

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 Captail 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 an 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.	Stages of development of Investment Targets	<ol style="list-style-type: none"> 1. The Capital Fund shall invest in Investment Targets at round A or B stage. 2. By way of exception, seed Investments and round C Follow-on investments shall be allowed.
10.	Requirements for the registered office of the Capital Fund	No territorial limitations.
11.	Capital Fund's investment limit in an Investment Target	The maximum investment limit in an Investment Target (Investment Target) shall be not more than 20% of the Capitalisation of the Capital Fund concerned. Except special cases, the taking or acquisition of shares/stocks by the Capital Fund under the first financing round (the first investment agreement with the Investment Target, without taking into account Follow-on Investments), must not lead to exceeding 49% of the share capital of the Investment Target and to exercising more than 49% of the total voting rights in the Investment Target.
12.	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.
13.	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.

14.	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 operational budget in Investments in Investment Targets. 2. The procedure to increase the Capital Fund’s Declared Capitalisation shall be set forth in the Investment Agreement.
15.	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.
16.	Contribution by PFR NCBR CVC to the Capital Fund’s Declared Capitalisation	Up to 50.0% of the Capital Fund’s Declared Capitalisation.
17.	Private Investors’ Contribution, including FM, to the Capital Fund’s Declared Capitalisation	A minimum of 50.0% of the Capital Fund’s Declared Capitalisation, with Team Members making a contribution, as part of the Fund Manager, to the Capital Fund’s Declared Capitalisation in accordance with Section 23.
18.	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 (“Fund Manager” or “FM”) 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. 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 Managing Entity of the Capital Fund. PFR NCBR CVC and NCBR have a right to appoint IC observers. 6. Observers shall have a limited right of veto solely in the situations enumerated below, i.e. with regard to Investment Decisions which involve: <ul style="list-style-type: none"> ○ threat to national security,

		<ul style="list-style-type: none"> ○ 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, ○ the fact that a person who is a member of the governing bodies of the Fund Manager 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>7. If a veto is exercised by an Observer, the legitimacy of such veto shall be resolved by the PFR NCBR Investment Committee which has the right to overrule a veto.</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>9. 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>
19.	<p>Role of the NCBR Investment Committee, Giving Investment Opinions, Right of Veto</p>	<p>1. Within the structures of the Public Investors, a consultative body is appointed – the NCBR Investment Committee</p> <p>2. The NCBR IC shall be composed of independent experts, representatives of NCBR and representatives of PFR Ventures/ PFR TFI.</p> <p>3. NCBR representative will have a right of veto solely with regard to Investment Decisions which involve:</p> <ul style="list-style-type: none"> a. threat to national security, b. threat to public security and order, c. threat to human life and health,

		<ul style="list-style-type: none"> 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 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.
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: <ul 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, 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	<p>10 years from the signing of the Investment Agreement with an option to extend it by a maximum of 2 years with the consent of PFR NCBR CVC, but not beyond 30 June 2029.</p> <p>The Investment Horizon shall include:</p> <ol style="list-style-type: none"> 1. the Investment Period (5 years, with an option to extend it, but not beyond 31 December 2023), subject to making Follow-on Investments), and

		2. the Divestment Period (5 years , with an option to extend it, but not beyond the end of the Investment Horizon).
22.	Fund Manager of the Capital Fund	<ol style="list-style-type: none"> 1. The Fund Manager may act as: <ol style="list-style-type: none"> 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	<ol style="list-style-type: none"> 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 Horizon 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%. 3. A replacement of one of the Members of Key Personnel whose involvement in management represents not less than 80% of their professional time may provide a basis for termination of the Investment Agreement.

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 the Investment Period, the MF attributable to PFR NCBR CVC shall not exceed annually 1.5% of amounts provided for Investments in Investment Targets, 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.

		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.
27.	Distribution of proceeds from exits from Investment in Investment Targets	<ol style="list-style-type: none"> 1. On an arm's length basis, <i>pari passu</i> between the Public Investor, Private Investors and the ME. 2. Amounts subject to payment from the Capital Fund shall be distributed as follows: <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". 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.
28.	Hurdle Rate	<ol style="list-style-type: none"> 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. 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.
29.	Carried Interest	<ol style="list-style-type: none"> 1. The amount of Carried Interest shall be proposed by the Tenderer in the Capital Fund operational budget. 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. 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.

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. 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, d. 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. e. in the case of the company registered outside of Poland, it has a link with Poland (Polish Nexus).
31.	Method of investment by the Capital Fund	<p>By way of taking (subject to Refinancing) the following new instruments issued by the Investment Target:</p> <ol style="list-style-type: none"> a. equity instruments; b. quasi-equity instruments.
32.	Refinancing	<ol style="list-style-type: none"> 1. Refinancing is defined as the redemption by the Capital Fund (or by an Investment Target for repayment or cancellation) of equity, quasi-equity or debt financial instruments of the Investment Target from the existing partners, shareholders or creditors. 2. Refinancing shall be allowed up to the limit of 50% of the value of investment in the Investment Target, provided that it is combined with the Capital Fund taking new equity or quasi-equity instruments of the Investment Target with the same value. 3. Refinancing shall be possible in particularly justified cases.
33.	Follow-on Investments	<ol style="list-style-type: none"> 1. The Capital Fund may make Follow-on Investments on the following terms and conditions: <ol style="list-style-type: none"> a. during the Investment Period:

		<ul style="list-style-type: none"> i. the Capital Fund has made its first Investment in an Investment Target that was in round A or B, and at the time of the Follow-on Investment it is in round C, and ii. the maximum total value of the Capital Fund Investment in the Investment Target, set forth in Section 10, is not exceeded. <p>b. after the Investment Period – besides the terms and conditions set forth above, additionally:</p> <ul style="list-style-type: none"> 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 ii. at least 55% of the funds earmarked for Investments shall be invested by the end of 2013, and 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 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.
34.	Capital Fund reporting	<ol style="list-style-type: none"> 1. The Capital Funds shall be required to periodically report to PFR NCBR CVC. 2. Detailed rules and scope shall be set out in the Investment Agreement.
35.	Capital Fund monitoring and audit	<ol style="list-style-type: none"> 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 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. 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. 3. Areas subject to monitoring and monitoring rules shall be presented by PFR NCBR CVC and they shall be implemented in the Investment Agreement.