

ESTONIAN DEVELOPMENT FUND ACT

Chapter 1 GENERAL PROVISIONS

§ 1. Scope of Regulation of the Act

This Act shall lay down the objectives, functions, competence, legal status and grounds for operations and management of the Estonian Development Fund (hereinafter the *Development Fund*).

§ 2. Objectives and Functions of the Development Fund

(1) The objective of the Development Fund is to stimulate and support positive changes in Estonian economy, contributing to modernisation of the economy, assuring growth of exports and creation of new jobs requiring high qualification. The Development Fund supports increase in awareness of innovation, emergence of innovative business ideas and growth of entrepreneurship in the whole society.

(2) The Development Fund shall discharge the following functions to achieve its objectives:

1) investing into knowledge-intensive and high-technology Estonian companies that are in launching stage, offering management-related support to the relevant operators;

2) organisation of foresight activities in Estonia, required for assuring sustainable economic development and making of investment resolutions, stated in clause 1) of this sub-section;

3) promotion of area-specific national and international cooperation and keeping in touch with organisations conducting international foresight activities and investment organisations collocating foreign investors and funds.

§ 3. Legal Status and Grounds for the Operation of the Development Fund

(1) Development Fund is a legal entity governed by public law, established by virtue of this Act. Legal capacity of the Development Fund incurs as of the moment of the enforcement of this Act.

(2) The Development Fund shall be registered in state register of state and local government agencies as provided in the Statutes of the aforementioned register.

(3) The Development Fund shall proceed as provided by this Act, the Statutes of the Development Fund (hereinafter the *Statutes*) and other legal acts.

(4) Merger, division and reorganisation of the Development Fund is prohibited.

(5) The Development Fund is dissolved by law.

§ 4. Reporting to the Riigikogu

(1) The Development Fund shall report annually on its activities to the Riigikogu, providing an overview of its activities, based on the annual declaration, to the autumn plenary session of the Riigikogu, as latest.

(2) The Development Fund shall submit a report on the achievement of the objectives, provided in this Act, to the Riigikogu simultaneously with the review specified in subsections (1) of this Article. The report shall discuss the implementation of the investment strategy, allocation of the funds available to the Foundation, activities conducted and planned within the framework of foresight activities and investment projects co-financed by the Foundation.

§ 5. Cooperation of the Development Fund and the Government of the Republic

The Management Board of the Development Fund shall be entitled to make proposals to the Government of the Republic, concerning the measures to be taken with regard to research and development activities, innovation support policies and entrepreneurship policies.

§ 6. Name

(1) The official name of the Development Fund is the Estonian Development Fund.

(2) The Development Fund shall have a sole right to its name.

§ 7. Seat

The seat of the Development Fund shall be the seat of the Management Board of the Development Fund.

Chapter 2

MANAGEMENT AND STATUTES OF THE DEVELOPMENT FUND

§ 8. Management of the Development Fund

The Development Fund shall be managed by a Supervisory and Management Board.

§ 9. Competence of the Supervisory Board of the Development Fund

(1) The highest supervisory body of the Development Fund is the Supervisory Board of the Development Fund (hereinafter the *Supervisory Board*), consisting of nine members. The Supervisory Board shall plan the activities of the Development Fund, organise the management of the Development Fund and conduct supervision over the activities of the Development Fund and its Management Board.

(2) The Supervisory Board has the following competences:

- 1) endorsement of the Statutes of the Development Fund;
- 2) endorsement of the investment strategy;
- 3) endorsement of the foresight action plan;
- 4) election of the Chairman of the Management Board by virtue of a public competition and approval of the membership of the Management Board, proposed by the Chairman and establishment of the wages of the members of the Management Board;
- 5) appointment of the Chairman of the Expert Committee, specified in § 34 of this Act and removal of the aforementioned Chairman at the proposal of the Management Board;
- 6) appointment of an auditor and internal auditor;
- 7) organisation of internal audit; endorsement of internal audit plan and adoption of decisions, based on the outcomes of internal audit;
- 8) approval of the budget for a financial year and supervision over the implementation of the budget;
- 9) approval of annual declarations;
- 10) adoption of decisions, concerning the involvement of additional financial assets and entry into contacts of loan and credit at the proposal of the Management Board;
- 11) endorsement of the principles for allocating the assets of the Development Fund;
- 12) endorsement of internal work procedure rules, including the internal accounting policies and procedures;
- 13) decisions regarding the establishment and winding up of legal entities at the proposal of the Management Board;
- 14) making of decisions regarding the transfer of shares transferred to the Development Fund for the establishment of investment capital.
- 15) other functions arising from this Act.

(3) If proposed by the Management Board, the Supervisory Board shall pass decisions in matters related to the activities of the Development Fund, but not specified in subsections (2) of this Article.

(4) For discharging its functions the Supervisory Board is granted the right to inspect all the documents of the Development Fund, accuracy of the accounting, existence of the assets and the compliance of the activities of the Development Fund with law, Statutes and decisions of the Supervisory Board.

§ 10. Members of the Supervisory Board

(1) The Government of the Republic shall appoint two members of the Government of the Republic to act as the members of the Supervisory Board, their respective term of office being up to four years, but not exceeding the validity of their authorisations. Upon assumption of office of the new Government the Government of the Republic shall appoint the members of the Supervisory Board at its second session, as latest.

(2) Organisation joining the rectors of public universities shall appoint two members of the Supervisory Board among the members of Council of public universities on condition that they do not belong to the Supervisory Board of the appointing university and at least one of them is a rector of a public university. The members of the Supervisory Board shall be appointed for the term of office of four years, as maximum, but not being longer than their term of employment as the member of the Supervisory Board of the public university.

(3) The Riigikogu shall appoint four members proposed by the Economic Committee of the Riigikogu for the maximum term of office of four years. Two members appointed shall be the members of the Riigikogu and two the representatives of the business sector and the public. Upon the termination of the authorities of a member of the Riigikogu his/her authorities as the member of the Supervisory Board shall be continued until the appointment of a new member of the Riigikogu.

(4) The Government of the Republic, the Riigikogu and the organisation joining the rectors of public universities may recall the member of the Supervisory Board that they've appointed before the expiry of the member's term of office, immediately appointing a new member of the Supervisory Board.

(5) A member of the Supervisory Board shall be a person with active legal capacity, having the knowledge and experiences required for fulfilling his/her tasks. The members of the Supervisory Board, appointed by the Riigikogu, must have an academic degree and working experience in areas related to strategic planning of economic development or innovation policies.

(6) A member of the Supervisory Board must not be a person having deprived of the right to be an enterprise either by virtue of law of court judgement or a person being under investigation or being prosecuted for a crime punished with prison sentence by virtue of law but also a person being punished for criminal official misconduct or any crime deliberate crime.

(7) Monthly wages of a member of the Supervisory Board shall be three minimum monthly wages. The monthly wages of a member of the Supervisory Board, elected to act as the Chairman or when acting in the capacities of the Chairman of the Supervisory Board shall be four minimum monthly wages.

(8) A member of the Supervisory Board shall be recalled immediately in the following circumstances:

1) judgement in criminal matter has entered into force regarding the member concerned;

2) judgement on depriving the member's right to act as an enterprise or deprivation of the right to act as an enterprise by virtue of law has entered into force regarding the member concerned;

3) he/she doesn't comply with the requirements provided by this Act or has provided falsified information regarding the compliance with the requirements;

4) he/she has neglected his/her duties to a material extent, damaged the interests of the Development Fund or there is some other good reason that would make the concerned member of the Supervisory Board unsuitable for discharging his/her functions.

(9) A member of the Supervisory Board may be recalled before the expiry of his/her term of office in case of illness prevailing longer than 4 months, preventing the member from discharging his/her functions.

§ 11. Chairman and Deputy Chairman of the Supervisory Board

(1) The members of the Supervisory Board shall elect a Chairman and Deputy Chairman of the Supervisory Board amongst themselves. Until the election of the Chairman the eldest member of the Supervisory Board will discharge the respective duties:

(2) The Chairman of the Supervisory Board shall:

1) organise the conduct of the Supervisory Board;

2) chair the meetings of the Supervisory Board;

3) conduct control over the implementation of the decisions of the Supervisory Board;

4) represent the Supervisory Board.

(3) In the absence of the Chairman of the Board his/her duties are discharged and rights exercised by the Deputy Chairman.

§ 12. Meeting of the Supervisory Board

(1) Meeting is the form of work of the Supervisory Board.

(2) The regular meetings of the Supervisory Board shall take place as often as needed but not less frequently than once per three months.

(3) The meeting shall be convened by the Chairman of the Supervisory Board or a member replacing him/her. Written notice shall be given of the meeting and the agenda at least seven days before the meeting.

(4) Should this be required by at least two members of the Supervisory Board or the Management Board of the Development Fund, the meeting shall be convened at two days notice

(5) The Supervisory Board has a quorum only if at least members of the Supervisory Board are present, including the Chairman or Deputy Chairman of the Supervisory Board. The meetings of the Supervisory Board shall be closed.

§ 13. Decision of the Supervisory Board

(1) The decisions of the Supervisory Board shall be taken with majority vote of the members of the Supervisory Board participating in the meeting. The vote of the Chairman of the Supervisory Board or, at his/her absence, of the Deputy Chairman of the Supervisory Board shall be decisive in case of equal vote. Decisions concerning the matters specified in clauses 1) – 2), 8) – 11) and 14) of sub-section (2) of § 9 can only be taken with majority vote of the membership of the Supervisory Board.

(2) Members of the Supervisory Board shall participate personally in decision making. Every member of the Supervisory Board has one vote. A member of the Supervisory Board does not have the right to refrain from voting or be indifferent, except in cases specified in subsection (3) of this Act.

(3) A member of the Supervisory Board must not vote if voting would bring about the conflict of interests. Conflict of interests shall mean participation in taking of any decisions that may have effect on economic interests of either the member of the Supervisory Board, his blood relatives or relatives by marriage or related legal entities.

§ 14. Minutes of the Meeting of the Supervisory Board

(1) Minutes are taken of the meetings of the Supervisory Board. The minutes should record the decisions made at the meeting, voting results and dissenting opinions of the members of the Supervisory Board. If applicable, the other information to be recorded on the minutes and recording requirements shall be specified in the Statutes.

(2) The minutes are signed by the Chairman of the meeting and the person taking minutes.

(3) The minutes shall be made available to the members of the Supervisory Board at the seat of the Development Fund as of the seventh day following the meeting.

(4) The minutes and any annexes thereto shall be kept at the seat of the Development Fund without determining the retention period. Responsibility for organising the safekeeping of the minutes and annexes thereto lies with the Chairman of the Supervisory Board of the Development Fund.

§ 15. Liability of the Members of the Supervisory Board

(1) The members of the Supervisory Board are solidarily liable for any wrongful damage caused to the Development Fund.

(2) The member of the Supervisory Board is relieved of liability when holding on to a dissenting opinion concerning a decision causing damage to the Development Fund and the dissenting opinion has been recorded in the Minutes or if he/she did not take part in the meeting that passed the concerned decision.

(3) The limitation period of a claim to be filed against a member of the Supervisory Board is five years as of the date for causing the damage.

§ 16. Management Board of the Development Fund

(1) Management Board of the Development Fund (hereinafter the *Management*) shall represent and manage the Development Fund. The Management may consist of three members, as maximum. Exact number of the members of the Management shall be determined by the Supervisory Board.

(2) The function of the Management is the planning and organisation of daily activities of the Development Fund. The Management must follow legitimate orders given by the Supervisory Board upon the conduct of management functions.

(3) The competence of the Management includes the management of the Development Fund's everyday activities, including:

- 1) drafting and implementation of the investment strategy;
- 2) searching for investment projects matching the objectives of the Development Fund and investment strategy and preparing the projects for the Expert Committee;
- 3) acquisition of participation in trading companies serving as investment objects and determining the participation rates according to the recommendations given by the Expert Committee; making decisions regarding the transfer of participation and investment project management;
- 4) appointment of the Development Fund representatives to the management bodies of trading companies serving as investment objects;
- 5) allocation of reserves of the Development Fund;
- 6) drafting of the budget for a financial year;
- 7) preparing the annual declaration to be submitted to the Supervisory Board;
- 8) making proposals concerning the establishment and winding up of legal entities to the Supervisory Board; establishment and winding up of legal entities by virtue of the resolution of the Supervisory Board;
- 9) entry into credit and loan agreements for the involvement of additional financial assets by virtue of the resolution of the Supervisory Board;
- 10) making decision concerning the acquisition, transfer and encumbering of real estate and registered movables;
- 11) making decisions concerning the disposal of assets, provided that the respective matters are not treated as the competence of the Supervisory Board under this Act;

12) organisation of implementation of the decisions of the Supervisory Board;

13) making decisions concerning any other management issues, not treated as the competence of the Supervisory Board under this Act.

(4) More specific work procedure rules of the Management are specified in the Statutes.

(5) The Management shall provide the tools required for work by the Supervisory Board and organisation of work according to the decisions of the Supervisory Board.

(6) The Management shall supply the members of the Supervisory Board with required information concerning the management. The Management shall supply the Supervisory Board with a review of the economic activities and economic status of the Development Fund at least once per three months. The review is published at the website of the Development Fund. The Management shall notify the Supervisory Board immediately of impaired economic status of the Development Fund and other material circumstances, concerning the economic activities of the Development Fund.

§ 17. Members of the Management

(1) The Management's term of office shall be five years. The Supervisory Board may endorse a second term of office of the Chairman of the Management Board and other members without organising a public competition at the expiry of the Management's authorisations. The Supervisory Board may recall a member of the Management Board at any time.

(2) A member of the Management Board shall be a person with active legal capacity, permanently residing in Estonia and having the knowledge and experiences required for fulfilling his/her tasks. The members of the Management Board must have an academic degree and at least five years of working experience in areas related to financial analysis or investments or related areas, desirably also working experience in areas related to investing venture capital.

(3) The Supervisory Board shall conclude a contract with a member of the Management Board, defining the rights and responsibilities of a member of the Management Board, wages payable and other terms and conditions for his/her employment. The Development Fund shall be represented by the Chairman of the Supervisory Board for the purposes of contracts concluded with members of the Management Board.

(4) A member of the Management Board may hold no other post, service or part-time activities that, by nature, would or could restrict the independence of the Development Fund or having negative influence on the achievement of the objectives of the Development Fund and fulfilment of its functions. A member of the Management Board may belong to the Supervisory Board of an

enterprise as a representative of the Development Fund, provided that the enterprise is financed from the reserves of the Development Fund or the Development Fund holds a participation in such an enterprise. A member of the Management Board may belong to the Supervisory Board of another enterprise or foundation, having objectives that are similar to the objectives of the Development Fund, only at the consent of the Supervisory Board.

(5) A member of the Management Board must not be a person having deprived of the right to be an enterprise either by virtue of law of court judgement or a person being under investigation or being prosecuted for a crime punished with prison sentence by virtue of law but also a person being punished for criminal official misconduct or any crime deliberate crime.

§ 18. Chairman of the Management Board

(1) The Chairman of the Management Board shall organise the activities of the Management.

(2) The Chairman of the Management Board shall:

- 1) organise the accounting of the Development Fund;
- 2) hire and release from employment the employees of the Development Fund, making the Supervisory Board proposals concerning the authorisation of office and releasing the internal auditor;
- 3) determine the rights and responsibilities of the employees of the Development Fund;
- 4) approve the wages of the employees, observing the administration cost limits established by the Supervisory Board;
- 5) conclude contracts for services for the chairman and members of the Expert Committee, considering the procedure and grounds for payment of wages, stipulated in the Statutes;
- 6) decide the expense level required for the activities of the Development Fund, acting within the scope and limits established by the Supervisory Board;
- 7) participate in the meetings of the Supervisory Board, if not decided otherwise by the Supervisory Board;
- 8) provide the Riigikogu with an overview of the activities of the Development Fund, based on the annual declaration specified in subsection (1) of § 4 of this Act and the report on achievement of the objectives of the Development Fund, established by this Act, as provided in subsection (2) of the same Article;
- 9) pass decisions regarding any other issues, treated as the competence of the Chairman of the Management Board under this act or the Statutes.

§ 19. Representation Right of the Management Board

The Development Fund shall be represented by the Chairman of the Management Board in all the legal proceedings; the other members of the

Management Board may represent the Development Fund together with another member of the Management Board.

§ 20. Liability of the Members of the Management Board

(1) The members of the Management Board are solidarily liable for any wrongful damage caused to the Development Fund.

(2) The member of the Management Board is relieved of liability when not having participated in adoption of the decision having caused the damages or when acting by virtue of legitimate decisions, adopted by the Supervisory Board.

(3) The limitation period of a claim to be filed against a member of the Management Board is five years as of the date for causing the damage.

(4) Members of the Management Board won't be held liable for the damages incurred by an investment project implemented under the recommendation of the Expert Committee, provided that they have exercised sufficient diligence when managing the investment project and have taken reasonable measures for the success of the investment project or to avoid damages.

§ 21. Maintaining Business Secret

Member of the Supervisory Board, Management Board and Expert Committee is required to maintain business secrets of the Development Fund and enterprises being the investment objects, revealed to them in course of acting as a member of the Supervisory Board, Management Board or Expert Committee.

§ 22. Statutes

(1) The Statutes shall be adopted by the Supervisory Board at the proposal of the Management Board.

(2) The Statutes shall specify:

- 1) structure of the Development Fund;
- 2) work organisation of the Supervisory Board, Management Board, Expert Committee and structural units;
- 3) procedure for the establishment of the Expert Committee and entry into contracts for services with the Chairman and members of the Expert Committee;
- 4) grounds for the payment of wages;
- 5) procedure for the disposal and use of the assets;
- 6) organisation and supervision of investment activities;
- 7) other provisions for the organisation of the activities of the Development Fund, not conflicting with law.

Chapter 3
ACCOUNTING AND CONTROL

§ 23. Accounting

The accounts of the Development Fund are organised under the Accounting Act, other relevant legal acts and the Statutes of the Development Fund.

§ 24. Financial Year

The financial year of the Development Fund lasts from 1 January to 31 December.

§ 25. Annual Declaration

(1) At the end of a financial year, the Management Board prepares the annual declarations of the Fund, delivered to an auditor appointed by the Supervisory Board for inspection. The auditor is required to control the activities conducted by the Development Fund during the financial year, approving the accuracy of the annual declaration, draw up by the Management Board of the Development Fund. Additional control of the activities of the Development Fund may be conducted, if decided by the Riigikogu.

(2) The Management Board shall deliver the annual declaration and the auditor's report to the Supervisory Board within four months as of the end of the financial year. The Supervisory Board shall approve the annual declaration. The Management Board shall provide the annual declaration to the Supervisory Board for inspection at least two weeks before the expected approval.

(3) After the annual declaration has been approved by the Supervisory Board, the Management Board shall deliver the respective declarations to the Riigikogu while publishing at the website of the Development Fund.

§ 26. Auditor

(1) The Development Fund shall have an auditor, appointed and recalled by the Supervisory Board.

(2) An auditor may be appointed for single control purpose or defined term of office.

(3) Members of the Supervisory Board, Management Board or employee of the Development Fund must not act as an auditor of the Development Fund.

§ 27. Internal Audit

(1) The task of the internal auditor of the Development Fund is to monitor the daily operations of the Development Fund and its compliance with the legal

acts, Statutes and decisions adopted by the Supervisory Board, Management Board and the Chairman of the Management Board.

(2) Work of an internal auditor shall be regulated by virtue of internal audit regulations, adopted by the Supervisory Board. The internal auditor shall report to the Supervisory Board.

(3) The internal auditor is required to notify the Chairmen of the Supervisory and Management Board or their substitutes immediately of any violations detected.

Chapter 4

ASSETS OF THE DEVELOPMENT FUND

§ 28. Assets of the Development Fund

(1) The Development Fund is the owner of the assets.

(2) The assets of the Development Fund consist of:

- 1) state budget funds;
- 2) assets intended for specific purpose, transferred by the state;
- 3) other allocations and donations;
- 4) revenues generated by the Development Fund;
- 5) revenues generated by allocating funds to the Development Fund;
- 6) other receipts.

(3) The Development Fund shall use its assets only for purposes provided by this Act.

(4) The provisions of the State Assets Act and the Foundation of and Participation in Legal Persons in Private Law by the State Act shall not be applicable to the possession, use and disposal of the assets of the Development Fund.

(5) The remaining assets shall be handed over to the state upon the dissolution of the Development Fund and after all the claims of the creditors are satisfied.

§ 29. Development Fund's Investment Capital and Funding of the Operational Expenses

(1) Investment capital for specific purposes, consisting of assets intended for specific purpose, transferred to the Development Fund by the state, including dividends gained on shares transferred to the Development Fund, revenues gained from sales of stock and generated from investments made into investment capital, shall be established for the conduct of investment activities undertaken by the Development Fund.

(2) Operational expenditures of the Development Fund shall be funded from state budget funds.

(3) Revenues generated by the Development Fund from investment activities and investment of assets can be used to fund operational expenditures, observing the principle for investment capital maintenance and procedure adopted by the Supervisory Board.

(4) The Management Board shall adopt measures to involve assets of funds, established for purposes similar to the ones of the Development Fund to achieve the objectives of the Development Fund and cooperate with the aforementioned funds for investment purposes.

§ 30. Restrictions to the Economic Activities of the Development Fund

(1) The Development Fund may not take any obligations conflicting with this Act and the objectives of the Development Fund.

(2) The Management Board may enter into loan and credit agreements for involving additional financial assets, necessary for the activities of the Development Fund, only at the consent of the Supervisory Board.

(3) The Development Fund may grant a loan or credit to another entity only in cases specified in § 36, subsection (4) of this Act.

§ 31. Establishment of Enterprises and Other Legal Entities

(1) The Development Fund may establish enterprises or other legal entities or participate in such entities, if required for the fulfilment of its functions.

(2) The Development Fund is entitled to establish venture capital funds matching the objectives and functions of the Development Fund or participate in such funds for the purpose of investment activities. The Development Fund is entitled to invest as much as one third of total venture capital assets into such venture capital funds.

(3) Venture capital funds with the participation of the Development Fund must observe the investment principles stated in § 35, subsection 1 and §§ 36 and 37 of this Act.

(4) The Development Fund may not participate in general partnership or general partner in a limited partnership or manage either general or limited partnership.

§ 32. Investment of the Development Fund's Assets

(1) Investment of the Development Fund's assets means the investment of outstanding investment capital and other reserves of the Development Fund into liquid financial instruments with intended purpose, complying with the

requirements established with this Act and the principles for investment of assets, adopted by the Supervisory Board.

(2) The Development Fund may organise the investment of its assets through an asset manager. Application of provisions of the Public Procurement Act is not required for outsourcing the asset manager. The following entities may act as the asset manager:

- 1) Bank of Estonia;
- 2) State Treasury;
- 3) Enterprise registered in Estonia or the European Union Member State or its subsidiary, entitled to act as a management company, credit institution or investment firm.

(3) The objectives of assuring the safekeeping, liquidity and productivity are observed upon the investment of the Development Fund assets. The Supervisory Board shall approve the principles for the investment of the Development Fund assets, observing the principles and restrictions for the investment of state money and securities acquired with state money and other financial assets and managing the related financial risks, specified in § 32, subsection (4) of the State Budget Act.

Chapter 5

INVESTMENT ACTIVITIES OF THE DEVELOPMENT FUND

§ 33. Investment Activities

(1) Investment activities of the Investment Fund shall mean making the investments on the account of investment capital, observing the basics provided in § 35, subsection (1) of this Act.

(2) The investments are made by the Management Board, complying with the requirements specified in this Act, the Development Fund investment strategy, approved by the Supervisory Board and recommendations given by the Expert Committee.

(3) The Development Fund may make investments on the account of additional funds, involved under the loan and credit funds, provided that the principles specified in § 35, subsection (1) of this Act are observed.

(4) The provisions of the Investment Funds Act are not applicable to the investment activities of the Development Fund, with the exception of investment activities specified in § 31, subsection 2 of this Act.

§ 34. Expert Committee

(1) The Management Board shall make investments as provided by § 35, subsection (1) of this Act, observing the investment recommendations given by the Expert Committee. The Expert Committee shall give investment recommendations on the investment projects prepared by the Management

Board, observing the investment strategy approved by the Supervisory Board and assessing the specific investment projects and planned investments against the objectives of the Development Fund and profitability and cost-effectiveness of the project, the Development Fund's capacity for the implementation of the investment project and future potential of the investment.

(2) The Expert Committee consists of seven members. Members of the Expert Committee are appointed and recalled by the Supervisory Board under the Management Board's proposal. Member of the Expert Committee shall be appointed for a five-year period. Experts from Estonia and other countries, having the required knowledge and experience in economic, technological and financial areas and impeccable professional reputation are appointed as the members of the Expert Committee. The Statutes shall establish the procedure for the establishment of the Expert Committee, the grounds for the remuneration and conclusion of contracts with the experts, but also the work organisation of the Expert Committee.

(3) Considering the need to invest into businesses representing different risk levels to achieve the objectives of the Development Fund, specified in § 2 of this Act, the members of the Expert Committee shall not be held materially liable for their investment recommendations. The Supervisory Board shall be entitled to recall any member of the Expert Committee at any time at the Management Board's proposal

(4) The Expert Committee shall need majority vote for adopting the investment recommendations to be delivered to the Management Board. The Expert Committee shall have the competence to adopt decision if at least five members of the Expert Committee are present.

(5) Should the Expert Committee refuse to approve an investment project, the Management Board may only implement the investment project concerned at the consent of the Supervisory Board.

§ 35. General Principles for the Development Fund's Investment Activities

(1) The Development Fund shall invest into small and medium size enterprises, registered in Estonia and focusing on innovation, creating or using contemporary technologies and developing new products while having the required growth and export potential and a perspective to achieve a considerable position in international target market but not capable of meeting their capital requirements by other instruments operable in economy.

(2) When the Development Fund has made an investment in an enterprise, the representative of the Development Fund, appointed by the Management Board should be generally seated in the supervisory board of such enterprise, except where the Development Fund assets are being invested for the purpose of § 32 of this Act. The Development Fund may also require that a representative

of the Development Fund shall be given a seat in the management board of an enterprise with the Development Fund's participation.

(3) The decisions of a supervisory board of an enterprise, mentioned in subsection (2) of this Article, that concern the election and recalling of the members of the management board, approval of annual budget, investments that exceed the total expenditures established for the financial year, taking of loans and credit that exceed the total expenditures established for financial year, but also granting loans and securing debt obligations exceeding the framework of everyday economic activities can only be adopted with positive vote of the representative of the Development Fund.

(4) Decisions of regular general meeting of enterprise with the Development Fund's participation that concern the amendment of the Articles of Association, increase and decrease of share capital, issue of convertible debentures, dissolving, merger, division and reorganisation of an enterprise can only be adopted with positive vote of the representative of the Development Fund, except in cases involving the investment of the assets of the Development Fund within the meaning of § 32 of this Act.

(5) The representative of the Development Fund may vote against the decisions discussed in subsections (3) and (4) of this Article only if the decision, once adopted, may damage the investment made by the Development Fund.

(6) More specific investment principles of the Development Fund, including the preferred business sectors and enterprises, are determined in the Development Fund's investment strategy, developed by the Management Board and approved by the Supervisory Board.

§ 36. Investment Methods

(1) By general rule, the Development Fund shall invest in the fixed capital of the enterprise to be established, therefore acquiring the Development Fund's participation in an enterprise to be established. The Development Fund may also invest in already established and operating enterprises, acquiring the participation in an enterprise by increasing its share or stock capital. The Development Fund won't make investments by acquiring the participation owned by other shareholders or participants.

(2) The Development Fund may make investments, as provided by § 35, subsection (1) of this Act, only into the voting stock of an enterprise. The Development Fund is entitled to make investments in enterprises only with private legal entities (by involving private capital) and on comparable terms, expecting the private legal entity to acquire participation or own participation by making a monetary contribution to the voting stock of an enterprise. As a rule, the participation of the Development Fund, acquired as a result of an investment, must not be less than 10 percent and more than 49 percent.

(3) The Development Fund may acquire participation in an enterprise voting stock, exceeding the limits established in subsection (2) of this Article, at the recommendation of the Expert Committee and consent of the Supervisory Board.

(4) At the consent of the Supervisory Board the Development Fund may grant enterprises loans or credit simultaneously with an investment made into the enterprise's fixed capital, provided that this is required for better structuring of the investment and complies with the Development Fund's investment strategy.

(5) The investment period, applicable to any investment made by the Development Fund in an enterprise, must not, by general rule, exceed the period of five years. After reaching this term the Development Fund shall sell its participation, if not otherwise decided at the approval of the Supervisory Board. The Management Board is entitled to transfer the participation before the expiry of the five-year period.

(6) The Management Board shall be entitled to ask the Expert Committee for recommendations concerning the investment period.

§ 37. Investment Restrictions

(1) The Development Fund may not invest into alcohol, tobacco or weapon producing enterprises, enterprises organising gambling or production of substances that are hazardous for the environment, but also in enterprises pursuing activities that do not comply with the law or conflict with common ethical and moral standards.

(2) The total volume of investments made by the Development Fund per one enterprise may amount to 10 percent of the investment capital possessed by the Development Fund. Where justified and with the agreement of the Supervisory Board the total investment per one enterprise may be exceed the 10 percent limit.

(3) The Development Fund shall comply with the European Union state aid rules.

§ 38. Restrictions to Transactions with Interested Parties

(1) The Development Fund must not transfer the assets of the Development Fund, including securities and shares, to interested parties or acquire assets from interested parties on the account of the Development Fund assets in any way other than by participating in regulated securities market or public bidding.

(2) For the purposes of this Act, the interested parties are:

1) Members of the Supervisory and Management Board of the Development Fund and the other employees of the Development Fund;

- 2) blood relatives or relatives by marriage of the individuals specified in clause 1) of this subsection within the meaning of the Anti-corruption Act;
- 3) auditor of the Development Fund;
- 4) enterprises where more than 10 percent of the share or stock capital is controlled by the individuals, specified in clauses 1) – 3), either directly or through other parties;
- 5) enterprises having the individuals specified in clauses 1) and 2) as the members of their management bodies, except where they participate in the management bodies as the representatives of the state or the Development Fund.

Chapter 6

FORESIGHT ACTIVITIES OF THE DEVELOPMENT FUND

§ 39. Definition of Foresight

Foresight shall mean systematic evaluation of long-term developments in the sphere of research, technology, economy, environment and society and the conduct of appropriate studies and analyses with the purpose of identifying the key areas and strategic development trends that would grant economic and social benefits in the long-term perspective.

§ 40. Foresight Unit

The Management Board shall establish the Foresight Unit as a structural unit conducting foresight activities by the Development Fund; the basis for establishment and work organisation principles are specified in the Statutes.

§ 41. Foresight Action Plan

(1) The Management Board shall prepare an action plan for the foresight activities to be conducted or contracted by the Development Fund in given financial year. The foresight action plan must include estimations on the expenditures accompanying the foresight activities to be conducted or contracted.

(2) The Management Board shall consult with organisations joining the representatives of research and technology sector when preparing the foresight action plan.

(3) Among other purposes, the objectives established in domain strategies, approved by the Riigikogu or the Government of the Republic, are considered upon the drafting of the foresight action plan. The foresight action plan must support the investment strategy adopted by the Supervisory Board.

§ 42. Communication

The Management Board shall actively communicate the results of foresight activities to the public.

Chapter 7

IMPLEMENTING PROVISIONS

§ 43. Establishment of Investment Capital

(1) The number of state-owned shares in AS Eesti Telecom, equivalent to at least 3 percent participation, is transferred to the Development Fund at its foundation for the establishment of the Development Fund's investment capital. The Development Fund may use both the dividends and assets collected upon the sale of shares for investment activities.

(2) Decision to transfer the shares, specified in subsection (1) of this Article, is adopted by the Government of the Republic that will also conduct the required activities.

(3) The Development Fund must coordinate the transfer of shares, granted to the Development Fund, with either the Government of the Republic or authorised Ministry.

§ 44. Implementation of Investment Restrictions

Until December 1, 2011, the investment restrictions specified in § 37, subsection (2) of this Act shall apply to the value of shares to be transferred to the Development Fund by virtue of § 43, subsection (1) of this Act.

§ 45. Funding of Operational Expenditures

The Development Fund shall be allocated at least 20,000,000 kroons per annum from the state budget to cover the operational expenditures, including the foresight activities, for the period of five years, commencing from 2007.

§ 46. Establishment of the Development Fund

A person authorised by the Ministry of Economic Affairs and Communications or the Minister of Economic Affairs and Communications shall conduct the activities required for the establishment of the Development Fund until the Supervisory and Management Board shall assume the office.

§ 47. Entry into Force

This Act shall enter into force on December 1, 2006.

President of the Riigikogu

Toomas Varek

Tallinn, November 15, 2006
No. 669-X