

SMARTCAP GREEN FUND

Annual Report 2022

SMARTCAP GREEN FUND
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Beginning of the financial year	20 December 2021
End of the financial year	31 December 2022
Name of the Fund	SmartCap Green Fund
Management company	AS SmartCap
Fund manager	Sille Pettai
Type and principal activity of the Fund	A common closed-ended alternative investment fund whose assets are invested as direct investments or through other Estonian-focused venture capital funds in innovative and/or research-intensive green technology companies whose activities contribute to solving environmental problems, incl. to the development and market introduction of new products, services or technologies that reduce or sequester greenhouse gas emissions.

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Management report

The principal objective of SmartCap Green Fund is to improve the availability of capital upon developing innovative green technologies, by making investments directly or through funds in innovative and/or research-intensive green technology companies. The Green Fund contributes both to the environmental objectives listed in Article 9 of the EU Taxonomy Regulation and therethrough also to the achievement of the objectives established in the “Estonia 2035” long-term development strategy.

In the period from 2022 to 2026, SmartCap Green Fund (hereinafter also the Green Fund) with the support of the EU Recovery and Resilience Facility (RRF) makes equity investments available to Estonian green technology companies to the extent of 100 million euros (incl. the management fee of the Green Fund). The units of the Green Fund are fully owned by the Republic of Estonia. As at 31 December 2022, the units of the Green Fund have been subscribed to the amount of 100 million euros, the first payment for the units was made in February (in the amount of 25 million euros) and the second in October (in the amount of 75 million euros).

The assets of the Green Fund are invested in Estonian-focused venture capital funds that develop innovative and/or research-intensive green technology companies or directly in Estonian companies whose activities contribute to the development and market introduction of new products, services or technologies that make it possible to find solutions to environmental problems.

As the first step in its investing activities, SmartCap announced a competition for finding two green technology funds at the end of summer 2022 and has planned to make an anchor investment of 20 million euros in each of the funds. In autumn 2022, SmartCap disclosed the terms of the green technology direct investment programme for companies, through which investments in the total volume of up to 20 million euros have been planned until the end of 2024. The purpose of these investments is to create preconditions for the emergence of future technologies with export potential in Estonia, which will be of key importance in meeting the European Union’s climate targets as well as in modernising the Estonian economy and ensuring its innovation capacity. As at 31 December 2022, no investments have been completed through the Green Fund.

In 2023, the focus will be on completing the fund investment competition of the SmartCap Green Fund and making the first direct investments within the framework of the green technology investment programme.

Environmental information

The assets of the Green Fund are invested following the principles of responsible investment. Pursuant to the rules of the Green Fund, only such investments are made from the Fund, which contribute to the environmental objectives of the EU Taxonomy Regulation. Therethrough the Green Fund promotes environmental characteristics within the meaning of Article 8 of Regulation (EU) 2019/2088 of the European Parliament and of the Council (SFDR) and thus qualifies as a 'light green' fund. To achieve the latter, SmartCap has established as the condition of the competition of green technology funds to be carried out and the condition of SmartCap's own direct investment programme that investments are only allowed to be made in companies that contribute to the environmental objectives of the Taxonomy Regulation. As at the date of this report, the Green Fund has not yet made any investments. Information provided in the template established in Annex IV to Commission Delegated Regulation (EU) 2022/1288 about the promotion of environmental or social characteristics and the making of sustainable investments by the Green Fund has also been appended to this report, taking into consideration the fact that the Green Fund has not yet made any investments.

Signatures of management board of management company to annual report of SmartCap Green Fund for 2022

The management board of SmartCap has prepared the annual report of SmartCap Green Fund for 2022, which consists of the management report and the financial statements (incl. notes thereto) to which the sworn auditor's report has been appended.

/digitally signed/

Sille Pettai

AS SmartCap

Fund Manager

Member of Management Board

/digitally signed/

Mari Vavulski

AS SmartCap

Member of Management Board

Tallinn, 28 April 2023

Financial statements

Statement of financial position

(in euros)

	Note	31.12.2022	20.12.2021
ASSETS			
Cash and cash equivalents	5	99,940,509	0
Receivables and prepayments	6, 9	2,057	0
Accrued income	6, 9	28,625	0
TOTAL ASSETS		99,971,191	0
LIABILITIES			
<i>Short-term liabilities</i>			
Payables and prepayments	7	212,439	0
Total short-term liabilities		212,439	0
TOTAL LIABILITIES		212,439	0
Net asset value of the Fund attributable to unit-holders	8	99,758,752	0

› The notes on pages 11 to 25 are an integral part of these financial statements.

Income and expense statement

(in euros)

	20.12.2021-31.12.2022
Income	
Interest income	100,917
Total income	100,917
Expenses	
Management fees	342,165
Total expenses	342,165
PROFIT/LOSS OF THE FUND	-241,248

➤ The notes on pages 11 to 25 are an integral part of these financial statements.

Statement of changes in net asset value of Fund

(in euros)

	20.12.2021-31.12.2022
Net asset value of the Fund at the beginning of the reporting period	0
Received for units issued	100,000,000
Profit/loss of the Fund	-241,248
Net asset value of the Fund at the end of the reporting period	99,758,752
Number of units outstanding at the end of the reporting period	10,040.7290
Net asset value per unit at the end of the reporting period	9935.4093

- Further information about units is set out in Note 8.
- The notes on pages 11 to 25 are an integral part of these financial statements.

Statement of cash flows

(in euros)

	Note	20.12.2021- 31.12.2022
Cash flows from Fund's operating activities		
Interest received		72,292
Operating expenses paid		-131,783
Total cash flows from Fund's operating activities		-59,491
Cash flows from Fund's financing activities		
Received for units issued		100,000,000
Total cash flows from Fund's financing activities		100,000,000
TOTAL CASH FLOWS		99,940,509
Cash and cash equivalents at the beginning of the period	5	0
Change in cash and cash equivalents		99,940,509
Cash and cash equivalents at the end of the period	5	99,940,509

› The notes on pages 11 to 25 are an integral part of these financial statements.

Notes to financial statements

Note 1. General information

Established on 20 December 2021, SmartCap Green Fund (hereinafter also the Green Fund) is a closed-ended non-public common investment fund (alternative fund). The Green Fund is comprised of money raised through issue of units and other assets received from investing such money, owned collectively by investors and managed by the Management Company SmartCap, registered office at Sepise 7, Tallinn.

The financial statements prepared cover the economic activities of the Green Fund in the period from 20 December 2021 to 31 December 2022. The financial statements have been prepared in euros.

Note 2. Summary of significant accounting and reporting policies

A summary of significant accounting and reporting policies applied in the preparation of these financial statements is set out below. These accounting and reporting policies have been consistently applied to all the reporting periods, unless otherwise stated.

2.1. Fundamentals of accounting

The financial statements of the Green Fund have been prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union (IFRS EU). The financial reporting policies of investment funds have been provided for in the Investment Funds Act and in the Accounting Act. The financial statements have been prepared taking into account the procedure for establishment of the net asset value of the Fund as established by AS SmartCap.

Management judgments and estimates

The preparation of financial statements in accordance with the International Financial Reporting Standards (IFRS EU) requires the management to make estimates, judgments and assumptions that affect the balances of income, expenses, assets and liabilities and presentation of contingent assets and liabilities as at the reporting date. Estimates and related assumptions are based on past experience and various other factors which are considered reasonable under the circumstances. Based on the results obtained, judgments are made about the carrying amounts of assets and liabilities that are not apparent from other sources. Although these estimates have been made to the best knowledge of the management, the subsequent actual result may differ from the assumptions made. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimate is revised if the revision affects only that

reporting year or in the year of the revision and next years if the revision affects both current and future reporting years. Those areas requiring more complex estimates and where accounting estimates and assumptions made have a significant impact on the information recognised in the financial statements are disclosed separately in Note 4.

2.2 New or revised standards and interpretations

Effective revised standards

The new standards, interpretations and revisions effective for the reporting period that began on 1 January 2022 have no material impact on the financial statements of the Green Fund for the reporting period ended on 31 December 2022.

Certain new or revised standards and interpretations have been issued that are mandatory for the annual periods of the Green Fund beginning on or after 1 January 2023, and which the Green Fund has not early adopted.

Amendments to IAS 1 *Presentation of Financial Statements*

(Effective for annual periods beginning on or after 1 January 2023; to be applied retrospectively. Early application is permitted.)

The amendments clarify that the classification of liabilities as current or non-current is based solely on the entity's right to defer settlement at the end of the reporting period. The company's right to defer settlement for at least 12 months from the reporting date need not be unconditional but must have substance. The classification is not affected by management's intentions or expectations about whether and when the entity will exercise its right. The amendments also clarify the situations that are considered settlement of a liability. The Green Fund does not expect the amendments to have a material impact on its financial statements when initially applied.

Amendments to IAS 1 *Presentation of Financial Statements* and IFRS Practice Statement 2 *Making Materiality Judgements*

(Effective for annual periods beginning on or after 1 January 2023. Early application is permitted.)

The amendments to IAS 1 aim to help entities provide accounting policy disclosures that are more useful by:

- requiring companies to disclose their material accounting policies rather than their significant accounting policies;
- clarifying that accounting policies related to immaterial transactions, other events or conditions are themselves immaterial and as such need not be disclosed; and
- clarifying that not all accounting policies that relate to material transactions, other events or conditions are themselves material to a company's financial statements.

The Board also amended IFRS Practice Statement 2 to include guidance and two additional examples on the application of materiality to accounting policy disclosures.

The amendments are consistent with the refined definition of material:

“Accounting policy information is material if, when considered together with other information included in an entity’s financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements”.

The Green Fund does not expect the amendments to have a material impact on its financial statements when initially applied.

Amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors

(Effective for annual periods beginning on or after 1 January 2023; to be applied prospectively. Early application is permitted.)

The amendments introduce a new definition for accounting estimates: clarifying that they are monetary amounts in the financial statements that are subject to measurement uncertainty. The amendments also clarify the relationship between accounting policies and accounting estimates by specifying that a company develops an accounting estimate to achieve the objective set out by an accounting policy.

The amendments are not expected to have a material impact on the Green Fund as these amendments provide guidance in determining whether changes are to be treated as changes in estimates, changes in policies, or errors.

Amendments to IAS 12 Income Taxes

(Effective for annual periods beginning on or after 1 January 2023. Early application is permitted.)

The amendments clarify the accounting for deferred tax on transactions that involve recognising both an asset and a liability with a single tax treatment related to both. The amendments narrow the scope of the initial recognition exemption (IRE) so that it does not apply to transactions that give rise to equal and offsetting temporary differences. As a result, companies will need to recognise a deferred tax asset and a deferred tax liability for temporary differences arising on initial recognition of a lease and a decommissioning provision.

The Green Fund does not expect the amendments to have a material impact on its financial statements when initially applied.

Amendments to IAS 1 Classification of Liabilities as Current or Non-current – Deferral of Effective Date

(Effective for annual periods beginning on or after 1 January 2023. These amendments are not yet endorsed by the EU.)

The amendments to IAS 1 on the classification of liabilities as current or non-current were issued in January 2020 with an original effective date of 1 January 2022. However, in response to the COVID-19 pandemic, the effective

date was deferred by one year to provide companies with more time to implement the classification changes resulting from the amended guidance.

The Green Fund does not expect the amendments to have a material impact on its financial statements when initially applied.

Amendments to IFRS 16 Leases: Lease Liability in a Sale and Leaseback

(Effective for annual periods beginning on or after 1 January 2024; to be applied retrospectively to the date when the entity initially applied IFRS 16. Early application is permitted. These amendments are not yet endorsed by the EU.)

Amendments to IFRS 16 *Leases* impact how a seller-lessee accounts for variable lease payments that arise in a sale-and-leaseback transaction. The amendments introduce a new accounting model for variable payments.

The amendments confirm the following:

- On initial recognition, the seller-lessee includes variable lease payments when it measures a lease liability arising from a sale-and-leaseback transaction.
- After initial recognition, the seller-lessee applies the general requirements for subsequent accounting of the lease liability such that it recognises no gain or loss relating to the right of use it retains.

A seller-lessee may adopt different approaches that satisfy the new requirements on subsequent measurement.

The Green Fund does not expect the amendments to have a material impact on its financial statements when initially applied.

Other amendments

Other new standards, amendments to standards and interpretations that are not yet effective are not expected to have a significant impact on the financial statements of the Green Fund.

2.3. Recognition of foreign currency transactions

The functional currency of the Fund is the euro. The presentation currency of the financial statements of the Green Fund is also the euro.

Foreign currency transactions are recognised on the basis of the official exchange rates quoted by the European Central Bank on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are revalued in the functional currency on the balance sheet date on the basis of the exchange rates quoted by the European Central Bank on the balance sheet date. Exchange gains and losses resulting from the revaluation are recognised in the income and expense statement of the reporting period. Non-monetary assets and liabilities denominated in foreign currencies, which are measured at fair value, are revalued in the functional currency on

the basis of the exchange rates quoted by the European Central Bank on the day when the fair value was determined.

2.4. Financial assets

2.4.1. Classification

The financial assets of the Green Fund are classified into the following categories:

- At fair value with changes through profit or loss
The Green Fund recognises venture capital investments in companies and venture capital funds (hereinafter financial investments) at fair value with changes through profit or loss.
- At amortised cost
The financial assets the purpose of which is to hold financial assets for collecting contract-based cash flows and the contractual terms of which give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding are recognised at amortised cost. The following financial assets are recognised in this category: “Cash and cash equivalents”, “Term deposits” and “Other short-term receivables”.

The classification of financial assets is based on the business model for managing the financial asset and the contractual cash flow characteristics of the financial asset. The category of a financial asset is determined by the fund manager upon the initial recognition of the financial asset.

2.4.2. Recognition and measurement

Regular purchases and sales of financial assets are recognised and derecognised, as applicable, using trade date accounting. The Green Fund derecognises financial assets when the contractual rights to receive cash flows from the financial assets have expired or have been transferred and a significant part of the risks and rewards of ownership related to the financial assets have also transferred.

(a) Financial assets recognised at amortised cost

Financial assets of this category are initially recognised at fair value plus transaction costs. Subsequently, they are recognised at amortised cost using the effective interest rate. Interest income from loans and receivables is recognised in the income and expense statement under “Interest income”.

(b) Financial investments

The financial assets recognised at fair value with changes through profit or loss are initially recognised at fair value and the transaction costs attributable to acquisition are recognised as expenses in the income and expense statement. Subsequently, the financial assets recognised at fair value with changes through profit or loss are recognised at fair value. Changes in fair value are recognised in the income and expense statement under “Profit/loss on financial assets at fair value with changes through profit or loss” in the period when they occur.

In the case of investees, AS SmartCap assesses whether the Green Fund has a significant influence over the investee. Significant influence is generally presumed to exist when the Green Fund owns 20% to 50% of the voting shares in the company.

In exceptional circumstances, significant influence may also exist if the share is less than 20%. The existence of significant influence is usually characterised by the following factors:

- (a) membership in the executive management or senior management body of the investee;
- (b) power to participate in the operating policy decisions of the investee;
- (c) major transactions between the investor and the investee;
- (d) partial overlapping of managements of the investor and the investee;
- (e) exchange of technical information between the investor and the investee.

Investments in associates are recognised similarly to other investees at fair value with changes through profit or loss in accordance with the exception concerning the recognition of associates in the financial statements of venture capital companies as set out in IAS 28 *Investments in Associates*. An investment in an associate is initially recognised at fair value and the transaction costs attributable to acquisition are recognised as expenses in the income and expense statement.

2.5. Fair value

The fund manager estimates that the fair values of financial assets and liabilities recognised in the balance sheet at amortised cost do not materially differ from the carrying amounts recognised in the balance sheet as at 31 December 2022. As the financial assets recognised at amortised cost are short-term and bear interest in respect of which no significant changes have occurred on the market between the day when the financial assets were recognised and the balance sheet date, then the carrying amount is estimated to be close to the fair value. As the financial liabilities are short-term, bear no interest and have been paid by the time the financial statements are approved, then their carrying amount is estimated to be close to their fair value.

The Green Fund divides financial investments into three levels depending on how their fair value is measured:

Level 1: Financial investments measured using unadjusted prices quoted at the stock exchange or another active regulated market;

Level 2: Financial instruments measured using valuation techniques based on observable inputs. This level includes, for instance, financial instruments measured using the prices of similar instruments on an active regulated market or financial instruments measured using the price on a regulated market but whose liquidity on the stock exchange is low.

Level 3: Financial instruments measured using valuation techniques based on non-observable inputs.

In accordance with the internal rules for establishment of the net asset value of the Green Fund, which have been approved by the management board of SmartCap:

- the value of cash and deposits is determined on the basis of their nominal value;
- the value of the interest on deposits that has been calculated on the accrual basis but has not been received is determined as accrued income;
- the fair value of a non-tradable security is determined in particular on the basis of the valuation techniques provided for in the IFRS and the valuation techniques set out in the International Private Equity and Green Valuation (IPEV) Guidelines, which may be:
 - the net assets method;
 - valuation based on multiple earnings.
- the value of a share or unit of an investment fund on the basis of its last known net asset value.

All the investments of the Green Fund, which have been recognised at fair value, constitute level 3 investments.

2.6. Netting

Financial assets and financial liabilities are offset and presented net in the balance sheet only if the Green Fund has a legally enforceable right and an intention to settle on a net basis or realise the assets and liabilities simultaneously. The Green Fund has not applied netting of assets and liabilities during the reporting period or comparative period.

2.7. Cash and cash equivalents

Cash and cash equivalents in the balance sheet and statement of cash flows include balances of current accounts (excluding overdraft), balances of overnight deposits, term deposits of up to three months and investments in money market funds and other highly liquid funds, provided that the Green Fund invests in financial assets that comply with the definition of cash and cash equivalents.

Interest earned on the balance of the current account and on deposits is recognised in the income and expense statement under “Interest income”.

2.8. Receivables and prepayments

Short-term receivables are recognised at amortised cost. The amortised cost of short-term receivables is generally equal to their nominal value (less any refunds received or write-downs made), due to which short-term receivables are recognised in the balance sheet in the amount that is likely to be received. In order to calculate the amortised cost of long-term financial assets, the financial assets are initially recognised at fair value of the consideration to be received, and in subsequent periods interest income is calculated using the effective interest rate method.

2.9. Impairment of financial assets

If the Green Fund has financial assets that are not recognised at their fair value through profit or loss, it is assessed at each reporting date whether there are any indications to impairment compared to the carrying amount of the assets. The following may indicate impairment of financial assets:

- financial difficulties of issuer, indications to the possible bankruptcy of the issuer;
- default of interest or principal payments or late payment by the issuer;
- disappearance of an active market of the financial asset;
- other significant events that may indicate impairment.

The impairment requirements are based on the expected credit loss model. The carrying amount of an asset is reduced by the expected credit loss. The loss is recognised in the income and expense statement. The assessment of the expected credit loss is unbiased and probability-weighted and incorporates all available information which is relevant to the assessment. Upon impairment of financial assets, interest income from the assets continues to be recognised in the same way. If the expected credit loss on impairment of assets reduces and the reduction can be objectively related to an event occurring after the impairment was recognised, the impairment loss recognised before is reversed.

2.10. Accrued income

Accrued income includes accrued but unearned income, incl. interest.

2.11. Financial liabilities

All financial liabilities (trade creditors, accrued expenses and other short-term and long-term payables) are recognised at amortised cost. The amortised cost of short-term financial liabilities is generally equal to their nominal value, due to which short-term financial liabilities are recognised in the balance sheet in the amount subject to payment. In order to calculate the amortised cost of long-term financial liabilities, they are initially recognised at fair value of the consideration received (less any transaction costs), taking into account the interest expenses to be incurred on the liabilities in subsequent periods, using the effective interest method.

A financial liability is classified as short-term if its payment term is within twelve months as of the balance sheet date or if the Green Fund has no unconditional right to postpone the payment of the liability for more than 12 months after the balance sheet date or if the lender had the right to recall the financial liability on the balance sheet date due to a breach of the terms and conditions provided for in the loan agreement.

2.12. Transactions with related parties

Upon preparation of the interim financial statements, the following are deemed related parties: associates, SmartCap and its executive and senior management as well as other persons and undertakings who can control or significantly influence the financial and business decisions of the Green Fund. As the units of the Green Fund are fully owned by the Republic of Estonia, related parties of the Green Fund are also deemed to include entities under the control or significant influence of the State.

2.13. Income

› Interest income

Interest income is recognised if the receipt of the income is likely and the amount of the income can be reliably measured. Interest income is recognised using the effective interest rate of assets unless the receipt of interest is uncertain. In the latter case, interest income is accounted for on a cash basis.

2.14. Calculation of net asset value of the Green Fund

The net asset value of the Green Fund is determined in accordance with the Investment Funds Act, the internal rules of procedure of AS SmartCap (management company) and the rules of the Green Fund.

The net asset value (NAV) of the Green Fund is established by adding up the values of the assets of the Green Fund (securities, cash and other assets and rights included in the pool of assets of the Green Fund) and deducting

therefrom the liabilities of the Green Fund. The net asset value per unit is calculated by dividing the total net asset value by the number of all the units issued and not redeemed by the moment of the calculation.

2.15. Fund units

The Green Fund has issued one class of units that give the unit-holder the right to a pro rata share of the net assets of the Green Fund upon liquidation of the Green Fund. The units entail no other contractual obligations other than redemption thereof upon liquidation of the Green Fund. The units are recognised under equity because the following criteria of IAS 32 are met:

- › the units entitle the holder to receive a pro rata share of the net assets (i.e. of the total net asset value) of the Green Fund upon liquidation of the Green Fund. The net asset value of the Green Fund is calculated by deducting the liabilities of the Green Fund from the market value of the assets of the Green Fund. A pro rata share is calculated as follows: the total net asset value of the Green Fund is divided by the number of all the units issued and the amount received is multiplied by the number of the units held by each unit-holder;
- › the units are subordinate to all other debt or other instruments issued by the Green Fund;
- › the rights attaching to all units (incl. the right to receive consideration according to the pro rata share in the net assets) are identical;
- › the Green Fund has no other financial instruments or contracts the cash flows attributable to which are based substantially on the profit, the changes in the net assets or the change in the fair value of the net assets recognised in/off the balance sheet, as a result of which the return of unit-holders would be substantially restricted or fixed.

If the terms and conditions related to units change so that the criteria listed above are no longer met, the units will be classified into financial liabilities as of the day when these terms and conditions are no longer met. A financial liability is recognised at fair value of the transaction date. If there is a difference between the carrying amount of an equity instrument and the fair value of a liability, the difference is recognised in equity.

Direct expenses related to the issue of new units are recognised in equity as a reduction of the amount paid for the units. If the Green Fund redeems its own units, the equity belonging to unit-holders is reduced by the consideration received less expenses directly attributable to the sale.

2.16. Events after the reporting date

No material circumstances have occurred between the reporting date of 31 December 2022 and the date of preparation of the financial statements that would affect the valuation of assets and liabilities in the financial statements or transactions conducted in previous periods.

Note 3. Risk management

SmartCap has adopted risk management rules which establish the principles, organisation and organisational structure of risk management in SmartCap. This risk management framework maps the risks associated with investing activities and determines the risks and the extent thereof that the company is ready to take in order to achieve the objectives of the Green Fund.

3.1. Investment risks

The Green Fund is an early-stage venture capital fund and the investments that it makes are inherently of a high risk level. Investment risks arise from:

- early stage of development of investees (start-ups), due to which their business models and revenue generation capacity have not yet been proved and therefore several investees may experience a failure in their business activities;
- concentration of investments of a similarly high risk level in the Green Fund;
- low level of liquidity of long-term non-tradable instruments in the investment portfolio, due to which the moment of exit from such an investment may have a significant impact on the return on investments and the return of the Green Fund in its entirety.

The general risk associated with the Green Fund from the point of view of the activities of SmartCap is the fall of the volume of assets of the Green Fund to a critical level, which makes the management of the Green Fund economically unreasonably expensive, and/or a lower than expected return on invested capital, due to which a unit-holder of the Green Fund does not receive the return that they expected on their investment or, in the worst-case scenario, does not earn back even the capital that they invested.

In order to mitigate risks, an in-depth analysis of the potential investees of the Green Fund is performed before an investment is made and regular identification, assessment and monitoring of the risks related to the Green Fund is carried out.

For the purpose of spreading risks, the rules of the Green Fund have established restrictions on investing assets of the Green Fund in respect of the volume of assets thereof in order to (i) prevent a significant negative impact that may result from the materialisation of an individual investment risk on one hand and (ii) ensure that there is a sufficient number of investees in the Green Fund that is needed to generate the required revenue on the other hand.

Upon investing capital and managing investments of the Green Fund, SmartCap takes into account the following specific risks associated with the investments of the Green Fund:

- › **Investment risk** – the risk that the value of an investment may change negatively due to circumstances related to the issuer, including due to environmental, social or corporate governance circumstances (i.e. due to the sustainability risk). The term “issuer” also covers the persons who have established an investee, issued securities of an investee or otherwise have control over an investee, which is not a security pursuant to the law in force, but in which the Green Fund has invested.
- › **Strategic risk** – the risk that a loss may be incurred due to unfeasibility or incomplete realisation of the investment policy of the Green Fund or the impact of competition, the operating environment or supervision.
- › **Market risk** – the risk that the value of an investee of the Green Fund may fall due to adverse changes on the market.
- › **Concentration risk** – the risk that the value of investments of the Green Fund may fall for the reason that the Green Fund is excessively dependent on a group or source of certain risk factors.
- › **Counterparty risk (incl. credit risk)** – the risk that the party who has financial or other obligations in respect of the Green Fund fails to perform their corresponding obligations or becomes insolvent.
- › **Operational risk** – the risk that the Green Fund incurs direct or indirect losses from the inadequacy of the activities of the employees, processes or systems, the fact that they are not functioning as expected, or external events.¹
- › **Reputational risk** – the risk that negative public attention to the Green Fund (or SmartCap), irrespective of whether it is warranted, damages the activities of SmartCap due to loss of investments; loss of partners, business or other operating opportunities; emergence of legal or other additional expenses; difficulties in finding employees or another similar circumstance. Reputational risk usually materialises as a result of other risks (e.g. operational or strategic risk).

¹The exact content of operational risk is defined pursuant to Annexes 1 and 2 to the advisory guideline of the Financial Supervision Authority “Requirements regarding the arrangement of operational risk management”. Said guideline is accessible online at: <https://www.fi.ee/et/juhendid/pangandus-ja-krediit/nouded-operatsiooniriski-juhtimise-korraldamiseks>.

SmartCap views the levels of investment risk, market risk and concentration risk as relatively high due to the specificity of the investments of the Green Fund. SmartCap does not aim to avoid those risks but rather to manage them appropriately and actively.

In order to mitigate the investment risk, co-investors are involved in all investments to ensure that investments are made under market conditions. The investment risk is also mitigated by the fact that the investment period of the Green Fund lasts until 2026. This period is also extended and the investment risk is therethrough mitigated by the fact that the Green Fund invests, as planned, 70% of its assets in other investment funds, which are in turn subject to a certain investment period. The activities of the issuers of the securities (or of assets other than securities) forming part of the assets of the Green Fund are constantly subjected to an additional analysis and monitoring. Investment-related decisions are made on the basis of adequate and relevant information, collecting to this end the required amount of information and analysing it in proper detail from the economic, financial and legal point of view. Where necessary and possible, the representatives of SmartCap are members of the issuer's supervisory board or other body and participate in the work of such body for the purpose of additional management of the investment risk.

The sustainability risk of the Green Fund manifests itself through investments in other investment funds as well as directly in companies. Investments made from the Green Fund contribute to the achievement of the environmental objectives listed in Article 9 of the EU Taxonomy Regulation. In order to manage a possible negative social or corporate governance sustainability risk, the Green Fund only makes investments in such companies that have adequate ESG management systems in place (incl. do not breach employee-related rights, are not engaged in money laundering, corruption or financial offences, and do not otherwise apply unethical or unprofessional governance practices) and comply with the principle of "do no significant harm". The sustainability risk of the Green Fund can manifest itself through the investing activities of a sub-fund or, in the case of a direct investment, through the activities of companies if sustainability due diligence obligations are not implemented in the course thereof or if they are not implemented in sufficient detail. In order to mitigate this sustainability risk, the circumstances related to this risk are taken into account when investment decisions are made. SmartCap is also an "active owner" to manage sustainability risks.

In order to mitigate possible consequences of the market risk, an in-depth analysis of the potential investees of the Green Fund is performed before an investment is made and a multi-level decision-making structure has been established for making investment decisions. In order to monitor the market risk and ensure the quality of the investment portfolio of the Green Fund, the investment committee, fund manager and investment team of SmartCap constantly monitor the developments on the market to be aware of them and respond to them accordingly.

SmartCap mitigates the concentration risk by complying with the investment restrictions provided for in the rules of the Green Fund, the document clarifying the investment policy agreed on with the investor of the Green Fund

and other possible risk-spreading requirements. The concentration risk also reduces by successful implementation of the SmartCap strategy.

Note 4. Significant accounting estimates

The financial statements have been prepared using various accounting estimates and assumptions that have an impact on the assets and liabilities recognised in the financial statements and on the off-balance sheet assets and contingent liabilities disclosed in the notes. Although these estimates have been made to the best knowledge of the management, they need not coincide with the subsequent actual result. Changes in the management estimates are included in the income and expense statement of the period in which the change occurred.

As at the reporting date, the Green Fund has no financial investments. Financial assets consist of cash at bank, receivables from the management company and liabilities consist of short-term trade creditors, which have been paid as at the moment the financial statements are approved.

Note 5. Cash and equivalents

(in euros)

	31.12.2022
Cash at bank	333
Funds in overnight deposit	99,940,176
Total	99,940,509

As at 31 December 2022, all the funds were denominated in euros.

Note 6. Receivables, prepayments and accrued income

(in euros)

	31.12.2022
Receivables from management company (Note 9)	2,057
Accrued interest income	28,625
Total	30,682

Note 7. Payables and prepayments

(in euros)

	31.12.2022
Management fee (Note 9)	212,439
Total	212,439

All payables and prepayments are short-term.

Note 8. Units and statement of comparison of net asset value of Fund

Year	Net asset value of the Green Fund	Net asset value per unit of the Green Fund
31.12.2022	99,758,752	9935.4093

Note 9. Transactions with related parties

The related parties of the Green Fund are:

- undertakings who are financial investees and over whom the Green Fund has a significant influence;
- SmartCap and its executive and senior management;
- close family members of the persons listed above and companies controlled by them or under their significant influence;
- the sole unit-holder of the Green Fund, i.e. the Republic of Estonia, and entities under the control or significant influence of the State.

In the period from 20 December 2021 to 31 December 2022, the Green Fund has not made any transactions with the companies that are financial investees.

During the reporting period, 100 mln euros were received from the Ministry of Economic Affairs and Communications for subscribing the fund units.

During the reporting period, the management fee has been calculated to SmartCap in the amount of 342,165 euros. In addition, SmartCap compensated the Green Fund for expenses in the amount of 2,057 euros.

As at 31 December 2022, the management fee payable by the Green Fund to SmartCap amounted to 212,439 euros. As regards the expenses compensated for by SmartCap, the receivable of the Green Fund from SmartCap amounted to 2,057 euros. In addition, the Green Fund had a receivable from the State Treasury in the amount of 28,625 euros, which resulted from the holding of funds from interest income with the State Treasury.



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Independent Auditors' Report

(Translation of the Estonian original)

To the shareholders and management company of SmartCap Green Fund

Opinion

We have audited the financial statements of SmartCap Green Fund (the Company), which comprise the statement of financial position as at 31 December 2022, the income and expense statement, the statements of cash flows and statement of changes in net asset value of Fund, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the financial statements presented on pages from 7 to 26 present fairly, in all material respects, the financial position of the Company as at 31 December 2022, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (Estonia). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the Code of Ethics for Professional Accountants (Estonia) (including Independence Standards) and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. The other information comprises the management report, but does not include the financial statements and our auditors' report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (Estonia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Standards on Auditing (Estonia), we exercise professional judgment and maintain professional scepticism throughout the audit. We also:



- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

KPMG Baltics OÜ

Licence No 17

/digitally signed/

Eero Kaup

Certified Public Accountant, Licence No. 459

Tallinn, 28 April 2023

Annexes

Template periodic disclosure for the financial products referred to in Article 8, paragraphs 1, 2 and 2a, of Regulation (EU) 2019/2088 and Article 6, first paragraph, of Regulation (EU) 2020/852

Sustainable investment means an investment in an economic activity that contributes to an environmental or social objective, provided that the investment does not significantly harm any environmental or social objective and that the investee companies follow good governance practices.

The **EU Taxonomy** is a classification system laid down in Regulation (EU) 2020/852, establishing a list of **environmentally sustainable economic activities**. That Regulation does not lay down a list of socially sustainable economic activities. Sustainable investments with an environmental objective might be aligned with the Taxonomy or not.

Product name: SmartCap Green Fund

Legal entity identifier: N/A

Environmental and/or social characteristics

Did this financial product have a sustainable investment objective? *[tick and fill in as relevant, the percentage figure represents the minimum commitment to sustainable investments]*

<input checked="" type="radio"/> <input type="radio"/> <input type="checkbox"/> Yes	<input type="radio"/> <input type="radio"/> <input checked="" type="checkbox"/> No
<input type="checkbox"/> It made sustainable investments with an environmental objective : <ul style="list-style-type: none"> <input type="checkbox"/> in economic activities that qualify as environmentally sustainable under the EU Taxonomy <input type="checkbox"/> in economic activities that do not qualify as environmentally sustainable under the EU Taxonomy 	<input checked="" type="checkbox"/> It promoted Environmental/Social (E/S) characteristics and while it did not have as its objective a sustainable investment, it had a proportion of 0% of sustainable investments (no investments have been made) <ul style="list-style-type: none"> <input type="checkbox"/> with an environmental objective in economic activities that qualify as environmentally sustainable under the EU Taxonomy <input type="checkbox"/> with an environmental objective in economic activities that do not qualify as environmentally sustainable under the EU Taxonomy <input type="checkbox"/> with a social objective
<input type="checkbox"/> It made sustainable investments with a social objective : ___%	<input type="checkbox"/> It promoted E/S characteristics, but did not make any sustainable investments

To what extent were the environmental and/or social characteristics promoted by this financial product met?

SmartCap Green Fund has not yet made any investments. That being said, according to its fund rules SmartCap Green Fund shall make investments, either directly or through other investment funds, into innovative and/or research-intensive green technology companies the activities of which contribute to climate-neutral economy, improving resilience to climate change, solving



Sustainability indicators measure how the environmental or social characteristics promoted by the financial product are attained.

environmental problems or the development and introduction of new products, services or technologies which reduce or sequester greenhouse gas emissions. The investments of SmartCap Green Fund aim to promote the objectives provided in Article 9 of the EU Taxonomy and, thereby, also contribute to the fulfilment of the objectives arising from the strategy “Estonia 2035”.

All investments that are currently being carried out must aim to promote the objectives provided in Article 9 of the EU Taxonomy. Accordingly, all investments of SmartCap Green Fund have sustainable objectives by promoting the environmental objectives of the EU Taxonomy.

● **How did the sustainability indicators perform?**

Information not available. SmartCap Green Fund has not made any investments yet.

● **How did the sustainable investments that the financial product partially made not cause significant harm to any environmental or social sustainable investment objective?**

According to its fund rules, all investments of SmartCap Green Fund shall comply with the ‘do no significant harm’ principle.

— **How were the indicators for adverse impacts on sustainability factors taken into account?**

Information not available. SmartCap Green Fund has not made any investments yet.

— **Were sustainable investments aligned with the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights? Details:**

Due to the early stage nature of SmartCap Green Fund investments, the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights are not considered when making investments.

The EU Taxonomy sets out a “do not significant harm” principle by which Taxonomy-aligned investments should not significantly harm EU Taxonomy objectives and is accompanied by specific Union criteria.

The “do no significant harm” principle applies only to those investments underlying the financial product that take into account the Union criteria for environmentally sustainable economic activities. The investments underlying the remaining portion of this financial product do not take into account the Union criteria for environmentally sustainable economic activities.

Any other sustainable investments must also not significantly harm any environmental or social objectives.

Principal adverse impacts are the most significant negative impacts of investment decisions on sustainability factors relating to environmental, social and employee matters, respect for human rights, anti-corruption and anti-bribery matters.



What were the top investments of this financial product?

SmartCap Green Fund has not made any investments yet.

The list includes the investments constituting **the greatest proportion of investments** of the financial product during the reference period which is: 2022

Largest investments	Sector	% Assets	Country
-	-	-	-



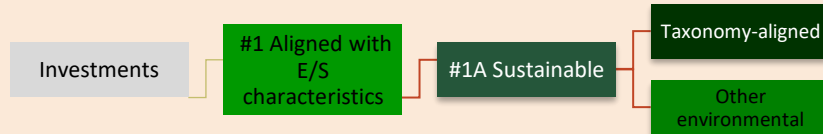
What was the proportion of sustainability-related investments?

Information not available. SmartCap Green Fund has not made any investments yet.

Asset allocation describes the share of investments in specific assets.

● What was the asset allocation?

Information not available. SmartCap Green Fund has not made any investments yet.



#1 Aligned with E/S characteristics includes the investments of the financial product used to attain the environmental or social characteristics promoted by the financial product.

The category **#1 Aligned with E/S characteristics** covers:

- The sub-category **#1A Sustainable** covers environmentally and socially sustainable investments.

● In which economic sectors were the investments made?

SmartCap Green Fund has not made any investments yet. According to the fund rules of SmartCap Green Fund, investments shall be made into the following 'strategic areas': energy, agriculture, food industry, transport and logistics, material and chemical industry, and the environment. These areas, however, do not directly correspond to any economic sectors.

Taxonomy-aligned activities are expressed as a share of:

- **turnover** reflects the “greenness” of investee companies today.
- **capital expenditure** (CapEx) shows the green investments made by investee companies, relevant for a transition to a green economy.
- **operational expenditure** (OpEx) reflects the green operational activities of investee companies.

Enabling activities directly enable other activities to make a substantial contribution to an environmental objective.

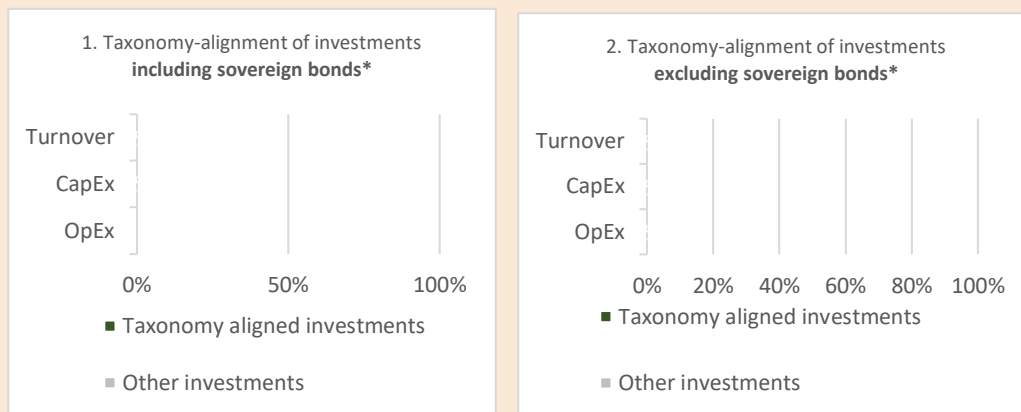
Transitional activities are activities for which low-carbon alternatives are not yet available and among others have greenhouse gas emission levels corresponding to the best performance.



To what extent were the sustainable investments with an environmental objective aligned with the EU Taxonomy?

Information not available. SmartCap Green Fund has not made any investments yet.

The graphs below show in green the percentage of investments that were aligned with the EU Taxonomy. As there is no appropriate methodology to determine the taxonomy-alignment of sovereign bonds, the first graph shows the Taxonomy alignment in relation to all the investments of the financial product including sovereign bonds, while the second graph shows the Taxonomy alignment only in relation to the investments of the financial product other than sovereign bonds.*



**For the purpose of these graphs, ‘sovereign bonds’ consist of all sovereign exposures*

What was the share of investments made in transitional and enabling activities?

Information not available. SmartCap Green Fund has not made any investments yet.



What investments were included under “other”, what was their purpose and were there any minimum environmental or social safeguards?

Information not available. SmartCap Green Fund has not made any investments yet.



What actions have been taken to meet the environmental and/or social characteristics during the reference period?

All Calls for Expression of Interest launched by SmartCap to carry out investments from SmartCap Green Fund have included the requirement that the investees must aim to promote the environmental objectives of the EU Taxonomy.

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