
Part Three

Financial Review

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Center for the Study of Democracy (The Group)

Consolidated Annual Financial Statements

31 December 2021

Independent Auditor's Report

To the General Assembly
of the Center for the Study of Democracy

Report on the Consolidated Financial Statements

We have audited We have audited the consolidated financial statements of the Center for the Study of Democracy, Sofia and its consulting arms Vitosha Research EOOD and Project 1 EOOD (together referred to as the "Group"). These comprise the consolidated statement of the Group's financial position as of 31 December 2021 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 2021, its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards (IFRS) 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 of the Republic of Bulgaria, 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 of the Republic of Bulgaria

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 of the Republic of Bulgaria

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

- 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.
- The report on the activity was prepared in compliance with the requirements of Chapter Seven of the Law on Accountancy.
- The report on payment to governments for the financial year for which consolidated financial statements were 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.

Stoyan Donev
Registered Auditor
26 July 2022
Sofia



The image shows a handwritten signature in blue ink, which appears to be 'a Donev'. Below the signature is a blue circular stamp. The stamp contains the number '0509' on the left, the name 'Стоян Донеv' (Stoyan Donev) in the center, and the text 'Регистриран одитор' (Registered Auditor) at the bottom.

Center for the Study of Democracy (The Group)
Consolidated Statement of Financial Position, 31 December 2021

(all amounts in BGN thousand)	Note	As of 31 December 2021	As of 31 December 2020
Assets			
Property, plant and equipment	5	1,023	1,019
Intangible assets	6	1,667	555
Investment property	7	398	413
Total non-current assets		3,088	1,987
Inventories and materials		–	1
Trade and other receivables	8	584	425
Cash and cash equivalents	9	4,557	4,803
Deferred expenses		47	32
Total current assets		5,188	5,261
Long-term loan	8	182	122
Total non-current financial assets		182	122
Total assets		8,458	7,370
Equity		6,336	5,896
Non-current liabilities			
Payables to partners and suppliers	10	93	30
Deferred financing	11	2,029	1,444
Total current liabilities		2,121	1,474
Total liabilities		2,121	1,474
Total equity and liabilities		8,458	7,370

These consolidated financial statements were approved by the Governing Board on 25 July 2022. They were signed on behalf of the Governing Board by:

Vladimir Yordanov
Executive Director
25 July 2022



Initialed for identification purposes in reference to the audit report:

Stoyan Donev
Registered Auditor
26 July 2022

Center for the Study of Democracy (The Group)
Consolidated Statement of Comprehensive Income, 31 December 2021

(all amounts in BGN thousand)	Note	As of 31 December 2021	As of 31 December 2020
Revenues from grants financing	12	2,634	2,313
Cost of sales	14	(2,319)	(2,150)
Gross profit		315	163
Revenues	13	817	607
Cost of sales	14	(669)	(606)
Gross profit		463	164
Financial income		24	7
Financial expenses		(13)	(12)
Net financing costs	15	11	(5)
Profit before income tax		474	159
Income tax expense	16	(34)	(19)
Net profit for the period		440	140
Other comprehensive income		–	–
Total comprehensive income		440	140

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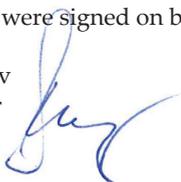
Stoyan Donev
Registered Auditor
26 July 2022

Center for the Study of Democracy (The Group)
Consolidated Cash Flow Statement, 31 December 2021

(all amounts in BGN thousand)	Note	As of 31 December 2021	As of 31 December 2020
Cash generated from operations			
Profit before income tax		474	140
Adjustments for:			
Depreciation		36	52
Changes in working capital:			
Trade and other receivables		(184)	(111)
Trade and other payables		572	(815)
Net cash from operating activities		898	(734)
Income tax paid		(34)	(19)
Net cash generated from operating activities		864	(753)
Cash flows from investing activities			
Payments for acquisition of property, plant and equipment		(1,121)	(476)
Net cash used in investing activities		(1,121)	(476)
Cash flows from financing activities			
Interest and commissions paid		11	(5)
Net cash used in financing activities		11	(5)
Net increase/(decrease) in cash and cash equivalents		(246)	(1,234)
Cash and cash equivalents at the beginning of the year		4,803	6,037
Cash and cash equivalents at the end of the year	9	4,557	4,803

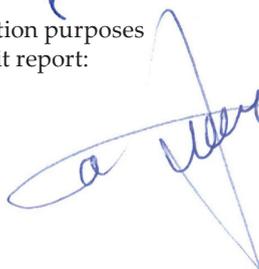
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Registered Auditor
26 July 2022





Center for the Study of Democracy (The Group)
Consolidated Statement of Changes in Equity, 31 December 2021

(all amounts in BGN thousand)	Note	Retained earnings
Balance as of 1 January 2020		5,757
Net profit for the year		140
Other		(1)
Balance as of 31 December 2020		5,896
Balance as of 1 January 2021		5,896
Net profit for the year		440
Balance as of 31 December 2021		6,336

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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 2021 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 public policy institute fostering the reform process in Europe through impact on policy and civil society. CSD’s mission is “building bridges between scholars and policy-makers” and as an independent, interdisciplinary think tank it combines a broad range of capacities.

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; market research; and others.

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

As of 31 December 2021, the Group has 31 employees in professional and management positions, including part-time consultants, and 8 employees in administrative positions as well as 7 employees in maintenance and technical support positions.

The consolidated financial statements were approved by the Governing Board on 25 July 2022.

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 IFRS, as adopted by the EU. 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 intra-group 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 on which 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 2021 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	25 years
Machinery and equipment	3.33 years
Vehicles	4 years
Computers/printers	2 years
Fixtures and fittings	6.67 years

Property, plant and equipment is depreciated from the day following the acquisition date and for internally generated assets – from the day 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 of 31 December 2021.

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, 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 include 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 so 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 Impact of the general economic environment

In 2020 and 2021, the global economy was severely hit by the COVID-19 pandemic. As a result of constraints on the free movement of people and goods and the rise of unemployment, all EU member states, including Bulgaria, went into a recession. The shock of anti-epidemic measures was mitigated by a considerable slackening of cash and budgetary restriction both globally and in the EU. The Bulgarian government was no exception, although the measures it took were narrower in scope. As a result of its efforts, unemployment went down (to 4.5% in the last quarter of 2021) and the GDP level rose after a drop in the previous year (from -4.4% in 2020 to 4.2% in 2021). The development of the COVID crisis is expected to dominate global economic activity as the major factor for the next couple of years. The war in Ukraine, the gas and energy crisis in Europe and the ongoing de-globalisation trends will be the main instability factors in 2022–2023 in Bulgaria and Europe.

Risks for the Group are also heightened by the EU's transition to a new programming period and the ensuing delay of announcing new funding opportunities. On the other hand, the Group is implementing over 10 actions under the Horizon 2020 program (whose total budget equals EUR 80 billion), while the budget of its successor in the next 7-year programming period – Horizon Europe – amounts to the even higher EUR 95.5 billion. This fact is likely to have a positive effect on the Group's activities.

Due to rising gas and other energy source prices, in late 2021 inflation in Bulgaria reached nearly 8%, marking a peak after the global financial crisis in 2007–2008. This complicates the expense planning process for all entities in the Group, including the Center, and therefore raises uncertainty. The Federal Reserve and the European Central Bank have clearly stated that high inflation will most likely have to be tackled by seriously raising key interest rates. The Federal Reserve is expected to introduce these measures before all, which would increase the value of the dollar against the euro. This would have a positive effect on the Group, as it is also beneficiary to projects denominated in US dollars.

While Bulgaria has continued with its Eurozone and Schengen bid, these processes are expected to continue facing difficulties and deviations from plan. In 2020, as a next step to adopting the Euro, Bulgaria joined ERM II – the EU's exchange rate mechanism – in order to

advance economic convergence with the Eurozone. The latter, however, can only be limited due to the compounded economic conditions and domestic political instability that set in as early as in mid-2020. Bulgaria does not comply with the price stability criterion, as its inflation rate is considerably higher than the limit. Nevertheless, the country's leadership is still aiming to adopt the Euro in 2024, which is expected to enhance foreign investors' interest and possibly affect organisations such as the Group in a positive way. Over 50% of Group's funds are in Euro. Since 1 October 2020, the European Central Bank has been exercising direct supervision over the key credit institution in Bulgaria. The Group's bank accounts are in institutions present on this supervision list, which is an additional source of stability.

The short and mid-term prospects for Bulgaria's economic growth remain uncertain. This uncertainty is exacerbated by the political crisis in the country and the failure to form a stable regular government. Political turbulence continued to dominate the country in 2021 as well, leading to protests, a series of elections and two caretaker governments. 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 management will continue to monitor these risks on a regular basis and take 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 2021, the group had some exposure to USD denominated projects and although the slightly positive trend of the exchange rate USD/BGN resulted in a small foreign exchange profit, 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

The Group increased its interest-bearing assets and due to the zero rate of interest policy of the banks this is unlikely to result in higher revenues and could even lead to risks of penalty interest for excessive liquidity because overall bank liquidity leads to increase of their costs for maintenance of the available cash. The Group analyses its interest rate exposure on a dynamic 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.

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.

(all amounts in BGN thousand)

As of 31 December 2021	Up to 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Trade and other payables	93	–	–	–
As of 31 December 2020	Up to 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Trade and other payables	30	–	–	–

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

(all amounts in BGN thousand)

Cost	As of 31 December 2020	Additions	Disposals	As of 31 December 2021
Land	413	–	–	413
Computers	268	25	38	287
Vehicles	243	–	–	243
Fixtures & fittings	111	–	–	111
Other assets	8	–	–	8
Assets under construction	599	–	–	599
Total	1,661	25	38	1,648
Depreciation	As of 31 December 2020	Additions	Disposals	As of 31 December 2021
Land	29	–	–	29
Computers	266	19	38	247
Vehicles	243	–	–	243
Fixtures & fittings	102	2	–	104
Other assets	2	–	–	2
Assets under construction	–	–	–	–
Total	642	21	38	625

Carrying amount	As of 31 December 2020	Additions	Disposals	As of 31 December 2021
Land	384	–	–	384
Computers	21	6	–	27
Vehicles	–	–	–	–
Fixtures & fittings	9	(2)	–	7
Other assets	6	–	–	6
Assets under construction	599	–	–	599
Total	1,019	4	–	1,023

6. Intangible assets

(all amounts in BGN thousand)

Cost	As of 31 December 2020	Additions	Disposals	As of 31 December 2021
Software	524	–	–	524
Others	656	1,115	–	1,771
Total	1,180	1,115	–	2,295

Depreciation	As of 31 December 2020	Additions	Disposals	As of 31 December 2021
Software	521	1	–	522
Others	104	2	–	106
Total	625	3	–	628

Carrying amount	As of 31 December 2020	Additions	Disposals	As of 31 December 2021
Software	3	(1)	–	2
Others	552	1,113	–	1,665
Total	555	1,112	–	1,667

7. Investment property

(all amounts in BGN thousand)

	For the year ending:	
	31 December 2021	31 December 2020
As of 1 January		
Carrying amount at the beginning of the period	413	418
Depreciation charge	15	5
Carrying amount at the end of the period	<u>398</u>	<u>413</u>
As of 31 December		
Cost	511	511
Accumulated depreciation	(113)	(98)
Carrying amount	<u>398</u>	<u>413</u>

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.

8. Loan, trade and other receivables

(all amounts in BGN thousand)

	For the year ending:	
	31 December 2021	31 December 2020
Short-term receivables		
Trade receivables	503	368
Less: impairment provision of trade payables	–	–
Trade receivables, net	503	368
VAT refund	78	54
Other	3	3
Total receivables	<u>584</u>	<u>425</u>

(all amounts in BGN thousand)

	For the year ending:	
	31 December 2021	31 December 2020
Long-term receivables		
Long-term loan	182	122
Less: impairment provision of trade payables	–	–
Total long-term receivables	<u>182</u>	<u>122</u>

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

9. Cash and cash equivalents

(all amounts in BGN thousand)

	For the year ending:	
	31 December 2021	31 December 2020
Cash at hand	19	17
Cash in bank current accounts	4,538	4,786
Total cash and cash equivalents	4,557	4,803

10. Trade and other payables

(all amounts in BGN thousand)

	For the year ending:	
	31 December 2021	31 December 2020
Short-term liabilities		
Payables to suppliers	7	1
Salaries and social security payables	12	14
Corporate tax payables	12	6
Other	62	9
Total short-term liabilities	93	30

11. Deferred financing

(all amounts in BGN thousand)

	For the year ending:	
	31 December 2021	31 December 2020
Central European Initiative (CEI) – Capacity Building for Implementing Innovative EU Monitoring Tools for Good Governance and Anti-Corruption	–	2
Network of European Foundations (NEF) – Provocation and Resilience: The Differential Challenge of and Response to Russian Disinformation in Western and Central-East Europe	1	68
European Commission (EC) – Inclusive Dialogues towards an Operational Concept of Energy Citizenship to Support the Energy Union (DIALOGUES)	267	–
EC – Assessing the Risk of Social Isolation of Suspects and Accused: The Impact of the Media (ARISA 2)	10	75
EC – Developing Common Minimum Standards for Legal Arms Registers and Improving Information Exchange among EU Member States, Southeast Europe, Ukraine and Moldova (REGISYNC)	252	–

EC – Civil Society for Good Governance and Anti-Corruption in Southeast Europe: Capacity Building for Monitoring, Advocacy and Awareness Raising (SELDI)	1	–
EC – Contexts of Extremism in MENA and Balkan Societies (CONNEKT)	–	60
EC – Efficient Risk-Based Inspection of Freight Crossing Borders without Disrupting Business (ENTRANCE)	33	78
EC – European Integrated Infrastructure for Social Mining and Big Data Analytics (SoBigData-PlusPlus)	59	102
EC – Cybercrime Victimisation Barometer – Piloting a Model for a Comparative Business Survey on Cybercrime Victimisation in the EU and Conceptualising a Digital Reporting Tool (CYBBAR)	270	–
EC – Building Resilience for Safeguarding Political Debates in EU Southeast Frontiers (FENCE)	94	–
EC – ICT Enabled Public Services for Migration (MIICT)	–	54
EC – Implementation of the Stockholm’s Roadmap in Cases of Terrorism and Radicalisation (FAIRNESS)	–	6
EC – IT Tools and Methods for Managing Migration Flows (ITFLOWS)	168	133
EC – Judicial and Police Cooperation Preventing Radicalisation towards Terrorism (JP-COOPS)	–	15
EC – Launch and Implementation of Diversity Charter in Bulgaria – DIVERSE.BG	–	15
EC – Methodology for Assessing States’ Capacity for Countering the Hostile Misuse of CBRN Knowledge and Materials (MASC-CBRN)	65	149
EC – Supporting Victims of Domestic Violence via a Programme for Capacity-Building and Awareness-Raising among Human Resources Specialists (SHE)	257	–
EC – Assessing Impact and Performance of Preventive Measures on EU Directives and Framework Decisions (PRE-RIGHTS)	23	46
EC – Radicalisation, Secularism and the Governance of Religion: Bringing Together European and Asian Perspectives (GREASE)	42	27
EC – Real Value of Energy Efficiency (REFEREE)	147	231
EC – Resilient Youth against Far-Right Extremist Messaging Online (YouthRightOn)	–	5
EC – State Capture Estimation and Monitoring of Anti-Corruption Policies at the Sectoral Level (SceMaps)	–	16

EC - Training Lawyers, Prosecutors, Judges to Ensure Better Rights Protection for Migrants and Refugees Victims of Human Trafficking (TRAIN PRO RIGHTS)	–	6
EC - Understand the Impact of Novel Technologies, Social Media, and Perceptions in Countries Abroad on Migration Flows and the Security of the EU & Provide Validated Counter Approaches, Tools and Practices (PERCEPTIONS)	72	81
European Climate Foundation (ECF) – Addressing the Reasons behind the Economic and Democratic Backsliding of the Western Balkans (Project No G-2109-62713)	29	–
ECF – Assessing the Legal, Policy, and Institutional Challenges for Offshore Wind Deployment in Bulgaria (Project No G-2109-62639)	38	–
ECF – Piloting a Benchmarking Methodology for the Assessment of the Territorial Just Transition Plans in Central and Eastern Europe (Project No G-2101-61429)	41	–
ECF – Assessing Chinese Economic Influence in Central and South East Europe (Project No G-2004-60312)	–	37
ECF – Enhancing Bulgaria’s Green Recovery and Transition Process by Supporting the Effective Operation of the Consultative Council and Assessing, Proposing, and Promoting Different Policy Options Based on Good EU and International Practices (Project No G-2005-60565)	–	26
ECF – Long-Term Decarbonisation Trajectories for Bulgaria (Project No G-2009-60916)	8	38
ECF – Assessing the Feasibility of Offshore Wind Power Plant Projects in the Bulgarian Section of the Black Sea (Project No G-2009-60941)	–	19
Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH – Consumer Engagement in Building Renovation and Renewable Energy Cooperatives for Grassroot Climate Action (EUKI Congregate)	4	–
Open Information Partnership (OIP) – Exposing HSIMO Disinformation Narratives in Bulgarian Media	3	–
Other	16	62
Total deferred financing related to projects	2,025	1,430
Financing for acquisition of fixed assets	4	14
Total deferred financing	2,029	1,444

12. Revenues from grants financing

(all amounts in BGN thousand)

Revenues from grants financing and other project for respective periods are as follows:	For the year ending:	
	31 December 2021	31 December 2020
EEA and Norway Grants – Countering Conventional Crime through Monitoring and Raising Civil Awareness (112+)	109	201
ECF – Enhancing Bulgaria’s Green Recovery and Transition Process by Supporting the Effective Operation of the Consultative Council and Assessing, Proposing, and Promoting Different Policy Options Based on Good EU and International Practices (Project No G-2005-60565)	65	–
ECF – Piloting a Benchmarking Methodology for the Assessment of the Territorial Just Transition Plans in Central and Eastern Europe (Project No G-2101-61429)	83	–
ECF – Long-Term Decarbonisation Trajectories for Bulgaria (Project No G-2009-60916)	69	–
ECF – Assessing the Feasibility of Offshore Wind Power Plant Projects in the Bulgarian Section of the Black Sea (Project No G-2009-60941)	25	–
National Endowment for Democracy (NED) – Understanding and Responding to Foreign Malign Influence (Grant No 2021-13506)	9	141
EC – Fighting against Anti-Gypsism through Training of Professionals and Empowerment of Roma Communities (Latcho Drom)	6	15
EC – Training Lawyers, Prosecutors, Judges to Ensure Better Rights Protection for Migrants and Refugees Victims of Human Trafficking (TRAIN PRO RIGHTS)	5	23
EC – Assessing Impact and Performance of Preventive Measures on EU Directives and Framework Decisions (PRE-RIGHTS)	23	–
EC – Understand the Impact of Novel Technologies, Social Media, and Perceptions in Countries Abroad on Migration Flows and the Security of the EU & Provide Validated Counter Approaches, Tools and Practices (PERCEPTIONS)	18	43
EC – Implementation of the Stockholm’s Roadmap in Cases of Terrorism and Radicalisation (FAIRNESS)	64	33

U.S. Department of State – Exposing Russian Information Operations in Frontline States: Automated Analysis, Monitoring and Vulnerability Assessment (HADES)	70	61
Network of European Foundations (NEF) – Provocation and Resilience: The Differential Challenge of and Response to Russian Disinformation in Western and Central-East Europe	89	86
EC – Judicial and Police Cooperation Preventing Radicalisation towards Terrorism (JP-COOPS)	24	10
EC – State Capture Estimation and Monitoring of Anti-Corruption Policies at the Sectoral Level (ScgMaps)	45	130
EC – Resilient Youth against Far-Right Extremist Messaging Online (YouthRightOn)	49	97
EC – ICT Enabled Public Services for Migration (MIICT)	88	62
CEI – Capacity Building for Implementing Innovative EU Monitoring Tools for Good Governance and Anti-Corruption	27	34
NED – Understanding and Responding to Foreign Malign Influence (Grant No 2019-1170)	63	27
EC – Flows of Illicit Funds and Victims of Labour Trafficking; Unrevealing the Complexities (FLOW)	–	75
EC – Central and Eastern European Network for the Prevention of Intolerance and Group Hatred (CEE Prevent Net)	–	9
EC – Launch and Implementation of Diversity Charter in Bulgaria (DIVERSE.BG)	–	52
EC – Towards a More Effective Rights Protection and Access to Judicial Procedures for Victims of Crimes (JUSTICE FOR WOMEN)	–	14
EC – Anti-Trafficking Stakeholders and Economic Sectors Networking, Cooperation to Combat the Business of Human Trafficking Chain (NET-COMBAT-THB CHAIN)	–	27
EC – Strategic Assessment for Law and Police Cooperation (SAT-LAW)	13	30
EC – Offenders with Psycho-Social and Intellectual Disabilities: Identification, Assessment of Needs and Equal Treatment (OPSIDIANET)	–	67
EEA and Norway Grants– Implementing Shared Anti-Corruption and Good Governance Solutions in Southeast Europe: Innovative Practices and Public-Private Partnerships (R2G4P)	156	–

EC – Efficient Risk-Based Inspection of Freight Crossing Borders without Disrupting Business (ENTRANCE)	124	–
EC – Supporting Consumer Co-Ownership in Renewable Energies (SCORE)	30	92
EC – Inclusive Dialogues towards an Operational Concept of Energy Citizenship to Support the Energy Union (DIALOGUES)	52	–
EC – IT Tools and Methods for Managing Migration Flows (ITFLOWS)	54	–
EC – Civil Society for Good Governance and Anti-Corruption in Southeast Europe: Capacity Building for Monitoring, Advocacy and Awareness Raising (SELDI)	40	57
EC – Judicial Strategy against all Forms of Violent Extremism in Prison (J-SAFE)	–	33
Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH – South East Europe Energy Transition Dialogue (EUKI)	41	86
GIZ – Distributional Impact of Carbon Pricing in Central and Eastern Europe (EUKI Carbon Pricing)	23	–
EC – Radicalisation, Secularism and the Governance of Religion: Bringing Together European and Asian Perspectives (GREASE)	41	128
GIZ – Consumer Engagement in Building Renovation and Renewable Energy Cooperatives for Grassroot Climate Action (EUKI Congregate)	70	–
EC – Real Value of Energy Efficiency (REFEREE)	77	–
EC – Integrated Community, Probation, and Prison Services Radicalisation Prevention Approach (INTEGRA)	–	19
EC – European Integrated Infrastructure for Social Mining and Big Data Analytics (SoBigData-PlusPlus)	43	–
Center for International Private Enterprise (CIPE) – Balkans Regional: Empowering Business as a Cross-Border Reform Champion (Constructive Capital Macedonia)	86	–
U.S. Department of State – Countering Weapons of Mass Destruction Hybrid Threats in Bulgaria through Strengthening Nonproliferation Norms and Institutions	25	–
EEA – Development of a Monitoring Methodology and Conducting a National Monitoring of Policy and Institutional Practice in Relation to Domestic and Gender-Based Violence in Bulgaria (GENDI)	25	–

EC – Developing Common Minimum Standards for Legal Arms Registers and Improving Information Exchange among EU Member States, Southeast Europe, Ukraine and Moldova (REGISYNC)	27	–
EC – Cybercrime Victimization Barometer – Piloting a Model for a Comparative Business Survey on Cybercrime Victimization in the EU and Conceptualising a Digital Reporting Tool (CYBBAR)	23	–
EC – Building Resilience for Safeguarding Political Debates in EU Southeast Frontiers (FENCE)	3	–
EC – Towards a More Responsive Victim-Centered Approach of the Criminal Justice System (RE-JUST)	29	29
EC – Contexts of Extremism in MENA and Balkan Societies (CONNEKT)	140	97
EC – Assessing the Risk of Social Isolation of Suspects and Accused: The Impact of the Media (ARISA 2)	68	36
EC – Methodology for Assessing States’ Capacity for Countering the Hostile Misuse of CBRN Knowledge and Materials (MASC-CBRN)	88	60
EC – Challenging Anti-Gypsyism by Roma Empowerment for Countering Disinformation and Fake News in Bulgaria (Care for Truth)	2	31
EC – Alternative Pre-Trial Detention Measures: Judicial Awareness and Cooperation towards the Realisation of Common Standards (PRE-TRIAD)	13	32
ECF – Assessing Chinese Economic Influence in Central and South East Europe (Project No G-2004-60312)	110	35
Open Information Partnership (OIP) – Enhancing the Communication on the Topics of Disinformation and Russian Economic Influence in SEE	11	–
Other projects	29	317
Total revenues from grants financing	2,374	2,289
Revenue from unconditional donations	56	7
Other revenues	204	17
Total revenues	2,634	2,313

13. Revenues from services and other activities

(all amounts in BGN thousand)

	For the year ending:	
	31 December 2021	31 December 2020
Revenue		
Sale of services	816	606
Revenue from unconditional donations	1	1
Total revenue	<u><u>817</u></u>	<u><u>607</u></u>

14. Cost of sales and administrative expenses

(all amounts in BGN thousand)

	For the year ending:	
	31 December 2021	31 December 2020
Cost of sales	2,319	2,150
Administrative expenses	669	606
Total expenses	<u><u>2,988</u></u>	<u><u>2,756</u></u>

(all amounts in BGN thousand)

	For the year ending:	
	31 December 2021	31 December 2020
Cost of sales, administrative and other expenses include:		
Expenses for materials	14	14
Hired services	860	857
Depreciation and amortisation	36	52
Salaries and wages	1,763	1,562
Social securities	247	226
Other expenses	68	45
Total expenses	<u><u>2,988</u></u>	<u><u>2,756</u></u>

15. Finance costs, net

(all amounts in BGN thousand)

	For the year ending:	
	31 December 2021	31 December 2020
Finance costs, net		
Interest income	–	7
Interest, net	–	7
Foreign exchange income	20	–
Foreign exchange expense	(6)	(9)
Foreign exchange, net	<u>14</u>	<u>(9)</u>
Other financial income	4	–
Other financial expenses	(7)	(3)
Other financial, net	<u>(3)</u>	<u>(3)</u>
Finance costs, net	<u><u>11</u></u>	<u><u>(5)</u></u>

16. Income tax

The major components of income tax expense for the year ended 31 December 2020 and the period ended 31 December 2021 are:

(all amounts in BGN thousand)	As of 31 December 2021	As of 31 December 2020
Current tax	34	19
Income expense	<u><u>34</u></u>	<u><u>19</u></u>

The official rate stated in the Corporate Tax Law for 2021 was set to 10% (2020:10%). Deferred taxes are calculated on all temporary differences under the balance method using this effective tax rate.

Movement in deferred tax

(all amounts in BGN thousand)	Balance as of 1 January 2021	Movement	Balance as of 31 December 2021
Property, plant and equipment	–	–	–
Trade payables	–	–	–
Net deferred tax asset/liability	<u><u>–</u></u>	<u><u>–</u></u>	<u><u>–</u></u>

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.

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:

(all amounts in BGN thousand)

Related party	Transactions during the year	January – December		31 December		31 December	
		2021	2020	2021	2020	2021	2020
		<i>Transactions</i>		<i>Receivables</i>		<i>Payables</i>	
Applied Research and Communications Fund	Rental contract	81	81	-	-	-	-
ARC Consulting EOOD	Consulting services/ Rental contract	-4	19	-	-	-	-
Bulgarian Association for Policy Evaluation	Loan agreement	40	-	182	142	-	-
		117	100	182	142	-	-

Transactions with directors and other members of the management

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

	2021	2020
Governing Board and Executive Directors	340	287

18. Events after the balance sheet date

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

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