

**Appendix No 9 to the Rules for the Submission and Selection of Tenders for Venture Capital Funds (Financial Intermediaries) under the KOFFI Programme**

**Term Sheet for the Call for and Selection of VC Funds - PFR KOFFI FIZ ("Term Sheet")**

The definitions used in this document shall have the same meaning as in the Rules for the Submission and Selection of Tenders for VC Funds (Financial Intermediaries) under the KOFFI Programme

<b>1. Financial instrument</b>	KOFFI
<b>2. Sources of financing</b>	Funding from the European Regional Development Fund under the Smart Growth Operational Programme 2014 – 2020 (" <b>SG OP</b> "), Sub-measure 3.1.4. KOFFI - Konkurencyjny Ogólnopolski Fundusz Funduszy Innowacyjnych (Competitive Polish Innovative Fund of Funds).
<b>3. Legal regime</b>	<ol style="list-style-type: none"> <li>1) The financial instrument does not provide for state aid.</li> <li>2) The financial instrument shall be implemented in compliance with the provisions of<sup>1</sup>: <ol style="list-style-type: none"> <li>a) Regulation (EU) of the European Parliament and of the Council No 1303/2013,</li> <li>b) Commission Delegated Regulation (EU) No 480/2014.</li> </ol> </li> </ol>
<b>4. Tenderer</b>	The Venture Capital Funds or the Managing Entity that has submitted a Tender under the Call for investment proposals for the establishment of Venture Capital Funds (" <b>Call</b> ").
<b>5. Legal form of the Venture Capital Fund ("VC Fund", "Financial Intermediary")</b>	<p>The VC Fund may operate in the form of:</p> <ol style="list-style-type: none"> <li>a) Closed-end non-public assets investment fund,</li> <li>b) Capital Company (limited partnership),</li> <li>c) Limited joint-stock partnership,</li> </ol>

<sup>1</sup> The basic provisions defining the legal regime of the KOFFI instrument are supplemented by implementing acts and guidelines of the European Commission and other EU instruments on financial instruments under the SG OP programme

	d) 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 limited joint-stock partnership, based outside the territory of the Republic of Poland, respectively.
<b>6. Declared Capitalisation of the VC Fund</b>	The value of contributions by Private Investors, the Public Investor and the Managing Entity to the VC Fund, planned by the Tenderer, which is not less than <b>PLN 70 million</b> in total or an equivalent of this amount in a foreign currency <sup>2</sup> .
<b>7. Investment Strategy of the VC Fund (“Investment Strategy”, “Investment Policy”)</b>	<ol style="list-style-type: none"> <li>1) The method specified by the Managing Entity for the implementation of the objectives of the VC Fund, in particular investing the Investors’ assets in Portfolio Companies, value growth of the Portfolio Companies and completion of exits from investment in Portfolio Companies, taking into account the Investor interests.</li> <li>2) The Investment Strategy shall form an appendix to the Tender and to the Investment Agreement.</li> </ol>
<b>8. Managing Entity of the VC Fund (“Managing Entity”, “ME”)</b>	<ol style="list-style-type: none"> <li>1) A natural person(s) or legal person appointed by PFR Ventures under the Call procedure, responsible for the implementation of the Investment Strategy and the management of the VC Fund investment portfolio (in compliance with the rules for making Investment Decisions as defined in Sections 29-30 of the Term Sheet).</li> <li>2) The Managing Entity shall be an entity independent of the Investors.</li> <li>3) The Managing Entity must provide human resources with the appropriate knowledge and competence necessary to make autonomous, rational and profit motivated Investment Decisions in accordance with the VC 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 (see Sections 9-11 and Section 29-30 of the Term Sheet).</li> <li>4) The Managing Entity may act as: <ol style="list-style-type: none"> <li>a) Natural persons who compose the internal managing body of the VC Fund (e.g. the management board of the company which, after its establishment and selection under the Call procedure will be the VC Fund), or</li> <li>b) Legal persons that compose the external managing body of the VC Fund (e.g. the general partner in a limited joint-stock partnership who, after its establishment and selection under the Call procedure will be the VC Fund), or</li> </ol> </li> </ol>

<sup>2</sup> According to the European Commission exchange rate: [http://ec.europa.eu/budget/contracts\\_grants/info\\_contracts/inforeuro/index\\_en.cfm](http://ec.europa.eu/budget/contracts_grants/info_contracts/inforeuro/index_en.cfm)  
(applies to all references to foreign currencies in this document)

	<p>c) An independent third-party enterprise, authorised under the legislation of a Member State to manage the VC Fund's investment activities in whole or in part (e.g. the body to manage the investment portfolio, in whole or in part, of the investment fund, which, after its establishment and successful selection under the Call procedure will be the VC Fund).</p> <p>5) The Managing Entity is obliged to inform the Investors of any changes in its ownership structure.</p>
<p><b>9. Change of the VC Fund Managing Entity</b></p>	<p>1) Any change of the Managing Entity may take place as a result of dismissal (on the initiative of some of the Investors) for or without cause. A decision to dismiss the Managing Entity must be taken by Investors, e.g. by the Investors' Meeting.</p> <p>2) Dismissal of the Managing Entity for cause may take place in particular in the following cases (a complete list of causes that may lead to dismissal of the ME will be provided in the Investment Agreement):</p> <p>a) The VC Fund's failure to fulfil material provisions of the Investment Agreement, in particular by infringing investment restrictions or making investments contrary to the investing rules set forth in the Investment Agreement,</p> <p>b) Infringement by the VC Fund, due to activities of the Managing Entity, of the provisions of national or EU law relating to the ME's activities.</p> <p>3) Dismissal of the Managing Entity for cause shall require consent of the majority of Investors, e.g. the Investors' Meeting.</p> <p>4) Dismissal of the Managing Entity without cause shall require qualified majority of at least 75% of Investors, e.g. the Investors' Meeting. The rights of a dismissed ME, including vested rights<sup>3</sup>, shall be set forth in the Investment Agreement.</p> <p>5) The Investors shall have a say in appointing a new ME. The new ME shall meet the conditions set forth in the Call Rules at least to the same extent as the original ME appointed through the Call procedure. A detailed procedure for the change of the ME shall be set forth in the Investment Agreement.</p>
<p><b>10. Team</b></p>	<p>A team appointed by the Tenderer, composed of members of the Key Personnel, other members of the Investment Committee and additional persons who have the necessary background and experience to carry out the investment activities of the VC Fund, dedicated to carrying on the operations of the VC Fund through the VC Fund or the Managing</p>

<sup>3</sup> Rights arising from the vesting schedule.

	Entity, bound to maintain professional market standards in accordance with the guidelines of Invest Europe, ILPA or other equivalent organisations of the VC market.
<b>11. Key Personnel</b>	<ol style="list-style-type: none"> <li>1) Key persons appointed by the Tenderer, who have the appropriate experience, expertise and knowledge in the management of investment activities, and knowledge of the venture capital market, who lend credence to the implementation of the VC Fund’s Investment Strategy.</li> <li>2) A change of members of the Key Personnel shall require the consent of a majority of Investors (e.g. within the Advisory Committee/Board of Investors or Investors’ Meeting). The ME’s failure to fill a Key Personnel vacancy within the time limit prescribed by the Investment Agreement may be the cause of termination of the Investment Agreement and/or dismissal of the Managing Entity. A detailed procedure for the change of members of the Key Personnel shall be set forth in the Investment Agreement.</li> </ol>
<b>12. Additional requirements for the Key Personnel/Team</b>	<ol style="list-style-type: none"> <li>1) The Managing Entity shall provide the appropriate human resources dedicated exclusively to the management of the VC Fund’s Investment Strategy, including members of the Key Personnel. The dedicated human resources shall be adequate to the size of the VC Fund. The declared time commitment of individual members of the Key Personnel/Team and the proposed allocation of Carried Interest between members of the Key Personnel/Team shall be adequate to the level of contribution to the Declared Capitalisation of the VC Fund.</li> <li>2) In particular, the Managing Entity shall provide the appropriate human resources consisting of members of the Key Personnel/Team, originating from the Polish Venture Capital ecosystem.</li> <li>3) The composition of the Key Personnel in the VC Fund’s Investment Horizon shall remain unchanged, and the level of time commitment of at least 2 members of the Key Personnel shall not be less than <b>80%</b> of their professional time (not less than <b>32 hours</b> a week) until at least <b>70%</b> of the Investment Budget performance is achieved or until the end of the Investment Period (whichever ends earlier).</li> </ol>
<b>13. Investors</b>	Public Investor and Private Investor
<b>14. Public Investor</b>	The PFR KOFFI FIZ Fund (“ <b>PFR KOFFI FIZ</b> ”) and other investors who do not fall within the definition of “Private Investor”.



<p><b>15. Private Investor</b></p>	<p>1) A natural person or legal person making (directly or indirectly, i.e. through an investment vehicle<sup>4</sup>) investments in the VC Fund through monetary contributions:</p> <p>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,</p> <p><b>b) Bearing full risk involved in contributions made to the VC Fund.</b></p> <p><u>The European Investment Bank and the European Investment Fund, investing at their own risk and with their own funds, as well as banks investing at their own risk and with their own funds, private foundations, closed-end funds and business angels, corporate investors, insurance companies, pension funds, pensions, private individuals and academic institutions are considered to be a Private Investor.</u><sup>5</sup></p> <p>2) Requirements for the Private Investor:</p> <p>a) Is independent of the VC Fund Managing Entity,</p> <p>b) Is independent, as at the time the initial Investment is made in a Portfolio Company, of that Company, i.e. is not its shareholder, and there are no promises or commitments regarding property rights between the Investor and the Portfolio Company.<sup>6</sup></p>
<p><b>16. Portfolio Company (“Company”, “Eligible Undertaking”)</b></p>	<p>A Capital Company or Limited joint-stock partnership (or its equivalent in the case of undertakings based outside the Republic of Poland) that meets the following conditions at the time funding is disbursed to it under the VC Fund’s Investment:</p>

<sup>4</sup>Where a contribution is made to the VC 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.

<sup>5</sup> According to the footnote to paragraph 31 of the Communication from the Commission - EU Guidelines on State aid to promote risk finance investments (OJ C 19 of 22.1.2014: "Private investors will typically include the EIF and the EIB investing at their own risk and with their own funds, as well as banks investing at their own risk and with their own funds, private foundations, closed-end funds and business angels, corporate investors, insurance companies, pension funds, pensions, private individuals and academic institutions".

<sup>6</sup> The independence between the Investor and the Portfolio Company is retained in the case of Private Investors who are natural persons acting as business angels, as well as in the case of Private Investors being institutional investors, also when these investors are partners or shareholders of the Portfolio Company prior to the investment being made by the VC Fund.

	<ul style="list-style-type: none"> <li>a) It is a micro, small or medium-sized enterprise (according to the guidelines of Annex I to Regulation 651/2014) pursuing an innovative economic activity with a high growth potential<sup>7</sup>,</li> <li>b) It is a SME not listed<sup>8</sup> on the Warsaw Stock Exchange or on any other regulated market, which means that it does not a Company listed on the stock exchange index, except for multi-lateral trading platforms (e.g. the Polish platform NewConnect).</li> <li>c) They are not undertakings in difficulty within the meaning of the Guidelines on State aid for rescuing and restructuring non-financial undertakings in difficulty (OJ EU C 249/1 of 31.7.2014), subject to point 26 (a) of the Guidelines on State aid to promote risk finance investments (2014/C 19/04),</li> <li>d) They are not undertakings that have received illegal State aid which has not been fully recovered (according to point 26 (a) of the Guidelines on State aid to promote risk finance investments (2014/C 19/04)).</li> </ul>
<p><b>17. Basic rules for investing in Portfolio Companies</b></p>	<ul style="list-style-type: none"> <li>1) Investments of the VC Fund shall be aimed at: <ul style="list-style-type: none"> <li>a) Provision of capital for the implementation of new projects, or</li> <li>b) Launching projects and products on new markets (subject to simultaneous development of activities within the Republic of Poland, irrespective of development plans in other markets).</li> </ul> </li> <li>2) A part of the VC Fund's Investment Budget <del>from corresponding to the share of SG OP Resources<sup>9</sup> in the Declared Capitalization of the VC Fund – i.e. (i) resources from the contribution of PFR KOFFI FIZ and (ii) resources from the contribution of Private Investors in the amount equivalent to the resources of PFR KOFFI FIZ – the VC Fund shall be invested</del> solely in Companies that, at the time funding is disbursed to them under the VC Fund Investments: <ul style="list-style-type: none"> <li>a) Have their registered office within the territory of the Republic of Poland and pursue an economic activity within the territory of the Republic of Poland, or</li> </ul> </li> </ul>

<sup>7</sup> Innovation / Innovative Activities - introduction or carrying out works to introduce a new product or service to the market, or significant improvement of existing products or services (product / service innovation), application of new or improved production methods / processes, including using high technologies or ways of providing services (process innovations), or implementations of new or significantly changed solutions in the field of marketing or organizational systems (marketing / organizational innovations).

<sup>8</sup> Within the meaning of Regulation 651/2014

<sup>9</sup> SG OP Resources are defined as part of the Financial Intermediary's Investment Budget from (i) the contribution of PFR KOFFI FIZ and (ii) ~~the contribution of Private Investors~~ Private Contribution in the amount equivalent to the resources of PFR KOFFI FIZ

	<p>b) Have their registered office outside the territory of the Republic of Poland, but have a significant link with Poland, i.e. they pursue an economic activity within the territory of the Republic of Poland, e.g. in the form of a subsidiary or a branch in accordance with the Act on freedom of economic activity of 2 July 2004 (Journal of Laws of 2016, item 1829, as amended)). Resources raised by Companies based outside the territory of Poland shall be used for the purposes of development of economic activity pursued within the Republic of Poland, e.g. in the form of a branch or a subsidiary. The method of utilisation of the resources shall be agreed in each case in the Investment business plan.</p> <p>3) Other resources representing the <del>other Private</del> Investors' contribution to the VC Fund's Investment <u>Budget</u> <del>Budget (other than SG-OP Resources)</del> may be invested by the VC Fund without geographical limitations <u>set out by the PFR KOFFI FIZ, i.e. they may be used for investments in companies based outside the Republic of Poland and having no significant link with Poland.</u><sup>10</sup></p> <p>4) Investments in financial instruments of one Portfolio Company and shares in that entity may not represent jointly more than <b>20%</b> of the value of the Declared Capitalisation of the VC Fund and may not exceed jointly the equivalent of <b>EUR 15 million</b>.</p> <p>5) Preference shall be given to Tenderers whose VC Fund's Investment Strategy provides for taking minority shares of Portfolio Companies within the first financing round.</p>
<p><b>18. Portfolio Company development stage</b></p>	<p>1) The VC Fund may invest in Companies at the development/expansion/growth stage<sup>11</sup>, i.e. Companies already engaging in commercial sales and seeking funding for a further expansion and improvement of business or entering new markets to boost growth.</p> <p>2) Investments with a significant growth potential made by the VC Fund shall also be acceptable, which are at an earlier development stage, if the value of a planned investment in a Company, specified in the investment agreement with the Company, is not less than <b>PLN 1.0 million</b> or the equivalent of this amount in a foreign currency. Allocating a part of the investment portfolio to Investments in Companies with a high growth potential,</p>

<sup>10</sup> ~~Capital drawdowns, i.e. the capital increase in the VC Fund will take place in proportion to the share of individual investors in the Declared Capitalization of the VC Fund (on a pro-rata basis), unless the Investment Agreement will provide otherwise. Such transactions shall require the VC Fund to maintain a transparent financing path that unambiguously separates the source of investment funding, i.e. a path showing that an investment has not been implemented with the SG-OP Resources.~~

<sup>11</sup> The development phase is defined as the launching of production/services and commercial sales;

The expansion phase is defined as increasing production/services and commercial sales and coming close to or reaching the break-even point;

The growth phase is defined as launching new products/services, entering new markets and achieving profitability in the business conducted.

	which are at an earlier development stage than that specified in point 1 must arise from the Investment Strategy of the VC Fund.
<b>19. Contribution of PFR KOFFI FIZ</b>	<p>1) The share of PFR KOFFI FIZ in the VC Fund's Declared Capitalisation shall represent:</p> <p>a) A minimum of <b>PLN 2035.0 million</b> or the equivalent of this amount in a foreign currency (<u>provided that the Declared Capitalization of the VC Fund is not less than PLN 70 million or the equivalent amount in a foreign currency</u>),</p> <p>b) A maximum of <b>PLN 60.0 million</b> or the equivalent of this amount in a foreign currency.</p> <p>2) The share of PFR KOFFI FIZ may not exceed <b>50%</b> of the VC Fund's Declared Capitalisation.</p>
<b>20. Private Contribution</b>	<p>1) <u>Target Private Contribution as part of investments in the Portfolio Companies (Eligible Enterprises)</u>, in the form of the share of Private Investors and the Managing Entity <del>in the Declared Capitalisation of the VC Fund</del> shall not be less than <b>50%</b> <u>PFR KOFFI FIZ's contributions</u>.</p> <p>2) <del>The share of Private Investors Contribution in the Declared Capitalization of the VC Fund (without the including Managing Entity's contribution) in the Declared Capitalisation of the VC Fund</del> shall not be less than <b>30%</b> <u>of the Declared Capitalization of the VC Fund</u>.<sup>12</sup></p>
<b>21. The Managing Entity's contribution</b>	A total of at least <b>1%</b> but not more than <b>20%</b> of the VC Fund's Declared Capitalisation shall be provided by members of the Key Personnel/Team, through the Managing Entity or in other transparent manner accepted by PFR KOFFI FIZ.
<b>22. The VC Fund's Investment Horizon ("Investment Horizon")</b>	<p>1) <b>Up to 10 years</b> from the signing of the Investment Agreement with an option to extend it by a maximum of <b>2 years</b> with the consent of <u>PFR KOFFI FIZ majority of Investors</u>, but not beyond 31 December 2031.</p> <p>2) The VC Fund's Investment Horizon shall include:</p> <p>a) Investment Period: <b>up to 5 years</b> (with an option to extend it with the consent of <u>PFR KOFFI FIZ majority of investors</u>, but not beyond 31 December 2023); in the Investment Period, investment exits will be possible,</p> <p>b) Investment Exit Period: <b>up to 5 years</b>, running from the end of the Investment Period (with an option to extend it with the consent of <u>PFR KOFFI FIZ majority of investors</u> by 1 year or a maximum of 2 years (where</p>

<sup>12</sup> In accordance with point 34 of the Guidelines on State aid to promote risk finance investments which provides "that the funding provided by private investors that are independent from the companies in which they invest, is economically significant in the light of the overall volume of the investment. The Commission considers that, in the case of risk finance measures, 30 % independent private investment can be considered economically significant."



	<p>no extension of the Investment Period is granted), but not beyond 31 December 2031); in the Investment Exit Period, it will be possible to implement follow-on investments (in accordance with the rules described in this document).</p>
<p><b>23. Follow-on Investments in Portfolio Companies (“Follow-on Investments”)</b></p>	<ol style="list-style-type: none"> <li>1) The VC Fund may make follow-on investments in Portfolio Companies in which it has invested before, provided that investments in financial instruments of one Portfolio Company and shares in that entity may not represent jointly more than <b>20%</b> of the value of the VC Fund’s Investment Budget and they may not exceed jointly the equivalent of <b>EUR 15 million</b>, and</li> <li>2) Provided that the Portfolio Company receiving Follow-on Investments continues to meet the conditions of the SME definition, in particular it has not become an enterprise linked, within the meaning of Article 3(3) of Annex I to Regulation No 651/2014, with an enterprise other than the VC Fund, unless the enterprise meets the conditions laid down in the SME definition.</li> <li>3) The VC Fund may also make Follow-on Investments after 31 December 2023, but in such a case the following additional conditions must be met: <ol style="list-style-type: none"> <li>a) The Investment Agreement with the VC Fund shall be concluded by 31 December 2017 (unless this deadline is changed subject to the provisions of law),</li> <li>b) At least <del>5570%</del> of the VC Fund’s <del>SG OP Resources Investment Budget</del> shall be invested by 31 December 2023,</li> <li>c) Follow-on Investments must be made within a deadline of 4 years from the end of the Investment Period <u>or from 31 December 2023</u> (i.e. by 31 December 2027 at the latest), and in any case by the end of the Period of Exit from Investments,</li> <li>d) Not more than <b>20%</b> of funds invested <u>in</u> the Investment Period, <u>decreased by proceeds from investments made until 31 December 2023</u>, shall be allocated to Follow-on Investments after 31 December 2023,</li> <li>e) The cumulative value of funding from the Public Investor, allocated to Follow-on Investments, shall be transferred to a dedicated escrow account,</li> <li>f) The Follow-on Investment <del>was provided for in the Investment business plan</del>, is needed and necessary in order to ensure continued financing of a Portfolio Company, and it is made on the arm’s length basis.</li> </ol> </li> </ol>
<p><b>24. Ineligible investments in Portfolio Companies</b></p>	<ol style="list-style-type: none"> <li>1) The VC Fund’s investments may not be made to finance the following types of activity: <ol style="list-style-type: none"> <li>a) Construction or decommissioning of nuclear power plants;</li> </ol> </li> </ol>

	<p>b) Production, processing or marketing of tobacco, tobacco products and electronic cigarettes,</p> <p>c) Production or marketing of alcoholic beverages,</p> <p>d) Production or marketing of pornographic content,</p> <p>e) Trading in explosives, arms and munitions,</p> <p>f) Games of chance, mutual betting, gaming on machines and gaming on low-prize machines,</p> <p>g) Production or marketing of intoxicants, psychotropic substances or precursors,</p> <p>h) IT supporting the activities specified above, i.e. in so far as applications and other IT solutions support or facilitate the activities specified above,</p> <p><del>i) Pure financial services, including in particular consumer finance services, the provision of loans, credit facilities and other forms of financing, with the proviso that, for the avoidance of doubt, the provision of financial services within the meaning of this section does not include any services or activities supporting the provision of financial services, including in particular activities in the FinTech sector, back-office services, etc.,</del></p> <p><del>ii)</del> Related to property trading and development,</p> <p><del>ki)</del> Other activities that violate the mandatory provisions of the law of the Republic of Poland and/or the law of the European Union.</p> <p>2) The VC Fund shall ensure that proceeds from Investments financed out of SG OP Resources<sup>13</sup> shall not be used for:</p> <p>a) Own contribution for the purposes of advance financing of a subsidy,</p> <p><del>b) Repayment of a Portfolio Company's existing debt or debt restructuring,</del></p> <p><del>e)b)</del> Financing of investments that have been physically completed or fully implemented at the date of investment decision,</p> <p><del>d)c)</del> Financing the purchase of undeveloped and developed land in the amount of more than 10% of the value of investment in SMEs,</p> <p><del>e)d)</del> Facilitating the closure of uncompetitive coal mines,</p>
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<sup>13</sup>SG OP Resources are defined as part of the Financial Intermediary's Investment Budget from (i) the contribution of PFR KOFFI FIZ and (ii) the contribution of Private Investors in the amount equivalent to the resources of PFR KOFFI FIZ.

	<p><del>f)e)</del> Reduction of greenhouse gases from the list of measures in Annex I to Directive 2003/87/EC,</p> <p><del>g)f)</del> Airport infrastructure, unless the Investment is related to environmental protection or it is accompanied by investments necessary to mitigate or limit adverse environmental impact,</p> <p><del>h)g)</del> Illegal activities.</p>
<b>25. Form of financing by the VC Fund (“Investment”)</b>	<p>By way of taking the following new instruments issued by Portfolio Companies (subject to Replacement Capital provisions):</p> <p>a) Equity instruments;</p> <p>b) Quasi-equity instruments (within the meaning of §2 (2) of the Risk Finance Regulation, made by the Financial Intermediary to an Eligible Undertaking)<sup>14</sup>.</p>
<b>26. Replacement Capital</b>	<p>1) Replacement Capital is defined as the redemption by the VC Fund of financial instruments (debt or equity) issued by a Portfolio Company from existing holders of such financial instruments.</p> <p>2) Replacement Capital is also deemed to include the redemption of equity financial instruments issued by a Portfolio Company, made by the Portfolio Company with the VC Fund’s funding for the purpose of cancellation.</p> <p>3) Replacement Capital shall be acceptable in special cases, provided that it is linked to the taking by the VC Fund of the Portfolio Company of new financial instruments with a value of above <b>50%</b> of the investment (the condition must be fulfilled for each tranche of investment in the Portfolio Company).</p>
<b>27. Form of financing of VC Funds by PFR KOFFI FIZ</b>	<p>Repayable financing by way of taking of and payment for shares, stocks, investment certificates or other equity interests issued by VC Funds, intended for financing the Investment Budget and the Operating Budget.</p>
<b>28. Allocation of financing provided to VC Funds by PFR KOFFI FIZ and Private Investors</b>	<p>The financing of the VC Fund through Contributions to the VC Fund’s Declared Capitalisation includes:</p> <p>a) Investment Budget – defining the total planned Investment expenditure of the VC Fund (“<b>Investment Budget</b>”); transaction costs related to <del>implemented-realized and unrealized Investments, which were</del></p>

<sup>14</sup>Risk Finance Regulation in this regard refers to the definition of Regulation No 651/2014. “Quasi-equity Investment” within the meaning of Article 2 (66) of Regulation No 651/2014 means a type of financing that ranks between equity and debt, carrying a higher risk than senior debt and a lower risk than common equity and whose return for the holder [*holder of the quasi-equity instrument – note by PFR Ventures*] is predominantly based on the profits or losses of the underlying target undertaking and which are unsecured in the event of bankruptcy of such undertaking. Quasi-equity Investments can be structured as debt, unsecured and subordinated, including mezzanine debt, and in some cases convertible into equity, or as preferred equity.

	<p><u>approved by the Investment Committee, as well as part of the operating costs related to the VC Fund and the costs of establishing the VC Fund, investments may be financed (in whole or in part) from the Investment Budget; Investors will be informed about the amount of the above costs incurred from the Investment Budget, and their annual forecast will be submitted for approval by the subject to prior consent of the Board of Investors/Advisory Committee.</u></p> <p><u>b) Operating Budget – defining all planned VC Fund’s management costs and incurred from the management fees of the VC Fund, including among others in particular: preparation costs of unrealized Investments, which were not approved by the Investment Committee preparation costs (including in particular among others costs of due diligence of prospective Portfolio Companies, transaction documents and other transaction costs), labour costs of the Team, including the Key Personnel and other personnel of the VC Fund, administrative costs related to activity of the Managing Entity, business trip costs, other third-party services, and other costs (“Operating Budget”).</u></p> <p><u>A detailed list of both categories of expenses will be specified in the Investment Agreement.</u></p>
<p><b>29. Investment Decision-making (role of the Investment Committee)</b></p>	<ol style="list-style-type: none"> <li>1) The VC Fund’s Investment Decisions concerning the implementation of Investment and exit from Investment in Portfolio Companies (“Investment Decisions”) shall be taken by the Investment Committee appointed by the VC Fund/Managing Entity.</li> <li>2) The Investment Committee shall be an internal unit of the VC Fund/Managing Entity dedicated to making Investment Decisions. The Investment Committee shall be composed of members of the Key Personnel as well as, optionally, other Team members who have made a contribution to the VC Fund, and of additional experts and consultants appointed by the Managing Entity. The Tenderer shall describe in the Tender the proposed composition of the Investment Committee and the way it will take Investment Decisions.<sup>15</sup></li> <li>3) Investment Decisions shall be taken on the arms’ length basis, in line with the best practices in the venture capital/private equity market.</li> <li>4) In particular, Investment Decisions shall be taken, in each case, on the basis of the Investment business plan, which should contain a description of the prospective Portfolio Company to be financed, financial forecasts, evaluation of the profitability of the project, as well as the description of the strategy of exit from Investment,</li> </ol>

<sup>15</sup> Depending on the legal form of the VC Fund and the assumed model of Investment Decision-making, the Investment Committee may, whilst there is no such requirement, be identical with the corporate body authorised to take decisions on behalf of the VC Fund; however, its decisions shall be binding as regards Investment entry and exit from Investments in Portfolio Companies.

	<p>and a legal due diligence report on the Portfolio Company, as well as other appropriate investigations, if necessary (technological, financial due diligence, etc.).</p> <p>5) The Public Investor shall have the right, in particular in the case of newly established Managing Entities, to appoint 1 observer on the Investment Committee without a voting right. The role of the observer without a voting right shall be limited to examining the conformity of Investments being implemented with the Investment Strategy, with the provisions of the Investment Agreement, with the rules of the conflict of interest management procedure and with the provisions of the EU and national law. Should any doubt arise, the observer shall inform the ME thereof and shall have the right to request an opinion of the Board of Investors/Advisory Committee.</p> <p>6) If an Investment Decision is reported to be incompatible with the provisions of the Investment Strategy of the VC Fund, the Investment Strategy is allowed to be adjusted in response on the basis of a substantiated proposal from the Managing Entity. Such adjustment shall require the consent of <del>PFR KOFFI FIZ</del> and a majority of Investors <del>at the Investors' Meeting</del>, subject to the investment rules described in this Term Sheet.</p>
<p><b>30. Board of Investors/Advisory Committee ("Advisory Board", "Limited Partner Advisory Committee", "LPAC")</b></p>	<p>1. The Board of Investors/Advisory Committee shall be composed of a <del>representative of PFR KOFFI FIZ</del> and representatives of <del>Private</del> Investors with the highest contribution to the VC Fund's Declared Capitalisation.<sup>16</sup> The Board of Investors/Advisory Committee may also include a representative of other, smaller <del>Private</del> Investors.</p> <p>2. The Board of Investors/Advisory Committee, as advisory body of the Managing Entity/VC Fund, shall, among other things, give opinions on the compliance of Investment Decisions with the rules of the conflict of interest management procedure, as well as their compliance with the Investment Strategy, with the provisions of the Investment Agreement, and with the provisions of the EU and national law. Detailed powers of the Board of Investors/Advisory Committee shall be set out in the Investment Agreement.</p> <p>3. Decisions of the Board of Investors/Advisory Committee shall be taken into account by the Managing Entity in the final Investment Decision-making process.</p> <p>4. A request to convene the Board of Investors/Advisory Committee shall be made by the Investment Committee observer or by the Managing Entity.</p>

<sup>16</sup> E.g. 3-6 representatives of Private Investors with a contribution to Declared Capitalisation of the VC Fund above 10%, depending on the composition of the Private Investor in the VC Fund concerned.

	<p>5. The Board of Investors/Advisory Committee shall take decisions by majority of votes. The Board of Investors/Advisory Committee’s detailed decision-making procedure shall be adopted in the Investment Agreement.</p> <p>6. The Managing Entity shall have the right to participate in meetings of the Board of Investors/Advisory Committee, with no voting right. The Board of Investors/Advisory Committee may decide, by majority of votes, to exclude the Managing Entity’s representative from participation in a meeting of the Board of Investors/Advisory Committee.</p>
<p><b>31. Investors’ Meeting</b></p>	<p>1) The VC Fund’s structure shall include the Investors’ Meeting (Meeting of Shareholders, General Meeting for companies and limited joint-stock partnership, respectively), the Investors’ Meeting for investment funds, or other body not specified in codes, established within the VC Fund’s organisational structure), composed of PFR KOFFI FIZ and representatives of all <del>Private</del> Investors.</p> <p>2) The Investors’ Meeting shall hold regular meetings, at intervals agreed in the Investment Agreement, in order to discuss the Managing Entity’s performance and other current business related to the VC Fund’s operations.</p> <p>3) Private Investors <del>shall be required</del> <u>should</u>to participate in Investors’ Meetings in person or through a proxy (unless personal attendance is ordered due to the importance of the matters to be considered under the Investment Agreement), and, in the case of Investors established as corporations or partnerships, to ensure the participation of persons taking decisions and managing the activities of such an Investor.</p>
<p><b>32. Management Fee (“MF”) in the Investment Period</b></p>	<p>1) The amount of MFs in the Investment Period shall be proposed by the Tenderer <del>in the Operational Budget of the VC Fund</del>.</p> <p>2) The MF amount proposed by the Tenderer in the Investment Period shall be set at an arm’s length.</p> <p>3) The MF in the Investment Period shall consist of:</p> <p>a) <b>Fixed component</b> (calculated on the VC Fund’s Declared Capitalisation), <u>or</u></p> <p>b) The <b>variable component</b> (calculated on the cumulative value of funds transferred to Portfolio Companies, with the proviso that funds transferred to Portfolio Companies are not taken into account: (i) if the VC Fund has made an exit or partial exit from such Investment – in the proportion corresponding to partial exit from Investment or (ii) if the VC Fund has made a value adjustment of the Investment – in the proportion corresponding to the value adjustment).</p>

<p><b>33. Management Fee (“MF”) in the Investment Exit Period</b></p>	<ol style="list-style-type: none"> <li>1) The amount of MFs in the Investment Exit Period shall be proposed by the Tenderer <del>in the Operational Budget of the VC Fund.</del></li> <li>2) In the Investment Exit Period, the MF relating to the contribution of PFR KOFFI FIZ shall consist solely of the <b>variable component</b>.</li> <li>3) In case of the contribution of PFR KOFFI FIZ, the annual MF in the Investment Exit Period shall not exceed <b>1.5%</b> of the funds transferred as part of Investments by the VC Fund to Portfolio Companies (excluding any funds transferred to Portfolio Companies: (i) if the VC Fund has made an exit or partial from such an Investment – in the proportion corresponding to partial exit from Investment or (ii) if the VC Fund has made a value adjustment of investment – in the proportion corresponding to the value adjustment), calculated pro rata temporis from the commencement date of the Investment Exit Period to 31 December 2029 or to the end of the Investment Exit Period, whichever is earlier.</li> <li>4) In case of PFR KOFFI FIZ, the capitalised amount of MFs due after 31 December 2023 shall be paid to a dedicated escrow account before the end of 31 December 2023.</li> </ol>
<p><b>34. Additional restrictions on Management Fees</b></p>	<ol style="list-style-type: none"> <li>1) The amount of MFs proposed by the Tenderer over the whole Investment Horizon of the VC Fund shall be set on an arm’s length basis and it shall be adjusted to the Declared Capitalisation of the VC Fund.</li> <li>2) The amount of MFs allocated to the Public Investor may not be greater than the MF allocated to the Private Investor.</li> <li>3) Irrespective of the term of the VC Fund, no MFs shall be paid after 31 December 2029.</li> <li>4) Over the whole Investment Horizon of the VC Fund (subject to Section 35.3 and Section 28), the MF shall cover all costs related to the VC Fund’s operating and investing activities, i.e. transaction costs, due diligence, staff remuneration costs of the VC Fund/ Managing Entity, taxes payable, and other operating costs.</li> <li>5) All fees paid to the Managing Entity and/or Team members, received from Portfolio Companies, shall reduce the MF payable to the Managing Entity.</li> </ol>
<p><b>35. Hurdle Rate</b></p>	<ol style="list-style-type: none"> <li>1) The Hurdle Rate, representing the minimum return on investment for the Public Investor and Private Investors, shall be proposed by the Tenderer.</li> <li>2) The Hurdle Rate amount proposed by the Tenderer shall be set at an arm’s length.</li> </ol>

	<p>3) The Hurdle Rate amount allocated to the Public Investor may not be greater than the Hurdle Rate allocated to the Private Investor.</p>
<p><b>36. Carried Interest</b></p>	<p>1) The amount of Carried Interest shall be proposed by the Tenderer.</p> <p>2) The amount of Carried Interest proposed by the Tenderer shall be set on an arm’s length basis and it shall be adjusted to the Declared Capitalisation of the VC Fund.</p> <p>3) Carried Interest shall be payable to the Managing Entity after all contributions made to the VC Fund have been returned, increased by the Hurdle Rate.</p>
<p><b>37. Rules for the distribution of proceeds from exists from Investments in Portfolio Companies</b></p>	<p>1) A detailed model of the distribution of proceeds from exists from Investments in Portfolio Companies shall be proposed by the Tenderer.</p> <p>2) The model of the distribution of proceeds from exists from Investments in Portfolio Companies proposed by the Tenderer shall not deviate from market conditions and it shall take into account the <i>pari passu</i> principle of distribution of funds between Private Investors and the Public Investor.</p> <p>3) An example model of the distribution of proceeds from exists from Investments in Portfolio Companies:</p> <p>a) First, funds shall be returned up to the amount of contributions made to the VC Fund by the Investors and the Managing Entity, in proportion to their share in the VC Fund’s Capitalisation – until 100% of their contributions/<u>Declared Capitalization of the VC Fund</u> is returned.</p> <p>b) Further proceeds from exits from Investment shall be allocated for the payment of the Hurdle Rate to the Managing Entity.</p> <p>c) Further proceeds from exits from Investment, remaining after the payment of the Hurdle Rate, shall be allocated for payment of:</p> <p>(i) Carried Interest to the Managing Entity, and</p> <p>(ii) Profits to Investors and the Managing Entity.</p> <p>d) Financial flows relating to all the above sections shall take place at the same time and on the same terms for all entities, i.e. Investors and the Managing Entity, pro rata to their Contributions to the VC Fund.</p> <p>4) A model of the distribution of proceeds from exists from Investments in Portfolio Companies shall also be possible, based on the catch-up formula.</p>



<b>38. Reporting</b>	The VC Fund shall be required to periodically report to PFR KOFFI FIZ in accordance with the data scope and the template prepared by PFR KOFFI FIZ, to be specified in the Investment Agreement.
<b>39. Monitoring and audit</b>	<ol style="list-style-type: none"> <li>1) The VC Fund shall be required to make available and submit, at each request from PFR KOFFI FIZ, any and all information and documents concerning the disbursement of funds from the contribution of PFR KOFFI FIZ and in connection with any audits performed by authorised national and international institutions to which PFR KOFFI FIZ reports as the beneficiary of funds under the SG OP 2014 - 2020.</li> <li>2) The VC Fund shall submit to audit performed by authorised bodies (in particular, but not only, the Ministry of Development, the Ministry of Finance, bodies of the European Union, the European Court of Auditors, etc.) with regard to the utilisation of resources from the Structural Funds under the SG OP programme. The VC Fund shall ensure the appropriate implementation of the provisions concerning the submission to audit and provision of information in investment agreements with Eligible Undertakings.</li> </ol>
<b>40. Compliance</b>	<ol style="list-style-type: none"> <li>1) The Managing Entity shall ensure the observance of the professional standards in the venture capital market and compliance with the laws and regulations relating directly or indirectly to the VC Funds' activities and the rules governing their Investments.</li> <li>2) The Managing Entity shall implement and ensure the observance of applicable legal standards and provisions providing protection from money laundering and tax fraud, as well as the combatting of terrorism. The Managing Entity shall put in place and control compliance, both at the VC Fund level and the level of the Portfolio Companies in which the VC Fund will make Investments, with internal procedures providing protection from money laundering, tax fraud and terrorism. The Managing Entity shall not maintain any business relations with entities registered in countries that do not cooperate with the EU in the field of combatting money laundering, terrorism and tax fraud.</li> <li>3) Moreover, the Managing Entity shall ensure: <ol style="list-style-type: none"> <li>a) The possession and maintenance of necessary formal qualifications, as required by laws and regulations<sup>17</sup>, to perform the tasks of the VC Fund, including tasks related to the implementation of financial instruments, in particular formal qualifications under the Act on investment funds and the management of alternative investment funds (Journal of Laws of 2004, No 146, item 1546),</li> </ol> </li> </ol>

<sup>17</sup> In accordance with the jurisdiction applicable to the registered office/place of registration of the VC Fund.



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|  | <ul style="list-style-type: none"><li>b) Economic viability and financial feasibility of its activities,</li><li>c) An appropriate organisational structure (including a transparent structure of Investment Decision-making in compliance with the best market standards),</li><li>d) An appropriate financial/accounting structure ensuring reliable, complete and credible information on the VC Fund's finances,</li><li>e) A robust and reliable method for the selection and evaluation of Portfolio Companies, based on the due diligence of the investment objective,</li><li>f) A procedure for the disclosure and management of conflicts of interest of any type that may arise within the VC Fund, in particular those connected with the provision of an equity contribution by the Managing Entity or with the VC Fund's co-investments in Private Investors' Portfolio Companies.</li></ul> |
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