

## **Small Enterprise Assistance Funds**

**Final Report**  
**Award # PER-G-00-00-00011-00**  
**Bulgaria II Grant**

**to**

**The United States Agency  
for International Development  
(USAID)**

*May 30th, 2005*

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## **I. Summary of Activities**

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**USAID Award Number:** PER-G-00-00-00011-00

**Effective Start and End Dates:** February 23<sup>rd</sup>, 2000 – January 31<sup>st</sup>, 2005

The purpose of the Grant was to expand efforts to promote the development of private Bulgarian enterprises, through SEAF Trans-Balkan Bulgaria Fund LLC, a Delaware (USA) limited liability company (the “Bulgaria Fund”). The Bulgaria Fund will continue the mission of promoting economic development in Bulgaria, as previously carried out by CARESBAC-Bulgaria.

The Bulgaria Fund provides financing, in combination with technical assistance, to small- and medium-sized enterprises (“SMEs”) in Bulgaria. It invests in private Bulgarian SMEs in amounts ranging generally from \$50,000 to \$500,000 (Bulgaria leva equivalent). Its shareholders include SEAF (with funds from USAID) and the SEAF Trans-Balkan Fund LLC.

As of March 31, 2005, the Fund had drawn down USD 5,713,656 (80 percent of the committed capital), with USD 1,432,344 total committed capital remaining. The Fund has distributed to the investors USD 795,958. The Fund has committed to companies a total of USD 4,739,000, or 66.3 percent of its committed capital. A total of USD 4,464,500 (62.5 percent of the committed capital) has been disbursed to companies thus far.

|                                       |  |
|---------------------------------------|--|
| <b>Fund Closing:</b>                  | November 27, 2000  |
| <b>Vintage Year:</b>                  | 2001   |
| <b>Life of Fund:</b>                  | 9 years  |
| <b>Total Commitment:</b>              | USD 7,146,000  |
| <b>Fund’s Domicile:</b>               | Delaware, USA  |
| <b>Legal Form:</b>                    | Limited Liability Company  |
| <b>Structure:</b>                     | Trans-Balkan Fund LLC (USD 5,000,000)<br>SEAF, via USAID grant (USD 2,146,000) |
| <b>Investment Focus By Stage:</b>     | Early Stage and Expansion Capital for SMEs                                     |
| <b>Investment Focus by Geography:</b> | Bulgaria   |
| <b>Investment Size:</b>               | Maximum 20 percent of the Fund’s Committed Capital per Project                 |

Please see Appendix D for the latest Financial Statement (as of March 31<sup>st</sup>, 2005) for SEAF’s TransBalkan Bulgaria Fund.

## **II. Financial Report**

Please see Appendix A for the final 269 report submitted to USAID's Office of Financial Management. Also, please note Appendix B for a final Detailed Financial Report.

## **III. Program Management**

Program Activities for the Grant were run out of SEAF's representative office in Sofia, Bulgaria, with oversight and support from SEAF headquarters in Washington, DC.

The current investment staff in Sofia, Bulgaria totals six professionals including Director General Magdalena Kowalska. This team is comprised of three senior and three junior staff members. A short review of the senior team members is included below:

**Magdalena Kowalska** became Director General of SEAF Trans-Balkan Bulgaria Fund LLC and CARESBAC Bulgaria in June 2001. She is also Director General of SEAF Trans-Balkan Croatia Fund since January 2003. Ms. Kowalska has over 9 years of experience in equity investments and over 6 years of experience in managing private equity funds internationally. She has been working with Small Enterprise Assistance Funds since 1996 at various positions in Poland, the Baltics and the Balkans and completed several deals in those countries. Currently, Ms. Kowalska manages a portfolio of more than 30 companies in Bulgaria and Croatia and is a supervisory board member for SEAF North Fund in Poland and for several SEAF portfolio companies. Ms. Kowalska received her Masters degree in 1994 from Gdansk University, where she also completed Post-graduate studies in General Management and Finance in 1995. She also passed training in private equity management with European Private Equity and Venture Capital Association (EVCA). Ms. Kowalska is Polish citizen.


**Teodora Kantutis** has been the acting Lawyer for SEAF Trans-Balkan Bulgaria Fund since January 2002. She has worked with SEAF's CARESBAC Fund as a Member of the Management Board and Lawyer from 1998 to 2003. Prior to her arrival at SEAF, she served as Legal Counsel for Bulgarian Investment Bank for four years, where she was extensively involved in preparation of credit agreements, pledge agreements, guarantees, service and other civil contracts. At SEAF Ms. Kantutis is responsible for analyzing and developing the legal part of investment projects, preparing the legal due diligence, as well as analyzing the Bulgarian laws on commerce, trade, corporations and other matters pertinent to the Fund's activities. Ms. Kantutis received her Masters degree in Law from Sofia University and passed a course in Commercial and Banking law in Queen Mary & Westfield College at London University.

**Danail Danailov** has served as Senior Investment Officer at SEAF's Trans-Balkan Bulgaria Fund since July 2000. He manages the investment team in the pre-investment process, including identification of investment opportunities, due diligence process, deal structuring and negotiations. Mr. Danailov's main responsibilities include ongoing relationships and monitoring of portfolio companies in the areas of financial, operational,

and marketing management, and also adding support in various business development activities. Prior to joining SEAF-Bulgaria, he worked as a Financial Analyst and Broker and has gained experience in Money and Capital markets analysis, Government Debt management, Capital flows, Sales of Government securities, and Client service. Mr. Danailov received his Masters degree in Finance from Sofia Economic University. He also passed training in private equity management with European Private Equity and Venture Capital Association (EVCA). Mr. Danailov is fluent in French, English and Russian.

#### **IV. Investment Highlights & Pipeline**

Below are highlights and success stories of two selected SEAF TBBF portfolio companies, Teletek Electronics and Mercurius.

|  |   |
|--|---|
| <p><b>Teletek Electronics</b></p>  |  |
| <p><u>Business:</u></p>  |   |
| <p>Established in 1991, Teletek Electronics specializes in contract manufacturing services, production of security, fire alarm systems, and cash registers. The SEAF Bulgaria Fund became a shareholder in 2001. As of 2004, Teletek Electronics has over 30% market share of the security alarm systems in Bulgaria and exports more than half of its production.</p>   |   |
| <p><u>Investment and Technical Assistance:</u></p>   |   |
| <p>The investment was structured as equity of USD 300,000 and debt of USD 200,000. The investment was targeted to build the production capacity of Teletek Electronics and bring it up to world standards for electronic production. A new Phillips Surface Mounting Technology line (USD 300,000) and various other new equipment (USD 100,000) for testing final products were acquired. The rest of the investment was used to cover the increased working capital needs.</p> |   |
| <p>SEAF investment staff was very active with the company through the period of the investment and has been focused on setting up the corporate structure and the management teams that could successfully manage the growth and exercise the market opportunities.</p>  |   |
| <p>Together with Teletek, SEAF's local investment team developed and introduced new reporting and budgeting practices and worked to meet higher level international performance and presentation standards. In addition, a SEAF expert in inventory management provided valuable expertise in inventory, accounts receivable, reporting, analysis and management. The system developed is used by the company in every day operations.</p>                                       |   |

SEAF identified appropriate financing and marketing options for Teletek Electronics expansion. SEAF's contact with World Business Capital resulted in loan financing from Ex-Im Bank, for example.

SEAF Business Development Unit<sup>1</sup> performed market research, which identified opportunities (competitors, prices, transportation costs, certifications requirements, etc.) in the USA. SEAF's BDU in the Netherlands supported Teletek Electronics in negotiations with a new supplier from the Netherlands. Ultimately, this new contact resulted in a new contract for Teletek.

In addition, SEAF representatives established many trade contacts for Teletek Electronics in Europe and advised the company to use a BESO consultant who assisted in identifying opportunities and legal requirements when developing an international distribution network and signing international sales contracts.

Impact:

SEAF exited Teletek Electronics in July 2004 through a management buy-out realizing over 30% internal rate of return. During the 3-year period of SEAF investment the company's sales grew 2.6 times in BGN terms (3.2 times in USD terms). Teletek Electronics employed 41 new people and thus almost tripled its staff. The newly established marketing department gradually and successfully implemented the company's sales strategy. Teletek focused on expansion of its security products (high margins) on the large export markets in Western Europe and the Balkan region.



**Mercurius**

Business:

Started in 1991 as a small family business, dealing mostly with gift and souvenir items, the company has developed to become one of the largest dealers of office and stationary products, office furniture, machines, consumables, and school items. The souvenir business was sold to another company in mid 2003, allowing Mercurius to focus on its core activity, i.e. developing three main market segments: (i) indirect sales of stationary products through independent retailers and wholesalers; (ii) direct sales to corporate clients through catalogue and e-trade; and (iii) trade with branded gifts for advertising purposes.

Mercurius operates a network of five distribution and logistics offices, located in the key

<sup>1</sup> SEAF's global Business Development Unit (BDU) is headquartered in Washington, DC with an office in Europe. The BDU, in conjunction with SEAF's local staff, works closely with investee entrepreneurs to assist them in every aspect of their businesses, particularly in the marketing of products, the control of costs and finances, and the sourcing of equipment and raw materials.

cities of the country enabling the company to deliver to more than 450 locations daily through own fleet of automobiles.

Mercurius, having quite a versatile client structure, is working through all possible sales channels. The core business of Mercurius, both under the brands Mercurius and 1 Classic is catalogue sales, where orders are made via telephone and are delivered directly to customer's office or stationary shop. A second channel of communication is the corporate web site, [www.classic-on-line.com](http://www.classic-on-line.com), allowing orders by end users via the internet. Furthermore, the company has three trade centers – wholesale shops with restricted access, targeted at Mercurius brand clients only. Finally, in 2004 Mercurius started its own chain of licensees under the brand 1 Classic, and now has 10 such shops throughout the largest cities.

With more then 10 years of experience in business-to-business trade, Mercurius now ranks third on Bulgarian stationary market, both among corporate clients and wholesalers. In 2004 the company has 6% market share and annual turnover of more than USD 8 million.

Investment and Technical Assistance:

In 2002 SEAF TBBF invested USD 900,000 in the company. The investment has been used to increase logistics capacity of the company and to establish the national distribution and logistics network. Further, part of the initial investment was used to purchase and implement ERP software – Microsoft Navision, which has been used by Mercurius since the beginning of 2004. Thanks to this software program, all locations of the company are connected online, providing accurate and timely information for analysis and reporting. Furthermore, the company is more flexible, having the opportunity to transfer items where needed and respond more rapidly to any client's needs.

With the support of SEAF, the company signed a contract for the Turn-Around Management Program (TAM) from EBRD at the end of March 2003. The senior industry advisor, Mr. Bart Yansen, visited the company in May and performed an initial analysis. A preliminary plan was developed, with issues including organizational structure, marketing strategy, and human resource management. During the second visit in June, the consultant proposed a new organizational structure and a system for control of the sales staff. The training program for Mercurius' sales staff was approved, as well as some improvements in the company's bonus schemes. In the third quarter of 2003, the Company improved organization and marketing structure, implementing advice from the TAM Program's advisors.

The Following are promising prospective investments for SEAF-Bulgaria as of March 31, 2005.

**CibaLab Ltd. – a medical diagnostics laboratory**

CibaLab was established in 1997 as a laboratory providing clinical testing services in areas such as hormones, tumor markers, parasitology, immunology, serology, and microbiology. CibaLab is considered to be among the leading laboratories in Bulgaria in terms of professional standards and customer service. Taking into consideration that the laboratory market is still highly fragmented, the company's market share of 5 percent for 2004 can be considered significant. In 2004, CibaLab had 27 percent year-on-year growth in sales and realized a net profit margin of 31 percent.

CibaLab has developed an informal network currently comprised of 35 laboratories in Sofia and elsewhere in the country. These laboratories send samples for testing to CibaLab and purchase some reagents from the company

CibaLab is seeking to expand its business through acquisition of existing laboratories and establishment of new ones in big cities. Therefore it is looking for USD 800,000, which will be used for molecular testing equipment (USD 300,000) and working capital, including acquisition costs (USD 500,000).

Upon completion of this investment in two years, CibaLab will increase its market share of all laboratory testing in Sofia by 10 percent and esoteric testing in the country by 15 percent. This will represent about 27 percent market share of the laboratory diagnostics in the country.

**Intext Ltd. – interior doors producer**

Intext Ltd. was founded in 1994. The company's main activities are manufacturing and import of interior doors, import and distribution of armored, garage and fireproof doors and electrical materials imported from Italy. Intext Ltd. is one of the biggest producers of interior doors in Bulgaria with 10 to 15% market share. For 2005 the expected year-on-year sales growth is 15 percent.

The construction material business during the recent years in Bulgaria has experienced fast growth. The company imports interior doors from Czech Republic due to insufficient production capacity to satisfy the higher demand for its product. To meet the market demand, Intext needs to renovate and increase its production capacity, broaden the product variety, optimize and expand the trade network and to start a serial production of interior doors. The serial production will allow the company to lower the manufacturing costs, expand volume, as well as increase its domestic and export market share.

The company seeks expansion capital in the amount of EUR 2,250,000 of which EUR 1,000,000 would be equity. The investment will be used for a new production building and warehouse, showroom and administrative office, new equipment, automobiles and working capital.



### **Handy Tel – mobile and fixed telecommunication handsets trader**

Founded in 2001, Handy Tel's main line of business is retail and wholesale trade of mobile and fixed telecommunication handsets and accessories. Currently Handy Tel operates 12 outlets in Sofia and 28 within the country.

Growth of the mobile phone market in the last 3-4 years is in the range of 25-30% annually on average. As of 2003, Bulgarian mobile market recorded 11% year-on-year growth and was estimated to cover 37% of population compared to 50% in Central Europe on average. The GSM Telecom market in Bulgaria is expected to experience a strong growth in 2005 and 2006 considering the relatively low penetration rate and the increasing competition with the launch of the third GSM operator in 2005. Handy Tel marked 41% year-on-year growth in sales for 2004 and expects 33% for 2005.

Expansion plans of Handy Tel include relocation of some of the existing outlets and opening of new shops in prime locations in Sofia and the most developed cities in the country up to a total number of 80 outlets.

## **V. Business Development & Technical Assistance**

In conventional private equity and venture capital investing, the major activity of the fund manager is the selection of a small number of investments from the review of a vastly larger number of business plans. However, reliable business plans at the level of enterprises that the Fund is targeting are generally not available. By contrast, the core activity of the Fund Manager is just as related to building businesses as it is to picking them. In order to establish and maintain close partnerships with investees, assistance is frequently provided as part of the initial investment process. Frequently, the investee and SEAF investment officers formulate a business plan together and a close relationship is formed at this stage in the process.

Almost invariably, this relationship between the Fund Manager and the investee continues through the life of the investment. SEAF believes that partnering with the SME after investment is the most appropriate means for ensuring the success of its investments. In many cases, the management of the SME needs information, insights, and training as much as capital. The entrepreneur can appreciate that with SEAF's help, his or her business will grow more rapidly, thereby ultimately benefiting the owner, SEAF, and SEAF's investors. Each investee has specific needs, but, in a broad sense, support consists of the following:

- **Corporate Governance**: SEAF works closely with the entrepreneurs of its investees to align profit-oriented interests, develop better legal structures, and improve the oversight of the Board of Directors.
- **Financial Control and Operational Improvements**: In the initial stages of an investment, SEAF has been able to quickly improve the financial performance of the investee through simple activities such as implementing budgeting and monitoring

controls, cost accounting and pricing analysis, inventory management, and renegotiating terms of debt.

- Additional Financing: SEAF helps companies to identify new sources of financing, build relationships with local banks, and negotiate lines of credit with banks.
- Sourcing: SEAF's global Business Development Unit (BDU) has helped a number of companies locate inputs such as raw materials and new and used equipment in a number of industries such as plastics, printing, and food processing. The BDU also helps companies verify the cost of inputs before purchase, conduct cost comparisons, negotiate prices, and access financing for such purchases.
- Marketing/Strategy: At the same time that costs are reduced and financial and legal structures are improved, revenue growth must be a focus as well. SEAF's global Business Development Unit (BDU) assists companies in expanding their access to regional and global markets by helping them develop and implement marketing strategies. The BDU helps portfolio companies understand the target market, identify leads, negotiate with contractors and distributors, develop products, and secure trade financing.

For instance, in the case of Ken-4, a Bulgarian meat processing company, SEAF provided a significant amount of technical assistance. SEAF arranged for a visit from a marketing consultant from a Canadian volunteer executive organization to advise the company on its marketing and distribution strategy. SEAF provided the company with extensive help with its accounting and reporting systems. SEAF also arranged a visit by a German expert in meat processing and machinery to consult the company on organizing the production more efficiently, installing the necessary machines and equipment, and implementing better controls of materials and inventory.

Some further examples of TA provided to Bulgarian investments include:

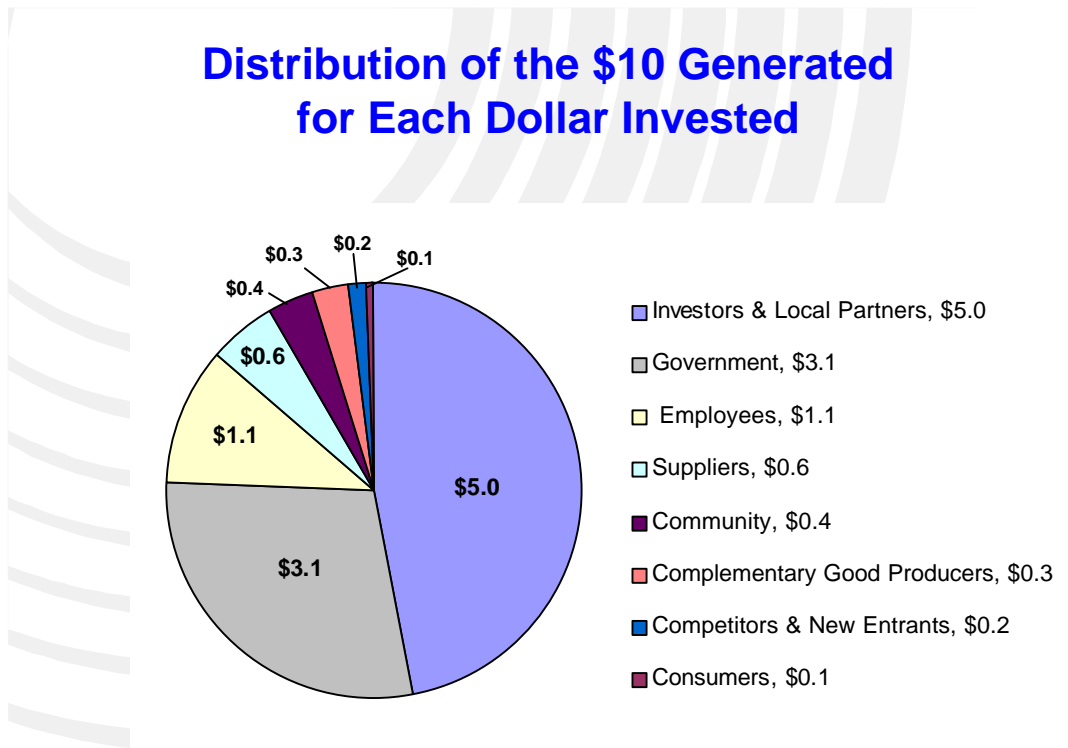
- Market/Strategy: SEAF's investment staff continued its research to determine the most appropriate strategy for commercializing the technology and discussed an eventual "licensing model" and the associated pricing with Ecoprocess (which recycles used automobile tires).
- Corporate Governance: A senior, SEAF in-house consultant worked with Mercurius (Stationary Product Distribution) on the implementation of a new compensation plan for the sales staff and on the introduction of a better inventory management system.
- Networking: SEAF organized for Gasco's (an LPG distributor) management to visit Kyrgyzstan where SEAF's Central Asia fund recently invested in El Gas, an LPG business. This visit proved to be mutually beneficial. Gasco's CEO provided valuable consultancy to El Gas in strategic and operational areas of the business. The entrepreneurs from the Kyrgyz company provided good information and contacts on LPG supply and railway tanks.
- Additional Financing: SEAF supported Marker (an office and school paper producer) in its efforts to identify different financing options for its development plans, including a plan related to continued cooperation with United Bulgarian Bank. As a result, the company received Euro 250,000 of working capital from the bank. With

this financing, the company increased its capacity during the top back-to-school season sales.

Please see the Appendix C for a list of Technical Assistance Provided to Portfolio Companies.

## **VI. Development Impact**

SEAF's investments have historically performed very well, both in terms of financial return to investors as well as the greater economic return spread across the other stakeholders, as shown in the graph below. This was demonstrated by SEAF's Development Impact Study, which used the case study approach to measure the economic impact of 10 portfolio companies.



*Note: At 0% discount.*

The study's main findings were that:

- The economic impact of investment in SMEs is significant. On average across all the case studies, every dollar invested by SEAF generated an additional ten dollars in the local economy, with a range from \$4 to \$24. Virtually all the firms have achieved a significant positive economic rate of return, even before the investment is brought to

term. Even in investments from which SEAF has exited at a relatively low internal rate of return, the economic impact was significant.

- Two-thirds of total employment in the sampled firms goes to low-skilled workers, confirming the hypothesis that SMEs generate new jobs that are suitable for the poor.
- Employees' annual wage growth can be high: up to 28 percent for low-skilled workers and 34 percent for high-skilled workers.
- Employees benefit from the stability of employment. Along with the payment of health and social security benefits, this helps them to accumulate tangible assets and plan or save for their children's education, hedging themselves against poverty and providing a path out of poverty for their children.

For example, Ken-4 was one of the SMEs analyzed in the study. SEAF measured a strong developmental impact: every dollar invested by SEAF generated about sixteen dollars in the local economy. Employment grew from 16 to 125 full-time workers between 1996, when SEAF invested, and 2002, when SEAF exited. Furthermore, Ken's existence has had a significant impact on the poverty in the region. First, Ken's growth and development required a high level of unskilled labor, while at the same time giving these workers the opportunity to become semi-skilled and even skilled through training. This has led to a steady and even increase in wages. Second, Ken impacted poverty in the region by providing workers with formal employment, giving them and their families access to health insurance and social security. It should be noted that much of the development impact of Ken was not quantifiable, and therefore its impact is likely to be much larger than the already substantial 26% IRR and 37% ERR.

## **VII. Program Continuation and Direction**

The SEAF Trans-Balkan Bulgaria Fund investment staff is currently evaluating several potential new investment projects and has two very strong companies in the pipeline, among others.

SEAF also continues to provide technical assistance and business development support to its portfolio companies through its Business Development Unit in Washington, local staff, and through its global operational support and exit specialists.

SEAF Trans-Balkan Bulgaria Fund LLC has a term of 9 years and will liquidate no later than November 27, 2009. The terms and rights of the Members and the disposition and liquidation proceeds are stated in the LLC agreement.

As was the case with reflows generated by CARESBAC – Bulgaria, it is anticipated that reflows generated from the use of this award will be used to fund the execution of the Center for Entrepreneurship and Executive Development (CEED), as proposed by SEAF pursuant to the terms of the original grant. Based on the positive support and concurrence of USAID Bulgaria, an Action Memo approving the commencement of this project was signed by USAID's office of Economic Growth on December 30<sup>th</sup>, 2004.

# FINANCIAL STATUS REPORT

(Short Form)

(Follow instructions on the back)

|  |  |   |   |
|--|--|---|---|
| 1. Federal Agency and Organizational Element to Which Report is Submitted<br><br><p style="text-align: center;"><b>USAID</b></p>   | 2. Federal Grant or Other Identifying Number Assigned By Federal Agency<br><br><p style="text-align: center;"><b>PER-G-00-00-00011-00 (Bulgaria II Grant)</b></p>                          | OMB Approval No.<br>0348-0038   | Page of<br>1   1<br>pages   |
| 3. Recipient Organization (Name and complete address, including ZIP code)<br><br><p style="text-align: center;"><b>Small Enterprise Assistance Funds (SEAF), 1050 17th St., NW Suite 1150, Washington, DC 20036</b></p>                        |  |   |   |
| 4. Employer Identification Number<br>13-3535334  | 5. Recipient Account Number or Identifying Number  | 6. Final Report<br><input checked="" type="checkbox"/> Yes <input type="checkbox"/> No                              | 7. Basis<br><input type="checkbox"/> Cash <input checked="" type="checkbox"/> Accrual |
| 8. Funding/Grant Period (See instructions)<br>From: (Month, Day, Year)<br>2/1/2000   | To: (Month, Day, Year)<br>01/31/2005   | 9. Period Covered by this Report<br>From: (Month, Day, Year)<br>01/01/05  | To: (Month, Day, Year)<br>01/31/05  |
| 10. Transactions:  | I<br>Previously<br>Reported  | II<br>This<br>Period  | III<br>Cumulative   |
| a. Total outlays   | 1,445,533.00   | 900,467.50  | 2,346,000.50  |
| b. Recipient share of outlays  | 0.00   | 0.00  | 0.00  |
| c. Federal share of outlays  | 1,445,533.00   | 900,467.50  | 2,346,000.50  |
| d. Total unliquidated obligations  |  |   | 0.00  |
| e. Recipient share of unliquidated obligations   |  |   | 0.00  |
| f. Federal share of unliquidated obligations   |  |   | 0.00  |
| g. Total Federal share(Sum of lines c and f)   |  |   | 2,346,000.50  |
| h. Total Federal funds authorized for this funding period  |  |   | 2,346,566.00  |
| i. Unobligated balance of Federal funds(Line h minus line g)   |  |   | 565.50  |
| 11. Indirect Expense   | a. Type of Rate(Place "X" in appropriate box)<br><input type="checkbox"/> Provisional <input type="checkbox"/> Predetermined <input type="checkbox"/> Final <input type="checkbox"/> Fixed |   |   |
|  | b. Rate<br>N/A   | c. Base<br>0.00   | d. Total Amount<br>0.00   |
|  |  |   | e. Federal Share<br>0.00  |
| 12. Remarks: Attach any explanations deemed necessary or information required by Federal sponsoring agency in compliance with governing legislation.<br>This grant was extended until January 31st, 2005 through modification #03 on 12/22/04. |  |   |   |
| 13. Certification: I certify to the best of my knowledge and belief that this report is correct and complete and that all outlays and unliquidated obligations are for the purposes set forth in the award documents.                          |  |   |   |
| Typed or Printed Name and Title<br><br><p style="text-align: center;"><b>Nikolas Wissmann, Grant Manager</b></p>   |  | Telephone (Area code, number and extension)<br><br><p style="text-align: center;"><b>01-202-737-8463, x 104</b></p> |   |
| Signature of Authorized Certifying Official<br><br>  |  | Date Report Submitted<br><br><p style="text-align: center;"><b>April 30, 2005</b></p>                               |   |

**USAID Bulgaria II Grant - FINAL Financial Report - APPENDIX B**

USAID Award No: PER-G-00-00-00011-00

Beginning and Ending Dates: 2/23/2000 - 01/31/2005

|  |                     |
|--|---------------------|
| Estimated Capital Award:                   | 2,347,000.00        |
| Estimated Oper/Technical Assistance Award: | 0.00                |
| <b>Total Estimated Award:</b>              | <b>2,347,000.00</b> |

|   |                     |
|---|---------------------|
| <b>Total Obligated Amount as of 01/31/05:</b> | <b>2,346,566.00</b> |
|---|---------------------|

|  |  |                     |
|--|--|---------------------|
| Year 2000  | Drawdown March 2000 / Expenditure (Capital for CARESBAC-Bulgaria): | 200,000.00          |
| Year 2001  | Drawdown April 2001 / Expenditure (Capital for TBBF):              | 450,450.00          |
|  | Drawdown Oct 2001 / Expenditure (Capital for TBBF):                | 30,000.00           |
| Year 2002  | Drawdown Aug 2002 / Expenditure (Capital for TBBF):                | 289,699.00          |
| Year 2003  | Drawdown Jan 13, 2003 / Expenditure Jan 16 (Capital for TBBF):     | 60,060.00           |
|  | Drawdown Jan 27, 2003 / Expenditure Jan 31 (Capital for TBBF):     | 93,844.00           |
|  | Drawdown April 24, 2003/ Expenditure April 30 (Capital for TBBF):  | 119,378.00          |
|  | Drawdown July 18, 2003 / Expenditure July 23 (Capital for TBBF):   | 25,525.00           |
|  | Drawdown Dec 11, 2003 / Expenditure Dec 15 (Capital for TBBF):     | 176,577.00          |
| Year 2004  | Drawdown / Expenditures Jan-Mar 2004                               | 0.00                |
|  | Drawdown / Expenditures Apr - June 2004                            | 0.00                |
|  | Drawdown / Expenditures Jul - Sept. 2004                           | 0.00                |
|  | Drawdown / Expenditures Oct - Dec. 2004                            | 0.00                |
| Year 2005  | Drawdown / Expenditures January 2005                               | 900,467.50          |
| <b>Total Cumulative Drawdowns/Capital Expenditures thru 01/31/05:</b>            |  | <b>2,346,000.50</b> |
| <b>Balance Remaining (Obligated minus Drawdown/Expenditures) as of 01/31/05:</b> |  | <b>565.50</b>       |

### Appendix C

| <u>Company</u>       | <u>Technical Assistance</u>  |
|----------------------|--|
| <u>FBT (Jimmy's)</u> | <ul style="list-style-type: none"> <li>❑ In Q1 2005, the Fund provided Jimmy's valuable legal expertise in the negotiations with Bulbank, which approved long-term bank debt to finance part of construction work of the new ice cream manufacturing facility. The loan agreement will be signed in Q2 2005. The construction works of the plant are also expected to start in the second quarter of 2005.</li> </ul>  |
| <u>Marker</u>        | <ul style="list-style-type: none"> <li>❑ Since Q1 2005, SEAF's investment team has been involved in the daily operations in order to supervise and provide technical support regarding the execution of an improved efficiency plan, covering sales, accounts receivable and accounts payable management, production planning, purchasing planning and inventory management, cost cutting and financial controls.</li> <li>❑ In Q4 2004, the SEAF investment team supported Marker through market analysis and contacts in identifying more customers for the end-of-year advertising campaign.</li> <li>❑ At the end of the second quarter in 2004, the company initiated the new incentive payment system that was developed by the TBBF investment team. In addition, TBBF, together with the CEO, developed a new system for inventory tracking and planning. An optimization of cash flow and working capital was targeted. The system has been operational since the end of June.</li> <li>❑ In March 2004 Marker decided to enter the Polish and Croatian markets with its new collection of products. SEAF has been assisting the company in establishing distribution contacts in those countries.</li> <li>❑ During the first quarter of 2004, SEAF investment staff intensively assisted the Executive Director in the reorganization of the company. The areas covered with this assistance included setting up a sales department, improving management communication and coordination, implementing a new incentive system for company employees. Targeted results of this effort were better sales process, more key accounts, better performing and motivated staff, clear responsibility and duties.</li> <li>❑ In March 2004, the Dutch album and stationary producer Henzo, together with Marker, applied for financing with the Dutch Government program PSO/B2B (Senter). The preparation of the application documents was coordinated and technically supported by SEAF BDU in the Netherlands and the investment staff in the field. In June the project was approved. However, due to a misunderstanding between the Dutch partners, Henzo withdrew from the project, making Marker ineligible to obtain the financing.</li> <li>❑ In the third quarter of 2003, Marker began a widespread reorganization of its production process in accordance with a plan developed by the consulting company "BIC Capital Market". The reorganization program was broken down into four stages: (i) reorganization of the company's production layout and procedures; (ii) introduction of a quality control</li> </ul> |

|                       |   |
|-----------------------|---|
|                       | <p>system; (iii) introduction of a new system for receiving and fulfilling orders; (iv) and development of a new remuneration and incentives scheme. SEAF worked with the company to receive funding for this project through the Bulgarian BAS Fund.</p> <ul style="list-style-type: none"> <li>□ SEAF supported Marker in its efforts to identify different financing options for its development plans, including a plan related to continued cooperation with United Bulgarian Bank. The company received Euro 250,000 working capital financing from the bank. With this financing, the company increased its capacity during the top back-to-school season sales.</li> <li>□ SEAF secured, through the help of a Dutch technical assistance program (NMCP), the services of a Dutch consultant, who has helped the company with the design of its product collection, and identified a salesman for the Benelux market.</li> </ul>  |
| <b><u>Teletek</u></b> | <ul style="list-style-type: none"> <li>□ Teletek implemented SEAF's margin improvement recommendations and improved its inventory and accounts receivable reporting and analysis.</li> <li>□ Teletek performed very close to budget targets in 2003, which were based on the company's expansion. The process required additional financing for working capital, acquisition of fixed assets and support of R&amp;D projects. SEAF helped identify different financing options, including a successful contact with World Business Capital, followed by a loan agreement with Ex-Im Bank for refinancing the purchase of U.S. testing equipment. The terms of the loan are a credit facility of USD 96,000, with the interest rate of LIBOR plus 3 percent. Teletek plans to use the credit to support future growth plans.</li> <li>□ During the last quarter in 2003, the company continued to explore market opportunities in the U.S. for its fire and alarm system products. SEAF's Business Development Unit (BDU) in DC advised and actively supported Teletek on all aspects of the project: comprehending the U.S. market and its distribution system; identifying licensing and regulatory requirements, identifying organizations that can complete technical assessments of security systems to comply with regulatory and licensing requirements; identifying potential distributors; and defining competitive equipment pricing for competitive pricing analyses.</li> <li>□ SEAF BDU (Europe) introduced Teletek to the Gardiner Group Europe and an order for sirens was placed in October 2003. It was confirmed by Gardiner that the fire alarm system products of Teletek Electronics possess the required by the Group high quality characteristics.</li> <li>□ In mid 2002 Teletek contacted Lions Electronics, a Dutch electronic components manufacturer and distributor. The target was to make Lions a key supplier, but its management was reluctant to work with a Bulgarian company. Therefore in September 2002, the BDU in the Netherlands was involved in the negotiations and gave considerable support. As a result, Teletek received competitive components pricing and very good payment terms.</li> </ul> |
| <b><u>Gasco</u></b>   | <ul style="list-style-type: none"> <li>□ At the end of 2003 the company came back to its original expansion plan of constructing fuel storage facility, which would enable it to benefit from</li> </ul>  |



|                                |  |
|--------------------------------|--|
|                                | <p>economies of scale and position it even better on the fuel distribution market. In this relation additional financing was required. SEAF investment staff was assisting the company's Executive Director in the negotiations with the banks, as part of the project would be covered through bank debt financing.</p> <ul style="list-style-type: none"> <li>❑ SEAF Senior Business Advisors were advising the CEO of Gasco on management issues with respect to the transition from family-managed business to professional corporate structure.</li> <li>❑ SEAF assisted Gasco in identifying technical assistance for the company's management of its gas stations. In the fourth quarter of 2003, SEAF secured a Dutch consultant who previously worked for Shell. The consultant visited Gasco and provided the management with high-value analysis and advice on location appraisal and gas station management.</li> <li>❑ SEAF's BDU (Europe) set up contracts with LP Autogas in the Netherlands. One visit was organized, which led to a number of key operational insights.</li> <li>❑ In 2002 BDU organized a visit of companies operating in LPG and related industries in Netherlands. The meetings combined with site visits were with Koltec/Nicam (production of LPG auto kits), LP Gas (LPG distribution and logistics), Benegas LPG bulk and bottles distribution and services. Gasco received detailed knowledge and advice on operational and strategic issues.</li> </ul>  |
| <p><b><u>Mercurius</u></b></p> | <p>The main challenge for Mercurius is to manage its growth and utilize all the arising business opportunities.</p> <ul style="list-style-type: none"> <li>❑ During the first quarter of 2005 SEAF investment team developed new techniques for measurement of middle level management performance, which were aimed at improving communication within the company's departments, improving the reporting to top managers and developing enhanced decision making process.</li> <li>❑ In March 2004, the TBBF investment team provided valuable technical expertise in (i) human resource management, especially on sales force incentive systems, payment schemes and employees integration with the company culture, and (ii) inventory control and management systems.</li> <li>❑ With the support of SEAF, the company signed the contract with the Turn-Around Management Program (TAM) from EBRD at the end of March 2003. The senior industry advisor, Mr. Bart Yansen, visited the company in May and performed an initial analysis. A preliminary plan was developed, with issues including organizational structure, marketing strategy, and human resource management. During the second visit in June, the consultant proposed a new organizational structure and a system for control of the sales staff. The training program for Mercurius' sales staff was approved, as well as some improvements in the company's bonus schemes. In the third quarter, the Company improved organization and marketing structure, implementing advice from the TAM Program's advisors.</li> <li>❑ During the second quarter of 2003, SEAF identified and hired a young and</li> </ul> |

|                                 |   |
|---------------------------------|---|
|                                 | <p>ambitious Financial Manager as part of the effort to strengthen the management team.</p> <ul style="list-style-type: none"> <li>❑ Mercurius has high exit potential. The company has already established a partnership with the European company Buhrmann (Corporate Express) for a catalogue trade and e-commerce site under the brand name “1 Classic”. Buhrmann is known for its aggressive acquisition strategy. BDU Europe is working to establish a closer relationship with Buhrmann’s management team, and a visit to Buhrmann is being arranged.</li> <li>❑ In addition, SEAF Exit Advisor Philippe LeRoux was contracted in the fourth quarter to perform research on potential buyers.</li> </ul>   |
| <p><b><u>Ecoprocess</u></b></p> | <ul style="list-style-type: none"> <li>❑ At the end of 2004 and in first quarter of 2005 SEAF’s team initiated several contacts with potential buyers for Ecoprocess technology license. In February 2005 Mr. Mark Giro from Eco Logic Systems visited Ecoprocess together with Mr. Matko Bashic (chemical engineer and consultant of one the potential Croatian partners of Mr. Giro). Mr. Giro expressed its interest to have license for Ecoprocess technology application in all former Yugoslavia countries. The companies signed a letter of intent giving to Eco Logic systems the exclusive right to sign licensing contract within 180 day after the visit. In March 2005 Mr. Lucio Colla, a consultant of the Italian energy consortium Klyma, visited the company and expressed interest in technology license for Italy. Additionally possibilities for deliveries of used tires from Italy were discussed.</li> <li>❑ SEAF’s internal legal counsel actively participated in the patenting process, monitored the process and provided consultations. SEAF investment staff helped in coordinating relationships and efforts between the inventor, management, and the engineering team. SEAF’s investment staff began research to determine the most appropriate strategy for commercializing the technology and possibly licensing new factories abroad. Lastly, SEAF advised the company on proper reporting and organizational procedures that should be implemented.</li> <li>❑ During the second half of 2004, SEAF investment officers took active part in investigating opportunities for Ecoprocess to receive grants for environment protection and technological innovation.</li> </ul> |

**TBF Bulgaria LLC**  
**Statement of Financial Position**  
**Period Ended March 31, 2005**

**Assets**

|   |           |                         |
|---|-----------|-------------------------|
| Cash  |           | \$ 330,947              |
| Accounts Receivable, net of allowance \$142,448 |           | 40,357                  |
| Prepaid Expenses and Other Assets               |           | 4,149                   |
| Equity Investments                              | 2,399,500 |                         |
| Debt Investments                                | 990,000   |                         |
| Reserve - Equity/Debt                           | (42,500)  | 3,347,000               |
| <b>Total Assets</b>                             |           | <u><u>3,722,453</u></u> |

**Liabilities**

|                                       |  |                      |
|---------------------------------------|--|----------------------|
| Accounts Payable and Accrued Expenses |  | 22,300               |
| Due to SEAF                           |  | 14,162               |
| <b>Total Liabilities</b>              |  | <u><u>36,462</u></u> |

**Shareholders Equity**

|                                      |  |                         |
|--------------------------------------|--|-------------------------|
| Paid-in Capital                      |  | 4,917,698               |
| Retained Earnings/(Accumulated Loss) |  | (1,231,707)             |
| <b>Total Shareholders Equity</b>     |  | <u><u>3,685,991</u></u> |

**Total Liabilities and Shareholders Equity**

3,722,453

**TBF Bulgaria LLC**  
**Income Statement**  
**For the Period January 1, 2004 to March 31, 2005**

| <u>Revenues</u>                    | <u>Q1</u>              |
|------------------------------------|------------------------|
| Management Fees                    | \$ 16,250              |
| Interest Income on PC Loans        | 37,476                 |
| Closing Income                     | 2,070                  |
| Bank Interest                      | 498                    |
| <b>Total Revenues</b>              | <b><u>56,294</u></b>   |
|                                    |                        |
| <u>Expenses</u>                    |                        |
| Legal Fees                         | 112                    |
| Fund Management Fee                | 62,528                 |
| Bad Debt Expense                   | 19,408                 |
| PCDE Expense                       | 33,681                 |
| Insurance (Directors and Officers) | 1,383                  |
| Foreign Transaction (Gain)/Loss    | 50                     |
| General and Administrative         | 81                     |
| <b>Total Expenses</b>              | <b><u>117,243</u></b>  |
|                                    |                        |
| <b>Net Income</b>                  | <b><u>(60,949)</u></b> |

**TBF Bulgaria LLC**  
**Statement of Cash Flow**  
**For the Period January 1, 2004 to March 31, 2005**

|  | <u>Q1</u>                    |
|--|------------------------------|
| <b><i>Operating activities</i></b>                       |                              |
| Net income/(loss)  | \$ (60,949)                  |
| (Increase)/Decrease in Receivables                       | (49,691)                     |
| (Increase)/Decrease in Exit Receivable                   | 3,000                        |
| (Increase)/Decrease in Allowance for Doubtful Accounts   | 19,408                       |
| Increase/(Decrease) in Due to/from SEAF                  | 2,932                        |
| (Increase)/Decrease in Prepaid Expenses and Other Assets | (4,149)                      |
| <b><i>Total operating activities</i></b>                 | <u><b>(89,449)</b></u>       |
| <b><i>Investing activity</i></b>                         |                              |
| Equity investments in Portfolio Companies                | (949,500)                    |
| Debt Investments in Portfolio Companies                  | (40,000)                     |
| Principal Payments from Portfolio Companies              | 30,000                       |
| <b><i>Total investing activities</i></b>                 | <u><b>(959,500)</b></u>      |
| <b><i>Financing activities</i></b>                       |                              |
| Capital Contributions                                    | 1,346,028                    |
| Capital Distributions                                    | (39,000)                     |
| <b><i>Total financial activities</i></b>                 | <u><b>1,307,028</b></u>      |
| <b><i>Net Cash Flow</i></b>                              | <b>258,079</b>               |
| <b><i>Beginning Cash Balance</i></b>                     | <b>72,868</b>                |
| <b><i>Ending Cash Balance</i></b>                        | <u><u><b>330,947</b></u></u> |