

Applied Research and Communication • Fund •

A • R • C • fund

Annual Report

2012

Applied Research and Communications Fund 2012 Annual Report

Applied Research and Communications
Fund
5, Alexander Zhendov St., 1113 Sofia,
Bulgaria
Tel.: (+359 2) 973 3 000
Fax: (+359 2) 973 3 588
e-mail: arc@online.bg
www.arcfund.net

Table of Contents:

INTRODUCTION	5
PART ONE: PROGRAM AREAS.....	9
SCIENCE, INNOVATION AND INFORMATION SOCIETY.....	11
TECHNOLOGY TRANSFER AND BUSINESS SUPPORT	24
SAFER INTERNET FOR CHILDREN	42
FORSIGHT	51
PART TWO: MANAGEMENT	55
INSTITUTIONAL DEVELOPMENT	56
LIST OF STAFF	57
PART THREE: FINANCIAL REPORT	58



Introduction

For its 21 years of existence, ARC Fund emerged as an international think-and-action tank with the mission to **incubate** social, business and technological **innovations**, **provide** research-based and forward-looking **policy solutions** and **facilitate** the development of a **safer knowledge-based society**. ARC Fund is well versed in using and enhancing **foresight** methodologies in various geographical regions (from Southeast Europe and Western Balkans through Russia and post-Soviet states to China) and domains (ICT, energy, food, environment) and strengthening the incubation and innovation ecosystems in Eastern Europe, Central Asia, Middle East and North Africa. Throughout the years ARC Fund has helped **more than 5,000 firms** to start businesses, find local and international clients, partners, or financing, export technologies and be more competitive and innovative.

Through its annual *Innovation.bg* report and Innovation Awards ARC Fund reshaped the public discourse on innovation and technopreneurship and effectively mythbusted several harmful urban legends about the research, development, innovation and business in Bulgaria. The two grand-prizes of 2012 *Innovation Awards* went to Walltopia and Chaos Group, two companies that grew their own premium global brands, as a symbolic affirmation of the emerging Bulgarian entrepreneurs that have a multinational success. The other awardees from this and previous years showcased research, development and innovation trends identified in *Innovation.bg* report.

Academic entrepreneurs, business-academia cooperation, private sector R&D investments and MNC with R&D units are key for competitiveness and future growth of the economy in this country. ARC Fund was instrumental for streamlining the Sofia-Tech Park planning and re-focusing on organic high-growth and R&D intensive businesses versus targeting external “big names” that might quickly come but also go. ARC Fund’s reports and policy expertise in the field of innovation have been recognized and used as a premier source for policy-related information both by the Bulgarian government, European Commission (i.e. DG Regio, ERAWATCH) and international organizations as the World Bank (for the Golden Growth 2012 report and for the current technical assistance on Smart Specialization Strategy for Bulgaria). ARC Fund’s Innovation Award contributes official scores in the process of awarding National Innovation Fund’s grants for innovative companies. The deep-rooted knowledge of innovation in a transitional context made possible for ARC Fund to effectively consult the **Government of Serbia** on how to construct innovation-monitoring instrument similar to the one used for *Innovation.bg* reports and to identify firms for subsequent public funded innovation support programs.

ARC Fund continued to provide **ICT data quality assurance** to the public and the government (Ministry of Transport, Information Technology and Communications, Ministry of Agriculture and Food and Commission on Regulation of Communications) by collecting establishment-level data for broadband supply

(bandwidth, price, competition), internet usage and various socio-economic contextual data. The data can be used to identify white, gray and black areas within the planning of the broadband infrastructure development, thus making it possible to avoid mistakes like those with the telecenters.

ARC Fund pioneered **big-data research** in Bulgaria and **integration of public registers for data reuse**. Gabrovo municipality was the first to adopt the know-how and to integrate it into its GIS system in 2012 to develop its smart specialization strategy and to provide enhanced information services to the citizens in 2013. ARC Fund supported Gabrovo in its efforts to become a pioneer in smart specialization in Bulgaria by peer-learning with leading regions in the European Union.

ARC Fund's efforts in the area of protection of children from the threats of internet and mobile communications attract a great number of partners. It is an example of successful public-private partnership. School administrations and local authorities initiated and supported a variety of educational seminars and campaigns in Sofia, Varna, Dimitrovgrad, Russe, Silistra, Shumen, Blagoevgrad, Yambol, Montana. Working in close cooperation with state institutions, ARC Fund was able to include a long-awaited amendment to the Child Protection Act for **establishing a register of child abusers** in the draft law submitted to the Parliament.

ARC Fund assisted Bulgarian firms to export their technologies in 2012 in Turkey, Serbia, Belgium and Italy and assisted companies from Georgia, Tunis, Egypt, West Bank and Gaza and Turkey to internationalize their operations in ECA and MENA. Through co-organization and support to more than 20 events outside Bulgaria, ARC Fund proved its international reach and ability to mobilize various stakeholders and achieve synergetic results from being active member of more than seven international networks (among the largest being EEN, ECAbit, SafeNet, INHOPE, ERAWATCH and Regional Innovation Monitor). The activities of ARC Fund helped increase the capacity of professionals in the wider region of Western Balkans, ECA and MENA in the field of program and project evaluation, incubation management and safer internet.

ARC Fund Highlights for 2012

- Since 2008 ARC Fund has been the coordinator of **Enterprise Europe Network** (EEN) in Bulgaria. The EEN is Europe's largest consultancy and information support network to DG Enterprise and Industry. As in the previous years, the focus was to help the internationalization of Bulgarian SMEs via business partnerships, to encourage and support innovation via technology transfer and modern innovation support services, and to facilitate access for SMEs to research programs and funding.
- The **Eighth National Innovation Forum** entitled Innovation and Competitiveness, organized by ARC Fund in cooperation with the Ministry of Economy, Energy and Tourism and with the support of the Representation of the European Commission in Bulgaria outlined the

state and trends of the innovations environment in Bulgaria. Twelve Bulgarian companies received awards for their excellent innovative performance.

- The **Innovation.bg 2012** report stresses that the stagnating national funding for science has been overcompensated by a continuous influx of foreign resources and that despite the harsh environment some sectors like medicine have experienced a manifold increase of R&D expenditures. At the same time, well-known serious flaws of the national innovation system such as inefficient allocation of scarce public funds, uncoordinated national policies and lack of a long-term political commitment remain unsolved in spite of the repeatedly voiced recommendations.
- **The Energy Vision 2020 for South East European Cities** initiative (EnVision2020) launched in December 2012 aims to analyse the energy sector and energy resources consumption in a number of cities in the region, to make comparison of legislation and institutions as well as identify key technologies and respective financial instruments. ARC Fund embarked on applying its foresight expertise.
- In January 2012, the **Complex Challenges – Innovative Cities** (CCIC) action began as a joint effort of 14 partners from all over Europe to improve regional innovation policies. Through methodological assistance and analytical support ARC Fund facilitated innovation in the public sector and increasing the collaboration between local and regional authorities, public entities, and other stakeholders.
- Commenced at the end of January with a kick-off meeting in Stuttgart, **Boosting European Games Industry** (BOO-Games) seeks to support regional public authorities in understanding the impact of different support policies for the digital gaming and creative industries. The problems that will be addressed and alleviated by BOO-Games include shortages of highly qualified specialists, lacking understanding by the tax authorities of the sector specifics, as well as suboptimal financial supporting mechanism.
- In 2012, ARC Consulting was commissioned by the Ministry of Education, Youth and Science to elaborate seven **National Newsletters with an explicit focus on the linkages between business and science**. The aggregated data and research findings will be fed into the political process of designing and implementing integrated policies in the fields of science, technology, education and business.
- The **KNOW-HUB** initiative, launched in January 2012, will make a contribution in closing the gap of insufficient knowledge and expertise in designing and implementing the new generation of smart and effective strategies for innovation, from which European regions currently suffer.
- The **Safer Internet Centre** (SIC) continued its work for a seventh con-

secutive year by operating its internet hotline and raising awareness about the safe and responsible use of Internet and mobile devices. SIC organized and participated in a large number of trainings, seminars and round tables in different Bulgarian cities. ARC Fund also organized the first regional conference on prevention through interactive non-formal education attended by professionals from Albania, Bulgaria, Bosnia and Herzegovina, Macedonia and Serbia and representatives of international organisations. Resources developed by the SIC won several national and international awards.

- In pursuit of the main goal of the **EVAL-INNO** project, namely to improve national and regional RTDI evaluation capacity in South East Europe, ARC Fund conducted and delivered research about the state-of-art of RTDI evaluation, public procurement and research supporting measures.
- For a sixth consecutive year, ARC Fund contributed to the updating of **ERAWATCH** , the European Commission's information platform on European, national and regional research systems and policies created to support policy-making in the research field.
- Within **INNO Policy TrendChart initiative** , ARC Fund prepared two reports on the topics of public sector innovations and innovation policy tendencies in Bulgaria.
- As part of the **PACITA** project, which will promote technology assessment (TA) in public policy legislative decision-making, ARC Fund was involved in a research of the opportunities and hurdles for establishing TA-focused structures in the country. Its findings were presented during a TA summit in Karlsruhe in November 2012.
- 2012 saw the formal end of the project entitled **“Business kit for Creative start-ups in IPR, Venture capital and Entrepreneurial skills”** (BCreative) which was marked by a complete redesign of the graphical interface and content elements of the “How To Grow” online platform and by efforts to ensure its sustainability.
- ARC Fund completed its **InterValue** support action for enhancing commercialization of R&D results in South-East Europe. It scanned over 40 R&D results in Bulgaria against an innovative methodology for assessing the R&D results' potential. Four profiles were assessed as having highest market potential and received in-depth support towards going on the market.

PART ONE

Program Areas



Science, Innovation and Information Society

Innovation.bg 2012



The *Innovation.bg 2012* report provides an annual review of the condition of the national innovation system and assesses the innovation potential of the Bulgarian economy and the existing opportunities for development. The report makes multiple recommendations for policy actions taking into account the local economic, political, cultural, and institutional environment while at the same time drawing upon the latest international theoretical and empirical research. Like each edition since the outbreak of the economic crisis, this annual report also strongly emphasizes the urgent need for a more efficient and transparent allocation of the scarce public funding for science and innovation.

The target audiences of *Innovation.bg* are both high-level decision-makers in the public sector and representatives of innovative businesses. Following the methodology of the previous editions, *Innovation.bg 2012* analyzes the development dynamics of the national innovation system during the past year and the future growth opportunities in five groups of indicators:

- gross innovation product;
- entrepreneurship and innovation networks;
- investment and financing of innovation;
- human capital for innovation;
- information and communication technologies (ICT)

Innovation.bg 2012 focuses on the

innovation potential of the information and communication technologies. The analysis is supplemented by reliable data on the trends in the ICT sector. To realistically quantify the productivity and the R&D expenditures of local ICT firms turned out to be a formidable task. ARC Fund estimates suggest that the official data concerning R&D in the ICT sector significantly underestimates its innovativeness.

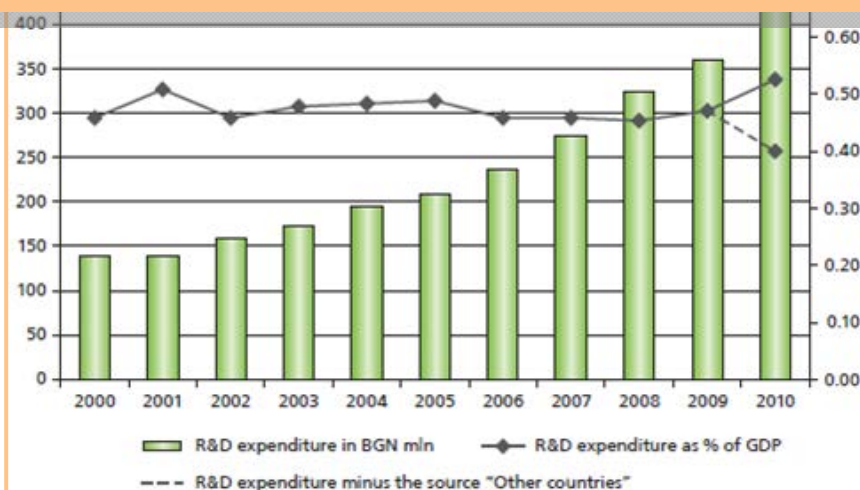
The key importance of the ICT sector for the **smart growth of the Bulgarian economy** is revealed by the manifold higher value added per employee as compared to the national average. On the European level, however, Bulgaria is positioned in the midfield by share of ICT goods and services and in terms of foreign investments still

lags behind its immediate competitors. Despite the high hopes and the progress achieved so far, without a tangible change in the

policies supporting this sector Bulgaria cannot be expected to assume a leading position in ICT exports.

Investment and Financing for Innovation

Figure 1. R&D expenditures in Bulgaria



Source: Own calculations based on NSI data, 2012.

During the period examined in the Innovation.bg 2012 report, several positive trends shaped the national science and innovation landscape. It is telling that in the second edition of Innovation Union Scoreboard 2011, Bulgaria holds an absolute record with regard to the rate of change in the monitored indicators. The reason for this success is the increased expenditures for R&D in the enterprise sector, which proves to be adaptive and conscious of the importance of steady investments in innovations. Other positive tendencies include the emergence of Bulgarian multinationals and the ever-increasing number of outsourced

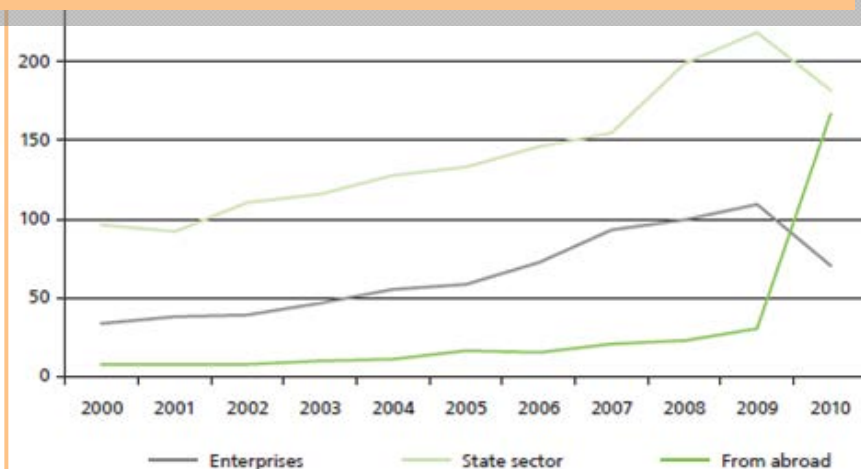
R&D centers of large foreign companies.

However, as noted in previous editions of the report and reflected in the policy recommendations, several sizable challenges threaten to undermine the unfolding of the potential of the country's innovation system. Against the backdrop of government plans it is still discouraging to see:

- stagnating gross investment in science and innovation (0.4 % of GDP) and falling contribution for each of the national sources of financing;
- continuing failure of the

- government and key stakeholders (business, higher education) to implement the science–education–innovation triangle;
- a shrinking number of personnel engaged in R&D (over 14 % in 2010 compared to 2009);
- lack of coherence and subordination to national priorities between sources of GDP growth, public financing and committed personnel in science and innovation.

Figure 2. R&D expenditures by source of financing, in millions (BGN)



Source: Own calculations based on NSI data, 2012.

The decline of national R&D funding is only compensated by funds from the EU, which have increased fivefold between 2009 and 2010. Only thanks to this influx Bulgaria avoided registering a decline of up to 0.4 %. In this sense, the change in national R&D financing in 2010 represents a decline to the lowest level in the last 20 years.

Considering that the mid-term budget forecast does not envisage growth for the next three years, an essential change in the ratio with a view to achieve the national objective of 1.5 % share of GDP could hardly be expected.

National Innovation Policy

Despite government statements that science and innovation are priorities, their role for improving competitiveness is not sufficiently appreciated. Even though several strategic documents produced by

the government in response to *Europe 2020 Strategy* address some of the mounting challenges of science and innovation in the country, they are not viewed by most stakeholders as a genuine display of political will

for action.

The policy findings and recommendations of the previous *Innovation.bg* reports are still applicable in 2012, but when planning for the next budget period of EU 2014 – 2020 more consideration should be given to the following issues:

- Improvement of the governance and management of R&D and innovation in Bulgaria by establishing a central government body (ministry) responsible for innovation, science and technologies, including ICT and higher education, and by merging of administrative structures;
- Considerable increase of the public financial resources designated for the development of science, higher education, technologies and innovation. Not only a new Operational Program Science and Innovation should be introduced for the new budget period of EU 2014 – 2020 but an innovation component in all existing ones should be included;
- Substantiation of government policy in the field of science and innovation in order to overcome the fragmentary development in the sector and the exceedingly sharp fluctuation of budget expenditure for R&D;
- Introduction of pre-commercial procurement in legislation and practice in order to open up possibilities for local companies to develop innovative products and services and to fill market niches;
- Development of an innovative culture by encouraging journalism in the fields of innovation, R&D, and ICT as well as by establishing science and technology museums.

Eighth National Innovation Forum: Innovation and Competitiveness

On December 18th, 2012, ARC Fund, Enterprise Europe Network – Bulgaria and the Ministry of Economy, Energy and Tourism with the support of the Representation of the European Commission in Bulgaria carried out the Eighth National Innovation Forum *Innovation and Competitiveness*.

As in previous years, the forum was structured around the findings of the

annual report on the innovation development in Bulgaria – *Innovation.bg 2012* and the national contest for Innovative Enterprise of the Year. The unique character of the National Innovation Forum stems from the fact that it unites the efforts of and brings together all stakeholders to discuss the innovation environment in the country and to propose optimization measures.



Mr. Ruslan Stefanov, Coordinator of Innovation.bg Group, presenting Innovation.bg 2012 at the Eighth National Innovation Forum

In his opening address, the President of Republic of Bulgaria, Mr. Rosen Plevneliev confirmed that the creation and nurturing of the country's innovation ecosystem is among his top priorities. The President noted that the Bulgarian ICT sector

has managed to become a regional hub. He also mentioned that rising entrepreneurial and innovative culture in the country contributes greatly to a faster and more integrated implementation of necessary reforms.

The *Innovation.bg 2012* report provided the background for a discussion on the following topics: (a) the need for an improved governance of state support for R&D consisting of administrative concentration and increased funding, (b) the elaboration of a long-term strategy for the scientific development of the country

and the inclusion of an innovative component in all existing Operational Programs, (c) the possibilities provided by pre-commercial procurement, (d) the attraction of R&D centers of large multinationals, and (e) measures for fostering the development of an innovative culture.



Eighth National Innovation Forum, from left to right: Dr. Ognian Shentov, Chairman, Applied Research and Communications Fund; Mr. Rosen Plevneliev, President of the Republic of Bulgaria and Ms. Zinaida Zlatanova, Head of EC Representation in Bulgaria

Annual Innovation Award

The award in the Innovative Enterprise of the Year contest is given annually to Bulgarian enterprises that have successfully developed and/or introduced innovations or to Research and Technological Development (RTD) organizations for their research that has increased the efficiency of business performance and has led to a sustainable economic impact.

Applicants are evaluated by an expert panel and a jury on the grounds of data provided by the companies, on-site visits and indepth technology audits. This year, participants in the national contest were nominated in six areas according to the impact of their innovations:

- Market Leadership;
- Process Innovation / Innovation Hub;
- Quality of Life;
- Independent Life Cycle of the Innovation;
- Sustainable innovative attitude;
- Regional social impact.



The President of Republic of Bulgaria, Mr. Rosen Plevneliev, together with the winners in the Innovative Enterprise of the Year national contest

Twelve winners were awarded the 2012 InnoAwards by the President of Republic of Bulgaria, Mr. Rosen Plevneliev. They include Walltopia Ltd and Chaos Group Ltd - global market leaders respectively in manufacturing of climbing walls and providing of 3D and animation services. ZMD Eastern Europe Ltd, a design and RTD center for development of software products and applications and DiTRA Ltd, CAD/CAM center facilitating manufacturing companies to create their product innovations, were the winners in the second category. Three companies that excel at enhancing the quality of life of their customers are Alpi Ltd, ElBy Bulgaricum Ltd and Panteley Toshev

Ltd, national technology and export leaders in the candy, dairy and food industry. KEIT Ltd, Spesima Ltd, Optix Ltd have managed to introduce an innovation with an independent life cycle in the areas of encrypted markings, specialized robots, and optomechanical and optoelectronic components. Daisy Technology Ltd, a leading manufacturer of electronic devices in Bulgaria and largest exporter of cash registers and energy meters in Southeast Europe, Central Asia and Africa won an InnoAward for its sustainable innovative attitude. The winner in the last category is Arexim Engineering Ltd, a leading manufacturer of high-tech plastic technical products.

EVAL-INNO

The Fostering Evaluation Competencies in Research, Technology and Innovation in the SEE Region (EVAL-INNO) project began in the middle of 2011. The overall objective of the project is to improve national and regional RTDI evaluation capacity in Southeast Europe in order to improve the efficacy of RTDI activities and maximize their benefits for the overall economic development. The project involves partners from six countries (Austria, Bulgaria, Greece, Hungary, Montenegro, Serbia) all of which have a high level of public policy expertise with access to national policy-makers and policy-delivery systems. Additionally, through a network of six country correspondents, the project covers the entire Southeast European area, both in assessing as well as improving RTDI evaluation and public procurement practices.

During 2012, ARC Fund produced the following outputs:

- published information in online database with RTDI organizations, strategic documents, measures, stakeholders and evaluators;
- prepared a report on the Bulgarian Public Procurement in RTDI evaluation, and a Country Study: Research and Innovation Support Mechanisms and Related Evaluation Practices in Bulgaria;
- contributed with text to the newly elaborated RTDI Evaluation Standards, published in English and Bulgarian;
- prepared a state-of-art report analysing the needs of RTDI evaluation in the 12 target countries;
- started the creation of wiki articles, on the EVAL-INNO online

platform to promote the most relevant RTDI evaluation resources.

The evaluation standards, published in 2012, aim to contribute to the improved implementation and exploitation of Research, Technological Development and Innovation (RTDI) measures by promoting meaningful evaluation procedures for fostering strategic intelligence building and evidence-based decision-making in the field of science, technology and innovation (STI) policy. They address:

- authorities commissioning RTDI evaluations (often ministries in charge of research, technological development and innovation and their respective measures, programs and policies);
- evaluators carrying out RTDI evaluation studies;
- organizations and stakeholders subject to evaluations, such as funding agencies, public research organizations, universities or intermediary organizations (e.g. technology transfer offices, technology and science parks, innovation centres).

The evaluation standards provide information about the purposes and characteristics of evaluations in the field of STI. They introduce an internationally acknowledged terminology and evaluation theory framework, guide users in practical issues concerning governance, conduct and use of RTDI evaluations. Additionally, they provide many practical tips on how to plan and implement evaluations, including the

writing of Terms of References (ToR) to procure external RTDI evaluations and the structuring of meaningful evaluation reports, to mention just a few. ARC Fund is leading both the mapping activities and the development of the four databases within the project. In 2012, it devel-

oped the structure and functionality of the online database of the project. Within the current phase, the project partners and country correspondents are engaged in the process of providing further content for the project website.



The participants in the EVAL-INNO Steering Board meeting, November 14-15, 2012, Belgrade, Serbia

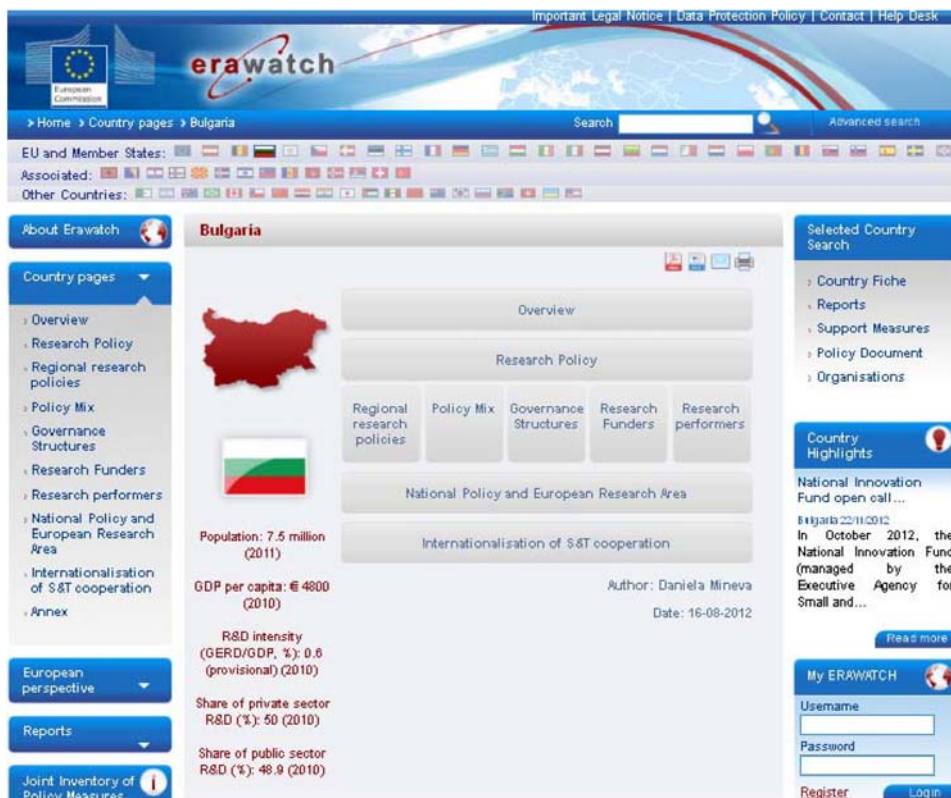
ERAWATCH: Baseload Research Inventory Service

ERAWATCH is the European Commission's information platform on European, national and regional research systems and policies. ARC Fund develops and updates the Bulgarian profile on ERAWATCH since 2005. For an eight consecutive year, in 2012 ARC Fund updated the

information about the Bulgarian national and regional research systems. On a regular basis, ARC Fund also publishes news about the development of the national innovation policy and main tendencies in the funding of innovations.

Recent Research Policy Developments

- In May 2012, the National Science Fund opened a new competition for financing of fundamental scientific research in priority areas, as set in the *National Strategy for Research Development 2020* (adopted 28 July 2011).
- The Ministry of Education, Youth and Science is intermediary body of operational program "*Human Resources Development*". At the end of the second quarter of 2012, the Ministry has contracted BGN 721,581,221 (€368,938,619) or 84.5% of the total budget of the two priority axes related to education - Priority Axis 3 "Improving the quality of education and training in accordance with the needs of the labor market to build a knowledge-based economy" and Priority Axis 4 "Improving the access to education and training".
- The Ministry of Education, Youth and Science also signed new two-year contracts for access to electronic scientific publications databases for the period 2012 - 2013.
- In April 2012, the Ministry of Economy, Energy and Tourism issued for public consultation the Draft *Law on Innovation*. The draft provides a mechanism for policy coherence of the development of science, technology and education. It also identifies responsibilities and obligations of the participants in the innovation system. The document also envisions the institutionalisation of the National Innovation Fund.
- On 28 February 2012, Bulgaria became one of the founding members of *CLARIN ERIC* (www.clarin.eu) - large-scale pan-European collaborative effort to create, coordinate and make language resources and technology available and readily useable. CLARIN offers scholars tools for computer-aided language processing, addressing one or more of the multiple roles language plays (i.e. carrier of cultural content and knowledge, instrument of communication, component of identity and object of study).
- On 16 February 2012, a *Memorandum of Understanding on the SEE e-infrastructure* was signed between the respective ministries of education and/or ministries of science and technology of Greece, Albania, Bosnia and Herzegovina, Bulgaria, Macedonia, Moldova, Montenegro, Romania, Serbia and Turkey. Bulgaria will provide EUR 50 000 to the Bulgarian researchers and their foreign partners for implementation of joint projects in the framework of the Memorandum.
- In its Annual Operational Program 2012, the *National Science Fund* envisages BGN 250 000 (€127,822) for the Bulgarian participation in Biodiversa (www.biodiversa.org). Biodiversa is a network of 21 research-funding agencies across 15 European countries. It is a second-generation ERA-Net, funded under the EU's 7th Framework Program for Research.



Website of the ERAWATCH platform

INNO Policy TrendChart Report: Public Sector Innovation in Bulgaria

Within INNO Policy TrendChart initiative, in July 2012 ARC Fund prepared a report on the public sector innovation in Bulgaria. It emphasized the importance of transparency, access to information and continuous monitoring of the effects of the implemented innovation policy. Additionally, the report recommended the inclusion of non-governmental organizations and business sector in the implementation of the innovation policy and the coordination between government institutions. The report evaluates the innovativeness of public institutions against a number of criteria and

provides examples of good practices. The central conclusion of the report is that despite the achieved progress after its EU accession, the Bulgarian administration still faces some formidable hurdles related to the development and introduction of innovative products such as:

- inertia;
- lack of resources;
- lack of in-depth knowledge about administrative procedures;
- malfunctioning.

The examples of innovative practices in the public administration and the conclusions reached by the ARC Fund experts emerged during a process of close collaboration with representatives of public entities.

The final report contains extensive interview notes with professionals from the Ministry of Labour and Social Policy and the National Revenue Agency.

INNO Policy TrendChart Report: Trends in Policy Priorities

Complementary to the first one, ARC Fund prepared another report focusing on the tendencies in the national innovation policy. It discusses the content of main strategic documents and presents a summary of a series of interviews with representatives of ministries with a key role in shaping the innovation environment in the country. The spotlight of the report falls on (a) the key challenges of innovation policy in 2012, (b) adjustment of innovation support in the light of budgetary restrictions, (c) the recent changes in the institutional set-up and governance structure of innovation support (d) the pattern of allocation of national and EU funds, and (e) the outlook

to the future of innovation policy.

The report highlights that the dried out national funding might lead to the inability of local research institutions to keep abreast of the latest tendencies in certain fields (for example bio-agriculture). Furthermore, the report also points out that Bulgaria does not have any demand-side innovation policy and that no steps have been undertaken in the time span 2011-2012 in order to overcome this weakness of the national innovation system. Such persistent flaws coupled with the negative consequences of the economic downturn pose the danger of diminishing competitiveness of Bulgarian enterprises in the mid and long term.

Regional Innovation Monitor

The Regional Innovation Monitor (RIM) is an initiative of the European Commission's Directorate General Enterprise and Industry, which has the objective to describe and analyse innovation policy trends across EU regions. RIM analysis is based on methodologies developed in the context of the INNO-Policy Trendchart which covers innovation policies at national level as part of the PRO INNO Europe initiative. The overarching objective of the initiative is to enhance the competitiveness of European regions through increasing the effectiveness of their

innovation policies and strategies. The specific objective of the RIM is to enhance the scope and quality of policy assessment by providing policy-makers, other innovation stakeholders with the analytical framework and tools for evaluating the strengths and weaknesses of regional policies and regional innovation systems.

During 2012, ARC Fund updated the profiles of the six Bulgarian planning regions. More specifically, an analysis has been conducted of the regional economic development, R&D

activities and the innovation potential. In addition to that, new measures, good practices, leading or-

ganizations and strategic documents has been identified and presented.

METRIS

For a second consecutive year ARC Fund participated as a full member in METRIS, a network of correspondents gathering insights and benchmarking the development of social science and humanities (SSH) in Europe. METRIS is an initiative of the Directorate General for Research whose aim is to become an entry and reference point for the social sciences and humanities landscapes in Europe. In line with the overarching goal of the network to ensure the collection, regular updating, and analysis of SSH information at national and European level, ARC Fund prepared an assessment of the degree of multi-

disciplinarity fostered by national supporting mechanisms and incorporated in the research agenda of public and private SSH research institutions. The report focused on the public discourse around the topic, on strategic government documents addressing specific issues related to it, and on existing funding mechanisms. The key conclusions of the assessment is that opportunities for true multidisciplinary research in Bulgaria are extremely rare and that under the current state-of-art even interdisciplinary research between SSH disciplines needs to be further stimulated, especially in public research institutions.

Technology Transfer and Business Support

Enterprise Europe Network Helps SMEs Profit from the Single Market

After 5 years in business, the Enterprise Europe Network has helped more than 2.5 million companies to make the most of the Single Market. It has also attracted around 35 000 small businesses to international brokerage events and company missions. Europe's largest business support network contributes to the competitiveness of SMEs by helping them to internationalize, innovate and access EU finance and funding. Close to 600 major players in the business support community have linked up in the Network to offer a one-stop service to help companies reach their full potential.

With over 3000 professionals participating, the Network is present in more than 50 countries to help small companies seize the unparalleled business opportunities in the EU Single Market. It provides integrated support services designed to help small enterprises do business abroad and find European funding for their research and innovation projects. The Network was created in 2008 by DG Enterprise and Industry and is a key part of the EU's Competitiveness and Innovation Framework Program. It is managed by the Executive Agency for Competitiveness & Innovation (EACI).



The Network in Bulgaria, coordinated by ARC Fund, consists of 14 partnering organizations in 8 cities

As in the previous years, the focus was to help the internationalization of Bulgarian SMEs via business partnerships, to encourage and support innovation via technology transfer and modern innovation support services, and to facilitate access for SMEs to research programs and funding.

ARC Fund maintains the new internet portal of the network in Bulgaria,

www.enterprise-europe-network.bg, which is a prime source for business information and advice, technology transfer and innovation, consultancy and information on how to participate in national and European funding programs, especially in terms of technological development, research and marketing of new products and technologies. Each partner maintains its own, regional portal of the Network.

EN BG

network

enterprise europe

Bulgaria

HOME ABOUT US SERVICES NEWS EVENTS LINKS

Highlights »

- **Eighth National Innovation Forum, 18 December 2012, Sofia**

Applied Research and Communications Fund, Enterprise...

- **Awarded inventors from the Fourth National Exhibition "Inventions, Technologies, Innovations", 2012**

The **Fourth National Exhibition "Inventions, Technologies, Innovations"** was carried on 8-10 November 2012. The three-day event featured useful...

SUBSCRIPTION

enterprise europe network

В подкрепа на бизнеса

Enterprise Europe Network

The Enterprise Europe Network is your local gateway to a wealth of information on doing business, finding collaborative partners and increasing your competitiveness in Europe. Our expertise and services are available free to Bulgarian-based businesses.

We provide information and consultation services for:

- Finding Business Partners
- Transferring New Technologies and Know-how
- Applying for European Funding
- Participating in European collaborative R&D
- EU Laws and Standards
- Protecting your Intellectual Property
- Having your say in Europe

In Bulgaria, the Network brings together 14 organizations, located in Sofia, Plovdiv, Sandanski, Stara Zagora, Vratsa, Yambol, Dobrich and Ruse.

Learn more about the Enterprise Europe Network.

Search for technology, business and project partners in the Enterprise Europe Network's data base:

by Date	Search		
2012/11/30 20121024009	A Polish Company specialized in optoelectronic has designed and manufactured Photonics and Optoelectronics Set for investigation of the optical, elect...	Poland	REQUEST
2012/11/29 12	Fibre separation made of stillage from bioethanol production of second-generation...	Slovakia	OFFER
2012/11/28 20121128037	A Spanish leading designer and manufacturer of wedding dresses, gala dresses, party dresses, godmother dresses and accessories is looking for agents a...	Spain	REQUEST

A Hungarian SME who has a

Success stories »

- » **Sustainable Construction**

End of October 2012, CCI-Dobrich (member of Enterprise Europe Network in Bulgaria) in consortium with 9 European organizations, completed the work within **Proof Project**, financed by Leonardo da Vinci -...

Contact us

Funding Programmes:

- EU framework programmes
- Operational programs in Bulgaria

Publications »

- » **Network**
- » **(BG) All your business needs**
- » **(BG) Vesti Bulletin**
- » **(BG) Enterprise Europe Network Brochure**

Resources »

Business A - Z (downloads)

The website of the Enterprise Europe Network, found at www.enterprise-europe-network.bg

The activities of EEN – Bulgaria during 2012 were focused on different sectors like ICT, machine building, agri-food, energy efficiency. A series of capacity building seminars in support of entrepreneurship was organized to cover topics like sources of funding, models of co-operation (business networking,

clustering, PPP), internationalization of businesses, intellectual property and technology transfer. The seminars were attended by more than 400 participants and have been proven as a successful platform for knowledge exchange and networking.

Brokerage events

ARC Fund has organized annually business and technological brokerage and matchmaking events in various economic sectors including engineering, machine building, ICT, energy efficiency and renewable energy sources and food industry. These types of pre-arranged meetings allow for contact between businesses and research organizations

in search of business, technology and project partnerships (for international projects in European funding programs, participation in joint projects under different EU programs and initiatives, such as EU framework programs, operational programs under the EU structural funds).

Mobile World Congress

Enterprise Europe Network-Bulgaria organized a B2B partnering event during the Mobile World Congress, the world's largest mobile technology fair, on 27–29 February 2012, in Barcelona. The fair attracted nearly 1400 exhibitors from 205 countries. ARC Fund consultants from the Network supported the participation of four innovative

Bulgarian companies at the partnering event. They presented several new technological solutions like online browser games, Machine to Machine (M2M) solutions and mobile application development. The presented technologies provoked very high interest and 24 meetings were held.

FutureMatch, Cebit

Enterprise Europe Network Bulgaria organized a technology brokerage event in ICT during the biggest European exhibition in the field – CeBIT, 6–10 March 2012, in Hannover, Germany. The event attracted 391 participants, with 950 cooperation profiles from 39 countries and 1508 meetings scheduled. ARC Fund organised the

participation of six innovative Bulgarian companies (Comsys 54, CenterMine Ltd., InterConsult Bulgaria Ltd., WEB Technologies, Sirma Mobile, Step-Soft Ltd.) in the brokerage event. They presented several new technological solutions that were met with very high interest, resulting in more than 97 meetings scheduled.

CeBIT Bilişim

CeBIT Bilişim Eurasia is the largest and most important ICT trade show in the region, covering the entire spectrum of information technology, telecommunications, software and ICT-related services. In response to the current crisis, the European Commission published the 'Small Business, Big World - a new partnership to help SMEs seize global opportunities'. It urges European

small and medium sized enterprises to take advantage of the fast growing emerging markets outside Europe. CeBIT Bilişim Eurasia brokerage event, organized by the Enterprise Europe Network from 29 November - 01 December 2012, provided very good opportunities to the participating 8 Bulgarian companies to promote their innovative technologies on the Eurasian ICT market.



A glimpse into CeBIT Bilişim

ECAbit Network

ARC Fund, in partnership with and support from World Bank's infoDev Program, coordinated ECAbit Network activities to strengthen the incubation and innovation

ecosystems in Eastern Europe, Central Asia, (ECA) and Middle East and North Africa (MENA). A major component in these activities was the organization of a weeklong

training marathon in Istanbul for 27 experienced incubation professionals from the region that followed a participatory Business Incubation Management Training Program. Twenty-six of them were certified to subsequently rollout the training in ECA and MENA. In addition to that, 34 business incubator (BI) managers from 20 countries were trained in BI marketing and stakeholder management, monitoring, evaluation and benchmarking BI, virtual business incubation and other topical areas. In March 2012 the first follow-up training was delivered in Romania for 20 incubation managers on request from UNDP-Romania, who manages the government funded incubation program.

ARC Fund supported two Youth and Innovation Camps in Tambov, Russia, and Skopje, Macedonia. During the first one, organized by Tambov business incubator, ARC Fund's capacity in foresight methodologies was utilized to brainstorm potential adjustment of available foresight methodologies for incubators to provide value added services to the start-ups based on

foresight. The camp brought together participants from Russia, Romania, Bulgaria, Belarus and Germany and the winner of the camp, an entrepreneur from Gomel, Belarus, spend a week at ARC Fund and had the opportunity to meet technopreneurs from the mobile industry and learn more about the technology transfer services EEN is providing. The camp in Skopje was organized by YES Incubator as a hackaton that met technology developers with potential investors, including LaunchHub and Eleven. The winners of the two camps will receive further mentorship and consulting services from ARC Fund and ECAbit to further develop its business.

ARC Fund coordinated the ECAbit Network for two mandates in the period 2008-2012 and one of its senior experts is elected to sit at the new board for the 2013-2015. ARC Fund facilitated the internationalization efforts of InfoDev program by assisting 9 companies from 7 countries in ECA and MENA and by drafting a new mentorship program for start-ups to be implemented on ECA regional level in 2013.

Study of the Current State-of-Art of Broadband Coverage and Use in the Rural Regions

In 2012 ARC Fund Group prepared an analysis of the current state-of-art and the development trends in the national ICT sector, commissioned by the Bulgarian-Korean ICT Coordination Center under the Ministry of Transport, Information Technology and Communications and Sofia University. The findings and actionable policy recommendations

have been acknowledged by the ministry's officials and Korean public agencies and formed the base of a deeper and broader sectoral analysis of the ICT

The research findings revealed two main trends in the successful pattern of an innovative development in the ICT business sector in the last

decade:

- Bulgaria asserted itself as an outsourcing destination for highly innovative R&D activities as opposed to low-end business functions. A lot of R&D centers of large multinationals were established in the country, in many cases building on the assets of existing Bulgarian firms by infrastructure acquisition or by tapping into already developed know-how and human potential. Areas that experience increased investors' interest are software development, design and manufacturing of microelectronics for the automobile industry, industrial automatization, design and manufacturing of industrial robots, telecommunications, banking and financial services, medicine, etc.
- Bulgarian ICT firms asserted themselves on the international markets with locally developed products and services and gradually became multinational companies. They not only sell their products and services in multiple countries on different continents but also invest in some of these countries by opening up their own branches or setting up joint-ventures with other companies.

These trends are difficult to be precisely quantified and a more detailed and authentic picture of the innovative behavior of economic actors in the sector is hard to obtain due to unreliable R&D statistics. In this sense, incomprehensive official statistics remains one of the key challenges for the R&D and innova-

tion policy development of the ICT sector. According to conservative expert estimates of ARC Fund, official R&D indicators in the sector (number of companies, R&D expenditures and personnel) are underestimated 4 to 8 times. Such distorted data on the innovation activity is problematic because it creates the false impression that there are no conditions for innovations in the country's ICT sector. Another considerable problem consists in the inaccessibility of more disaggregated official statistical data. It impedes the in-depth analysis not only within the various aforementioned ICT subsectors, but also of the geographical distribution of ICT firms and R&D activities. The latter is of fundamental importance for the development of regions and regional innovation strategies.

Another trend, underlined in the analysis, concerns the roll-out of broadband internet networks in the country and the development of highly competitive market with more than 800 internet service providers, including in the rural areas. After the European Commission acknowledged in its official policy documents and statistics that the development of internet access in some Eastern European and Baltic countries is based primarily on combination of fiber, LAN and CATV technologies rather than DSL technologies like in the EU15, Bulgaria emerged as a leader on the share of broadband coverage in Europe and EU27. The main reasons behind this favorable technological and business model development in the country have been lax regulations and severe competition among a high number of internet providers. As a consequence, end users can

gain access at a very low relative price to a high-quality infrastructure, which also serves as a backbone for the development and supply of R&D intensive internet applications.

Despite the considerable expansion and upgrading of high-speed networks during the past decade private investments are not sufficient for the fulfillment of the government commitments, especially those associated with guaranteeing high-quality internet access in rural, less developed and remote regions. In order to overcome the existing disparities, a better and more extensive use should be made of both national and European funds. Based on the finding that in 2011 more than 94% of the Bulgarian population lived in places with at least one broadband internet provider (>1 mbps), the analysis calls for a proactive government support, which should concentrate on the creation of favourable overall conditions for the development of products and services by the private sector rather than on investments in the already well-developed physical infrastructure.

The analysis set up a series of policy recommendations and follow-up actions:

- Improving the official R&D statistics of Bulgarian companies, including in the ICT and other R&D intensive sectors by a close cooperation with the experts at the National Statistical Institute;
- The development and adoption of an integrated national strategy on technological and scientific research and innovations is a long-term commitment of ARC Fund policy activities,

backed up with both analytical (annual *Innovation.bg* reports, national ERAWATCH reports, ad-hoc analyses) and practical actions (drafting and supporting legislation development in the field, e.g. the draft *Innovation Law, National Broadband Strategy*, etc.);

- Increase of the budgetary subsidy for university disciplines related to ICT;
- Creation of a separate program within the InvestBulgaria Agency aiming at targeting and attracting foreign companies willing to offshore their R&D activities;
- Introduction of pre-commercial procurement as an effective instrument for competitive funding of innovative projects. ARC Fund is one of the first advocates for the idea, recognizing the high potential of pre-commercial procurement in the development of the national information society;
- Development of a special program for journalists in the area of R&D, innovations and ICT as part of the generally recognized need of communicating achievement of the Bulgarian scientific and business oriented research and follow-up technology transfers.

Analysis of the Present State of Affairs and Mapping Trends of Innovation Development in the ICT Sector

ARC Fund participated in a consortium commissioned for a comprehensive analysis of **broadband development in Bulgaria**. Following an innovative research methodology for analyzing broadband roll-out and socio-economic development in the country, initially introduced by ARC Fund in 2010 and publicly acknowledged by the Ministry of Transport, Information Technology and Communications, ARC Fund directed its efforts towards the monitoring of existing broadband coverage, regional socio-economic disparities, usage of ICT and the legal regulations of broadband deployment.

The selected approach combined open public data from various sources with results of statistically representative surveys and data, collected through qualitative and desk research methods, offering a profound analysis on a single settlement level for the whole country. As a result, 19 regions were identified and ranked based on a combination of socio-demographic and economic factors for public invest-

ments in their broadband infrastructure. Furthermore, ARC Fund prepared an overview of the political and regulatory framework which defines the environment for development of broadband access and services.

The data and results produced by ARC Fund were fed into a GIS-based information system and a cost-benefit analysis of the planned public investment program. The information system will serve as a permanent reference point with reliable and latest data on broadband coverage. The findings of the analysis will aid the process of strategic goal-setting and will inform political decisions regarding the need for state funding in the sector during the next programming period. The sustainable nature of the project ensures that it can serve as a tool for future planning of state support related to the construction, maintenance and exploitation of broadband networks in rural and less-developed urban regions.

Improved SME Competitiveness and Innovation in Serbia

In 2011 - 2012, ARC Fund experts contributed to the consulting activities of GfA in developing Serbian innovation policy under the EU IPA program. ARC Fund's experience in monitoring innovation performance and elaborating evidence-based policies was used to identify policy measures that aimed at removing existing barriers that prevent SMEs in Serbia from realizing their full innovation potential. The analysis of

the state and performance of the Serbian innovation system was conducted on the basis of comprehensive and reliable data on a number of indicators related to innovations. ARC Fund experts crafted recommendations concerning modifications of the existing innovation support programs in Serbia as well as the development of new instruments to address identified barriers and gaps in the present provision of

support. The findings of the final report are expected to be fed into

the process of national policy making in the field of innovations.

Science and Business Newsletters

In 2012, ARC Consulting launched a research project commissioned by the Ministry of Education, Youth and Science for the preparation of a National Scoreboard to monitor the links between business and science. The findings of the study will be fed into the process of designing and implementing integrated policies in the fields of science, technology, education and business. Additionally, the structure of the Scoreboard, the data and analytical methods used are designed in such a manner as to enable regular future updates.

The structure of the report closely follows the list of priority sectors laid down in the *National Strategy for Development of Scientific Research 2020*:

- food, agriculture and biotechnologies;
- new materials and technologies with application in ecology, pharmacy, medicine and energy generation;
- energy efficiency and renewable energy sources;
- ICT;
- green chemistry;
- engineering sciences – optics and electronics;
- scientific instruments.



Newsletters No. 1,2,3/2012: Food, Agriculture and Biotechnology; New Materials and Technologies with Application in Ecology, Pharmacy, Medicine and Energy; Energy Efficiency and Renewable Energy Sources

For each of the aforementioned economic sectors, ARC Consulting

performed the following research tasks: (i) elaboration of possible

mechanisms for devising and implementing a national policy targeted at fostering the interactions within the triangle of knowledge; (ii) summary of newly introduced instrument supporting public-private partnerships and collection of best practices on European level related to forms of innovative partnership; (iii) comparative analysis of national and European practices for stimulating the interaction between science and business; (iv) identification and analysis of projects and initiatives jointly implemented by business and scientific partners in Bulgaria; (v) identification and analysis of good practices on European level

regarding mechanisms for innovative partnerships.

Besides the immediate outputs, providing an in-depth analysis of the linkages between business and science and the potential for their development, the project seeks a more long-term impact as well. The issued bulletins together with the methodological and research efforts can serve as a foundation for the introduction of a regular monitoring tool. This goal will facilitate the valorization of Bulgarian scientific achievements with the active and profitable support of the business.

Switch4Food

The Switch4Food (Services for Water and Integrated techniques for the food industry) project has been successfully finished this year with an international technical workshop and final awareness building event that took place in April/May. The main objective of this project has been to identify and analyze best practices and technological/methodological knowledge of SMEs in the food industry for water use and wastewater in order to allow their exchange and transfer among the project partners' countries (Bulgaria, Italy, Spain, Greece, Belgium, Germany, Turkey, and Israel). In particular, the objectives of Switch4Food have been to:

- identify at least 10 best and common practices in different sectors of food industries leading to the elaboration of guidelines;
- share methodologies and local

policy in order to transfer the experiences and practices from one region to others;

- define local cooperation agreements with European Policy Statements (EPS) (at least 5 EPS signed pilot agreements for each region) to support SMEs to implement environmental actions;
- identify new business opportunities thanks to a sustainability approach;
- disseminate the completed activities, methodologies tested and the best practices through local and international workshops for companies;
- facilitate the interaction among environmental consultants and SMEs of the food industry;
- create conditions for future synergies among different actors: SMEs, the EEN Sector Group 'Environment and Agro-Food', environmental service providers and local authorities;

To fulfill these objectives two eco-business clubs have been established within the project in Bulgaria, each of them bringing together SMEs, business associations and environmental services providers (ESP) from two sub-sectors which are particularly water-consuming, fruit and vegetables processing and soft drinks.

The eco-business clubs have provided common ground for their member SMEs on four stages: 1) to identify a common technological issue (e.g. reduction of water consumption) and/or common interest (e.g. reuse of wastewater in the production cycle); 2) to ensure appropriate professional (from environmental services providers) or informational (from the EEN partner)

advice for solving the issues at stake; 3) the implementation of the chosen innovative solutions has been followed up and their efficiency measured; 4) the final stage is internationalization of the companies and their successful approaches for water use and wastewater by linking the clubs from all nine project countries and stimulating new business contacts through Enterprise Europe Network. Thanks to the Switch4Food activities a set of innovative solutions for water purification and water re-use were introduced at the experimental farm in Golyamo Vranovo village. The tests have been proven successful with a potential to spread the method as a good practice to other farms in the country.

Complex Challenges – Innovative Cities

The Complex Challenges – Innovative Cities (CCIC) project began in January 2012 as a partnership among 14 partners from 10 different countries. It is supported by the INTERREG IVC program and the Bulgarian Ministry of Regional Development and Public Works; it is targeted at municipal and regional authorities across Europe in exploring the opportunities for successful and sustainable policy making on public sector innovation. ARC Fund is the only organization in the consortium which is not a public authority, and therefore has a special role. Relying on its long-standing expertise in supporting innovation and innovation-centered public policies, ARC Fund designed a comprehensive methodological framework to guide partner inquiries into innovation arising within and from the public sector on a local and region-

al level. For the first quarter of 2012, ARC Fund worked on a methodology and the overall logic for partners to understand existing opportunity windows, as well as pressing hurdles, for public sector innovation. In particular, CCIC applies four thematic perspectives, defined as innovation foci: public procurement, financial instruments, civil society inclusion and public enterprises.

Throughout 2012, all partners were involved in an in-depth mapping process of all local and regional stakeholders, and had to conduct at least 10 semi-structured interviews, identify and describe at least 4 good practices for the aforementioned thematic domains, and provide these to ARC Fund to work on a state-of-the-art report of public sector innovation. CCIC also features ambitious policy goals and

encourages knowledge transfer and networking among municipal and regional authorities in designing and implementing innovation, with a clear added public value.

Key achievements in 2012:

- ARC Fund developed a methodological framework to detail the logic of the different action components within the project, specifying standard steps and procedures for partners to follow during their stakeholder mapping and information collection activities;
- An online survey instrument was designed, together with detailed instructions to partners how to

distribute it across local and regional stakeholders. The survey is the key information collection instrument to inform the state-of-the-art analysis of public sector innovation. Over 1000 responses were received from 15 EU member states.

In the last quarter of 2012 ARC Fund commenced the work on analyzing the input from almost 100 semi-structured interviews done by partners with policy makers, civil society representatives, innovation planners and other societal actors. Key findings are expected to be available in early 2013.

BCreative

The Business kit for Creative start-ups in IPR, Venture capital and Entrepreneurial skills (BCreative) project was completed in August 2012. Nevertheless, strong efforts to ensure the sustainability of the platform have been planned by the consortium partners. It provides support to creative industries (CI) companies and individuals to help them thrive in the modern knowledge economy. The main targets included those working in advertising, architecture, art and antiques, crafts, design, designer fashion, film/video/photography, music/performing arts, publishing, software and computer games, television and radio.

The year saw significant changes and improvements to the main output of the project, the “How To Grow” online platform. These included a complete redesign of the graphical interface and content elements to make it more appealing and useful to CI businesses across

Europe and beyond. The most significant of these changes has been the high level of original content that the project team has been able to generate for its users, with the generous donation of time and energy by CI related companies and individuals across Europe. This began with the ‘Know How – BCreative Live Event’ which took place on 27 February – 2 March. The platform was also integrated with the platform of the European Creative Industries Alliance, which was formally launched on 27 February and kicked-off the ‘Know-How’ live event. ARC Fund promoted this event in Bulgaria and was able to work with two Bulgarian companies, Betahaus Sofia and Cleantech, who agreed to provide virtual lectures through the platform. Overall, this event included five full days of speakers from CI businesses, financial experts and policy-makers who spoke about ways that Europe’s CI potential can,

and is, being realized. All presentations were streamed through the platform video interface, with the ability for virtual attendees to directly interact with the presenters through an in-browser chat window.

ARC Fund promoted the platform and its potential benefits on the territory of Bulgaria, organizing a workshop in July, 2012 that was

attended by representatives of CI companies and policy-makers. They discussed the platform and the future of CI in the country. Additionally, the potential use of the 'How To Grow' platform was presented by the ARC Fund team at the Game Development Summit (GDS Bulgaria 2012), focusing on promoting and discussing the digital gaming sector within the frame of the ON!FEST in Sofia.

The screenshot shows the 'HOW TO GROW' website interface. At the top, there are navigation links: 'gaining knowledge', 'building networks', and 'getting finance'. A search bar is located on the right. Below the navigation, there's a section for 'August 2012' featuring a grid of video thumbnails. Each thumbnail includes a 'video' icon, a title, and a 'view media' link. The titles are: 'Betahaus - Know How 2012', 'Texidors - Know How 2012', 'Benz umbrellas', 'Design the New Business Introduction - Know How 2012', 'Emme Sexton - Know How 2012', 'FigureRunning - Know How 2012', 'Michael Thompson - Know How 2012', 'Bart Hufen - Know How 2012', and 'Dean Roosegaarde - Know How 2012'. On the right side, there is a 'Filter media by' section with a list of categories such as Finance, Business Planning, Networks, Knowledge, and Field of Work. Below this is a 'Subscribe to our newsletter' form with a yellow button.

Expert presentations during the 'Know How – BCreative Live Event'

InterValue

The project aimed to establish knowledge, support and inter-regional cooperation mechanisms to employ the R&D potential in South Eastern Europe.

The adopted bottom-up approach allowed interesting and valuable research to reach its market potential through a process of selection and promotion to relevant stakeholders. The focus was on two major cross-cutting sectors of major importance to the region (Infor-

mation and Communication Technologies and Energy/Environmental Technologies), allowing the selection of additional sectors in the implementation phase.

The work done in 2012 included:

- Identification of R&D results with some market potential created by research centers in the region;
- Creation of a transnational pool of experts that can offer their

advice on market potential, technical feasibility, scientific relevance and funding opportunities;

- Assessment by the experts of the market potential of selected R&D results;
- Development of exploitation plans and valorization agreements for the most promising of the assessed R&D results and support of their valorization potential;
- Systematic promotion of ties between researchers and businesses through focused broker-

age events.

A multilingual web 2.0 based knowledge suite complemented these steps, with complete methodological guides that clarify aspects to accomplish new product development and intellectual property management. The web platform is available at www.researchvalue.net. ARC fund identified 42 promising research results that were assessed and four of them were supported on their way to the market.

BOO-Games

The project Boosting European Games Industry (BOO-Games) started in January 2012 and is supported by the INTERREG IVC program and the Bulgarian Ministry of Regional Development and Public Works. As part of the overall strategy to strengthen the conditions within Europe for the generation of growth and jobs in high value-added sectors, BOO-Games is based on the recognition that the potential benefits for EU citizens from the rapidly growing digital games market can be enhanced if the correct regional funding and support mechanisms are put in place for small and innovative game developers.

To this end, BOO-Games aims to support regional public authorities in understanding the positive impact that well-tailored support for digital gaming could have on their regions and citizens. It will do this by assessing different types of support, such as: public funding, private investment incentives, talent incubation, cluster development, improvement of public perception of the

potential for digital games. Public authorities and project partner organizations which are more advanced in this field will be paired with less experienced partners. This will allow for mutual learning and interregional cooperation that will help improve support strategies for the sector where they are needed the most and where high growth potential is available.

A database with relevant stakeholders was designed and launched, and the BOO-Games regional analysis report on the gaming sector in Bulgaria was drafted. Also an online survey was launched in all countries participating in the project. ARC Fund hosted an event, entitled "Support to the creative industries and the games industry." The meeting was attended by policy-makers, company CEO's, and representatives of enterprise support organizations from the digital gaming and creative industries. The meeting verified the main challenges previously identified through research:

- insufficiency of highly qualified specialists in the digital gaming sector;
- lack of understanding by the tax authorities of the specifics of the game development companies;
- need to improve the forms of financial support.

KNOW-HUB

The KNOW-HUB project on “Enhancing regional competences in strategic management of innovation policies” bridges the gap of shortage of knowledge, skills and experience of European regions in designing and implementing the new generation of smart and effective strategies for innovation. The project actively collaborates with the Smart Specialisation Platform in their work on reviewing and improving their Smart Specialisation Strategies for

Research and Innovation. During 2012, the KNOW-HUB practitioners exchanged visits for peer-reviewing their recent innovation policies and initiatives to identify key issues and good practices to be shared with others. ARC Fund was the methodological leader of the peer review process by designing guidelines, questionnaires and templates to structure the reviews in a coherent way for all regions.



KNOW-HUB involves 13 organizations from 10 European regions

In all KNOW-HUB undertakings ARC Fund closely collaborates with the Gabrovo municipality, the Bulgarian region in the KNOW-HUB project. Besides its mentoring role, ARC Fund assisted Gabrovo municipality in hosting the review by the Weser-Ems region of Germany and in making the visit to the Nord Pas-de-Calais region in France. The Fund also supported the local initiative of the municipality to screen the economic performance of the local companies in order to identify key competitive advantages of the region.

The experience from each peer review visit was summarized in regional reports featuring SWOT analyses, specific case studies, good practices, bottlenecks and shortcomings that are used as input to Mutual Learning Circles seminars. The seminars are used as knowledge transfer platforms to elicit key issues and lessons learned on policies for smart specialization and effective instruments for innovation policies.

KNOW-HUB maintains a web site www.know-hub.eu that will feature a smart encyclopedia on regional innovation strategies and

instruments; repository of good practice examples; blog and newsletter on important activities related to the smart strategies and policy instruments in the EU; short videos lectures on regional innovation and library of interesting publications and reports carefully

selected for readers. The project will also deliver two practical guides with reference to the knowledge and good practices identified in KNOW-HUB as well as training sessions for public stakeholders to spread win-win collaborations beyond the project consortium.

Safer Internet for Children

Since 2005, ARC Fund coordinates the Bulgarian Safer Internet Centre (SIC), representing two networks - Insafe, a European network of Awareness Centres promoting safe, responsible use of the Internet and mobile devices to young people, and INHOPE, the International Association of Internet Hotlines that coordinates a network of Internet Hotlines all over the world, supporting them in responding to reports of illegal and harmful for children content and conduct. These initiatives are supported by the EC Safer Internet Program and the OAK Foundation's Child Abuse program.

In 2012, ARC Fund continued to work towards a safer and better internet for youngsters in partnership with Parents association, ARC Consulting and DeConi Agency, mainly

focusing on the following areas:

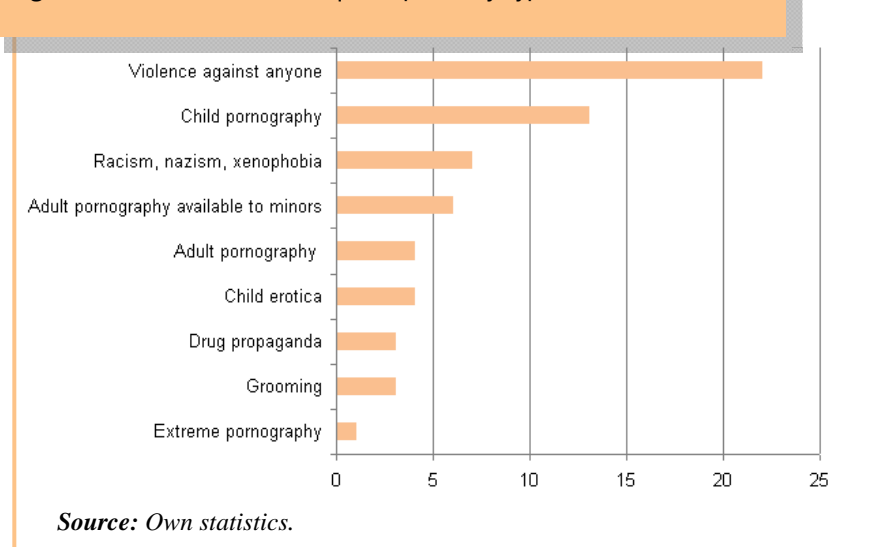
- Protection of minors from all forms of abuse enabled by internet technologies;
- Organization of trainings, seminars, round tables and other activities to increase awareness about online safety among children, teenagers, parents, teachers and other helping professionals;
- Development of awareness raising materials and training methodologies to increase safe and responsible online behaviour and prevent online abuse;
- Knowledge building regarding the current trends and developments in internet and mobile usage among youngsters.

Protection of Minors from All Forms of Abuse Enabled by Internet Technologies

In 2012 the Bulgarian online helpline Web112.net received over 1000 reports, 416 of them were actionable. Over 20 of the reports were related to some kind of illegal action, so they were referred to the authorities and to other INHOPE helplines, where necessary. Through the year the Bulgarian Safer Internet Helpline

consultants received plenty of inquiries from children, parents and teachers through the low-toll telephone number, Skype and e-mail. In some of these cases, a face to face consultation with psychologist was organized to address the support needs of the client.

Figure 3. Distribution of unique reports by type



Trainings, Seminars, Round Tables and Other Awareness Raising Activities

To celebrate the Safer Internet Day (SID) on 7 February 2012, the Bulgarian Safer Internet Centre organized a national competition for student playwrights centered on the theme of SID 2012 "Connecting generations and educating each other", where young and old users are encouraged to "discover the digital world together...safely!". The teams behind the three best playwrights performed on stage at Sofia Puppet Theatre on 7 February. They were selected by a jury chaired by Milena Damyanova, Deputy Minister of Education, Youth and Science. She claimed that the Safer Internet Day, widely celebrated throughout the country, demonstrates the commitment of the major stakeholders to children's online and offline safety, and the recognition of the important role of the school in ensuring that safety. As a result of

the activism of the Public Council for Safer Internet the Minister of Education, Youth and Science introduced additional classes dedicated to the safer use of internet. During the event, Ms. Damyanova reassured that the Ministry will take further actions to integrate the topic in school curriculums.

SID 2012 was marked by various initiatives across Bulgaria. For a third consecutive year, Varna Municipality embarked on promoting internet safety among young people and organized a variety of events to celebrate the Safer Internet Day. This year the major focus was the award ceremony during which ten students received their *Expert Safer Internet Certificates* for their successful competition of a distant online safety training developed by the Directorate of Preventions at Varna

Municipality and the Bulgarian Safer Internet Centre. The ten trainees were invited by SIC to join the team of the helpline as peer consultants. In addition to supporting the periodically held training courses for

students and professionals, Varna Municipality cooperates with experts from the Bulgarian Safer Internet Centre in elaborating its annual action plan for preventing internet abuses.



Graduates of the Safer Internet Course in Varna

In order to promote family and European values the Parents Association, Bulgarian Safer Internet Centre, National Centre for Youth Programs and Initiatives and Municipality of Sofia jointly organized an event dedicated to the Day of Europe, May 9, and the International Day of the Family, May 15. Over 3000 families participated in the numerous activities and competitions to celebrate family, sports, creativity and healthy lifestyle. Official guest of the event was Yor-

danka Fandakova, Mayor of Sofia. Sofia Municipality provided financial support for the event and took a major role in promoting it. After its success, the municipality financed similar, smaller-scale events in four schools in Sofia.

Like in previous years, there was an orienteering track called the Little Europe. The children were "traveling" across Europe to learn more about the culture and traditions of the different nations. They even had the chance to meet people from

these nations as over 30 foreign volunteers participated in the planning and management of the event. The helpline at the Safer Internet Centre organized a special contest “Artware” for art pieces from computer parts. The winning project was a handsome eco-robot, created by

the Ecology club at the 42th School in Sofia. Another initiative of the Safer Internet Centre was the flash mob which aims to promote the safe and responsible attitude towards handling online privacy and passwords.



Famillathlon 2012 in Sofia

For the first time in June 2012, ARC Fund explored the opportunities offered by non-formal learning in the area of preventive services. The first regional conference on prevention through interactive non-formal education, which brought together representatives of leading NGOs from the Balkan countries to share their expertise, was held in Sofia. It was attended by professionals from Al-

bania, Bulgaria, Bosnia and Herzegovina, Macedonia and Serbia including representatives of international organisations such as OAK Foundation and Save the Children. The conference was part of the project “Prevention of real and virtual violence through interactive education in schools”, co-financed by OAK Foundation and EC Safer Internet Program and implemented

by ARC Fund and Association Parents.

This year for the second time the SIC team took part in the “Sofia breathes” street festival. For three weekends in a row the experts were delivering open lessons outdoors. Through their participation in the two SIC vinyl games “Flashboy trainer” and “Flashboy in the land of Spammies”, children learned about safer online behaviour and had the opportunity to discuss the online risks and challenges they face. Experts consulted parents and dis-

seminated awareness raising materials such as “10 Myths about the Scary Internet”. Furthermore, in order to increase its outreach the SIC team participated in the “Expo4Kids”, which took place in March in Gallery shopping centre in Plovdiv. During the well-attended event children and parents received awards as well as informational materials such as the SIC booklet *10 myths about the scary internet* and the *Family contract for safe use of the computer*.



Dimitar Alexandrov, regional governor of Shumen region, speaking at the round table on online protection of children in Shumen

ARC Fund's role in protecting children from online and mobile threats and facilitator for strengthening the necessary institutions have been widely recognized. Mayors of Varna, Shumen, Ruse, Vratsa, Silistra, Pazardzhik, Dimitrograd, Yambol and Sofia, as well as many school principals requested or continued their partnerships with ARC Fund to institutionalize trainings and classes on internet threats, aggression and coping strategies. Throughout the year young people, parents, teachers, school counsellors and social workers participated in trainings, seminars and open lessons organized by Bulgarian SIC experts in cooperation with local public organisations and NGOs. More specifically, attendees learnt about common online traps while playing,

communicating and shopping online, and how to protect themselves from becoming a victim online.

A round table on online protection of children was held in 10 November in the city of Shumen with the participation of the high-level regional and national policy-makers, cyber-crime specialists, university professors, social workers, parents and pupils. The Safer Internet Centre in cooperation with the International Cyber Investigation Training Academy and the University of Shumen prepared a plan for opening a special education module on information protection that was sent to to the Ministry of Education, Youth and Science.

Awareness Raising Materials and Training

Throughout the year, a number of materials and online resources have been successfully developed, in many cases in close cooperation with other NGOs, government bodies and private firms. The expected impact of their dissemination is to raise awareness among young people and their parents about lurking internet threats and to nurture a culture of responsible online behaviour.

At the SID 2012 award ceremony on 7 February in Sofia the Bulgarian

Safer Internet Centre presented the brand new educational video quest game, developed in collaboration with Dechica.com. This marked the start of a month long student gaming competition with attractive prizes. In an official ceremony on 28 July the video game „Zone of risk“ was proclaimed the best web product in the category Science and Education by the Bulgarian Web Association. In addition, the game was nominated as a top online tool in a resource competition by the European network Insafe.

17:14:11 Време: 00:03
Точки: 100 ПОМОЩ Информация за медиите

helpline.bg
Българска линия
за онлайн
безопасност

dehica.com

улица
БОРИШ

Едва ли някой може да си представи съвременния свят без Интернет. Световната мрежа се превърна в ежедневна среда за комуникация, работа, бизнес и развлечения.

Младите поколения от все по-ранна възраст са онлайн. Интернет обаче крие и рискове, както за възрастните, така и за децата.

НАЧАЛО

ZONE OF RISK

ins@te

ЦЕНТЪР ЗА ПРИОБЩАВАЩО ОБРАЗОВАНИЕ

OAK FOUNDATION

Save the Children
Norway

eSKILLS
WEEK 2012

European Commission

Zone of risk homepage found at www.game.safenet.bg

With the support of the Raiffeisen's corporate social responsibility campaign "Choose to support", the Bulgarian SIC translated and produced hard copies of the e-safety family kit, developed by Insafe. It is aimed at families with children who are beginning to explore the Internet. The kit includes practical assignments, exercises, materials for drawing and painting, golden safety rules, family contract, situational cards, stickers. Parents are the main target of another material developed by SIC: the booklet "10 Myths about the Scary Internet" that challenges some of the widely held misconceptions about children and new media.

Two resources, developed recently by the Bulgarian Safer Internet Centre, won first and third award in the Insafe resource marketplace, which took place in Budapest in September 2012. The Bulgarian SIC was awarded first place in the section Offline resources for the interactive game "Flashboy

trainer" and third place for the booklet for first graders "My First Memo Book". The latter, which contains a chapter about safer use of internet and mobile technologies, has already reached every first-grader in the country.

One of the SIC trainings, a distance learning course for online safety for students, was translated and adopted by the Safe the Children– Sarajevo. Supported by the Bosnia and Herzegovina's Ministry of Education, Youth and Science the course is delivered in all schools. Based on the success of this distance learning model, SIC and Varna Municipality developed a similar course for teachers and social workers. The first trainings started in October. The Austrian Safer Internet Center adapted the "Real and Virtual Violence prevention methodology" developed by ARC Fund and integrated it in their new teacher handbook.



Booklet for first graders "My First Memo Book"

Foresight

SPRING

SPRING aims to address the environmental implications of China's remarkable economic development and Europe's environmental challenges by the collaboration and knowledge sharing between European and Chinese researchers. They will develop strategies for ensuring the long-term viability of the Chinese and European economies by minimizing or reversing the environmental impacts of economic growth by shifting current production and consumption trends.

The main objective of SPRING is to create and provide a solid basis for future EU – China collaboration in the field of environment research. SPRING's goal is to identify common needs and opportunities, analyse potential topics of research cooperation and initiatives, map competences and potentials of Chinese research and infrastructure, investigate strategic development plans and initiate roadmaps for future collaboration. SPRING also aims to analyse the hurdles, barriers and cornerstones that need to be addressed to enable better research engagement by EU researchers in China and vice versa. It will improve the visibility of research initiatives and strengths of Chinese regions to a wider audience in Europe.

ARC Fund acts as methodology provider for the foresight activities, whose goal was to develop strategic

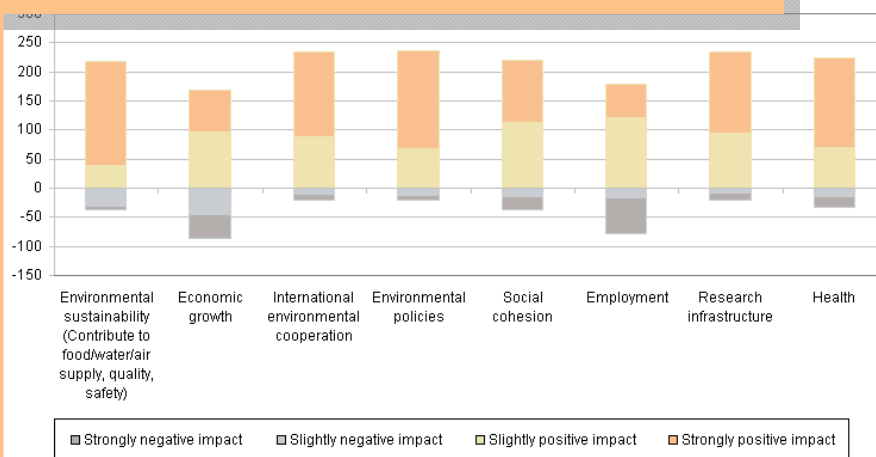
plans for strengthening the collaboration of EU-China environment research. ARC Fund's team made active dissemination of information about the online key technologies survey. The aim of the survey was to prioritise technologies with the potential to mitigate some of the environmental trends that would negatively impact the natural environments in Europe and China in the upcoming years. More than 1000 experts in environment were invited to participate in the survey via social media such as Facebook and Tweeter as well as through targeted e-mails. The fact that the survey was in English prevented a lot of Chinese scientists from participation. To overcome this obstacle, the survey was translated and launched also in Chinese in May 2012. Both versions were deactivated at the end of July 2012 with a final response rate of 218 participants. The survey included a total of 50 technologies, ten technologies per domain in the following five domains: biodiversity, climate change, water environment, atmospheric environment and soil environment.

The results of the analysis made by ARC Fund in the climate change, air, water and soil domains were presented during the roadmapping workshop in Cyprus in September 2012. ARC Fund drafted the second part of the report, dedicated to the foresight methodology used in SPRING. The final results of the

project as well as the foresight methodology will be presented dur-

ing a workshop in Brussels in January 2013.

Figure 4. Potential impact of key technologies by 2030



Source: Own survey.

PACITA

In 2012 ARC Fund continued its strategic efforts for the promotion of technology assessment (TA) in public policy legislative decision-making. The PACITA project was also officially featured by the European Commission as a good practice and a priority for the successor of the Seventh Framework Program – Horizon 2020, indicating the importance of embedding TA into the democratic decision-making systems across the EU. It further emphasizes the importance of ARC Fund's efforts in being the primary advocate for more open, transparent and accountable policy making when it comes to issues of science, technology and innovation.

Key activities in 2012:

- For much of 2012, ARC Fund's PACITA team was involved in a comprehensive study process of the opportunities and hurdles for establishing TA-focused structures in the country. In-depth interviews were conducted with representatives of think-tanks and industry, with journalists and scientists, with policy administrators and Members of Parliament. Findings suggest that there is a strongly expressed need for the application of TA methods in the preparation of decisions and public policies, but there is still little awareness and understanding of the added value that TA brings. Based on the findings of this study process, ARC Fund

prepared a comprehensive analysis that was presented to partner TA-organizations from Europe during a TA summit in Karlsruhe in November 2012.

- ARC Fund organized two national workshops, in April and in September respectively, to discuss opportunities, strategies for stakeholder involvement and options for institutionalizing and streamlining technology assessment into public decision-making. Attended by representatives of the government administration, civil society organizations, scientists and the industry, both workshops confirmed stakeholders' recognition of TA as a necessary tool with the potential to generate added public value.
- Staff members participated in a Summer School in technology assessment, held in Liege, Belgium, in June 2012. The summit combined theoretical and applied perspectives onto the use of technology assessment methods and tools in addressing policy challenges and decisions on energy and the environment both within national

and on a cross-European level.

- In addition to the above, ARC Fund was involved in several capacity building opportunities in pursuit of its long-term objective of developing sound in-house TA expertise and knowledge-base. ARC Fund is now featured on a TA web portal, a vast and rich online information resource accessible at <http://technology-assessment.info/>, combining information on TA experts, projects and institutes across Europe, as well as TA-centered publications of leading TA authors and evangelists.

PACITA is supported through the EU's 7th Framework Program. ARC Fund is one of 15 partners from 13 European countries. Partner institutions include national and regional parliamentary offices for science and technology, science academies, research institutions, universities, and civil society organisations.

EnVision2020

In collaboration with two partners from Bulgaria, including Sofia Municipality and the Sofia Energy Agency (SOFENA) and others from across Europe, ARC Fund initiated the 'Energy Vision 2020 for South East European Cities' (EnVision2020) project.

The project aims to:

- analyse the energy sector and energy resources consumption

in the target cities against EU priorities as well as to compare legislation and institutions responsible for the development and implementation of energy strategy;

- identify key technologies essential to improving the efficiency of energy resource consumption in cities;
- identify and develop new and innovative financial instruments

to support RES and new forms of energy in collaboration with business and financial sector representatives;

- produce technology roadmaps and organize high-level meetings to endorse the roadmaps, and develop policy recommendations to local and national levels based on them;
- host mutual learning workshops, which allow for the identification and development of common visions for energy resources consumption as well as the de-

velopment of joint policy priorities, in order to share experiences, practices and successes in achieving their energy objectives.

The main results of the project include individual technology roadmaps, policy implementation plans and joint energy priorities for the SEE partner cities as well as recommendations to the relevant EU institutions.

PART TWO

Management

The Applied Research and Communications Fund is registered in the Central Registry of not-for-profit public benefit organizations of the Ministry of Justice. Public benefit organizations are obliged by law to conform to a number of additional financial reporting rules and to submit annual activity reports.

In 2006, ARC Fund registered ARC Consulting – a wholly-owned con-

sulting company, designed to better leverage the organization's expertise. The company provides consultancy services in the field of innovation and ICT. It also develops and implements national and international projects under the EU Framework Programs, and the Cohesion and Structural funds.

ARC Fund and ARC Consulting form the ARC Fund Group.

Institutional Development

In 2012, ARC Fund employed a staff of thirty-two of whom twenty-seven in professional and management positions, including part-time consultants, and five employees in administrative positions. The personnel of ARC Fund is a mixture of young, well-educated and highly motivated people and experienced experts renowned for their professionalism and the high quality of their work.

ARC Fund teams are structured into two programs: Information Society and Innovation and Technology Transfer.

ARC Fund is managed in accordance with the principles of good governance, accountability and transparency. The application of these principles is expressed in the:

- Execution of annual audits since 1992;
- Individual project audits;

- Publication of Annual Reports in Bulgarian and English, available on the ARC Fund website;
- Regular updates of the organization's website to inform the broad public about ongoing projects and events;
- Publications in the media to enhance the impact of policy recommendations and increase public awareness of supported causes.

In 2012, ARC Fund worked on the implementation of 25 projects, funded by national bodies and international organizations. Among them were the European Commission (DG Research and Innovation, DG Regional and Urban Policy, DG Enterprise and Industry, and DG Communications Networks, Content and Technology); the Bulgarian Ministry of Economy, Energy and Tourism, and the Ministry of Transport, Information Technology and Communications.

List of Staff

Board of Trustees

Dr. Ognian Shentov, Chairman of the Board
Vladimir Yordanov, Deputy Chairman of the Board
Inko Razpopov, Member of the Board
Lyubomir Christov, Member of the Board

Staff Directory

Nikolay Badinski, Executive Director
Zoya Damianova, Program Director
Angel Milev, Program Director
Daniela Tchonkova, Program Coordinator
Georgi Apostolov, Program Coordinator
Todor Yalamov, Coordinator, IT group
Ruslan Stefanov, Coordinator, *Innovation.bg* group
Teodora Marinova, Senior Fellow
Todor Galev, Senior Fellow
Denitsa Marinova, Project Coordinator
Lubomir Sirkov, Project Officer
Robert Hickey, Project Officer
Adriana Dimova, Project Officer
Ventseslav Kozarev, Project Officer
Luiza Shahbazyan, Project Officer
Blagovesta Chonkova, Project Officer
Elena Velkova, Project Officer
Emilia Domoustchieva, Project Officer
Metodi Naydenov, Project Officer
Stanislav Kushlev, Project Assistant
Alexander Gergov, Project Assistant
Prof. Marin Petrov, Senior Consultant
Prof. Milanka Slavova, Senior Consultant

Financial Department

Tzvetoslava Kioseva, Financial Officer
Daniela Zayn, Accountant

Technical Assistants

Ognian Apostolov
Vassil Ignatov
Miroslava Stoyanova

PART THREE

Financial Report



APPLIED RESEARCH AND COMMUNICATIONS FUND

**APPLIED RESEARCH AND COMMUNICATIONS FUND (the GROUP)
CONSOLIDATED ANNUAL FINANCIAL STATEMENTS
31 DECEMBER 2012**

CONTENTS

	Page
<i>Consolidated statement of financial position</i>	61
<i>Consolidated statement of comprehensive income</i>	62
<i>Consolidated statement of changes in equity</i>	63
<i>Consolidated cash flow statement</i>	64-65
<i>Notes to the consolidated financial statements</i>	66-79
<i>Independent auditor's report</i>	80

“APPLIED RESEARCH AND COMMUNICATIONS” FUND (the GROUP)
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
31 DECEMBER 2012

(all amounts in BGN thousand)	Note	31 December 2012	31 December 2011
Assets			
Property, plant and equipment	5	20	58
Investment property	6	232	244
Total non-current assets		252	302
Trade and other receivables	7	594	395
Cash and cash equivalents	8	1,436	1,673
Deferred expenses		91	29
Total current assets		2,121	2,097
Total assets		2,373	2,399
Equity			
Trade and other payables	9	31	52
Deferred financing	10	621	587
Taxes and other		1	2
Total current liabilities		653	641
Total liabilities		653	641
Total equity and liabilities		2,373	2,399


These consolidated financial statements were approved by the Board of Trustees on 28 June 2013. They are signed on behalf of the Board of Trustees by:



 Nikolay Badinski
 Executive Director
 28 June 2013



Initialled for identification purposes in reference to the audit report:



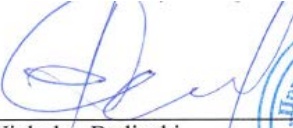
 Svetlana Simova
 Registered Auditor
 30 June 2013



“APPLIED RESEARCH AND COMMUNICATIONS” FUND (the GROUP)
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
31 DECEMBER 2012

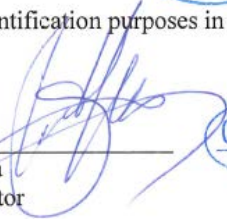
(all amounts in BGN thousand)	Note	For the year ending:	
		31 December 2012	31 December 2011
Revenue	11	1,583	993
Cost of sales	12	(1,659)	(1,189)
Gross profit/ (loss)		(76)	(196)
Other operating income		-	3
Impairment losses		-	107
Operating profit		(76)	(86)
Financial income		53	37
Financial expenses		(11)	(8)
Net financial income/(expense)	13	42	29
Profit/(Loss) before income tax		(34)	(57)
Income tax expense	14	(3)	(3)
Net profit/(loss) for the period		(37)	(60)
Other comprehensive income		-	-
Total comprehensive income for the year		(37)	(60)

These consolidated financial statements were approved by the Board of Trustees on 28 June 2013. They are signed on behalf of the Board of Trustees by:


 Nickolay Badinski
 Executive Director
 28 June 2013



Initialled for identification purposes in reference to the audit report:


 Svetlana Simova
 Registered Auditor
 30 June 2013



The Notes on page 66 to page 79 are integral part of these financial statements

**“APPLIED RESEARCH AND COMMUNICATIONS” FUND (the GROUP)
 CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
 31 DECEMBER 2010**

(all amounts in BGN thousand)	Note	Retained earnings
Balance as at 1 January 2011		1,818
Net loss for the year		(60)
Balance as at 31 December 2011		1,758
Balance as at 1 January 2012		1,758
Net profit for the year		(37)
Balance as at 31 December 2012		1,720

These consolidated financial statements were approved by the Board of Trustees on 28 June 2013. They are signed on behalf of the Board of Trustees by:



 Nickolay Badinski
 Executive Director
 28 June 2013

Initialled for identification purposes in reference to the audit report:



 Svetlana Simova
 Registered Auditor
 30 June 2013



“APPLIED RESEARCH AND COMMUNICATIONS” FUND (the GROUP)
CONSOLIDATED CASH FLOW STATEMENT
31 DECEMBER 2010

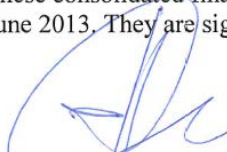
(all amounts in BGN thousand)	Note	For the year ending:	
		31 December 2012	31 December 2011
Cash flows from operating activities			
Profit/(Loss) before income tax		(34)	(57)
Adjustments for:			
Depreciation and amortisation	5,6	55	53
Net interest income accrued		(46)	(37)
		(25)	(41)
Changes in working capital:			
Decrease of inventory		-	-
Decrease/(Increase) of trade and other receivables and deferred expenses		(261)	(21)
(Decrease)/Increase of trade and other payables		12	307
Cash flow from operating activities		274	245
Interest received		45	37
Income tax paid		(3)	(3)
Net cash flows from operating activities		232	279
Cash flows from investment activities			
Purchase of property, plant and equipment and intangible assets		(5)	(13)
Net cash flows from investment activities		(5)	(13)

The Notes on page 66 to page 79 are integral part of these financial statements

**“APPLIED RESEARCH AND COMMUNICATIONS” FUND (the GROUP)
CONSOLIDATED CASH FLOW STATEMENT (continued)
31 DECEMBER 2010**

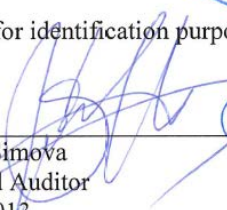
(all amounts in BGN thousand)	Note	For the year ending:	
		31 December 2012	31 December 2011
Cash flows from financing activities		-	-
Net cash flow from financing activities		-	-
Net (decrease)/ increase in cash and cash equivalents		237	266
Cash and cash equivalents at the beginning of the period		1,673	1,407
Cash and cash equivalents at the end of the period	9	1,436	1,673

These consolidated financial statements were approved by the Board of Trustees on 28 June 2013. They are signed on behalf of the Board of Trustees by:


Nickolay Badinski
Executive Director
28 June 2013



Initialled for identification purposes in reference to the audit report:


Svetlana Simova
Registered Auditor
30 June 2013



The Notes on page 66 to page 79 are integral part of these financial statements

1. Background and activities

Applied Research and Communications Fund („the Fund”), established in 1991, is a not-for-profit organisation with its legal seat in Republic of Bulgaria. Its main objectives are:

- 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.

In pursuit of these objectives, ARC Fund designs and implements strategies for capacity building of NGOs, information society development and technological innovation.

The consolidated financial statements of the Fund for the year ended 31 December 2012 comprise the Fund and its subsidiary ARC Consulting EOOD (together referred to as the “Group”).

The 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.

As of 31 December 2012 the Group has 35 employees.

These consolidated financial statements have been approved by the Board of Trustees of the Fund on 28 June 2013.

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 Fund, using consistent accounting policies. For consolidation purposes, the financial information of the Group has been combined on a line-by-line basis by adding together like items of assets, liabilities, income and expenses. All intra-group balances, income and expenses and unrealized gains resulting from intra-group transactions are eliminated in full. Unrealised losses are also eliminated but considered an impairment indicator of the asset transferred. Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

The Notes on page 66 to page 79 are integral part of these financial statements

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.

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 subsidiary acquired, the difference is recognised directly in the income statement.

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

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

2.1. Basis of preparation

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 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 2012 are not early adopted by the Group because management of the Group believes that they are nor 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 2012 are not early adopted by the Group. They are not relevant to Group although they may affect accounting for future transactions and events.

The Notes on page 66 to page 79 are integral part of these financial statements

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. Accounting policies (continued)

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:

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.

2.4 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.

The Notes on page 66 to page 79 are integral part of these financial statements

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. 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 at 31 December 2012

2.5. Financial assets (continued)

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 amortized 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 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 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

The Notes on page 66 to page 79 are integral part of these financial statements

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.

The Notes on page 66 to page 79 are integral part of these financial statements

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, 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.

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. Global financial crisis

Impact of the ongoing global financial and economic crisis

The global financial crisis has had a severe effect on the Bulgarian economy and the financial situation within the Bulgarian financial and corporate sectors has significantly deteriorated since mid-2008. In 2012, the Bulgarian economy experienced a moderate recovery in economic growth. The recovery was accompanied by increased export and increased rate of household savings.

The future economic direction of Bulgaria is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the Government, together with tax, legal, regulatory and political developments.

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.

The Bulgarian economy is also vulnerable to market downturns and economic slow-downs elsewhere in the world. Management is unable to determine reliably the effects on the Group's future financial position of any further changes in the economic environment in which the Group operates.

Management believes it is taking 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 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 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

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

The Notes on page 66 to page 79 are integral part of these financial statements

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.

As at 31 December 2012	Up to 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Trade and other payables	31	-	-	-

As at 31 December 2011	Up to 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Trade and other payables	52	-	-	-

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 judgements 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.

The Notes on page 66 to page 79 are integral part of these financial statements

Impairment of loans and receivables

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

5. Property, plant and equipment

	Computers and equipment	Vehicles	Fixtures and fittings	Total
Cost				
As at 1 January 2011	156	148	23	327
Additions	13	-	-	13
Disposals	-	-	-	-
As at 31 December 2011	169	148	23	340
Additions	5	-	-	5
Disposals	-	-	-	-
As at 31 December 2012	174	148	23	345
Amortization				
As at 1 January 2011	152	67	22	241
Written of depreciation	5	36	-	41
Depreciation charge	-	-	-	-
As at 31 December 2011	157	103	22	282
Depreciation charge	7	36	-	43
As at 31 December 2012	164	139	22	324
Net book value				
As at 1 January 2011	4	81	1	86
As at 31 December 2011	12	45	1	58
As at 31 December 2012	10	9	1	20

The Notes on page 66 to page 79 are integral part of these financial statements

6. Investment property

	31 December 2012	31 December 2011
As at 1 January		
Carrying amount at the beginning of the year	244	256
Depreciation charge	(12)	(12)
Net book value at the end of the year	232	244

31 December

Cost	303	303
Accumulated depreciation	(71)	(59)
Net book value	232	244

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.

7. Trade and other receivables

	As at 31 December	
	2012	2011
Trade receivable and receivables on projects financing	580	381
Prepaid corporate tax	-	-
Other	14	14
	594	395

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

8. Cash and cash equivalents

	As at 31 December	
	2012	2011
Cash at hand	53	71
Cash in bank current accounts	1,383	1,602
	1,436	1,673

The Notes on page 66 to page 79 are integral part of these financial statements

9. Trade and other payables

	As at 31 December	
	2012	2011
Trade payables	31	52
VAT	-	-
Other	-	-
	31	52

10. Deferred financing

	As at 31 December	
	2012	2011
EC - Citizen Visions for the Future of Science Technology and Innovation	88	164
EC – Enterprise Europe Network (EEN)	349	361
EC – Scoping China’s Environmental Research Excellence and Major Infrastructure	-	2
Save the Children (Norway) - Comprehensive Response to Online Child Sexual Abuse	-	16
OAK Foundation - Children in Virtual and Real Violence – Prevention by Discourse and Education	51	34
WB - Strengthen the capacity of business incubators based in the ECA and MENA regions to support their clients SMEs	57	
EC - Safer Internet Centre with Hotline and Helpline	27	
EC - European Transport Network Alliance	45	-
Total deferred financing, related to projects	617	577
Financing for acquisition of fixed assets	4	10
	621	587

11. Revenue

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

	2012	2011
EC - Setting Up Combined Safer Internet Node in Bulgaria (Phase 3)	149	249
EC – Enterprise Europe Network (EEN)	102	91
EC – Inter-regional Cooperation Mechanisms for the Exploitation of the R&D potential in South Eastern Europe	90	90

The Notes on page 66 to page 79 are integral part of these financial statements

EC - Fostering Evaluation Competencies in Research, Technology and Innovation in the SEE Region	-	89
EC – Scoping China’s Environmental Research Excellence and Major Infrastructure	-	86
EC - Business Kit for Creative start-ups in IPR, Venture Capital and Entrepreneurial Skills	-	78
EC - Research Infrastructures: Foresight and Impact	-	54
EC - Setting Up Combined Safer Internet Node in Bulgaria (Phase 2)	-	-
EC - Transport EU-Western Balkan Network for Training, Support and Promotion of Cooperation in FP7 research activities	-	-
EC - Safer Internet Centre with Hotline and Helpline	200	-
OAK Foundation - Children in Virtual and Real Violence – Prevention by Discourse and Education	80	39
WB - Strengthen the Capacity of Business Incubators based in the ECA and MENA Regions to Support their Clients SMEs	202	-
EC - Citizen Visions for the Future of Science Technology and Innovation	58	30
Other	271	86
Revenue from projects financing	1 152	892
Revenue from services	426	98
Revenue from financing of fixed assets acquisition	5	3
	1,583	993

12. Cost of sales

Cost of sales for the Group include:

	2012	2011
Expenses for materials and consumables	10	15
External services expenses	797	614
Depreciation and amortization	55	53
Salaries and social securities	483	294
Other expenses	288	213
	1,659	1,189

The Notes on page 66 to page 79 are integral part of these financial statements

13. Financial income/ (expense), net

	2012	2011
Interest income	46	37
Interest expense	-	-
Foreign exchange gains/(losses), net	(1)	(3)
Other financial expenses	(3)	(5)
	(4)	(8)
Financial income, net	42	29

14. Income tax expense

The major components of income tax expense for the year ended 31 December 2012 and the period ended 31 December 2011 are:

	2012	2011
Current tax	(3)	(3)
Deferred tax	-	-
Income tax expense	(3)	(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, and thus is also related with its subsidiaries.

During the period the following transactions and balances has occurred:

Related party	Transactions during the year	January-December		31 December		31 December	
		2012	2011	2012	2011	2012	2011
		<i>Transactions</i>		<i>Receivables</i>		<i>Payables</i>	
Project 1	Consultancy services		48	150	150		48
	Rental Agreement	45	45		-		-
Vitosha Research	Contract for development of research project		-		-		-

The Notes on page 66 to page 79 are integral part of these financial statements

	Consultancy services on EEN project	-	-	-	-
	Consultancy services	-	-	-	-
Center for the Study of Democracy	Rental Agreement	45	45	-	-
		90	138	150	150
					48

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:

	2012	2011
Board of Directors	179	179

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 ARC Fund

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Applied Research and Communications Fund and its subsidiaries (the "Group") which comprise the consolidated statement of financial position as of 31 December 2012 and the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Consolidated Financial Statements

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 management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 present fairly, in all material respects, the financial position of the Group as of 31 December 2012, and 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.

Svetlana Simova
Registered Auditor
Sofia



30 June 2013