



Applied Research and Communications Fund (The Group)

Consolidated Annual Financial Statements

31 December 2018

Independent Auditor's Report

To the Owner of
APPLIED RESEARCH AND COMMUNICATIONS FUND

Report concerning the audit of the consolidated financial statements

Opinion

We made an audit of the consolidated financial statements of APPLIED RESEARCH AND COMMUNICATIONS FUND ("the Group"), containing the consolidated statement of comprehensive income as at **31 December 2018**, and the consolidated statement of financial position, the consolidated statement of cash flows and consolidated statement of changes in equity, ending on this date, as well as the clarifying enclosures to the consolidated financial statements, containing also summarized announcement of the significant accounting policies.

On our opinion, the enclosed consolidated financial statements presents in reliable way, in all major aspects the financial condition of the Group at 31 December 2018 and its financial results from the activity and the cash flows for the year, ending on this date, in accordance with the International Financial Reporting Standards as adopted by the European Union.

Basis for expression of opinion

We made our audit in accordance with the International standards on auditing (ISAs). Our responsibilities according to these standards are further described in the section of our report "Responsibilities of the auditor for the audit of the consolidated financial statements". We are independent from the Group in accordance with the Code of ethics for professional accountants of the International ethics standards Board for accountants (The IESBA code), along with the ethical requirements of the Independent financial audit act (IFAA), applicable towards our audit of consolidated financial statements in Bulgaria as we implemented also our other ethic responsibilities in accordance with the requirements of IFAA and the IESBA code. We consider that the auditor evidence, received from us, is sufficient and proper in order to provide basis for our opinion.

Other information, different from the consolidated financial statements and the auditor report on it

The management is responsible for the other information. The other information consists of report for the activity, incl. a declaration for corporate management, drawn by the management according to chapter seventh of the Accounting act, but it does not include consolidated financial statements and our auditor report on it.

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

In connection with our audit of consolidated financial statements, our responsibility is to read the other information and thus to assess whether this other information is in essential discrepancy with consolidated financial statements or with our knowledge, acquired during the audit or in other way seems to contain improper reporting/accountings.

If on the basis of the work, which we have done, we (would) reach to a conclusion that if there is a significant improper reporting of this other information, we are required to report that fact. We don't have what to report in this relation.

Responsibilities of the management for the consolidated financial statements

The management bears responsibility for the development and reliable submission of these consolidated financial statements in accordance with IFRS, applicable in EU and for such internal control system, which the management determines as being necessary for ensuring the development of consolidated financial statements, which do not contain improper reporting, regardless whether (this is) due to a fraud or a mistake.

Upon development of the consolidated financial statements the management is responsible for evaluating the ability of the Group to continue functioning as a going concern, announcing, when applicable, issues related with the assumption about going concern and using the accounting basis on the grounds of the assumption for a going concern, unless if the management intends to liquidate the Group or to suspend its activity, or if the management in fact has no other alternative but to act this way.

Responsibilities of the auditor for the audit of the consolidated financial statements

Our goals are to obtain a reasonable extent of certainty whether the consolidated financial statements contains significant improper reporting, regardless whether (this is) due to a fraud or a mistake and to issue an auditor report, which to include our auditor opinion. The reasonable extent of certainty is a high extent of certainty, but it is not a guarantee that an audit, made in accordance with the ISA shall always reveal improper reporting, when such reporting exists. Improper reporting may arise as a result of a fraud or mistake and they are considered as significant, if it would be reasonable to expect that they, independently or in aggregate, would cause impact on the economic solutions of the consumers, taken on the basis of these financial statements.

As a part of the audit in accordance with IAS, we use professional evaluation and we keep professional skepticism during the whole audit. We also:

- Identify and assess the risks of significant improper accountings in the consolidated financial statements, regardless whether due to a fraud or a mistake, we develop and implement auditor procedures in response to these risks and we obtain auditor evidence, which are sufficient and proper as to provide basis for our opinion. The risk not to be revealed significant improper accounting, which is a result of a fraud, is higher than the risk of significant improper accounting, which is a result of a mistake, because the fraud could include a secret agreement, forgery, intentional omissions, statements for making the auditor in deceit as well as neglect or avoidance of the internal control.
- Obtain understanding about the internal control, having relation to the audit, in order to develop auditor procedures, which are appropriate under the particular circumstances, but not to express opinion regarding the internal control of the Group.
- Assess the adequacy of the used accounting policies and reasonableness of the accounting approximate evaluations and the related disclosures, made by the management.
- Reach conclusion about the relevance of the usage by the management of the accounting basis on the grounds of the assumption for a going concern and, based on the received auditor evidence whether it exists significant uncertainty, concerning events or conditions,

which could cause significant doubts about the ability of the Group to keep functioning as a going concern. If we reach a conclusion that there is a significant uncertainty, we are required to draw attention in our auditor report to the disclosures in the consolidated financial statements, related to that uncertainty, or in case these disclosures are inadequate, we have to modify our opinion. Our conclusions are based on the auditor evidence, received up to the date of our auditor report.

- However, future events or conditions could make the Group suspend its functioning as a going concern.
- We evaluate the whole presentation, structure and contents of the consolidated financial statements, including the disclosures and whether the consolidated financial statements represent the fundamental transactions for it and events in a way, which reaches reliable presentation.

We communicate with the management, along with the other issues, (also) the envisaged scope and time for implementation of the audit and the significant ascertainments of it, including significant faults in the internal control, which we identify during the audit we make.

We also submit a statement to the management, that we have implemented the applicable ethic requirements in connection with the independence and that we shall communicate with it all relations and other issues, which would reasonably considered as being related to independence, and when applicable, also the related protective measures.

Amongst the issues, communicated with the management, we determine those issues, which have been with most importance during the audit of the consolidated financial statements for the current period and which therefore appear key auditor issues. We have described these issues in our auditor report, except in the cases, in which an act or normative regulation prevents the public disclosure of information on that issue or when, in extremely rare cases, we have decided that a particular issue ought not to be communicated in our report, because it would be reasonable to expect that the unfavorable consequences of that action would exceed the benefits as far as the public interest of that communication is concerned.

Report in relation to other statutory and regulatory requirements

Opinion in connection with art. 37, para 6 of the Accountancy act

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

- a) The information, included in the report about the activity for the financial year, for which have been developed the consolidated financial statements, corresponds to the consolidated financial statements.
- b) The report about the activity was made in accordance with the requirements of Chapter seven of the Accountancy act.

Date 27 August 2019



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Стоян
Донев
Регистриран одитор

Stoyan Donev – certified auditor
Sofia, No. 8 Bacho Kiro str.

Applied Research and Communications Fund (The Group)
Consolidated Statement of Comprehensive Income, 31 December 2018

| (all amounts in BGN thousand) | <i>Note</i> | For the year ending: | |
|-------------------------------------|-------------|-----------------------------|-----------------------------|
| | | 31 December 2018 | 31 December 2017 |
| Assets | | | |
| Property, plant and equipment | 5 | 9 | 15 |
| Investment property | 6 | 125 | 127 |
| Total non-current assets | | 135 | 142 |
| Trade and other receivables | 7 | 851 | 811 |
| Cash and cash equivalents | 8 | 2,294 | 1,793 |
| Total current assets | | 3,145 | 2,605 |
| Total assets | | 3,280 | 2,747 |
| Equity | | 1,945 | 1,931 |
| Liabilities | | | |
| Payables to partners and suppliers | 9 | 935 | 151 |
| Payables to related parties | | - | - |
| Deferred financing | 10 | 400 | 665 |
| Total current liabilities | | 1,335 | 816 |
| Total liabilities | | 1,335 | 816 |
| Total equity and liabilities | | 3,280 | 2,747 |

These consolidated financial statements were approved by the Board of Trustees on 27 August 2019. They are signed on behalf of the Board of Trustees by:

Nickolay Badinski
 Executive Director
 27 August 2019



Initialed for identification purposes in reference to the audit report:

Stoyan Donev
 Registered Auditor
 27 August 2019



Applied Research and Communications Fund (The Group)
Consolidated Statement of Comprehensive Income, 31 December 2018

| (all amounts in BGN thousand) | <i>Note</i> | For the year ending: | |
|--|-------------|-----------------------------|-----------------------------|
| | | 31 December 2018 | 31 December 2017 |
| Revenues from grants financing | 11 | 1,441 | 1,537 |
| Cost of sales | | (1,309) | (1,510) |
| Gross profit | | 132 | 27 |
| Other operating income | | 349 | 264 |
| Administrative expenses | | (463) | (271) |
| Revenue from operating activities | | 18 | 20 |
| Financial income | | 3 | 2 |
| Financial expenses | | (7) | (4) |
| Net financing costs | 12 | (4) | (2) |
| Profit before income tax | | 14 | 18 |
| Income tax expense | 13 | (1) | - |
| Net profit for the period | | 13 | 18 |
| Other comprehensive income | | - | - |
| Total comprehensive income | | 13 | 18 |

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 Executive Director
 27 August 2019



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 27 August 2019



Applied Research and Communications Fund (The Group)
Consolidated Statement of Comprehensive Income, 31 December 2018

| (all amounts in BGN thousand) | Note | Retained earnings |
|---------------------------------------|------|-------------------|
| Balance as of 1 January 2017 | | 1,912 |
| Net profit for the year | | 18 |
| Other changes | | 1 |
| Balance as of 31 December 2017 | | 1,931 |
| Balance as of 1 January 2018 | | 1,931 |
| Net profit for the year | | 12 |
| Other changes | | 2 |
| Balance as of 31 December 2018 | | 1,945 |

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27 August 2019



Applied Research and Communications Fund (The Group)
Consolidated Cash Flow Statement, 31 December 2018

| (all amounts in BGN thousand) | <i>Note</i> | For the year ending: | |
|---|-------------|-----------------------------|-----------------------------|
| | | 31 December 2018 | 31 December 2017 |
| Cash generated from operations | | | |
| Profit before income tax | | 13 | 18 |
| Adjustments for: | | | |
| Depreciation | | <u>10</u> | <u>7</u> |
| Changes in working capital: | | | |
| (Increase)/Decrease of Trade and other receivables | | (33) | (31) |
| (Increase)/Decrease of Trade and other payables | | 784 | 43 |
| (Increase)/Decrease of Deferred financing | | (265) | (206) |
| (Increase)/Decrease of Deferred expenses | | <u>1</u> | <u>45</u> |
| Net cash from operating activities | | <u>510</u> | <u>(124)</u> |
| Income tax paid | | <u>-</u> | <u>-</u> |
| Net cash generated from operating activities | | <u>510</u> | <u>(124)</u> |
| Cash flows from investing activities | | | |
| Payments for acquisition of property, plant and equipment | | <u>(2)</u> | <u>(2)</u> |
| Net cash used in investing activities | | <u>(2)</u> | <u>(2)</u> |

| (all amounts in BGN thousand) | Note | For the year ending: | |
|---|------|----------------------|---------------------|
| | | 31 December 2018 | 31 December 2017 |
| Cash flows from financing activities | | | |
| Loans received | | - | - |
| Interest and commissions paid | | (7) | (2) |
| Net cash used in financing activities | | (7) | (2) |
| Net increase/(decrease) in cash and cash equivalents | | 501 | (128) |
| Cash and cash equivalents at the beginning of the year | | 1,793 | 1,921 |
| Cash and cash equivalents at the end of the year | 8 | 2,294 | 1,793 |

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Nikolay Badinski
Executive Director
27 August 2019



Initialled for identification purposes in reference to the audit report:

Stoyan Donev
Registered Auditor
27 August 2019



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 2018 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 2018 the Group has 25 employees.

These consolidated financial statements have been approved by the Board of Trustees of the Fund on 27 August 2019.

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 of 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.

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 2018 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 2018 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 of 31 December 2018.

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 of 31 December 2017 | Up to 1 year | Between 1 and 2 years | Between 2 and 5 years | Over 5 years |
|-----------------------------------|---------------------|----------------------------------|----------------------------------|---------------------|
| Trade and other payables | 151 | - | - | - |
| As of 31 December 2018 | Up to 1 year | Between 1 and 2 years | Between 2 and 5 years | Over 5 years |
| Trade and other payables | 935 | - | - | - |

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 of 1 January 2018 | Additions | Disposals | As of 31 December 2018 |
|---------------------|---------------------------------|------------------|------------------|-----------------------------------|
| Computers | 84 | 2 | - | 86 |
| Vehicles | 144 | - | - | 144 |
| Fixtures & Fittings | 19 | - | - | 19 |
| Other assets | 3 | - | - | 3 |
| Total | 250 | 2 | - | 252 |

| Depreciation | As of 1 January 2018 | Additions | Disposals | As of 31 December 2018 |
|---------------------|---------------------------------|------------------|------------------|-----------------------------------|
| Computers | 70 | 8 | - | 78 |
| Vehicles | 144 | - | - | 144 |
| Fixtures & Fittings | 19 | - | - | 19 |
| Other assets | 2 | - | - | 2 |
| Total | 235 | 8 | - | 243 |

| Carrying amount | As of 1 January 2018 | Additions | Disposals | As of 31 December 2018 |
|------------------------|---------------------------------|------------------|------------------|-----------------------------------|
| Computers | 14 | | | 8 |
| Vehicles | - | | | - |
| Fixtures & Fittings | - | | | - |
| Other assets | 1 | | | 1 |
| Total | 15 | | | 9 |

6. Investment property

| | 2018 | 2017 |
|---|-------------|-------------|
| As of 1 January | | |
| Carrying amount at the beginning of the period | 174 | 174 |
| Depreciation charge | (47) | (47) |
| Carrying amount at the end of the period | 127 | 127 |
| As of 31 December | | |
| Cost | 174 | 174 |
| Accumulated depreciation | (49) | (47) |
| Carrying amount | 125 | 127 |

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

| | 31 December 2018 | 31 December 2017 |
|--|-----------------------------|-----------------------------|
| Trade receivables | 926 | 874 |
| Less: Impairment provision of trade payables | (78) | (65) |
| Trade receivables, net | 848 | 809 |
| Other | 3 | 2 |
| | 851 | 811 |

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

8. Cash and cash equivalents

| | 31 December 2018 | 31 December 2017 |
|-------------------------------|-----------------------------|-----------------------------|
| Cash at hand | 9 | 12 |
| Cash in bank current accounts | 2,285 | 1,781 |
| | <u>2,294</u> | <u>1,793</u> |

9. Trade and other payables

| Short Term liabilities | 31 December 2018 | 31 December 2017 |
|---|-----------------------------|-----------------------------|
| Payables to partners and suppliers | 2 | |
| Salaries and social securities payables | 10 | 23 |
| Tax | - | 4 |
| Other | 923 | 124 |
| | <u>935</u> | <u>151</u> |

10. Deferred financing

Deferred financing related to projects:

| | 31 December 2018 | 31 December 2017 |
|---|-----------------------------|-----------------------------|
| Creating a better internet for kids by protection, awareness raising and education | | 107 |
| EEN – Enterprise Europe Network | | 257 |
| Empowering Children in the Digital Age through Early Digital Literacy Development | 30 | 30 |
| Energy Conscious Consumers — ECO2 | 191 | |
| European Network for Research, Good practice and Innovation for sustainable Energy (Energize) | 30 | 68 |
| Men care campaign in Bulgaria | | 13 |
| Other | 24 | 24 |
| Responsible Research and Innovation in Practice (RRI Practice) | 86 | 158 |
| Social Innovation – Driving Force of Social Change (SI-DRIVE) | 22 | |
| Total deferred financing related to projects | <u>383</u> | <u>658</u> |
| Deferred financing for acquisition of fixed assets | 17 | 7 |
| Total deferred financing | <u>400</u> | <u>665</u> |

11. Revenue

Revenues from grants financing and other project for respective periods are as follows:

| | 31 December 2018 | 31 December 2017 |
|--|-----------------------------|-----------------------------|
| Engaging Society in Horizon 2020 | | 4 |
| Public Participation in Developing a Common Framework for Assessment and Management of Sustainable Innovation | | 269 |
| Social Innovation – Driving Force of Social Change (SI-DRIVE) | | 32 |
| Men care campaign in Bulgaria | 15 | 1 |
| Energy Conscious Consumers – ECO2 | 91 | |
| Enhanced bi-regional STI cooperation between the EU and the Black Sea Region – Black Sea Horizon | 3 | 63 |
| Citizen and Multi-actor Consultation on Horizon 2020 | 26 | 52 |
| Promoting societal engagement under the terms of RRI | 24 | 110 |
| Empowering Children in the Digital Age through Early Digital Literacy Development | 99 | 117 |
| Bridging the innovation gap through converting R&D results into commercial success in a more effective and efficient way | 101 | 65 |
| Efficient support services portfolio for SMEs | 106 | 105 |
| Creating a better internet for kids by protection, awareness raising and education | 169 | 174 |
| Responsible Research and Innovation in Practice (RRI Practice) | 190 | 124 |
| European Network for Research, Good practice and Innovation for sustainable Energy (Energize) | 38 | 58 |
| Facilitating macro-regional scope and link up to socio- economic actors of Research Infrastructure in the Danube Region (ResInfra) | 282 | 128 |
| Excellence in research, social and technological innovation project management (ReSti) | 188 | 133 |
| Other projects | 84 | 82 |
| Total Revenues from grants financing | 1,415 | 1,519 |

| | 31 December 2018 | 31 December 2017 |
|---------------------------------------|-----------------------------|-----------------------------|
| Revenues from unconditional donations | 6 | 15 |
| Other | 19 | 4 |
| Total Revenues | 1,441 | 1,537 |

12. Finance costs, net

| | 31 December 2018 | 31 December 2017 |
|---------------------------|-----------------------------|-----------------------------|
| Interest income | 3 | 2 |
| Foreign exchange expense | (3) | (3) |
| Other financial expenses | (4) | (1) |
| Finance costs, net | (4) | (2) |

13. Income tax expense

The major components of income tax expense for the year ended 31 December 2018 and the period ended 31 December 2017 are:

| | 2018 | 2017 |
|---------------------------|-------------|-------------|
| Current tax | (1) | - |
| Deferred tax | - | - |
| Income tax expense | (1) | - |

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.

14. Expenses

Cost of sales for the Group includes:

| | 31 December 2018 | 31 December 2017 |
|-------------------------------|-----------------------------|-----------------------------|
| Expenses for materials | 4 | 7 |
| Hired services | 453 | 416 |
| Depreciation and amortisation | 10 | 7 |
| Salaries and wages | 967 | 945 |
| Social securities | 92 | 95 |
| Other expenses | 129 | 194 |
| | <u>1,655</u> | <u>1,664</u> |

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-December | | 31 December | | 31 December | |
|----------------------|-------------------------------------|-------------------------|------------------|--------------------|-------------------|--------------------|-----------------|
| | | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 |
| | | <i>Transactions</i> | | <i>Receivables</i> | | <i>Payables</i> | |
| Project 1 | Rental agreement | 81 | 73 | | | | 1 |
| Project 1 | Consulting services | | | 226 | 226 | | |
| Vitosha Research | Consulting services | 10 | 2 | | | | |
| | | <u>91</u> | <u>75</u> | <u>226</u> | <u>226</u> | <u>-</u> | <u>1</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:

| | 2018 | 2017 |
|---|-------------|-------------|
| Board of Trustees and Executive Directors | <u>274</u> | <u>242</u> |

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.