

2014

Annual Report

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Applied Research and Communication • Fund •



**Applied Research and Communications Fund
2014 Annual Report**

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Introduction

In 2014, the Applied Research and Communications Fund (ARC Fund) capitalized on the momentum of its 23-year history in continuing its mission to promote the knowledge economy. It realized this mission through its applied research and analyses, the development of new policy concepts and deployment of innovative policy-making tools, and by bringing together key stakeholders to discuss and disseminate its research findings. It implemented and managed projects in the areas of science, innovation and information society, technology transfer and business support, a safer online experience for children, and by promoting the use of forward-looking studies and public engagement tools and methods in research and innovation policy-making.

During 2014, ARC Fund focused its research and advocacy in a number of innovation-related areas:

- developing policy intelligence in green and sustainable innovation;
- researching the preconditions which support social innovation;
- promoting the role of workplace innovation;
- formulating policy recommendations to support the management of public-sector innovation;
- creating and disseminating an informational base for the evaluation of research, technology and innovation policies in South East Europe; and
- supporting the uptake of design innovation by policy-makers across the EU.

The year also marked a notable milestone in the development of ARC Fund – the tenth iteration of the National Innovation Forum and the publication and presentation of the tenth Innovation.bg report. *Innovation.bg* is ARC Fund’s most visible public policy output and analyzes the development and health of the Bulgarian innovation system. The forum brought together high-level decision-makers, including the President of the Republic of Bulgaria, as well as prominent academics, and business leaders.

Building on a lengthy history in performing innovation-related research and analyses, by 2014 ARC Fund was well positioned to launch a four-year research project focused on improving the assessment and management of sustainable innovation. The project covers all EU Member States through a partnership of 19 partners from 12 EU countries and a network of 16 country correspondents.

Beyond these innovation-oriented activities, ARC Fund provided technology transfer and business support services through a number of channels. These included: efforts aimed at improving the capacity of regions across Europe to design and implement their *Smart Specialization Strategies for Research and Innovation*; activities fostering innovation in the transport sector through facilitating the participation of new actors in European funding programs; and building and animating a European network focused on improving the quality of life of elderly people by stimulating the market update of ICT solutions. ARC Fund also provided specific support to the digital gaming industry by organizing a digital game competition, as well as digital game development workshops for children.

The year of 2014 also marks the seventh year of ARC Fund’s leadership of the Enterprise Europe Network (EEN) in Bulgaria, which brings together 14 partnering organizations from around the country. During the year, EEN focused on the ICT sector, in view of its high potential to step up the development of the entire economy evidenced by ARC Fund’s research findings. EEN also organized a number of brokerage meetings, missions and seminars, and facilitated the participation of Bulgarian companies in various inter-

national business events. These focused on several sectors, including information, communication and mobile technologies, machine building, sports technology, e-government and e-health, and cluster management. Also, during the European SME Week held across Europe at the end of September, ARC Fund and the Enterprise Europe Network organized an event that focused on discussing and disseminating workplace innovations within the framework of the European Workplace Innovation Network. It also partnered with the National Agency for Regional Development of Serbia in organizing a business mission of Serbian enterprises to the European Union Representation in Bulgaria.

Through its coordination of the Bulgarian Safer Internet Center – a member of a European network of 30 centers across the EU referred to as InSafe, and of the International Association of Internet Hotlines entitled INHOPE – ARC Fund received and processed nearly 2,000 reports of content and conduct on the internet which was illegal and harmful to children. Additionally, over 400 children, parents and teachers were consulted by the Bulgarian Helpline for Online Safety. Over 80 teachers were also trained in the application of a methodology entitled *Prevention of Virtual and Real Violence by Interactive Education in Schools* in order to improve their knowledge and skills in helping children to avoid online risks. The methodology was applied in over 170 schools across 5 Bulgarian cities. In addition to working directly with the target groups, ARC Fund contributed to policy formulation in the area of child care, child justice and education through its involvement in the elaboration of *Report Card 2013*. This report evaluated how successful state institutions and administrations have been in fulfilling their commitments to children, and improving their well-being and safety. ARC Fund also contributed to the annual *Activity Plan of the State Agency for Child Protection*. By the end of 2014, the state announced its intention to pass a Law Amending and Supplementing the Penal Code in this area.

With respect to its foresight work, ARC Fund finalized its role in the development of energy roadmaps for regions and cities in South East Europe. Over the year, it developed, presented, and demonstrated the use of a key energy technologies roadmapping methodology to members of the EnVision2020 project consortium. By the end of the year, roadmaps were developed for the target regions and cities within the project. ARC Fund also undertook two large-scale technology assessment pilot activities aimed at applying technology assessment methods in the development of policy intelligence. One of these pilots focused on the application of technology-based solutions to problems associated with aging, and another on issues related to sustainable consumption, which mobilized over 100 Bulgarian citizens to contribute their views and aspirations in this area. Building on these developments, ARC Fund, in its capacity of partner in the Engage2020 project, also worked on aggregating existing public engagement methods and tools from Europe and around the world. This took place in 2014 and aimed to increase the engagement of societal actors in research and innovation. It culminated in the completion of a report containing 57 factsheets which described various engagement methods and tools. It also included information regarding the key challenges that they address, the stakeholders that are involved, and the depth of engagement of the participants that they mobilize.

ARC Fund and ARC Consulting's Key Achievements in 2014 included

- publishing the flagship report *Innovation.bg* for the tenth time and organizing the Tenth National Innovation Forum and Contest for Innovative Enterprises;
- managing or partnering in 30 international projects;
- providing business support services to over 150 new organizations through the Enterprise Europe Network (EEN);
- facilitating the participation of 40 Bulgarian companies in brokerage meetings and business missions in Bulgaria and abroad, which resulted in over 140 business and technology cooperation contacts between local and foreign companies;
- receiving and processing close to 2,000 reports of content and conduct on the internet which were illegal and harmful to children through the Safer Internet Center;
- consulting over 400 children, parents and teachers through the Bulgarian Helpline for Online Safety, operated by the Parents Association, a partner of the Safer Internet Center;
- organizing a Europe-wide event on workplace innovation that brought together companies and researchers from across Europe;
- kicking-off a Mobilization and Mutual Learning (MML) Action Plans: Mainstreaming Science in Society Actions in Research project focusing on stimulating and researching public participation in sustainable innovation;
- organizing a national competition for innovative digital games; and
- designing, training and deploying a key energy technologies roadmapping methodology in the SEE region.

PART ONE

Program Areas

Science, Innovation and Information Society

Innovation.bg 2014



For a decade now, the annual *Innovation.bg* report has provided a **reliable measure of the innovation potential of the Bulgarian economy** and of the state and opportunities for the development of the Bulgarian innovation

system. It makes recommendations for the improvement of innovation policy in Bulgaria and the EU, based on international best practices and empirical surveys, while taking into account the specific economic, political, cul-tural and institutional framework in which the country's innovation system operates. *Innovation.bg* has made a number of specific recommendations for improving innovation policy and practice in the country which are supported by representatives of the business and scientific communities. The lack of specific and consistent action by successive Bulgarian governments on these recommendations to support innovation – despite commitment at the highest political level – is a sign of serious institutional deficiency in the development and implementation of policies in this field.

Innovation.bg 2014 analyses the potential for the development of the national innovation system on the basis of five groups of indicators:

- aggregate innovation product,
- entrepreneurship and innovation networks,
- investment and financing for innovations,
- human capital for innovation, and
- information and communication technologies.

Ten years of analysis allow for a retrospective look at assessing what has been achieved, while contemplating improvements and prospects for the future. This has been done through the provision of recommendations based on the lessons learned in considering both good and bad practices. In addition, *Innovation.bg 2014* suggests an agenda for addressing the main challenges that will be encountered in the face of a rapidly changing business environment. It provides an informational base to support decision-makers in their difficult search and exploitation of the drivers of technological development and innovation.

National Innovation Policy

An assessment of the innovation policy of Bulgaria should be considered within the context of economic, political and social developments, including

- The state of the economy – the year of 2014 marked the fifth consecutive year without economic growth in Bulgaria. The year was also characterized by low consumption and investment, a shortage of new quality business projects and financial resources, and persistently high unemployment.
- Serious external and internal political instability - high levels of corruption and regulatory risk caused significant turbulence in the banking system, uncertainty in the management of EU funds and the national budget, and a growing public debt in the absence of adequate public investment decisions.
- Apathy and extremely low levels of happiness in society – weak prospects for professional development have resulted in many people seeking opportunities abroad. Sub-par conditions in the health and educational sectors, and the perception of national failure in comparison with other EU Member States, persist in the country.

In this context, the spread of social innovations, and the development of an entrepreneurial and innovation culture that exploits the innovative potential at the microeconomic and macroeconomic levels, have been an exception to the abovementioned developments. These improvements have been bolstered by the beneficial effects that EU membership has had on the country. Innovations and research results have occurred despite government policy, rather than as a result of it.

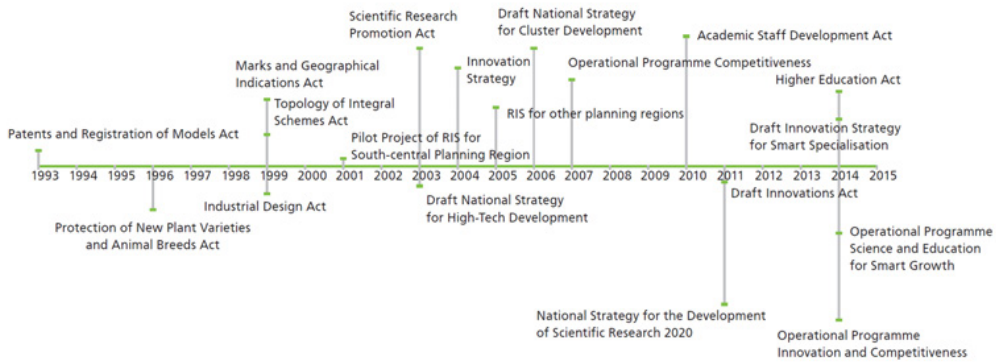
Over the last 10 years, progress towards developing a regulatory framework to support innovation in the country can be defined as modest. There is no strong domestic driving force in the country's innovation and science policy, and progress has mainly been made in areas that have been influenced by external factors.

These include:

- patent legislation, the harmonization of which was one of the conditions for full EU membership;
- draft documents designed by non-governmental expert teams, which were never enacted (including strategies for the development of high technologies and clusters, and a law on innovations);
- deliverables from projects which have not been used by national and local governments in their policy planning cycles (regional innovation strategies); and
- preconditions that the EU has set for the utilization of EU funds. These include the Operational Programme Competitiveness for the programming period 2007–2013, and for the 2014–2020 period they include the Operational Program Innovations and Competitiveness and the Operational Program Science and Education for Smart Growth. The development of the Innovation Strategy for Smart Specialisation is also one of these preconditions.

The political will for the advancement of science, technology and innovation in the last decade is mainly evidenced by three documents. These are the *Scientific Research Promotion Act* (2003), the *Innovation Strategy* (2004) and the *National Strategy for the Development of Scientific Research* (2011). However, the implementation of these documents has not been supported by clear and steady financial and administrative commitments, which has made the implementation of their measures and instruments dependent on shifting financial and political conditions.

Figure 1. Regulatory Framework and Instruments of Innovation Policy in Bulgaria



Source: ARC Fund, 2014

The *Innovation Strategy for Smart Specialisation*, and the Operational Programs Innovations and Competitiveness 2014–2020 and Science and Education for Smart Growth 2014–2020, have set the ambitious goal of creating a comprehensive and adequate framework for the advancement of research, technology, innovation and entrepreneurship in the country.

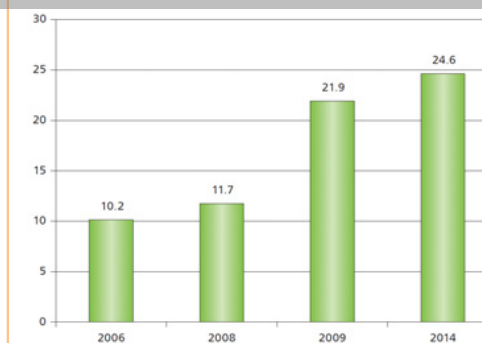
The experience gained over the previous programming period forms a sound basis for the successful implementation of these strategies and programs:

- One fully completed programming period for Bulgaria as a Member State of the EU. This has allowed Bulgarian institutions and the public administration the opportunity to acquire experience regarding the more efficient use of European and national financial resources.
- Two ministries – the Ministry of Economy and Energy and the Ministry of Education and Science – have established a joint mechanism for agreeing on priorities and objectives, as well as joint instruments of financial support for projects at all stages of the innovation lifecycle.

Innovation Potential of Bulgarian Enterprises

In contrast to developments in the innovation policy sphere, innovative performance amongst Bulgarian enterprises improved measurably between 2009 and 2014. The *2014 Innovation Index* of Bulgarian enterprises reveals a positive rising trend over the five year period between 2009

and 2014, though at a much slower rate than during the 2008–2009 period. This rise was mainly a result of the higher innovation intensity of fewer enterprises. Nevertheless, this data also reveals that the total number of innovating enterprises is increasing.

Figure 2. Innovation Index 2006-2014

Source: ARC Fund, 2014

In 2014, 75% of innovative companies made more than one type of innovation, versus 62.5 % in 2009. **The share of the most innovative companies**, defined as those making four types of innovations – product, process, organisational and marketing – **has risen from 6.3% in 2009 to 14.7% in 2014.**

Innovation Potential of the Bulgarian Economy

The development of the national innovation system over the last decade has not corresponded to its potential. Nevertheless, a number of positive developments took place in 2014:

- An *Innovation Strategy for Smart Specialization* was created, and two operational programs were developed. These include OP Innovations and Competitiveness and OP Science and Education for Smart Growth, which were drafted as documents in support of R&D and innovation. Mechanisms for their coordinated application have been created.
- Indicators which capture the amount and structure of R&D financing and the number of persons engaged in research show an improvement. However, these metrics remain at lower levels in comparison to those in other EU Member States.
- The economic contribution resulting from the intensive use of intellectual property to both GDP and employment is considerable. Still, a substantial part

of the technological know-how is the property of foreign investors, without adequate connections to the local innovation ecosystem.

Product innovations were found to be the most common, followed by marketing innovations, which indicate an expansion and deepening of markets in the country. In addition, Bulgarian companies competing on the European and international level are much more innovative than those which opt to focus on national and local markets. In 2014, the average amount indicated by enterprises as necessary for the implementation of their innovation projects is BGN 4.7 million (€2.4 mln).

The incremental development of innovative enterprises in Bulgaria shows their high potential, which could be better exploited provided their efforts are combined with better public support.

of the technological know-how is the property of foreign investors, without adequate connections to the local innovation ecosystem.

- There are more opportunities for entrepreneurship.

Serious weaknesses persist and some deteriorating trends can be noted:

- A lack of coordination, as well as inconsistencies and inefficiencies, in the use of limited public funding for R&D and innovation.
- Insufficient R&D financing from all sources, and particularly from higher education. NGOs outperform higher education in the funding of R&D. Universities also have a deteriorating technological portfolio as measured by the number of patents that they have retained.
- New ideas regarding the funding of R&D and innovation are gaining momentum, which favor the substitution of national public funds and commitments by the government with European funds.

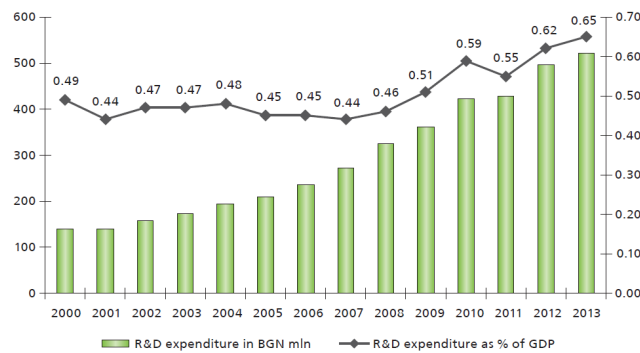
- The unequal regional distribution of R&D financing and staff is returning to its pre-2001 levels after more balanced trends in the interim period. More specifically, there is an extremely high concentration of innovation activity in the South-Western planning region, and a seeming neglect of the innovation systems in the other regions.

The results from the programming period of the EU from 2007–2014 indicate that membership does not automatically change the relative weaknesses of the country in terms of innovation performance. The neglect of science and innovation has led to the country lagging further behind, in both absolute and relative terms, in its innovation capacity and intensity. Furthermore, additional efforts are needed to counteract European policies which, in some

aspects, are harmful to the development of the country’s innovation potential. For example, increasing emigration amongst scientists and innovators from Bulgaria to European research institutions is turning into a serious problem. This is exacerbated by the double standard of unequal pay for researchers from different Member States that participate in EU programs.

The report *Green Innovation.bg* was developed as a supplement to the Innovation.bg 2014 report. It comprises both European and national policies, and focuses on different areas of economic activity where green innovations play a role. These include: energy efficiency, transport, renewable energy resources, clean technologies, and green business practices.

Figure 3. R&D Expenditure in Bulgaria, 2000-2013



Source: NSI, 2014

Figure 4. R&D Expenditure by Funding Source, BGN Thousands



Source: NSI, 2014



In 2014, as part of the Greening Bulgarian Innovative SMEs project and in conjunction with the annual *Innovation.bg* report, ARC Fund published a supplemental report on green innovation in Bulgaria. The report includes an overview of the policy

framework at the European and national levels, the state of green growth in the country, and the results of the Green Business Innovation Survey 2014.

Green innovations hold great potential in helping Bulgarian businesses improve their competitiveness. By producing environmentally conscious products and integrating green technologies into their production cycles, firms can gain an edge over their competitors and enter new international value added chains. The widespread adoption of green innovation across economic sectors can also improve human health, reduce resource depletion and environmental degradation, and increase the security of energy supply.

The EU has one of the most comprehensive environmental legislative frameworks in the world. The increasing prominence of environmental policy in the Community's agenda has culminated in the *Europe 2020* strategy, where green growth is put at the heart of the Commission's blueprint for competitiveness. Within the *Resource Efficient Europe* flagship initiative, the *Roadmap for a Resource-Efficient Europe* forms the cornerstone of policy efforts to transform the EU into a resource-efficient, low-carbon economy.

In Bulgaria, energy production and retail energy sales, and the energy efficiency of buildings, receive disproportionately strong policy attention when compared to clean technologies and the energy efficiency of

industry. By delaying the introduction of across-the-board incentives that aim to stimulate green products and services, policy-makers run the risk of damaging national economic competitiveness in view of positive global trends and the emergence of green policies in other countries. The few policy measures in the country related to green innovation and the resource efficiency of industry are relatively small in scale and have been designed and implemented primarily as a result of EU strategies and the transposition of EU legislation.

Current green industry policies in Bulgaria focus mainly on increasing resource efficiency in the final energy consumption of large enterprises. At present, no legal obligations and few incentives exist for small and medium-sized enterprises (SMEs) to improve their energy efficiency. In practice, public authorities in Bulgaria have disregarded the voluntary instrument of Green Public Procurements as a policy tool to generate market demand for green products and services. The primary sources of green industry innovation funding, for which there is publicly available information, have been European funds. In particular, large parts of OP Competitiveness 2007-2013 have been dedicated to the greening of the Bulgarian economy.

The analysis of a number of key indicators suggests that Bulgaria is making slow but steady progress towards decoupling economic growth from resource depletion and environmental degradation. Annual greenhouse gas emissions have declined significantly, from 110 million tonnes of CO₂ equivalent in 1990 to 62 million tonnes in 2012. This is primarily the result of the closure of highly inefficient manufacturing sites built during the era of central planning, but also, more recently, of the use of greener technologies.

Low levels of energy efficiency are common in all sectors of the Bulgarian economy. Electricity generation and distribution, the

most energy and emissions intensive sector of the economy, suffers from large losses. Furthermore, due in part to the low levels of energy efficiency in residential buildings and relatively low per capita incomes when compared to residential energy prices, the average Bulgarian household is considered energy poor, as it spends more than 10% of its annual income on energy products. In 2012, 17% of all consumed electricity was generated from renewable resources, which is a significant increase in comparison to the 9.5% of electricity which came from renewable sources in 2004. This sudden growth has been overwhelmingly concentrated in solar and wind electricity generation, and stimulated by EU RES directives. However, it has pushed prices up within the context of a poor administrative and regulatory environment. Against the background of recent economic stagnation, it has created a popular backlash by the Bulgarian population. Transport is the biggest emitter of greenhouse gases after the energy sector, but the growing use of more modern and environmentally sound vehicles has not managed to offset the steady increase in motorisation in Bulgaria.

The *Green Business Innovation Survey 2014* revealed that a large majority of Bulgarian enterprises fail to monitor their environmental footprint in its entirety and to ramp up investments for greening their activities. As such, the vast energy saving and cost reduction potential of green measures remain largely untapped. These missed opportunities may suggest poor private sector managerial capacity and modernisation efforts, but also allude to weak public policies and missing incentives. Green activities are more prevalent in larger companies with stronger international exposure and that operate in more heavily regulated economic sectors. Close to 60% of the Bulgarian enterprises report to have at least one environmental footprint measurement system, allowing them to monitor and manage at least one of the following: GHG emissions, toxic chemicals, energy and/or water consumption, material use, water, soil and air contamination, and waste volume. Judging by the type of the most prevalent systems, including those

related to the consumption of materials, energy, water, and the production of waste, it can be inferred that Bulgarian companies either invest in the monitoring and management of their environmental impact when it comes to key resources directly related to profitability, or when it comes to meeting statutory environmental standards.

Greening Bulgarian Innovative SME's

The Greening BG Innovative SMEs project aims to tackle environmental challenges by creating green business opportunities in Bulgaria that can accelerate the uptake of environmental technologies and increase local competitiveness. Despite political commitment and the availability of funding for such measures, mainly from the EU Structural and Cohesion Funds, the Bulgarian economy remains the most energy intensive in the European Union and its innovation performance is the lowest in the EU. The project seeks to identify the reasons for this gap and to help address them. Greening BG Innovative SMEs is funded under the Norway Funding Mechanism in Bulgaria and has a two-year duration. The project is implemented by a consortium including the NIFU Nordic Institute for Studies in Innovation, Research and Education.

The specific objectives of the proposed project are to enhance permanent green technology scanning and monitoring, build capacity in SMEs on green innovation issues, foster green behaviour in SMEs, and promote the benefits of a greener Bulgaria. Many Bulgarian SMEs are unaware of the economic benefits of innovative green solutions and are therefore reluctant to undertake green investments. Therefore, the project focuses on Bulgarian SMEs as its major target group. The project strives to achieve the widest possible outreach by opening up its activities to micro, small and medium-sized firms, as well as to all industrial sectors across the country. Policy makers form the second target group of the project, as they will be presented with the findings and policy recommendations of ARC Fund's flagship *Innovation.bg report*.

In 2014, ARC Fund reviewed the existing green activities in SMEs by performing 50 in-depth interviews with local companies from a variety of sectors. This was undertaken in order to assess the extent to which Bulgarian companies are aware of and use technologies, processes and products which lead to better resource management and energy efficiency. This has provided valuable insights into local green practices, which is key to the development of a self-assessment tool for green behaviour

and performance in SMEs. In order to bring attention to the benefits of green practices in businesses, ARC Fund also performed policy and regulatory framework monitoring on socio-political, economic and technological developments in Europe and Bulgaria, which were published as a separate volume of the annual *Innovation.bg* report. This was complemented by a macroeconomic analysis of green growth in Bulgaria and the results of a targeted survey covering over 400 local companies.

Tenth National Innovation Forum and Contest for Innovative Enterprises 2014

On December 16, 2014, the Applied Research and Communications Fund and the Enterprise Europe Network – Bulgaria, along with the Ministry of Economy, the Representation of the European Commission in Bulgaria and KIC InnoEnergy, and with the support of the Norway Grants, organized the Tenth National Innovation Forum entitled *Innovation Agenda for Sustainable Growth and Competitiveness*.

Dr. Ognian Shentov, Chairman of the Board of the Applied Research and Communications Fund, opened the forum and

outlined its important role in both the process of building a sustainable professional community in the field of innovation and in identifying an elite group of innovative companies awarded for leadership in their respective fields. Dr. Shentov focused on two major developments which are of particular importance for the future development of the Bulgarian economy: the growth of innovation activity among local companies captured by ARC Fund's Innovation Index, and the significant contribution of the ICT sector to the country's GDP.



Tenth National Innovation Forum: Innovation Agenda for Sustainable Growth and Competitiveness, from left to right: Dr. Ognian Shentov, Chairman of the Board of the Applied Research and Communications Fund and Mr. Rosen Plevneliev, President of the Republic of Bulgaria.

Mr. Ognian Zlatev, Head of the EC Representation in Bulgaria, emphasized the priorities of the new European Commission headed by Jean-Claude Juncker, which aims to create new jobs by mobilizing public and private sector investment. A large share of the Cohesion Funds and the European research programs will be allocated to economic sectors which are key to the competitiveness of the EU. Mr. Zlatev stressed that creating new jobs and stimulating economic growth is not only a responsibility of the public authorities, but also of the business and non-governmental sector. In conclusion, he pointed out that the regulatory framework, business environment and entrepreneurial climate are essential for increasing investment activity.

The President of the Republic of Bulgaria, Mr. Rosen Plevneliev, stressed the key role of ARC Fund and the annual National Innovation Forums in channeling

the efforts of stakeholders within the innovation system and in contributing to its development. Mr. Plevneliev underlined the positive economic impact of the financial engineering instruments under the JEREMIE initiative in catalyzing private investments and stimulating the entrepreneurial environment. In view of the risk of decommitment of EU funds, Mr. Plevneliev proposed that the allocation of resources be directed towards financial instruments. He also pointed out that the adopted Strategy for Smart Specialization, as well as the funds provided for innovation and science in the next programming period from 2014-2020 could support the necessary prerequisites for turning Bulgaria into a regional innovation hub.



*President of Republic of Bulgaria,
Mr. Rossen Plevneliev*



*Professor Marin Petrov receiving a
lifetime achievement award for his overall
contributions to the innovation development
of Bulgaria*

During the forum, President Plevneliev also awarded the finalists in the *National Contest for Innovative Enterprise of the Year 2014*. Within the framework of the contest, Prof. Marin Petrov was presented with a special lifetime achievement award for his overall contribution to the innovation development in Bulgaria.

Contestants were awarded according to the impact of their innovations in nine areas, including:

- 1) Innovation visionary – *Ontotext JSC*. Ontotext is a leading software provider of semantic technologies for advanced data analysis;
- 2) Innovative technologies in traditional sectors – *Aglika Trade Ltd*. Aglika Trade is a textile enterprise with operations in Veliko Tarnovo and Tvarditsa with a nearly 50-year history;
- 3) Sustainable innovative behavior – *Musala Soft JSC*. Musala Soft is a leading Bulgarian

software engineering company, specialized in information systems integration, mobile applications development and IT consulting;

4) Social innovation – *Jumpido Ltd.* Jumpido develops and distributes software that teaches mathematics to children in elementary schools through interactive games;

5) Quality of life – *Kurabiinitsa Ltd.* The company has created and produces Roo'bar - a 100% organic raw fruit bar with nuts, dry fruits and superfoods;

6) Innovative digital game – *Crytek Black Sea Ltd.* Arena of Fate, Crytek's latest online multiplayer game, introduces a time limit and scoring per gaming session, thus reforming the traditions in this genre of computer games;

7) Green innovation – *BalBok Engineering JSC.* BalBok Engineering operates in

the field of environmental security and provides collection and transportation, physico-chemical treatment, re-packaging, pre-treatment sorting and dismantling solutions to municipalities, without significant investments in infrastructure, as the service is funded through waste taxes;

8) Innovative solutions in sustainable energy – *Toplik Ltd.* Toplik is an engineering company for the design and construction of energy efficient and smart solutions in the field of heating, ventilation and air-conditioning of public and residential buildings;

9) Innovative start-up enterprise – *Small Foot Ltd.* Small Foot produces patent-ed inflatable snowshoes specially created by the company for mountain rescue services, police and military forces as well as extreme winter sport practitioners.



Winners in the Innovative Enterprise of the Year 2014 National Contest

Public Participation in Developing a Common Framework for Assessment and Management of Sustainable Innovation

The year 2014 marked a noteworthy success for ARC Fund, as it signed a contract with the European Commission to coordinate a large project funded under the Seventh Framework Program of the European Community for research, technological development and demonstration activities (2007-2013). Launched on January 1, 2014, the Public Participation in Developing a Common Framework for Assessment and Management of Sustainable Innovation (CASI) project was designed in response to one of the Grand Challenges set out in the *Horizon 2020* program of the European Union, namely "Climate action, environment, resource efficiency and raw materials".

The CASI project is implemented by an EU-wide cross-sectoral partnership and focuses on better understanding innovation-related challenges. It investigates not only the impacts of social and technological innovation on European and global society, but also the types of actors involved and their inherent interests. In doing so, it integrates the perspectives of civil society, SMEs, industry, policy stakeholders, and leading academics.

The project investigates the scope of sustainable innovation as a societal phenomenon and enables the elaboration of an assessment framework for sustainable innovation practices, whose application

can be successfully integrated into public policy developments.

CASI includes a number of activities to be carried out across the EU. Based on a carefully designed methodology, in 2014 the CASI partners identified more than 540 sustainable innovation cases across the globe, of which nearly 200 will be further reviewed in a collaborative analytical mapping process. This process is meant to provide a rich qualitative perspective and will serve as the basis for focused cross-case analyses in elaborating priorities for research in sustainable innovation, as well as specific policy recommendations. All cases are being gathered into an online library referred to as Casipedia, which is expected to be available to the public in 2015.

Key CASI activities are performed in all EU countries by a consortium of 19 core partners from 12 EU Member States and are supported by an extended network of national experts from the remaining 16 EU countries.

The core partnership includes universities, municipal authorities, independent research organizations, SMEs, and civil society organizations. CASI will run for 42 months. More information about the project is available on the project's website at: <http://www.casi2020.eu>.

Social Innovation – Driving Force of Social Change

ARC Fund is a partner in the Social Innovation – Driving Force of Social Change (SI-DRIVE) project launched at the beginning of 2014. The project aims to further the understanding of social innovation (SI) through the integration of theories and research methodologies in the search for a new research paradigm for SI. It aims to help redress the dearth of systematic research that has been conducted to illuminate success factors for SI, and the relationship between SI and transformative social change. SI-Drive brings together partners from 15 EU

Member States and 11 other countries.

To achieve its ambitious goal, the project

- Maps SI cases in Europe and around the world to develop a data set that will allow for a better understanding of how different social, economic, cultural, historical and religious contexts across eight major world regions influence the development of SI.
- Undertakes analyses of the contextual dynamics of countries and regions to better understand what could make

them fertile (or conversely barren) ground for SI. These dynamics will be considered vis-à-vis in-depth analyses of aggregated SI cases across seven policy fields (including education, employment, environment and climate change, energy, transport and mobility, health and social care, poverty reduction and sustainable development) to better understand the practices themselves, and how they interact with their context.

- Conducts future-oriented and policy-driven research and organizes round tables in order to ensure relevance for policy-makers and other stakeholders.
- Promotes SIs in effecting positive change in societies and meeting visionary goals in Europe and other parts of the world.

ARC Fund is primarily engaged in furthering the understanding of context specific barriers and drivers in the policy fields of energy, education and environment, and in mapping SI cases in these fields. In 2014, ARC Fund began aggregating and mapping context specific information in the form of *Policy Field Reports* in the Energy Policy Field for Bulgaria, Estonia, Latvia, Lithuania, Poland and Romania, and in the Education Policy Field for Bulgaria, the Czech Republic, Hungary and Poland.

Complex Challenges – Innovative Cities

In 2014, the Complex Challenges – Innovative Cities (CCIC) project was concluded. CCIC began in January 2012 as a partnership of 14 organizations from 10 EU Member States. It was supported by the INTERREG IVC Program of the European Union and the Bulgarian Ministry of Regional Development. The project targeted municipal and regional authorities from across Europe, and explored the opportunities for successful and sustainable policy making in support of public sector innovation. ARC Fund was the only organization in the consortium that was not a public authority, and had the unique role of providing expertise in the field of science, technology and innovation policy-making.

During the year, ARC Fund produced a Policy Recommendations Report, which provided key insights into the way local and regional authorities could improve their innovation potential. The report outlined the most pertinent project findings and formulated policy recommendations with regard to

- national and European level initiatives that could stimulate and facilitate the transfer of good practices among European regions and municipalities.

The report emphasized the importance of engagement and collaboration with citizens and stakeholders in the development of innovative services. In order to produce socially, economically and environmentally sustainable solutions that work for all stakeholder groups, local and regional governments need to engage all relevant stakeholders throughout the process of innovation design and development. Governance structures may need to be revised to accommodate societal groups' inputs, so that they can be gathered in a continuous process of dialogue and discussion, consultation and joint deliberation. In particular, citizens – being the direct beneficiary of public services – need to be intensively involved as co-creators in the design and development of innovative public services. Only in this way can local and regional governments stay relevant and adequately respond to societal needs and expectations in the public services that they provide.

In view of the complexity of the challenges ahead for European societies, which require a broad base of skills and expertise, opportunities for the collaboration and co-

creation of mutually beneficial solutions need to be sought between local and regional authorities, businesses and civil society organizations. Trust between these

actors is essential and should be nurtured through the development of partnerships based on mutual benefits, transparency, clear rules and fulfilled commitments.

Fostering Evaluation Competencies in Research, Technology and Innovation in the SEE Region

In 2014, the Fostering Evaluation Competencies in Research, Technology and Innovation in the SEE Region (EVAL-INNO) project concluded by successfully achieving its objective of improving national (i.e. in Austria, Bulgaria, Greece, Hungary, Montenegro, Serbia) and regional (Southeast European) RTDI evaluation capacity and public procurement practices.

As the Bulgarian partner in the project, ARC Fund carried out a number of activities:

- On January 15 and 16, 2014 ARC Fund participated in the workshop *Paving the Way for Supporting the Development of Evaluation Culture in the South East European Region* held in Budapest to present the results of the pilot RTDI Program evaluations and benchmarking of application-oriented public research organisations. The pilot activities of the partners were learning experiences for both the evaluators and the evaluated entities.

- On May 14, 2014 ARC Fund organized and hosted the presentation of a *Needs Assessment Study* in Sofia, focusing on the RTDI evaluation procurement practices in the different SEE countries. The main presenter at the event was Prof. Lena Tspouri, Associate Professor at the Centre of Financial Studies of the National and Kapodistrian University of Athens.
- On June 5 and 6, 2014, ZSI and ARC Fund visited Macedonia and Kosovo to present the main activities of the EVAL-INNO project and to promote the expansion of the evaluation culture in the future.
- ARC Fund implemented three benchmarking exercises: of the Institute of Electronics, the Institute of Biophysics and Biomedical Engineering and the Institute of Biology and Immunology of Reproduction at the Bulgarian Academy of Sciences.



Bulgarian benchmarking reports

- The EVAL-INNO project findings were summarized in a final publication. It highlighted the strategic importance of evaluations, which are challenged by increasingly differentiated innovation policy and funding mixes, and are made all the more important by progressively more leveraged national budgets for research, technological development and innovation, as well as the need to develop and evaluate policies which bridge traditional policy fields. The publication presents the tangible evidence of the progress made by the EVAL-INNO project, and also provides insight into the trends of current RTDI evaluation. It stresses the need for similar initiatives in the future.

On March 25 and 26, 2014, the EVAL-INNO partnership organized the project's concluding conference, presenting the results and their potential future use. The event was held in Vienna at the premises of the Austrian Federal Ministry of Science, Research and Economy. The event gathered a consistent number of RTDI evaluation stakeholders from the South East Europe Region, such as ministries in charge of RTDI evaluation, awarding authorities, evaluation societies, evaluators and scholars. Participants discussed the state of the art in RTDI evaluation and the activities of EVAL-INNO. In addition, the framework for future cooperation in the domain in SEE was proposed and discussed.



Final EVAL-INNO report



The participants in the EVAL-INNO concluding conference, 25-26 March 2014, Vienna

Regional Innovation Monitor Plus

The Regional Innovation Monitor (RIM) Plus project, funded by the European Commission's Directorate-General for Enterprise and Industry, aims to help regions improve their innovation policies through the development of better and more harmonized policy intelligence. ARC Fund is the national coordinator of the initiative, which covers twenty EU Member States through its network of experts. The core of the RIM Plus service is a knowledge base of information on some 200 regions, including

- an online inventory of regional innovation policy measures, policy documents, and organizations;
- a single access point for good practice dissemination on regional innovation policy in Europe;
- a network of regional experts with

thematic specializations and the provision of Knowledge Hub services;

- the organization of a series of policy events; and
- a new communication platform for innovation stakeholders.

In 2014, ARC Fund updated the profiles of the six Bulgarian planning regions, focusing on the latest changes and trends in the areas of economic development, research and innovation, institutional set-up and innovation policy governance. The profiles of featured regional organizations were complemented with some of the most recent innovation-related projects and support measures. In view of the Commission's commitment to strengthen its industrial policy, in 2014 RIM+ focused on measures and projects in support of advanced manufacturing.

European Design Innovation Platform

The European Design Innovation Platform (EDIP) is a specially tailored web platform with an associated program of knowledge sharing events, conferences, training events, and peer-to-peer support. **EDIP was designed to boost the uptake of design innovation actions by policy-makers across the EU** by helping relevant national and regional actors understand how to implement them. The platform will collate, refine and disseminate evidence and tools that, when applied, can support business competitiveness and innovation in public services. It will actively work to translate this collated knowledge into policy actions and learning modules. It will create and populate a user-centered web platform, and will deliver a program of advocacy engagement across the EU. It will target business intermediaries (in particular those supporting SMEs), policymakers, and public administrators. It will also allow for new debates between public and private sector actors, delivering new thought leadership on the future role of design in innovation and competitiveness.

The Design Innovation Platform

- creates an online space to learn, share, test and explore design and innovation knowledge across Europe;
- refines tools and techniques with networks and stakeholders that do not normally engage with each other; and
- gathers relevant stakeholders and participants from across Europe.

In combination, these activities help equip EU governments and the European Commission to support design-driven innovation and a user-centered approach to research and education funding programs.

The EDIP ultimately benefits the European economy and society by supporting policymakers, business intermediaries, and public administrators in making increased use of design-driven innovation across the EU. The **benefits** are realized through the delivery of the following key outputs

- **For the EC, and all interested actors:** Better availability of key evidence, and

easier circulation of the most recent best practices through the web platform and networking activities. Dialogue with experts and key stakeholders from across Europe, resulting in a better understanding and increased uptake of design policy actions.

- **For policy-makers:** Increased awareness of the potential of design-driven innovation to drive economic value creation and competitiveness, to improve public services, and to create efficient, citizen-focused services. Policy-makers will be introduced to the key evidence on the economic and other impacts of design, and will understand how to build capacity and confidence in using design-led methods.
- **For business intermediaries (and for businesses):** Improved access to proven expertise and knowledge, as well as opportunities to test existing programs and tools and to co-create regionally specific content. Intermediaries can facilitate interaction and collaboration among European companies that invest in design as a competitive asset and businesses and intermediaries will have the opportunity to debate new challenges with peers.

- **For public administrators:** Improved access to the leading thinking and evidence on the implementation of design-led services, and opportunities to test, explore and pilot tools and approaches. They also have access to mentors as well as improved awareness and confidence in applying design-driven innovation to public services through national or regional programs.

The main focus of the project team in 2014, the first year of its implementation, was to initiate a process of information gathering. Case studies and best practices, of both design policies and business examples, were developed in order to build the evidence base for further advocacy. ARC Fund contributed to the development of two case studies and five resources by providing examples of funding opportunities and state-of-the-art knowledge in the field of design-oriented innovation policies. This activity also included gathering information on existing European Commission programs that could fund design-driven innovation activities, such as *Horizon 2020*, *COSME* and the *Structural Funds*. A report on funding opportunities by EC programs was produced.

Technology Transfer and Business Support

KNOW-HUB



The project *Enhancing Regional Competences in Strategic Management of Innovation Policies* (KNOW-HUB) was funded under the INTERREG IV program of the European Union. It aimed to improve the capacity of European regions in designing and implementing their Smart Specialization Strategies for Research and Innovation (RIS3) through the exchange of experiences. This three-year project, finalized at the end of 2014, involved 13 organizations from 10 European regions that shared good practices and solutions for better regional policies on innovation.

ARC Fund was the methodological leader of the peer review process -- an exchange of study visits for the in-depth exploration of recent innovation policies and instruments. The reviews helped in identifying challenges and good practices to be shared among regions. ARC Fund, in partnership with the Lower Austria and Wielkopolska regions, designed all guidelines, question-

naires and templates to structure the reviews in a coherent way. It also carried out a two-day training workshop in Sofia for all partners so that they could gain a better understanding of the methodology and apply it in the coupled regions.

During the KNOW-HUB Final Conference in Bilbao, jointly held with the AGORADA event of EURADA in November 2014, the peer reviews were acknowledged by all partners as one of the most useful stages for regional asset identification and knowledge transfer within the project. The KNOW-HUB peer reviews differ in terms of their scope, timeframe and participatory formats from the reviews of the Smart Specialization Strategies (S3) Platform by providing more detailed snapshots of the regions.

ARC Fund also coordinated the work on the Repository of Good Practices, published on the KNOW-HUB website. Of the 40 practical examples identified within the peer review round, those 20 which were considered most transferable and mature were published on the website.

All KNOW-HUB practitioners from the 10 EU regions were involved in a series of Mutual Learning Circles seminars to discuss key issues, challenges and experiences by presenting case studies and good practices. The knowledge exchanged was used in designing implementation plans that were customized for each region and which included specific measures towards smart specialization.



KNOW-HUB Final Conference in Bilbao, November 19-20, 2014



Study visit to Lower Austria region, October 9-10, 2014

Technology Transfer and Business Support

In all project activities, ARC Fund closely collaborated with Gabrovo Municipality, the Bulgarian region within the KNOW-HUB project. ARC Fund also supported the local initiative of the municipality to screen the economic performance of local companies in order to identify the key competitive advantages of the region.

In 2014, ARC Fund initiated an additional study visit to the Lower Austria region to explore its policies and instruments on cluster development and management, as well as for SME support services. The delegation included representatives of the Bulgarian Cluster of Mechatronics and Automation, the Ministry of Economy and Energy, Gabrovo Municipality as a KNOW-HUB partner, as well as Mehatronika, a company from Gabrovo which was the

winner in the National Contest Innovative Enterprise of the Year 2013.

he KNOW-HUB project maintains: a web site www.know-hub.eu that features a smart encyclopedia on regional innovation strategies and instruments, a repository of good practice examples, a blog and newsletter on important activities related to the smart strategies and policy instruments in the EU, short video lectures on regional innovation, and a library of selected publications and reports.

KNOW-HUB delivered two practical guides focusing on the knowledge and good practices identified within the project, as well as wiki-articles selected by the pool of experts mobilized within the project.



Screenshot of the KNOW-HUB Website

European Transport Network Alliance

The overall objective of the European Transport Network Alliance (ETNA Plus) project is to foster innovation in transnational cooperation activities within the transport sector. This is done with a focus on promoting the active participation of new actors and regions in EU research calls and projects. European Union National Contact Points are key players in this mechanism, but their role has been complemented and enhanced by other relevant stakeholders and knowledge hubs such as ARC Fund.

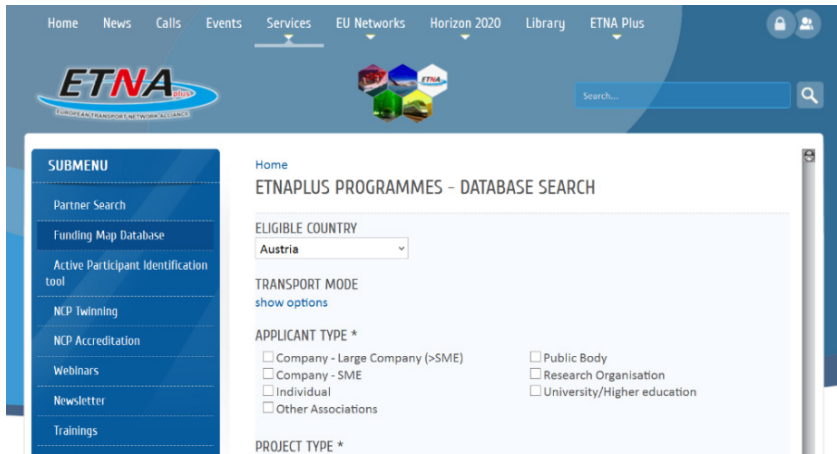
In 2014, the ETNA Plus project partners developed tools and services to facilitate more diverse participation in Hori-

zon 2020 transport calls and other relevant funding sources. These included

- **an on-line funding map database** that provides information on national and cross-border instruments which fund transport research and collaboration;
- **an active participants identification tool** that features the profiles and contacts of the most active organizations in the FP7 and *Horizon 2020* programs;
- **ETNA Plus Webinars**, which were half-day online meetings focused on transport RD&I funding at the international level;
- **an ETNA Plus Newsletter** that provided a periodic summary of project activities and relevant news on the EU transport

- research and innovation landscape;
- **organizing an ETNA Plus Academy** which focused on proposal building amongst small groups of stakeholders that were willing to submit proposals in *Horizon 2020* transport calls in 2015; and
- **organizing brokerage events** focused on building project proposal partnerships for *Horizon 2020*.

The project website (www.transport-ncps.net) features all relevant information in the field of transport, such as: news, factsheets, newsletters, open calls, a partner search tool, and training materials.



Screenshot of the ETNA Plus website

Enterprise Europe Network – the European Network for Entrepreneurship Support

Since its launch in early 2008, the Enterprise Europe Network (EEN) has continued to grow as the world's largest business support network. Its main focus is on helping small and medium-sized companies (SMEs) seize the unparalleled business opportunities within the European Union's (EU) Single Market. The network's database contains over 13,000 business and technology offers from over 50 countries.

At the same time, the Enterprise Europe Network serves as a direct link between small and medium-sized enterprises and European institutions. The EU runs numerous programs that offer financing and support to SMEs, but complex procedures often discourage entrepreneurs. One of EEN's goals is to help businesses and entrepreneurs find partners and apply to the most suitable programs.



EEN-Bulgaria Nodes

The EEN brings together close to 600 business development organizations across Europe, including: business promotion agencies, chambers of commerce, regional development agencies, university technology centers, and non-profit business consultancies. Over 4,500 internationalization experts and technology transfer practitioners offer a wide range of business and innovation support services to enterprises and help them find international partners, develop successful innovative technologies or participate in European R&D projects.

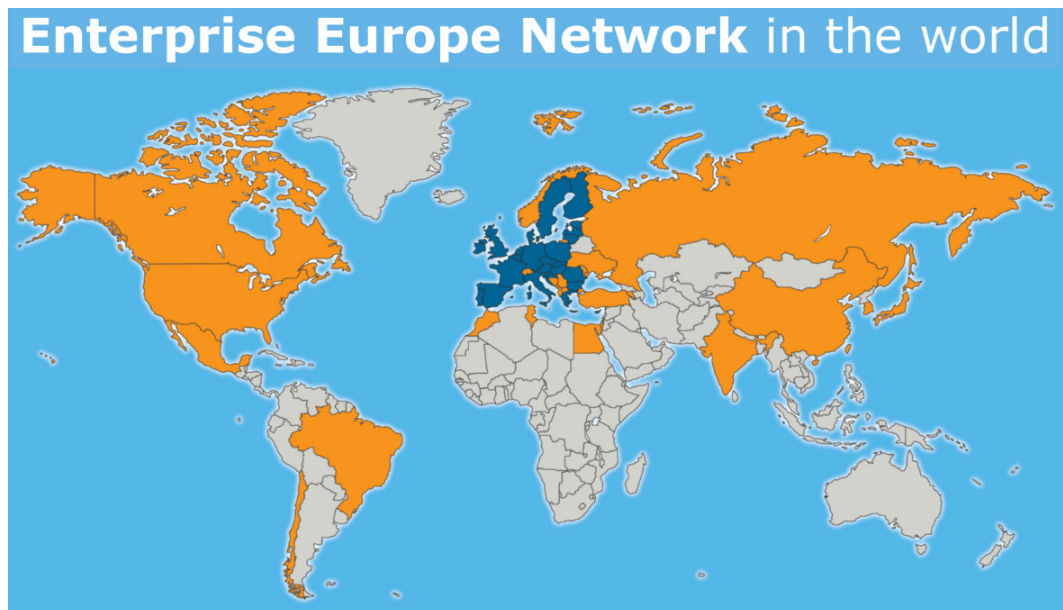
Since the launch of the network 6 years ago, the Applied Research and Communications Fund has served as the National Coordinator of the EEN – Bulgaria. In 2014, the network

in Bulgaria consisted of 14 partner organizations located in the cities of Sofia, Plovdiv, Sandanski, Stara Zagora, Vratsa, Yambol, Dobrich and Ruse.

ARC Fund maintains the internet portal of the Enterprise Europe Network - Bulgaria, which is designed to provide business information and advice, as well as technolo-

gy transfer, innovation and consultancy services. The portal operates according to the priorities set by EEN's program at the European level. Each partner maintains its own regional portal of the network.

During 2014, the activities of EEN – Bulgaria were focused on the ICT sector, which is seen as the basis for the faster development of the entire economy. Traditional sectors such as machine building, mechatronics and automation, textiles, and food and beverages were also prioritized. A special focus was put on collaboration with the business clusters in Bulgaria. ARC Fund's membership in the Cluster of Mechatronics and Automation and the Association of the Business Clusters in Bulgaria helped it achieve this mission. Through its expertise in project management, intelligent specialization and technology transfer, ARC Fund offers capacity building support to proven clusters situated in Sofia. The Enterprise Europe Network at ARC Fund also cooperates with clusters in organizing company missions and brokerage meetings.



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Highlights »

•  ...
 • **Launch of the TENTH NATIONAL CONTEST 'Innovative Enterprise of the Year 2014'**

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 Standarts
- Protecting your Intellectual Property
- Having your say in Europe

In Bulgaria, the Network brings together 14 organizations, located in Sofia.

Success stories »

» (BG) Индивидуална фирмена мисия се превръща в голям успех

...

» (BG) Информационен портал с обяви за обществени поръчки от цяла Европа изцяло на български език

...

 **Contact us**

The website of the Enterprise Europe Network – Bulgaria

Brokerage Meetings, Business Missions and Seminars

ARC Fund organizes annual business and technological brokerage events that focus on various economic sectors, including: engineering, machine building, ICT and green products and services. These meetings facilitate pre-arranged contact between businesses and research organizations looking for commercial, technological and other project partnerships. Such partnerships are often built around international projects where support is provided by European funding programs.

In 2014, the Applied Research and Communications Fund co-organized International Brokerage Events in the field of information and communication technologies at the Mobile World Congress (Barcelona, February 2014) and CeBIT (Hannover, March 2014). Both are major international events in the mobile communications and ICT industry. ARC Fund facilitated the participation of eight Bulgarian ICT companies at these events, where they visited exhibitions and participated in a number of parallel events, professional consultations in the fields of industrial property, and sessions on project financing. They also conducted fruitful negotiations with potential suppliers

of new products and technologies.

To respond to the interest expressed by Bulgarian companies, the Enterprise Europe Network at ARC Fund, together with its international EEN partners, organized four more brokerage events, which focused on machine building (Hannover Messe, Germany), sports technologies (Sheffield, United Kingdom), e-government and e-health (Vienna, Austria) and cluster management (Iasi, Romania). During the events, eight more Bulgarian companies and organizations were supported in submitting their partnership profiles and pre-arranging their b2b meetings.

In March 2014, the Applied Research and Communications Fund, together with the Bulgarian Industrial Association, a partner organization in EEN – Bulgaria, organized a brokerage and business meeting entitled Industry MatchMaking-IMM 2014. This event, held for the second time, took place at the Inter Expo Center-Sofia as part of international specialized exhibitions focusing on metallurgy, automation, mechatronics and transport. The forum presented an excellent opportunity for Bulgarian companies and organizations to establish valuable business contacts,

conduct technology transfer activities, and participate in EU-funded competitiveness and innovation projects. The companies shared experiences and ideas, showcased their achievements, and learned more about the news and trends in leading sectors of Bulgarian industry.

During the European SME Week, which took place from September 29 to October 5, 2014, the Enterprise Europe Network at ARC Fund and the National Agency for Regional Development of Serbia organized a business mission of Serbian enterprises in Sofia. The mission was attended by 18 Bulgarian and Serbian

companies with over 40 business and technology offers. These offers fell within the production, energy and service industries. The companies shared experiences and discussed ways of introducing workplace innovations into their business, such as in their organizational structure, human resources management, internally guided decision-making, and customer and supplier relationship management. The business mission was organized around a number of sessions and short presentations of the participating organizations, followed by bilateral meetings designed to spread existing innovative practices among participants.



On the left: company presentation during the business mission of Serbian enterprises in So-fia, organized by the EEN in September 2014; on the right: bilateral meetings between mission participants.

In its role as the coordinator of the national EEN consortium, ARC Fund regularly organizes intra-consortium activities, and stakeholder meetings within the framework of the Innovation Business Club and the Association of Business Clusters. It also organizes information days and capacity-building seminars which focus on accessing EU funding for the 2014 - 2020 period, as well as intellectual property protection and business internationalization.

In 2014, the Enterprise Europe Network experts at ARC Fund provided numerous consultations on business internationalization, technology transfer and EU program participation to over 150 new organizations (in addition to previously registered network clients). More than half of these were small and medium-sized enterprises. There were 40 Bulgarian companies that partici-

pated in brokerage meetings and business missions organized by EEN in Bulgaria and abroad, which resulted in over 140 business and technology cooperation contacts between local and foreign companies.

The Enterprise Europe Network will continue to support Bulgarian entrepreneurs over the new 2014-2020 programming period. The Applied Research and Communications Fund has been chosen by the European Commission as a reference point for the SME Instrument – a new financial instrument under Horizon 2020 aimed at highly innovative small and medium-sized European enterprises. For that purpose, an ARC Fund expert has been trained and certified under the IMP3rove Academy – a proven international methodology for assessing and improving the innovation management of companies.



Top left: seminar Opportunities for Development and Financing of Innovation in SMEs (July 10, 2014); top right: participants in ARC Fund's Innovation Business Club meeting Social and Green Innovation: Cross-Sector Collaboration and Clustering (October 8, 2014); bottom left: seminar IPR and Competitiveness of the European SMEs (October 29, 2014); bottom right: Mr. Simon Cheetham, head of SME IPR Helpdesk in China and Southeast Asia and lecturer at the seminar (October 29, 2014).

ICT for AgeingWell

In 2014, the Applied Research and Communications Fund continued its activities within the *ICT for AgeingWell* thematic network, funded by the Competitiveness and Innovation Program of the European Union. The aim of the *AgeingWell* network is to build and animate a European network focused on improving the quality of life of elderly people by stimulating the market uptake of ICT solutions in this area.

Life-expectancy in Europe is longer than ever. This is largely due to economic growth and advances in health care. *ICT for AgeingWell* solutions are essential tools for improving the quality of life of this aging population. A number of similar initiatives exist at the European, national and region-

al levels, but they are often not integrated.

Therefore, the aim of the *AgeingWell* Network is to create a community that will bring together key initiatives in the field of ICT for an aging population. It seeks to improve communication and cooperation in order to identify, develop and exploit synergies between these initiatives through the exchange of good practices and the dissemination of information to stakeholders across Europe. In 2014, ARC Fund focused its activities on the promotion of the network and the opportunities this niche creates for the ICT industry.

Together with other partners in the network, ARC Fund took part in the interna-

tional eHealth Forum 2014 held in Athens on May 12-14. The workshop ICT Solutions for Independent Living in Your Own Home, organized by **AgeingWell**, was part of the official program of the forum. Over 40 stakeholders, including health and ICT researchers, developers and providers of assistive technologies, and end-user organizations discussed the impacts of such solutions on the quality of life of the elderly population and the related opportunities for their healthcare providers.

Experts from ARC Fund participated in the peer review of 40 good practices in telemedicine and e-health, as well as in the compilation of a Guidelines Handbook. This handbook was designed to be a working tool to support ICT and healthcare stakeholders in their development of ICT solutions for an aging European populace. The project's publications are publicly accessible on the network portal www.ict-ageingwell.net.

Additionally, ARC Fund contributed on a regular basis to the development of the Knowledge Center of the portal.

ARC Fund engaged *Interconsult Bulgaria* as a key associate member of the network. *Interconsult Bulgaria* was an Innovation Hub awardee in the 2013 National Contest for Innovative Enterprise of the Year, and is interested in this rapidly emerging niche area.

The **AgeingWell** network is open to ICT providers, healthcare service providers, clusters and networks, insurance companies, investors, entrepreneurs, regions and municipalities. Launched in 2012, the network already has more than 80 associate members across the EU from the above-mentioned stakeholder groups.



Participants at the workshop “ICT Solutions for Independent Living in Your Own Home”, eHealth Forum 2014 in Athens

European Workplace Innovation Network

In 2014, ARC Consulting continued its partnership with the European Workplace Innovation Network (EUWIN) for a second year. EUWIN aims to help exploit the latent creative and productive potential of the European workforce through the promotion of innovative measures within European workplaces. According to a report by the European Agency for Safety and Health at Work entitled *Review of Workplace Innovation and its Relation*

with Occupational Safety and Health, these include changes in organizational practices related to the management, organization and deployment of human and non-human resources that lead to simultaneously improved organisational performance and increased employee satisfaction.

In support of this goal, on September 29th and 30th, ARC Consulting was the main organizer of an event as part of its

partnership with EUWIN. The event, entitled Advanced Workplaces for Advanced Business, was attended by business leaders and representatives of state and local institutions from across Europe. These included participants from Serbia, Romania, Bulgaria, UK, The Netherlands, France, Spain and Belgium.

The conference covered topics such as innovations in the workplace, and the ways these could help countries and regions become more competitive. The ways of spreading workplace innovations in Bulgaria were also discussed. During the conference, participants spoke about their experiences in integrating innovations into their workplaces, and how these innovative practices could be adopted in other contexts.

Some of the conference's conclusions were that

- workplace innovations are gradually being introduced in Bulgaria;
- innovations in the workplace are still

not subject to national innovation policy;

- time is needed to see the results of workplace innovations;
- it is important that there are companies which share the positive results of their workplace innovations, as it allows for others to see real world examples; and
- communication is needed between the government, academia and companies to discuss solutions to common problems with respect to workplace creativity and productivity.

ARC Consulting's participation in EUWIN also prompted the inclusion of a section in its annual flagship publication *Innovation.bg* that focused on workplace innovation in Bulgaria. The piece described specific workplace innovations successfully introduced in organisations in the country, as well as academic findings regarding the effects that cultural dynamics could have on the successful introduction of further workplace innovations in the future.

3rd EU Company Survey

The Third European Company Survey mapped business practices in establishments with 10 or more employees across the EU28, and in the Former Yugoslav Republic of Macedonia, Iceland, Montenegro and Turkey. Over 30,000 establishments were surveyed on topics comprising work organization, human resources practices, employee participation and social dialogue, and how these practices support "smart growth". Commissioned in 2014 by the European Foundation for the Improvement of Living and Working Conditions (Eurofound), ARC Fund carried out qualitative follow-up interviews and focus groups on the development of workplace innovation in Bulgarian companies. On-site visits aimed to study concrete examples of workplace innovations, the motives for their introduction, their implementation stages, and their results and impacts. Interviews and focus groups with both managers and employees captured the different motivations and perspectives of different actors.

The information gathered during the field work was used for the elaboration of case studies featuring concrete examples of workplace innovation in Bulgarian companies. According to the methodology of the study, workplace innovation practices were categorized in one or more of the following categories

- work organization practices,
- structure and systems,
- learning and reflection practices, and
- workplace partnership.

Boosting European Games Industry

In 2014, the focus of ARC Fund's activities within the Boosting European Games Industry (BOO-Games) project was on the transfer of a good practice from a partnering country with long traditions in the gaming sector, to Bulgaria, where the industry is less developed. The transfer has been executed through the implementation of a pilot action, whose objective was to support the gaming sector in the target country. In order to develop a sound concept for the pilot, ARC Fund capitalized on the project results from the previous two years. These included the *BOO-Games Regional Analysis* report, the *Boosting European Games Industry: Recommendations for 10 European Regions to Boost their Digital Gaming Industry* report, as well as the *Good Practices Guide* in addition to applying the know-how gained during the various thematic seminars held in 2012 and 2013. Inspired by three good practices from Asturias, Spain, ARC Fund proceeded with the pilot action execution by adding a separate gaming category Innovative Digital Game to the National Contest for Innovative Enterprises of the Year 2014. Digital gaming firms from across the country were invited to submit applications to the competition.

During the execution of the pilot, ARC Fund collaborated closely with the other project partners, who were supervising its implementation and evaluating its progress. It also worked with other relevant stakeholders, such as the participants in the Support for the Games Industry working meeting, held on June 13, 2014 at the premises of the EU Commission in Sofia. Attendees included gaming companies and start-ups, representatives of the Bulgarian Association of Information Technologies (BAIT) and IT students. The objective of the meeting was to further elaborate the concept of the pilot by incorporating the ideas of firms in the gaming industry, who were potential applicants to the gaming category in the current edition of the contest.

The Innovation Forum is organized annually,

which helps to ensure the sustainability of the BOO-Games inspired practice beyond the project's lifetime. Moreover, participation of gaming companies in such a high-level event resulted in

- boosting the game industry through its exposure and promotion among policy-makers,
- ensuring opportunities for cross-sector networking by providing a meeting point for the game sector with actors and stakeholders from other fields, and
- providing access to innovation knowledge and practices in various fields.

Furthermore, in 2014, ARC Fund participated in several gaming-related conferences and seminars:

- the Boo-Games International Conference on the exchange of good practices held on January 23, 2014 in Malta;
- Games Day 2014, held on April 3, 2014 at the University of Applied Sciences in Salzburg, Austria; and
- the Serious Game Development Workshop, organized on September 25 at the HKU School of Games and Interaction in Hilversum, the Netherlands.

ARC Fund also attended the final event of BOO-Games, which was organized within the framework of the LAUNCH Future Digital Gaming & Digital Conference 2014, held on November 21, 2014 at the Innovation Birmingham Campus. The Bulgarian partner was also in charge of inviting a relevant Bulgarian policy-maker to participate in the conference's panel discussion, entitled BOO-Games, An EU Perspective: The Regional and National Support for the Video Games Industry. The Head of the European Programs and Projects Department at the Ministry of Transport, Information Technology and Communications, Mrs. Totka Chernaeva,

accepted the invitation of ARC Fund. She represented Bulgaria during the discussion, whose primary objective was to exchange

experience and know-how on measures for support of the gaming sector with other policy-makers from Austria and Italy.

European Game Jam Learning Hub

The European Game Jam Learning Hub (JamToday) project, funded under the Competitiveness and Innovation Framework Programme of the European Commission, aims to support the creation and uptake of digital educational games in Europe. It will do this through the organization of “game jams”, where a diverse range of people, from artists, game designers, computer programmers, hobbyists and children gather to develop digital games over a predefined period of time. The project brings together 26 partners from 10 European countries, including the Netherlands, Germany, Belgium, the UK, Italy, Austria, Switzerland, Spain, France and Bulgaria.

The year 2014 was the first of three years of the JamToday project. While the second year of the project focuses its game jams on adopting healthier lifestyles and the third year focuses on support for learning mathematics, the improvement of ICT skills was firmly in focus in 2014.

On June 13–15, 2014, ARC Fund organized the ecaHack Game Jam, which brought

together school students, parents, industry associations, ICT trainers, developers and representatives from government institutions to discuss how ICT skills development could be achieved through the construction of games and mobile apps. The three day event consisted of a workshop on June 13th and a hackathon on June 14th and 15th using Scratch and App Inventor. The workshop and game jam served as a launching event for regular monthly events within the framework of Coder Dojo, aiming to develop the ICT skills of students.

The results and experiences of the game jams will be presented at three JamToday Festivals. The festivals will attract companies and digital gaming experts in order to help spread the knowledge developed during the project, as well as ensure that the developed games have an educational impact. All of these activities will be codified in reports, which will provide guidance for the organization of subsequent game jams within, and beyond, the duration of the JamToday project.



A game developer presenting his game at the JamToday conference (far left); from left to right: Mr. Nikolay Badinski, Executive Director of ARC Fund, Mr. John Biggar, Ambassador of Ireland to Bulgaria, Armenia and Georgia, and Ms. Adriana Dimova and Mr. Todor Yalamov of ARC Fund.

Safer Internet for Children

For a Better Future for the Children

One of the priority areas of ARC Fund over the past year has been to improve the conditions for life and development of children in a safer and more supportive environment. Various activities to this end were supported by the Safer Internet Programme of the European Commission, the Swiss Oak Foundation and the Financial Mechanism of the European Economic Area.

As a coordinator of the Bulgarian Safer Internet Centre (a member of the European network of 30 centres called Insafe and of the International Association of Internet Hotlines entitled INHOPE), ARC Fund received and processed close to 2,000 reports of content and conduct on the Internet which was illegal and harmful for children. Most of these reports were either submitted to the State Agency for National Security for further investigation, or were passed along to partner hotlines in the other 42 member countries of INHOPE. Over 400 children, parents and teachers were consulted by the Bulgarian Helpline for online safety, which was operated by the partner of the Safer Internet Centre – the Parents Association. Consultations about problems related to the use of the Internet and mobile communications by children could be obtained from consultants by using the 124 123 telephone number of

the Bulgarian Helpline, or through Skype, online chat or email.

The protection of children online is exceptionally important, and prevention is crucial in achieving this. Over 80 teachers were trained during the year to apply various methods for teaching pupils how to improve their knowledge and skills in avoiding online risks. The methodology entitled *Prevention of Virtual and Real Violence by Interactive Education in Schools*, which was developed in partnership with the Parents Association, was applied in over 170 schools in 5 Bulgarian cities. Representatives of local commissions for combating juvenile delinquency, social workers, and other professionals working with children were also trained. Over 30 trainings for pupils at different schools all over the country were held.

ARC Fund developed a methodology and a manual for peer trainers entitled *Risky Behavior on the Internet and Human Trafficking* in partnership with Varna municipality. There were 40 young people from prevention clubs in schools in Varna who were trained to apply the methodology with their peers.

The Safer Internet Centre's activities culminated in a series of competitions, events and a campaign on the occasion



An exhibition of drawings by primary school children, dedicated to the themes of the Safer Internet Day, on display at the venue of the national event.



Young creative people presented their projects and ideas for making the Internet a safer and more useful place for children.

of the annual international Safer Internet Day on February 11. The event took place at the premises of the Representation of the European Commission and European Parliament in Bulgaria, with the active participation of nearly 100 students.

Engaging a parent and a child together in an online activity, and teaching young children how to creatively use technology, are among the best ways to prevent risky behavior online. In order to combine these two important factors, ARC Fund joined the international movement CoderDojo. These clubs foster an environment for teaching young children how to develop computer games. Visual and intuitive software, developed especially for children, was used at three workshops and were very successful. Additionally, participation was based on the condition that a child was accompanied by a parent, so that they could continue developing their game idea at home together.

In order to provide children and parents with an opportunity to be together on the Internet when they are not physically together, the online game Family Duels was developed with the help of partners from Kabinata.com. In the game, family teams, consisting of at least one parent and one child, have a limited time to correctly answer random questions from different fields of knowledge, including questions about the Internet and online safety. They can re-send each other the difficult questions, which connects them and gives them a chance to enrich their knowledge together.

The active involvement of fathers in all segments of children's lives plays

an important role in their growth and development. Teacher volunteers from seven primary schools in Sofia were involved in the development and piloting of different in-class and out-of-class activities with the participation of fathers. The main aim of these activities was to actively include fathers, or other men who are significant figures for children, in the school lives of the children. A year of work by this professional panel resulted in a methodological manual for teachers, which included examples of successfully tested activities for more active involvement of fathers in schools.

Apart from working directly with the target groups, ARC Fund actively participated in policy formation in the area of child care, child justice and education. The organisation was involved in the elaboration of *Report Card 2013* – an evaluation of how successful state institutions and administrations were in fulfilling their commitments to children, and improving their well-being and safety. The *Report Card 2013* was prepared by the National Network for Children – a coalition of 125 non-governmental organisations. ARC Fund's experts also participated in the development of the annual *Activity Plan of the State Agency for Child Protection*. At the end of 2014, an intention by the state was announced to pass a Law Amending and Supplementing the Penal Code. ARC Fund was actively involved in the preparation of the bill that would transpose Directive 2011/92/EU of the European Parliament and the Council of the European Union on combating sexual abuse, the sexual exploitation of children, and child pornography.



Teaching children the first steps of programming attracted great interest both among children and their parents.

Foresight and Public Engagement in Research and Innovation

EnVision2020

The year of 2014 marked the final year of the EnVision2020 project and two years of work by the consortium. ARC Fund's activities for the year included

- The testing and launch of the first part of the project's Online Key Technologies Survey, which took place from January to March 2014. The survey assessed the deployment potential of advanced key energy technologies identified as important in the European Union's Strategic Technology Plan (SET-Plan). There were 222 respondents to the survey and ARC Fund undertook an in-depth analysis of the results with the support of external experts.
- The testing and launch of the second part of the project's Online Key Technologies Survey, which was initiated in March and ran until May 2014. The survey was regionally focused, with parts for each of the target regions, and based on the results of the key energy technologies workshops that were held in each territory in 2013. A total of 160 responses were obtained for the second part of the online survey.
- ARC Fund sent the results of the survey, along with a report template, to the project partners in May so that they could conduct their own analysis.
- The finalization of the energy technologies roadmapping methodology, which served as a basis for the roadmapping activities in the seven target areas. The methodology encompassed a detailed presentation of the steps needed in order to produce the roadmaps. The first draft of the methodology was developed between January and March. Following its presentation to the project partners in Potenza, Italy in March, and several rounds of revisions following this, the document was finalized and disseminated in June. After that, ARC Fund conducted a simulation training session on its use at the EnVision2020 5th Transnational Meeting in Thessaloniki, Greece at the end of June.
- Writing a paper focusing on the foresight methodology of the project, in cooperation with the Sofia Energy



Presentation of the Energy Technologies Roadmapping Methodology, March 27th, Potenza, Italy.

Agency (SOFENA). The paper, titled Application of the Foresight Approach for Energy Planning at Municipal Level in Southeast European Cities and Regions, explained how forward-looking methods can be applied in Southeast Europe in order to support the development of municipal-level strategies for diversifying and greening the energy mix in the target territories. The paper was officially presented to an audience of energy experts during the International Energy Forum on June 18–20, 2014 held in Varna, Bulgaria. The forum is an annual event organized by the Scientific and Technical Union of Power Engineers in Bulgaria. Additionally, ARC Fund developed a paper entitled Future-Oriented Approach for Identifying Options for Greening the Municipal Energy Mix in Southeast European Cities - the Case of Sofia, Bulgaria. It was published in the Fifth Volume of the Research Papers Journal of the

International Business School (IBS) in Botevgrad, Bulgaria. At the beginning of 2014, 500 copies of this journal were disseminated.

- Developing a template for the collection and presentation of good financial practices for the introduction of new forms of energy. It was first presented to the consortium in March 2014. After feedback from the project partners, the final version of the template was disseminated in May. Additionally, from July through October, ARC Fund developed the content structure for the final EnVision2020 report, aiming to codify the knowledge generated within the project. This report was sent to the partners in the beginning of October for input and finalization.

The project successfully culminated in the development of key energy technology roadmaps for all target regions and cities which can be used for planning a greener energy future.



Energy Technologies Roadmapping Training, June 29th, Thessaloniki, Greece.

The project Parliaments and Civil Societies for Technology Assessment (PACITA) was another of ARC Fund's successful endeavors in 2014. During the year, it completed two large-scale technology assessment pilot activities, implemented to demonstrate the application of TA methods to complex issues that could benefit from policy intervention. The first one applied the Scenario Workshop methodology in order to solicit opinions about needed policy changes and issues related to the application of technology-based solutions to problems associated with aging. The second was based on the World Wide Views method, which was deployed to facilitate citizens' consultations on issues related to sustainable consumption. Both events were noted as being particularly timely and were also organized along with a sequence of similar events in a number of European countries.

A scenario workshop is an event aimed at facilitating forward-looking discussions and in identifying policy alternatives in different contexts. ARC Fund hosted a scenario workshop on Telecare for Healthy Aging in June 2014. It addressed a number of issues related to aging societies, and explored solutions based on existing or emerging technologies, as well as gaps in existing policy regulations. Participants, including medical personnel, demographers and researchers, government experts, as well as non-profit organizations, were presented with three hypothetical scenarios for the provision of elderly care in the near future (the year 2030). Then they were divided into groups and asked to formulate what would be the ideal, yet likely, visions for how all stakeholders in the country could help tackle challenges related to aging and the provision of care to the elderly. They were also asked to elaborate the possible roles and applications for technological solutions in that process. Several visions were presented, which were then summarized and shared in order to support the preparation of a pan-European policy report on healthy aging. The report is due to be presented to the European Commission in 2015.

On October 25, 2014 ARC Fund organized the first citizens' consultation based on the World Wide Views method, which was proposed by the Danish Board of Technology. More than 100 citizens gathered for the day in each of 11 participating countries and debated issues related to sustainable consumption. Participants were chosen randomly in order to match as closely as possible the demographics of the general population, although no representativity could be claimed. At the event, each participant was handed a brochure about sustainable consumption and the pertinent challenges to its realization. Participating citizens were divided into 12 small focus groups. Their discussions were recorded and then analyzed in a detailed national report. Additionally, after each session participants were asked to vote on specific questions, and their votes were uploaded in real-time along with the votes from all other participating countries. The combination of all responses and the summaries of the discussions provided an ample basis for policy analyses. A joint report that considers the findings from all countries is due to be presented to the European Commission and disseminated to national decision-makers in 2015. It will detail specific recommendations based on the citizens' input. In preparation for the event, ARC Fund signed a partnership agreement with Bulgarian National Television, which became a media partner and provided live coverage.

ARC Fund is preparing to finalize the PACITA project in early 2015. Its team will take part in an international conference which will be held in Berlin in February 2015. ARC Fund will also welcome the entire PACITA consortium to Sofia in March and will host the official closure of a project that introduced the concept and practice of technology assessment in Bulgaria.

The PACITA project involves 15 partners from 13 EU countries and is supported by the Seventh Framework Program of the European Union. Technology assessment is considered a priority thematic area in the *Horizon 2020* program the results of PACITA could be drawn upon in the future.

Engaging Society in Horizon 2020

The Engaging Society in *Horizon 2020* (Engage2020) project was launched in the autumn of 2013 and has a duration of 27 months. As part of the project team, ARC Fund helps to promote and facilitate the use of public engagement methods and instruments in research and innovation, with a focus on *Horizon 2020* program.

The Engage2020 consortium includes six organizations, and mobilizes experts and practitioners with competencies in the areas of technology assessment, foresight, science shops and other approaches for involving society in research and the development of innovation policies and processes. These organizations include the Danish Board of Technology Foundation, the Karlsruhe Institute of Technology (Germany), the University of Groningen (Netherlands), INVOLVE (UK) and DIALOGIK (Germany). Participation in this project is itself recognition of ARC Fund's capacity and dedication to public engagement in policy-making processes, and its commitment to develop more informed and democratically legitimate policies in the areas of science, technology and innovation.

ARC Fund's team is tasked with coordinating two of the major activities within the project. It is responsible for making a thorough overview of existing methods and tools in Europe and around the world that engage societal actors in research and innovation by

- developing an online survey that gathers the inputs of more than

250 experts on existing methods and tools for engagement;

- designing a factsheet template for collecting relevant information on different methods and tools used for societal engagement;
- completing a portion of the factsheets based on its experiences, as well as through a literature review; and
- coordinating the partners' work in completing the remaining factsheets. In October 2014, as a result of these efforts, a report entitled *Public Engagement Methods and Tools* was released, which aimed to spread participatory practices to a wider range of stakeholder groups. The document contains 57 factsheets covering various engagement methods and tools, and describes these approaches through the capture of various data streams. These include the Grand Challenges they address, the stakeholders that are involved, and their level of engagement in the method. The full text of the report is available at: <http://engage2020.eu/media/D3.2-Public-Engagement-Methods-and-Tools.pdf>.

ARC Fund also coordinates the development and publication of policy briefs, which include summaries of policy-relevant results developed within the Engage2020 project. In 2014, three policy briefs were released, and are available at: <http://engage2020.eu/results-description/>.

PART TWO

Management

Institutional Development

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 established ARC Consulting – a wholly-owned consulting 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.

In 2014, the ARC Fund Group employed a staff of 50, of whom 39 are at ARC Fund and 11 of whom are at ARC Consulting, including part-time consultants. The ARC Fund’s team 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 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’s website,
- regular updates of the organization’s website to inform the public about ongoing projects and events, and
- publications in the media to enhance the impact of policy recommendations and increase public awareness of supported causes.

In 2014, ARC Fund and ARC Consulting worked on the implementation of 30 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 Communication Networks, Content and Technology), the Interreg IVC and the South-East Europe programs (EU Structural Funds), the Bulgarian Ministry of Regional Development and the Ministry of Transport, Information Technology and Communications, as well as the European Foundation for the Improvement of Living and Working Conditions (Eurofound) and the European Commission Representation in Bulgaria.

List of Staff

Board of Trustees

Dr. Ognian Shentov, Chairman of the Board
Vladimir Yordanov, Deputy Chairman of the Board
Dr. 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
Prof. Marin Petrov, Senior Advisor
Prof. Teodora Georgieva, Senior Fellow
Dr. Todor Galev, Senior Fellow
Denitsa Marinova, Project Coordinator
Adriana Dimova, Project Coordinator
Ventseslav Kozarev, Project Coordinator
Robert Hickey, Project Officer
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Plamen Shalafov, Project Officer
Nadejda Gantcheva, Project Officer
Elena Velkova, Project Officer

Finance and Administration

Tsvetoslava Kioseva, Financial Manager
Daniela Zain, Accountant
Stanislav Kushlev, Project Assistant
Dimitar Stamenov, System Administrator
Miroslava Stoyanova, Technical Assistant



APPLIED RESEARCH AND COMMUNICATIONS FUND

**APPLIED RESEARCH AND COMMUNICATIONS FUND (the GROUP)
CONSOLIDATED ANNUAL FINANCIAL STATEMENTS
31 DECEMBER 2014**

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APPLIED RESEARCH AND COMMUNICATIONS FUND (the GROUP)
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
31 DECEMBER 2014

(all amounts in BGN thousand)	Note	For the year ending:	
		31 December 2014	31 December 2013
Assets			
Property, plant and equipment	5	10	9
Intangible assets	6	1	-
Investment property	7	131	132
Total non-current assets		142	141
Trade and other receivables	8	1 262	774
Cash and cash equivalents	9	1 444	1 503
Deferred expenses		60	161
Total current assets		2 766	2 438
Total assets		2 908	2 579
Equity			
Reserves		1 691	1 691
Retained earnings		138	44
Net profit for the period		40	94
Total equity		1 869	1 829
Liabilities			
Trade and other payables	10	122	119
Deferred financing	12	917	631
Total current liabilities		1 039	750
Total liabilities		1 039	750
Total equity and liabilities		2 908	2 579

These consolidated financial statements were approved by the Board of Trustees on 28 July 2015. They are signed on behalf of the Board of Trustees by:

 Nickolay Badinski
 Executive Director
 28 July 2015

Initialled for identification purposes in reference to the audit report:

 Stoyan Donev
 Registered Auditor
 30 July 2015

APPLIED RESEARCH AND COMMUNICATIONS FUND (the GROUP)
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
31 DECEMBER 2014

(all amounts in BGN thousand)	Note	For the year ending:	
		31 December 2014	31 December 2013
Revenues	13	1 918	2 134
Cost of Sales	14	(-1 887)	(-2 055)
Gross Profit		31	79
Impairment losses		(-13)	-
Revenue from operating activities		18	79
Financial income		33	42
Financial expenses		(-10)	(-22)
Net financing costs	15	23	20
Profit before income tax		41	99
Income tax expense	16	(-1)	(-5)
Net profit for the period		40	94
Other comprehensive income		-	-
Total comprehensive income for the year		40	94

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Nikolay Badinski
Executive Director
28 July 2015

Initialled for identification purposes in reference to the audit report:

Stoyan Donev
Registered Auditor
30 July 2015

APPLIED RESEARCH AND COMMUNICATIONS FUND (the GROUP)
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
31 DECEMBER 2014

(all amounts in BGN thousand)	Note	Retained earnings
Balance as at 1 January 2013		1 720
Net loss for the year		94
Balance as at 31 December 2013		15
		1 829
Balance as at 1 January 2014		
Net profit for the year		1 829
Other - reclassification		40
Balance as at 31 December 2014		1 869

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Executive Director
28 July 2015

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Registered Auditor
30 July 2015

APPLIED RESEARCH AND COMMUNICATIONS FUND (the GROUP)
CONSOLIDATED CASH FLOW STATEMENT (continued)
31 DECEMBER 2014

	Notes	For the year ending:	
		31 December 2014	31 December 2013
Cash flows from operating activities			
(Loss) / profit before income tax		40	99
<i>Adjustments for:</i>			
Accrued interest expense		-	(42)
Depreciation and amortisation		5	16
<i>Changes in working capital:</i>			
Trade and other receivables		(381)	(140)
Trade and other payables		(180)	97
Deferred expenses		1	
Deferred financing		463	
Income tax paid		(1)	(5)
Net cash flow from operating activities		(53)	25
Cash flow from investing activities			
Net cash flow from investing activities		(6)	(3)
Cash flow from financing activities			
Interest received		-	45
Net cash flow from financing activities		-	45
Net increase/(decrease) in cash and cash equivalents		(59)	67
Cash and cash equivalents at the beginning of the period		1 503	1 436
Cash and cash equivalents at the end of the period	11	1 444	1 503

These consolidated financial statements were approved by the Board of Trustees on 28 July 2015. They are signed on behalf of the Board of Trustees by:

Nikolay Badinski
Executive Director
28 July 2015

Initialled for identification purposes in reference to the audit report:

Stoyan Donev
Registered Auditor
30 July 2015

APPLIED RESEARCH AND COMMUNICATIONS FUND (the GROUP)
NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS
31 DECEMBER 2014
(all amounts in BGN thousand, unless otherwise stated)

1. Background and activities

Applied Research and Communications Fund (ARC 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;
- To promote innovation 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 ARC Fund for the year ended 31 December 2014 comprise the Fund and its subsidiary ARC Consulting EOOD (together referred to as the "Group").

ARC Fund owns 100% of the share capital of its subsidiary ARC Consulting EOOD. ARC Consulting EOOD is a limited liability company established in Republic of Bulgaria. The company is registered in Sofia City Court with act № 9428/2006 from 28 August 2006. Its core activity is offering of consultancy services in the area of policies and practices of the European Union.

As of 31 December 2014 the Group has 38 employees.

These consolidated financial statements have been approved by the Board of Trustees of the Fund on 28 July 2015.

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.

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 2013 are not early adopted by the Group because management of the Group believes that they are not currently relevant to the Group although they may affect accounting for future transactions and events.

New standards, amendments and interpretations issued but not effective for the financial year beginning 1 January 2013 are not early adopted by the Group. They are not relevant to Group although they may affect accounting for future transactions and events.

2.2. Foreign currency transactions

2.2.1. Functional and presentation currency

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

2.2.2. Transactions and balances

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

2.3 Property, plant and equipment

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

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

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

depreciated as not yet available for use.

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

Buildings	100 years
Computers and equipment	3-6.67 years
Vehicles	6.67 years
Fixtures and fittings	2 – 6.67 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.

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 2014.

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 amortised cost (using effective interest method) less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables.

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

2.8. Cash and cash equivalents

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

2.9. Investment property

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

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

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

2.10. Borrowings

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

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

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

2.11. Deferred tax

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

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

2.12. Employee benefits on retirement

In accordance with article 222, para. 3 of the Bulgarian Labour Code, in the event of termination of a labour contract after the employee has reached the lawfully required retirement age, regardless of the reason for the termination, the employee is entitled to a compensation as follows: 2 gross monthly salaries in all cases and 6 gross monthly salaries if the employee has been engaged with the Group for at least 10 years.

As of 31 December the Group has not accounted for those potential obligations.

2.13. Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the group's activities. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the group.

The group recognises revenue when the amount of revenue can be reliably measured, 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 and 2013 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 slowdowns 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 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 2014	Up to 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Trade and other payables	122	-	-	-
As at 31 December 2013	Up to 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Trade and other payables	119	-	-	-

4. Critical accounting estimates and judgements

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

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

Useful life of property, plant and equipment

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

Impairment of loans and receivables

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

5. Property, plant and equipment

Cost	As at 1 January 2014	Additions	Disposals	As at 31 December 2014
Computers	111	4	(40)	75
Vehicles	147	-	-	147
Fixtures& Fittings	24	-	-	24
Total	282	4	(40)	246

Depreciation	As at 1 January 2013	Additions	Disposals	As at 31 December 2014
Computers	105	3	(40)	68
Vehicles	147	-	-	147
Fixtures& Fittings	21	-	-	21
Total	273	3	(40)	236

Carrying amount		
Computers	6	7
Vehicles	-	-
Fixtures& Fittings	3	3
Total	9	10

6. Investment property

	As at 31 December	
	2014	2013
As at 1 January		
Carrying amount at the beginning of the period	132	232
Others (reclassification)		(98)
	132	134
Depreciation charge	(1)	(2)
Carrying amount at the end of the period	131	132
As at 31 December		
Cost	174	174
Accumulated depreciation	(43)	(42)
Carrying amount	131	132

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	
	2014	2013
Trade receivables	1 271	741
Less: Impairment provision of trade payables	(26)	(13)
Trade receivables, net	1 245	728
Prepaid corporate tax	1	
Other	17	46
	<u>1 263</u>	<u>774</u>

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

8. Cash and cash equivalents

	As at 31 December	
	2014	2013
Cash at hand	37	38
Cash in bank current accounts	1 407	1 465
Total cash	1 444	1 503

9. Trade and other payables

	As at 31 December	
	2014	2013
Payables to partners and suppliers	21	
Salaries and social securities payables	7	3
Tax	1	2
Other	93	114
	<u>122</u>	<u>119</u>

10. Deferred financing

	31 Dec 2014	31 Dec 2013
EC - Citizen Visions for the Future of Science Technology and Innovation	494	
EC - Enterprise Europe Network (EEN)	95	396
OAK Foundation - Children in Virtual and Real Violence - Prevention by Discourse and Education	86	78

EC - Safer Internet centre with hotline and helpline		60
EC - European Transport Network Alliance	9	11
EC - Network for the Market uptake of ICT for Ageing Well		13
EC - Engaging Society in Horizon 2020	13	70
EC - European Design Innovation Platform - Design for Europe	23	
Government of Norway - Teachers, Parents and Children against Hate Speech and Discrimination	28	
EC - Safeguarding Teenage Intimate Relationships: Online and Offline	52	
EC - Social Innovation: Driving Force of Social Change	62	
Other	2	3
	864	631
Deferred financing for acquisition of fixed assets	4	
Total deferred financing	868	631

11. Revenue

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

	2014	2013
OAK Foundation - Empowering Fathers, Empowering Children	62	74
EC - Fostering Evaluation Competencies in Research, Technology and Innovation in the SEE Region	68	205
EC - Parliaments and Civil Society in Technology Assessment	144	142
EC - Boosting European Games Industry	110	50
EC - Enhancing Regional Competences in Strategic Management of Innovation Policies	84	79
EC - Complex Challenges, Innovative Cities	80	67
EC - Bulgarian Safer Internet Centre: Developing into an Education, Support and Knowledge Centre of Excellence	172	395
EC - European Transport Network Alliance	25	34
EC - Enterprise Europe Network	78	30
EC - Energy Vision 2020 for South East European Cities	183	97
EC - Engaging Society in <i>Horizon 2020</i>	57	5
City Municipality Varna - Responsible Internet Use and Prevention of Human Trafficking	4	5
EC - Network for the Market Uptake of ICT for Ageing Well	15	14
EC - Public Participation in Developing a Common Framework for Assessment and Management of Sustainable Innovation	91	-
EC - Better Internet for Kids	64	-
Government of Norway - Teachers, Parents and Children against Hate Speech and Discrimination	28	-
Government of Norway – Greening BG Innovative SMEs	80	-
EC - Social Innovation: Driving Force of Social Change	9	-
EC – Mencare	11	-
EC - European Design Innovation Platform - Design for Europe	8	-

EC - Scoping China's Environmental Research Excellence and Major Infrastructure: Foresight, Potentials, and Roadmaps	-	116
The World Bank- Strengthen the Capacity of Business Incubators Based in the ECA and MENA Regions to Support their Clients SMEs	-	111
EC - Safeguarding Teenage Intimate Relationships: Online and Offline	-	23
Other projects	17	2
Revenue from projects financing	1 390	1 449
Revenue from services	508	536
Donation Novartis	-	16
Other revenue	20	18
Revenue from financing of fixed assets acquisition	-	4
Revenue from sale of fixed assets	-	111
Total revenue	1 918	2 134

12. Cost of sales

Cost of sales for the Group include:

	2014	2013
Expenses for materials and consumables	6	11
External services expenses	888	772
Depreciation and amortization	5	16
Salaries and social securities	833	619
Other expenses	155	539
	1 887	2,055

13. Finance costs, net

	As at 31 December	
	2014	2013
Interest income	32	39
Interest expense	-	0
Interest, net	32	39
Foreign exchange income	1	3
Foreign exchange expense	(4)	(4)
Foreign exchange, net	(3)	(1)
Other financial income	0	
Other financial expenses	(6)	(-18)
Other financial, net	(6)	(18)
Finance costs, net	23	20

14. Income tax expense

The major components of income tax expense for the year ended 31 December 2014 and the period ended 31 December 2013 are:

	<u>2014</u>	<u>2013</u>
Current tax	(1)	(5)
Deferred tax	-	-
Income tax expense	(1)	(5)

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

There are no tax checks performed in the recent years.

15. 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 have occurred:

Related party	Transactions during the year	January - 31 December		31 December	
		2014	2013	2014	2013
		<i>Transactions</i>		<i>Receivables</i>	<i>Payables</i>
Project 1	Rental agreement	45	45		
ARC	Loan agreement	-	-	60	60
Consulting	Consultancy services on EEN project	40	40		
		<u>77</u>	<u>77</u>	<u>60</u>	<u>60</u>

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:

	2014	2013
Board of Trustees and Executive Directors	293	240

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 2014, 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.

Stoyan Donev
Registered Auditor
Sofia

30 July 2015