

Cover:

WALLIMAGE PROCEDURE

In view of the quality of the audiovisual benefits generated in the region by the Wallimage/Sowalim system, the Walloon government has decided to make the mechanism permanent and has confirmed that a new sum of €2.5m will be allocated in 2004 to the production of audiovisual works, while the policy of investment in service companies will also be able to be continued and expanded, due most notably to the introduction of a Walloon Cinema Cluster devoted to the technical industries.

By way of a reminder, the “Wallimage” fund came into existence in February 2001 as an experiment to be evaluated and, if applicable, remodelled after 3 years. Taking into account the contributions and discussions which have taken place during this period (through personal initiative or through the intermediary of the “Collège Cinéma” representing the professional associations) and analysing the recent developments of the production background (advent of the Tax Shelter, probable birth of a Brussels alter ego, reactivity of the French professional sectors), our Board of Directors has approved a whole series of modifications to our regulations, the official new version of which can be found below (this version is available in PDF format on the website www.wallimage.be, where you can also find the calendar for our 2004 sessions).

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Line 1 Coordinator

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The new regulations & procedure

In order to make it easier for you to read this document, we have taken the liberty of summarising below the principal modifications to the regulations to which we wish to draw your attention.

Scrapping of the accelerated repayment mechanism

This is undoubtedly the news which has pleased producers most. Since this section of the mechanism has been adjudged to be ineffective and, in certain cases, the cause of pernicious effects, the MB has decided to do away with it completely. This does not mean that we no longer wish to record receipts (see below!)

Only audiovisual expenses will now be eligible

Another piece of good news is that we are lowering the minimum amount of eligible expenditure that the beneficiary of the loan must spend within the region from 150 to 100%. However, we will from now on only take audiovisual

expenses into account. Travel costs, restaurant receipts, etcetera will therefore no longer be eligible. As in the past, of course, common sense will prevail in limited cases, while the overall philosophy will be that Wallimage is there to develop the cinema sector in the Region of Wallonia, not that of hotel & catering or petroleum. For example, although personal restaurant receipts are now excluded, invoices from Walloon catering companies are, of course, accepted.

Superficially, the fund will now function in the manner of the Tax Shelter

The scrapping of the accelerated repayment mechanism will, from the regional perspective, be offset by two new features: a part of our involvement will now take the form of a compulsorily repayable loan and the other in “equities” (as they say nowadays), in other words, “capital participation” (the official generic term) in the financing of the film. In the interests of the “legibility” of our modus operandi, we have aligned it with that of the Tax Shelter. As producers will often have to explain this new system to their foreign partners, we have facilitated their task: Wallimage is like an investor Tax Shelter! Except that we are not acting for tax purposes but rather to support the development of a regional cultural industry. This has 2 practical consequences:

- a. it is up to them to reduce the loan part (a priori 40%) ...by increasing the Walloon expenses! If they spend 100% of our total investment (loan + capital participation) in the region, it is 40%. Each time they increase their expenditure by 5%, the loan part falls by 1%. If they reach 250% of eligible expenditure, the loan part will be reduced to 10%, which is considered to be a minimum.
- b. Our eligible expenditure can be “superimposed” over the expenditure which the producers must declare during any Tax Shelter investigations!

For details (important!) on the repayment of the loan part, we are sending you the full text of the new regulations which contains an extremely clear and user-friendly table.

Lowering of the minimum expenditure for documentaries

We have (at last!) found the “non-cultural” formula which will no doubt enable us to accommodate feature-length documentaries destined for cinema release courtesy of a special lowering of the minimum expenditure (which, in all other cases, remains fixed at €250,000). Thank you to the doc producers with whom we have had a fair dialogue to arrive at this solution, the details of which can be found in article 1.1.3.

That’s about it for the main new features. We will, of course, be keeping to the spirit of selective aid and the sovereignty of the decisions of the Board of Directors . Producers who content themselves with meeting the Fund’s preconditions in a minimalist manner run the risk of a better-presented project succeeding in place of theirs. They should bear in mind that, in 2003, our average acceptance rate remained stable at around 20% of the projects submitted.



New Regulations
applicable as of 1 March 2008*

Investment Selection Criteria and Procedures

Created at the initiative of the Region of Wallonia and its Ministry for the Economy, the Wallimage and Sowalim limited companies are structured into an investment fund with the aim of developing and supporting the image sector in the Region of Wallonia.

The activities of this fund centre on two mutually beneficial areas:

Contribution to the financing of audiovisual works
presented by Walloon production companies

Contribution to the financing of production companies or services of the
Walloon audiovisual industry

The first area functions on the principle of co-production, while the second takes the form of the capital participation in the companies concerned and contributions in the form of loans to these companies.

A single philosophy underpins both types of investment: to generate a structuring effect on the growing audiovisual industry of the Region of Wallonia.

* It is important to note that this document is complemented with three internal documents which take a note of the duration of the property rights as acquired by the Fund, as well as on the eligibility of insurance companies and Tax-Shelter intermediaries.

1. FINANCING OF AUDIOVISUAL WORKS PRODUCED BY INDEPENDENT PRODUCTION COMPANIES

1.1 PRECONDITIONS FOR THE CONSIDERATION OF APPLICATIONS

1.1.1 Potential beneficiaries

1.1.2 Types of audiovisual works covered

1.1.3 Economic impact of the production in the Region of Wallonia

1.1.3.1 Eligible expenses

1.1.3.2 Changes

Nota bene: European regulations.

1.2 CRITERIA FOR ACCEPTANCE OF THE APPLICATIONS

1.3 EXTENT OF FINANCE

1.4. REPAYMENT PROCEDURES

1.5 LOAN SETTLEMENT SCHEDULE

1.5.1 General Conditions

1.5.2 Repayment

1.5.3 Specific conditions

1.6 SPECIFIC RULES RELATED TO THE GENRE OF THE MOVIE

1.6.1 Animated cinema

1.6.2 Documentary cinema

1.7 OPERATING PROCEDURES OF THE FUND

2 FINANCING OF COMPANIES SERVING THE WALLOON AUDIOVISUAL INDUSTRY

2.1 POLICY

2.2 ELIGIBILITY

2.3 AMOUNTS AND FORM OF CONTRIBUTIONS

2.4 FUND OPERATION POLICY

3 GENERAL COMMENT

1 FINANCING OF AUDIOVISUAL WORKS PRODUCED BY WALLOON PRODUCTION COMPANIES

The basis of these investments is as follows: for the production of a given work, the investment from the Walloon fund is granted in two parts; one in loan form and the other in the form of capital participation in the production of the audiovisual work, the amount of which is linked to the level of audiovisual expenditure eligible in the Region of Wallonia.

The beneficiary undertakes to spend a minimum of 100% of the sum awarded on audiovisual expenses in the Region of Wallonia.

1.1 PRECONDITIONS FOR THE CONSIDERATION OF APPLICATIONS

1.1.1 Potential beneficiaries

The beneficiary of the loan must be constituted in the form of a commercial company with no direct or indirect link with a broadcaster. This means that:

- a. the producer is a legal entity distinct from any broadcaster
- b. no broadcaster has a stake, directly or indirectly, in the capital of the production company
- c. the producer has not received more than 75% of his turnover, over a three year period, by supplying productions to a single broadcaster
- d. the producer is not operating under the authority of a public body.

The beneficiary company is based in Wallonia and its project leader, its administrator and the majority of its directors are Belgian or nationals of EU Member States.

It can present a project in the capacity of executive or associate producer acting on behalf of a producer outside the Region of Wallonia. In the latter case, the repayment of the loan and the distribution of the income from the audiovisual work and returning to the fund must be guaranteed by the producers who are signatories to the agreement.

In the event that a project is taken up by several Walloon co-producers, only one of them shall represent the others vis-à-vis the Fund but they shall nonetheless be jointly and severally liable.

1.1.2 Types of audiovisual works covered

Any type and format of cinematographic or television product may be considered by Wallimage with the exception of works which incite violence or racial hatred, are not liable to lead to public disorder or are contrary to good moral practice. Advertisements and information, entertainment, current affairs or sports programmes will likewise not be considered.

1.1.3 Economic impact of the production in the Region of Wallonia

The investment determined by Wallimage may not be implemented unless the following two conditions are met:

- the production company must demonstrate that it already has at least 30% of the total funding for its project (for animated series, see point 1.6 exceptions clause).
- it undertakes to spend at least €250,000 in the Region (for documentary film productions, see point 1.6 exceptions clause).

1.1.3.1 Eligible expenses: The following shall be considered as eligible expenses for the purposes of assessment for a Wallimage loan: all costs incurred and paid in the Region of Wallonia for concrete or intellectual goods or services, under any employment contract or for professional fees with a person or organisation having at least one operating establishment within the Region of Wallonia. The object of this expenditure must be to further the production of the audiovisual work in question. Expenses deriving from transportation, accommodation and catering may not be included (apart from catering companies specialising in the audiovisual sector). Wallimage reserves the right to assess the appropriateness of expenses deemed eligible.

1.1.3.2 Changes: The reasons for the involvement of the Fund in the project having been described in the investment agreement, any subsequent change to the nature and of the amount of the budget items must be the subject, on the part of the independent producer, of discussions with the Fund in case it is necessary to redraft the initial agreement.

Nota bene: A project may accumulate investment from different sources of public or private funding, in Belgium or abroad. In view of European legislation on unfair competition between Member States, the producer shall however ensure that the total amount of aid received in Belgium, other than European aid, shall not exceed the levels set by the European authorities and shall therefore take the initiative of adjusting his application to the Fund.

1.2 CRITERIA FOR ACCEPTANCE OF THE APPLICATIONS

It is the responsibility of the Director and the Board of Directors of the Fund to assess the suitability of the project on the basis of three main criteria:

- 1.2.1 the structuring effect on the image sector in the Region of Wallonia.
- 1.2.2 the viability of the project and the return on investment for the Fund.
- 1.2.3 the credibility of the producer and his team.
- 1.2.4 The available budget

1.3 EXTENT OF FINANCE

The Fund's investment (loan + capital participation) covers a minimum of 100% of the audiovisual expenses incurred in the Region of Wallonia during the execution of the agreed project and is limited to a maximum of €500,000 per project (for documentary film productions, see point 1.6 exceptions clause).

Since 2008, a yearly sum of €3,500,000 has been set aside for this type of project.

1.4 REPAYMENT PROCEDURES

The Fund's investments are organised into two types:

It is partly granted in the form of a loan up to a maximum level of 40% and 60% minimum capital participation (with co-ownership of the tangible and intangible rights to the audiovisual work funded and a share in the receipts generated by the audiovisual work).

the Board of Directors shall set the level of the loan at a percentage inversely proportionate to the amount of audiovisual expenses generated in Wallonia.

For example,

- If the total contribution of the Fund is 100% reinvested (minimum) in Walloon audiovisual expenses, the loan share is 40% and the capital participation share 60% of the total amount of the Fund's investment;
- If the total contribution of the Fund is at least 250% reinvested in Walloon audiovisual expenses, the loan share is 10% and the capital participation share 90% of the total amount of the Fund's investment (maximum);

Between these two percentages, the loan share is reduced by 1% for every 5% that expenditure in the Region of Wallonia increases.

Nota bene: to simplify matters, the loan percentage shall be rounded down to the nearest whole number in the event of fractions. E.g.: a project generating 168% of expenditure in the Region of Wallonia shall see its loan share reduced to 26%

1.5 LOAN SETTLEMENT SCHEDULE

1.5.1. General Conditions

- Fifty percent of the total amount of the loan offered by Wallimage shall be paid into the bank account of the independent Producer on signature of the loan agreement.
- This first 50 % can only be paid where the Producer is in a position to produce a detailed budget of expenditure within the Region backed up with of letters of intent and purchase orders so that the Fund can break down its investment between the loan part and capital participation part.
- The remaining 50% may be paid out in three tranches:
 - 30% at the conclusion of shooting on the basis of receipts for 60% of the total amount,
 - 10% following mixing on the basis of receipts for 20%
 - 10% on submission of the final receipts, which must take place no later than 6 month following the conclusion of mixing.
- The investment is granted by the Fund only on the express condition that the recipient producer has adhered to all of his obligations originating from a previous investment. As a result, all signatories to an agreement who have not spontaneously submitted the receipts statement on the date envisaged or who have failed to pay the sums due (receipts and repayment of the loan) in good time shall be prohibited from presenting any other project until the situation has been resolved.
- (for animated series, see point 1.6 exceptions clause)

1.5.2. Repayment

Loans

The loan is granted at an interest rate of 2.5% per year.

The Fund grants an exemption of 12 months on the principal and the interest on the loan dating from the signing of the agreement. After this period, the repayment of the loan share shall take place in 4 half-yearly payments each consisting of one quarter of the principal plus the interest calculated on the remaining balance due at the annual rate of 2.5% (equivalent to 1.25% per half-year).

In this way, the loan including interest shall be fully repaid 36 months after the signing of the agreement, as illustrated in the following table:

Schedule	Principal	Intérest	Total % to repay
T ₀			
T ₁₂	0	0	0
T ₁₈	25 %	$(2,5\% \times 0,5) \times 100 = 1,250 \%$	26,250 %
T ₂₄	25 %	$(2,5\% \times 0,5) \times 75 = 0,938 \%$	25,938 %
T ₃₀	25 %	$(2,5\% \times 0,5) \times 50 = 0,625 \%$	25,625 %
T ₃₆	25 %	$(2,5\% \times 0,5) \times 25 = 0,312 \%$	25,312 %
Total	100 %	3,125 %	103,125 %

Where: T₀ is the moment of the signing of the agreement

T₁₂ = 12 months after T₀

T₁₈ = 18 months after T₀

Etc .

During the examination of the projects, priority shall be given to those which offer a guarantee of the repayment of the loan.

(for animated series, see point 1.6 exceptions clause)

Capital participation

The other part of the investment shall be repaid to the Fund in proportion to its investment, as from the first euro of the producer's share of receipts generated by the audiovisual work.

After its contribution has been repaid in full, the Fund shall share in the receipts generated by the film at a rate proportionate to its contribution.

The Fund shall also be co-owner of all tangible and intangible rights connected to the film, at a rate proportionate to its contribution.

1.5.3. Specific Conditions

If, during the final audit of eligible expenditure, the Fund observes that the expenses announced when signing the agreement no longer correspond to the actual expenses incurred:

- if it is inferior to the amount provided for in the agreement, the respective shares of the loan and the Fund's capital participation shall be modified in accordance with the provisions of article 1.4 above, proportionately to the expenses actually incurred.
- if, on the other hand, it is superior to the amount provided for in the agreement, the agreement reached between the Fund and the recipient producer remains unchanged.

If the preconditions for the consideration of applications are not met and, most notably, if in spite of the specifications, the eligible audiovisual expenditure is inferior to the minimum of €250,000 and/or does not amount to 100% of the investment, the agreement between the producer and the Fund shall be automatically terminated forthwith and the Fund may demand the immediate repayment of the entirety of the investment awarded, augmented by interest at the legal rate, along with any costs and without prejudice to compensation for damages that the Fund may be forced to claim.

If, during the same final audit, it is observed that the production company made no real use of this support and that it has taken advantage of it to carry out financial or other operations, at higher rates than those applied by the Fund, the Fund shall have the right to demand the immediate repayment of the whole sum loaned plus any costs, damages and interest.

The same provisions shall apply should the Fund note that the beneficiary company is guilty of fraud or falsification of accounts and/or documentation.

1.6 SPECIFIC RULES RELATED TO THE GENRE OF THE MOVIE

1.6.1 Specific rules for the animation sector

To respect the specific conditions under which animated series and feature films are made (we consider as animation all audiovisual work mainly produced

image per image or by similar procedures), it is foreseen that all previous rules apply with the following exceptions:

- Only producers who possess rights that are at least equal to the pro-rate of the equity of the Fund will be allowed to hand in a bid for an animation project with the Fund.
- If the announced expenditures are superior to 250% of the Fund's investment, 15% unexpected expenses will be considered at the control of said expenditures.
- The loan part is contained in (or consists of) the second part of the payments. The repayment schedule starts on the deposit date of the money.
- Release of the tranches:
 - First tranche of 40% of the total investment (equity) upon signature of the convention;
 - Second tranche of 40% of the total investment (containing 100% of the loan) after verification of 50% of the Walloon expenditure foreseen in the convention.
 - Third tranche of 10% of the total investment after verification of 80% of the Walloon expenditure foreseen in the convention.
 - Fourth tranche of 10% of the total investment after verification of all Walloon expenditure foreseen in the convention.
- Animated series: two specific analysis sessions will be held each year for animated series projects, which cannot be presented at the Fund outside of these two occasions. Given the specific financing conditions that apply to series, the Fund will demand that the bid justifies at least 60% of acquired financing.

1.6.2 Specific rules for the documentary sector

To respect the specific conditions under which documentary films are made (we consider as documentary an audiovisual work that is not based on a fictional screenplay and doesn't use paid actors), it is foreseen that all previous rules apply with the exception of the following:

- As a general rule, a project can only be examined if it proposes a minimal expenditure in the Walloon Region of €250,000. In the

case of a feature film or a documentary series, this minimum might be brought back to 15% of the total budget for the production, with an absolute minimum of €75,000.

- The financial intervention of the Fund is, in any case, limited to 15% of the total budget for the production.

1.7 OPERATING PROCEDURES OF THE FUND

The Fund Director is the sole recipient of applications for investment submitted by independent producers. Aided by one or more experts approved by the Board of Directors, he submits to the board an opinion on the cases submitted to him.

Four times per year, on the basis of a calendar published annually on the www.wallimage.be website, the Board of Directors assesses the cases presented to it and its decisions are notified in writing to the applicant companies.

Producers are not permitted to submit the same project more than once. A project can only be presented a second time if it contains substantially and indisputably new elements

At the same time, a panel of eight representatives of the profession appointed by the Board of Directors shall exercise an advisory role in the drafting and the assessment of the implemented strategies. This panel meets at the offices of the Fund at least twice a year when convened by the Director and is representative of the different audiovisual lines of work.

If possible, this panel consists of representatives of the main professional organisations which nominate their candidate(s).

In principle, there are: 2 representatives of the UPFF, 1 representative of the animation producers, 1 representative of ARPF-doc, 2 representatives of Prosper (with at least one director), 1 representative of Asco and 1 representative of Twist.

The panel members' mandate is valid for three years and may be renewed once only.

2 FINANCING OF PRODUCTION COMPANIES OR SERVICES IN THE WALLOON AUDIOVISUAL INDUSTRY.

The Walloon Fund aims to support the creation and development of companies active in the audiovisual sector and which meet the criteria stated below.

This support takes the form of financial contributions, in partnership with one of 8 Walloon investment funds grouped together under the Sowalfin SME umbrella or another public partner, which can take the following forms:

2.1. TERMS AND CONDITIONS

2.1.1 Equity participation

The main details of this involvement are as follows:

Minority capital participation: maximum of 40%. The shareholders therefore retain control of their company both at the level of the distribution of capital and that of the Board of Directors and day-to-day management.

Duration: from 5 to 8 years: the Fund's role is to get involved temporarily.

Shareholders' agreement: Relations between the shareholders are governed by an agreement which fixed the terms of the Fund's capital participation.

2.1.2 Tied loan

The main details of this involvement are as follows:

Amount: depending on the requirements detailed in company's financial plan and within the limits of the authorised total for Fund contributions.

Duration: maximum 8 years

Interest rate: the interest rate fixed by mutual agreement with the investment group or the other public partner together with which the Walloon Fund is supporting the company, but falling no lower than 3% per annum.

Payment of interest: in arrears, by constant or diminishing three-month or six-month periods.

Repayment of the principal: staggered or on due date.

Exemption on the repayment of the principal: maximum 12 months.

2.1.3. Compulsory loan convertible into shares

Amount: dependent on the requirements detailed in the company's financial plan and within the limits of the authorised total for Fund contributions.

Duration: maximum 8 years.

Repayment of the principal (except conversion): staggered or on due date.

Conversion and transfer of obligations: regulated by agreement at time of intervention.

Interest rate: the interest rate fixed by mutual agreement with the investment group or the other public partner together with which the Walloon Fund is supporting the company, but falling no lower than 3% per annum.

Payment of interest: generally half-yearly or annually.

Exemption on the repayment of the principal: maximum 12 months.

2.2 ELIGIBILITY

The Fund assists existing or start-up companies:

- whose head office and centre of operations is in the Region of Wallonia.
- which are active in a general context leading to the creation of cinematic, television or multimedia products in which no broadcaster holds more than 49% of the capital. Whose investment projects are viable, potentially generators of stable employment and having a structuring effect on the development of an audiovisual sector in the Region of Wallonia. offering the Fund a reasonable return on its investment.
- whose direction team display credibility and sufficient competence.

In all cases, it is the responsibility of the Director and the Board of Directors to assess the suitability of investment opportunities.

2.3 AMOUNTS AND FORM OF CONTRIBUTIONS

The maximum amount of an investment by the Fund, all forms included, may not exceed €200,000 per recipient company.

The Fund regularly invests in conjunction with one of the eight investment groups under the SME umbrella or another public partner, in accordance with commonly agreed terms and conditions.

2.4 OPERATING PROCEDURES OF THE FUND

The applicant company shall submit the following documents with its investment request:

- Company articles of association
- Accounts for the last 5 financial years (for existing companies)
- Full details of shareholders
- Social report

In addition, a detailed memorandum will be submitted, covering inter alia:

- The project in detail
- A market and profitability survey
- An analysis of the competition
- The direction team and the personnel required
- The development strategy
- The commercial approach
- The financial plan
- The investment application and the use of the funds requested
- The business plan

The Fund Director is the sole recipient of applications for investment submitted by independent producers.

Aided by one or more experts approved by the Board of Directors, he submits to the board an opinion on the cases submitted to him. The Board of Directors in plenary session evaluates the projects presented to it by the Director. The decisions taken by the Board of Directors are then communicated in writing to the applicants.

3 GENERAL NOTE

For both of these investment approaches, no application may be considered unless the funds are available within the budget.

The Board of Directors shall arrange for these funds to be released gradually throughout the year, ensuring inter alia that at the end of the first six months the Fund shall not have invested more than half of the total budget for the year.

Attachments: on demand of the professionals, three notes explaining:

- a) eligibility of Tax Shelter intermediary companies
- b) eligibility of insurance companies
- c) duration of property rights as obtained by Sowalim