APPLIED RESEARCH AND COMMUNICATIONS FUND (the GROUP)
CONSOLODATED ANNUAL FINANCIAL STATEMENTS
31 DECEMBER 2009

CONTENTS

APPLIED RESEARCH AND COMMUNICATIONS FUND (the GROUP)
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
31 DECEMBER 2009

(all amounts in BGN thousand)	Note	31 December 2009	31 December 2008
Assets			
Property, plant and equipment	5	136	22
Investment property	6	269	281
Total non-current assets		**405**	**303**
Inventory		-	11
Trade and other receivables	7	250	375
Cash and cash equivalents	8	1,431	2,302
Deferred expenses		79	3
Total current assets		**1,760**	**2,691**
Total assets		**2,165**	**2,994**
Equity		**1,467**	**1,638**
Trade and other payables	9	289	571
Deferred financing	10	408	784
Taxes and other		1	1
Total current liabilities		**698**	**1,356**
Total liabilities		**698**	**1,356**
Total equity and liabilities		**2,165**	**2,994**

These consolidated financial statements, set out on pages from 3 to 26 were approved by the Board of Trustees on 29 July 2010. They are signed on behalf of the Board of Trustees by:

Nickolay Badinski
Executive Director
29 July 2010

Initialled for identification purposes in reference to the audit report:

Rositsa Boteva
Registered Auditor
30 July 2010

0500 Росица Ботева Регистриран одитор

APPLIED RESEARCH AND COMMUNICATIONS FUND (the GROUP)
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
31 DECEMBER 2009

(all amounts in BGN thousand)	Note	For the year ending: 31 December 2009	31 December 2008
Revenue	11	1,317	1,312
Cost of sales	12	(1,406)	(1,318)
Gross profit/ (loss)		**(89)**	**(6)**
Other operating income		1	-
Impairment losses		(130)	-
Operating profit		**(218)**	**(6)**
Financial income		68	34
Financial expenses		(18)	(144)
Net financial income/(expense)	13	**50**	**(110)**
Loss before income tax		**(168)**	**(116)**
Income tax expense	14	(3)	-
Net loss for the period		**(171)**	**(116)**
Other comprehensive income		-	-
Total comprehensive income for the year		**(171)**	**(116)**

These consolidated financial statements, set out on pages from 3 to 26 were approved by the Board of Trustees on 29 July 2010. They are signed on behalf of the Board of Trustees by:

Nickolay Badinski
Executive Director
29 July 2010

ARC FUND

Initialled for identification purposes in reference to the audit report:

Rositsa Boteva
Registered Auditor
30 July 2010

0500 Росица Ботева Регистриран одитор

"APPLIED RESEARCH AND COMMUNICATIONS" FUND (the GROUP)
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
31 DECEMBER 2009

(all amounts in BGN thousand	Note	Retained earnings	Total
Balance as at 1 January 2008		**1,754**	**1,754**
Net loss for the year		(116)	(116)
Balance as at 31 December 2008		**1,638**	**1,638**
Balance as at 1 January 2009		**1,638**	**1,638**
Net loss for the year		(171)	(171)
Balance as at 31 December 2009		**1,467**	**1,467**

These consolidated financial statements, set out on pages from 3 to 26 were approved by the Board of Trustees on 29 July 2010. They are signed on behalf of the Board of Trustees by:

Nickolay Badinski
Executive Director
29 July 2010

Фондация „Приложни изследвания и комуникации" ARC FUND

Initialled for identification purposes in reference to the audit report:

Rositsa Boteva
Registered Auditor
30 July 2010

0500 Росица Ботева Регистриран одитор

"APPLIED RESEARCH AND COMMUNICATIONS" FUND (the GROUP)
CONSOLIDATED CASH FLOW STATEMENT
31 DECEMBER 2009

(all amounts in BGN thousand)	Note	For the year ending: 31 December 2009	31 December 2008
Cash flows from operating activities			
Loss before income tax		(168)	(116)
Adjustments for:			
Depreciation and amortisation	5,6	56	28
Net interest income accrued		(53)	(31)
Net profit from revaluation of financial assets		-	128
		(165)	**9**
Changes in working capital:			
Decrease of inventory		11	-
Decrease/(Increase) of trade and other receivables and deferred expenses		48	(34)
(Decrease)/Increase of trade and other payables		(658)	1,044
Cash flow from operating activities		**(764)**	**1,019**
Interest received		56	31
Income tax paid		(2)	-
Net cash flows from operating activities		**(710)**	**(1,050)**
Cash flows from investment activities			
Purchase of property, plant and equipment and intangible assets		(161)	(11)
Net cash flows from investment activities		**(161)**	**(11)**

APPLIED RESEARCH AND COMMUNICATIONS FUND (the GROUP)
CONSOLIDATED CASH FLOW STATEMENT (continued)
31 DECEMBER 2009

(all amounts in BGN thousand)	Note	For the year ending: 31 December 2009	31 December 2008
Cash flows from financing activities			
Proceeds from sale of financial assets		-	694
Net cash flow from financing activities		-	**694**
Net (decrease)/ increase in cash and cash equivalents		**(871)**	**1,733**
Cash and cash equivalents at the beginning of the period		2,302	569
Cash and cash equivalents at the end of the period	9	**1,431**	**2,302**

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30 July 2010

0500 Росица Ботева
Регистриран одитор

1. Background and activities

The Applied Research and Communications Fund (the ARC Fund), "the Group") is a non – profit organisation with its legal seat in Republic of Bulgaria. The Fund is established in 1991 in Sofia, Bulgaria. Its main purpose is:

- To drive the development of the **knowledge economy** in Bulgaria and Europe in line with the renewed Lisbon objectives;
- To promote innovation in the European economy and facilitate the transfer of new and advanced technologies and know-how;
- To support **cross-border networking** and **capacity building** of businesses, public agencies or private organizations, by using the advances in information and communication technologies.

The ARC Fund owns 100% of the share capital of its subsidiary: ARC Consulting EOOD.

ARC Consulting EOOD is a limited liability company established in Republic of Bulgaria. The company is registered in Sofia City Court with act № 9428/2006 from 28 August 2006. Its core activity is offering of consultancy services in the area of policies and practices of the European Union.

These consolidated financial statements have been approved by the Board of Trustees of the Fund on 29 July 2010.

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 Fund 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.

2. Accounting policies (continued)

2.1. Basis of preparation (continued)

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.

2. Accounting policies (continued)
2.1. Basis of preparation (continued)

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 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.

a) New and amended standards, adopted by the Group:

- IAS 1 (revised). 'Presentation of financial statements' – effective 1 January 2009. The revised standard prohibits the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity, requiring 'non- owner changes in equity' to be presented separately from owner changes in equity in a statement of comprehensive income. As a result the group presents in the consolidated statement of changes in equity all owner changes in equity, whereas all non-owner changes in equity are presented in the consolidated statement of comprehensive income. Comparative information has been re-presented so that it also is in conformity with the revised standard.

2. Accounting policies (continued)

2.1. Basis of preparation (continued)

a) New and amended standards, adopted by the Group (continued):

- IAS 23 (revised), "Borrowing costs" (effective for periods beginning on or after 1 January 2010). Under the revised standard, an entity is required 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 was removed. The capitalisation is required for qualifying assets for which the commencement date for capitalisation is on or after 1 January 2009. The Group has applied this standard in accordance with the transition provisions. Due to the fact that the Group started the construction of a qualifying asset before 1 January 2009, this change had no effect on the financial statements for the year ended 31 December 2009.
- IAS 40 (amendment), "Investment property" (and consequential amendment to IAS 16, 'Property, plant and equipment'). The amendments are part of the IASB's annual improvements project published in May 2008 and are effective from 1 January 2009. Property that is under construction or development for future use as investment property is brought within the scope of IAS 40. Where the fair value model is applied, such property is measured at fair value. However, where fair value of investment property under construction is not reliably determinable, the property is measured at cost until the earlier of the date construction is completed and the date at which fair value becomes reliably measurable.

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

- IFRS 5 (amendment), "Measurement of non-current assets (or disposal groups) classified as held-for-sale". The amendment provides clarification that IFRS 5 specifies the disclosures required in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations.
- IAS 36 (amendment), "Impairment of assets" (Effective for periods beginning on or after 1 January 2010). Amendment to clarify that the largest cash-generating unit (or group of units) to which goodwill should be allocated for the purposes of impairment testing is an operating segment as defined by paragraph 5 of IFRS 8, 'Operating segments' (that is, before the aggregation of segments with similar economic characteristics permitted by paragraph 12 of IFRS 8).
- IFRS 8 (amendment), "Operating segments" (Effective for periods beginning on or after 1 January 2010). Minor textual amendment to the standard and amendment to the basis for conclusions, to clarify that an entity is required to disclose a measure of segment assets only if that measure is regularly reported to the chief operating decision-maker.

2. Accounting policies (continued)
2.1. Basis of preparation (continued)

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

- IAS 7 (amendment), "Statement of cash flows" (Effective for periods beginning on or after 1 January 2010). Amendment require that only expenditures that result in a recognised asset in the statement of financial position can be classified as investing activities.
- IAS 17 (amendment), "Leases" (Effective for periods beginning on or after 1 January 2010). Deletion of specific guidance regarding the classification of leases of land, so as to eliminate inconsistency with the general guidance on lease classification.
- IAS 1 (amendment), 'Presentation of financial statements'. The amendment is part of the IASB's annual improvements project published in April 2009. The amendment provides clarification that the potential settlement of a liability by the issue of equity is not relevant to its classification as current or non current. By amending the definition of current liability, the amendment permits a liability to be classified as non-current (provided that the entity has an unconditional right to defer settlement by transfer of cash or other assets for at least 12 months after the accounting period) notwithstanding the fact that the entity could be required by the counterparty to settle in shares at any time.
- Amendments to IFRS 2, "Share-based Payment" - Group Cash-settled Share-based Payment Transactions (effective for annual periods beginning on or after 1 January 2010). The amendments expand on the guidance given in IFRIC 11 to address plans that were previously not considered in the interpretation.
- IAS 38 (amendment), "Intangible assets" (Effective for periods beginning on or after 1 January 2010).
- IAS 39 (amendment), "Financial Instruments: Recognition and Measurement" (Effective for periods beginning on or after 1 January 2010).

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

- IFRS 9 Financial Instruments
- Amendment to IFRIC 14 Prepayments of a Minimum Funding Requirement
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments
- Amendments to IFRS 2 Group Cash-settled Share-based Payment Transactions
- Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards
- Revised IAS 24 Related Party Disclosures

2. Accounting policies (continued)

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

Buildings	25 years
Computers and equipment	2-6.67 years
Vehicles	5 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. Accounting policies (continued)

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: 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 Group did not hold any investments in this category. The Group does not possess such financial assets as at 31 December 2009.

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.
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 in described in Note 2.7.

2. Accounting policies (continued)

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 Accounting policies (continued)

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. Accounting policies (continued)

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. Accounting policies (continued)

2.14. Dividend distribution

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

3. Financial risk management

3.1 Global financial crisis

Recent volatility in global and local 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. Financial risk management (continued)

3.2 Financial risk factors

The risk exposures of the Group could be determined as follows: market risk (including currency risk, prise 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 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 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.

3. Financial risk management (continued)

3.2.4 Liquidity risk (continued)

As at 31 December 2009	**Up to 1 year**	**Between 1 and 2 years**	**Between 2 and 5 years**	**Over 5 years**
Trade and other payables	289	-	-	-
Deferred financing	408	-	-	-

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	581	-	-	-
Deferred financing	784	-	-	-

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.

(all amounts in BGN thousand, unless otherwise stated)

5. Property, plant and equipment

	Computers and equipment	Vehicles	Fixtures and fittings	Total
Cost				
As at 1 January 2008	**129**	**24**	**20**	**173**
Additions	10	-	1	**11**
As at 31 December 2008	**139**	**24**	**21**	**184**
Additions	17	144	2	**163**
Disposals	-	20	-	**20**
As at 31 December 2009	**156**	**148**	**23**	**327**
Амортизация				
As at 1 January 2008	**122**	**12**	**12**	**146**
Depreciation charge	9	4	3	**16**
As at 31 December 2008	**131**	**16**	**15**	**162**
Depreciation charge	11	31	4	**36**
Written off depreciation	-	17	-	**17**
As at 31 December 2009	**142**	**30**	**19**	**191**
Net book value				
As at 1 January 2008	**7**	**12**	**8**	**27**
As at 31 December 2008	**8**	**8**	**6**	**22**
As at 31 December 2009	**14**	**118**	**4**	**136**

6. Investment property

	31 December 2009	31 December 2008
As at 1 January		
Carrying amount at the beginning of the year	281	293
Depreciation charge	(12)	(12)
Net book value at the end of the year	**269**	**281**
31 December		
Cost	303	303
Accumulated depreciation	(34)	(22)
Net book value	**269**	**281**

Investment properties held by the Group represent apartments and office space owned by ARC Consulting EOOD. Investment properties are carried at cost, less accumulated depreciation and impairment.

(all amounts in BGN thousand, unless otherwise stated)

7. Trade and other receivables

	As at 31 December	
	2009	**2008**
Trade receivable and receivables on projects financing	201	215
Prepaid corporate tax	4	12
Other	45	148
	250	**375**

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

8. Cash and cash equivalents

	As at 31 December	
	2009	**2009**
Cash at hand	104	86
Cash in bank current accounts	1,327	2,216
	1,431	**2,302**

9. Trade and other payables

	As at 31 December	
	2009	**2009**
Trade payables	288	568
Other	1	3
	289	**571**

(all amounts in BGN thousand, unless otherwise stated)

10. Deferred financing

	31 December 2009	31 December 2008
European Commission - Stimulating trans-national RTD co-operation between SMEs and research actors in Europe and India in the media sector by identifying future and emerging technology needs in SMEs	-	20
European Commission - Civil vision for the development of science, technologies and innovations	8	-
European Commission- Science research infrastructures: forsite and influence	28	-
Bulgaria Fund - Improvement of the institutional environment for ICT policies in Bulgaria	47	-
European Commission - Healthy and Safe Food for the Future – A Technology Foresight Project in Bulgaria, Croatia, Czech Republic, Hungary, Romania and Slovakia	-	6
Oak Foundation - Children in Virtual and Real Violence – Prevention by Discourse and Education	29	18
European Commission - Network for provision of integrated services in support of business and innovation in Bulgaria	161	400
European Commission - Research Driven Cluster for Tourist Sector Competitiveness and Knowledge	-	12
European Commission - Network of ICT experienced organizations, sharing experiences, knowledge and supporting SMEs	21	19
European Commission - European Network to Support the Sustainable Surface Transport (SST) SMEs	-	20
European Commission - Setting Up Combined Saferinternet Node in Bulgaria	33	83
IBRD - ECABIT Network Development to Sustainability 2010	-	39
Ministry of Education and Science – Scientific Research Fund - The Impact of Global Relocation of Information Technology Production on the Transfer of Knowledge, Innovation and R&D Spillovers in and out of Bulgarian and Vietnamese ICT Industries: What Other Factors Matter?	12	13
European Commission - Transport EU-Western Balkan Network for Training, Support and Promotion of Cooperation in FP7 research activities	60	141
Total deferred financing, related to projects	**399**	**771**
Financing for acquisition of fixed assets	**9**	**13**
	408	**784**

(all amounts in BGN thousand, unless otherwise stated)

11. Revenue

Revenues from grants, financing and projects for the annual periods include:

	2009	2008
Revenue on projects financing	1,094	1,222
Revenue from services	213	67
Revenue from financing of fixed assets acquisition	9	11
Other revenue	1	12
	1,317	**1,312**

12. Cost of sales

Cost of sales for the Group include:

	2009	2008
Expenses for materials and consumables	17	15
External services expenses	969	993
Depreciation and amortization	56	28
Salaries and social securities	162	142
Other expenses	202	140
	1,406	**1,318**

13. Financial income/ (expense), net

	2009 г.	2008 г.
Interest income	53	31
Gains from revaluation of financial assets, carried at fair value	-	-
	53	**31**
Interest expense	-	-
Foreign exchange gains/(losses), net	2	(9)
Loss from revaluation of financial assets, carried at fair value	-	(128)
Other financial expenses	(5)	(4)
	(3)	**(141)**
Financial income/ (expense), net	**50**	**(110)**

(all amounts in BGN thousand, unless otherwise stated)

14. Income tax expense

The major components of income tax expense for the year ended 31 December 2009 and the period ended 31 December 2008 are:

	2009	2008
Current tax	(3)	-
Deferred tax	-	-
Income tax expense	**(3)**	-

Bulgarian tax legislation is subject to varying interpretations and constant changes. Furthermore, the interpretations of tax authorities as applied to the transactions and activity of the Group may not coincide with that of the management. As a result tax authorities may challenge the way of calculating tax losses carried forward as well as assess additional taxes, penalties and interest, which can be significant.

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.

15. Related parties

The Group is related to the Center for the Study of Democracy, thus related also with the subsidiaries of the latter.

During the period the following transactions and balances has occurred::

Related party	**Transactions during the year**	**January-December**		**31 December**		**31 December**	
		2009	**2008**	**2009**	**2008**	**2009**	**2008**
		Transactions		*Receivables*		*Payables*	
Vitosha Research EOOD	Contract for development of research project	-	58	-	-	-	-
	Consultancy services on EEN project	-	15	-	-	-	-
	Consultancy services	-	39	-	-	-	-
Project One EOOD	Rental contract	90	45	-	-	45	-
		92	**157**	-	-	**45**	-

15. Related parties (continued)

Transactions with directors and other members of the management

The Group is a related party with its executive directors and management board. The total amount of the paid remunerations, honoraria and social securities, included in salaries and benefits and expenses for hired services is as follows:

	2009	**2008**
Board of Directors	54	39

16. 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.

INDEPENDENT AUDITOR'S REPORT

TO THE BOARD OF TRUSTEES OF APPLIED RESEARCH AND COMMNICATIONS FUND

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of "Applied Research and Communications" Fund, which comprise the consolidated balance sheet as of 31 December 2009 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 consolidated 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 "Applied Research and Communications" Fund as of 31 December 2009, 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 and and with the European Commission's interpretation as described in Note 1.1 Basis of Preparation.

Sofia, 30 July 2010

0500 Росица Ботева
Регистриран одитор

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Registered Auditor
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