TextMagic

2022 CONSOLIDATED ANNUAL REPORT

(Translation of the Estonian original)

GENERAL INFORMATION

Business name:	TextMagic AS
Main activity:	SMS marketing service
Commercial registry number:	16211377
Address:	Mõisa 4, 13522 Tallinn
Country of incorporation:	Estonia
Phone:	+372 503 4224
E-mail:	priit.vaikmaa@textmagic.biz
Corporate website:	https://www.textmagic.com/
Financial year	From January 1, 2022 to December 31, 2022
Auditor:	KPMG Baltics OÜ

TextMagic

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MANAGEMENT REPORT

Management commentary

TextMagic continues to grow in terms of revenue, volumes, and team.

Recruitment was one of the key drivers in 2022. TextMagic's team almost doubled in size - by the end of the year it comprised 88 members. Although the target of having 100 members was not reached, given the shortage of developers and the fierce competition in recruitment, it is still a positive result. Software developers were the most recruited, but managers also joined the team. We plan to continue recruiting as we continue to need new programmers, marketing specialists and product managers to meet our product development objectives.

In 2022, TextMagic invested €1,528 thousand in developing its A2P SMS platform in terms of salary and service costs, and €2,696 thousand in developing its Touchpoint product. The investments in intangible assets affecting cash flow amounted to €3,287 thousand, plus an imputed option cost of €948 thousand. Total investments in intangible assets amounted to €4,235 thousand (2021: €2,030 thousand*).

Notwithstanding the increase in the volume of investments, the Group's free cash flow increased to €9.1 million. Thanks to the cash buffer and the absence of interest-bearing liabilities, TextMagic is in a strong position in today's economic environment. The coronavirus crisis and the war in the recent past have led to changes in the economic environment and interest rates have increased significantly in order to contain inflation. These changes and uncertainties have also affected currency volatility. Unfortunately, the difficult economic situation has put many companies in difficulty, leading to redundancies. The TextMagic Group has the cash flow capacity to increase investment at a time when many technology companies are being forced to cut costs. In addition to increasing the level of investment, we intend to use the positive cash flow to make distributions to shareholders.

13.83 M € +27%*

Sales revenue

4.24 M € +109%*

Investments in intangible assets

6.24 M +30%*

EBITDA

294.02 M SMS +18%*

SMS-s sent

*Compared to 2021 pro forma figures

TEXTMAGIC GROUP

General information

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

As of December 31, 2022, TextMagic Group consists of TextMagic AS (the parent company) plus two fully owned subsidiaries, TextMagic Ltd. and TM Marketing Ops SRL.

TextMagic's activities were initiated in 2001 with the founding of TextMagic Ltd. The TextMagic Group as it exists and operates currently was formed in 2021 as the result of a restructuring process during which the shareholders of 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.

TextMagic's current and operating product is an application-to-person (A2P) SMS platform that permits sending of notifications, alerts, reminders and order confirmations, as well as carrying out of 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. TextMagic's mission 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, a customer engagement platform (Touchpoint). The new platform connects various communication channels and is intended to cover the needs and preferences of more customers. The new platform is planned for launch by the end of 2023.

The management board of TextMagic AS is composed of one member, Priit Vaikmaa. The supervisory board of TextMagic AS is composed of four members: Kärtu Vaikmaa (chairman), Eduard Tark, Pavel Karagjaur and Siim Vips.

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's SMS platform expanded to the United States market and in 2015 TextMagic Ltd. exceeded annual revenue of EUR 1 million.

2001
Founding of TextMagic
by Dan Houghton

2007
Priit Vaikmaa joins
TextMagic as a manager

2013
Management buyout
by Priit Vaikmaa

2014
Expansion to the U.S. market
Annual sales exceed € 1 million

2017
Annual sales exceed € 2 million
Mobile app is launched

2020
Annual sales approach € 8 million
Development of Touchpoint begins

April 2021
TextMagic AS is established

Dec 2021
TextMagic AS goes public
on the Nasdaq First North
Tallinn

Organizational structure

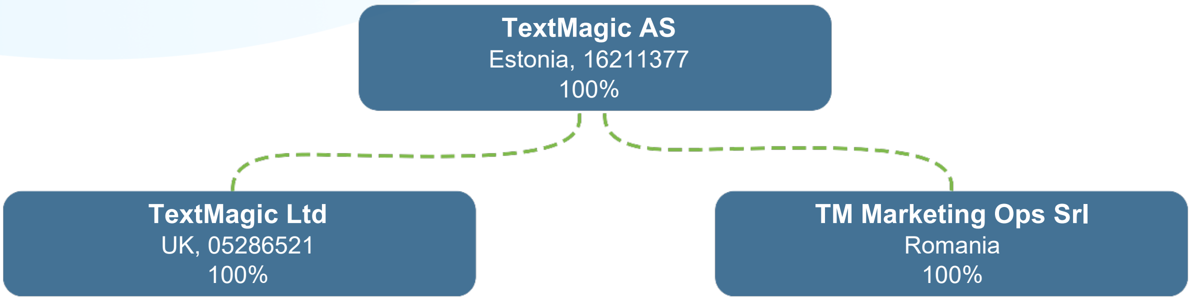
TextMagic AS, an Estonian holding company of the Group, hosts the management and development of the intellectual property and manages business operations.

TextMagic Ltd. functions as the company through which the business activities of TextMagic Group are performed: it is the client-facing entity.

TM Marketing Ops SRL provides marketing services to other TextMagic Group companies.

In 2022, TM Ops OÜ merged with TextMagic AS, the purpose of the merger was to streamline and develop the Group’s processes.

As at the end of 2022 the TextMagic Group was structured as follows:



Segment and competition

A2P 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. The management board estimates that TextMagic is one of the top 10 providers in its segment of small and medium enterprises (SMEs) in both the United States and United Kingdom markets.

TextMagic’s A2P SMS platform business volumes are impacted by seasonality. Periods with higher usage activity are March to May and September to November. Less active months are associated with low business activities, such as holiday and vacation periods.

Due to TextMagic being an online-based service provider, its operations are global, which means that its potential competitors are all companies operating in the field of text messaging and customer engagement services. TextMagic considers 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 and Canada, the United Kingdom, Australia and the European Union. During 2022, the Australian market grew at the fastest pace and today exceeds the business volumes of Europe.

Risk management

For TextMagic, risk is a possible negative deviation from the expected result. The main objective of risk management is to recognize, acknowledge and mitigate the possibility of a negative scenario occurring. For TextMagic, risks are divided into three classes, i.e. accepted risks, tolerable risks and risks exceeding risk tolerance. Assessment of risks is based on the likelihood of the risk occurring and the impact of the risk on the business.

Operational risks are defined as faulty processes, human error, software errors and external factors.

The four-eyes principle is used to minimize human-induced losses, i.e. at least two people are involved in important processes, so that they can control each other's activities and thereby reduce the possibility of human error. Involving more than one person also helps to detect problematic processes.

In order to mitigate software risks, TextMagic obtained SOC2 security certification in 2022, which led to the establishment of a software security and reliability assessment process.

As external risks, TextMagic's operations are impacted by applicable laws, regulations and standards, and TextMagic must ensure consistent compliance with applicable laws, including Know Your Customers (KYC) requirements, data protection, consumer protection, taxation, direct marketing and similar regulations. Future changes in applicable laws, regulations and standards and changes in their enforcement or regulatory interpretation may result in changes to the legal requirements that are applicable to the TextMagic Group, which could have a material adverse effect on TextMagic's current operations and future projects.

It is TextMagic's policy that all its operations, including those of its subsidiaries and subcontractors, comply with applicable laws, regulations and standards. This requires TextMagic to take a proactive approach to keep abreast of any changes in legislation and to adapt its business practices accordingly.

Also, failure to comply with such laws, regulations and standards could result in potential damages, fines or other sanctions, potential reputational damage and potentially loss of current and future customers.

Descriptions and explanations of the Group's main financial risks (foreign exchange risk, market risk, liquidity risk, interest rate risk, capital risk) can be found in note 8 to the financial statements.

Social and environmental responsibility

The services provided by the TextMagic A2P SMS platform play an important role in promoting sustainable values. From an environmental point of view, TextMagic's service helps to minimize the need for paper-based communication and thus helps to reduce deforestation and carbon footprint. In addition, TextMagic's platform enables efficient communication and coordination, allowing organizations to save resources and reduce their environmental impact.

TextMagic's text messaging service is an essential tool for businesses and organizations to communicate with customers and employees, fostering better relationships and improving customer satisfaction. In addition, TextMagic's service enables organizations to communicate vital information quickly and effectively, including in crisis situations where people's health and lives are at stake. For example, SMS can be used by healthcare providers to communicate with patients, by schools to communicate with parents and by emergency services to communicate with the public.

At TextMagic, we value our employees and service providers, they are our greatest asset, and we are honored to be part of an international team. We aim to create a positive working environment for our employees by treating them with respect and providing a pleasant place in which to work. We offer our employees fair pay and compensation for the work they do. We motivate employees by offering them share options, recognize and support their personal development and value their personal interests. We believe it is important for employees to keep work separate from their personal lives, which is why we do not require employees to carry out their duties after working hours.

Technology has a beneficial impact on environmental sustainability. TextMagic's servers are cloud-based and we invest in durable, high-quality equipment. We strive to maximize the potential of technology to make processes and activities as time and cost efficient as possible. For example, while our clients and team are spread across the globe, we maximize our online communication, avoiding unnecessary air travel.

The TextMagic platform has a strong emphasis on security at different levels. We use a variety of tools to eliminate credit card and other payment fraud. We restrict the use of a wide range of words that may be associated with, for example, hate speech, alcohol, firearms, as well as spam, high-risk financial services and other prohibited or unethical content.

Sales revenue of TextMagic A2P SMS platform and business volumes for 2022

TextMagic AS's consolidated revenue in 2022 was €13,831 thousand (TextMagic platform* in 2021: €10,893 thousand), an increase of 27% compared to 2021.

During 2022, changes in exchange rates had a significant impact on TextMagic's results. The cumulative impact on revenue was €1,154 thousand. Excluding exchange rate fluctuations, revenue for 2022 was €12,677 thousand, an increase of 16.4% compared to 2021.

The distribution of the TextMagic platform's revenues has not changed significantly. The United States and Canada together account for nearly 70% of revenues, the United Kingdom for 18%, the Australian market for 6%, the European Union for a total of 4%, and the remaining 2% of revenues are generated in a number of other regions.

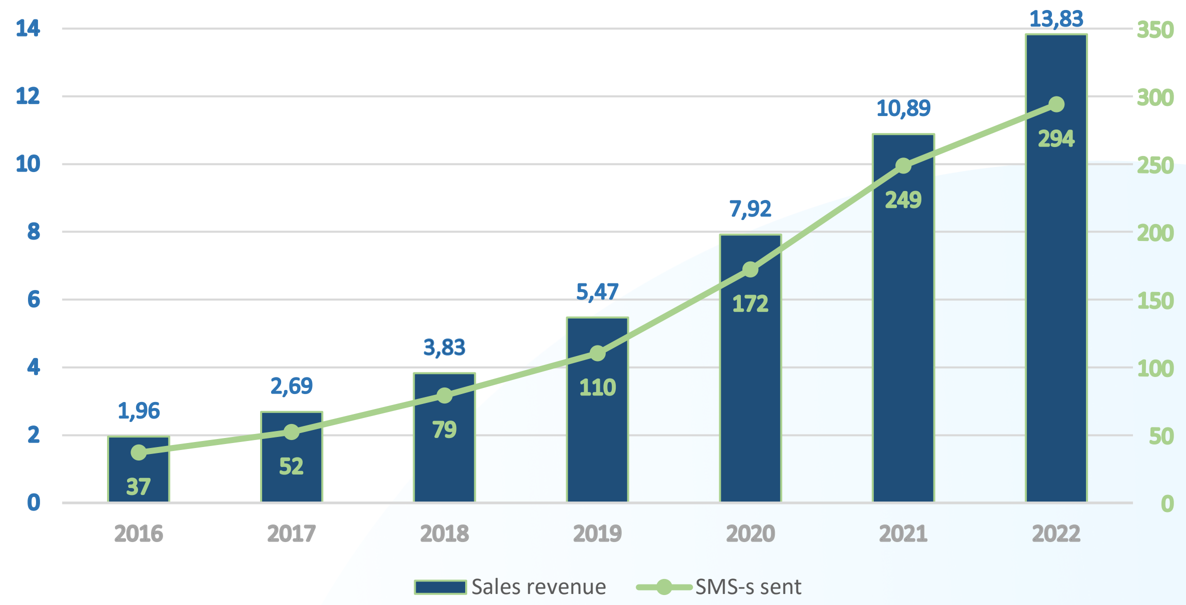
	2022	2021*	Change
Sales revenue (thousands)	€13,831	€10,893	+27%
EBITDA (thousands)	€6,244	€4,786	+30%
Volume of SMS messages (millions)	294.02	248.83	+18%
Active users*, 12 months	37,934	50,258	-25%
Average revenue per user (ARPU)***	€365	€217	+68%

** TextMagic Group in its current form exists as of the end of September 2021, therefore pro forma figures have been included in the comparative period. The pro forma figures show what the corresponding figure would have been if the Group had continued to operate with a similar structure in the reference period. For a comparison with 2021, see financial ratios on page 14.*

*** An active user is any unique paying customer who has used the services of the TextMagic A2P SMS platform during the relevant period.*

**** ARPU is revenue divided by number of active users.*

TextMagic A2P SMS platform sales revenue (million €) and SMS volume (millions)

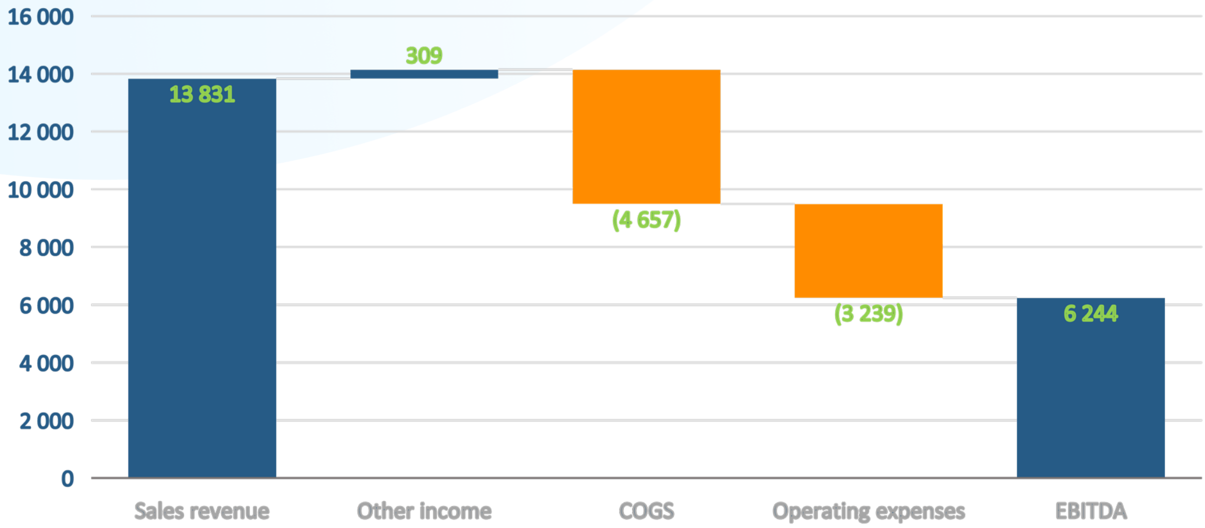


FINANCIAL RESULTS

Revenue

TextMagic AS's consolidated sales revenue in 2022 was €13,831 thousand (TextMagic platform* in 2021: €10,893 thousand). Other operating income includes the recognition in income of €307 thousand for the first time in January 2022 of an expired credit. The sales results are at the expected level. The TextMagic Group's sales growth was also supported by the strengthening of the U.S. dollar. Starting in the second quarter of 2022, we increased the marketing budget to stimulate growth.

EBITDA 2022 (€ thousands)



Expenses

In 2022, the direct cost of services sold amounted to €4,657 thousand, or 33.7% of revenue, decreasing compared to the pro forma cost of services sold of €3,884 thousand in 2021, or 35.6% of revenue.

Direct costs include resale services such as SMS, voice and email, and services directly related to service delivery such as web hosting, verification, fraud detection services, as well as DevOps developer labor costs.

Operating and staff costs** totaled €3,178 thousand in 2022, representing 23.0% of revenue. In the reference period, pro forma operating costs represented 20.5% of revenue. The main reason for the increase in operating costs was due to a significant increase in the team, but also to a higher need for support services such as accounting, legal and other professional services.

Profitability

TextMagic AS's consolidated EBITDA in 2022 was €6,244 thousand. In 2021 TextMagic's pro forma EBITDA was €4,786 thousand, so this figure has increased by 30.5%. The EBITDA margin in 2022 was 45.1% (pro forma in 2021: 43.9%). The net profit of the Group in 2022 was €2,708 thousand.

The gross margin (revenue - direct costs or cost of goods sold (COGS) remained strong in 2022, at 66.3% of revenue. Compared to the previous year, the gross margin improved (pro forma in 2021: 64.3%).

* Pro forma figures are used for 2021. *For a comparison with 2021, see financial ratios on page 14.*

** Total operating and staff costs are calculated by summing other operating expenses, employee expenses and work performed by the entity and capitalized.

Cash flows

As of December 31, 2022, the TextMagic Group had €9,145 thousand of free cash on its accounts. Over the year, the amount of unrestricted cash increased by €3,110 thousand.

The cash flow from operating activities amounted to €6,638 thousand in 2022. The cash flow from investing activities amounted to €3,479 thousand in 2022. Of this amount, €3,287 thousand was accounted for investments in intangible fixed assets. The investments affecting cash flow were supplemented by expected option costs.

Thus, in cash terms, the company generated €6,638 thousand from its business activities, of which €3,479 thousand (52.4%) was invested. All in all, in 2022, additional free cash on bank accounts amounted to €3,110 thousand.

Intangible assets and amortization

The management board assessed the amortization rates in force for the period April 21, 2021 to December 31, 2021 as conservative due to the positive cash flow generated by intangible assets. This enabled it to determine a longer useful life for the period starting in 2022 compared to the previous period.

At the beginning of 2022, management assessed that the amortization method and the 7-year useful life previously applied to the platform were too conservative and did not fairly reflect the financial position of the Group. Considering growth forecasts for the SMS market in various studies and the historical growth of the TextMagic A2P SMS platform, a non-linear model was developed where the amortization rate depends on the volumes of the usage of the platform.

With higher platform usage volumes, both revenue and direct costs would be higher, and in a non-linear model the amortization expenses would be higher compared to the periods with lower volumes. Higher amortization rate would also reduce the carrying value of the asset more rapidly, so in growth period the carrying value of the asset would be estimated to decrease more rapidly than its fair value. Management assesses that the application of the non-linear method takes into account the principle of matching costs and revenues and more fairly reflects the carrying value of assets.

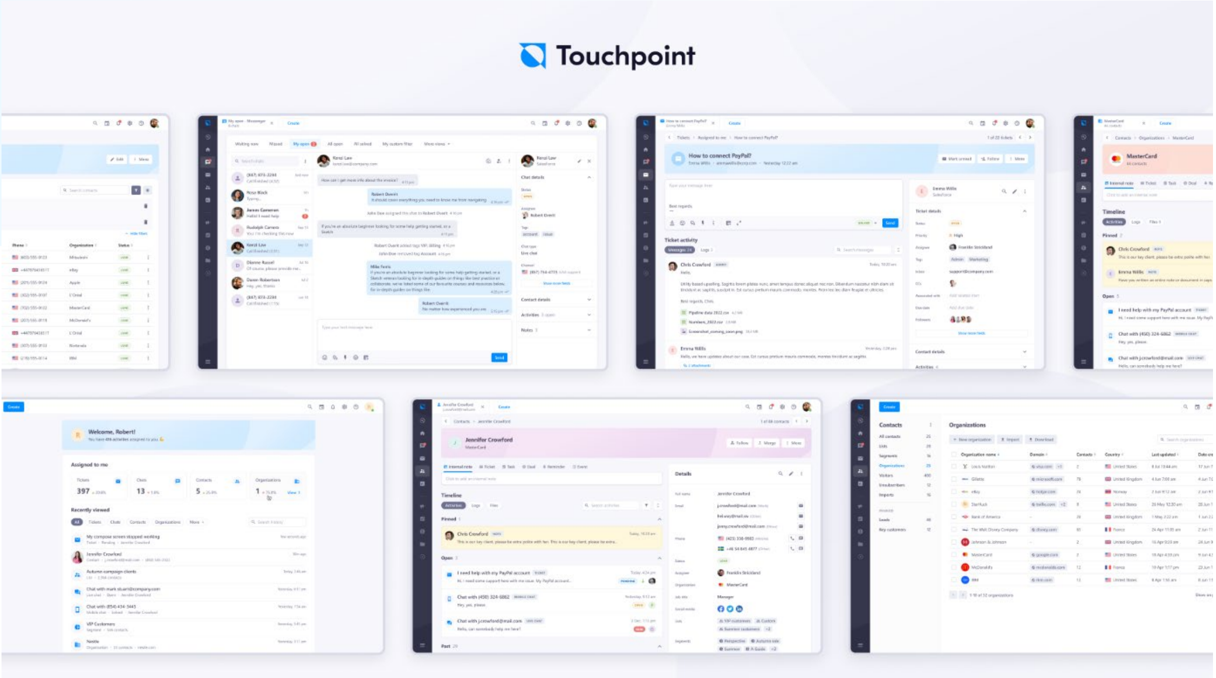
Upon application of this amortization method, the auditor was also consulted on an indicative basis and the interim reports were prepared on the basis of a non-linear method. IFRS supports the principle that management should consider alternative methods when making its assessment if they more objectively reflect the allocation of economic benefits over the useful life of the asset. However, the audit procedures and detailed analysis of IFRS led to the conclusion that for software, it is not possible to estimate reliably when an asset is permanently consumed and, in the absence of information on comparable practices, it is not possible to apply such accounting policy under IFRS. Therefore, management decided to continue using the straight-line amortization method as in 2021, which requires the same amortization rate to be applied each year over the useful life of the asset, regardless of the level of activity.

The table below shows the impact of the different amortization methods and rates on the financial indicators of 2022.

(in thousands of euros)	Straight-line (10 years; 10.0%)	Non-linear (10 years; 4.0%)	Straight-line (7 years; 14.3%)
EBITDA	6,244	6,244	6,244
TextMagic A2P platform amortization	(3,194)	(1,278)	(4,565)
Depreciation and amortization on other assets, interest and income tax	(342)	(342)	(342)
Profit for the period	2,708	4,624	1,337
Carrying amount of TextMagic A2P platform	27,612	29,528	26,241
Consolidated balance sheet volume	61,411	63,327	60,040

Touchpoint

Touchpoint is a customer management and communication platform for customer support, marketing and sales teams that allows you to contact customers through different channels, manage contact databases and sales offers, organize marketing campaigns, and manage team members' tasks. Touchpoint creates a unified view of customer communication and improves collaboration between the different units that interact with customers. Touchpoint consists of 5 main modules: Serve, Promote, Sell, Collaborate and Connect.



In 2022, functionality for managing users and general environment settings was deemed to be ready. We also focused on development of the Touchpoint Serve functionality (www.touchpoint.com/serve/), which allows the company to communicate with its customers through different channels (email, website chat window, SMS, phone call).

In 2022, a fully functional HTML prototype of Touchpoint was completed, and initial feedback has been positive and appreciative. The user-friendly interface is important for customers, and the 360-degree view of interactions and exchanges is also highly appreciated.

In the fourth quarter of 2022, we tested the value proposition of the Touchpoint website. We set a target of at least 300 users expressing an interest in trying the product. By the end of the year, we reached 463 users, 154% of the target. We confirmed that there is significant interest in the Touchpoint product and that we are able to attract potential customers with our value proposition.

In the first half of 2023, we are continuing to enhance the functionality of Touchpoint Serve, with the aim of rolling out Touchpoint internally by the end of the second quarter.

We plan to make the product available to the first beta users in the third quarter of 2023, and to launch the commercial version of the product in the fourth quarter of 2023.

We see the changed economic environment as favorable for the launch of Touchpoint. Increasingly, companies are looking for ways to improve sales processes while optimizing associated costs, including the cost of various software.

In 2023, marketing activities related to the Touchpoint product will be a key focus. Touchpoint's main target group will be SMEs with more than 1000 contacts in their database and between 10 and 500 employees.

We will use a Product Led Growth model for Touchpoint's go-to-market, similar to TextMagic, whereby customers find the brand themselves through digital marketing and referrals from other customers and are able to sign up and use the software on their own. Customer satisfaction is important to us, and we place great emphasis on ease of both account creation and product use.

TextMagic Group's objectives for 2023

- Launch of an update to the TextMagic A2P SMS platform.
- Expansion of marketing activities, for which we plan to double the size of the marketing team.
- Launch of Touchpoint initial modules in Q4 2023.
- Continued growth in sales revenue (+17.6% or €16,26 million), EBITDA (+13.8% or €7.1 million) and investments (+27.5% or €5.65 million). Net profit is forecasted at €3.34 million. In our forecasts, we have taken into account the effects on revenue of rising interest rates and the general economic environment, which is already reflected in the second half of 2022 result. In the cost base, an increase is planned in both the development and the marketing units. The effects of the change in amortization rate have also been taken into account.

16.26 M € +17.6%

Sales revenue

5.65 M € +27.5%

Investments

7.10 M € +13.8%

EBITDA (operating profit plus amortization)

3.34 M € +23.2%

Net profit

Equity distribution policy

In 2022, the shareholders decided to pay out €2,550 thousand (€30 cents per share) from the equity, which was paid in February 2023. The pay out is described in more detail in Note 14.

TextMagic also plans to make future distributions to shareholders in accordance with TextMagic shareholders' resolutions, provided that sufficient funds are available for new investments.

TextMagic

TextMagic stock

The shares of TextMagic AS were listed on Nasdaq Tallinn First North as of December 15, 2021. As of December 31, 2022, a total of 8,500,000 shares with a book value of €0.1 per share have been issued. Thus, the share capital amounts to €850,000. All shares are of the same class and there are no ownership restrictions. The Articles of Association of the company do not impose any restrictions on the transfer of the company's shares. There are no known restrictions on the transfer of securities laid down in the shareholders' agreements.

In 2022, the share price has decreased by 19.92%, from €8.96 to €7.175. Compared to the value of the initial public offering (IPO), €5 per share, the price per share has increased by 43.5%.

Only Priit Vaikmaa, the company's CEO and a member of the board, has a significant shareholding (more than 5%) through the holding company Monday Media OÜ.

TextMagic stock	01.01.2022-31.12.2022	15.12.2021-31.12.2021
Average price	7.54	9.22
Maximum price	9.89	14.50
Minimum price	6.71	8.00
Closing price	7.175	8.96
Number of shares	8,500,000	8,500,000
Market value of the company on the last day of the period (Closing price * number of shares)	60,987,500	76,160,000
Earnings per share (EPS) (Profit (loss) / number of shares)	0.32	-0.01
Price to earnings ratio (P/E) (market value / profit (loss))	22.52	N/A

FINANCIAL INDICATORS

Financial ratios

	01.01.2022-31.12.2022	21.04.2021-31.12.2021
Revenue (in thousands of euros)	13,831	3,081
EBITDA (in thousands of euros)	6,244	1,113
EBITDA margin (EBITDA / revenue)	45.1%	36.1%
EBIT (in thousands of euros)	2,716	(93)
EBIT margin (EBIT / revenue)	19.6%	-3.1%
Profit (loss) for the period (in thousands of euros)	2,708	(94)
Profit margin (Profit (loss) for the period / revenue)	19.6%	-3.0%
Total Assets (in thousands of euros)	61,411	57,477
Equity (in thousands of euros)	56,323	54,715
Return on Equity (ROE) (Profit (loss) for the period / Average Equity*)	4.8%	-0.2%
Return on Assets (ROA) (Profit (loss) for the period / Average Total Assets*)	4.6%	-0.2%
Liquidity ratio (Current assets / Current liabilities)	1.82	2.26
Debt-To-Equity ratio (Total liabilities / Equity)	0.09	0.05
Assets-to-Equity ratio (Total assets / Equity)	1.09	1.05

**The Group was restructured in 2021, therefore the average of the reference period is not calculated.*

Priit Vaikmaa

CEO of TextMagic AS

Vaikmaa

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(in thousands of euros)	Note	31.12.2022	31.12.2021
Non-current assets			
Property, plant and equipment	9	191	80
Intangible assets and goodwill	10	51,944	51,156
Total non-current assets		**52,135**	**51,236**
Current assets			
Trade and other receivables		1	77
Prepayments	13	130	129
Cash and cash equivalents		9,145	6,035
Total current assets		**9,276**	**6,241**
TOTAL ASSETS		**61,411**	**57,477**
Liabilities			
Current tax liabilities	17	102	213
Trade and other payables	16	890	1,091
Payables to shareholders	15	2,550	0
Contract liabilities	18	1,546	1,458
Total current liabilities		**5,088**	**2,762**
Total liabilities		**5,088**	**2,762**
Equity			
Share capital	14	850	850
Share premium	14	51,242	53,792
Other reserve	14	1,651	153
Foreign currency translation reserve		(35)	14
Retained earnings		(93)	0
Profit/Loss for the period		2,708	(94)
Total equity attributable to owners of the parent		**56,323**	**54,715**
Total equity		**56,323**	**54,715**
TOTAL EQUITY AND LIABILITIES		**61,411**	**57,477**

The Notes presented on pages 18 to 56 form an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

(in thousands of euros)	Note	01.01.2022-31.12.2022	21.04.2021-31.12.2021
Revenue	18	13,831	3,081
Other income		309	1
Goods, raw materials and services	19	(4,657)	(1,039)
Other operating expenses	20	(1,579)	(734)
Work performed by the entity and capitalized		4,235	629
Employee expenses	21	(5,834)	(823)
Depreciation, amortization and impairment of non-current assets	9, 10	(3,528)	(1,206)
Other expenses		(61)	(2)
Operating profit (loss)		**2,716**	**(93)**
Profit (loss) before tax		2,716	(93)
Income tax	17	(8)	(1)
Profit (loss) for the period		**2,708**	**(94)**
Other comprehensive income			
Items that are or may be reclassified subsequently to profit or loss			
Foreign currency translation differences		(49)	14
Other comprehensive income for the period, net of tax		**(49)**	**14**
Total comprehensive income for the period		**2,659**	**(80)**

The Notes presented on pages 18 to 56 form an integral part of the consolidated financial statements.

TextMagic

CONSOLIDATED STATEMENT OF CASH FLOWS

(in thousand euros)	Note	01.01.2022-31.12.2022	21.04.2021-31.12.2021
Cash flows from operating activities			
Profit (loss) for the period		**2,708**	**(94)**
Adjustments for:			
Depreciation and amortization	9, 10	3,528	1,206
Other adjustments		551	57
Total adjustments		**4,079**	**1,263**
Changes in trade and other receivables		76	167
Changes in contract liabilities		88	82
Changes in prepayments		(1)	(78)
Changes in trade and other payables		(312)	(533)
Net cash from operating activities		**6,638**	**807**
Cash flows from investing activities			
Net cash flows from business combinations	11	0	3,231
Acquisition of property, plant and equipment	9	(192)	(9)
Development expenditure	10	(3,287)	(534)
Net cash used in investing activities		**(3,479)**	**2,688**
Cash flows from financing activities			
Contribution to the share capital and share premium	14	0	2,525
Net cash from financing activities		**0**	**2,525**
TOTAL CASH FLOWS		**3,159**	**6,020**
Cash and cash equivalents at the beginning		6,035	0
Effect of movements in exchange rates on cash held		(49)	15
Cash and cash equivalents at the end		**9,145**	**6,035**

The Notes presented on pages 18 to 56 form an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(in thousands of euros)	Total equity attributable to owners of TextMagic AS					
	Share Capital	Share premium	Other reserve	Foreign currency translation reserve	Retained earnings	Total equity
Balance at April 21, 2021	**0**	**0**	**0**	**0**	**0**	**0**
Profit (loss) for the period	0	0	0	0	(94)	**(94)**
Other comprehensive income for the	0	0	0	14	0	**14**
Transactions with owners of the	850	53,792	0	0	0	**54,642**
Other changes in equity	0	0	153	0	0	**153**
Balance at December 31, 2021	**850**	**53,792**	**153**	**14**	**(94)**	**54,715**
Profit (loss) for the period	0	0	0	0	2,708	**2,708**
Other comprehensive income for the	0	0	0	(49)	0	**(49)**
Transactions with owners of the	0	0	0	0	0	**0**
Other changes in equity	0	(2,550)	1,498	0	1	**(1,051)**
Balance at December 31, 2022	**850**	**51,242**	**1,651**	**(35)**	**2,615**	**56,323**

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

The Notes presented on pages 18 to 56 form an integral part of the consolidated financial statements.

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 April 21, 2021. The Company’s registered office is at Mõisa Road 4, Tallinn, 13522. Republic of Estonia. The consolidated financial statements of TextMagic AS at and for the year ended 31 December 2022 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.

The financial year of the Group is from January 1 to December 31.

The reference period is April 21, 2021, to December 31, 2021, as TextMagic AS was founded on April 21, 2021, and the Group exists since September 23, 2021.

The management board authorized the consolidated financial statements for issue on March 14, 2023. 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 2. BASIS OF ACCOUNTING

The Group’s consolidated financial statements as at and for the year ended December 31, 2022, have been prepared in accordance with the Estonian Accounting Act and International Financial Reporting Standards as adopted by the European Union (IFRS).

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

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.

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NOTE 4. CHANGES IN ESTIMATES AND PRESENTATION

Change in presentation - classification of development costs in the statement of comprehensive income

The cash flows of the TextMagic Group are significantly affected by development costs, which until now were capitalized directly on the balance sheet line as software development costs. In order to enable the user of the report to get clearer and more relevant information about the capitalized development costs, the service cost of contracted developers will be reflected in the line "Employee expenses" and the capitalized part in the line " Work performed by the entity and capitalized ".

(in thousands of euros)	21.04.2021 – 31.12.2021	Change	21.04.2021 – 31.12.2021
Work performed by the entity and capitalized	2	627	629
Employee expenses	(196)	(627)	(823)

Change in management estimate – software's useful life and applicable amortization method

TextMagic AS's 2022 6-month and 12-month interim reports have described a significant change in the useful life and amortization method of the software. TextMagic AS's management assessed that the non-linear method of accounting for the amortization of software and development costs provides a fairer view of the Group's financial position. However, during the audit, it was concluded that IFRS does not allow the application of the non-linear method of amortization to software, so the change to the non-linear method will not be applied from 2022 (as described in the 6-month and 12-month interim reports) and the straight-line method will continue to be applied, similar to 2021.

Compared to 2021, management changed its estimate of the useful life of software and development costs in 2022, which was conservatively 7 years in 2021. The revised useful life from 2022 is 10 years. The useful lives of assets are assessed annually.

NOTE 5. 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 recognized prospectively.

Management estimates and judgements

The areas requiring key management judgments and estimates which have a direct impact on the amount reported in the financial statements are as follows:

- The useful life of an intangible asset

Management has estimated the useful lives of intangible assets, considering business conditions and components of intangible assets, historical experience in the field and future prospects.

The useful life of the software is estimated to be around 10 years, based on known experience with the work performed and the moral obsolescence of the software components. As of December 31, 2022, the carrying amount of software and uncomplete software is €49,511 thousand. If the amortization rate would change by 1%, the amortization expense would change by €319 thousand.

– 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, there were no indications of impairment of assets as of December 31, 2022, as the company's management forecasts positive cash flows from operating activities in the coming years, therefore no asset value tests were performed. As of December 31, 2022, the residual value of property, plant and equipment is €191 thousand, and the residual value of intangible assets is €51,944 thousand (Notes 9 and 10).

– valuation of uncomplete intangible assets

The discounted cash flow method was used to test the recoverable amount of software in progress (Touchpoint) over the next five years. A discount rate of 24.06% was used to calculate its residual value, with usage rates based on the experience of similar companies in similar markets and competitors' price levels, and TextMagic Group's experience as a cost base. As at 31.12.2022, the residual value of uncomplete intangible assets was EUR 21,899 thousand.

– 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 the 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 December 31, 2022, was €208 thousand. As a result of the goodwill tests performed in 2022 no need for goodwill impairment was identified.

Measurement of fair values

Many 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 categorized 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 8 Financial instruments.

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NOTE 6. CHANGES IN SIGNIFICANT ACCOUNTING POLICIES

The following new standards, interpretations and amendments were not yet effective for the annual reporting period ended December 31, 2022 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 January 1, 2023; to be applied retrospectively. Early application is permitted)

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

The 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 January 1, 2023. Early application is permitted)

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

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

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

The amendments are consistent with the refined definition of material:

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

The 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 January 1, 2023; to be applied prospectively. Early application is permitted)

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

The amendments are not expected to have a material impact on the 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 January 1, 2023. Early application is permitted)

The amendments clarify the accounting for deferred tax on transactions that involve recognizing 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 recognize 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.

Classification of liabilities as current or non-current, deferral of effective date – Amendments to IAS 1

(Effective for annual periods beginning on or after January 1, 2023)

This pronouncement is not yet endorsed by the EU.

The amendments to IAS 1 on classification of liabilities as current or non-current was issued in January 2020 with an original effective date 1 January 2022. However, in response to the Covid-19 pandemic, the effective date was deferred by one year to provide companies with more time to implement the classification changes resulting from the amended guidance.

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

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

(Effective for annual periods beginning on or after January 1, 2024; to be applied retrospectively to the date when the entity initially applied IFRS 16. Early application is permitted)

This pronouncement is not yet endorsed by the EU.

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

The amendments confirm the following.

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

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

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 entity's/group's financial statements.

NOTE 7. 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.

Separate financial statements of the Parent Company

Pursuant to the Estonian Accounting Act, the Parent Company's unconsolidated financial statements (statement of financial position, statement of comprehensive income, statement of cash flows and statement of changes in equity) are presented in the notes to the consolidated financial statements. The unconsolidated primary financial statements of AS TextMagic are presented in Note 25 “Financial information on the parent company of the group”. These financial statements have been prepared using the same accounting policies and measurement bases as the consolidated financial statements, except for investments in subsidiaries, which are stated at cost in the parent company's separate financial statements.

iii. Non-controlling interests (NCI)

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 derecognizes the assets and liabilities of the subsidiary and any related NCI and other components of equity. Any resulting gain or loss is recognized 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 unrealized 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 subsidiary 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 recognized 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 recognized 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 recognized at origination. All other financial assets and liabilities are recognized 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 amortized 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 amortized 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 amortized 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 amortized 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.

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

Financial liabilities

Financial liabilities are classified as subsequently measured at amortized 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 recognized in profit or loss.

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

iii. Derecognition

Financial assets

The Group derecognizes 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 derecognized when its terms are substantially modified so that its cash flows become significantly different from the originally agreed ones. In that case the Group recognizes 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 recognized 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 recognized amounts and it intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

v. Impairment of financial assets

The Group recognizes a loss allowance for expected credit losses on a financial asset measured at amortized 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 recognizing the loss allowance at an amount equal to lifetime expected credit losses.

The Group always recognizes 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 amortized 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 amortized 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 capitalized 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 recognized in profit or loss.

ii. Subsequent expenditure

Subsequent expenditure is capitalized 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 recognized 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 recognized in profit or loss as incurred. Development expenditure (including the software) is capitalized 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 recognized in profit or loss as incurred. Subsequent to initial recognition, development expenditure is measured at cost less accumulated amortization and any accumulated impairment losses. Capitalized development costs are recognized as an intangible asset and amortized from the date the asset is available for its intended use. Until taken into, capitalized development costs have been recognized under uncomplete software.
Other intangible assets	Other intangible assets that are acquired by the Group and have finite useful lives are measured at cost less accumulated amortization and any accumulated impairment loss.
Goodwill	Goodwill represents the excess of the cost of acquisition over the fair value of the net identifiable assets of the acquired subsidiary, associate, or joint venture at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in

	intangible assets. Goodwill is tested at least annually for impairment and where necessary, impairment losses are recognized. Impairment losses on goodwill are not reversed. If the cost of acquisition is lower than the fair value of the net assets acquired, the difference is recognized directly in profit or loss. For impairment testing, goodwill is allocated to the asset groups for which it is possible to identify cash flows (cash-generating units). The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. The basis for the recoverable amount of a cash-generating unit is the expected cash flows of that cash-generating unit, which are discounted using the weighted average cost of capital. When the carrying amount of the investment is not recoverable, the investment is written down to its recoverable amount and an impairment loss is recognized. When the carrying amount of the investment is recoverable, no impairment loss is recognized. The estimates and decisions used for evaluation of business combinations are reviewed on an ongoing basis and if actual results differ from estimates, the latter are adjusted.

ii. Subsequent expenditure

Subsequent expenditure is capitalized 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 recognized in profit or loss as incurred.

iii. Amortization

Amortization is calculated to write off the cost of intangible assets less their estimated residual values using both non-linear and straight-line methods. Under the straight-line method amortization cost is written off over their estimated useful lives and is generally recognized in profit or loss.

Asset classes are assigned the following annual depreciation rates:

- software and development costs: 10%
- other intangible assets: 10%

Amortization 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 cash generating units (CGU).

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 recognized if the carrying amount of an asset or CGU exceeds its recoverable amount.

Impairment losses are recognized 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 amortization, if no impairment loss had been recognized.

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 recognizes 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 recognize right-of-use assets and lease liabilities for short-term leases and leases for which the underlying asset is of low value. The group recognizes 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 recognized as income in profit or loss. Other net gains and losses are recognized 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 recognized 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 recognizes 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 recognized 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 recognized 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 recognizes revenue when (or as) it satisfies the performance obligation, i.e. when customer uses the service on the platform.

The Group provides a license 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. The service is paid for in advance. Unused credit can be reclaimed at any time. Credit for inactive accounts more than 24 months will expire. Revenue is recognized on usage-based royalties.	Revenue from text-messaging services and other related services is recognized at a point in time when the customer uses the service on the platform. Advances received are included in contract liabilities.
Virtual mobile number services	The Group provides virtual phone number services. Revenue is recognized 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 recognized 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 recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

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 (2020: 20%)). Starting from 2020, dividend distributions are also taxed at 14% (with the amount of tax payable calculated as 14/86 of the net distribution). The more favorable 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%.

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. Corporate income tax in Romania

In the Romania 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 16% on taxable income, while the income tax rate for micro-enterprises is 1%.

v. Deferred tax

Deferred tax is recognized 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 recognized 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 recognized 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 realized; such reductions are reversed when the probability of future taxable profits improves.

Unrecognized deferred tax assets are reassessed at each reporting date and recognized 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 operates 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 authorized 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 8. 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 thousands of euros)	Carrying amount	Fair value
	31.12.2022	31.12.2022
Financial assets measured at amortized cost		
Receivables to related parties	1	1
Cash and cash equivalents	9,145	9,145
Total financial assets	**9,146**	**9,146**
Financial liabilities measured at amortized cost		
Trade payables (Note 16)	596	596
Other payables (Note 16)	294	294
Payables to shareholders (Note 15)	2,550	2,550
Total financial liabilities	**3,440**	**3,440**

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 December 31, 2022, the Group had cash and cash equivalents in the amount of €9,145 thousand.

Bank / Service provider	Moody's	Standard & Poor's	31.12.2022
HSBC UK Bank plc	A1	A+	159
ING Bank N.V. Amsterdam Sucursala Bucuresti,	Aa3	A+	87
LHV Pank AS	Baa1	-	849
Revolut Ltd	-	-	14
Paypal	-	-	44
Stripe	-	-	325
Wise	-	-	7,667

The Group estimates that the credit risk of cash and cash equivalents is low based on the history of the credit institutions and other financial service providers and their financial positions.

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 flow from operating activities has 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 using 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. Contract liabilities are related to the provision of services in subsequent periods.

December 31, 2022 (in thousands of euros)	Contractual cash flows					
	Gross carrying amount	1-3 months	4-12 months	1-5 years	Over 5 years	Total
Trade payables (Note 16)	596	596	0	0	0	596
Other payables (Note 16)	294	294	0	0	0	294
Payables to shareholders (Note 15)	2,550	2,550	0	0	0	2,550
Total	**3,440**	**3,440**	**0**	**0**	**0**	**3,440**

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 optimizing 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 thousands of euros)	31.12.2022		
	AUD	GBP	USD
Cash and cash equivalents	22	2,903	4,983
Trade receivables	0	0	0
Receivables to related parties	0	1	0
Trade payables	0	(249)	(323)
Payables to related parties	0	0	0
Other payables	0	(180)	(13)
Net statement of financial position exposure	**22**	**2,475**	**4,647**

Sensitivity analysis

A reasonably possible strengthening (weaking) of the USD, GBP, RON against all other currencies at December 31 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.

A 10% movement was chosen for the analysis because it is a realistic range of movement in the normal economic environment. It reflects fairly the sensitivity of the Group's day-to-day operations in terms of exchange rates.

EBITDA (Operating Profit - Interest - Income Tax - Depreciation and Amortization) was used to assess the sensitivity of the business. The Group's economic activity is sensitive to the USD (a change of almost 10%) and moderately sensitive to the GBP (a change of almost 2%).

(in thousands of euros)	EBIDTA	
	Strengthening	Weakening
December 31, 2022		
GBP (10% movement)	53	(149)
USD (10% movement)	215	(599)

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 December 31, 2022, 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 as of December 31, 2022, was following:

(in thousands of euros)	Note	31.12.2022
Total liabilities	15, 16, 17	5,088
Less: cash and cash equivalents		9,145
Total		**(4,057)**
Total equity		56,323
Net debt to equity ratio		**-7.2%**

NOTE 9. PROPERTY, PLANT AND EQUIPMENT

(in thousands of euros)	Office equipment	Computer equipment	Other tangible assets	Total
Cost at April 21,2021	0	0	0	**0**
Accumulated depreciation at April 21, 2021	0	0	0	**0**
Carrying amounts at April 21, 2021	**0**	**0**	**0**	**0**
Additions	0	9	0	**9**
Acquisitions through business combinations	9	26	44	**78**
Depreciation	(1)	(3)	(1)	**(7)**
Cost at December 31, 2021	17	47	64	**128**
Accumulated depreciation at 31 December 2021	(9)	(16)	(23)	**(48)**
Carrying amounts at December 31, 2021	**8**	**31**	**41**	**80**
Additions	1	174	17	**192**
Acquisitions through business combinations	0	0	0	**0**
Depreciation	(1)	(39)	(41)	**(81)**
Cost at December 31, 2022	17	221	35	**273**
Accumulated depreciation at 31 December 2022	(9)	(55)	(18)	**(82)**
Carrying amounts at December 31, 2022	**8**	**166**	**17**	**191**

NOTE 10. INTANGIBLE ASSETS

(in thousands of euros)	Goodwill	Software*	Other intangible assets	Uncomplete software**	Pre-payments	Total
Cost at April 21, 2021	0	0	0	0	0	**0**
Accumulated amortization at April 21, 2021	0	0	0	0	0	**0**
Carrying amounts at April 21, 2021	**0**	**0**	**0**	**0**	**0**	**0**
Additions	0	200	0	429	0	**629**
Amortization	0	(1,136)	(63)	0	0	**(1,199)**
Acquisitions through business combinations	208	31,742	2,530	17,246	0	**51,726**
Cost at December 21, 2021	208	31,942	2,530	17,675	0	**52,355**
Accumulated amortization at December 31, 2021	0	(1,136)	(63)	0	0	**(1,199)**
Carrying amounts at December 31, 2021	**208**	**30,806**	**2,467**	**17,675**	**0**	**51,156**
Additions	0	0	0	4,224	12	**4,235**
Amortization	0	(3,194)	(253)	0	0	**(3,447)**
Acquisitions through business combinations	0	0	0	0	0	**0**
Cost at December 31, 2022	208	31,942	2,530	21,899	11	**56,590**
Accumulated amortization at December 31, 2022	0	(4,330)	(316)	0	0	**(4,646)**
Carrying amounts at December 31, 2022	**208**	**27,612**	**2,214**	**21,899**	**11**	**51,944**

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

*** Uncompleted software additions consist of capitalized development costs for both TextMagic A2P SMS and Touchpoint software. The first modules of Touchpoint are planned to be deployed in 2023.*

NOTE 11. BUSINESS COMBINATION

On September 23, 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 thousand. The latter appraisal was conducted using three internationally recognized 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 present value and terminal value of cash flows for the next five years were determined using a discount rate of 22%. It was considered that the TouchPoint platform will be launched in 2022 and the average EBITDA margin was considered 26%. Currently, the TouchPoint platform is scheduled to launch in 2023.

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

(in thousands of euros)	Fair value
Cash	3,231
Trade and other receivables	427
Property, 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**

(in thousands of euros)	Fair value	
	TextMagic Ltd	TM Ops OÜ
Cash	2,971	260
Trade and other receivables	404	23
Property, plant and equipment	15	63
Trade payables	(1,525)	(31)
Other payables	(212)	(201)
Contract liabilities	(1,376)	0
Net identifiable assets acquired	**277**	**114**
Goodwill		208
Net assets acquired		**599**
Total cash flow		**3,231**
Intangible assets acquired with the non-monetary contribution		51,518
Total value of the non-monetary contribution		**52,117**

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

NOTE 12. 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 December 2022	Ownership interest at 31 Dec 2021
TextMagic Ltd	Client-facing entity of the TextMagic SMS platform	United Kingdom	100,00%	100,00%
TM Ops OÜ	Back-Office, Support & Marketing services	Estonia	-*	100,00%
TM Marketing Ops SRL	Marketing services	Romania	100,00%	100,00%

On September 23, 2021, the Group acquired 100% of TM Ops OÜ and TextMagic Ltd through a non-monetary contribution (Note 11).

*On June 7, 2022, the shareholders approved the merger agreement between TextMagic AS (the Unifying Company) and TM Ops OÜ (the Merging Company. On June 20, 2022, TM Ops OÜ merged with TextMagic AS and in this connection TM Ops OÜ was deleted from the Commercial Register on the same day.

NOTE 13. PREPAYMENTS

(in thousands of euros)	31.12.2022	31.12.2021
Prepaid taxes	49	70
Prepaid expenses	81	59
Total	**130**	**129**
Non-current	0	0
Current	130	129
Total	**130**	**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 14. CAPITAL AND RESERVES

Share capital and share premium

The share capital as of December 31, 2022, was in the amount of €850 thousand (December 31, 2021: €850 thousand), which is divided into 8,500,000 ordinary shares with a nominal value of €0.1 per share. The share capital consists of:

- €25 thousand contributed at establishment;
- €775 thousand contributed as a non-monetary contribution on September 23, 2021;
- €50 thousand contributed as a result of the IPO on December 15, 2021.
- On the basis of the decision of June 28, 2022, share capital was increased by €2,550 thousand, increased the book value of the shares from €0.1 to €0.4 as a result of the fund issue at the expense of the share premium;
- On the basis of the decision of August 5, 2022, the share capital was reduced by €2,550 thousand, which reduced the book value of the shares from €0.4 to €0.1.

The share premium is on total of €51,242 thousand and consists of:

- €51,342 thousand which was recognized as a result of a non-monetary contribution on September 23, 2021;
- €2,450 thousand which was recognized as a result of IPO on December 15, 2021;
- On the basis of the decision of June 28, 2022, share capital was increased by €2,550 thousand, which increased the book value of the shares from €0.1 to €0.4 as a result of the fund issue at the expense of the share premium.

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 recognized for period January 1, 2022 to December 31, 2022 was in total of -€35 thousand (April 21, 2021 to December 31, 2021: €14 thousand).

Other reserves

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

The total number of options granted but not exercised as of December 31, 2022, was 561,000 (December 31, 2021: 429,000). The exercise price per share is €0,1 per share.

Reserves for options granted were recognized in total of €1,651 thousand as of December 31, 2022 (December 31, 2021: €153 thousand). Options are issued since December 2021, so the accrual-based expense and reserve for 2021 was significantly lower compared to 2022. The expected costs of 2021 were reduced in 2022 by €1 thousand, the effect of which was reflected in the retained earnings of the previous periods.

NOTE 15. PAYABLES TO SHAREHOLDERS

On August 5, 2022, the shareholders decided to reduce the share capital by €2,550 thousand, which reduced the book value of the shares from €0.4 to €0.1. Payments are made to the shareholders of TextMagic AS on the terms stipulated by law. As of December 31, 2022, the liability to shareholders was thus €2,550 thousand (December 31, 2021: €0). The payment was made in February 2023.

NOTE 16. TRADE AND OTHER PAYABLES

(in thousands of euros)	Note	31.12.2022	31.12.2021
Trade payables		596	223
Payables to related parties	23	0	718
Total trade payables		**596**	**941**
Payables to employees		101	43
Other accrued liabilities		193	107
Total other payables		**294**	**150**
Total		**890**	**1,091**

Non-current	0	0
Current	890	1,091
Total	**890**	**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 17. INCOME TAX AND TAX LIABILITIES

Amounts recognized in profit or loss

(in thousands of euros)	31.12.2022	31.12.2021
Current tax for the year	8	1
Income tax for the year	**8**	**1**
Profit (loss) before tax	**2,716**	**(93)**
Tax using the Company's domestic tax rate	0	0
Effect of tax rates in foreign jurisdictions	8	1
Income tax for the year	**8**	**1**
Effective tax	0%	-1%

Tax liabilities

(in thousands of euros)	31.12.2022	31.12.2021
Value-added tax	3	142
Personal income tax	30	11
Corporate income tax	7	33
Social security tax	55	24
Funded pension contributions	2	1
Unemployment insurance contributions	5	1
Other tax payables	0	1
Total	**102**	**213**
Non-current	0	0
Current	102	213
Total	**102**	**213**

NOTE 18. REVENUE

(in thousands of euros)	01.01.2022-31.12.2022	21.04.2021-31.12.2021
Sales to countries other than the European Union		
United States	8,902	1,803
United Kingdom	2,516	654
Australia	769	155
Canada	751	150
Other countries	387	125
Total sales to countries other than the European Union	**13,325**	**2,887**
Sales to countries of the European Union		
Countries of the European Union	506	194
Total sales to European Union countries	**506**	**194**
Total revenue	**13,831**	**3,081**
Major products/service lines		
Text-messaging services	11,670	2,656
Virtual mobile number services	1,651	363
Other TextMagic A2P SMS platform services	510	62
Total revenue	**13,831**	**3,081**
Timing of revenue recognition		
At a point in time	0	0
Over time	13,831	3,081
Total revenue from contracts with customers	**13,831**	**3,081**

The contract liabilities primarily relate to the advance consideration received from customers for which revenue is recognized over time. Contract liabilities will be recognized 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 thousands of euros)	31.12.2022	31.12.2021
Receivables, which are included in 'trade and other receivables	0	0
Contract liabilities	1,546	1,458
Total	**1,546**	**1,458**

No information is provided about remaining performance obligations as of December 31, 2022, that have an original expected duration of one year or less, as allowed by IFRS 15.

NOTE 19. GOODS, RAW MATERIALS AND SERVICES

(in thousands of euros)	01.01.2022-31.12.2022	21.04.2021-31.12.2021
Payment processing fees	(462)	(97)
Purchased services	(3,741)	(883)
Other software expense	(454)	(59)
Total	**(4,657)**	**(1,039)**

NOTE 20. OTHER OPERATING EXPENSES

(in thousands of euros)	01.01.2022-31.12.2022	21.04.2021-31.12.2021
Office expenses	(135)	(29)
Administrative expenses	(92)	(7)
Software expenses	(132)	(105)
Legal and other professional service costs	(66)	(157)
Accounting and audit expenses	(93)	(51)
Marketing expenses	(489)	(260)
Recruitment and other personnel expenses	(266)	(13)
Exchange rate variance and foreign currency gains and losses	(224)	(33)
Other operating expenses	(82)	(79)
Total	**(1,579)**	**(734)**

NOTE 21. EMPLOYEE EXPENSES

(in thousands of euros)	01.01.2022-31.12.2022	21.04.2021-31.12.2021
Salary expenses	(984)	(111)
Share option expense*	(906)	(59)
Social security charges	(373)	(26)
Total	**(2,263)**	**(196)**
Average number of personnel converted to full-time equivalent	18	14
Average number of staff by employment relationship:		
Personnel working under employment contracts	16	14
Personnel working under board member contracts	2	0

** Estimated expense from option agreements with employees. Options were issued since December 2021.*

(in thousands of euros)	01.01.2022-31.12.2022	21.04.2021-31.12.2021
Cost of contract developers	(2,992)	(534)
Option expense**	(579)	(93)
Total subcontractors' expense	**(3,571)**	**(627)**

*** Estimated expense from option agreements with contracting developers. Options were issued since December 2021.*

(in thousands of euros)	01.01.2022-31.12.2022	21.04.2021-31.12.2021
Total employee expense	(2,263)	(196)
Total subcontractors' expense	(3,571)	(627)
Total employee expenses	**(5,834)**	**(823)**

NOTE 22. 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 thousands of euros)	TextMagic A2P SMS platform	
	01.01.2022-31.12.2022	21.04.2021-31.12.2021
Revenue	13,831	3,081
Other income	309	0
Goods, raw materials and services	(4,657)	(1,039)
Other operating expenses	(1,579)	(734)
Work performed by the entity and capitalized	4,235	629
Employee expenses	(5,834)	(823)
Depreciation, amortization and impairment of non-current assets	(3,528)	(1,206)
Other expenses	(61)	(2)
Operating profit (loss)	**2,716**	**(94)**
EBITDA	**6,244**	**1,112**

NOTE 23. TRANSACTIONS WITH RELATED PARTIES

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 (the parent company of TextMagic AS), which as of December 31, 2022, held 86,8% (December 31, 2021: 86,8%) on TextMagic AS shares.

Shares of management and supervisory board

As of December 31, 2022, members of the board and the supervisory board and the companies under their control held the following amount of TextMagic AS shares:

Priit Vaikmaa (representative of Monday Media OÜ) – 7,376,731

Kärtu Vaikmaa (representative of Merkatiko OÜ) – 312,050

Eduard Tark (Edly OÜ representative) – 312,000

Siim Vips (representative of Bosel OÜ) – 12,000

Fred Metsma* – 92.

Transactions with key management personnel

The salary expense recognized to the members of management and supervisory board for January 1, 2022, to December 31, 2022, was in total of €451 thousand (April 21, 2021, to December 31, 2021: €38 thousand).

As of December 31, 2022, the Group has option agreements with the members of the management board and the supervisory board for a total of 184,000 shares (December 31, 2021: 186,000), including Kärtu Vaikmaa (representative of Merkatiko OÜ) 88,000 (2021: 88,000), Eduard Tark (representative of Edly OÜ) 88,000 (2021: 88,000) and Fred Metsma* 8,000 (2021: 0) share options.

(in thousands of euros)	**01.01.2022-31.12.2022**	**21.04.2021-31.12.2021**
Management and supervisory board		
Salary expenses	(451)	(38)

**As of the date of publication of the annual report, Fred Metsma is not a member of the management board.*

Other related party transactions

Transactions of shareholders with a controlling interest

(in thousands of euros)	Transaction values for the year ended		Balance outstanding at			
			31.12.2022		31.12.2021	
	31.12.2022	31.12.2021	Receivables	Payables	Receivables	Payables
Other transactions	0	29	1	2,213	37	0
Additions through a business combination	0	0	0	0	0	706
Total	**0**	**29**	**1**	**2,213**	**37**	**706**

Transactions of supervisory board and companies under their controlling interest

(in thousands of euros)	Transaction values for the year ended		Balance outstanding at			
			31.12.2022		31.12.2021	
	31.12.2022	31.12.2021	Receivables	Payables	Receivables	Payables
Purchase of development services	52	57	0	0	0	13
Other	0	0	0	191	40	0
Total	**52**	**57**	**0**	**191**	**40**	**13**

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 24. CONTINGENT LIABILITIES

At the end of the reporting period, the Group's retained earnings amounted to €2,615 thousand (December 31, 2021: -€93 thousand). Contingent liabilities as of December 31, 2022, includes potential dividends in total of €2,092 thousand (December 31, 2022: €0) and income tax liabilities from potential dividends in total of €523 thousand (December 31, 2021: €0).

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 2022 may not exceed total retained earnings as at the end of the reporting period and profits already taxed at the level of the subsidiaries are not taxed again.

NOTE 25. FINANCIAL INFORMATION ON THE GROUP'S PARENT COMPANY

The financial information on the Parent comprises the financial statements of the Parent, which are required to be disclosed in accordance with the Estonian Accounting Act. The 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 thousands of euros)	31.12.2022	31.12.2021
Non-current assets		
Property, plant and equipment	182	0
Intangible assets and goodwill	52,121	50,948
Subsidiaries	334	657
Total non-current assets	**52,637**	**51,605**
Current assets		
Trade and other receivables	5,673	915
Prepayments	25	53
Cash and cash equivalents	849	2,114
Total current assets	**6,547**	**3,082**
TOTAL ASSETS	**59,184**	**54,687**
Liabilities		
Current tax liabilities	85	4
Trade and other payables	2,670	11
Total current liabilities	**2,755**	**15**
Total liabilities	**2,755**	**15**
Equity		
Share capital	850	850
Share premium	51,242	53,792
Other reserve	1,651	153
Retained earnings	2,686	(123)
Total equity	**56,429**	**54,672**
TOTAL EQUITY AND LIABILITIES	**59,184**	**54,687**

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

(in thousands of euros)	01.01.2022 - 31.12.2022	21.04.2021 - 31.12.2021
Revenue	8,011	1,504
Goods, raw materials and services	(184)	(19)
Other operating expenses	(411)	(398)
Work performed by the entity and capitalized	4,235	629
Staff costs	(5,302)	(639)
Depreciation, amortization and impairment of non-current assets	(3,514)	(1,199)
Other expenses	(55)	(1)
Operating profit (loss)	**2,780**	**(123)**
Profit (loss) before tax	2,780	(123)
Profit (loss) for the period	**2,780**	**(123)**
Total comprehensive income for the period	**2,780**	**(123)**

STATEMENT OF CASH FLOWS

(in thousands of euros)	01.01.2022 - 31.12.2022	21.04.2021- 31.12.2021
Cash flows from operating activities		
Profit (loss) for the period	**2,780**	**(123)**
Adjustments for:		
Depreciation and amortization	3,514	1,199
Other adjustments	421	0
Total adjustments	**3,935**	**1,199**
Changes in trade and other receivables	(4,723)	(915)
Changes in prepayments	55	(53)
Changes in trade and other payables	(3)	15
Net cash from operating activities	**2,044**	**123**
Cash flows from investing activities		
Net cash flows from business combinations	184	0
Acquisition of property, plant and equipment	(206)	0
Development expenditure	(3,287)	(534)
Net cash used in investing activities	**(3,309)**	**(534)**
Cash flows from financing activities		
Contribution to the share capital and share premium	0	2,525
Net cash from financing activities	**0**	**2,525**
TOTAL CASH FLOWS	**(1,265)**	**2,114**
Cash and cash equivalents at the beginning	2,114	0
Cash and cash equivalents at the end	**849**	**2,114**

STATEMENT OF CHANGES IN EQUITY

(in thousands of euros)	Share capital	Share premium	Other reserves	Retained earnings	Total equity
Balance at April 21, 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 December 31, 2021	**850**	**53,792**	**153**	**(123)**	**54,672**
Profit (loss) for the period	0	0	0	2,780	**2,780**
Transactions with owners of the Company	0	0	0	0	**0**
Other changes in equity	0	(2,550)	1,498	29	**(1,023)**
Balance at December 31, 2022	**850**	**51,242**	**1,651**	**2,686**	**56,429**

DECLARATION OF THE MANAGEMENT BOARD AND SUPERVISORY BOARD

The Management Board has prepared the management report and the consolidated financial statements of TextMagic AS for the year ended December 31, 2022.

The Supervisory Board of TextMagic AS has reviewed the annual report, prepared by the Management Board, consisting of the management report, the consolidated financial statements, the proposal for loss recovery and the independent auditor's report. The Supervisory Board has approved the annual report for presentation at the Annual General Meeting of Shareholders.

<u>Management Board</u>

Priit Vaikmaa
Chairman of the Management Board, CEO

<u>Supervisory Board</u>

Kärtu Vaikmaa	Eduard Tark
Pavel Karagjaur	Siim Vips

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Independent Auditors' Report

(Translation of the Estonian original)

To the Shareholders of TextMagic AS

Opinion

We have audited the consolidated financial statements of TextMagic AS (the Group), which comprise the consolidated statement of financial position as at 31 December 2022, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of cash flows and the consolidated statement of changes in equity for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2022, and its consolidated financial performance and its consolidated 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 Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the Code of Ethics for Professional Accountants (Estonia) (including Independence Standards) and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

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

Our opinion on the consolidated 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 consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. In addition, our responsibility is to state whether the information presented in the management report has been prepared in accordance with the applicable legal and regulatory requirements.

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 and we state that the information presented in the management report is materially consistent with the consolidated financial statements and in accordance with the applicable legal and regulatory requirements.

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

Management is responsible for the preparation and fair presentation of the consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group'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 Group or to cease operations, or has no realistic alternative but to do so.

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 consolidated financial statements.

As part of an audit in accordance with International 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 consolidated 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 Group'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 Group'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 consolidated 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 Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

/signed/

Helen Veetamm

Certified Public Accountant, Licence No 606

Tallinn, 14 March 2023

PROFIT ALLOCATION RECOMMENDATION

The Management Board of TextMagic AS recommends allocating the net profit for the financial year ended December 31, 2022, in the amount of 2,708 thousand euros as follows

(in thousands of euros)	
Retained earnings	(93)
Annual profit (loss)	2,708
Total	**2,615**
Allocation	
Reserve capital	85
Retained earnings	2,530
Total	**2,615**

DISTRIBUTION OF SALES REVENUE OF THE PARENT COMPANY ACCORDING TO EMTAK CLASSIFICATION

EMTAK code and field of activity	Revenue (in thousands of euros)
77401 Rental of intellectual property (software)	8,011