

SMARTCAP DEFENCE FUND

Annual Report 2025

SMARTCAP DEFENCE FUND
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Beginning of the financial year	07.11.2024
End of the financial year	31.12.2025
Name of the Fund	SmartCap Defence 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 in companies that develop and manufacture military or dual-use products and technologies, whose activities contribute to the development of the security and defence policy initiatives and defence industry of Estonia, and the development of new national defence capabilities, incl. the development and deployment of new technologies of strategic importance to the state.

Table of contents

Management report.....	4
Signatures of management board of management company to annual report of SmartCap Defence Fund for 2025	6
Financial statements	7
Statement of financial position	7
Income and expense statement.....	8
Statement of changes in net asset value of Fund	9
Statement of cash flows.....	10
Notes to financial statements	11
Note 1. General information	11
Note 2. Summary of significant accounting and reporting policies	11
Note 3. Risk management	18
Note 4. Significant accounting estimates.....	24
Note 5. Cash and equivalents and term deposits	24
Note 6. Financial investments at fair value with changes through profit or loss.....	25
Note 7. Receivables and prepayments.....	25
Note 8. Payables and prepayments	25
Note 9. Units and statement of comparison of net asset value of Fund	26
Note 10. Transactions with related parties.....	26
Note 11. Binding off-balance-sheet commitments.....	26

Management report

The objective of SmartCap Defence Fund (hereinafter the Defence Fund) is to develop the defence industry of Estonia and to create innovative defence and security capabilities in order to meet growing global demand. For this purpose, the Defence Fund invests in two ways – directly in companies that develop or manufacture military or dual-use products and technologies, and in funds managed by new or experienced fund managers and which, in turn, invest in similar companies. Through both of these investment approaches, the Defence Fund contributes to the economic growth of Estonia and enhances access to capital for defence sector companies in NATO member states.

The Defence Fund was established on 7 November 2024 and opened for investments in the middle of January 2025. In total, equity investments amounting to 100 million euros (incl. the management fee of the Defence Fund and other expenses of the Fund) are made available through the Defence Fund. The assets of the Defence Fund are invested, either directly or indirectly through venture capital and private equity funds, in companies that develop or manufacture military or dual-use technologies.

As at 31 December 2025, the investment portfolio of the Defence Fund comprised one direct investment in a defence industry company and one investment in a venture capital fund specialising in defence investments (as at 31 December 2024, there were no investments). As at 31 December 2025, the net assets amounted to 100.5 million euros (2024: 50.0 million euros).

Market trends

The year 2025 was characterised by stabilisation and a gradual recovery in the Baltic venture capital market. At the same time, there is a noticeable trend towards investors becoming increasingly selective, with investment concentrating on defence technologies and companies benefiting from the rise of artificial intelligence. According to the Baltic Startup Funding Report 2025¹, start-ups in the Baltic states raised a total of nearly 600 million euros in venture capital in 2025, which was more than in 2024 and signalled a recovery in investment activity following the decline seen in previous years.

In 2025, Estonian technology companies raised nearly 350 million euros in venture capital, which – according to the collaboratively compiled database ‘Funding, Failures & Exits of Estonian Tech Startups’, comparable to the figures for 2024; however, the growth in transaction market activity is reflected in a significantly higher number of transactions than previously and the increasing importance of local Estonian investors in funding. The share of local capital – that is, investments by investors of Estonian origin – in the total transaction volume of the Estonian technology sector continued to grow strongly, reaching its highest level in the last ten years – both in

¹ Baltic Startup Funding Report | FIRSTPICK VC Baltic (<https://firstpick.vc/baltic-startup-funding-report/>)

absolute terms and as a proportion of total capital, exceeding 110 million euros (2024: 81 million euros) and accounting for more than 30% of the total capital raised (2024: 23% of the capital raised). Whilst the volume of capital raised by Estonian technology companies remains significantly below its peak levels – when it exceeded one billion euros in both 2021 and 2022 – the number of transactions was a remarkable 116 – the second-highest figure in terms of activity over the last ten years.

Key events for the Defence Fund in 2025 and plans for 2026

In 2025:

- an investment capital contribution of 100 million euros;
- commencement of active investment activities – two investment agreements were concluded during the financial year, and at the end of the financial year two further investments were in the final stages of being concluded; these were finalised at the beginning of 2026.

In 2026, the Defence Fund will continue its mission to contribute to the development of the defence industry of Estonia and its ecosystem by investing in companies that develop or manufacture military or dual-use technologies.

ENVIRONMENTAL INFORMATION

The assets of the Defence 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 Defence 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 Defence 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 Defence Fund – the Defence Fund will only invest assets in funds that also understand and integrate responsible investment principles into their own operations. For the investments added in 2025, the sustainability risk was taken into account and the respective management company was required to establish a responsible investment management system to address sustainability risks at the level of the target companies.

Signatures of management board of management company to annual report of SmartCap Defence Fund for 2025

The management board of SmartCap has prepared the annual report of SmartCap Defence Fund for 2025, 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 Kuhi

AS SmartCap

Member of Management Board

Tallinn, 27 April 2026

Financial statements

Statement of financial position

(in euros)

	Note	31.12.2025	07.11.2024
ASSETS			
Cash and cash equivalents	5	50,033,100	0
Term deposits	5	46,100,000	0
Financial investments at fair value with changes through profit or loss	6	4,281,048	0
Receivables and prepayments	7	99	0
Accrued interest income	7	288,303	0
TOTAL ASSETS		100,702,550	0
LIABILITIES			
Short-term liabilities			
Payables and prepayments	8	207,618	0
Total short-term liabilities		207,618	0
TOTAL LIABILITIES		207,618	0
Net asset value of the Fund attributable to unitholders	9	100,494,932	0

- The notes on pages 11 to 26 are an integral part of these financial statements.

Income and expense statement

(in euros)

	07.11.2024- 31.12.2025
INCOME	
Interest income	1,382,929
Total income	1,382,929
EXPENSES	
Net loss on financial assets and liabilities recognised at fair value through profit or loss	-233,331
Management fees and other expenses	-654,666
Total expenses	-887,997
PROFIT/LOSS OF THE FUND	494,932

- The notes on pages 11 to 26 are an integral part of these financial statements.

Statement of changes in net asset value of Fund

(in euros)

	07.11.2024-31.12.2025
Net asset value of the Fund at the beginning of the reporting period	0
Received for units or shares issued	100,000,000
Profit/loss of the Fund	494,932
Net asset value of the Fund at the end of the reporting period	100,494,932
Number of units outstanding at the end of the reporting period	9,980.8260
Net asset value per unit at the end of the reporting period	10,068.7991

- Further information about units is set out in Note 9.
- The notes on pages 11 to 26 are an integral part of these financial statements.

Statement of cash flows

(in euros)

	Note	07.11.2024- 31.12.2025
Cash flows from operating activities		
Payments related to operating activities		-447,147
Capital calls paid		-4,514,379
Inflows and outflows of term deposits		-46,100,000
Interest received		1,094,626
Total cash flows from operating activities		-49,966,900
Cash flows from financing activities		
Received for units or shares issued		100,000,000
Total cash flows from financing activities		100,000,000
TOTAL CASH FLOWS		50,033,100
Cash and cash equivalents at the beginning of the period	5	0
Change in cash and cash equivalents		50,033,100
Cash and cash equivalents at the end of the period	5	50,033,100

- The notes on pages 11 to 26 are an integral part of these financial statements.

Notes to financial statements

Note 1. General information

Established on 7 November 2024, SmartCap Defence Fund (hereinafter also the Defence Fund) is a closed-ended non-public common investment fund (alternative fund). The Defence 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 AS SmartCap, registered office at Sepise 7, Tallinn.

The financial year of the Fund begins on 1 January and ends on 31 December. This annual report covers the period from 7 November 2024 to 31 December 2025. The financial statements have been prepared in full euros, unless otherwise stated.

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 Defence 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 future 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 amended standards and interpretations

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

In 2025, the Defence Fund applied these amendments to international financial reporting standards issued by the International Accounting Standards Board (IASB) and adopted by the EU, which were mandatorily effective for reporting periods beginning on 1 January 2025. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

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

The following new standards, interpretations and amendments are not yet effective for the reporting period ended 31 December 2025. The Defence Fund has not early adopted any of these new and amended standards and assesses possible impact of these amendments on its financial statements.

- Amendments to IFRS 9 and IFRS 7: *Amendments to the Classification and Measurement of Financial Instruments and Contracts Referencing Nature-dependent Electricity*
- Annual Improvements to IFRS Accounting Standards – Volume 11;
- IFRS 18 *Presentation and Disclosure in Financial Statements*;
- IFRS 19 *Subsidiaries without Public Accountability: Disclosures*;
- Amendments to IFRS 10 and IAS 28: *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*.

2.3. Financial assets

2.3.1. Classification

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

- At fair value with changes through profit or loss

The Defence 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

Financial assets whose objective is to hold financial assets in order to collect contractual cash flows and whose contractual terms 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 Defence 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 classified in this category are initially recognised at fair value plus transaction costs. Subsequently, they are recognised at amortised cost using the effective interest rate method. 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.

For investees, SmartCap assesses whether the Defence Fund has significant influence over the investee. Significant influence is generally presumed to exist when the Defence 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) participation in the operating policy decisions of the investee;
- (c) major transactions between the investor and the investee;
- (d) partial overlapping of the managements of the investor and the investee;
- (e) exchange of technical information between the investor and the investee.

Investments in associates are recognised in the same way as other investees – at fair value with changes through profit or loss, in accordance with the exception set out in IAS 28 *Investments in Associates* regarding the recognition of associates in the financial statements of venture capital companies. 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, and as there have been no significant changes in the market between the date of recognition of the financial assets and the reporting date, their carrying amount is considered to approximate fair value. Since financial liabilities are short-term, non-interest-bearing and have been settled by the time the report was approved, their carrying amount is also considered to approximate fair value.

The Defence Fund categorises financial investments into three levels depending on their revaluation method:

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 category includes, for example, financial instruments measured using the prices of similar instruments in an active regulated market, or financial instruments measured using the price in a regulated market but whose liquidity at the stock exchange is low.

Level 3: Financial instruments measured using valuation techniques based on unobservable inputs.

According to the internal rules for determining the net asset value of the Defence Fund 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 discounted cash flow method;
 - the net assets method;
 - valuation based on earnings multiples.
- the value of an investment fund share or unit is determined on the basis of its last known net asset value.

All the investments of the Defence 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 Defence 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 Defence Fund holds financial assets that are not recognised at their fair value with changes through profit or loss, then at each reporting date an assessment is made as to whether there is any indication that the asset may have suffered an impairment compared to its carrying amount. Indicators of impairment of a financial asset may include:

- financial difficulties of the issuer of the security, indications of the issuer’s possible bankruptcy;
- non-payment or late payment of interest or principal;
- disappearance of an active market for the financial asset;
- other significant events that may indicate impairment of assets.

Impairment requirements are based on the expected credit loss model. The carrying amount of an asset is reduced by the amount of expected credit losses, and the loss is recognised in the income and expense statement. The assessment of expected credit losses is unbiased, probability-weighted and incorporates all available information relevant for the estimate. The recognition of interest income on such an asset is not changed when the financial asset is impaired. If the expected credit loss on an impaired asset decreases and the decrease can be objectively related to an event occurring after the impairment was recognised, the previously recognised impairment loss 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, which is why short-term financial liabilities are recognised in the statement of financial position at the amount payable. In order to calculate the amortised cost of long-term financial liabilities, they are initially recognised at the fair value of the consideration received (less transaction costs), with subsequent interest expense on the liabilities recognised using the effective interest rate method.

2.8. Transactions with related parties

Upon preparation of the financial statements, the following are deemed related parties: associates, SmartCap and its executive and senior management, and other persons and entities that are able to control or significantly influence the financial and business decisions of the Defence Fund. Since 100% of the units of the Defence Fund are owned by the Republic of Estonia, entities under the control or significant influence of the state are also considered related parties of the Defence Fund.

2.9. 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 Defence Fund

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

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

deducting therefrom the liabilities of the Defence Fund. The net asset value per unit is obtained 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 Defence Fund has issued one class of units that entitle the unitholder to a proportional share of the net assets of the Defence Fund upon the liquidation of the Defence Fund. The units do not entail any contractual obligations other than redemption upon the liquidation of the Defence Fund. The units are recognised under equity because the following IAS 32 criteria are met:

- the units entitle the holder to a proportional share of the net assets of the Defence Fund (i.e. total net asset value) upon the liquidation of the Defence Fund. The net asset value of the Defence Fund is obtained by deducting the liabilities of the Defence Fund from the market value of the assets of the Defence Fund. The proportional share is calculated as follows: the total net asset value of the Defence Fund is divided by the total number of units issued, and the resulting amount is multiplied by the number of units held by each unitholder;
- the units are subordinated to all other debt or other instruments issued by the Defence Fund;
- the rights attaching to all units (to receive remuneration in proportion to the share in net assets) are identical;
- the Defence Fund has no other financial instruments or contracts with cash flows that are largely based on profit, changes in the net assets or changes in the fair value of net assets recognised in or outside the statement of financial position, the result of which would be to significantly restrict or fix the return to the unitholders.

If the terms of the units change so that the criteria listed above are no longer met, the units will be classified as a financial liability from the date on which those terms are no longer met. A financial liability is recognised at the fair value of the transaction date. Where there is a difference between the carrying amount of the equity instrument and the fair value of a liability, the difference is recognised in equity.

Direct costs related to the issue of new units are recognised in equity as a reduction of the amount paid for the units. If the Defence Fund repurchases its own units, the equity attributable to unitholders is reduced by the consideration received less costs directly attributable to the sale.

2.12. Events after the reporting date

No material circumstances have occurred after the reporting date of 31 December 2025 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 that establish the principles, organisation and organisational structure of risk management in SmartCap. Through the risk management framework, the risks related to investment activities are identified and the risks and their extent that are acceptable for achieving the objectives of the Defence Fund are determined.

The Defence Fund is an early-stage venture capital fund with an investment focus on military or dual-use products and technologies, and whose investments are inherently high-risk and arise from:

- the early stage of development of the investees (start-ups), due to which their business models and capacity to generate revenues have not yet been proven and therefore several investees may fail in their business activities;
- the concentration of investments of a similar high-risk level in the Defence Fund;
- the concentration in companies engaged in the development and manufacture of military or dual-use products and technologies;
- the low liquidity of the long-term non-tradable instruments included in the investment portfolio, whereby the timing of exit from an investment may significantly affect the return on investments and the overall return of the Defence Fund.

For the purpose of managing and mitigating risks, the potential investees of the Defence Fund are analysed in detail before an investment is made, assessing their suitability for the risk profile of the Fund. The risk profile of the Defence Fund sets out the main risks of the Fund, their indicators and risk limits. The risk profile 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 of the Defence Fund and assesses their compliance with the established risk limits.

3.1. Strategic risk

Strategic risk includes a possible loss to be incurred due to unfeasibility or incomplete implementation of the investment policy of the Defence Fund or the impact of competition, the operating environment or supervision.

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

The main strategic risks associated with the Defence Fund are related to the nature of the investments (financing companies that develop and manufacture military or dual-use products and technologies), 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 environmental, social or corporate governance circumstances (i.e. 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 considered a security pursuant to the law in force but in which the Defence Fund has invested.

To mitigate investment risk, SmartCap involves co-investors in all investments of the Defence Fund to ensure that investments are made under market conditions. In addition, the activities of the issuers of securities (or assets other than securities) forming part of the assets of the Defence Fund are constantly analysed and monitored. Investment decisions are made on the basis of sufficient and relevant information, collecting the necessary amount of information and analysing it in appropriate detail from the economic, financial and legal perspective. For the additional management of investment risk, the employees of SmartCap are, where necessary and possible, members of the supervisory board or another body of the issuer and participate in its work.

Breakdown of investments of the Defence Fund by type of investment as at 31 December 2025 (in euros):

	Number of investments 31.12.2025	Carrying amount of investments 31.12.2025
Direct investments in portfolio companies	1	1,147,052
Direct investments in funds	1	3,133,996
<i>Indirect investments in portfolio companies</i>	6	3,133,996

3.3. Market risk

Market risk is the risk that adverse changes in market prices, including foreign exchange rates, interest rates and market prices of securities, may cause the Defence Fund to incur losses. As the investments of the Defence Fund are made in non-tradable securities, the Defence Fund is directly exposed to the market risk arising from its securities positions only at the time 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 investments of the Defence Fund are not limited to Estonia alone but may also extend to other geographical regions, the Fund is also exposed to currency risk arising from making and holding investments in foreign currencies. Changes in exchange rates may affect both the fair value of investments and the return of the Fund calculated in euros.

Exposure of the Defence Fund to investment and exit risk as at 31 December 2025 (in euros):

	31.12.2025
Outstanding investment commitments to investees	6,664,971
Exit stage investments at carrying amount	0

31.12.2025 Exposure of the Defence Fund to interest rate risk (in euros):

Contractual number of days until maturity of the deposits	31.12.2025
0–30 days	27,733,100
30–90 days	22,300,000
90–180 days	23,100,000
180–360 days	23,000,000
Total	96,133,100

The Defence Fund manages its liquid assets using a maturity-based allocation model. As the deposits held by the Defence Fund are short-term non-tradable deposits held to maturity, they are not subject to market-based revaluation.

The exposure of the Defence Fund to the interest rate market risk is therefore minimal and results mainly from the rebalancing of the existing deposits.

Exposure of the Defence Fund to currency risk as at 31 December 2025:

Currency	Currency position	Value EUR
GBP	1,000,000	1,147,052

As at 31 December 2025, assets denominated in foreign currencies accounted for 1.14% of the total assets of the Defence Fund.

The Defence Fund does not use derivative instruments to mitigate currency risk and treats currency risk as part of investment risk. If, as at 31 December 2025, the value of the euro against the GBP had strengthened by 10%, the impact on the return of the Fund would have been 114.7 thousand euros, assuming all other variables remained constant.

3.4. Credit risk

Credit risk is the risk that the counterparty is unable to perform its financial obligations to the Defence Fund. The credit risk of the Defence 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 2025 (in euros):

	31.12.2025
Cash and cash equivalents	50,033,100
Term deposits	46,100,000
Other receivables	288,402
Total	96,421,502

The Defence Fund deposits its liquid assets with commercial banks registered in the European Economic Area and holding an investment rating. According to the 2025 risk profile, SmartCap limited the credit risk of the Defence Fund for the reporting year to just a small number of well-capitalised credit institutions registered in Estonia.

Breakdown of liquid assets (cash and cash equivalents and term deposits) by counterparty credit rating as at 31 December 2025 (in euros):

Moody's rating	31.12.2025
Aaa	0
Aa3 to Aa1	96,133,100
A3 to A1	0
Baa3 to Baa1	0
Total position exposed to credit risk	96,133,100

3.5. Liquidity risk

Liquidity risk is the risk that the Defence Fund is unable to meet its investment commitments. The liquidity risk of the Defence Fund arises from fund or direct investment commitments undertaken.

According to the risk profile, the Defence Fund is required at all times to hold a sufficient amount of liquid assets to cover its investment commitments. 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 undertaken on the account of the Fund and available funds:

	31.12.2025
Future investment commitments undertaken on the account of the Fund (see clause 3.3)	6,664,971
Liquid assets (cash and cash equivalents and term deposits)	96,133,100
Investment commitment coverage ratio	14.4

The timing of disbursement of future investment commitments undertaken on the account of the Fund depends primarily on the capital requirements of investees and the terms agreed in the investment agreements. Commitments are usually called in gradually, rather than as a one-off payment. Consequently, the exact timing of disbursements may vary depending on the dynamics of the investments and market conditions. Based on the investment portfolio of the Defence Fund, the majority of existing investment commitments are disbursed over the next five to six years, provided that the investments develop as planned.

3.6. Concentration risk

Concentration risk is the risk that the value of the investments of the Defence Fund may decrease because the Defence Fund is excessively dependent on a certain group or source of risk factors.

SmartCap mitigates concentration risk by complying with the investment restrictions provided in the rules of the Defence 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 portfolio companies and, in the case of fund investments, the experience of the management company.

As the ratio of the volume of investments made from the Defence Fund to net assets was still relatively small at the end of 2025, no significant risk concentrations have yet occurred. The following table provides an overview of a selected number of concentration risk categories that are regularly monitored by the asset manager of the Defence Fund.

	31.12.2025
Largest investment in a portfolio company	1.1%
Largest fund investment (investment commitment)	10.0%
Largest allocation to one economic sector	1.1%
Largest allocation to one vintage of investment	4.3%
Largest allocation to one development stage of company	1.1%

3.7. Operational risk

Operational risk is the risk of incurring a 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, reputational and system risks.

The management of the operational risk of the Defence Fund is carried out in the same way as for other risk categories. For this purpose, all potential risks related to the Fund's critical business processes, employees/service providers, systems and possible external threats are assessed. For the risks identified, the supervisory board of SmartCap establishes tolerance limits and possible mitigation measures. The fund-based operational key risk indicators (KRIs) 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 is recorded in the risk incident register of the Defence Fund.

3.8. Capital risk management

Capital is considered to be the units subscribed by the investor of the Defence Fund. Units are not redeemed at the request of the investor. Redemption of units takes place only upon the liquidation of the Defence Fund, a decision which can be made by the unitholders.

All units of the Defence Fund are owned by the Republic of Estonia.

In the event of liquidation of the Defence Fund, it must be taken into account that the assets of the Defence Fund also include illiquid assets and, as a result, there is a high risk of preserving the fair value of the assets during an extraordinary liquidation process. The Defence Fund is not leveraged with loans.

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 Defence Fund. As at the reporting date, long-term financial investments account for 4.3% (31 December 2024: 0%) of the volume of assets of the Defence Fund.

Note 5. Cash and equivalents and term deposits

(in euros)

	31.12.2025
Funds in deposits of up to 3 months	50,033,100
Term deposits of more than 3 months	46,100,000
Total	96,133,100

As at 31 December 2025, all the funds were denominated in euros. The total interest income earned on funds in the reporting period amounted to 1,382,929 euros.

Available funds of the Defence Fund and commitments undertaken on their account:

	31.12.2025
Initial investment decisions adopted on the account of the Fund and reserve for follow-on investments	16,000,000
Future investment commitments undertaken on the account of the Fund	6,664,971
Available funds for future investments	73,468,129
Total	96,133,100

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

	31.12.2025
Carrying amount of holdings at the beginning of the reporting period	0
Total investments in associates at fair value at the beginning of the year	0
Cost of holdings acquired	4,514,379
Revaluations of fair value of holdings/loans	-233,331
Total investments in associates at fair value at the end of the reporting period	4,281,048

Note 7. Receivables and prepayments

(in euros)

	31.12.2025
Receivables from management company (Note 10)	99
Accrued interest income	288,303
Total receivables, prepayments and accrued income	288,402

Note 8. Payables and prepayments

(in euros)

	31.12.2025
Management fee (Note 10)	201,405
Other expenses	6,213
Total	207,618

All payables and prepayments are short-term and subject to payment within the first three months of 2026.

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

Year	Net asset value of the Defence Fund	Net asset value per unit of the Defence Fund
31.12.2025	100,494,932	10068.7991

Note 10. Transactions with related parties

The related parties of the Defence Fund are:

- Undertakings who are financial investees and over whom the Defence 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 unitholder of the Defence Fund, i.e. the Republic of Estonia, and entities under the control or significant influence of the state.

In the period from 7 November 2024 to 31 December 2025, the Defence Fund has not made any transactions with the companies that are financial investees.

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

During the reporting period, the management fee calculated to SmartCap amounted to 654,666 euros. In addition, SmartCap compensated the Defence Fund for expenses in the amount of 99 euros.

As at 31 December 2025, the management fee payable by the Defence Fund to SmartCap amounted to 201,405 euros. As regards the expenses compensated for by SmartCap, the receivable of the Defence Fund from SmartCap amounted to 99 euros.

Note 11. Binding off-balance-sheet commitments

(in euros)

Binding off-balance-sheet commitments include outstanding investment commitments to investees under investment agreements as at the reporting date.

	31.12.2025
Outstanding investment commitments to investees	6,664,971



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Independent Auditors' Report

(Translation of the Estonian original)

To the shareholders and management company of SmartCap Defence Fund

Opinion

We have audited the financial statements of SmartCap Defence Fund (the Fund), which comprise the statement of financial position as at 31 December 2025, the income and expense statement, the statement of changes in net asset value of Fund the statements of cash flows for the year then ended, and notes, comprising material accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Fund as at 31 December 2025, 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

Fund manager management (the 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.

KPMG Baltics OÜ
Licence No 17

/digitally signed/

Eero Kaup

Certified Public Accountant, Licence No. 459

Tallinn, 27 April 2026

