CENTER FOR
THE STUDY OF
DEMOCRACY

Center for the Study of Democracy (The Group)

Consolidated Annual Financial Statements

31 December 2018

Independent Auditor's Report

To the General Assembly
of the Center for Study of Democracy

Report on the Consolidated Financial Statements

We have audited the consolidated financial statements of the Center for the Study of Democracy, Sofia and its consulting arms ("the Group") which comprise the consolidated statement of the Group's financial position as of 31 December 2018 and the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, as well as a summary of significant accounting policies and other explanatory notes.

Opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2018, its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the European Union.

Basis for expression of opinion

We have performed our audit in accordance with the International Standards on Auditing (ISA). Our responsibilities as per these standards are further described in the Auditor's Responsibility section of our report. 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 Law on the Independent Financial Audit (LIFA), applicable to our audit of consolidated financial statements in Bulgaria. We have also complied with our other ethical responsibilities as per the requirements of LIFA and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Other information, different from the consolidated financial statements and the auditor's report

The Group's management is responsible for other information. Other information comprises the report on the activity prepared by the management in accordance with Chapter Seven of the Law on Accountancy, but excludes the consolidated financial statements and our auditor's report.

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

In auditing consolidated financial statements, our responsibility is to read the other information and thus to assess whether this other information is substantially inconsistent with consolidated financial statements or with our knowledge obtained during the audit, or in another way appears to contain material misstatement. If, based on the work we have performed, we conclude there is material misstatement in this other information, we are required to report this fact.

We have nothing to report in this respect.

Supplementary reporting requirements laid down in the Law on Accountancy

In addition to our responsibilities and reporting in compliance with ISA, in reference to the report on the activity we have followed the procedures supplementing ISA requirements as per the Instructions of the professional organisation of certified public accountants and registered auditors in Bulgaria – Institute of Certified Public Accountants (ICPA) – issued on 29 November 2016 and endorsed by its Managing Board on 29 November 2016. These are procedures on verification whether such other information is present and on examination of its form and content, designed to assist us in forming an opinion on whether this other information contains the disclosures and reports laid down in Chapter Seven of the Law on Accountancy.

Opinion in reference to Art. 37, Para. 6 of the Law on Accountancy

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

a) The information included in the report on the activity for the financial year for which consolidated financial statements were prepared corresponds to the consolidated financial statements.
b) The report on the activity was prepared in compliance with the requirements of Chapter Seven of the Law on Accountancy.
c) The report on payment to governments for the financial year for which consolidated financial statements was prepared, was presented and prepared in compliance with the requirements of Chapter Seven of the Law on Accountancy.

Management's responsibility for the Consolidated Financial Statements

The management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as the management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

During the preparation of consolidated financial statements, the management is responsible for evaluating the ability of the Group to continue its operation as a going concern, disclosing, when applicable, issues related to the assumption about a going concern and using the accounting basis on the grounds of the assumption about a going concern, unless the management has the intention to liquidate the Group or to suspend its activity, or has no other alternative but to take such action.

Auditor's responsibility

We aim to obtain reasonable assurance that the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report containing our auditor's opinion. Reasonable assurance is a high degree of assurance, but is not a guarantee that an audit performed in accordance with ISA shall in all cases reveal material misstatement if such misstatement is present. Misstatements may arise as a result of fraud or error and are considered material if it would be reasonable to expect that, independently or in aggregate, they could impact the economic decisions of consumers taken on the basis of these financial statements.

As part of the audit complying with IAS, we use professional judgment and keep professional skepticism throughout the audit. We also:

- identify and assess the risks of material misstatement in the consolidated financial statements, whether due to fraud or error; we design and perform audit procedures in response to these risks, and we obtain sufficient and appropriate audit evidence, so as to provide basis for our opinion. The risk of not revealing material misstatement which is due to fraud, is higher than the risk of not revealing material misstatement which is due to error, as fraud could vary from secret arrangement, through forgery, intentional omissions, and statements aiming to deceive the auditor, to internal control neglect or circumvention;
- consider internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and the related statements made by management;
- make a conclusion about the appropriateness of the accounting basis used by management on the grounds of the assumption for a going concern and the audit evidence obtained about whether material uncertainty is present concerning events or circumstances which could cause significant doubts about the ability of the Group to continue operation as a going concern. In case of finding such material uncertainty, we are obliged to draw attention in our auditor's report to the disclosures in the consolidated financial statements relevant to that uncertainty, or, in case these disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, due to future events or circumstances the Group could suspend its operation as a going concern.
- evaluate the overall presentation, structure and content of the consolidated financial statements, including disclosures, and whether consolidated financial statements present the fundamental transactions and events in a reliable manner.

0509 Стоян Донев
Регистриран одитор

Stoyan Donev
Registered Auditor
8 July 2019
Sofia

(all amounts in BGN thousand)	**Note**	**For the year ending:** **31 December 2018**	**31 December 2017**
Assets			
Property, plant and equipment	*5*	2,055	2,063
Intangible assets	*6*	207	236
Investment property	*7*	354	358
Total non-current assets		**2,616**	**2,657**
Short-term loan		122	122
Trade and other receivables	*8*	463	603
Cash and cash equivalents	*9*	2,126	1,280
Deferred expenses		41	116
Total current assets		**2,752**	**2,121**
Total assets		**5,368**	**4,778**
Equity		**2,798**	**2,745**
Liabilities			
Long-term loan payables	*10*	200	200
Total non-current liabilities		**200**	**200**
Payables to partners and suppliers	*10*	844	489
Deferred financing	*11*	1,526	1,344
Total current liabilities		**2,370**	**1,833**
Total liabilities		**2,570**	**2,033**
Total equity and liabilities		**5,368**	**4,778**

These consolidated financial statements set out on pages 5-31 were approved by the Governing Board on 8 July 2019. They are signed on behalf of the Governing Board by:

Vladimir Yordanov
Executive Director
8 July 2019

ЦЕНТЪР ЗА ИЗСЛЕДВАНЕ НА ДЕМОКРАЦИЯТА * СОФИЯ

Initialed for identification purposes in reference to the audit report:

Stoyan Donev
Registered Auditor
8 July 2019

0509 Стоян Донев Регистриран одитор

(all amounts in BGN thousand)	Note	For the year ending: 31 December 2018	31 December 2017
Revenues from grants financing	*12*	1,906	2,178
Cost of sales	*14*	(1,855)	(2,061)
Gross profit from grants financing		**51**	**117**
Revenues	*13*	1,172	945
Cost of sales	*14*	(1,116)	(990)
Impairment losses		-	-
Gross profit		**107**	**72**
Financial income		27	7
Financial expenses		(67)	(57)
Net financing costs	*15*	**(40)**	**(50)**
Profit before income tax		**67**	**22**
Extraordinary expenses		-	-
Income tax expense	*16*	(16)	(6)
Net profit for the period		**51**	**16**
Other comprehensive income		-	-
Total comprehensive income		**51**	**16**

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Регистриран одитор

		For the year ending:	
(all amounts in BGN thousand)	**Note**	**31 December 2018**	**31 December 2017**
Cash generated from operations			
Profit before income tax		141	16
Adjustments for:			
Depreciation		115	159
Changes in working capital:			
Trade and other receivables		(73)	385
Trade and other payables		722	126
Net cash from operating activities		**905**	**686**
Income tax paid		(16)	(6)
Net cash generated from operating activities		**889**	**680**
Cash flows from investing activities			
Payments for acquisition of property, plant and equipment		(6)	(18)
Net cash used in investing activities		**(6)**	**(18)**
Cash flows from financing activities			
Interest and commissions paid		(37)	(51)
Net cash used in financing activities		**(37)**	**(51)**
Net increase/(decrease) in cash and cash equivalents		846	611
Cash and cash equivalents at the beginning of the year		**1,280**	**669**
Cash and cash equivalents at the end of the year	*9*	**2,126**	**1,280**

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Stoyan Donev
Registered Auditor
8 July 2019

0509 Стоян Донев Регистриран одитор

(all amounts in BGN thousand)	Note	Retained earnings
Balance as of 1 January 2017		**2,733**
Net profit for the year		12
Balance as of 31 December 2017		**2,745**
Balance as of 1 January 2018		**2,745**
Net profit for the year		51
Other		2
Balance as of 31 December 2018		**2,798**

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1. Group background activities

The Center for the Study of Democracy (CSD) is a non-profit organisation domiciled in Bulgaria. The consolidated financial statements of CSD for the year ended 31 December 2018 comprise CSD and its consulting arms Vitosha Research EOOD and Project 1 EOOD (together referred to as the "Group").

Founded in late 1989, the Center for the Study of Democracy (CSD) is a European interdisciplinary public policy institute dedicated to the values of democracy and market economy. CSD is a non-partisan, independent organisation fostering the reform process through impact on policy and civil society.

CSD's objectives are:

- to provide an enhanced institutional and policy capacity for a successful European integration process, especially in the area of justice and home affairs;
- to promote institutional reform and the practical implementation of democratic values in legal and economic practice;
- to monitor public attitudes and serve as a watchdog of the institutional reform process.

The Center for the Study of Democracy owns 100% of its consulting arms Vitosha Research EOOD and Project 1 EOOD.

Vitosha Research EOOD, established in 2000, is specialised in a wide range of research and consulting fields: social and economic policy; assessment and evaluation studies; economic and political behaviour; political attitudes and value systems; market, media and audience research; and others.

Project 1 EOOD was established in 2003. Its main activity is managing real estate investments of the Group and project management of the contract research of the Group.

As of 31 December 2018 the Group has 28 employees.

The financial statements were approved by the Governing Board on 8 July 2019.

2. Accounting policies

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

2.1. Basis of preparation

These consolidated financial statements have been prepared in accordance with the 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 Center for the Study of Democracy and its consulting arms as at 31 December each year. The financial statements of consulting arms are prepared for the same reporting period as the parent Group, 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 unrealised gains resulting from intragroup transactions are eliminated in full. Unrealised losses are also eliminated but considered an impairment indicator of the asset transferred. The consulting arms 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 the consulting arms have been changed where necessary to ensure consistency with the policies adopted by the Group.

Consulting arms 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 consulting arms 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.

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 consulting arm 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 on 1 January 2018 are not early adopted by the Group because the management of the Group believes that they are not currently relevant to the Group, although they may affect accounting for future transactions and events.

2.2. Foreign currency translations

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 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 income statement.

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
Machinery and equipment	3.33 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 benefit 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, unless such lives are indefinite.

2.5. Financial assets

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

Financial assets at fair value through profit or loss

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

For the purposes of these financial statements short term means a period within 12 months. During the year, the Group did not hold any investments in this category. The Group does not possess such financial assets as at 31 December 2018.

Loans and receivables

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

Revenue from grants and contributions

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

Interest income

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

2.14. Dividend distribution

The Group does not distribute dividends.

3. Financial risk management

3.1. Global financial crisis

Impact of the general economic environment

In 2018 and 2019, the Bulgarian economy continued its growth based on internal demand and exports. However, growth prospects have dimmed for Europe as a whole and for Bulgaria in particular. Persistent global uncertainty, the US – China trade dispute, the EU – UK's no deal Brexit prospects, continuing Russia – Ukraine standoff, and worsening EU – Turkey relations have all weighed down on economic growth. Eurozone growth has slowed down in the second quarter of 2019, which has signaled a continuation of close to zero interest rates in the Eurozone. At the same time, the European elections in 2019 have underscored EU's stability and are likely to result in continued support for Bulgaria's EU projects. This is likely to be also positive to the operations of the Group.

The future economic direction of Bulgaria is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the Government of Bulgaria, together with tax, legal, regulatory and political developments. Internal political instability has increased in 2019. While Bulgaria has continued with its Eurozone and Schengen bid, these are unlikely to happen easily or according to plan.

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

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

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

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

Currency risk

The Group is not exposed to serious foreign exchange risk as most of its activities are denominated in EUR. The exchange rate of the BGN is currently pegged to the EUR. In 2017, the group had minor exposure to USD and CHF projects and although the negative trend of the exchange rate USD/BGN and CHR/BGN resulted in foreign exchange loss, it did not affect significantly the financial position of the Group.

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.

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. Cash flow and fair value 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 dynamic basis and addresses the underlying risk.

(all amounts in BGN thousand, unless otherwise stated)

3.2.3. Credit risk

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

3.2.4. Liquidity risk

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

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

As of 31 December 2018	**Up to 1 year**	**Between 1 and 2 years**	**Between 2 and 5 years**	**Over 5 years**
Trade and other payables	844	-	-	200
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	489	-	-	200

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.

(all amounts in BGN thousand, unless otherwise stated)

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 31 December 2017**	**Additions**	**Disposals**	**As of 31 December 2018**
Buildings	1,135	-	-	1,135
Computers	273	9	-	282
Vehicles	243	-	-	243
Fixtures & Fittings	111	-	-	111
Other assets	12	-	-	12
Assets under construction	911	-	-	911
Total	**2,685**	**9**	**-**	**2,694**

Depreciation	**As of 31 December 2017**	**Additions**	**Disposals**	**As of 31 December 2018**
Buildings	29	-	-	29
Computers	257	16	-	273
Vehicles	230	7	-	237
Fixtures & Fittings	102	3	-	105
Other assets	3	-	-	3
Assets under construction	-	-	-	-
Total	**621**	**26**	**-**	**647**

Carrying amount	**As of 31 December 2017**		**Other changes**	**As of 31 December 2018**
Buildings	1,106	-	1	1,107
Computers	16	-	3	12
Vehicles	12	-	(1)	5
Fixtures & Fittings	9	-	8	14
Other assets	9	-	(3)	6
Assets under construction	911	-	-	911
Total	**2,063**	**-**	**8**	**2,055**

(all amounts in BGN thousand, unless otherwise stated)

6. Intangible assets

Cost	**As of 31 December 2017**	**Additions**	**Disposals**	**As of 31 December 2018**
Software	545	-	-	545
Others	250	55	-	305
Total	**795**	**55**	**-**	**850**

Depreciation	**As of 31 December 2017**	**Additions**	**Disposals**	**As of 31 December 2018**
Software	486	56	-	542
Others	73	28	-	101
Total	**559**	**84**	**-**	**643**

Carrying amount	**As of 31 December 2017**	**Additions**	**Disposals**	**As of 31 December 2018**
Software	59	(56)	-	3
Others	177	27	-	204
Total	**236**	**(29)**	**-**	**207**

7. Investment property

	2018	**2017**
As of 1 January		
Carrying amount at the beginning of the period	358	362
Depreciation charge	(-4)	(-4)
Carrying amount at the end of the period	**354**	**358**
As of 31 December		
Cost	508	508
Accumulated depreciation	(-154)	(-150)
Carrying amount	**354**	**358**

Investment properties of the Group consist of land and buildings acquired in the period 2005 – 2006. Investment property is presented at cost less accumulated depreciation and impairment losses.

(all amounts in BGN thousand, unless otherwise stated)

8. Trade and other receivables

	For the year ending: 31 December 2018	31 December 2017
Trade receivables	423	552
Other	40	51
	463	**603**

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

9. Cash and cash equivalents

	For the year ending: 31 December 2018	31 December 2017
Cash at hand	17	18
Cash in bank current accounts	2,109	1,262
	2,126	**1,280**

10. Trade and other payables

	For the year ending: 31 December 2018	31 December 2017
Long-term liabilities		
Long-term loans	200	200
Short-term liabilities		
Payables to partners and suppliers	40	243
Salaries and social securities payables	30	50
Tax	6	4
Other	768	192
	844	**489**

Loan liabilities represent a loan granted in 2009 by IR Communication EOOD to Project 1 EOOD. According to the last annex to the loan contract in 2015, the interest rate is 1.5 %.

(all amounts in BGN thousand, unless otherwise stated)

11. Deferred financing

	For the year ending:	
	31 December 2018	**31 December 2017**
European Commission (EC) – State Capture Estimation and Monitoring of Anti-Corruption Policies at the Sectoral level (SceMaps)	263	
EC – Resilient Youth against Far-Right Extremist Messaging Online (YouthRightOn)	217	
EC – ICT Enabled Public Services for Migration (MIICT)	156	
National Endowment for Democracy (NED) – Understanding and Responding to Foreign Malign Influence	76	
EC – Flows of Illicit Funds and Victims of Labour Trafficking: Unrevealing the Complexities (FLOW)	51	
EC – Central and Eastern European Network for the Prevention of Intolerance and Group Hatred (CEE Prevent Net)	5	
EC – Launch and Implementation of Diversity Charter in Bulgaria (DIVERSE.BG)	112	
EC – Towards a More Effective Rights Protection and Access to Judicial Procedures for Victims of Crimes (JUSTICE FOR WOMEN)	13	
EC – Anti-Trafficking Stakeholders and Economic Sectors Networking, Cooperation to Combat the Business of Human Trafficking Chain (NET-COMBAT-THB CHAIN)	24	
EC – Strategic Assessment for Law and Police Cooperation (SAT-LAW)	26	
EC – Offenders with Psycho-Social and Intellectual Disabilities: Identification, Assessment of Needs and Equal Treatment (OPSIDIANET)	117	
EC – Civil Society for Good Governance and Anti-Corruption in Southeast Europe: Capacity Building for Monitoring, Advocacy and Awareness Raising (SELDI)	28	
EC – Supporting Consumer Co-Ownership in Renewable Energies (SCORE)	33	

(all amounts in BGN thousand, unless otherwise stated)

	For the year ending:	
	31 December 2018	**31 December 2017**
Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH – South East Europe Energy Transition Dialogue (EUKI)	9	
Agence Erasmus+ France – Integrated Community, Probation, and Prison Services Radicalisation Prevention Approach (INTEGRA)	6	
EC – Love Moves: The Rights of Recognised Same-Sex Partners Moving Across the EU	21	77
EC – Innovative Methods to Investigate Fraud and Corruption in EU Funding for Agriculture (HERCAGRO)		52
European Climate Foundation (ECF) – SEERMAP Outreach		15
Delegation of the European Union to Montenegro – Initiative for Open Judiciary		3
European Climate Foundation (ECF) – Decentralisation of the Electricity Sector in Bulgaria		20
Smith Richardson Foundation – The Kremlin Playbook 2: The Enablers		80
UNCAC Coalition – Anti-Corruption South-Eastern Europe Regional Platform Follow-Up		8
Open Society Institute Budapest Foundation – Facilitating Access to and Take Up of Youth Guarantee Measures by Roma Youth in Bulgaria, Romania and Romania (Mind the Gap!)	37	15
EC – Pro Victims Justice through an Enhanced Rights Protection and Stakeholders Cooperation (PRO VICTIMS JUSTICE)	20	16
EC – Preventing and Combatting Racism and Xenophobia through Social Orientation of Non-Nationals (RACCOMBAT)	54	116
Smith Richardson Foundation – The Wind That Blows from the East: Understanding Russian Influence in Europe		7
Ministry of Interior of the Republic of Bulgaria – Forced Return Monitoring – Phase Two		4
EC – Enhancing the Integration of Women, Beneficiaries of International Protection by Development and Implementation of Multifaceted Integration Trainings (INTEGRA TRAIN)	30	67

(all amounts in BGN thousand, unless otherwise stated)

	For the year ending:	
	31 December 2018	**31 December 2017**
EC – Financing Organised Crime Activities – Focus on Human Trafficking (FINOCA 2.0)		129
German Marshall Fund of the US – Russian Economic Influence and Media Capture in the Black Sea Region		55
Ministry of Interior of the Republic of Bulgaria – Strengthening Law Enforcement Responses to Transnational Organised Crime in the Context of the Migrant Crisis		25
EC – Assessing the Risk of Isolation of Suspects and Accused (ARISA)	27	76
EC – Enabling the Energy Union through Understanding the Drivers of Individual and Collective Energy Choices in Europe (ENABLE.EU)		138
EC – The Private Corruption Barometer – Drafting and Piloting a Model for Comparative Business Victimisation Survey on Private Corruption in the EU		6
EC – Towards a EU Data Management System for Seized Assets		126
EC – Understanding the Dimensions of Organised Crime and Terrorist Networks for Developing Effective and Efficient Security Solutions for First-Line Practitioners and Professionals (TAKEDOWN)	30	38
PMI IMPACT – The ITTP along the Balkan Route: Addressing Institutional Gaps and Corruption	63	133
Open Society Institute Budapest Foundation – State Capture Risks in Europe: Monitoring and Policy Options	89	128
Other	18	
Total deferred financing related to projects	**1,525**	**1,334**
Financing for acquisition of fixed assets	1	10
Total deferred financing	**1,526**	**1,344**

(all amounts in BGN thousand, unless otherwise stated)

12. Revenues from grants financing

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

	For the year ending:	
	31 December 2018	**31 December 2017**
EC – Adapting Learning in Inclusive Communities and Environment (ALICE)	33	
EC – Love Moves: The Rights of Recognised Same-Sex Partners Moving Across the EU	56	
EC – Supporting Consumer Co-Ownership in Renewable Energies (SCORE)	33	
EC – Preventing and Combatting Racism and Xenophobia through Social Orientation of Non-Nationals (RACCOMBAT)	62	
EC – Pro Victims Justice through an Enhanced Rights Protection and Stakeholders Cooperation (PRO VICTIMS JUSTICE)	28	
EC – Civil Society for Good Governance and Anti-Corruption in Southeast Europe: Capacity Building for Monitoring, Advocacy and Awareness Raising (SELDI)	30	
Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH – Support to Countering Violent Extremism in Jordan	57	
Center for International Private Enterprise (CIPE) – From Kleptocracy to State Capture: Understanding Russian Influence in the Western Balkans	7	
EC – Judicial Strategy Against all Forms of Violent Extremism in Prison (J-SAFE)	71	
Department of Foreign Affairs, Trade, and Development (DFATD), Canada – Countering Malign Russian Influence and Propaganda in Moldova: Women Issues	12	
Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH – South East Europe Energy Transition Dialogue	61	
EC – Radicalisation, Secularism and the Governance of Religion: Bringing together European and Asian Perspectives (GREASE)	12	

(all amounts in BGN thousand, unless otherwise stated)

	For the year ending:	
	31 December 2018	**31 December 2017**
EC – Innovative Methods to Investigate Fraud and Corruption in EU Funding for Agriculture (HERCAGRO)	71	
Ministry of Interior – Assessing the Threat of Organised Crime in Bulgaria (BOCTA)	78	
EC – Countering Radicalisation in Southeast and Central Europe Through Development of (Counter-) Radicalisation Monitoring Tool		221
Ministry of Interior – National Study on Domestic and Gender Based Violence (DGBV) and Elaboration of Victims Support Model (VSM)		76
EC – Improving and Sharing Knowledge on the Internet Role in the Human Trafficking Process (Surf and Sound)		140
EC – The Reality of Free Movement for Young European Citizens Migrating in Times of Crisis (On the Move)		18
EC – Developing Directive-Compatible Practices for the Identification, Assessment and Referral of Victims		21
EC – Towards a EU Data Management System for Seized Assets	58	76
EC – The Private Corruption Barometer – Drafting and Piloting a Model for Comparative Business Victimisation Survey on Private Corruption in the EU	25	131
European Climate Foundation (ECF) – South East Europe Electricity Roadmap (SEERMAP)		24
EC – Enabling the Energy Union through Understanding the Drivers of Individual and Collective Energy Choices in Europe (ENABLE.EU)	199	207
Transparency International (TI-S) – Anti-Corruption South-Eastern Europe Regional Platform		15
Agence Erasmus+ France – Integrated Community, Probation, and Prison Services Radicalisation Prevention Approach (INTEGRA)	25	
EC – Enhancing the Integration of Women, Beneficiaries of International Protection by Development and Implementation of Multifaceted Integration Trainings (INTEGRA TRAIN)	38	102

(all amounts in BGN thousand, unless otherwise stated)

	For the year ending:	
	31 December 2018	**31 December 2017**
EC – Financing Organised Crime Activities – Focus on Human Trafficking (FINOCA 2.0)	164	136
EC – Pro Victims Justice through an Enhanced Rights Protection and Stakeholders Cooperation (PRO VICTIMS JUSTICE)		23
CIPE – Closing Governance Gaps to Promote Resilient Economies	56	
CIPE – From Kleptocracy to State Capture: Understanding Russian Influence in the Western Balkans	35	112
Ministry of Interior – Strengthening Law Enforcement Responses to Transnational Organised Crime in the Context of the Migrant Crisis		97
Regional Cooperation Council – SEE Platform for Cooperation against Corruption and its Links to Organised Crime		63
EC – Assessing the Risk of Isolation of Suspects and Accused (ARISA)	49	23
German Marshall Fund of the US – Russian Economic Influence and Media Capture in the Black Sea Region	55	15
Open Society Institute Budapest Foundation – Facilitating Access to and Take Up of Youth Guarantee Measures by Roma Youth in Bulgaria, Romania and Romania (Mind the Gap!)	44	17
European Climate Foundation (ECF) – Decentralisation of the Electricity Sector in Bulgaria	53	14
European Climate Foundation (ECF) – SEERMAP Outreach	19	
Smith Richardson Foundation – The Kremlin Playbook 2: The Enablers	159	23
EC – Civil Society for Good Governance and Anti-Corruption in Southeast Europe: Capacity Building for Monitoring, Advocacy and Awareness Raising (SELDI)		28
Bulgarian–Swiss Cooperation Programme – Overcoming Institutional Capacity Gaps to Counter Corruption and Organised Crime in Bulgaria	46	256
EC – New European Crimes and Trust-Based Policy (FIDUCIA)		

	For the year ending:	
	31 December 2018	**31 December 2017**
Geneva Centre for the Democratic Control of Armed Forces (DCAF) – Private Security Companies in the Western Balkans		12
Central Finance and Contracts Unit (CFCU) – Strengthening the EU–Turkey Energy Dialogue in the Context of Persistent Energy Security and Governance Risks in the Black Sea Region		43
EU Strategy for the Danube Region – START – Roma Integration across the Danube: Best Practices and Social Entrepreneurship Models Exchange between Romania and Bulgaria		1
EC – Understanding the Dimensions of Organised Crime and Terrorist Networks for Developing Effective and Efficient Security Solutions for First-Line Practitioners and Professionals (TAKEDOWN)	23	82
Ministry of Interior of the Republic of Bulgaria – Forced Return Monitoring – Phase Two	17	39
Open Society Institute Budapest Foundation – State Capture Risks in Europe: Monitoring and Policy Options	130	134
Other projects	100	29
Total revenues from grants financing	**1,906**	**2,178**

13. Revenues

Revenue	For the year ending:	
	31 December 2018	**31 December 2017**
Sale of services	1,156	930
Revenue from unconditional donations	3	7
Other revenues	13	8
Total revenue	**1,172**	**945**

(all amounts in BGN thousand, unless otherwise stated)

14. Cost of sales and administrative expenses

Cost of sales and administrave expenses of the Group includes:

Cost of sales	**For the year ending: 31 December 2018**	**31 December 2017**
Expenses for materials	14	16
Hired services	1,446	1,207
Depreciation and amortisation	115	209
Salaries and wages	1,027	919
Social securities	149	133
Other expenses	220	567
Total expenses	**2,971**	**3,051**

15. Finance costs, net

	For the year ending: 31 December 2018	**31 December 2017**
Interest income	-	-
Interest, net	**-**	**-**
Foreign exchange income	27	7
Foreign exchange expense	(37)	(44)
Foreign exchange, net	**(10)**	**(37)**
Other financial expenses	(30)	(13)
Other financial, net	**(30)**	**(13)**
Finance costs, net	**(40)**	**(50)**

(all amounts in BGN thousand, unless otherwise stated)

16. Income tax

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

	As of 31 December	
	2018	**2017**
Current tax	16	6
Income expense	**16**	**6**

The official rate stated in the Corporate Tax Law for 2018 was set to 10 % (2017:10 %). Deferred taxes are calculated on all temporary differences under the balance method using this effective tax rate.

Movement in deferred tax

	Balance as of 1 January 2018	**Movement**	**Balance as of 31 December 2018**
Property, plant and equipment	-	-	-
Trade payables	-	-	-
Net deferred tax asset/liability	-	-	-

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 have been no tax checks performed in recent years.

(all amounts in BGN thousand, unless otherwise stated)

17. Related parties

The Group is related party to the Applied Research and Communication Fund and its consulting arms.

The following transactions occurred during the year:

Related party	**Transactions during the year**	**January-December**		**31 December**		**31 December**	
		2018	**2017**	**2018**	**2017**	**2018**	**2017**
		Transactions		*Receivables*		*Payables*	
Applied Research and Communication Fund	Rental contract	51	48				
ARC Consulting EOOD	Consulting services/ Rental contract	21	15			226	226
IR Communications	Loan agreement					200	200
Bulgarian Association for Policy Evaluation	Loan agreement		6	142	142		
		72	**69**	**142**	**142**	**426**	**426**

Transactions with directors and other members of the management

Total amount of the remunerations and social contributions included in the expenses for external services is as follows:

	2018	**2017**
Board of Trustees and Executive Directors	283	251

18. Events after the balance sheet date

There were no events after balance date requiring corrections of the financial statements or disclosures.