THE INTERIM REPORT FOR THE 12 MONTHS OF 2021
(UNAUDITED)

TextMagic

GENERAL INFORMATION

Business name:	TextMagic AS
Main activity:	SMS marketing service
Commercial registry number:	16211377
Address:	Mõisa Road 4, 13522 Tallinn
Country of incorporation:	Estonia
Phone:	+372 503 4224
E-mail:	priit.vaikmaa@textmagic.biz
Corporate website:	https://www.textmagic.com/
Date of establishment:	21 April 2021
Beginning of financial year:	01 January
End of financial year:	31 December
Auditor:	KPMG Baltics OÜ

TextMagic

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MANAGEMENT REPORT

TEXTMAGIC GROUP

General information

TextMagic AS was registered in the Estonian Commercial Register under the registry code 16211377 on 21 April 2021. TextMagic has been established and is currently operating under the laws of the Republic of Estonia in the form of a public limited company.

TextMagic Group consists of TextMagic AS (the parent company), two fully owned subsidiaries (TextMagic Ltd. and TM Ops OÜ) and a subsidiary of TM Ops OÜ (TM Marketing Ops Srl).

The activities of TextMagic were initiated in 2001 with the founding of TextMagic Ltd. The TextMagic Group as it exists and operates currently was formed in 2021 as a result of a restructuring process during which the shareholders of the TextMagic AS transferred to TextMagic AS by a way of non-monetary contributions the shareholdings in TextMagic Ltd. and TM Ops OÜ and other immaterial assets required for conducting the business of TextMagic.

The current and operating product of TextMagic is an application-to-person (A2P) SMS platform which permits sending of notifications, alerts, reminders, order confirmations, carrying out SMS marketing campaigns, surveys, 2-way chats and 2-factor authentication.

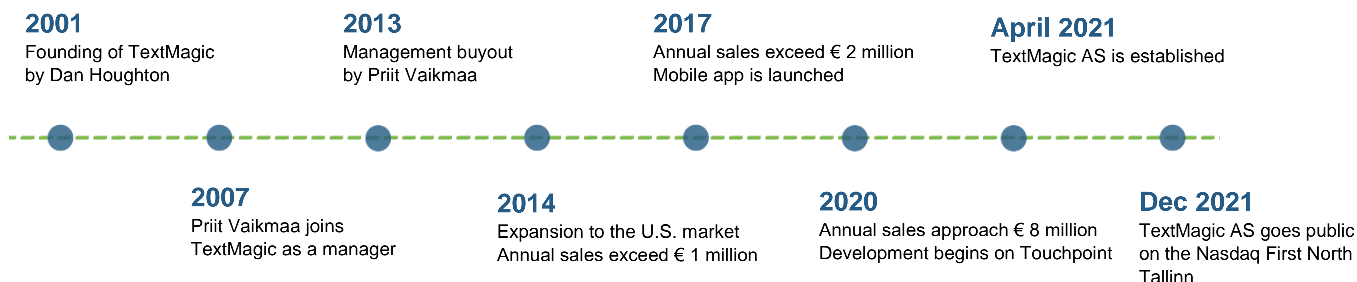
Small and medium-sized businesses (SMEs) can have a hard time engaging their clients. Communication channels other than SMS have lower penetration and response rates. The mission of TextMagic is to be a reliable cooperation partner helping its customers to reach their clients, targets and partners in an easy, immediate and reliable manner.

TextMagic is also working on the development of a new product, customer engagement platform (Touchpoint). The new platform connects various communication channels and is attempting to cover the needs and preferences of more customers. The new platform is planned to be launched in 2023.

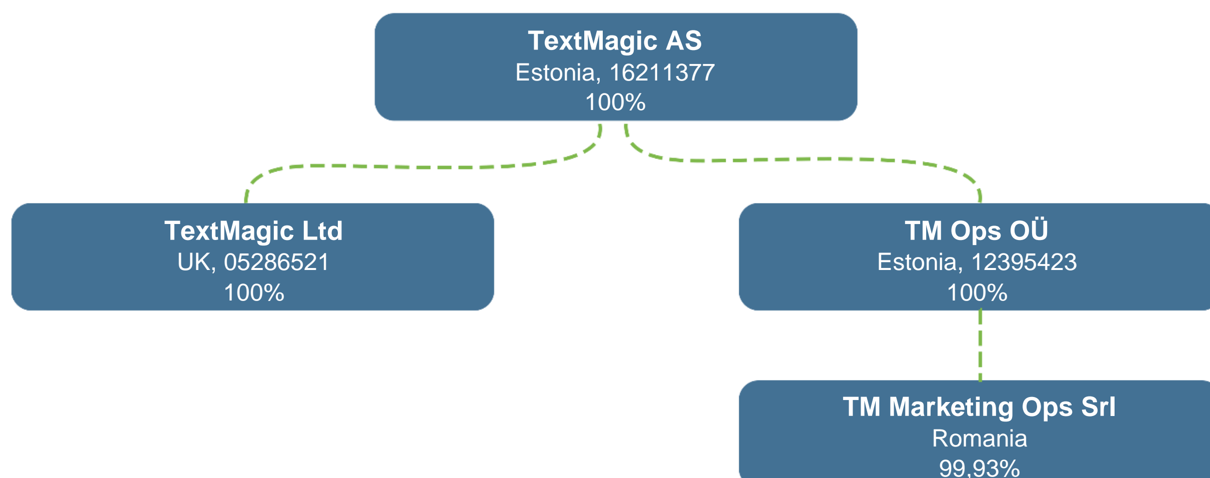
The management board of the Group is composed of one member, Priit Vaikmaa. The supervisory board of the Group is composed of three members: Kärtu Vaikmaa (chairman of supervisory board), Eduard Tark and Iryna Avdus.

History of the Group

TextMagic Ltd. was founded in 2001 by Dan Houghton. In 2007, the current CEO, Priit Vaikmaa, joined TextMagic Ltd. TextMagic has been wholly owned by Estonians since 2013, after Dan vendor-financed a management buyout (MBO). In 2014 TextMagic SMS platform expanded to the United States market and in 2015 the TextMagic Ltd. exceeded annual revenue of EUR 1 million.



Organisational structure



TextMagic AS, an Estonian holding company of the Group, hosts the management and development of the intellectual property and manages business operations.

TextMagic Ltd. functions as the company through which the business activities of TextMagic Group are performed: it is the client-facing entity. Since the United Kingdom is a well-known jurisdiction both for its general stability as well as its legal and commercial environment, having a United Kingdom company function as the client-facing entity makes TextMagic more visible, attractive and trustworthy for clients all over the world.

TM Ops OÜ, an Estonian private limited liability company, is a company providing back-office, support and marketing services for other TextMagic Group companies.

TM Marketing Ops SRL, a Romanian private limited liability company, is the newest member entity of TextMagic Group. It was established to provide marketing and support services to other TextMagic Group companies.

Segment and competition

A2P messaging (application-to-person messaging) is the process of sending SMS messages from a business application to a mobile user. These messages are also known as professional or enterprise messages. A2P has become the go-to-market strategy for businesses and the market is expected to be increasing. Currently TextMagic is estimated to be one of the top ten providers in its segment of small and medium enterprises (SMEs) in both the United States and United Kingdom market.

TextMagic A2P SMS platform business volumes are not significantly impacted by seasonalibility. Certain seasonal and one-time campaigns have some effect on usage, less SMS are sent in holidays.

Due to being an online-based service provider, TextMagic's operations are global, which means that its potential competitors are all companies operating in the field of text messaging and customer engagement services. TextMagic takes into account competitors on a global scale as well as those operating in the markets that TextMagic considers key markets in its operations. Currently these are the United States, the United Kingdom and the European Union.

Economic risk

TextMagic is subject to a broad range of laws, regulations and standards and TextMagic must ensure consistent compliance with applicable legislation, including KYC and compliance, data protection, consumer protection, taxation, direct marketing and other similar regulations. Future changes in applicable laws, regulations, standards and changes in their enforcement or regulatory interpretation could result in changes in legal requirements applicable to TextMagic Group, which could have a material adverse impact on TextMagic current operations and future projects.

TextMagic's policy is to require that all of its activities, including activities of its subsidiaries and sub-contractors comply with applicable laws, regulations and standards. This requires a proactive approach from TextMagic in order to remain aware of any changes in legislation and tailor its business practises accordingly.

Also, violations of such laws, regulations and standards could result in possible damages, fines or other sanctions, increase costs of compliance with potential reputational damage and potential loss of current and future clients.

Social and environmental responsibility

At TextMagic, we value our employees and service providers - they are our greatest asset and we are privileged to have an international team. Our goal is to create a positive working environment for our employees, by treating them with respect and offering a pleasant workplace. We offer our employees fair wages and compensations for their work. We motivate employees by offering share options, recognizing and supporting their personal development and also valuing their personal interests. We find it important that employees separate their work from personal life, so we do not expect employees to perform duties after working hours.

Technology has a beneficial impact on environmental sustainability. TextMagic servers are cloud based. We invest in long-lasting quality equipment. TextMagic avoids unnecessary business travels through online meetings.

TextMagic sales figures and review for 2021, plans for 2022

The unaudited consolidated sales revenue of TextMagic AS, for 2021, amounted to €3.1 million, up from platform sales of €2.3 million in Q4 of 2020.*

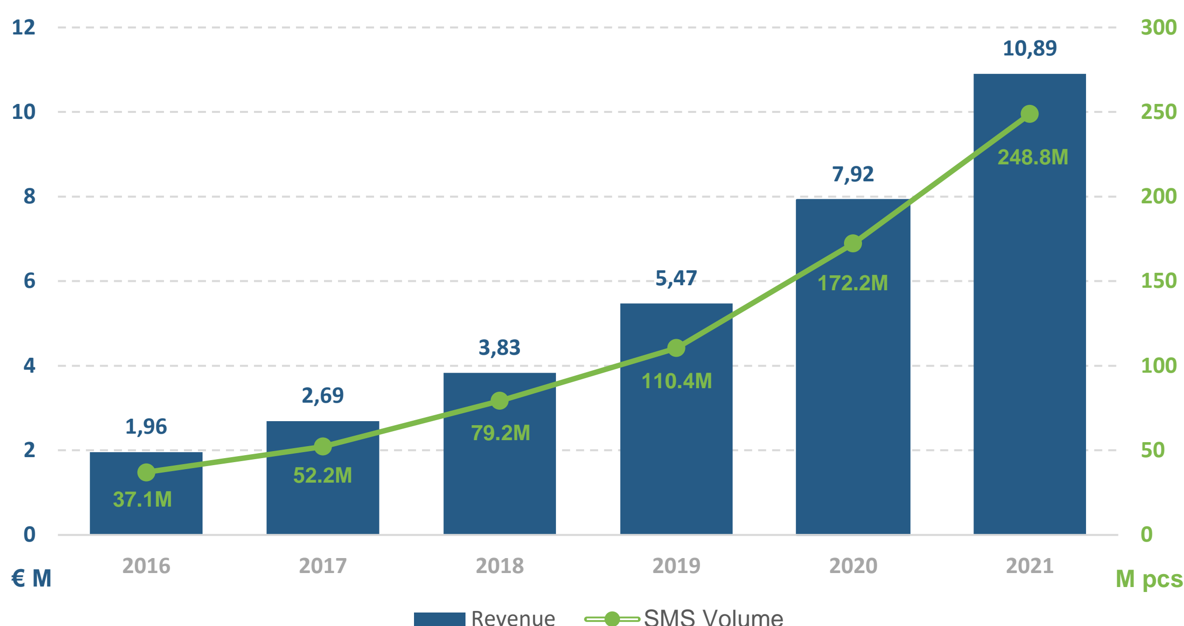
A2P SMS platform business volumes for 2021 **

The pro forma total revenue generated by TextMagic's A2P SMS platform in 2021 increased by 38% from the previous year (€7.9 million in 2020), and total €10.9 million. Excluding exchange rate effects, sales of platform services in our primary U.S. market increased by 44% year-on-year to $7.8 million in 2021, up from $5.4 million in 2020.

	2021	2020	Change
Pro forma sales revenue (million)	€10.9	€7.9	38%
Volume of SMS messages (million)	248.8	172.1	45%
Active users***	31 203	26 194	19%
Average revenue per user (ARPU)	€349.3	€301.6	16%

TextMagic

Pro Forma Total Revenue and SMS Volume



**TextMagic AS's group in its current form has existed since the end of September 2021, which is why we compare figures from the A2P SMS platform from Q4 of 2020.*

***Results of the TextMagic (www.textmagic.com) platform. TextMagic AS's group has existed and is operating in its current form since the end of September 2021, which is why the results of the TextMagic platform have been consolidated in the reports of TextMagic AS since the restructuring.*

****An active user is any paying customer of the TextMagic A2P SMS platform who has sent at least one SMS in 12 months.*

IPO and raising capital

In 2021, TextMagic AS conducted an initial public offering (IPO) of shares of TextMagic AS, which was subscribed by nearly 15 000 investors. The company raised €2.5 million.

TextMagic A2P SMS platform

In order to increase customer retention and ARPU, 2022's plans include launching a monthly subscription service in the United States, the United Kingdom, Australia and Canada.

Presently, A2P SMS services are sold solely via a pay-as-you-go (PAYG) pricing model. A2P SMS customers will soon be able to choose between a monthly subscription, or the PAYG model.

TextMagic AS are also actively recruiting new software engineers (and various other team members) for the TextMagic A2P SMS Product Development team.

Touchpoint product development

In 2021, we began the development of Touchpoint – our new customer engagement product for sales, marketing, and customer support functions.

By using Touchpoint, companies can integrate multiple communication channels (SMS, email, text applications and calls) into one centralised environment.

The Touchpoint development team has grown to 23 members, consisting of product managers, designers and front-end and back-end developers. We are also considering involving outsourced software developers.

By the end of Q1 2022, we will begin beta testing the first set of product modules internally.

A domain name (touchpoint.com) has been acquired for Touchpoint at a cost of 64 thousand euros.

In 2021, we also carried out a large-scale UI/UX design project, in partnership with the Canadian interface design agency, Metalab.

Plans for 2022

TextMagic AS continues to aim for an organic annual growth rate of between 30% and 40%.

Financial ratios

	21.04.2021-31.12.2021
Revenue (in thousand euros)	3 081
EBITDA (in thousand euros)	1 113
EBITDA margin (EBITDA / revenue)	36,1%
Net loss (in thousand euros)	(94)
Net loss margin (Net loss / revenue)	-3,0%
Liquidity ratio (Current assets / current liabilities)	2,3
Debt-to-Equity ratio (Total liabilities / equity)	0,05
Assets-to-Equity ratio (Total assets / equity)	1,05

Priit Vaikmaa

CEO, TectMagic AS

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(in thousand euros)	Note	31.12.2021
Non-current assets		
Property, plant and equipment	8	80
Intangible assets and goodwill	9	51 156
Total non-current assets		**51 236**
Current assets		
Trade and other receivables	13	77
Prepayments	12	129
Cash and cash equivalents		6 035
Total current assets		**6 241**
TOTAL ASSETS		**57 477**
Liabilities		
Current tax liabilities	16	213
Trade and other payables	15	1 091
Contract Liabilities	17	1 458
Total current liabilities		**2 762**
Total liabilities		**2 762**
Equity		
Share capital	14	850
Share premium	14	53 792
Other reserve	14	153
Foreign currency translation reserve		14
Retained earnings		(94)
Total equity attributable to owners of the parent		**54 715**
Non-Controlling interests		0
Total equity		**54 715**
TOTAL EQUITY AND LIABILITIES		**57 477**

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

(in thousand euros)	Note	21.04.2021 - 31.12.2021
Revenue	17	3 081
Other income		1
Goods, raw materials and services	18	(1 039)
Other operating expenses	19	(734)
Work performed by the entity and capitalised		2
Employee expenses	20	(196)
Depreciation, amortization and impairment of non-current assets	8,9	(1 206)
Other expenses		(2)
Operating profit (loss)		**(93)**
Profit (loss) before tax		(93)
Income tax		(1)
Profit (loss) for the period		**(94)**
Other comprehensive income		
Items that are or may be reclassified subsequently to profit or loss		
Foreign currency translation differences		14
Other comprehensive income for the period, net of tax		14
Total comprehensive income for the period		**(80)**

CONSOLIDATED STATEMENT OF CASH FLOWS

(in thousand euros)	Note	21.04.2021-31.12.2021
Cash flows from operating activities		
Profit (loss) for the period		**(94)**
Adjustments for:		
Depreciation and amortization	8, 9	1 206
Deferred income		(32)
Other adjustments		57
Total adjustments		**1 231**
Changes in trade and other receivables		167
Changes in contract liabilities		82
Changes in prepayments		(78)
Changes in trade and other payables		(533)
Net cash from operating activities		**775**
Cash flows from investing activities		
Net cash flows from business combinations	10	3 231
Acquisition of property, plant and equipment	8	(9)
Development expenditure	9	(534)
Net cash used in investing activities		**2 688**
Cash flows from financing activities		
Contribution to the share capital and share premium		2 525
Net cash from financing activities		**2 525**
TOTAL CASH FLOWS		**5 988**
Cash and cash equivalents at the beginning		0
Effect of movements in exchange rates on cash held		47
Cash and cash equivalents at the end		**6 035**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(in thousand euros)	Total equity attributable to owners of TextMagic AS						
	Share capital	**Share premium**	**Other reserve**	**Foreign currency translation reserve**	**Retained earnings**	**Non-controlling interests**	**Total equity**
Balance at 21 April 2021	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Profit (loss) for the period	0	0	0	0	(94)	0	**(94)**
Other comprehensive income for the period	0	0	0	14	0	0	**14**
Transactions with owners of the Company	850	53 792	0	0	0	0	**54 642**
Other changes in equity	0	0	153	0	0	0	**153**
Balance at 31 December 2021	**850**	**53 792**	**153**	**14**	**(94)**	**0**	**54 715**

More detailed information on the Group’s equity items is provided in Note 14.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. GENERAL INFORMATION

TextMagic AS (also referred to as the 'Parent' or the 'Company') is a company incorporated and registered in the Republic of Estonia on 21 April 2021. The Company's registered office is at Mõisa Str 4, Tallinn, 13522. Republic of Estonia. The consolidated financial statements of TextMagic AS at and for the year ended 31 December 2021 comprise the Company and its subsidiaries (together referred to as the 'Group'). The Group is primarily involved in an application-to-person (A2P) SMS platform which permits sending of notifications, alerts, reminders, order confirmations, carrying out SMS marketing campaigns, surveys, 2-way chats and 2-factor authentication.

NOTE 2. BASIS OF ACCOUNTING

The Group's consolidated financial statements as at and for the year ended 31 December 2021 have been prepared in accordance with the Estonian Accounting Act and International Financial Reporting Standards as adopted by the European Union (IFRS). These consolidated financial statements are the Group's first IFRS consolidated financial statements.

The accounting and reporting principles described have been applied consistently to all periods presented.

The management board authorised these 12 months interim consolidated financial statements for issue on 28 February 2022. Under the Estonian Commercial Code, the annual report must also be approved by the supervisory board and the shareholders. The shareholders may decide not to approve the annual report prepared by the management board and approved by the supervisory board and may demand the preparation of a new annual report.

NOTE 3. FUNCTIONAL AND PRESENTATION CURRENCY

These consolidated financial statements are presented in euro, which is the Company's functional currency. All amounts disclosed in the financial statements have been rounded to the nearest thousand unless referred to otherwise.

NOTE 4. USE OF JUDGEMENTS AND ESTIMATES

In preparing these consolidated financial statements, management has made judgements and estimates that affect the application of the Group's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

Management estimates and judgements

Information about judgements made in applying accounting policies that have the most significant effects on the amounts recognised in the financial statements is included in the following notes:

- valuation of property, plant, and equipment.

Tangible assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. According to the management, as at 31.12.2021 there were no indications of impairment of assets therefore no impairment tests for assets were performed.

As of 31.12.2021, the residual value of property, plant and equipment is 80 thousand euros and the residual value of intangible assets is 51 156 thousand euros (Notes 8 and 9).

– Impairment assessment of goodwill:

The Group assesses at least once a year the possible decrease in the carrying amount of goodwill arising on the acquisition of a subsidiary. To determine value in use, management has estimated the future cash flows of the cash-generating units and selected an appropriate discount rate to determine the present value of the cash flows. The carrying amount of goodwill as of 31.12.2021 was 208 thousand euros. Characteristics of goodwill tests identified in 2021 for identified goodwill impairment needs.

Measurement of fair values

A number of the Group’s accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

Fair value' is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

In measuring fair value, a transaction to sell an asset or transfer a liability is assumed to occur either:

– the main market for the asset or liability; or
– if there is no primary market, the most advantageous market.

The Group must have access to the main or most advantageous market on the measurement date.

The measurement of the fair value of an asset or liability uses assumptions that market participants would use in determining the price of the asset or liability, assuming that market participants act in their best economic interests. The measurement of the fair value of a non-financial asset takes into account the ability of the market participant to generate economic benefits by making the best use of the asset or by selling it to the market participant who would make the best use of the asset.

When measuring the fair value of an asset or a liability, the Group uses observable market data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

– Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
– Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices);
– Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Further information about the assumptions made in measuring fair values is included in the following notes:

– Note 7 Financial instruments

NOTE 5. CHANGES IN SIGNIFICANT ACCOUNTING POLICIES

The following new standards, interpretations and amendments were not yet effective for the annual reporting period ended 31 December 2021 and have therefore not been applied in preparing these consolidated financial statements. The Group plans to adopt these pronouncements when they become effective.

Amendments to IAS 1 Presentation of Financial Statements

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

These amendments are not yet endorsed by the EU.

The amendments clarify that the classification of liabilities as current or non-current is based solely on the entity’s right to defer settlement at the end of the reporting period. The company’s right to defer

settlement for at least 12 months from the reporting date need not be unconditional but must have substance. The classification is not affected by management's intentions or expectations about whether and when the entity will exercise its right. The amendments also clarify the situations that are considered settlement of a liability.

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

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

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

These amendments are not yet endorsed by the EU.

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

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

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

The amendments are consistent with the refined definition of material:

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

The Group does not expect the amendments to have an impact on its financial statements when initially applied.

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

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

These amendments are not yet endorsed by the EU.

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

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

Amendments to IAS 12 *Income Taxes*

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

These amendments are not yet endorsed by the EU.

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

and a deferred tax liability for temporary differences arising on initial recognition of a lease and a decommissioning provision.

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

Amendments to IFRS 3 Business Combinations

(Effective for annual periods beginning on or after 1 January 2022. Early application is permitted)

The amendments to IFRS 3 update a reference in IFRS 3 to the 2018 Conceptual Framework for Financial Reporting instead of the 1989 Framework. At the same time, the amendments add a new paragraph to IFRS 3 to clarify that contingent assets do not qualify for recognition at the acquisition date.

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

Amendments to IAS 16 Property, Plant and Equipment

(Effective for annual periods beginning on or after 1 January 2022; to be applied retrospectively. Early application is permitted)

The amendments to IAS 16 require that the proceeds from selling items produced while bringing an item of property, plant and equipment to the location and condition necessary for it to be capable of operating in the manner intended must be recognised, together with the cost of those items, in profit or loss and that the entity must measure the cost of those items applying the measurement requirements of IAS 2.

The amendments must be applied retrospectively, but only to items of property, plant and equipment that are brought to the location and condition necessary for them to be capable of operating in the manner intended on or after the beginning of the earliest period presented in the financial statements in which the entity first applies the amendments. The cumulative effect of initially applying the amendments will be recognised as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at the beginning of that earliest period presented (if necessary).

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

Amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets

(Effective for annual periods beginning on or after 1 January 2022; to be applied retrospectively. Early application is permitted)

In determining costs of fulfilling a contract, the amendments require an entity to include all costs that relate directly to a contract. The amendments clarify that the cost of fulfilling a contract comprises both: the incremental costs of fulfilling that contract and an allocation of other costs that relate directly to fulfilling contracts.

An entity must apply those amendments to contracts for which it has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments (the date of initial application). The entity will not restate comparative information. Instead, the entity will recognise the cumulative effect of initially applying the amendments as an adjustment to the opening balance of retained earnings or other component of equity, as appropriate, at the date of initial application.

The Group does not expect the amendments to have a material impact on its financial statements when initially applied, because in determining costs of fulfilling a contract the Group takes into account both incremental costs and other costs that relate directly to fulfilling contracts.

Annual improvements to IFRS standards 2018-2020

(Effective for annual periods beginning on or after 1 January 2022. Early application is permitted)

Improvements to IFRS (2018-2020) include three amendments to the standards:

- the amendments to IFRS 9 *Financial instruments* clarify that, when assessing whether an exchange of debt instruments between an existing borrower and lender is on terms that are substantially different, the fees to include together with the discounted present value of the cash flows under the new terms include only fees paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf.
- the amendments IFRS 16 *Leases* remove illustrative example 13 accompanying IFRS 16, which in practice creates confusion in accounting for leasehold improvements for both lessee and lessor. The purpose of the amendment is to remove the illustrative example that creates confusion.
- the amendments to IAS 41 *Agriculture* removes the requirement to use pre-tax cash flows to measure fair value of agriculture assets. Previously, IAS 41 had required an entity to use pre-tax cash flows when measuring fair value but did not require the use of a pre-tax discount rate to discount those cash flows.

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

Other changes

Other new standards, amendments to standards and interpretations that are not yet effective are not expected to have a significant impact on the Group's financial statements.

NOTE 6. ACCOUNTING POLICIES

The Group has consistently applied the following accounting policies to all periods presented in these consolidated financial statements, except if mentioned otherwise.

A. Basis of consolidation

i. Business combinations

As of the acquisition date, the acquirer recognizes its interest in the acquiree's assets, liabilities and contingent liabilities and goodwill arising in its consolidated balance sheet and its share of the acquiree's income and expenses in the consolidated income statement. Consolidation of subsidiaries is terminated when the parent loses control of the subsidiary. Business combinations are accounted for in the consolidated financial statements using the purchase method.

ii. Subsidiaries

Subsidiaries are entities controlled by the Group. The Group 'controls' an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

iii. Non-controlling interests

NCI are measured initially at their proportionate share of the acquiree's identifiable net assets at the date of acquisition.

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

iv. Loss of control

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary and any related NCI and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

v. Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses (except for foreign currency transaction gains or losses) arising from intra-group transactions, are eliminated.

B. Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, current accounts and short-term (with a maturity of up to three months) highly liquid investments that are readily convertible to known amounts of cash and subject to an insignificant risk of changes in value such as term deposits with a maturity of up to three months and units in money market funds.

The statement of cash flows is prepared using the indirect method whereby the net cash flow from operating activities is determined by adjusting net profit or loss for the effects of gains and losses associated with investing or financing activities, transactions of a non-cash nature and changes during the period in current assets and current liabilities related to operating activities.

Cash flows from investing and financing activities are reported by disclosing gross cash receipts and gross cash payments. Non-cash transactions are excluded.

C. Functional and presentation currency

The functional currency of each consolidated entity of the Group is the currency of the primary economic environment in which the entity operates. The functional currency of the Group’s Estonian subsidiaries is the EUR and the functional currency of the United Kingdom subsidiary is the GBP and Romanian subsubsidiary is the RON. The presentation currency of the Group is the official currency of the Republic of Estonia, the euro (EUR).

i. Foreign currency transactions

Transactions in foreign currencies are translated into the respective functional currencies of Group companies at the exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the exchange rate at the reporting date. Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the functional currency at the exchange rate when the fair value was determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated at the exchange rate at the date of the transaction. Foreign currency differences are generally recognised in profit or loss and presented within finance costs.

ii. Foreign operations

The following principles apply to the translation into the presentation currency of the financial statements of foreign operations:

- The assets and liabilities of all foreign operations are translated at the exchange rate of the European Central Bank at the balance sheet date;
- Income and expenses are translated at the average exchange rates of the period;
- Foreign currency differences are recognised in OCI and accumulated in the translation reserve, except to the extent that the translation difference is allocated to NCI.

When a foreign operation is disposed of in its entirety or partially such that control, significant influence or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. If the Group disposes of part of its interest in a subsidiary but retains control, then the relevant proportion of the cumulative amount is reattributed to NCI. When the Group disposes of only part of an associate or joint venture while retaining

significant influence or joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.

D. Financial assets and liabilities

i. Recognition and initial measurement

Trade receivables are recognised at origination. All other financial assets and liabilities are recognised when the Group becomes party to the contractual provisions of the instrument.

At initial recognition, the Group measures a financial asset or financial liability at its fair value plus or minus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. Trade receivables that do not contain a significant financing component are measured at initial recognition at the transaction price.

ii. Classification, subsequent measurement and gains and losses

Financial assets

After initial recognition, the Group measures a financial asset at amortised cost, fair value through other comprehensive income, or fair value through profit or loss.

Financial assets are not reclassified subsequent to initial recognition unless the Group changes its business model for managing financial assets in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in business model.

A financial asset is measured at amortised cost if both of the following conditions are met (and is not designated as at FVTPL):

– the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
– the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The Group classifies cash and cash equivalents, trade receivables, loans provided, and other receivables as financial assets measured at amortised cost.

A financial asset is measured at fair value through other comprehensive income if both of the following conditions are met and it has not been designated as a financial asset at fair value through profit or loss:

– the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
– the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All financial assets that have not been classified as financial assets measured at amortised cost or at fair value through other comprehensive income as described above are measured at fair value through profit or loss.

The following table provides an overview of the Group's financial assets and their measurement and recognition of gains and losses.

Amortised cost	Assets designated to this category are measured at amortised cost using the effective interest method. In determining amortised cost, impairment losses are deducted from the carrying amount. Interest income, foreign exchange gains and losses and impairment losses on the assets are recognised in profit or loss. A gain or loss arising on derecognition is recognised in profit or loss.

Financial liabilities

Financial liabilities are classified as subsequently measured at amortised cost or fair value through profit or loss. A financial liability is classified as measured at fair value through profit or loss when it is held for trading, is a derivative, or designated as such upon initial recognition. Financial liabilities at fair value through profit or loss are measured at fair value and any gain or loss on them as well as any interest expense is recognised in profit or loss.

Other financial liabilities are measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses on them are recognised in profit or loss. Gains and losses arising on derecognition are recognised in profit or loss.

iii. Derecognition

Financial assets

The Group derecognises a financial asset when, and only when, its contractual rights to the cash flows from the financial asset expire or when the Group transfers the financial asset and the transfer qualifies for derecognition.

Financial liabilities

The Group removes a financial liability from its statement of financial position when, and only when, it is extinguished. That is, when the obligation specified in the contract is discharged or cancelled or expires. A financial liability is derecognised when its terms are substantially modified so that its cash flows become significantly different from the originally agreed ones. In that case the Group recognises a new financial liability based on the modified terms and measures it at fair value.

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

iv. Offsetting

A financial asset and a financial liability are offset and the net amount presented in the statement of financial position when, and only when, the Group currently has a legally enforceable right to set off the recognised amounts and it intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

v. Impairment of financial assets

The Group recognises a loss allowance for expected credit losses on a financial asset measured at amortised cost.

The Group measures the loss allowance for a financial asset at an amount equal to lifetime expected credit losses except for financial assets whose loss allowance is measured at an amount equal to 12-month expected credit losses such as:

- other receivables;
- cash and cash equivalents whose credit risk has not increased significantly since initial recognition.

The Group accounts for expected credit losses on all trade receivables using the simplified approach provided in IFRS 9 that allows recognising the loss allowance at an amount equal to lifetime expected credit losses.

The Group always recognises the loss allowance for trade receivables at an amount equal to lifetime expected credit losses. The expected credit losses on trade receivables are calculated using a provision matrix, which is based on the Group's historical credit loss experience, adjusted for factors specific to the debtors, general economic conditions and, where appropriate, the time value of money.

Expected credit losses are a probability-weighted estimate of credit losses. A credit loss is a difference between the cash flows that are due to the Group in accordance with the contract and the cash flows that the Group expects to receive, discounted at the financial asset's effective interest rate.

At each reporting date, the Group assesses whether a financial asset measured at amortised cost might be credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- significant financial difficulty of the debtor,
- a breach of contract (such as a default or past due event),
- the Group, for reasons relating to the debtor's financial difficulty, has granted the debtor concessions in restructuring the amount due that it would otherwise not have considered,
- it is becoming probable that the debtor will encounter financial difficulty.

The carrying amount of a financial asset measured at amortised cost is reduced by the amount of its loss allowance.

E. Property, plant and equipment

i. Recognition and measurement

Items of property, plant and equipment are measured at cost, which includes capitalised borrowing costs, less accumulated depreciation and any accumulated impairment losses.

If significant parts of an item of property, plant and equipment have different useful lives, then they are accounted for as separate items (major components) of property, plant and equipment.

Any gain or loss on disposal of an item of property, plant and equipment is recognised in profit or loss.

ii. Subsequent expenditure

Subsequent expenditure is capitalised only if it is probable that the future economic benefits associated with the expenditure will flow to the Group.

iii. Depreciation

Depreciation is calculated to write off the cost of items of property, plant and equipment less their estimated residual values using the straight-line method over their estimated useful lives, and is generally recognised in profit or loss. Land is not depreciated.

Asset classes are assigned the following annual depreciation rates:

– office equipment: 20%
– computer equipment: 33%

Depreciation methods, annual depreciation rates and residual values are reviewed at each reporting date and adjusted if appropriate.

F. Intangible assets and goodwill

i. Recognition and measurement

Research and development	Expenditure on research activities is recognised in profit or loss as incurred. Development expenditure is capitalised only if the expenditure can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable and the Group intends to and has sufficient resources to complete development and to use or sell the asset. Otherwise, it is recognised in profit or loss as incurred. Subsequent to initial recognition, development expenditure is measured at cost less accumulated amortisation and any accumulated impairment losses.
Other intangible assets	Other intangible assets that are acquired by the Group and have finite useful lives are measured at cost less accumulated amortisation and any accumulated impairment loss.

ii. Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in profit or loss as incurred.

iii. Amortisation

Amortisation is calculated to write off the cost of intangible assets less their estimated residual values using the straight-line method over their estimated useful lives, and is generally recognized in profit or loss.

Asset classes are assigned the following annual depreciation rates:

- development costs: 14%
- other intangible assets: 10%

Amortisation methods, annual depreciation rates and residual values are reviewed at each reporting date and adjusted if appropriate.

G. Impairment of non-financial assets

At each reporting date, the Group reviews the carrying amounts of its non-financial assets (other than biological assets, investment property, inventories, and deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs of disposal. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

An impairment loss is recognised if the carrying amount of an asset or CGU exceeds its recoverable amount.

Impairment losses are recognised in profit or loss. They are allocated to carrying amounts of the CGU assets on a pro rata basis.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

H. Leases

At inception of a contract, the group assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control and use an identified asset for a period of time in exchange for consideration. In assessing whether a contract conveys the right to control and use an identified asset, the group applies the definition of a lease as set out in IFRS 16.

i. The group as a lessee

When entering into or modifying a contract that contains a lease component, the group allocates the consideration in the contract to each lease component on the basis of their stand-alone price.

The group recognises a right-of-use asset and a lease liability at the commencement date of the lease. The right-of-use asset is initially measured at cost, at an amount equal to the initial measurement of the lease liability. The amount of the initial measurement of the lease liability is adjusted for any advance lease payments, any direct costs incurred and any restoration costs to be incurred (in dismantling the asset and restoring the site or the asset). Any lease incentives received are deducted from this amount.

The group has elected not to recognise right-of-use assets and lease liabilities for short-term leases and leases for which the underlying asset is of low value. The group recognises these lease payments as an expense on a straight-line basis over the lease term.

I. Financial investments

Current and non-current financial investments in shares and other equity instruments (except for investments in subsidiaries and associates) are stated initially at cost. Equity instruments are

subsequently measured at fair value. Dividends are recognised as income in profit or loss. Other net gains and losses are recognised in OCI and are never reclassified to profit or loss.

i. Shares in subsidiaries and associates

Investments in subsidiaries are stated at cost in the parent company's unconsolidated balance sheet. Under the acquisition cost method, the initial acquisition cost is adjusted in subsequent periods, if necessary, for impairment losses on the investment. An assessment is made at each reporting date as to whether there is any indication that the recoverable amount of an investment may have fallen below its carrying amount. If such indications exist, an asset value test is performed. Dividends paid by the investee are recognized as income when the investor becomes entitled to the dividends.

An associate is an entity over which the entity has significant influence but not control. In general, significant influence is presumed to exist when a group holds 20-50% of the voting power of an enterprise. A joint venture is an arrangement in which the Group has joint control, whereby the Group has rights to the net assets of the arrangement, rather than rights to its assets and obligations for its liabilities.

Investments in associates and joint ventures are accounted for using the equity method. Under the equity method, an investment is initially recognized at cost, adjusted for the following periods:

- the investor 's interest in the changes in equity of the investee;
- amortization of goodwill and any impairment losses on acquisition; and
- recognizing negative goodwill arising on acquisition as income.

Dividends paid by an associate or joint venture are recognized as an impairment loss on the investment.

J. Employee benefits

i. Current employee benefits

Short-term employee benefits are expensed as the related service is provided. A liability is recognised for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

ii. Termination benefits

Termination benefits are expensed at the earlier of when the Group can no longer withdraw the offer of those benefits and when the Group recognises costs for a restructuring. If benefits are not expected to be settled wholly within 12 months of the reporting date, then they are discounted.

K. Share-based payments

Group operates a share-based compensation plan, under which the company receives services from group employees and other service providers as consideration for equity instruments (options) of TextMagic AS. The fair value of the employee and other service provider services received in exchange for the grant of the options is recognised during the shared-based compensation program as group’s staff expense and as an increase in the equity (other reserves). The total amount to be expensed is determined by the fair value at the time of issuing the options.

At the end of each reporting period, the Group revises its estimates of the number of options that are expected to vest based on the vesting conditions (other than market conditions). The impact of the revision to original estimates, if any, is recognised in the statement of profit or loss, with a corresponding adjustment to equity.

L. Revenue

Revenue is measured based on the consideration agreed in the contract signed with the customer. The Group recognises revenue when (or as) it satisfies the performance obligation by transferring the goods or service to the customer.

The Group provides a licence to customers to access a text-messaging platform and use it for numerous services. The customers do not pay separately to access the platform but instead pay for usage-based services.

The table below provides information about the nature and timing of performance obligations arising from contracts with customers and related revenue accounting policies.

Type of product/service	Nature and timing of the satisfaction of the performance obligation, important payment terms	Revenue recognition
Text-messaging services and other related services	The Group offers various services such as sending and receiving of SMS and MMS, two-way SMS chat, e-mail to SMS, calls, call forwarding and carrier lookup services to the customers. Revenue is recognised on usage-based royalties.	Revenue from text-messaging services and other related services is recognised at a point in time when the customer uses the service on the platform and gains benefit from it. Advances received are included in contract liabilities.
Virtual mobile number services	The Group provides virtual phone number services. Revenue is recognised on usage-based royalties. The Group receives prepayments from customers as considerations for the virtual phone number services and customers are charged monthly for the services provided.	Revenue from virtual mobile number services is recognised during the period which customers use the services. Revenue is based on actual services provided. Advances received are included in contract liabilities.

M. Statutory capital reserve

Under the Estonian Commercial Code and the articles of association of the parent company, every year the parent has to transfer at least 5% of its net profit to the capital reserve until the reserve amounts to 10% of share capital. The statutory capital reserve may not be distributed as dividends, but it may be used for covering losses if losses cannot be covered with unrestricted equity. The capital reserve may also be used for increasing share capital.

N. Income tax

Income tax expense comprises current and deferred tax. It is recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in OCI.

i. Current tax

Current tax comprises the expected tax payable or recoverable on the taxable income or loss for the year and any adjustment to the tax payable or receivable in respect of previous years. The amount of current tax payable or receivable is the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes, if any. It is measured using tax rates enacted or substantively enacted at the reporting date. Current tax also includes any tax arising from dividends.

Current tax assets and liabilities are offset only if certain criteria are met.

ii. Corporate income tax in Estonia

In accordance with the Income Tax Act of the Republic of Estonia, Estonian entities do not pay income tax on profit earned. Instead, Estonian entities pay corporate income tax on profit distributions: dividends, fringe benefits, gifts, donations, entertainment expenses, non-business expenditures and transfer price adjustments. The standard income tax rate for dividends distributed from retained earnings is 20% (the amount of tax payable is calculated as 20/80 of the net dividend distribution (2019: 20%)). Starting from 2019, dividend distributions are also taxed at 14% (with the amount of tax payable

calculated as 14/86 of the net distribution). The more favourable tax rate applies to the portion of an entity's dividend distribution that does not exceed the entity's past three years' average dividend distribution that has been taxed in Estonia. The rest of the dividend is taxable at 20%. In calculating the past three years' average dividend distribution, 2018 is first year that is taken into account.

iii. Corporate income tax in United Kingdom

In the United Kingdom corporate profits are taxable with income tax. Taxable income is calculated by adjusting profit before tax for permanent and temporary differences as permitted by local tax laws. The corporate income tax rate is 19% on taxable income.

iv. Deferred tax

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is not recognised for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or tax loss;
- temporary differences related to investments in subsidiaries, associates and joint arrangements to the extent that the Group is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised; such reductions are reversed when the probability of future taxable profits improves.

Unrecognised deferred tax assets are reassessed at each reporting date and recognised to the extent that it has become probable that future taxable profits will be available against which they can be used.

Deferred tax is measured at the tax rates that are expected to apply to temporary differences when they reverse, based on tax rates enacted or substantively enacted at the reporting date, and reflects uncertainty related to income taxes, if any.

Deferred tax assets and liabilities are offset only if certain criteria are met.

O. Related parties

For the purposes of these consolidated financial statements, parties are related if one controls the other or can exert significant influence on the other's operating decisions. Related parties include:

- owners of the parent company;
- other companies belonging to the same Group; and
- members of the Group's management and supervisory boards and shareholders with a significant ownership interest unless those persons cannot exert significant influence on the Group's operating decisions.

In addition, related parties include close family members of the above persons and companies related to them.

P. Segment reporting

An operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses and for which financial information is available. An operating segment's results are subsequently reviewed by the management of the Group in order to assess the performance of and allocate resources to the operating segment.

The Group has one business activity and operate in one reportable segment.

O. Events after the reporting period

The consolidated financial statements reflect all significant events affecting the valuation of assets and liabilities that became evident between the reporting date and the date on which the financial statements were authorised for issue but are related to the reporting or prior periods.

Subsequent events that are indicative of conditions that arose after the reporting date but which will have a significant effect on the result of the next financial year are disclosed in the notes to the consolidated financial statements.

NOTE 7. FINANCIAL INSTRUMENTS – FAIR VALUES AND RISK MANAGEMENT

A. Accounting classifications and fair values

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

(in thousand euros)	Carrying amount	Fair value
	31.12.2021	31.12.2021
Financial assets measured at amortised cost		
Receivables to related parties (Note 13, 22)	77	77
Cash and cash equivalents	6 035	6 035
Total financial assets	**6 112**	**6 112**
Financial liabilities measured at amortised cost		
Trade payables (Note 15)	223	223
Payables to related parties (Note 15, 22)	718	718
Contract liabilities (Note 17)	1 458	1 458
Other payables (Note 15)	150	150
Total financial liabilities	**2 549**	**2 549**

B. Financial risk management

i. Credit risk

Credit risk is the risk of financial loss to the Group if a customer or a party to a financial instrument fails to meet its contractual obligations and arises primarily from the Group's trade receivables.

Due to the specifics of the Group's business activity, where the provision of the service is paid for in advance, the Management Board assesses that the Group is not exposed to significant credit risks, related to financial assets.

Cash and cash equivalents

As at 31 December 2021, the Group had cash and cash equivalents in the amount of 6 035 thousand euros.

Bank / Service provider	Moody's	Standard & Poor's	31.12.2021
HSBC UK Bank plc	A1	A+	1 970
ING Bank N.V. Amsterdam Sucursala Bucuresti,	Aa3	A+	10
LHV Pank AS	A3	-	2 114
Swedbank AS	Aa3	A+	184
Paypal	-	-	52
Stripe	-	-	244
Wise	-	-	1 461

The Group estimates that the credit risk of cash and cash equivalents is low based on credit ratings issued to financial institutions.

ii. Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with the transfer of cash or another financial asset. Long-term liquidity risk is the risk that the Group will not have sufficient free cash or other sources of liquidity to cover future liquidity needs to implement its business plan and meet its obligations, or that the Group will therefore have to raise available funds in a limited time.

The objective of the Group is to keep the Group's financing needs and financing opportunities in balance. Liquidity risks for the Group are managed centrally within the parent company. The aim of the Group's liquidity risk management is to maintain sufficient amount of cash and its equivalents, and to ensure the availability of funding. Currently the cash flows from operating activities and latest IPO in 2021 have been sufficient to maintain and grow the business. So far there has been no need to use external financing. To manage the liquidity risk, the Group considers to use various sources of financing, where necessary and justified.

Exposure to liquidity risk

The remaining contractual maturities of financial liabilities as at the reporting date are as follows. The amounts are gross and undiscounted and include contractual interest payments.

31 December 2021 (in thousand euros)	Contractual cash flows					
	Gross carrying amount	1-3 months	4-12 months	1-5 years	Over 5 years	Total
Trade payables (Note 15)	223	223	0	0	0	223
Payables to related parties (Note 15, 22)	718	718	0	0	0	718
Other payables (Note 15)	150	150	0	0	0	150
Total	**1 091**	**1 091**	**0**	**0**	**0**	**1 091**

iii. Market risk

Market risk is the risk that changes in market prices, such as commodities, exchange rates, interest rates and capital prices, will affect the Group's income or the value of investments in financial instruments. The purpose of market risk management is to manage and keep positions exposed to market risk within acceptable limits while optimising returns.

iv. Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will be volatile because of changes in foreign exchange rates.

The Group is exposed to transactional foreign currency risk to the extent that there is a mismatch between the currencies in which sales, purchases, receivables and borrowings are denominated and the respective functional currencies of Group companies.

The functional currencies of Group companies are primarily the euro, British pound sterling (GBP), Romanian leu (RON). The currencies in which these transactions are primarily denominated are euro, US dollar and British pound sterling.

Considering the international nature of the business of TextMagic, it is exposed to changes in currency exchange rates. Such changes may have an impact on the financial performance of the TextMagic Group in a negative manner. Foreign currency risk arises from the possible mismatch of the Group's foreign currency assets and liabilities. For other monetary assets and liabilities denominated in foreign currencies, the Group ensures that its exposure to foreign exchange fluctuations is maintained at an acceptable level based on the prevailing conditions. To achieve this, the Group buys and sells foreign currency at current exchange rates, if necessary, to cope with the negative effects of short-term exchange rate fluctuations. The Group does not use derivative instruments to hedge currency risks.

Exposure to currency risk

The summary quantitative data about the Group's exposure to currency risk as reported to the management of the Group is as follows.

(in thousand euros)	31.12.2021		
	AUD	GBP	USD
Cash and cash equivalents	9	2 577	1 035
Trade receivables	0	0	0
Receivables to related parties	0	2	0
Trade payables	0	(3)	(5)
Payables to related parties	0	0	0
Other payables	0	(2)	(105)
Net statement of financial position exposure	**9**	**2 574**	**925**

Sensitivity analysis

A reasonably possible strengthening (weaking) of the USD, GBP, RON against all other currencies at 31 December would have affected the measurement of financial instruments denominated in foreign currency and affected equity and profit or loss by the amounts shown below. This analysis assumes that all other variables remain constant and ignores any impact of forecasts sales and purchases.

Transactions in RON are considered from group perspective immaterial and do not bear significant currency risk.

(in thousand euros)	EBIDTA	
	Strengthening	Weakening
31.12.2021		
GBP (5% movement)	30	(30)
USD (5% movement)	88	(80)

v. Interest rate risk

Interest rate risk is the risk that the fair values of future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

As of 31 December 2021, there are no interest bearing loans and liabilities.

C. Capital management

The Group's policy is to maintain a strong capital base to maintain investor, creditor and market confidence and to sustain future development of the business. Management monitors the return on capital, as well as the level of dividends to ordinary shareholders.

The Group monitors capital using a ratio of "net debt" to "equity". Net debt is calculated as total liabilities less cash and cash equivalents. Equity comprises all components of equity. The Management Board of TextMagic AS decides the company's capital structure and dividend policy. The Group's net debt to equity ratio at 31 December 2021 was follows:

(in thousand euros)	31.12.2021
Total liabilities	2 762
Less: cash and cash equivalents	6 035
Total	**(3 273)**
Total equity	54 715
Net debt to equity ratio	**-6,0%**

NOTE 8. PROPERTY, PLANT AND EQUIPMENT

(in thousand euros)	Office equipment	Computer equipment	Other tangible assets	Total
Cost at 21 April 2021	0	0	0	**0**
Accumulated depreciation at 21 April 2021	0	0	0	**0**
Carrying amounts at 21 April 2021	**0**	**0**	**0**	**0**
Additions	0	9	0	**9**
Acquisitions through business combinations	44	26	9	**78**
Depreciation	(3)	(3)	(1)	**(7)**
Cost at 31 December 2021	64	47	17	**128**
Accumulated depreciation at 31 December 2021	(23)	(16)	(9)	**(48)**
Carrying amounts at 31 December 2021	**41**	**31**	**8**	**80**

NOTE 9. INTANGIBLE ASSETS

(in thousand euros)	Goodwill	Software*	Other intangible assets	Uncomplete software**	Total
Cost at 21 April 2021	0	0	0	0	**0**
Accumulated amortization at 21 April 2021	0	0	0	0	**0**
Carrying amounts at 21 April 2021	**0**	**0**	**0**	**0**	**0**
Additions	0	200	0	429	**629**
Amortization	0	(1 136)	(63)	0	**(1 199)**
Acquisitions through business combinations	208	31 742	2 530	17 246	**51 726**
Cost at 31 December 2021	208	31 942	2 530	17 675	**52 355**
Accumulated amortization at 31 December 2021	0	(1 136)	(63)	0	**(1 199)**
Carrying amounts at 31 December 2021	**208**	**30 806**	**2 467**	**17 675**	**51 156**

** Software consists of capitalized development expenses on TextMagic SMS platform software.*

*** Uncomplete software consists of capitalized development expenses on TouchPoint software, which is expected to be launched in 2023.*

NOTE 10. BUSINESS COMBINATION

On 23 September 2021 TextMagic AS acquired via a non-monetary contribution from its shareholders the following assets:

- 100% of issued share capital of TextMagic Ltd.;
- 100% of issued share capital of TM Ops OÜ;
- the software which TextMagic uses to conduct its business, A2P SMS marketing software “TextMagic”;
- the customer engagement software “Touchpoint”;
- trademark “TextMagic”;
- two domains, textmagic.com and touchpoint.com.

Pursuant to IFRS 3,

- a business combination is a transaction or other event in which an acquirer obtains control of one or more businesses, and
- an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing goods or services to customers, generating investment income or generating other income from ordinary activities.

While business combinations involving entities under common control, such as the non-monetary contribution referred to above, are excluded from the scope of IFRS 3, the management may refer to IFRS 3 in determining a policy for such transactions and decide to adopt the acquisition method in their accounting policy. The Group’s management considers this transaction to be as a business combination as the Group has acquired a business rather than merely a collection of disparate assets.

The Group’s management has made the allocation of the consideration transferred (the value of the non-monetary contribution) based on estimates that are considered reasonable.

The assets were transferred to the Group by its shareholders in exchange for shares in the Group. In total the shareholders received 7 750 000 Shares for their contributions. The contributions were made at a premium, i.e., the value of the contributions was appraised to exceed the no-par value of the Shares. The value of the contributions was appraised by the Management Board, based on an independent appraisal conducted by LHV Pank AS, to amount to 52 117 kEUR. The latter appraisal was conducted using three internationally recognised valuation methods: the discounted cash flow method (DCF), the guideline public company method (GPCM) and the guideline transactions method (GTM). The assets were appraised using each of the methods, and the overall valuation represented a weighted average, with the result obtained via the discounted cash flow method being attributed 60% of the total weight, and the results obtained via each of the other two methods, 20% of the total weight.

The assets and liabilities recognised in purchase consideration are as follows as at transaction date:

(in thousand euros)	Fair value
Cash	3 231
Trade and other receivables	427
Plant and equipment	78
Trade payables	(1 556)
Other payables	(413)
Contract liabilities	(1 376)
Intangible assets	51 518
Net identifiable assets acquired	**51 909**
Goodwill	208
Net assets acquired	**52 117**
Total value of the non-monetary contribution	**52 117**
Total cash flow	**3 231**

The balance sheet value and the fair value of assets and liabilities received are considered to be the same.

NOTE 11. INVESTMENTS IN SUBSIDIARIES

Investments of the Group's parent company in subsidiaries as of the end of the reporting period:

Subsidiary	Core business	Domicile	Ownership interest at 31 Dec 2021
TextMagic Ltd	Client-facing entity of the TextMagic SMS platform	United Kingdom	100,00%
TM Ops OÜ	Back-Office, Support & Marketing services	Estonia	100,00%
TM Marketing Ops SRL	Marketing services	Romania	99,93%

On September 23, 2021, the Group acquired 100% of TM Ops OÜ and TextMagic Ltd through a non-monetary contribution (Note 10).

NOTE 12. PREPAYMENTS

(in thousand euros)	31.12.2021
Prepaid taxes	70
Prepaid expenses	59
Total	**129**
Non-current	0
Current	129
Total	**129**

Fair values of prepayments

Due to the short-term nature of the current prepayments, their carrying amount is considered to be the same as their fair value.

NOTE 13. TRADE AND OTHER RECEIVABLES

(in thousand euros)	Note	31.12.2021
Receivables from related parties	22	77
Total		**77**
Non-current		0
Current		77
Total		**77**

Fair values of trade receivables

Due to the short-term nature of the current receivables, their carrying amount is considered to be the same as their fair value.

Credit risk, market risk and impairment of financial assets

Information on the Group's credit and market risks and credit losses due to impairment of receivables is provided in Note 7.

NOTE 14. CAPITAL AND RESERVES

Share capital and share premium

The share capital as of 31 December 2021 was in the amount of 850 thousand euros is divided into 8 500 000 ordinary shares with a nominal value of 0.1 euros per share. The share capital consists of:

- 25 thousand euros contributed at establishment;
- 775 thousand euros contributed as a non-monetary contribution on 23 September 2021;
- 50 thousand euros contributed as a result of IPO on 15 December 2021.

The share premium is on total of 53 792 thousand euros and consists of:

- 51 342 thousand euros which was recognized as a result of a non-monetary contribution on 23 September 2021;
- 2 450 thousand euros which was recognized as a result of IPO on 15 December 2021.

Dividends

Information on the Group's retained earnings and contingent income tax liability is disclosed in Note 16.

Nature and purpose of reserves

Foreign currency translation reserve

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations. Foreign currency translation reserve recognised 21.04.2021 – 31.12.2021 was in total of 14 thousand euros.

Other reserves

Other reserves comprise the share-based payments reserve which is used to recognise options issued to employees and other service providers but not exercised.

The total number of options granted but not exercised as of 31.12.2021 was 429 000. The exercise price per share is 0,1 € per share.

Reserves for options granted was recognised it total of 153 thousand euros as of 31 December 2021.

NOTE 15. TRADE AND OTHER PAYABLES

(in thousand euros)	Note	31.12.2021
Trade payables		223
Payables to related parties	22	718
Total trade payables		**941**
Payables to employees		43
Other accrued liabilities		107
Total other payables		**150**
Total		**1 091**

Non-current	0
Current	1 091
Total	**1 091**

Trade payables are unsecured and are usually paid within 30 days of recognition.

The carrying amounts of trade and other payables are considered to be the same as their fair values, due to their short-term nature.

NOTE 16. INCOME TAX AND TAX LIABILITIES

Amounts recognised in profit or loss

(in thousand euros)	31.12.2021
Current tax for the year	1
Income tax for the year	**1**
Profit (loss) before tax	**(93)**
Tax using the Company's domestic tax rate	0
Effect of tax rates in foreign jurisdictions	1
Income tax for the year	**1**
Effective tax rate	-1%

Tax liabilities

(in thousand euros)	31.12.2021
Value-added tax	142
Personal income tax	11
Corporate income tax	33
Social security tax	24
Funded pension contributions	1
Unemployment insurance contributions	1
Other tax payables	1
Total	**213**
Non-current	**0**
Current	**213**
Total	**213**

Unrecognised deferred tax liabilities

At 31 December 2021, there was a deferred tax liability of 0 euros for temporary differences of 36 thousand euros related to investments in subsidiaries. However, this liability was not recognised because the Group controls the dividend policy of its subsidiaries – i.e. the Group controls the timing of reversal of the related taxable temporary differences and management is satisfied that they will not reverse in the foreseeable future.

NOTE 17. REVENUE

(in thousand euros)	21.04.2021-31.12.2021
Sales to countries other than the European Union	
United States	1 803
United Kingdom	654
Australia	155
Canada	150
Other countries	125
Total sales to countries other than the European Union	**2 887**
Sales to countries of the European Union	
Countries of the European Union	194
Total sales to European Union countries	**194**
Total revenue	**3 081**

Major products/service lines	
Text-messaging services	2 656
Virtual mobile number services	363
Other TextMagic platform services	62
Total revenue	**3 081**

Timing of revenue recognition	
At a point in time	0
Over time	3 081
Total revenue from contracts with customers	**3 081**

The contract liabilities primarily relate to the advance consideration received from customers for which revenue is recognised over time. Contract liabilities will be recognised as revenue when services have been provided to customers.

Contract balances

The following table provides information about receivables, contract assets and contract liabilities from contracts with customers.

(in thousand euros)	Note	31.12.2021
Receivables, which are included in ‘trade and other receivables	13	0
Contract liabilities		1 458
Total		**1 458**

No information is provided about remaining performance obligations at 31 December 2021 that have an original expected duration of one year or less, as allowed by IFRS 15.

NOTE 18. GOODS, RAW MATERIALS AND SERVICES

(in thousand euros)	21.04.2021-31.12.2021
Payment processing fees	(97)
Purchased services	(883)
Other software expense	(59)
Total	**(1 039)**

NOTE 19. OTHER OPERATING EXPENSES

(in thousand euros)	21.04.2021-31.12.2021
Office expenses	(29)
Administrative expenses	(7)
Software expenses	(105)
Legal and other professional service costs	(157)
Accounting and audit expenses	(51)
Marketing expenses	(260)
Recruitment and other personnel expenses	(13)
Exchange rate variance and foreign currency gains and losses	(33)
Other operating expenses	(79)
Total	**(734)**

NOTE 20. EMPLOYEE EXPENSES

(in thousand euros)	21.04.2021 - 31.12.2021
Salary expenses	(111)
Share option expense*	(59)
Social security charges	(26)
Total	**(196)**
Average number of personnel converted to full-time equivalent	14
Average number of staff by employment relationship:	
Personnel working under employment contracts	14

** Estimated expense from option agreements with employees.*

NOTE 21. SEGMENT REPORTING

Operating segments have been specified by the management on the basis of the reports monitored by the Management Board of the Parent Company TextMagic AS. The Management Board considers the business from the group perspective as one operating segment. The Management board primary uses a measure of revenue and EBITDA and the growth of those measures to assess the performance of the operating segment.

(in thousand euros)	TextMagic A2P SMS platform
Revenue	3 081
Goods, raw materials and services	(1 039)
Other operating expenses	(734)
Work performed by the entity and capitalised	2
Employee expenses	(196)
Depreciation, amortization and impairment of non-current assets	(1 206)
Other expenses	(2)
Operating profit (loss)	**(94)**
EBITDA	**1 112**

NOTE 22. RELATED PARTY DISCLOSURES

Parent and ultimate controlling party

The Group's parent company is TextMagic AS, which is registered in Estonia.

Ultimate controlling party is Priit Vaikmaa, the sole owner of Monday Media OÜ, which as of 31.12.2021 held 86,8% on TextMagic AS shares.

Transactions with key management personnel

The salary expense recognized to the members of management and supervisory board for 21.04.2021 - 31.12.2021 was in total of 38 000 euros.

The Group has option agreements with supervisory board members in total of 186 000 shares.

Other related party transactions

Transactions of shareholders with a controlling interest

(in thousand euros)	Transaction values for the year ended	Balance outstanding as at 31 December 2021	
		Receivables	Payables
Other transactions	29	37	0
Additions through a business combination	0	0	706
Total	**29**	**37**	**706**

Transactions of supervisory board and companies under their controlling interest

(in thousand euros)	Transaction values for the year ended	Balance outstanding as at 31 December 2021	
		Receivables	Payables
Purchase of development services	57	0	12
Other	0	40	0
Total	**57**	**40**	**12**

The Group considers a party to be related if one party has control over the other party or significant influence over the other party's business decisions. Related party transactions include transactions with shareholders, executive and senior management, their close relatives and companies under the control or significant influence of all the above.

NOTE 23. CONTINGENT LIABILITIES

At the end of the reporting period, the Group's retained earnings amounted to -97 thousand euros (21 April 2021: 0 euros). The maximum income tax liability that could arise if all of the retained earnings as at the reporting date were distributed as dividends amounts to 0 euros (21 April 2021: 0 euros) and the amount that could be distributed as the net dividend is 0 euros (21 April 2021: 0 euros).

The maximum possible income tax liability has been calculated on the assumption that the net dividend and the income tax expense reported in the income statement for 2021 may not exceed total retained earnings as at the end of the reporting period and income tax already paid by the subsidiaries is not taxed again.

NOTE 24. FINANCIAL INFORMATION ON THE GROUP'S PARENT COMPANY

The financial information on the Parent comprises the primary financial statements of the Parent, which are required to be disclosed in accordance with the Estonian Accounting Act. The primary financial statements of the Parent have been prepared using the same accounting policies as were applied on preparing the consolidated financial statements, except those investments in subsidiaries are measured at cost.

STATEMENT OF FINANCIAL POSITION

(in thousand euros)	31.12.2021
Non-current assets	
Intangible assets and goodwill	50 948
Subsidiaries	657
Total non-current assets	**51 605**
Current assets	
Trade and other receivables	915
Prepayments	53
Cash and cash equivalents	2 114
Total current assets	**3 082**
TOTAL ASSETS	**54 687**
Liabilities	
Current tax liabilities	4
Trade and other payables	11
Total current liabilities	**15**
Total liabilities	**15**
Equity	
Share capital	850
Share premium	53 792
Other reserve	153
Retained earnings	(123)
Total equity	**54 672**
TOTAL EQUITY AND LIABILITIES	**54 687**

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

(in thousand euros)	21.04.2021 - 31.12.2021
Revenue	1 504
Goods, raw materials and services	(19)
Other operating expenses	(399)
Staff costs	(9)
Depreciation, amortization and impairment of non-current assets	(1 199)
Other expenses	(1)
Operating profit (loss)	**(123)**
Profit (loss) before tax	(123)
Profit (loss) for the period	**(123)**
Total comprehensive income for the period	**(123)**

STATEMENT OF CASH FLOWS

(in thousand euros)	**21.04.2021-31.12.2021**
Cash flows from operating activities	
Profit (loss) for the period	**(123)**
Adjustments for:	
Depreciation and amortization	1 199
Total adjustments	**1 199**
Changes in trade and other receivables	(915)
Changes in prepayments	(53)
Changes in trade and other payables	15
Net cash from operating activities	**123**
Cash flows from investing activities	
Development expenditure	(534)
Net cash used in investing activities	**(534)**
Cash flows from financing activities	
Contribution to the share capital and share premium	2 525
Net cash from financing activities	**2 525**
TOTAL CASH FLOWS	**2 114**
Cash and cash equivalents at the beginning	0
Cash and cash equivalents at the end	**2 114**

STATEMENT OF CHANGES IN EQUITY

(in thousand euros)	Share capital	Share premium	Other reserves	Retained earnings	Total equity
Balance at 21 April 2021	**0**	**0**	**0**	**0**	**0**
Profit (loss) for the period	0	0	0	(123)	**(123)**
Transactions with owners of the Company	850	53 792	0	0	**54 642**
Other changes in equity	0	0	153	0	**153**
Balance at 31 December 2021	**850**	**53 792**	**153**	**(123)**	**54 672**

In accordance with the Estonian Accounting Act, adjusted unconsolidated retained earnings represent the amount that is available for distribution to shareholders.