



ARCFUND

ANNUAL REPORT 2024

APPLIED RESEARCH
AND COMMUNICATIONS FUND



APPLIED RESEARCH AND COMMUNICATIONS FUND

APPLIED RESEARCH AND COMMUNICATIONS FUND 2024 ANNUAL REPORT

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2024 HIGHLIGHTS

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

- The *Innovation.bg* report provides annual assessments of the Bulgarian economy's innovation performance, the current state of the innovation system, and projections for future development. The thematic focus of the *Innovation.bg* 2024 report was '**Innovation, Economic Security, and Tech Sovereignty**'. The report examines the evolution of policies and trends in research, technological development, and innovation over the past 20 years, offering key lessons to address emerging challenges in a globalized world where regional agendas increasingly influence the rules of the game.
- The **National Innovation Forum** highlights the best innovative companies in Bulgaria. In its 2024 edition, the Forum brought together representatives from the policy, research, and business communities to discuss Bulgaria's capacity to integrate into advanced technological and innovation ecosystems while leveraging European policies to promote innovation and technology transfer.
- The **Innovative Enterprise of the Year contest acknowledge** companies that have developed new products or significantly improved existing products, services, or processes in the past three years.

Innovation and business support

In 2024, ARC Fund successfully maintained its position as coordinator of Enterprise Europe Network (EEN) – Bulgaria, becoming an indispensable source of support for the country's SMEs. Amid ongoing political uncertainty and delays in national support programs, EEN emerged as a reliable resource for information and advice, enabling businesses to navigate challenges and pursue growth opportunities on the international stage.

As the coordinator of EEN – Bulgaria, ARC Fund effectively facilitated the establishment of international partnerships and market expansion for SMEs. This was achieved through comprehensive support for negotiations involving business, innovation, and research and development (R&D) partnerships. The network's strong engagement with the business and innovation ecosystem reached over 3000 SMEs, providing essential information on financing options, business development opportunities, and potential global collaborations. These achievements were further enhanced by a refreshed, user-friendly EEN website and a fivefold increase in LinkedIn followers, significantly extending the network's reach. Collaborations with other organizations also bolstered EEN's impact.

To help SMEs adopt advanced manufacturing technologies and digital innovation strategies, ARC Fund empowered 35 Bulgarian SMEs with tailored transformation plans across seven areas of digitalization and innovation. This support helped them achieve their strategic KPIs through mentoring and specialized services, enabling their transition to competitive, sustainable, smart factories.

During the year, ARC Fund addressed technological challenges and sought to promote the sustainable use of advanced materials by SMEs; a feat that was achieved through the enhancement of knowledge-sharing practices in the Danube Region. Sustainable, intelligent, adaptable, and energy-efficient materials are essential for the digital and green transformations of SMEs in the current dynamic economic and geopolitical context. To facilitate this transition, ARC Fund has concentrated on developing a strategic action plan aimed at cultivating an environment that enables SMEs to thrive in advanced materials through research, technology transfer, and innovation in critical technological sectors.

Science, technology and innovation policy

In 2024, ARC Fund worked on promoting inclusive and sustainable solutions to important societal challenges. This included a major initiative to enhance citizen engagement in democratic processes. National workshops were held in six countries – Bulgaria, Spain, France, Italy, Poland, and Uruguay – bringing together citizens, experts, and policymakers to develop actionable recommendations for informed democratic deliberation. The results were shared at a high-profile conference in Brussels, highlighting ARC Fund's dedication to strengthening democratic participation at local, national, and EU levels.

Additionally, ARC Fund continued its long-standing involvement in energy citizenship throughout the year, conducting a comprehensive survey that mobilized over 10,000 participants from 19 European countries. The findings identified critical gaps in public engagement during the energy transition and underscored the need for tailored financial support and inclusive policy-making. The insights from this survey were consequently used to inform strategies for enhancing energy citizenship across Europe.

ARC Fund collaborated with the Municipality of Gabrovo on innovative green infrastructure projects, including a rainwater harvesting system and an early warning system for climate hazards.

Finally, in 2024, ARC Fund placed a strong emphasis on enhancing labor market inclusion for vulnerable populations, particularly older adults. Numerous training programs were launched in Bulgaria with the intent of improving digital and green skills among individuals aged 50 and over, while creative approaches were implemented to promote inclusive democratic spaces for greater public participation.

PART ONE: PROGRAM AREAS

INNOVATION.BG

Innovation.bg is the flagship initiative of ARC Fund.

- The ***Innovation.bg 2024*** report examines the evolution of policies and trends in research, technology development and innovation over the past 20 years, offering key lessons to address emerging challenges in a globalized world where regional agendas increasingly influence the (global) operational landscape. The report highlights Bulgaria's innovation performance, economic security, and technological sovereignty as central themes.
- The **National Innovation Forum** serves as a platform for government, business, and research communities to discuss ways to enhance company performance and boost the economy's innovation potential.
- The **Innovative Enterprise of the Year contest** invites the participation of Bulgarian companies across all economic sectors. The award recognizes innovative companies that have either launched new products or made substantial enhancements to their existing products, services, or processes within the last three years.

Innovation.bg 2024

Innovation.bg is the platform used by the Applied Research and Communications Fund to shape the national innovation policy agenda by providing expertise, formulating policies, and producing impact assessment methodologies. Since 2004, the *Innovation.bg* report has served as a comprehensive annual performance assessment tool, offering independent analysis of the national innovation system and the innovation performance of the Bulgarian economy across five main areas:



- 1. Gross innovation product:** This section tracks the performance of the national innovation system and identifies the main innovation targets and challenges faced by enterprises.
- 2. Entrepreneurship and innovation networks:** This part examines the two primary sources of innovation in Bulgaria: the emergence of new enterprises and the involvement of Bulgarian producers in national and international value chains for developing new products and services.
- 3. Investment and financing of innovation:** This section discusses the role of foreign direct investment and the import of R&D products and knowledge, along with the available instruments for R&D investment.
- 4. Human capital for innovation:** This part describes the human resources necessary for adopting foreign innovations and creating local ones.

- 5. Information and communication technologies (ICT):** This section analyzes the existing ICT infrastructure as a catalyst for R&D.

The Innovation.bg 2024 report, titled "Innovation, Economic Security, and Tech Sovereignty," provides a comprehensive analysis of the evolution of policies and trends in research, technological advancement, and innovation over the last two decades. The insights gained from this retrospective examination are intended to aid the nation in navigating the challenges that arise in a globalized environment, where regional priorities are increasingly shaping its landscape.

The 2024 edition of the European Innovation Scoreboard (EIS) indicates that Bulgaria remains in the group of emerging innovators, with an innovation index of 50.6 and indicators that show little positive development compared to the baseline year of 2017.

Bulgaria fell short of its national objectives for progressing to the higher classification of moderate innovators and for reaching a research and development (R&D) expenditure level of 1.5% of its GDP. In contrast, the European Union's average target stands at 3%. In 2023, Bulgaria's R&D intensity was recorded at 0.79%, which represents a slight increase of only 0.04% from the previous year.

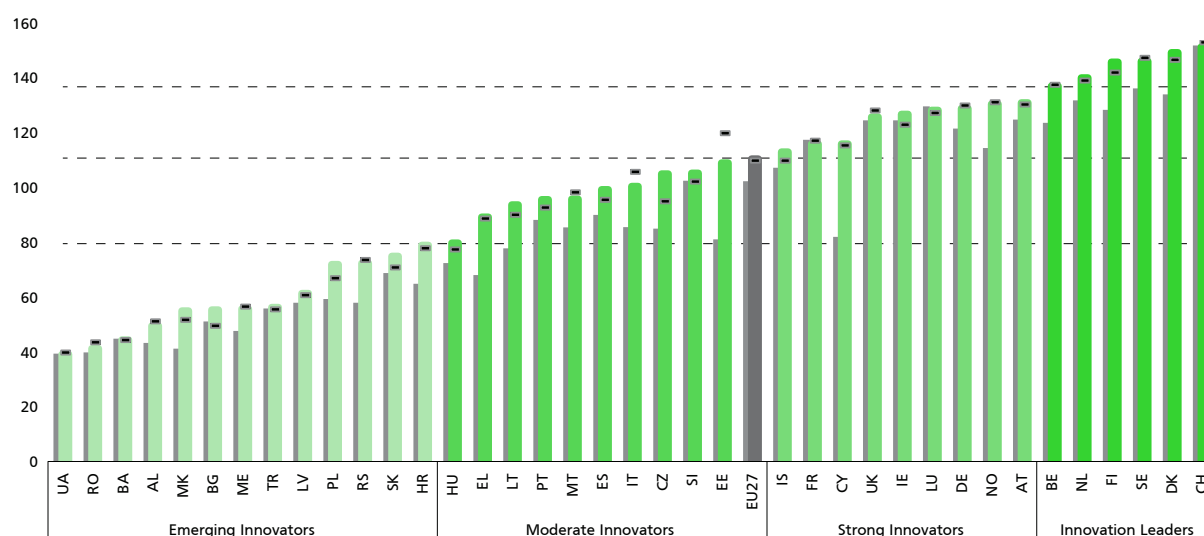
Twenty years ago, in 2004, before Bulgaria's accession to the European Union, the country was classified among the catch-up innovators, surpassing Romania and nine other EU member states with an annual progress rate exceeding 15%. The primary factors that established Bulgaria's prominent standing in the European rankings were its patents in high-tech sectors registered with the European Patent Office, patents filed with the US Patent and Trademark Office, investments in ICT, and the number of STEM graduates.

In 2024, the country's innovation potential registered only a 1.9% positive change compared to 2023, falling short of the EU average of 10% and widening the gap from the European average. Over the past ten years, the innovation indices of Bulgaria and the EU-27 have increasingly diverged.

Compared to 2017, the base year in the latest EIS report, Bulgaria achieved significant improvements in the following areas:

- **Employment in Innovative Enterprises** has increased by 37.4% since 2017, with an annual growth of nearly 17%.

Fig. 01 European Innovation Scoreboard



Source: European Innovation Scoreboard, 2024.

- The number of **Foreign Doctoral Students** rose by 33.4%, leading to an increase in their overall representation among doctoral candidates in the country.
- **Broadband Internet Access** increased by 29.7%.

Bulgaria's competitive advantages lie in low-tech intellectual property, particularly trademark and industrial design applications. In patent applications meeting invention and novelty standards, Bulgaria reached 38.3% of the EU average. The rapidly developing ICT sector has also brought Bulgaria closer to the European average in the number of ICT specialists (85.2%) and exports of high-tech and innovative products and services (75%).

However, the comparative disadvantages are complex and significantly impact the country's innovation performance:

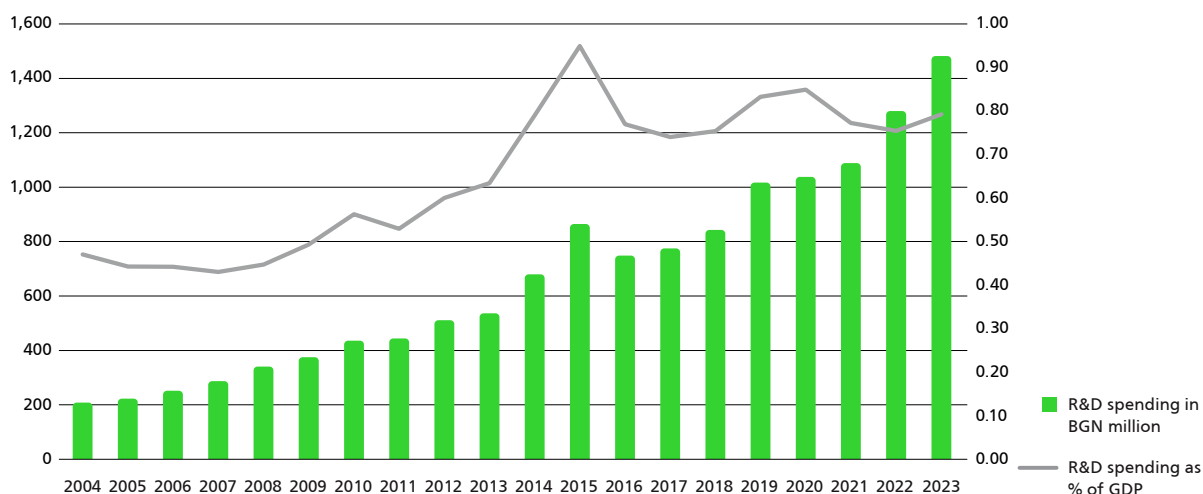
- **Human Resources:** The number of doctoral students has decreased by 11.6% since 2017, while the rates of lifelong learning have remained virtually stagnant at 1.4% of the population, reflecting a slight annual decline of 0.2%.
- **Financial Resources:** Public R&D expenditure decreased by 1.6% compared to 2017 and by 3.3% compared to 2023. Direct and indirect state support for R&D in enterprises have dropped by 3.9% since 2017 and by

1.3% since 2023, while business R&D spending has fallen by 13.5% since 2017.

- **Digitalization:** Despite enhancements in broadband coverage, the proportion of businesses offering ICT training to their employees is still low, falling below 24% of the EU average. Additionally, there has been no advancement in the digital skills of the population, which stands at only 16% of the EU average and has experienced a 0.4% annual decrease. These metrics are crucial for the success of digital transformation and the enhancement of the business environment, where Bulgaria is positioned among the lowest in the EU.
- **Sustainable Development and Environmental Impact:** The lack of progress, coupled with notable declines in key indicators within this category, has negatively affected the country's position in Europe.

In 2023, Bulgaria's investment in R&D amounted to BGN 1,467 million, reflecting an increase of almost 16% from the previous year. Nevertheless, when considered as a percentage of GDP, R&D expenditure stands at just 0.79%, which is a slight rise of 0.04 percentage points compared to the previous year. This figure remains significantly below the peak levels of 0.95% recorded in 2015 and 0.85% in 2020. The disparity between current spending and the target levels outlined in strategic documents for the last two programming periods appears to be substantial.

Fig. 02 R&D Spending in Bulgaria, 2004–2023



Source: National Statistical Institute, 2024.

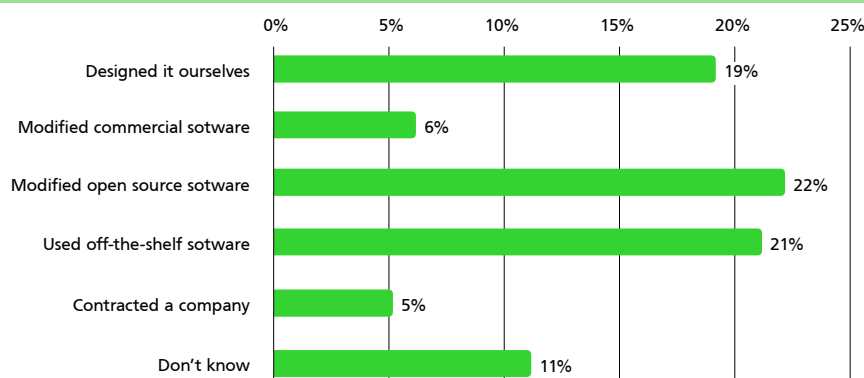
A shift in the R&D financing model occurred in 2009, as the business sector assumed a leading role therein. By 2010, it has surpassed the public sector in its contributions to technological development and innovation. Bulgaria's accession to the EU played a crucial role, as it provided access to European structural funding for the modernization of production processes and product innovation. Nonetheless, scientific organizations in the public sector have required more time to fully capitalize on these opportunities.

Since 2013, there has been almost exponential growth in R&D funding from large enterprises (over 250 employees). In 2023, these enterprises accounted for 60% of all investments in technological development and business innovations, indicating a concentration of innovation activity among a relatively small number of entities (770 large enterprises out of a total of 461,819 non-fi-

nancial enterprises in 2023). For smaller enterprises, size significantly influences investments in innovation, and it is evident that instruments aimed at supporting technological renewal and product innovation for SMEs are not yielding substantial macro-level effects.

The GUESS student entrepreneurship survey, conducted at the close of 2023, revealed a strong inclination towards entrepreneurial endeavors among Bulgarian students. In the 2023/2024 academic year, approximately 37.3% to 40% of students classified themselves as either beginner or nascent entrepreneurs, while nearly 14% were already running their own businesses. The influence of social inheritance is evident, with 19% of students who have entrepreneurial parents launching their own enterprises. Additionally, there is a growing trend of seasoned entrepreneurs returning to academic institutions to pursue

Fig. 03 AI entry channels into Bulgarian enterprises



Source: Ma, 2024

further master's or doctoral degrees, seeking to enhance their knowledge, broaden their professional networks, and leverage universities as incubators and sources of mentorship.

In the dashboard of indicators summarizing Europe's performance across the four dimensions of the Digital Decade policy program, Bulgaria ranks seventh in the development of public digital services for businesses, ahead of many countries it is often compared to, such as Germany, France, Austria, Spain, the Netherlands, Greece, Romania, and Hungary. Although Bulgaria's services are more mobile than the EU average, it lags in areas such as customer service, transparency, and personal data protection, ranking seventh from the bottom. Additionally, its development of public services for citizens is limited, surpassing only Croatia, Poland, and Romania.

Businesses in Bulgaria have adapted to the challenges posed by COVID-19 by adopting innovative organizational practices, including remote work and the expansion of online sales and delivery services. The increasing accessibility of generative AI has prompted many small and medium-sized enterprises (SMEs) to recognize the importance of formulating comprehensive digitalization strategies and leveraging new information and communication technologies. The government has allocated EU funding to support smart transformation and digitization initiatives for various business needs, which include voucher programs, workforce skill development, and the creation and localization of IT solutions aimed at boosting competitiveness. Nevertheless, possessing a digital strategy alone does not guarantee improved organizational performance; it must be complemented by effective talent management practices that foster organizational agility.

Twentieth National Innovation Forum

The twentieth edition of the National Innovation Forum, focused on "Innovation and Sustainability for Future Growth," was held on December 10, 2024. This event included the Award Ceremony for the National Contest "Innovative Enterprise of the Year" and attracted key representatives from Bulgaria's innovation sector. Organized by the Applied Research and Communications Fund and Enterprise Europe Network – Bulgaria, in collaboration with the Konrad Adenauer Foundation and with support from the European Commission, the forum provided a dynamic environment for the exchange of ideas and best practices.

Special guests included Dr. Yordanka Chobanova, Head of the European Commission Representation in Bulgaria; Svetoslava Georgieva, Chair of the Board of the European Innovation Council Fund; Vasil Terziev, Mayor of Sofia, and Vladimir Grozdanov, Executive Director of Barin Sports, who received the Innovative Enterprise of the Year 2023 award. Their insights underscored the vital role of collaboration among business, science, and public institutions in driving innovation.

The event was supported by a wide array of partners, including Sofia Tech Park, the Bulgarian Association for Information Technologies (BAIT), the Bulgarian Entrepreneurial Association (BESCO), the Professional Association for Robotics, Automation, and Innovation (PARAi), and industry clusters

in health, life sciences, and artificial intelligence. Media coverage was provided by leading outlets such as Bulgarian National Radio, Economy magazine, and several online platforms.

The milestone edition of the Forum was inaugurated by Dr. Ognian Shentov, Chairman of the Applied Research and Communications Fund. He reaffirmed ARC Fund's commitment to developing Bulgaria's national innovation ecosystem – a crucial process for the country's sustainable development. Additionally, his speech emphasized Bulgaria's advancements in aligning with the EU's technological innovation frameworks and the opportunities arising from global technological competition. Mr. Norbert Beckmann-Dirkes, Head of the Konrad Adenauer Foundation in Bulgaria, highlighted the Forum's legacy as a dialogue platform between policymakers, researchers, and industry leaders and stressed the importance of cooperation among government, business, and civil society to ensure technological progress aligns with democratic values and benefits the public.

Dr. Yordanka Chobanova extended her congratulations to the Applied Research and Communications Fund for successfully hosting the Forum, as well as to the innovative companies recognized in the annual Innovative Enterprise of the Year contest. During her address, she highlighted the vital role of institutional support in promoting innovation and urged for increased collaboration to boost Bulgaria's capacity for innovation.

Innovative Enterprise of the Year 2024

This year, the Innovative Enterprise of the Year contest saw 21 companies out of more than 65 applicants from diverse sectors and regions across Bulgaria make it to the pre-selection stage. A

jury of 18 experts, representing public institutions, funding bodies, businesses, academia, and media, awarded prizes in seven distinct innovation categories. The finalists were awarded the Excellence in Innovation® label by the Applied Research and Communications Fund.



Dr. Ognian Shentov opened the award ceremony, alongside Dr. Yordanka Chobanova and Mr. Norbert Beckmann-Dirkes, on December 10, 2024

Companies Awarded the Excellence in Innovation Label in 2024

Nine innovative companies were awarded in the seven categories of the Innovative Enterprise of the Year Contest 2024:

- **Logisoft AD** and **M2M Services AD**: Market Leadership Statuette and Honorary Diploma
- **Abrasive Technology OOD**: Green Innovation Honorary Diploma
- **Simobotics OOD**: Innovative Start-Up Honorary Diploma
- **Solvay Sody AD** and **Asarel Medet AD**: Innovation Management Honorary Diploma
- **Neuromorphica EOOD**: Digital Transformation Honorary Diploma
- **Tinusaur OOD**: Innovation in Education Honorary Diploma
- **MatriChem EOOD**: Innovation for Quality of Life Honorary Diploma

All award winners, along with the following finalist companies, received the **Excellence in Innovation®** label:

- IKI GUY TM EOOD
- Buddy Guard Bulgaria OOD
- DigiTech Consult
- Spectrum Solutions OOD
- SmartTest-BG EOOD
- Seal Serve Ltd.
- Biocom EOOD
- ORAK – Engineering
- PAO Sindeo OOD
- National Archives Corp. EOOD

For Market Leadership 2024 – Statuettes and Honorary Diplomas were awarded to the following companies:

Logisoft Ltd.

Logisoft Ltd. offers customized sorting systems for courier and online retail businesses, utilizing a DWS system that provides seamless reporting of dimensions, weight, and shipment identification, even for the smallest packages during transit. The innovation offers investment security with a local solution and the capability for client self-diagnosis, allowing for one-minute resolution of potential issues.

The company provides a complete range of servic-

es, including planning and design, mechanical and electrical installation, software implementation, visualization, and support. It moreover maintains a social policy that fosters innovation by creating a suitable environment for staff development. This includes the utilization of various techniques for the generation of ideas and concepts for software and hardware system development. Logisoft Ltd. has also established an "innovation zone" dedicated to exploring opportunities for improvement and innovation, in which even the most minor aspects of such processes are discussed.



Dr. Yordanka Chobanova with Mr. Thomas Westerhofen, Director of Sales and Marketing at Logisoft Ltd. – the winner in Market Leadership Category, 10.12.2024



Mr. Vasil Terziev with Mr. Borislav Panchev, Chief Operating Officer at M2M Services – the winner in Market Leadership Category, 10.12.2024

M2M Services Ltd.

The company's latest innovation is the MiNi-LTE-M-AV 0, a small, yet robust, alarm communicator specifically designed for security systems. It provides a reliable connection, making it particularly suitable for scenarios that demand consistent coverage in challenging locations with limited signal range.

Additionally, M2M has introduced the Connect+ Pro, a sophisticated security panel that features integrated communication options, including Z-Wave compatibility through an optional expansion card. Capable of managing up to 96 zones and 50 key fobs, this panel provides remarkable versatility for security solutions across a wide range of applications, from small setups to extensive systems.

INNOVATION AND BUSINESS SUPPORT PROGRAM

In 2024, the Innovation and Business Support Program focused on the following areas:

- **Supporting SMEs:** ARC Fund assisted 293 SMEs in establishing international partnerships and entering new markets by providing tailored advisory services. Over 150 negotiation meetings resulted in 21 successful partnerships and 12 Bulgarian organizations joining consortia for projects funded under Horizon Europe and Interreg programs.
- **Consulting SMEs:** ARC Fund offered specialized consultancy to help SMEs access funding opportunities such as Horizon Europe, EIC calls, InvestEU, ERDF, and EEA Norway grants. Advisory services covered critical areas including intellectual property protection, energy efficiency, circular economy, and digital transformation. As a result, 119 SMEs reported measurable outcomes, demonstrating tangible progress in their development and innovation capacity.
- **Policy and financial instruments for SMEs:** ARC Fund organized capacity-building and stakeholder engagement initiatives to improve the effectiveness of national and regional policy frameworks for SME innovation, digitalization, and green transition. These efforts aimed to develop tools and strategies to enhance access to finance, foster resilience, and accelerate sustainable growth for Bulgarian SMEs.
- **Just Energy Transition and Renewable Energy Development:** ARC Fund promoted participatory governance in Bulgaria's wind energy sector, particularly in the Northeast region. The WindLab Forum addressed challenges in offshore wind development, explored ways to minimize visual impacts, and emphasized maximizing local benefits. These initiatives support Bulgaria's transition to renewable energy and highlight the region's potential for 10 GW of onshore and 3–4 GW of offshore wind capacity.

EEN - Bulgaria's Comprehensive Support for Innovation, Internationalization, and Sustainable Growth

EEN – Bulgaria provides advisory and partnership services designed to assist SMEs in their innovation, growth, and international expansion efforts. This includes support in areas such as business strategy, market entry, innovation, intellectual property, funding opportunities, sustainability, and digital transformation. EEN – Bulgaria facilitates connections between SMEs and global partners for joint ventures, research collaborations, and technology transfer, utilizing matchmaking events and an extensive database of business opportunities.

SMEs benefit from enhanced competitiveness, access to cost-effective resources, opportunities for market expansion, and increased innovation capabilities. EEN aids SMEs in adopting sustainable practices, achieving digitalization objectives, and establishing strategic partnerships, leading to job creation, revenue growth, improved global competitiveness, and strengthened leadership in innovation.

Advisory Services

In 2024, Bulgarian SMEs greatly benefited from EEN's diverse consultancy offerings, which focused on Access2Finance opportunities, including Horizon Europe, EIC calls, InvestEU, ERDF, and EEA Norway grants. They also addressed critical topics such as intellectual property protection, business and innovation management, energy efficiency, the circular economy, and digital transformation across 14 industrial sectors. The EEN-Bulgaria network provided tailored consultations to 293 SMEs, with 119 of these reporting tangible and measurable results directly attributed to the assistance received. These outcomes highlight EEN's pivotal role in equipping SMEs with the knowledge and tools required to tackle challenges and harness opportunities.

Partnership Services

Throughout 2024, EEN played a vital role in fostering international collaborations by organizing or co-organizing brokerage events in hybrid and online formats, enabling broader participation across the EU Single Market and beyond. Bulgarian SMEs participated in over 150 negotiation meetings focused on key sectors such as healthcare, biotechnology, pharmaceuticals, circular econ-

omy, sustainability, energy, green transformation, R&D, digital innovation, and agri-food. The network actively promoted SMEs through its platforms and various sector and thematic groups, thereby aiding 21 Bulgarian companies in successfully establishing international business partnerships within the past year alone.

EEN-Bulgaria likewise played a crucial role in facilitating the formation of international consortia by bridging Bulgarian SMEs, NGOs, employer organizations, and research institutions with partners abroad. These collaborations resulted in 12 Bulgarian organizations joining consortia for successful project proposals, funded under Horizon Europe, Interregional Innovation Investments (I3), Interreg Europe, and other initiatives. EEN-Bulgaria provided extensive support, offering guidance on participation requirements and assisting in the preparation of project proposals, which in turn enabled the effective inclusion of Bulgarian SMEs in valuable international projects.

Through these initiatives, EEN-Bulgaria solidified its role as an enabler of innovation, internationalization, and sustainable growth for Bulgarian businesses in 2024.

Transformation of Bulgarian SMEs

In 2024, the European digital innovation hub AgroHub.BG continued to enhance the innovative capabilities of the agricultural sector in Bulgaria's South-Central region while assisting agro-businesses in their digital and sustainable transformation. The hub focuses primarily on precision agriculture – automation of processes, optimization of resources, smart agronomy – paving the way for the agriculture of tomorrow. Producers explored advanced technological solutions rooted in Industry 4.0, including the Internet of Things, artificial intelligence, big data, machine learning, and cybersecurity, with expert guidance to facilitate the practical implementation of these technologies.

AgroHub.BG offers its clients a range of services, including:

- **Information:** Increasing understanding of emerging technologies such as the Internet of Things, artificial intelligence, blockchain, big data, and machine learning. This includes clarifying their applications and advantages in agriculture, introducing digital innovations within the sector, and facilitating the transfer of knowledge and best practices for effective implementation.

- **Intersectoral cooperation:** Fostering connections among stakeholders in the agri-food chain, including farmers, producers, research and educational institutions, machinery importers, IT firms, startups, public authorities, investors, and other relevant parties. This initiative creates opportunities for the exchange of knowledge and experience.
- **Access to expertise:** Providing access to a vast array of experts who provide complementary skills to support the process of implementing technological solutions in the agricultural sector. This includes investment sourcing, business planning, marketing positioning, entering new markets and scaling operations, as well as developing digital competencies.



Satellite monitoring system provided by the experts of AgroHub.BG

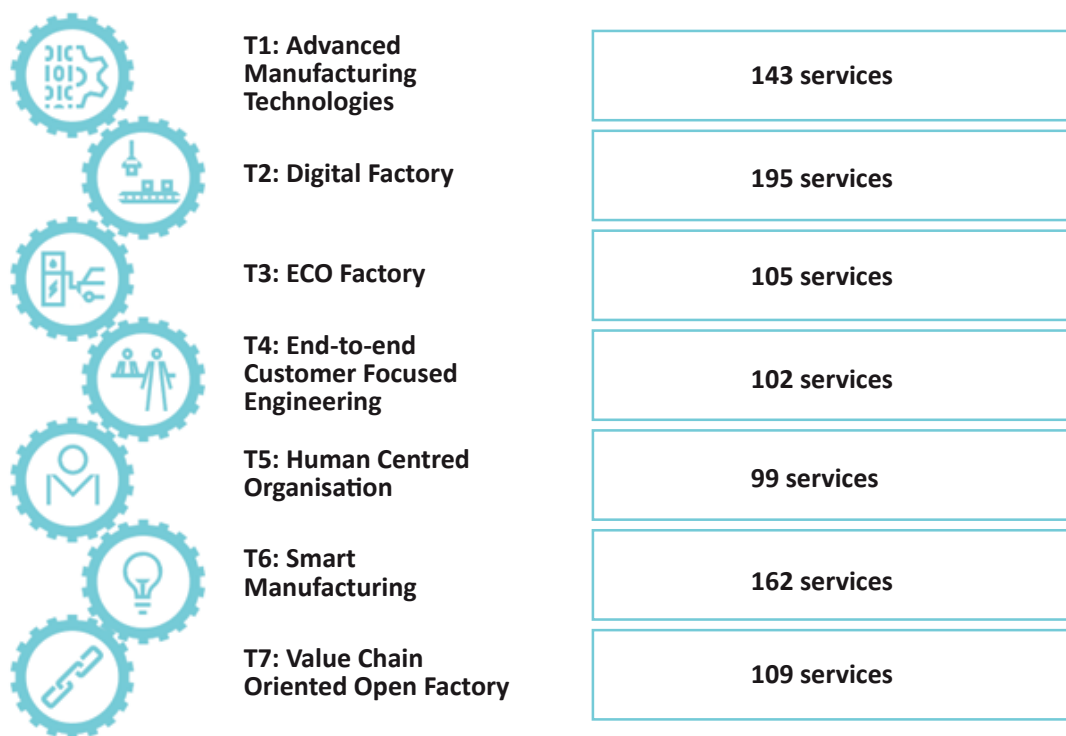
Shaping the Future of European Manufacturing: Growth and Innovation for Bulgarian SMEs

ADMA TranS4MEs is recognized as one of the largest and most influential transformation initiatives in Europe, providing a holistic strategy for digital transformation. Throughout its three-year span, the program supported more than 1,000 SMEs across 12 European countries in adopting advanced manufacturing technologies and social innovation strategies. These efforts have helped SMEs transition into next-generation factories with more competitive, sustainable, and modern production processes.

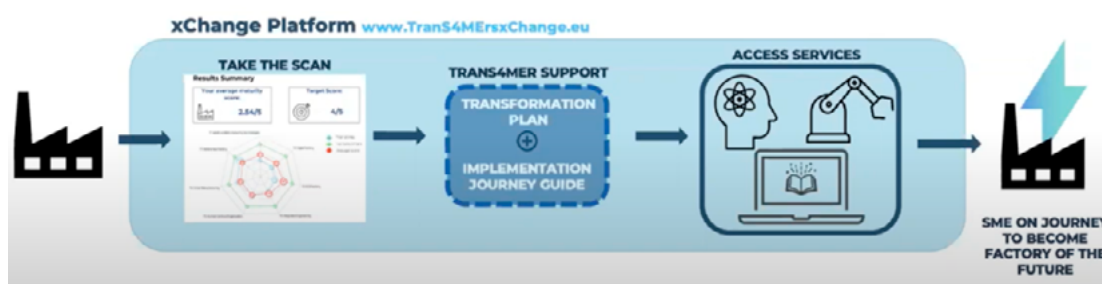
The program employs a comprehensive approach that encompasses both technological and non-technological transformation sectors. This approach has enabled the ADMA partners to successfully support a diverse range of manufacturing companies, ranging from food producers to robot-

ics manufacturers, as well as regional innovation ecosystems across Europe, on their transformation journeys. In Bulgaria, ARC Fund has proven instrumental in empowering local SMEs to advance their digital, ecological, and societal transformations. The effectiveness of ADMA TranS4MEs is evaluated across three key dimensions: SME engagement, quality assurance of TranS4MEs, and adoption of the program's platform.

By fostering innovation, enabling access to resources, and shifting mindsets, the program has redefined how SMEs approach digitalization and competitiveness. ARC Fund contributed to the success of ADMA TranS4MEs by delivering individualized professional transformation plans to 35 Bulgarian SMEs, focusing on seven key areas of digitalization and innovation. These efforts supported the SMEs in achieving their strategic key performance indicators (KPIs) while providing tailored services and mentoring programs to ensure their success.



Number of services provided by ADMA TranS4MErs consortium to SMEs across the 7 Transformation Areas



ADMA TranS4MErs – pathway towards the factory of the future

Supporting SMEs from the Danube region to increase their innovation potential in the field of new materials

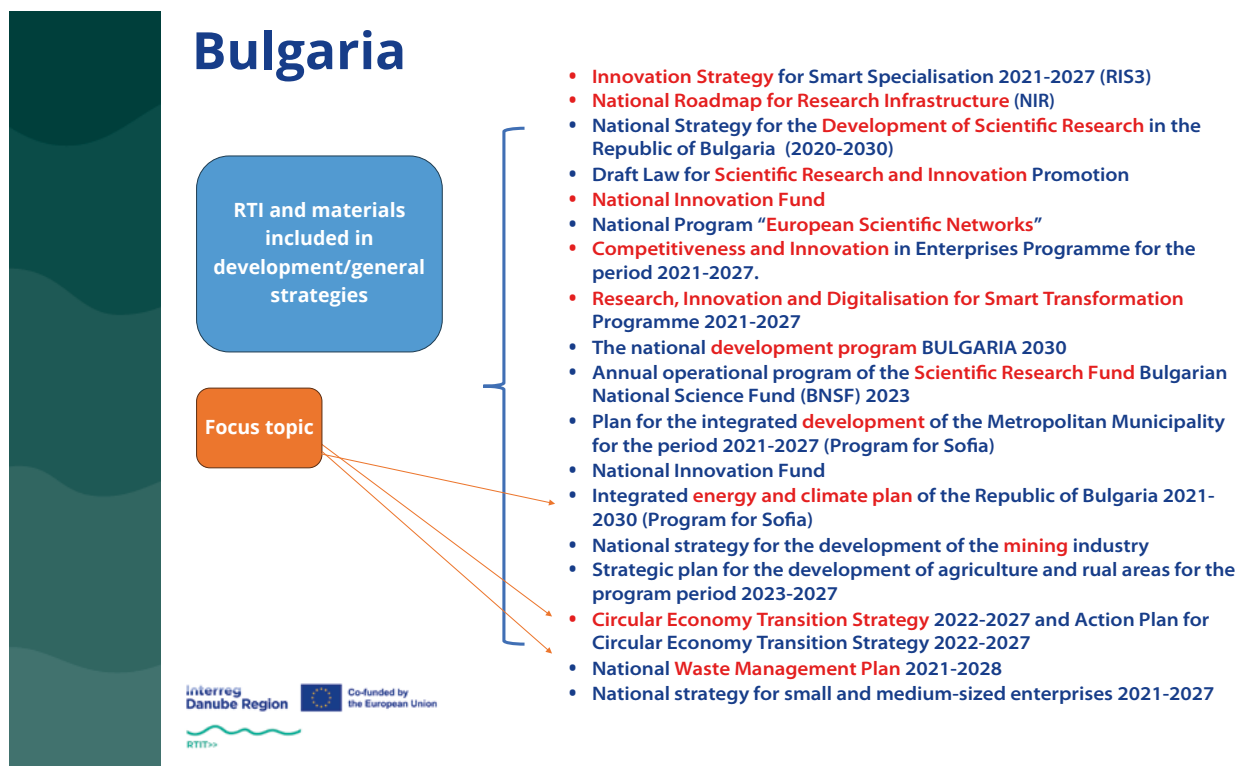
In 2024, ARC Fund leveraged its expertise to develop and pilot innovative tools and methods in Bulgaria aimed at facilitating the transfer of scientific research results, technology, and innovation (RTI). In the current dynamic economic and geopolitical environment, the development of sustainable, smart, adaptive, and energy-efficient materials is essential for advancing the digital and green

transformation of SMEs. Addressing new technological challenges and ensuring the sustainability of materials require enhanced knowledge transfer. "Knowhow Communities for Accelerating RTI Transfer in the Danube Region – RTIT>>" initiative plays a critical role for boosting the competitiveness of the Danube region and solidifying its role in European value-added chains.

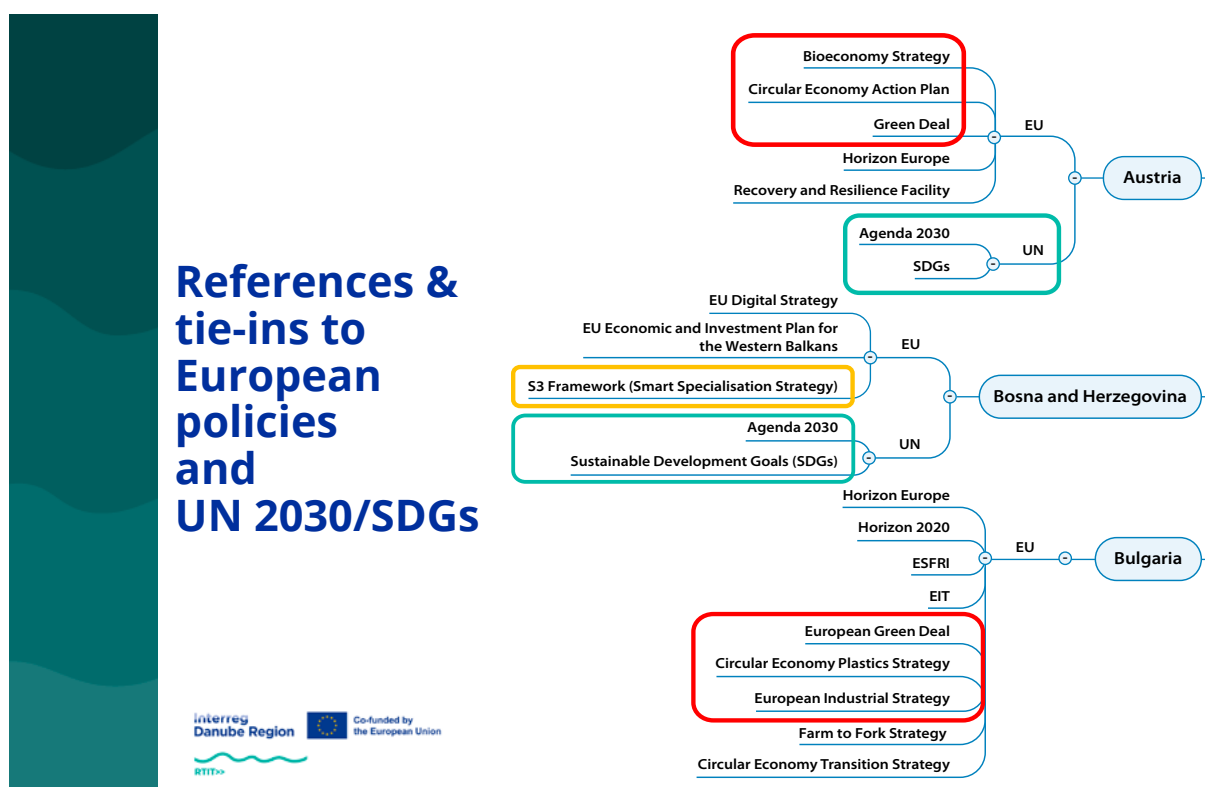
As a partner in this initiative, ARC Fund seeks to enhance the innovation potential of SMEs in the field of advanced materials by fostering a more conducive environment for scientific research, technology transfer, and innovation in techno-

logical areas strategically vital to the Danube region. The activities are focused on developing an action plan to accelerate the transfer of scientific

research, technology, and innovation, supporting sustainable economic growth and innovation in the region



RTIT>> Policy mapping of national strategic documents on RTI transfer



RTIT>> Policy mapping and identification of shortcomings and opportunities

S3 Community of Practice Targeted Support to EU Regions – Targeted assignment to support the development of the concept for transformative industry-led cooperation projects in Bulgarian regions

In alignment with its goal to enhance Bulgaria's innovation ecosystem, the Applied Research and Communications Fund was entrusted with the development of a methodology and evaluation criteria to support transformative, industry-led cooperation projects. This initiative offered expert assistance to the General Directorate "European Funds for Competitiveness" within the Ministry of Innovation and Growth, as part of the "Research, Innovation, and Digitization for Smart Transformation" program. The objective was to ensure that projects were in harmony with the Smart Specialization Strategy (S3) while promoting regional development and technological progress.

A central component of this initiative was extensive stakeholder engagement. ARC Fund facilitated consultations with a broad range of stakeholders, including employers' organizations, universities, academic institutions, and international chambers of commerce. These consultations provided valuable insights into the challenges and opportunities

within the innovation landscape and informed the development of a robust framework for project evaluation.

The proposed methodology featured a two-stage evaluation process designed to ensure the strategic alignment and feasibility of projects:

- I. Concept Note Stage:** This initial stage focused on assessing the alignment of project ideas with the overarching goals of the "Research, Innovation, and Digitization for Smart Transformation" program and the Smart Specialization Strategy. Emphasis was placed on sustainability, innovation potential, and the inclusion of diverse partnerships;
- II. Full Project Proposal Stage:** Building on the concept notes, this stage incorporated refined evaluation criteria to assess partnership strength, financial capacity, technological readiness, and the scalability of proposed solutions. ARC Fund focused on projects that align with Bulgaria's strategic objectives, enhance regional innovation capacity, and strengthen the country's integration into the European value chains. The initiative highlighted Bulgaria's ability to leverage its strengths in information and communication technology (ICT) and develop sustainable, scalable innovations that contribute to long-term regional and national growth.

Better Governance for a Just Energy Transition

In 2024, ARC Fund focused on promoting justice and effective governance within the wind energy industry. The WindLab Forum, launched in 2023, continued to bring together experts, citizens, and stakeholders to address pressing issues related to offshore wind energy. The Forum emphasized participatory practices in offshore wind development, with a particular focus on Bulgaria's North-East region.

The North-East region holds substantial untapped wind energy potential, both onshore and offshore. Currently, 80% of Bulgaria's total onshore wind capacity of 700 MW, developed over the past 10–15 years, is concentrated in this area. Future estimates suggest the region could support at least 10 GW of onshore wind capacity and 3–4 GW

of offshore installations. A [case study report](#) has been released to detail the historical and institutional milestones in the evolution of Bulgaria's wind energy sector.

WindLab serves as a platform for knowledge exchange and collaboration, tackling challenges in the deployment and governance of wind energy projects:

- In its second edition, WindLab focused on strategies to reduce the visual impact of offshore wind farms through an [interactive visual workshop](#).
- The third edition, titled *Factors for Maximizing Local Added Value in Offshore Renewable Energy Infrastructure Planning in the Black Sea*, was held as a supplementary event of the international Marine Renewable Energy Academy. It brought together young

professionals and students from Bulgaria and the region in Burgas to develop and discuss fair and effective management practices. The workshop emphasized that [local communities are the primary beneficiaries of offshore renewable energy projects in the Black Sea](#).

Through these initiatives, ARC Fund continues to promote just and inclusive governance in the transition to renewable energy in Bulgaria.

Policy advice

In August 2023, the Bulgarian Ministry of Education and Science reached out to DG Research and Innovation, requesting assistance under the Policy Support Facility (PSF) for an independent assessment of Bulgaria's research and innovation policy, with the intent of identifying shortcomings in the national science ecosystem. The Ministry outlined key areas for evaluation within the PSF Country Review, emphasizing the need for the review to support Bulgarian authorities in designing and implementing structural reforms in the research and innovation system. This initiative is part of a broader strategy aimed at enhancing the interaction between science and business and improving the efficiency of scientific research.

Thus, during 2024, ARC Fund prepared a Background Report aimed at providing insights to the PSF panel of experts responsible for designing these reforms. The report examined the Bulgarian research and innovation system, addressing its current state, comparative positioning, political and legislative framework, and aspects of cooperation, commercialization, and internationalization, as well as progress made since previous evaluations.

Key findings of the report include the following:

- Bulgaria's progress in research, technology, and innovation is assessed through its standing in the European Innovation Scoreboard. The latest edition from July 2024 indicates that Bulgaria continues to

be classified as a "modest innovator," with an innovation index of 50.6 and minimal improvements since 2017.

- In May 2024, a new Law on the Promotion of Research and Innovation came into effect, aiming to foster collaboration among stakeholders in the R&I sector and to cultivate an environment conducive to the generation of new knowledge, scientific results, and innovations that benefit society.
- Significant modifications to the R&I governance structure have been introduced as per the new law. Until all proposed reforms are implemented, a transitional phase is expected for all stakeholders involved in governance.
- In 2023, 27 Bulgarian scientific research organizations were ranked in Scopus. This includes 10 organizations from the state sector, which features the Bulgarian Academy of Sciences, 16 higher education institutions, with the Medical University-Sofia as a constituent, and one healthcare organization, included for the first time since 2023.

For Bulgaria to fully capitalize on European funding during the 2021-2027 programming period, a new strategic and program framework has been developed, establishing ambitious goals in research, technological development, and the practical application of scientific results in innovative products and business models. This strategic initiative includes priorities and activities focused on innovation and entrepreneurship, digitalization, and the green transformation of the economy. Key plans involve increasing public expenditure on research and development (R&D) to exceed 1% of GDP, developing new research and innovation infrastructure, and intensifying the transfer of knowledge and technology to businesses.

SCIENCE, TECHNOLOGY AND INNOVATION POLICY PROGRAM

The Science, Technology, and Innovation Policy (STIP) program facilitates public, multi-actor deliberative processes to address societal challenges arising from research and innovation. In 2024, the focus of activities in this area included:

- **Inclusive Citizen Engagement in Democratic Processes:** ARC Fund enhanced democratic processes in Europe by providing a platform for citizens, experts, and policymakers to co-create recommendations for fostering inclusive and informed democratic deliberation at local, national, and EU levels.
- **Energy Citizenship and Energy Transition:** ARC Fund advanced public engagement in the energy transition through a comprehensive survey of over 10,000 participants from 19 European countries. The findings offered valuable insights into citizens' expectations, motivations, and concerns, informing policy scenarios and recommendations for a socially inclusive and equitable energy transition.
- **Inclusive Labor Market for Vulnerable Groups:** ARC Fund promoted equity in the labor market by launching initiatives to support adults over 50 in Bulgaria. These efforts included training programs to enhance digital, green, and personal skills and fostering stakeholder collaborations to create more inclusive opportunities for vulnerable groups.
- **Transformative Climate Adaptation:** ARC Fund supported climate resilience in European mountain regions by contributing to the piloting of innovative green infrastructure solutions in Gabrovo, Bulgaria, such as a rainwater harvesting system and an early-warning monitoring system for natural hazards, promoting sustainable urban development. Additionally, ARC Fund strengthened cooperation to tackle climate-related challenges in the Danube region through a new initiative aimed at facilitating stakeholder collaboration and enhancing participation in the EU Missions of Horizon Europe.

Inclusive science and European democracies

2024 marked the final stage of the ISEED initiative, which focused on identifying the necessary conditions for fostering informed inclusion and participation in creating knowledge-based democratic deliberation. A key component of this initiative was the series of national workshops, held in Bulgaria, Poland, Italy, Spain, France and Uruguay,

which provided a platform to citizens, experts, and policymakers from these countries to collaboratively shape recommendations for future citizen engagement in democratic processes at the local, national and EU-level. The outputs of these workshops have been analyzed and presented in the [Recommendations and scenarios for the possible futures of democracy](#) report, elaborated by ARC Fund. It was presented during the ISEED Final Conference in Brussels on 11 – 12 June 2024.

Global Recommendations for Public Participation

1. Enhance participation/participatory culture.
2. Build-up capacity for public consultations, including a well organised preparatory phase.
3. Institutionalise public participation in policy-making; develop and assess long-term visions with citizens.
4. Include all stakeholders and enhance interactions among them.
5. Raise awareness of citizens about major societal issues.
6. Communicate the results from public consultations to citizens.
7. Use digitalisation to enhance participation.
8. Ensure access to data.
9. Enhance citizen science projects.
10. Value and include experiential expertise in policy- and decision-making.
11. Place community interests at the centre.
12. Design participation platforms, which are driven by gender and intersectionality.

*Final list of global recommendations, presented in the
"Recommendations and Scenarios for the Possible Futures of Democracy" report*

Another key output showcased during the event was the computational tool, developed by ISEED, to analyze augmentation styles in both traditional and digital media. This tool focuses on understanding the interplay of emotion and reason in polarized debates. For example, the figures below present word clouds that illustrate the "if-then"

reasoning pattern in online climate change debates. "If" statements often reflect skepticism, belief, or political undertones (e.g., science, government), while "then" statements focus on actions and responsibilities, highlighting the urgency to address global warming (e.g., stop, care).

Fig. 04 Word cloud for climate change – “IF” statements



Fig. 05 Word cloud for climate change – “THEN” statements



Energy citizenship

Overall, participants expressed a pessimistic view of the near future, with 57% anticipating higher energy costs by 2030. Only 14% feel that the energy transition is progressing positively. Additionally, significant criticism was directed at the institutions involved in the energy transition, particularly the EU Parliament, the European Commission, national and local authorities, and energy providers.

On a positive note, participants strongly support the notion that all individuals should contribute

to the energy transition. Over 60% reported having reduced their energy consumption in recent years.

The survey indicated that tailored financial support measures, accessible through simplified processes, would encourage citizen involvement in the energy transition. It suggested, additionally, that targeted assistance for those experiencing energy poverty is crucial. Furthermore, effective information campaigns and education are needed to address concerns about the perceived impacts, benefits, and costs of the transition. Finally, participants emphasized the importance

of including citizens in the policymaking process to empower them and ensure an inclusive and fair energy transition.

ARC Fund used the findings from the survey and other research work (most prominently, the PESTEL analysis – study of the political, economic, social, technological, environmental and legal conditions that have an impact on the emergence and development of energy citizenship in the European countries) to design several scenarios for development, consolidation and transformation of energy citizenship in the EU. Six initial scenario outlines (three optimistic and three pessimistic ones) were discussed at a scenario building workshop on the topic of energy citizenship, organized in January 2024 in Sofia and attended by 28 experts. The workshop deliberations were used to produce three [scenarios for further uptake and consolidation of energy citizenship](#).

The first scenario considers the combined impact of the most relevant economic developments and societal characteristics that shape the scope and options for involvement of citizens in the energy transition. The second scenario examines the wider political and legal environment in which energy citizenship forms and gets manifested. The third scenario looks at the opportunities for energy citizenship emerging from the interaction between technological advances (seen as a tool or enabler of energy citizenship) and environmental consciousness and concerns (considered as motivation for citizens to act).

Drawing on these possible scenarios, the report proposes policy recommendations that aim to reinforce and strengthen positive developments for energy citizenship at the EU-level, and enhance the resilience of European citizens in the face of potential future shocks and undesired developments.

Climate change adaptation

During 2024, ARC Fund continued its work in the MountResilience initiative, focused on accelerating transformative climate adaptation for higher resilience in European mountain regions, and executed in partnership with 47 organizations from all over Europe. ARC Fund was actively collaborating with the Municipality of Gabrovo in launching the first stage of the implementation of two innovative solutions for the green infrastructure, namely rainwater harvesting for maintaining the urban and peri-urban green areas and an early-warning and monitoring system for natural hazards such as floods, hurricanes and forest fires.

ARC Fund also participated in a conference in Innsbruck, Austria, in April, where it engaged in various activities aimed at establishing the foundation for the implementation of two demonstration projects set to begin in the upcoming year. These activities included identifying and mapping relevant stakeholders; conducting a survey to gauge the public opinion on climate change adaptation measures in their respective region; and identifying the key exploitable results for the Municipality of Gabrovo, including

the Co-creation method for Green Infrastructure strategy development, Rainwater harvesting infrastructure for irrigation of green areas and early warning and monitoring system (EWMS) for climate event monitoring. The review of the MountResilience Conceptual Model for Climate Resilient Transformation, among other initiatives, also figured in the agenda.

HARMONMISSIONS initiative commenced in January 2024 and focused on the pressing need for strengthened cooperation in the Danube Region to effectively address climate-related challenges. This new initiative facilitates new forms of stakeholder cooperation within the Danube Region, in order to foster the participation of organizations in the EU Missions of Horizon Europe. It achieves this through both capacity building of relevant stakeholders, and developing and implementing joint regional initiatives aimed at tackling climate change in the Danube Region. More specifically, HARMONMISSIONS focuses on empowering stakeholders in the Danube region to successfully participate in the EU Mission 1 – Adaptation to climate change, and Mission 2 – 100 Climate-neutral and smart cities by 2030.

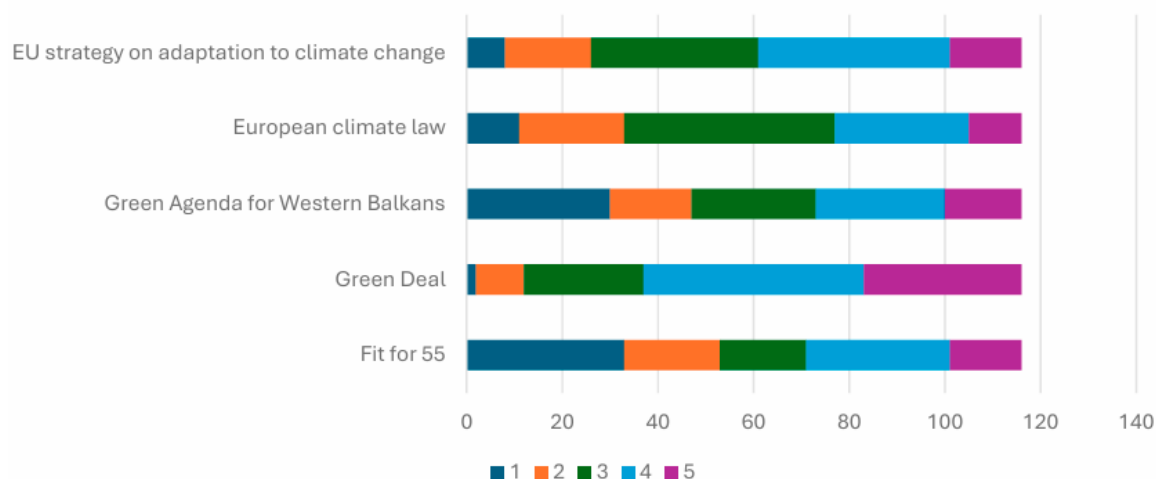
An expert-based online survey was conducted in

the first semester of 2024, aiming to identify training needs of experts and stakeholders, related to their participation in the EU climate-related Missions. Survey participants included individuals from Slovakia, Bulgaria, Ukraine, Romania, Serbia, Croatia, Slovenia, Bosnia and Herzegovi-

na, and Montenegro. The findings indicated that respondents possess a strong understanding of the Green Deal and the EU Strategy on Adaptation to Climate Change, followed closely by familiarity with the European climate law and the Fit for 55 policies.

Fig. 06 Level of knowledge on the following EU Policies

(1 is no knowledge and 5 is excellent)

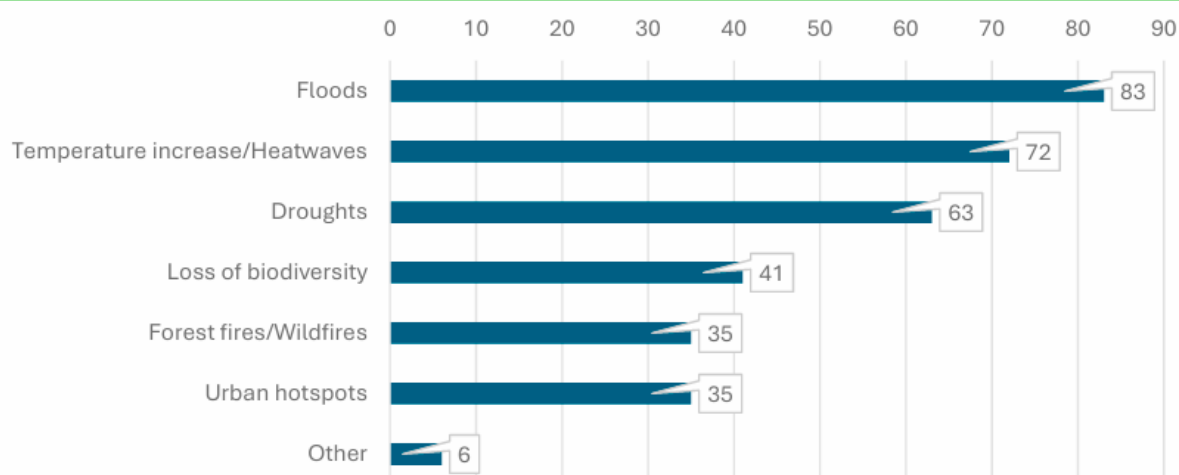


Source: HARMONMISSIONS - Analysis of needs of potential applicants, 2024

According to the respondents, the key risks related to climate change in the countries of the Danube

region are floods, temperature increase, heatwaves and droughts.

Fig. 07 Key risks and vulnerability areas



Source: HARMONMISSIONS - Analysis of needs of potential applicants, 2024

Participants moreover identified several key challenges for addressing the effects of climate change in the Danube Region. These include enhancing engagement among citizens and stakeholders, securing additional co-investments,

including from the private sector, and improving governance and political steering.

Based on the survey results, ARC Fund developed a capacity-building program aimed at enhancing

participation in the EU Missions of Horizon Europe. This program includes both in-person and virtual training sessions focused on developing proposals for EU Missions, alongside workshops on related topics, and brokerage events to foster collaboration among stakeholders interested in these initiatives. Additionally, ARC Fund created a compre-

hensive training handbook for participants, as well as a guide for organizers to assist with event planning and implementation. To further support the capacity-building efforts in the Danube region, an online train-the-trainers workshop was conducted on December 12, 2024.

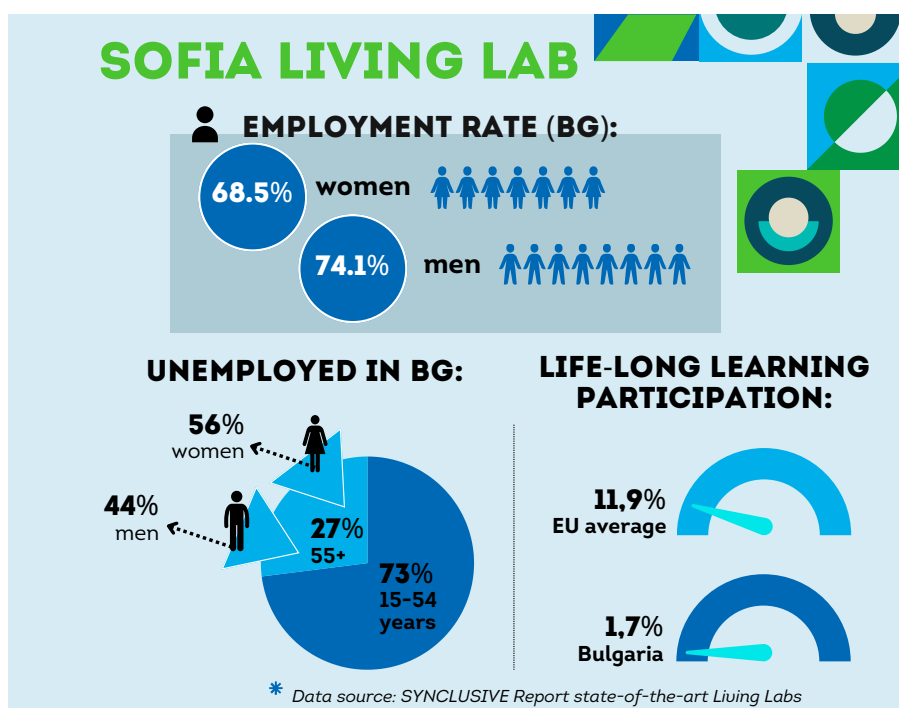
Inclusive labor market for vulnerable groups

Since 2023, ARC Fund has been actively engaged in Responsible Research and Innovation (RRI) and in Participatory Deliberative Democracy (PDD) processes to contribute towards a more just and equitable society. In 2024, the organization directed its primary efforts toward enhancing the labor market inclusion of vulnerable groups, focusing particularly on individuals in the silver age (55+ years of age). In light of Europe's ageing population, growing workforce shortages, and the labor market slack that has become especially evident, this focus is particularly pertinent. ARC Fund is actively participating in two significant European initiatives addressing these issues: SYNCLUSIVE and INSPIRE.

In February, alongside its SYNCLUSIVE partners from Finland, the Netherlands and Portugal, ARC

Fund presented an Action Plan that outlines the design of the ENGINE model. This innovative model is aimed at facilitating the inclusion of vulnerable jobseekers in the labor market, while simultaneously promoting upward and sideward mobility for employees. The design of the ENGINE model was specifically tailored to the needs of each of the four Living Labs involved in the SYNCLUSIVE initiative. The Action Plan discusses regional stakeholders, target groups, drivers, challenges, and solutions identified in each participating location. It also explains the intended interventions in each Living Lab and the implementation details.

The second annual conference of SYNCLUSIVE took place in Helsinki, Finland in March 2024. In addition to presenting research findings and engaging in various discussions, ARC Fund's experts shared insightful information about the labor market, vulnerable groups, the ENGINE model, and the developments in Sofia Living Lab.



Infographic on Sofia Living Lab

Four Living Labs began operating in parallel in Bulgaria, Finland, Portugal, and the Netherlands in the past year, each highlighting a number of pilot initiatives aimed at impacting various types of underprivileged groups. Training, career mentoring, salary subsidies, and policy-level initiatives are frequently at the core of these interventions. ARC Fund plays a pivotal role in the Bulgarian Living Lab, which was officially launched on 25 October 2024 with the introduction of the Career Opportunities for People 50+ initiative. During this event, representatives from government and business institutions shared their support for the project and signed a coalition agreement to cooperate for the advancement of the labor market in Sofia.

A series of training sessions in the Sofia Living Lab began in November, designed specifically for people over the age of 50 who are seeking professional opportunities and methods to elevate their qualifications and competitiveness in their current organizations. The training sessions focus

on developing personal skills, digital capabilities and green skills. ARC Fund's team is engaged in monitoring, evaluating and reflecting on the success of these initiatives through comprehensive data collection and research with the target groups and other stakeholders.

To address issues like declining social trust and increasing polarization, ARC Fund joined the INSPIRE initiative with 14 partner organizations from Belgium, the Czech Republic, Germany, Hungary, Ireland, Italy, Poland, Spain, and the United Kingdom. The initiative aims to create more inclusive democratic spaces for vulnerable groups by enhancing public engagement and promoting policymaking that better meets people's needs. It utilizes artistic methods to encourage public participation, particularly through participatory and deliberative democracy (PDD) processes. One pilot activity led by ARC Fund will explore how women aged 55+ experience and reflect on Bulgarian labor laws and policies.

PART TWO: MANAGEMENT

Institutional Development

ARC Fund is a not-for-profit organization dedicated to public benefit. Until 2017, it was registered with the Sofia City Court and the Central Register of Not-for-Profit Legal Entities at the Bulgarian Ministry of Justice. In 2018, following amendments to national legislation, ARC Fund was re-registered in the public Commercial Register and the Register of Not-for-Profit Legal Entities at the Registry Agency under the Minister of Justice. Bulgarian law mandates that not-for-profit entities working for public benefit adhere to additional rules, including the annual submission of activity reports and financial statements for public registration.

In 2006, ARC Fund established ARC Consulting EOOD, a wholly-owned subsidiary designed to leverage the organization's expertise. This company provides consultancy services in innovation and ICT and develops and implements national and international projects under the EU Framework Programs for research and technology development, as well as Cohesion and Structural Funds. Together, ARC Fund and ARC Consulting form the ARC Fund Group.

As of 2024, the ARC Fund Group employed 20 permanent staff members, along with several part-time consultants and advisors. The team is a blend of young, well-educated, and highly motivated individuals alongside seasoned experts known for their professionalism and high-quality work.

In 2024, the ARC Fund Group worked on 12 projects and 5 service contracts supported by the European Innovation Council and SMEs Executive Agency (EISMEA), the European Research Executive Agency (REA), the European Climate, Infrastructure and Environment Executive Agency (CINEA), the Interreg Danube Program, and various partners including Applica, Technopolis Consulting Group Belgium, PPMI Group Lithuania, Drazky Varna EAD, and the European Commission Joint Research Center.

ARC Fund adheres to the principles of good governance, accountability, and transparency through:

- Annual audits since 1992
- Individual project audits
- Publication of Annual Reports in Bulgarian and English
- Regular updates on the organization's website to inform the public about ongoing projects and events
- A child-protection policy that includes an ethical code, principles, and rules for working with children
- Media publications to enhance the impact of policy recommendations and increase public awareness of the causes that ARC Fund supports.

On August 26, 2024, the Board of Trustees of the ARC Fund endorsed the **Code of Ethics and Good Research Practices**, which took effect on September 1, 2024. This Code applies to the organizations within the ARC Fund Group: ARC Fund and ARC Consulting EOOD. It outlines the core values and principles of the ARC Fund Group, along with research standards established to uphold them. As some standards may need to adjust due to evolving social, policy, environmental, and technological factors, the Code is considered a living document, subject to ongoing improvements.

A [Research Ethics Board](#) has been established as an independent body with advisory and monitoring functions, in accordance with the provisions of the Code. This Board ensures that ARC Fund employees and project practices comply with the Code of Ethics and Good Research Practices. It is responsible for monitoring and evaluating the application of the Code by the staff and proposing updates when necessary. The Board helps maintain the high standards of ARC Fund's research work through reviews, comments, and suggestions. When needed, the Research Ethics Board initiates a review and updating process for the Code. However, the core principles and values that underpin ARC Fund's research standards and practices will remain unchanged to safeguard the mission and integrity of the organization.

List of Staff

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

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Prof. Teodora Georgieva, Program Director
Ruslan Stefanov, Coordinator, *Innovation.bg* and General Manager, ARC Consulting
Ventsislav Benov, Business Development Manager

Innovation and Business Support

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Vasil Nedkov, Project Officer

Science, Technology and Innovation Policy

Zoya Damianova, Program Director
Adriana Dimova, Project Manager
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Slavyanka Ivanova, Senior Analyst
Rositsa Georgieva, Analyst
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Finance and Administration

Teodora Mladenova, Financial Manager
Daniela Zain, Chief Accountant
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PART THREE: FINANCIAL REPORT



APPLIED RESEARCH AND COMMUNICATIONS FUND

**APPLIED RESEARCH AND COMMUNICATIONS FUND (THE GROUP)
CONSOLIDATED ANNUAL FINANCIAL STATEMENTS
31 DECEMBER 2024**

INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of
the APPLIED RESEARCH AND COMMUNICATIONS FUND

Report on the Consolidated Financial Statements

We have audited the consolidated financial statements of the Applied Research and Communications Fund and its consulting arm ARC Consulting EOOD (together referred to as "the Group"). These comprise the consolidated statement of the Group's financial position as of 31 December 2024 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 2024, 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 (EU).

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 Accountability 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 was prepared, was presented and prepared in compliance with the requirements of Chapter Seven of the Law on Accountancy.

Management's responsibility for the Consolidated Financial Statements

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

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

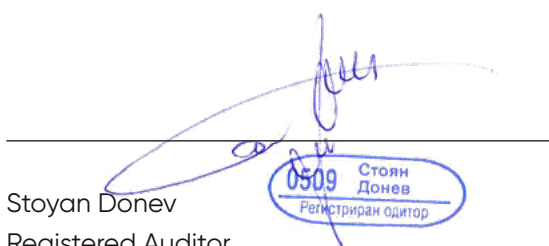
Auditor's responsibility

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

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

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

Stoyan Donev
Registered Auditor
16 September 2025
Sofia



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

(all amounts in BGN thousand)

	Note	For the year ending:	
		31 December 2024	31 December 2023
Assets			
Intangible assets	6	2	1
Total non-current assets		2	3
Trade and other receivables	8	270	217
Cash and cash equivalents	9	2,756	2,832
Deferred expenses		10	15
Total current assets		3,036	3,064
Total assets		3,038	3,065
Equity		1,970	1,948
Liabilities			
Payables to partners and suppliers	10	32	11
Deferred financing	11	1,036	1,106
Total current liabilities		1,068	1,117
Total liabilities		1,068	1,117
Total equity and liabilities		3,038	3,065

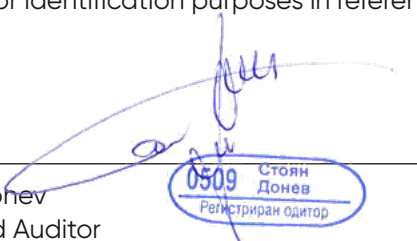
These consolidated financial statements were approved by the Board of Trustees on 16 September 2025. They were signed on behalf of the Board of Trustees by:

Zoya Damianova
Executive Director
16 September 2025



Initialled for identification purposes in reference to the audit report:

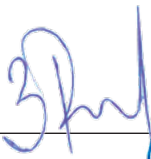
Stoyan Donev
Registered Auditor
16 September 2025



(all amounts in BGN thousand)

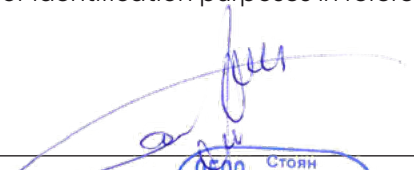
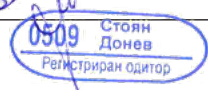
	Note	For the year ending:	
		31 December 2023	31 December 2022
Revenues from grants financing	12	886	1,098
Cost of sales	15	(746)	(921)
Gross profit		140	177
Other operating income		442	271
Administrative expenses	15	(560)	(389)
Revenue from operating activities		22	59
Financial expenses		(5)	(5)
Net financing costs	13	3	(5)
Profit before income tax		25	54
Income tax expense	14	(2)	(1)
Net profit for the period		23	53
Total comprehensive income		23	53

These consolidated financial statements were approved by the Board of Trustees on 16 September 2025. They were signed on behalf of the Board of Trustees by:



 Zoya Damianova
 Executive Director
 16 September 2025

Initialled for identification purposes in reference to the audit report:



 Stoyan Donev
 Registered Auditor
 16 September 2025

(all amounts in BGN thousand)

	Note	For the year ending:	
		31 December 2023	31 December 2022
Cash generated from operations			
Profit before income tax		25	54
Adjustments for:			
Depreciation		–	2
Changes in working capital:			
(Increase)/Decrease of Trade and other receivables		133	135
(Increase)/Decrease of Trade and other payables		21	4
(Increase)/Decrease of Deferred financing		(257)	(19)
(Increase)/Decrease of Deferred expenses		6	7
Net cash from operating activities		(72)	183
Income tax paid		–	(1)
Net cash generated from operating activities		(72)	183
Cash flows from investing activities			
Payments for acquisition of property, plant and equipment		(1)	(9)
Net cash used in investing activities		(1)	(9)
Cash flows from financing activities			
Interest and commissions paid		(3)	(3)
Net cash used in financing activities		(3)	(3)
Net increase/(decrease) in cash and cash equivalents		(76)	171
Cash and cash equivalents at the beginning of the year		2,832	2,661
Cash and cash equivalents at the end of the year	9	2,756	2,832

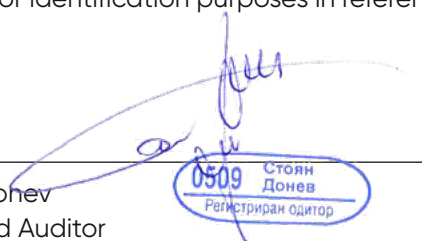
These consolidated financial statements were approved by the Board of Trustees on 16 September 2025. They were signed on behalf of the Board of Trustees by:

Zoya Damianova
Executive Director
16 September 2025



Initialled for identification purposes in reference to the audit report:

Stoyan Donev
Registered Auditor
16 September 2025



(all amounts in BGN thousand)

Note

Retained earnings

Balance as of 1 January 2023

1,896

Net profit for the year

52

Balance as of 31 December 2023

1,948

Balance as of 1 January 2024

1,948

Net profit for the year

22

Balance as of 31 December 2024

1,970

These consolidated financial statements were approved by the Board of Trustees on 16 September 2025. They were signed on behalf of the Board of Trustees by:

Zoya Damianova
Executive Director
16 September 2025



Initialled for identification purposes in reference to the audit report:

Stoyan Donev
Registered Auditor
16 September 2025



1. Background and activities

The Applied Research and Communication Fund (ARC Fund) is a European think-and-action tank in the area of innovation, business support and technology transfer, established in 1991. ARC Fund provides:

- advice and advocacy on science- and evidence-based national, regional and local level innovation policies and strategies;
- research and analyses of development trends and policy options for supporting entrepreneurship and innovation for smart specialisation and industrial transformation;
- innovative educational methodologies for building digital and media literacy in young people and for creating a safer internet environment;
- public-private partnership and foresight know-how for addressing specific issues of innovation-based competitiveness, digitalisation and green transformation.

The consolidated financial statements of ARC Fund for the year ended 31 December 2024 comprise the ARC Fund and its consulting arm ARC Consulting EOOD (together referred to as "the Group").

ARC Fund owns 100% of the share capital of its consulting arm ARC Consulting EOOD. The company offers consulting services in the fields of innovation and information and communication technologies, as well as advisory services in the design and implementation of international projects. ARC Consulting EOOD is a limited liability company established in the Republic of Bulgaria and registered by Sofia City Court under file No 9428/2006 on 28 August 2006.

In 2024, the ARC Fund Group employed a staff of 28 permanent employees.

These consolidated financial statements were approved by the ARC Fund's Board of Trustees on 16 September 2025.

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 ARC Fund and its consulting arm as of 31 December each year. The financial statements of the consulting arm are prepared for the same reporting period as those of 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 arm is 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. The accounting policies of the consulting arm 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 entities 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 entity 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 the 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 2024 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.

New standards, amendments and interpretations issued, but not effective for the financial year beginning 1 January 2024 are not early adopted by the Group. They are not relevant to the Group, although they may affect accounting for future transactions and events.

2.2. Foreign currency transactions

2.2.1. Functional and presentation currency

Items included in the financial statements of the Group are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The functional and presentation currency in these consolidated financial statements is "Bulgarian lev" or "BGN".

2.2.2. Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income.

2.3. Property, plant and equipment

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

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

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

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

Group	Accounting rates	Tax rates
Buildings	25 years	25 years
Machinery and equipment	5 years	5 years
Facilities	25 years	25 years
Computers	2 years	2 years
Vehicles	4 years	4 years
Fixtures and fittings	6.67 years	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 benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

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

2.5. Financial assets

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. The 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 2024.

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 a 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 the management intends to dispose of the investment within 12 months of the balance sheet date or to use them as a source of working capital. In this case the investments are classified within current assets. During the year, the Group did not hold any investments in this category.

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

2.6. Inventory

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

2.7. Trade and other receivables

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

Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an

allowance account, and the amount of the loss is recognised in the income statement within "selling and marketing costs". When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against "selling and marketing costs" in the income statement.

2.8. Cash and cash equivalents

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

2.9. Investment property

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

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

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

2.10. Borrowings

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

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

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

2.11. Deferred tax

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

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

2.12. Employee benefits on retirement

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

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

2.13. Revenue recognition

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

The Group recognises revenue when the amount of revenue can be reliably measured, when 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 2024, Europe and Bulgaria continued to adapt to a dynamic and tense economic and geopolitical environment. Russia's aggression in Ukraine, as well as conflicts in the Middle East and tensions between China and the United States have continued to influence global geopolitics negatively and to weigh down on the general economic environment across Europe.

Bulgaria's economy, in line with that of the EU, continued to stabilise from the energy-induced price shocks. In 2024, GDP grew by 2.8%, compared to the EU average of 1.0%. With inflation cooling, the Federal Reserve and the European Central Bank (ECB) began gradually reducing interest rates. The Bulgarian National Bank (BNB) also followed this direction, setting its rate at 3.04% in December 2024. As a result, the Group's costs growth moderated, a trend which is expected to continue in 2025. Yet, the general labour shortage and continuing outward migration will keep the pressure on rising labour costs.

The pace of inflation in Bulgaria slowed significantly, dropping from 17% in 2022 and 9.5% in 2023 to 2.2% in 2024. For the EU, inflation fell to 2.7% year-on-year. The main factors behind this trend were the normalization of gas prices, the rise of alternative energy sources, and the stabilization of food prices. Unemployment in Bulgaria, recorded in December, stood at 4.2%, a decrease of 1.4 percentage points compared to the same period the previous year. The EU unemployment rate for the same period was 5.9%.

This macroeconomic stabilization helped Bulgaria move closer to the long-term economic policy goal of adopting the euro. BNB's target of joining the Eurozone on 1 January 2026 appears realistic, despite the ongoing political instability in the country. Eurozone membership would reduce domestic political risk and increase the value of real estate and other assets, which is expected to have a positive net impact on the Group.

The outlook for Bulgaria's economic growth in the short and medium term remains uncertain but positive. This uncertainty is heightened by the political crisis in the country (seven elections held in the last five years), the EU's shifting relations with Russia and China, and the US presidential elections. Bulgaria's full accession to the Schengen area in 2024 has reinforced its position as a reliable economic partner of the EU and can be seen as a positive sign. Immediate benefits are expected for the economy, primarily through reduced transport costs and shorter waiting times at border checkpoints.

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 the management's cash flow forecasts and assessment of the impairment of financial and non-financial assets. To the extent that information is available, the 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

Currency risk

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

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

Price risk

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

3.2.2. Interest rate risk

As the Group has no significant interest-bearing assets, the Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group analyses its interest rate exposure on a regular basis and addresses the underlying risk.

3.2.3. Credit risk

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

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

3.2.4. Liquidity risk

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

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

As of 31 December 2023	Up to 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Trade and other payables	11	–	–	–
As of 31 December 2024	Up to 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Trade and other payables	32	–	–	–

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 the management's expectations for the collectability of the loans and receivables. As at the date of preparation of the financial statements, the management reviews and assesses the existing receivables' balances for collectability.

5. Property, plant and equipment

Cost	As of 31 December 2023	Additions	Disposals	As of 31 December 2024
Computers	91	–	–	91
Vehicles	144	–	–	144
Fixtures & fittings	17	–	–	17
Other assets	3	–	–	3
Total	255	–	–	255

Depreciation	As of 31 December 2023	Additions	Disposals	As of 31 December 2024
Computers	89	2	–	91
Vehicles	144	–	–	144
Fixtures & fittings	17	–	–	17
Other assets	3	–	–	3
Total	253	2	–	255

Carrying amount	As of 31 December 2023	Additions	Disposals	As of 31 December 2024
Computers	2	–	–	–
Vehicles	–	–	–	–
Fixtures & fittings	–	–	–	–
Total	2	–	–	–

6. Intangible assets

Cost	As of 31 December 2023	Additions	Disposals	As of 31 December 2024
Software	18	–	–	18
Intellectual property	2	–	–	3
Total	20	–	–	21

Depreciation	As of 31 December 2023	Additions	Disposals	As of 31 December 2024
Software	18	–	–	18
Intellectual property	1	–	–	1
Total	19	–	–	19

Carrying amount	As of 31 December 2023	Additions	Disposals	As of 31 December 2024
Intellectual property	1	–	–	2
Total	1	–	–	2

7. Investment property

	For the year ending:	
	31 December 2024	31 December 2023
As of 1 January		
Carrying amount at the beginning of the period	37	37
Depreciation charge	(1)	(1)
Carrying amount at the end of the period	36	36
As of 31 December		
Cost	–	–
Accumulated depreciation	–	–
Carrying amount	–	–

Investment properties are carried at cost, less accumulated depreciation and impairment.

8. Trade and other receivables

	For the year ending:	
	31 December 2024	31 December 2023
Trade receivables	268	214
Less: Impairment provision of trade payables	–	–
Trade receivables, net	268	214
Other	2	3
Total	270	217

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

9. Cash and cash equivalents

	For the year ending:	
	31 December 2024	31 December 2023
Cash		
Cash at hand	8	12
Cash in bank accounts	2,748	2,820
Total	2,756	2,832

10. Trade and other payables

	For the year ending:	
	31 December 2024	31 December 2023
Short-term liabilities		
Salaries and social securities payables	2	9
Other	30	2
Total	32	11

11. Deferred financing

Deferred financing related to projects:

	For the year ending:	
	31 December 2024	31 December 2023
EC – PROactive Strategies and Policies for Energy Citizenship Transformation (EnergyPROSPECTS)	–	73
EC – Advanced Manufacturing Assistance and Training for SME Transformation (ADMA TranS4MErs)	–	67
EC – Just and Effective Governance for Accelerating Wind Energy (JustWind4All)	30	139
EC – Unlocking the Innovative Potential of the South Central Region of Bulgaria and in the Agricultural Sector (AgroDigiRise)	–	8
EC – Innovate Forward to Business Sustainability and Resilience (InnoForward)	236	348
EC – System Approach to Close the Employment Gap and Create a More Inclusive Labor Market for Vulnerable Groups (SYNCLUSIVE)	114	98
EC – Accelerating Transformative Climate Adaptation for Higher Resilience in European Mountain Regions Groups (MountResilience)	213	373
EC – Intersectional Spaces of Participation: Inclusive, Resilient, Embedded (INSPIRE)	227	
EC – Fostering Sustainable Digital Innovation Investment (SustainX)	216	
Total deferred financing related to projects	1,036	1,106
Deferred financing for acquisition of fixed assets	–	–
Total deferred financing	1,036	1,106

12. Revenues

Revenues from grants financing and other project for respective periods are as follows:	For the year ending:	
	31 December 2024	31 December 2023
EC/Ministry of Regional Development and Public Works – Efficient Support Services Portfolio for SMEs (ESSPO)	–	4
EC – Leveraging Leadership for Responsible Research and Innovation in Territories (RRI– Leaders)	–	307
EC – Inclusive Science and European Democracies (ISEED)	27	119
EC – PROactive Strategies and Policies for Energy Citizenship Transformation (EnergyPROSPECTS)	114	257
EC/Ministry of Regional Development and Public Works – Enhancing Scalable Innovations and New Business Models Based on Urban Farming Ecosystem Values (CityZen)	–	21
EC – Ethics Governance System for RRI in Higher Education, Funding and Research Centres (ETHNA System)	–	32
The Walt Disney Company – Raising Digitally Literate Children (Holistic Digital Citizenship Hub)	–	31
Council of Ministers – Analysis of the Implementation of the Operational Plan for the First Stage 2018–2022 of the National Strategy for the Development of Scientific Research in the Republic of Bulgaria 2017–2030 and Proposal for its Update in View of the New European Policies and the Impact Achieved in Addressing Societal Challenges	–	42
EC – Just and Effective Governance for Accelerating Wind Energy (JustWind4All)	109	98
EC – Unlocking the Innovative Potential of the South Central Region of Bulgaria and in the Agricultural Sector (AgroDigiRise)	98	55
EC – System Approach to Close the Employment Gap and Create a More Inclusive Labor Market for Vulnerable Groups (SYNCLUSIVE)	104	105
EC – Accelerating Transformative Climate Adaptation for Higher Resilience in European Mountain Regions Groups (MountResilience)	160	7
EC/Ministry of Regional Development and Public Works – Harmonisation of Missions in the Danube region (Harmonmission)	91	
EC/Ministry of Regional Development and Public Works – Knowhow Communities for Accelerating RTI Transfer in the Danube Region (RTIT)	89	
EC – Intersectional Spaces of Participation: Inclusive, Resilient, Embedded (INSPIRE)	89	
EC/Ministry of Regional Development and Public Works – Strengthening INnovation Excellence in the Secondary Raw Material Economy in the Danube Region approved by the Monitoring Committee of the Danube Region Programme (IN4SeRMat)	5	
Other projects	–	18
Total revenues from grants financing	886	1,096
Other	–	2
Total revenues	886	1,098

13. Finance costs, net

Finance costs, net	For the year ending:	
	31 December 2024	31 December 2023
Interest income	6	–
Interest, net	6	–
Foreign exchange income	2	–
Foreign exchange expense	(4)	(5)
Foreign exchange, net	(2)	(5)
Other financial expenses	(1)	–
Other financial, net	(1)	–
Finance costs, net	3	(5)

14. Income tax expense

The major components of income tax expense for the year ended 31 December 2023 and the period ended 31 December 2022 are:

	2024	2023
Current tax	(2)	(1)
Deferred tax	–	–
Income tax expense	(2)	(1)

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. No tax checks have been performed in recent years.

15. Expenses

Cost of sales for the Group includes:

	For the year ending:	
	31 December 2024	31 December 2023
Cost of sales for projects	746	921
Administrative expenses	560	389
Total expenses	1,306	1,310

Cost of sales, administrative and other expenses include:

Expenses for materials	3	2
Hired services	571	516
Depreciation and amortisation	0	2
Salaries and wages	608	638
Social securities	77	84
Other expenses	47	68
Total expenses	1,306	1,310

16. Related parties

The Group is related to the Center for the Study of Democracy, and thus is also related with its consulting arms. **During the period, the following transactions and balances occurred:**

Related party	Transactions during the year	January - December		31 December		31 December	
		2024	2023	2024	2023	2024	2023
		<i>Transactions</i>		<i>Receivables</i>		<i>Payables</i>	
Project 1 EOOD	Rental agreement	(102)	(16)	–	–	–	–
Vitosha Research EOOD	Consulting services	5	8	–	–	–	–
Center for the Study of Democracy	Consulting services	32	–	–	–	–	–
Total		(65)	(8)	–	–	–	–

Transactions with directors and other members of the management

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

	2024	2023
Board of Trustees and Directors	151	133

17. Events after the balance sheet date

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

