

Appendix 7 – TERM SHEET

to the Procedure for the submission and selection of investment proposals for the establishment of capital funds under the BRIDGE VC Programme financed through the PFR NCBR CVC FIZ AN and Private Investors' funds

The definitions used in this document have the same meaning as in the Procedure.

	Financial Instrument	Capital Fund
1.	Legal regime	<ol style="list-style-type: none"> 1. The Financial Instrument shall be implemented without state aid. 2. The Financial Instrument shall be implemented in accordance with the provisions of Regulation (EU) of the European Parliament and of the Council No 1303/2013.
2.	Source of financing	Funding from the European Regional Development Fund under the Smart Growth Operational Programme 2014 – 2020 (“SG OP”), Measure 1.3 R&D work financed with capital fund participation, Sub-measure 1.3.2. Public-private support for R&D work with capital fund participation– BRIDGE VC.
3.	Investors	The Public Investor and Private Investors
4.	Public Investor	PFR NCBR CVC FIZ AN (“PFR NCBR CVC”)
5.	Private Investor	<ol style="list-style-type: none"> 1. A natural person or legal person making (directly or indirectly, i.e. through an investment vehicle¹) investments in the Capital Fund by making monetary contributions: <ol style="list-style-type: none"> a. from resources which do not constitute public funds within the meaning of the Act of 27 August 2009 on public finance, regardless of its ownership right, b. bearing full risk involved in contributions made to the Capital Fund. 2. Requirements for the Private Investor: <ol style="list-style-type: none"> a. is independent of the Capital Fund’s Fund Manager, b. is independent of the Investment Target at the time the Initial Investment is made in that Company.
6.	Corporate Investor	A Private Investor, who is not a physical person or SME.

¹Where a contribution is made to the CVC Fund 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.

7.	SME	A micro, small or medium-sized enterprise, as defined in Commission's recommendation 2003/361/EC of 6 May 2003 concerning the definition of micro, small and medium-sized enterprises (notified under document number C(2003) 1422 from the Official Journal of the European Union)
8.	Investment strategy of the Capital Fund	<ol style="list-style-type: none"> 1. The method specified by the Fund Manager of the Capital Fund ("Fund Manager" or "ME") for the implementation of the objectives of the Capital Fund, in particular investing the Investors' assets in Investment Targets, value growth of the Investment Targets and completion of exits from investment taking into account the Investors' interests. 2. The Investment Strategy shall form an appendix to the Tender and to the Investment Agreement.
9.	Requirements for the registered office of the Capital Fund	No territorial limitations with exception of those specified in art. 38 par. 4 regulation 1303 (EP).
10	Capital Fund's investment limit in an Investment Target	<p>The maximum investment limit in an Investment Target shall be not more than 20% of the Capitalisation of the Capital Fund concerned, and total amount invested in a single target shall not exceed EUR 15 m.</p> <p>There are preferred applicants whose Investment Strategy focuses on acquiring minority stakes of a Investment Target.</p>
11.	Legal form of the Capital Fund	<ol style="list-style-type: none"> 1. Closed-end non-public assets investment fund, 2. Company, 3. Partnership limited by shares, 4. Collective investment institution established abroad or an entity having its legal form similar to the legal structure of a closed-end investment fund, a company or a partnership limited by shares, based outside the territory of the Republic of Poland, respectively.
12	Declared Capitalisation of the Capital Fund	The planned sum of contributions specified in the Capital Fund Investment Agreement (" Investment Agreement "), including the Team's contribution as part of the ME.
13.	The option to increase the Capital Fund's Declared Capitalisation	<ol style="list-style-type: none"> 1. The option to increase the Capital Fund's Declared Capitalisation is allowed, provided that at least 65% of the funds earmarked in the Capital Fund's budget is invested in Investment Targets. 2. The procedure to increase the Capital Fund's Declared Capitalisation shall be set forth in the Investment Agreement.

14.	The option to reduce the Capital Fund’s Declared Capitalisation	<ol style="list-style-type: none"> 1. The option to decrease the Capital Fund’s Declared Capitalisation is allowed, in particular if there is no progress in the performance of the investment schedule set for in the Capital Fund’s operational budget. 2. The bases for reducing the Capital Fund’s Declared Capitalisation and the reduction procedure shall be set forth in the Investment Agreement.
15.	Contribution by PFR NCBR CVC to the Capital Fund’s Declared Capitalisation	Up to 50.0% of the Capital Fund’s Declared Capitalisation
16.	Private Investors’ Contribution, including ME, to the Capital Fund’s Declared Capitalisation	A minimum of 30.0% of the Capital Fund’s Declared Capitalisation, provided that PFR NCBR CVC’s share cannot exceed 50% of total Capital Fund’s Declared Capitalization. Team Members shall make a contribution, as part of the Fund Manager, to the Capital Fund’s Declared Capitalisation in accordance with Section 24.
17.	Investment Decision-making	<ol style="list-style-type: none"> 1. Investment and divestment (i.e. exit from Investment) decisions concerning Investment Targets (“Investment Decisions”) shall be taken by the Fund Manager of the Capital Fund on an arm’s length basis in compliance with the best market practices. 2. The ME shall be responsible for the selection of Investment Targets, implementation of the investment and divestment schedule, and the monitoring of investments in Investment Targets. 3. PFR NCBR CVC FIZ shall have no influence on the ME’s Investment Decision-making, excluding right for executing Excusal Right in cases mentioned below. 4. A consultative and decision-making body shall be set up within the Capital Fund – the Investment Committee (“IC”) – acting upon Capital Fund’s agreement. 5. IC members will be appointed among the members of the ME of the Capital Fund. PFR NCBR CVC and NCBR have a right to appoint up to 2 IC observers. 6. Observers shall have an Excusal Right solely in the situations enumerated below, i.e. with regard to Investment Decision in a single entity, which involve: <ul style="list-style-type: none"> ○ threat to national security, ○ threat to public security and order, ○ threat to human life and health, ○ the need to protect national cultural assets of artistic, historical or archaeological value,

		<ul style="list-style-type: none"> ○ the fact that a person who is a member of the governing bodies of the Investment target has been finally convicted for an intentional offense or a tax offense, ○ breach of provisions on the conflict of interest, ○ breach of provisions on the rules for Investment Decisions, set forth in the Investment Agreement, and ○ which fail to demonstrate the existence of the Polish Nexus, and ○ only in case of the NCBR Observer – when a direct capital investment of PFR Ventures sp. z o.o., PFR TFI S.A, Private Investor or a related entity in their Portfolio Companies poses a risk to the realization of the BRIDGE VC program or decreases its efficiency. <p>Execution of Excusal Rights by PFR NCBR CVC or NCBR’s observer results in excluding participation of Smart Growth Operational Programme funds only in given Investment. The total commitment of PFR NCBR CVC to the Capital Fund remains unchanged. The sole idea of Excusal Right is to prevent utilizing Smart Growth Operational Programme funds as a contribution to particular investment. It does not prevent the Capital Fund from making investment in that particular Investment Target utilizing only private investors’ and ME’s funds.</p> <p>7. If an Excusal Right is exercised by an Observer, the legitimacy of such Excusal Right shall be resolved by the PFR NCBR Investment Committee.</p> <p>8. Observers may also raise objections as to the compliance of an Investment Decision with the Investment Strategy of the Capital Fund.</p> <p>In the event objections are raised during a the Investment Committee meeting as to the compliance of an Investment Decision with the CVC Fund’s Investment Strategy, the CVC Fund’s Investment Strategy shall be allowed to be adjusted in order to enable the Investment Decision concerned to be performed with the consent of PFR NCBR CVC.</p>
18.	<p>Role of the NCBR Investment Committee, Giving Investment Opinions, Excusal Right</p>	<ol style="list-style-type: none"> 1. Within the structures of the Public Investors, a consultative and decision making body is appointed – the NCBR Investment Committee 2. The NCBR IC shall be composed of independent experts, representatives of NCBR and representatives of PFR Ventures and PFR TFI.

		<p>3. NCBR representative will have a right of ultimate Excusal Right solely with regard to Investment Decisions <u>of the Capital Fund</u> which involve:</p> <ol style="list-style-type: none"> a. threat to national security, b. threat to public security and order, c. threat to human life and health, d. the need to protect national cultural assets of artistic, historical or archaeological value, e. the fact that a person who is a member of the governing bodies of the Fund Manager<u>Investment target</u> has been finally convicted for an intentional offense or a tax offense, f. breach of provisions on the conflict of interest, g. breach of provisions on the rules for Investment Decisions, set forth in the Investment Agreement, and h. which fail to demonstrate the existence of the Polish Nexus.
19.	Polish Nexus	<p>Polish Nexus means existing or perspective connection of Portfolio Company with Poland, stated in investment agreement, which in up to 5-year perspective will have a direct, positive impact on Polish R&D sector or market environment influencing Polish R&D sector.</p>
20.	Corporate Governance of the Capital Fund	<ol style="list-style-type: none"> 1. The ME shall ensure that the Capital Fund management process is performed in a transparent manner, in compliance with the best market practices, the Capital Fund’s Investment Strategy, and in a manner that ensures the diversification of risk and minimisation of existing and potential conflicts of interest. 2. In addition, the ME shall ensure: <ol style="list-style-type: none"> a. the possession and maintenance of necessary formal qualifications, as required by laws and regulations, to perform the tasks related to the implementation of financial instruments, b. economic sustainability and financial feasibility of its activities, c. an appropriate organisational structure of the Capital Fund, adequate to its size (including a transparent structure of Investment Decision-making in compliance with the best market standards), d. an appropriate financial/accounting structure ensuring reliable, complete and credible information on the Capital Fund’s finances and internal control system e. a robust and reliable method for the selection and evaluation of Investment Targets,

		f. a procedure for the disclosure and management of conflicts of interest of any type that may arise within the Capital Fund.
21.	Investment Horizon	The Investment Horizon of the Capital Fund shall include: 1. the Investment Period (no longer than 31 December 2023 , subject to making Follow-on Investments), and 2. the Divestment Period (5 years beyond the end of the Investment Period, but no longer than till 31 December 2029 <u>30 June 2031</u>)
22.	Fund Manager of the Capital Fund	1. The Fund Manager may act as: a. natural persons who will compose an internal managing body of the Capital Fund, e.g. the management board of the company operating as the Capital Fund, or b. a legal person that will form an internal managing body of the Capital Fund (e.g. a general partner of a limited joint-stock partnership that will be the Capital Fund), or c. an independent third-party enterprise, authorised under the legislation of a Member State to manage, in whole or in part, the investment activities of the capital fund (an investment fund company (TFI) which is authorised by law to manage FIZ AN, or TFI and the entity entrusted by TFI with the management of the investment portfolio of FIZ AN). 2. The Fund Manager shall be an entity independent of Investors, taking autonomous, profit-driven Investment Decisions. 3. The Fund Manager must have knowledge and competence necessary to make rational Investment Decisions in accordance with the CVC Fund's Investment Strategy, and must maintain professional market standards in accordance with the guidelines of Invest Europe, ILPA or other equivalent organisations of the venture capital market.
23.	Extent of the ME's involvement in the management of the Capital Fund	1. The Fund Manager shall establish a team for the management of the Capital Fund (" Team ") to be composed of Key Personnel (responsible for taking Investment Decisions and effective implementation of the Capital Fund's Investment Strategy) and other Team Members with experience necessary to conduct the Capital Fund's investing activities, assigned to conduct the Capital Fund's operating activities.

		2. The assumption is that the composition of Key Personnel will remain unchanged over the Investment Period of the Capital Fund and that the level of time commitment of at least two Members of Key Personnel over the Investment Period will not drop below 80%.
24.	The Team's contribution through the ME in the Capital Fund's Declared Capitalisation	Key Personnel shall be required to participate through the ME in the Capital Fund's Declared Capitalisation. Other Team members shall be authorised to participate in the Capital Fund's Declared Capitalisation. The total Contributions of Team Members (Key Personnel and other Team members if they participate in the Capital Fund's Declared Capitalisation) should be set at the market level, but not less than 1% and not more than 5% of the Capital Fund's Declared Capitalisation, and it shall be provided on the same terms as for the other Investors of the Capital Fund.
25.	Change of Capital Fund's Fund Manager	<ol style="list-style-type: none"> 1. Any change of the Fund Manager may take place as a result of dismissal (on the Investors' initiative) or in connection with the ME's resignation. The Investors shall have a say in appointing a new ME, and in accepting changes to Key Personnel (including their number and time commitment). 2. Reasons and procedure for a change of the ME, as well as any changes of Key Personnel shall be agreed in the Investment Agreement.
26.	Management Fee ("MF") in the Investment Period and after the Investment Period	<ol style="list-style-type: none"> 1. The MF amount in the Investment Period (i.e. from the signing of the Investment Agreement to, at a maximum, 31 December 2023) and after the Investment Period (i.e. from 1 January 2024 to, at a maximum, 30 June 2029) shall be proposed by the Tenderer in the Capital Fund's operational budget forming a component of the Capital Fund's Investment Strategy. 2. The MF shall be adjusted to the Capital Fund's Declared Capitalisation and its level will mirror the current market conditions. 3. In the Investment Period, the MF shall include all costs related to the Capital Fund's (operating and investing) activities, and it shall consist of: <ol style="list-style-type: none"> a. the fixed component (% of the Capital Fund's Declared Capitalisation), b. the variable component (calculated on the value of cumulative amounts provided to Investment Targets after deduction of amounts returned to the Capital Fund in connection with the exit or partial exit from Investment Targets). 4. After MF and costs paid by PFR NCBR CVC after the Investment Period, the MF attributable to PFR NCBR CVC shall not exceed annually 1.5% of amounts provided for Investments in Investment Targets,

		<p>calculated pro rata temporis by 30 June 2029 or by the end of the Divestment Period, whichever is shorter; the MF calculation base shall not include any amounts returned to the Capital Fund in respect of exit or partial exit from Investment in an Investment Targets.</p> <p>5. Management costs providing a base for the calculation of the MF, the level and proportions of its both components (fixed and variable), shall be set on an arm's length basis, and the MF paid by PFR NCBR CVC shall not exceed the MF paid by Private Investors.</p>
27.	Distribution of proceeds from exits from Investment in Investment Targets	<p>1. On an arm's length basis, <i>pari passu</i> between the Public Investor, Private Investors and the ME.</p> <p>2. Amounts subject to payment from the Capital Fund shall be distributed as follows:</p> <ol style="list-style-type: none"> a. First, amounts shall be paid to Investors and the ME up to the value representing the equivalent of the contributions made by them as at a given time to the Capital Fund; payments shall be made at the same time and on the same terms to all Investors and the FM, pro rata to their contributions to the Capital Fund. b. Next, amounts shall be returned to Investors and the ME up to the value of the Minimum Rate of Return set forth in the Investment Agreement; payments shall be made at the same time and on the same terms to all Investors and the ME, pro rata to their contributions to the Capital Fund. c. Finally, any outstanding amounts after payments provided for in Sections a and b (surplus) shall be distributed in the proportion set on an arm's length basis in the Investment Agreement Investment Agreement between the Investor and the Fund Manager. The proportion attributable to the ME shall constitute "Carried Interest". <p>3. An model of the distribution of proceeds from exists from Investments in Investment Target shall also be possible, based on the catch-up formula.</p>
28.	Hurdle Rate	<p>1. Hurdle Rate – the minimum rate of return for Investors on investment in the Capital Fund, set by the Tenderer in the operational budget of the Capital Fund and finally fixed in the Investment Agreement, above which the ME is entitled to Carried Interest.</p> <p>2. The Hurdle Rate level shall be set on an arm's length basis, taking into account the Capital Fund's Declared Capitalisation, the Capital Fund Investment Strategy and the Capital Fund operational budget.</p>
29.	Carried Interest	<p>1. The amount of Carried Interest shall be proposed by the Tenderer in the Capital Fund operational budget.</p>

		<p>2. Carried Interest shall be payable to the ME after all contributions made to the Capital Fund have been returned, increased by the Hurdle Rate.</p> <p>3. The amount of Carried Interest shall be set by the Tenderer on an arm's length basis, and it shall be fixed finally through negotiation of the Investment Agreement.</p>
30.	Investment Target	<p>A company that at the time the initial Investment is made by the Capital Fund meets following conditions:</p> <ol style="list-style-type: none"> a. has the status of micro, small or medium-sized enterprise within the meaning Commission Recommendation 2003/361/EC of 6 May 2003 concerning the definition of micro, small and medium-sized enterprises (OJ L 124, 20.05.2003, p. 36), b. meets the criteria of an unlisted SME, which means that it is not listed on the stock exchange index, except for multi-lateral trading platforms in alternative trading systems (e.g. the Polish platform NewConnect). For the avoidance of doubt, it shall be acceptable to acquire shares in an Investment Target under a private offering preceding the initial public offering (Pre-IPO), c. has a direct link to Poland (Polish Nexus), d. meets one of the following: <ul style="list-style-type: none"> • it does not carry on business in any market or • has been carrying on business in any market for less than 7 years since its first commercial sale defined as the first sale of products or services by the company in the market, except limited sales for market research purposes, • requires an initial risk finance Investment which, based on a business plan prepared in view of launching a product or service developed through scientific research and experimental development in a new product or geographical market, is higher than 50 % of their average annual turnover in the preceding 5 years.
31.	Method of investment by the Capital Fund	<p>The Capital Fund is eligible to invest in the Investment Target by:</p> <ol style="list-style-type: none"> a. equity instruments; b. quasi-equity instruments.
32.	Refinancing (Replacement Capital)	<p>1. Refinancing is defined as the purchase by the Capital Fund (or by a Portfolio Company for repayment or cancellation) of financial instruments (equity or debt) of the Portfolio Company from the existing partners or shareholders.</p>

		<p><u>2.</u> Refinancing shall be allowed in exceptional cases, provided that it is combined with the Capital Fund taking new equity or quasi-equity instruments of the Portfolio Company with the value exceeding 50% of the investment (that requirement applies to each financing round respectively). Redemption price of financial instruments shall not be higher than a price of newly issued instruments.</p> <p><u>2.3.</u> <u>Preference shall be given to Tenderers whose Capital Fund’s Investment Strategy provides for taking minority shares of Portfolio Companies within the first financing round.</u></p>
33.	Follow-on Investments	<p>1. The Capital Fund may make Follow-on Investments on the following terms and conditions:</p> <p>a. during the Investment Period:</p> <p>i. the Capital Fund has made its first Investment in an Investment Target, and</p> <p>ii. the maximum total value of the Capital Fund Investment in the Investment Target, set forth in Section 10, is not exceeded.</p> <p>b. after the Investment Period – besides the terms and conditions set forth above, additionally:</p> <p>i. the Investment Agreement with the Capital Fund shall be concluded by 31 December 2018 (unless this deadline is changed subject to the provisions of law), and</p> <p>ii. at least 55% of the funds earmarked for Investments shall be invested by the end of 2013, and</p> <p>iii. no more than 20% of funds dedicated to investments in Portfolio companies in the Investment Period, minus all the returns from investments obtained before 31 December 2023, will be directed to Follow-on Investments, and</p> <p>iv. the Follow-on Investment can be made by the end of the Divestment Period, but no later than 4 years from the end of 2023, whichever occurs earlier.</p> <p>It is allowed to make follow-up investments after the qualified period without fulfilling above mentioned criteria, if such investments are permitted by the relevant EU and/or domestic legislature and Actual Managing Institution or Intermediary Institution (NCBR) of the particular operational programme. In such cases, Declared Capitalisation of the Capital Fund might rise accordingly.</p>
34.	Capital Fund reporting	<p>1. The Capital Funds shall be required to periodically report to PFR NCBR CVC.</p> <p>2. Detailed rules and scope shall be set out in the Investment Agreement.</p>
35.	Capital Fund monitoring and audit	<p>1. The Capital Fund shall be required to make available/submit to PFR NCBR CVC, information and documents concerning the disbursement of funds from the contribution of PFR NCBR CVC in</p>

		<p>connection with any audits performed by national and international institutions to which PFR NCBR CVC reports as the beneficiary of funds under the Smart Growth Operational Programme 2014 - 2020.</p> <p>2. The Capital Fund shall submit to checks performed by authorised audit bodies of the Member State, the European Commission and the European Court of Auditors.</p> <p>3. Areas subject to monitoring and monitoring rules shall be presented by PFR NCBR CVC and they shall be implemented in the Investment Agreement.</p>
36.	Transfers to Capital Fund	<p>Transfers to the Capital Fund (both - management fee and calls for investments) will be executed on a commitment basis. PFR NCBR CVC shall contribute only after at least matching amount from remaining investors is transferred to the Capital Fund.</p>