

Applied Research and Communications • Fund •

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Annual Report

2019

Applied Research And Communications Fund 2019 Annual Report

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2019 Highlights

Innovation.bg has been ARC Fund's flagship initiative since 2004. It encompasses the *Innovation.bg* report, the *National Innovation Forum* and the *Innovative Enterprise of the Year contest*.

- The *Innovation.bg* report provides annual assessments of the Bulgarian economy's innovation performance and of the innovation system's current status and development prospects. The leading theme of *Innovation.bg 2019* is the European science and innovation policy in the next EU program period 2021 – 2027, and the instruments envisaged to achieve its ambitious goals.
- The *National Innovation Forum* is a platform for exchange of ideas and cooperation among the government, business community and research organizations. It enhances the performance of Bulgarian companies and boosts the innovation potential of the economy by promoting the introduction of new products and technologies and by facilitating business contacts with European partners.
- The *Innovative Enterprise of the Year* contest is open to participants from all sectors of the industry nationwide. The award acknowledges innovative enterprises which have developed new, or have significantly improved their existing products, services or processes over the last three years.

Innovation and business support

During the year the ARC Fund's team has delivered extensive advisory services to more than 75 Bulgarian companies, which were focused on consulting SMEs on access to finance, the SME Instrument of Horizon 2020 (the EU's strategic program for research, technology development and innovation), innovation management and access to new markets. As Coordinator of Enterprise Europe Network (EEN) – Bulgaria we co-organized key European business events on the Network's calendar and facilitated more than 40 Bulgarian companies in business negotiations, which resulted in 13 international business partnerships, as well as entries on the US, Canadian and Turkish markets. Over 30 SMEs benefited from in-depth analysis of their innovation processes and the follow-up consultations resulted in optimization of their innovation management.

The policy and financial instruments in support to SMEs and innovation were another major focus in 2019. The major achievement of our policy-related work was the endorsement of an Action Plan for improving the efficiency of the National Innovation Fund by Bulgaria's Executive Agency for SME Promotion.

Science, technology and innovation policy

In 2019 ARC Fund engaged in promoting broader understanding of the public implications of the precautionary principle as a governance mechanism to proactively safeguard the environment and human health; continuing development of capacities and expertise in technology assessment by broadening European and international partnerships and networks; further integrating the principles of Responsible Research and Innovation (RRI) on an organizational level as well as on territorial policy level; building solid capacities of research and innovation actors across the Danube macro-region; supporting households in taking stock of their energy consumption behavior; furthering the organization's strategic

development and outreach by broadening partnership networks, as well as the scope of the joint initiatives to support knowledge generation and better understanding of imminent societal transformations.

Safer Internet

In 2019 the Safer Internet Centre at ARC Fund conducted a large range of activities in the field of protection of children online. In close cooperation with the national law enforcement authorities (LEA) and Interpol, the Centre operates a Hotline for reporting online content that is illegal or harmful to children, and as well supervises a Helpline. The Hotline reports about online sexual exploitation of children are verified and transferred for further legal action to the national Cybercrime Unit. Via the Helpline, trained psychologists consult children, parents and teachers about problems and incidents with children on the Internet.

During 2019, the Internet Hotline for fighting illegal and harmful content and conduct online received and processed 9289 reports of sexual exploitation of children online. Over 1800 teenagers from across the country were trained under its most successful program Cyber-scout. More than 5400 children, 1000 teachers, 5000 parents, 100 university students and 3500 professionals (educational experts, psychologists, social workers, etc.) were involved in training and awareness raising events.

In 2019, for another year in a row, ARC Fund was recognized by the Ministry of Education and Science as being the most successful Bulgarian non-profit research institute, owing to its productive involvement in more than ten research and innovation projects under the *Horizon 2020* program.

PART ONE:

PROGRAM AREAS

Innovation.bg

Innovation.bg is the flagship initiative of ARC Fund.

- The *Innovation.bg* report provides annual assessments of the Bulgarian economy's innovation performance and of the innovation system's current status and development prospects. The leading theme of *Innovation.bg* 2019 is the European science and innovation policy in the next EU program period 2021 – 2027 and the instruments envisaged to achieve its ambitious goals.
- The *National Innovation Forum* is a platform for exchange of ideas and cooperation among the government, the business community and research organizations. It enhances the performance of Bulgarian companies and boosts the innovation potential of the economy by promoting the introduction of new products and technologies and by facilitating business contacts with European partners.
- The *Innovative Enterprise of the Year* contest is open to participants from all sectors of industry nationwide. The award acknowledges innovative enterprises which have developed new, or have significantly improved their existing products, services or processes over the last three years.

Innovation.bg 2019

Innovation.bg is the Applied Research and Communications Fund's overall platform for shaping the national innovation policy agenda. *Innovation.bg* offers expertise, own policy building and impact assessment know-how.



Since 2004 the *Innovation.bg* report presents a comprehensive annual performance assessment tool, which provides independent analysis of the national innovation system and the innovation performance of the national economy, based on original survey and other micro-studies. *Innovation.bg* applies its own original methodology to assess the degree of business innovation activity, based on the understanding of the types of innovation and the degree of novelty of introduced innovation products and processes. Traditionally, the *Innovation.bg* report assesses Bulgaria's innovation potential in five fields:

- 1) Gross Innovation Product – reviews the results of the national innovation system, the main innovation benchmarks for the enterprises and the obstacles to their innovation initiatives.
- 2) Entrepreneurship and innovation networks – outlines the characteristics of two major sources of innovation in the Bulgarian economy – the setting up of new enterprises and the participation of Bulgarian producers in national and international

value chains for the development of new products and services.

3) Investment and Financing of Innovation – considers the role of foreign direct investment and the import of R&D products and knowledge in the transfer of foreign products and knowledge as well as the available instruments for R&D investment.

4) Human capital for innovation – describes the available human resources for the adoption of foreign and the creation of local innovation in the economy.

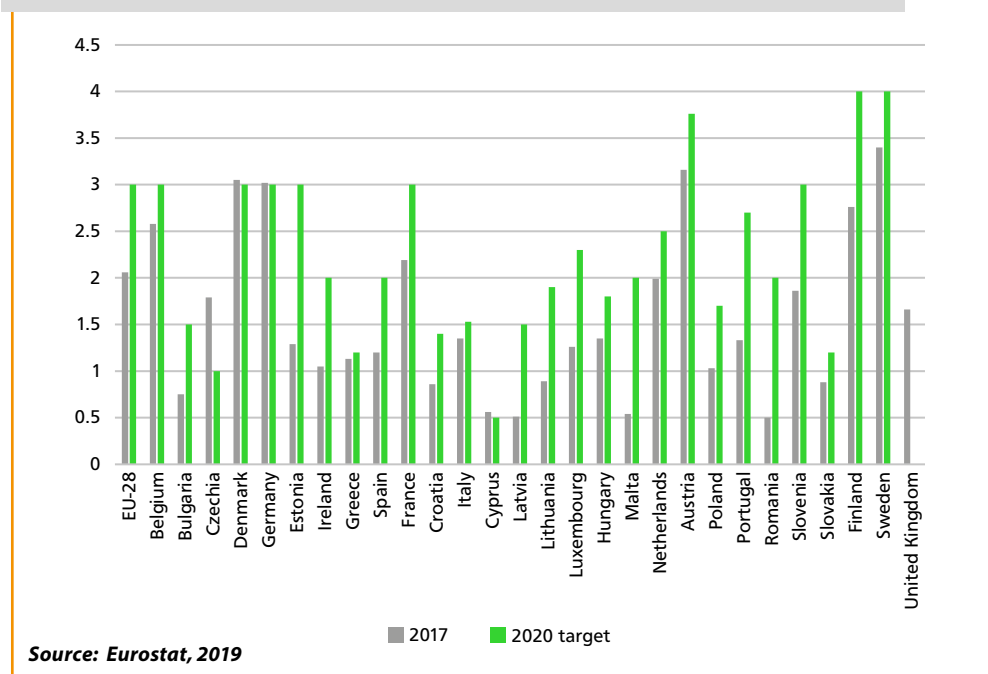
5) Information and communication technologies (ICT) – analyses the existing ICT infrastructure as R&D catalyst.

The leading theme of *Innovation.bg 2019* was the European science and innovation policy in the next EU program period and the instruments envisaged to achieve its ambitious goals. The concept of smart specialization launched by the European Parliament and the Council, has proven to be a successful tool for pursuing EU cohesion policy at regional level and will continue to play a key role in the next program period.

In this regard, the development of a transparent and effective innovation policy for the smart specialization of Bulgaria for the program period 2021–2027, which reflects and develops the national innovation potential and competitive advantages of the regional business communities, should focus the attention of the Bulgarian government in the next year.

The report points that by 2018, there were four EU countries that managed to exceed the Europe 2020 R&D spending target of 3% of the GDP. For Denmark and Germany, this also means exceeding the national target, which is the same as that of the EU-28. Austria, Finland and Sweden have the most ambitious targets to be reached by the end of the program period, which is the reason why the three countries have not achieved them. One year before the end of the program period, Bulgaria is still part of the group of modest innovators, having reached only 50% of the national target of 1.5% of R&D spending of the GDP.

Fig. 1. R&D spending as share of GDP, EU-28



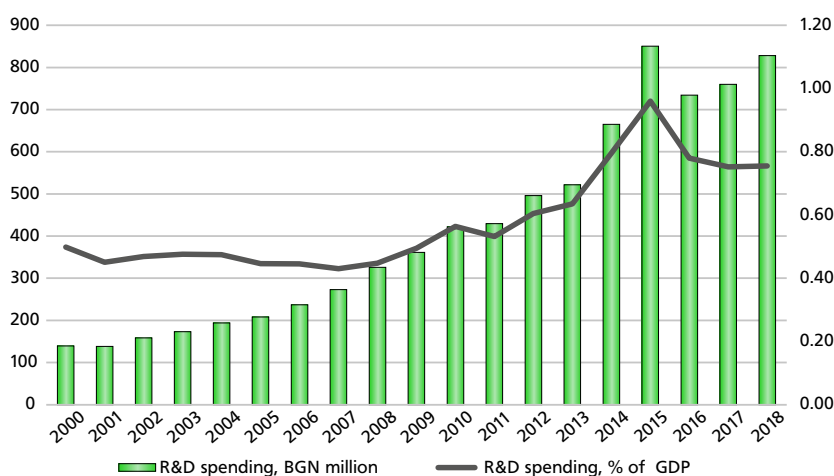
Business is the main sector within the national innovation system, which continues to increase the spending on research and innovation. At the same time, enterprises in Bulgaria face significant challenges:

- Low degree of innovation activity as a result of insufficient cooperation between businesses, science and higher education institutions. Bulgaria

is last but one in the EU in terms of innovation performance and share of SMEs that have marketed new products or services.

- Difficult access to funding sources and low investment activity - just over 16% of Bulgarian SMEs have access to public financial aid, including guarantees.

Fig. 2. R&D Spending in Bulgaria, 2000 – 2018



Source: NSI, 2019

The main challenges related to entrepreneurship are that it is not in the focus of public institutions and that the topic is not on the political agenda. Significant efforts are still to be made with regard to entrepreneurship training, both at the primary and secondary education stages, as well as within higher education and the initiatives for vocational and dual training.

As in previous years, the *Innovation.bg* report highlights the leading role of business in carrying out research and innovation. In 2018, enterprises spent a total of BGN 594.8 million (11% annual growth) on R&D, equivalent to 0.54% of GDP. Compared to other institutional sectors, only the increase in business sector R&D spending is able to outpace GDP growth (current prices), thus increasing its share. Over 88% of R&D funding from foreign sources is chan-

neled to businesses.

The business sector also plays a leading role in the growth of R&D staff. Since 2015, enterprises have been providing more jobs for researchers than the public sector and higher education. In 2018, the share of business in the institutional structure by this indicator reached nearly 46%.

The development of the strategic framework for the next program period 2021–2027 is an opportune moment for public institutions to make clear commitments to science and innovation policies and take bold decisions. For example, R&D management and coordination and policy-making on smart specialization should be brought into a single public agency following international best practices such as Innovation Norway.

The Fifteenth National Innovation Forum

For a fifteenth year in a row, the **National Innovation Forum** gathered more than 200 representatives of the policy, research and business communities to share views on Bulgaria's position on the innovation and economic growth. The event took place on 5 December 2019.

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

stressed the key importance of collaboration between institutions, business and scientific communities in the development of innovation, as well as the effectiveness of innovation public financing. He also pointed out the significant difference between EU and Bulgaria in terms of investment in innovation – in this respect the country has to catch up with current innovation leaders.



*Opening speech by Dr. Ognian Shentov, Chairman of ARC Fund
15th National Innovation Forum*

The President of the Republic of Bulgaria Mr. Rumen Radev described innovation as "a key tool for sustainable development", "a reflection of the national ambitions for the future and the effectiveness of the interaction between state institutions, business, science and education". He highlighted the

need for a better symbiosis between business, government and science in the field of innovation and recalled his position that the balanced distribution of educational and scientific infrastructure is the best way to achieve the parameters of sustainable development.



*President of the Republic of Bulgaria
Mr. Rumen Radev at the 15th National Innovation Forum*



Participants in the 15th National Innovation Forum, Sofia, 5 December 2019

The 2019 Innovative Enterprise of the Year National Contest

Since 2004, **Innovative Enterprise of the Year** awards have been given to Bulgarian companies successfully integrating innovations or scientific achievements in their practice, thus streamlining their activities and im-

proving their long-term performance. Companies are assessed in a number of innovation impact areas by an expert group and an external jury.



President of the Republic of Bulgaria Mr. Rumen Radev (middle) with the award winners of the 2019 Innovative Enterprise of the Year contest

Twenty-one out of 100+ companies from various sectors of the economy were short-listed and a 17-member jury of public authorities, funding organizations, the business and academia representatives, selected the winners in the eight areas of innovation impact. The President of the Republic Mr. Ru-

men Radev awarded **winners in the National Contest "Innovative Enterprise of the Year 2019"**.

Ultraflex Corporation Ltd. was granted the award for Market Leadership for the development of an innovative induction heating



President of the Republic of Bulgaria Mr. Rumen Radev (left) and Mr. Spas Spasov, Ultraflex Corporation Ltd.

system applicable in all sectors related to the heat treatment of materials – industrial, jewellery, and laboratory, dental and medical electronics. The system is of separate modules that allow parallel heating of different materials according to different parameters. It also allows for additional modules when more power is needed. The system has been sold in the USA, Canada, Turkey and India.

International Power Supply JSC received the “Green innovation” award for the crea-

tion of an autonomous hybrid power supply system for management of electricity produced from renewable sources. The system is the first in the world to apply a modular principle to power supply. In case there is a faulty module, its work is taken over by other modules without affecting the system operation. Excess energy is stored in rechargeable batteries for further use. The system is operating in more than 60 countries on 7 continents, in 1500 installations, incl. in areas without access or reliable electricity grid.



President of the Republic of Bulgaria Mr. Rumen Radev (left) and Mr. Alexander Rangelov, International Power Supply JSC

Excellence in Innovation Award Ceremony



The innovative enterprises, finalists in the National Contest Innovative Enterprise of the Year in 2016, 2017 and 2018, were awarded ARC Fund’s newly introduced Excellence in Innovation label at a ceremony in the President’s office on 8 February 2019. Contest finalists were honoured for their advanced cutting-edge innovations.

The “Excellence in Innovation” label supports the contest finalists and their visibility to local and international partners, as well as catalyzes market entry and recognition of quality and high-standard innovations developed by Bulgarian companies.



President of the Republic of Bulgaria Mr. Rumen Radev (in the middle) with the finalists in the Innovative Enterprise of the Year National Contest 2016, 2017, 2018 at the Excellence in Innovation award ceremony and guests

Innovation and Business Support Program

In 2019, the Innovation and Business Support Program focused its activities in the following fields:

- Supporting SMEs to establish international partnerships and enter markets in third countries. The Innovation and Business Support Program as Coordinator of Enterprise Europe Network (EEN) – Bulgaria co-organized key European business events on the Network’s calendar and facilitated more than 40 Bulgarian companies in business negotiations with international partners. This resulted in 13 international business partnerships as well as entries on the US, Canadian and Turkish markets.
- Consulting SMEs. There were three main areas of interest among businesses: Access2Finance, focusing on the SME Instrument within Horizon 2020; access to new markets; and innovation management. EEN experts are among the few in Bulgaria licensed by the IMP³rove International Innovation Management Academy. Over 30 SMEs approached EEN and benefited from in-depth IMP³rove analysis and consultations, resulting in optimized management of their innovation processes.
- Efficiency of policy and financial instruments for SMEs and innovation. Two main achievements feature IBS program’s policy related activities in 2019: (I) the endorsement of an Action Plan for improving the efficiency of the National Innovation Fund by Bulgaria’s Executive Agency for SME Promotion; and (II) the newly launched CityZen that captures and uncovers the business potential of urban farming as an emerging phenomenon in Bulgaria leading to new business models and resource efficiency.

Access2Finance

In 2019, approximately 35 SMEs, start-ups and clusters benefited from the in-depth consultation on Access2Finance for developing innovation projects and speeding up their expansion on international markets. Taking advantage of the wide spectrum of the EEN's team expertise in H2020, clients were directed to the most appropriate funding instrument. As a result, two projects have been approved for funding under the EIC Accelerator Pilot – the SME Instrument Phase II and the Fast-Track to Innovations respectively, while another proposal was given the Seal of Excellence. Topics covered the range from micro-satellite to big data and robotized devices.

New Markets

Business-to-business events proved to be the short-cut to new collaborations and new markets. 43 Bulgarian companies were given the opportunity in 2019 to participate in specialized brokerage events and business missions, such as the Green Industry Innovation in Oslo, EU Cluster Matchmaking in Bucharest, Bulgarian-Argentinian Business Forum in Stara Zagora, Malta brokerage event in Artificial Intelligence (AI) and Future of Building 2019 in Vienna, all of which were co-organized by EEN's team.

These events, together with the active use of the EEN database by Bulgarian companies, triggered more than 60 negotiations on business and technological partnerships in a variety of sectors such as mechatronics, digital and creative technologies, incl. blockchain and AI, construction, environment and

ICT outsourcing. A good example of EEN's advisory role for market entry is Spesima's gateway to the Turkish market.

The EEN team also assisted the Bulgarian company InteriorProtect Ltd. in applying for the **ENRICH** Advanced Manufacturing Tour to the USA and Canada, aiming to introduce European clean-tech companies to North America's regulations and market opportunities, as well as to promote European science, technology and innovation in both countries.

Overall, in 2019 more than 75 companies received extensive advisory and consultation EEN services, which resulted in 13 successful partnerships, 9 project proposals and entries on new markets.

In 2019, EEN's team consolidated its position as the main expertise pool for providing companies' Innovation management assessments and Digital Innovation Quotient under the methodologies of the **ATKerney IMP³rove Academy of Innovation Management** by launching new services to 24 companies in various sectors and locations in Bulgaria.

2019 was successful for three more Bulgarian companies that received funding by the H2020 SME Instrument phase I with support by EEN's team:

- TRANSMETRICS AD is the second Bulgarian company with successful project under the Horizon 2020 SME Instrument Phase I. Being the first company in the world to focus on predictive optimization for cargo industry, TRANSMETRICS is already working with the leading logistics companies worldwide.
- Smart Soft Ltd. was supported in analyzing its market and technological needs and in contracting top-level external consultants and coaches for



the CoLumbo project, related to an innovative AI online platform for diagnosing herniated disk and other spinal pathologies, capable of magnetic resonance imaging (MRI) reading, and medical history analysis.

- Bee Smart Technologies is a high-tech company bringing breakthrough

innovation to the global beekeeping industry by increasing the overall honeybee health and by decreasing operating costs through smart integration of sensor technology and bio-based algorithms.

First Contest for Innovative Enterprise in North Macedonia with the support of IBS Program

Inspired by the Innovative Enterprise of the Year national contest, North Macedonia endeavored to introduce this contest as an efficient tool for entrepreneurial discovery and promotion of the innovation potential of its local SMEs. The IBS team transferred know-how and provided methodology support to the YES Incubator, Skopje, to ensure the high quality of the contest that received recognition and support by the local Ministry of Economy. 3 companies out of 31

candidates were awarded “Innovative start-up”, “Innovative small company” and “Innovative medium-sized company”. The **first online course on innovation management in Macedonian**, along with a mobile application for technology transfer, were developed to empower local companies on their way to innovation-driven growth. Furthermore, guidelines on innovation management and innovation funding have been drafted in Macedonian as well.



Award ceremony of the first edition of the national contest Innovative Enterprise of the Year, North Macedonia, 29th May 2019

Consultancy in the field of intellectual property

Since 2017 the EEN team has been entrusted by the EC to act as the IP Helpdesk Ambassador for Bulgaria. Two capacity building workshops, partaken by about 80

representatives of science and business communities, were organized together with the Joint Innovation Center of the Bulgarian Academy of Sciences. The first – on 16 April

Part one: Program areas

2019, introduced intellectual property as a tool of protection of research results, including via copyright, patents and utility models. The second event, on 11 June 2019, focused on the role of patents as internationalization tool, via the European and the International Patent Systems and the databases Espac-

net and PATENTSCOPE. Dr. Fanny Koleva, acting as IP Helpdesk Ambassador, was invited to present local specifics related to legislation and practice at an international intellectual property and technology transfer workshop in Plovdiv on 20 May 2019.



Dr. Fanny Koleva presents the specifics of European and International Patent Systems to representatives of business and science communities at a workshop in Sofia, 11th June 2019

Mentoring young innovators at Innovation Academy 2019

Dr. Todor Galev, senior expert at ARC Fund, supported students' innovative project at the Innovation Academy 2019. He mentored three teams working on business ideas and IT prototypes to compete for a BGN 10,000

award. Participants from 10 Bulgarian universities took part in the events, organized by the Innovation Starter in partnership with the European Commission, EIB and business organizations.

Leveraging policy efficiency

In 2019, the team of the IBS Program continued working in close collaboration in the field of policy research and consultancy with national authorities such as the Council of Ministers, the Ministry of Economy, the Ministry of Education and Science, the Bulgarian SME Promotion Agency, the Executive Agency "Science and Education for

Smart Growth" Operational Program, and the Fund of Funds.

Smart Specialization was a key topic, in which the IBS Program streamlined its policy research efforts in 2019. It was given mandate to assist the Ministry of Economy in its preparatory work for the next program

period 2021–2027 by preparing the following analyses:

- Assessment of the degree of achievement of the objectives of the Innovative Strategy for Smart Specialization of Bulgaria 2014–2020.
- Assessment of the compliance of the Innovative Strategy for Smart Specialization of Bulgaria 2014 - 2020 with the basic principles of the European policy and concept for smart specialization, and SWOT analysis.
- Regional innovation profiles by planning region with analysis of the progress achieved according to the Innovation Strategy for Smart Specialization of Bulgaria 2014–2020.
- Policy Brief.

IBS Program and the Ministry are now jointly developing a concept for a transparent and effective innovation policy for smart specialization in Bulgaria. Furthermore, the Action Plan for improving the procedures of the National Innovation Fund, proposed by the IBS Program and, was **endorsed by the Bulgarian SME Promotion Agency** under the "Effective Financial Instruments in Support of SMEs" (ESSPO) initiative.

The Plan featured three main improvement measures as follows:

- Focused public support to innovative SMEs.
- Facilitation of collaboration between business and science.
- Result-oriented monitoring and evaluation system.



ESSPO Interregional Meeting, Sofia, 5-6th November 2019

InnoBridge – making research and innovation a market success in European regions

After three years of active exchange and collaborative design of new policy measures, 2019 marked the beginning of the **InnoBridge** second phase, dedicated to the implementation of the designed measures. IBS Program at ARC Fund was elicited to act as InnoBridge process driver and methodology consultant for the entire partnership of 8 EU regions. In the local context, it fostered

the improvement of the Sofia Innovation Fund, where mid- and long-term measures were introduced to leverage the support on R&D concepts in the creative, digital and cultural industries into commercial success.

The **InnoBridge Experience Book** summarizes the results of the knowledge exchange among the regions.



*InnoBridge Interim Conference 'Towards successful R&D commercialization',
Tampere, 19 February 2019*

Stepping into a new field – resource efficiency and business models implications of urban farming



The **CityZen** initiative launched and coordinated by ARC Fund, aims at enhancing scalable innovations and new business models based on urban farming ecosystem values. CityZen responds to the growing number of cities and regions that recognize the ben-

efits of urban farming for living sustainably and leveraging revenues and aims to promote the concept among policy-makers. Integrating urban farming models and practices into regional policies on green innovation and resource efficiency can significantly improve food security, waste management, community development and adaptation to climate change. CityZen paves the way to a promising collaboration with Bulgaria's Ministry of Economy as the managing authority of the Regional Innovation Centers (RICs) under the Competitiveness and Innovation Operational Program. As R&D infrastructure hubs strengthening the innovation fabric of the regions, RICs could introduce the resource efficient concept of urban farming in a number of regions and cities of Bulgaria. ARC Fund's team involved in the CityZen supports the Ministry in assessing the environmental and socio-economic impacts of the RICs specialized in industries for healthy life and biotechnologies.



The CityZen Kick-off meeting set the scene for the CityZen work plan, Sofia, 12-13 September 2019

Science, Technology and Innovation Policy Program

The Science, Technology and Innovation Policy (STIP) Program of ARC Fund facilitates public, multi-actor deliberative processes on societal challenges stemming from research and innovation. It mobilizes actors from civil society, business, university and research organizations, as well as policy and decision-makers, towards a shared understanding of forthcoming transformations and challenges in technological developments and innovations, and steers them towards a shared vision for the integration of responsible research and innovation principles into science and policy-making. In 2019 the program focused on:

- Promoting broader understanding of the public implications of the precautionary principle as a governance mechanism to proactively safeguard the environment and human health, and looking into the trade-offs between precaution and innovation across sectors, stakeholder groups, and citizens.
- Continuing development of capacities and expertise in technology assessment by broadening partnership networks and committing to joint initiatives focused on understanding science, technology and innovation and delivering knowledge-informed policy advice.
- Further integrating principles of Responsible Research and Innovation (RRI) on an organizational level, as well as on territorial policy level, by enabling territorial actors to develop decision systems based on responsibility, anticipation and inclusivity.
- Building solid capacities of research and innovation actors across the Danube macro-region to initiate, prepare, manage and successfully deliver complex projects, and enhancing the capacities and visibility of regional research infrastructures.

The precautionary principle – reconciling science, public concerns and policy-making through stakeholder consultation and mobilization

The *precautionary principle* allows regulatory oversight over scientific and technological developments, whose practical applications are frequently the source for public concern for, or are believed to cause, harm to human health or the environment. Subject to the principle's invocation as part of decision-making are identified hazards without a certain, proven cause, coupled with high stakes.

In June 2019, ARC Fund mobilized citizens to reflect on issues concerning fairness, risk and safety in relation to research, precaution and innovation, and to share their ideas and opinions. A diverse group of twenty-seven citizens learned about the most highly contested topics and precautionary measures in place – GMOs, nanotechnologies and systemic pesticides being among the most notorious examples. ARC Fund gathered their feedback into a summary report

detailing the scope of different perceptions of the interplay between precaution and innovation.

In the last quarter of 2019, ARC Fund commenced research on the relevance of the precautionary principle in regulations focusing on genetically modified organisms, where there is a vast discrepancy between scientific confidence in safety and technological capability, on one hand, and the public's perception of harm to individual health, consumption choices, and ecosystem sustainability on the other hand. ARC Fund reviewed current conflicting perspectives on GMOs, the state of regulatory frameworks in the EU, and the opinions of major stakeholder groups to lay the foundation of a comprehensive case study on the relevance, application and motivations behind the use of the precautionary principle in regulating GMOs through policy.



Citizens gathered together to discuss whether and how public policies can ensure better precaution, 23 June 2019

Technology Assessment as Knowledge-Informed Policy Advice

ARC Fund's Program Director Zoya Damianova delivered the keynote speech to a joint conference of the German-speaking Technology Assessment institutes in May 2019. She spoke about the changing role of and the evolving expectations to technology assessment within a mission-driven research context, and encouraged the conference participants to anticipate more closely some of the challenges that national technology assessment institutes are expected to face after 2021.

Also in 2019, ARC Fund joined the newly established international GlobalTA network, which brings together science and technology research institutes from across the globe to promote innovation and knowledge-based strategies to tackling the most

pressing societal challenges. ARC Fund continues to be the only Bulgarian institute that is involved in technology assessment initiatives that support policy and decision-making on issues related to scientific uncertainty, technological advancement and innovation diffusion.

In November 2019, ARC Fund was among the delegates to the **4th Biennial International Technology Assessment Conference**, having already contributed to the prior three since 2013. The Program Director Zoya Damianova spoke as part of a panel on Value-driven Innovation Approaches on the topic of **"The added value of public engagement in the development of sustainability-focused research policy and programs."**

Leadership in Responsible Research and Innovation

In 2019 ARC Fund continued integrating principles and practices of Responsible Research and Innovation in its scope of work. The team developed a mapping methodology to enable targeted collection of data about local actors, policies, good practices and risk and opportunity factors that was

used across five EU regions and municipalities – the city of Gabrovo in Bulgaria, the region of Emilia Romagna in Italy, the region of North-East Romania, the region of Central Macedonia in Greece and the County of Trøndelag in Norway.

Building capacities for research and innovation management in the Danube macro-region

ARC Fund successfully delivered a blended learning course, part of an extended edu-



Mr. Kozarev presenting policy recommendations for the strengthening of national capacities in R&I project management, July 2019

cational offering for aspiring research and innovation managers across the Danube region. Following a year-long study program, two Bulgarian participants received their certificates as R&I project managers at a ceremony at the Charles University in Prague, as part of a pre-selected cohort of young research and innovation managers.

ARC Fund also finalized the Strategy and Roadmap for the Development of National Capacities for Research and Innovation Project Management. STIP's Program Manager Ventseslav Kozarev introduced the document to an open stakeholder meeting, hosted in Prague by Charles University.

Enhancing the capacity of research infrastructures

Science, technology and innovation (STI) funding systems of many countries in the Danube macro-region are still affected by a number of problems. Among the most important ones is the unsatisfactory quality or the very absence of adequate ex-ante evaluation, monitoring and impact oriented assessments of STI programs and specifically of the research infrastructures (RIs).

Throughout the year ARC Fund:

- Prepared three guidance documents (Ex **Ante Evaluation for Research Infrastructures; Monitoring of Research Infrastructures; Assessment of Socio-Economic Impacts of Research Infrastructures**) and two sets of policy recommendations (**Recommendations for RI Managers** and Recommendations for Policy-makers): ARC Fund coordinated the work of the international Thematic Group preparing the Guidance Document for Assessment of the Socio-economic Impacts of Research Infrastructures. The guide provides details about and advice on how to organize and manage the process of assessing the socio-economic impacts of RIs.
- Organized and implemented trainings to build capacity for evaluation, planning, monitoring and management of research infrastructures: although the trainings, attended by over 100 policy-makers, RI operators and coordinators, and RI reviewers from 14 countries, took place in 2018, the training materials were promoted on different events in 2019.
- Registry of research infrastructure reviewers: ARC Fund developed a database with information about almost 200 qualified and experienced experts able to evaluate research infrastructures in the Danube region countries. The Registry is intended for the use of ministries in charge of science, research and technology, science and research funding authorities, and agencies in charge of research infrastructures, but also for research organizations seeking RI investments. A restricted version of the database (containing no names and contact information of reviewers) is **freely accessible**, but the contact with the reviewers can be established only through ARC Fund.
- ARC Fund facilitated a mutual peer learning exchange between the Institute of Oceanology (at the Bulgarian Academy of Sciences) in Varna and the Faculty of Civil Engineering at the University of Rijeka, Croatia, both managing large research infrastructures. The results and recommendations from the peer learning visits were presented on the international Know-how Exchange Forum in Bratislava.

Transforming energy consumption patterns in household

In 2019, ARC Fund continued raising households' awareness on how to consume energy in a more conscious way and how to improve the energy efficiency at home. The team contributed to the further development of the ACT4ECO online platform that targets EU households and helps them to learn about smart energy consumption. The platform is an open access one so that users

interested in any of the topics would have the opportunity to sign in and explore its contents.

As one of the main content contributors to the platform, ARC Fund developed guidelines on the topic of prosumerism and energy self-generation at home. The guidelines provided an overview of three current tech-

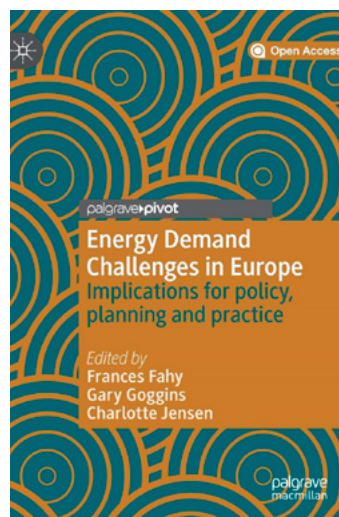
The ACT4ECO platform is accessible at <https://staging.act4eco.eu/>

nologies-in-use for home-based energy self-generation (solar water heating systems, photovoltaic systems and micro combined heat and power systems), making users aware of the opportunities these technologies offer and enabling them to self-assess how each technology might be suitable to their needs.

ARC Fund contributed to international research that has been instrumental in developing a greater understanding of how and why people use energy in their everyday lives, and to what effect. The team documented the outcomes of this research and practical work in several open access publications:

- **National Summary Brief** – Bulgaria presents the energy profile of the country, with an overview of the most important national sustainable energy consumption initiatives, provides a detailed description of selected good practices and concludes with a summary of major nationally specific trends and their implications for energy consumption policies.
- The book **Energy Demand Challenges in Europe: Implications for policy, planning and practice** examines the role of citizens in sustainable energy transitions across Europe. ARC Fund's experts Marko Hajdinjak and Desislava Asenova wrote a chapter reflecting on the challenges and trends in sustainable energy consumption

and energy poverty in Bulgaria. The book further explores energy problem framing, policy approaches and practical responses to the challenge of securing clean, affordable and sustainable energy for all citizens, with households as the main unit of analysis.



- **Methodology, experience and lessons learned** presents the Living Labs methodology used to observe and analyze practices of household energy use and test the efforts to adopt more sustainable routines at home. The publication discusses lessons learned and reflects on how this methodology could contribute to a sustainable future.



ARC Fund's Senior Analyst Marko Hajdinjak took part in the annual conference of the European Network for Research, Good Practice and Innovation for Sustainable Energy (ENERGISE), October 2019

Strategic development and networking

In 2019 ARC Fund further strengthened its organizational network in Bulgaria and across the EU and EEA, expanding it further by starting collaboration with more than 20 new partners from universities, local and regional authorities, research institutes and SMEs. The team was involved in several new

research and innovation projects under the Horizon 2020 program, extending further its more than 100-strong partnership network and enabling the team to offer its rich expertise to new challenges, new locations and across practice areas.



The Certificate from the Ministry of Education and Science attesting to ARC Fund's performance under EU's Framework Programs in 2019.

ARC Fund was one of the eight organizations, which initiated the European Workplace Innovation Network (EUWIN) in the period 2012 - 2017. The collaboration between the partners continued, and after 2017 focused on promoting the issue of workplace innovation at the European Union level.

Also in 2019, for another year in a row, ARC Fund was recognized by the Ministry of Education and Science as being the most successful Bulgarian non-profit research institute, owing to its productive involvement in more than ten research and innovation projects under the Horizon 2020 program (since the program's inception in 2014).

Safer Internet Program

sqfenet.bg

ARC Fund has been implementing the EC Safer Internet Program in Bulgaria for 15 years as coordinator of the Safer Internet Centre (SIC) with its three components: Awareness node, Internet Hotline for reporting illegal and harmful to children online content and conduct, and the national Helpline for consulting children, parents, teachers, social workers and other professionals on issues concerning children's safety online.

The organization operates a Hotline for reporting online content that is illegal and harmful to children and supervises a Helpline operated by its partner Parents Association.

The Centre is member of the International Association of Internet Hotlines (INHOPE) and of the European network of Safer Internet Centres (Insafe), and is Bulgaria's representative in the EU Kids Online and Global Kids Online research networks. It is also a member of the European Crime Prevention Network (ECPN) and the Radicalisation Awareness Network (RAN). A member of the Bulgarian SIC's Youth panel was selected for a Bulgarian representative in the Children's Council of the Eurochild international network. The Centre was granted a Quality Certificate by the International Association of Internet Hotlines INHOPE. The Bulgarian Safer Internet Centre is Trusted Partner of Facebook and Trusted flagger of Google.

In 2019, through its Safer Internet Program, ARC Fund conducted a large range of activities in the field of protection of children online. The organization operates a Hotline for reporting online content that is illegal or harmful to children in close cooperation with the other INHOPE member hotlines, the national law enforcement authorities (LEA) and Interpol and supervises a Helpline operated by its partner Parents Association. The Hotline reports about online sexual exploitation of children are verified and transferred for further legal action to the national Cybercrime Unit. Via the Helpline, trained psychologists consult children, parents and teachers about problems and incidents with children on the Internet. The Internet Hotline for fighting illegal and harmful content and conduct online received and processed 9289 reports of sexual exploitation of children online. Over 1800 teenagers

from across the country were trained under its most successful program Cyberscout. More than 5400 children, 1000 teachers, 5000 parents, 100 university students and 3500 professionals (educational experts, psychologists, social workers, etc.) were involved in training and awareness raising events. The Ministry of Education and Science participated in a working group of ARC Fund experts, professional teachers and university professors, set up to develop a methodology for teaching digital and media skills in primary schools.

In 2019, the Hotline received and took necessary actions on 9289 reports, as 9125 of them were on child sexual abuse materials, 14 – on child erotic or nudism, 12 – on child sexual grooming. 1414 of those reports were directed to the Law Enforcement Authorities (the Cybercrime Unit of the General Direc-

torate Combating Organized Crime), 7711 were sent to other Hotlines (members of IN-HOPE), 3 were directed to other Bulgarian institutions and in 2 cases the Centre asked for harmful to children online content to be removed.

During the year, the Helpline provided 521 consultations on various issues ranging from cyberbullying to security settings and use of the Internet and digital devices by minors. Among those consultations, 39 consultations concerned potentially harmful to children online content, 36 were on security settings, 35 on reported cases of cyber bullying, 12 were on sextortion.

Besides the direct protection and support of children facing online risks and involvement in a number of research projects in the field of online safety and victimization of children and young people, ARC Fund has developed and has been implementing various educational methodologies for prevention of cybercrimes and online abuse of children. ARC Fund coordinates a working group of primary school teachers, university professors and representatives of the Ministry of Education and Science set up to Safer Internet Program. The working group developed a Methodology for teaching digital and media skills in primary schools. The methodology, which also includes 10 modular lessons for teaching digital and media competences to primary school children, is based on the formal curricula. The lessons were piloted in dozens of schools. Taking

into account the feedback to and the evaluation of the program, the working group developed a holistic concept for teaching digital and media literacy from 1st to 12th grade for the Ministry of Education and Science.

In the summer of 2019, a holistic model for development of digital and media literacy of students from all age groups through the existing curriculum was developed by the SIC's team. The model included modules on systematic work with parents and building of school community. Teachers from the 19th High School in Sofia received several trainings on the updated holistic model provided by the Centre's experts. In 2019, with the support of Sofia's Lozenets District, experts from the Safer Internet Centre (Parents Association and ARC Fund) also developed a new guide for teachers with lesson plans entitled "Digital literate" as updated version of the guide "Virtual and real violence". The new version enlarged the scope of the topics and included issues like security setting in social media and fake news. The guide was piloted in 35th High School in Sofia.

In the last 5 years, ARC Fund has been running the Cyberscout training program which was ranked 9th in Europe by the European Crime Prevention Network in 2017. In 2019, over 860 teenagers from across the country were trained under the Cyberscout program. After completing a 2-day training in online safety they started organizing various initiatives and activities to pass the newly acquired knowledge to over 1000 of their peers. All together during the year, more than 5400 children, close to 1000 teachers, more than 5000 parents, over 100 university students and more than 3500 professionals (including educational experts, school psychologists, social workers, members of local commissions for combating trafficking of human beings among others) were involved in training and awareness raising events. In 2019, the Centre's team provided also 7 trainings of peer trainers on prevention of human trafficking and online risks in

safenet.bg

Начално образование в
дигиталната епоха -
наръчник за учителя



partnership with the National Commission for Combating Trafficking of Human Beings.

The Cyberscout training program for children aged 11-12 has become highly popular in schools. In 2019, ARC Fund trained over 860 children from 42 schools in 25 cities and towns, who were invited to participate in a national competition among all Cyberscouts by organizing various activities and initiatives among their peers to transfer the newly acquired knowledge and

skills. Through these activities, supported by a teacher, they could reach close to 1000 other children. The results of the training are acknowledged by teachers and pupils alike. As one teacher put it: “Our trained pupils are very enthusiastic and put a lot of effort in the preparation of various awareness raising activities targeting their peers. They feel very proud to be Cyberscouts and to teach other children how to prevent risks on the Internet”.



Newly certified cyberscouts

Being recognized as a center of excellence in the field of child protection on the internet, ARC Fund participates in various national and international activities and working groups for developing strategies and proposals for necessary legislative measures, social service procedures and practices. It conducts a regular basis training of children, teachers, parents, care givers, and social workers and is involved in various awareness raising activities. Experts from ARC Fund were included in an international working group formed by the European Crime Prevention Network to prepare a more structured and evidence-based strategy for the prevention of crimes against children. ARC Fund participates on a regular basis in working and training meetings of the Radicalization Awareness Network pre-

sending its expertise and sharing knowledge and practices with other organizations. ARC Fund also became Trusted Partner of Facebook and Trusted Flagger of Google. Intervention and support in cases of incidents and risks for children online are important priorities, but the Safer Internet Centre places a major focus on prevention.

Since 2010, the Bulgarian Safer Internet Centre has been working actively on youth participation, maintaining its Youth panel – a voluntary structure of young people aged 14-18. In 2019, the young people provided their own campaign “You are the hero”, promoting positive online behavior and countering cyber bullying. They have been trained on marketing models and the Youth panel Coordinators facilitated the creative pro-

cess. The youngsters themselves created the campaign slogan, message and the screenplay of the campaign video which was shot by a professional director. The campaign was launched on the Safer Internet Day (February 2019) and was also promoted by the Better Internet for Kids (BIK) international network on their BIK Youth mini site. With the support of the Embassy of the United States of America in Bulgaria and a partnership with “The Voice of children” Foundation, maintaining its youth media platform called “Teen Station”, the young members of the Youth panel in Sofia, as well as young people from Ruse were also trained on media content creation by media professionals. Thus, the trained youngsters developed their digital and media skills and joined the editorial teams of the “Teen Station platform”. The members of the Youth panel also planned and hosted numeral events of the Bulgarian SIC and its partners – the main Bulgarian event celebrating Safer Internet Day, the Centre’s participation in the “Voice it” Youth forum (organized by the National Network for Children), the SIC’s participation in the annual open event

for children and parents “Familathlon”, the SIC’s activities for celebrating the Child Right’s Day in Pernik, etc.

In 2019, two members of the Youth panel joined the Youth network “Megaphone”, maintained by the National Network for Children, as well as the network’s “Reporters” initiative. One of them was also elected with the majority of the votes of the young people, involved in this initiative, to be the representative of Bulgaria in the Eurochild Children’s Council and attended the annual event of the European Parliament for the Child Rights Day which took place in Brussels in November. There participants had the opportunity to discuss important topics concerning children with high level European politicians. Another member of the Bulgarian SIC’s Youth panel joined the European Youth panel of the Insafe network and actively participated in the annual Safer Internet Forum which also took place in Brussels in November. For the first time, the young people planned and hosted their own session for all the participants at the forum.



At the annual youth forum Voice It the stand of ARC Fund managed by the youth panelists attracted many young participants.

For a second time, the Coalition for Media Literacy at School, of which ARC Fund is among the founders and which currently has 17 member organizations, launched “Days of Media Literacy” campaign on the Safer Internet Day (February 2019). The Safer Internet Centre provided a package of materials for schools, containing lesson plans for various age groups of students, Guidelines for teachers, plans for meeting with parents, etc. In partnership with the Coalition and the Foundation for Liberty “Friedrich Naumann”, the Safer Internet Centre also organized a second practical conference for teachers on how to develop digi-

tal and media literacy at school, which took place in Veliko Tarnovo in November 2019. The participating teachers were invited to create their own lesson plans on the various subjects which they teach using the holistic model for development of digital and media literacy, proposed by the Centre. A number of teachers who participated at the previous conference (in Sofia, November 2018) had already created their lesson plans. In the beginning of 2019, 14 of them were selected by the Safer Internet Centre’s team and published in both the Centre’s and the Coalition’s websites as resources which can be used by other teachers.

PART TWO:

MANAGEMENT

Institutional Development 2019

ARC Fund is a not-for-profit organization acting for the public benefit. Up to 2017, ARC Fund was registered at the Sofia City Court and the Central Register of Not-for-Profit Legal Entities at the Bulgarian Ministry of Justice. In 2018, following amendments to the national legislation, ARC Fund was re-registered in the public Commercial Register and Register of Not-for-Profit Legal Entities at the Registry Agency under the Minister of Justice.

Not-for-profit legal entities acting for the public benefit are obliged by the Bulgarian law to conform to a number of additional rules, inter alia, to draw up and submit annually an activity report and financial statements for entry in the public Register.

In 2006, ARC Fund established ARC Consulting EOOD – a wholly-owned 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 for research, technology development and demonstration projects, as well as under the Cohesion and Structural Funds. ARC Fund and ARC Consulting form the ARC Fund Group.

In 2019, the ARC Fund Group' employed full-time staff of twenty-two (eighteen in professional and managerial positions and 4 in administration) and a number of part-time consultants and advisors. The team of ARC Fund Group is a mixture of young, well-educated and highly motivated people and experienced experts, renowned for their professionalism and high quality work.

During 2019 ARC Fund Group worked on the implementation of 23 projects and 8 ser-

vice contracts, supported by the European Commission (EC); the Executive Agency for SMEs (EC); the Research Executive Agency (EC); the Innovation and Network Executive Agency (EC); the EU's Interreg Europe, Interreg Danube, IPA and Erasmus+ Programs; the Joint Research Center (EC); the national Operational Program Good Governance; OAK Foundation; Telenor; US Embassy in Bulgaria; Google Poland Sp. Z.o.o.; Technopolis Consulting Group; Eurasia Group Ltd.; Applica Sprl.; and the Administration of the Council of Ministers of Bulgaria.

In 2019 ARC Fund was recognized by the Ministry of Education and Science as being the most successful Bulgarian non-profit research institute, owing to its productive involvement in more than ten research and innovation projects under the Horizon 2020 program.

ARC Fund is managed in accordance with the principles of good governance, accountability and transparency. These principles are applied through:

- execution of annual audits since 1992;
- individual project audits;
- publication of Annual Reports in Bulgarian and in English;
- regular updates of the organization's website to inform the public about ongoing projects and events;
- child-protection policy, which contains an ethical code, principles and rules for working with children;
- publications in the media to enhance the impact of policy recommendations and increase public awareness of supported causes.

List of Staff

Board of Trustees

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

Staff Directory

Nikolay Badinski, Executive Director
Zoya Damianova, Program Director
Ruslan Stefanov, Coordinator, *Innovation.bg* Group and Manager, ARC Consulting

Innovation and Business Support Program

Daniela Tchonkova, Program Manager
Denitsa Marinova, Project Manager
Prof. Teodora Georgieva, Senior Fellow
Dr. Fani Koleva, Senior Analyst
Maya Tsaneva, Communications Officer

Science, Technology and Innovation Policy Program

Ventseslav Kozarev, Program Manager
Blagovesta Chonkova, Project Manager
Marko Hajdinjak, Senior Analyst
Desislava Asenova, Analyst

Safer Internet Centre

Georgi Apostolov, Program Manager
Petar Kanchev, Senior Analyst
Dr. Emanuil Georgiev, Analyst
Lubomir Sirkov, Analyst
Rositsa Petrova, Analyst

Finance and Administration

Tsvetoslava Kioseva, Financial Officer
Daniela Zain, Accountant
Mariana Yankova, Administrative Secretary
Dimitar Stamenov, System Administrator

PART THREE:

FINANCIAL REPORT




Applied Research And Communications Fund (The Group)

Consolidated Annual Financial Statements

31 December 2019

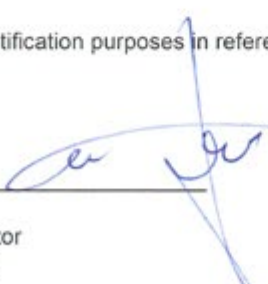
(all amounts in BGN thousand)	Note	31 December 2019	31 December 2018
Assets			
Property, plant and equipment	5	14	9
Intangible assets	6	2	1
Investment property	7	38	125
Total non-current assets		54	135
Current assets			
Trade and other receivables	8	572	851
Cash and cash equivalents	9	1 858	2 294
Total current assets		2 430	3 145
Total assets		2 484	3 280
Equity			
		2 013	1 945
Liabilities			
Payables to partners and suppliers	10	50	935
Payables to related parties		-	-
Deferred financing	11	421	400
Total current liabilities		471	1 335
Total liabilities		471	1 335
Total equity and liabilities		2 484	3 280

These consolidated financial statements were approved by the Board of Trustees on 31 August 2020. They are signed on behalf of the Board of Trustees by:


Nickolay Badinski
Executive Director
31 August 2020



Initialled for identification purposes in reference to the audit report:


Stoyan Donev
Registered Auditor
31 August 2020



(all amounts in BGN thousand)	Note	31 December 2019	31 December 2018
Revenues from grants financing	12	1 300	1 441
Cost of Sales		<u>1 173</u>	<u>1 309</u>
Gross Profit		127	132
Other operating income		706	349
Administrative expenses		<u>(752)</u>	<u>(463)</u>
Revenue from operating activities		81	18
Financial income		3	3
Financial expenses		<u>(7)</u>	<u>(7)</u>
Net financing costs	13	(4)	(4)
Profit before income tax		77	14
Income tax expense	14	<u>(7)</u>	<u>(1)</u>
Net profit for the period		70	13
Other comprehensive income		-	-
Total comprehensive income		70	13

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Nickolay Badinski
 Executive Director
 31 August 2020




Initialled for identification purposes in reference to the audit report:

Stoyan Donev
 Registered Auditor
 31 August 2020




(all amounts in BGN thousand)	Note	Retained earnings
Balance as of 1 January 2018		1 931
Net profit for the year		13
Other changes		1
Balance as of 31 December 2018		1 945
Balance as of 1 January 2019		1 945
Net profit for the year		70
Other changes		(2)
Balance as of 31 December 2019		2 013

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Nickolay Badinski
Executive Director
31 August 2020



Initialed for identification purposes in reference to the audit report:


Stoyan Donev
Registered Auditor
31 August 2020



(all amounts in BGN thousand)	Note	31 December 2019	31 December 2018
Cash generated from operations			
Profit before income tax		77	13
Adjustments for:			
Depreciation		7	10
Changes in working capital:			
(Increase)/Decrease of Trade and other receivables		329	(33)
(Increase)/Decrease of Trade and other payables		(856)	784
(Increase)/Decrease of Deferred financing		20	(265)
(Increase)/Decrease of Deferred expenses		-	1
Net cash from operating activities		(423)	510
Income tax paid		-	-
Net cash generated from operating activities		(423)	510
Cash flows from investing activities			
Payments for acquisition of property, plant and equipment		(6)	(2)
Net cash used in investing activities		(6)	(2)
Cash flows from financing activities			
Loans received		-	-
Interest and commissions paid		(7)	(7)
Net cash used in financing activities		(7)	(7)
Net increase/(decrease) in cash and cash equivalents		(436)	501
Cash and cash equivalents at the beginning of the year		2 294	1 793
Cash and cash equivalents at the end of the year	9	1 858	2 294

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Nickolay Badinski
Executive Director
31 August 2020



Initialled for identification purposes in reference to the audit report:

Stoyan Donev
Registered Auditor
31 August 2020



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 2019 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 2019 the Group has 23 employees.

These consolidated financial statements have been approved by the Board of Trustees of the Fund on 31 August 2020.

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 2019 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 2019 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 commence from the date the asset is available for use. Land is not depreciated as it is deemed to have an indefinite life. Assets under construction are not depreciated as not yet available for use.

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

Buildings	100 years
Computers and equipment	2 - 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 2019.

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

In 2019, the Bulgarian economy continued its growth based on internal demand and exports.

However, growth prospects have remained uncertain for Europe as a whole. Persistent global uncertainty, the US – China trade dispute, the EU – UK's no deal Brexit prospects, continuing Russia – Ukraine standoff, and worsening EU – Turkey relations have all weighed down on economic growth. Eurozone growth has slowed down in the second quarter of 2019, which has signaled a continuation of close to zero interest rates in the Eurozone. At the same time, the European elections in 2019 have underscored EU's stability and are likely to result in continued support for Bulgaria's EU projects. This is likely to be also positive to the operations of the Group.

The future economic direction of Bulgaria is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the Government of Bulgaria, together with tax, legal, regulatory and political developments. Internal political instability has stayed high in 2019. Policy and regulatory uncertainty have increased at the end of 2019. While Bulgaria has continued with its Eurozone and Schengen bid, these have proven difficult to happen according to plan.

The 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. However, the management's analysis shows that for the short to mid-term the risks are balanced and the general environment is likely to remain largely favourable for the development of the Group. There have been, however, worrying policy initiatives aimed against the non-governmental sector from parliamentary represented parties, which calls for close monitoring of developments.

The Bulgarian economy is particularly vulnerable to market downturns and economic slowdowns elsewhere in the world. A particular, rising risk are the global trade tensions, which might affect adversely the EU and Bulgaria's economy. The management is unable to determine with precision the longer-term effects on the Group's future financial position of any further changes in the economic environment in which the Group operates.

The 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 2018	Up to 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Trade and other payables	935	-	-	-
As of 31 December 2019	Up to 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Trade and other payables	50	-	-	-

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 2019	Additions	Disposals	As at 31 December 2019
Computers	86	11	13	84
Vehicles	144	-	-	144
Fixtures& Fittings	19	-	1	18
Other assets	3	-	-	3
Total	252	11	14	249

Depreciation	As at 1 January 2019	Additions	Disposals	As at 31 December 2019
Computers	78	6	14	70
Vehicles	144	-	-	144
Fixtures& Fittings	19	-	-	19
Other assets	2	-	-	2
Total	243	6	14	235

Carrying amount	As at 1 January 2019	Additions	Disposals	As at 31 December 2019
Computers	8		6	14
Vehicles	-			-
Fixtures& Fittings	-		1	(1)
Other assets	1			1
Total	9			14

6. Intangible assets

Cost	As at 1 January 2019	Additions	Disposals	As at 31 December 2019
Software	13	-	13	-
Intellectual Property	1	1		2
Total	14	1	13	2

Depreciation	As at 1 January 2019	Additions	Disposals	As at 31 December 2019
Software	13	-	13	-
Intellectual Property	-			-
Total	13	-	13	-

Carrying amount	As at 1 January 2019	Additions	Disposals	As at 31 December 2019
Software	-	-	-	-
Intellectual Property	1			2
Total	1	-	-	2

7. Investment property

	31 December 2019	31 December 2018
As at 1 January		
Carrying amount at the beginning of the period	127	174
Depreciation charge	(48)	(47)
Carrying amount at the end of the period	79	127
As at 31 December		
Cost	54	174
Accumulated depreciation	(16)	(49)
Carrying amount	38	125

Investment properties are carried at cost, less accumulated depreciation and impairment.

8. Trade and other receivables

	31 December 2019	31 December 2018
Trade receivables	576	927
Less: Impairment provision of trade payables	(91)	(78)
Trade receivables, net	485	848
Other	87	2
	572	851

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

9. Cash and cash equivalents

Cash	31 December 2019	31 December 2018
Cash at hand	9	9
Cash in bank current accounts	1 849	2 285
	1 858	2 294

10. Trade and other payables

Short Term liabilities	31 December 2019	31 December 2018
Payables to partners and suppliers	-	2
Salaries and social securities payables	22	10
Tax	-	-
Other	28	923
	50	935

11. Deferred financing

Deferred financing related to projects:	31 December 2019	31 December 2018
Empowering Children in the Digital Age through Early Digital Literacy Development		30
Energy Conscious Consumers (ECO2)	122	191
European Network for Research, Good practice and Innovation for sustainable Energy (Energize)		30
Responsible Research and Innovation in Practice (RRI Practice)		86
Social Innovation – Driving Force of Social Change (SI-DRIVE)		22
REconciling sCience, Innovation and Precaution through the Engagement of Stakeholders (RECIPES)	59	
Child Protection and Education for Safety and Success in the Digital Age (Safer Internet 7)	59	
Territorial Responsible Research and Innovation Through the involvement of local R&I Actors (TeRRitoria)	117	
Holistic model for safer school and community by building digital era competences (OAK - 2019 - 3)	35	
Media Information Literacy “Village” to Empower Young People for Active Participation (MILagers)	25	
Other		24
Total deferred financing related to projects	415	383
Deferred financing for acquisition of fixed assets	4	17
Total deferred financing	421	400

12. Revenue

Revenues from grants financing and other project for respective periods are as follows:	31 December 2019	31 December 2018
Men care campaign in Bulgaria (Phase II)	12	15
Energy Conscious Consumers (ECO2)	71	91
Enhanced bi-regional STI cooperation between the EU and the Black Sea Region (Black Sea Horizon)	-	3
Citizen and Multi-actor Consultation on Horizon 2020	-	26
Promoting societal engagement under the terms of RRI	-	24
Empowering Children in the Digital Age through Early Digital Literacy Development	-	99
Creating a better internet for kids by protection, awareness raising and education	30	169
Bridging the innovation gap through converting R&D results into commercial success in a more effective and efficient way	34	101
Efficient support services portfolio for SMEs	47	106
Responsible Research and Innovation in Practice (RRI Practice)	157	190
European Network for Research, Good practice and Innovation for sustainable Energy (Energize)	72	38
Facilitating macro-regional scope and link up to socio- economic actors of Research Infrastructure in the Danube Region (ResInfra)	60	282
Excellence in research , social and technological innovation project management (ReSti)	144	188
Child Protection and Education for Safety and Success in the Digital Age (Safer Internet 7)	206	
Holistic model for safer school and community by building digital era competences (OAK - 2019 - 3)	15	
Territorial Responsible Research and Innovation Through the involvement of local R&I Actors (TeRRitoria)	92	
REconciling sScience, Innovation and Precaution through the Engagement of Stakeholders (RECIPES)	47	
Trusted Flagger Operational Grant - Google	34	
Enhancing scalable innovations and new business models based on urban farming ecosystem values - CityZen	82	
Resilient Youth against Far-Right Extremist Messaging Online - YouthRightOn	13	
Media Information Literacy “Village“ to Empower Young People for Active Participation - MILagers	5	
Other projects	170	84
Total Revenues from grants financing	1 293	1 415
Revenues from unconditional donations	2	6
Other	5	19
Total Revenues	1 300	1 441

13. Finance costs, net

	31 December 2019	31 December 2018
Interest income	2	3
Foreign exchange expense	(3)	(3)
Other financial expenses	(3)	(4)
Finance costs, net	(4)	(4)

14. Income tax expense

The major components of income tax expense for the year ended 31 December 2018 and the period ended 31 December 2019 are:

	2019	2018
Current tax	(7)	(1)
Deferred tax	-	-
Income tax expense	(7)	(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.

15. Expenses

Cost of sales for the Group includes:	31 December 2019	31 December 2018
Expenses for materials	4	4
Hired services	738	453
Depreciation and amortisation	7	10
Salaries and wages	867	967
Social securities	98	92
Other expenses	210	246
	1 925	1 772

16. 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	
		2019	2018	2019	2018	2019	2018
		<i>Transactions</i>		<i>Receivables</i>		<i>Payables</i>	
Project 1	Rental agreement	(78)	(81)	-	-	-	-
Project 1	Consulting services	-	-	-	226	-	-
Vitosha Research	Consulting services	7	6	-	-	-	-
		(71)	(75)	-	226	-	-

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:

	2019	2018
Board of Trustees and Executive Directors	265	274

17. 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 Auditors' 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 2019**, 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 2019 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.

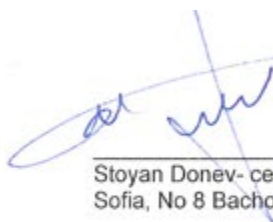
Amongst the issues, communicated with the management, we determine those issues, which have been with most importance during the audit of the consolidated financial statements for the current period and which therefore appear key auditor issues. We have described these issues in our auditor report, except 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 31 August 2020



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