

# SMARTCAP GREEN FUND

## Annual Report 2023

**SMARTCAP GREEN FUND**  
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Beginning of the financial year	1 January 2023
End of the financial year	31 December 2023
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 (hereinafter the 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, 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 assets of the Green Fund are invested directly or indirectly through venture capital funds in Estonian companies 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 at 31 December 2023, the volume of assets of the Green Fund amounted to 102 million euros (2022: 100 million euros) and the investment portfolio of the Green Fund included six early-stage green technology companies founded in Estonia. As at the end of 2023, investments of the Green Fund had reached, through fund and direct investments, in total 6 companies and their total turnover amounted to 4.86 million euros. At the end of the year, these companies provided jobs to almost 100 people in Estonia, on whose remuneration labour taxes were paid in the amount of approximately 1.75 million euros during the year.

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, when according to Invest Europe the volume of capital raised by European private equity and venture capital funds in six months 2023 decreased by 60% when compared to six months in 2022 and was at the lowest level of the last eight years. According to Invest Europe, a similar change in trend was also seen in the volume of new investments made and exits from investments by European private equity and venture capital funds in six months 2023, dropping by 54% and 42%, respectively, when compared to the same period in 2022.

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.

The Green Fund is a venture capital fund amounting to 100 million euros and created with the support of the EU Recovery and Resilience Facility (RRF), which makes equity investments available to Estonian green technology companies directly or through private-sector venture capital funds from 2022 to 2026. In 2023, the Green Fund focused on both fund investments and direct investments. In 2023, SmartCap selected two private-sector green technology fund management companies and an anchor investment of 20 million euros is planned for each of them. SmartCap also made the first investments from the Green Fund in green technology companies and reached six investments by the end of the year.

## **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 2023

The management board of SmartCap has prepared the annual report of SmartCap Green 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, 19 April 2024

# Financial statements

## Statement of financial position

(in euros)

	Note	31.12.2023	31.12.2022
<b>ASSETS</b>			
Cash and cash equivalents	5	66,570,028	99,940,509
Term deposits	5	29,300,000	0
Financial investments at fair value with changes through profit or loss	6	5,618,522	0
Receivables and prepayments	7, 10	37	2,057
Accrued interest income		668,704	28,625
<b>TOTAL ASSETS</b>		<b>102,157,291</b>	<b>99,971,191</b>
<b>LIABILITIES</b>			
Short-term liabilities			
Payables and prepayments	8, 10	204,297	212,439
<b>Total short-term liabilities</b>		<b>204,297</b>	<b>212,439</b>
<b>TOTAL LIABILITIES</b>		<b>204,297</b>	<b>212,439</b>
<b>Net asset value of the Fund attributable to unit-holders</b>	<b>9</b>	<b>101,952,994</b>	<b>99,758,752</b>

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

## Income and expense statement

(in euros)

	Note	2023	20.12.2021- 31.12.2022
<b>INCOME</b>			
Interest income	5	2,884,387	100,917
Net profit/loss on financial assets and liabilities recognised at fair value through profit or loss	6	118,855	0
<b>Total income</b>		<b>3,003,242</b>	<b>100,917</b>
<b>EXPENSES</b>			
Management fees	10	809,000	342,165
<b>Total expenses</b>		<b>809,000</b>	<b>342,165</b>
<b>PROFIT/LOSS OF THE FUND</b>		<b>2,194,242</b>	<b>-241,248</b>

› 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)

	01.01.2023-31.12.2023	20.12.2021-31.12.2022
<b>Net asset value of the Fund at the beginning of the reporting period</b>	<b>99,758,752</b>	<b>0</b>
Received for units or shares issued	0	100,000,000
Profit/loss of the Fund	2,194,242	-241,248
<b>Net asset value of the Fund at the end of the reporting period</b>	<b>101,952,994</b>	<b>99,758,752</b>
Number of units outstanding at the end of the reporting period	10,040.7290	10,040.7290
Net asset value per unit at the end of the reporting period	10,153.9434	9,935.4093

- Further information about units is set out in Note 9.
- The notes on pages 11 to 25 are an integral part of these financial statements.

## Statement of cash flows

(in euros)

	Note	2023	20.12.2021- 31.12.2022
<b>Cash flows from operating activities</b>			
Administrative and other operating expenses paid		-815,122	-131,783
Capital calls paid	6	-5,499,667	0
Inflows and outflows of term deposits (net)	5	-29,300,000	0
Interest received		2,244,308	72,292
<b>Total cash flows from operating activities</b>		<b>-33,370,481</b>	<b>-59,491</b>
<b>Cash flows from financing activities</b>			
Received for units or shares issued		0	100,000,000
<b>Total cash flows from financing activities</b>		<b>0</b>	<b>100,000,000</b>
<b>TOTAL CASH FLOWS</b>		<b>-33,370,481</b>	<b>99,940,509</b>
<b>Cash and cash equivalents at the beginning of the period</b>	<b>5</b>	<b>99,940,509</b>	<b>0</b>
Change in cash and cash equivalents		-33,370,481	99,940,509
<b>Cash and cash equivalents at the end of the period</b>	<b>5</b>	<b>66,570,028</b>	<b>99,940,509</b>

➤ 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 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 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

### 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 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.

### 2.3.2. 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, 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.

## 2.4. 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 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 price of the last investment transaction;
  - 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.

## 2.5. 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 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”.

## 2.6. 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.

## 2.7. 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 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.

## 2.8. 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.

## 2.9. 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.

## 2.10. Calculation of net asset value of the Green Fund

The net asset value of the Green Fund is established 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.

## 2.11. 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 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 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.

## 2.12. 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 Green Fund.

The Green Fund is an early-stage venture capital fund with an investment focus on green technology, 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 Green Fund;
- concentration on green technology companies;
- 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.

In order to manage and mitigate risks, an in-depth analysis of the potential investees of the Green Fund is performed, assessing the suitability thereof for the risk profile of the Fund, before an investment is made. The risk profile of the Green 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 Green Fund and assesses their compliance with the established risk profile.

### 3.1. Strategic risk

Strategic risk includes a possible loss to 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.

SmartCap manages the strategic risk of the Green Fund by identifying the objectives arising from the strategy of the Fund and establishing the minimum requirements necessary to achieve the objectives.

The main strategic risks associated with the Green Fund are related to the nature of the investments (providing capital to develop new green technologies in strategic areas and therethrough finance innovative research-intensive green technology companies), the development of the local capital market and the timeframe for achieving the above objectives.

### 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 Green Fund has invested.

In order to mitigate the investment risk, SmartCap involves co-investors in all investments of the Green 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 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.

Breakdown of investments of Green Fund by type of investment as at 31 December 2023 (in euros)

	Number of investments	Carrying amount of investments
Direct investments in portfolio companies	6	5,618,522
Direct investments in funds	1	0

### 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 Green Fund. As the investments of the Green Fund are made in securities that are not traded on an open market, the Green 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. As the investment universe of the Green Fund is geographically limited to Estonia, the Fund is not directly exposed to the currency risk.

Exposure of Green Fund to investment and exit risk as at 31 December 2023 (in euros)

	31.12.2023	31.12.2022
Outstanding investment commitments	20,000,000	0
Exit stage investments at carrying amount	0	0

Exposure of Green Fund to interest rate risk as at 31 December 2023 (in euros)

Contractual number of days until maturity of the deposits	31.12.2023	31.12.2022
0–30 days	51,520,028	99,940,509
30–90 days	15,050,000	0
90–180 days	14,400,000	0
180–360 days	14,900,000	0
<b>Total</b>	<b>95,870,028</b>	<b>99,940,509</b>

The Green Fund manages its liquid assets relying on the maturity-based allocation model. As the deposits held by the Green Fund are short-term non-tradable deposits held to maturity, they are not subject to market-based revaluation. The exposure of the Green 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 Green Fund. The credit risk of the Green Fund arises from the cash and cash equivalents held in credit institutions as well as from debt instruments.

Breakdown of funds related to counterparty credit risk by asset type as at 31 December 2023 (in euros):

	31.12.2023	31.12.2022
Cash and cash equivalents	66,570,028	99,940,509
Term deposits	29,300,000	0
Other receivables	668,742	30,682
<b>Total</b>	<b>96,538,769</b>	<b>99,971,191</b>

The Green 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 Green 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 as at 31 December 2023 (in euros):

Moody's rating	31.12.2023	31.12.2022
Aaa	0	0
Aa3 to Aa1	95,870,028	99,940,509
A3 to A1	0	0
Baa3 to Baa1	0	0
<b>Total position exposed to credit risk</b>	<b>95,870,028</b>	<b>99,940,509</b>

### 3.5. Concentration risk

Concentration risk is 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.

SmartCap mitigates the concentration risk by complying with the investment restrictions provided for in the rules of the Green 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.

As the ratio of the volume of investments made from the Green Fund to net assets was still relatively small at the end of 2023, no significant risk concentrations have yet occurred. The following table provides an overview

of a few number of concentration risk categories that are regularly monitored by the asset manager of the Green Fund.

	31.12.2023	31.12.2022
Largest investment in a portfolio company	1.3%	-
Largest fund investment (investment commitment)	19.6%	-
Largest allocation to one economic sector	1.7%	-
Largest allocation to one vintage of investment	5.4%	-
Largest allocation to one development stage of company	4.2%	-

### 3.6. 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 Green 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 Green Fund.

## 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 price of the last investment transaction has been recognised as the fair value of the investments of the Green Fund. As at the reporting date, long-term financial investments account for 5.5% (31 December 2022: 0%) of the volume of assets of the Green Fund.

## Note 5. Cash and equivalents and term deposits

(in euros)

	31.12.2023	31.12.2022
Cash at bank	0	333
Funds in deposits of up to 3 months	66,570,028	99,940,176
<b>Total cash and cash equivalents</b>	<b>66,570,028</b>	<b>99,940,509</b>
Term deposits of more than 3 months	29,300,000	0
<b>Total</b>	<b>95,870,028</b>	<b>99,940,509</b>

As at 31 December 2023, all the funds were denominated in euros. The total interest income earned on funds in 2023 amounted to 2,884,387 euros (2022: 100,917 euros).

Available funds of the Green Fund and commitments assumed on the account thereof:

	31.12.2023	31.12.2022
Initial investment decisions adopted on the account of the Fund and reserve for follow-on investments	32,000,000	-
Future investment commitments assumed on the account of the Fund	20,000,000	-
Available funds for future investments	43,870,028	99,940,509
<b>Total</b>	<b>95,870,028</b>	<b>99,940,509</b>

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

	31.12.2023	31.12.2022
Carrying amount of holdings at the beginning of the reporting period	0	0
<b>Total financial investments at fair value at the beginning of the year</b>	<b>0</b>	<b>0</b>
Drawdowns	5,499,667	0
Revaluations of fair value of holdings/loans	118,855	0
<b>Total financial investments at fair value at the end of the reporting period</b>	<b>5,618,522</b>	<b>0</b>

## Note 7. Receivables and prepayments

(in euros)

	31.12.2023	31.12.2022
Receivables from management company (Note 10)	37	2,057
<b>Total</b>	<b>37</b>	<b>2,057</b>

## Note 8. Payables and prepayments

(in euros)

	31.12.2023	31.12.2022
Management fee (Note 10)	204,297	212,439
<b>Total</b>	<b>204,297</b>	<b>212,439</b>

All payables and prepayments are short-term.

## Note 9. 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
31.12.2023	101,952,994	10,153.9434
31.12.2022	99,758,752	9,935.4093

## Note 10. 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 2023, the Green Fund has not made any transactions with the companies that are financial investees (2022: no such transactions).

During the reporting period, the management fee has been calculated to SmartCap in the amount of 809,000 euros (2022: 342,165 euros). In addition, SmartCap compensated the Green Fund for expenses in the amount of 2,083 euros (2022: 2,057 euros).

As at 31 December 2023, the management fee payable by the Green Fund to SmartCap amounted to 204,297 euros (2022: 212,439 euros). As regards the expenses compensated for by SmartCap, the receivable of the Green Fund from SmartCap amounted to 37 euros (2022: 2,057 euros).



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## **Independent Auditors' Report**

*(Translation of the Estonian original)*

To the shareholder and management company of SmartCap Green Fund

### **Opinion**

We have audited the financial statements of SmartCap Green Fund (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, 20 April 2024

/digitally signed/

Liina Randmann

Certified Public Accountant, Licence No. 661

/digitally signed/

Veiko Kompus

Certified Public Accountant, Licence No. 707

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