

2017

Annual Report



Applied Research and Communications • Fund •

Applied Research and Communications Fund 2017 Annual Report

Applied Research and Communications Fund
5, Alexander Zhendov St., 1113 Sofia, Bulgaria
Tel.: (+359 2) 973 3 000
Fax: (+359 2) 973 3 588
e-mail: arc@online.bg
www.arcfund.net

Table of Contents

2017 HIGHLIGHTS.	5
PART ONE: PROGRAM AREAS	7
INNOVATION.BG	9
THE <i>INNOVATION.BG</i> 2017 REPORT.	9
THE THIRTEENTH NATIONAL INNOVATION FORUM	12
THE 2017 INNOVATIVE ENTERPRISE OF THE YEAR CONTEST.	14
INNOVATION AND BUSINESS SUPPORT PROGRAM	17
ASSISTING SMES WITH INTERNATIONAL PARTNERSHIPS AND ENTERING MARKETS IN THIRD COUNTRIES	18
CONSULTING SMEs	19
INNOVATION BUSINESS CLUB: SUCCESSFUL INNOVATORS IN THE SINGLE EUROPEAN MARKET.	21
ANALYSIS OF THE EFFECTIVENESS OF FINANCIAL INSTRUMENTS FOR SMEs AND INNOVATION	23
SCIENCE, TECHNOLOGY AND INNOVATION POLICY PROGRAM	27
ADVANCING RESPONSIBLE RESEARCH AND INNOVATION.	28
CITIZEN ENGAGEMENT WITH SCIENCE AND RESEARCH.	29
SUSTAINABLE INNOVATION.	31
STI COOPERATION IN THE BLACK SEA REGION.	31
IMPROVING MANAGEMENT CAPACITY FOR SCIENTIFIC EXCELLENCE	33
TRANSFORMING HOUSEHOLD ENERGY CONSUMPTION CULTURE.	33
DEVELOPING RESEARCH INFRASTRUCTURES	34
SOCIAL INNOVATION AS A DRIVER OF SOCIAL CHANGE.	35
SAFER INTERNET PROGRAM.	37
PART TWO: MANAGEMENT	43
INSTITUTIONAL DEVELOPMENT.	45
LIST OF STAFF.	46
PART THREE: FINANCIAL REPORT	47



2017 Highlights

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

- **The *Innovation.bg* 2017 report** is focused on the technology interlinks of the national economy on a European and global scale with a special attention on the automotive industry and its related manufactures, which increase the attractiveness of Bulgaria for foreign investments as a R&D center, as well as a source of new technological solutions.
- **The National Innovation Forum (NIF)** is a platform for exchange of ideas and cooperation among the government, business community and research organizations. The National Innovation Forum in 2017 gathered more than 200 participants who shared views on Bulgaria's position in the global value chains. The event took place on 15 December 2017 on the eve of the Bulgarian Presidency of the EU Council.
- **The Innovative Enterprise of the Year contest** is open to participants from all sectors of industry nationwide. The contest is recognized by the European Commission as a best national practice for promoting innovation-based development. The contest of 2017 attracted nearly 100 applicant companies from various sectors of the economy. Ontotext JSC was given the Award for Market Leadership for its radical innovation in the management of big volumes of dynamic content and Proffit Technologies JSC received the Innovation for Quality of Life Award for its medical software and integrated digital service involving customized design and 3D printing of prosthesis for patients with amputated limbs.

Innovation and business support

ARC Consulting (part of ARC Fund Group) has been coordinating the Bulgarian node of Enterprise Europe network since 2008. EEN-Bulgaria co-organized some of the most significant business events in the calendar of Enterprise Europe Network in 2017, among which E² Tech4Cities 2017 – Energy & Efficiency Technologies for Cities Brokerage Event in Brussels, 10th Cluster Matchmaking Mission – European Cluster Collaboration Platform in Thessaloniki, Computex Taipei 2017 Brokerage Event, SME Vision2020 Brokerage Event in Skopje, Reducing, Reusing and Recycling – Business opportunities in the circular economy in Oslo. These events resulted in more than 100 negotiations between Bulgarian and foreign companies on business and technological partnerships in a variety of sectors, with some of them reaching international agreements, mainly in the automotive, ICT and gaming industries.

Science, technology and innovation policy

Building on its commitment to Responsible Research and Innovation (RRI), in 2017 ARC Fund continued engaging citizens in improving the connection and collabora-

tion between science and society and in developing a more inclusive, responsive and responsible research and innovation system. Based on the results of several consultative workshops with citizens across the EU, ARC Fund developed the policy report *Citizens' Views of Engagement in Research-Related Activities* and made important contributions to the preparation of a *Social Innovation Atlas*.

Safer internet

Since 2005, ARC Fund has been coordinating the Safer Internet Centre (SIC) in Bulgaria as part of the European Insafe network and the International Association of internet hotlines INHOPE. In 2017, the SIC Hotline processed over 4000 reports. Hundreds of online child sexual exploitation websites and materials were identified and removed. SIC delivered trainings on how to avoid online threats and risks and respond to incidents on the Internet to over 800 teachers, school psychologists, school counselors and social workers, more than 300 parents and over 350 children and teenagers in more than 25 towns nationwide. The Cyberscouts Training Program, underway for a third consecutive year, has proven to be one of the most successful awareness raising and training tools.

PART ONE
Program Areas



Innovation.bg

Since 2004, **Innovation.bg** has been the main focus of ARC Fund's work.

- **The Innovation.bg report**, written by the ARC Fund since 2004, provides annual assessments of the Bulgarian economy's innovation performance and of the Bulgarian innovation system's current status and development prospects. Innovation.bg 2017 discusses the technology interlinks of the national economy on a European and global scale with a special focus on the automotive industry and related manufactures, which make Bulgaria increasingly attractive for foreign investments not only as a system integrator, but also as an R&D center and a source of new technological solutions.
- **The National Innovation Forum** is a platform for exchange of ideas and cooperation among the government, business community and research organizations. It aims to enhance the performance of Bulgarian companies and boost the innovation potential of the economy by promoting the introduction of new products and technologies and facilitating business contacts with European partners.
- **The Innovative Enterprise of the Year contest** is open to participants from all sectors of the industry nationwide. The award acknowledges innovative enterprises which have developed new, or have improved significantly their old products, services or processes over the last three years.

The Innovation.bg 2017 Report

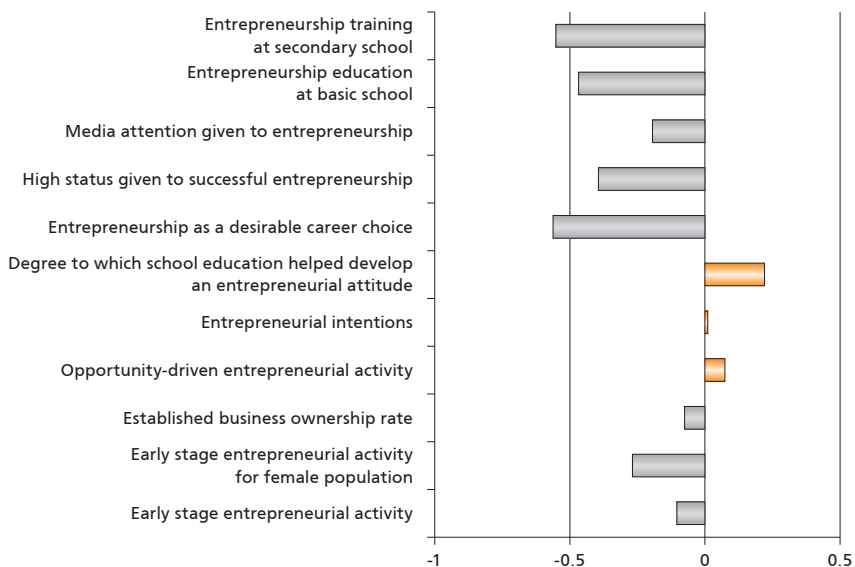


Ten years after accession to the EU and on the eve of its Presidency of the Council of the European Union, Bulgaria has significantly improved its innovation system, updating its policy and program framework, diversifying its financial instruments for the support of start-ups and innovative companies, and creating a more favorable business environment. Albeit lagging behind the European innovation leaders, Bulgarian business has conspicuously stepped up its innovation activity, boosting R&D costs and staff, new and improved products and services, and communication with partners worldwide.

State support, on the other hand, does not match business needs not only in terms of sufficient funding,

but also in terms of availability of application, implementation and monitoring procedures tailored to innovative projects. While foreign R&D funding is on the rise, public funds dedicated to science, new technologies and innovation are continuously in decline. Corruption is also of growing concern and is considered the main setback for the growth of the country's innovation potential by the *Global Competitiveness Report* and the *Global Innovation Index*.

Development of Bulgaria in terms of entrepreneurship (2008 – 2016; EU mean = 0)

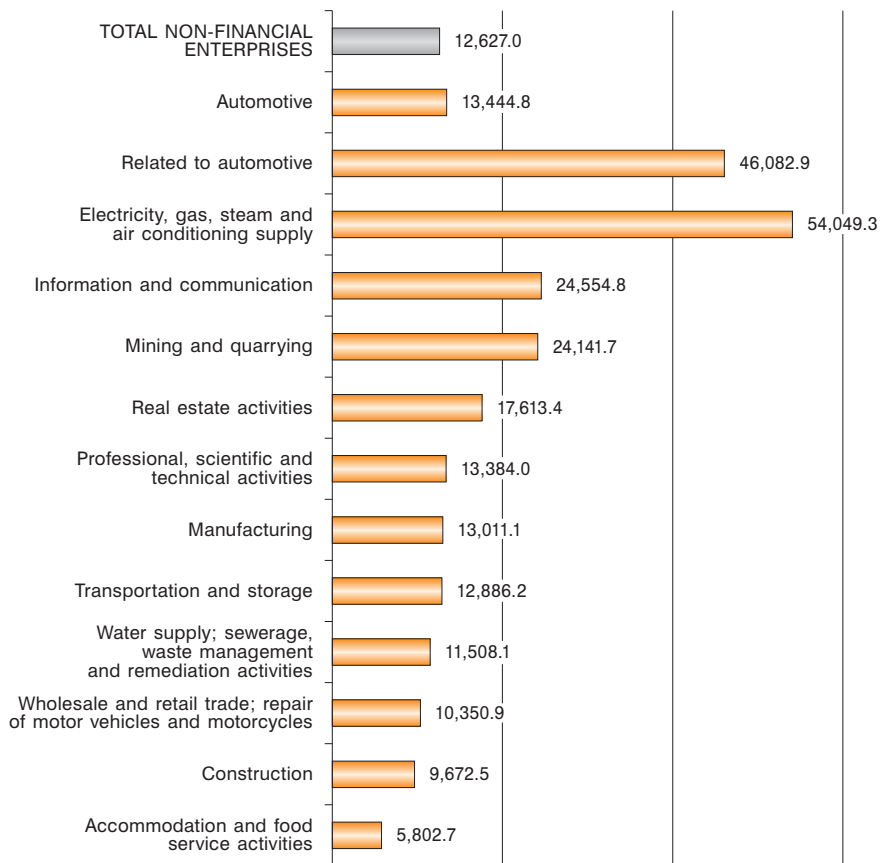


Source: [2016 SBA Fact Sheet, Bulgaria](#).

The ICT sector continues to grow rapidly accounting for 4 % of jobs, 4 % of income and 9.3 % of added economic value and serving to “anchor” young talent in the country. In 2016, the sector accounted for 14 % of total exports mainly due to the growing export of automotive electronics and to the wider outsourcing of business processes. The trend is expected to continue in the coming years.

The automotive sector has the potential to reach the ICT sector in terms of economic added value. For the past ten years, automotive enterprises (approximately 170 with over 33,000 employees in 2016) have produced per-employee added value higher than the average for non-financial enterprises. The sector has a total turnover exceeding EURO 2 billion.

Added value per employee for selected sectors of non-financial enterprises in 2016 (EUR/employee)



Source: Applied Research and Communications Fund.

Based on expert estimates of the history of the Bulgarian ICT sector and the role of the companies related to the automotive sector, the latter has the potential to make the country suitable for R&D and innovation-intensive production in the next five to ten years. As several foreign companies have been researching our

market or have announced their intention to build production facilities in Bulgaria, the sector is expected to expand further in 2018.

Among the recommendations put forward in the [Innovation.bg report](#) is the development of an effective national in-

novation policy, with a number of practical measures for its implementation, such as setting up a National Innovation Foundation. The Foundation could follow the Innovation Norway model and bring together the efforts of the National Innovation Fund and the National Sci-

ence Fund under the governance of a strong international board. Another viable measure would be to create regional innovation development structures with pilot budgets supporting local initiatives for smart specialization.

The Thirteenth National Innovation Forum

For a thirteenth year, the [National Innovation Forum](#) gathered more than 200 representatives of the policy, research and business communities to share views on Bulgaria's position in the global value chains. The event took place on 15 December 2017 on the eve of the Bulgarian Presidency of the EU Council.

Dr. Ognian Shentov, Chairman of the Applied Research and Communications Fund, underlined that apart from providing in-depth analysis of the national innovation system and serving as a reference document for the European Commission and Bulgaria's international partners, the [Innovation.bg](#) report feeds into the EU innovation debate and helps shape the EU



*President of the Republic of Bulgaria Mr. Rumen Radev
at the 13th National Innovation Forum*



From left to right: Mr. Ognian Zlatev, Head of the Representation of the European Commission in Bulgaria; Dr. Ognian Shentov, Chairman of ARC Fund; Mr. Rumen Radev, President of Bulgaria; Mr. Tomislav Donchev, Deputy Prime Minister of Bulgaria; Prof. Stefan Hadzhitodorov, Center for National Security and Defense Research, Bulgarian Academy of Science



Participants in the 13th National Innovation Forum

innovation agenda. He stressed that in recent years the private sector, leading Bulgarian companies and entrepreneurs (some of them contesting for the Innovative Enterprise of the Year award) have turned into the main innovation driver in the country, which makes this process sustainable and future oriented.

The President of the Republic of Bulgaria Mr. Rumen Radev called innova-

tion the key to increasing the efficiency and competitiveness of the Bulgarian economy and the most fruitful ground for integrating business, education and policy. He pointed out that despite insufficient support to innovation growth, Bulgaria has considerably improved its innovation effectiveness index.

The 2017 Innovative Enterprise of the Year Contest

Since 2004, [Innovative Enterprise of the Year](#) awards have been given to Bulgarian companies successfully integrating innovations or scientific achievements in their practice, thus streamlining their activities and improving their long-term performance. The contest is recognized by the European Commission as a best national practice for promoting innovation-based development. Applicants are assessed following a specific methodology by an expert group and an external jury by area of impact of the innovation. The contest is open to companies registered in Bulgaria.

Twenty one of the nearly 100 applicant companies from various sectors of the economy were shortlisted and a 17-member jury, in which public authorities, funding organizations, the business and academia were represented, selected the winners in the eight areas of innovation impact.

Ontotext JSC was given the award for Market Leadership for its radical innovation in the management of big volumes of dynamic content within the publishing business Graph DB – a globally recog-



President of the Republic of Bulgaria Mr. Rumen Radev (middle) and award winners of Innovative Enterprise of the Year 2017



*President of the Republic of Bulgaria Rumen Radev and Atanas Kiryakov,
CEO of Ontotext JSC*



*President of the Republic of Bulgaria Rumen Radev and Christopher Hutchison,
co-founder of Proffit Technologies Inc.*

nized graph database used by top publishers of scientific content such as Elsevier, Springer Nature, and Wiley.

Profit Technologies JSC received the Innovation for Quality of Life award for medical software and integrated digital

service involving the customized design and 3D printing of prosthesis for patients with amputated limbs. The company is a pioneer in the field and works in joint projects with Handicap International and with medical centers in Europe, Australia and Asia.

Innovation and Business Support Program

In 2017, the Innovation and Business Support Program focused its activities in the following fields:

- **Supporting SMEs to establish international partnerships and enter markets in third countries.** Enterprise Europe Network (EEN) – Bulgaria, coordinated by ARC Consulting (part of ARC Fund Group), co-organized some of the most important European business events on the Enterprise Europe Network’s calendar and supported more than 100 international negotiations of more than 40 Bulgarian companies. Ten international agreements were signed with Bulgarian companies and another three were initiated in 2017.
- **Consulting SMEs.** There were two main areas of interest where businesses called for consultation with EEN’s Coordinator ARC Consulting: (i) Access2Finance, focusing on the SME Instrument within Horizon 2020, and (ii) innovation management. More than 30 Bulgarian companies benefited from the services and expertise of EEN in these areas. With the support delivered, over 10 SME project proposals were developed and submitted to H2020, and two of them were awarded the Seal of Excellence. ARC Consulting experts are among the few in Bulgaria licensed by the IMP³rove International Innovation Management Academy. In-depth IMP³rove analysis and consultations were provided to 11 innovative Bulgarian companies, resulting in optimized management of their innovation processes.
- **Innovation Business Club.** The Club is an informal hub that gathers innovative enterprises to share successful examples of innovation from practice. In 2017, the Club’s members got acquainted with experiences of EU innovation leaders such as Ireland and their successful recovery from the global economic crisis, where innovation was a key driver. Interconsult Bulgaria hosted a meeting, at which the company’s innovations at global level were presented.
- **Effectiveness of financial instruments for SMEs and innovation.** In 2017, ARC Fund organized a series of round tables and public debates with business and public institutions on the management of national and European financial instruments for SMEs and innovations, focusing on the National Innovation Fund and the Innovation Fund of Sofia Municipality. Measures and recommendations will be drawn up based on internationally recognized good practices and on the assessment and opinions of experts, stakeholders and partners from Austria, Spain, Portugal, Italy, Poland, France, Spain, Germany and Estonia.

*Assisting SMEs with International Partnerships
and Entering Markets in Third Countries*

EEN-Bulgaria, coordinated by ARC Consulting, offered to Bulgarian companies new opportunities for international partnerships and entering markets in third countries



In 2017, ARC Consulting co-organized some of the most significant business events in the calendar of [Enterprise Europe Network](#). As a result, dozens of companies participated in brokerage events and business missions abroad such as [E² Tech4Cities 2017 – Energy & Efficiency Technologies for Cities Brokerage Event](#) in Brussels, [10th Cluster Matchmaking Mission – European Cluster Collaboration Platform](#) in Thessaloniki, [Computex Taipei 2017 Brokerage Event](#), [SME Vision2020 Brokerage Event](#) in Skopje, [Reducing, Reusing and Recycling – Business opportunities in the circular economy](#) in Oslo.

These events resulted in more than 100 negotiations between Bulgarian and foreign companies on business and technological partnerships in a variety of sectors, with some of them reaching international agreements, mainly in the

automotive, ICT and gaming industries. Contracts connected companies within Europe, Asia and North America. Among them is a Bulgarian company for designing and producing children's kinetic swings, which signed a contract with an English distributor with the possibility of exporting to China. A gaming company negotiated a partnership with English and American publishers and distributors of electronic games. A Romanian manufacturer and a Bulgarian supplier for the automotive industry entered into a trade agreement. Business clusters and non-governmental organizations joined new cross-border projects.



EEN's team has been assisting Bulgarian companies in applying for [Ready2Go](#), the European Commission's pilot initiative to help SMEs enter the market of 5 non-EU countries – the USA, Canada, India, Chile and Cameroon. The successful partnership between entrepreneurs and ARC's consultants and experts resulted in the fact that the only Bulgarian company among the 80 winners selected in a strong competition by a total of 400 candidates from 24 countries was a client of ARC Consulting.

Consulting SMEs

Funding Access (Access2Finance)

In 2017, approximately 80 SMEs and newly established companies took advantage of the consultations on expanding their innovation-related activities, including applications under the *Horizon 2020* SME Instrument. Many of them went through trainings on *Horizon 2020*. With the help of the EEN team 17 companies submitted their Phase-1 proposals to the SME Instrument, after further in-depth consultations by ARC Consulting.

Innovation management: first national study on the BG innovative companies' profile in terms of innovation management according to the IMP³rove methodology



ARC Consulting provides advisory services to companies using the internationally approved methodology of ATKerney's [IMP³rove Academy of Innovation Management](#). IMP³rove offers a systematic approach that makes a snap-shot of all aspects and activities related to the innovation management of a company. The IMP³rove assessment covers a wide range of indicators, relevant to SMEs of



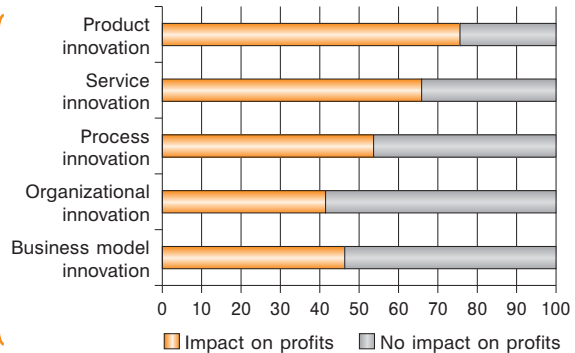
EEN Bulgaria and leading consultants gave key guidance to entrepreneurs on how to successfully apply under the Horizon 2020 SME Instrument

Contribution of innovation to the financial performance of innovative enterprises



80%

of innovative enterprises report profit generated from innovations



Source: Applied Research and Communications Fund, 2017.

varying size, age and economic sector. As a result of the analysis and the measures being taken, companies leveraged their competitiveness and achieved higher growth.

A comprehensive study was reflected in the *Innovation.bg* report 2017, of the innovative companies' profile in the national economy based on data analysis of a representative sample of BG companies having undergone IMP³rove assessment in the period 2015 – 2017.

According to the IMP³rove based survey, the majority of innovative companies are micro and small enterprises (70 %), and

30 % are medium and large ones. Only 40 % of these companies have reported innovation activities in their annual reports to the National Statistical Institute, which is evidence of the underestimated innovation potential of the national economy and the business sector in particular, due to which our country ranks at the bottom of European and international charts.

A large proportion of the innovative enterprises being surveyed (95 %) invest part of their R&D budget in long-term projects which do not promise a quick return, but can become the basis for future technological leadership.

Innovation Business Club: Successful Innovators in the Single European Market

The Innovation Business Club meetings in 2017 brought together the companies featured in the [Innovative Enterprise of the Year Contest](#) and were dedicated to sharing practical experience and success in enhancing innovation at both policy and company levels.

One of the key challenges addressed by the Innovation Business Club was the need of creating an innovation-conducive environment as a mechanism to leverage the economic performance of the Bulgarian SMEs and industry.

Ireland's Ambassador Michael Forbes shared with the Club how his country had recovered after the global economic crisis. He stressed that for the last three years Ireland registered the highest economic growth in the EU thanks to the development and deployment of innova-

tions, some of them with the help of national and European funds. Ambassador Forbes emphasized the importance of having measures to promote innovation projects with impact on society.

Access to markets within and beyond the EU for building successful business and technology partnerships was elicited as another challenge the Bulgarian companies face while striving to go innovative and be competitive on the global market.

The Innovation Business Club companies exchanged experience with [Enduro-Sat](#), the only Bulgarian company that was awarded a contract for Phase 2 of the Horizon 2020 [SME Instrument](#) to launch new generation satellite communication modules. Thanks to the cooperation with the EEN team the company



Ambassador of Ireland Michael Forbes at a meeting of the Innovation Business Club, 11 June 2017



*Participants in the meeting of the Innovation Business Club,
11 June 2017*



Stoyan Boev, Founder and Executive Director of Interconsult Bulgaria

received additional consultancy support from abroad in order to increase the impact and efficiency of the project implementation.

Interconsult Bulgaria Ltd., a member of the Innovation Business Club, hosted one of the meetings to discuss the new rules of the H2020 SME Instrument introduced for 2018 – 2020. The company demon-

strated its virtual reality platforms and ship-navigation simulator used by leading shipping training centers around the world. The company has over 300 successful ICT projects for leading multinational and Bulgarian companies that have brought about significant changes in the management of their business processes.

Analysis of the Effectiveness of Financial Instruments for SMEs and Innovation

In 2017, ARC Fund started working on new policy challenges, namely on ways to improve the efficiency of particular financial instruments in Bulgaria for SME and innovation support concerting the inflow of forefront expertise and good practices from various EU regions. ARC Fund experts kicked-off an in-depth analysis of a pool of national and local financial instruments and measures designed to support innovation in European regions.

The ESSPO initiative analyzes the challenges of institutional support for innovative companies

ESSPO has enabled entrepreneurs, representatives of research organizations and institutions to share the problems they face. Innovators have urged the institutions to ensure a transparent, sustainable and predictable business environment that will reduce the risks to innovation. ARC Fund, in partnership with colleagues from 8 EU countries, analyzed the challenges currently faced by the [National Innovation Fund](#) and reviewed the [Innovation Norway Program](#) as an example of good management practice. The ESSPO initiative examines

the specific needs of innovative enterprises and prepares a rich collection of case studies – from insufficient decentralization and access to resources, to full autonomy and funding to support innovation in SMEs. The topic was reported by the [Bulgarian National Radio](#) and the [Economist magazine](#).

The Bulgarian team presented the first national survey on the profiles of innovative companies in the national economy, according to the management of innovation activities under the IMP³rove methodology, which served as a good practice in the initiative. In 2018, ESSPO will try to develop recommendations tailored to particular institutions and businesses.

InnoBridge brings together European regional practices to make research and innovation a market success

The [Innovation Fund of the Association for Development of Sofia](#) received specific recommendations for improvement of its activities. In 2017, the analysis of its work was completed, and the foreign partners identified the fund as a good example of public-private partnership.



Nine teams from eight regions in Europe are working on the InnoBridge initiative, which aims at establishing more efficient regional policies in support of innovation



In November 2017, experts presented regional best practices to make research and innovation a market success.

The recommendations are also based on good practices from other regions of the initiative such as the creation of a network between universities in Europe to share their research infrastructure, share various incentives for R&D and innovation in enterprises, and open innovation platforms at regional level.

Following a series of meetings across all 8 participating European regions, in

late 2017 the drafting of individual Action Plans to improve the tools and policies that support innovators was started. In 2018, a practical guide to turning research and innovation into market success, with good practices from Inno-Bridge targeted at entrepreneurs and researchers, will be developed.



Science, Technology and Innovation Policy Program

The **Science, Technology and Innovation Policy Program** of ARC Fund is involved in public debates on the challenges faced by research and innovation stakeholders. It mobilizes actors from civil society, business, university and research organizations, as well as policy and decision-makers, towards a shared understanding of forthcoming transformations and challenges in technological developments and innovations, and steers them towards a shared vision for the integration of responsible research and innovation principles into science and policy-making. In 2017, the program focused on:

- **Advancing responsible research and innovation (RRI).** In close partnership with the Bulgarian Ministry of Education and Science and the National Science Fund, ARC Fund led a review of the status of current RRI-related policies, practices and activities and sought to engage those actors and collaboratively develop Outlooks to strengthen RRI-related activities.
- **Social innovation and public engagement with science and research.** Building on its commitment to RRI, ARC Fund continued engaging citizens in improving the connection and collaboration between science and society and in developing a more inclusive, responsive and responsible research and innovation system. Based on the results of several consultative workshops with citizens across the EU, ARC Fund developed the policy report *Citizens' Views of Engagement in Research-Related Activities* and made important contributions to the preparation of a *Social Innovation Atlas*.
- **Building research and project management capacities in the Danube macro-region.** ARC Fund took part in a regional partnership that offered training and mutual learning opportunities to policy makers and policy delivery organizations involved in research infrastructure (RI) financing, as well as to experts and professionals from RI-operating parent organizations. ARC Fund also designed a methodology for the analysis of national capacities in innovation and research project management. It is a tool towards the elaboration of a regional strategy for research and innovation projects management capacity building which offers recommendations to national and regional decision-makers.
- **ARC Fund successfully completed the largest project it had coordinated – *Public Participation in Developing a Common Framework for the Assessment and Management of Sustainable Innovation (CASI)*.** It mobilized hundreds of citizens across Europe to participate in visioning workshops on the impact of science and science policy on the scenarios for a sustainable future.

Advancing Responsible Research and Innovation

Responsible research and innovation (RRI) is a key concept and policy framework. ARC Fund is involved as a partner in one of the major RRI-focused initiatives, funded under *Horizon 2020 RRI-Practice*. It seeks to produce practical insights for participating and partnering organizations, academic insights for scholars and practitioners of "science with and for society", as well as policy-related insights for the European Commission. ARC Fund partners with the Bulgarian Ministry of Education and Science and the National Science Fund to review the current status of RRI and based on it – to develop Outlooks to strengthen RRI-related activities.

At a policy workshop in early 2017 hosted by ARC Fund, civil society organizations, academia, industry and policy-makers presented their understanding and practice of responsibility in research and innovation. The RRI concept and the developments and challenges to RRI in Bulgaria were also discussed. The event showcased diverse knowledge and attitudes to RRI, contributed to rethinking its scope and dimensions, and identified the need for further institutional engagement with some of the underlying RRI principles.

Studies within the engaged organizations were also conducted on how they



National Policy Workshop: Responsible Research and Innovation, 23 February 2017

prioritize RRI. In September 2017, representatives of the involved research funding, research policy and research conducting organizations met in Berlin

to present and discuss different organizational approaches to RRI, with a special focus on barriers, drivers and best practices for RRI implementation.

Citizen Engagement with Science and Research

Citizen engagement is one of the key pillars of RRI. In 2017, ARC Fund continued engaging citizens for improving the relation between science and society and developing a more inclusive, responsive and responsible research and innovation system. As a follow-up of a citizen panel meeting within the [PROSO initiative](#), in February 2017 ARC Fund organized a second meeting with the same citizens in order to get their views and feedback on the conclusions and suggestions for policy measures aiming to improve

citizen engagement in R&I. The results from this and from 4 other EU countries' citizens' meetings were analyzed and presented in the [Synthesis Report on citizens' views of engagement in research-related activities](#).

Research results (including research on engagement of third sector organizations (TSOs) were presented to international experts and researchers in various fields at a [Multi-Actor Conference in Brussels in June 2017](#). Based on the discussions,



National citizen panel meeting in Plovdiv, 11 February 2017



Multi-Actor Conference on Engaging Society for Responsible Research and Innovation in Brussels, 19 June 2017

a Policy Guide was developed, outlining the barriers to public engagement as identified by the PROSO initiative and recommending policy measures to address them. The proposed measures incorporated the perspective of various stakeholders, citizens and TSOs.

ARC Fund hosted various participatory events giving citizens as an opportunity to become legitimate actors in formulating R&I priorities at the EU and national level. The CIMULACT initiative puts citizens at the core of the R&I agenda-setting processes through the organization of an EU-wide online and face-to-face consultation processes with laypeople. In 2017, ARC Fund developed [23 research topics](#) which can serve policy makers at all levels of governance in identifying research pri-



orities of importance to citizens in their constituencies.

CIMULACT's consultations and efforts to provide a link between citizens' aspirations, hopes and concerns for the future

and the R&I agenda-setting processes were recognized in the [Horizon2020 Work Program 2018 – 2020](#) (p. 40)). The policy implications of CIMULACT results were synthesized in a series of [policy briefs](#).

Sustainable Innovation

In 2017, ARC Fund focused on promoting sustainable innovation as part of the public policy discourse and on building awareness among academics, SMEs and policy influencers. Drawing on its experience in technology assessment, ARC Fund hosted a session within the framework of the Third European Conference on Technology Assessment in Cork, Ireland. Discussions focused on participative methods as both an attribute of sustainable innovation and a means for introducing innovative aspects in the public debates on the topic.

ARC Fund and its long-time partner Technologica hosted a stakeholder

meeting at the Faculty of Economics and Business Administration of Sofia University to discuss the practical implications of sustainable innovation. The new framework for the assessment and management of sustainable innovation CASI-F was introduced and practical examples of how it could be used by different stakeholder groups were presented. The framework is a versatile instrument which has both business and policy applications.

In 2017, ARC Fund successfully completed [the CASI project](#) whose key results and deliverables are publicly available on its website.

STI Cooperation in the Black Sea Region

Throughout 2017, ARC Fund advanced its involvement in the STI cooperation in the Black Sea Region, contributing to policy dialogues on STI between the EU and Black Sea countries. ARC Fund hosted a workshop in Sofia and co-organized an event in Tbilisi to discuss the societal relevance of social, sustainable, frugal and inclusive innovations, as well as their scientific and technological basis. The forums also aimed to raise awareness on the benefits of these types of innovation and to

arrive at policy-relevant messages that address them.

At a workshop in Sofia, gathering representatives of companies, social enterprises, civil society organizations and universities from Armenia, Azerbaijan, Austria, Bulgaria, Georgia, Germany, Moldova, Romania, Russia, Turkey and Ukraine, successful practices from these Black Sea countries were presented and drivers, barriers, challenges and opportunities for social, sustainable and frugal



Promotion of Social, Sustainable and Frugal Innovation in the Black Sea Region Workshop, Sofia, November 2017

innovations were discussed. Participants formulated policy-relevant messages focusing on the necessity to shift from innovation as a global phenomenon to local innovation, and to introduce funding and support schemes for the latter, to map and promote successful practices, to involve local communities in designing innovative solutions, and to facilitate collaboration between innovators, researchers, business, policy-makers and the local communities.

The workshop “Policy guidelines for social, sustainable and inclusive innovation: the Black Sea region experience” took place in Tbilisi in December 2017. The results from the workshop in Sofia were presented, helping to advance practitioner-generated knowledge on social, sustainable and frugal innovations to a more policy-oriented audience from public authorities, NGOs, business, universities and agencies from the Black Sea region.

Improving Management Capacity for Scientific Excellence

In 2017, ARC Fund started an initiative in collaboration with 11 partners from Central Europe and the Western Balkans on the promotion of excellence in research, social and technological innovation project management to address some critical shortages, analyze current opportunity gaps and elaborate strategic recommendations towards building better capacity and human resource resilience in the Danube region.

As the initiative leader, ARC Fund designed a methodology for the analysis of national capacities in innovation and

research project management. The effort involved collecting good practices, identifying national stakeholders and performing an inquiry on the available management capacities and the challenges at the different levels of governance. An online survey was also conducted among more than a thousand experts and young project managers in the Danube region. ARC Fund and its partners will further elaborate a regional strategy for building project management capacity in the area of research and innovation.

Transforming Household Energy Consumption Culture

Reducing energy consumption and carbon footprint are among the greatest contemporary challenges. ARC Fund is partner in the multi-national [ENERGISE](#) initiative aiming to propose and test several innovative approaches to changing the ways in which households use energy across Europe.

In 2017, ARC Fund took part in the elaboration of a conceptual framework for energy-related practices taking into account social norms and routines and factors such as income, education, family status and gender. The framework draws the conclusion that current public policy measures to reduce energy consumption are likely to fail if the culture and patterns of energy use in households remain unchanged.

ARC Fund also conducted a review of existing sustainable energy consumption initiatives in European countries and explored the ways in which households decrease their energy consumption and negative impact on the environment at home and in 10 European countries, adding to a database of 1068 initiatives accessible to the public on the [ENERGISE](#) website.

The mapping of energy saving initiatives in Bulgaria revealed that Bulgarian households rarely change their practices and behavior in order to reduce energy consumption. The only such efforts are the retrofitting of multi-story residential buildings under EU-funded national or municipal programs and the purchase of energy efficient domestic appliances.

Developing Research Infrastructures

In January 2017, ARC Fund launched an effort to address the challenge of insufficient capacity to conduct ex-ante reviews, monitoring and impact-oriented assessments of research infrastructures (RI) in the Danube region as part of a regional partnership providing training and other learning opportunities to policy makers and policy delivery organizations involved in RI financing, as well as to experts and professionals from RI-operating parent organizations.

ARC Fund contributed to the design of training activities, focusing on two main

tasks: 1) training of RI program owners, financing authorities and policy delivery organizations, RI operators and potential RI reviewers; and 2) registry of RI reviewers. The organization also elaborated a methodology for stakeholder needs assessment and drew a report providing a comprehensive overview of the RI development framework in Bulgaria.

The report provided a thorough review of the key issues in the national RI policy and practice, and featured an assessment of the national RI planning, monitoring and evaluation efforts.



Participants of the Strategic Dialogue Workshop in Vienna

Social Innovation as a Driver of Social Change

Social innovation is a key research area of ARC Fund. In 2017, the organization took part in a number of policy and foresight workshops within the Social Innovation – Driving Force of Social Change (SI-DRIVE) initiative aiming to extend knowledge of social innovation into a new paradigm of innovation and to perform global mapping of social innovation in different social contexts. Each of the workshops focused on a policy field such as education, energy and the environment relevant to the current grand societal challenges.



ARC Fund was also involved in the drafting of a *Social Innovation Atlas (SI-Atlas)*, detailing the proliferation and acceptance of social innovations across Eastern Europe, and providing a critical review of the interplay between social innovation

and sustainability. The Atlas gives a global overview of the rich variety of social innovation in different world regions and policy fields and promotes the importance of social innovation in addressing globally the social, economic, political and environmental challenges of the 21st century.



Organizational-level interventions reducing the negative effects of restructuring on employees in large company establishments in the EU

In 2017, ARC Consulting (part of ARC Fund Group) partnered with Eurofound – European Foundation for the Improvement of Living and Working Conditions in a research initiative entitled “Provision of qualitative research study on organizational-level interventions reducing the negative effects of restructuring on employees in large company establishments in the EU” as part of the 2017 European Restructuring Monitor (ERM) annual report prepared by Eurofound. ARC Fund was involved in validating

and expanding literature-based good practice components for the implementation of effective workplace restructuring through in-depth qualitative interviews with relevant experts and stakeholders in Bulgaria. It also drew up a case study on a successful Bulgarian company-level intervention aimed at

ameliorating the negative effects of restructuring for remaining workers. The case study helped analyze the content, design, organization-specific factors and contextual issues that influence such interventions and improve existing guidelines for practitioners and policy-makers.

Safer Internet Program

safenet.bg

Since 2005, ARC Fund has been coordinating the Safer Internet Centre (SIC) in Bulgaria as part of the European Insafe network and the International Association of internet hotlines INHOPE. The organization operates a Hotline for receiving reports about online content that is illegal and harmful to children and supervises a Helpline operated by its partner Parents Association. The Hotline reports about online sexual exploitation of children are verified and transferred for further legal action to the national Cyber Crime Unit. Via the Helpline, trained psychologists consult children, parents and teachers about problems and incidents with children on the Internet.

An important priority in the Safer Internet Centre's activities is raising the awareness of children, parents and teachers about the online risks for children's safety by developing information materials, conducting campaigns, designing methodologies for schools and training pupils and teachers on Internet safety. In 2005, ARC Fund's Hotline was awarded a plate of honor by the Ministry of Interior for civic assistance to police work.

In 2017, ARC Fund's Safer Internet Program ran and helped expand the activities of the SIC and the Public Council on Safer Internet Use involving 22 stakeholders: public institutions, business associations, telecoms, civil society actors, experts and professionals. Children and youth participation has always been of significance in following the trends of ICTs use by minors and in consulting young people about the most efficient ways to reach and influence their peers in order to raise their awareness and skills to remain safe, while making use of the unlimited opportunities for learning and growing up as responsible and successful digital citizens that digital technologies offer.

In 2017, the SIC Hotline processed over 4000 reports. Hundreds of online child sexual exploitation websites and mate-

rials were identified and removed. The Cyber Crime Unit of the Ministry of Interior's Directorate-General for Combating Organized Crime helped identify and take into custody dozens of perpetrators involved in child sexual exploitation or in the production and dissemination of child sexual abuse materials (CSAM) online.

SIC developed a number of information, awareness and training materials and performed dozens of trainings of children, teachers and parents on how to avoid online threats and risks and respond to incidents on the Internet. In 2017, trainings were delivered to over 800 teachers, school psychologists, school counselors and social workers, more than 300 parents and over 350 children and teenagers in more than 25 towns nationwide. The SIC team updated and



240 children were trained in the Cyberscout Program

designed new methodologies for effective training. Its *Cyberscouts Training Program*, underway for a third consecutive year, has proven to be one of the most successful awareness raising and training tools.

The creation and regular update of a knowledge base supporting the development of state-of-the-art awareness and training tools and methods is an

important part of the SIC activities. As a representative for Bulgaria of the international research network *Global Kids Online*, ARC Fund conducted a national representative survey *Bulgarian Kids Online*. Comparing the new survey data with the findings of the previous *EU Kids Online* survey based on a similar methodology from 2010 helped identify the trends in ICT use and online risks to children. Based on the survey results,

CYBERSCOUTS TRAINING PROGRAM

In 2017, more than 240 children from 12 schools in 15 cities and towns in the country passed the two-day training. The certified 12-year-olds spread among more than 800 of their peers their knowledge about the main dangers and risks on the Internet and the appropriate ways to prevent them. The national cyberscouts' network already includes more than 500 children in 32 cities and towns. The program was ranked 9th in Europe by the European Crime Prevention Network (EUCPN).

three comparative analytical reports were published: *Bulgarian Kids Online: Risks and Harms*, *Parental Support for Development of Children's Digital Skills* and *Are Digital Natives Digitally Literate?*. The reports attracted broad interest among researchers, academics and professionals both in Bulgaria and abroad, as well as among the general public and the media. The findings were presented at the main national event marking the International Safer Internet Day 2017 and a conference organized by UNICEF Bulgaria and the State Agency for Child Protection (SACP).

The *Bulgarian Kids Online* survey findings became the basis of the first methodology for developing digital and media literacy (DML) of children in primary education in Bulgaria *From Digital Literacy*

to Digital Citizenship. The methodology devised by SIC experts, lecturers from the Faculty of Pre-School and Primary School Education (FPPSE) of Sofia University and practicing teachers, was piloted in dozens of schools and a proposal was made to the Ministry of Education and Science to include it in the primary school curriculum. The methodology has already become part of the curriculum of Bachelor's and Master's degree programs of Sofia University's FPPSE.

To combine its advocacy efforts with those of other organizations and stakeholders, ARC Fund, together with the Red House Centre for Culture and Debate and 12 other NGOs working for a 21st century educational reform, founded a *Coalition for Development of Media Lit-*



Findings from a national representative survey were presented to stakeholders and experts



A coalition for development of media literacy in primary schools was launched in September 2017



Bulgarian Youth discussed important topics of online safety with regional managers of Facebook

eracy in Schools launched on 11 September 2017 in Sofia. The coalition is open for new members, experts and professional educators. Among its prominent founders are the Institute for Progressive Education, the Association of European Journalists in Bulgaria, and Teach for Bulgaria Foundation, the National Network for Children, Education Bulgaria 2030, and The Voice of Children Foundation. The coalition will aim to encourage public debate on the topic and raise awareness about best practices in the development of digital and media literacy. To this end, it set an ambitious long-term agenda of initiatives and events focused on digital and media education in schools and on advocating adequate education reforms.

To involve children closely in achieving digital and media literacy, in April 2017 ARC Fund organized a youth event in Sofia at which 30 young people discussed important topics of online safety with regional managers of Facebook.

Members of the youth panel of SIC also participated in the national youth forum *Voice It*, organized by the National Network for Children where they emphasized the need for early development of digital and media literacy for prevention of the risks for children and young people in digital environments. The Bulgarian Safer Internet Centre was one of the hosts of the forum which took place on 20 November 2017 at the Ancient Serdica Complex in Sofia. Young people suggested that in order to help decrease hate speech and aggression both offline and online, critical thinking and all components of digital and media literacy should be further incorporated in the school curricula.

The SIC youth panel developed the scenario for the major Safer Internet Day



A new mobile application was launched by the SIC

event in Bulgaria on 7 February 2017 in Sofia. They moderated a discussion between students, teachers, experts, and NGO representatives, and brainstormed case studies, illustrating hate speech on the Internet, as well as possible ways to prevent online hatred. Participants came up with specific recommendations to the Ministry of Education and Science.

Discussions continued at the annual Youth Parliament event in the town of Gorna Oryahovitsa and in several other Bulgarian towns as part of the the SIC school campaign *Ot Teb Z@visi* (mean-



Young people and professionals discussed on prevention of hate speech online on the International Safer Internet Day

ing “It all depends on you”). SIC developed presentations, lesson plans, and a teacher’s guide to be used in the classroom. More than 100 schools all over the country took part in the campaign.

In late 2017, the Safer Internet Centre launched a mobile application which provides quick access to the SIC Helpline and Hotline. It has a password strength checker and a test of users’ knowledge about online safety. *SafeNetApp* was developed with the support of Telenor

Bulgaria and Internet Society and is available for mobile devices with both Android and iOS. It supports a one-click opening of the online form for reporting illegal and harmful content and quick access to a Helpline consultant (via phone or chat). The application was designed as an educational game with a quick SIC contact functionality. If users want to enter in competition with other users, they can sign up to check their ranking among those who passed the test. They can also do the test repeatedly to improve their performance.

PART TWO

Management



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 at 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 for research, technology development and demonstration projects, and the Cohesion and Structural Funds.

ARC Fund and ARC Consulting form the ARC Fund Group.

In 2017, the ARC Fund Group’s team included 26 full-time employees and part-

time consultants and advisors. The ARC Fund Group 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.

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 Tchoncova, Program Manager
Denitsa Marinova, Project Manager
Prof. Teodora Georgieva, Senior Fellow
Dr. Fani Koleva, Senior Analyst
Maya Tsaneva, Public Relations Officer

Science, Technology and Innovation Policy Program

Ventseslav Kozarev, Program Manager
Blagovesta Choncova, Project Manager
Marko Hajdinjak, Senior Analyst
Desislava Asenova, Analyst
Konstantin Ivanov, Analyst
Galina Sapundjieva, Analyst

Safer Internet Centre

Georgi Apostolov, Program Manager
Lubomir Sirkov, Analyst
Petar Kanchev, Analyst
Emanuil Georgiev, Analyst

Finance and Administration

Daniela Zain, Accountant
Kristina Tsvetkova, Financial Officer
Dimitar Stamenov, System Administrator
Mariana Yankova, Administrative Secretary

PART THREE
Financial Report





Applied Research and Communications Fund (The Group)

Consolidated Annual Financial Statements

31 December 2017

Independent Auditor's Report

To the Owner of
APPLIED RESEARCH AND COMMUNICATIONS FUND

Report concerning the audit of the consolidated financial statements

Opinion

We made an audit of the consolidated financial statements of APPLIED RESEARCH AND COMMUNICATIONS FUND ("the Group"), containing the consolidated statement of comprehensive income as at **31 December 2017**, 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 2017 and its financial results from the activity and the cash flows for the year, ending on this date, in accordance with the International Financial Reporting Standards as adopted by the European Union.

Basis for expression of opinion

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

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

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

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

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

If on the basis of the work, which we have done, we (would) reach to a conclusion that if there is a significant improper reporting of this other information, we are required to report that fact.

We don't have what to report in this relation.

Responsibilities of the management for the consolidated financial statements

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

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

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

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

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

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

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

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

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

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

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

Report in relation to other statutory and regulatory requirements

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

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

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

Date 25 September 2018



0509
Стоян
Донеv
Регистриран одитор

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

(all amounts in BGN thousand)	Note	For the year ending:	
		31 December 2017	31 December 2016
Assets			
Property, plant and equipment	5	15	9
Investment property	6	127	128
Total non-current assets		142	137
Trade and other receivables	7	811	780
Cash and cash equivalents	8	1,793	1,921
Deferred expenses	9	1	46
Total current assets		2,605	2,747
Total assets		2,747	2,884
Equity			
		1,931	1,912
Liabilities			
Payables to partners and suppliers	10	151	108
Deferred financing	12	665	864
Total current liabilities		816	972
Total liabilities		816	972
Total equity and liabilities		2,747	2,884

These consolidated financial statements were approved by the Board of Trustees on 27 July 2018. They are signed on behalf of the Board of Trustees by:

Nickolay Badinski
Executive Director
27 July 2018



Initialed for identification purposes in reference to the audit report:

Stoyan Donev
Registered Auditor
25 September 2018



Applied Research and Communications Fund (The Group)
Consolidated Statement of Comprehensive Income, 31 December 2017

(all amounts in BGN thousand)	<i>Note</i>	For the year ending:	
		31 December 2017	31 December 2016
Revenues from grants financing	13	1,537	1,434
Cost of sales	14	(1,510)	(1,397)
Gross profit		27	37
Other operating income		264	382
Administrative expenses		(258)	(375)
Impairment losses		(13)	(13)
Revenue from operating activities		20	31
Financial income		2	9
Financial expenses		(4)	(10)
Net financing costs	15	(2)	(1)
Profit before income tax		18	30
Income tax expense	16	-	(1)
Net profit for the period		18	29
Other comprehensive income		-	-
Total comprehensive income		18	29

These consolidated financial statements were approved by the Board of Trustees on 27 July 2018. They are signed on behalf of the Board of Trustees by:

Nikolay Badinski
 Executive Director
 27 July 2018



Initialed for identification purposes in reference to the audit report:

Stoyan Donev
 Registered Auditor
 25 September 2018



Applied Research and Communications Fund (The Group)
Consolidated Statement of Changes in Equity, 31 December 2017

(all amounts in BGN thousand)	Note	Retained earnings
Balance as of 1 January 2016		1,883
Net profit for the year		29
Balance as of 31 December 2016		1,912
Balance as of 1 January 2017		1,912
Net profit for the year		18
Other changes		1
Balance as of 31 December 2017		1,931

These consolidated financial statements were approved by the Board of Trustees on 27 July 2018. They are signed on behalf of the Board of Trustees by:

Nikolay Badinski
Executive Director
27 July 2018



Initialled for identification purposes in reference to the audit report:

Stoyan Donev
Registered Auditor
25 September 2018



(all amounts in BGN thousand)	<i>Note</i>	For the year ending:	
		31 December 2017	31 December 2016
Cash generated from operations			
Profit before income tax		18	29
Adjustments for:			
Depreciation		<u>7</u>	<u>8</u>
Changes in working capital:			
(Increase)/Decrease of Trade and other receivables		(31)	8
(Increase)/Decrease of Trade and other payables		43	196
(Increase)/Decrease of Deferred financing		(206)	8
(Increase)/Decrease of Deferred expenses		<u>45</u>	<u>196</u>
Net cash from operating activities		<u>(124)</u>	<u>241</u>
Income tax paid		<u>-</u>	<u>-</u>
Net cash generated from operating activities		<u>(124)</u>	<u>241</u>
Cash flows from investing activities			
Payments for acquisition of property, plant and equipment		<u>(2)</u>	<u>(2)</u>
Net cash used in investing activities		<u>(2)</u>	<u>(2)</u>

(all amounts in BGN thousand)	Note	For the year ending:	
		31 December 2017	31 December 2016
Cash flows from financing activities			
Loans received		-	-
Interest and commissions paid		(2)	(39)
Net cash used in financing activities		(2)	(39)
Net increase/(decrease) in cash and cash equivalents		(128)	200
Cash and cash equivalents at the beginning of the year		1,921	1,721
Cash and cash equivalents at the end of the year	16	1,793	1,921

These consolidated financial statements were approved by the Board of Trustees on 27 July 2018. They are signed on behalf of the Board of Trustees by:

Nikolay Badinski
Executive Director
27 July 2018



Initialled for identification purposes in reference to the audit report:

Stoyan Donev
Registered Auditor
25 September 2018



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 2017 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 2017 the Group has 28 employees.

These consolidated financial statements have been approved by the Board of Trustees of the Fund on 27 July 2018.

2. Accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1. Basis of preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union. The financial statements have been prepared under the historical cost convention.

The consolidated financial statements comprise the financial statements of the Fund and its subsidiaries as of 31 December each year. The financial statements of subsidiaries are prepared for the same reporting period as the parent Fund, using consistent accounting policies. For consolidation purposes, the financial information of the Group has been combined on a line-by-line basis by adding together like items of assets, liabilities, income and expenses.

All intra-group balances, income and expenses and unrealized gains resulting from intra-group transactions are eliminated in full. Unrealised losses are also eliminated but considered an impairment indicator of the asset transferred. Subsidiaries are fully consolidated from the date of

acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

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

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

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

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

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

Transactions with non-controlling interests

Non-controlling interests represent the portion of profit or loss and net assets not held by the Group and are presented separately in the income statement and within equity in the consolidated balance sheet, separately from parent shareholders' equity. Disposals of non-controlling interests result in gains and losses for the Group that are recognised in the income statement. Acquisitions of non-controlling interests are accounted for whereby the difference between the consideration and the book value of the share of the net assets acquired is recognised in goodwill.

The preparation of the financial statements in accordance with IFRS requires management to make estimates and assumptions. The management relied on their own judgment when applying the accounting policy of the Group. The elements of the financial statements whose presentation includes higher degree of judgment or subjectivity and for which the assumptions and judgments have higher influence are separately disclosed in Note 4.

New and amended standards, adopted by the Group:

New and amended standards and interpretations mandatory for the first time for the financial year beginning 1 January 2017 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.

2.3. Property, plant and equipment

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

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

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

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

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

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

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

2.4. Intangible assets

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

Subsequent expenditures

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

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

2.5. Financial assets

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

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Assets in this category are classified as current assets.

For the purposes of these financial statements short term means a period within 12 months. During the year, the Group did not hold any investments in this category. The Group does not possess such financial assets as of 31 December 2017.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. The Group's loans and receivables comprise 'trade and other receivables' and 'cash and cash equivalents' in the balance sheet. Loans and receivables are carried at amortized cost using the effective interest rate.

Held to maturity

Held-to-maturity investments are fixed-maturity investments that the Group's management has the positive intention and ability to hold to maturity. These securities are included as non-current assets except for securities, reaching maturity within 12 months from the balance sheet date and which are recognised as current during the reporting period. During the year, the Group did not hold any investments in this category.

Available for sale financial assets

Available-for-sale financial assets are non-derivatives that are investments acquired with the purpose to be owned for non-fixed period of time and which can be sold when the Group needs recourse or at change of interest rates. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date or to use them as a source of working capital. In this case the investments are classified within current assets. During the year, the Group did not hold any investments in this category.

The group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. Impairment testing of trade and other receivables is described in Note 2.7.

2.6. Inventory

Inventories are stated at the lower of cost and net realisable value. Inventories are expensed using the weighted average method. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

2.7. Trade and other receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost (using effective interest method) less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables.

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

2.8. Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less as well as

bank overdrafts. Bank overdrafts are shown within current borrowings in current liabilities on the balance sheet.

2.9. Investment property

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

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

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

2.10. Borrowings

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

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date. Borrowing costs are recognised as an expense in the period in which they are incurred.

2.11. Deferred tax

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

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

2.12. Employee benefits on retirement

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

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

2.13. Revenue recognition

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

The group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Sales of services

Revenue from time and material contracts, typically from delivering certain services, is recognised under the percentage of completion method. Revenue is generally recognised at the contractual rates. For time contracts, the stage of completion is measured on the basis of labour hours delivered as a percentage of total hours to be delivered.

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

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

Revenue from grants and contributions

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

Interest income

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

2.14. Dividend distribution

The Group does not distribute dividends.

3. Financial risk management

3.1. Impact of the ongoing global financial and economic crisis

In 2017 and 2018, the Bulgarian economy continued its moderate recovery with easing of consumer and business credit. At the same time, due to the rise in global political uncertainty fears have increased that Bulgaria might be left out of the EU policy-making core. So far, these risks have not materialized as the country has applied to join the Eurozone in 2018 but remain potent for the future development of the country and of the particular sector of operation of the Group.

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

The management is unable to predict all developments which could have an impact on the sector and wider economy, and consequently what effect, if any, they could have on the future financial position of the Group. But the management analysis shows that for the short to mid-term the risks are balanced and the general environment is likely to remain largely favorable for the development of the Group.

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

3.2. Financial risk factors

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

3.2.1. Market risk

a) Currency risk

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

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

b) Price risk

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

3.2.2. Interest rate risk

As the Group has no significant interest-bearing assets, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

The Group analyses its interest rate exposure on a regular basis and addresses the underlying risk.

3.2.3. Credit risk

Credit risk arises from cash and cash equivalents and deposits with banks and financial institutions.

The Group has established and implemented policy, which ensures that the sales of services and revenues from financing are provided to/by clients and organisations with appropriate credit history.

3.2.4. Liquidity risk

In the context of its underlying business, the Group is able to maintain flexibility in funding and to use credit lines, overdrafts and other credit facilities, if necessary.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

As of 31 December 2016	Up to 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Trade and other payables	108	-	-	-
As of 31 December 2017	Up to 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Trade and other payables	151	-	-	-

4. Critical accounting estimates and judgements

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

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

Useful life of property, plant and equipment

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

Impairment of loans and receivables

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

5. Property, plant and equipment

Cost	As of 1 January 2017	Additions	Disposals	As of 31 December 2017
Computers	74	11	-	85
Vehicles	144	-	-	144
Fixtures & Fittings	19	-	-	19
Other assets	3	-	-	3
Total	240	11	-	251

Depreciation	As of 1 January 2017	Additions	Disposals	As of 31 December 2017
Computers	66	5	-	71
Vehicles	144	-	-	144
Fixtures & Fittings	19	-	-	19
Other assets	2	-	-	2
Total	230	5	-	236

Carrying amount	As of 1 January 2017	Additions	Disposals	As of 31 December 2017
Computers	8	-	-	14
Vehicles	-	-	-	-
Fixtures & Fittings	-	-	-	-
Other assets	1	-	-	1
Total	9	-	-	15

6. Investment property

	2017	2016
As of 1 January		
Carrying amount at the beginning of the period	174	174
Depreciation charge	<u>(47)</u>	<u>(46)</u>
Carrying amount at the end of the period	<u>127</u>	<u>128</u>
As of 31 December		
Cost	174	174
Accumulated depreciation	<u>(47)</u>	<u>(46)</u>
Carrying amount	<u>127</u>	<u>128</u>

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

7. Trade and other receivables

	As of 31 December	
	2017	2016
Trade receivables	874	684
Less: Impairment provision of trade payables	(65)	(52)
Trade receivables, net	809	632
Other	<u>2</u>	<u>148</u>
	<u>811</u>	<u>780</u>

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

8. Cash and cash equivalents

	As of 31 December	
	2017	2016
Cash at hand	12	8
Cash in bank current accounts	<u>1,781</u>	<u>1,913</u>
	<u>1,793</u>	<u>1,921</u>

9. Trade and other payables

	As of 31 December	
	2017	2016
Short Term liabilities		
Payables to partners and suppliers	-	27
Salaries and social securities payables	23	45
Tax	4	-
Other	124	35
	<u>151</u>	<u>107</u>

10. Deferred financing

Deferred financing related to projects:

	As of 31 December	
	2017	2016
EEN – Enterprise Europe Network	257	
Social Innovation – Driving Force of Social Change (SI-DRIVE)		32
Other	24	46
Empowering Children in the Digital Age through Early Digital Literacy Development	30	147
Public Participation in Developing a Common Framework for Assessment and Management of Sustainable Innovation		225
Men care campaign in Bulgaria	13	
European Network for Research, Good practice and Innovation for sustainable Energy (Energize)	68	
Responsible Research and Innovation in Practice (RRI Practice)	158	282
Creating a better internet for kids by protection, awarness raising and education	107	131
Total deferred financing related to projects	<u>658</u>	<u>863</u>
Deferred financing for acquisition of fixed assets	7	1
Total deferred financing	<u>665</u>	<u>864</u>

11. Revenue

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

	As of 31 December	
	2017	2016
Engaging Society in Horizon 2020	4	17
Public Participation in Developing a Common Framework for Assessment and Management of Sustainable Innovation	269	432
Social Innovation – Driving Force of Social Change (SI-DRIVE)	32	37
Men care campaign in Bulgaria	1	13
Children, parents and teachers against hate speech and discrimination		33
European Design Innovation Platform		39
Capacity Building for Greening BG Innovative SMEs		66
SafenetBG: Safeguarding and empowering children and youth online		68
Enhanced bi-regional STI cooperation between the EU and the Black Sea Region – Black Sea Horizon	63	51
Citizen and Multi-actor Consultation on Horizon 2020	52	104
National campaign for counteracting contemporary models of gender based violence		51
Peer learning on ways to improve knowledge/technology transfer to SMEs in a- Other structured innovation ecosystem		14
Promoting societal engagement under the terms of RRI	110	116
Empowering Children in the Digital Age through Early Digital Literacy Development	117	105
Bridging the innovation gap through converting R&D results into commercial success in a more effective and efficient way	65	18
Efficient support services portfolio for SMEs	105	23
Creating a better internet for kids by protection, awareness raising and education	174	81
Responsible Research and Innovation in Practice (RRI Practice)	124	
European Network for Research, Good practice and Innovation for sustainable Energy (Energize)	58	

Applied Research and Communications Fund (The Group)
Notes to the Consolidated Annual Financial Statements, 31 December 2017
(all amounts in BGN thousand, unless otherwise stated)

	As of 31 December	
	2017	2016
Facilitating macro-regional scope and link up to socio- economic actors of Research Infrastructure in the Danube Region (ResInfra)	128	
Excellence in research, social and technological innovation project management (ReSti)	133	
Other projects	82	120
Total Revenues from grants financing	1,519	1,388
Revenues from unconditional donations	15	46
Other	4	-
Total Revenues	1,537	1,434

12. Finance costs, net

	As of 31 December	
	2017	2016
Interest income	2	9
Interest expense	-	-
Interest, net	2	9
Foreign exchange income	-	-
Foreign exchange expense	(3)	(3)
Foreign exchange, net	(3)	(3)
Other financial expenses	(1)	(7)
Other financial, net	(1)	(7)
Finance costs, net	(2)	(1)

13. Income tax expense

The major components of income tax expense for the year ended 31 December 2017 and the period ended 31 December 2016 are:

	2017	2016
Current tax	-	(1)
Deferred tax	-	-
Income tax expense	(1)	(5)

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

There are no tax checks performed in the recent years.

14. Related parties

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

During the period the following transactions and balances have occurred:

Related party	Transactions during the year	January-December		31 December		31 December	
		2017	2016	2017	2016	2017	2016
		<i>Transactions</i>		<i>Receivables</i>		<i>Payables</i>	
Project 1	Rental agreement	73	57			1	-
Project 1	Consulting services			226	226		
		73	57	226	226	1	-

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:

	2017	2016
Board of Trustees and Executive Directors	259	242

15. 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.