
Part Three

Financial Review



CENTER FOR
THE STUDY OF
DEMOCRACY

Center for the Study of Democracy (The Group)

Consolidated Annual Financial Statements

31 December 2008

Independent Auditors' Report

To the General Assembly of
Center for the Study of Democracy

Sofia, 30 September 2009

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Center for the Study of Democracy and its subsidiaries (the "Group"), which comprise the consolidated balance sheet as of 31 December 2008 and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the European Union. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

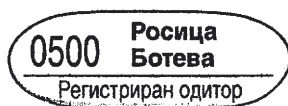
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the accompanying consolidated financial statements give a true and fair view of the financial position of the Group as of 31 December 2008, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union



Rositsa Boteva
Registered Auditor
"Major Parvan Toshev" Str., Nr.25
Sofia 1408
Bulgaria



Center for the Study of Democracy (The Group)
Consolidated Balance Sheet 31 December 2008

(all amounts in BGN thousand)	Note	31 December 2008	31 December 2007
Assets			
Property, plant and equipment	5	1,836	1,475
Intangible assets	6	18	24
Investment property	7	389	400
Deferred tax assets	17	5	7
Total non-current assets		2,248	1,906
Inventory		3	2
Trade and other receivables	8	179	181
Cash and cash equivalents	9	942	289
Financial assets	10	-	1,359
Deferred expenses		43	4
Total current assets		1,167	1,835
Total assets		3,415	3,741
Equity		3,210	3,551
Liabilities			
Deferred tax liabilities		4	3
Total non-current liabilities		4	3
Trade and other payables	11	47	58
Deferred financing	12	150	126
Taxes and other	17	4	3
Total current liabilities		201	187
Total liabilities		205	190
Total equity and liabilities		3,415	3,741

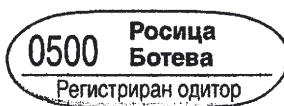
These financial statements set out on pages 3-30 were approved by the Board of Directors on 15 September 2009. They are signed on behalf of the Board of Directors by:

Vladimir Yordanov
Executive Director
15 September 2009




Initialled for identification purposes in reference to the audit report:

Rositsa Boteva
Registered Auditor
30 September 2009

(all amounts in BGN thousand)	Note	For the year ending:	
		31 December 2008	31 December 2007
Revenues	13	1,240	1,601
Cost of Sales	14	<u>(1,337)</u>	<u>(1,564)</u>
Gross Profit		(97)	37
Other operating income	15	2	450
Administrative expenses		(34)	(153)
Impairment losses		<u>(3)</u>	<u>(13)</u>
Revenue from operating activities		(132)	321
Financial income		43	320
Financial expenses		<u>(246)</u>	<u>(89)</u>
Net financing costs	16	(203)	231
Profit before income tax		(335)	552
Income tax expense	17	(5)	1
Net profit for the period		<u>(340)</u>	<u>553</u>

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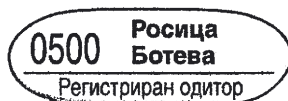


Vladimir Yordanov
Executive Director
15 September 2009

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Rositsa Boteva
Registered Auditor
30 September 2009



(all amounts in BGN thousand)	Note	Retained earnings	Total
Balance as at 1 January 2007		2,998	2,998
Net profit for the period		553	553
Balance as at 31 December 2007		3,551	3,551
Balance as at 1 January 2008		3,551	3,551
Net loss for the period		(340)	(340)
Balance as at 31 December 2008		3,151	3,151

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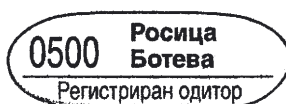


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15 September 2009

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30 September 2009



(all amounts in BGN thousand)	Note	For the year ending:	
		31 December 2008	31 December 2007
Cash flows from operating activities			
(Loss)/Profit before income tax		(335)	553
Adjustments for:			
Depreciation and amortisation	5,6	85	92
Net interest income accrued		(33)	(1)
Revenues from donation (non-cash)		-	(450)
Net profit/(loss) from revaluation of financial assets		238	(241)
		<u>(45)</u>	<u>48</u>
Changes in working capital:			
(Increase)/Decrease of inventory		(1)	29
(Decrease)/Decrease of trade and other receivables and deferred expenses		(37)	285
Increase/(Decrease) of trade and other payables		14	137
Cash flow from operating activities		<u>(69)</u>	<u>129</u>
Interest received		33	1
Income tax paid		-	(8)
Net cash flows from operating activities		<u>(36)</u>	<u>122</u>
Cash flows from investment activities			
Purchase of property, plant and equipment and intangible assets		(429)	(288)
Proceeds from sale of property, plant and equipment		-	1
Net cash flows from investment activities		<u>(429)</u>	<u>(287)</u>

(all amounts in BGN thousand)	Note	For the year ending:	
		31 December 2008	31 December 2007
Cash flows from financial activities			
Proceeds from sale of financial assets		1,122	
Paid interest and bank charges		(4)	(2)
Purchase of financial assets		-	(670)
Net cash flow from financial activities		<u>1,118</u>	<u>(672)</u>
Net increase/(decrease) in cash and cash equivalents			
		<u>653</u>	<u>(837)</u>
Cash and cash equivalents at the beginning of the period		<u>289</u>	<u>1,126</u>
Cash and cash equivalents at the end of the period	8	<u><u>942</u></u>	<u><u>289</u></u>

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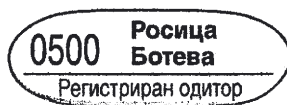


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 30 September 2009



1. Company background and activities

The Center for the Study of Democracy (the "Organisation") is a non-profit organisation domiciled in Bulgaria. The consolidated financial statements of the Organisation for the year ended 31 December 2009 comprise the Organisation and its subsidiaries, Vitosha Research EOOD and Project 1 EOOD (together referred to as the "Group").

Founded in late 1989, the Center for Study of Democracy (CSD) is an interdisciplinary public policy institute dedicated to the values of democracy and market economy. CSD is a non-partisan, independent organisation fostering the reform process in Bulgaria through impact on policy and civil society. CSD objectives are:

- to provide an enhanced institutional and policy capacity for a successful European Integration process;
- to promote institutional reform and the practical implementation of democratic values in legal and economic practice;
- to monitor public attitudes and to serve as well as to monitor the institutional reform process in the country;
- to strengthen the institutional and management capacity of NGOs in Bulgaria;

The Center for the Study of Democracy controls 100% of its subsidiaries Vitosha Research EOOD and Project 1 EOOD.

Vitosha Research EOOD, established in 2000, is specialised in wide range of research fields: social and economic policy; social assessment and evaluation studies; economic and political behaviour; political attitudes and value systems; market, media and audience research; advertising studies, and others.

Project 1 EOOD was established in 2003. Its main activity is purchase, sale and rent of real estate property, project management and others.

The financial statements were approved by the Board of Directors on 15 September 2009.

2. Accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1. Basis of preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union. The financial statements have been prepared under the historical cost convention.

The consolidated financial statements comprise the financial statements of the Center for the Study of Democracy and its subsidiaries as at 31 December each year. The financial

statements of subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. For consolidation purposes, the financial information of the Group has been combined on a line-by-line basis by adding together like items of assets, liabilities, income and expenses.

All intra-group balances, income and expenses and unrealized gains resulting from intra-group transactions are eliminated in full. Unrealised losses are also eliminated but considered an impairment indicator of the asset transferred. Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Transactions with minority interests

Minority interests represent the portion of profit or loss and net assets not held by the Group and are presented separately in the income statement and within equity in the consolidated balance sheet, separately from parent shareholders' equity. Disposals of minority interests result in gains and losses for the Group that are recognised in the income statement.

Acquisitions of minority interests are accounted for whereby the difference between the consideration and the book value of the share of the net assets acquired is recognised in goodwill.

The preparation of the financial statements in accordance with IFRS requires management to make estimates and assumptions. The management relied on their own judgment when applying the accounting policy of the Company. The elements of the financial statements whose presentation includes higher degree of judgment or subjectivity and for which the assumptions and judgments have higher influence are separately disclosed in Note 4.

Standards, amendment and interpretations effective in 2008 but not relevant for the Group's operations:

- IFRIC 11, 'IFRS 2 – Group and treasury share transactions'. IFRIC 11 provides guidance on whether share-based transactions involving treasury shares or involving group entities (for example, options over a parent's shares) should be accounted for as equity-settled or cash-settled share-based payment transactions in the stand-alone accounts of the parent and group companies. This interpretation does not have an impact on the Company's financial statements.
- IFRIC 12, 'Service concession arrangements'.
- IFRIC 13, 'Customer loyalty programmes'
- IFRIC 14, 'IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction'
- IFRIC 16, 'Hedges of a Net Investment in a Foreign Operation'

Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group:

The following standards, amendments and interpretations to published standards are mandatory for accounting periods beginning on or after 1 January 2009 but they are not early adopted by the Group:

- IAS 1, Presentation of Financial Statements (revised September 2007; effective for annual periods beginning on or after 1 January 2009). The main change in IAS 1 is the replacement of the income statement by a statement of comprehensive income which will also include all non-owner changes in equity, such as the revaluation of available-for-sale financial assets. Alternatively, entities will be allowed to present two statements: a separate income statement and a statement of comprehensive income. The revised IAS 1 also introduces a requirement to present a statement of financial position (balance sheet) at the beginning of the earliest comparative period whenever the entity restates comparatives due to reclassifications, changes in accounting policies, or corrections of errors. The Group will apply IAS 1 (Revised) from 1 January 2009.
- IAS 36 (Amendment), 'Impairment of assets' (effective from 1 January 2009). The amendment is part of the IASB's annual improvements project published in May 2008. Where fair value less costs to sell is calculated on the basis of discounted cash flows, disclosures equivalent to those for value-in-use calculation should be made. The Group will apply the IAS 36 (Amendment) and provide the required disclosure where applicable for impairment tests from 1 January 2009.

- IAS 38 (Amendment), 'Intangible assets' (effective from 1 January 2009). The amendment is part of the IASB's annual improvements project published in May 2008. A prepayment may only be recognised in the event that payment has been made in advance of obtaining right of access to goods or receipt of services. The Group will apply the IAS 38 (Amendment) from 1 January 2009.

Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group (continued):

- IAS 19 (Amendment), 'Employee benefits' (effective from 1 January 2009). The amendment is part of the IASB's annual improvements project published in May 2008.
 - The distinction between short term and long term employee benefits will be based on whether benefits are due to be settled within or after 12 months of employee service being rendered.
 - IAS 37, 'Provisions, contingent liabilities and contingent assets', requires contingent liabilities to be disclosed, not recognised. IAS 19 has been amended to be consistent.

The Group will apply the IAS 19 (Amendment) from 1 January 2009.

- IAS 1 (Amendment), 'Presentation of financial statements' (effective from 1 January 2009). The amendment is part of the IASB's annual improvements project published in May 2008. The amendment clarifies that some rather than all financial assets and liabilities classified as held for trading in accordance with IAS 39, 'Financial instruments: Recognition and measurement' are examples of current assets and liabilities respectively. The Group will apply the IAS 39 (Amendment) from 1 January 2009. It is not expected to have an impact on the Group's financial statements.
- IAS 39 (Amendment), 'Financial instruments: Recognition and measurement' (effective from 1 January 2009). The amendment is part of the IASB's annual improvements project published in May 2008. The Group will apply the IAS 39 (Amendment) from 1 January 2009. It is not expected to have an impact on the Groups's income statement.
- IAS 16 (Amendment), 'Property, plant and equipment' (and consequential amendment to IAS 7, 'Statement of cash flows') (effective from 1 January 2009). The amendment is part of the IASB's annual improvements project published in May 2008. Entities whose ordinary activities comprise renting and subsequently selling assets present proceeds from the sale of those assets as revenue and should transfer the carrying amount of the asset to inventories when the asset becomes held for sale. A consequential amendment to IAS 7 states that cash flows arising from purchase, rental and sale of those assets are classified as cash flows from operating activities. The Group will apply the IAS 16 (Amendment) from 1 January 2009.
- IAS 23 (Amendment), 'Borrowing costs' (effective from 1 January 2009). The amendment requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs will be removed. The Group will apply IAS 23 (Amendment) prospectively from 1 January 2009.

Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Company (continued):

- IAS 23 (Amendment), 'Borrowing costs' (effective from 1 January 2009). The amendment is part of the IASB's annual improvements project published in May 2008. The definition of borrowing costs has been amended so that interest expense is calculated using the effective interest method defined in IAS 39 'Financial instruments: Recognition and measurement'. This eliminates the inconsistency of terms between IAS 39 and IAS 23. The Group will apply IAS 23 (Amendment) prospectively from 1 January 2009.
- There are a number of minor amendments to IFRS 7, 'Financial instruments: Disclosures', IAS 8, 'Accounting policies, changes in accounting estimates and errors', IAS 10, 'Events after the reporting period', IAS 18, 'Revenue' and IAS 34, 'Interim financial reporting', which are part of the IASB's annual improvements project published in May 2008 (not addressed above). These amendments are unlikely to have an impact on the Group's accounts and have therefore not been analysed in detail.
- IFRS 2 (Amendment), 'Share-based payment' (effective from 1 January 2009).
- IFRS 1 (Amendment) 'First time adoption of IFRS' and IAS 27 'Consolidated and separate financial statements' (effective from 1 January 2009).
- IFRS 8, 'Operating segments' (effective from 1 January 2009).
- IAS 32 (Amendment), 'Financial instruments: Presentation', and IAS 1 (Amendment), 'Presentation of financial statements' – 'Puttable financial instruments and obligations arising on liquidation' (effective from 1 January 2009).
- IFRS 3 (Revised), 'Business combinations' (effective from 1 July 2009).
- IFRS 5 (Amendment), 'Non-current assets held for sale and discontinued operations' (and consequential amendment to IFRS 1, 'First-time adoption') (effective from 1 July 2009).
- IAS 27 (Amendment), 'Consolidated and separate financial statements' (effective from 1 January 2009).
- IAS 28 (Amendment), 'Investments in associates' (and consequential amendments to IAS 32, 'Financial Instruments: Presentation' and IFRS 7, 'Financial instruments: Disclosures') (effective from 1 January 2009).
- IAS 29 (Amendment), 'Financial reporting in hyperinflationary economies' (effective from 1 January 2009).
- IAS 31 (Amendment), 'Interests in joint ventures (and consequential amendments to IAS 32 and IFRS 7) (effective from 1 January 2009).

Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Company (continued):

- IAS 38 (Amendment), 'Intangible assets', (effective from 1 January 2009). The amendment is part of the IASB's annual improvements project published in May 2008. The amendment deletes the wording that states that there is 'rarely, if ever' support for use of a method that results in a lower rate of amortisation than the straight line method. The amendment will not currently have an impact on the Group's operations as all intangible assets are amortised using the straight line method.
- IAS 40 (Amendment), 'Investment property' (and consequential amendments to IAS 16) (effective from 1 January 2009).

- IAS 41 (Amendment), 'Agriculture' (effective from 1 January 2009).
- IAS 20 (Amendment), 'Accounting for government grants and disclosure of government assistance' (effective from 1 January 2009).
- IFRIC 15, 'Agreements for construction of real estates' (effective from 1 January 2009). The interpretation clarifies whether IAS 18, 'Revenue', or IAS 11, 'Construction contracts' should be applied to particular transactions. It is likely to result in IAS 18 being applied to a wider range of transactions. IFRIC 15 is not relevant to the Group's operations as all revenue transactions are accounted for under IAS 18 and not IAS 11.
- IFRIC 17 Distribution of non-cash Assets to Owners

Currently, the following IASB pronouncements have not yet been endorsed for use in Europe:

- Amendment to IAS 39 Financial Instruments: Recognition and Measurement: Eligible Hedged Items
- Amendment to IAS 39 Reclassification of Financial Assets: Effective Date and Transition
- IFRS 3 Business Combinations (2008)
- IAS 27 Consolidated and Separate Financial Statements (2008)
- IFRIC 12 Service Concession Arrangements
- IFRIC 15, Agreements for the Construction of Real Estate (effective for annual periods beginning on or after 1 January 2009)
- IFRIC 16, Hedges of a Net Investment in a Foreign Operation (effective for annual periods beginning on or after 1 October 2008)
- IFRIC 17 Distribution of non-cash Assets to Owners

2.2. Foreign currency translations

2.2.1. Functional and presentation currency

Items included in the financial statements of the Group are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The functional and presentation currency is 'Bulgarian lev' or 'BGN'.

2.2.2. Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

2.3. Property, plant and equipment

All property, plant and equipment are stated at historical cost less depreciation, less impairment losses, if any. Historical cost includes all expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the assets carrying amount or recognised as a separate asset, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably.

Depreciation commence from the date the asset is available for use. Land is not depreciated as it is deemed to have an indefinite life. Assets under construction are not depreciated as not yet available for use.

The Group uses straight – line depreciation method. Deprecation rates are based on the useful life of the different types of property, plant and equipment as follows:

Buildings	25 years
Machinery and equipment	2 years
Vehicles	4 years
Fixtures and fittings	2 - 6 years

Property, plant and equipment is depreciated from the month, following the acquisition date and for internally generated assets – from the month, following the date of entering into use.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

2.4. Intangible assets

Intangible assets acquired by the Group are presented at cost, less accumulated amortisation and impairment.

Subsequent expenditures

Subsequent expenditure on capitalised intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets unless such lives are indefinite.

2.5. Financial assets

The Group classifies its financial assets in the following categories: investment in subsidiaries, loans and receivables and financial assets at fair value through profit or loss.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Assets in this category are classified as current assets.

For the purposes of these financial statements short term means a period within 12 months. During the year, the Company did not hold any investments in this category. The Group does not possess such financial assets as at 31 December 2008.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. The Company's loans and receivables comprise 'trade and other receivables' and 'cash and cash equivalents' in the balance sheet.

Regular purchases and sales of financial assets are recognised on the trade-date – the date on which the group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the income statement. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the group has transferred substantially all risks and rewards of ownership. Loans and receivables are carried at amortised cost using the effective interest method.

The group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. Impairment testing of trade and other receivables is described in Note 2.7.

2.6. Inventory

Inventories are stated at the lower of cost and net realisable value. Inventories are expensed using the weighted average method. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

2.7. Trade and other receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost (using effective interest method) less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivables.

Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement within 'selling and marketing costs'. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against 'selling and marketing costs' in the income statement.

2.8. Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less as well as bank overdrafts. Bank overdrafts are shown within current borrowings in current liabilities on the balance sheet.

2.9. Share capital

The Group accounts for its share capital at the nominal value of its issued ordinary shares.

2.10. Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Borrowing costs are recognised as an expense in the period in which they are incurred.

2.11. Deferred tax

Deferred income tax is provided in full, using the liability method, on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

2.12. Employee benefits on retirement

In accordance with article 222, para. 3 of the Bulgarian Labour Code, in the event of termination of a labour contract after the employee has reached the lawfully required retirement age, regardless of the reason for the termination, the employee is entitled to a compensation as follows: 2 gross monthly salaries in all cases and 6 gross monthly salaries if the employee has been engaged with the Group for at least 10 years. As at 31 December the Group has not accounted for those potential obligations.

2.13. Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the group's activities. Revenue is shown net of

value-added tax, returns, rebates and discounts and after eliminating sales within the group. The group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Sales of services

Revenue from time and material contracts, typically from delivering certain services, is recognised under the percentage of completion method. Revenue is generally recognised at the contractual rates. For time contracts, the stage of completion is measured on the basis of labour hours delivered as a percentage of total hours to be delivered.

Revenue from fixed-price contracts for delivering certain services is also recognised under the percentage-of-completion method. Revenue is generally recognised based on the services performed to date as a percentage of the total services to be performed.

If circumstances arise that may change the original estimates of revenues, costs or extent of progress toward completion, estimates are revised. These revisions may result in increases or decreases in estimated revenues or costs and are reflected in income in the period in which the circumstances that give rise to the revision become known by management.

Interest income

Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

2.14. Divident distribution

Dividend distribution to the company's shareholders is recognised as a liability in the group's financial statements in the period in which the dividends are approved by the company's shareholders.

3. Financial risk management

3.1 Global financial crisis

Recent volatility in global financial markets

The ongoing global liquidity crisis which commenced in the middle of 2007 has resulted in, among other things, a lower level of capital market funding, lower liquidity levels across the

banking sector, and, at times, higher interbank lending rates and very high volatility in stock markets. The uncertainties in the global financial markets have also led to bank failures and bank rescues in the United States of America, Western Europe, Russia and elsewhere. Indeed the full extent of the impact of the ongoing financial crisis is proving to be impossible to anticipate or completely guard against.

Management is unable to reliably estimate the effects on the Group's financial position of any further deterioration in the liquidity of the financial markets and the increased volatility in the currency and equity markets. Management believes it is taking all the necessary measures to support the sustainability and growth of the Group's business in the current circumstances.

Impact on liquidity

The global financial crisis may affect the ability of the Group to obtain new borrowings and re-finance its existing borrowings at terms and conditions similar to those applied to earlier transactions.

Impact on customers/borrowers

Debtors or borrowers of the Group be affected by the lower liquidity situation which could in turn impact their ability to repay the amounts owed. Deteriorating operating conditions for customers or borrowers may also have an impact on management's cash flow forecasts and assessment of the impairment of financial and non-financial assets. To the extent that information is available, management has properly reflected revised estimates of expected future cash flows in their impairment assessments.

3.2. Financial risk factors

The risk exposures of the Group could be determined as follows: market risk (including currency risk, price risk and risk of future cash flow changes as a result of changes in market interest rate), credit risk and liquidity risk. The Group's management focuses on the financial risk and seeks to minimise potential adverse effects on the Group's financial performance.

3.2.1. Market risk

a) Currency risk

The Group is not exposed to foreign exchange risk as most of its foreign transactions are denominated in EUR. The exchange rate of the BGN is currently pegged to the EUR. The Group's management does not believe that the peg will change within the next 12 months and therefore no sensitivity analysis has been performed.

b) Price risk

The Company's management considers the price risk in the context of the future revenues that are expected to be generated in the operating activity of the Company.

3.2.2. Cash flow and fair value interest rate risk

As the Group has no significant interest-bearing assets, the Company's income and operating cash flows are substantially independent of changes in market interest rates.

The Group analyses its interest rate exposure on a dynamic basis and addresses the underlying risk.

3.2.3. Credit risk

Credit risk arises from cash and cash equivalents and deposits with banks and financial institutions.

3.2.4. Liquidity risk

In the context of its underlying business, the Group is able to maintain flexibility in funding and to use credit lines, overdrafts and other credit facilities, if necessary.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

As at 31 December 2008	Up to 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Trade and other payables	47	–	–	–
As at 31 December 2007	Up to 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Trade and other payables	58	–	–	–

4. Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The authenticity of accounting estimates and judgments is monitored regularly.

The group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below:

Useful life of property, plant and equipment

The presentation and valuation of property, plant and equipment requires the Management to estimate their useful life and remaining value. The Management assesses at the end of each accounting period the determined useful life of the property, plant and equipment.

Impairment of loans and receivables

Impairment of receivables is determined based on Management's expectations for the collectability of the loans and receivables. As at the date of preparation of the financial statements, the Management reviews and assesses the existing receivables' balances for collectability.

5. Property, plant and equipment

	Land & buildings	Computers	Vehicles	Fixtures & Fittings	Other assets	Assets under construction	Total
Cost							
As at 1 January 2007	839	147	266	99	3	347	1,701
Additions	-	53	-	7	-	229	289
Disposals	-	(33)	(2)	-	-	-	(35)
As at 31 December 2007	839	167	264	106	3	576	1,955
Additions	-	8	-	17	-	402	427
Disposals	-	-	-	-	-	-	-
As at 31 December 2008	839	75	264	123	3	978	2,382
Depreciation							
As at 1 January 2007	39	105	190	83	1	11	429
Depreciation charge	29	29	20	8	1	-	87
Disposals	-	(34)	(3)	-	-	-	(37)
As at 31 December 2007	68	100	207	91	2	11	479
Depreciation charge	17	22	21	7	-	-	67
Disposals	-	-	-	-	-	-	-
As at 31 December 2008	85	122	228	98	2	11	546
Carrying amount							
As at 1 January 2007	800	42	76	16	2	336	1,272
As at 31 December 2007	771	67	57	15	1	565	1,476
As at 31 December 2008	754	53	36	25	1	967	1,836

6. Intangible assets

	Software	Total
Cost		
As at 1 January 2007	45	45
Additions	<u>3</u>	<u>3</u>
As at 31 December 2007	<u>48</u>	<u>48</u>
Additions	<u>2</u>	<u>2</u>
As at 31 December 2008	<u>50</u>	<u>50</u>
Amortisation		
As at 1 January 2007	17	17
Amortisation charge	<u>7</u>	<u>7</u>
As at 31 December 2007	<u>24</u>	<u>24</u>
Amortisation charge	<u>(8)</u>	<u>(8)</u>
As at 31 December 2008	<u>(34)</u>	<u>(34)</u>
Carrying amount		
As at 1 January 2007	<u>28</u>	<u>28</u>
As at 31 December 2007	<u>24</u>	<u>24</u>
As at 31 December 2008	<u>16</u>	<u>16</u>

7. Investment property

	2008	2007
As at 1 January		
Carrying amount at the beginning of the period	400	411
Depreciation charge	<u>(11)</u>	<u>(11)</u>
Carrying amount at the end of the period	<u>389</u>	<u>400</u>
As at 31 December		
Cost	428	428
Accumulated depreciation	<u>(39)</u>	<u>(28)</u>
Carrying amount	<u>389</u>	<u>400</u>

Investment properties of the Group consist of land and buildings acquired in the period 2005-2006. Investment property is presented at cost less accumulated depreciation and impairment losses.

8. Trade and other receivables

	As at 31 December	
	2008	2007
Trade receivables	121	137
Less: Impairment provision of trade payables	<u>(25)</u>	<u>(16)</u>
Trade receivables, net	96	121
Prepaid corporate tax	31	37
Other	<u>52</u>	<u>24</u>
	<u>179</u>	<u>181</u>

The carrying amount of trade and other receivables approximates their fair value.

9. Cash and cash equivalents

	As at 31 December	
	2008	2007
Cash at hand	58	72
Cash in bank current accounts	<u>884</u>	<u>217</u>
	<u>942</u>	<u>289</u>

10. Financial assets

Financial assets, carried at fair value through profit or loss, which the Group possessed as at 31 December 2007 consist of 907,425.5 shares in mutual fund – Raiffeisen Bulgaria Balanced Fund.

In 2008 the Group used the option to sell back its shares and disposed of all its shares in Raiffeisen Bulgaria Balanced Fund.

11. Trade and other payables

	As at 31 December	
	2008	2007
Trade payables	44	42
Salaries and social securities payables	2	9
Other	<u>1</u>	<u>7</u>
	<u>47</u>	<u>58</u>

12. Deferred financing

	As at 31 December	
	2008	2007
Bulgaria Fund - Monitoring of Anti-Corruption Reforms in Bulgaria	29	-
Ministry of Education and Science – Scientific Research Fund Co-funding under Seventh Framework Program (FP7) – Scientific Indicators of Confidence in Justice: Tools for Policy Assessment	34	-
European Commission – Crime Repression Costs in Context	26	57
European Commission – Global Governance, Regionalization and Regulation: The Role of the EU	5	13
Royal Netherlands Embassy in Sofia – Enhancing Transparency and Business Integrity in Bulgaria	-	11
Access Sofia Foundation – Monitoring of the Work of the Sofia City Council and its Standing Committees	5	-
Council of Ministers - Evaluation and Analysis of the Coordination and Control Functions of the Commission for Prevention and Countering of Corruption (CPCC)	29	-
Total deferred financing related to projects	128	81
Financing for acquisition of fixed assets	22	45
	152	126

13. Revenues

Revenues from grants financing and other project for respective periods are as follows:

	2008	2007
Operational Program Administrative Capacity – Strengthening CSD’s Capacity in the Area of Justice and Home Affairs	126	-
European Commission – Scientific Indicators of Confidence in Justice: Tools for Policy Assessment	84	-
Bulgaria Fund – Monitoring of Anti-Corruption Reforms in Bulgaria	75	-
USIAD – International Conference – Democracy that Delivers: Unlocking the Potential of Transition	64	-
European Commission – Crime Repression Costs in Context	31	27
European Commission – Strategies for Effective Police Stop and Search	45	90
European Commission – Regional Innovation Strategy		110
Royal Netherlands Embassy in Sofia – Enhancing Transparency and Business Integrity in Bulgaria	19	-
British Embassy in Sofia – Border Justice	15	155
European Commission – Global Governance, Regionalization and Regulation: The Role of the EU	2	20
USAID – Consolidation of Anti-Corruption Reforms in Bulgaria		386
CIPE – National Legal Framework for Public-Private Partnership		43
British Embassy in Sofia – Establishment of a National Crime Prevention Council		8
IBRD – Global Development Learning Network		20
Other projects	10	27
	<u>471</u>	<u>886</u>
Revenue from services	746	688
Income from financing for fixed assets	23	27
	<u><u>1,240</u></u>	<u><u>1,601</u></u>

14. Cost of sales

Cost of sales for the Group includes:

	2008	2007
Expenses for materials	56	65
External services	845	1,005
Depreciation and amortisation	83	80
Salaries and social securities	255	245
Other expenses	97	169
	<u>1,337</u>	<u>1,564</u>

15. Other operating income

Other operating income for 2007 represents donation, made on 10 January 2007 from IR Communications. The donation consists of 377,000 shares in mutual fund – Raiffeisen Bulgaria Balanced Fund.

16. Finance costs, net

	2008	2007
Interest income	33	81
Gains from revaluation of financial assets, carried at fair value through profit or loss	-	239
	<u>33</u>	<u>320</u>
Interest expense		(79)
Foreign exchange gains/(losses), net	5	(7)
Loss on sale of financial assets, carried at fair value through profit or loss	(237)	-
Other financial expenses	(4)	(3)
	<u>(236)</u>	<u>(89)</u>
Finance costs, net	<u>(203)</u>	<u>231</u>

17. Income tax

The major components of income tax expense for the year ended 31 December 2008 and the period ended 31 December 2007 are:

	2008	2007
Current tax	(2)	(1)
Deferred tax	(3)	2
Income expense	(5)	1

Movement in deferred tax asset and deferred tax liability as of 31 December 2007 and 31 December 2008 includes the following:

	31 December 2008		31 December 2007		2008	2007
	Assets	Liabilities	Assets	Liabilities	net	net
Property, plant and equipment	-	(4)	-	(3)	(4)	(3)
Inventory	3	-	3	-	3	3
Trade payables	2	-	4	-	2	4
Net deferred tax asset/liability	5	(4)	7	(3)	1	4

The official rate stated in Corporate Tax Law adopted for 2008 was set to 10% (2007:10%). Deferred taxes are calculated on all temporary differences under the balance method using this effective tax rate

Movement in deferred tax

	Balance as of 1 January 2008	Expense in income statement	Balance as of 31 December 2008
Property, plant and equipment	(3)	(1)	(4)
Inventory	3	-	3
Trade payables	4	(2)	2
Net deferred tax asset/liability	4	(3)	1

The tax authorities may at any time inspect the books and records within 5 years subsequent to the reported tax year, and may impose additional taxes and penalties. The Groups's management is not aware of any circumstances which may give rise to a potential material liability in this respect.

There are no tax checks performed in the recent years.

18. Related parties

The group is related party to the ARC Fund and its subsidiary (ARC Consulting EOOD)

The following transactions occurred during the year:

Related party	Transactions during the year	January-December		31 December		31 December	
		2008	2007	2008	2007	2008	2007
		<i>Transactions</i>		<i>Receivables</i>		<i>Payables</i>	
ARC Consulting	Consultancy services rendered to Vitosha Research EOOD	39	-	-	-	-	-
ARC Fund	Rent contract	45	45	-	4	-	-
	European Community – RIS	-	104	-	-	-	-
IR Comm-s EOOD	Donation	-	450	-	-	-	-
		<u>45</u>	<u>599</u>	<u>-</u>	<u>4</u>	<u>-</u>	<u>-</u>

Transactions with directors and other members of the management

Total amount of the remunerations and social contributions included in the expenses for external services is as follows:

	2008	2007
Board of Directors	<u>95</u>	<u>103</u>

18. Events after the balance sheet date

There were no events after balance date requiring corrections of the financial statements or disclosures.