

Bahrain Defence Force Economic Program

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SECTION 1: DEFINITIONS

1. **Active Account** means, in relation to a DC, that DC is already subject to Obligations pursuant to one or more Supply Contracts entered into by that DC.
2. **Bahrain Defence Force** is the organization which regulates and manages and is responsible for the Bahrain Defence Force Economic Program.
3. **Bahrain Defence Force Economic Program Agreement or BDFEPA** is an agreement that must be entered into by a DC with Bahrain Defence Force if the value of a Supply Contract entered into by that DC meets or exceeds the Threshold Value such that the DC is required to fulfil certain Obligations.
4. **Bahrain Defence Force Economic Programs Credits or Credits** means, in relation to a Project, the credits generated by and awarded to the DC by Bahrain Defence Force in respect of approved contribution activities made by the DC under the Project as further described in Section 4 of these Guidelines.
5. **Bahrain Defence Force Economic Program Obligations or Obligations** means the obligations incurred by the DC to Bahrain Defence Force as a result of the value of a Supply Contract entered into by the DC meeting or exceeding the Threshold Value. The Obligations will be recorded in a Supplemental Agreement.
6. **Bahrain Defence Force Economic Program Project or Project** means an activity (or group of activities) documented in a Term Sheet that is entered into by the Contractor and Bahrain Defence Force and which is (or are) undertaken by the Contractor in order to obtain Credits.
7. **Bank Guarantee** is an on demand guarantee from an approved lending institution in favor of Bahrain Defence Force. It is required to ensure that the liabilities of a DC will be fulfilled.
8. **Business Plan Approval Letter or Term Sheet** is an agreement signed between the DC and Bahrain Defence Force pursuant to a BDFEPA that sets out the details of a specific Project and the Guideline elements applicable to that Project.
9. **Clearance Letter** is a document provided by Bahrain Defence Force (BDF) to the DC that permits the DC to enter into a Supply Contract(s).
10. **Control** means, in relation to a person, the direct or indirect ownership of more than 50 per cent of the voting capital or similar right of ownership of that person or the legal power to direct or cause the direction of the general management and policies of that person, whether through the ownership of voting capital, by contract or otherwise and **Controls** and **Controlled** shall be interpreted accordingly.

11. **Defense Contractor or DC** means any person located, incorporated or established outside the Kingdom of Bahrain and any person located, incorporated or established inside the Kingdom of Bahrain which is directly or indirectly Controlled by any person located or established outside the Kingdom of Bahrain and which, in each case, enters into a Supply Contract or secures through a Supply Contract the supply of goods and/or services and/or any other deliverables to the Government (whether directly or indirectly through a local agent, local representative and/or local defense company).
12. **Effective Date** means the date that is one year after the Subsequent Quarter.
13. **Government** means the government of the Kingdom of Bahrain and any agency, authority, board, commission, department, instrumentality, ministry, official, public person or statutory person of the Kingdom of Bahrain.
14. **Grace Period** is a period of time granted to certain Projects at the discretion of Bahrain Defence Force which delays the commencement of the Period of Performance.
15. **Parent Company** means, in relation to a DC, a company or group of companies which directly or indirectly Controls that DC from time to time.
16. **Period of Performance** means the time during which a Project is eligible to generate Credits for the DC as defined in the Term Sheet for that Project.
17. **Shortfall Value** means the amount by which the value of a DC's outstanding Obligations exceeds the value of the total Credits earned by the DC at the expiry of the Period of Performance for a Project.
18. **Supplemental Agreement** is an agreement signed between a DC and Bahrain Defence Force pursuant to a BDFEPA and which defines the specific Obligations incurred by the DC as a result of entering into a Supply Contract.
19. **Supply Contract** means any contract entered by a DC with the Government (whether directly or indirectly through a local agent, local representative and/or local defense company or indirectly through any third party for the ultimate benefit of the Government) for the supply of products of any description whatsoever (including without limitation, any military product) and/or services or other deliverables to the Government.
20. **Threshold Value** means (7000000 to 10000000) From seven to Ten Million United States Dollar.
21. **Subsequent Quarter** means, in relation to the date of signature of a Supply Contract that meets or exceeds the Threshold Value, the last day of the next calendar quarter (being either March 31st, June 30th, September 30th, or December 31st).

SECTION 2: OBJECTIVES AND PURPOSE

2.1 OBJECTIVES OF BAHRAIN DEFENCE FORCE ECONOMIC PROGRAM

The Bahrain Defence Force Economic Program (BDFEP) is mandated to be a prime enabler for the Defence and Security industry sector in the Kingdom of Bahrain with a strong focus on economic development. Bahrain Defence Force is tasked with formulation and implantation of the Bahrain Defence Force Economic Program (BDFEP) and Guidelines. The (BDFEP) ensures that defence related procurement by the Government results in industrial participation by the DC's. The principal drivers of such industrial participation are to generate high value economic, social and strategic benefits to the Kingdom of Bahrain.

In this respect, BDFEP's objectives include:

1. Enabling the growth and development of the defence and security industry in the Kingdom of Bahrain by providing targeted inputs, attracting local and foreign capital and promoting long term partnerships. Additionally, there is a focus on creating opportunities in identified Kingdom of Bahrain strategic sectors.
2. Supporting the establishment of Projects which provide sustainable economic benefit to the economy of the Kingdom of Bahrain in the form of business models that are financially independent, sustainable and long term in nature.
3. Targeting new capability development, technology transfer and accelerated adoption of new technologies in both the defense and security sector and in the broader industrial sector, thereby contributing to economic diversification.
4. Supporting innovation and R&D in the Kingdom of Bahrain, enabling companies in the Kingdom of Bahrain, to move up the value chain and benefit from potential commercialization opportunities.
5. Encouraging SME's (Small and Medium Enterprises) participation as suppliers or local partners on major procurement contracts.
6. Increasing competitiveness, productivity and export market access for Bahrain-based suppliers through supply chain integration into major global systems suppliers.
7. Generating knowledge-based employment opportunities and capability development for Bahraini nationals.

2.2 PURPOSE OF THIS DOCUMENT

The purpose of these Bahrain Defence Force Economic Program Guidelines (Guidelines) is three-fold:

1. To explain the requirements and conditions of the Guidelines;
2. To explain how DCs incur Obligations arising from the Supply Contracts they may enter into with the Government; and
3. To set out the methods by which DC's generate Credits to fulfill their Obligations.

Three main aspirations were pursued when defining these Guidelines which will create a better value proposition for DC's:

1. **Flexible** in accepting broader Project types, new Credit parameters and focus areas
2. **Value focused** in rewarding Credits based on value created for the Kingdom of Bahrain economy
3. **Simple and efficient** to implement

The Guidelines should be read in conjunction with the Bahrain Defence Force Economic Program Agreement (BDFEPA) to be entered in between the Bahrain Defence Force and the DC. Unless the context indicates otherwise or as otherwise specified herein, terms not otherwise defined in this Guidelines shall mean and follow the definitions provided in the BDFEPA.

These Guidelines will only apply to DCs who execute BDFEPAs dated after the date of issue of these Guidelines.

2.3 AREAS OF FOCUS OF THE BAHRAIN DEFENCE FORCE ECONOMIC PROGRAM

The BDFEP's core focus will continue to be on development of the Defense & Security industry in the Kingdom of Bahrain. The development focus covers both facilitation of setting up new Projects as well as developing the industry ecosystem in the Kingdom of Bahrain.

The BDFEP supports the need to establish a defense industry which can realize sustainable growth, meet and overcome current conditions and future requirements while serving national economic objectives. The BDFEP enables a diverse approach to technology transfer that addresses actual needs of both defense industry and the end users. Additionally, the expanded focus is on development and strengthening of core capabilities and focus on technology integration to improve quality and sustainability.

The BDFEP aims to promote investments and Projects across the entire defense and security value chain. Industrial and development Projects related to complex technology areas. In addition to core manufacturing and product development, technology integration across the areas of air land and naval systems are actively supported.

The economic focus of the Program may be realized through the promotion of domestic partnerships especially with Small and Medium Enterprises segment. The eventual target is to integrate domestic manufacturing with global markets through both exports and the promotion of domestic work packages.

In addition, Bahrain Defence Force will actively consider Projects that meet the strategic needs of the Kingdom of Bahrain in the following select priority sectors:

- Aerospace
- Infrastructure & Transportation
- Communication Technology
- Education Technology
- Sustainability, Environment & Climate Change
- Food & Water Security
- Other strategic sectors as advised from time to time by Bahrain Defence Force

Adoption and integration of technology is an important area of focus of the defense industry. To support this trend, Bahrain Defence Force will also consider Projects that comprise dual-use or standalone specific technologies for the purposes of the BDFEP. Some examples of these technologies are:

- Artificial intelligence & big data analytics
- Block chain
- Additive manufacturing
- Virtual and augmented reality
- Advanced information technologies
- Quantum computing and encryption
- Robotics
- Internet-of-things
- Advanced energy capture, storage and propulsion
- Smart materials & smart sensors.

SECTION 3: INCURRING OBLIGATIONS

3.1 THRESHOLD VALUE FOR ELIGIBILITY

A Supply Contract results in Obligations if the value of the Supply Contract is equal to or in excess of the Threshold Value or if a DC enters into a Supply Contract of any value and that DC or its Parent Company already has an Active Account (i.e. has existing Obligations). The following rules apply:

- a) If the value of Supply Contract \geq (7000000) Seven Million United States Dollar. Then Obligations are incurred
- b) If the value of Supply Contract $<$ (7000000) Seven Million United States Doller, and
 - i. The DC already has an Active Account, and then Obligations are incurred
 - ii. The DC does not have an Active Account but the DC's Parent Company has an Active Account, then Obligations are incurred for the Parent.
 - iii. The DC does not have an Active Account and its Parent Company also does not have any Active Account, then no Obligations are incurred.

3.2 VALUE OF THE OBLIGATION

When an Obligation arises in accordance with section 3.1 the DC must generate Credits equal to sixty (60) per cent of the value of the Supply Contract.

Example:

Value of Supply Contract = United States Dollar 10M

Value of **Obligations** i.e. obligations generated by DC = $(10 \times 60\%) =$ United States Dollar 6M

Note: Value of Obligations is only a reflection of the expected economic benefit to be generated by the DC in return for being awarded a Supply Contract and should not be interpreted as equivalent to financial value.

SECTION 4: GENERATION OF CREDITS

4.1 PROJECT CATEGORIES

DCs can generate Credits to fulfill their Obligations by creating a Project in one of the following three (3) Project Categories: Investment, Contractual Engagement and Capability Development.

4.1.1 INVESTMENT

DCs can choose between two different options to perform a Project within this category:

- DCs can invest in mainland, onshore Kingdom of Bahrain to create a business arrangement between two or more parties, where at least one entity is a local partner.
- DCs can create a partnership without equity investment with a Bahraini entity to carry out a Project such as manufacturing products, delivering services or, developing a new technology.

A description of the type of Projects considered in this category is detailed below. Bahrain Defence Force may consider other types of Projects as long as the objectives of the BDFEP are met.

Joint Venture (JV): This Project type requires the DC to form an equity joint venture with a local partner(s). The venture is its own entity and its business interests do not have to be the same as the business interests of the partners/participants. The partners or participants must agree on the conditions of the JV such as the initial contributions of the participants (cash or other in-kind capabilities), the day-to-day operations, governance and the allocation and distribution of the profits. The entity must be jointly governed, operated and managed on an active basis by all JV participants.

The maximum equity stake permissible for the DC will be in accordance with the Kingdom of Bahrain Laws and Regulations (as amended or superseded from time to time).

Non-equity Co-production: This requires entering into contractual arrangements to execute a Project through a local partner. The DC should bring capabilities into the venture and could take on part or full management role of the Project. The DC may also enter into a management (or other type of) contract with defined performance requirements and risk sharing mechanisms.

Technology Co-development: This requires the development of a new technology in the Kingdom of Bahrain jointly with a local partner, which could be a Government entity, a company or an institute. The DC and local partner must agree on milestones for technology co-development. The DC is expected to bring know-how and technology and collaborate in the technology development efforts, where DC shares part of or the complete technology development costs. The local partner must have joint or part ownership of the resulting technology and a real involvement in the development of the technology.

4.1.2 CONTRACTUAL ENGAGEMENT

The Projects within this category require a DC to sign a work package contract with a local Bahraini supplier/manufacturer to:

- Manufacture products in the Kingdom of Bahrain and export these products from the Kingdom of Bahrain or provide services to foreign buyers. The foreign buyers may be the DC or third parties.
- Create supply opportunities for local industry. Such supply must clearly substitute imports, be of strategic importance to the Kingdom of Bahrain, have a positive cost benefit, and/or have a minimum local “value add” and content as determined by Bahrain Defence Force.

A description of the main type of Projects considered in this category are detailed below. Bahrain Defence Force may consider other type of Projects as long as the objectives of the BDFEP are met.

Export Work Package: This requires the DC to award a contract (work package with minimum local “value add” and content) to a local supplier to export to the DC’s foreign business or to create export opportunities for local suppliers by providing capabilities and marketing assistance to local companies/suppliers (for example by the DC ensuring a local company becomes a supplier of systems or components to the DC’s supply base).

Local Content (Import Substitution): This requires the DC to provide a work package to a local entity (with minimum local “value add” and content) to provide inputs for direct use into products and/or services to be supplied by the DC under a Supply Contract with the Government.

Note: the above can be implemented through different mechanisms such as licensed production for full systems, subcontracting arrangements for subsystems or assemblies, direct local purchases for individual parts and components.

4.1.3 CAPABILITY DEVELOPMENT

The Projects within this category require DCs to provide knowledge, technology and/or capabilities to local entities or Bahraini nationals.

A description of the main types of Projects considered in this category is detailed below. Bahrain Defence Force may consider other types of Projects as long as the objectives of the BDFEP are met.

Technology Transfer: This requires transferring process knowhow, intellectual property (IP) or training & development programs to a local entity. The recipients of the knowledge or capability must be a local entity or Bahraini nationals.

Internship & Job Placement for Bahraini nationals: This requires a DC to provide temporary (e.g. internships) or permanent employment contracts for recent Bahraini national graduates to work for the DC in international locations.

4.2 CREDIT PARAMETERS

DCs can generate Credits in nine different ways (the Credit Parameters). These Credit Parameters are categorized in line with the Kingdom of Bahrain's priority areas for investment and economic development. The Credit Parameters are:

- Contribution in equity – Cash: Amount of cash investment in Bahraini entity.
- Contribution in assets – Tangible: Value of the contribution to the balance sheet of the Bahraini entity by providing necessary tangible assets such as hardware, equipment, tooling or by financing working capital requirements.
- Contribution in assets – Intangible: Value of the contribution to the balance sheet of the Bahraini entity by providing necessary intangible assets such as software, intellectual property (IP) licenses, know-how or training.

Note: The methodology used to award Credits for Intangible contributions will be up to 15% of total Cash and Tangible contributions upon delivery and acceptance whereas the remaining will be awarded based on pre-agreed business targets (for example units sold, revenue or net income). Bahrain Defence Force independently awards Credit irrespective of actual Balance Sheet accounting.

- Net income: Net income generated from the Bahraini entity. Credits will be awarded based on actual performance per the audited financial statements of the Bahraini entity.
- Salaries to Bahraini nationals: Salaries paid for Bahraini nationals in jobs created. Any other cash compensation provided to Bahraini nationals will also be eligible for Credits. Credits will be awarded based on actual performance per the audited financial statements of the Bahraini entity.
- Contract value: Value of the contract of the work package agreed between the Bahraini entity and the buyer.
- Value of training & development programs: Value of training courses and development programs for Bahraini nationals. The training expenses incurred (mainly trainee costs for the program, materials used and related travel expenses) will be considered for Credits. Only training and development costs attributable to the training of Bahraini nationals will be eligible for Credits.
- Export revenues: Value of export revenues generated from the Bahraini entity. Credits will be awarded based on actual performance per the audited financial statements of the Bahraini entity.
- Value of IP generated: Proven commercial value of the foreground intellectual property (IP) generated or developed by the Project in the Kingdom of Bahrain. To qualify for this Credit Parameter, the IP should have tangible commercial value (i.e. a high Technology Readiness Level) and a Bahraini entity must own at least 50% of the IP.

Credits will only be awarded in accordance with these Credit Parameters. Credit Parameters for a specific Project are subject to pre-approval by Bahrain Defence Force and will be documented in a signed Term Sheet. For some Credit Parameters such as contribution in assets and IP generated, Bahrain

Defence Force may require the engagement of an independent third party in order to carry out a valuation prior to awarding Credits.

4.3 APPLICABLE CREDIT PARAMETERS FOR THE DIFFERENT TYPES

Each Project category, depending on the nature of the Project, is eligible for certain Credit Parameters. This eligibility is shown in the table below.

| | | PROJECT CATEGORIES | | |
|-------------------|--|--------------------|------------------------|--------------------------|
| | | Investment | Contractual Engagement | Capabilities Development |
| CREDIT PARAMETERS | Contribution in equity- Cash | Y ¹ | | |
| | Contribution in assets - Tangible | Y | Y | Y |
| | Contribution in assets – Intangible | Y | Y | Y |
| | Export Revenues | Y | | |
| | Contract value | | Y | |
| | Net Income | Y | | |
| | Value of IP generated | Y ² | | |
| | Value of training & development programs | | | Y |
| | Salaries of Bahraini nationals | Y | | |

Y: Indicates that Credit Parameter will be eligible for that Project Category

¹ Eligible if DC is investing in equity in the Kingdom of Bahrain

² Eligible if DC and local partner develop foreground IP during the Project

Prior to a Term Sheet being executed, Bahrain Defence Force may consider adding (or removing) some Credit Parameters depending on the actual incremental value creation of each Project proposed by the DC.

Other Adjustments to Credit generation:

JV: If a DC owns the maximum equity stake permitted under the Kingdom of Bahrain Laws and Regulations, the DC will be eligible to receive the full amount of the Credits generated from the following Credit Parameters: Export revenues, Net income, Salaries to Bahraini nationals and Value of IP generated (if applicable). If the DC’s ownership is below 49% of the joint venture, then the Credits generated from these Credit Parameters will be adjusted proportionally (as shown in the example below).

Capability Development: Any Project proposed in this Project Category should not generate Credits with a value in excess of (10000000) Ten Million United States Dollar Credits. Larger Projects within this Project category are unlikely to be approved by Bahrain Defence Force.

Internship & Job placement: For this type of Project, Credits will be generated as described below:

- Awarded Credits for internship (before or after graduation): (3000) Three Thousand United States Dollar per month per Bahraini national student
- Awarded Credits for job placement through a (minimum two year) permanent employment contract (whether after taking part in the internship program or directly employed): (36000) Thirty-six Thousand United States Dollar per Bahraini national through two equivalent payments at 0 and 12 months.

Illustration:

Please refer to the Appendix document to see detailed examples (these are examples only and not intended to be definitive or be taken to commit Bahrain Defence Force to approval of similar Projects with comparable figures) of how Credits are calculated for the different types of Project. Below is an example for a JV Project:

Example Project: JV
 DC equity share: 45%
 Calculation method to claim Credits:

1. (cash contribution in equity) x (equity contribution multiplier)
2. (value of tangible assets contributed) x (tangible assets contribution multiplier)
3. (value of intangible assets contributed) x (intangible assets contribution multiplier)
4. (total export revenues) x (export revenues multiplier) x (45%/49%)¹
5. (total net income) x (net income multiplier) x (45%/49%)
6. (value of IP generated) x (IP generated multiplier) x (45%/49%)²
7. (total salaries of Bahraini nationals) x (salaries to Bahraini national multiplier) x (45%/49%)

¹ Subject to realization of value (once performance target is achieved)

² This calculation is only done at the end of the Project

4.4 MULTIPLIERS VALUE

Each of the above-mentioned Credit Parameters are subject to a multipliers value. The applicable base value for each Credit Parameter is based on the benefit impact to the Kingdom of Bahrain, as follows:

| Credit Parameters | Base Value |
|--|------------|
| Contribution in Equity or Assets (tangible and intangible) | 2.0 |
| Net income | 2.0 |
| Salaries of Bahraini nationals | 2.0 |
| Value of training & development programs | 1.0 |

| | |
|--|-------------------|
| Contract value (work packages) | 0.5 |
| Supplemental Credit Parameters | Best Value |
| Export revenues (irrespective of Net Income) | 0.5 |
| Value of IP generated | 0.5 |

Bahrain Defence Force may from time to time, in its sole discretion, adjust these multiplier values in any manner.

Bonus Multipliers:

At its sole discretion, Bahrain Defence Force may award a bonus multiplier based on the following factors:

- **Value Chain Focus:** if a Project is concerned with the manufacture or development of capabilities related to the high-end of the value chain, for example system design or final assembly, integration and testing, the Credit Parameters (see table below) may be eligible for a bonus multiplier. Examples of Projects where no bonus multiplier will be awarded include MRO or Training/Simulation or component manufacturing.
- **Local Content:** if the product/s manufactured under a Project are certified as a “made in Kingdom of Bahrain” according to the prevailing Kingdom of Bahrain Laws and Regulations (see table below) may be eligible for a bonus multiplier.
- **High skilled positions for Bahraini nationals:** Bahraini nationals employed in a company who have a job position related to engineering, management or leadership roles, may be eligible for a bonus multiplier in the Credit Parameter of Salaries to Bahraini nationals.

| Credit Parameter | Eligible Credit Parameters for bonus | | |
|---|--------------------------------------|---------------|--------------|
| | Value Chain | Local Content | High Skilled |
| Contribution in Cash or Assets (Tangible or Intangible) | Y | | |
| Export revenues (irrespective of Net Income) | Y | Y | |
| Contract value | Y | Y | |
| Net income | Y | Y | |
| Value of IP generated | | | |
| Value of training & development programs | Y | | Y |
| Salaries to Bahraini nationals | | | Y |

4.5 PROJECT CRITERIA

Bahrain Defence Force assesses each proposed Project on its own merits. The factors Bahrain Defence Force takes into consideration in such assessment include (but are not limited to):

- a. Being within the areas of focus as outlined in section 2.3 of the BDFEP and overall compliance with the BDFEP
- b. Extent to which the Project involves local content creation
- c. No duplication of existing Projects/ Kingdom of Bahrain capabilities (unless there is proven capacity shortage)
- d. If an MRO Project, then it should fulfill at least one or more of the following requirements:
 - i. Unique
 - ii. Serve regional/global market
 - iii. Serve multiple product platforms (and not only for DCs)
 - iv. Clear cost saving to GHQ
- e. Not focused on low-skilled labor
- f. Fair valuation of any assets or capabilities to be transferred to the Kingdom of Bahrain
- g. Convincing or proven market demand
- h. Realistic financial projections
- i. Sustainable over the long run
- j. Clearly identified local partner(s)

SECTION 5: PROGRAM REQUIREMENTS

5.1 PROJECT PROCESS, DURATION AND MILESTONES

Prior to the Effective Date, a DC is required to identify a Project and sign an associated binding Term Sheet for the Project with Bahrain Defence Force committing the DC to its implementation.

Project duration (i.e. Period of Performance) varies by Project Category:

- For the Investment and Contractual Engagement Project Categories, the Project duration is, by default, set at seven (7) years commencing from the Effective Date unless otherwise agreed.
- For the Capability Development Project Category, the Project duration is, by default, set at three (3) years commencing from the Effective Date unless otherwise agreed.
- Unless otherwise agreed, Project performance in terms of Credits generated vs. Obligations due will be assessed at the end of the Project.

5.2 GRACE PERIOD

Bahrain Defence Force, at its sole discretion, may grant a DC a Grace Period for a Project which will delay the start of the Period of Performance for that Project accordingly. A Grace Period is typically granted to Projects that require:

- Building new infrastructures such as facility requirements (manufacturing lines) or complex assembly processes
- Developing new capabilities in the company such as training or development programs

To request a Grace Period, a DC must clearly justify why a Grace Period should be granted when submitting the Business Plan.

5.3 BANK GUARANTEE

A Bank Guarantee in favor of Bahrain Defence Force (valid for a period of one year from the Effective Date) shall be provided by a DC at the time of the signature of the BDFEPA and any applicable Supplemental Agreement. Such guarantee shall be issued by one of the banks from a preapproved list (as amended from time to time) of Bahrain Defence Force.

The validity of such Bank Guarantee shall be extended according to and at the time of signing of the Term Sheet for each Project.

The value of the Bank Guarantee shall be equal to 8.5% of the Obligation of the DC and shall be valid for the entire Period of Performance.

Subject to the DCs compliance with all relevant obligations in respect of the Program, upon submission of a Credit request by the DC and its approval by Bahrain Defence Force, Bahrain Defence Force shall release a prorated portion of the Bank Guarantee corresponding to the Credits as awarded by Bahrain Defence Force.

5.4 PERFORMING AND NON-PERFORMING PROJECTS

The success or failure of a Project gives rise to certain consequences as outlined below.

A. Performing Project:

Bahrain Defence Force will consider that a DC is carrying on a Performing Project when:

1. Unless otherwise agreed in the relevant Supplemental Agreement(s), the DC enters into a Term Sheet with Bahrain Defence Force and provides a Bank Guarantee in favor of Bahrain Defence Force commensurate with the value described in section 5.3, in each case prior to the Effective Date.

AND

2. The DC is not in breach of its obligations and the terms and conditions of the Term Sheet.

In this case, if there is a shortfall in Credits at the end of the Period of Performance a DC can choose between either (i) paying 8.5% of the Shortfall Value or (ii) rolling over the Shortfall Value by amending an existing (or by signing a new) Supplemental Agreement in order to perform another Project.

If at the end of the Project there is an excess of Credits, the DC can “bank” the corresponding Credits (to be applied as set out in Section 5.5 below).

B. Non-performing Project

Bahrain Defence Force will consider that a DC is carrying on a Non-performing Project when:

1. The DC does not sign a Term Sheet with Bahrain Defence Force by the Effective Date

OR

2. The DC does not comply with its obligations as set out in the Term Sheet

In these cases, Bahrain Defence Force will notify the DC that (1.) its Project (or proposed Project) is declared as Non-Performing and (2.) it has up to 180 days to rectify the situation (e.g. sign a Term Sheet with Bahrain Defence Force or remedy any breach of its obligations in the Term Sheet).

In the case that the DC rectifies the situation to the Bahrain Defence Force’s reasonable satisfaction, Bahrain Defence Force will declare the Project as Performing.

In the case that the DC is unable to rectify the situation, Bahrain Defence Force may do the following:

1. Collect the maximum penalty by liquidating the full or remaining Bank Guarantee amount

AND/OR

2. Declare the DC as defaulting, notifying the relevant Government entities and taking further action as necessary

5.5 BANKING AND TRADING OF CREDITS

Provided the DC has no Obligations or cleared all its current outstanding Obligations, if during a Project, a DC generates excess Credits, the DC can 'bank' these Credits for a period of five (5) years following completion of the Project. The DC may use such banked Credits against future Obligations or can also transfer or trade these Credits to other entities with Obligations.

Trading Credits requires the prior approval of Bahrain Defence Force and may incur a transaction charge.