

# SMARTCAP VENTURE CAPITAL FUND

## Annual Report 2023

**SMARTCAP VENTURE CAPITAL FUND**  
Sepise 7, Tallinn 11415, Estonia

[info@smartcap.ee](mailto:info@smartcap.ee)  
[www.smartcap.ee](http://www.smartcap.ee)

Beginning of the financial year	1 January 2023
End of the financial year	31 December 2023
Name of the Fund	SmartCap Venture Capital Fund
Management company	AS SmartCap
Fund manager	Sille Pettai

Type and principal activity of the Fund	<p>A common closed-ended alternative investment fund whose assets are invested in Estonian-focused venture capital funds that develop innovative Estonian companies with international growth potential or in international venture capital funds that have a significant component that adds value to the Estonian ecosystem of innovative companies with international growth potential, therethrough supporting changes that help modernise the Estonian economy and develop the local capital market.</p>
---	---

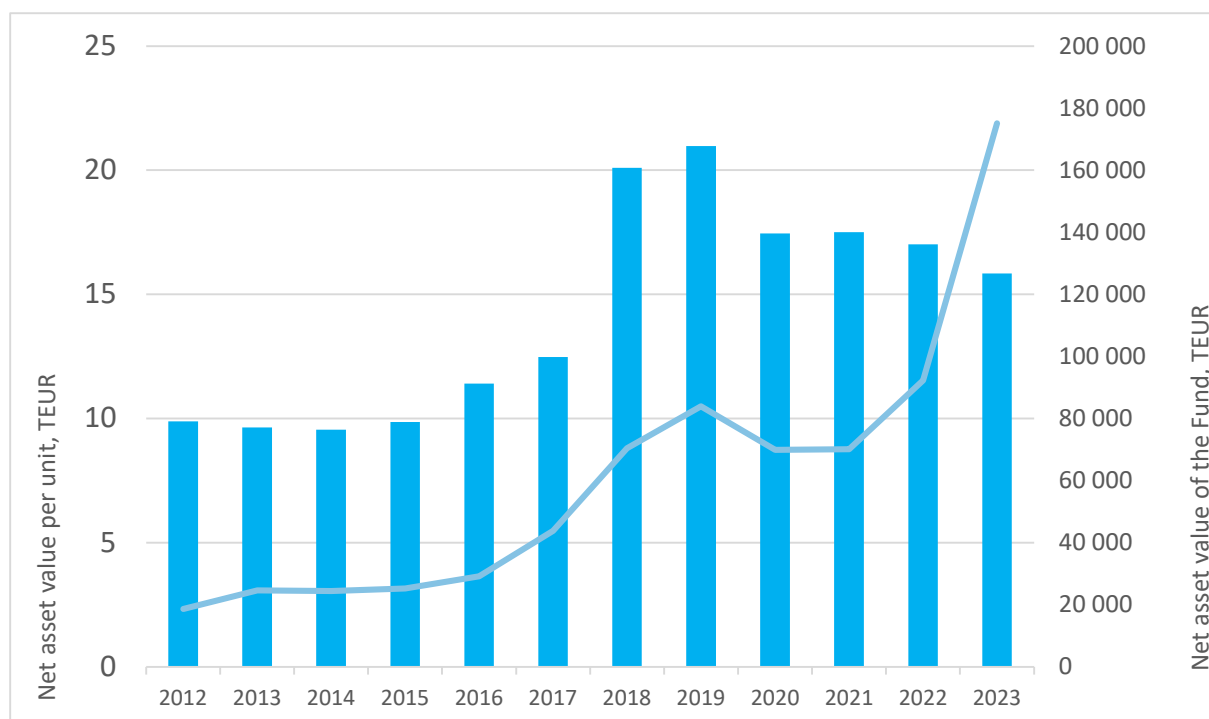
# Table of contents

Management report.....	4
Signatures of management board of management company to annual report of SmartCap Venture Capital Fund for 2023 .....	7
Financial statements .....	8
Statement of financial position .....	8
Income and expense statement.....	9
Statement of changes in net asset value of Fund .....	10
Statement of cash flows.....	11
Notes to financial statements .....	12
Note 1. General information .....	12
Note 2. Summary of significant accounting and reporting policies .....	12
Note 3. Risk management .....	18
Note 4. Significant accounting estimates.....	25
Note 5. Cash and equivalents and term deposits .....	26
Note 6. Financial investments at fair value with changes through profit or loss.....	26
Note 7. Payables and prepayments .....	27
Note 8. Operating expenses.....	27
Note 9. Units and statement of comparison of net asset value of Fund .....	28
Note 10. Transactions with related parties.....	28

## Management report

**SmartCap Venture Capital Fund (hereinafter the Venture Capital Fund) is a common closed-ended alternative investment fund that is managed by AS SmartCap (hereinafter SmartCap), a small fund management company operating under the authorisation issued by the Estonian Financial Supervision Authority. The assets of the Venture Capital Fund are invested in Estonian-focused venture capital funds that develop innovative Estonian companies with international growth potential or in international venture capital funds that have a significant component that adds value to the Estonian ecosystem of innovative companies with international growth potential, therethrough supporting changes that help modernise the Estonian economy and develop the local capital market.**

As at 31 December 2023, the volume of assets of the Venture Capital Fund amounted to 175 million euros (Figure 1) and the investment portfolio of the Venture Capital Fund included four Estonian-focused early-stage venture capital funds and two direct investments. As at the end of 2023, investments of the Venture Capital Fund had reached, through fund and direct investments, in total approximately 126 companies (2022: 117 companies). Of these companies, 74 were still active and operate as at the end of 2023 and their total turnover amounted to 1.45 billion euros (2022: 1.32 billion euros). At the end of the year, these companies provided jobs to almost 2,800 people in Estonia ((2022: 3,200 people), on whose remuneration labour taxes were paid in the amount of approximately 79 million euros during the year (2022: 70 million euros).



*Figure 1. Dynamics of the net asset value of the Venture Capital Fund as from its foundation*

The increased global uncertainty of recent years spilled over into 2023, when the reduced risk appetite of investors was compounded by continued interest rate rises and capital appreciation. The change in sentiment among investors over the recent years also reached the European private equity and venture capital market in 2023.

Last year was also a markedly calmer year on the start-up landscape in the Estonian technology sector, with the amount of capital raised by companies falling by 71% compared to 2022. At the same time, 2023 was also characterised by an increase in the role of local capital on the local transaction market – last year saw the largest share of local capital in the volume of transactions in Estonian innovative technology companies in the last seven years, amounting to more than 12%. The share of technology start-ups that were raising capital from investors for the first time among all technology start-ups that raised capital in Estonia was at an all-time low at just 25%, which clearly indicated that investors were more willing to invest in companies already in the investment portfolio.

In 2023, the principal activities were:

- › an additional investment capital contribution to the Venture Capital Fund and renewal of the investment strategy;
- › an investment of the Venture Capital Fund in the NATO Innovation Fund.

The additional investment capital contribution to the Venture Capital Fund made it possible to update the investment strategy and process, and to introduce an ‘open door policy’ typical of Western European sovereign wealth funds, and the exploration of new investment opportunities. As a result, the Venture Capital Fund offers local fund managers the opportunity to raise capital when they need it, including for starting management companies and for anchor investment. The market prospects and competitive advantages, including the investment strategy, the experience and competence of the investment team, the investment terms and the expected returns of the potential new investments of the Venture Capital Fund are assessed.

A significant investment made from the Venture Capital Fund in 2023 was the investment in the NATO Innovation Fund, which was launched in June 2022 when 22 NATO member states agreed to establish the NATO Innovation Fund with a volume of 1 billion euros in order to jointly contribute to the development of dual-use, i.e. civilian and military, deep technologies. Early last year, the Estonian State in cooperation with SmartCap decided to invest nearly 30 million euros in the NATO Innovation Fund through the Venture Capital Fund.

In 2024, SmartCap will focus on new fund investments from the Venture Capital Fund. SmartCap will also continue its negotiations with the State in order to create new venture capital investment solutions and to improve and diversify financing options for Estonian companies. In cooperation with Ernst & Young Baltic AS, SmartCap is also conducting a comparative market analysis of the European and Estonian private equity and

venture capital markets to map the needs and opportunities for the further development of the Estonian capital market.

## **ENVIRONMENTAL INFORMATION**

The assets of the Venture Capital Fund are invested following the principles of responsible investment. This means that investment decisions are adopted taking into account sustainability, i.e. environmental, social and corporate governance, risks. As the Venture Capital Fund operates on the basis of the fund of funds model and is not directly open to the target companies, the sustainability impact of the Venture Capital Fund is only reflected through investments in other funds. In order to reduce the sustainability risk, risk considerations are embedded in the investment decisions of the Venture Capital Fund – the Venture Capital Fund will only invest assets in funds that also understand and integrate responsible investment principles into their own operations. In the case of the investment, which was included in the portfolio in 2023, account was taken of the sustainability risk and the corresponding management company was required to set up a responsible investment management system to address sustainability risks at the level of target companies.

# Signatures of management board of management company to annual report of SmartCap Venture Capital Fund for 2023

The management board of SmartCap has prepared the annual report of SmartCap Venture Capital Fund for 2023, 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, 8 May 2024

# Financial statements

## Statement of financial position

(in euros)

	Note	31.12.2023	31.12.2022
<b>ASSETS</b>			
Cash and cash equivalents	5	80,720,030	40,425,898
Term deposits	5	58,250,000	0
Financial investments at fair value with changes through profit or loss	6	35,424,371	51,990,789
Receivables and prepayments	10	50	0
Accrued interest income		1,131,228	24,630
<b>TOTAL ASSETS</b>		<b>175,525,679</b>	<b>92,441,317</b>
<b>LIABILITIES</b>			
Short-term liabilities			
Payables and prepayments	7	360,740	220,484
<b>Total short-term liabilities</b>		<b>360,740</b>	<b>220,484</b>
<b>TOTAL LIABILITIES</b>		<b>360,740</b>	<b>220,484</b>
<b>Net asset value of the Fund attributable to unit-holders</b>	<b>9</b>	<b>175,164,939</b>	<b>92,220,833</b>

› The notes on pages 12 to 28 are an integral part of these financial statements.

## Income and expense statement

(in euros)

	Note	2023	2022
<b>INCOME</b>			
Interest income	5	3,385,498	55,277
Dividends		27,041	361,270
Realised profit on sale of financial assets		36,716	340,135
<b>Total income</b>		<b>3,449,255</b>	<b>756,682</b>
<b>EXPENSES</b>			
Unrealised loss on financial assets recognised at fair value through profit or loss	6	-20,961,570	-2,748,348
Management fees	8, 10	-1,413,549	-765,004
Other expenses	8	-40,030	-49,923
<b>Total expenses</b>	<b>8</b>	<b>-22,415,149</b>	<b>-3,563,275</b>
<b>PROFIT/LOSS OF THE FUND</b>		<b>-18,965,894</b>	<b>-2,806,593</b>

➤ The notes on pages 12 to 28 are an integral part of these financial statements.

## Statement of changes in net asset value of Fund

(in euros)

	2023	2022
<b>Net asset value of the Fund at the beginning of the reporting period</b>	<b>92,220,833</b>	<b>70,027,426</b>
Cash received from subscription of units	101,910,000	25,000,000
Profit/loss of the Fund	-18,965,894	-2,806,593
<b>Net asset value of the Fund at the end of the reporting period</b>	<b>175,164,939</b>	<b>92,220,833</b>
Number of units outstanding at the end of the reporting period	11,059.898	5,422.495
Net asset value per unit at the end of the reporting period	15,837.8440	17,007.0849

➤ The notes on pages 12 to 28 are an integral part of these financial statements.

## Statement of cash flows

(in euros)

	Note	2023	2022
<b>Cash flows from operating activities</b>			
Administrative and other operating expenses paid		-1,313,373	-775,305
Capital calls paid	6	-4,422,459	-663,654
Capital returned		64,023	739,250
Inflows and outflows of term deposits (net)		-58,250,000	0
Interest received		2,278,899	30,647
Dividends received		27,041	361,270
<b>Total cash flows from operating activities</b>		<b>-61,615,868</b>	<b>-307,792</b>
<b>Cash flows from financing activities</b>			
Received for units or shares issued	10	101,910,000	25,000,000
<b>Total cash flows from financing activities</b>		<b>101,910,000</b>	<b>25,000,000</b>
<b>TOTAL CASH FLOWS</b>		<b>40,294,132</b>	<b>24,692,208</b>
<b>Cash and cash equivalents at the beginning of the period</b>	<b>5</b>	<b>40,425,898</b>	<b>15,733,690</b>
Change in cash and cash equivalents		40,294,132	24,692,208
<b>Cash and cash equivalents at the end of the period</b>	<b>5</b>	<b>80,720,030</b>	<b>40,425,898</b>

› The notes on pages 12 to 28 are an integral part of these financial statements.

# Notes to financial statements

## Note 1. General information

Established on 20 February 2012, SmartCap Venture Capital Fund (hereinafter also the Venture Capital Fund) is a closed-ended non-public common investment fund (alternative fund). The Venture Capital 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. Supervision over the Venture Capital Fund is exercised by the Estonian Financial Supervision Authority.

The financial year of the Fund begins on 1 January and ends on 31 December. 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 Venture Capital 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 of Estonia. 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

### Adoption of new and/or changed International Financial Reporting Standards (IFRS) and International Financial Reporting Interpretations Committee (IFRIC) interpretations

The following amendments to standards issued by the International Accounting Standards Board (IASB) and adopted by the EU and one new IFRS standard applied to this reporting period:

- Amendments to IAS 1 Disclosure of Accounting Policies;
- Amendments to IAS 8 Definition of Accounting Estimates;
- Amendments to IAS 12 Deferred Tax related to Assets and Liabilities arising from a Single Transaction;
- Amendments to IAS 12 International Tax Reform – Pillar Two Model Rules.

In 2023, the Venture Capital Fund applied those amendments to International Financial Reporting Standards issued by the International Accounting Standards Board (IASB) and adopted by the EU that are mandatorily effective for reporting periods beginning on or after 1 January 2023. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

### Standards, interpretations and amendments to published standards that are not yet effective

The following new and amended standards are effective for annual periods beginning after 1 January 2024 and early application is permitted. The Venture Capital Fund has not early adopted any of these new and amended standards and does not expect that they will have a significant impact on the Venture Capital Fund's financial statements when they become effective.

- Classification of Liabilities as Current or Non-current (Amendments to IAS 1);
- Non-current Liabilities with Covenants (Amendments to IAS 1);
- Supplier Finance Arrangements (Amendments to IAS 7 and IFRS 7);
- Lease Liability in a Sale and Leaseback (Amendments to IFRS 16);

- Lack of Exchangeability (Amendments to IAS 21).

## 2.3. Financial assets

### 2.3.1. Classification

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

- At fair value with changes through profit or loss

The Venture Capital Fund recognises venture capital investments in venture capital funds and direct investments in portfolio companies (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.

### 2.3.2. Recognition and measurement

Regular purchases and sales of financial assets are recognised and derecognised, as applicable, using trade date accounting. The Venture Capital 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 Venture Capital Fund has a significant influence over the investee. Significant influence is generally presumed to exist when the Venture Capital 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.

## 2.4. Cash and cash equivalents

Cash and cash equivalents in the statement of financial position 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 Venture Capital 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”.

## 2.5. Impairment of financial assets

If the Venture Capital Fund has financial assets that are not recognised at their fair value with changes 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.

## 2.6. 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 statement of financial position 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 reporting date or if the Venture Capital Fund has no unconditional right to postpone the payment of the liability for more than 12 months after the reporting date or if the lender had the right to recall the financial liability on the reporting date due to a breach of the terms and conditions provided for in the loan agreement.

## 2.7. 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 Venture Capital Fund. As the units of the Venture Capital Fund are fully owned by the Republic of Estonia, related parties of the Venture Capital Fund are also deemed to include entities under the control or significant influence of the State.

## 2.8. 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.

## 2.9. Calculation of net asset value of the Venture Capital Fund

The net asset value of the Venture Capital Fund is established in accordance with the Investment Funds Act, the internal rules of procedure of SmartCap and the rules of the Venture Capital Fund.

The net asset value (NAV) of the Venture Capital Fund is determined by calculating the market value of the total assets of the Venture Capital Fund and deducting therefrom the liabilities of the Venture Capital Fund. The net asset value per unit is calculated by dividing the total net asset value by the number of units outstanding.

## 2.10. Fund units

The Venture Capital 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 Venture Capital Fund upon liquidation of the Venture Capital Fund. The units entail no other contractual obligations other than redemption thereof upon liquidation of the Venture Capital 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 Venture Capital Fund upon liquidation of the Venture Capital Fund. The net asset value of the Venture Capital Fund is calculated by deducting the liabilities of the Venture Capital Fund from the market value of the assets of the Venture Capital Fund. A pro rata share is calculated as follows: the total net asset value of the Venture Capital 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 Venture Capital 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 Venture Capital 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 statement of financial position, 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 Venture Capital Fund redeems its own units, the equity belonging to unit-holders is reduced by the consideration received less expenses directly attributable to the sale.

## 2.11. Events after the reporting date

No material circumstances have occurred between the reporting date of 31 December 2023 and the date of approval 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. The 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 Venture Capital Fund.

The Venture Capital Fund is an early-stage venture capital fund and the investments that it makes are inherently of a high risk level and 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 Venture Capital 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 Venture Capital Fund in its entirety.

In order to manage and mitigate risks, an in-depth analysis of the potential investees of the Venture Capital Fund is performed, assessing the suitability thereof for the risk profile of the Fund, before an investment is made. The risk profile of the Venture Capital Fund, which provides the risk appetite of the Fund, is reviewed and updated by SmartCap at least once a year.

In addition to pre-investment risk assessment and check, SmartCap monitors at least once a quarter the risk exposures in the statement of financial position of the Venture Capital Fund and assesses their compliance with the established risk profile.

### 3.1. Strategic risk

Strategic risk refers to the possibility of failing to achieve the investment performance planned under the investment policy set out in the rules of the Venture Capital Fund due to an unfavourable global economic environment or the Estonian capital market and business environment, including due to the accumulation of various risks described in Note 3.

According to the rules of the Fund, the main purpose of the Venture Capital Fund is to increase the value of the assets of the Fund over time, thereby contributing significantly to the development of the Estonian capital market and the growth of innovative Estonian companies.

Risks related to the increase in the value of the assets of the Venture Capital Fund are mitigated by managing the risk categories mentioned below. The Venture Capital Fund is exposed to a strategic risk arising from limited investment opportunities in venture capital funds related to Estonia and their limited access to institutional capital, due to which the assets of the Venture Capital Fund are also invested in venture capital funds managed by starting management companies and, depending on the economic environment, the number of new investments may fluctuate significantly from year to year. In addition, due to the long-term purpose of the Venture Capital Fund to develop the capital market, SmartCap monitors on an ongoing basis the existence of the Fund's long-term available investment capital in various economic cycles and, if necessary, enters into preliminary negotiations with the investor in order to raise possible additional capital.

### 3.2. Investment risk

Investment risk is 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 Venture Capital Fund has invested.

In order to mitigate the investment risk, SmartCap involves co-investors in all investments of the Venture Capital Fund to ensure that investments are made under market conditions. The activities of the issuers of the securities (or of assets other than securities) forming part of the assets of the Venture Capital 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.

Breakdown of investments by type of investment as at 31 December 2023:

	Number of investments	Carrying amount of investments
Direct investments in portfolio companies	2	374,972
Direct investments in funds	4	35,049,399
Indirect investments in portfolio companies	61	34,521,881

### 3.3. Market risk

Market risk is the risk that adverse changes in market prices, incl. in foreign exchange rates, interest rates and market prices of securities, result in losses for the Venture Capital Fund. As the investments of the Venture Capital Fund are made in securities that are not traded on an open market, the Venture Capital Fund is directly exposed to the market risk arising from its positions in securities only at the moment of acquisition thereof and exit therefrom and indirectly through revaluation, which takes into account intermediate investment rounds and the impacts of interest rate fluctuations on cash flow-based revaluation models.

Exposure of Venture Capital Fund to investment and exit risk:

	31.12.2023	31.12.2022
Outstanding investment commitments	38,391,844	15,840,277
Exit stage investments at carrying amount	22,813,585	42,796,005

Exposure of Venture Capital Fund to interest rate risk:

Contractual number of days until maturity of the deposit	31.12.2023	31.12.2022
0–30 days	51,470,030	40,425,898
30–90 days	29,250,000	0
90–180 days	29,150,000	0
180–360 days	29,100,000	0
<b>Total</b>	<b>138,970,030</b>	<b>40,425,898</b>

The Fund manages its liquid assets relying on the maturity-based allocation model. As the deposits held by the Fund are short-term non-tradable deposits held to maturity, they are not subject to market-based revaluation. The exposure of the Fund to the interest rate market risk is therefore minimal and results mainly from the rebalancing of the existing deposits.

### 3.4. Credit risk

Credit risk is the risk that the counterparty is unable to perform its financial obligations to the Venture Capital Fund. The credit risk of the Venture Capital Fund arises from the cash and cash equivalents held in credit institutions as well as from debt instruments.

As a result of the capital raised by the Venture Capital Fund from the investor and the units issued by it during the year, the volume of the liquid assets of the Fund increased by approximately 100 million euros over the year from 40.4 million euros to 140.1 million euros.

Breakdown of funds related to counterparty credit risk by asset type

	31.12.2023	31.12.2022
Cash and cash equivalents	80,720,030	40,425,898
Term deposits	58,250,000	0
<b>Total</b>	<b>138,970,030</b>	<b>40,425,898</b>

The Venture Capital Fund deposits its liquid assets in deposits with commercial banks which have been registered in the European Economic Area and to which an investment rating has been assigned. According to the risk profile of 2023, SmartCap limited the credit risk of the Venture Capital Fund for the reporting year to just a few number of well-capitalised credit institutions registered in Estonia.

Breakdown of liquid funds (cash and cash equivalents and term deposits) by counterparty credit rating

Moody's rating	31.12.2023	31.12.2022
Aaa	0	0
Aa3 to Aa1	138,970,030	40,425,898
A3 to A1	0	0
Baa3 to Baa1	0	0
<b>Total position exposed to credit risk</b>	<b>138,970,030</b>	<b>40,425,898</b>

### 3.5. Liquidity risk

Liquidity risk is the risk that the Venture Capital Fund is unable to perform the investment commitments it has assumed. The liquidity risk of the Venture Capital Fund arises from fund or direct investment commitments.

In accordance with its risk profile, the Venture Capital Fund is required to hold at all times sufficient liquid assets to cover the investment commitments it has assumed. The Fund ensured the compliance of the required liquidity risk position with the risk profile through ongoing monitoring and quarterly reporting to the management board and supervisory board.

Breakdown of future commitments assumed on the account of the Fund and available funds

	31.12.2023	31.12.2022
Future investment commitments assumed on the account of the Fund	38,391,844	15,840,277
Liquid funds (cash and cash equivalents and term deposits)	138,970,030	40,425,898
Investment commitment coverage ratio	3.6	2.6

### 3.6. Concentration risk

Concentration risk is the risk that the value of investments of the Venture Capital Fund may fall for the reason that the Venture Capital Fund is excessively dependent on a group or source of certain risk factors.

SmartCap mitigates the concentration risk by complying with the investment restrictions provided for in the rules of the Venture Capital Fund and other possible risk-spreading requirements. SmartCap constantly analyses the risk concentrations of the Fund in the following categories: portfolio company issuer, management company, vintage of the investment, economic sector, development stage of the portfolio companies and, in the event of fund investments, the experience of the management company.

Compared to 2022, there was a significant decline in the main risk concentration categories in 2023, which was mainly caused by the issue of new units in the amount of 101.9 million euros. As a result of the issue, the investments of the Fund as well as the ratio of future investment commitments to net assets fell from 72.7 per cent at the end of 2022 to 41.7 per cent as at 31 December 2023.

The following table provides an overview of a few number of concentration risk categories that are regularly monitored by the asset manager of the Venture Capital Fund.

	31.12.2023	31.12.2022
Largest investment in a portfolio company*	2.5%	4.8%
Largest fund investment (investment commitment)	15.5%	29.4%
Largest allocation to one economic sector*	9.6%	24.4%
Largest allocation to one vintage of investment	12.8%	45.8%
Largest allocation to one development stage of company*	7.5%	30.2%

*\*In addition to direct investments, it also includes indirect investments in portfolio companies made through fund investments*

### 3.7. Operational risk

Operational risk is the risk of loss due to the inadequacy or failure of internal processes, people or systems to perform as expected or due to external events. The definition includes legal risk, but excludes strategic, reputation and system risks.

The operational risk of the Venture Capital Fund is managed similarly to other risk categories. To this end, all possible risks related to the Fund's (i) critical business processes, (ii) employees/service providers, (iii) systems and (iv) potential external threats are assessed. For the risks identified, the supervisory board of SmartCap confirms tolerance limits and possible mitigation measures. The fund-based operational key risk indicators (KRI) established by the supervisory board of SmartCap are monitored by the asset manager once a quarter. In the event of an operational risk incident, it will be saved in the risk incident register of the Venture Capital Fund.

### 3.8. Capital risk management

Capital is deemed to be the units of the Venture Capital Fund subscribed by an investor. Units are not redeemed at the request of an investor. Units are only redeemed upon liquidation of the Venture Capital Fund and a corresponding decision can be adopted by unit-holders.

All units of the Venture Capital Fund belong to the Republic of Estonia.

Upon liquidation of the Venture Capital Fund, it must be taken into account that the assets of the Venture Capital Fund are highly illiquid and therefore there is a high risk of maintaining the fair value of the assets in the course of the extraordinary liquidation process. The Venture Capital Fund is not leveraged by a loan.

### 3.9. Fair value of financial assets and liabilities

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 reporting 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 Venture Capital 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.

	Level 1	Level 2	Level 3	31.12.2023
Fund units	0	0	35,049,399	35,049,399
Direct investments	0	0	374,972	374,972
<b>Total financial assets</b>	<b>0</b>	<b>0</b>	<b>35,424,371</b>	<b>35,424,371</b>

	Level 1	Level 2	Level 3	31.12.2022
Fund units	0	0	51,399,275	51,399,275
Direct investments	0	0	591,514	591,514
<b>Total financial assets</b>	<b>0</b>	<b>0</b>	<b>51,990,789</b>	<b>51,990,789</b>

In accordance with the internal rules for establishment of the net asset value of the Venture Capital 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 Venture Capital Valuation (IPEV) Guidelines, which may be:
  - the price of the last investment transaction;
  - the discounted cash flow method;
  - 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 (NAV).

Cash and cash equivalents and term deposits that do not have a list price by a market participant and their value corresponds to the carrying amount are not included in this Note.

Accrued income and trade creditors are short-term, their fair value is close to the carrying amount and the measurement corresponds to level 2.

The Venture Capital Fund determines the fair value of units of non-tradable closed-ended funds (level 3) using, above all, the NAV-based valuation and valuation based on multiple earnings. If, in the opinion of SmartCap, these methods do not reveal the fair value of the investment, other methods prescribed by international standards will be used.

## 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.

In the event of the financial information disclosed in these financial statements, estimates of the management are related to the estimates of the fair value of financial investments. The fair value has been determined on the basis of the last known NAV, which has been adjusted, if necessary. As at the reporting date, long-term financial investments account for 20.2% (31 December 2022: 56.2%) of the volume of assets of the Venture Capital Fund.

## Note 5. Cash and equivalents and term deposits

(in euros)

	31.12.2023	31.12.2022
Cash at bank	10,063	10,120
Funds in deposits of up to 3 months	80,709,967	40,415,778
<b>Total cash and cash equivalents</b>	<b>80,720,030</b>	<b>40,425,898</b>
Term deposits	58,250,000	0
<b>Total</b>	<b>138,970,030</b>	<b>40,425,898</b>

As at 31 December 2023 and 31 December 2022, all the funds in the current account were denominated in euros.

The total interest income earned on cash and cash equivalents and term deposits amounted to 3,385,498 euros in 2023 (2022: 55,277 euros).

Funds of the Venture Capital Fund and commitments assumed on the account thereof:

	31.12.2023	31.12.2022
Initial investment decisions adopted on the account of the Fund	40,000,000	-
Future investment commitments assumed on the account of the Fund	38,391,844	15,840,277
Available funds for future investments	60,578,186	24,585,621
<b>Total</b>	<b>138,970,030</b>	<b>40,425,898</b>

## Note 6. Financial investments at fair value with changes through profit or loss

(in euros)

	31.12.2023	31.12.2022
Carrying amount of holdings at the beginning of the reporting period	51,990,789	54,474,597
<b>Total investments at fair value at the beginning of the year</b>	<b>51,990,789</b>	<b>54,474,597</b>
Drawdowns	4,422,459	663,654

	31.12.2023	31.12.2022
Revaluations of fair value of holdings/loans	-20,961,570	-2,748,348
Sale of holdings at cost	-27,308	-399,114
<b>Total investments at fair value at the end of the reporting period</b>	<b>35,424,370</b>	<b>51,990,789</b>

## Note 7. Payables and prepayments

(in euros)

	31.12.2023	31.12.2022
Management fee (Note 10)	351,018	196,438
Other accrued expenses	9,723	24,046
<b>Total</b>	<b>360,740</b>	<b>220,484</b>

All payables and prepayments are short-term.

## Note 8. Operating expenses

(in euros)

	2023	2022
Management fee expenses of the Venture Capital Fund (Note 10)	1,413,549	765,004
Share maintenance fee	0	1,621
Other expenses	40,030	48,302
<b>Total</b>	<b>1,453,579</b>	<b>814,927</b>

## Note 9. Units and statement of comparison of net asset value of Fund

Year	Net asset value of the Venture Capital Fund	Net asset value per unit of the Venture Capital Fund
31.12.2023	€175,164,939	15,837.8440
31.12.2022	€92,220,833	17,007.0849
31.12.2021	€70,027,426	17,490.3324

## Note 10. Transactions with related parties

The related parties of the Venture Capital Fund are:

- › undertakings who are financial investees and over whom the Venture Capital 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 Venture Capital Fund, i.e. the Republic of Estonia, and entities under the control or significant influence of the State.

In the period from 1 January 2023 to 31 December 2023, the Venture Capital Fund has not made any transactions, except for investment transactions, with the companies that are financial investees. Transactions with investees are disclosed in Note 6.

During the reporting period, 101.9 million euros (2022: 25 million 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 1,413,549 euros (2022: 765,004 euros). SmartCap did not receive any additional compensation for expenses (2022: 17,161 euros).

As at 31 December 2023, the commission expenses receivable from SmartCap amount to 50 euros (31 December 2022: 0 euros).

As at 31 December 2023, the management fee payable by the Venture Capital Fund to SmartCap amounted to 351,018 euros (31 December 2022: 196,438 euros). There were no commission expenses payable to SmartCap (31 December 2022: 13,040 euros).



**KPMG Baltics OÜ**  
Ahtri 4  
Tallinn 10151  
Estonia

Telephone	+372 6 268 700
Fax	+372 6 268 777
Internet	<a href="http://www.kpmg.ee">www.kpmg.ee</a>

## **Independent Auditors' Report**

*(Translation of the Estonian original)*

To the shareholder and management company of SmartCap Venture Capital Fund

### **Opinion**

We have audited the financial statements of SmartCap Venture Capital (the Fund), which comprise the statement of financial position as at 31 December 2023, the income and expense statement, the statements of cash flows and statement of changes in net asset value of Fund, and notes, comprising material accounting policies and other explanatory information.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Fund as at 31 December 2023, 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 Fund 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 Fund'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 Fund or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Fund'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 Fund'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 Fund'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 Fund 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.

Tallinn, 8 May 2024

/digitally signed/

Liina Randmann

Certified Public Accountant, Licence No. 661

/digitally signed/

Veiko Kompus

Certified Public Accountant, Licence No. 707

KPMG Baltics OÜ

Licence No 17

