

2016

Annual Report



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Applied Research and Communication • Fund •

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# **Applied Research and Communications Fund 2016 Annual Report**

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# Introduction

In 2016, the **Applied Research and Communications Fund** (ARC Fund) marked its 25th anniversary, continuously working to promote and shape the information society and the knowledge economy in national and international contexts. Throughout these years, ARC Fund reconfirmed its position as a pioneer and forerunner in the areas of applied research and analysis, foresight and public engagement, innovation and business support, innovative policy-making, and capacity building. It strived to respond to some of the most challenging issues the Bulgarian and European societies face – environmental concerns and promotion of green innovation; enhancement of responsible research and innovation; countering online hate speech and development of early media and digital literacy.

## Policy Impact

ARC Fund has continued and expanded its efforts to foster an innovative culture and the internationalization of public institutions and private sector businesses. Specifically, ARC Fund has enhanced its capacity to effect positive change in the country through the use of the most modern public policy development tools based on European and global best practice. These consisted of legitimizing public policy decisions by the provision of a venue for democratic deliberation, bringing together key stakeholders from government, industry and civil society into a constructive dialogue. Strengthening the interface between government, businesses and civil society is an essential precondition for developing inclusive stakeholder-driven public policies and a thriving private sector. ARC Fund helps promote this interaction in order to improve economic opportunities in the country that take into account environmental and social challenges. Exposing the merits and faults of ideas and opinions to each other in a transparent manner, with the ability to act on results, is essential to the achievement of ARC Fund's goals.

However, strengthening this process does not only come about in a top-down manner through deliberative public policy development. ARC Fund recognizes this fact as it continually supports activities in the country, which aim to encourage involvement even at the grassroots level. With respect to supporting the innovation and knowledge economy, the organization undertakes specialized trainings for professional groups in the country and provides technology brokering, innovation incubation and consulting services to Bulgarian and foreign companies. At present, over 5,000 clients benefit from ARC Fund's offerings. With respect to the strengthening of civil society, ARC Fund undertakes projects which help to demonstrate the value of technology in strengthening governance (such as e-governance), those which help to decentralize and democratize inputs into the policy-making process (for example through online social networks), and in improving the competitiveness of Bulgarian businesses (through the facilitation of partnerships and the transfer of knowledge and international best practice). By supporting these societal pillars from multiple entry points, ARC Fund aims to increase their interaction in order to check and balance each of them into providing optimal societal outcomes for Bulgaria and Europe.

Throughout 2016, ARC Fund continued its efforts to provide the most up-to-date information and analysis to Bulgarian policy-makers in innovation, science and technology policy. Of particular importance was the development and presentation of the *2016 Innovation.bg report*, which identified both the positive trends, as well as the challenges, to innovation in the country. This analysis was presented to policy-makers at the Twelfth National Innovation Forum in Sofia.

ARC Fund worked closely with government agencies on improving the information society in the country, including the Ministry of Transport, Information Technology and Communications. ARC Fund was represented on the ICT Consultative Council at the Ministry, where it provided information on current developments of ICT in Bulgaria as well as offered advice to improve broadband and penetration of ICT in the country.

### **Impact on Firm Level**

ARC Fund is also heavily involved in the provision of business support services to enterprises. This is evidenced by the fact that ARC Fund is the coordinator of the European Enterprise Network (EEN) in Bulgaria, which consists of 12 partnering organizations in 8 cities. The EEN is Europe's largest business support network and helps SMEs internationalize, innovate and gain information about available EU finance and funding opportunities, consulting, matchmaking, internationalization and business leverage services. In 2016, ARC Fund delivered services to over 200 companies in these areas. Among the economic sectors covered are manufacturing, mechatronics and automation, machine building, maritime industries, ICT, tourism, and management consulting. ARC Fund also organizes matchmaking and technology brokerage events and facilitates the participation of Bulgarian SMEs in them. ARC Fund services resulted in new contracts for Bulgarian companies in UK, Austria, Greece, Cyprus, Albania, Spain, Portugal, Romania, Italy, Germany, and The Netherlands. In recognition of the impactful advisory services delivered to a client company, ARC Fund was featured as one of the three nominees in the Enterprise Europe Network Annual Awards.

ARC Fund stimulates discussion between business and public authorities on the opportunities for further improvement of public instruments supporting innovative SMEs. For this purpose, it initiated and coordinated international networks with representatives of public authorities, science and technology parks, non-government organizations, and other stakeholders from a number of European countries and shared ideas and good practices on the basis of common methodologies.

For their support of SMEs in developing their innovation management capabilities and competitiveness, ARC Fund and ARC Consulting were recognized as good practices by the IMP3rove Academy in providing highly effective services. Innovation companies from a wide range of economic sectors, age and size groups, were provided with valuable support in the process of assessment of their innovation management practices, development of innovation strategies / action plans and appropriate reporting of innovation activities, as well as efficient management of the innovation life cycle and impact on the companies' broad economic results.

Through innovative engagement methodologies, ARC Fund demonstrates how citizens can be equal partners in the process of elaborating research priorities as foundation for future research and innovation policy-making. It integrated successfully diverse perspectives, coming from the public, as well as from disciplinary experts, into coherent policy messages and recommendations to the European Commission and other policy stakeholders across the EU.

ARC Fund initiated, and will be steering further in 2017, a broad public debate on the responsibility challenges inherent in research and innovation. It mobilised stakeholders from civil society, business, academia and policy, towards a common understanding of societal transformations resulting from technology and innovation, and a shared vision for integrating responsible research and innovation principles into R&I policy-making.

## **Society service**

ARC Fund also took an active civic role in Bulgaria through its efforts to encourage the safe and responsible use of internet and mobile technologies and its cooperation with the Ministry of Interior to prevent child abuse online. Since 2005, ARC Fund has been coordinating the Safer Internet Centre (SIC) in Bulgaria which provides three services: a Hotline for fighting illegal and harmful for children content and conduct on the Internet; a Helpline for consulting children, parents and teachers in cases of problems of minors on the Internet; and an awareness node for fostering consultation and educational tools and methodologies.

Through its coordination of the Safer Internet Centre (SIC), ARC Fund helps raising awareness among children, parents, teachers and other professionals through the development of educational materials, organizing information campaigns, monitoring emerging trends in informational use, and supporting cooperation between relevant stakeholders. As part of the SIC, in 2016 the Bulgarian Safer Internet Hotline received over 400 reports of illegal and harmful content and numerous reports were transferred to the relevant authorities and partner hotlines in other countries, which led to several law enforcement actions and convictions. The national Helpline has consulted over 700 minors, parents and teachers.

During 2016, the SIC team successfully combined dealing with reports of child sexual abuse and sexual exploitation materials on the Internet, and helping resolve problems of children and young people online, by developing new awareness tools and methodologies, conducting training for children, parents and teachers, organising events and conducting research about trends in the use of ICTs by minors.

A valuable recognition of ARC Fund's commitment to active work for the safety of children and young people in the digital world was an International Association of Internet Hotlines' (INHOPE) certificate of excellence. After conducting a thorough inspection of the work, practices, procedures, policies and premises of the Bulgarian Hotline, the Board of the INHOPE awarded ARC Fund a Quality Certificate during the annual meeting of the 45 member states of INHOPE.



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# **PART ONE**

## **Program Areas**

# National Research and Innovation Policy

The **Enterprise Europe Network** – Bulgaria (EEN) and ARC Fund's flagship initiatives – the **Innovation.bg** report, **National Innovation Forum** and **National Contest for Innovative Enterprise of the Year**, were in the core of the innovation and business support activities in 2016. The Enterprise Europe Network provided expert support to Bulgarian enterprises to innovate and go international or to do joint research with EU partners.

In 2016, over 90 companies received in-depth consultations and EEN advisory services. Seven events focused on smart specialization topics such as green innovations, design and creative industries, cluster policies, and 9 brokerage events and company missions with 20 participant companies were co-organized. These activities resulted in 15 successful international partnership agreements and 3 positively evaluated EU projects of clients. The EEN digital services have a wide outreach, they are highly appreciated and used by over 13,000 clients in Bulgaria.

Experts at ARC Fund were granted license by the A.T.Kerney's IMP<sup>3</sup>rove Academy to assess the innovation management processes of Bulgarian companies following the IMP<sup>3</sup>rove methodology. More than 30 companies received in-depth assessment and advice. The efficiency and ARC Fund's quality work and expert approach were acknowledged by the IMP<sup>3</sup>rove Academy as good practice.

As a host to the National Contact Point (NCP) for SMEs in the *Horizon 2020* NCP network, ARC Fund's expert team consulted more than 20 SMEs in their application process to the SME Instrument. It also took part in the H2020 national roadshows organized by the Ministry of Education and Science in 2016.

The team worked on analysing and improving two financial instruments for innovation support within the INTERREG

Europe projects, namely InnoBridge and ESSPO. InnoBridge gathers partners from 8 regions and ARC Fund is playing an advisory role to the Sofia Fund for Innovations supporting cultural and creative industries. In the ESSPO project, ARC Fund provides expert support to the National Innovation Fund, with particular focus on designing impact assessment and monitoring instruments for the Fund. The ESSPO project gathers partners from 6 regions for mutual learning activities aiming to boost regional innovative development.

**Innovation.bg** is ARC Fund's overall program for shaping the national innovation policy agenda. It combines several components, which offer expertise, policy building and impact assessment know how.

Since 2004, the *Innovation.bg* report has offered 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 an 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 the introduced innovation products and processes.



The annual report *Innovation.bg* provides a reliable assessment of the innovation potential of the Bulgarian economy and of the status and potential for growth of the Bulgarian innovation system. It makes

recommendations for improving the public policies for innovation in Bulgaria and in the EU, building on the most recent theoretical and empirical studies in the world and taking into account the specific economic, political, cultural and institutional framework in which the country's innovation system operates. Over the past 12 years, *Innovation.bg* has made a number of policy recommendations for improving the country's innovation policy and practice, which have been supported by business and academia. The lack of specific and sustainable actions by the Bulgarian government – despite their commitment to the process at the highest political level – reveals a serious institutional deficit in the implementation of relevant policies in the field.

*Innovation.bg 2016* analyses the status and potential for growth of the national innovation system based on five groups of indicators:

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

In the focus of *Innovation.bg 2016* were the country's **talents and the potential to identify, develop and attract talents; the potential to manage them appropriately**

**and to develop national and regional competences** on that basis. Innovation is a function of creativity, out-of-the-box thinking, imagination, passion and perseverance of people who have the potential to generate ideas and have the knowledge to convert them into successful new products and business models.

The “talent” challenge is the phenomenon of our time that needs to be addressed at various levels: in social groups, companies, national economies. However, in the conditions of relatively closed and detached national innovation ecosystems – in the framework of which processes are developing on the principle of communicating vessels – it is always better if pillars of the system interact and are mutually supportive instead of becoming barriers or obstacles to the activities of the other participants in the innovation process, or to the development of the system as a whole.

In this sense, when the goal is to create an environment which is favourable to talent growth and within whose framework talents are then motivated to remain and develop, many divergent and interlinked factors need to be made the subject of a targeted and sustainable policy. The policy should focus both on well-developed pillars of the system, which can provide for achieving excellence in one field or another, but also on the periphery and its less developed units, so as to maintain high standards and a reservoir for intellectual capital reproduction.

The policy model will encompass factors which:

- have indirect impact and create the general conditions for growing, attracting and developing talents;
- enable economic agents to make use of such conditions or, conversely, turn them into an asset that remains unused or is used in the framework of another system;
- allow businesses to make talents the driving force in the innovation process.

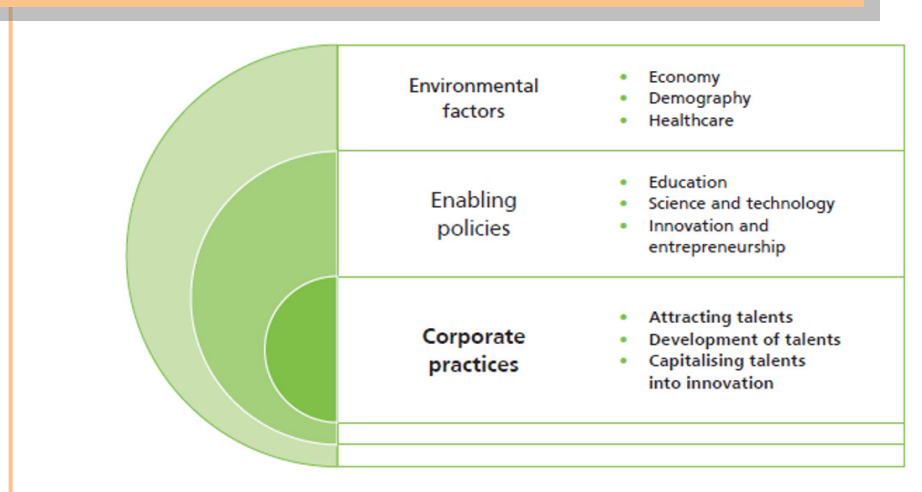
Six years after the launch of the *Europe 2020 Strategy* of the European Commission in June 2010 and in the middle of its implementation, contradictory results have been achieved both at European and national levels: faster developments against climate change, tentative progress in education and a pronounced slowdown in employment and investment in research.

In the remaining four years until 2020 the country has to double R&D expenditure as a share of GDP in order to achieve its goal of 1.5%. Several other countries with comparable goals have achieved similar results: Greece (achieved 70% of the target

1.2%), Croatia (56% of the 1.4% target), Latvia (46% of the 1.5% target) and Slovakia (74% of the 1.2% target). Romania has the largest gap, reporting only 0.38% costs for R&D as a share of GDP against the ambitious goal of 2%.

The lack of substantiated and consistently implemented policies in these fields, which should equally engage the public and private sectors, causes pronounced imbalances and fluctuations of the indicators of innovation potential, thereby leading to the unenviable positions of the country in the comparative analysis of European countries.

**Figure 1.** A model of promoting innovation-oriented talent-based business behaviour



**Source:** Applied Research and Communications Fund.

*Twelfth National Innovation Forum "Innovation powered by talent" and the National Contest "Innovative Enterprise of the Year"*

On December 7, the Applied Research and Communications Fund, ARC Consulting, Enterprise Europe Network – Bulgaria, the Representation of the European Commission in Bulgaria, the Design for Europe and Joint Innovation Center of the Bulgarian Academy of Sciences with the support of Directorate General GROWTH of the European Commission, the Executive Agency for SMEs, set up

by the European Commission, held the **Twelfth National Innovation Forum "Innovation Powered by Talent"**.

**Dr. Ognian Shentov**, Chairman of the Board of the Applied Research and Communications Fund, opened the Forum by outlining the significant role of the private sector in developing the national innovation eco-system. This trend is illustrated by



Opening of the Twelfth National Innovation Forum – from left to right: President Rosen Plevneliev, Dr. Ognian Shentov, Ambassador Michael Forbes

the growing number of alumni of the “Innovative Enterprise of the Year” award, which is a positive sign for the innovative potential of the Bulgarian economy.

The **President of Republic of Bulgaria, Mr. Rosen Plevneliev**, acknowledged the positive developments powered by Bulgarian innovative companies, especially in three high-technology sectors: ICT, outsourcing and the automotive sector, which have created over 70,000 jobs in the last few years. Mr. Plevneliev also highlighted the favourable environment for start-ups in Bulgaria, created by the European Investment Fund and the accelerators Eleven and Launchub, which play a key role in attracting innovations, talents and knowledge in Bulgaria.

**Mr. Ruslan Stefanov**, Coordinator of the *Innovation.bg* group at the Applied Research and Communications Fund, presented the main highlights in the *Innovation.bg 2016 report* on “Innovation powered by talent.” *Innovation.bg* defines

three groups of conditions necessary for the establishment of a shared ecosystem for growth and attraction of talents: a) general factors featuring all trends in economy, demography and healthcare; b) policies supporting education, life-long learning, science and technology, innovation and entrepreneurship; c) corporate practices for attracting and growing talents, capitalization of talents into innovations, applying international good practices for talent management.

**Mr. Todor Tchobanov**, Deputy Mayor of Sofia, presented recent municipal initiatives for fostering innovations. Sofia is the first Bulgarian city with its own Innovation Strategy for Smart Specialization, which aims to improve the quality of life in the region. The municipality also supports large scale events focused on innovations and digital growth and is a very active participant in OP “Science and Education for Smart Growth” 2014-2020 and EC framework programs.



*The President Mr. Rosen Plevneliev*

### *National Contest Innovative Enterprise of the Year 2016*

The annual contest, held for 12th consecutive year, is the most renowned event in Bulgaria for promoting successful innovation and business models of Bulgarian enterprises. The contest has a significant role in discovering and bringing to public attention new champions and business players. It is a recognized best national practice for promoting innovations by the European Commission and the Enterprise Europe Network.

Following tradition, the awarding ceremony of the **National Contest Innovative Enterprise of the Year 2016** was held during the National Innovation Forum. The President of Republic of Bulgaria, Mr. Rosen Plevneliev, awarded the winners. The impact of their innovations was recognized in eight areas:

1. **“Innovation for market leadership”** – Electrosfera Ltd. and its brand Antelope Audio are world leaders in digital audio technologies. The company was founded in Bulgaria by Igor Levin (an American), who was the first to introduce the use of atomic clock in musical engineering as a radical innovation. The entire development and production cycle is carried out in Bulgaria. The newest product of the

company is Goliath, which is the world’s only audio interface with an atomic clock and maximum possible number of 68 channels for converting digital and analogue content. Electrosfera’s technologies are used by the largest sound engineering studios in the USA, Great Britain and Japan, by Grammy performers, and for sound recording of high-budget films.

2. **“Innovation in Creative industries”** – Doli Media Studio Ltd. is a premium venue that supports the most modern (and even experimental) technologies in the cinema for production and post-production of content. The studio is the only one outside Hollywood that provides simultaneous mastering, color correction and displaying of final film preview with a quality of a cinema projection. Combining the technologies Dolby Atmos Premium, ACES workflow and 4K DCI is a global challenge, overcome by the original know-how of the studio to achieve perfect quality of sound and vision.

3. **“Innovation in Talents Support”** – Software University (SoftUni Ltd.) was founded in 2013 as one of the solutions for the preparation of high-quality personnel for the IT industry in Bulgaria. The university applies the model “learning by doing” to train cadres

for the software industry and to support entrepreneurship. Over 120 000 people have been trained through the courses of the SoftUni network. SoftUni cooperates with accredited Bulgarian universities and more than 60 companies and NGOs.

4. **“Innovation management,”** in line with the IMP<sup>3</sup>rove methodology – Scale Focus is a leader in development and integration of software solutions, and management of data, information and processes. The company applies leading practices for innovation management like generation and application of new ideas, and innovation life cycles, to enhance the creativity of its employees for the development of new projects with market potential.

5. **“Green Innovation”**– „TANGRA“ Ltd is a producer of high efficiency energy saving ventilation systems and secondary usage (recuperation) of hot or cold air in ventilation or air conditioning installations with efficiency up to 94%. Their compact systems are especially suitable for school classrooms and have been successfully introduced in Portugal. The company is a leader on the Balkans and among the first in Europe to introduce energy recuperation in ventilation

systems. They export to over 15 countries.

6. **“Innovation for a better quality of life”** – SintalMM Ltd applies the latest achievements in the area of inorganic materials science in the production of beryllium-free, patented CE approved nickel- and cobalt-based dental alloys for metal-to-ceramic constructions via powder metallurgy. The alloys are toxic-free, with a very high chemical purity, with nickel concentration 20 times lower than the standard level. The energy saving and ecological production uses 100% of the materials. The company currently exports to India, Hong Kong, Australia, Romania and Turkey.

7. **“Social Innovation”** – Proznanie Academy develops its own complete solution for distance education and interactive virtual classroom – VEDAMO. It provides educational services for all types of educational providers and users – for children in medical and institutional care, from vulnerable communities, refugee children and Bulgarian children abroad. In collaboration with partners they have successfully prepared Roma students for enrolling in pedagogical and medical nursing degrees. They currently teach Bulgarian



Awardees of the National Contest Innovative Enterprise of the Year 2016 together with the President Mr. Rosen Plevneliev (in the middle) and Dr. Ognian Shentov (right)

children living in Europe, Asia and Hawaii.

8. **“Innovative start-up”** – TICKEY Mobile Solutions Ltd. designs and develops mobile ticketing solutions for the public transport and mobility via universal e-ticket. They created a mobile ticketing app for Android and iPhone that allows for paying fares for public transport – buses, trams, trolleys, metro/underground by using the universal Tickey e-ticket. The modular web

based platform gives access to various features in the public transport system depending on the profile and role of the user. It offers the best price for the transport services based on the profile and role of the user, including combined tickets and discounts. The system is successfully integrated in Fal River Ferries, UK. In Bulgaria, Tickey Mobile system has been installed in several Sofia subway stations.



# Innovation and Business Support

*Enterprise Europe Network – world’s largest support network for SMEs with international ambitions to grow*

Since its launch in 2008, the **Enterprise Europe Network (EEN)** has evolved into the **world’s largest business support network** that brings together over 600 partner organizations in 66 countries around the globe. EEN’s main focus is to help small and medium-sized enterprises (SMEs) seize opportunities for business and technology development in the EU single market and beyond. In support to this mission, the EEN partner organizations are operating on a daily basis with the largest databases with over 10,000 business and technology profiles. More than 90,000 companies annually attend B2B international events and business missions organized by the network. Thanks to the EEN services more than 11,000 companies signed partnership agreements for business, technology and project collaborations.

The Enterprise Europe Network has been providing comprehensive advisory services to client SMEs for almost a decade – long enough to prove itself as a reliable center of competence on EU matters. The main objective of these services is to strengthen the competitiveness and sustainability of

European enterprises by providing them with in-depth knowledge on project proposal development, IPR management, EU standards, international trade procedures, international business dispute settlement, etc.

Furthermore, EEN is the shortest communication channel for the European Commission to collect opinions and feedback from SMEs for better design of its prospective policies and initiatives for growth and jobs.

ARC Fund continued its engagement as coordinator of Enterprise Europe Network’s national consortium through its consulting subsidiary ARC Consulting Ltd. The Enterprise Europe Network – Bulgaria includes 12 partner organizations in Sofia, Plovdiv, Stara Zagora, Yambol, Sandanski, Vratsa, Dobrich and Ruse. The portal for the network in Bulgaria launched at [www.een.bg](http://www.een.bg) provides business information, advice, and opportunities for international cooperation. ARC Fund also maintains its own regional EEN website at [www.enterprise-europe-network.bg](http://www.enterprise-europe-network.bg) featuring specific information for its clients.



*EEN Network in Bulgaria*

Other activities in 2016 included the ongoing information and advisory support to SMEs from different industries with traditional focus on sectors for smart specialization like ICT, machine building, mechatronics and automation, food and beverages, cultural and creative industries, and so on. ARC Fund regularly delivers capacity building and technology transfer support to the business clusters in Bulgaria by

being one of the founding members of the Cluster of Mechatronics and Automation and the Association of the Business Clusters – the umbrella organization of around 20 of the largest clusters in Bulgaria.

With its expertise in project management and innovation support to companies ARC Fund also takes part in the network of Horizon 2020 National Contact Points with specific focus on support to SMEs.

### *Brokerage meetings, business missions and seminars*

Every year ARC Fund co-organizes **business missions and technological brokerage events in various economic sectors**, e.g. ICT, mechatronics, healthcare, automotive, creative industries and smart cities. The pre-arranged B2B meetings facilitate contacts between businesses and research organizations looking for business, technology and EU funded project partnerships.

In 2016 ARC Fund was among the co-organizers of the International Brokerage Events at the Mobile World Congress (in Barcelona, March 2016) and CeBIT (in Hannover, March 2016) that are the leading international events in the mobile communications and ICT industry. Eight Bulgarian ICT companies took part in the B2B meetings and had the opportunity to visit the exhibitions at preferential conditions

(reduced participation fee, participation in parallel events, logistical assistance, etc.) as well as to carry out negotiations on-site with potential suppliers or buyers of new products and technologies.

Another global event, during which the EEN team at ARC Fund co-organized B2B meetings, was the ALIMENTARIA international fair on food and beverages in Barcelona in April where an innovative Bulgarian start-up took part in 7 targeted meetings with potential partners. Also in April one Bulgarian company from the automotive sector was supported by ARC Fund in joining the B2B meetings at the AMPA 2016 fair in Taipei, Taiwan.

In June the EEN team facilitated two leading Bulgarian companies to take part in B2B events for the niche-oriented sectors of biomedical research and gaming industry,



*Brokerage event FutureMatch 2016 within the CeBIT Fair, March 14-18, Hannover, Germany*

respectively. One company had 7 pre-arranged meetings at the Biomedical partnering event held in Liverpool, UK, while the second company had numerous opportunities of meeting new partners at the GamesMatch event in Cologne, Germany.

Following tradition, the EEN team at ARC Fund participated in the very successful “ICT – Go International” brokerage event in Skopje (Republic of Macedonia) organized in November by the EEN members in South East Europe. Five Bulgarian start-ups joined the event and took part in the B2B and pitching sessions.

Also in November, a company assisted by ARC Fund took part in the Smart City Expo World Congress and Brokerage event in Barcelona that gathered more than 470 participants from 38 countries around the globe on topics such as iWater, Circular Economy and Smart City. With the help of ARC Fund two companies in the creative industries were approved to take part in the Think Up Culture! HUB calls for projects where an international jury will select the best projects to be mentored and accelerated. The final will be held on January 24-26, 2017 in Palma de Mallorca, Spain.

In 2016, ARC Fund together with the Bulgarian-Kazakh Chamber of Commerce organized a company mission of Bulgarian enterprises in mechatronics, automation and machine building to Kazakhstan – a country willing to join the EEN network in the near future. B2B meetings with Kazakh companies were held in November in the cities of Almaty and Astana within the frame of the International Exhibition “Central Asia Machine World-2016.”

Around twenty Bulgarian companies have participated in brokerage meetings and business missions abroad, co-organized by the EEN team at ARC Fund, which resulted in over 100 business and technology cooperation contacts with foreign companies.

In its role as a coordinator of the national EEN consortium, ARC Fund also organized intra-consortium activities, stakeholder meetings (in the framework of the Innovation Business Club and the Association of Business Clusters), as well as information days and capacity-building seminars on access to EU funding for the 2014-2020 period (as part of the Horizon 2020 National Contact Points roadshow), innovation management, design innovation and others.

### *Advisory services*

The EEN advisors at ARC Fund have provided support and extensive consultation on business internationalization, technology transfer and EU programs participation to 90 new organizations (in addition to already registered network clients), the majority of which being SMEs and start-ups. ARC Fund is one of the service providers appointed by the European Commission as an information and advisory node for the SME Instrument of the *Horizon 2020* program. The new SME instrument provides financial support to innovation champions whose technologies demonstrate high market

potential at a global scale. Around twenty innovative Bulgarian companies received comprehensive support in their applications to the SME instrument for phase 1 and 2.

Two ARC Fund experts were awarded licenses by the European Innovation Management Academy, equipping them to provide innovation management consulting services using the IMP<sup>3</sup>rove tool – a proven international methodology for assessing and improving the innovation management of companies.

### *Success stories*

In 2016, the EEN experts at ARC Fund successfully mediated 15 business and research contracts between Bulgarian and foreign companies. With the advisory support of the ARC Fund team three

Bulgarian organizations joined project consortia in European programs and received funding for R&D, innovation and networking activities.

For a first time a Bulgarian company, the **BalBok Engineering JSC, was among the finalists for the Enterprise Europe Network Awards 2016 in the category “New Directions.”** The Award highlights best examples of positive results for SMEs who have successfully benefitted from the Network's advisory services to take their product or service into a new market. As a result of the advisory service of ARC

Fund to BalBok Engineering in 2015, the company has successfully applied to the Norway Grants and established Eco-innovative system for management of waste with unknown composition and origin in Bulgaria – a one-of-a-kind green service in the Balkan region. The promotional video made by the EASME is available at the **InnoAwards channel in YouTube.**



*BalBok Engineering nomination for EEN Awards 2016*

#### **IMP<sup>3</sup>rove innovation management assessment of SMEs**

The **“Innovation Support services by EEN for Enhancing the Innovation Management Capacity of Bulgarian SMEs”** project is designed to contribute to the implementation of the European policies by enhancing SMEs innovation management capacity and translating its impact into increased business and innovation performance of the SMEs growth, and quality jobs Innovations in products, processes and services, as a major tool for improving global competitiveness of European companies, require a well-targeted approach and streamlined resources.

Its **overall objective** is to enhance the innovation management capacity of, and accelerate the innovation processes in, Bulgarian SMEs thus supporting growth, jobs, competitiveness and sustainability on the EU Single market as well as entrance on third markets. The ultimate result sought in the long run is to have the companies supported under this action better prepared for the 'Access to Finance' instruments and for attracting investment in innovations.

As member of the EEN Network, ARC Fund is entitled to a number of Enhancing Innovation Management Capacities (EIMC) service packages that provide **IMP<sup>3</sup>rove innovation management assessment** free of charge for SMEs with high innovation potential.

**Three out of four Bulgarian companies, who have won funding under the SME Instrument, are ARC Fund clients under the Key Account Management services.** The enterprises had the opportunity to work with a reliable and internationally experienced consultant, recommended by the ARC Fund experts, on the fulfilment of their project aims. The whole process was under the mentorship and coordination of the ARC Fund.

During 2016, **20 new companies with IMP<sup>3</sup>rove assessment were added to the whole package of 33 companies** representing all economic sectors, age and size categories, toward which the ARC Fund provided the full set of services aiming to improve their innovation management practices – registering to the e-platform,

filling in the questionnaire, analysing the report, developing of an action plan and working together for its implementation. Most of these companies entered new markets and achieved sound growth, partly due to the results of the IMP<sup>3</sup>rove related interaction.

IMP<sup>3</sup>rove is a methodology for systematic assessment of all aspects and activities, related to the management of innovation products and processes in companies. The methodology was approved by the European Commission in 2006 and at present is part of the services provided by certified EEN advisers. The assessment is based on the “House of Innovation” concept of A. T. Kearney, which analyses the innovation management performance innovation strategy; innovation organization and culture; innovation life-cycle management; innovation enabling factors; and innovation results. Thanks to the unique and large IMP<sup>3</sup>rove Benchmarking Database, the innovation management assessments allow for national and international benchmarking.

**A.T. Kearney House of Innovation** analyses the innovation management performance, innovation strategy; innovation organization and culture; innovation life-cycle management; innovation enabling factors; and innovation results of the enterprises.

In 2016, the ARC Fund / ARC Consulting were presented as a **good practice** of European Innovation Management Academy’s “**Case Examples of IMP<sup>3</sup>rove Innovation Management Support Services for SMEs to Gain in Competitiveness**

**2016.**” The following activities of the ARC Fund / ARC Consulting in the field of IMP<sup>3</sup>rove assessment were pointed out:

- support to public institutions, including the Bulgarian SMEs Promotion Agency managing the National Innovation Fund, in developing adequate support to innovative Bulgarian companies;
- qualification of staff members in the IMP<sup>3</sup>rove approach;
- building a national database on innovation management capabilities in SMEs;
- implementation of an innovation award, based on the IMP<sup>3</sup>rove Assessment, given by the President to local companies or organizations for successful innovation management practices;
- participation in the International IMP<sup>3</sup>rove Roundtable to share views on developing innovation eco-systems and to discuss successful approaches to foster cohesion with innovation.

The overall assessment was that this step-wise approach in innovation management related topics, from supporting SMEs in developing their innovation management capabilities and competitiveness, to including data analyses in the national innovation index and drawing on the expertise of selecting the winners for the innovation award, was scalable in many other regions and countries. It gives the decision makers the possibility to define the most effective support services based on the experience and insights gained after each step.

# IMP<sup>3</sup>rove

## A.T. Kearney House of Innovation



Source: A.T. Kearney; IMP<sup>3</sup>rove Core Team, 2010  
www.improve-innovation.eu; IMP<sup>3</sup>rove is a registered trademark

### Efficient support services portfolios for SMEs (ESSPO)

The aim of the “Efficient support services portfolios for SMEs” (ESSPO) project is to improve the regional competitiveness policies for SMEs and their engagement with innovation activities in the regions participating in the project. Enhancement of the public services for SMEs along with improvement of the economic indicators on regional level is expected. ESSPO builds on the achievements of a successfully completed project which developed a repository of good practices and approaches for programming, implementation and monitoring of Smart Specialization Strategies.

The project is funded by the European Regional Development Fund under the INTERREG Europe Program. Nine partner organizations from Poland, France, Spain, Germany, Estonia and Bulgaria work together. Each of the organizations examines a specific instrument on national and regional level for public support on unleashing the innovation potential of SMEs:

The project is structured in two phases. In the phase 1 problem areas in the regional policies and financial instruments for enhancing the competitiveness of SMEs will be identified and specific solutions will be proposed. In phase 2 the effectiveness of the implemented measures in practice will be evaluated.

ESSPO started in January 2016 and will run to December 2020.

ESSPO project partner and leader, Poznan Science and Technology Park together with Marshal Office of the Wielkopolska Region were involved in peer review meetings organized on October 24-26 in Sofia.

The Polish partners interviewed representatives of the Bulgarian Small and Medium Enterprises Promotion Agency (the managing authority of the National Innovation Fund – NIF), experts from the Ministry of Economy responsible for the design of the National S3 strategy for Bulgaria, the Bulgarian Industrial Association as intermediary to

SMEs and representatives of Bulgarian innovative companies as beneficiaries of the NIF sessions. They also provided the hosts from ARC Fund with feedback and recommendations on the National Innovation Fund as one of the instruments to support SMEs and SMEs collaborations in the country. Focusing on the areas of smart specialization for Bulgaria, the NIF has big potential to complement Structural Funds schemes in a synergetic way. It also evolves from an instrument with national scope to an increasingly region-oriented support mechanism open both to start-ups and mature companies. Improvements are still necessary for better matching the NIF’s portfolio to companies’ needs and for identifying barriers in the innovation process that can be further tackled by the Fund’s interventions.

More about ESSPO project can be found on its Facebook page at <https://www.facebook.com/ESSPOproject> or on the Interreg Europe website at <http://www.interregeurope.eu/esspo/>



*Meeting of Adam Mickiewicz University Foundation, Poznan Science and Technology Park and the Marshal Office of the Wielkopolska Region with Bulgarian companies*

*InnoBridge “Bridging the innovation gap through converting R&D results into commercial success in a more effective and efficient way”, INTERREG Europe program*

High regional expenditure on R&D does not necessarily lead to innovation and increased regional competitiveness if the regional economy is hampered by insufficient exploitation of its own R&D results and from a lack of access to public R&D results. Increasing SMEs’ competitiveness is at the core of the InnoBridge project by improving the Innovation Bridge and related policy instruments for SMEs: “Bridging the innovation gap through converting R&D results into commercial success in a more effective and efficient way.” This enables SMEs to better realize their innovation potential and to act as a catalyst for creating more high qualified jobs and regional growth.

The partnership consists of 9 partners from 8 regions in 8 countries spread over Europe with a balance of advanced and less advanced regions.

Strong involvement of the responsible authorities for the 8 addressed policy instruments – as direct partner or as stakeholder group member – ensures the durability of the implemented improvements and the long-term impact on SMEs’ innovativeness in the partner regions.

All instruments are part of RIS3, 7 instruments are dealing with Structural

Funds. An estimated total amount of 30.4M EUR, influenced through InnoBridge implementation demonstrates the strong leverage effect for regional and European policies as added value.

The InnoBridge Concept Paper with InnoBridge methodology to be developed by the active involvement of ARC Fund, the Good Practice knowledge pool and lessons learnt, summarizes the exchange and learning process and its EU wide dissemination. The project is supported by intensive communication activities like website, newsletters, social media and 2 conferences.

In 2016 three Interregional Learning Workshops featuring Peer Reviews of the policy instruments of Lower Austria, Sofia Municipality, Alentejo region and Malopolska region were carried out. The 2nd Interregional Learning Workshop took place on September 14-16 in Sofia, co-organized by Sofia Development Association and ARC Fund, partners in InnoBridge. The event also featured a study visit to Muzeiko and the Sofia Tech Park where the start-up company Escreo, a client of ARC Fund, demonstrated its innovative products.



*Interregional Learning workshop in Sofia, 14-16 September 2016*

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# Foresight and Public Engagement in Research and Innovation

In 2016 the European Commission continued promoting its Open Innovation, Open Science, Open to the World approach as overarching goals of its research and innovation policy. ARC Fund has consistently promoted these goals through its work, and has built a successful track record in supporting citizens' involvement in debates on possible futures. It mobilizes stakeholders on issues marked by uncertainty; and continues to collaborate with a network of research organizations across the EU, as well as globally. Committed to the principles of responsible research and innovation, ARC Fund is a pioneer in advancing **technology foresight solutions and technology assessment in policy-making**. All of the organisation's activities take place in the citizens-science-policy nexus, and aim at mobilizing different actors for mutual learning and finding sustainable approaches to pressing societal challenges.

Demonstrating its commitment to the principles of responsible research and innovation, ARC Fund placed public engagement and citizens' involvement at the core of its work. In 2016, it continued to mobilize stakeholders to look for sustainable approaches to pressing societal challenges. In the last year, the ARC Fund's STIP team worked on six projects supporting the implementation of EU's research and innovation policy.

These are CASI, SI-Drive, Black Sea Horizon, CIMULACT, PROSO and RRI-Practice.

In the CASI project (*"Public participation in Developing a Common Framework for Assessment and Management of Sustainable Innovation"*) ARC Fund leads a consortium of 19 partners from 12 EU countries. The project represents a cross-sectoral partnership on innovation-related challenges and effectively integrates the perspectives of civil society, SMEs, industry, policy stakeholders, and leading academics. The year 2016 has been very eventful for the project; the three highlight events were a mutual learning seminar hosted by ARC Fund in February, a policy actors meeting in April, and a policy conference "Public Engagement for Research, Practice and Policy: Exploring Policy Options for Responsible Research, Sustainability and Innovation", held at the premises of the Committee of the Regions in Brussels on November 16-17, with over 160 participants.

As part of the SI-Drive project, in 2016, ARC Fund conducted an in-depth analysis of social innovation practices in the fields of education, environment and energy.

In March, ARC Fund hosted an international workshop within the framework of the "Black Sea Horizon" project, entitled "Applied research in chemistry: Smart



CASI Policy Conference - Photo by Petteri Repo, University of Helsinki



materials for a smart future.” Based on the results from the meeting, pertinent research topics of mutual interest in the field of smart materials were derived, which were proposed for inclusion in the forthcoming calls for proposals in the Horizon 2020 program, as well as in future international or regional bi-lateral and multilateral research programs. One of the sub-objectives of the Black Sea Horizon project is to prepare a joint call which is to be funded by pooling resources from the Member States of the European Union and countries from the Black Sea region which are associated to Horizon 2020 program.

The project *Citizen and Multi-Actor Consultation on Horizon 2020 (CIMULACT)* aims to add to the relevance and accountability of European and national research and innovation agendas by engaging citizens and stakeholders in co-creation of research calls based on societal visions, needs and demands. In a series of events like workshops and meetings, citizens were given a chance to play a very active role in developing visions for sustainable future and design of research program proposals, based on the elicited social needs. In addition to numerous face-to-face interactions across Europe, the project partners also consulted more than 1000 citizens and experts from 30 European countries via an online survey launched in the summer of 2016. ARC Fund has produced two CIMULACT policy briefs, which summarize the achievements of the project, targeting European and national level policy-makers, researchers and other stakeholders. These can be downloaded at: <http://www.cimulact.eu/publications-2/>.

The *PROSO* (“*PROMoting SOcietal engagement under the terms of RRI*”) project commenced in January 2016. It is a Horizon 2020 supported research action, whose objective is to foster societal engagement under the terms of Responsible Research and Innovation (RRI) in the research and innovation (R&I) systems in Europe. ARC Fund is a coordinator of a major part of PROSO’s methodology, namely the research focusing on engagement of non-organized citizens in R&I. Public engagement plays an important role in the project. For this



purpose, project partners from five countries organized meetings with citizens to gather their views on different engagement methodologies, discussed in the context of the three research areas (nanotechnology, bio-economy, and food and health).

Since September 2016, ARC Fund engaged in *RRI-PRACTICE: Responsible Research and Innovation in Practice*, which involves partners from five different continents. The goals of the project are to examine the barriers and drivers to the successful implementation of RRI both in European and global contexts; promote reflection on organizational structures and cultures of research conducting and research funding organizations; and identify and support best practices to facilitate the uptake of RRI in organizations and research programs. Apart from conducting a Bulgarian national case study ARC Fund is also in charge of project’s communication and dissemination activities.



*CIMULACT pan-European conference in Brussels (December 1-2)*

# Safer Internet for Children

ARC Fund has started its second decade as the coordinator of the Bulgarian Safer Internet Centre (SIC), established in 2005 with the financial support of the European Commission. The Bulgarian Safer Internet Centre is a member of the [International Association of Internet Hotlines \(INHOPE\)](#) and of the [European Network of Safer Internet Centres \(Insafe\)](#). During the past year, the SIC team continued to work on several of its trademark programs and initiatives promoting safe and positive use of digital technologies among children and young people, and started several new ones. The bulk of Centre's efforts focused on enhancing the digital literacy and combating online hate speech.

Overall, the SIC organized 16 and participated in 27 national and international events in 2016, and conducted 24 trainings (15 for schoolchildren, 5 for teachers and 4 for parents). The Centre's experts have made 40 radio and TV appearances and gave over 20 interviews for print media.

The SIC work was covered in more than 100 publications.

Through its Hotline and Helpline SIC took various actions on more than 1.000 reports and cases concerning children sexual exploitation online and problems with minors on the Internet.

The new website of the [Bulgarian Safer Internet Centre](#), launched towards the end of 2015, attracted considerable attention, as can be seen from the visitor statistical data (the site is visited on average by about 400 users per day). The new website united both services of the Centre (Hotline and Helpline), which previously had separate web pages, making it easier and more straightforward for the users to submit reports or ask for consultations. This was reflected in the increased number of reports and consultations compared to the previous years. The website also has a mobile version, easing the access for the tablet and smartphone users.



## Projects and initiatives

The [National campaign against gender-based violence](#) addressed issues such as early sexualization, the lack of parental control over the children's Internet use, and the fact that children are increasingly exposed to online content unsuitable for their age. The sexualized media and information environment consolidate the gender stereotypes, and children start to

adopt models and behaviour in which gender-based violence is perceived as something normal. The campaign #облечисебе (Dress Up) was developed in active cooperation with a youth panel, consisting of 12 volunteers, aged between 15 and 17, and featured a large number of information materials (flyers, brochures, posters, stickers, T-shirts, gift boxes, and

an audio and a video clip). The official video of the campaign was seen by over 100,000 Facebook and YouTube users. The campaign included a public debate “For and against uploading a sexy selfie” on April 26, with participation of over 30 young people. The event was streamed live on Facebook.



*A public youth debate on the topic of nude selfies online was part of the national campaign.*

During the year, the SIC concluded its work on another important project: “Children, Parents and Teachers against Hate Speech and Discrimination”. The team worked with a group of teachers, pedagogical counsellors and experts to produce a special methodology with 10 work modules for children from grades 1-4. The methodology encourages the development of tolerance and acceptance of difference among the children. After it was tested in 10 schools, the methodology was finalized and published as a school textbook Children, Parents and Teachers against Hate Speech. The entire first edition was sent to more than 150 schools across Bulgaria.



*The guidebook for teachers.*

After a very successful inaugural year, the **Cyberscout initiative**, supported by Telenor Bulgaria, continued in 2016 with the second round of trainings. Two-day trainings were conducted in six Bulgarian towns (Bozhurishte, Elena, Shabla, Pomorie, Panagyurishte and Stara Zagora) with participation of a total of 162 children aged 10-14. During the trainings, the children deepened their knowledge about the most common dangers children face online and the ways to avoid them. The Cyberscouts were also trained to pass on what they have learned to their peers. With their training completed, the Cyberscout teams were given a task to organize awareness-raising events in their schools on the topic of online safety. A jury will evaluate all the events and the three best initiatives will be awarded on the next International Safer Internet Day (February 7, 2017, in Sofia).



*Certified cyberscouts from Stara Zagora.*

**The International Safer Internet Day** remains one of the most important occasions for drawing public attention to the work and mission of the Safer Internet Centre. This year, it was marked on February 9 in the Peroto literary club in Sofia. At a ceremony three 2015 Cyberscouts teams (from Popovo, Smolyan and Vidin) received awards for their efforts to raise awareness among their peers about the online risks for children. The main event was the Conference “Dos and Don’ts...For a Few Likes More.” Over 60 children, teenagers and adults discussed the acceptable and unacceptable ways in which young Internet users seek popularity and social approval through social media. The participants discussed various ways for preventing

and fighting online sexual exploitation of children, online bullying, gender-based violence and other forms of abuse of children and minors.



*Youth discussion at Safer Internet Day event.*

**Empowering children in the digital age through early development of digital literacy** is a common arch of two projects the SIC is implementing in partnership with the Sofia University and the support of Oak Foundation. The main goal is to design a methodology for training future primary school teachers to work with children in the area of early digital and media literacy. A methodological manual for primary school teachers, including lesson plans for work with children from the first to fourth grade, will improve the digital literacy of the pupils, make them more resilient towards online risks and enhance the possibilities for studying, creativity and socialization in the online world. To provide the necessary background information, a national representative study on online behaviour of Bulgarian children was carried in September-November, with participation of 1400 Internet-using children aged 9-17. Several analytical reports based on the study are under preparation and will be available in early 2017.

The **annual Familathlon** took place for the eighth time at the usual place – the Sofia South Park (May 15). As in the previous years, the event provided an excellent opportunity to thousands of families to test their skills and have fun while participating in a large variety of games, sports and educational activities. The Safer Internet Centre participated with various games on the topic of children's online safety, presented the National campaign against

gender-based violence with the help of two volunteers from its Youth Panel, and set up the mobile clinic for devices used by children – PC Doctor.



As part of the international initiative of Telenor **“Be Smart – Use Heart,”** experts from the Bulgarian Safer Internet Centre assisted and trained over 260 employees of Telenor Bulgaria, who visited more than 60 schools across the country on September 29. Over 10,000 pupils participated in educational games, aimed at raising awareness about online bullying and its consequences. To this end, two different open-air activities were prepared. Pupils from grades 1-4 played the game “I can and I know what to do on the Internet.” The goal of the game was to present to the children different risky situations linked with the online bullying, and teach them how to deal with them. Pupils from grades 5-8 participated in the “Profiler” game, which increased their sensitivity towards online bullying. Young people took an online test to evaluate their potential behaviour in several archetypical situations dealing with bullying. Through the exercise they also learned how to react positively and constructively.

In 2016, the annual competition **“Teacher - leader in the digital era,”** was organized for the sixth time. It is open to all teachers from grades 1 to 12. The 2016 campaign was dedicated to the topic of digital and media literacy among children due to its exceptional importance for building skills and successful strategies for learning, finding information, active citizenship, fun and communication.

*Prevention – resources and trainings*

The most effective way to protect children and teenagers online is through prevention. ARC Fund, therefore, pays considerable attention to development of new materials and resources for educating and informing children and professionals working with children, as well as to engaging them in different training programs. Topics covered by these trainings include online safety, prevention of real and virtual violence,

cyberbullying and online hate speech. Professionals working with children and youth in education, prevention and intervention areas were trained to apply in their work different methodologies developed by the SIC (*Prevention of virtual and real violence through interactive education in school; Empowering fathers, empowering children; Children, parents and teachers against hate speech and discrimination*).

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**PART TWO**

**Management**

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# Institutional Development

The Applied Research and Communications Fund is registered as a public benefit organization in the Central Registry of Not-for-Profit Public Benefit Organizations of the Ministry of Justice. Public benefit organizations are obliged by law to conform to a number of additional financial reporting rules and to submit annual activity reports. In 2006, ARC Fund established ARC Consulting EOOD – a wholly-owned subsidiary company, designed to better leverage the organization’s expertise. The company provides consultancy services in the field of innovation and ICT. It also develops and implements national and international projects under the EU Framework Programs, and the Cohesion and Structural Funds.

ARC Fund and ARC Consulting form the ARC Fund Group.

In 2016, the ARC Fund Group employed a staff of 28, including part-time consultants. The ARC Fund’s team is a mixture of young, well-educated and highly motivated people and experienced experts renowned for their professionalism and the high quality of their work. ARC Fund is managed in accordance with the principles of good governance, accountability and transparency. The application of these principles is expressed in the:

- execution of annual audits since 1992;
- individual project audits;
- publication of *Annual Reports* in Bulgarian and English;
- 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.

In 2016, ARC Fund and ARC Consulting worked on the implementation of 22 projects, funded by national bodies and international organizations. Among them were the European Commission (Innovation and Networks Executive Agency, Connecting Europe Facility, DG Research and Innovation, DG Regional and Urban Policy, DG Enterprise and Industry, and DG Communication Networks, Content and Technology, as well as the Executive Agency for SMEs), ERDF (Interreg Europe program), Oak Foundation, Norway Grants, EEA Grants, the Bulgarian Ministry of Regional Development and the Ministry of Transport, Information Technology and Communications, as well as the European Foundation for the Improvement of Living and Working Conditions (Eurofound) and the European Commission Representation in Bulgaria.

## List of Staff

### *Board of Trustees*

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

### *Staff Directory*

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

### *Innovation and Business Support Program*

Daniela Tchonkova, Program Manager  
Denitsa Marinova, Project Manager  
Prof. Teodora Georgieva, Senior Fellow  
Maya Tsaneva, Public Relations Officer

### *Science, Technology and Innovation Policy Program*

Ventseslav Kozarev, Program Manager  
Blagovesta Chonkova, Senior Analyst  
Adriana Dimova, Senior Analyst  
Marko Hajdinjak, Senior Analyst  
Desislava Asenova, Analyst  
Konstantin Ivanov, Analyst

### *Safer Internet Centre*

Georgi Apostolov, Program Manager  
Luiza Shahbazyan, Analyst  
Lubomir Sirkov, Analyst  
Kristian Braikov, Analyst  
Petar Kanchev, Analyst  
Emanuil Georgiev, Analyst

### *Finance and Administration*

Tsvetoslava Kioseva, Financial Manager  
Daniela Zain, Accountant  
Kristina Tsvetkova, Financial Officer  
Dimitar Stamenov, System Administrator



**PART THREE**  
**Financial Report**



APPLIED RESEARCH AND COMMUNICATIONS FUND

**APPLIED RESEARCH AND COMMUNICATIONS FUND (the GROUP)  
CONSOLIDATED ANNUAL FINANCIAL STATEMENTS  
31 DECEMBER 2016**

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## Consolidated Financial Statements

### APPLIED RESEARCH AND COMMUNICATIONS FUND (the GROUP) CONSOLIDATED STATEMENT OF FINANCIAL POSITION 31 DECEMBER 2016

(all amounts in BGN thousand)	Note	For the year ending:	
		31 December 2016	31 December 2015
<b>Assets</b>			
Property, plant and equipment	5	9	13
Investment property	6	128	130
<b>Total non-current assets</b>		<b>137</b>	<b>143</b>
Trade and other receivables	7	780	771
Cash and cash equivalents	8	1 921	1 721
Deferred expenses	9	46	47
<b>Total current assets</b>		<b>2 747</b>	<b>2 539</b>
<b>Total assets</b>		<b>2 884</b>	<b>2 682</b>
<b>Equity</b>		<b>1 912</b>	<b>1 884</b>
<b>Liabilities</b>			
Payables to partners and suppliers	10	108	82
Deferred financing	12	864	716
<b>Total current liabilities</b>		<b>972</b>	<b>798</b>
<b>Total liabilities</b>		<b>972</b>	<b>798</b>
<b>Total equity and liabilities</b>		<b>2 884</b>	<b>2 682</b>

These consolidated financial statements were approved by the Board of Trustees on 27 July 2017. They are signed on behalf of the Board of Trustees by:

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Nickolay Badinski  
Executive Director  
27 July 2017

Initialled for identification purposes in reference to the audit report:

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Stoyan Donev  
Registered Auditor  
02 August 2017

**APPLIED RESEARCH AND COMMUNICATIONS FUND (the GROUP)**  
**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**  
**31 DECEMBER 2016**

(all amounts in BGN thousand)	<i>Note</i>	<b>For the year ending:</b>	
		<b>31 December 2016</b>	<b>31 December 2015</b>
Revenues from grants financing	13	1 434	1 334
Cost of Sales	14	(1 397)	(1 317)
<b>Gross Profit</b>		<b>37</b>	<b>17</b>
Other operating income		382	545
Administrative expenses		(375)	(496)
Impairment losses		(13)	(13)
<b>Revenue from operating activities</b>		<b>31</b>	<b>53</b>
Financial income		9	15
Financial expenses		(10)	(6)
<b>Net financing costs</b>	15	<b>(1)</b>	<b>9</b>
<b>Profit before income tax</b>		<b>30</b>	<b>62</b>
Income tax expense	16	(1)	(5)
<b>Net profit for the period</b>		<b>29</b>	<b>57</b>
Other comprehensive income		-	-
<b>Total comprehensive income</b>		<b>29</b>	<b>57</b>

These consolidated financial statements were approved by the Board of Trustees on 27 July 2017. They are signed on behalf of the Board of Trustees by:

\_\_\_\_\_  
 Nikolay Badinski  
 Executive Director  
 27 July 2017

Initialed for identification purposes in reference to the audit report:

\_\_\_\_\_  
 Stoyan Donev  
 Registered Auditor  
 02 August 2017

## Consolidated Financial Statements

### APPLIED RESEARCH AND COMMUNICATIONS FUND (the GROUP) CONSOLIDATED STATEMENT OF CHANGES IN EQUITY 31 DECEMBER 2016

(all amounts in BGN thousand)	Note	Retained earnings
<b>Balance as of 1 January 2015</b>		<u>1 867</u>
Net profit for the year		<u>16</u>
<b>Balance as of 31 December 2015</b>		<u>1 883</u>
<b>Balance as of 1 January 2016</b>		<u>1 883</u>
Net profit for the year		<u>29</u>
<b>Balance as of 31 December 2016</b>		<u>1 912</u>

These consolidated financial statements were approved by the Board of Trustees on 27 July 2017. They are signed on behalf of the Board of Trustees by:

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Nikolay Badinski  
Executive Director  
27 July 2017

Initialed for identification purposes in reference to the audit report:

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Stoyan Donev  
Registered Auditor  
02 August 2017

**APPLIED RESEARCH AND COMMUNICATIONS FUND (the GROUP)**  
**CONSOLIDATED CASH FLOW STATEMENT**  
**31 DECEMBER 2016**

(all amounts in BGN thousand)	Note	Year ended 31 December	
		2016	2015
<b>Cash generated from operations</b>			
Profit before income tax		29	16
<b>Adjustments for:</b>			
Depreciation		8	7
<b>Changes in working capital:</b>			
Trade and other receivables		8	495
Trade and other payables		196	(228)
<b>Net cash from operating activities</b>		<b>241</b>	<b>290</b>
Income tax paid		-	(1)
<b>Net cash generated from operating activities</b>		<b>241</b>	<b>289</b>
<b>Cash flows from investing activities</b>			
Payments for acquisition of property, plant and equipment		(2)	(20)
<b>Net cash used in investing activities</b>		<b>(2)</b>	<b>(20)</b>
<b>Cash flows from financing activities</b>			
Loans received		-	-
Interest and commissions paid		(39)	8
<b>Net cash used in financing activities</b>		<b>(39)</b>	<b>8</b>
Net increase/(decrease) in cash and cash equivalents		200	277
Cash and cash equivalents at the beginning of the year		1 721	1 444
<b>Cash and cash equivalents at the end of the year</b>	16	<b>1 921</b>	<b>1 721</b>

These consolidated financial statements were approved by the Board of Trustees on 27 July 2017. They are signed on behalf of the Board of Trustees by:

\_\_\_\_\_  
 Nikolay Badinski  
 Executive Director  
 27 July 2017

Initialed for identification purposes in reference to the audit report:

\_\_\_\_\_  
 Stoyan Donev  
 Registered Auditor  
 02 August 2017

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**APPLIED RESEARCH AND COMMUNICATIONS FUND (the GROUP)**  
**NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS 31 DECEMBER 2016**  
**(all amounts in BGN thousand, unless otherwise stated)**

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**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 2016 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 2016 the Group has 28 employees.

These consolidated financial statements have been approved by the Board of Trustees of the Fund on 27 July 2017.

**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,



**APPLIED RESEARCH AND COMMUNICATIONS FUND (the GROUP)**  
**NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS 31 DECEMBER 2016**  
**(all amounts in BGN thousand, unless otherwise stated)**

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

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

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

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

## **2.1. Basis of preparation**

### *Transactions with non-controlling interests*

Non-controlling interests represent the portion of profit or loss and net assets not held by the Group and are presented separately in the income statement

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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 2016 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 2016 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.

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**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	3-6.67 years
Vehicles	6.67 years
Fixtures and fittings	2 – 6.67 years

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

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

**2.4 Intangible assets**

Intangible assets acquired by the Group are presented at cost, less accumulated amortisation and impairment.

*Subsequent expenditures*

Subsequent expenditure on capitalised intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets usually for 4-5 years.

**2.5. Financial assets**

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at every reporting date.

*Financial assets at fair value through profit or loss*

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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 2016.

*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.

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**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

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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

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is generally recognised at the contractual rates. For time contracts, the stage of completion is measured on the basis of labour hours delivered as a percentage of total hours to be delivered.

Revenue from fixed-price contracts for delivering certain services is also recognised under the percentage-of-completion method. Revenue is generally recognised based on the services performed to date as a percentage of the total services to be performed.

If circumstances arise that may change the original estimates of revenues, costs or extent of progress toward completion, estimates are revised. These revisions may result in increases or decreases in estimated revenues or costs and are reflected in income in the period in which the circumstances that give rise to the revision become known by management.

*Revenue from grants and contributions*

Grants from financing bodies are recognised initially as deferred income when there is reasonable assurance that they will be received and that the Group will comply with the conditions associated with the grant. Grants that compensate the Group for expenses incurred are recognised in profit or loss on a systematic basis in the same periods in which the expenses are recognised. Grants that compensate the Group for the cost of an asset are recognised in profit or loss on a systematic basis over the useful life of the asset.

*Interest income*

Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

**2.14. Dividend distribution**

The Group does not distribute dividends.

**3. Financial risk management****3.1. Global financial crisis****Impact of the ongoing global financial and economic crisis**

The global financial crisis has had a severe effect on the Bulgarian economy and the financial situation within the Bulgarian financial and corporate sectors has significantly deteriorated since mid-2008. In 2012 and 2013 the Bulgarian economy experienced a moderate recovery in economic growth. The recovery was accompanied by increased export and increased rate of household savings.

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

Management is unable to predict all developments which could have an impact on the sector and wider economy, and consequently what effect, if any, they could have on the future financial position of the Group.

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

Management believes it is taking all necessary measures to support the sustainability and development of the Group's business in the current circumstances.

**Impact on customers/ borrowers**

The debtors or borrowers of the Group may also be affected by the lower liquidity situation which could, in turn, impact their ability to repay the amounts owed. The operating conditions for customers may also have an impact on management's cash flow forecasts and assessment of the impairment of financial and non-financial assets. To the extent that information is available, management has properly reflected revised estimates of expected future cash flows in its impairment assessments.

**3.2 Financial risk factors**

The risk exposures of the Group could be determined as follows: market risk (including currency risk, price risk and risk of future cash flow changes as a result of changes in market interest rate), credit risk and liquidity risk. The Group's management focuses on the financial risk and seeks to minimise potential adverse effects on the Group's financial performance.

**3.2.1 Market risk**

*a) Currency risk*

The Group is not exposed to foreign exchange risk as most of its foreign transactions are denominated in EUR. The exchange rate of the BGN is currently pegged to the EUR.

The Group's management does not believe that the peg will change within the next 12 months and therefore no sensitivity analysis has been performed.

*b) Price risk*

The Group's management considers the price risk in the context of the future revenues that are expected to be generated in the operating activity of the Group.



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### 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.

<b>As of 31 December 2015</b>	<b>Up to 1 year</b>	<b>Between 1 and 2 years</b>	<b>Between 2 and 5 years</b>	<b>Over 5 years</b>
Trade and other payables	119	-	-	-
<b>As of 31 December 2016</b>	<b>Up to 1 year</b>	<b>Between 1 and 2 years</b>	<b>Between 2 and 5 years</b>	<b>Over 5 years</b>
Trade and other payables	122	-	-	-

## 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:

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*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**

<b>Cost</b>	<b>As at 1 January 2016</b>	<b>Additions</b>	<b>Disposals</b>	<b>As at 31 December 2016</b>
Computers	72	2	-	74
Vehicles	144	-	-	144
Fixtures& Fittings	19	-	-	19
Other assets	3	-	-	3
<b>Total</b>	<b>238</b>	<b>2</b>	<b>-</b>	<b>240</b>

<b>Depreciation</b>	<b>As at 1 January 2016</b>	<b>Additions</b>	<b>Disposals</b>	<b>As at 31 December 2016</b>
Computers	60	6	-	66
Vehicles	144	-	-	144
Fixtures& Fittings	19	-	-	19
Other assets 1	2	-	-	2
<b>Total</b>	<b>225</b>	<b>6</b>	<b>-</b>	<b>231</b>

<b>Carrying amount</b>				
Computers	12			8
Other assets	1			1
<b>Total</b>	<b>13</b>			<b>9</b>

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**6. Investment property**

	<b>As at 31 December</b>	
	<b>2016</b>	<b>2015</b>
<b>As at 1 January</b>		
Carrying amount at the beginning of the period	174	131
Depreciation charge	(46)	(1)
<b>Carrying amount at the end of the period</b>	<b>128</b>	<b>130</b>
<b>As at 31 December</b>		
Cost	174	174
Accumulated depreciation	(46)	(44)
<b>Carrying amount</b>	<b>128</b>	<b>130</b>

Investment properties held by the Group represent apartments and office space owned by ARC Consulting EOOD. Investment properties are carried at cost, less accumulated depreciation and impairment.

**7. Trade and other receivables**

	<b>As at 31 December</b>	
	<b>2016</b>	<b>2015</b>
Trade receivables	684	796
Less: Impairment provision of trade payables	(52)	(39)
Trade receivables, net	<b>632</b>	<b>757</b>
Other	148	14
	<b>780</b>	<b>771</b>

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

**8. Cash and cash equivalents**

	<b>As at 31 December</b>	
	<b>2016</b>	<b>2015</b>
Cash at hand	8	24
Cash in bank current accounts	1 913	1 697
	<b>1 921</b>	<b>1 721</b>

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**9. Trade and other payables**

<b>Short Term liabilities</b>	<b>As at 31 December</b>	
	<b>2016</b>	<b>2015</b>
Payables to partners and suppliers	27	2
Salaries and social securities payables	45	47
Tax	-	13
Other	35	20
	<b>107</b>	<b>82</b>

**10. Deferred financing**

<b>Deferred financing related to projects:</b>	<b>As at 31 December</b>	
	<b>2016</b>	<b>2015</b>
EC – Engaging Society in Horizon 2020		5
Government of Norway – Teachers, Parents and Children against		19
EC – Social Innovation: Driving Force of Social		20
EC – Citizen and Multi-actor Consultation on Horizon 2020		65
EC – Enhanced Bi-Regional STI Cooperation between the EU and the Black Sea Region – Black Sea Horizon		34
EC – Public Participation in Developing a Common Framework for Assessment and Management of Sustainable Innovation		215
OAK Foundation – Empowering Children in the Digital Age through Early Digital Literacy Development		152
<b>Total deferred financing related to projects</b>	<b>-</b>	<b>510</b>
Deferred financing	5	206
<b>Total deferred financing</b>	<b>864</b>	<b>716</b>

**11. Revenue**

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

	<b>As at 31 December</b>	
	<b>2016</b>	<b>2015</b>
OAK Foundation – Empowering Fathers, Empowering Children	-	81
EC – Parliaments and Civil Society in Technology Assessment	-	42

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EC – European Transport Network Alliance	-	52
EC – Safeguarding Teenage Intimate Relationship: Connecting Online and Offline Contexts and Risks	-	58
EC – Engaging Society in Horizon 2020	17	85
EC – Public Participation in Developing a Common Framework for Assessment and Management of Sustainable Innovation	432	279
EC – Social Innovation – Driving Force of Social Change (SI-DRIVE)	37	75
OAK Foundation – Men Care Campaign in Bulgaria	13	17
Government of Norway - Children, Parents and Teachers against Hate Speech and Discrimination	33	48
EC – European Design Innovation Platform	39	53
Government of Norway – Capacity Building for Greening BG Innovative SMEs	66	124
EC – SafenetBG: Safeguarding and Empowering Children and Youth Online	68	172
EC – Enhanced Bi-Regional STI Cooperation between the EU and the Black Sea Region – Black Sea Horizon	51	36
EC – Citizen and Multi-actor Consultation on Horizon 2020	104	31
Government of Norway – National Campaign for Counteracting Contemporary Models of Gender Based Violence	51	-
EC – Peer Learning on Ways to Improve Knowledge/Technology Transfer to Smes in a- other Structured Innovation Ecosystem	14	-
EC – Promoting Societal Engagement under the Terms of RRI	116	-
OAK Foundation – Empowering Children in the Digital Age through Early Digital Literacy Development	105	-
EC – Bridging the Innovation Gap through Converting R &D Results into Commercial Success in a More Effective and Efficient Way	18	-
EC – Efficient Support Services Portfolio for SMEs	23	-
EC – Creating a Better Internet for Kids by Protection, Awareness Raising and Education	81	-
Other Projects	120	88
<b>Total Revenues from grants financing</b>	<b>1 388</b>	<b>1 241</b>
Revenues from unconditional donations	46	80
Other	-	13
<b>Total Revenues</b>	<b>1 434</b>	<b>1 334</b>

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**13. Finance costs, net**

	<b>As at 31 December</b>	
	<b>2016</b>	<b>2015</b>
Interest income	9	11
Interest expense	-	-
<b>Interest, net</b>	<b>9</b>	<b>11</b>
Foreign exchange income	-	-
Foreign exchange expense	(3)	(1)
<b>Foreign exchange, net</b>	<b>(3)</b>	<b>(1)</b>
Other financial expenses	(7)	(2)
<b>Other financial, net</b>	<b>(7)</b>	<b>(2)</b>
<b>Finance costs, net</b>	<b>(1)</b>	<b>8</b>

**14. Income tax expense**

The major components of income tax expense for the year ended 31 December 2016 and the period ended 31 December 2015 are:

	<b>2016</b>	<b>2015</b>
Current tax	(1)	(5)
Deferred tax	-	-
<b>Income tax expense</b>	<b>(1)</b>	<b>(5)</b>

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

There are no tax checks performed in the recent years.

**15. Related parties**

The Group is related to the Center for the Study of Democracy, and thus is also related with its subsidiaries.

During the period the following transactions and balances have occurred:

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Related party	Transactions during the year	January-December		31 December		31 December	
		2016	2015	2016	2015	2016	2015
		<i>Transactions</i>		<i>Receivables</i>		<i>Payables</i>	
Project 1	Rental agreement	57	56				
Project 1	Consulting services		76	226	226		
		<b>57</b>	<b>132</b>	<b>226</b>	<b>226</b>		

*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:

	2016	2015
Board of Trustees and Executive Directors	242	335

**16. Events after the balance sheet date**

There are no events after the balance sheet date of the Group that would require additional disclosures in the financial statements.



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## 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 2016**, 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 2016 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 ascertainment 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 be 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 02 August 2017***

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Stoyan Donev- certified auditor  
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