

---

## **Part Three**

### **Financial Review**





CENTER FOR  
THE STUDY OF  
DEMOCRACY

**Center for the Study of Democracy (The Group)**

**Consolidated Annual Financial Statements**

**31 December 2012**

## **Independent Auditor's Report**

To the General Assembly of  
The Center for Study of Democracy

Sofia, 29 June 2013

### **Report on the Consolidated Financial Statements**

We have audited the accompanying consolidated financial statements of Center for Study of Democracy and its subsidiaries (the 'Group') which comprise the consolidated statement of financial position as of 31 December 2012 and the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes.

### **Management's Responsibility for the Consolidated Financial Statements**

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 management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

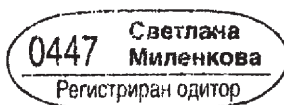
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### 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 2012, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.



Svetlana Simova  
Registered Auditor



29 June 2013  
Sofia, Bulgaria

Center for the Study of Democracy (The Group)  
Consolidated Statement of Financial Position, 31 December 2012

(all amounts in BGN thousand)	Note	31 December 2012	31 December 2011
<b>Assets</b>			
Property, plant and equipment	5	2,113	2,109
Intangible assets	6	10	2
Investment property	7	345	356
Deferred tax assets	16	8	12
<b>Total non-current assets</b>		<u>2,476</u>	<u>2,479</u>
Trade and other receivables	8	283	641
Cash and cash equivalents	9	1,230	941
Deferred expenses		629	202
<b>Total current assets</b>		<u>2,142</u>	<u>1,784</u>
<b>Total assets</b>		<u>4,618</u>	<u>4,263</u>
<b>Equity</b>		<u>2,499</u>	<u>3,068</u>
<b>Liabilities</b>			
Loans payable	11	258	241
Deferred tax liabilities		(3)	
<b>Total non-current liabilities</b>		<u>255</u>	<u>241</u>
Trade and other payables	10	575	311
Lease liabilities		-	-
Deferred financing	12	1,283	623
Corporate income tax liabilities	16	6	20
<b>Total current liabilities</b>		<u>1,864</u>	<u>954</u>
<b>Total liabilities</b>		<u>2,119</u>	<u>1,195</u>
<b>Total equity and liabilities</b>		<u>4,618</u>	<u>4,263</u>

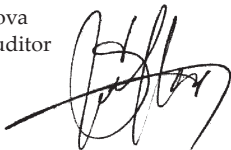
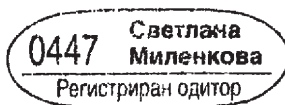
These financial statements set out on pages 3-25 were approved by the Governing Board on 29 June 2013. They are signed on behalf of the Governing Board by:

Vladimir Yordanov  
Executive Director  
29 June 2013




Initialed for identification purposes in reference to the audit report:

Svetlana Simova  
Registered Auditor  
29 June 2013

Center for the Study of Democracy (The Group)  
Consolidated Statement of Comprehensive Income, 31 December 2012

(all amounts in BGN thousand)	Note	For the year ending:	
		31 December 2012	31 December 2011
Revenues	13	1,186	2,078
Cost of Sales	14	<u>(1,739)</u>	<u>(2,219)</u>
<b>Gross Profit</b>		<b>(553)</b>	<b>(141)</b>
Other operating income		-	-
Administrative expenses		-	-
Impairment losses		-	(49)
<b>Revenue from operating activities</b>		<b>(553)</b>	<b>(190)</b>
Financial income		(40)	16
Financial expenses		(25)	(27)
<b>Net financing costs</b>	<b>15</b>	<b>(15)</b>	<b>(11)</b>
<b>Profit before income tax</b>		<b>(568)</b>	<b>(201)</b>
Income tax expense	16		1
<b>Net profit for the period</b>		<b><u>(568)</u></b>	<b><u>(200)</u></b>
Other comprehensive income		-	-
<b>Total comprehensive income</b>		<b><u>(568)</u></b>	<b><u>(200)</u></b>

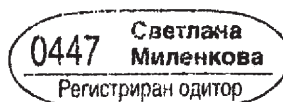
These financial statements set out on pages 3-25 were approved by the Governing Board on 29 June 2013. They are signed on behalf of the Governing Board by:

Vladimir Yordanov  
Executive Director  
29 June 2013




Initialed for identification purposes in reference to the audit report:

Svetlana Simova  
Registered Auditor  
29 June 2013

*Center for the Study of Democracy (The Group)*  
*Consolidated Statement of Changes in Equity, 31 December 2012*

(all amounts in BGN thousand)	Note	Retained earnings
<b>Balance as at 1 January 2011</b>		<b>3,268</b>
Net profit for the period		(200)
<b>Balance as at 31 December 2011</b>		<b>3,068</b>
<b>Balance as at 1 January 2012</b>		<b>3,068</b>
Net profit for the period		(568)
<b>Balance as at 31 December 2012</b>		<b>2,499</b>

These financial statements set out on pages 3-25 were approved by the Governing Board on 29 June 2013. They are signed on behalf of the Governing Board by:



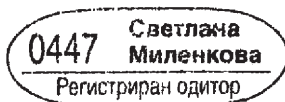
Vladimir Yordanov  
 Executive Director  
 29 June 2013



Initialled for identification purposes in reference to the audit report:



Svetlana Simova  
 Registered Auditor  
 29 June 2013





*Center for the Study of Democracy (The Group)*  
*Consolidated Cash Flow Statement, 31 December 2012*

(all amounts in BGN thousand)	Note	<b>For the year ending:</b>	
		<b>31 December 2012</b>	<b>31 December 2011</b>
<b>Cash flows from operating activities</b>			
(Loss)/Profit before income tax		(568)	(201)
Adjustments for:			
Depreciation and amortisation	5,6,7	96	111
Net interest income accrued		3	1
		<u>(469)</u>	<u>(89)</u>
Changes in working capital:			
(Increase)/Decrease of inventory		-	-
(Increase)/Decrease of trade and other receivables and deferred expenses		(69)	(384)
Increase/(Decrease) of trade and other payables		912	137
<b>Cash flow from operating activities</b>		<u>374</u>	<u>(336)</u>
Interest received		13	12
Income tax paid		(4)	(11)
<b>Net cash flows from operating activities</b>		<u>383</u>	<u>(335)</u>
<b>Cash flows from investment activities</b>			
Purchase of property, plant and equipment and intangible assets		(94)	(59)
Proceeds from sale of property, plant and equipment		-	-
<b>Net cash flows from investment activities</b>		<u>(94)</u>	<u>(59)</u>

*Center for the Study of Democracy (The Group)*  
*Consolidated Cash Flow Statement, 31 December 2012*

(all amounts in BGN thousand)	Note	<b>For the year ending:</b>	
		<b>31 December 2012</b>	<b>31 December 2011</b>
<b>Cash flows from financial activities</b>			
Paid interest and bank charges		-	-
Loans received		-	-
<b>Net cash flow from financial activities</b>		-	-
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>289</b>	<b>(394)</b>
Cash and cash equivalents at the beginning of the period		941	1,335
<b>Cash and cash equivalents at the end of the period</b>	<b>8</b>	<b>1,230</b>	<b>941</b>

These financial statements set out on pages 3-25 were approved by the Governing Board on 29 June 2013. They are signed on behalf of the Governing Board by:



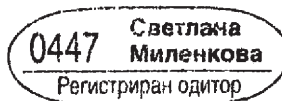
Vladimir Yordanov  
Executive Director  
29 June 2013



Initialed for identification purposes in reference to the audit report:



Svetlana Simova  
Registered Auditor  
29 June 2013



## **1. Group background and 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 2012 comprise CSD and its subsidiaries, Vitoshka 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 an interdisciplinary public policy institute dedicated to the values of democracy and market economy. CSD is a non-partisan, independent organization fostering the reform process in Bulgaria through impact on policy and civil society.

CSD 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 subsidiaries Vitoshka Research EOOD and Project 1 EOOD.

Vitoshka Research EOOD, established in 2000, is specialised in wide range of research fields: social and economic policy; social assessment and evaluation studies; economic and political behaviour; political attitudes and value systems; market, media and audience research; advertising studies, 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 2012 the Group has 41 employees.

The financial statements were approved by the Governing Board on 29 June 2013.

## **2. Accounting policies**

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

## **2.1. Basis of preparation**

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

The consolidated financial statements comprise the financial statements of the Center for the Study of Democracy and its subsidiaries as at 31 December each year. The financial statements of subsidiaries 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 unrealized gains resulting from intra-group transactions are eliminated in full. Unrealised losses are also eliminated but considered an impairment indicator of the asset transferred. Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

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

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

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

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

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the

operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

#### *Transactions with non-controlling interests*

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

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

#### *New and amended standards, adopted by the Group:*

New and amended standards and interpretations mandatory for the first time for the financial year beginning 1 January 2012 are not early adopted by the Group because management of the Group believes that they are not currently relevant to the Group although they may affect accounting for future transactions and events.

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

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

Buildings	25 years
Machinery and equipment	2 years
Vehicles	4 years
Fixtures and fittings	2 - 6 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 Company 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 2012.

#### *Loans and receivables*

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

#### *Held-to-maturity*

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

#### *Available for sale financial assets*

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

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

## **2.6. Inventory**

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

## **2.7. Trade and other receivables**

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

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

## **2.8. Cash and cash equivalents**

Cash and cash equivalents includes cash in hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less as well as bank overdrafts. Bank overdrafts are shown within current borrowings in current liabilities on the balance sheet.

## **2.9. Investment property**

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

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

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

## **2.10. Borrowings**

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of



transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Borrowing costs are recognised as an expense in the period in which they are incurred.

### **2.11. Deferred tax**

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

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

### **2.12. Employee benefits on retirement**

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

#### *Revenue from grants and contributions*

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

#### *Interest income*

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

### **2.14. Dividend distribution**

The Group does not distribute dividends.

## **3. Financial risk management**

### **3.1. Global financial crisis**

#### **Impact of the ongoing global financial and economic crisis**

The global financial crisis has had a severe effect on the Bulgarian economy and the financial situation within the Bulgarian financial and corporate sectors has significantly deteriorated since mid-2008. In 2011 and 2012, the Bulgarian economy experienced a moderate recovery in economic growth. The recovery was accompanied by increased export and increased rate of household savings.

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

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

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

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

### **Impact on liquidity**

The global financial crisis continues to have significant impact on the Group during 2012. The length of the crisis, along with the slowed recovery of the industry and bank sector, might lead to decreased operational cash flows, the ability to obtain new credits, increased operating expenses and slowdown or reduction of the planned capital expenditures.

### **Impact on customers/borrowers**

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

## **3.2. Financial risk factors**

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

### **3.2.1. Market risk**

#### *a) Currency risk*

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

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

#### *b) Price risk*

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

### 3.2.2. 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.

### 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.

<b>As at 31 December 2012</b>	<b>Up to 1 year</b>	<b>Between 1 and 2 years</b>	<b>Between 2 and 5 years</b>	<b>Over 5 years</b>
Trade and other payables	575	258	-	-
<b>As at 31 December 2011</b>	<b>Up to 1 year</b>	<b>Between 1 and 2 years</b>	<b>Between 2 and 5 years</b>	<b>Over 5 years</b>
Trade and other payables	311	241	-	-

#### **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

	Land & buildings	Computers	Vehicles	Fixtures & Fittings	Other assets	Assets under construc- tion	Total
<b>Cost</b>							
As at 1 January 2011	839	204	327	131	3	1,208	2,712
Additions	-	5	-	-	-	56	61
Disposals	-	-	-	-	-	-	-
<b>As at 31 December 2011</b>	<b>839</b>	<b>209</b>	<b>327</b>	<b>131</b>	<b>3</b>	<b>1,264</b>	<b>2,773</b>
Additions	-	-	-	-	-	-	84
Disposals	-	-	-	-	-	-	-
<b>As at 31 December 2012</b>	<b>839</b>	<b>209</b>	<b>327</b>	<b>131</b>	<b>3</b>	<b>1,264</b>	<b>2,773</b>
<b>Depreciation</b>							
As at 1 January 2011	121	151	183	105	3	11	574
Depreciation charge	18	25	41	6	-	-	90
Disposals	-	-	-	-	-	-	-
<b>As at 31 December 2011</b>	<b>139</b>	<b>176</b>	<b>224</b>	<b>111</b>	<b>3</b>	<b>11</b>	<b>664</b>
Depreciation charge	11	25	41	6	-	-	83
Disposals	-	-	-	-	-	-	-
<b>As at 31 December 2012</b>	<b>150</b>	<b>201</b>	<b>265</b>	<b>117</b>	<b>3</b>	<b>11</b>	<b>747</b>
<b>Carrying amount</b>							
As at 1 January 2011	718	53	144	26	-	1,197	2,138
As at 31 December 2011	700	33	103	20	-	1,253	2,109
As at 31 December 2012	689	18	62	18	3	1,323	2,113

*Center for the Study of Democracy (The Group)*  
*Notes to the Consolidated Annual Financial Statements, 31 December 2012*  
*(all amounts in BGN thousand, unless otherwise stated)*

## 6. Intangible assets

	<b>Software</b>	<b>Total</b>
<b>Cost</b>		
As at 1 January 2011	66	66
Disposals	-	-
<b>As at 31 December 2011</b>	<u><b>66</b></u>	<u><b>66</b></u>
Additions Disposals	10	10
<b>As at 31 December 2012</b>	<u><b>76</b></u>	<u><b>76</b></u>
<b>Amortisation</b>		
As at 1 January 2011	54	54
Amortisation charge	10	10
<b>As at 31 December 2011</b>	<u><b>64</b></u>	<u><b>64</b></u>
Amortisation charge	2	2
<b>As at 31 December 2012</b>	<u><b>66</b></u>	<u><b>66</b></u>
<b>Carrying amount</b>		
As at 1 January 2011	12	12
As at 31 December 2011	2	2
<b>As at 31 December 2012</b>	<u><b>10</b></u>	<u><b>10</b></u>

## 7. Investment property

	<b>2012</b>	<b>2011</b>
<b>As at 1 January</b>		
Carrying amount at the beginning of the period	356	367
Depreciation charge	<u>(11)</u>	<u>(11)</u>
<b>Carrying amount at the end of the period</b>	<b><u>345</u></b>	<b><u>356</u></b>
<b>As at 31 December</b>		
Cost	428	428
Accumulated depreciation	<u>(83)</u>	<u>(72)</u>
<b>Carrying amount</b>	<b><u>345</u></b>	<b><u>356</u></b>

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. Trade and other receivables

	<b>As at 31 December</b>	
	<b>2012</b>	<b>2011</b>
Trade receivables	260	677
Less: Impairment provision of trade payables	<u>(25)</u>	<u>(74)</u>
Trade receivables, net	<b>235</b>	<b>603</b>
Prepaid corporate tax	23	18
Other	<u>25</u>	<u>20</u>
	<b><u>283</u></b>	<b><u>641</u></b>

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

## 9. Cash and cash equivalents

	<b>As at 31 December</b>	
	<b>2012</b>	<b>2011</b>
Cash at hand	190	162
Cash in bank current accounts	<u>1,040</u>	<u>779</u>
	<b><u>1,230</u></b>	<b><u>941</u></b>



*Center for the Study of Democracy (The Group)*  
*Notes to the Consolidated Annual Financial Statements, 31 December 2012*  
*(all amounts in BGN thousand, unless otherwise stated)*

### 10. Trade and other payables

	<b>As at 31 December</b>	
	<b>2012</b>	<b>2011</b>
Payables to related parties	150	150
Payables to partners and suppliers	401	140
Salaries and social securities payables	19	1
Other	5	20
	<u>575</u>	<u>311</u>

### 11. Loans liabilities

	<b>As at 31 December</b>	
	<b>2012</b>	<b>2011</b>
Principal of loan to related parties	200	200
Interest payable	58	41
	<u>258</u>	<u>241</u>

Loans liabilities represent loan granted in 2009 by IR Communications to Project 1. According to the loan contract the interest rate is 8 %.

## 12. Deferred financing

	<b>As at 31 December</b>	
	<b>2012</b>	<b>2011</b>
European Commission – Tracking Progress in Strengthening the Criminal Justice Indicators for Integrated Case Management	-	139
Judicial Training and Research on EU Crimes against Environment and Maritime Pollution	84	-
Meta Data protection of the Critical Infrastructure in the Metropolitan Underground	40	-
European Commission – Integrating Refugee and Asylum-seeking Children in the Educational Systems of EU Member States	-	42
Open Society Institute (Budapest) – Good Governance or Civil Society Capture	55	14
European Commission – Sharing Alternatives Practices for the Utilisation of Confiscated Criminal Assets	17	94
European Commission – Integrating Refugee and Asylum-seeking Children in the Education System in the Member States of the EU	103	103
European Commission – Threat Assessment of Bullying Behaviour in Internet	-	29
European Commission – Enhancing Police Internal Affairs Departments in EU Member States	174	174
Anticorruption Policies Revisited. Global Trends and European Responses to the Challenge of Corruption	132	-
Civil Society Good Governance and Anti-Corruption in Southeast Europe: Capacity building for Monitoring, Advocacy and Awareness Raising	114	-
Reuse of Confiscated Assets for Social Purposes: Towards Common EU Standards	93	-
European Commission – Monitoring Anti-Corruption in Europe: Bridging Policy Evaluation And Corruption Measurement	416	-
Other	51	20
<b>Total deferred financing related to projects</b>	<b>1,279</b>	<b>615</b>
Financing for acquisition of fixed assets	4	8
	<b>1,283</b>	<b>623</b>

### 13. Revenues

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

	<b>2012</b>	<b>2011</b>
European Commission – Bulgarian Organized Crime Threat Assessment	34	312
Norwegian Government – Norwegian Cooperation Programme – Strengthening Governance for Sustainable Production in Bulgaria	-	319
European Commission – Integrating Refugee and Asylum-seeking Children in the Educational Systems of EU Member States	136	152
European Commission – Tracking Progress in Strengthening the Criminal Justice Indicators for Integrated Case Management	144	-
European Commission – New European Crimes and Trust-Based Policy	71	-
European Commission – Measuring Public Confidence in Justice Systems	-	113
European Commission – Assisting and Reintegrating Children Victims of Trafficking	-	76
Friedrich Ebert Foundation – National Crime Survey; Hidden Economy in Bulgaria	-	36
Open Society Institute (Budapest) – Good Governance or Civil Society Capture	49	31
European Commission – Sharing Alternatives Practices for the Utilisation of Confiscated Criminal Assets	77	40
European Commission – Network to Empower Volunteering Work within the Prison System in Europe and in the Western Balkans	25	16
European Commission – Threat Assessment of Bullying Behaviour in Internet	41	8
European Commission – Empowering Civil Society in Bosnia and Herzegovina to Fight Corruption	52	39
Other projects	37	15
	<u><b>666</b></u>	<u><b>1,157</b></u>
Revenue from services	516	904
Income from financing for fixed assets	4	17
	<u><b>1,186</b></u>	<u><b>2,078</b></u>

#### 14. Cost of sales

Cost of sales for the Group includes:

	<b>2012</b>	<b>2011</b>
Expenses for materials	41	47
External services	878	1,394
Depreciation and amortisation	110	111
Salaries and social securities	566	581
Other expenses	144	86
	<u>1,739</u>	<u>2,219</u>

#### 15. Finance costs, net

	<b>2012</b>	<b>2011</b>
Interest income	<u>13</u>	<u>16</u>
	<b>13</b>	<b>16</b>
Interest expense	(16)	(17)
Foreign exchange gains/(losses), net	(4)	(5)
Other financial expenses	<u>(8)</u>	<u>(5)</u>
	<u>(28)</u>	<u>(27)</u>
<b>Finance costs, net</b>	<u><b>(15)</b></u>	<u><b>(11)</b></u>

#### 16. Income tax

The major components of income tax expense for the year ended 31 December 2012 and the period ended 31 December 2011 are:

	<b>2012</b>	<b>2011</b>
Current tax	-	(3)
Deferred tax	<u>-</u>	<u>4</u>
<b>Income expense</b>	<u><b>-</b></u>	<u><b>1</b></u>

*Center for the Study of Democracy (The Group)*  
*Notes to the Consolidated Annual Financial Statements, 31 December 2012*  
*(all amounts in BGN thousand, unless otherwise stated)*

Movement in deferred tax asset and deferred tax liability as of 31 December 2012 and 31 December 2011 includes the following:

	31 December 2012		31 December 2011		2012 net	2011 net
	Assets	Liabilities	Assets	Liabilities		
Property, plant and equipment	-	-	8	-	-	8
Trade payables	-	-	4	-	-	4
Net deferred tax asset/liability	-	-	12	-	-	12

The official rate stated in Corporate Tax Law adopted for 2012 was set to 10 % (2011:10%). 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 2012	Income in income statement	Balance as of 31 December 2012
Property, plant and equipment	8	-	8
Trade payables	4	-	4
Net deferred tax asset/liability	12	-	12

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

There are no tax checks performed in the recent years.

## 17. Related parties

The group is related party to the Applied Research and Communication Fund and its subsidiaries.

The following transactions occurred during the year:

Related party	Transactions during the year	January-December		31 December		31 December	
		2012	2011	2012	2011	2012	2011
		<i>Transactions</i>		<i>Receivables</i>		<i>Payables</i>	
ARC Consulting EOOD	Consulting services	-	60	-	48	150	150
Applied Research and Communication Fund	Rental contract	45	45	-	-	-	-
		-	-	-	-	258	241
IR Communications		<b>45</b>	<b>105</b>	-	<b>48</b>	<b>408</b>	<b>391</b>

### *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:

	<b>2012</b>	<b>2011</b>
Board of Directors	156	206

## 18. Events after the balance sheet date

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