Key terms and conditions of PFR KOFFI ("Term Sheet") – draft made available for the purposes of market consultations

The definitions used in this document have the same meaning as in the Rules for submission and selection of VC Funds

1. Source of financing for PFR KOFFI	Funds from the European Regional Development Fund under the European Funds for Modern Economy 2021-2027 Programme under Measure no. 2.30 – Capital Instruments.
2. Strategic objective of PFR KOFFI	The strategic objective of PFR KOFFI is as follows: a) increasing the innovation of Polish economy; b) providing financing, through venture capital funds, to micro, small and medium-sized enterprises ("**SMEs**") at an early stage of development/expansion/growth, which are implementing or intend to implement or develop innovative (product, service, process, organizational and marketing) solutions and which, due to their early stage of development, require high-risk financing (venture capital); c) development of the venture capital market, including the construction of new venture capital management teams specializing in investments at early stages of development and the application of the best standards on the venture capital market in Poland; d) attracting private investors and encouraging long term engagement in the venture capital market.
3. PFR KOFFI Investment Committee	As part of PFR KOFFI, an investment committee will operate in an advisory capacity, consisting mostly of individuals independent of PFR KOFFI and with experience in PE/VC capital funds. Its role will be opining key decisions of PFR KOFFI, such as, e.g., making an investment in a VC Fund or dismissing the Managing Entity.
4. Legal form of Portfolio Companies ("Companies")	The VC Fund will only invest in capital companies or limited joint-stock partnerships (and with respect to Portfolio Companies with their registered office outside of Poland – capital companies within the meaning of Article 2(1) of Council Directive 2008/7/EC of 12 February 2008).
5. Place of business of Portfolio Companies	The VC Fund may only invest in Portfolio Companies which, on disbursement of funds from the VC Fund's Investment: a) have their registered office in Poland and conduct business activity in Poland (at least 85% of the VC Fund's portfolio value at purchase prices), or b) have their registered office outside of Poland, but only if the following conditions are met (maximum 15% of the VC Fund's portfolio value at purchase prices): (i) they carry out a significant part of their business activity in Poland both prior to the Investment (if they have previously carried out a business activity) and in the course thereof;

	• a significant share of (existing and planned) employees employed in Poland in the total number of employees, or • a significant share of (existing and planned) non-current assets located in Poland in the total non-current assets. (ii) are planning to allocate the funds obtained from the VC Fund for the conduct and further development of business activity in Poland in such a manner that the planned utilization of such funds will be included in the business plan of the Investment concerned, developed by the Portfolio Company, and the business plan will show that 100% of the funds from the VC Fund will be allocated to the development of the Company's activity in Poland; (iii) the business plan will include measurable result indicators planned to be achieved as part of the development of the business activity in Poland using the funds from the VC Fund; (iv) carry out a business activity or finance the commencement of an Innovative Activity in Poland; and (v) the obligation set out in items ii)-iv) will be included in the investment agreement between the VC Fund and the Portfolio Company.
6. Other principles of investing in Portfolio Companies	1) The value of the First Investment in the Portfolio Company should be at least **PLN 4 million,** provided that less than **50%** of the Portfolio Company's shareholding rights are acquired as part of the First Investment. 2) The First Investment (i.e., the VC Fund's first investment obligation towards the Company concerned) and Follow-on Investments may be made in a single payment or in tranches. 3) First Investments may only be made during the Investment Period. 4) The permissible form of financing for the Portfolio Companies is equity or quasi-equity financing (including, but not limited to convertible loans). 5) The VC Fund will be able to acquire (repurchase) shares from the existing shareholders of the Portfolio Company only up to a limit of less than 50% of the value of the Investment ("**Refinancing**")**,** provided that it is combined with the VC Fund taking up new financial instruments of the Portfolio Company with a value exceeding **50%** of the investment (this condition must be met for each tranche and round of Investment in the Portfolio Company). 6) The VC Fund may also make Follow-on Investments, provided that the status of the Portfolio Company continues to be that of an SME and it meets other investment requirements and principles of PFR KOFFI. 7) The Follow-on Investment must be provided for in the original business plan of the Investment. 8) No more than **60%** of the Investment Budget will be invested in Follow-on Investments. 9) Total investments in financial instruments of a single Portfolio Company may not represent more than **15%** of the value of the VC Fund's Declared Capitalisation. 10) The investment in the Portfolio Company constitutes state aid, and the total amount of state aid for the Portfolio Company in the form of equity, loan and guarantee financing may not exceed **EUR 16.5 million.**

7. Investment exclusions in Portfolio Companies	1) A VC Fund <u>may not</u> make an Investment in Portfolio Companies: a) not meeting the conditions for SMEs from Annex I to the GBER[1]; b) at the time of disbursement of funds as part of the VC Fund's Investments, they are listed on regulated or non-regulated markets (e.g., WSE or NewConnect); c) in difficulty within the meaning of the GBER; d) which are subject to an obligation to repay the aid arising under a previous decision of the European Commission declaring the aid illegal and incompatible with the internal market; e) excluded from access to public funds under the provisions of law or those in which persons authorised to represent them are subject to such an exclusion, 2) Funds from the Investment may not be used for the purpose of: a) manufacturing, processing and marketing tobacco and tobacco products, producing or marketing alcoholic beverages, narcotic drugs, psychotropic substances or precursors and new psychoactive substances and their substitutes, as well as devices designed for the consumption of such substances, such as e.g., electronic cigarettes and vaping devices; b) producing or marketing pornographic content; c) trading in explosives, weapons and ammunition; d) gambling, including games of chance, betting, gaming on slot machines and gaming on low-prize machines; e) IT to the extent supporting the activities specified in the items above, i.e., to the extent that applications and other IT solutions are intended to support or facilitate carrying out the business activities specified in the items above; f) decommissioning or construction of nuclear power plants; g) processing and marketing of agricultural products, if they meet the conditions set out in the GBER; h) investments in airport infrastructure; i) investments in landfilling; j) investments to increase the capacity of residual waste treatment facilities, excluding material recovery technologies for the circular economy; k) investments in the production, processing, transport, distribution, storage or combustion of fossil fuels; l) expenditure supporting the relocation within the meaning of the GBER; m) financial services under which the Portfolio Company incurs/is exposed to risk related to loss or reduction of the value of the entrusted assets

[1] With respect to SMEs operating for more than 10 years from the date of registration of the Company or more than 7 years from the date of the first commercial sale (whichever period expired first), VC Fund financing may only be obtained by Companies that require financing in order to pursue a new business activity and when such financing exceeds 50% of the average annual turnover of the Company in the previous 5 years (Article 21 GBER).

	(wealth management services, provision of investment services), risk related to granting loans, credit facilities and other forms of financing, risk of conducting insurance business or risk related to the recovery or purchase of receivables (debt collection services, securitization activities); however, for the avoidance of doubt, the provision of services and activities supporting activities in the field of financial services, including in particular activities in the fintech sector, back-office services, etc., do not constitute financial services within the meaning of this section; n) dealing in real estate; o) purchasing land for an amount exceeding 10% of the Investment amount; p) export-related activities, however, financing for the purpose of internationalisation and foreign expansion is permitted, provided that such development is justified under the Investment's business plan; q) payment of interest on debt; r) own contribution to the grant or pre-financing of the grant, i.e., allocating funds as a bridge for the purposes for which the grant has been/will be awarded.
8. Allocation of funds from Investments in Portfolio Companies	1) Proceeds from Investments in Portfolio Companies should be allocated to the implementation of innovative projects (in accordance with business plans). 2) The Investments made should be consistent with the strategic objectives of PFR KOFFI in terms of increasing the innovation of the Polish economy, i.e., they should result in the provision of financing for SMEs at the stage of development/expansion/growth for the purpose of: a) launching a new product or service, or to significantly improving existing products or services (product/service innovation), or b) applying novel or improved production methods/processes, including with the use of high technology or methods of provision of services (process innovation), or c) implementing novel or significantly modified solutions in the marketing or organisational systems (marketing/organisational innovation). 3) The Portfolio Company's innovative projects may not be completed or fully implemented at the time of the VC Fund's investment decision.
9. Legal form of VC Funds and the method of making a contribution by PFR KOFFI	1) VC Funds may be established in the form of: a) a limited partnership, b) a limited joint-stock partnership , c) or their foreign equivalents. 2) Investors will finance VC Funds only in the form of equity, making cash contributions. 3) VC funds will have the status of an alternative investment company (AIC) within the meaning of the Act of 27 May 2004 on Investment Funds and

	Alternative Investment Fund Managers, or with respect to foreign counterparts – an alternative investment fund.
10. Investment Budget and Operating Budget	Financing of VC Funds by contributions to the Declared Capitalisation of the VC Fund includes: a) an Investment Budget – specifying the planned financial resources of the VC Fund to be allocated to Investments (the "**Investment Budget**"); b) an Operating Budget – specifying the planned management fees covering the VC Fund's operating costs and the operating costs of the Managing Entity (the "**Operating Budget**"), including in particular: (i) costs of preparing the Investment (including, but not limited to due diligence costs of the Portfolio Companies and transaction documentation); (ii) other operating costs of the VC Fund and the Managing Entity, in particular the remuneration of Key Persons.
11. Amount of PFR KOFFI's contribution to the VC Fund	PFR KOFFI's contribution to the VC Fund amounts to **a maximum of PLN 80 million**, which will represent **no more than 60%** of the VC Fund's Declared Capitalisation.
12. Option to increase PFR KOFFI's contribution	It will be permissible to increase PFR KOFFI's contribution to the VC Fund during the Investment Period to **a maximum of PLN 95 million**, provided that a significant part of the Investment Budget is invested and that the relevant private contribution is supplemented.
13. Amount of private contribution (contribution of Private Investors and the Managing Entity)	1) A private contribution will be **no less than 40%** of the VC Fund's Declared Capitalisation. 2) Key Persons will be required to provide **no less than 1.0%** of the Declared Capitalisation as part of the Managing Entity's contribution. The contribution of the Managing Entity may not exceed the contribution of Private Investors. 3) It is permissible to submit a Tender with incomplete declarations of Private Investors, but at the level of no less than 50% of the target contribution, provided that the contributions of other Private Investors are supplemented no later than at the time of signing the Investor Agreement.
14. Milestones	1) The VC Fund will be obliged to meet the minimum required levels of utilization of the Investment Budget ("**Milestones**"), as set out below: a) min. of 10% - by the end of the first year of the Investment Period; b) min. of 25% - by the end of the second year of the Investment Period; c) min. of 40% - by the end of the third year of the Investment Period; d) min. of 55% - by the end of the fourth year of the Investment Period. e) min. of 70% - by the end of the fifth year of the Investment Period. 2) The level of implementation of the Investment Budget is understood as the value of funds transferred by the VC Fund to the Portfolio Companies. 3) Failure to meet any of the above-mentioned Milestones may result in reducing the amount of the Management Fee due on PFR KOFFI's contributions,

<table>
<tr><td></td><td>reducing PFR KOFFI's contribution or the Investor Agreement being terminated by PFR KOFFI.</td></tr>
<tr><td>15. Investment horizon of a VC fund</td><td>The VC Fund's Investment Horizon consists of two periods:
a) Investment Period: up to 5 years of the entry into force of the Investor Agreement, with an option of extension in justified cases, but no longer than until 31.12.2029;
b) Divestment Period: up to 5 years (calculated from the end of the Investment Period) with the option of extension in justified cases, while maintaining an investment horizon of no more than 10 years.</td></tr>
<tr><td>16. Management Fee</td><td>1) During the Investment Period, the Management Fee will amount to a maximum of 2.5% of the declared total contributions of all Investors and the Managing Entity (pro rata to the declared contributions).
2) During the Divestment Period, the Management Fee will amount to a maximum of 2.5% per annum of the amount of net capital invested, i.e., the total value of funds paid into the Portfolio Companies, less the purchase price of the completed exits (pro rata to the declared contributions).
3) The Management Fee will be paid semi-annually in advance.
4) The total amount of the Management Fee may not exceed 22% of the declared total Investors' Contributions to the VC Fund.
5) If the Investment Period or the Divestment Period is extended, the value of the Management Fee during the extended Investment Period or the Divestment Period will not be due, unless the Investors resolve otherwise, subject to the above-mentioned limit of 22%.</td></tr>
<tr><td>17. Additional remuneration of the Managing Entity (“Carried Interest”)</td><td>The maximum levels of Carried Interest may be:
<table><tr><td>Cash return for Investors, measured across the entire VC Fund as a DPI (Distributed to Paid-in Capital) indicator</td><td>Amount of Carried Interest</td></tr><tr><td>DPI up to 2x</td><td>20%</td></tr><tr><td>DPI above 2x</td><td>30%</td></tr></table></td></tr>
<tr><td>18. Minimum Rate of Return (“Hurdle Rate”)</td><td>1) The Hurdle Rate payable to PFR KOFFI on the contribution will be at least 6% per annum, calculated as the internal rate of return (IRR).
2) The Hurdle Rate due to PFR KOFFI may not be lower than the Hurdle Rate due to Private Investors.</td></tr>
<tr><td>19. Rules for accounting for proceeds from exits from Investments</td><td>1) Basic rules for accounting for proceeds from exits from Investments:
a) The return of contributions (capital) will be proportional to the share in the VC Fund's Capitalisation (pro rata to the contributions made);
b) Profits due to Private Investors will be increased by a multiplier of 1.5x in relation to the actual share of Private Investors in the VC Fund's Capitalisation (“Profit Distribution Asymmetry”);</td></tr>
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	c) Profits due to PFR KOFFI will be reduced by additional returns for Private Investors resulting from the Profit Distribution Asymmetry. 2) Example of a cascade of returns on Investment: a) The proceeds will be first returned to the Investors and the Managing Entity, until 100% of their contributions are returned; b) Further proceeds from exits from the Investment will be used for the payment of the Minimum Rate of Return ("**Hurdle Rate**"), in accordance with the principles of Profit Distribution Asymmetry; c) Further proceeds from exits from the Investment will be used to pay the first part of the Carried Interest to the Managing Entity ("**Catch-up"),** calculated as 25% of the total amount of the Hurdle Rate distributed (at the rate of 20% of Carried Interest); d) Further proceeds from exits from the Investment, remaining after the payment of the Hurdle Rate and Catch-up, will be used to distribute: i. The remaining part of the Carried Interest to the Managing Entity (according to the rates specified in section 17), and ii. Profits to Investors, in compliance with the principles of Profit Distribution Asymmetry, and iii. Profits to the Managing Entity, in proportion to the contributions made.
20. Requirements for Key Persons	1) At least two Key Persons will be required to declare full commitment (100% of their working time) to the VC Fund's investment activities until the end of the Investment Period ("**Exclusivity**") and will be covered by the Exclusivity clause in the Investor Agreement (Key Man clause). 2) Key Persons covered by the Exclusivity will not be allowed to engage in other investment activities outside of the VC Fund. 3) Breach of the Exclusivity clause by a Key Person will result in the suspension of the VC Fund's investment activities. 4) A change of a Key Person covered by the Exclusivity clause will require the consent of the Investors. The absence of such consent may result in termination of the Investor Agreement and/or dismissal of the Managing Entity. 5) Each of the Key Persons must make a contribution as part of the Managing Entity's contribution. 6) All Key Persons will be required to regularly submit disclosure letters containing a list of activities carried out after the date of the Investor Agreement. 7) Key Persons should be key shareholders of the Managing Entity.
21. Observer of the VC Fund's Investment Committee and veto right	1) The VC fund will create an internal body dedicated to making investment decisions – the Investment Committee. 2) PFR KOFFI will have the right to appoint an observer of the VC Fund's Investment Committee.

	3) The PFR KOFFI observer will not have the right to vote on business matters. 4) The role of the observer will be limited to examining the compliance of the intended Investments with the investment restrictions of PFR KOFFI, the VC Fund's Investment Policy, the provisions of the Investor Agreement or the provisions of EU and domestic law. 5) In the event of non-compliance of the Investment in any of the above areas, PFR KOFFI will have the right to object to such an Investment (veto right). 6) In the event that PFR KOFFI exercises its veto right, the VC Fund will not be able to make the Investment.
22. Principles of Liability of Investors, Managing Entity and Key Persons	1) The liability of each Investor is limited to his/her contribution to the VC Fund. 2) The Managing Entity and Key Persons – in accordance with international standards on the VC/PE market – shall not be liable for damage caused to the VC Fund or Investors if they exercise due diligence in the management of the VC Fund. 3) Liability of the Managing Entity and Key Persons will apply in cases such as failure to exercise due diligence, gross negligence or wilful misconduct against the VC Fund, and then it is unlimited, subsidiary (in the context of the relationship between the Managing Entity and Key Persons) and joint and several (in the context of the relationship between Key Persons).
23. Dismissal of the Managing Entity	1) The Managing Entity may be dismissed as a result of the Investors' decision, with or without stating the cause. 2) The dismissal of the Managing Entity, stating the cause, will require the consent of at least **50%** of the Investors and may be made, in particular, in the following cases: a) Failure to comply with material provisions of the Investor Agreement by the Managing Entity, in particular in the form of making an Investment in breach of the investment rules set out in the Investment Policy, b) A material breach by the VC Fund or the Managing Entity of the provisions of domestic or EU law, c) Failure to replace a Key Person after an Adverse Key Person Event occurs. 3) The dismissal of the Managing Entity will require the consent of at least **75%** of the Investors and will be accompanied by the payment of compensation to the Managing Entity.
24. Private investors	1) A Private Investor is an entity that: (i) makes a contribution to the VC Fund from its own funds, which do not constitute public funds within the meaning of the Public Finance Act of 27 August 2009, (ii) is independent of the Managing Entity, (iii) at the time of initial Investment, is independent of the Portfolio Company, i.e., it is not its shareholder, (iv) bears the full risk related to the Investments.

	2) Where a contribution is made through an investment vehicle, the term "Private Investor" is also deemed to include (i) an entity that exercises ultimate control (i.e., ultimate beneficial owner) over such investment vehicle and (ii) all intermediate entities in the structure of that investment vehicle 3) Entities such as Bank Gospodarstwa Krajowego or the European Investment Fund, the European Investment Bank will not be treated as Private Investors.
25. Board of Investors	1) A Board of Investors will operate as part of the VC Fund, consisting of a representative of PFR KOFFI and representatives of Private Investors with the largest contribution to the VC Fund's Declared Capitalisation. 2) Each member of the Board of Investors will have one vote. 3) The Board of Investors will hold meetings at least once a year, to discuss the VC Fund's performance and resolve potential conflicts of interest, among others.
26. Compliance and management of conflict of interest	1) The VC Fund will ensure compliance with the relevant standards (including ESG policy) and legal provisions protecting against money laundering and tax fraud and related to combating terrorism, both at the level of the VC Fund and the Portfolio Companies. 2) The VC fund will not maintain business relations with entities registered in countries that do not cooperate with the European Union in combatting money laundering, tax fraud or terrorism or on which sanctions are imposed by The Office of Foreign Assets Control (OFAC). 3) The VC fund will put in place a procedure for disclosing and managing conflicts of interest.
27. Quarterly and ESG reporting	1) The VC Fund will be required to periodically report (on a quarterly basis) to PFR KOFFI in accordance with the scope of data prepared by PFR KOFFI and to periodically value the portfolio in line with market standards. 2) The VC Fund will be required to monitor and report sustainability factors at the level of both the VC Fund and Portfolio Companies in accordance with the Invest Europe standard[2]. 3) The detailed extent of quarterly and ESG reporting will be agreed at the level of the Investor Agreement.
28. Monitoring and auditing	1) The VC Fund will be obliged to make available and transmit all information and documents regarding the expenditure of funds from the PFR KOFFI contribution in connection with inspections by authorised domestic and foreign institutions to which PFR KOFFI or the VC Fund will be subject with respect to the use of funds from the European Funds for Modern Economy 2021-2027 Operational Programme. 2) The VC fund will ensure that the provisions concerning submission to control and disclosure of information in investment agreements with Portfolio Companies are duly implemented.

[2] https://www.investeurope.eu/invest-europe-esg-reporting-guidelines/esg-reporting-template/

29. Legal basis	1) Commission Regulation (EU) No 651/2014 of 17 June 2014 declaring certain categories of aid compatible with the internal market in application of Articles 107 and 108 of the Treaty (the "**GBER"**) 2) Regulation (EU) 2021/1060 of the European Parliament and of the Council of 24 June 2021 laying down common provisions on the European Regional Development Fund, the European Social Fund Plus, the Cohesion Fund, the Just Transition Fund and the European Maritime, Fisheries and Aquaculture Fund and financial rules for those and for the Asylum, Migration and Integration Fund, the Internal Security Fund and the Instrument for Financial Support for Border Management and Visa Policy. 3) Regulation (EU) 2021/1058 of the European Parliament and of the Council of 24 June 2021 on the European Regional Development Fund and on the Cohesion Fund. 4) Regulation of the Minister of Development Funds and Regional Policy of 15.11.2022 on granting financial assistance and de minimis aid with the participation of Bank Gospodarstwa Krajowego under the "European Funds for Modern Economy 2021–2027" programme. 5) The Term Sheet refers to the essential provisions arising under the above legal acts, but does not constitute a complete catalogue of applicable regulations.
30. Changes in the Term Sheet	The rules and limits set out in the Term Sheet may be subject to change in accordance with PFR KOFFI's strategic objectives, among others, in the event of a significant change in macroeconomic conditions.