
PART THREE

Financial Report



APPLIED RESEARCH AND COMMUNICATIONS FUND

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

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“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			
		1,720	1,758
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

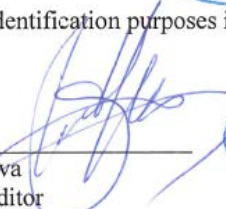
(all amounts in BGN thousand)	Note	For the year ending:	
		31 December 2012	31 December 2011
Revenue	11	1,583	993
Cost of sales	12	(1,659)	(1,189)
Gross profit/ (loss)		(76)	(196)
Other operating income		-	3
Impairment losses		-	107
Operating profit		(76)	(86)
Financial income		53	37
Financial expenses		(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)

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 30 June 2013



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

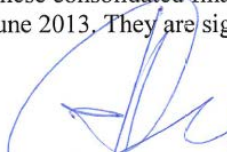
(all amounts in BGN thousand)	Note	For the year ending:	
		31 December 2012	31 December 2011
Cash flows from operating activities			
Profit/(Loss) before income tax		(34)	(57)
Adjustments for:			
Depreciation and amortisation	5,6	55	53
Net interest income accrued		(46)	(37)
		(25)	(41)
Changes in working 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**

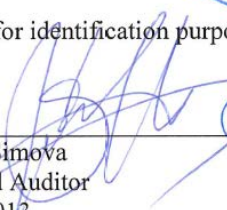
(all amounts in BGN thousand)	Note	For the year ending:	
		31 December 2012	31 December 2011
Cash flows from financing activities		-	-
Net cash flow from financing activities		-	-
Net (decrease)/ increase in cash and cash equivalents		237	266
Cash and cash equivalents at the beginning of the period	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

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

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

Buildings	25 years
Computers and equipment	2-6.67 years
Vehicles	5 years
Fixtures and fittings	2 - 6 years

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

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

2.4 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

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

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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