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# ARCFUND

**Applied Research And Communications Fund (the Group)**

**Consolidated Annual Financial Statements**

**31 December 2021**

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## Independent Auditors' Report

To the Board of Trustees of  
the APPLIED RESEARCH AND COMMUNICATIONS FUND

### Report on the Consolidated Financial Statements

We have audited the consolidated financial statements of the Applied Research and Communications Fund and its consulting arm ARC Consulting EOOD (together referred to as "the Group"). These comprise the consolidated statement of the Group's financial position as of 31 December 2021 and the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, as well as a summary of significant accounting policies and other explanatory notes.

### Opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2021, its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union (EU).

### Basis for expression of opinion

We have performed our audit in accordance with the International Standards on Auditing (ISA). Our responsibilities as per these standards are further described in the Auditor's Responsibility section of our report. We are independent from the Group in accordance with the Code of Ethics for Professional Accountants of the International Ethics Standards Board for Accountants (The IESBA Code) along with the ethical requirements of the Law on the Independent Financial Audit (LIFA), applicable to our audit of consolidated financial statements in Bulgaria. We have also complied with our other ethical responsibilities as per the requirements of LIFA and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Other information, different from the consolidated financial statements and the auditor's report

The Group's management is responsible for other information. Other information comprises the report on the activity prepared by the management in accordance with Chapter Seven of the Law on Accountancy of the Republic of Bulgaria, but excludes the consolidated financial statements and our auditor's report.

Our opinion regarding consolidated financial statements does not comprise this other information and we do not express any form of conclusion about its reliability, unless it is explicitly stated in our report and to the extent to which it is stated.

In auditing consolidated financial statements, our responsibility is to read the other information and thus to assess whether this other information is substantially inconsistent

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with consolidated financial statements or with our knowledge obtained during the audit, or in another way appears to contain material misstatement. If, based on the work we have performed, we conclude there is material misstatement in this other information, we are required to report this fact.

We have nothing to report in this respect.

### **Supplementary reporting requirements laid down in the Law on Accountancy of the Republic of Bulgaria**

In addition to our responsibilities and reporting in compliance with ISA, in reference to the report on the activity we have followed the procedures supplementing ISA requirements as per the Instructions of the professional organisation of certified public accountants and registered auditors in Bulgaria – Institute of Certified Public Accountants (ICPA) – issued on 29 November 2016 and endorsed by its Managing Board on 29 November 2016. These are procedures on verification whether such other information is present and on examination of its form and content, designed to assist us in forming an opinion on whether this other information contains the disclosures and reports laid down in Chapter Seven of the Law on Accountancy.

### **Opinion in reference to Art. 37, Para. 6 of the Law on Accountancy of the Republic of Bulgaria**

On the grounds of the procedures implemented, our opinion is that:

- a) The information included in the report on the activity for the financial year for which consolidated financial statements were prepared corresponds to the consolidated financial statements.
- b) The report on the activity was prepared in compliance with the requirements of Chapter Seven of the Law on Accountancy.

### **Management's responsibility for the Consolidated Financial Statements**

The management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as the management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

During the preparation of consolidated financial statements, the management is responsible for evaluating the ability of the Group to continue its operation as a going concern, disclosing, when applicable, issues related to the assumption about a going concern and using the accounting basis on the grounds of the assumption about a going concern, unless the management has the intention to liquidate the Group or to suspend its activity, or has no other alternative but to take such action.

### **Auditor's responsibility**

We aim to obtain reasonable assurance that the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report containing our auditor's opinion. Reasonable assurance is a high degree of assurance, but is not a guarantee that an audit performed in accordance with ISA shall in all cases reveal material misstatement if such misstatement is present. Misstatements may arise as a result of fraud or error and are considered material if it would be reasonable to expect that, independently or in aggregate, they could impact the economic decisions of consumers taken on the basis of these financial statements.

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As part of the audit complying with IAS, we use professional judgment and keep professional skepticism throughout the audit. We also:

- identify and assess the risks of material misstatement in the consolidated financial statements, whether due to fraud or error; we design and perform audit procedures in response to these risks, and we obtain sufficient and appropriate audit evidence, so as to provide basis for our opinion. The risk of not revealing material misstatement which is due to fraud, is higher than the risk of not revealing material misstatement which is due to error, as fraud could vary from secret arrangement, through forgery, intentional omissions, and statements aiming to deceive the auditor, to internal control neglect or circumvention;
- consider internal control relevant to the audit 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 Group’s internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and the related statements made by management;
- make a conclusion about the appropriateness of the accounting basis used by management on the grounds of the assumption for a going concern and the audit evidence obtained about whether material uncertainty is present concerning events or circumstances which could cause significant doubts about the ability of the Group to continue operation as a going concern. In case of finding such material uncertainty, we are obliged to draw attention in our auditor’s report to the disclosures in the consolidated financial statements relevant to that uncertainty, or, in case these disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, due to future events or circumstances the Group could suspend its operation as a going concern;
- evaluate the overall presentation, structure and content of the consolidated financial statements, including disclosures, and whether consolidated financial statements present the fundamental transactions and events in a reliable manner.

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Stoyan Donev

Registered Auditor

27 July 2022


Sofia



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Донев  
Регистриран одитор

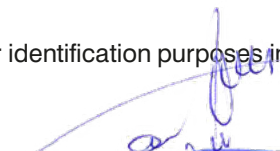
(all amounts in BGN thousand)	Note	For the year ending:	
		31 December 2021	31 December 2020
<b>Assets</b>			
Property, plant and equipment	5	13	34
Intangible assets	6	19	19
Investment property	7	36	37
<b>Total non-current assets</b>		<b>68</b>	<b>90</b>
Trade and other receivables	8	333	350
Cash and cash equivalents	9	2	5,138
Deferred expenses		37	–
<b>Total current assets</b>		<b>3,037</b>	<b>5,488</b>
<b>Total assets</b>		<b>3,105</b>	<b>5,578</b>
<b>Equity</b>		<b>1,900</b>	<b>1,938</b>
<b>Liabilities</b>			
Payables to partners and suppliers	10	88	2,760
Deferred financing	11	1,117	880
<b>Total current liabilities</b>		<b>1,204</b>	<b>3,640</b>
<b>Total liabilities</b>		<b>1,204</b>	<b>3,640</b>
<b>Total equity and liabilities</b>		<b>3,105</b>	<b>5,578</b>

These consolidated financial statements were approved by the Board of Trustees on 26 July 2022. They were signed on behalf of the Board of Trustees by:

  
Nickolay Badinski  
Executive Director  
26 July 2022



Initialled for identification purposes in reference to the audit report:

  
Stoyan Donev  
Registered Auditor  
27 July 2022



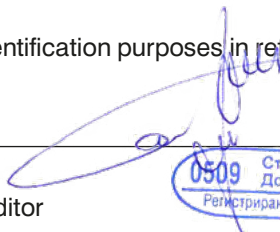
(all amounts in BGN thousand)	Note	For the year ending:	
		31 December 2021	31 December 2020
Revenues from grants financing	12	1,057	1,034
Cost of sales	15	(962)	(946)
<b>Gross profit</b>		<b>95</b>	<b>88</b>
Other operating income		389	354
Administrative expenses	15	(518)	(493)
Impairment losses		–	(20)
<b>Revenue from operating activities</b>		<b>(34)</b>	<b>(71)</b>
Financial income		1	2
Financial expenses		(4)	(4)
<b>Net financing costs</b>	13	<b>(3)</b>	<b>(2)</b>
<b>Profit before income tax</b>		<b>(37)</b>	<b>(73)</b>
Income tax expense	14	(1)	(1)
<b>Net profit for the period</b>		<b>(38)</b>	<b>(74)</b>
Other comprehensive income		–	–
<b>Total comprehensive income</b>		<b>(38)</b>	<b>(74)</b>

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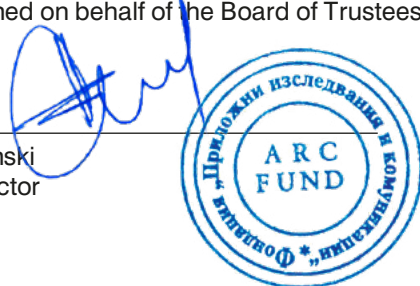


(all amounts in BGN thousand)

	Note	For the year ending:	
		31 December 2021	31 December 2020
<b>Cash generated from operations</b>			
Profit before income tax		(37)	73
Depreciation		31	7
(Increase)/decrease of trade and other receivables		17	282
(Increase)/decrease of trade and other payables		(2,556)	2,755
(Increase)/decrease of deferred financing		124	242
(Increase)/decrease of deferred expenses		(37)	-
<b>Net cash from operating activities</b>		<b>(2,458)</b>	<b>3,213</b>
Income tax paid		(1)	(1)
<b>Net cash generated from operating activities</b>		<b>(2,459)</b>	<b>3,212</b>
<b>Cash flows from investing activities</b>			
Payments for acquisition of property, plant and equipment		(9)	(25)
<b>Net cash used in investing activities</b>		<b>(9)</b>	<b>(25)</b>
<b>Cash flows from financing activities</b>			
Interest and commissions paid		(3)	93
<b>Net cash used in financing activities</b>		<b>(3)</b>	<b>93</b>
Net increase/(decrease) in cash and cash equivalents		(2,471)	3,280
Cash and cash equivalents at the beginning of the year		<b>5,138</b>	<b>1,858</b>
<b>Cash and cash equivalents at the end of the year</b>	9	<b>2,667</b>	<b>5,138</b>

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(all amounts in BGN thousand)	Note	<u>Retained earnings</u>
<b>Balance as of 1 January 2020</b>		<b>2,013</b>
Net profit for the year		(74)
Other changes		(1)
<b>Balance as of 31 December 2020</b>		<b>1,938</b>
<b>Balance as of 1 January 2021</b>		<b>1,938</b>
Net profit for the year		(38)
Other changes		-
<b>Balance as of 31 December 2021</b>		<b>1,900</b>

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26 July 2022



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## **1. Background and activities**

The Applied Research and Communications Fund (ARC Fund), is a European think-and-action tank in the area of innovation, business support and technology transfer, established in 1991. ARC Fund provides:

- advice and advocacy on science- and evidence-based national, regional and local level innovation policies and strategies;
- research and analyses of development trends and policy options for supporting entrepreneurship and innovation for smart specialisation and industrial transformation;
- innovative educational methodologies for building digital and media literacy in young people and for creating a safer internet environment;
- public-private partnership and foresight know-how for addressing specific issues of innovation-based competitiveness, digitalisation and green transformation.

The consolidated financial statements of ARC Fund for the year ended 31 December 2021 comprise the ARC Fund and its consulting arm ARC Consulting EOOD (together referred to as “the Group”).

ARC Fund owns 100% of the share capital of its consulting arm ARC Consulting EOOD. The company offers consulting services in the fields of innovation and information and communication technologies, as well as advisory services in the design and implementation of international projects. ARC Consulting EOOD is a limited liability company established in the Republic of Bulgaria and registered by Sofia City Court under file No 9428/2006 on 28 August 2006.

As of 31 December 2021 the Group has 29 employees.

These consolidated financial statements were approved by the ARC Fund’s Board of Trustees on 26 July 2022.

## **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 the IFRS, as adopted by the EU. The financial statements have been prepared under the historical cost convention.

The consolidated financial statements comprise the financial statements of the ARC Fund and its consulting arm as of 31 December each year. The financial statements of the consulting arm are prepared for the same reporting period as those of the parent Group, 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 unrealised gains resulting from intra-group transactions are eliminated in full. Unrealised losses are also eliminated, but considered an impairment indicator of the asset transferred. The consulting arm is 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. The accounting policies of the consulting arm have been changed where necessary to ensure consistency with the policies adopted by the Group.

Consulting arms 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 entities 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.

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 non-controlling 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 entity 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 non-controlling interests*

Non-controlling 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 non-controlling interests result in gains and losses for the Group that are recognised in the income statement. Acquisitions of non-controlling 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 the management to make estimates and assumptions. The management relied on their own judgment when applying the accounting policy of the Group. 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.

#### *New and amended standards – adopted by the Group:*

New and amended standards and interpretations mandatory for the first time for the financial year beginning 1 January 2021 are not early adopted by the Group because the management of the Group believes that they are not currently relevant to the Group, although they may affect accounting for future transactions and events.

New standards, amendments and interpretations issued, but not effective for the financial year beginning 1 January 2021 are not early adopted by the Group. They are not relevant to the Group, although they may affect accounting for future transactions and events.

## 2.2. Foreign currency transactions

### 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 in these consolidated financial statements 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 statement of comprehensive income.

## 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 Group and the cost of the item can be measured reliably.

Depreciation commences 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. Depreciation rates are based on the useful life of the different types of property, plant and equipment as follows:

Group	Accounting rates	Tax rates
Buildings	25 years	25 years
Machinery and equipment	5 years	5 years
Facilities	25 years	25 years
Computers	2 years	2 years
Vehicles	4 years	4 years
Fixtures and fittings	6.67 years	6.67 years

Property, plant and equipment is depreciated from the day following the acquisition date and for internally generated assets – from the day 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 usually for 4–5 years.

## 2.5. Financial assets

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. The management determines the classification of its investments at initial recognition and re-evaluates this designation at every reporting date.

### *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 Group did not hold any investments in this category. The Group does not possess such financial assets as of 31 December 2021.

### *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 Group's loans and receivables comprise "trade and other receivables" and "cash and cash equivalents" in the balance sheet. Loans and receivables are carried at amortised cost using the effective interest rate.

### *Held to maturity*

Held-to-maturity investments are fixed-maturity investments that the Group's management has the positive intention and ability to hold to maturity. These securities are included as non-current assets except for securities, reaching maturity within 12 months from the balance sheet date and which are recognised as current during the reporting period. During the year, the Group did not hold any investments in this category.

### *Available for sale financial assets*

Available-for-sale financial assets are non-derivatives that are investments acquired with the purpose to be owned for a non-fixed period of time and which can be sold when the Group needs recourse or at change of interest rates. They are included in non-current assets unless the management intends to dispose of the investment within 12 months of the balance sheet date or to use them as a source of working capital. In this case the investments are classified within current assets. During the year, the Group did not hold any investments in this category.

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 Group 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. Investment property**

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services, or for administrative purposes. Investment property is measured at cost on initial recognition and subsequently at fair value with any change therein recognised in profit or loss.

Cost includes expenditure that is directly attributable to the acquisition of the investment property. The cost of self-constructed investment property includes the cost of materials and direct labour, any other costs directly attributable to bringing the investment property to a working condition for its intended use and capitalised borrowing costs.

When the use of a property changes such that it is reclassified as property, plant and equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting.

## **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 of 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, when 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 the management.

### *Revenue from grants and contributions*

Grants from financing bodies are recognised initially as deferred income when there is reasonable assurance that they will be received and that the Group will comply with the conditions associated with the grant. Grants that compensate the Group for expenses incurred are recognised in profit or loss on a systematic basis in the same periods in which the expenses are recognised. Grants that compensate the Group for the cost of an asset are recognised in profit or loss on a systematic basis over the useful life of the asset.

### *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. Dividend distribution

The Group does not distribute dividends.

### 3. Financial risk management

#### 3.1. Impact of the general economic environment

##### *Impact of the ongoing global crisis*

In 2020 and 2021, the global economy was severely hit by the COVID-19 pandemic. As a result of constraints on the free movement of people and goods and the rise of unemployment, all EU member states, including Bulgaria, went into a recession. The shock of anti-epidemic measures was mitigated by a considerable slackening of cash and budgetary restriction both globally and in the EU. The Bulgarian government was no exception, although the measures it took were narrower in scope. As a result of its efforts, unemployment went down (to 4.5% in the last quarter of 2021) and the GDP level rose after a drop in the previous year (from -4.4% in 2020 to 4.2% in 2021). The development of the COVID crisis is expected to dominate global economic activity as the major factor for the next couple of years. The war in Ukraine, the gas and energy crisis in Europe and the ongoing de-globalisation trends will be the main instability factors in 2022–2023 in Bulgaria and Europe.

Risks for the Group are also heightened by the EU's transition to a new programming period and the ensuing delay of announcing new funding opportunities. On the other hand, the Group is implementing over 10 actions under the Horizon 2020 program (whose total budget equals EUR 80 billion), while the budget of its successor in the next 7-year programming period – Horizon Europe – amounts to the even higher EUR 95.5 billion. This fact is likely to have a positive effect on the Group's activities.

Due to rising gas and other energy source prices, in late 2021 inflation in Bulgaria reached nearly 8%, marking a peak after the global financial crisis in 2007–2008. This complicates the expense planning process for all entities in the Group, and therefore raises uncertainty. The Federal Reserve and the European Central Bank have clearly stated that high inflation will most likely have to be tackled by seriously raising key interest rates. The Federal Reserve is expected to introduce these measures before all, which would increase the value of the dollar against the euro.

While Bulgaria has continued with its Eurozone and Schengen bid, these processes are expected to continue facing difficulties and deviations from plan. In 2020, as a next step to adopting the Euro, Bulgaria joined ERM II – the EU's exchange rate mechanism – in order to advance economic convergence with the Eurozone. The latter, however, can only be limited due to the compounded economic conditions and domestic political instability that set in as early as in mid-2020. Bulgaria does not comply with the price stability criterion, as its inflation rate is considerably higher than the limit. Nevertheless, the country's leadership is still aiming to adopt the Euro in 2024, which is expected to enhance foreign investors' interest and possibly affect organisations such as the Group in a positive way. Over 50% of Group's funds are in Euro. Since 1 October 2020, the European Central Bank has been exercising direct supervision over the key credit institution in Bulgaria. The Group's bank accounts are in institutions present on this supervision list, which is an additional source of stability.

The short and mid-term prospects for Bulgaria's economic growth remain uncertain. This uncertainty is exacerbated by the political crisis in the country and the failure to form a stable regular government. Political turbulence continued to dominate the country in 2021 as well, leading to protests, a series of elections and two caretaker governments. The management is unable to predict all developments which could have an impact on the sector and wider economy, and consequently what effect, if any, they could have on the future financial position of the Group. However, the management's analysis shows that for the short to mid-term the risks are balanced and the general environment is likely to remain largely favourable for the development of the Group. The management will continue to monitor these risks on a regular basis and take all necessary measures to support the sustainability and development of the Group's business in the current circumstances.



### *Impact on customers/borrowers*

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

#### *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.

#### *Price risk*

The Group'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 Group.

### **3.2.2. Interest rate risk**

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

The Group analyses its interest rate exposure on a regular 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.

The Group has established and implemented a policy which ensures that the sales of services and revenues from financing are provided to/by clients and organisations with appropriate credit history.

### **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.



<b>As of 31 December 2020</b>	<b>Up to 1 year</b>	<b>Between 1 and 2 years</b>	<b>Between 2 and 5 years</b>	<b>Over 5 years</b>
Trade and other payables	2,760	–	–	–

<b>As of 31 December 2020</b>	<b>Up to 1 year</b>	<b>Between 1 and 2 years</b>	<b>Between 2 and 5 years</b>	<b>Over 5 years</b>
Trade and other payables	88	–	–	–

#### **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 the 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**

<b>Cost</b>	<b>As of 31 December 2020</b>	<b>Additions</b>	<b>Disposals</b>	<b>As of 31 December 2021</b>
Computers	109	9	18	100
Vehicles	144	–	–	144
Fixtures & fittings	18	–	1	17
Other assets	3	–	–	3
<b>Total</b>	<b>274</b>	<b>9</b>	<b>19</b>	<b>264</b>

<b>Depreciation</b>	<b>As of 31 December 2020</b>	<b>Additions</b>	<b>Disposals</b>	<b>As of 31 December 2021</b>
Computers	75	30	18	87
Vehicles	144	–	–	144
Fixtures & fittings	18	–	1	17
Other assets	3	–	–	3
<b>Total</b>	<b>240</b>	<b>30</b>	<b>19</b>	<b>251</b>

<b>Carrying amount</b>	<b>As of 31 December 2020</b>	<b>Additions</b>	<b>Disposals</b>	<b>As of 31 December 2021</b>
Computers	34	-	-	13
Vehicles	-	-	-	-
Fixtures & fittings	-	-	-	-
Other assets	-	-	-	-
<b>Total</b>	<b>34</b>	<b>-</b>	<b>-</b>	<b>13</b>

## 6. Intangible assets

<b>Cost</b>	<b>As of 1 December 2020</b>	<b>Additions</b>	<b>Disposals</b>	<b>As of 31 December 2021</b>
Software	18	-	-	18
Intellectual property	2	-	-	2
<b>Total</b>	<b>20</b>	<b>-</b>	<b>-</b>	<b>20</b>

<b>Depreciation</b>	<b>As of 1 December 2020</b>	<b>Additions</b>	<b>Disposals</b>	<b>As of 31 December 2021</b>
Software	-	-	-	-
Intellectual property	1	-	-	1
<b>Total</b>	<b>1</b>	<b>-</b>	<b>-</b>	<b>1</b>

<b>Carrying amount</b>	<b>As of 1 December 2020</b>	<b>Additions</b>	<b>Disposals</b>	<b>As of 31 December 2021</b>
Software	18	-	-	18
Intellectual property	1	-	-	1
<b>Total</b>	<b>19</b>	<b>-</b>	<b>-</b>	<b>19</b>

## 7. Investment property

	<b>For the year ending:</b>	
	<b>31 December 2021</b>	<b>31 December 2020</b>
<b>As of 1 January</b>		
Carrying amount at the beginning of the period	37	38
Depreciation charge	(1)	(1)
<b>Carrying amount at the end of the period</b>	<b>36</b>	<b>37</b>
<b>As of 31 December</b>		
Cost	54	54
Accumulated depreciation	(18)	(17)
<b>Carrying amount</b>	<b>36</b>	<b>37</b>

Investment properties are carried at cost, less accumulated depreciation and impairment.

## 8. Trade and other receivables

	<b>For the year ending:</b>	
	<b>31 December 2021</b>	<b>31 December 2020</b>
Trade receivables	455	450
Less: impairment provision of trade payables	(131)	(111)
Trade receivables, net	<b>324</b>	<b>339</b>
VAT refund	–	2
Other	9	9
<b>Total</b>	<b>333</b>	<b>350</b>

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

## 9. Cash and cash equivalents

	<b>For the year ending:</b>	
	<b>31 December 2021</b>	<b>31 December 2020</b>
Cash at hand	11	12
Cash in bank accounts	2,656	5,126
<b>Total</b>	<b>2,667</b>	<b>5,138</b>

## 10. Trade and other payables

<b>Short-term liabilities</b>	<b>For the year ending:</b>	
	<b>31 December 2021</b>	<b>31 December 2020</b>
Salaries and social securities payables	8	5
Corporate tax payables	–	1
Other	80	2,754
<b>Total</b>	<b>88</b>	<b>2,760</b>

## 11. Deferred financing

### Deferred financing related to projects:

	<b>For the year ending:</b>	
	<b>31 December 2021</b>	<b>31 December 2020</b>
European Commission (EC) – REconciling sScience, Innovation and Precaution through the Engagement of Stakeholders (RECIPES)	14	2
EC - Inclusive Science and European Democracies (ISEED)	52	–
EC – Territorial Responsible Research and Innovation Through the Involvement of Local R&I Actors (TeRRitoria)	–	12
EC - PROactive Strategies and Policies for Energy Citizenship Transformation (EnergyPROSPECTS)	420	–
EC – Media Information Literacy “Village“ to Empower Young People for Active Participation (MILagers)	6	13
EC – Resilient Youth against Far-Right Extremist Messaging Online (YouthRightOn)	–	11
EC – Ethics Governance System for RRI in Higher Education, Funding and Research Centres (ETHNA System)	100	144
EC – Challenging Anti-Gypsyism by Roma Empowerment for Countering Disinformation and Fake News in Bulgaria (Care for Truth)	–	12
EC – Leveraging Leadership for Responsible Research and Innovation in Territories (RRI- Leaders)	349	568
EC – Advanced Manufacturing Assistance and Training for SME Transformation (ADMA TranS4MErs)	159	110
Other	–	4
<b>Total deferred financing related to projects</b>	<b>1,100</b>	<b>876</b>
Deferred financing for acquisition of fixed assets	17	4
<b>Total deferred financing</b>	<b>1,117</b>	<b>880</b>

## 12. Revenues

<b>Revenues from grants financing and other project for respective periods are as follows:</b>	<b>For the year ending:</b>	
	<b>31 December 2021</b>	<b>31 December 2020</b>
OAK Foundation – Men Care Campaign in Bulgaria (Phase II)	–	15
EC – Energy Conscious Consumers (ECO2)	44	169
EC – Protecting and Educating Children for Safer Digital Technology Use (Safer Internet 8)	185	–
EEA – Supporting workplace innovation among SMEs in Bulgaria: analysis and recommendations (Workplace Innovation)	19	–
EC/Ministry of Regional Development and Public Works – Bridging the Innovation Gap through Converting R&D Results into Commercial Success in a More Effective and Efficient way (InnoBridge)	–	12
EC/Ministry of Regional Development and Public Works – Efficient Support Services Portfolio for SMEs (ESSPO)	14	–
EC – Responsible Research and Innovation in Practice (RRI Practice)	–	1
EC – Leveraging Leadership for Responsible Research and Innovation in Territories (RRI– Leaders)	209	–
EC/Ministry of Regional Development and Public Works – Facilitating Macro-Regional Scope and Link up to Socio-Economic Actors of Research Infrastructure in the Danube Region (ResInfra)	5	–
EC – Inclusive Science and European Democracies (ISEED)	10	–
EC – Child Protection and Education for Safety and Success in the Digital Age (Safer Internet 7)	–	189
OAK Foundation – Holistic Model for Safer School and Community by Building Digital Era Competences (OAK – 2020 – 3)	53	100
EC – Territorial Responsible Research and Innovation Through the involvement of local R&I Actors (TeRRitoria)	60	97
EC – REconciling sCIence, Innovation and Precaution through the Engagement of Stakeholders (RECIPES)	5	57
EC – PROactive Strategies and Policies for Energy Citizenship Transformation (EnergyPROSPECTS)	20	–
EC/Ministry of Regional Development and Public Works – Enhancing Scalable Innovations and New Business Models Based on Urban Farming Ecosystem Values (CityZen)	192	145
EC – Resilient Youth against Far-Right Extremist Messaging Online (YouthRightOn)	12	23
EC – Media Information Literacy “Village“ to Empower Young People for Active Participation (MILagers)	7	12
EC – Ethics Governance System for RRI in Higher Education, Funding and Research Centres (ETHNA System)	67	28
EC – Challenging Anti-Gypsyism by Roma Empowerment for Counter-ing Disinformation and Fake News in Bulgaria (Care for Truth)	22	12
Other projects	133	172
<b>Total revenues from grants financing</b>	<b>1,057</b>	<b>1,032</b>
Revenues from unconditional donations	–	–
Other	–	2
<b>Total revenues</b>	<b>1,057</b>	<b>1,034</b>

### 13. Finance costs, net

<b>Finance costs, net</b>	<b>For the year ending:</b>	
	<b>31 December 2021</b>	<b>31 December 2020</b>
Interest income	1	2
<b>Interest, net</b>	<b>1</b>	<b>2</b>
Foreign exchange expense	(2)	(3)
<b>Foreign exchange, net</b>	<b>(2)</b>	<b>(3)</b>
Other financial expenses	(2)	(1)
<b>Other financial, net</b>	<b>(2)</b>	<b>(1)</b>
<b>Finance costs, net</b>	<b>(3)</b>	<b>(2)</b>

### 14. Income tax expense

The major components of income tax expense for the year ended 31 December 2021 and the period ended 31 December 2020 are:

	<b>2021</b>	<b>2020</b>
Current tax	(1)	(1)
Deferred tax	-	-
<b>Income tax expense</b>	<b>(1)</b>	<b>(1)</b>

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 Group'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.

### 15. Expenses

<b>Cost of sales for the Group includes:</b>	<b>For the year ending:</b>	
	<b>31 December 2021</b>	<b>31 December 2020</b>
Cost of sales for projects	962	946
Administrative expenses	518	493
<b>Total expenses</b>	<b>1,480</b>	<b>1,439</b>

<b>Cost of sales, administrative and other expenses include:</b>	<b>For the year ending:</b>	
	<b>31 December 2021</b>	<b>31 December 2020</b>
Expenses for materials	3	1
Hired services	594	564
Depreciation and amortisation	31	7
Salaries and wages	719	735
Social securities	94	107
Other expenses	39	25
<b>Total expenses</b>	<b>1,480</b>	<b>1,439</b>

## 16. Related parties

The Group is related to the Center for the Study of Democracy, and thus is also related with its consulting arms.

During the period the following transactions and balances have occurred:

<b>Related party</b>	<b>Transactions during the year</b>	<b>January - December</b>		<b>31 December</b>		<b>31 December</b>	
		<b>2021</b>	<b>2020</b>	<b>2021</b>	<b>2020</b>	<b>2021</b>	<b>2020</b>
		<i>Transactions</i>		<i>Receivables</i>		<i>Payables</i>	
Project 1 EOOD	Rental agreement	(117)	(100)	-	-	-	-
Vitosha Research EOOD	Consulting services	6	-	-	-	-	-
Center for the Study of Democracy	Consulting services	16	-	-	-	-	-
		<b>(95) (100)</b>		-	-	-	-

### *Transactions with directors and other members of the management*

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

	<b>2021</b>	<b>2020</b>
Board of Trustees and Directors	178	154

## 17. Events after the balance sheet date

There are no events after the balance sheet date of the Group that would require additional disclosures in the financial statements.