SUPPORT FOR LOW-EMISSION ECONOMY FUND INVESTMENT POLICY

(E.1.1.1) SUPPORT FOR A LOW-CARBON ECONOMY RECOVERY AND RESILIENCE FACILITY

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1. Support for low-emission economy in the context of structural reform of RRF

Support for low emission economy is a part of the Component E of Recovery and Resilience Facility (RRF) i.e. Green, smart mobility, Investment E.1.1.1. It is also a supplementary activity for wider structural reform that Poland is undergoing in the energy sector.

a. The National Energy and Climate Plan for 2021-2030 ('NECP')

The National Energy and Climate Plan presents policy lines consistent with and complementary to the country's horizontal development strategy and fulfilment of the obligation set out in EU regulations. The diversification of the structure of the Polish energy mix while increasing the role of low- and zero-emission and high-efficiency technologies and solutions in all economy sectors will help to achieve positive results in the area of decarbonisation. Key complimentary goals for the Low-emission economy Fund and NECP are:

- Reduction greenhouse gas emissions (at least 40% compared to the 1990 level and increasing) also emissions in non-ETS sectors such as transport, agriculture, waste, industrial emissions outside the EU ETS and the municipal and housing sector with buildings, small sources, households, services, etc. (-7% in 2030 as compared with its level in 2005.). Poland shall support zero emission transport by developing alternative fuels, electricity, , which will contribute to both reducing Poland's dependency on oil imports and to limit the harmfulness of the transport sector to the environment.
- Reducing emissions of anthropogenic pollutants into the atmosphere: sulphur dioxide (SO_2), nitrogen oxides (NO_x), non-methane volatile organic compounds (NMVOCs), ammonia (NH_3), and fine particular matter ($PM_{2.5}$) by 2030.
- Reduction of the share of coal and lignite in electricity production to 56-60% in 2030 and further decreasing trend until 2040, increasing share of RES, e.g. increased dynamics of development of RES-based micro installations in the period 2020-2030.
- Reduction of the gap between Poland and highly developed economies and improvement of the life quality of Poles, as well as the fulfilment of the development aspirations of the present and future generations consistently with the sustainable development principle, e.g. by increase in expenditure on research and development.

b. The Energy Policy of Poland until 2040 ('EPP2040')

The Energy Policy of Poland until 2040 is one of nine integrated strategies resulting from the "Strategy for Responsible Development". EPP2040 is a compass for entrepreneurs, local governments and citizens in the transformation of the Polish economy towards a low-carbon economy. Key common goals with Low-emission economy Fund:

- Improve air quality, including: low-emission direction of transformation of individual sources − (heat pumps, electric heating), moving away from burning coal in households, maintaining the possibility of using smokeless fuel increasing the energy efficiency of buildings − development of low-emission transport.
- Increase in the share of RES in all sectors and technologies. In 2030, the share of renewable energy in gross final energy consumption will be at least 23% − not less than 32% in electricity (mainly wind and PV), 28% in heating (increase by 1.1 pp per year), 14% in transport (with a large contribution of electromobility).
- Significant increase in installed photovoltaic capacity approx. 5-7 GW in 2030 approx. 10-16 GW in 2040. TSOe and DSOe investment programs will be focused on the development of renewable energy sources, active consumers and local balancing.
- The most anticipated development of energy technologies and R&D investments includes: energy storage technologies, smart metering and energy management systems, electromobility and alternative fuels, hydrogen technologies.

c. The Strategy for Responsible Development ('SRD')

SRD determines 10 strategic sectors within them are i.a. sector of transport means production, eco-buildings which are coherent with the subject of Low-emission economy Fund. The investment would support SRD goals, i.a.

- Increase of global competitiveness of the Polish industry will be possible thanks to re-industrialisation. The industry is the core area for the increase in innovation because it spends the most on R&D actions and increasing innovativeness of Polish enterprises on the domestic and foreign markets is necessary to create new competitive advantages through e.g. development of technical infrastructure and competencies for the "Industry 4.0", create high-quality human capital and work places as well as the increased tendency of companies to export and locate direct investments in foreign countries will stimulate the external demand for innovations.

- Social cohesion requires that the benefits of economic growth be equally divided. Territorially sustainable development is also essential which means the necessity of removing barriers and strengthening those regions struggling with difficulties.

2. Proposal for execution of The National Recovery and Resilience Plan – The Fund

The Polish proposal is to establish Support for low-emission economy Fund (hereafter defined as The Fund) as a tool for execution of RRF policy under E.1.1.1 activity. Poland is undergoing a major structural reform in the field of energy mix and emissions that requires support in the field of equity capital availability. In order to speed-up undergoing transformation The Fund will be an efficient tool for execution of RRF goals within the component of Green, smart mobility (E).

The investments will be made by a fund operating in an appropriate legal form in accordance with the Act on Investment Funds and Alternative Investment Fund Management of 27 May 2004 (consolidated text: Journal of Laws of 2020, item 95, as amended) (the "Act"), which transposes Directive 2011/61/EU of the European Parliament and of the Council of 8 June 2011 on Alternative Investment Fund Managers and amending Directives 2003/41/EC and 2009/65/EC and Regulations (EC) No. 1060/2009 and (EU) No. 1095/2010 (AIFM Directive).

3. The Fund alignment with RRF Regulation and pillars

The Fund executes major goals of RRF, as well as other pillars by:

- Green transition (major initiative)
    - Support low emission industrial initiatives for households and transport aiming at creating value added for economy and reducing emission of GHG,
    - Expanding the market by creating the demand for low emission solutions among households and industrial customers by increasing supply and incentives for choosing proposed solutions,
    - Support investments in supply chain security aiming at having entire value chains located in Europe by exploring upstream market of low emission investments,
    - Expanding resilience of European market – enhancing independence from supplies from Asia e.g. batteries and panels and other.

- Digital transformation
    - Investment fulfilling standards of Industry 4.0,
    - Support investments in IT software utilisation in industry.
- Economic cohesion, productivity and competitiveness
    - Creation of highly-skilled jobs in EU,
    - Support of relocating jobs from Asia to EU,
    - Technology and industrial solution to Europe enabling the suppliers to grow and transfer to more added value chain segments.
- Health, economic, social and institutional resilience
    - Enhancement of EU citizens life level by proposing industrial solution limiting GHG emissions. In Poland there are 36 out of 50 most polluted cities in Europe. This is of great social importance, because due to smog and complications resulting from poor air quality, about 50 thousand people per year die prematurely in Poland.
- Social and territorial cohesion
    - Execution of investments in regions with high expectations for transformation, especially aiming at proposing alternative for carbon-related industries.
- Policies for the next generation
    - Creation of highly-skilled jobs in EU as well as playing active role in competence creation of future employees.

Low-emission economy Fund includes the following flagship areas recommended by the European Commission:

- **Recharge and Refuel** – the promotion of future-proof clean technologies to accelerate the use of sustainable, accessible and smart transport, charging and refuelling stations and extension of public transport with ultimate goal to reduce the GHG emission from transport.
- **Power up** – frontloading of future-proof clean technologies and acceleration of the development and use of renewables. Support the building and sector integration of almost 40% of the 500 GW of renewable power generation needed by 2030, support the installation of 6 GW of electrolyser capacity and the production and transportation of 1 million tonnes of renewable hydrogen across the EU by 2025.
- **Renovate** – The improvement of energy efficiency of public and private buildings.

Reskill and upskill – the adaptation of education systems to support digital skills and educational and vocational training for all ages by creating highly-skilled jobs in EU and active role in vocational training for future employees with significant focus on regions undergoing transformation from coal-based economy.

4. The Fund investment policy

a. Investment objectives of The Fund

One of the challenges of the Polish economy is the capacity to create advanced products in value chains related to low or zero-emission mobility and energy. This applies both to the possibility of supplying zero-emission final products (e.g. e-cars, e-buses, other e-vehicles) and components of final products (e.g. vehicle parts), as well as supply of appropriate energy sources that can be used for the purposes of zero-emission mobility. At the same time, research shows that Poland is currently one of the very significant manufacturers and exporters of vehicle parts in many European automotive value chains. Automotive sector is the second biggest export branch of the Polish economy with EUR 27,85bn export value in 2019. This offers a highly rational opportunity for Poland to shift to manufacturing of the advanced final products and the components of final products related to zero-emission mobility and energy (e.g. e-cars, other e-vehicles, vehicle parts, zero-emission fuel/energy storage and production). Such an approach complies i.a. with the European Green Deal's focus on decarbonisation of the EU economy and also with the European industrial policy and the European industrial manufacturing value chains. Moreover, the previous and the current economic crises have clearly shown the short and long-term anti-crises resilience of the industrial sector in terms of survivability, the capacity to generate, maintain or recover productivity and investment, as well as the capacity to create or maintain good jobs. This is also important in the territorial dimension, where the industry, and "green industry" in particular, may offer new jobs in the regions of structural transformation (e.g. in Poland in the region of Silesia, being subject to coal phasing-out).

The fund's investment objective is to build a suitable investment portfolio by selecting the most promising projects/portfolio companies engaged in manufacturing, service or R&D activities in the fund's target area. The fund allows for the acquisition of capital-intensive innovative projects and, in order to reduce investment risks, it also allows for investing in tranches, conditional on the achievement of milestones. The spectrum of the fund's activities will include equity investments and loans at various stages of development in the areas of transport, mobility, automotive, innovative and green technologies.

b. Investment description of The Fund

The Fund would invest in initiatives aiming at development of manufacturing assets providing low-emission solution to the European economy. The fund's scope of activity may embrace for example:

- industrial installations focused on zero-emission solutions in the field of sustainable mobility, including the production of technologically-advanced end-products, the production of products in value chains for the production of the above-mentioned end-products – e.g. e-cars, e-buses, e-vehicles, vehicle parts, etc.;
- industrial installations for the production of end-products in the field of zero-emission energy sources, batteries and products in value chains for the production of the above-mentioned end products – e.g. power cells, etc.;
- research and innovation processes, technology transfer and cooperation between enterprises focusing on the low carbon economy with focus on low and zero-emission innovative solutions in the field of sustainable mobility and zero-emission and low-emission energy sources.

The Fund will invest in projects primarily implemented by SMEs and mid-caps.
The Fund will support both strategic investments and projects executed by SMEs, the targets will be calibrated accordingly to the scope of the investments and its influence on objective execution.

c. Investment targets of the Fund

In order to increase the effectiveness of the implementation of projects included in the Fund, the progress of works and the achieved goals will be controlled with a 3-month frequency. The short-term objectives are the same as the indicators included in the content of the National Recovery and Resilience Plan. They will be achieved by 2026 at the latest. And their possible revision will take place when the national plan is modified.

The annual production capacity of new zero-emission vehicles due to the investments supported by the Fund.	100 000
The production and installed storage capacity (batteries) (in MW) of zero-emission energy sources annually produced (excluding Compressed Natural Gas and Liquefied Natural Gas) due to the investments supported by the Fund.	1 000 MW
The number of SMEs and mid-caps supported by the Fund and providing products and services for low-carbon/zero-emissions sustainable mobility and zero-emission energy.	150

d. Requirements for portfolio companies

- At the time of the investment, the company may have the status of a small, medium-sized or large enterprise.
- The company is not under an obligation to repay the state aid under a decision of the European Commission or of another authority which declared such aid unlawful and incompatible with the internal market.
- Members of the company management body have not been convicted by a final and non-revisable judgment of perjury, an offence against property, reliability of documents, money and securities trading, the economic system, the banking system or a criminal fiscal offence or any other offence connected with business activity or committed for financial gain.
- The shareholders of the company are not listed in the Register of Insolvent Debtors of the National Court Register.
- The company is not in difficulty within the meaning of Regulation 651/2014[1].
- The company has no tax arrears and meets its obligation to pay social security contributions, or the relevant tax office or the relevant branch of the Social Security Institution agreed to the arrears being paid in instalments or deferred under a final and non-revisable decision; if the SPV has any tax or social security arrears at the time of the investment, the fund will make the transfer of funds conditional on the repayment of the arrears by the company.

[1] COMMISSION REGULATION (EU) No 651/2014 of 17 June 2014 declaring certain categories of aid compatible with the internal market in application of Articles 107 and 108 of the Treaty.

- The company is not established and has no business and commercial relations with entities established in any country that does not co-operate with the EU in implementing international agreed tax standards.

Investment requirements and limits

- The invested funds will not be used for:
  - pre-financing of subsidies or other public funding;
  - purchasing real estate – at more than 15% of the value of the investment in the SPV;
  - repaying debt that existed prior to the investment by the fund or for restructuring the company debt.
  - activities related to fossil fuels, including downstream use ; (ii) activities under the EU Emission Trading System (ETS) achieving projected greenhouse gas emissions that are not lower than the relevant benchmarks ; (iii) activities related to waste landfills, incinerators and mechanical biological treatment plants ; and (iv) activities where the long-term disposal of waste may cause harm to the environment.
- The invested funds may be used for investments in fixed and intangible assets as well as in working capital.
- The solutions/projects of the company being developed (ultimately with the support of the invested funds) may not be completed or fully implemented at the time of the investment decision of the fund.
- No more than 70% of the fund's capitalisation will be contributed to a single company.
- The fund may make initial and follow-on investments.
- Investments can be long- or medium-term.
- Measures will comply with the 'Do no significant harm' Technical Guidance (2021/C 58/01).
- Compliance of supported investments with Articles 6(3) and 12 of the Habitats Directive, and Article 5 of the Birds Directive shall be ensured and, where necessary, an Environmental Impact Assessment (EIA) or screening shall be carried out, in accordance with the EIA Directive.

e. Financial instruments of the Fund

The fund would be offering equity and debt support following its adopted Investment Strategy. The RRF resources transmitted into the fund would be financing the fund's investment decisions. The fund would have the revolving nature. The reflows to the fund, deducted by the fund's associated operating costs, would be used for the same policy objectives, including beyond 2026. The rationale for the uptake of both funded and unfunded financial products stems from the analysis of the funding gap and the investment capacity of the Polish financial (including banking) sector, esp. that compared to other MSs, Poland's banking sector is relatively small in relation to the GDP, and the VC/equity sector is particularly underdeveloped.

Key form of investments by the Fund

- Buy-outs, understood as the purchase of existing shares in the SPV from a previous investor (shareholder) in the company, are possible up to 70% of the value of the investment in the company.
- The fund may, taking into account its investment objective, provide support to portfolio companies, in the form of financial loans, up to an amount not exceeding the value of the fund's assets, except that the amount of a financial loan granted to any entity may not exceed 40% of the value of the fund's assets.
- A follow-on investment may be made in a company if the fund has previously invested in that company or the possibility of and need for such investment was envisaged in the original business plan for the investment.
- Investments may be made on a one-off basis or in tranches.
- The fund may co-invest with other entities.

Amount of credit facilities and loans taken out by the Fund

- It is assumed that the fund may take out credit facilities and loans which may be used for investment purposes and operating activities.
  The maximum level of leverage, defined by exposure, expressed as a percentage of exposure (calculated in accordance with the commitment method as set out in Article 8 of Regulation No 231/2013) to the value of assets, should not exceed [200%] of the value of assets at any time.

f. Rationale and criteria for the choice of the financial instrument of the Fund

Investment decisions would be made according to market criteria. Key criteria for the selection of the instruments would include, but are not limited to:

- Fund's share in the value of investment

- IRR (Internal Rate of Return) of the project,
- Possibility of market exit, by selling to industry investor, another Venture Capital fund or by Initial Public Offering (IPO).

g. Organization, decision making process and investment monitoring of the Fund

The Fund will be run as a separate legal entity with own investment policy and decision making system covering: investment committee, investment stage-gates etc. The supervision over the fund policy execution will be accordant with the applicable national laws and regulations. The Fund will be revolving in it's nature which means that money recovered by the exit from investments will be reinvested in the next projects according to investment policy. Sustainability proofing will be ensured for financing and investment operations in all segments within which the Fund operates.

Making investment decisions

- Prior to making the investment, the fund manager will draw up or analyse a business plan for the investment, which will include at least:
  - a description of the investment (including a description of the product/service);
  - financial forecasts (including financial sustainability);
  - assessments of the project profitability;
  - a description of possible and realistic exit strategies.
- Following the analyses, if necessary due to the maturity of the company and the nature of its business, the fund manager will conduct examination, including a due diligence, to the extent required, including the tax, legal, accounting, technological and/or environmental one, and the results of this examination will be confirmed by appropriate reports by tax, legal, and/ financial advisers, as appropriate.
- The investment decision will be subject to the opinion and approval of an investment committee, operating within the fund, consisting of five to ten persons with expertise in the operation of investment funds in appropriate forms and industries. The investment committee will include, among others, members of the fund's management board.
- In making its decisions, the fund will be guided by the principle of maximising the value of its investments while taking into account investment risk mitigation. Investment decisions will be made on the basis of prevailing economic, business, legal and

organisational factors, the specifics of a given investment and the growth potential of a given enterprise. Such elements will be taken into account as:

  - compatibility of the company business plan, activities and strategy with the objectives of the fund;
  - the technical and market sophistication of the project;
  - the financial and legal position of the portfolio company, its market position, the industry outlook, the ability to achieve an appropriate rate of return in the industry and the risks associated with operating within the industry;
  - historical and projected financial data, taking into account the value growth potential for the company or its assets;
  - the product offered by the company and development prospects;
  - scalability of the investment and the sales potential.
- Projects will be grouped according to the risks involved.

Monitoring of investments

- The fund manager is required to monitor and control with due care the use of the invested funds by the company and to react whenever the company spends the invested funds contrary to its objectives.
- Irrespective of its shareholding, the fund will have certain corporate rights as a result of standard provisions used in investment contracts that protect the rights of the financial investor. These will include (to the extent necessary and possible in the particular case):
  - the service of its representatives on the supervisory board of the company;
  - the protection against dilution of the fund’s share;
  - a pre-emptive right to subscribe for new equity instruments in the company;
  - the right to appoint the chief financial officer and the auditor;
  - a veto on key decisions (e.g. change of business area, mergers and acquisitions, disposal, encumbrance or acquisition of material assets, incurring material liabilities, transactions with related parties, and disposal or encumbrance of shares in the company, especially by key persons);
  - an obligation on the company to provide the fund with operational and financial reports in a specified form;
  - the possibility of carrying out checks on the disbursement of funds by the company.

Investment eligibility principles and other investments limits

- The fund may pursue an active management policy, which means that the degree of involvement in particular investment categories will be variable.
- Investments may be diversified in terms of the types of industry and the markets in which the portfolio companies.
- In terms of geographical eligibility, it may invest in companies established in the Republic of Poland.
- The proportion of individual shares taken up by the fund as part of the investment will be between 20% and 100% of the value of the assets.

5. Compliance with State Aid, Public procurement and Guidance Note

Investment activity of The Fund will be driven on competitive and market basis. The Fund will be run on a Venture Capital principles, providing capital for projects at an early stage of development for major capex intensive projects supporting transition to low-emission economy.

a. Compliance of The Fund

The fund's operating principles will provide for the early detection and exclusion of potential conflicts of interest of investment decision makers. To this end, it is assumed that appropriate internal compliance procedures and policies will be developed, implemented and enforced.

i. Compliance with State Aid with respect to Financial Instruments for The Fund

The investment policy and its implementation, including in connection with conducting appropriate pre-investment analyses, is to ensure full compliance of the fund's operations with the state aid rules.

Investments made by the fund will generally be made on an arm's length basis, which will be analysed as part of the implementation of pre-investment activities, examinations and analyses.

The fund will also be able to make investments that comply with state aid rules, on the basis and on the terms and conditions of an aid scheme which, if necessary, will be notified to the European Commission.

ii. Compliance with public procurement with respect to Financial Instruments for The Fund

The operations of the fund will not breach public procurement regulations. When carrying out investment activities, in the form of taking up shares in or granting loans to portfolio companies, the fund will not be subject to public procurement regulations.

The framework within which the fund will operate will be modelled on the relevant legal regulations. If the fund delegates/outsources the performance of its activities to some entities, these entities will be selected on the basis of open, transparent, proportionate and non-discriminatory procedures, ensuring that there are no conflicts of interest.

iii. Following of the Guidance Note with respect to Financial Instruments for the Fund

The operations of the fund will be in accordance with Guidance Note with respect to Financial Instruments for the Fund.

b. Compliance of The Fund investments'

The area and scope of projects of interest to the fund will contribute to the assumptions of the Recovery and Resilience Facility in accordance with Regulation (EU) 2021/241 of the European Parliament and of the Council of 12 February 2021 establishing the Recovery and Resilience Facility. The operations of the fund will correspond to the green transition objectives, in line with the directions indicated by the Commission in the Annual Sustainable Growth Strategy 2021 (COM(2020) 575 final), taking also into account the Sustainable and Smart Mobility Strategy - putting European transport on track for the future (COM(2020) 789 final). Due to the planned area of interest of the fund, projects will be identified that fit in with the Recharge and refuel initiative indicated by the European Commission in the said documents, by e.g. fostering the reduction of greenhouse gas emissions, smog, improvement of air quality, reduction of fossil fuel consumption in transport, promotion of electromobility and green transport and supporting e-mobility and the Smart City ecosystem.

6. The Fund vs. other programmes in the EU support landscape

The Fund will be complementary to all initiatives supporting 2050 climate neutrality agenda of EU.

The Fund may be treated as a complementary tool for execution of the objectives of Just Transition Fund (JTF) in terms of decarbonisation, support to territories facing serious socio-economic challenges arising from the transition towards climate neutrality by creating new jobs and supporting development of new competences for people touched by the climate-related transformation.

Moreover the Fund shall be complementary to available in Poland financing schemes, however none of those available tools cover financing of enterprise investments at The Fund's terms and conditions:

- The majority of programs offers support in the form of grants and subsidies which are subject to State Aid and its limits (e.g. programs National Fund for Environmental Protection and Water Management operational programs like e-Van, Mój prąd, Koliber, Significants Investment Projects, Tax exemptions).
- Programs have limits of support for one project far below the demand of the significant investments (e.g. Program Sokol enabling capital investment on the arm's length basis up to 300 M PLN).
- Programs regulations contains requirements for significant equity capital (e.g. Program Sokol, National Centre for Research and Development) what may limit possibility of independent start-ups development.