

**ANNEX 2 to the Call for Expression of Interest No JER-009/3
Financial Instrument: Description and Selection Criteria**

Capitalised expressions utilised herein shall have the meaning attributed to them in the above mentioned Call for Expression of Interest, unless otherwise defined below or the context requires otherwise.

Unless the contrary intention appears, words in the singular include the plural and words in the plural include the singular.

Part I: Description of the Financial Instrument:

| | |
|--|--|
| Financial Instrument | Growth Capital Fund (or "Fund"). One or more Financial Instruments will be created, depending on the results of the Call and subsequent selection process. |
| Fund Manager | Financial Intermediary selected by EIF to manage a Growth Capital Fund. The Fund Manager will comprise a team of experienced professionals, operating according to best industry practices, complying with professional standards issued by the EVCA ¹ or other equivalent organisation. Such team will be expected to act independently. One or more Fund Managers (Financial Intermediaries) will be selected as a result of the Call and subsequent selection process. |
| Indicative maximum amount of funding foreseen for the Financial Instrument (JHF contribution) | Up to Euro 30 million. |
| Investment amount per Eligible Beneficiary | No regulatory limitations given the absence of State Aid. The diversification rules (strategy) should be based on market standard practices and should be clearly provided in detail. |
| Financial Instrument availability (Fund duration) | Up to 10 years, with the possibility of extension for 2 years. |
| Fund's investment period | Initial investments in Eligible Beneficiaries have to be made before 31 December 2015. Follow-on investments may be made throughout the duration of the Fund. The disbursements will follow the asymmetric disbursement schedule described below under "Schedule of disbursements". |
| Type of investments | The Fund will undertake Growth Capital investments, taking the form of either equity or quasi-equity. The Fund shall provide growth capital with the aim of providing financing for the growth and expansion of companies, which are profitable or close to profitability. Capital may be used to: finance increased production capacity; market or product development or finance any other investment with a growth objective. |

¹ European Private Equity and Venture Capital Association.

| | | | |
|---|---|---|---|
| Eligible Beneficiaries | <p>The Fund will target SMEs as defined under Commission Recommendation 2003/361/EC and Small and Medium-Sized Enterprises Act of the Republic of Bulgaria, which are not “firms in difficulty” within the meaning of Article 2.1 of the Community guidelines on State aid for rescuing and restructuring firms in difficulty², as amended or substituted by future Community guidelines (“Eligible SMEs”). The Fund may be allowed, under certain circumstances, to target Eligible Mid-Caps up to a maximum of 30% of the fund size.³ No investment will be made in a company which is neither an Eligible SME nor (if allowed) an Eligible Mid-Cap (altogether the “Eligible Beneficiaries”).</p> <p>Eligible Beneficiaries must be registered under Commerce Act of Bulgaria and have their main place of business in Bulgaria.</p> | | |
| Excluded sectors and activities | <p>Investments can be made in Eligible Beneficiaries active in all sectors of the economy, with the exception of:</p> <p>A.</p> <table border="1" data-bbox="528 813 1449 1055"> <tr> <td data-bbox="528 813 1449 1055"> <ul style="list-style-type: none"> i. Arms production and trading; ii. Gambling; iii. Tobacco; iv. Human cloning; v. Genetically Modified Organisms. </td> </tr> </table> <p>This list may be updated. The Applicant should refer to the EIF Policies as published on the EIF website.</p> <p>B.</p> <table border="1" data-bbox="528 1171 1449 1249"> <tr> <td data-bbox="528 1171 1449 1249"> <p>The following sectors as listed in NACE Rev. 2:⁴</p> <p style="text-align: center;">Section A - Agriculture, forestry and fishing</p> </td> </tr> </table> | <ul style="list-style-type: none"> i. Arms production and trading; ii. Gambling; iii. Tobacco; iv. Human cloning; v. Genetically Modified Organisms. | <p>The following sectors as listed in NACE Rev. 2:⁴</p> <p style="text-align: center;">Section A - Agriculture, forestry and fishing</p> |
| <ul style="list-style-type: none"> i. Arms production and trading; ii. Gambling; iii. Tobacco; iv. Human cloning; v. Genetically Modified Organisms. | | | |
| <p>The following sectors as listed in NACE Rev. 2:⁴</p> <p style="text-align: center;">Section A - Agriculture, forestry and fishing</p> | | | |
| Governing law and language | <p>The legal documentation of the Fund shall be in the English language and shall be governed by the laws of the country of incorporation within the European Union. All Fund related entities, such as general partner, management company, advisor, carried interest vehicle, team members investment vehicles, <i>et similia</i>, shall be incorporated within the European Union. Any cross border element of the structure shall be highlighted and justified.</p> | | |
| State aid regime | <p>The investment in the Financial Instrument, and the investments of the same into Eligible Beneficiaries, is free of State aid elements.</p> | | |

² Official Journal of the European Union C 244 of 1.10.2004.

³ Inclusion of Eligible Mid-Caps as Eligible Target Beneficiaries as defined above is subject to an official decision of the European Commission on the modification of the OP Competitiveness. Such a decision should be taken by the time of selection of Financial Intermediaries to manage the Financial Instrument.

⁴ Regulation (EC) No 1893/2006 of the European Parliament and of the Council of 20 December 2006 establishing the statistical classification of economic activities NACE Revision 2 and amending Council Regulation (EEC) No 3037/90 as well as certain EC Regulations on specific statistical domains.

| | |
|---|---|
| <p>Private Investors</p> | <p>“Private Investors” shall be deemed to be any investors which, in the reasonable determination of the Fund Manager, are normal economic operators (i.e. investors operating in circumstances corresponding to the market economy investor principle) in a free market economy, irrespective of the legal nature and ownership structure of such operators. The Private Investors’ participation in the Financial Instrument shall constitute, at any time, at least 50 % of the total capital of the Financial Instrument. As a consequence, no closing may take place unless the private participation has reached such minimum limit.</p> <p>In this context, the JEREMIE Holding Fund will be deemed to act as a public investor.</p> |
| <p>Management Costs of Fund</p> | <p>The management costs of the Financial Instrument shall be according to market practice and shall not exceed, on a yearly basis, 3% of the committed capital during the investment period and of the invested capital thereafter.</p> <p>For the purposes of the above, the management costs shall be deemed to include any fees, expenses and costs necessary to set up and manage the Financial Instrument.</p> |
| <p>Schedule of disbursements</p> | <p>In principle, all amounts paid by the JHF should be totally disbursed and spent, either towards investments or management costs, before the end of 2015. In order to cater for this, the Growth Capital Fund’s schedule of disbursement by the Private Investors and the JHF may be asymmetrical. As it is currently envisaged, for any expenses of the Financial Instrument, the JHF will initially contribute 100% of the amount necessary to cover said expenses, whilst the Private Investors will pay out their respective share of the drawdown amount, e.g. 50%, into an interest-bearing escrow account. The amounts in the escrow account would not be utilised until all JHF monies have been drawn down and either invested into Eligible Beneficiaries or paid as management costs, or until the beginning of 2016. In any case, the mechanism to be eventually put in place shall ensure that the underlying economic interests of, and the risks taken by the JHF and the Private Investors, will be aligned throughout the existence of the Fund. The mechanics of the disbursements and the escrow arrangement will be set out in the Operational Agreement.</p> |
| <p>JHF/ Private Investor ranking</p> | <p>The JHF and the Private Investors in the Growth Capital Fund will rank “pari-passu”. Public and private investors will share exactly the same upside and downside risks and rewards and hold the same level of subordination.</p> |

| | |
|--|---|
| Fund's due diligence before investments | The Fund Manager will make investment decisions based on each investment's business plan, which should contain product description, turnover and profitability calculations and forecasts, previous assessment of project viability, as well as each investment's clear and real exit strategy compatible with relevant EC regulations. |
| Fund's distribution cascade | <p>The distributions of proceeds from a Fund will be made according to the schedule below:</p> <ol style="list-style-type: none"> 1. First, 100% to the Private Investors and the JHF (pro-rata to their underlying economic interest) until they have received distributions in aggregate equal to the total capital commitments; 2. 6% Hurdle Rate: Second, 100% to the Private Investors and the JHF (pro-rata to their underlying economic interest) until each investor has received sums equal to a 6% cumulative annual rate of return on their contributions drawn down and not yet returned; 3. Fund Manager Catch-up: Third, 100% to the Fund Manager until the Fund Manager has received an additional amount equal to 25% of the total preferred returns distributed to the investors under paragraphs above; and 4. 80/20 Split: Thereafter, 80% to the Private Investors and the JHF, and 20% to the Fund Manager (Carried Interest). |
| Additional features of the Financial Intermediary | <p>The Fund Manager will manage the Fund based on commercial principles.</p> <p>Investors' representatives shall be appointed in appropriate advisory committee structures to review inter alia Fund corporate governance.</p> <p>In the management of the Fund, the Financial Intermediary shall apply best practices and perform control applicable to the public nature of JHF investment, inter alia considering guidelines developed by EVCA.</p> |
| Reporting | The Fund Manager shall provide EIF with periodical information in a standardised form and scope, in compliance with structural funds regulations, as to be specified in the Operational Agreement. |
| Monitoring and Audit | The Fund Manager and the relevant Eligible Beneficiaries shall agree to allow and to provide access to documents related to the Financial Instrument for the representatives of the European Commission (including the European Anti-Fraud Office (OLAF)), the Court of Auditors of the European Communities, EIF, OP Competitiveness Managing Authority ⁵ and any other authorised bodies duly empowered by applicable law to carry out audit and/or control activities. To that effect, the Fund Manager shall |

⁵ National public authority designated by GoB to manage the OP Competitiveness, as referenced in the Funding Agreement.

| | |
|--|--|
| | include appropriate provisions in each investment agreement with Investment Targets. |
| Publicity | <p>The Fund Manager, in line with applicable law, Structural Funds publicity provisions, and Reg. 1828/2006, shall carry out adequate marketing and publicity campaigns aimed at making the JEREMIE initiative known to the Eligible Beneficiaries in Bulgaria.</p> <p>The selected Financial Intermediaries will be also required to provide the publicity as set in the regulation (1828/2006).</p> |
| Additional Structural Fund requirements | <p>This Financial Instrument is funded by EU structural funds and it is therefore subject to structural funds regulation and requirements, some of which have already been presented in this Annex, here above (e.g. Monitoring and Audit, Publicity, Reporting etc). It should be noted, however, that more detailed information on actions necessary to ensure compliance of operations linked to this Financial Instrument with all structural funds requirements (e.g. retention of documents, environmental protection, equality and non discrimination) will be provided to, and discussed with the selected Financial Intermediary during the contractual negotiations process.</p> |
| Additional requirements | <p>The Applicant shall refer to EIF Policies, in particular:</p> <ul style="list-style-type: none"> - Anti Fraud Policy; - Policy on Offshore Financial Centres & Governance Transparency; <p>published on the EIF website.</p> |

Part II: SELECTION CRITERIA for the Financial Intermediary

| 1. | ELIGIBILITY CRITERIA | System of appraisal |
|------|--|---------------------|
| | | Yes/ No |
| A. | Receivability | |
| 1.1. | The Expression of Interest is submitted within the Deadline; | |
| 1.2. | The Expression of Interest is submitted both by registered mail and e-mail; | |
| 1.3. | The Expression of Interest is completed and submitted in English; | |
| 1.4. | The Expression of Interest is duly signed; | |
| 1.5. | The Expression of Interest is prepared in accordance with Annex 1 to the Call for Expression of Interest. All necessary supporting documents are provided. | |
| B. | Eligibility | |
| 1.6. | Applicant's absence of conflict of interest (as per template provided in Appendix 4 to the Expression of Interest); | |
| 1.7. | Applicant and its senior management are not in any situation of exclusion (as per template provided in Appendix 5 to the Expression of Interest); | |
| 1.8. | Ability to communicate in Bulgarian and English; | |
| 1.9. | The Expression of Interest addresses all the items set out in the Project Description (Appendix 2 to Annex 1); | |
| 1.10 | The Expression of Interest addresses all the items of the Financial Instrument, including any special conditions, set out in the relevant parts of the Financial Instrument description (Part I of Annex 2); | |
| 1.12 | Applicant commitment for own investment in the Fund of at least 1% of the total Fund size. | |

| 2. | QUALITY ASSESSMENT CRITERIA | WEIGHTING |
|------|---|-----------|
| 2.1. | <p>Project Relevance, Quality and Coherence</p> <p>2.1.1. Evaluation of the Fund focus and proposed investment strategy, including viability of Fund's size;</p> <p>2.1.2. Evaluation of the Fund Manager team profile, stability and ability to implement the Financial Instrument.</p> <p>2.1.3. Assessment of operational, financial, technical and VC competences;</p> <p>2.1.4. Track record of the Fund Manager team (specifically in Bulgaria);</p> <p>2.1.5. Capability as members of boards and/or committees of an investment and/or advisory nature;</p> <p>2.1.6. Evaluation of Applicant's investment processes, including dealflow generation, ability to invest, ability to add value to companies and exit strategy;</p> | 60 points |
| 2.2. | <p>Project Maturity</p> <p>2.2.1. Demonstration of ability to raise at least 50% of the Fund from private investors at the earliest possible date within an estimated 6 months period from the date when each selected Fund Manager is announced;</p> <p>2.2.2. Demonstration of ability to source deals in Bulgaria (Eligible Beneficiaries);</p> | 20 points |
| 2.3. | <p>Institutional Capacity & Sustainability</p> <p>2.3.1. Fund Manager organisation, structure and long-term viability;</p> <p>2.3.2. Assessment of the corporate governance in place;</p> <p>2.3.3. Assessment of legal structures and independence;</p> <p>2.3.4. Terms and Conditions, including management fee and profit share arrangements;</p> <p>2.3.5. Assessment of the alignment of interests between the Fund Manager and the Investors;</p> <p>2.3.6. Assessment of Reporting and Control Procedures.</p> | 20 points |