting.

**Maturity Date:**

The date when the Notes shall be repaid in full at their Nominal Value by the Issuer, which is 30 June 2027.

**mBank**

mBank SA, a Polish credit institution registered in the register of entrepreneurs of the National Court Register maintained by the District Court for the Capital City of Warsaw in Warsaw, XIII Commercial Department of the National Court Register under number KRS 0000025237.

**Minimum Settlement Unit:**

The minimum amount which can be held and traded, which is equal to the Nominal Value.

**Nasdaq CSD:**

Nasdaq CSD SE, registration No. 40003242879, registered address at Vaļņu iela 1, LV-1050, Riga, Latvia.

**Nasdaq Riga:**

Akciju sabiedrība "Nasdaq Riga", registration No. 40003167049, registered address at Vaļņu iela 1, LV-1050, Riga, Latvia.

**Net Debt Leverage Ratio:**

Net Debt, according to the most recent Financial Report, divided by respective 12 months floating Consolidated EBITDA.

**Net Debt:**

The aggregate amount of the Financial Indebtedness of the Group minus Cash and Cash Equivalents as per the most recent Financial Report.

**Nominal Value:**

Face value of a single Note, which is EUR

1,000.00 (one thousand Euro).

<b>Note(s):</b>	The debt security issued by the Issuer according to these Terms of the Notes Issue.
<b>Noteholder(s) or Investor(s):</b>	A private person or legal entity that is an owner of one or more Notes and has a claim against the Issuer as provided in these Terms of the Notes Issue.
<b>Parallel Debt:</b>	The legal arrangement described in Clause 22 ( <i>Parallel Debt</i> ) of these Terms of the Notes Issue.
<b>Permitted Distribution:</b>	Up to 50% (fifty percent) of the audited consolidated annual profit of the Group for the respective Financial Year if the Equity Ratio after such dividend payout is at least 25% (twenty five percent).
<b>Permitted Security:</b>	<p>The Issuer and the Guarantor are allowed to have the following security interests in relation to:</p> <ul style="list-style-type: none"><li>(a) which is securing the Notes;</li><li>(b) collaterals granted in favour of BluOr Bank securing the Issuer's liabilities against BluOr Bank up until 90 (ninety) days after the First Settlement Date or until Collaterals are established, whichever occurs earlier;</li><li>(c) collaterals granted in favour of mBank securing the Guarantor's liabilities against mBank up until 90 (ninety) days after the First Settlement Date or until Collaterals are established, whichever occurs earlier;</li><li>(d) Altum Fund's Security, unless refinancing of the Issuer's liabilities against Altum Fund has occurred; in which case the Altum Fund's Security is permitted up until 90 (ninety) days after such refinancing arrangement has been entered into by the Issuer;</li><li>(e) collaterals granted in favour of a financing party that fully refinances the Issuer's liabilities against the Altum Fund provided that (i) a financing party has entered into an intercreditor agreement with the Collateral Agent on similar terms as the Intercreditor Agreement; and (ii) such collaterals do not rank higher than the Altum Fund's Security;</li><li>(f) any netting or set-off arrangement entered into by the Issuer or any Subsidiary in the ordinary course of its banking arrangements for the purpose of netting debit and credit balances;</li></ul>

- (g) any payment or close out netting or set-off arrangement pursuant to any hedging transaction entered into by the Issuer or any Subsidiary for the purpose of: (i) hedging any risk to which the Group is exposed in its ordinary course of its business; or (ii) its interest rate or currency management operations which are carried out in the ordinary course of business and for non-speculative purposes on; excluding, in each case, any Security under a credit support arrangement in relation to a hedging transaction;
- (h) any Security arising under the sale and leaseback of assets owned by the Issuer or any Subsidiary;
- (i) arising by operation of law or in the ordinary course of business;
- (j) existing compulsory mortgages over the Polish Real Property;
- (k) incurred as a result of the Issuer acquiring another entity with existing encumbrances;
- (l) any other Security if such Security does not impact Collaterals and Guarantee, enforceability, quality, or status thereof;
- (m) any other security that is provided according to the procedure described in Clause 13(j) (*Undertakings*);
- (n) any other Security approved by the Majority Noteholders.

**Polish Real Property:**

The following property located in Mińsk Mazowiecki in Poland:

- (a) the property (including perpetual usufruct rights relating thereto) and, where the context so requires, the buildings and constructions on that property, for which District Court in Mińsk Mazowiecki, V Division of the Land and Mortgage Register maintains the land and mortgage register no.: SI1M/00106128/1;
- (b) the property (including perpetual usufruct rights relating thereto) and, where the context so requires, the buildings and constructions on that property, for which District Court in Mińsk Mazowiecki, V Division of the Land and Mortgage Register maintains the land and mortgage register no.: SI1M/00056355/5.

<b>Potential Investor(s):</b>	A private person or legal entity that has, according to the terms stated in these Terms of the Notes Issue, expressed interest or is planning to purchase for its own account one or more Notes.
<b>Prospectus Regulation:</b>	Regulation (EU) 2017/1129 of the European Parliament and of the Council of 14 June 2017 on the prospectus to be published when securities are offered to the public or admitted to trading on a regulated market, and repealing Directive 2003/71/EC.
<b>Related Parties:</b>	Persons listed in Article 184. <sup>1</sup> of the Commercial Law.
<b>Relevant Period:</b>	Each period of 12 (twelve) consecutive calendar months, fixed at the end of each calendar quarter.
<b>Sanctions:</b>	Economic or financial sanctions, trade embargoes and similar measures imposed, administered, or enforced from time to time by the Republic of Latvia, the European Union, the United Nations, the Office of Foreign Assets Control of the US Department of the Treasury (OFAC) and any competent authority.
<b>Secured Financial Indebtedness</b>	The aggregate principal amount of all outstanding Financial Indebtedness of the Group (including these Notes) that is secured by the Security (including Collaterals, Altum Fund's Security) over the same assets of the Group as the Collaterals and which ranks <i>pari passu</i> with the Notes.
<b>Security:</b>	Any lien, pledge, encumbrance, charge (fixed or floating), mortgage, third party claim, debenture, option, right of pre-emption, right to acquire, assignment by way of security, trust arrangement for the purpose of providing security or security interests of any kind, including retention arrangements, or other encumbrance and any agreement to create any of the foregoing.
<b>Settlement Unit Multiple:</b>	Multiple that defines the settlement quantity or nominal must be a multiple of the Minimum Settlement Unit.
<b>Subordinated Debt:</b>	Unsecured debt of the Group that is subordinated to the Notes with maturity after the Maturity Date, including already Existing Subordinated Loan. The debt is subordinated to

other more senior debts and these Notes with respect to claims on assets or earnings and is fully or partly repayable only if: (a) the Group's existing and future financial covenants and undertakings are met after the repayment; and/or (b) settlement of all obligations under these Terms of the Notes Issue are made.

For the sake of clarity, the Issuer is allowed to make interest payments on the Existing Subordinated Loan if such interest payments do not cause a breach of Clause 12 (*Financial Covenants*).

**Subsidiary:**

An entity:

- (a) whose affairs and policies the Issuer controls or has the power to control, whether by ownership of share capital, contract, the power to appoint or remove members of the governing body or otherwise; or
- (b) whose financial statements are, in accordance with applicable law and generally accepted accounting principles, consolidated with those of the Issuer.

On the date of these Terms of the Notes Issue, the Issuer has two subsidiaries:

- (a) Guarantor;
- (b) Hempress Hygienics Inc.

**Terms of the Notes Issue:**

This document, which entitles the Issuer to execute the Issue and the initial offering of the Notes.

**Total Equity:**

The aggregate book value of the Group's total equity (including minority interest, if applicable) on a consolidated basis, increased by Subordinated Debt according to the most recent Financial Report.

**Trademarks**

Trademarks listed in Clause 21.1.1(i) (*Establishment of Collaterals*) of these Terms of the Notes Issue.

**Value of Collaterals**

The value of the Collaterals provided by the Group which is calculated by adding up:

- a) the value of the Latvian Real Property and Polish Real Property and any other real property over which Collaterals have been established;
- b) the value of the Trademarks over which Collaterals have been established;



- c) the value of fixed assets over which Collaterals have been established;
- d) the value of other assets over which Collaterals have been established,

where each value shall be determined by an independent certified appraiser not earlier than 12 (twelve) months before the day when the Value of Collaterals shall be determined. In case an appraisal by an independent appraiser is not available, the value of the respective other assets shall be determined in accordance with the balance sheet value as per the latest Financial Report before the day when the Value of Collaterals shall be determined.

## RISK FACTORS

BELOW IS THE DESCRIPTION OF RISK FACTORS THAT ARE MATERIAL FOR THE ASSESSMENT OF THE MARKET RISK ASSOCIATED WITH THE NOTES AND RISK FACTORS THAT MAY AFFECT THE ISSUER'S ABILITY TO FULFIL ITS OBLIGATIONS UNDER THE NOTES. SHOULD ONE OR MORE OF THE RISKS DESCRIBED BELOW MATERIALIZE, THIS MAY HAVE A MATERIAL ADVERSE EFFECT ON THE CASH FLOWS, RESULTS OF OPERATIONS, AND FINANCIAL CONDITION OF THE ISSUER AND THE GROUP. MOREOVER, IF ANY OF THESE RISKS MATERIALIZE, THE MARKET VALUE OF THE NOTES AND THE LIKELIHOOD THAT THE ISSUER WILL BE IN A POSITION TO FULFIL ITS PAYMENT OBLIGATIONS UNDER THE NOTES MAY DECREASE, IN WHICH CASE THE INVESTORS COULD LOSE ALL OR PART OF THEIR INVESTMENTS.

BEFORE DECIDING TO PURCHASE THE NOTES, PROSPECTIVE INVESTORS SHOULD CAREFULLY REVIEW AND CONSIDER THE FOLLOWING RISK FACTORS, IN ADDITION TO ALL OTHER INFORMATION PRESENTED IN THE TERMS OF THE ISSUE, AND CONSULT WITH THEIR OWN PROFESSIONAL ADVISORS IF NECESSARY. MOREOVER, PROSPECTIVE INVESTORS SHOULD BEAR IN MIND THAT SEVERAL OF THE DESCRIBED RISK FACTORS CAN OCCUR SIMULTANEOUSLY AND TOGETHER WITH OTHER CIRCUMSTANCES COULD HAVE A POTENTIALLY STRONGER IMPACT ON THE ISSUER OR THE GROUP. THIS IS NOT AN EXCLUSIVE LIST OF RISK FACTORS, AND ADDITIONAL RISKS, OF WHICH THE ISSUER IS NOT PRESENTLY AWARE, COULD ALSO HAVE A MATERIAL ADVERSE EFFECT ON THE ISSUER AND THE GROUP.

### 1. Risk Factors

#### 1.1. Important note

The risks indicated in this section, if some or all of them materialize, may reduce the Group's ability to fulfil its obligations or cause its insolvency or restructuring in the worst-case scenario.

This section may not feature all the potential risks, which may affect the Group.

#### 1.2. Risks related to the economic and regulatory environment

##### 1.2.1. The Group is exposed to changes in macroeconomic and political conditions

The Group operates in numerous markets and, like other businesses, is impacted by global economic, financial, and political conditions. Demand for the Group's products is affected by general macroeconomic trends such as recession, inflation, deflation, general weakness in retail markets, and changes in purchasing power, among other things. Any uncertainty about future economic prospects, including political turmoil, that affects consumer spending habits might have a negative impact on consumer purchases of the Group's products, thereby impacting the Group's business, financial position, and operating results.

	Real GDP (% yoy)			CPI (% yoy)			Unemployment (%)		
	2021	2022	2023F	2021	2022	2023F	2021	2022	2023F
Latvia	4.3	2.8	0.8	3.2	17.2	9.2	7.6	6.9	6.5
Lithuania	6.0	1.9	0.0	4.6	18.9	9.5	7.1	5.9	7.3
Estonia	7.2	-0.5	-1.7	4.5	19.4	9.8	6.2	5.6	6.5
Poland	6.9	5.1	0.5	5.1	14.3	11.8	3.4	2.9	5.2
European Union	6.0	3.5	0.6	2.7	8.9	6.3	7.4	6.5	6.7

Source: Bloomberg consensus

The global economy, including the Baltic and Polish markets, has seen strong headwinds since the beginning of 2020 as a result of the global pandemic, war in Ukraine, and rising inflationary pressure, to which global central banks have responded by raising interest rates. In 2022, many countries where the Group sells its products had a slower real GDP growth rate compared to 2021. Nevertheless, amid uncertainties, the economic growth has been above expectations at the end of 2023 primarily due to growing consumption and change of the outlook of developments taking place this year, and the economists have revised upwards the GDP growth forecast for 2023.

However, an earlier than projected depletion of savings for purchases might limit consumption in the upcoming quarters and a more significant recovery is expected only in 2024 when the inflation rates and ECB interest rates respectively decrease further. Overall, the uncertainty still remains elevated, and future economic growth rates could turn out to be lower, and/or inflation could become higher, resulting in lower demand for the Group's products and/or higher cost base, and thus lower business and financial performance of the Group. The Group operates in a cosmetic-hygienic skincare market that is less affected by changes in consumer spending habits due to the product's daily need nature.

Furthermore, changes in the political situation in different regions or countries, or political decisions affecting an industry or country, might have a material impact on the Group's results of operations, profitability, and future development.

### **1.2.2. Global pandemic could have an adverse impact on the Group's operations**

The global economy experienced a period of uncertainty as a result of the outbreak of Covid-19, in March 2020. The global outbreak of Covid-19, and the extraordinary health measures and restrictions on both a local and global basis imposed by authorities across the world have caused disruptions in the Group's value chain. Imposed restrictions related to Covid-19 particularly had a negative effect on the Group's financial result in 2020 and 2021, mostly due to significant retail trade restrictions, logistics chains interruptions, and rapid raw materials price increases in all countries, spread of the pandemic among Group's workforce and disruption in supply chains.

As a result of the Covid-19 pandemic, national authorities adopted several laws and regulations with immediate effect providing a legal basis for the governments to implement measures in order to limit contagion and the consequences of Covid-19. The pandemic situation is continuously changing, and laws and regulations that could directly, or indirectly, affect the Group's revenues may enter into force. Additionally, the spread of Covid-19 among the Group's workforce can cause operation disruptions, thus, negatively affecting the Group's revenue base. Thus, the effects of the Covid-19 (or a new pandemic) situation could in turn negatively affect the Group's revenue and operations going forward, where the severity of the situation in the future and the exact impacts for the Group are uncertain.

The Group's management has a proven track record of successfully addressing the implications of the Covid-19 pandemic and logistics crisis in recent years, which suggests their capability in handling future development scenarios.

### **1.2.3. The Group's business could be adversely affected by the changes in regulatory environment**

The Group is subject to national laws where it operates, as well as EU laws and regulations that regulate the hygiene product manufacturing industry generally, excise regulation, health protection, personal data processing, prevention of money laundering, and terrorism and proliferation financing. Any uncertainty as to the regulatory trends or changes in policies in relation to the Group's industry may delay or prevent the achievement of the strategic plans or increase the cost of implementing such plans.

To name a few, Directive (EU) 2019/904 of the European Parliament and the Council of 5 June 2019 on the reduction of the environmental impact of certain plastic products, as well as other legislation regarding single-use plastic products, have an impact on the Group's profitability as they request replacing relatively inexpensive traditional packaging types and raw materials with the newly invented sustainable packaging. They also reduce the profitability of regular products. Any other legislation and regulations on this subject may affect the Group's profitability and long-term investments made prior to legislation changes.

In terms of local regulations, frequent minimum wage increases, as well as future changes in labour taxes, have an impact on the average wage and competitive advantages in both Latvia and Poland.

The Group complies with all legislative requirements and other regulations as of the date of the Terms of the Notes Issue. Legislation and other regulations may change, however, and the Issuer cannot guarantee, in such cases, that it would be able to comply immediately, without material measures, with the requirements of revised legislation or other regulations. Adapting the Group's operations to any of the changes described above may incur costs for the Group that are difficult to anticipate, which in turn may have a material adverse effect on the Group's business, results of operations, and financial condition.

#### **1.2.4. The local tax regime may change**

Changes in the local tax regime or challenges to the Group's present tax structures might have a material effect on the Group's results of operations, profitability, and future development. Furthermore, certain tax positions taken by the Group require the judgment of management and, as a result, may turn to be inefficient or challenged by tax authorities due to possible erroneous interpretation of tax legislation. The Group's capacity to respond ad hoc to prospective tax legislation changes is provided by having production sites in two different countries.

#### **1.3. Risks related to the Group's business and industry**

##### **1.3.1. Increasing competition could have an adverse effect on the Group's operations**

In its different product categories, the Group faces several regional and international competitors. Products based on new technology or alternative materials, intense price rivalry, and imports from lower-cost countries could reduce the Group's competitive advantage. If the Group is unable to compete with an appealing product offering, it may lose some of its market share. Competition may lead to increased pricing pressure on the Group's products. The risk is somewhat mitigated by the Group's recent significant investments in vertical diversification and production machinery modernization enable the ability to produce new goods, employ fully renewable alternative materials, and optimize costs without additional significant investments.

While global demand for hygienic products has been growing over the past several years, creating a strong demand backdrop for the Group's products, there can be no certainty that this demand for the Group's products will continue in the future. The high brand awareness of the Group's key products provides confidence in consumers' trust in proven brands

Rapid time to market for innovative products is key to the Group's competitiveness. There can be no assurance that the Group will proceed to launch innovative products in a timely or successful manner as until now. There can also be no assurance that the Group will be able to obtain and license patents, trademarks, and similar proprietary rights from third parties in order to respond to the innovations of the Group's competitors. If the Group is unable to timely develop innovative products or is unable to obtain and license such proprietary rights, it may lose some of its market share. Any of the foregoing could have a material adverse effect on the Group's business, financial condition, and results of operations and ability to meet its profitability targets. The products from different biodegradable materials developed during the last two years show the Group's future strategy of expanding target customer groups, maintaining existing products, and continuously developing new products.

##### **1.3.2. Supply interruptions of raw materials could have an adverse effect on the Group's operations**

The Group depends on access to sufficient, reasonably-priced quantities of cotton, pulp, viscose, and polypropylene, which it uses to manufacture products, and the Group is also a considerable consumer of energy. The Group is dependent on access to raw materials in order to deliver products to its customers. The Group's raw material is sourced from third parties (of which the majority is from countries outside the EU), and no assurance can be made that the Company will secure sufficient volumes going forward.

Dependency on third-party supply of raw material also exposes the Group to further competition from its peers, and especially from industry players that to a greater extent than the Group can secure a supply of raw material. The risk is somewhat mitigated by the fact that the Group's key strategic raw materials (cotton, viscose, polyester, pulp, or polypropylene) supply is secured by deliveries from at least several suppliers from different geographies; no raw materials are delivered from a single supplier or one region.

Long-term disruptions in the supply of the Group's main raw materials might disrupt production and harm the Group's overall business operations. As the Group sources its raw materials from a number of international suppliers, significant interruptions in the production of the majority of the Group's products are mitigated. However, these measures may not assure raw material supply. Reduced availability and/or increased pricing for raw materials may have a negative impact on the Group's results of operations, profitability, and future development.

### **1.3.3. Manufacturing disruption could have an adverse effect on the Group's operations**

The Group has two manufacturing facilities. If one or both of them experience a disruption, the Group may face a temporary deficit in production or an increase in its cost of sales or distribution expenses, which might have an adverse effect on the Group's results of operations. In case of fire, floods, storms, or other catastrophic events, the Group may be required to shut down the affected production facilities and there can be no assurance that the Group will be able to completely or partially utilize our other production facilities to compensate for or mitigate the effect of such shutdowns. Any disruptions or shutdowns at the Group's manufacturing facilities might jeopardize on-time delivery and reduce production capacity, having a substantial negative impact on the Group's business, financial condition, and result of operations. In the case of unplanned plant closures or capacity reductions, the Group cannot assure that it will be able to relocate its output in order to satisfy client demands. However, present capacity reserves at both facilities allow for a quick increase and/or any other reaction to potential disruption, somewhat mitigating the risk.

### **1.3.4. Unsuccessful product and geographical expansion could have an adverse effect on the Group's operations**

The Group's business comprises both new product category expansion and new product type expansion within established product categories. There is a risk that current or future expansion in existing or new categories would fail, which might have a negative impact on the Group's business, financial condition, and results of operations.

Group's marketing departments oversee the Group's product sales in new geographical regions. Entering new geographical markets involves risk due to factors such as local legal requirements, business climate, and typical business practices and ethics. If the conditions in these markets change or differ from the Group's expectations, such expansion might introduce new and increased risks for the Group, resulting in a negative impact on the Group's business, financial condition, and results of operations.

### **1.3.5. Damage to the reputation of the Group could have an adverse effect on the Group's operations**

Developing and preserving the Group's image, including the Group's portfolio of brands, is vital to the Group's relationships with consumers, customers, suppliers, and others. Inability to address negative publicity or other issues, such as real or perceived concerns about product safety, quality, or efficacy, could have a negative impact on sentiment toward the Group and its products and brands, causing the Group's business, financial condition, and results of operations to suffer. A significant product recall, product-related litigation, allegations of product tampering or contamination, the distribution and sale of counterfeit products, or a failure or breach of the Group's information technology systems could all have a negative impact on the Group's business, financial condition, and results of operations.

Furthermore, the Group is reliant on marketing its brands, products, and solutions in order to promote its offering and preserve and strengthen the Group's brand strength. Market data and other statistics received from external credible sources are frequently used in the Group's marketing materials, but they are assembled, evaluated, and presented by the Group itself, such as a statement on the Group's market position in specific jurisdictions or product categories. Conclusions expressed in such market material may be contested by competitors and others, resulting in claims or unfavourable publicity. Any such accusations or unfavourable publicity might harm the Group's reputation and harm the Group's business.

### **1.3.6. The Group is exposed to IT system and process risk**

The Group is dependent on IT systems for conducting several aspects of its operations, including processing customer transactions, managing purchases and its inventory, managing the Group's internal financial operations, and administrating the e-commerce platforms. Accordingly, any failures and disruptions in the Group's key information systems may cause revenue to decrease and operating expenses to increase, which could result in material adverse effects on the Group's business, financial condition, and results of operations.

Cyber-attacks might result in financial loss, operational disruption, and reputational damage. Due to new trends in business and work environments, the Group constantly focuses on insider threats by tightening privileged access to critical applications. Mandatory e-learning and regular phishing exercises for the global workforce help the Group to identify critical issues promptly so that the Group can develop the most

appropriate action plans for risk mitigation. The Group engages experts to perform intelligence-led, proactive hunting and monitoring of threats. The Group uses high-risk market cyber stress tests to address security gaps.

**1.3.7. The Group is exposed to counterparty credit risk**

The Group is subject to credit risk, which includes the risk of losses due to failure by the Group's customer or counterparties in financial agreements to meet their payment obligations. The Group's total account receivables were EUR 17.6 million (seventeen-point-six million Euro) as of 30 June 2023, constituting around 20% (twenty percent) of the Group's total assets. There is a chance that the Group's assessments of its customer's ability to make payments will turn out to be insufficient or incorrect. The Group maintains a healthy liquidity reserve to provide support in managing any financial disruptions during all forms of crises. The failure by customers and counterparties under financial agreements to fulfill payment obligations toward the Group may have an adverse effect on the Group's business, financial condition, and results of operations.

**1.3.8. The Group is exposed to inventory management risk**

The Group maintains a certain level of inventory in order to ensure the optimal flow of the inventory and the ability to satisfy customer demands. The Group's total inventory level was EUR 12.9 million (twelve-point-nine million Euro) as of 30 June 2023, constituting around 15% (fifteen percent) of the Group's total assets.

Insufficient levels of inventory can have a significantly negative impact on the Group's revenue. However, in the event of high levels of unsold products, the Group could be required to sell some of its products at lower prices, which could negatively affect the Group's operating profits and have a materially adverse impact on its business operations and financial conditions.

Alternatively, the Group may underestimate the demand for one product compared to another and acquire stock inadequately as a result. To be responsive to shifting customer demands, the Group must manage its product selection and inventory levels closely. If the Group misjudges, fails to identify, or fails to react swiftly to changes in consumer preferences, its sales could decrease, and the Group could see a significant increase in its inventories. Conversely, if the Group underestimates consumer interest in its products, it may experience inventory shortages and lower revenue and profitability than the Group could otherwise have achieved. Therefore, it is important for the Group to optimize inventory levels accordingly.

**1.3.9. The Group's financial leverage might increase in the future**

The Group's financial leverage in recent years has increased due to different challenges in the previous 2-3 years that were out of the Group's control, such as Covid-19, which resulted in production and supply chain disruptions, as well as delays in capacity expansion and new product development, to war in Ukraine, which resulted in a surge in raw material and energy prices. While the Group expects its financial leverage to decrease due to repeated growth of EBITDA in a more stable market environment, there can be no assurance that this will materialize, which could result in negative consequences for the Group. Such consequences would include but are not limited to, requiring the Group to dedicate a substantial portion of its cash flows for financing debt, increasing vulnerability to a downturn in the Group's business operations or general economic conditions, placing the Group at a competitive disadvantage relative to its competitors with lower leverage, limiting flexibility in reacting to competition or changes in the business or industry. Any of these or other consequences or events could have a material adverse effect on the Group's ability to satisfy its obligations under the Notes.

**1.3.10. The loss of key personnel members of the Group could have an adverse effect on its business**

The Group's business and prospects depend to a significant extent on the continuing availability of its key personnel in its various business areas. Financial difficulties or lack of industry sustainability may have an adverse effect on the Group's ability to retain key employees. The loss of any of the members of its senior management or other key personnel or the failure to attract a sufficient number of qualified employees might have a negative impact on the Group's business and results of operations.

**1.3.11. The Group may not be able to attract and retain appropriately skilled employees which may have an adverse effect on the Group's operations**

As of 30 June 2023, the Group employs 649 (six hundred and forty-nine) employees. The Group's employees are a significant part of the overall operations of the Group. As a result, it is of high importance for the Group to have a professional team of employees with a low employee turnover rate. The majority of the factors affecting labour availability are beyond the Group's control. A shortage of qualified employees could have a substantial negative impact on the Group's business, financial condition, and results of operations.

Furthermore, in the future, the Group may be unable to attract enough sufficiently skilled personnel that meet the needs and the corporate culture of the Group. Training new personnel requires both time and resources. Any challenges in attracting new and/or retaining existing workers might have a major negative impact on the Group's service quality and reputation, business operations, financial conditions, and results of operations.

#### **1.3.12. The Group is exposed to operational risks**

Operational risk is a possibility of experiencing losses due to insufficient or unsuccessful internal processes, personnel management, systems, or external circumstances. Thorough personnel selection is carried out, accurate descriptions of job duties are compiled, division of duties is coordinated, which allows the Group and management to reduce operational risks. The Group's internal controls, procedures, compliance systems, and risk management systems may prove to be inadequate to prevent and discover previous or future breaches of laws and regulations and generally to manage risks that could have a material adverse effect on the Group's business operations, financial conditions and results of operations.

#### **1.3.13. The Group is exposed to product liability claims risks**

Given the nature of the Group's business, the Group may face product liability and other claims and recalls in the future if the products it sources and manufactures are faulty or are believed to be defective, or cause or are alleged to cause personal harm or property damage. Damage to individuals or property caused by a faulty, incorrectly designed, or incorrectly built product that falls short of acceptable quality standards may have a negative effect on the Group's business, financial condition, and results of operations. If the Group is made aware of a large-scale product defect, it may be required to recall all such affected products. The risk is somewhat mitigated by the fact that the cosmetic-hygienic skincare market is less affected by large-scale product defects due to long-term development, tests, certifications, and the production ability to stop and improve the respective product volume at any time. The Group maintains professional liability insurance up to 25 million PLN.

Furthermore, the Group may not be completely compensated for damages resulting from errors caused by its business partners, including its own suppliers. Furthermore, there is a risk that the Group's insurance coverage will not adequately cover product liability claims, other product-related claims, or recalls. Product liability lawsuits, warranty claims, and recalls might have a negative impact on the Group's business, financial conditions, and results of operations.

#### **1.3.14. The Group is exposed to sanctions risk**

Non-compliance with AML (anti-money laundering) and sanctions could result in major penalties from state authorities. For many years the Group has been closely working with clients and partners to secure effective and sustainable working relationships. The Group is focusing on compliance with high standards and local regulations. The Group has adopted programs to manage various potential risks in connection with business partners, including credit risk and Know Your Client (KYC) principles by performing AML and sanctions checks. The Group is performing regular training of employees to make sure that they are informed about the latest KYC and sanctions requirements and follow the procedures. As a response to the growing tension in the relationships among Russia, Belarus, the EU, and the USA, that escalated in February 2022 following the military invasion of Russia in Ukraine, the lists of sanctioned legal entities and private individuals have been amended many times. The Group is constantly monitoring the changes and responds quickly to be fully compliant with the imposed restrictions for financial and sectorial sanctions. Shortly after the military invasion of Russia in Ukraine, respective Rules of the internal control system for sanctions risk management have been introduced.

### **1.4. Risks related to the Notes**

#### **1.4.1. Notes repayment risk**

The Notes shall be secured with a:

- 1<sup>st</sup> ranking commercial pledge over 81,500 (eighty-one thousand five hundred) Issuer's shares constituting 61.13% of Issuer's share capital owned by the Existing shareholder;
- 1<sup>st</sup> ranking commercial pledge over 51,833 (fifty-one thousand eight hundred thirty-three) Issuer's shares constituting 38.87% of Issuer's share capital owned by the Issuer;
- 1<sup>st</sup> ranking commercial pledge over all assets of the Issuer as an aggregation of things and future components of such aggregation of things;
- 1<sup>st</sup> ranking (*pari passu* with the relevant Altum Fund's Security) registered pledges over fixed assets, inventory and Trademarks of the Guarantor;
- ordinary (civil) pledge over the Guarantor's bank accounts;
- assignment of the Guarantor's receivables;
- 1<sup>st</sup>-ranking mortgage over the Latvian Real Property owned by the Issuer;
- 1<sup>st</sup>-ranking (*pari passu* with relevant Altum Fund's Security) mortgage over the Polish Real Property owned by the Guarantor;
- Guarantor's corporate guarantee.

In case of the insolvency of the Issuer, the Noteholders will be entitled to recover their investment on the same terms as other creditors in the respective claims' group according to the Applicable Laws, taking into account, that if the Collaterals would be enforced, the Noteholders would receive payment of their claims in respect to Notes only to the extent that the enforcement proceeds of the sale of the Collaterals are sufficient to pay the costs of enforcement of the Collaterals. Save for mandatory provisions of the Applicable Laws and Intercreditor Agreement there are no contracts or other transaction documents that would subordinate the claims of the Noteholders to other secured or unsecured liabilities of the Issuer.

Should the Company become insolvent, legal protection proceedings or out-of-court legal protection proceedings of the Company are initiated during the term of the Notes, an Investor may forfeit interest payable on, and the principal amount of, the Notes in whole or in part. An Investor is always solely responsible for the economic consequences of its investment decisions.

#### **1.4.2. No limitation on issuing additional debt**

The Group is not prohibited from incurring other debt ranking *pari passu* to the Notes or restricted from granting any security on any existing or future indebtedness. If the Group incurs significant additional debt or grants additional security, the Group's ability to service its Financial Indebtedness, including the Notes, might deteriorate, the amount recoverable by the Noteholders in case of insolvency of the Issuer might decrease, and the position and priority of Noteholders in such case might worsen.

#### **1.4.3. Liquidity risk**

Neither the Issuer nor any other person guarantees the minimum liquidity of the Notes. Thus, the Investors should consider the fact that they may not be able to sell or may face difficulties in selling their Notes on the secondary market at a fair market value or at all.

#### **1.4.4. Delisting risk**

After registration of the Notes, the Issuer plans to request admission to trading of the Notes on the Multilateral Trading Facility (MTF) First North operated by Nasdaq Riga within 12 (twelve) months from the Issue Date. There is a risk that Nasdaq Riga will not accept the Notes to be admitted to trading on First North or order that the Notes be delisted from First North before maturity after admission to trading has taken place due to changes in legal acts, including Nasdaq Riga regulations, or recommendations by the Bank of Latvia.

#### **1.4.5. Price risk**



The development of market prices of the Notes depends on various factors, such as changes of interest rates, central bank policies, overall economic development or demand for the Notes.

Neither the Issuer nor any other person undertakes to maintain a certain price level of the Notes. The Investors are thus exposed to the risk of unfavourable price development of their Notes if they sell the Notes prior to final maturity. If an Investor decides to hold the Notes until maturity, the Notes will be redeemed at their Nominal Value.

#### **1.4.6. Early redemption risk**

According to these Terms of the Notes Issue, the Notes may be redeemed prematurely at the initiative of the Issuer. If the early redemption right is exercised by the Issuer, the rate of return from the investment into the Notes may be lower than initially expected, as the Investor might not be able to reinvest the redemption proceeds in a comparable security at an effective interest rate as high as the interest rate on such Notes being redeemed. The Issuer's redemption right may also adversely impact the Investor's ability to sell such Notes.

#### **1.4.7. Tax risk**

Tax rates and tax payment procedures applicable at the moment of purchase of Notes to the tax residents, non-residents of Latvia, and residents of other countries may change. The Issuer will not compensate the increase in taxes to Investors, therefore Investors may receive smaller net payments related to the Notes.

#### **1.4.8. Resolutions of Noteholders' risk**

The decision by the Majority Noteholders is binding on all Noteholders. Thus, a Noteholder is subject to the risk of being outvoted by a majority of the other Noteholders. As such, certain rights of a Noteholder against the Issuer may be amended, reduced, or even cancelled without its consent.

#### **1.4.9. Risk that some Investors might have more preferential terms than others**

While the Issuer will try to maintain the proportional reduction principle to the extent possible in the final allocation of the Notes, in case the total number of Notes subscribed for is higher than the number of Notes available, the Issuer has a right to refuse all or part of the subscribed Notes to any Potential Investor at its sole discretion, thus, the proportionality principle might not be observed.

Additionally, the Issuer has the right to sell the Notes at a price lower than their Nominal Value to selected Investors and/or enter into agreements that may add additional rights to selected Investors if the Issuer perceives them as especially important for the Notes issue due to the size of their investment or added experience. This may result in a situation where some Investors might gain preferential terms for investment into the Notes than the rest of the Investors.

### **1.5. Risks associated with the Collaterals**

#### **1.5.1. Risks associated with Collateral Agent Agreement**

The Noteholders are represented by the Collateral Agent in all matters relating to the Guarantee and the Collaterals. There is a risk the Collateral Agent, or anyone appointed by it, does not properly fulfil its obligations in terms of perfecting, maintaining, enforcing, or taking other necessary actions in relation to the Guarantee and the Collaterals. Subject to the terms of the Collateral Agent Agreement, the Collateral Agent is entitled to enter into agreements for the use of services of a third-party and appoint third-party representatives in the course of performance of its tasks and acts as stipulated in the Terms of the Notes Issue or take any other actions necessary for the purpose of maintaining, releasing or enforcing the Guarantee and the Collaterals or for the purpose of settling, among others, the Noteholders rights to the Guarantee and the Collaterals.

#### **1.5.2. Risks associated with the value of the Collaterals**

If the Issuer fails to make the Coupon and/or Nominal Value payments in a timely manner according to the Terms of the Notes Issue, the Collateral Agent, acting in the interest of the Noteholders, will initiate the takeover and realization of the Collaterals. There is a risk that there may be no legal and practical possibility to take over or sell the Collaterals in full or in part and no buyer may be interested in buying the Collaterals.

Considering that the Collateral Agent does not supervise the quality of the Collaterals during the duration of the Issuer's obligations and the Collateral Agent has no liability to the Noteholders in this regard, there is a risk that the Collaterals may be taken over but the realization of the Collateral may be insufficient to satisfy the Noteholders' claims. The current combined value of the Collaterals is estimated to be EUR 95 million (ninety-five million Euro), which implies a Collateral Coverage Ratio in excess of 300%.

### **1.5.3. Risks associated with Guarantee**

The Guarantee provides to the Noteholders with a claim against the Guarantor. However, the Guarantee will be limited to the maximum amount that can be guaranteed by the Guarantor without rendering the Guarantee voidable or otherwise ineffective under the applicable law, and enforcement of the Guarantee would be subject to certain generally available defenses.

Enforcement of the Guarantee against the Guarantor will be subject to certain defenses available to the Guarantor in the relevant jurisdiction. Defenses generally include those that relate to corporate purpose or benefit, fraudulent conveyance or transfer, voidable preference, insolvency or bankruptcy challenges, financial assistance, preservation of share capital, thin capitalization, capital maintenance, or similar laws, regulations, or defenses affecting the rights of creditors generally. If one or more of these laws and defenses are applicable, the Guarantor may have no liability or decreased liability under the Guarantee depending on the amounts of its other obligations and applicable law.

There is a possibility the entire Guarantee may be set aside; in which case the entire liability may be extinguished. If a court decides that the Guarantee was a preference, fraudulent transfer, or conveyance and voids the Guarantee, or holds it unenforceable for any other reason, the Noteholders may cease to have any claim in respect of the Guarantor and would be a creditor solely of the Issuer.

### **1.5.4. Risks associated with Parallel Debt**

The security interests in the Collaterals that will secure the obligations of the Issuer under the Notes will not be granted directly to the Noteholders but will be created and perfected in favour of the Collateral Agent. Thus, the Noteholders will not have any independent power to enforce, or have recourse to, any of the Collateral Agreements or to exercise any rights or powers arising under the Collateral Agreements. Only the Collateral Agent will be entitled to enforce the Collaterals. As a result of these restrictions, the Noteholders will have limited remedies and recourse against the Issuer in the Event of Default. In particular, none of the Noteholders will have a direct benefit under the Collaterals, and none of the Noteholders will have the status of a secured creditor in the insolvency or legal protection (in Latvian: *tiesiskās aizsardzības*) proceedings of the Issuer. From a purely legal perspective, the Noteholders will qualify as unsecured creditors of the Issuer, and the Noteholders' claims under the Notes vis-à-vis the Issuer directly will be unsecured obligations of the Issuer.

Due to Latvian law legal requirements, the Collateral Agent cannot take and perfect the security for the Issuer's obligations under the Notes. The Parallel Debt creates contractual security for the Noteholders' claims under the Notes because the Collateral Agent has an obligation pursuant to Clause 20.6. (*Application of the Proceeds from Enforcement of the Collateral*) to apply the enforcement proceeds received in the enforcement of the Collaterals securing the Parallel Debt in and towards satisfaction of the Noteholders' claims.

Parallel Debt is a contractual instrument designed to allow the Collateral Agent to take, perfect, maintain, administer, and enforce the Collaterals in its own name and right but for the benefit of the Noteholders. The concept of Parallel Debt is not explicitly recognized under the Latvian law and its legality, validity, and enforceability have not been tested in the Latvian courts. If the Parallel Debt arrangements are declared to be illegal, invalid, or unenforceable by the Latvian court, that will result in the Collaterals not being valid and enforceable or not being duly perfected in accordance with the applicable legal requirements. As a consequence, the Noteholder's claims under the Notes would rank *pari passu* with the other secured obligations of the Issuer and the Noteholders will not have a preferential right to the enforcement proceeds of the Collaterals.

### **1.5.5. The enforcement of the Collateral will be subject to the procedures and limitations set out in the Collateral**

### **Agent Agreement and these Terms of the Notes Issue**

Even when the Guarantee or the Collaterals are enforceable, the enforcement is subject to the procedures and limitations agreed in the Collateral Agent Agreement and the Terms and Conditions. There can be no assurance as to the ability of the Noteholders to instruct the Collateral Agent to initiate any enforcement procedures. Furthermore, any enforcement of the Guarantee or the Collaterals may be delayed due to the provisions of the Collateral Agent Agreement and the Terms and Conditions.

#### **1.5.6. The rights of the Investors depend on the Collateral Agent's actions and financial standing.**

By subscribing for, or accepting the assignment of, any Note, each of the Investors will accept the appointment of the Collateral Agent as the agent and representative of the Investors, to represent and act for the Investors in relation to the Collaterals and the Guarantee if instructed. Only the Collateral Agent is entitled to exercise the rights under the Collaterals and the Guarantee and enforce the same. Any failure by the Collateral Agent to perform its duties and obligations properly, or at all, may adversely affect the enforcement of the rights of the Investors due to, for example, the inability to enforce the Collaterals and the Guarantee and/or receive any or all amounts payable from the Collaterals in a timely and effective manner.

Under the Collateral Agent Agreement, the Majority Noteholders may pass a decision to replace the Collateral Agent at any time. At any time, the Collateral Agent may resign from its role as the Collateral Agent with 1 (one) month notice. Furthermore, the Collateral Agent's liability to the Noteholders is limited in accordance with Clause 23.5 (*Liability of the Collateral Agent*). As of the date of the Terms of the Notes Issue, the Collateral Agent's professional liability is insured with an insurance company If P&C Insurance AS Latvian branch (registration number: 40103201449).

## REPRESENTATIONS AND WARRANTIES, RESPONSIBILITY STATEMENT

### REPRESENTATIONS AND WARRANTIES

The Issuer shall, in accordance with these Terms of the Notes Issue, issue the Notes and perform the obligations arising from the Notes to the Noteholders. The Issuer shall be liable to the Noteholders for the due and complete fulfilment of its obligations under the Notes.

The Issuer represents and warrants to the Noteholders that:

- (a) the Issuer and the Guarantor the assets of which serve as Collaterals under these Terms of the Notes Issue are duly incorporated and validly existing as legal entities in their jurisdiction of incorporation, and operating under the laws of the jurisdiction of their incorporation;
- (b) all the Issuer's obligations assumed under the Notes and the Collateral are valid and legally binding to them and the performance of these obligations is not contrary to Applicable Law, their constitutional documents, or any agreement concluded by them;
- (c) all the Guarantor's obligations assumed under the Notes and the Collateral are valid and legally binding to them and the performance of these obligations is not contrary to Applicable Law, their constitutional documents, or any agreement concluded by them
- (d) the Issuer has all the rights and sufficient authorizations to issue the Notes and provide the Collateral and fulfil other obligations under the Notes and the Collateral Agreement;
- (e) the Guarantor has all the rights and sufficient authorizations to provide the Collateral and fulfil other obligations under the Notes and the Collateral Agreement
- (f) the Issuer has performed all the formalities required for issuing the Notes and to provide the Collateral and fulfil other obligations under the Notes and the Collateral Agreements;
- (g) the Guarantor has performed all the formalities required to provide the Collateral, Guarantee and fulfil other obligations under the Notes and the Collateral Agreements;
- (h) all information that is provided by the Issuer to the Noteholders in these Terms of the Notes Issue is true, accurate and complete and not misleading in any respect;
- (i) the Issuer and its Subsidiaries are solvent, able to pay its debts as they fall due, there are no liquidation or insolvency proceedings pending or initiated against the Issuer or the Subsidiaries;
- (j) there are no legal or arbitration proceedings pending or initiated against the Issuer or Subsidiaries, which may have, or have had a significant effect on the Issuer's financial position or profitability;
- (k) there are no criminal proceedings pending or initiated against the Issuer or any Subsidiary;
- (l) the Issuer shall not, and shall procure that none of its directors, officers, employees, or agents, use the proceeds from the Notes: (i) to fund, finance, or facilitate any activities or business of or with any person that is, or is owned or controlled by persons that are, or in any country, region or territory, that, at the time of such funding, financing or facilitating is, or whose government is, the target of Sanctions; or (ii) in any other manner that would result in a violation of Sanctions by any person (including, any person participating in the subscription of Notes, whether as a lender, underwriter, advisor, investor, or otherwise).

The Issuer's representations and warranties above are valid on the Issue Date and will remain valid until the fulfilment of all obligations arising from the Notes.

### RESPONSIBILITY STATEMENT

The Issuer, represented by the member of its Management Board, accepts responsibility for the information contained in these Terms of the Notes Issue and declares that the Issuer and its Management Board have taken all reasonable care to ensure that the information contained in these Terms of the Notes Issue is, to the best of the Issuer's knowledge, true, accurate and complete and not misleading in any respect.

*SIA iCotton Terms of the Notes Issue*

---

On behalf of SIA iCotton

Sergejs Binkovskis  
Chairman of the Management Board

*This document is signed electronically with a secure electronic signature containing a time stamp.*

## INFORMATION ON NOTES

### 1. USE OF THE PROCEEDS

- 1.1. The initial issue size is EUR 20,000,000.00 (twenty million Euro). The funds that will be raised as a result of the Issue will be used to refinance the Group's liabilities against mBank and BluOr Bank and to finance the Group's working capital.
- 1.2. In case of the creation and issue of any additional Notes, as described in Clause 13(e) (*Undertakings*), the funds raised as a result of the creation and issue of such additional Notes may only be used to refinance the existing Group's liabilities against Altum Fund.

### 2. GENERAL INFORMATION

- 2.1. The Notes are bearer securities and any individual or entity that holds the Notes in his/her securities account has the right to receive Coupon and the Nominal Value payments. It is planned to issue the Notes with a Nominal Value of EUR 1,000.00 (one thousand Euro) for one Note and the initial total Nominal Value of EUR 20,000,000.00 (twenty million Euro) that can be increased to EUR 30,000,000.00 (thirty million Euro) in case of creation and issue of any additional Notes in accordance with Clause 13(e) (*Undertakings*).
- 2.2. ISIN (International Security Identification Number) of the Notes allocated by Nasdaq CSD is LV0000802783.
- 2.3. The minimum subscription amount for the Notes during the initial offering is EUR 100,000.00 (one hundred thousand Euro) with the minimum step of EUR 1,000.00 (one thousand Euro).

### 3. APPLICABLE LAW AND DISPUTE RESOLUTION

- 3.1. The Notes issue is a private placement arranged in compliance with the Financial Instrument Market Law (in Latvian – *Finanšu instrumentu tirgus likums*) and other Applicable Laws of the Republic of Latvia that are in force, including regulations of the Bank of Latvia, Nasdaq CSD, and Nasdaq Riga.
- 3.2. All disputes between any one or more Noteholders and the Issuer shall be settled in the state courts of the Republic of Latvia in accordance with the Applicable Laws. These Terms of the Notes Issue are prepared and signed in English and any translations of these Terms of the Notes Issue into another language are unofficial and made exceptionally for the Potential Investors' convenience. In case of any dispute settlement, interpretation of the provisions of these Terms of the Notes Issue in English shall have a priority against an interpretation in any other language.

### 4. FORM AND ACCOUNTING OF THE NOTES

The Notes are issued in dematerialised form and will be recorded in the Latvian SSS (securities settlement system governed by the Applicable Laws), which will provide the maintaining function for the Notes. The Noteholders may hold the Notes through Nasdaq CSD participants participating in the Latvian SSS.

### 5. CURRENCY OF THE NOTES

Currency of the Notes is EUR (Euro).

### 6. STATUS OF THE NOTES

The Notes rank *pari passu* with other senior secured obligations of the Issuer, including the Altum Fund's loan to the Issuer. In case of the insolvency of the Issuer, the Noteholders will be entitled to recover their investment on the same terms as other senior secured creditors (including Altum Fund's loan to the Issuer) in the respective claims' group according to the relevant Applicable Laws. Save for mandatory provisions of law, there are no contracts or other transaction documents that would subordinate the claims of the Noteholders to other secured liabilities of the Group.

On the Issue Date, the Issuer has an outstanding Existing Subordinated Loan in the amount of EUR 1,500,000 (one million five hundred thousand Euro).

### 7. RIGHTS AND RESTRICTIONS CONNECTED WITH THE NOTES

- 7.1. Each Noteholder has the right to receive Coupon and Nominal Value payments in accordance with Clause 10 (*Coupon*) and Clause 11 (*Repayment of Notes*), as well as exercise other rights provided in these Terms of the Notes Issue and Applicable Laws.
- 7.2. The Issuer has the right to purchase the Notes on the secondary market directly from the Noteholders. The Notes that are purchased by the Issuer are held in the Issuer's financial securities custody account and the Issuer has the right to sell the purchased Notes to Potential Investors and other Noteholders. The Issuer may not cancel the purchased Notes held in the Issuer's financial securities custody account, therefore decreasing the size of the Notes issue.
- 7.3. The Notes held by the Issuer and Related Parties are not eligible to participate in the voting in accordance with these Terms of the Notes Issue.

## **8. RESTRICTIONS ON FREE CIRCULATION OF THE NOTES**

- 8.1. The Notes are freely transferable debt securities and may be pledged. However, the Notes cannot be offered, sold, resold, transferred, or delivered in such countries or jurisdictions or otherwise in such circumstances in which it would be unlawful or require measures other than those required under the Applicable Laws.
- 8.2. Any Noteholder wishing to transfer or offer the Notes must ensure that any offering related to such transfer or offer would not be qualified as a public offering in the meaning of the Applicable Laws. According to these Terms of the Notes Issue, it is the obligation and liability of the Noteholder to ensure that any offering of the Notes does not fall under the definition of public offering under the Applicable Laws.

## **9. FIRST SETTLEMENT DATE OF THE NOTES**

The First Settlement Date (Issue Date) of the Notes issue is 22 December 2023, on which the Coupon starts to accrue.

## **10. COUPON**

### **10.1. Coupon rate**

- 10.1.1. The Coupon rate for the Notes is 3M EURIBOR + 6.0% (six percent) per annum and is fixed for every Coupon Period.

### **10.2. Coupon payment procedure**

- 10.2.1. Coupon payments are made on each Coupon Payment Date. Coupon payments are made 4 (four) times per annum – each 31 March, 30 June, 30 September and 31 December. The first Coupon payment will be made on 31 March 2024 and the last Coupon payment will be made on the Maturity Date, which is 30 June 2027.
- 10.2.2. The Coupon record date is the 5th (fifth) Business Day prior to the Coupon Payment Date. At the end of the Coupon record date the list of the Noteholders, who are eligible for the Coupon payments, will be fixed. The Coupon payment shall be made to the Noteholders in accordance with the relevant Noteholders' list, on each Coupon Payment Date for the preceding Coupon period.
- 10.2.3. The Issuer shall pay the Coupon through the intermediary of Nasdaq CSD and in accordance with the applicable Nasdaq CSD regulations, which regulate the procedure for paying income from debt securities. The Nasdaq CSD regulations applicable on the date of these Terms of the Notes Issue are the Nasdaq CSD Rulebook and Corporate Action Service Description.
- 10.2.4. If the Coupon Payment Date is not a Business Day, the Issuer will pay the Coupon payment on the first Business Day after the Coupon Payment Date. The postponement of the payment date shall not have an impact on the amount payable.
- 10.2.5. If the Issuer has failed to make Coupon payments in accordance with the deadlines specified in these Terms of the Notes Issue, the Noteholders shall have the right to submit claims regarding the payment of the Coupon not earlier than after 10 (ten) Business Days following the payment date of the relevant Coupon.

### **10.3. Coupon calculation**

10.3.1. Coupon calculation will be performed by the Calculation Agent. Quarterly Coupon payments, except for the first Coupon payment, shall be calculated according to the following formula:

$$\text{CPN} = F * C / 4 \text{ or } \text{CPN}\% = C/4, \text{ where}$$

CPN – the amount of the Coupon payment in EUR per Note;

F – Nominal Value of one Note;

C – annual Coupon rate (%) that is determined as Base Rate + 6.0%, where:

Base Rate is determined by the Calculation Agent on the Coupon Reset Date, which is the second Business Day prior to the start of each Coupon Period, using published data by a designated distributor (currently Bloomberg) and shall be fixed for the respective Coupon Period. If for any Coupon Period, the Base Rate determined based on the procedure specified in this paragraph is less than 0%, the Base Rate shall mean 0% for the purposes of determining the Coupon rate.

The first coupon payment on 31 March 2024 is determined according to the following formula:

$$\text{CPN1} = F * C * 99/360, \text{ where}$$

CPN1 – the amount of Coupon payment in EUR per Note on 31 March 2024;

F – Nominal value of one Note;

C – annual Coupon rate (%) that is determined as Base Rate + 6.0% and is equal to 9.975% (nine point nine hundred seventy five percent), as the Base Rate for the first Coupon Period is set at 3.975% (three point nine hundred and seventy five percent).

### **10.4. Calculation Agent**

10.4.1. The Issuer appoints the Calculation Agent to determine the amount of quarterly payments to the Noteholders and provide payment instructions to the Issuer. All calculations by the Calculation Agent shall be made in good faith and through the exercise of the Calculation Agent's commercially reasonable judgment. Upon the request of the Issuer, the Calculation Agent shall provide the Issuer with such information as is reasonably necessary to enable the Issuer to confirm the accuracy of such calculations. The Issuer shall have the right to designate an independent nationally recognized third-party expert with experience in corporate bonds to replace the Calculation Agent, and the parties shall work in good faith to execute any appropriate documentation required by such replacement Calculation Agent. The Calculation Agent shall be informed of its replacement at least 10 (ten) Business Days in advance. Any determination or calculation by the Calculation Agent in such capacity shall be made in good faith and in a commercially reasonable manner.

### **10.5. Accrued Interest Calculation**

10.5.1. The first Coupon starts to accrue on 22 December 2023, which is the First Settlement Date of the Notes issue. The accrued Coupon is calculated presuming there are 360 (three hundred and sixty) days in one year (day count convention – "European 30/360").

Accrued interest between Coupon Payment Dates shall be calculated as follows:

$$\text{AI} = F * C / 360 * D, \text{ where:}$$

AI – accrued interest of one Note;

F – Nominal Value of one Note at the beginning of the relevant quarter, i.e., the initial Nominal Value at the time of the issue of a Note, as may be reduced by the redemption or repurchase amounts paid during the previous periods in accordance with these Terms of the Notes Issue;

C – annual Coupon rate (%) that is determined as Base Rate + 6.0%;

D – the amount of days from the beginning of the Coupon accrual period according to the European 30/360-day count method.



**11. REPAYMENT OF NOTES**

**11.1. Repayment at maturity**

- 11.1.1. The Nominal Value of one Note is EUR 1,000.00 (one thousand Euro) and the Issuer will repay the Nominal Value of the Notes at the Maturity Date, which is 30 June 2027.
- 11.1.2. The Issuer will pay the Nominal Value in accordance with the Nasdaq CSD intermediary and applicable Nasdaq CSD regulations. Nasdaq CSD regulations applicable on the date of these Terms of the Notes Issue are Nasdaq CSD Rulebook and Corporate Action Service Description. The Nominal Value will be paid on the Maturity Date. The list of the Noteholders eligible to receive the Nominal Value will be fixed at the end of the previous Business Day before the Maturity Date.
- 11.1.3. If the Maturity Date of the Notes is not a Business Day, the Issuer will pay the Nominal Value of the Notes on the next Business Day after the Maturity Date. The postponement of the payment date shall not have an impact on the amount payable.
- 11.1.4. If the Issuer fails to make the Nominal Value payment in accordance with the deadlines specified in these Terms of the Notes Issue, the Noteholders shall have the right to submit claims regarding the repayment of the Nominal Value not earlier than after 10 (ten) Business Days following the Maturity Date.

**11.2. Early redemption at the option of the Issuer (call option)**

- 11.2.1. The Issuer may redeem the Notes, in whole but not in part:
- (a) from 22 December 2024 (inclusive) until 21 December 2025 (inclusive) by paying 102% (one hundred and two percent) of the Nominal Value amount plus accrued and unpaid Coupon;
  - (b) from 22 December 2025 (inclusive) until 30 March 2027 by paying 101% (one hundred and one percent) of the Nominal Value amount plus accrued and unpaid Coupon;
  - (c) from 31 March 2027 until the day before the Maturity Date by paying 100% (one-hundred percent) of the Nominal Value amount plus accrued and unpaid Coupon.
- 11.2.2. If the Issuer takes a decision on early redemption of the Notes, the Issuer shall notify Nasdaq CSD and the Noteholders at least 20 (twenty) Business Days prior to the redemption date of the Notes, by publishing the notice on the Issuer's webpage and on Nasdaq Riga information system, in case the Notes are admitted to trading on First North.
- 11.2.3. If the Issuer redeems the Notes, the Issuer will pay the redemption payment in accordance with the Nasdaq CSD intermediary and applicable Nasdaq CSD regulations. The Nasdaq CSD regulations applicable on the date of these Terms of the Notes Issue are the Nasdaq CSD Rulebook and Corporate Action Service Description. The list of the Noteholders eligible to receive the redemption payment will be fixed at the end of the previous Business Day before the redemption payment date.

**11.3. Early redemption at the option of the Noteholders (put option)**

- 11.3.1. In case a Change of Control has occurred or is anticipated to occur the Issuer has the obligation (in case of anticipated Change of Control – a right) to inform the Noteholders by publishing a relevant notice with sufficient details on the Issuer's webpage and on the Nasdaq Riga information system, in case the Notes are admitted to trading on First North, no later than 20 (twenty) Business Days after the Change of Control has occurred and at any time before the anticipated occurrence of a Change of Control:
- (a) stating that the Change of Control has occurred or is anticipated to occur, and that each Noteholder within a period of 10 (ten) Business Days has the right to require the Issuer to redeem all of such Noteholder's Notes at a price equal to 101% (one hundred and one percent) of the Nominal Value plus accrued and unpaid Coupon;
  - (b) stating the redemption date, which shall be not earlier than 10 (ten) Business Days and not later than 20 (twenty) Business Days from the date such notice is delivered to the Noteholders; however, if the notice is delivered prior to the occurrence of a Change of Control, the Issuer may state that the redemption of the Notes is conditional upon the occurrence of a Change of Control, in which case the Notes will be redeemed not later than 20 (twenty) Business Days

following the occurrence of a Change of Control;

- (c) stating the record date;
- (d) stating that any Note redeemed will cease to accrue interest after redemption and any Notes not redeemed will continue to accrue interest;
- (e) describing the circumstances and relevant facts regarding the transaction or transactions that constitute a Change of Control; and
- (f) describing the procedures determined by the Issuer that the Noteholder must follow to have its Notes redeemed.

11.3.2. To exercise the Change of Control put option, the Noteholder must within a period of 10 (ten) Business Days after the date of publication of the Issuer's notice submit to the Issuer a duly signed and completed notice of exercise put option in the form provided by the Issuer. The completed form shall be submitted to the Issuer by the Noteholder directly (physically signed form delivered by post or courier or electronically signed delivered by e-mail) or indirectly via the Noteholder's Custodian. If no response from the Noteholder has been received within the designated time period, it shall be considered that the Noteholder will not execute its put option. No option so exercised may be withdrawn without a prior consent of the Issuer.

11.3.3. If 75 (seventy-five) per-cent or more in Nominal Amount of the Notes then outstanding have been redeemed pursuant to this Clause 11.3 (*Early redemption at the option of the Noteholders (put option)*), the Issuer may, on not less than 30 (thirty) nor more than 60 (sixty) days' notice to the Noteholders given within 30 (thirty) days after the redemption of the Notes pursuant to Clauses 11.3.1. and 11.3.2 above, redeem on a date to be specified in such notice at its option, all (but not some only) of the remaining Notes at 101% (one hundred and one percent) of the Nominal Value plus accrued and unpaid Coupon.

## **12. FINANCIAL COVENANTS**

The Issuer undertakes to comply with the following financial covenants from the Issue Date and for as long as any Notes are outstanding:

- (a) to maintain Equity Ratio of at least 25% (twenty five per cent) calculated at the end of each quarter;
- (b) to maintain Debt Service Coverage Ratio of at least 1.2x (one point two times); calculated for the Relevant Period at the end of each quarter;
- (c) to maintain Net Debt Leverage Ratio of maximum 3.5x (three point five times); calculated for the Relevant Period at the end of each quarter.

## **13. UNDERTAKINGS**

The Issuer undertakes to comply with the following undertakings from the Issue Date and for as long as any Notes are outstanding:

- (a) not to pay dividends or make other distribution of profits to its shareholders except Permitted Distribution;
- (b) not make substantial change to the general nature of the business of the Issuer and the Guarantor from that carried on at the Issue Date (including, but not limited to, the commencement of any new business not being ancillary or incidental to the original business);
- (c) not to initiate or allow initiation of the Issuer's liquidation or similar proceedings and not to reduce the share capital of the Issuer;
- (d) all future loans received from the Issuer's shareholders or Related Persons must be subordinated to the Notes;
- (e) not to create and issue any additional Notes that can be consolidated and become fungible with the existing Notes. However, the Issuer has a right to create and issue any additional Notes (in one or more issuances) that can be consolidated and become fungible with the existing Notes on a condition that the total nominal value of the Notes does not exceed EUR 30,000,000 (thirty million

Euro), provided that:

- (i) the funds raised as a result of issue of such additional Notes are used only to refinance the existing Group's liabilities against Altum Fund; and
  - (ii) within 45 (forty-five) days after refinancing pursuant to paragraph (e) above the Issuer will ensure that the Notes are secured by the Collaterals and Guarantee;
  - (iii) the total nominal value of such additional Notes does not exceed 120% (one hundred twenty percent) of the nominal amount of the loans provided by the Altum Fund and the Net Debt Leverage Ratio is maximum 3.5x (three point five times) calculated for the Relevant Period at the end of each quarter;
  - (iv) the Issuer's compliance with undertakings set out in this Clause 13(e) is confirmed by the Issuer to the Collateral Agent by submitting to the Collateral Agent the relevant compliance certificate, and within 5 (five) Business Days following submission of the compliance certificate the Collateral Agent has approved the Issuer's compliance with undertakings set out in this Clause (e)13(e);
- (f) to publish consolidated unaudited quarterly reports for the Group with management comments, prepared according to the Accounting Principles, by the end of the second month following the end of each respective quarter. The reports should also include information whether the Issuer is compliant with the financial covenants set out in Clause 12 (*Financial Covenants*) of these Terms of the Notes Issue;
- (g) for the Financial Year ending on 31 December 2023 to publish a stand-alone audited annual report for the Issuer (according to Latvian Accounting Standards (Latvian GAAP)) within 4 (four) months after the end of the respective reporting period, the annual report should be audited by Auditor;
- (h) for the reporting period ending on 31 December 2023 to publish a stand-alone audited financial report for the Guarantor prepared according to the Accounting Principles within 4 (four) months after the end of the respective reporting period. The annual report should be audited by an auditor.
- (i) starting from the Financial Year ending on 31 December 2024 to publish consolidated annual reports for the Group prepared according to the Accounting Principles within 4 (four) months for each consecutive reporting period, the Financial Reports should be audited by the Auditor;
- (j) the Issuer and the Guarantor shall not create or permit to subsist any Security, other than a Permitted Security, upon the whole or any part of its present or future business, undertaking, assets or revenues to secure any Financial Indebtedness without at the same time or prior thereto securing the Notes equally and rateably therewith. For the avoidance of doubt, the Issuer is permitted to create and permit to subsist a Security over assets that are not serving as the Collaterals in accordance with the definition of the Permitted Security. If the Issuer wishes to establish a Security over any assets that are serving as the Collaterals, the Issuer is allowed to do so, if (i) the anticipated transaction is in line with the Terms of the Notes Issue, (ii) the Collateral Agent has confirmed that the Collateral Coverage Ratio after such transaction is not lower than 150% based on the Value of Collateral calculations and appraisals provided by the Issuer to the Collateral Agent, (iii) the Collateral Agent has received confirmation, calculation and reasonable evidence that the Financial Covenants set out in Clause 12 (*Financial Covenants*) are observed upon fulfilment of the anticipated transaction. Upon receiving documents and information listed in Items (ii) and (iii) in a satisfactory form and substance the Collateral Agent shall execute and provide to the Issuer all relevant consents within 15 (fifteen) Business Days after receiving all required documents from the Issuer. If the Issuer has requested to establish a Security over any assets, that are serving as Collateral and the Collateral Agent has confirmed such request, the Issuer has the obligation to inform the Noteholders by publishing a relevant notice with sufficient details on the Issuer's webpage and on the Nasdaq Riga information system, in case the Notes are admitted to trading on First North no later than 20 (twenty) Business Days after such request has been confirmed;
- (k) to ensure the admission to trading of the Notes on First North within 6 (six) months after the Issue

Date.

For avoidance of doubt this Clause 13 does not prohibit the Issuer from permitting any additional Financial Indebtedness, if such Financial Indebtedness is not secured or is secured with assets that are not serving as the Collaterals for the Notes.

#### **14. EVENTS OF DEFAULT**

14.1. Each of the following events or circumstances shall constitute an Event of Default:

(a) **Non-payment:** the Issuer fails to pay any amount of principal in respect of the Notes on the due date for payment thereof or fails to pay any amount of Coupon in respect of the Notes on the due date for payment thereof, unless the payment is made within 20 (twenty) Business Days following the original due date. The Noteholders shall have the right to submit claims regarding failure to make payment not earlier than 20 (twenty) Business Days after the due date of the relevant payment;

(b) **Breach of Financial Covenants:** The Issuer does not comply with any financial covenant set out in Clause 12 (*Financial Covenants*), unless prior to or within 90 (ninety) calendar days of the earlier of: (i) the date on which the relevant Financial Report is to be published pursuant to these Terms of the Notes Issue; and (ii) the date that such a Financial Report was in fact published pursuant to these Terms of the Notes Issue for any Relevant Period in which such failure to comply was (or would have been) first evidenced, the Issuer has received cash proceeds of new injections from the shareholders of the Issuer in a form of equity and/or Subordinated Debt (the “**Equity Cure**”), in an amount at least sufficient to ensure that the financial covenants set out in Clause 12 (*Financial Covenants*) would be complied with if tested again as at the last date of the same Relevant Period on the basis that any Equity Cure provided to the Issuer is included for the Relevant Period as if provided to the Issuer immediately prior to the last day of such Relevant Period.

Any Equity Cure provided to the Issuer in respect of any Relevant Period shall be deemed to have been provided immediately prior to the last date of such period and shall be included (without double counting) in all relevant calculations of the financial covenants set out in Clause 12 (*Financial Covenants*) until the date it was deemed provided falls outside any subsequent Relevant Period.

If after the Equity Cure the relevant financial covenant set out in Clause 12 (*Financial Covenants*) is met, then the requirement thereof shall be deemed to have been satisfied as at the relevant original date of determination of an Event of Default occasioned thereby shall be deemed to have been remedied for the purposes of these Terms of the Notes Issue.

(c) **Breach of Undertakings:** The Issuer does not comply with any undertakings set out in Clause 13 (*Undertakings*), unless the non-compliance (i) is capable of being remedied and (ii) is remedied within 20 (twenty) Business Days after the Issuer becoming aware of the non-compliance.

(d) **Cross Default:**

- (i) any Financial Indebtedness of the Issuer and/or the Guarantor is neither paid when due nor within any applicable grace period;
- (ii) any Financial Indebtedness of the Issuer and/or the Guarantor is declared to be or otherwise becomes due and payable prior to its specified maturity, as a result of an event of default (however described);
- (iii) any commitment for any Financial Indebtedness of the Issuer and/or the Guarantor is cancelled or suspended by a creditor, as a result of an event of default (however described); or
- (iv) any security securing Financial Indebtedness of the Issuer and/or the Guarantor over any asset is enforced by a secured creditor;

provided, however, the aggregate amount of such Financial Indebtedness or commitment for Financial Indebtedness falling within paragraphs (i) to (iv) above exceeds in total EUR 500,000 (five hundred thousand Euro) (or the equivalent thereof in any other currency), if there is no dispute on the obligation to pay and that the above does not apply to any Financial Indebtedness owed to the

Related Parties or Subordinated Debt.

(e) **Insolvency:**

- (i) the Issuer and/or the Guarantor is declared insolvent or bankrupt by a court of competent jurisdiction or admits inability to pay its debts in case of lawful claims, save for the claims of the Related Parties;
- (ii) the Issuer and/or the Guarantor enters into any arrangement with majority of its creditors by value in relation to the restructuring of its debts or any meeting is convened to consider a proposal for such arrangement; or
- (iii) an application to initiate insolvency or restructuring (including procedures such as legal protection process and out of court legal protection process) or administration of the Issuer or any other proceedings for the settlement of the debt of the Issuer is submitted to the court by the Issuer and/or the Guarantor.

**14.2. Establishment of an Event of Default:**

- 14.2.1. Noteholders representing at least 10% (ten percent) of the principal amount of the outstanding Notes may by written notice to the Issuer declare the occurrence of an Event of Default.
- 14.2.2. If the Issuer confirms that an Event of Default in accordance with Clause 14.2.1 above has occurred or does not provide any information within 30 (thirty) Business Days, then the Issuer shall pay all Noteholders the Nominal Value of the Notes along with the accrued Coupon and default interest in accordance with Clause 15 (*Default Interest*) within 20 (twenty) Business Days from the occurrence of any of the aforementioned events, i.e., confirmation or non-response. If the Issuer is unable to pay, the Noteholders representing at least 10% (ten percent) of the principal amount of the outstanding Notes may act in accordance with Clause 23.3 (*Enforcement of the Collaterals*).
- 14.2.3. The Issuer shall publish information regarding Noteholders representing at least 10% (ten percent) of the principal amount of the outstanding Notes declaring the occurrence of the Event of Default and confirmation or denial of occurrence of the Event of Default on the Issuer's webpage and on Nasdaq Riga information system, in case the Notes are admitted to trading on First North.

**15. DEFAULT INTEREST**

If the Issuer fails to pay to the Noteholders any amount payable by it under these Terms of the Notes Issue, then the Issuer shall pay to the Noteholders default interest (in Latvian – *nokavējuma procenti*) accruing on the overdue amount from the due date up to the date of actual payment at a rate which is 0.05% (zero point zero five per cent) per day.

**16. DISCLOSURE OF INFORMATION**

- 16.1. Up until the Maturity Date, the Issuer shall publish all information required by covenants, rules of Nasdaq Riga and regulatory enactments.
- 16.2. Unless it is provided otherwise in these Terms of the Notes Issue, for as long as the Notes are not admitted to trading on First North, all notices and reports to the Noteholders shall be published on the Issuer's website.
- 16.3. Unless it is provided otherwise in these Terms of the Notes Issue, as of the date when the Notes are admitted to trading on First North, all notices and reports to Noteholders shall be published on the Nasdaq Riga website, as well as on the Issuer's website.
- 16.4. Any notice or report published in a manner prescribed in Clauses 16.1 and Clause 16.2 (*Disclosure of information*) of these Terms of the Notes Issue shall be deemed to have been received on the same Business Day when it is published.

**17. FORCE MAJEURE**

- 17.1. The Issuer shall be entitled to postpone the fulfilment of its obligations under these Terms of the Notes Issue in case the performance is not possible due to continuous existence of any of the following

circumstances (a “**Force Majeure Event**”):

- (a) action of any authorities, war or threat of war, armed hostility or a serious threat of it, including but not limited to enemy attacks, blockades, military embargoes, actions by a foreign enemy, general military mobilisation, military actions, declared and undeclared war, actions by a public enemy, commotions, acts of terrorism, diversions, piracy, disorders, invasion, revolution, coup, insurrection, mass unrest, expropriation, enforced withdrawal, takeover of enterprises, requisition;
- (b) disturbances in postal, telephone, or electronic communications which are due to circumstances beyond the reasonable control of the Issuer and that materially affect the operations of the Issuer;
- (c) any interruption of or delay in any functions of measures of the Issuer as a result of fire, frost or other similar disaster;
- (d) any industrial action, such as strike, lockout, boycott or blockade affecting materially the activities of the Issuer; or
- (e) any other similar force majeure hindrance.

17.2. In case of occurrence of a Force Majeure Event, the Issuer’s fulfilment of the obligations may be postponed for the period of the existence of such respective circumstances and shall be resumed immediately after such circumstances cease to exist, provided that the Issuer shall put all best efforts to limit the effect of the Force Majeure Event and to resume the fulfilment of its obligations as soon as possible.

## **18. REPRESENTATION OF THE NOTEHOLDERS**

18.1. The Collateral Agent is authorized to act with the Collaterals and the Guarantee for the benefits and interests of all the Noteholders in accordance with these Terms of the Notes Issue and the Collateral Agent Agreement.

18.2. The Noteholders have no rights to act with the Collaterals and the Guarantee directly, yet at the same time there are no restrictions set for the Noteholders’ right to create and/or authorize an organization/person that represents the legal interests of all Noteholders or part thereof.

18.3. In case of the insolvency of the Issuer each Noteholder has the right to represent its own interests in creditors’ meetings. The Noteholders will have equal rights for satisfaction of their claims with other creditors in the same claims’ group.

## **19. PROCEDURE FOR APPLYING FOR NOTEHOLDERS’ CONSENT**

19.1. The Issuer has the right to request a consent (waiver) of Noteholders to amend the conditions provided in these Terms of the Notes Issue, Guarantee and the Collateral Agreements (apply for a waiver). However, the Issuer shall have a right to amend the technical procedures relating to the Notes in respect of payments or other similar matters without the consent of the Noteholders, if such amendments are not prejudicial to the interests of the Noteholders.

19.2. The Collateral Agent may ask for instructions from the Noteholders in respect to the Collaterals and the Guarantee in the same manner as the Issuer may apply for the consent (waiver) of the Noteholders hereunder.

19.3. The amendment of these Terms of the Notes Issue, Guarantee and the Collateral Agreements may include the amendment of any conditions, which is not restricted by such characteristics of the Notes as currency, Coupon rate, Coupon calculation method, Coupon and Nominal Value payments, inclusion of the Notes to the regulated or alternative markets, the Maturity Date and other conditions, unless they contradict the Applicable Laws.

19.4. The Issuer may apply for a consent (waiver) itself or through the intermediary of an authorised person (the “Agent”). In order to request a consent (waiver), the Issuer or Agent shall notify the Noteholders by publishing a relevant announcement on the Issuer’s webpage and on the Nasdaq Riga information system, in case the Notes are admitted to trading on First North, specifying at the least the following information:

- (a) a description of the requested amendment;

- (b) a justification of the necessity of such amendment;
  - (c) the date when the list of the Noteholders eligible to grant a consent (waiver) (vote) will be fixed;
  - (d) the term within which a Noteholder can support or reject the offered consent (waiver);
  - (e) instructions concerning notification about the support or rejection of the consent (waiver) and the procedure for filling in the voting form;
  - (f) notification that a Noteholder willing to grant the consent (waiver) shall notify the Issuer and the Agent within the term specified in the application. If the Noteholder does not notify the Issuer or the Agent about the approval to grant the waiver within the term specified in the application, a Noteholder shall be deemed as not having granted the waiver;
  - (g) contact details of the Issuer and the Agent (telephone number for inquiries, email or address for sending filled in and signed voting forms, list of representative offices and/ or branches of the Issuer and/or Issuer's Agent where the Noteholders can submit the voting forms in person);
  - (h) other information (if any).
- 19.5. The list of Noteholders shall be inquired from the Nasdaq CSD as of the date falling to the 5th (fifth) Business Day after a request for consent (waiver) was published in a manner stipulated in Clause 19.3 (*Procedure for applying for Noteholders' consent*) of these Terms of the Notes Issue.
- 19.6. The term allowed to the Noteholders for deciding upon refusal to grant a consent (waiver) to the Issuer may not be shorter than 14 (fourteen) calendar days after a request for consent (waiver) was published in a manner stipulated in Clause 19.3 (*Procedure for applying for Noteholders' consent*) of these Terms of the Notes Issue.
- 19.7. The Noteholders shall submit signed voting forms to the Issuer, the Agent or their respective custodian bank by a deadline set in the application of the consent (waiver). The consent (waiver) is deemed to be granted, if the Majority Noteholders (excluding the Notes owned by the Issuer, direct and indirect shareholders of the Issuer and Related Parties) have voted for granting the consent (waiver).
- 19.8. The Issuer or the Agent shall count the received votes and notify the Noteholders of the results of the voting within 1 (one) Business Day after the deadline for submitting the voting forms by publishing a relevant announcement on the Issuer's webpage and on the Nasdaq Riga information system, in case the Notes are admitted to trading on First North.
- 19.9. If the granted consent (waiver) refers to specifications of the Notes and/or Coupon calculation method, as well as the procedure of Coupon payments and/or repayment of the Nominal Value, the Issuer shall inform Nasdaq CSD on these changes according to the regulation determined in the Nasdaq CSD rules.
- 19.10. The Issuer shall inform the Guarantor of any request for consent (waiver) and respective results of such Noteholders' voting if such consent (waiver) impact rights and obligations of the Guarantor.

## **20. GUARANTEE**

### **20.1. Guarantee**

- 20.1.1. The Guarantor will guarantee the fulfilment of the Issuer's obligations under the Notes.
- 20.1.2. The Guarantee will be issued to the Noteholders and for the benefit of the Noteholders as creditors in the agreed form. The Guarantee will be issued in a form of an agreement in concluding of which the Collateral Agent represents the Noteholders. Under the Guarantee the Guarantor irrevocably guarantees the timely and proper fulfilment of the Issuer obligations under the Notes as the primary obligor (in Latvian: *kā pats parādnieks*). The Guarantee is governed by Latvian law and will be effective until full satisfaction, payment and deduction of all claims and amounts under the Notes and these Terms of the Notes Issue. The Guarantee will be issued for an amount of EUR 30,000,000.00 (thirty million Euro) with an increase to EUR 45,000,000.00 (forty-five million Euro) in case of creation of additional Notes in accordance with Clause 13(e) (*Undertakings*).
- 20.1.3. The Noteholders are entitled to get acquainted with the Guarantee upon written request to the Issuer.

**21. COLLATERALS**

**21.1. Establishment of Collaterals**

21.1.1. The notes are secured with a Collateral established in the form of:

- (a) 1<sup>st</sup> ranking commercial pledge over 81,500 (eighty-one thousand five hundred) Issuer's shares constituting 61.13% of the Issuer's share capital owned by the Existing shareholder;
- (b) 1<sup>st</sup> ranking commercial pledge over 51,833 (fifty-one thousand eight hundred thirty-three) Issuer's shares constituting 38.87% of the Issuer's share capital owned by the Issuer;
- (c) 1<sup>st</sup> ranking commercial pledge over all assets of the Issuer as an aggregation of things and future components of such aggregation of things;
- (d) 1<sup>st</sup> ranking (*pari passu* with the relevant Altum Fund's Security) registered pledges over fixed assets and inventory of the Guarantor;
- (e) ordinary (civil) pledge over the Guarantor's bank accounts;
- (f) assignment of the Guarantor's receivables;
- (g) 1<sup>st</sup>-ranking mortgage over the Latvian Real Property owned by the Issuer;
- (h) 1<sup>st</sup>-ranking (*pari passu* with the relevant Altum Fund's Security) mortgage over the Polish Real Property owned by the Guarantor;
- (i) 1<sup>st</sup>-ranking (*pari passu* with the relevant Altum Fund's Security) registered pledge over Cleanic (protection right granted by the Polish Patent Office no. 95489) and Presto (protection right granted by the Polish Patent Office no. 277472) trademarks ("**Trademarks**");

21.1.2. For the purpose of constituting security for the due and timely payment, discharge, and performance of the Notes, the Collaterals shall be established in the interests of the Noteholders and under the name of the Collateral Agent (as the holder of the Collateral (pledgee)) in accordance with the Parallel Debt established under the Latvian law under the Collateral Agreements which in legal terms, serves as security for the Notes.

21.1.3. The Issuer shall provide a written confirmation on the registration and duly establishment of the Collaterals in the relevant registries to the Collateral Agent within 10 (ten) Business Days after the relevant registration has taken place.

21.1.4. The Collaterals shall be established in accordance with the terms and conditions of the relevant Collateral Agreements to be concluded between the Collateral Agent as the pledgee and the Issuer / the Guarantor as the pledgor in case of pledges and by the Issuer / the Guarantor as the mortgagor in cases of mortgages.

21.1.5. The Collaterals being pledges and mortgages over the Latvian Real Property shall be established and registered within the relevant registers within 90 (ninety) days after the Issue Date. The Collateral being mortgage over the Polish Real Property shall be established and registered within the relevant registers within 270 (two hundred seventy) days after the Issue Date. The Collaterals are established in Latvia and Poland. On or about the date of these Terms of the Notes Issue the Collateral Agent shall issue a legal opinion based on Latvian law and shall acquire a legal opinion based on Polish law on validity and enforceability of the Collaterals upon registration or perfection of the Collaterals in Latvia and in Poland. The Collateral Agent shall issue a confirmation based on Latvian law and shall acquire a confirmation based on Polish law on registration and perfection of the Collaterals within 10 (ten) Business Days after the Collaterals have been registered and perfected.

21.1.6. The Collateral Agent shall hold the Collaterals for the benefit of the Noteholders and is authorised to act with the Collaterals in favour of all the Noteholders in accordance with these Terms of the Notes Issue and the Collateral Agent Agreement and its amendments (enclosed as Annex 1).

21.1.7. The Noteholders have no rights to act with the Collaterals directly, yet at the same time there are no restrictions set for the Noteholders' right to use any right that the Applicable Law or these Terms of the Notes Issue provide and create and/or authorise an organisation/person that represents and acts on



behalf of all Noteholders or part thereof. In case of the insolvency of the Issuer, each Noteholder has the right to represent their own interests in creditors' meetings.

- 21.1.8. The Issuer shall be responsible for all the costs related to the registration of the Collaterals and changes to the Collaterals as specified herein.
- 21.1.9. Noteholders are entitled to get acquainted with the Collateral Agreements upon written request to the Issuer.

## **22. PARALLEL DEBT**

### **22.1.1. Parallel Debt**

- 22.1.2. Notwithstanding any other provision of these Terms of the Notes Issue, for the purpose of ensuring and preserving the enforceability of the Collaterals, the Issuer irrevocably and unconditionally undertakes to pay to the Collateral Agent, as a creditor in its own right and not as representative of the Noteholders and as a solidary/joint creditor together with the Noteholders for the purposes of the Applicable Laws, sums equal to and in the currency of each amount payable by the Issuer to each of the Noteholders (whether present or future and whether actual or contingent) in accordance with these Terms of the Notes Issue as and in case the amount falls due for payment under these Terms of the Notes Issue.
- 22.1.3. The Collateral Agent shall be entitled to act as a solidary/joint creditor (jointly with the Noteholders) of each and every Note (whether present or future and whether actual or contingent) of the Issuer to the Noteholders or any of them and, accordingly, the Collateral Agent shall have its own independent right to demand performance by the Issuer of any of those obligations.
- 22.1.4. For the avoidance of doubt, the aggregate amount due by the Issuer under the Parallel Debt will be decreased to the extent the Issuer has paid any amounts to the Noteholders under these Terms of the Notes Issue.
- 22.1.5. For the avoidance of doubt, to the extent the Issuer has paid any amounts to the Collateral Agent under the Parallel Debt the aggregate amount due by the Issuer to the Noteholders under these Terms of the Notes Issue will be decreased accordingly, unless those payments are fees of the Collateral Agent provided in the Collateral Agent Agreement.
- 22.1.6. To the extent the Collateral Agent receives any amount in payment of the Parallel Debt, the Collateral Agent shall transfer such an amount to the Noteholders in accordance with Clause 23.4 (*Application of the proceeds from enforcement of the Collateral*) of these Terms of the Notes Issue.
- 22.1.7. For the avoidance of doubt, the Parallel Debt shall become due and payable by the Issuer at the same time and to the same extent as the obligations of the Issuer to the Noteholders under these Terms of the Notes Issue have become due and payable.

## **23. COLLATERAL AGENT**

### **23.1. Noteholders and the Collateral Agent**

- 23.1.1. By submitting a subscription order or acquiring the Notes on the secondary market, each Noteholder:
  - 23.1.1.1. appoints the Collateral Agent to act as its agent, representative, or counsel and to perform the obligations and exercise the rights in connection with the Collaterals and Guarantee as set forth in these Terms of the Notes Issue, the Collateral Agreements, the Guarantee, and the Collateral Agent Agreement and authorises the Collateral Agent to exercise the rights, powers, authorities, and discretions specifically given to the Collateral Agent under or in connection with these Terms of the Notes Issue, the Collateral Agreements, including the Guarantee and the Collateral Agent Agreement;
  - 23.1.1.2. acknowledges that the Issuer has concluded the Collateral Agent Agreement with the Collateral Agent;
  - 23.1.1.3. confirms the fact that the Collateral Agent's acts under the Collateral Agent Agreement, the Collateral Agreements, the Guarantee, or other agreements in connection with the Notes concluded with the Issuer do not constitute any conflict of interests with respect to the Noteholder;

- 23.1.1.4. confirms the fact that the Collaterals secure and Guarantee reinforces, *inter alia*, the Issuer's obligations towards the Collateral Agent do not constitute any conflict of interests with the Noteholder (for the avoidance of doubt, the Collateral Agent has the right to withhold the proceeds necessary for satisfying the fees, costs, expenses, damages, and claims of the Collateral Agent in accordance with these Terms of the Notes Issue). Each Noteholder acknowledges the fact that the Collaterals secure and the Guarantee reinforces, *inter alia*, the Issuer's obligations towards the Collateral Agent and shall not prevent the Collateral Agent from fulfilling its obligations and acting in accordance with these Terms of the Notes Issue and the Collateral Agent Agreement;
- 23.1.1.5. agrees that upon the performance of its obligations and exercising of its rights in connection with the Collateral Agreements and the Guarantee, the Collateral Agent shall be entitled to act at its own discretion, considering the interests of the Noteholders collectively and generally (and not of any particular Noteholder), unless specifically instructed otherwise by the Majority Noteholders in accordance with these Terms of the Notes Issue and without prejudice to Clause 23.5.1. (*Liability of the Collateral Agent*) of these Terms of the Notes Issue.
- 23.1.2. By submitting a subscription order or acquiring the Notes on the secondary market each private individual or legal entity, as well as their authorized representatives upon the request of the Collateral Agent are obliged to disclose to the Collateral Agent all information and documents on these private individuals or the legal entities, as well as their authorized representatives, and the Collateral Agent is entitled to receive this information and documents for the purposes of performance of duties of the Collateral Agent. This information and documents also include those documents and information that are necessary to the Collateral Agent in order to fulfil the Collateral Agent's obligations under AML and Sanctions regulations (e.g., information and documents on the ultimate beneficial owner).
- 23.2. Scope of Obligations of the Collateral Agent**
- 23.2.1. The rights and obligations of the Collateral Agent are limited to those expressly specified in the Collateral Agent Agreement and these Terms of the Notes Issue and, notwithstanding any other provisions of these Terms of the Notes Issue, such rights are limited to the exercise of those rights which belong to the Collateral Agent in its capacity as the holder of the Collaterals (pledgee) and the Guarantee (holder). The Collateral Agent is required to perform its obligations in relation to the Collaterals and the Guarantee only if the Issuer and Guarantor establish the Collaterals in the interests of the Noteholders and in favour of the Collateral Agent (as the holder of the Collaterals (pledgee)) and the Guarantor issues the Guarantee in the interests of the Noteholders and in favour of the Noteholders in accordance with these Terms of the Notes Issue to secure the Notes.
- 23.2.2. The Collateral Agent does not have any obligation:
- (a) to take any action (including, without limitation, to commence legal proceedings, compulsory enforcement proceedings, bankruptcy proceedings or any other proceedings) with the purpose to satisfy any claims arising under these Terms of the Notes Issue in connection with any assets of the Issuer and/or the Guarantor, except for enforcing the Collaterals and Guarantee in accordance with these Terms of the Notes Issue, the Collateral Agreements, the Guarantee upon the Collaterals and/or the Guarantee becoming enforceable and receiving the relevant instruction from the Majority Noteholders;
  - (b) to ensure the existence, enforceability, or validity of the Collaterals and/or the Guarantee or to preserve the Collaterals, the Guarantee, or their value or to assess any rights arising from or relating to the Collaterals and/or the Guarantee (except for the validity of the Collaterals after their establishment to the extent within the control or sphere of influence of the Collateral Agent and to the extent within the scope of its obligations under these Terms of the Notes Issue);
  - (c) to inform the Noteholders and the Issuer about any circumstances relating to the Collaterals and the Guarantee except to the extent such obligation to provide information is explicitly set forth in these Terms of the Notes Issue; and
  - (d) to provide any advice to the Noteholders in legal, accounting, tax, or other matters.

- 23.2.3. The Noteholders shall not have any independent power to enforce the Collaterals and/or the Guarantee or to exercise any rights or powers arising under the Collateral Agreements and/or the Guarantee. Noteholders may exercise their rights in relation to the Collaterals and the Guarantee only through the Collateral Agent pursuant to these Terms of the Notes Issue.
- 23.2.4. Upon the performance of its obligations and exercising its rights, the Collateral Agent shall act at its own discretion in the interests and on the account of the Noteholders collectively, and generally (and not any particular Noteholder) without having any independent interests of its own (for the avoidance of doubt, the Collateral Agent has the right to withhold the proceeds necessary for satisfying the fees, costs, expenses, damages and claims of the Collateral Agent in accordance with Clause 23.2.10 (*Scope of Obligations of the Collateral Agent*) below. In particular, in accordance with these Terms of the Notes Issue, the Collateral Agent shall be entitled to decide at its sole discretion as to what would be in the best interests of the Noteholders upon failure to obtain instructions from the Majority Noteholders. However, the Collateral Agent shall not start the enforcement of the Collaterals or the Guarantee without instructions provided by the Majority Noteholders as described in these Terms of the Notes Issue.
- 23.2.5. The Collateral Agent is under no circumstances liable for the performance of the obligations of the Issuer or impossibility to enforce the Collaterals or Guarantee in accordance with these Terms of the Notes Issue and the Collateral Agreements or any restrictions or delays thereof.
- 23.2.6. Upon the performance of its obligations and exercising of its rights hereunder the Collateral Agent shall have the right at its own cost to use the services of third parties and to appoint third-party representatives (including, during the performance of its tasks and acts as stipulated in these Terms of the Notes Issue, the Collateral Agreements and the Guarantee). In case of use of the services of third parties and/or appointment of third-party representatives, the Collateral Agent shall evaluate and appoint only reputable third parties having professional expertise for the fulfilment of the tasks and acts as stipulated in these Terms of the Notes Issue. In case of use of the services of third parties and/or appointment of third-party representatives, the Collateral Agent shall also ensure that: (i) no conflict of interest exists in respect to the Issuer and the Majority Noteholders; (ii) the fees, costs, and expenses of such third-party services are at a reasonable market price; (iii) the fees, costs, and expenses for using the services of third parties and/or appointment of third-party representatives would not exceed costs, fees, and expenses of the Collateral Agent if the latter would perform its obligations under these Terms of the Notes Issue, the Collateral Agreements, the Guarantee and the Collateral Agent Agreement on its own; and (iv) it remains a duty and obligation of the Collateral Agent to perform its obligations under these Terms of the Notes Issue and the Collateral Agent Agreement and not of the appointed third-party. In case the use of services of third parties or appointment of third-party representatives is required for the fulfilment of obligations arising from these Terms of the Notes Issue, including the Collateral Agreement, Clause 23.2.10 (*Scope of Obligations of the Collateral Agent*) of these Terms of the Notes Issue is applicable. The Collateral Agent shall not be responsible for any losses and damage caused by the acts and omissions by third parties.
- 23.2.7. At the request of the Collateral Agent, the Noteholders shall provide the Collateral Agent with any information required for the purposes of identification of the Noteholders and/or for the performance of other obligations arising from the Applicable Laws.
- 23.2.8. At the request of the Collateral Agent, the Issuer shall provide the Collateral Agent with an updated list of Noteholders specifying the outstanding Nominal Value of the Notes each of them is holding and their latest known email addresses, if such information is available in accordance with the respective list of Noteholders and information contained therein as provided by Nasdaq CSD.
- 23.2.9. The Collateral Agent is not liable for any circumstances relating to or affecting the validity of the Collateral Agreements and the Guarantee that are outside the control or sphere of influence of the Collateral Agent.
- 23.2.10. The Collateral Agent shall have the right to receive fees from the Issuer and to be compensated by the Issuer for those costs relating to the performance of its obligations under these Terms of the Issue, the Collateral Agreements and the Guarantee in accordance with the Collateral Agent Agreement and shall have the right to withhold the performance of its duties and obligations in case of any delay of payment of the relevant fees and costs. As regards the costs, the Issuer shall also compensate to the Collateral Agent all payments made by the Collateral Agent to third parties for the purposes of enforcement of the

Collaterals and the Guarantee in accordance with these Terms of the Notes Issue, the Collateral Agreements, and the Guarantee (including, without limitation, state fees and taxes, other fees and payments established by Applicable Laws, costs and expenses incurred by the Collateral Agent), as well as all damages incurred by the Collateral Agent in relation to the same.

- 23.2.11. The costs of the Collateral Agent and engaged third parties will be calculated in accordance with factual costs and hourly rates of the Collateral Agent's employees involved, considering the time spent providing legal assistance.
- 23.2.12. Notices and documents to the Collateral Agent shall be valid only if made and forwarded in writing either by post or e-mail by using the contact details set forth in these Terms of the Notes Issue. All notices of the Noteholders to the Collateral Agent shall be sent in writing (letter and email) to the Collateral Agent and copied to the Issuer and the Arranger. If the Collateral Agent has doubts that a notice from a Noteholder has not been sent to the Issuer or the Arranger, then the Collateral Agent shall immediately forward such notice to the Issuer or the Arranger (as applicable).
- 23.2.13. The Collateral Agent has the right to terminate the Collateral Agent Agreement by providing a 1 (one) month prior written notice and in case: (a) the Collaterals have not been granted within the term stipulated in Clause 21.1.4 (*Establishment of Collaterals*) of these Terms of the Notes Issue; and/or (b) the Guarantee has not been issued within the term stipulated in Clause 20.1.2 (*Guarantee*) of these Terms of the Notes Issue; and/or (c) the Collateral Agent withdraws from performance of the tasks set out in these Terms of the Notes Issue on the grounds set out in Clause 23.6.1. or Clause 23.6.3 (*Termination of Collateral Agent Agreement*) of these Terms of the Notes Issue. Fees and payments already paid to the Collateral Agent shall not be refunded in the event of termination of the Collateral Agent Agreement. In any case the existing Collateral Agent shall continue the performance of its duties until the appointment of a new Collateral Agent, if such situation occurs.
- 23.2.14. The Issuer has the right to terminate the Collateral Agent Agreement in case the Issuer decides not to proceed with the Notes issue and/or if the Issuer considers that the Collateral Agent allows willful misconduct or gross negligence in exercising its rights. A new collateral agent must be designated by the Issuer who must take over the obligations of the Collateral Agent.

### 23.3. **Enforcement of the Collaterals and the Guarantee**

- 23.3.1. If the Event of Default has been established pursuant to Clause 14.2 (*Establishment of an Event of Default*), the Issuer within 20 (twenty) Business days shall have the right to submit the proposed action plan in respect to the claim settlement to the Noteholders ("**Action Plan**"). The Issuer shall act in accordance with Clause 19 (*Procedure for applying for Noteholders' consent*) and the Majority Noteholders shall approve of the Action Plan.
- 23.3.2. If the Majority Noteholders have not approved the Action Plan, the Issuer shall act in accordance with Clause 19 (*Procedure for applying for Noteholders' consent*) and the Majority Noteholders shall vote on whether to instruct the Collateral Agent to enforce the Collaterals ("**Instruction**").
- 23.3.3. In each case the Action Plan and Instruction shall comply with the Intercreditor Agreement if the Intercreditor Agreement is in force. If the Action Plan or Instruction has been approved, but in the opinion of the Collateral Agent the Action Plan or Instruction is contrary or may be contrary to the Intercreditor Agreement, the Collateral Agent shall not bear any liability for not abiding by such Action Plan or Instruction.
- 23.3.4. The Noteholders agree that the Collateral Agent after receiving the Instruction will enforce the Collaterals and the Guarantee.
- 23.3.5. Notwithstanding any other terms or provision set out elsewhere, first, the Noteholders or the Collateral Agent if instructed shall enforce the Guarantee provided by the Guarantor, and only in case the amount of recovered funds from such enforcement in 20 (twenty) Business Days' time is not sufficient to cover the fees, costs, expenses, damages, and claims of the Collateral Agent specified in Clause 23.4.1(a) (*Application of the proceeds from enforcement of the Collaterals and the Guarantee*) of these Terms of the Notes Issue and to satisfy the claims of the Noteholders under 23.4.1(b) (*Application of the proceeds*

*from enforcement of the Collaterals and the Guarantee*) of these Terms of the Notes Issue, the Collateral Agent if instructed shall enforce the Collaterals according to their terms and Applicable Laws.

- 23.3.6. The Collateral Agent may rely that the Issuer has performed its obligations under the Notes in accordance with these Terms of the Notes Issue until the Majority Noteholders have adopted the Action Plan or it has received the Instruction.
- 23.3.7. If the Majority Noteholders in accordance with Clause 23.3 (*Enforcement of the Collaterals and the Guarantee*) of these Terms of the Notes Issue have instructed the Collateral Agent to enforce the Collaterals and/or the Guarantee, the Collateral Agent shall immediately inform (by publishing on the Issuer's webpage and on Nasdaq Riga information system, in case the Notes are admitted to trading on First North) all Noteholders.
- 23.3.8. The Collateral Agent shall be entitled (but is not under any circumstances obliged) to request instructions, or clarification of any direction regarding Instruction, from the Majority Noteholders as to whether, and in what manner, the Collateral Agent should exercise or refrain from exercising any rights, powers and discretions with regard to the enforcement of the Collaterals. Upon such request, the Majority Noteholders shall give their instructions or clarifications to the Collateral Agent within the time period specified in the Collateral Agent's request for instructions or clarifications, such a time period is to be at least 2 (two) Business Days. The Collateral Agent may refrain from acting unless and until Majority Noteholders have provided the Collateral Agent with requested instructions or clarifications.
- 23.4. **Application of the proceeds from enforcement of the Collaterals and the Guarantee**
- 23.4.1. The proceeds from the enforcement of the Collaterals shall be applied in the following order of priority:
- (a) as the first priority: to the satisfaction and payment of all fees, costs, expenses, and damages (including, without limitation, state duties, notary fees, valuation costs, and fees, costs, and expenses of third parties engaged in by the Collateral Agent pursuant to conditions set out, *inter alia*, in Clauses 23.2.6. and 23.2.10. (*Scope of Obligations of the Collateral Agent*) of these Terms of the Notes Issue) related to the performance of its duties by, or otherwise payable to, the Collateral Agent under these Terms of the Notes Issue, the Collateral Agent Agreement, the Collateral Agreements, and the Guarantee, including, but not limited to, the establishment, amendment, termination, and enforcement of the Collaterals and the Guarantee, representation of Noteholders (convocation of Noteholders' meetings, negotiation with the Issuer in the name of Noteholders and execution of decisions adopted by Noteholders' meetings, reporting to Noteholders regarding protection of Noteholders' interests) incurred by the Collateral Agent or any of the third parties engaged by the Collateral Agent, provided that the fees, costs and expenses have occurred on a reasonable market price and the fees of the Collateral Agent are within the limits set out in the Collateral Agent Agreement;
  - (b) as the second priority (after full satisfaction, payment, and deduction of all claims and amounts set forth in Clause 23.4.1. (a) above): in payment of the claims of the Noteholders arising under these Terms of the Notes Issue, including, but not limited to, the claims arising from the Notes.
- 23.4.2. The Collateral Agent shall withhold the proceeds necessary for satisfying the fees, costs, expenses, damages, and claims of the Collateral Agent specified in Clause 23.4.1. (a) above and immediately transfer the remaining proceeds to the Noteholders for satisfying the claims under Clause 23.4.1. (b) above. The Collateral Agent shall immediately return the proceeds from the enforcement of the Collaterals remaining after satisfying all claims set forth in Clause 23.4.1. (*Application of the proceeds from enforcement of the Collaterals and the Guarantee*) of these Terms of the Notes Issue to the Issuer.
- 23.4.3. In case the proceeds remaining after covering the fees, costs, expenses, damages, and claims under Clause 23.4.1. (a) above do not cover the claims of the Noteholders under Clause 23.4.1. (b) above in full, these claims of the Noteholders shall be satisfied *pro rata* to the Nominal Value of the Notes held by the Noteholders.
- 23.4.4. The Collateral Agent is not obliged to pay to the Noteholders or any other persons any interest on the proceeds from the enforcement of the Collaterals and the Guarantee (whether deposited or not).

23.4.5. In case the Collateral Agent is required, under Applicable Law, to withhold or pay any taxes in connection with payments to be made by the Collateral Agent hereunder, the amount to be paid by the Collateral Agent shall be reduced by the amount of respective taxes and only the net amount shall be paid by the Collateral Agent.

**23.5. Liability of the Collateral Agent**

23.5.1. If Majority Noteholders have submitted Instruction to the Collateral Agent, the Collateral Agent is obligated to comply with the Instruction and enforce the Collaterals in accordance with Clause 23.3.4 (*Enforcement of the Collaterals and the Guarantee*). Any such instructions from the Majority Noteholders will be binding on all Noteholders. The Collateral Agent shall not be liable for any consequences or damages that result from complying with the instructions.

23.5.2. Notwithstanding Clause 23.5.1. above, the Collateral Agent may refrain from doing anything which in its opinion will or may be contrary to the Terms of the Notes Issue, the Collateral Agreements, the Guarantee, the Collateral Agent Agreement or Applicable Laws or otherwise render it liable to any person. The Collateral Agent may refrain from acting in accordance with the instructions of the Majority Noteholders until it has received such indemnification or security as it may require for all costs, claims, losses, expenses (including, but not limited to, legal fees), and liabilities which it will or may expend or incur in complying with such instructions.

23.5.3. Without prejudice to Clause 23.3.8. (*Enforcement of the Collaterals and the Guarantee*), Clause 23.5.1. and Clause 23.5.2. (*Liability of the Collateral Agent*) of these Terms of the Notes Issue, the Collateral Agent may (but is not obligated to) act (or refrain from acting) as it in its own discretion reasonably believes is in the best interests of the Noteholders. The Collateral Agent shall not be liable to the Noteholders for acting (or refraining from acting) as described in these Terms of the Notes Issue or in accordance with the instructions of the Noteholders and/or Applicable Law, except for losses, damages, costs and expenses incurred by the Noteholders due to willful misconduct or gross negligence by the Collateral Agent. The liability of the Collateral Agent is limited to EUR 100,000 (one hundred thousand Euro), save in case of wilful breach by the Collateral Agent of its obligations giving rise to the liability of the Collateral Agent.

23.5.4. The Collateral Agent shall not be liable to the Noteholders for the outcome of the enforcement of the Collaterals or the Guarantee, provided the Collateral Agent has acted in accordance with these Terms of the Notes Issue and the Collateral Agreement, except for losses, damages, costs and expenses incurred by the Noteholders due to willful misconduct or gross negligence by the Collateral Agent. The liability of the Collateral Agent is limited to EUR 100,000 (one hundred thousand Euro), save in case of wilful breach by the Collateral Agent of its obligations giving rise to the liability of the Collateral Agent.

**23.6. Termination of Collateral Agent Agreement**

23.6.1. The Collateral Agent shall have the right to unilaterally terminate the performance of its duties described in these Terms of the Notes Issue in accordance with the Collateral Agent Agreement (including, without limitation, terminate the enforcement of the Collaterals) in case:

- (a) in the reasonable opinion of the Collateral Agent (further) enforcement of the Collaterals and the Guarantee on reasonable terms is not possible or feasible; and/or
- (b) in the opinion of the Collateral Agent the Collaterals and the Guarantee cease to exist for any reason.

23.6.2. In order to exercise its right of termination under Clause 23.6.1. above, the Collateral Agent shall submit a respective written notice (by letter or email) stating the basis of exercising the right of termination to the Issuer. The Issuer shall immediately inform the Noteholders of receipt of the notice by publishing a relevant notice on the Issuer's webpage and on the Nasdaq Riga information system, in case the Notes are admitted to trading on First North. The duties and obligations of the retiring Collateral Agent shall be deemed to have terminated from the moment when the respective written notice is submitted to the Issuer and all of the Noteholders.

23.6.3. The Collateral Agent shall have the right to resign due to justifiable reasons other than those stated in Clause 23.6.1. above by submitting a respective written notice (by letter or email) to the Issuer. The

justifiable reasons shall include the following:

- (a) Any facts or circumstances occurring until the Maturity Date that would render any further action by the Collateral Agent illegal, unethical, or cause reputational risks to the Collateral Agent;
- (b) The Issuer provides false information regarding its ultimate beneficial owner or is non-compliant with applicable anti-money laundering laws;
- (c) The Issuer or related person of the Issuer is subject to local or international sanctions (i.e., the restrictive measures imposed by the United Nations Security Council, the European Union, the Republic of Latvia, or Office of Foreign Assets Control (OFAC) of the United States).

23.6.4. The Issuer shall immediately inform the Noteholders of receipt of the notice by publishing a relevant notice on the Issuer's webpage and on the Nasdaq Riga information system, in case the Notes are admitted to trading on First North. The duties and obligations of the Collateral Agent shall be deemed to have terminated upon the appointment of a successor Collateral Agent and acceptance by such appointment of the successor Collateral Agent and the execution of all necessary documentation to effectively substitute the retiring Collateral Agent. In any case, the successor Collateral Agent shall be a reputable legal entity authorized to act with the Collaterals and Guarantee in favour of all the Noteholders in accordance with these Terms of the Notes Issue and the Collateral Agent Agreement, who has a professional experience in capital markets transactions and expertise for the fulfilment of the tasks as a collateral agent. The Collateral Agent's professional liability shall be insured in the course of the performance of Collateral Agent functions.

23.6.5. No later than 3 (three) months after the receipt of the relevant notice under Clause 23.6.1. or Clause 23.6.4. above by the Issuer a successor collateral agent must be designated by the Issuer, who must take over the obligations of the retiring Collateral Agent. If a successor Collateral Agent has not been appointed within the term set out in this Clause, the duties and obligations of the retiring Collateral Agent shall be deemed to have terminated.

23.6.6. The Collateral Agent shall evaluate that no conflict of interest exists with regard to the Noteholders and, the existence of conflict of interest shall not prevent the Collateral Agent from fulfilling its obligations to the extent and scope as described in these Terms of the Notes Issue and as provided in the Collateral Agreements, the Guarantee and in the Collateral Agent Agreement.

## TAXES

### NOTICE

This summary is of a general nature and should not be considered legal or tax advice. This summary does not contain full and complete information on all the taxes that relate to investment in the Notes. Tax rates and conditions for paying taxes may change during the life of the Notes. Potential Investors should consult with their own tax advisors with respect to their particular circumstances and the effects of the Latvian or foreign tax laws to which they may be subject to.

### DEFINITION OF RESIDENTS AND NON-RESIDENTS

An individual is considered a resident of Latvia for tax purposes if his or her declared place of residence is the Republic of Latvia, or he or she stays in the Republic of Latvia for more than 183 (one hundred and eighty-three) days within any 12 (twelve) month period, or he or she is a citizen of the Republic of Latvia and is employed abroad by the government of the Republic of Latvia. If an individual does not meet any of the above-mentioned criteria, he or she is considered a non-resident for tax purposes.

Any legal entity is considered a resident of Latvia for tax purposes if it is or should be established and registered in the Republic of Latvia according to the Latvian legal acts. This also includes permanent establishments of foreign entities in Latvia. Other legal entities are considered non-residents for tax purposes.

Latvia has entered into a number of tax conventions on elimination of the double taxation, which may provide a more favourable taxation regime. Therefore, if there is a valid tax convention with the country of a non-resident Noteholder, it should be also examined. The procedures for application of tax conventions are provided in the Republic of Latvia Cabinet of Ministers' Regulations No. 178 "Procedures for Application of Tax Relief Determined in International Agreements for Prevention of Double Taxation and Tax Evasion" of 30 April 2001. For the purposes of exchanging documents, the Noteholder should contact the Issuer *via* the information provided on the Issuer's website and/or Nasdaq Riga website.

### TAXATION

Tax consequences in the Republic of Latvia regarding the income derived from Notes that are issued by a legal entity registered in the Republic of Latvia (not being a credit institution) effective as of the date of the Terms of the Notes Issue are as follows:

Legal status of income beneficiary	Notes that are not in public circulation (not admitted to trading on a regulated market for the purposes of MiFID II)		Conditions
	Interest tax rate	Capital gains tax rate	
Individual resident of Latvia	20% <sup>1</sup>	20% <sup>1</sup>	20% tax from the interest (coupon) income is withheld and transferred to the State budget by an Issuer of Notes if it is registered in Latvia.  <sup>1</sup> Exclusively for individual residents (natural person taxpayers), The Law on Income Tax of the Republic of Latvia allows for the postponement of the taxation of income derived from securities by using an investment account regime. Provided that the investment account regime is used at the moment of receiving the respective financial income, the moment of taxation of the financial income held on an investment account is postponed until such income is withdrawn from the



*SIA iCotton Terms of the Notes Issue*

			<p>investment account (i.e., the amount withdrawn from the account exceeds the amount which had been previously paid into the account).</p> <p>Income from the disposal of Notes is considered equivalent to an interest income and taxed at 20% rate in Latvia.</p>
Company resident of Latvia	deferred: 20/80 of the beneficiary's net profit distributed (equals to 20% of the gross profit)	deferred: 20/80 of the beneficiary's net profit distributed (equals to 20% of the gross profit)	<p>Interest (coupon) income and a capital gain from the Notes constitute a part of the beneficiary's - Latvian company's overall income.</p> <p>The Corporate Income Tax obligation is deferred to the moment of profit distribution (dividends, interim dividends) or deemed profit distribution (e.g., deemed dividends, non-business expenditure, bad debts provisions/write-off, loans to the related persons, transfer pricing adjustments, liquidation quota) of the beneficiary - Latvian company. The tax is assessed and paid based on the Corporate Income Tax Return filed for a taxation period (a month or year).</p>
Individual non-resident	20% / 5% <sup>2</sup>	20%	<p>20% tax from the interest (coupon) income is withheld and transferred to the State budget by an Issuer of Notes if it is registered in Latvia. Nonetheless, income from publicly traded financial instruments (interest (coupon) income) is subject to tax exemption.</p> <p>A non-resident individual being a beneficiary of interest (coupon) income or an income from the disposal of Notes could be obliged to assess and pay tax in their country of residence at the tax rate specified in the relevant country, which may or may not be higher than the one applicable in Latvia. Provisions of applicable double tax treaty may also provide for a more favourable tax application principle.</p> <p><sup>2</sup> 5% tax from interest (coupon) income can be withheld and transferred to the State budget by an Issuer of Notes who is the resident of Latvia, if all of the following three criteria are met: (i) the interest (coupon) payment is made with the intermediation of a financial institution, including the Depository, and the Notes issue has been arranged by a financial institution that is regulated by a public regulatory authority (such as the Bank of Latvia); (ii) the recipient of such income is a resident of the European Union or the European Economic Area and is not engaged in economic activity; (iii) the respective financial instrument is not publicly traded.</p>
Company non-resident	Not taxable in Latvia <sup>3,4</sup>	Not taxable in Latvia <sup>3,4</sup>	<p>Interest (coupon) income and a capital gain derived by a non-resident company (except a company from no-tax or low-tax countries or territories) are not taxable in Latvia.</p> <p><sup>3</sup>Payments (including interest payments) to non-</p>

*SIA iCotton Terms of the Notes Issue*

			<p>residents located, registered, or incorporated in a no-tax or low-tax country or territory as defined in the Regulations of the Cabinet of Ministers No. 333 “List of No-Tax or Low-Tax Countries and Territories”, adopted on 27 June 2023; effective as of 1 July 2023 are subject to withholding tax of 20% if the payer is a Latvian legal entity.</p> <p><sup>4</sup>A non-resident company being a beneficiary of interest (coupon) income or a capital gain could be obliged to assess and pay tax in its country of residence at the tax rate specified in the relevant country, which may or may not be higher than the one applicable in Latvia.</p>
--	--	--	---

*Source: Applicable Laws of the Republic of Latvia*

## TERMS OF THE PRIVATE OFFERING

### 1.1. Subscription period

The subscription period for the Notes issued in the Issue commences on 5 December 2023 at 10:00 Riga time and shall end on Maturity Date or when all Notes are subscribed and paid for, whichever is earlier (“Subscription period”).

### 1.2. Subscription terms

1.2.1. The subscription orders to the Notes can be submitted to the Arranger every Business Day during normal working hours until the end of the Subscription period. More detailed information on the submission of the subscription orders is available by phone (+371 67 081 069).

1.2.2. The subscription orders can also be submitted to other Custodians, which in turn shall submit orders to the Arranger until the end of the Subscription period. The form of such subscription orders is regulated by contracts between Noteholders and Custodians and by the Applicable Laws.

1.2.3. The minimal initial subscription size (the “Minimum Investment Amount”) is EUR 100,000.00 (one hundred thousand Euro). The subscription size should be equal to a multiple of the Settlement Unit Multiple.

1.2.4. Total Nominal Value of the Notes to be purchased and provided in each subscription order shall be for at least Minimum Investment Amount. Potential Investors have the right to submit several orders during the offering.

1.2.5. All subscription orders to the Notes shall be considered as binding and irrevocable commitment to acquire the allotted Notes.

1.2.6. By submitting the subscription order the Potential Investor confirms that it: (a) has read and understands these Terms of the Notes Issue; and (b) agrees and commits to adhere to these Terms of the Notes Issue.

1.2.7. Article 5f of Regulation (EU) No. 833/2014 (as amended by Council Regulation (EU) No. 2022/328) and Article 1f of Regulation (EC) No. 765/ 2006 (as amended by Council Regulation (EU) No 2022/398) prohibit the sale of euro denominated transferable securities issued after 12 April 2022 or units of undertakings for collective investment (UCIs) providing exposure to such transferable securities, to any Russian or Belarusian national, any natural person residing in Russia or Belarus or to any legal person, entity or body established in Russia or Belarus. This prohibition does not apply to nationals of a Member State or to natural persons holding a temporary or permanent residence permit in a Member State of the European Union.

1.2.8. The First Settlement Date of the Notes is 22 December 2023.

1.2.9. All the expenses related to the acquisition and custody of the Notes shall be borne by a Potential Investor in compliance with the pricelist of a credit institution or investment service provider, through which the investor purchases and keeps Notes. The Issuer is not obliged to compensate any such expenses incurred by the Potential Investor.

### 1.3. Price of the Notes

1.3.1. The purchase price of the Notes can be equal to 100% (one hundred percent) of the Nominal Value or it can be lower or higher than the Nominal Value, meaning that the Notes can be sold with a discount or premium, plus accrued interest.

1.3.2. All subscription orders that have been submitted after the First Settlement Date shall be executed with accrued interest, unless the subscription orders are submitted within 5 (five) Business Days before the end of each respective quarter – from the Coupon record date and until the Coupon Payment Date, in which case the subscription orders shall be executed without accrued interest.

### 1.4. Allocation of the Notes to Noteholders

1.4.1. The Notes are allocated to the Noteholders in the amount not larger than the amount specified in the subscription order and not less than the Minimum Investment Amount.

- 1.4.2. In case the total number of Notes subscribed for during the subscription period is less than the number of Notes available, the Notes will be allotted based on the subscription orders placed.
- 1.4.3. In case the total number of Notes subscribed for is higher than the number of Notes available, the proportionate reduction principle shall be applied to the extent possible at the discretion of the Issuer, however, the Notes allocated to the Noteholders shall not be less than the Minimum Investment Amount.
- 1.4.4. The Issuer or Arranger at its sole discretion has a right to refuse to allocate all or part of the subscribed Notes to any Potential Investor due to AML, Sanctions regulations compliance risk, or other risks.

**1.5. Reduction of the Notes issue size**

The Issuer may decide to discontinue placement of the Notes at any time during the Subscription Period.

The Issuer may also decide on the reduction of the Notes issue size.

Any Notes that are not issued shall be deleted.

**1.6. Settlement and delivery of the Notes**

- 1.6.1. The settlement date for the Notes can be any Business Day which is not earlier than the 2nd (second) Business Day and not later than the 20th (twentieth) Business Day after the subscription order is duly submitted to the Arranger.
- 1.6.2. Settlement of the Notes will be executed through Nasdaq CSD in accordance with the DVP (delivery versus payment) principle pursuant to the applicable rules of Nasdaq CSD.
- 1.6.3. The Custodians execute payments for the Notes based on the results of the subscription provided by the Arranger. The Notes will be transferred to the Noteholders' financial instrument accounts on the settlement date.
- 1.6.4. Settlement for the Notes can be executed according to other procedure, which is agreed to by the Arranger and a Potential Investor, but in any case, through Nasdaq CSD in accordance with the DVP (delivery versus payment) principle pursuant to the applicable rules of Nasdaq CSD.

**1.7. Pre-emptive rights**

None of the Potential Investors has the rights of pre-emption in respect to purchase of the Notes in the initial placement.

**1.8. Admission**

- 1.8.1. The Issuer plans to request admission to trading of the Notes on First North within 6 (six) months after the Issue Date and submit these Terms of the Notes Issue, as well as the company description to Nasdaq Riga. The Issuer does not undertake to register the Terms of the Notes Issue with the Bank of Latvia or list the Notes on any regulated market.
- 1.8.2. The Issuer has not signed any agreement with any person for liquidity maintenance of the Notes on the secondary market.

## **GENERAL INFORMATION**

### **GENERAL INFORMATION ON THE ISSUER**

The Issuer is Sabiedrība ar ierobežotu atbildību "iCotton", a limited liability company (*sabiedrība ar ierobežotu atbildību*) registered in the Enterprise Register of the Republic of Latvia under registration no. 42103057947.

The Issuer carries out its activities in accordance with the Applicable Laws.

The Issuer is a manufacturer of high-quality hygiene and personal care products and acts as the parent company of the Group.

At the date of these Terms of the Notes Issue the Issuer has the following shareholders, where the Existing Shareholder owns 61.13% of the shares and the Issuer itself owns 38.87% of the shares based on Article 192 of the Commercial Law.

### **DECISIONS OF THE ISSUER ON THE NOTES ISSUE**

On 5 December 2023 the Issuer's shareholders passed the decision to issue the Notes and to authorize the management board to approve and sign all the documents (including the Terms of the Notes Issue and the Collateral Agent Agreement) related to the issuance of the Notes and admission of the Notes to trading on First North.

On 6 December 2023 the Issuer's supervisory board passed the decision to issue the Notes and to authorize the management board to approve and sign all the documents (including the Terms of the Notes Issue and the Collateral Agent Agreement) related to the issuance of the Notes and admission of the Notes to trading on First North.

On 7 December 2023 the Issuer's management board passed the decision to issue the Notes and to approve and sign all the documents (including the Terms of the Notes Issue and the Collateral Agent Agreement) related to the issuance of the Notes and admission of the Notes to trading on First North.

### **AUDITOR**

The Issuer's financial statements for the years 2021 and 2022 have been audited by AS "Nexia Audit Advice", registration no. 40003858822, legal address: Baznīcas iela 31-14, Rīga, LV-1010, Latvia.

The Issuer's financial statements for the year 2020 have been audited by SIA "POTAPOVIČA UN ANDERSONE", registration no. 40003612562, legal address: Ūdens iela 12 – 45, Rīga, LV-1007, Latvia.

The Guarantor's financial statements for the years 2020, 2021, and 2022 have been audited by Strategia Audit Sp. z o.o. Sp. K., registration no. 0000539118, legal address: ul. Wiejska 12a, 00-490 Warsaw, Poland.

### **ADVISORS INVOLVED IN THE ISSUE**

The Issuer has concluded an agreement with the Arranger to organise the Notes issue, to communicate with Nasdaq CSD, market Notes to investors and conduct settlement of the Notes during the subscription period. The Arranger may provide other services to the Issuer in the future and receive remuneration for it. The Arranger may invest its own funds in the Notes.

The Issuer has signed the Collateral Agent Agreement with the Collateral Agent, which holds the Collaterals on behalf of the Noteholders is authorized to act with the Collaterals in favour of all the Noteholders in accordance with these Terms of the Notes Issue and the Collateral Agent Agreement. The Collateral Agent may provide other services to the Issuer in the future and receive remuneration for it.

Legal advice to the Issuer in respect of the Notes issue was provided by TGS Baltic zvērinātu advokātu birojs SIA.

### **EXTERNAL AUDIT OF THE INFORMATION INCLUDED IN THESE TERMS OF THE NOTES ISSUE**

The information included in these Terms of the Notes Issue has not been verified by auditors.

### **STATEMENTS OR REPORTS INCLUDED IN THESE TERMS OF THE NOTES ISSUE**

These Terms of the Notes Issue do not contain any expert statements or reports.

**CREDIT RATINGS**

No credit rating has been assigned to the Issuer or to the Notes.

## BUSINESS DESCRIPTION

### 1. OVERVIEW

Established in 2012 in Liepāja, Latvia, the Group stands as a distinguished international manufacturer specializing in high-quality cotton and personal care products. Over the years, the Group has evolved into a key player in the industry, offering a diverse range of products such as cotton pads, cotton buds, underpads, wet wipes, and sanitary pads. A pivotal moment in the Group's development occurred in 2017 when it acquired a majority stake in Harper Hygienics SA, a Polish manufacturer listed on the Warsaw Stock Exchange. This strategic move solidified the Group's position as the leading producer of hygiene products in both the Baltics and Poland.

The Group operates modern production and warehouse facilities in Latvia and Poland, with total production area of 9,000 m<sup>2</sup> in Liepāja, Latvia, and 13,200 m<sup>2</sup> in Minsk Mazowiecki (Warsaw agglomeration), Poland, featuring 11 and 44 production lines respectively, and employs over 650 skilled individuals.

Geographically, the Group is a global player, with its home markets (Poland and the Baltics) contributing to 45% of the 2022 revenue, while exports to the EU and 40 other countries constitute the remaining 55%. In a move to tap into the significant growth potential in North America, the Group expanded its footprint in 2023 by acquiring Hempres Hygienics Inc, a U.S.-based trailblazer in hemp fiber technology and sustainable feminine care products.

#### 1.1. Strategy of the Group

The Group is committed to sustaining its profitable growth through these key pillars:

**Sales diversification and independence from specific product markets:** The Group is intensifying its efforts to develop e-commerce sales as well as expanding its presence, particularly in the West European and USA markets.

**New product groups:** New products in the category of feminine hygiene as well as dry wipes were introduced to the market.

**E-commerce development:** In recent years, e-commerce trading has become the dominant distribution channel. The products of the Group are available on Amazon, Allegro and other sites. This sales channel increases the overall average product margins.

**Entering the US market:** The group is already selling its unique sustainable product solutions from hemp and linen in the US this year.

**Brand development:** The major target is to shift the proportion of own brands vs private labels from 64%/36% in 4Q 2022 to 80%/20% by the end of 2023 relying on innovations and launching organic products.

**Operational integration:** By the end of 2022 Harper Hygienics and iCotton finalized its operational integration, implementing equivalent standards for the processes. The effect of synergy is already visible in 2023.

#### 1.2. Key strengths of the Group

**Market Dominance:** Recognized as the leading producer of hygiene products in Poland and the Baltic States, the Group holds the prestigious position of being the No. 1 choice in the region.

**Brand Excellence:** The brand Cleanic stands out as the preeminent choice in Poland and Central-Eastern Europe, symbolizing unparalleled quality and reliability in the hygiene product industry.

**Environmental Stewardship:** As a sustainability leader, the Group spearheads the development of innovative eco-friendly, organic, and biodegradable products, showcasing a commitment to a greener future.

**Cutting-edge Technology:** The competitive edge lies in the unique non-woven fabric production line, Arvell & Trützschler, exclusive to a select few. This technology allows the Group to offer products with unmatched quality and performance.

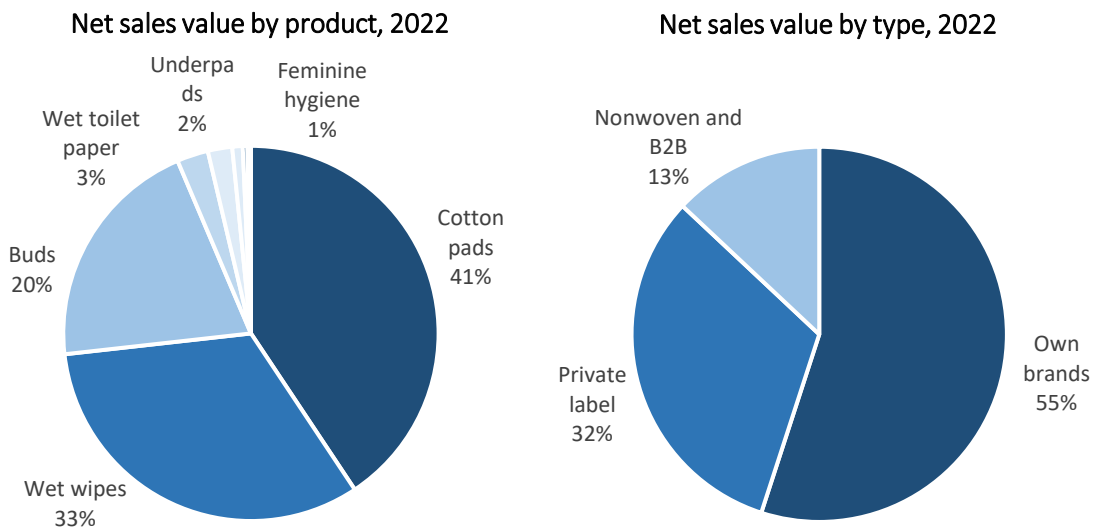
**State-of-the-Art Equipment:** The commitment to efficiency is showcased through cutting-edge equipment designed for distinctive non-woven fabric production. A vertically integrated and complete production cycle ensures optimal efficiency, surpassing industry standards.

**Stringent Quality Standards:** The Group adheres to the highest industry standards, exemplified by certifications in ISO, BRC, GMP, FSC, Vegan, Ecocert, and OCS. This commitment to excellence ensures that the products consistently meet and exceed customer expectations.

### 1.3. The Group’s products

The Group, with its comprehensive production cycle, manufactures over 800 products, ensuring the complete production of items from basic raw materials to finished goods. The Group’s competence encompasses the manufacturing of non-woven materials of natural origin, such as cotton, linen, hemp, and various blends. Leveraging the innovative Arvell spun lace technology, the Group is capable of producing a diverse range of end-user products.

The Group positions its products across multiple channels, leveraging its proprietary brands, offering private-label solutions, and supplying nonwoven materials to B2B customers.





### 1.4. Key brands of the Group

	<p>For over three decades, Cleanic has been at the forefront of providing a comprehensive range of gentle and essential products catering to everyday care and hygiene. With a commitment to excellence, Cleanic has established itself as a trusted brand, addressing the diverse needs of consumers with a product lineup that includes cotton pads, cotton buds, makeup removal wipes, intimate hygiene wipes, sanitary towels, moistened toilet paper, and refreshing wipes. With a strong and enduring presence in the market, Cleanic has earned the trust of diverse consumer groups, reflecting in an impressive awareness level of over 90%*. As a leading brand in the hygienic products category, Cleanic holds a significant 47% of value shares in its key segment.</p>
--	--



## *SIA iCotton Terms of the Notes Issue*

	<p>Kindii is a prominent player in the children's hygiene category, securing a position among the top 5 largest brands and holding the leading spot as a Polish brand. Kindii is the top choice for baby cotton pads, with a market share exceeding 50%*. Kindii commitment revolves around offering an extensive range of hygiene products crafted for the well-being of infants and children. This includes underpads, wet wipes, cosmetic buds, cosmetic pads, dry wipes, as well as ongoing efforts to introduce additional items like panties and diapers, breast pads, bibs, and baby cosmetics.</p>
	<p>Presto brand was created with the goal of saving time. Designed for convenience, Presto wet wipes make cleaning easy and quick without the need for additional liquids, emulsions, or buckets. Presto disposable wipes are not only hygienic but also come in various fragrances. The product range includes specialized variants tailored for specific surfaces, such as kitchen, bathroom, windows and mirrors, wooden furniture, anti-electrostatic, and leather furniture. In addition to wet wipes, Presto product line features dry wipes. Looking ahead, Presto plan to expand product range to include household sponges, soap, garbage bags, shoe cosmetics, freezer bags, baking paper, and laundry liquids.</p>

### 1.5. Sustainability strategy

The Group is actively implementing sustainability measures, emphasizing a persistent transition to a leaner and more efficient organizational structure. With an unwavering commitment, the Group is reinforcing its dedication to Environmental, Social, and Governance (ESG) principles, aiming to generate substantial value for all stakeholders involved.

The Group is planning to engage in the following sustainability-related activities:

- Renewable Energy - in 2023, the Group solidified its commitment to sustainability by ensuring that 100% of the energy consumed is supported by guarantees of origin or other certificates affirming the production of power from renewable sources. This underscores the Group's dedication as conscientious and responsible energy consumers.
- Regulatory and Compliance - the Group's operations adhere meticulously to the guidelines set by international, national, industry-specific, and relevant foreign laws. There is a steadfast commitment to internal policies and procedures, ensuring strict compliance with decisions made by pertinent managerial bodies.
- Work Safety - prioritizing the well-being of employees and society at large, the Group diligently works to ensure that business operations have a positive impact. Addressing and minimizing potential negative effects of products on society is integral to the Group's social responsibility efforts.
- Collaboration with Charities - in close collaboration with charitable organizations, the Group extends support by providing hygiene products to contribute to the well-being of those in need. This aligns business activities with a broader commitment to social responsibility.
- Raw Materials - the Group upholds a commitment to quality through meticulous supplier selection, ensuring the highest standards for raw materials such as natural fibers, fully recyclable packaging, and responsibly sourced eucalyptus pulp. These choices underscore the Group's dedication to sustainable and ethical production practices.
- Technology - to actively reduce its carbon footprint, the Group makes significant investments in cutting-edge equipment, energy-saving technologies, and certifications such as FSC and UPM recycling loop. This reflects the Group's commitment to advancing environmentally friendly practices.
- Ready Products - marketing efforts are directed towards promoting eco-friendly, fully-recyclable, and compostable products. This initiative reflects the Group's dedication to minimizing the environmental impact of its products and aligning with sustainable practices.

### 1.6. Overview of the Group's funding structure

The Group strives for a balanced financing structure to maintain flexibility and support its growth objectives. Currently, the Group relies on diverse financing sources, including shareholder equity, loans, credit lines, financial leasing, and factoring. Moreover, active participation in grant programs, facilitated by the Investment and

*SIA iCotton Terms of the Notes Issue*

Development Agency of Latvia (LIAA) and other government bodies, further contributes to the Group's financial strategy.

Funding type	30.06.2023, EUR k	Comment
BluOr Bank loan	6 194	To be repaid from the proceeds of the Notes issue.
BluOr Bank credit-line	4 946	To be repaid from the proceeds of the Notes issue.
mBank S.A. credit-line	4 480	To be repaid from the proceeds of the Notes issue.
Altum Fund loan	10 060	Bullet repayment at maturity, 26.10.2026, with equity kicker. Secured with Altum Fund Security. Will stay after the Notes issue.
ING Lease / Idea Getin Leasing	773	Different short-term leasing agreements. Will stay after the Notes issue.
<b>Total Financial Indebtedness</b>	<b>26 499</b>	

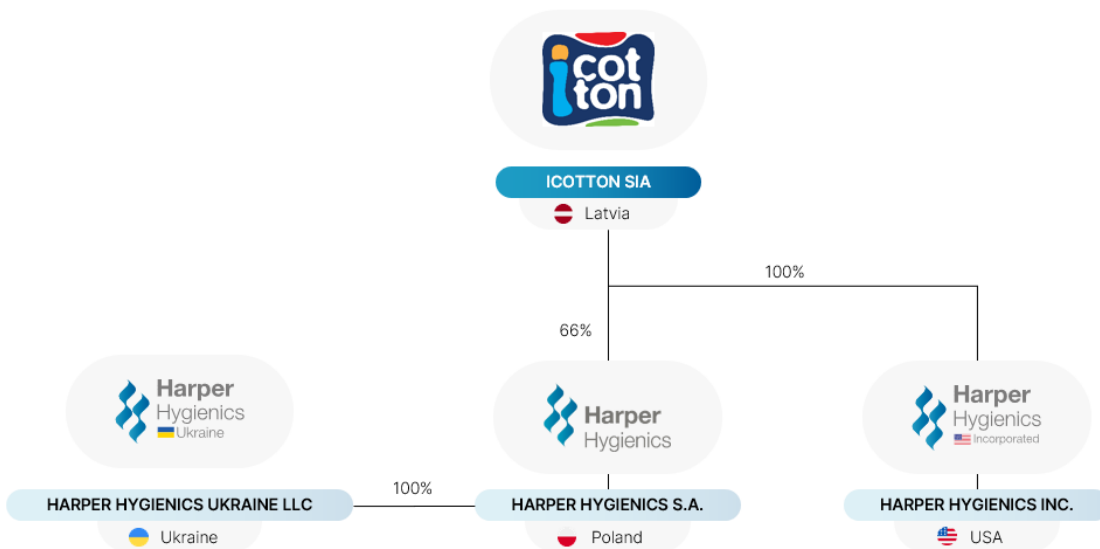
The use of proceeds from the Notes will be used to complete full repayment of the BluOr Bank liabilities, covering both the loan and credit line, and mBank liabilities. The remaining funds will be allocated to fulfill the Group's working capital requirements.

Furthermore, in accordance with Clause 13(e) of the Undertakings, the Issuer has a right to create and issue further Notes, only to refinance the existing Group's liabilities against Altum Fund.

The Group plans to maintain its utilization of financial leasing and factoring services even after the issuance of the Notes.

**2. GROUP STRUCTURE**

The Issuer is the incorporated in Latvia and executes control over the following subsidiaries:



SIA iCotton (Latvia) - as a cornerstone of the Group, SIA iCotton stands as the leading producer of cosmetic-hygienic products in the Baltics. Its core focus is on the production and sale of high-quality cosmetic and hygiene essentials, catering to the discerning needs of our Baltic customers.

Harper Hygienics S.A. (Poland) - positioned as a key player in the Group, Harper Hygienics S.A. holds the distinction

of being the leading producer of cosmetic-hygienic products in Poland.

Harper Hygienics Ukraine LLC - operating in Ukraine, Harper Hygienics Ukraine LLC plays a vital role in the distribution of SIA iCotton and Harper Hygienics S.A. products. Its focus is on ensuring that the quality of the Group's cosmetic-hygienic offerings reaches its customers in the Ukrainian market.

Harper Hygienics Inc. (USA) - geared specifically for the U.S. market, Harper Hygienics Inc. is dedicated to the sale and distribution of SIA iCotton products. The Group's team in the United States is committed to providing market with specially designed cosmetic-hygienic products tailored to meet the unique demands of the U.S. market.

**2.1. Management board of the Group**

The management board of the Group serves as the executive body entrusted with the pivotal responsibilities of overseeing and directing the entirety of its business operations. This includes not only the efficient management and representation of the organization but also the diligent fulfillment of various obligations.

At the date of Terms of the Notes Issue the management board of the Issuer consists of one member:

Name	Position	Company
<b>Sergejs Binkovskis</b>	Chairman of the Management Board	SIA iCotton

Sergejs Binkovskis - dedicated and seasoned professional with a robust background in production management and supply chain operations. Bringing over a decade of experience, Mr Binkovskis has been an integral part of the company since 2011, contributing significantly to the enhancement of production processes, material supply, sales and finished product stock management. Mr Binkovskis has eighteen years of experience in the production industry and since 2005 has worked in several companies, including Bella Art and Enigma Lux.

At the date of Terms of the Notes Issue the management board of the Guarantor consists of two members:

Name	Position	Company
<b>Dmitrijs Kostojanskis</b>	Chairman of the Management Board	Harper Hygienics S.A.
<b>Sergejs Binkovskis</b>	Member of the Management Board	Harper Hygienics S.A.

Dmitrijs Kostojanskis - Dmitrijs Kostojanskis is a dynamic professional who has been an integral part of the Group since 2013. From 2013 to 2018, Mr Kostojanskis served as an advisor for iCotton SIA, playing a pivotal role in the development and implementation of cost-cutting programs. In early 2017, he took on the role of Interim Vice-President of the Supervisory Board at Harper Hygienics S.A. In this capacity, he assumed a crucial role in a project group focused on company acquisition. Since the end of 2018, Mr Kostojanskis has held the position of Chairman of the Management Board at Harper Hygienics S.A.

**2.2. Supervisory board of the Group**

Main functions the Supervisory Board are to ensure corporate governance framework, to provide strategic direction for the Group's development, to provide expertise and guidance in relation to the Group's international operations and to supervise key areas of the Group's operations, performance and compliance.

At the date of the Terms of the Notes Issue the supervisory board of the Issuer consists of three members.

Name	Position	Company
<b>Maralbek Gabdsattarov</b>	Chairman of the Supervisory Board	Harper Hygienics S.A. and SIA iCotton

### *SIA iCotton Terms of the Notes Issue*

<b>Jānis Bormanis</b>	Member of the Supervisory Board	SIA iCotton
<b>Atis Zvidriņš</b>	Member of the Supervisory Board	SIA iCotton

Jānis Bormanis - Mr Bormanis is a seasoned professional with extensive expertise in crafting diverse financial structures, encompassing debt financing acquisition, project financing, and capital market financing attraction. Mr Bormanis has honed expertise in various corporate and investment banking management roles at financial institutions in Germany and Latvia. Mr Bormanis holds a Master's Degree in Business Administration (BWL) from the Friedrich-Alexander-University of Erlangen-Nürnberg.

Atis Zvidriņš – Mr Zvidriņš is a distinguished professional serving in key supervisory roles. With a background that includes roles as Investment Director and CFO, Mr Zvidriņš has demonstrated a robust track record in financial leadership and investment management. In his present capacity as Investment Director at ALTUM, Mr Zvidriņš brings a wealth of experience to the strategic oversight of various ventures.

At the date of the Terms of the Notes Issue the supervisory board of the Guarantor consists of five members.

Name	Position	Company
<b>Maralbek Gabdsattarov</b>	Chairman of the Supervisory Board	Harper Hygienics S.A. and SIA iCotton
<b>Valērijs Kujickis</b>	Member of the Supervisory Board	Harper Hygienics S.A.
<b>Mikhail Murashko</b>	Member of the Supervisory Board	Harper Hygienics S.A.
<b>Oleksiy Kolesnik</b>	Member of the Supervisory Board	Harper Hygienics S.A.
<b>Artem Parshutin</b>	Member of the Supervisory Board	Harper Hygienics S.A.

### **2.3. Issuer's shareholder structure**

The Issuer's sole shareholder is its Chairman of the Supervisory Board Maralbek Gabdsattarov (Citizenship of Kazakhstan and residence in Latvia) who founded the business in 2012.

Maralbek Gabdsattarov: the largest shareholder and founder of the Group, started his career in 2001, initially serving as a distributor of hygiene and beauty products tailored for the CIS markets. In a decisive move in 2011, to serve the European market Mr Gabdsattarov decided to launch production facilities in Europe, which resulted in the establishment of SIA iCotton in Liepāja, Latvia. Through astute management and leveraging EU grant programs, a cutting-edge production facility was successfully developed, reflecting Mr Gabdsattarov's commitment to market diversification and entry into Western markets. The year 2017 witnessed a significant milestone as Mr Gabdsattarov orchestrated the acquisition of Harper Hygienics S.A., strengthening the European portfolio of the Group. Currently serving as the Chairman of the Supervisory Board for the Issuer and the Guarantor, Mr Gabdsattarov continues to provide strategic guidance, showcasing a unique ability to navigate diverse markets and manage complex organizational structures.

### **2.4. Legal proceedings and arbitration**

At the date of these Terms of the Notes Issue, the Group is not involved in any lawsuits or arbitration proceedings, which may significantly affect or have significantly affected the financial situation or profitability of the Group.

### **2.5. Substantial changes in the financial situation of the Group and substantial agreements**

Since the date of the Group's annual financial report for 2022, there has been a significant improvement in the Group's financial situation and performance continuing until the third quarter of 2023. The Group is unaware of any

factors, claims, obligations, or events which would negatively affect the financial situation or performance of the Group in future.

The Company is not aware of any other important agreements or internal decisions that could have been concluded/made within the Group or between the Group and any related company and that could affect the Company's ability to fulfil its obligations to the Noteholders under the Notes.

## **2.6. Significant recent and know trends**

During 2020 and 2021, many economic sectors were affected by global COVID-19 pandemic.

In late February 2022, Russia started a war with Ukraine. Due to Russia's aggression, sanctions were imposed on its politicians, oligarchs, and various economic sectors. The resultant spike in energy prices and the constrained trade with Russia have led to a decrease in revenues and a rise in operational costs. Moreover, the pervasive inflationary trend has added an extra layer of complexity to the financial landscape, affecting the Group's overall performance.

In response to these challenges, the Group has demonstrated resilience and adaptability. Simultaneously, strategic decisions have been made to adjust pricing strategies, seeking to find a reasonable equilibrium between profitability and preserving market share. While the environment is challenging, the Group has taken a measured and proactive approach. Continuous monitoring of economic and geopolitical developments is a priority, ensuring the ability to respond promptly to emerging challenges.

At the time of signing these Terms of the Notes Issue, the Group has no information at its disposal regarding any other known trends that have negatively affected the Group or the activity, apart from the aforementioned impact.

## SELECTED FINANCIAL INFORMATION OF THE ISSUER AND THE GROUP

### 1. GENERAL

Total equity of the Issuer as of 30 September 2023 is EUR 30.6 million, while Total Equity of the Group as of 30 September 2023 is EUR 31.9 million (excluding Subordinated Debt).

The profit / loss forecast has not been carried out.

The Group's financial reports will be available on the Issuer's website and on Nasdaq Riga website after listing on First North.

### 2. ISSUER'S FINANCIAL STATEMENTS

The tables below present key selected financial information for the Issuer and have been derived from the Issuer's audited annual financial statements as at and for the Financial Year ended 31 December 2022 and 31 December 2021 and Issuer's interim financial statements as at and for the period ended 30 September 2023, and unaudited interim financial statements as at and for the period ended 30 September 2022.

#### ICOTTON SIA STANDALONE STATEMENT OF INCOME

EUR 000	01.01.2021 - 31.12.2021	01.01.2022 - 31.12.2022	01.01.2022 - 30.09.2022	01.01.2023 - 30.09.2023
Net revenue	21 658	19 637	13 511	13 091
Cost of goods sold	-16 556	-17 869	-12 479	-9 954
<b>Gross profit</b>	<b>5 103</b>	<b>1 768</b>	<b>1 032</b>	<b>3 137</b>
Selling costs	-1 240	-872	-682	-558
Administration costs	-807	-977	-785	-711
Other operating expenses	-851	-103	-60	-51
Other operating income	1 257	1 881	762	274
Depreciation and amortization	-817	-1 122	-1 189	-859
<b>EBIT</b>	<b>2 645</b>	<b>576</b>	<b>-922</b>	<b>1 232</b>
Interest and similar income	145	1 077	227	970
Interest and similar expenses	-468	-1 663	-590	-1 370
<b>EBT</b>	<b>2 323</b>	<b>-10</b>	<b>-1 285</b>	<b>832</b>
Corporation tax for the year	-26	-10	-4	-2
Other taxes	0	0	0	0
<b>Net income</b>	<b>2 297</b>	<b>-20</b>	<b>-1 289</b>	<b>830</b>

#### ICOTTON SIA STANDALONE STATEMENT OF FINANCIAL POSITION

EUR 000	31.12.2021	31.12.2022	30.09.2022	30.09.2023
Intangible assets	443	1 105	392	1 241
Fixed assets	23 695	23 698	23 470	22 979
Long-term financial investments	18 185	18 863	16 744	17 178
<b>Non-current assets</b>	<b>42 323</b>	<b>43 665</b>	<b>40 606</b>	<b>41 398</b>
Inventories	4 696	3 669	4 823	3 914
Debtors	20 537	17 115	17 040	16 969
Own shares or stocks	0	5 183	5 183	5 183
Cash	141	25	154	2 497
<b>Current assets</b>	<b>25 374</b>	<b>25 993</b>	<b>27 200</b>	<b>28 563</b>
<b>Assets</b>	<b>67 697</b>	<b>69 658</b>	<b>67 806</b>	<b>69 961</b>

*SIA iCotton Terms of the Notes Issue*

Share capital	13 333	13 333	13 333	13 333
Retained earnings	16 434	16 404	14 278	17 234
<b>Equity</b>	<b>29 768</b>	<b>29 737</b>	<b>27 611</b>	<b>30 567</b>
Loans from credit institutions	6 725	6 212	6 864	4 600
Other loans	10 000	10 050	10 000	10 060
Subordinated loan	0	0	0	1 500
Liabilities towards suppliers	51	18	48	0
Deferred revenues	3 503	3 714	3 643	3 588
<b>Non-current liabilities</b>	<b>20 280</b>	<b>19 994</b>	<b>20 555</b>	<b>19 748</b>
Loans from credit institutions	6 683	5 947	6 108	8 004
Advance payments received	12	43	48	7
Liabilities towards suppliers	6 491	5 379	6 352	4 445
Liabilities towards affiliated companies	495	3 787	2 894	5 264
Taxes and SSI mandatory contributions	86	102	99	111
Other accounts payable	2 780	3 009	2 988	473
Deferred revenues	290	757	327	757
Accrued liabilities	812	903	824	585
<b>Current liabilities</b>	<b>17 650</b>	<b>19 927</b>	<b>19 640</b>	<b>19 646</b>
Other provisions	0	0	0	0
<b>Equity and liabilities</b>	<b>67 697</b>	<b>69 658</b>	<b>67 806</b>	<b>69 961</b>

### 3. GROUP'S FINANCIAL STATEMENTS

The tables below present key selected financial information for the Group and have been derived from the Group's annual consolidated financial statements as at and for the Financial Year ended 31 December 2022 and 31 December 2021 and Group's interim consolidated financial statements as at and for the period ended 30 September 2023 and 30 September 2022.

#### THE GROUP'S CONSOLIDATED STATEMENT OF INCOME

EUR 000	01.01.2021 - 31.12.2021	01.01.2022 - 31.12.2022	01.01.2022 - 30.09.2022	01.01.2023 - 30.09.2023
Revenue	73 033	68 243	50 136	52 742
Cost of goods sold	-56 316	-56 664	-41 655	-37 334
<b>Gross profit</b>	<b>16 717</b>	<b>11 579</b>	<b>8 481</b>	<b>15 408</b>
Selling costs	-7 465	-8 655	-6 559	-5 997
Administration costs	-4 912	-5 408	-4 207	-3 942
Other operating income	3 102	3 233	2 639	1 073
Other operating expenses	-1 935	-1 244	-1 706	-971
<b>EBIT</b>	<b>5 507</b>	<b>-495</b>	<b>-1 351</b>	<b>5 571</b>
Interest income	1 483	-399	-1 253	568
Interest expense	-1 888	-4 459	-3 905	-1 939
<b>EBT</b>	<b>5 102</b>	<b>-5 353</b>	<b>-6 510</b>	<b>4 200</b>
Corporation tax for the year	-109	68	163	402
Other taxes	0	0	0	0
<b>Net income</b>	<b>4 993</b>	<b>-5 286</b>	<b>-6 347</b>	<b>4 602</b>

#### THE GROUP'S CONSOLIDATED STATEMENT OF FINANCIAL POSITION

EUR 000	31.12.2021	31.12.2022	30.09.2022	30.09.2023
Intangible assets	735	1 313	607	2 715

*SIA iCotton Terms of the Notes Issue*

Fixed assets	54 284	53 397	52 457	51 002
Negative goodwill	-9 517	-9 517	-9 517	-9 517
Deferred tax assets	4 293	4 118	4 147	3 923
Long-term financial investments	1 698	2 374	254	690
<b>Non-current assets</b>	<b>51 493</b>	<b>51 685</b>	<b>47 948</b>	<b>48 813</b>
Inventories	15 671	13 293	15 422	11 312
Debtors	16 412	14 983	17 917	19 252
Other current assets	374	3 630	331	490
Short-term financial investments	5 183	5 183	5 183	5 183
Cash	356	896	903	2 522
<b>Current assets</b>	<b>37 996</b>	<b>37 985</b>	<b>39 756</b>	<b>38 759</b>
<b>Assets</b>	<b>89 489</b>	<b>89 669</b>	<b>87 704</b>	<b>87 572</b>
Share capital	13 333	13 333	13 333	13 333
Other capital	0	0	0	0
Undistributed profits	16 252	16 424	17 567	17 233
Profit or loss for the period	2 501	-60	-5 016	213
Non-controlling interest	3 112	-96	624	1 095
<b>Equity</b>	<b>35 198</b>	<b>29 602</b>	<b>26 508</b>	<b>31 874</b>
Loans from credit institutions	5 093	6 207	6 000	5 290
Other loans	10 000	10 271	10 110	10 060
Subordinated loan	0	0	0	1 500
Deferred revenues	3 503	3 714	3 643	3 588
<b>Non-current liabilities</b>	<b>18 596</b>	<b>20 192</b>	<b>19 753</b>	<b>20 438</b>
Loans from credit institutions	10 481	9 954	9 858	12 068
Other loans	1 466	2 051	2 781	2 349
Advance payments received from customers	12	43	48	7
Liabilities towards suppliers and contractors	18 406	22 074	23 461	18 623
Other accounts payable	4 141	3 930	3 414	1 478
Other liabilities	1 189	1 822	1 881	735
<b>Current liabilities</b>	<b>35 695</b>	<b>39 875</b>	<b>41 443</b>	<b>35 260</b>
<b>Equity and liabilities</b>	<b>89 489</b>	<b>89 669</b>	<b>87 704</b>	<b>87 572</b>

**THE GROUP'S KEY FINANCIAL RATIOS**

	<b>01.01.2021 - 31.12.2021</b>	<b>01.01.2022 - 31.12.2022</b>	<b>LTM 30.09.2022</b>	<b>LTM 30.09.2023</b>
EBITDA (EUR 000)	8 602	2 440	2 217	9 210
Adjusted EBITDA (EUR 000)	9 299	3 481	5 356	9 552
Adjusted normalized EBITDA (EUR 000)	10 280	6 093	7 967	9 552
Gross margin	23%	17%	17%	29%
EBITDA margin	12%	4%	3%	13%
Adjusted EBITDA margin	13%	5%	8%	13%
Adjusted normalized EBITDA margin	14%	9%	11%	13%
Net Debt / EBITDA	3.1	11.3	12.6	3.0
Net Debt / Adjusted EBITDA	2.9	7.9	5.2	2.9
Net Debt / Adjusted normalized EBITDA	2.6	4.5	3.5	2.9
Equity Ratio	36%	29%	26%	32%