FACTS AND FIGURES 2020

Who we are

Headquartered in Munich and founded in 2007, NFON AG is the only pan-European cloud PBX provider – counting more than 40,000 companies across 15 European countries as customers and more than 2,700 partners across Europe. With Cloudya, NFON offers an easy-to-use, independent and reliable solution for advanced cloud business communications. Further premium and industry solutions complete the portfolio in the field of cloud communications. With our intuitive communications solutions, we enable European companies to improve their work a little, every single day. NFON is the new freedom in business communication.

Key figures

in EUR million	2020 [1]	2019	Change in %
Total revenue	**67.6**	**57.1**	**18.4%**
Recurring revenue	59.4	48.1	23.6%
Recurring revenue as a share of total revenue (in %)	87.8%	84.1%	
Non-recurring revenue	8.2	9.1	–9.4%
Non-recurring revenue as a share of total revenue (in %)	12.2%	15.9%	1.3%
ARPU blended [2] (in EUR)	9.77 EUR	9.64 EUR	
Seats	**524,791**	**449,711**	**16.7%**
Adjusted EBITDA [3]	3.5	–5.1	n/a %

1 Unless otherwise stated, all values in the consolidated financial statements and the related notes are rounded. Therefore, rounding differences may occur in the tables.
2 Based on an average number of seats per month every year.
3 Explanations of the adjustments can be found in Results of operations section: Personnel expenses and other operating expenses.

List of abbreviations

AOC	Active Ownership Fund
PBX	Private Branch Exchange (telephone system)
UCaaS	Unified communications as a service
SaaS	Software-as-a-Service
VoIP	Voice over IP
DTS	Deutsche Telefon Standard GmbH
IP	Internet Protocol
Seats	Extensions, Licenses

TABLE OF CONTENTS

Dear shareholders and readers!

Despite all the challenges posed by the overall economy, NFON AG once again performed well in 2020 thanks to its robust business model. Recurring revenue increased significantly by 23.6% to EUR 59.4 million, while total revenue rose by 18.4% to EUR 67.6 million. As a result, the share of recurring revenue in total revenue increased further to 87.8%, compared to 84.1% the previous year. The number of seats installed at the customer premises increased by 75,080 to 524,791, representing growth of 16.7% compared to the prior-year reporting date. Particularly due to increasing remote working activity and a corresponding rise in voice minutes, average revenue per user (blended ARPU) increased to EUR 9.77 in 2020, compared to EUR 9.64 in 2019. The increased blended ARPU combined with significantly lower expenses compared to the previous year, for travel or marketing activities, for example, also had a significant positive impact on our earnings performance. Earnings before interest, taxes, depreciation and amortization (EBITDA) increased by EUR 9.3 million to EUR 2.3 million. Adjusted EBITDA even improved to EUR 3.5 million.

This very good business development in an unusual year impressively underscores that NFON is positioned exactly right in the European market for business communications with its cloud-based product portfolio. In 2021 we expect further growth. We are planning for seat growth of between 15% and 17% and a recurring revenue growth rate of between 14% and 16%. Recurring revenue is expected to account for more than 85% of total revenue.

On this basis, we will start 2021 with our growth strategy 2024: Target – Enhance – Scale. Following the phase-out of ISDN and the ongoing replacement of legacy phone system technology with cloud PBX, we are immediately in the third wave of disruption. Telephony, collaboration with video or chat and business applications such as contact center solutions, are converging. This requires platforms in which customers can switch between voice, video, text and collaboration fluently, easily guided and without complications. That is why we will offer a full UCaaS suite with exactly these components, complemented by open APIs and other omni-channel solutions.

Dr Klaus von Rottkay,
Chief Executive Officer

Jan-Peter Koopmann,
Chief Technology Officer

As part of our growth course, we will not only increasingly sell the new products to our existing customer base. We will of course also continue to expand our partner network in Europe. The partner stands absolutely and immovably in the center for us. At the same time, we will increase our focused customer segment in the small and medium business (10 – 250 extensions) to the enterprise segment. A clear go-to-market strategy makes it easier for us to gain efficiency and scale faster. We already have an excellent presence in markets such as Germany, the UK or Austria. Markets such as France or Italy, on the other hand, are still new to the corporate structure and are therefore classified by us as countries with a relative growth focus. With our Growth Strategy 2024, we are also examining opportunities to invest in Central and Eastern Europe. These markets promise faster growth with less competitive pressure.

Telephony and IT are growing ever closer together. An effect that has become unmistakable in today's everyday business life. We therefore aim to be the leading provider of voice-centric business communication in Europe.

Stay in touch with us!

Sincerely yours,

Dr Klaus von Rottkay and Jan-Peter Koopmann

Report of the Supervisory Board for fiscal 2020

In the past fiscal year, the Supervisory Board of NFON AG (hereinafter also referred to as "the company") performed the duties incumbent upon it under the law, the Articles of Association and the Rules of Procedure and, by fulfilling its advisory and regulatory function, actively supported the Management Board in managing the business. The Supervisory Board was directly involved in all decisions of fundamental importance to the company. The Management Board reported to the Supervisory Board in writing and orally on the business situation and development, the current earnings situation, the risk situation, risk management, short-term and long-term planning, investments and organisational measures. The Chairman of the Supervisory Board was in close contact with the Management Board at all times and was regularly informed about the development of the business situation and material transactions.

After careful examination and consultation, the Supervisory Board voted on the decisions or measures of the Management Board that require its approval according to the law, the Articles of Association or the Rules of Procedure for the Management Board, and on other decisions of fundamental importance. The decisions were mainly based on the reports and resolution proposals of the Management Board, which were examined in detail by the Supervisory Board. In 2020, the Management Board and Supervisory Board cooperated constructively and thus continued the company's ongoing growth.

Composition of and changes in the Supervisory Board

The following persons were members of the Supervisory Board throughout 2020:

- Rainer Koppitz (Chairman of the Supervisory Board), CEO of the KATEK SE Group, Munich
- Günter Müller (Deputy Chairman of the Supervisory Board), Managing Director of Milestone Venture Capital GmbH and Executive Chairman of ASC Technologies AG, Hösbach
- Dr Rupert Doehner (member of the Supervisory Board), lawyer, Munich
- Florian Schuhbauer (member of the Supervisory Board), founding partner and Managing Director of Active Ownership Advisors GmbH, Frankfurt/Main, and of Active Ownership Capital S.à.r.l. and Active Ownership Corporation S.à.r.l., both based in Grevenmacher, Luxembourg

Rainer Christian Koppitz,
Chairman of the Supervisory Board

Meetings of the Supervisory Board and main areas of discussion

In fiscal 2020, the Supervisory Board held five ordinary meetings and one extraordinary meeting. With the exception of the meeting on 18 September 2020, which the Chairman of the Supervisory Board was unable to attend, all members of the Supervisory Board took part in all meetings. It also adopted eleven circular resolutions. The Supervisory Board did not form any committees. At each ordinary meeting, the Supervisory Board also held a closed session at times.

The meetings of the Supervisory Board in fiscal 2020 focused in particular on the following topics:

- Discussion of a potential take-over project of NFON AG (public take-over)
- Formation of a near-shoring location in Lisbon
- Adoption and approval of the audited annual financial statements and the consolidated financial statements, including the combined Group management report, for fiscal 2019
- Preparations for the Annual General Meeting on 28 May 2020
- Report on the risk situation and on risk and compliance management, plus resolutions and the German Corporate Governance Code declaration
- Variable remuneration of the members of the Management Board for 2019
- Development status of the Cloudya product
- Approval to open new offices of Group companies in Lisbon, Mannheim, Munich and Manchester
- Selection and appointment of a new CEO and entry into cancellation agreements with two members of the Management Board in compliance with the requirements of capital market law
- Discussion of the NFON Group's product roadmap and strategy
- Approval of related party transactions, hiring of employees in management and the appointment and dismissal of managing directors and officers at Group companies
- Discussion and review of the NFON Group's budget for 2021 to 2023
- Discussion of the status and resolution on strategic partnerships and various M&A activities

The Management Board regularly informed the Supervisory Board of the financial position and financial performance of NFON AG and its subsidiaries and investees.

The Supervisory Board examined and approved the budget planning prepared by the Management Board for fiscal 2021. It discussed and reviewed the strategic orientation of the company and the Group on the basis of medium-term and long-term corporate planning. The Supervisory Board analysed and reviewed the information received from the Management Board in detail. It paid particular attention to the risk situation and risk management.

In its circular resolutions, the Supervisory Board mainly gave its approval to transactions which, although not of strategic significance, require approval in accordance with the Rules of Procedure of the Management Board. The Supervisory Board also made time-critical decisions, in particular in connection with the change in the line-up of the Management Board, by way of circular resolutions.

Annual and consolidated financial statements and management reports

The Annual General Meeting of the company on 28 May 2020 appointed KPMG AG Wirtschaftsprüfungsgesellschaft, Munich, (hereinafter: KPMG) as NFON AG's auditor for fiscal 2020. The Supervisory Board subsequently engaged KPMG to audit the company's annual financial statements and consolidated financial statements for fiscal 2020.

The Management Board prepared the annual financial statements in accordance with the provisions of German commercial and stock corporation law relating to accounting and the consolidated financial statements in accordance with Section 315a(3) HGB in accordance with International Financial Reporting Standards (IFRS). KPMG has audited the annual financial statements and the consolidated financial statements, including the combined Group management report, together with the underlying accounting records of the company. The audit was conducted in accordance with the provisions of the German Commercial Code and the generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). The audit of the auditor and the audit by the Supervisory Board did not lead to any reservations or objections. The auditor issued the unqualified audit opinions required by law.

All members of the Supervisory Board received the special documentation relevant to the financial statements, in particular the annual financial statements and consolidated financial statements, the combined Group management report and the related audit reports from KPMG, in good time before the Supervisory Board's accounts meeting on 14 April 2021. In preparation for this meeting, all members of the Supervisory Board dealt with the above documents in detail. At the accounts meeting, the annual financial statements, the consolidated financial statements and combined Group management report were discussed in detail with the Management Board. The Supervisory Board independently examined the annual financial statements prepared by the Management Board, the consolidated financial statements and the combined Group management report for their legality, regularity, appropriateness and cost-effectiveness. The representative for KPMG and the head of audit also attended the accounts meeting on 14 April 2021. They reported on the audit, commented on the focal points of the audit and were available to the Supervisory Board for further questions and information.

After a detailed examination of the annual and consolidated financial statements and the combined Group management report for fiscal 2020, the Supervisory Board did not raise any objections. The Supervisory Board concurred with KPMG's audit findings and approved the annual financial statements and consolidated financial statements of NFON AG. The annual financial statements of NFON AG are thus adopted.

The Supervisory Board would like to thank the members of the Management Board and all the employees for their great commitment and performance in fiscal 2020. The Supervisory Board particularly wishes to thank the departing members of the Management Board, Hans Szymanski and César Flores Rodríguez, for the excellent working relationship, especially in the weeks before the successful IPO and the pioneering two and a half years that followed.

Munich, April 2021

For the Supervisory Board

Rainer Koppitz
Chairman of the Supervisory Board

The Share

The NFON Share in 2020 – Tailwind on the way to becoming the Leading Provider

Trust through a transparent dialogue with shareholders

The NFON share has been successfully listed in the Prime Standard of the Frankfurt Stock Exchange since 2018. The minimum requirements for our capital market communication are thus defined. Nevertheless, we at NFON are not satisfied with achieving the minimum. Transparent, consistent and continuous dialogue is important to us. This reliability represents a great asset, particularly in these strange times that bring uncertainties in many areas of our lives, because it creates trust. Our customers also trust us and rely on our solutions to digitalise their business communications. The result is long-term tailwind for NFON and the performance of the NFON share.

Despite the many restrictions on travel and contact, NFON AG's Investor Relations department, together with its Management Board members, was very active again in 2020. The new Shareholder Rights Directive (ARUG II) allowed us to take advantage of the opportunity to take an in-depth look at our shareholder structure. We intend to use these new possibilities to communicate with our shareholders in an even more targeted manner in the future. Besides our quarterly reports, half-yearly financial and annual reports, quarterly conference calls for investors and analysts on the figures, and press releases, NFON was also present at a number of digital investor conferences and roadshows. The innovative magazine format of our quarterly releases, „CLOUDS | Communication – an idea by NFON AG", also contributes to a better understanding of NFON, its business model, products, the market and its customers and partners, and makes it easier to assess developments. Financial news is presented in the context of the operating business and supplemented by important additional information in Clouds.

In total, nine conference days and 135 investor meetings gave us the opportunity to engage in lively and constructive discussions with investors and analysts about the Company's business model, growth strategy, milestones already achieved and future plans. Among other events, we were represented at the German Equity Forum, the Berenberg & Goldmann Sachs German Corporate Conference, the Baader Investment Conference 2020, the Berenberg US Conference and the Quirin Champions Conference 2020. In the area of new reporting formats, we took the opportunity to present NFON on echtgeld.TV (https://www.youtube.com/watch?v=c3_Yp9UI_dI) for the first time in 2020. In 2021, we hold a virtual Capital Markets Day for the first time.

Part of NFON AG's IR work is to make all important information, from the Group's financial report to corporate news, mandatory announcements, share price and shareholder structure, easily accessible and easy to find on the Company's own homepage in the Investor Relations section: https://www.nfon.com/de/about-nfon/investor-relations/.

Transparent, consistent and continuous dialogue with the capital market also requires accessibility. Please do not hesitate to contact Sabina Prüser, Head of Investor Relations at NFON AG, by e-mail (sabina.prüser@nfon.com) or by phone +49 (0) 89 453 00 134 if you have any questions.

Annual General Meeting

The Annual General Meeting of NFON AG was held purely virtually for the first time on 28 May 2020. The COVID-19 pandemic mitigation law made it possible for a total of 72.65% of the share capital to be represented at the AGM, even in these strange times. The CEO and the Chairman of the Supervisory Board were present at the main venue in Munich, together with the notary public. The other members of the Management Board were also present virtually. Thus, in the spirit of maximum risk minimisation, the Annual General Meeting was able to take place and the Management Board and Supervisory Board were nevertheless able to report in detail to NFON shareholders on the financial year 2019 and developments in 2020. The Management Board once again highlighted the advantages and strengths of NFON AG's business model: flexibility, mobility, accessibility and scalability have been firmly anchored values of NFON since the Company was founded and are more important than ever today, in times of the corona crisis. Digitalisation has been progressing for years and received additional tailwind by the developments in 2020. NFON will be able to benefit from this in the long term.

All agenda items were approved by the shareholders and KPMG AG Wirtschaftsprüfungsgesellschaft was confirmed as auditor and Group auditor for financial year 2020.

All documents relating to the Annual General Meetings, including the speeches and presentation by the Management Board, can also be found in the Investor Relations section of the NFON website.

NFON share shows positive performance in 2020 and gains tailwind for 2021

Following the general uncertainty on the markets at the end of 2019, the NFON share started 2020 at EUR 9.94. In the first months, the share rose to EUR 13.25 on 14 February, which was also the high point in the first half of the year. In the following months, the share price fell and reached its low for the year at EUR 8.00 on 30 March 2020. This corridor was abandoned starting in April and the price rose, with minor setbacks, to a high for the year of EUR 18.81 by the end of 2020. The closing price on 30 December 2020 was only slightly below that at EUR 18.15 and equates to an annual increase of around 83%. Strengthened by this performance, the share has also gotten off to a very good start in 2021.

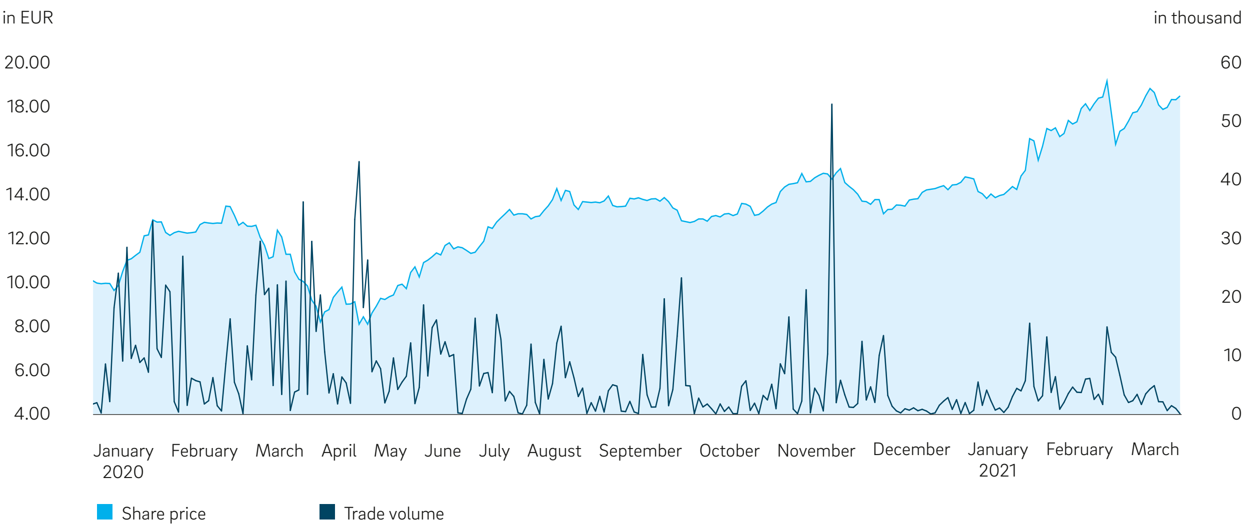
Trading volume

The trading volume of NFON shares on the XETRA platform averaged 6,712 shares traded per day over the course of 2020, with average trading turnover of EUR 81,935.15 per day. Trading turnover showed some peaks at the beginning of 2020 by surpassing EUR 300,000. In the summer months through November, the average volume was then below the annual average at around EUR 65,000. In the final months of the year, turnover picked up significantly and, at over EUR 72,000 per day, approached the annual average again. Trading in equities on the Tradegate platform is also particularly popular with private investors. Accordingly, we are pleased with the lively interest shown here, with 41,437 shares traded per month. Trading on Tradegate equally gained further momentum towards the end of the year in particular.

All analysts recommend buying the share

The NFON AG share was continuously covered by four analysts in 2020. Berenberg, Baader Bank, Stifel Europe (formerly MainFirst) and Hauck & Aufhäuser regularly appraised NFON AG, as in the previous year. All analysts have recommended buying the stock since the beginning of their coverage. At the beginning of the year, the average price target was still EUR 15.37. Over the course of the year, all analysts continuously increased their price targets to an average of EUR 25.50 at last count in March 2021. The detailed recommendations and price targets of all analysts can be

Share chart



found below in the subsection "Overview: NFON AG on the Frankfurt Stock Exchange." NFON AG's IR team engages in an open dialogue with analysts, who report on the Company and communicate their current assessment to capital market participants through an update or commentary when relevant events occur.

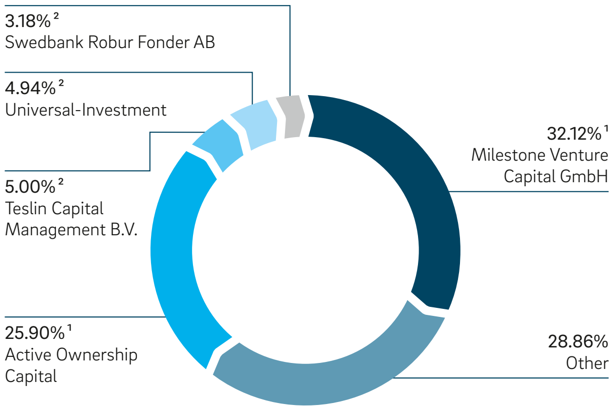
Coverage was further strengthened in 2021 when Bryan, Garnier started covering the Company, especially with regard to US investors. We hope this will provide additional tailwind for the NFON share on the American market. The expansion of the analyst portfolio means investors will have access to the ratings of five analysts in the future. With this level of coverage, NFON AG sees itself in a good position to attract attention and achieve an increasingly fair valuation of its share on the capital market and with investors around the world.

Shareholder structure

(as of 31 March 2021)

The shareholder structure of NFON AG saw a few changes in financial year 2020. While investors such as Earlybird Venture Capital, High-Tech Gründerfonds and MainFirst Asset Management reduced their investment in NFON and thus fell below the reporting threshold of 3%, we were delighted to welcome Teslin Capital Management as a new major shareholder with a reported share of 5%. Active Ownership Capital also significantly increased its stake in NFON in 2020, with the last reported stake from the investor amounting to 25.48%. On 26 March 2021, NFON successfully completed a capital increase as in an accelerated placement process and thus raised EUR 26 million in additional funds to finance its growth.

Shareholder structure



1 based on 16,561,124 shares
2 based on 15,055,569 shares
With effect from March 29, 2021, the share capital of NFON AG was was increased by EUR 1,505,555 to EUR 16,561,124.

Shareholders[3]	Share in %	Country	City
Milestone Venture Capital GmbH	32.12[1]	Germany	–
Active Ownership Capital	25.90[1]	Luxemburg	Grevenmarcher
Teslin Capital Management B.V.	5.00[2]	Germany	Berlin
Universal-Investment	4.94[2]	Germany	Frankfurt a.M.
Swedbank Robur Fonder AB	3.18[2]	Sweden	Stockholm

1 based on 16,561,124 shares
2 based on 15,055,569 shares
3 Total identified shareholders 72.5%

Overview: NFON AG on the Frankfurt Stock Exchange (Prime Standard)

Coverage (Status in March 2021)	Berenberg Bank Baader Bank Hauck & Aufhäuser Stifel Europe	Buy Strong Buy Buy Buy	EUR 26.00 EUR 26.00 EUR 30.00 EUR 20.00
Initial listing (11 May 2018)[1]	EUR 13.00		
Closing price (30 Dec. 2020)[1]	EUR 18.15		
Annual high (03 Dec. 2020)[1]	EUR 18.81		
Annual low (30 March 2020)[1]	EUR 8.00		
Market capitalisation as of 31 Dec. 2020[1]	EUR 272 million		
Average trading volume[1]	EUR 81,935.15/day		
Conference and roadshow days	9 conference and roadshow days	135 meetings with investors	

1 all trading data: XETRA

Master data of the NFON share

First day of trading	11 May 2018
Number of shares	16,561,124
Type of shares	No-par value bearer shares
Share capital	EUR 16,561,124.00
Voting rights	Each share entitles the holder to one vote
Security identification number (WKN)	A0N4N5 A2TSA4
ISIN (International Security Identification Number)	DE000A0N4N52 DE000A2TSA41
Ticker symbol	NFN
Reuters symbol	NFN.DE
Bloomberg symbol	NFN.GY
Trading segment	Regulated Market/Prime Standard
Stock exchanges	Frankfurt Stock Exchange/Xetra
Sector	Telecommunications
Designated sponsors	Baader Bank, ODDO Seydler
Coverage	Baader Bank, Berenberg Bank, Hauck & Aufhäuser, Stifel Europe, Bryan, Ganier & Co
Paying agent	Baader Bank Aktiengesellschaft

COMBINED GROUP MANAGEMENT REPORT

Group profile

Group business model

NFON AG (referred to as NFON or the NFON Group), based in Munich, was founded in 2007 and is the only pan-European provider[1] of cloud-based telephone systems. NFON has more than 40,000 business customers in 15 European countries, and has affiliated companies in Germany, Austria, the UK, Spain, Italy, France and Portugal. NFON also has a large network of partners for sales operations in other countries.

The NFON Group essentially generates revenue by providing cloud-based telecommunication services to business customers – these customers are provided with the required brokerage service from the cloud in NFON data centres via the Cloud PBX (Private Branch Exchange). As a result, customers do not need to have conventional telephone systems on their own premises. Generally, the customer is initially charged a one-off activation fee for each seat and a monthly service fee for each seat used.

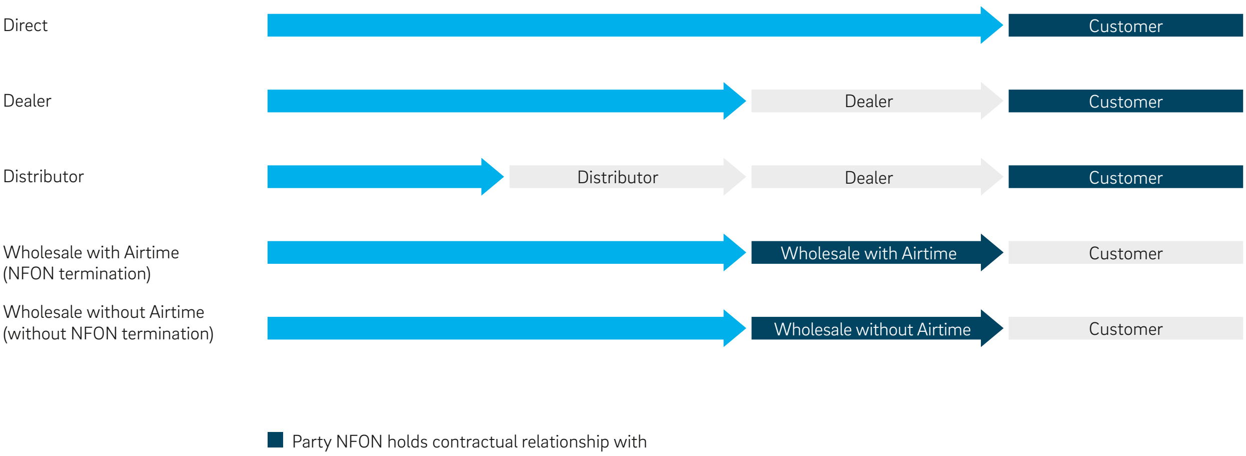
Furthermore, NFON can replace the telephone connection, meaning that the customer pays the fees for all telephone traffic to NFON. NFON procures this service itself from various carriers. With "Cloudya" the NFON Group offers a homogeneous tariff model, which covers the core functions associated with a telephone system, such as telephone conference facilities, automatic call forwarding (ACF) or the automatic forwarding of calls to the person responsible. NFON also offers premium services to over 40,000 customers. On request, NFON also sells end devices (telephones, soft clients for PCs and smartphones) and the corresponding software, which the company procures from several manufacturers, and provides Internet access on a reselling basis as required.

NFON divides its revenue into recurring and non-recurring revenue. Recurring revenues include monthly fees for the cloud PBX, SIP trunk channels, ongoing call charges and SDSL monthly fees (Symmetric Digital Subscriber line is a DSL access technology to a public digital network) as well as premium solutions such as Neorecording and Ncontactcenter. In contrast, non-recurring revenues are one-off revenues from the sale of hardware, setup fees of the cloud PBX or setup fees for SDSL.

1 This information has not been audited by the auditor.

Sales are conducted through five channels with a clear focus on indirect partner sales.

Sales are conducted through five channels with a clear focus on indirect partner sales



Direct sales: NFON handles sales directly.

Dealer: The dealer has its own customer base and acquires new customers to whom it sells the cloud telephony system. The dealer provides service for these customers. NFON has a direct service agreement with the customers and provides the telephony solution.

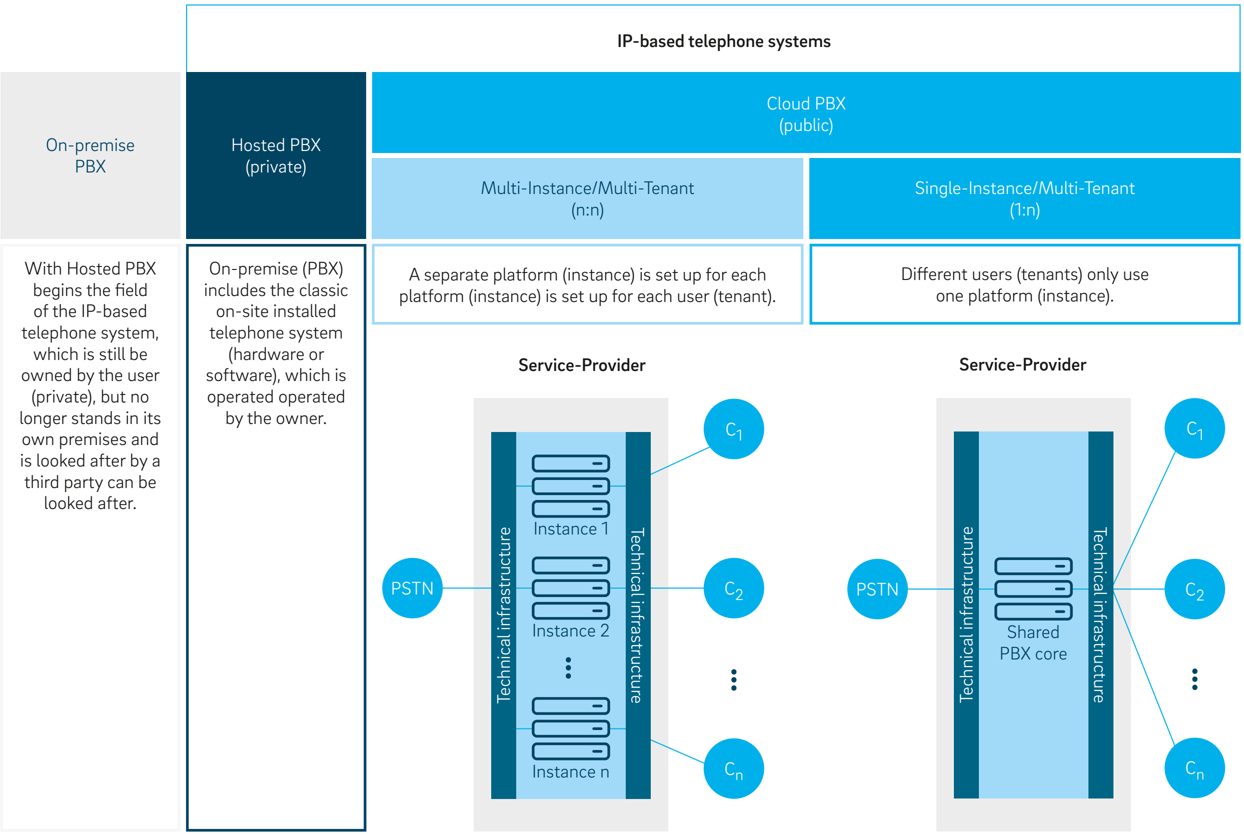
Distributoren: Distributors have their own network of dealers and typically do not market NFON's services themselves. They serve as an intermediary between the dealer and the manufacturer or service provider and introduce the respective product to their own network.

Wholesale partners: NFON enters into sales agreements with wholesale partners to accelerate the expansion of its customer base. In conjunction with these agreements, NFON provides the services on a white label basis, i.e. the wholesale partners market NFON's services to customers under their own brands or co-branded under their own brands and the NFON brand. There is no direct contractual relationship between the wholesale partner's customers and NFON. Among the wholesale partners, a distinction is also made between partner that purchase voice minutes from NFON and those that do not purchase voice minutes.

General market characteristics

The European market for business telephony can be divided into three segments:

European business telephony market



With its cloud telephone system, NFON offers a single-instance/multi-tenant platform (1:n). The SIP trunk technology offered by the subsidiary of NFON AG DTS ensures that stationary telephone systems (on-premise PBX) are connected to the PSTN via the internet.

Regulatory framework

Following the deregulation and harmonisation of German telecommunications law (1989), the performance of telecommunications services and the operation of telecommunications networks are subject to the Telekommunikationsgesetz (TKG – German Telecommunications Act, original version dated 25 July 1996, last new version dated 22 June 2004, last amendment dated 19 June 2020) and certain supplementary provisions. NFON is therefore also subject to the German Telecommunications Act.

The German Telecommunications Act implements the European legal framework for electronic communications networks and services that was amended in November 2009. The legal framework consisted, inter alia, of the Framework Directive (2002/21/EC), the Authorisation Directive (2002/20/EC), the Access Directive (2002/19/EC), the Universal Service Directive (2002/22/EC) and the Privacy and Electronic Communications Directive (2002/58/EC). These regulations ceased to apply when the European Electronic Communications Code (EECC) became effective on 20 December 2018. The EECC was to be enacted in national law by 21 December 2020/31 December 2020.

The body in charge of regulating the German telecommunications market is the German Federal Network Agency. Similar authorities, which include the European Commission, also exist in other European countries. Furthermore, various German authorities at state and municipal level and other EU bodies are authorised to regulate the providers of telecommunications services as performed by NFON and to monitor their business. The German Federal Network Agency has substantial powers to enforce the German Telecommunications Act and the associated provisions. These powers include the approval or review of telecommunications charges and providers' terms and conditions. Furthermore, the German Federal Network Agency is the body in charge of managing telephone numbers and ensuring data protection and network security in the telecommunications sector. The German Federal Network Agency's decisions can be appealed before the competent administrative courts.

A licence from a regulating body is not required to perform telecommunications services in the European Union. As a commercial provider of publicly accessible telecommunications services, NFON must also notify the German Federal Network Agency of the commencement of or any amendment and termination of business activities.

Regulating bodies such as the German Federal Network Agency can impose obligations on the company in relation to the performance of the service offered.

As NFON collects, stores and utilises data in conjunction with its ordinary business activities, the company is also subject to the data protection laws and regulations of federal, state and international government authorities. Data protection laws restrict the storage, use, processing, disclosure, transmission and protection of personal data, including debit and credit card data, provided to NFON by its customers, and the data that NFON collects from its customers and employees. Compliance with the above obligations necessitates substantial expenses on the part of NFON. Any failure or perceived failure to comply with the above obligations or any other legal, regulatory or contractual requirements could result in legal proceedings, lawsuits or sanctions on NFON by state agencies.

Objectives and strategies

As a leading provider [2] in Germany, NFON AG believes that it already holds a strong position on the highly fragmented international cloud telephony market. Using its strategy based on five growth vectors, the Group is pursuing its clearly defined aim of becoming the leading provider for cloud telephony services in Europe in the coming years.

Expansion and further development of the customer base in existing markets

The exploitation of cross-selling and up-selling potential within the existing customer base and the continued acquisition of new customers are significant strategic components for the successful development of the company. This requires increased awareness of the NFON brand and cloud telephony solutions. With this in mind, sales and marketing activities are being maintained at a high level. On an extremely fragmented telecommunications market, the importance of a brand that clearly shows how a purely B2B product benefits the customer cannot be underestimated. This requires a nuanced and genuine multichannel marketing approach. NFON aims to exploit three main target groups:

- channels: partners, specialists, resellers;
- IT managers: IT specialists, IT departments;
- decision-makers: management board level, managing directors.

In order to address and win over the three main target groups in a focused manner via the appropriate sales channels, the existing partner network is being permanently optimised and enlarged and the sales reach is being significantly increased. It should be noted that a customer base can never be large enough and that there is therefore no final end to the expansion and further development of the customer base.

2 This information has not been audited by the auditor.

Roll-out of innovative UCaaS functions

A key component of NFON's growth strategy is the rollout of innovative UCaaS functions (Unitfied Communication as a Service) and the associated further evolution of NFON into a UCaaS company. Cloudya, NFON's cloud telephony system, is the NFON platform that will be enriched by all other functionalities, technologies and services in future. In this respect, substantial investments are being made not only in improvements of existing solutions but in particular the design and development of new products and services. For example, it is planned to develop and launch video and screen sharing functionalities for Cloudya in the 2021 financial year. In addition, further omni-channel customer engagement/workflow solutions are to be created and offered in the coming years.

Development of open APIs

The development of open APIs (development of programme interfaces) enables the integration of the NFON Cloud telephony solutions in service solutions from third-party providers. Although NFON has already started product development to improve integration capabilities, it will require significant long-term effort to move towards a fully-fledged API environment. In addition, new features will need to be constantly integrated into the API ecosystem.

Continue to grow in European countries

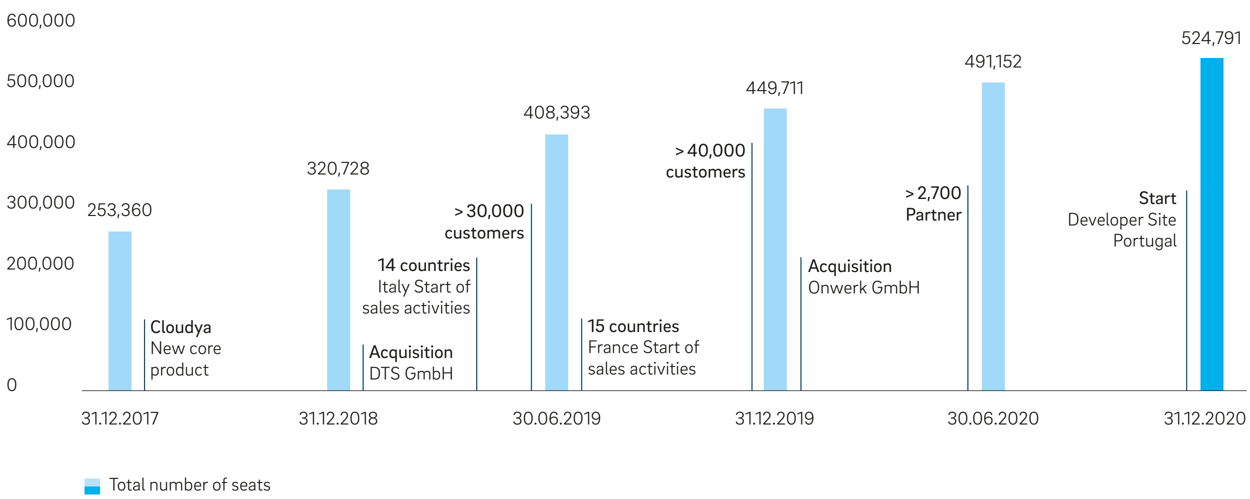
The market conditions in Europe and the disruptive changes in the field of cloud telephony – also intensified by the Corona pandemic – create exactly the right strategic framework conditions for NFON to become the leading provider of cloud telephony in Europe. NFON is now represented in 15 European countries, seven of which have their own subsidiaries. After NFON opened its own subsidiaries in France and Italy in line with its growth strategy, the company is now primarily pursuing the goal of expanding its customer base in the existing countries and growing further in the coming years.

Consolidation opportunities in highly fragmented cloud PBX markets

The European cloud PBX market is highly fragmented. NFON is taking an active role in the increasing consolidation of the market. This offers a wide range of opportunities to acquire companies with suitable, attractive technologies in addition to the existing NFON product and solution portfolio, as well as competitors, in a targeted manner and according to defined criteria. Even though NFON has already made its first acquisitions with DTS and Onwerk GmbH, the company will continue to pursue this goal for the coming years.

Achieved milestones in strategic implementation in 2020

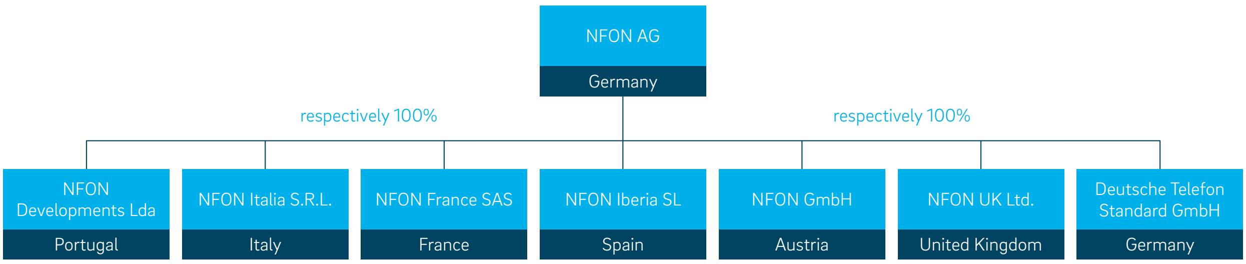
Milestones



Organisation

Group structure and locations

The Group structure as at 31 December 2020 is shown by the following diagram.



NFON Developments Lda. in Lisbon, Portugal, was established effective 07 August 2020. Its business purpose is to develop software for the operation of communications solutions and innovative business-critical applications.

Management and control

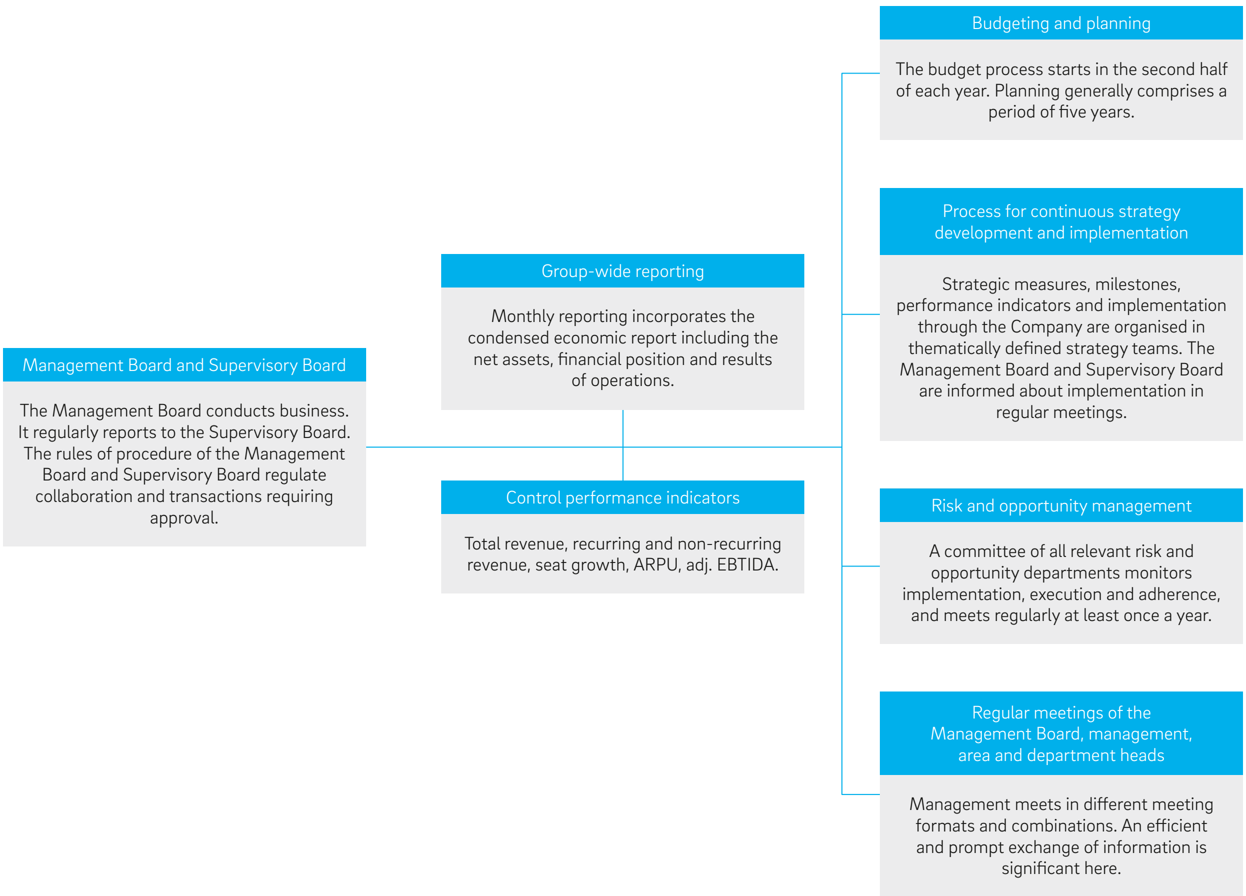
The members of the Management Board work closely with the managers in the respective countries and the managing directors of the foreign subsidiaries. A Supervisory Board of four members monitors the activities of and advises the Management Board.

In the period from 01 March 2018 to 30 November 2020, the Management Board consisted of three members. Since 01 December 2020, the company has been managed by two Executive Board members within the meaning of § 76 AktG.

Management

Management systems

The Management Board of NFON AG has introduced an internal management system for the management of the Group which is shown by the following diagram:



Financial and non-financial performance indicators

The NFON Group is managed using the following performance indicators:

- seat growth [3];
- total revenue;
- recurring and non-recurring revenue and their respective growth rates;
- recurring and non-recurring revenue as a share of total revenue;
- ARPU [4] (blended);
- EBITDA (adjusted).

These performance indicators ensure that the company can analyse and manage the measures that have been defined in order to achieve growth targets, and that it can measure its success.

3 total number of seats and licences used by customers
4 average revenue per user

As its strategy is primarily geared to growth, NFON AG has defined the growth rate of recurring revenue, non-recurring revenue as a share of total revenue and seat growth as its key financial performance indicators. Seat growth from the balance sheet date to the respective reporting date is the basis for recurring revenue. Seat growth over a reporting period is the basis for recurring revenue. The growth in recurring revenue generated from all seats and the successful development in recurring revenue as a share of total revenue illustrate the sustainability and stability of the NFON Group's business model. Its positive development is crucial to the overall success of the NFON Group.

NFON uses average revenue per user (blended ARPU) as a further revenue-based financial performance indicator. This is calculated as the recurring revenue for the period in question less the recurring revenue with SIP trunks for the period in question divided by the total seat base for the period in question.

As a further revenue-related financial performance indicator, NFON uses the average revenue per user across all sales channels (blended ARPU, also referred to as „ARPU" in the following). It is calculated from the recurring revenues of the period under review minus the recurring revenues with SIP trunks of the period under review divided by the sum of the seats (extensions = seatbase) of the period under review.

The Group uses adjusted earnings before interest, taxes, depreciation and amortisation (adjusted EBITDA) to measure the operating performance and success of the individual business units. Non-operating one-off expenses, e.g. one-off expenses related to taxes and social security matters, retention bonuses or stock options, are excluded from EBITDA for the purpose of measuring operating performance. This results in the adjusted EBITDA.

Overview of the development of financial and non-financial performance indicators, with the significant indicators highlighted accordingly (in bold):

in EUR million	2020 [1]	2019	Change
Total revenue	67.6	57.1	18.4%
Recurring revenue	**59.4**	**48.1**	**23.6%**
Share of recurring revenue	**87.8%**	**84.1%**	
Non-recurring revenue	8.2	9.1	−9.4%
Share of non-recurring revenue	12.2%	15.9%	1.3%
ARPU blended [2]	EUR 9,77	EUR 9.64	
Seat growth	**524,791**	**449,711**	**16.7%**
Adjusted EBITDA [3]	3.5	−5.1	n/a

1 Unless otherwise stated, all values in the consolidated financial statements and the related notes are rounded. Therefore, rounding differences may occur in the tables.
2 Based on average number of seats per month in each year.
3 Explanations on the adjustments can be found in the section Results of Operations

In line with the guidance published in March 2020 and updated in November, the key performance indicators developed as follows:

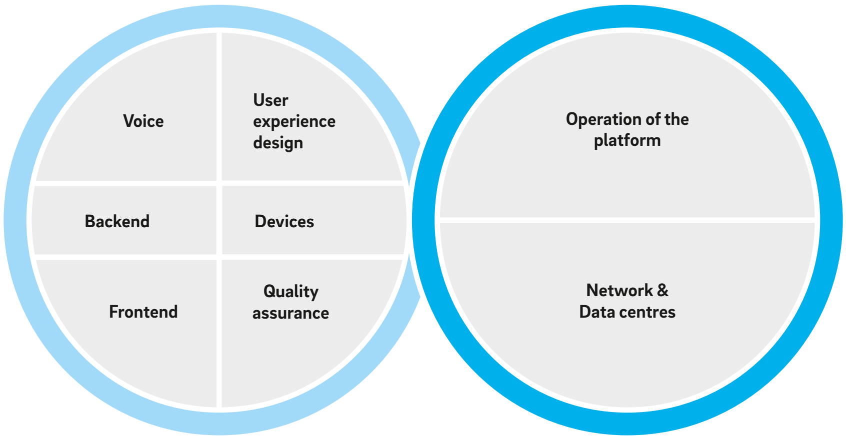
	2019	2020	Guidance 2020	Revised 2020 forecast [1]	Change	Explanation compared to the forecast	Explanation compared to the adjusted forecast
Seat growth	449,711	524,791	between 20% and 24%	between 17% and 19%	16.7%	Growth is below the expected forecast	Growth is at the lower end of the expected forecast
Recurring revenue	48.1 Mio. EUR	59.4 Mio. EUR	between 22% and 26%	No change	23.6%	Recurring revenue growth rate is exactly in line with the forecast average	
Recurring revenue as a share of total revenue	84.1%	87.8%	between 80% and 85%	between 85% and 95%	n/a	The forecast was clearly exceeded	Share reaches the middle third of the forecast

1 Notes on the guidance adjustment can be found under "Presentation of the company's performance".

Research & Development

The Research & Development department concentrates on the development of new products and services on the one hand and, on the other, on the development of product expansions and new functions for existing products and services, which are made available to NFON customers through regular updates. Products and services are developed internally using agile software development involving the following areas:

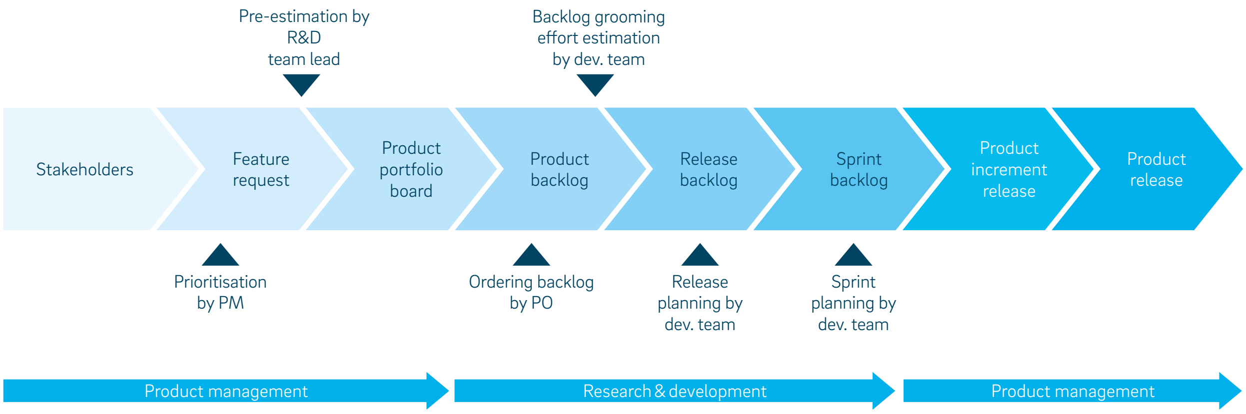
Agile development



R&D centres Berlin, Lisbon, Mainz, Mannheim, Munich

NFON develops its products following a clearly defined process.

Product Development



At present, NFON's R&D activities are focused on native mobile client development, the integration of video, video conferencing and screen sharing in Cloudya. In addition, the focus is on the renewal of the service portal and adjacent systems. DTS products are increasingly being converted to NFON backend technology (Centrex 3.0 and the completely newly developed SIP trunk, for which numerous features will still be developed in 2021). Other important milestones are the CTI [5] integration in Cloudya desktop clients and the commissioning of a new business support system. The latter allows significantly faster and automated workflows and is the basis for future customer self-service portals and APIs for partners.

At the end of 2020, 117 employees were permanently employed in the R&D, Operations and Service & Consulting (formerly Technical Consultants) areas of the NFON Group (95 employees in the previous year); this corresponds to 27.1% (previous year 25.0%) of the total workforce of 432 employees. For certain projects, additional external employees are deployed on a temporary basis as required. At the end of 2020, they accounted for up to 4.7% of the permanent R&D workforce.

In the reporting year, the Group incurred R&D expenses of EUR 5.5 million (2019: EUR 4.4 million). Of this amount, EUR 3.9 million (2019: EUR 2.9 million) was spent on R&D. The capitalisation rate in the reporting year is therefore 71.2% (2019: 65.0%). In the reporting year, scheduled depreciation of EUR 0.4 million (2019: EUR 0.1 million) was recognised on capitalised development projects.

Economic report

General economic conditions and industry environment

General economic development in Europe and Germany

The COVID-19 pandemic and the necessary measures to curb its spread influenced the economy immensely in 2020. Global demand, supply chains, labour supply, industrial production, prices of raw materials and domestic and domestic and foreign trade and capital flows have all been negatively affected. As a result, according to the Kiel Institute for the World Economy (IfW), gross domestic product in the euro area fell significantly by 7.2% in 2020 after expanding by 1.2% in 2019. [6]

The coronavirus pandemic has left its mark on NFON AG's domestic German market. The IfW is forecasting that German economic output will have contracted by 5.2% in 2020 (2019: growth of 0.6%). There was an enormous Economic output slump in the second quarter of 2020 in particular. According to the IfW, economic output crashed by 9.7% [7] . GDP then recovered significantly by 8.5% in the third quarter of 2020. Nonetheless, according to economists, a full recovery of the German economy is being delayed by the resurgence of the coronavirus pandemic and the associated reinstatement of lockdown measures since November. [8]

A key indicator for the German economy is the ifo business climate index [9]. According to this, the business climate improved significantly in the second half of the year, from only around 75 points in April 2020 to 92.1 points in December 2020. However, the company believes that the recovery will take until the middle or end of 2022.

The UK is NFON AG's largest foreign market. Here, too, the economic slump triggered by coronavirus and additional uncertainty in connection with Brexit have weighed heavily on the economy. Despite a strong recovery in the third quarter of 2020, economic activity is being painfully curbed by the far-reaching anti-coronavirus measures resolved in November. After leaving the EU on 31 January 2020, the UK initially entered a one-year transition phase during which existing regulations on economic interactions between EU Member States and the UK continued to apply. The new Brexit trade agreement between the EU and the UK provisionally became

5 Computer Telephony Integration, also known as computer telephony integration or CTI, is a general term for any technology that enables the integration and coordination of interactions via telephone and computer
6 cf. p. 7: *KKB_71_2020-Q3_Deutschland_DE_.pdf (ifw-kiel.de); cf. p. 9: *KKB_73_2020-Q4_Welt_DE.pdf (ifw-kiel.de)
7 cf. p. .3: *KKB_71_2020-Q3_Deutschland_DE_.pdf (ifw-kiel.de)
8 cf. p. 2: KKB_74_2020-Q4_Deutschland_DE.pdf (ifw-kiel.de)
9 https://www.ifo.de/node/60733#:~:text=Die%20Stimmung%20unter%20den%20deutschen,zufriedener%20mit%20ihrer%20aktuellen%20Gesch%C3%A4ftslage

effective as at 01 January 2021. IfW experts are forecasting that the UK's GDP will have fallen by 11.3% in 2020 (2019: growth of 1.3%).[10]

Significant sales markets and the competitive position of the NFON Group

The fast-growing market for cloud telephony is subject to disruptive development. Major technological change has been the principal driver of this disruptive development so far. All European telephone companies are currently making the switch from ISDN to All-IP. This will make traditional telephone systems obsolete, or at least unusable without additional technology. Furthermore, hosted/cloud telephone systems have significant advantages over classic telephone systems that correspond to the general change in the demands of working life. These advantages include flexibility, mobility and independence. Included in this are all the advantages of software as a service, especially lower fix costs and user independent billing.

As a result of the restrictions to combat the COVID-19 pandemic, many companies were forced to have to allow employees to work from home on a large scale. The company believes that this experience showed many firms the value added of the flexibility of a cloud-based telephone system. As a result, NFON AG is witnessing greater general openness on the part of potential customers of all sizes towards cloud telephone systems and an accordingly more dynamic market development. This observation is corroborated by figures from various market research institutions.[11]

Furthermore, this development is happening in a market with great growth potential. In Europe, only around 20% of the approx. 131 million seats, i.e. around 27 million,[12] are in the cloud. Market researchers such as the Cavell Group and MZA expect a 5-year CAGR of approx. 12% here. Consequently, the market for cloud communications could grow to around 46 million seats by 2025.

North America is the most advanced in the world in terms of cloud telephony use. Accordingly, from the company's perspective, the only competitors comparable to NFON are based in North America: RingCentral and 8x8. These companies have a cloud PBX developed in-house, and have been significantly expanding their product ranges for over ten years by integrating communication media in a unified application environment (unified communications (UC) services). This includes functionalities such as interactive whiteboards and collaboration platforms. Despite increasing M&A activity, the European market remains highly fragmented. At the same time, companies such as Zoom, Avaya, 3CX and fuze Europe GmbH are attempting to enter the market.

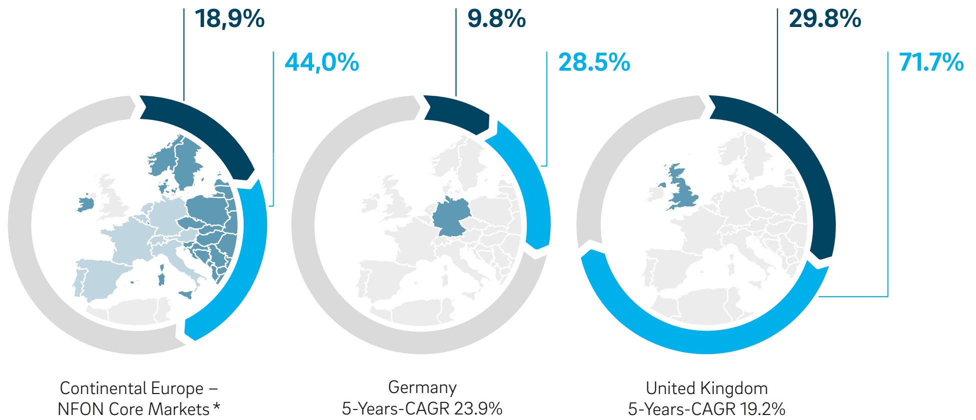
10 cf. p. 10, 23: *KKB_73_2020-Q4_Welt_DE.pdf (ifw-kiel.de)

11 75% of employees surveyed around the world now see working from home as normal. (https://de.statista.com/statistik/daten/studie/1067502/umfrage/umfrage-zur-flexibilitaet-im-arbeitsleben-in-ausgewaehlten-laendern-weltweit/). 54% of companies surveyed in Germany want to implement working from home as a permanent solution, and only 4% wish to return to the old office routine. (https://www.ifo.de/node/56686; https://blog.perceptyx.com/employees-become-more-productive-working-from-home). Cavell Insight Report 2020. For Germany, Cavell found that, in addition e-mail, the telephone was the preferred means of communication between companies and customers (84% of medium-sized and 80% of small enterprises).

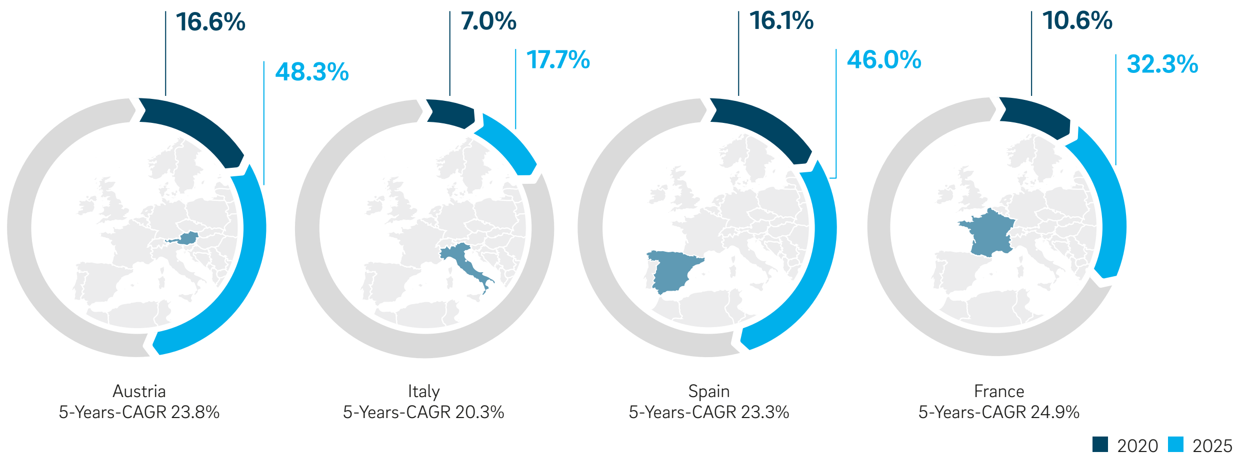
12 Source: MZA: "The Global Telecommunications Market 2020"

Overview of major European markets relevant for NFON.
In deviation from previous reporting, NFON will in future present only the core markets for continental Europe, namely Austria, Belgium, France, Germany, Italy, the Netherlands, Portugal, Spain and Switzerland, on the basis of the data provided by the Cavell Group. The market potential is demonstrated by the expected growth of the respective markets for the next five years. The market potential is demonstrated by the expected growth of the respective markets for the next five years.

Cloud PBX penetration



Market development in NFON countries with own subsidiaries



Sources: MZA: "The Global Telecommunications Market 2020"; Cavell Group: "Cloud Comms Market Report Q4 2020".
* The figure includes all economies covered by Cavell for Europe. These include Austria, Belgium, France, Germany, Italy, the Netherlands, Portugal, Spain and Switzerland

Presentation of the company's performance

Comparison of actual and forecast business performance in 2020

	2020 forecast	Revised 2020 forecast (November 2020)	Actuals 2020
Growth rate of recurring revenue	between 22% and 26%	No changes	23.6%
Non-recurring revenue	between 80% and 85%	between 85% and 90%	87.8%
Growth rate for seats (installed by customers) for the year as a whole	between 20% and 24%	between 17% and 19%	16.7%

The NFON Group's business performance in the 2020 fiscal year underscores the future potential of the business model and continues the sustained positive trend of previous years. The development of the key performance indicators listed above is all the more remarkable because, firstly, the general economic uncertainty resulting from the COVID-19 pandemic led to companies being reluctant to invest in 2020. Secondly, markets such as Spain, France, Italy and the UK, in which NFON wishes to step up its sales activities in line with its strategy, suffered particularly hard under the lockdown measures in response to the pandemic. Apart from these negative effects, NFON was able to increase recurring revenues as planned by 23.6% to 59.4 million euros and thus even increase the share of recurring revenues to 87.8%, which is above the original annual expectation.

In addition to the development of the key performance indicators, the development of ARPU also shows a positive trend. ARPU increased to 9.77 euros in the 2020 reporting period (2019: 9.64 euros), which is mainly due to the increasing home office activities and the resulting higher volume of voice minutes. The increased ARPU in conjunction with the much lower expenses year on year had a markedly positive effect on the development of earnings. For example, marketing expenses alone fell by 25.7% year on year to EUR 6.7 million (previous year: EUR 9.0 million). Taken as a whole, other operating expenses decreased by 11.9%. Earnings before interest, taxes, depreciation and amortisation (EBITDA) amounted to EUR 2.3 million (2019: EUR –7.0 million). Adjusted EBITDA improved to EUR 3.5 million (2019: EUR –5.1 million).

On the other hand, European countries' lockdown measures in response to the pandemic and the associated uncertainty in the second half of 2020 made it difficult to acquire new seats. Nevertheless, the total number of seats has more than doubled since the start of 2018 thanks to the renewed seat growth. With more than 500,000 seats, NFON now has an excellent foundation for future growth.

In addition, non-recurring revenue decreased by 9.4%. This development is also mainly due to the pandemic and resulted from lower revenue from devices.

With Cloudya, NFON continues to benefit from the increasing digitalisation of business communication. The market for cloud communication is undergoing a structural transformation. 2020 was a catalyst for this trend. Flexible working is being seen as the new normal.

Results of operations

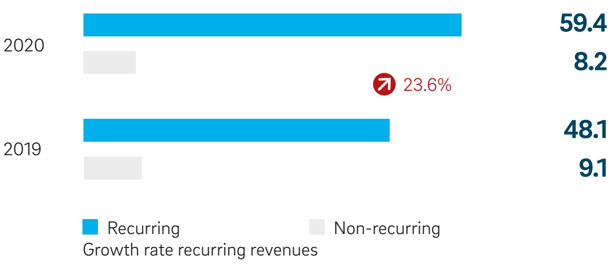
Development of key items in the consolidated statement of profit or loss and OCI

in EUR million	2020	2019	Change in %
Revenue	**67.6**	**57.1**	**18.4**
Cost of materials	14.0	13.7	2.5
Gross profit	**53.6**	**43.5**	**23.3**
Other operating income	1.0	0.6	50.6
Personnel costs	28.5	24.2	17.5
Other operating expenses	23.6	26.8	–11.9
EBITDA	**2.3**	**–7.0**	**n/a**
Adj. EBITDA	**3.5**	**–5.1**	**n/a**
Amortisation and depreciation	4.1	3.0	38.1
EBIT	**–1.8**	**–10.0**	**n/a**
Net interest income	–0.5	–0.8	n/a
Income tax expense/income	0.3	–0.1	n/a
Consolidated loss	**–2.2**	**–10.9**	**n/a**

Consolidated revenue

Revenue increased by 18.4% year-on-year. This resulted primarily from the successful acquisition of new customers and a rise in the number of installed seats within the existing customer base, particularly in Germany, the UK and Austria. The revenue of DTS, fully consolidated since 01 March 2019, was added for twelve months, having been included in consolidated revenue for only ten months in 2019. In addition, some of the revenue growth resulted from the intensified sales of the expanded product portfolio among both new customers and the existing customer base.

Share of recurring revenues at the upper end of guidance
in EUR million



In particular, recurring revenue achieved a very positive development. At 23.6%, it increased at a faster rate than total revenue and is therefore higher than the average market growth in Europe.

Recurring revenue essentially comprises monthly payments of a fixed licence fee per seat plus a fixed or volume-based fee for voice telephony usage per seat or SIP trunk. The cumulative effect typical for revenue performance, in relation to seats gained over the year, is evident from the trend in the recurring revenue generated in the individual quarters of the reporting period. Non-recurring revenue includes revenue from sales of devices (telephones, soft clients for PCs and smartphones) and the one-time activation fee per seat when it is first connected. The reduction in non-recurring revenue compared with the same period of the previous year (−9.4%) chiefly reflects the lower revenue from devices, which primarily resulted from customers' increased working from home as a result of the COVID-19 pandemic. Significantly fewer desk/conference telephones, etc., were therefore needed.

Revenue development by segment

The breakdown by segments corresponds to the individual country companies of the NFON Group, which in the 2020 fiscal year included two companies from Germany and one subsidiary each in Austria, UK, Spain, France, Italy and Portugal. Apart from the German stock corporation, which is also responsible for research and development in the Group, the companies in their home markets essentially function as sales companies based on the same business model and the same range of services. However, Deutsche Telefon Standard GmbH continues to provide development services for its own product portfolio. The subsidiary in Portugal serves exclusively to render development services and does not generate revenue outside the Group.

The Group has seven segments with external revenue, which are shown separately below as reportable segments. The seven segments are NFON AG, Deutsche Telefon Standard GmbH, nfon GmbH, NFON UK Ltd, NFON Iberia SL, NFON Italia S.R.L. and NFON France SAS.

The Portuguese company NFON developments unipessoal Lda. is subsumed under Other segments.

The revenue generated by the entire Group with external customers is broken down as follows among the individual national companies and reported in accordance with IFRS accounting standards:

in EUR million	2020	2019
NFON AG	39.5	35.6
Deutsche Telefon Standard GmbH	13.9	8.7
nfon GmbH	6.4	5.8
NFON UK Ltd.	7.0	6.7
NFON Iberia SL	0.4	0.3
NFON ITALIA S.R.L.	0.2	0.0
NFON France SAS	0.2	0.0
Total revenue of the reportable segments	**67.6**	**57.1**
Reconciliation effects	0.0	0.0
Total Group revenue	**67.6**	**57.1**

The positive development in revenue in the NFON AG segment from EUR 35.6 million to EUR 39.5 million is mainly based on an increased seat base compared to the previous year, which directly led to higher recurring revenue.

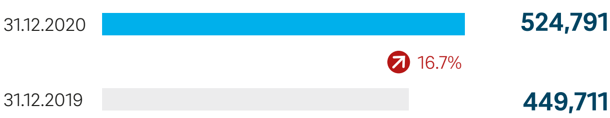
At Deutsche Telefon Standard GmbH, the generally positive development, especially with SIP trunk, led to an increase in revenue from telephone minutes in particular. In addition, this company was consolidated for 12 months for the first time (10 months in 2019).

Due to the acquisition of new customers and expansion of the seat base, revenue in the nfon GmbH segment rose from EUR 5.8 million to EUR 6.4 million. Mainly due to the increased expansion of business with wholesale partners, revenue in the NFON UK Ltd. segment increased from EUR 6.7 million to EUR 7.0 million.

Revenue in the NFON Iberia SL, NFON ITALIA S.R.L. and NFON France SAS segments developed haltingly. The negative effects of the COVID-19 pandemic, which restricted the economy to an extraordinary degree in these markets, were particularly noticeable here. In addition, the increased telephone minutes due to more working from home did not have a significant effect here, because the customer base was still small.

Development in seats

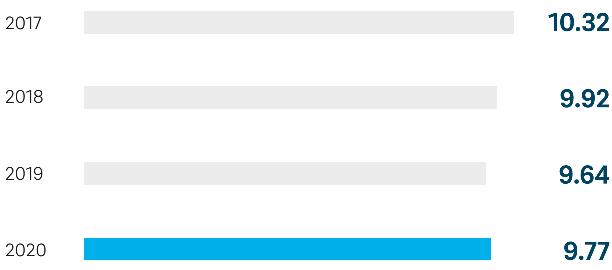
Total number of seats grows by 16.7% year-on-year



Seat development attests to the increasing demand for cloud telephone systems among business customers. At the same time, it underlines the high level of satisfaction felt by NFON's very loyal customers. [13]

Development of ARPU

ARPU develops positively
Blended APRU in EUR



ARPU is calculated as the average recurring revenue from seats and SIP trunks per month less recurring revenue from SIP trunk licence fees in relation to the average number of seats per month, including revenue and seats from customers who maintain contractual relations with NFON's wholesale partners.

This partnership with wholesale partners, which is from the perspective of the management developing very successfully, also has a considerable impact on ARPU performance. Firstly, discounted prices are being agreed based on the high number of seats sold and, secondly, some of these partners do not purchase voice minutes through NFON. On average, lower ARPU is generated as the share of seats billed through wholesale partners increases. In comparison with the previous year's figure of EUR 9.64, ARPU amounted to EUR 9.77 in 2020. In the future, the increasing sales of premium solutions with which NFON can achieve additional ARPU contributions will counteract this trend.

This year's increase is due partly to the higher demand for telephony during the lockdown periods as a result of the COVID 19 pandemic. It is not yet possible to predict how long these positive effects on ARPU will last.

13 This information has not been audited by the auditor..

Income and expense items

Other operating income

Compared to 2019, income from currency translation rose by EUR 0.3 million.

Cost of materials

The cost of materials increased at a slower rate than revenue of 2.5% in the reporting period from EUR 13.7 million in the same period of the previous year to EUR 14.0 million. This development mainly stems from the sharp rise in the share of high-margin recurring revenue.

This resulted in a lower cost of materials ratio in comparison to the previous year at 20.7% (previous year: 23.9%). This falls within regular fluctuations, in line with planning.

Personnel costs

Compared to the previous year, the average number of employees increased from 360 to 406 in the reporting year, with additional staff in sales and development in particular.

In accordance with IAS 38, personnel costs for the development of products of EUR 3.0 million were capitalised, compared with EUR 2.2 million in the previous year.

Expenses of EUR 0.9 million (2019: EUR 0.6 million) in connection with an employee share option programme implemented at the start of 2019 and bonuses of EUR 0.2 million (2019: EUR 0.5 million) in connection with a retention programme for managers were recognised in the reporting period.

Adjusted for these effects (adjustments), personnel costs increased year-on-year from EUR 23.1 million to EUR 27.3 million. This represents an adjusted personnel costs ratio in relation to revenue of 40.4% in 2020 as against 40.5% in the previous year.

Other operating expenses including marketing and selling expenses

Other operating expenses decreased year-on-year to EUR 23.6 million in 2020 (previous year: EUR 26.8 million). This is primarily due to the reduced expenses for marketing and further other operating expenses. These savings were planned and realised in response to the COVID-19 pandemic.

In accordance with IAS 38, external developers' costs for the development of products of EUR 0.9 million were capitalised, compared with EUR 0.7 million in the previous year.

The figure for the previous year included expenses in connection with the acquisition of DTS as at 01 March 2019 of EUR 0.6 million.

Adjusted for non-recurring effects (adjustments), other operating expenses fell by 9.4% to EUR 23.6 million in 2020. This represents an adjusted ratio in relation to total revenue of 34.9%, up from 45.6% in the previous year.

Marketing expenses

When the COVID-19 pandemic began, savings were implemented in marketing. Consequently, marketing expenses decreased by 25.7% to EUR 6.7 million compared with the same period of the previous year (previous year: EUR 9.0 million).

Selling expenses

Selling expenses rose in the 2020 reporting period to EUR 8.0 million (previous year: EUR 6.7 million). Selling expenses mainly include commission paid to NFON AG's sales partners, which account for a percentage of revenue. The ratio of selling expenses to revenue came to 11.9% in 2020, compared with 11.8% in the previous year.

Depreciation and amortisation

In fiscal year 2020, depreciation and amortisation increased year-on-year to EUR 4.2 million (2019: EUR 3.0 million). This is mainly due to the completion of development work and thus scheduled depreciation that has begun.

Net interest income

Net interest expense (interest and similar income less interest and similar expenses) amounted to EUR 0.5 million in fiscal year 2020 and was down significantly on the previous year (EUR 0.8 million). The short-term fixed-rate loan taken out in the context of the issued warrant bond expired in January 2020. This leaves only interest payments for an acquisition loan taken out during the acquisition of DTS.

EBITDA by segment

The Group has seven segments, which are shown separately below as reportable segments. The seven segments are NFON AG, Deutsche Telefon Standard GmbH, nfon GmbH, NFON UK Ltd, NFON Iberia SL, NFON Italia S.R.L. and NFON France SAS.

The operating segments are reported on in a manner consistent with the internal reporting to the chief operating decision maker.

The breakdown by segments corresponds to the individual country companies of the NFON Group, which in the 2020 fiscal year included two companies from Germany and one subsidiary each in Austria, UK, Spain, France and Italy.

The Portuguese company NFON developments unipessoal Lda. is subsumed under Other segments.

The reconciliation effects mainly include the adjustments made in internal reporting to eliminate special effects for the period, as well as effects from consolidation and currency translation. This results in an adjusted EBITDA of around EUR 3.4 million for the NFON Group in the past 2020 fiscal year.

in EUR million	2020	2019
NFON AG	9.3	1.8
Deutsche Telefon Standard GmbH	3.1	1.0
nfon GmbH	–1.1	–0.8
NFON UK Ltd.	–2.3	–3.4
NFON Iberia SL	–1.3	–1.1
NFON ITALIA S.R.L.	–2.2	–1.8
NFON France SAS	–2.1	–0.8
Total adjusted EBITDA of the reportable segments	**3.4**	**–5.1**
Other segments	0.1	0.0
Adjustments & Reconciliation effects	–1.2	–1.9
Group EBITDA	**2.3**	**–7.0**

The adjustments were made exclusively in the NFON AG segment, as the causal business transactions took place here.

EBITDA, EBIT, consolidated loss

in EUR million	2020	2019
EBITDA	**2.3**	**–7.0**
Adjustments		
Retention bonus	0.2	0.5
Share options/ESOPS/share-based remuneration programme	0.9	0.6
Expenses for DTS acquisition	0.0	0.6
Expenses for AOC capital increase	0.0	0.1
M&A expenses	0.0	0.1
Total adjustments	1.2	1.9
Adjusted EBITDA	**3.5**	**–5.1**
EBIT	–1.8	–10.0
Consolidated loss	–2.2	–10.9
Adjusted consolidated loss	**–1.1**	**–9.1**

Financial position

There were no liquidity bottlenecks during the reporting period. All payment obligations were met on time. Cash funds amounted to EUR 23.0 million as at the end of the reporting period.

Financing analysis

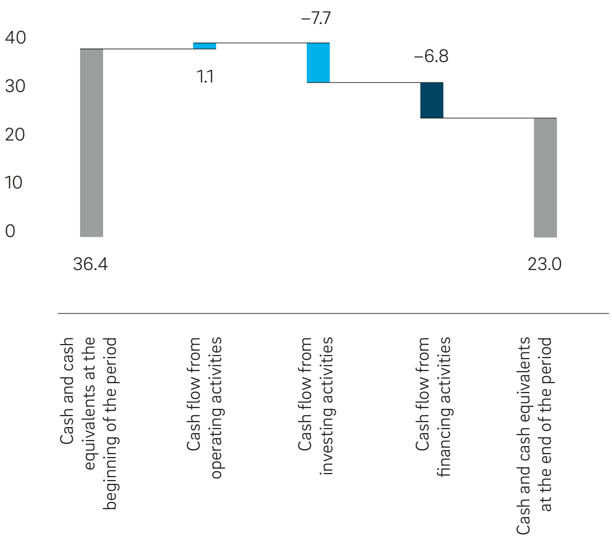
In 2020, NFON AG primarily used the proceeds from the IPO in 2018, credit agreements with banks and the capital increase in 2019 for financing. In connection with this capital increase, a warrant bond in the amount of EUR 5 million was repaid in the reporting period. In addition, lease liabilities of EUR 1.7 million were repaid. Since 08 January 2019, the credit agreements with banks have related to an acquisition credit line in the amount of EUR 10 million. The interest rate of 4% on drawdown at the time the agreement is concluded is variable and changes in line with changes in the monthly average of the 3-month EURIBOR. The commitment fee is 1%. As of the reporting date, EUR 8.967 million of this credit line had been drawn. According to the credit agreement, NFON must maintain a minimum liquidity of EUR 12 million.

Investment analysis

In 2020, investments were primarily made in R&D activities recognised under intangible assets. The investments made in the reporting period in property, plant and equipment primarily went on IT infrastructure and also served to establish the new company in Portugal.

Also worth mentioning are investments of EUR 1.2 million in the implementation and customising of a new business support system (BS system, or BSS). In the telecommunications industry, this refers to a system for managing contractual relationships with customers/suppliers/partners, managing products and resources and billing.

Liquidity analysis in EUR million



The negative earnings after tax of EUR 2.2 million were reduced in the operating cash flow partly by the amortisation of intangible assets and depreciation of property, plant and equipment of EUR 4.1 million, the EUR 1.0 million increase in liabilities (Trade payables decreased by EUR 0.2 million, other liabilities increased by EUR 1.2 million), the expenses of EUR 0.9 million in relation to the employee share option programme which were recognised as an increase in capital reserves, and interest expense of EUR 0.5 million. The EUR 2.7 million increase in trade receivables, and other assets and the interest payments EUR 0.4 million had a particularly negative impact on operating cash flow.

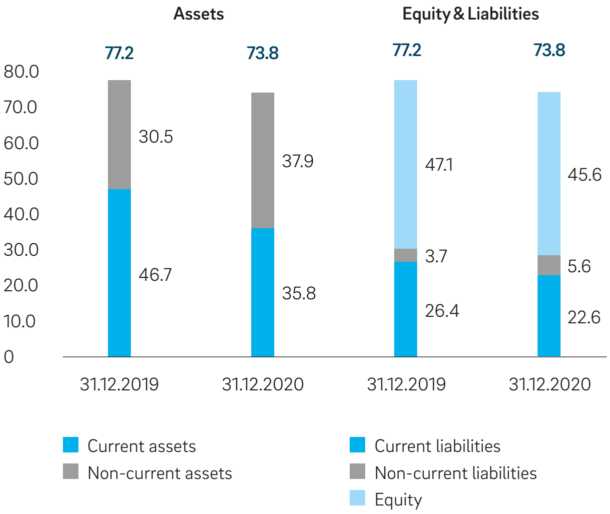
A special effect that led to the increase in trade receivables, among other things, was the introduction of a new ERP system at DTS towards the end of 2020. Temporary delays due to the change in the direct debit procedure resulted in outstanding receipts of payment of approximately EUR 1.3 million. This specific outstanding amount was completely reduced by the beginning of March 2021 and trade receivables were restored to a normal level.

Cash flow from investing activities of around EUR –7.6 million resulted largely from the payments for capitalised R&D projects, capitalised software customisation, and extensions of a new BS system, the implementation of which was started in the reporting year, as well as the IT infrastructure and server hardware to create a corresponding basis for the planned growth, as well as further operating and office equipment, which became necessary primarily in the course of renting new office space.

At EUR 5.1 million, negative cash flow from financing activities relates to cash outflows for the repayment of the warrant bond issued in the previous year and liabilities similar to loans. Another EUR 1.7 million relates to the repayment of lease liabilities in the reporting year.

Assets and liabilities

Accounting chart in EUR million



Non-current and current assets

in EUR million	2020	2019	Notes/changes
Property, plant and equipment	9.5	7.6	Increase mainly due to the rise in right-of-use assets for office space by EUR 1.3 million to EUR 5.6 million as at 31 December 2020 (previous year: EUR 4.3 million) and to investment in the IT infrastructure and server hardware to create a corresponding basis for the planned growth, other operating and office equipment that was necessary mainly in connection with leasing new office space, and vehicles that were capitalised as part of lease accounting.
Intangible assets	27.1	22.4	Increase due in particular to the capitalisation of R&D projects (31 December 2020: EUR 3.9 million; 31 December 2019: EUR 2.9 million) and capitalised expenses for software customisation, in particular for customer-specific adjustments and enhancements in connection with the new BS system, the implementation of which was started in the reporting year (31.12.2020: EUR 1.2 million; 31.12.2019: EUR 0.1 million).
Other non-financial assets	0.3	0.3	
Deferred tax assets	1.1	0.1	The increase in deferred tax assets relates in particular to the first-time recognition of deferred tax assets on tax losses carried forward at DTS.
Non-current assets	**37.9**	**30.5**	
Trade receivables	10.0	7.6	The growth in the customer base is accompanied by a rise in amounts billed and currently due from customers. Additional special effect due to temporarily delayed direct debits at DTS (Approximately EUR 1.3 million).
Other financial and non-financial assets	2.8	2.8	
Cash and cash equivalents	23.0	36.4	Cash and cash equivalents decreased, partly due to investments in non-current assets and the repaid warrant bond.
Current assets	**35.8**	**46.7**	

The development of the asset situation is in line with the expectations of the Executive Board.

Equity

As at 31 December 2020, NFON AG had issued 15,055,569 (as at 31 December 2019: 15,055,569) ordinary bearer shares with a notional interest in the share capital of EUR 1.00. Subscribed capital totalled EUR 15.1 million as at 31 December 2020 (31 December 2019: EUR 15.1 million).

Equity decreased from EUR 47.1 million as at 31 December 2019 to EUR 45.6 million as at 31 December 2020, primarily due to the consolidated net loss of EUR 2.2 million. Capital reserves increased from EUR 83.0 million to EUR 83.3 million. This change resulted from the issue of employee stock options (EUR +0.9 million) and the first-time recognition in 2020 of deferred taxes relating to IPO costs (EUR –0.6 million), which in previous years were recognised in capital reserves. The currency translation reserve decreased by EUR 0.3 million.

Non-current and current liabilities

in EUR million	2020	2019	Notes/changes
Non-current financial liabilities	4.6	3.4	The increase – corresponding to the increase in property, plant and equipment – relates to liabilities for the use of office space recognised as part of lease accounting.
Other non-current liabilities	0.2	0.2	
Deferred tax liabilities	0.8	0.1	The increase is mainly related to R&D projects recognised in NFON AG and the deferred tax liabilities based on them.
Non-current debt	**5.6**	**3.7**	
Trade payables	4.9	5.2	
Current provisions and income tax liabilities	2.4	2.3	
Current financial liabilities	10.7	15.5	Decline due to the payment of the warrant bond of EUR 5 million issued in the previous year.
Other liabilities	4.6	3.4	
Current liabilities	**22.6**	**26.4**	

Overall Evaluation of the Economic Situation

NFON AG experienced a successful fiscal year 2020. With a revenue growth rate of 18.4%, the company significantly exceeded the previous year's revenue again in the reporting year. Recurring revenue, as an indicator for the stability of the business model, grew by 23.6% and thus, as in the previous year, outpaced total consolidated revenue in 2020, contributing 87.8% to revenue overall. This stability is particularly remarkable given the strained global economic situation as a result of the COVID-19 pandemic. The NFON Group's success is built on the sustainable base of seats operated by customers. With a growth rate of 16.7% (31.12.2020: 524,791 seats), these were also significantly increased compared to those of the previous year, even if the original expectations were not reached. This increase nevertheless proves that the company is successfully addressing the promising market of cloud telephony and further expanding its customer base.

NFON has a clearly defined growth strategy. In addition to operational progress in 2020, NFON AG also achieved further significant strategic milestones in the reporting period. For example, NFON exceeded the milestone of 500,000 seats installed by customers in 2020 and thus not only strengthened the basis for further growth, but also enlarged it. In addition, the European network of partners was expanded to over 2,700. For the future of the NFON Group, it will be crucial to continue developing the product portfolio. Here, too, an important milestone was reached with the establishment of a development centre in Lisbon, Portugal.

In view of the satisfying operational and strategic development in 2020, the Management Board believes that NFON AG is well on the way to becoming a leading provider of cloud telephony in Europe.

Supplementary report

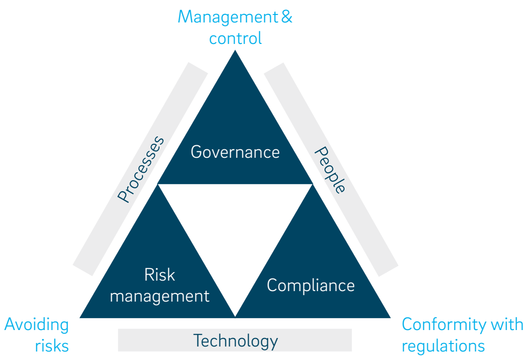
With effect from 29 March 2021, NFON AG increased its share capital by 1,505,555 shares to 16,561,124 shares by means of a capital increase excluding subscription rights].

Risks and opportunities

Risk and opportunity management system

The risk and opportunity management system is based on the triad of risk management, compliance and governance.

Risk and opportunity management system



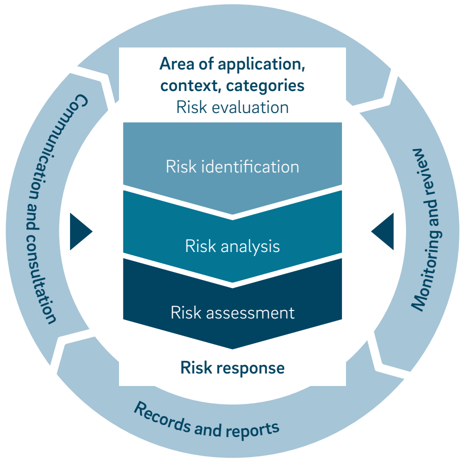
Source: WMC

This is an integrated, holistic approach that guarantees that the organisation's conduct is ethical, consistent with its risk appetite and in line with internal and external guidelines. This approach is aimed at enhancing the effectiveness of the organisation by coordinating strategies, processes, people and technology.

In conjunction with this approach, the risks of all three components (risk management, compliance and governance) should be recorded, qualified and controlled in a uniform approach and according to a uniform model. In conjunction with this approach, the risks of all three components (risk management, compliance and governance) are recorded, qualified and controlled in a uniform approach and according to a uniform model.

The risk and opportunity management system of the NFON Group serves to recognise and identify risks and opportunities at an early stage and to contain risks as necessary. The risk and opportunity policy of the NFON Group is geared towards sustainably securing the company's ability to continue as a going concern and continuously improving its competitive capability. Risk and opportunity management is integrated into the value-driven management and existing structures of the NFON Group in order to recognise and assess potential signals at an early stage. The key phases of the risk management of the NFON Group are [14]:

Phases of risk management



Risk and opportunity management is essentially based on ISO 31000 and ISO 27001 in conjunction with other statutory regulations, in particular Section 91(2) of the Aktiengesetz (AktG – German Stock Corporation Act) and Section 107(3) sentence 2 AktG. This therefore guarantees that risk and opportunity management at the NFON Group is subject to a uniform methodology.

The NFON Group regards risk and opportunity management as a continuous and integrated process. Furthermore, risks identified during the fiscal year that have a high probability of occurrence and a high potential extent of damage are communicated to the Management Board without delay through the reporting lines. The risk early detection system is evaluated by the auditor in conjunction with the audit of the financial statements to ensure that management has appropriately taken the measures required under Section 91(2) AktG, in particular regarding the establishment of a monitoring system, and that the monitoring system is suitable for identifying developments that could jeopardise the continued existence of the company at an early stage.

The Supervisory Board advises on risk management and compliance management, and monitors the effectiveness of the risk management system, the internal control system and the accounting process.

14 Source: ISO 31000

Responsibilities

The Management Board is responsible for the introduction of the risk management system. It defines the risk management targets and methods for the Group, including the methods to hedge risks.

On behalf of the Management Board, the Risks & Opportunities Committee monitors the implementation and execution of a uniform risk strategy and methodology and compliance with it. The following areas of responsibility have been defined for the committee:

I. Research & Development
II. IT/Support
III. Operations
IV. Consulting & Services (formerly Technical Consultant)
V. HR
VI. Procurement
VII. Sales
VIII. Regulation, Legal and Compliance
IX. Product Development
X. Product Management
XI. Business Development
XII. Market and Reputation
XIII. Finance and Controlling

The committee has six members including the Risks & Opportunities Manager. Each member of the Risks & Opportunities Committee assumes responsibility for coordinating the risk inventory in the areas they have been assigned. The task of identifying, analysing and assessing the risks and opportunities in a specific department remains the responsibility of the department heads. Moreover, they are to ensure that opportunities are exploited and risks managed appropriately. The following areas have each been assigned to a member of the committee:

1. R&D, Internal IT/Support, Operations
2. Purchasing, Sales, Product Management, Business Development, Market/Reputation, Consulting & Services (formerly Technical Consultant), Product Development
3. HR, Regulation, Legal, Compliance
4. Finance/Controlling
5. IT Security Officer/Data Protection Officer
6. Risks & Opportunities Manager

Additional (matrix functions):

- • Managing directors of subsidiaries I

In the committee's joint meetings, the members consult at regular intervals on the identification, analysis and assessment of risks and opportunities. This approach ensures that the integrated, holistic approach that has been selected by NFON is embraced. All risks from the areas of compliance and governance are accounted for and indexed in HR, Regulation, Legal and Compliance. The report on risks and opportunities prepared by the Risks & Opportunities Committee is regularly coordinated with the Management Board.

Risk assessment

In order to identify, assess and manage all significant risks, the central risk assessment (risk inventory) of the NFON Group takes place at least once a year, and preferably every quarter. The assessed forecast horizon covers the year (12 months) following the inventory. The risk assessment was performed twice in 2020. In addition, a meeting is held together with the Executive Board in each case at the time of the consolidated annual financial statements to assess the risk inventory for the final opportunity and risk report. The purpose of risk assessment is to support decisions. This determines the "loss amount" and the "probability of occurrence". The "loss amount" is defined as the potential impact of the loss if the risk actually occurs. The financial loss must be quantified. The probability of occurrence is the result of a possible number of incidences of the risk within a defined period.

Risk assessment can lead to the decision:

- not to take any further action (acceptance);
- to consider options for responding to the risk (relocation);
- to conduct further analysis to better understand the risk (minimisation);
- to maintain existing controls or review objectives.

Decisions should consider the broader context and the actual and perceived effects on external and internal stakeholders. The results of the risk assessment are recorded, communicated and then validated at the relevant levels of the NFON Group.

If the risk situation changes significantly, an inventory will be required more frequently. All risks identified are assigned risk classes and assessed according to risk potential, i.e. the loss amount and the probability of occurrence. The risk assessment is conducted based on the following criteria:

Loss amount

If a loss occurs, it can have an impact on liquidity. The loss has corresponding consequences if the defined amounts are incurred during the respective period. This is regardless of whether the loss was incurred due to one or several events during the respective period.

Classification of the loss amount

Loss amount	Interpretation	Impact on liquidity
5 – Catastrophic	Existence-threatening loss potential	> 10,000,000 EUR
4 – Significant	Significant loss potential	> 5,000,000 EUR
3 – Medium	Medium loss potential	> 1,250,000 EUR
2 – Low	Low loss potential	> 100,000 EUR
1 – Very low	Insignificant loss potential	<= 100,000 EUR

Examples: One loss of EUR 12 million occurs within one year. This would threaten the company's ability to continue as a going concern – catastrophic. Three losses of EUR 4 million are incurred within one year. The total loss is EUR 12 million and therefore equally threatens the company's ability to continue as a going concern – catastrophic.

The loss categories described above relate to the total loss of one or several events occurring in the period under review. In the multiplication shown below, individual events are used as a basis for assessment.

NFON has liability and financial loss insurance with coverage of EUR 10 million.

Probability of occurrence

The probability of occurrence is defined individually as follows per period:

Category	Description (qualitative)	Probability of occurrence (quantitative)	
5	Almost certain	80–99%	Monthly
4	Highly probable	60–79%	Annual
3	Probable	40–59%	Every 1 to 2 years on average
2	Improbable	20–39%	Every 3 to 5 years on average
1	Highly improbable	0–19%	No more than every 5 years on average

The determination of the probability of occurrence is based on empirical and measured values from prior periods, e.g. findings of a management review and events, if available. Alternatively, these values must be estimated.

Risk classes [15]

A classification into five risk classes can be derived by multiplying the figures of the loss amount and the probability of occurrence.

The result of multiplying the probability and the loss amount, and the associated risk classification, can be seen in the following risk portfolio.

To better illustrate the difference between the classes of loss amount and probability of occurrence – classes 1 to 5 – and the risk classes, thereby avoiding misunderstandings, the designation of the risk classes has been changed from numbers (1 to 5) to the five letters A to E.

Loss amount						
> 10.000.000 EUR	5	5	10	15	20	25
> 5.000.000 EUR	4	4	8	12	16	20
> 1.250.000 EUR	3	3	6	9	12	15
> 100.000 EUR	2	2	4	6	8	10
<= 100.000 EUR	1	1	2	3	4	5
Probability of occurrence →		< 1	2	3	4	5
Probability of occurrence in % →		0–19%	20–39%	40–59%	60–79%	80–99%

15 In addition to the risks recorded above, IT security and data protection risks are assessed again separately using the CIA values: confidentiality (C), integrity (I) and availability (A).

Risk class A – Red
Risk class A covers risks threatening the company's ability to continue as a going concern. They can **seriously** influence the company's liquidity situation and development.

Risk class B – Orange
These risks can **significantly** affect the company's liquidity situation and development.

Risk class C – Yellow
These risks can **moderately** affect the company's liquidity situation and development.

Risk class D – Green
These risks have **no significant** impact on the company's liquidity situation or development, and can only jeopardise the company in absolutely exceptional circumstances. Nevertheless, they can strain the company's liquidity and should be reduced through organisational safeguards and checks as part of general company monitoring.

Risk class E – Blue
These risks do **not** affect the company's liquidity situation or development.

Gross and net risks

The assessment is based on gross and net risks. Gross risks constitute risks which exist if no measures have been implemented to address the risk.

Net risks are risks which exist after measures have been taken and therefore constitute the residual risk. The net risks are presented below.

Net risks of the NFON Group

Employee risks

Filling vacant posts

The situation for companies with a pronounced focus on software developers has not changed significantly in 2020. Even though the labour market of the countries of the European Union as a whole is conspicuously heterogeneous, euro crisis countries such as Spain, Italy or Greece are still encumbered with high unemployment rates. By contrast, some EU nations have impressively low unemployment rates – Germany, the UK, Austria and Portugal are all significantly below the EU average of 7.3%.[16]

The effects of the global COVID-19 pandemic are a key factor when looking at the labour market. The analysis of the unemployment rates of EU nations in December 2020 shows that the economic consequences of the pandemic are now having a clear impact on the labour market statistics of the European Union. Most of the Member States did not begin implementing measures to contain the pandemic (lockdown) until March 2020. However, their impact only became apparent with the revisions of the figures for April. At the same time, a majority of national governments have put together far-reaching aid packages to provide economic support to industry and consumers. However, according to market researchers, it will be scarcely possible to prevent a generally dramatic increase in unemployment figures in the countries of the EU in the coming months. At the time of this report, it is unknown whether the situation will change for companies that, like NFON, currently have very high vacancies.

As before, the availability on the labour market of the qualified employees sought after is limited. Filling R&D vacancies in particular is a risk factor. Even though the shortage of IT specialists has eased under the weight of the coronavirus crisis, it remains at a high level. According to Bitkom[17], this situation will not change in the near future either. As at the end of 2020, there are still 86,000 vacancies for IT experts across all sectors. This is the second-highest figure since records began in 2011. The risk of not being able to find ideally qualified candidates to fill vacancies within an appropriate timeframe has not changed since the previous year and, with a loss amount of 3 (medium, > EUR 1.25 million) and a probability of occurrence of 4 (highly probable, annual), is rated as a class B risk overall (risks can significantly affect the company's liquidity situation/development).

To attract the ideal employees to NFON, further initiatives were developed and implemented above and beyond the conventional recruitment measures in 2019. In addition, companies, e.g. software agencies, that are open to collaboration with the NFON Group (acqui-hire) are sought, including in the context of M&A activities. Also, a new development location was opened in Portugal in September 2020. With a high share of STEM graduates (science, technology, engineering and mathematics) and a good and broad integration of the English language, young workers in Portugal have a strong affinity for international development projects. As a result, there is a strong supply of developers in the areas of front-end, back-end, PHP and general coding.

16 https://de.statista.com/statistik/daten/studie/160142/umfrage/arbeitslosenquote-in-den-eu-laendern/
17 https://www.bitkom.org/Presse/Presseinformation/86000-offene-Stellen-fuer-IT-Fachkraefte#:~:text=Ende%202020%20sind%20quer%20durch,unbesetzten%20Jobs%20zu%20verzeichnen%20war.

Market risks

Competitive situation among the peer group

The market for cloud business communications remains highly fragmented. The major competitors of the NFON Group include companies such as the European providers Gamma Communications Ltd., EasyCall AG, Fuze, Inc., J2 Global, Inc., sipgate GmbH, Vonage Holdings Corp., VOZTELECOM OIGAA360 S.A. and Sewan Comunicaciones SL (formerly Vozelia) or the major US competitors RingCentral, Inc. and 8x8, Inc. Companies such as Gamma, RingCentral or 8x8 are also noted for their active acquisition strategy.

The European cloud PBX market is around three to five years behind the cloud PBX market of North America in terms of development and penetration. In particular, the two US companies RingCentral and 8x8 already offer a wide range of solutions in the unified communications-as-a-service (UCaaS) segment. These solutions include video conferencing, collaborative platforms or messaging and chat services. Thus far, both RingCentral and 8x8 have had only a limited presence in continental Europe. NFON currently assumes that the differing regulatory requirements among European countries, the array of languages and the requirements of the EU General Data Protection Regulation will prove to be significant barriers to market entry for the large US companies. Nevertheless, it can be assumed that the US providers regularly evaluate a potential entry into the continental European markets. This could lead to large competitors accelerating their market entry in continental Europe. Competition will continue to heighten as a logical consequence of technological development, demographic changes within the corporate landscape and the acceleration in the shift to cloud services as a result of the pandemic. NFON is aware of this risk and has taken appropriate countermeasures. Above all, these include the ongoing and successful implementation of its strategy. The faster NFON can expand its own network of partners throughout Europe and strengthen its market position in Europe, the more difficult it will be for competitors to gain a foothold. The experience of recent years, with a consistently very low gross churn rate of >0.5% per month, has also shown that, even on markets were the competition is becoming more visible, NFON customers are not prepared to switch to other providers. Thus, the company now rates the risk "Competitive situation among the peer group" as a class 3 loss amount (medium, > EUR 1.25 million; previously: class 4, significant, > EUR 5 million) but with an unchanged probability of 4 (highly probable, annual). This risk has therefore been reduced overall to class B (could significantly affect the liquidity situation/development of the company) from previously class A (could seriously impair the liquidity situation/development of the company).

Competitive situation among Internet service companies

Large corporations such as Zoom Video Communications, Inc., Microsoft Corporation, Amazon.com, Inc. or Google LLC are also considered potential competitors. If one of these or other Internet service companies decide to make cloud PBX a strategic focus, they would be extremely well placed to become a significant provider on the market for cloud PBX given their brand recognition, customer base and financial and technological resources. At the same time, companies such as NFON are continuing to develop their product portfolios towards UC functionalities and adapting more and more to the increasingly disruptive market development. NFON still rates the probability of occurrence of this risk as very high and, given the overall situation, is raising it from 3 (probable, every one to two years on average) to 4 (highly probable, annual). On the other hand, the company is reducing the loss potential based on the experience of recent years from 4 (significant, > EUR 5 million) to 3 (medium, > EUR 1.25 million). This is therefore still risk class B, (the risk could significantly influence the liquidity situation/development of the company).

Use of call minutes (volume)

A trend can be seen in the development of competitors and their portfolio of products/solutions towards the increasing use of digital services in terms of unified communications-as-a-service (UCaaS). It is therefore assumed that the use of new social media exchange platforms or over-the-top services will increase. This development means the risk that customers will use fewer and fewer voice minutes. NFON also intends to evolve into a UCaaS supplier. NFON is able to mitigate the drop in prices by creating new services. This risk of the declining use of voice minutes is lower than in the previous year (2019). Since the previous year's inventory, the probability that the volume of voice minutes used by customers will decline has been reduced from 5 (almost certain, monthly) to 2 (unlikely, not more than every five years on average). This reassessment is based on the experiences gathered in 2020 especially. Accordingly, the volume of voice minutes used has actually increased as a result of the requirements and changes in day-to-day working life brought about by the pandemic. However, if volume were to decline, the loss amount would still be class 3 (medium, > EUR 1.25 million). Overall, the lower probability has reduced the risk to class C (the risk could moderately influence the liquidity situation or existence of the company).

Operational risks

Data security and IT security are key features of the NFON Group and its products and services. As already reported in the previous year, the risk inventory was also fundamentally revised in conjunction with ISO 27001 certification. As a result, risks have been subdivided further and described in more detail than in the previous year. In this context, the Group no longer reports the generally formulated risk of potential "hacker attacks". This risk is now divided into risk areas such as "Information security in projects", "Mobile devices and remote working", "Need-to-know principles", "Encryption of mobile data carriers", "Secure login procedures" or "Secure transmission". The assessment of these risk areas did not produce any significant risk. This approach ensures that the NFON Group pays continuous and special attention to these risk areas.

Intellectual property

Despite the efforts to maintain confidentiality, including the obligations of secrecy that have been agreed with NFON employees, suppliers and partners, the NFON Group's intellectual property and expertise could fall into the hands of competitors. This could mean that competitors are able to use NFON's own technological developments and expertise to increase competitive pressure. This risk is particularly high when employees with specific expertise, for example product managers or software developers, are poached by competitors. In the event that NFON's intellectual property is not appropriately protected, the corresponding expertise could ultimately no longer be used in NFON products. NFON has taken corresponding countermeasures. In the previous year, this risk was still assigned to risk class A overall (the risk could seriously affect the company's liquidity situation/development) with a loss amount of 5 (catastrophic, > EUR 10 million) and a probability of occurrence of 4 (highly probable, annual). The risk was reclassified for the 2020 risk inventory and, with a loss amount of 3 (medium, > EUR 1.25 million) and a probability of occurrence of 3 (probable, every one to two years on average), is now assigned to risk class C overall (the risk could moderately influence the liquidity situation or development of the company).

Furthermore, efforts to enforce special intellectual property rights could be met with defence mechanisms, counterclaims and counterclaims against the validity and enforceability of NFON's intellectual property rights. In addition, any legal dispute, whether or not it is resolved in the company's favour, can incur significant costs and impair the efficiency of the R&D department. NFON AG has implemented appropriate protective mechanisms. The risk has lessened since the previous year and, having previously been rated as a class B risk overall (the risk could significantly influence the liquidity situation or existence of the company), is now seen as a class C risk (the risk could moderately affect the liquidity situation/development of the company). This corresponds to a lower loss amount of 4 (significant, > EUR 5 million; previously 5, catastrophic, > EUR 10 million) with an unchanged probability of occurrence of 2 (unlikely, every three to five years on average).

Pace of development and provision of new functionalities (product and service portfolio)

On a highly fragmented market that is undergoing disruptive change, it is important not only to offer high-quality products and services, but also to put them on the market promptly in line with customers' requirements. To this extent, there is a risk that the company may not be able to achieve the speed that the market demands, or at worst that it could fall well behind the pace of change or fail to develop products that suit customer requirements, and thus no longer be able to satisfy customer requirements. This risk correlates with the risk of not being able to develop new functionalities at the pace demanded by the market. To at least keep up with the pace of development required by the market, it is also important to implement development requirements and aims by way of appropriately and sufficiently staffed development teams. Despite a number of measures that the development teams are expanding appropriately and the additional possibility of using external development capacity, NFON is also confronted by the general labour market conditions described above. NFON AG has implemented corresponding countermeasures, including the opening of its new development location in Portugal. The assessment still assumes a probability of occurrence of 5 (almost certain, monthly) and a potential loss amount of 3 (medium loss potential, > EUR 1.25 million), which corresponds to risk class A (the risk could seriously affect the company's liquidity situation/development).

Service offering will be delayed

NFON attaches great importance to a customer-oriented service offering. When a cloud telephony system can be installed quickly and easily, in most cases the support of consultants and professional services becomes necessary for the implementation of premium solutions, e.g. Ncontactcenter, Nhospitality or Neorecording. As the success of premium solutions grows, so too does demand and thus the need for highly qualified personnel. The labour market situation makes it difficult for companies to find and hire such personnel. NFON thus also faces the risk of not being able to attract sufficient personnel to offer and expand the service offering it has developed. Accordingly, NFON rates the probability of occurrence of this risk as a 5 (almost certain, monthly) with a loss potential of 2 (low, > EUR 100,000), which translates into a class B risk (the risk could significantly affect the company's liquidity situation/development).

Financial risks

Growth risk

The growth risk results in synopsis with and from the potential mutual interactions between the risks described. It is possible that revenue will not be generated as planned. This situation was scrutinised again, in particular in the context of the negative impact of the pandemic on economic developments in Europe, and the potential loss amount was increased from previously 3 (medium loss potential > EUR 1.25 million) to 4 (significant loss potential, > EUR 5 million). NFON still rates the probability of occurrence as 3 (probable, every one to two years on average). The risk class was therefore raised from C to B overall (the risk could significantly affect the liquidity situation or development of the company). This assessment, in particular on the basis of the uncertainty stemming from the pandemic, is consistent with the prudence principle, to which the company is committed.

Financing risk

Despite the fact that NFON AG is still growing and, in particular, achieved positive EBITDA in fiscal 2020, there are still high net payments for investing activities and high planned payments for marketing expenses, sales activities and product developments. Accordingly, the company anticipates negative cash flows in future as well and, under its current strategy, will also require additional financing moving forward. This financing may not be available or may only be available on unfavourable terms. This could have a significantly negative impact on planned future growth. The risk assessment, which was already taken into account in the capital increase in March 2021, has therefore been left as class B: loss amount 5 (catastrophic, > EUR 10 million), probability of occurrence 2 (unlikely, every three to five years on average).

Special COVID-19 situation (risks)

The spread of the new SARS-CoV-2 virus has meant major challenges to the euro economy and will continue to do so in the current fiscal year as well. The long-term harm caused by the pandemic is still uncertain. The aid and support measures implemented by the governments of European states are providing short-term stability. However, there is no way of knowing whether these measures might have long-term repercussions, and what economic consequences will emerge after these measures come to an end. This situation is and remains new for the NFON Group as well. Thanks to its stable business model and the structure of the product portfolio, NFON has not suffered any significant or predominantly negative repercussions to date. Nonetheless, there is still the risk that a large number of companies will become insolvent and have to file for bankruptcy. Also, some customers postponed expansion decisions and the implementation of customer projects was thus delayed. This risk is mainly anticipated in countries such as the UK, Austria or Italy and, depending on the individual situation in each company, has been assigned a probability of occurrence of 5 (almost certain, monthly) or 3 (probable, every one to two years on average) with a loss amount of 2 (low, > EUR 100,000) or 3 (medium, > EUR 1.25 million). However, despite the countermeasures implemented, customers have indeed delayed the switch to a cloud telephony system or the expansion of seats. This risk in particular has therefore materialised for 2020. Customers have deferred orders. The risk will persist for the fiscal year with ongoing uncertainty.

Overall assessment of the NFON Group's risk situation

Compared to the total number of risks identified in the previous year (231), this year the number has fallen to 228 despite the uncertainty brought about by the pandemic. At the same time, the number of risks classified as significant (risk classes A and B) has fallen from 13 to seven. Overall, the Management Board accepts the risks as manageable; the Group is not currently at risk as a going concern. In terms of organisation, the company has created the conditions to learn of potential new risk exposures at an early stage and to be able to respond quickly.

The following table provides a summarised overview of the risk position (net risks) of the NFON Group as at the end of the reporting period and the development of risks relative to the previous year. For transparency reasons, the risks whose assessment level has decreased since 2019 are shown again and labelled as "(Old)" or "Reduced (-) Removed". Unless the risk assessment of these risks no longer considered significant in 2020 changes during fiscal 2021, these risks will no longer be listed in the next report. Recently added risks are indicated (New). Risks whose assessment has increased or remained the same are indicated "Increased" or "Unchanged" (≈)".

Risk development	Number
Unchanged	4
Reduced	1
Reduced, removed	4
New	2

Risks	Loss amount	Probability of occurrence	Risk class	Development
Employee risks				
Filling vacant posts (general) Still persists not as above	3	4	B	Unchanged (≈)
Market risks				
Competitive situation among the peer group	3 (previously 4)	4	B (previously A)	Reduced (-)
Competitive situation among Internet service companies	3 (previously 4)	4 (previously 3)	B	Unchanged (≈)
Use of call minutes	3	2 (previously 5)	C (previously A)	Reduced (-) removed
Operational risks				
Hacker attacks were divided into different risk areas	5 (Old)	3 (Old)	A (Old)	Reduced (-) removed
Intellectual property – confidentiality	3 (previously 5)	3 (previously 4)	C	Reduced (-) removed
Intellectual property – enforcement of third-party rights	4 (previously 5)	2	C	Reduced (-) removed
Pace of development and provision of new functionalities (product and service portfolio)	3	5	A	Unchanged (≈)
Service offering will be delayed	2	5	B	New
Financial risks				
Growth risk	4 (New)	3	B	New
Financing	5	2	B	Unchanged (≈)

Opportunities for the NFON Group

The NFON Group determines its opportunities qualitatively; opportunities were not quantified or compiled in an opportunities matrix for management purposes. The assessed forecast horizon covers the year (12 months) following the inventory.

The objective behind the NFON Group's growth strategy is to become the No. 1 for cloud business communications in Europe. The subsequent disruptive factors in respect of both market conditions and customer behaviour form the basis for the successful implementation of the growth strategy defined by NFON. At the same time, they are fertile soil for further opportunities that could have a positive influence on the development of NFON AG, and have not changed compared to fiscal 2019. However, the highly unusual situation caused by the pandemic has fundamentally increased the opportunities for cloud communication [18]:

1. The conversion from ISDN to all IP announced by all telephony providers (carriers).

2. The introduction of digital technologies that affect many business processes and increase the necessity of integrating various digital solutions on one platform.

3. The need for digital scalable services to be as flexible as necessary and the need to only post expenses that are actually incurred.

4. The remote use of all digital technologies used in one business.

5. The minimisation of administrative and maintenance services by central control of all services used.

6. The considerable reduction of costs and increase in efficiency in all work and business processes.

As the study conducted by KPMG in cooperation with Bitkom Research [19] reveals, the perception of cloud communication is improving constantly on the whole, and it is being used more and more by companies. The opportunities presented below therefore have an even greater probability of being leveraged by NFON.

Market opportunities

The NFON Group is now represented in 15 European countries and is thus the only pan-European provider of cloud technology [20]. On a highly fragmented European market for cloud telephony, this puts NFON in a strong position [21] to become the leading provider of cloud telephony in Europe. For this reason, the growth strategy of NFON AG has defined market development and market consolidation as two of the five growth vectors. In line with the plans published with the IPO, the NFON Group commenced sales activities in Italy and established a new subsidiary in France in 2019. This essentially relates to the development of the partner network and thus acquiring new customers. In combination with the endeavours of NFON to become an active part of intensifying market consolidation, market entry in France and Italy could be accelerated. In addition, it is likely that the large number of smaller providers in the European market could decline considerably. Consequently, the market opportunities for larger providers could increase.

These developments are also receiving additional impetus from the ongoing conversion of ISDN to all IP. Businesses with a known brand and corresponding reputation will find it easier to gain customers in this environment. As the market leader in Germany [22] and with its rising brand awareness in other European countries, NFON has already developed a corresponding reputation.

Customers who are compelled to convert their telephony are increasingly taking notice of NFON as provider. If the implementation announced by carriers is faster than previously indicated, NFON can exploit its market presence as an additional opportunity to accelerate its growth strategy.

Opportunities as an employer

For many employers the search for qualified employees has become a critical success factor. Despite all the challenges that NFON faced in the past fiscal year, the company considers this factor to be a major opportunity in the rapidly changing market for cloud communication. The brand essence defined for NFON also applies to NFON's employees: the key issue is freedom of business communication.

By creating attractive employment conditions and the opportunity to work throughout Europe, NFON is already seen as an attractive employer today. Agility, excellence, team spirit, innovation and a focus on the customer are the values that we practice. This way, the NFON Group could stand out

18 KPMG Cloud Monitor 2020. Driving the Integration and Interoperability of the Cloud. In cooperation with Bitkom research.
19 KPMG Cloud Monitor 2020. Driving the Integration and Interoperability of the Cloud. In cooperation with Bitkom research.
20 This information has not been audited by the auditor.
21 This information has not been audited by the auditor.
22 This information has not been audited by the auditor.

internationally from the competition and hire staff who will clearly advance the development of NFON in terms of its product and market strategy.

Furthermore, NFON has adopted new methods of personnel recruitment. In addition to conventional measures and the use of recruitment consultants, a new development location was opened in the previous year. NFON also sees major opportunities to gain qualified employees through company acquisitions (acqui-hire).

Product opportunities

Business communication is not just confined to telephony. Following the triumph of e-mail, chat and messaging functionalities, collaboration platforms along with web and video conferencing are increasingly being used. Networked and remote working will lead to increasing use of unified communications-as-a-service, UCaaS. This will result in the migration of telephony, communication and collaboration to a single system in a cloud environment. Advanced UC platforms already offer diverse functionalities such as internal chats, web meetings, virtual team work, telephony and video conferencing and also ensure the mobile accessibility at all times of field staff or those in home office. Additional services that could be offered via a UC platform are contact centre functionalities such as automated switchboards, IVR technology (interactive voice response), call forwarding or integration with standard CRM approaches. Full flexibility and scalability for day-to-day business will be possible with these services.

The NFON Group also views its development into a UCaaS provider as significant for its future success. Aside from providing UC functionalities that are already known, NFON AG can also anticipate emerging trends from the evaluation of disruptive customer behaviour and needs and, in combination with its agile development process, provide other, new corresponding functionalities.

These can be rapidly offered to customers via the existing developed Cloudya platform. As a result, the NFON Group could develop to become a preferred provider of UC services.

Sales opportunities

A significant factor for the positive development of the NFON Group is a growing and successful partner network. The NFON Group had a partner network of more than 2,700 partners in 2020. This network is maintained by the NFON Group's established partner management and is being expanded further. In addition, opportunities also arise through activities relating to market consolidation to expand the partner network with networks that are already established and thus to step up growth. Increased penetration of the market is possible through expanding the partner network.

Such development could bring NFON AG more rapidly to its objective of being the number 1 for cloud communication in Europe.

Special COVID-19 situation (opportunities)

As already mentioned in the discussion of risks, the spread of coronavirus is an unprecedented challenge for the economy. Both negative and positive effects are possible for NFON given its product portfolio, some of which are already becoming apparent. As the business performance of the NFON Group in 2020 has shown, the risks and opportunities are balanced, hence the positive effects at least compensated by the negative ones. It is still true that the business model has a certain robustness to market fluctuations thanks to the high share of recurring revenue. Furthermore, the crisis has forced almost all companies to switch their work processes to remote working. This has generated additional demand stimulus. The ongoing uncertainty can also lead to companies that were hesitant to make the switch to remote working now resorting to the possibilities of cloud communication after all. The crisis led to a fundamental rethink among companies and significantly increased the acceptance of cloud services.

Overall assessment of the opportunities situation

The risks and opportunities are balanced.

Compliance management system

The Management Board is required to ensure compliance with legal requirements and internal company policies and to work towards their being observed by the Group companies.

Compliance matters are discussed between the (Chairman of the) Supervisory Board and the Management Board. The corporate culture of the NFON Group is based on trust and mutual respect, and on the will to strictly comply with laws and internal rules. Nevertheless, it can never be completely ruled out that legal violations might occur due to an individual's misconduct.

Employees and third parties can report misconduct in the company to the compliance officer appointed for this purpose. NFON AG has set up a whistleblower system for its employees and third parties to report such matters confidentially (**https://corporate.nfon.com/de/compliance-nfon/whistleblowing**). The company makes every effort to minimise this risk as far as possible and to identify misconduct and to pursue it systematically.

Compliance with legal and ethical rules and principles is of central importance. The rules and principles, and the responsible handling of insider information, are set out in the Compliance Policy (**https://corporate.nfon.com/de/compliance-nfon/nfon-group-code-of-ethics**). These provide all employees with guidance on integrity in business dealings. Managers and employees receive training on the compliance policy.

Internal control system (accounting process)

The accounting-related internal control system (ICS) is an integral component of the comprehensive company-wide control and risk management system. The objective of the ICS in the accounting process is to implement controls to provide reasonable assurance that the financial statements will be prepared in accordance with the applicable regulations.

The NFON Group's ICS is based on organisational security measures, e.g. the separation of duties and process-integrated controls, such as access restrictions in the IT area or payment guidelines, as these reduce the probability of errors before they occur. The ICS is also predominantly based on downstream detective controls, particularly in the context of monthly controlling.

The key features of the internal control system with regard to the accounting process can be described as follows:

NFON AG prepares the consolidated financial statements of the NFON Group as its parent company. This process is preceded by financial reporting for the Group companies included in the consolidated financial statements. All processes are monitored by a rigorous internal control system that ensures both the compliance of accounting and adherence to the relevant legal requirements.

The key functions in all departments are controlled centrally from the finance department of NFON AG, with the individual subsidiaries having a set level of independence in the preparation of their financial statements. Significant regulations and instruments in the preparation of the consolidated financial statements include:

- accounting guidelines at Group level;
- clearly defined separation of duties and the assignment of responsibilities between the departments involved in the accounting process;
- consultation with external experts where necessary, for example to measure share-base payment transactions or purchase price allocation;
- using suitable IT finance systems;

- system-based controls and other process controls for accounting in the companies;
- consolidation as part of the consolidated financial statements at Group and company level;
- consideration of risks tracked and assessed in the risk management system in the annual financial statements, provided this is necessary in accordance with existing accounting regulations.

The management of the Group companies in the various countries is responsible for implementing these regulations and using these instruments. The consolidated financial statements are the responsibility of the member of the Management Board of NFON AG in charge of finance.

This member of the Management Board is aided in this by the Chief Financial Officer, who is responsible for the consolidated financial statements. By employing qualified and specialist staff, through targeted and regular training and adherence to the principle of dual control, the NFON Group ensures strict compliance with local and international accounting standards in its annual and consolidated financial statements.

All separate financial statements of significant Group companies that are included in Group consolidation are audited by a statutory auditor. With subsidiary companies required to report their business figures to NFON AG on a monthly basis in a standard reporting format, differences between targets and results can be recognised promptly throughout the year and reacted to quickly.

Forecast

Forecast 2020	
Growth rate of recurring revenue	Between 14% and 16%
Non-recurring revenue	> 85%
Growth rate of seats	Between 15% and 17%

The budget as well as all following comments are based on the state of knowledge up to 13 April 2021 and take account of the opportunities and risks described for the NFON Group. As a result, deviations may arise between the budgeted figures and the figures actually reached at year-end. This also applies to the assumptions regarding general economic conditions.

At the present time, it is not possible to conclusively quantify the effects of the spread of COVID-19 in the forecast. Both negative and, due to the product portfolio, positive effects are possible for NFON.

In principle – and this was proven over the past year – the cloud telephony business model has a certain robustness to market fluctuations due to the high proportion of recurring revenue. Nevertheless, it is to be expected that the continuing lockdown rules in the exceptional situation of the pandemic will also have negative effects for NFON. Despite the numerous economic support measures from EU nations, companies are showing a certain reluctance to invest. It is also currently impossible to estimate the consequences of the reinstatement of regular insolvency law in Germany, for example. It is conceivable that fewer new seats will be gained than imagined or that the currently very low churn rates will increase, which would result in a corresponding loss of revenue.

Besides these potential negative implications, a very positive development can be foreseen for NFON, particularly in the medium term: Many companies have recognised the advantages of flexible, remote working models with the option to work from home and have begun implementing them as permanent workplace concepts. In addition, the continuing lockdown is compelling many companies to abandon their provisional arrangements and use a final, remote cloud service. In this respect, the current situation is strengthening some of the assumptions underlying NFON AG's forecast:

- the change in business communication to increased use of digital UC solutions and services, e.g. collaboration tools, chat and messaging (UCaaS);
- the introduction of digital communication technologies, which impact on many business processes and increase the necessity to integrate diverse digital solutions on one platform;
- businesses' growing need for scalable digital services to be as flexible as necessary and the need to only post expenses that are actually incurred.

The following assumptions also apply to the forecast made by NFON:

- the forecast takes no further company acquisitions into account;
- the conversion from ISDN to all IP announced by all telephony providers (carriers) is continuing;
- the staff necessary for the further development of the business can be recruited;
- the lockdown measures are expected to continue into the second quarter of 2021. A full recovery of the economy is not expected until mid-2022.

The forecasts of the NFON Group for fiscal year 2021 are based on the expectations and assumptions for general economic development and the country-specific industry developments relevant to NFON. Detailed information can be found in the 'General economic conditions and industry environment' section.

Expected general economic conditions and industry environment

The market for business communications is undergoing a historic transformation. NFON AG is benefiting from the structural shift to cloud-based telephony solutions, which permanently changes the business communication market. The European cloud telephony market is likely to grow by an average of 12% a year between 2020 and 2025[23]. The detailed description of the market development can be found in the 'General economic conditions and industry environment' section.

Expected business performance of the NFON Group

Even in an environment that continues to be shaped by the coronavirus pandemic, the NFON Group has the opportunity to grow more rapidly than the European total market. For example, NFON plans to step up its sales activities in Europe via the network that now comprises more than 2,700 partners and simultaneously to keep acquiring new partners for NFON. In addition, NFON reached a major milestone in 2020 with over 500,000 seats installed by customers and can build on this very stable basis for further growth in the future. Firstly, NFON plans to continue increasing the number of seats even in 2021's pandemic-influenced environment. Secondly, the Management Board intends to sell more premium solutions to the customer base. In addition, the possibility of acquiring attractive companies in the cloud telephony field will be continuously explored. One or more possible acquisitions are not considered in the forecast.

23 Source: MZA: "The Global Telecommunications Market 2020" and own calculations of the company

Expected development of key performance indicators and overall conclusion on the expected development

In 2020, NFON reached major milestones for a sustainable double-digit growth rate. The number of seats increased by 16.7% or 75,080 to 524,791 last year. With lockdown measures expected to continue into the second quarter of 2021, companies therefore reluctant to invest, and corresponding effects on seat growth in the first half of 2021, the Management Board expects the number of seats to grow by between 15% and 17% in 2021 as a whole. This equates to absolute growth of up to 89,000 seats.

In 2021, as in the previous year and despite the adverse effects of the pandemic, NFON plans to grow by rates well into double digits and projects organic growth of between 14% and 16% for recurring revenue. Recurring revenue in 2021 will be influenced by NFON customer's lower investments in response to the pandemic and the associated lower seat growth in 2020. A significant increase in growth rates will then be possible in subsequent years on the basis of the planned higher seat growth in 2021 with full-year effect in 2022.

Recurring revenue is expected to account for over 85% of total revenue in 2021.

Pursuing the goal of becoming one of the leading providers of cloud telephony in the European market, the NFON Group will continue to invest heavily in gaining market share. Consequently, with stable macroeconomic development and a European cloud communication market expanding at the expected pace, NFON has the ambition to continue its dynamic revenue growth with possible extra impetus from further M&A activities. EBITDA break-even could be achieved in the medium term with the current investment intensity. Investments to exploit additional growth opportunities arising in the short term are not taken into account here.

Takeover disclosures – Report of the Management Board on the disclosures in accordance with sections 289a(1) and 214a(1) HGB

Composition of the issued capital, showing separately the rights and obligations attaching to each class and the proportion of the capital subscribed

For more information, please refer to the disclosures in note 13 to the consolidated financial statements.

Restrictions relating to voting rights or the transfer of shares

Each share confers one vote at the Annual General Meeting. There are no restrictions on voting rights. All shares, including the shares held by existing shareholders, grant the bearer the same voting rights.

Direct or indirect shareholdings exceeding 10% of voting rights

There were the following direct and indirect shareholdings exceeding 10% of voting rights as at 31 December 2019:

Name/company	Direct/indirect shareholding exceeding 10% of voting rights
Milestone Venture Capital GmbH, registered office in Hösbach, Germany	Direct (33.90%)
Florian Schuhbauer (Active Ownership Fund SICAV-FIS SCS; AOC Cloud S.à r.l. Grevenmacher, Luxembourg)	Indirect (25.48%; date on which the threshold was exceeded: 27 November 2020)
Klaus Röhrig (Active Ownership Fund SICAV-FIS SCS; AOC Cloud S.à r.l. Grevenmacher, Luxembourg)	Indirect (25.48%; date on which the threshold was exceeded: 27 November 2020)

The above figures are based on voting rights notifications in accordance with the Wertpapierhandelsgesetz (WpHG – German Securities Trading Act) that NFON AG has received and published. The information on Milestone Venture Capital GmbH was confirmed to the company by the shareholder.

Voting rights notifications published by NFON AG are available online at:

https://corporate.nfon.com/de/news/ir-news.

Voting controls for employee participation

There are no voting controls.

Statutory regulations and provisions of the Articles of Association for the appointment and dismissal of members of the Management Board and the amendment of the Articles of Association

Statutory regulations and provisions of the Articles of Association on the appointment and dismissal of members of the Management Board are consistent with Section 84 of the Aktiengesetz (AktG – German Stock Corporation Act). A member of the Management Board can be dismissed with or without cause or replaced by way of Supervisory Board resolution at any time. The Supervisory Board is authorised to make amendments to the Articles of Association that affect its wording only (Article 18(3) of the Articles of Association of NFON AG).

Authorisations of the Management Board, in particular to issue or buy back shares

The Management Board's authorisation to issue shares is regulated in Article 4 of the Articles of Association in conjunction with the statutory provisions. The Management Board had the following authorisations to issue shares as at 31 December 2020:

Authorised capital

The Extraordinary General Meeting of NFON AG on 12 December 2019 cancelled the Authorised Capital I in place as at that date and created Authorised Capital 2019. Accordingly, the Management Board is authorised, with the approval of the Supervisory Board, to increase the share capital on one or more occasions by a total of EUR 3,000,000 by 11 December 2024 by issuing new no-par value bearer shares with profit participation rights from the beginning of the fiscal year in which they were issued in exchange for cash or non-cash contributions. Shareholders have pre-emption rights. The Management Board is authorised, with the approval of the Supervisory Board, to decide the content of share rights and the terms for issuing shares, and to determine the details of the capital increase. The authorisation stipulates that shareholders' pre-emption rights can be disapplied in full or in part under certain circumstances (Article 4(3)(a) to (c)).

Contingent Capital I

For the purpose of issuing new no-par value bearer shares to bearers or creditors of conversion or option rights or bonds, the share capital of NFON AG was contingently increased by up to EUR 2,892,045 by issuing up to 2,892,045 new no-par value bearer shares (Contingent Capital I).

Contingent Capital II (stock option plan)

The share capital of the company is contingently increased by up to a further EUR 964,015 by issuing up to 964,015 new no-par value bearer shares. The contingent capital increase will only be carried out to the extent that the holders of share options issued by the company before 08 April 2023 on the basis of the authorising resolution of the Annual General Meeting of 09 April 2018 exercise their pre-emption rights to shares of the company and the company does not grant treasury shares or cash settlement in fulfilment of these rights. The new NFON AG shares issued participate in profits from the beginning of the fiscal year in which they are issued.

Significant agreements of the parent company subject to a change of control in the event of a takeover bid and their repercussions

No significant agreements of the parent company subject to a change of control in the event of a takeover bid have been entered into with either third parties or subsidiaries.

Compensation agreements of the parent company with members of the Management Board or employees in the event of a takeover bid

Stock option plan

The options issued remain are not affected if a third party acquires control of the company as referred to by Section 29(2) of the Wertpapiererwerbs- und Übernahmegesetz (WpÜG – German Securities Acquisition and Takeover Act). A 'delisting event' is deemed to have occurred if the shares of the company are no longer listed on an organised market (Section 2(5) WpHG). In the event of delisting, the beneficiary has the right under the statutory provisions to demand that the company or its legal successor pays out the option value for each option. The option value is paid out within two weeks of the occurrence of the delisting event.

Group corporate governance declaration

The corporate governance declaration of the NFON Group includes the disclosures required in accordance with Section 315d HGB in conjunction with Section 289f HGB and is published on the NFON AG homepage under Investor Relations (https://corporate.nfon.com/en/about-nfon/corporate-governance/).

Remuneration report

I. The Management Board

The remuneration of the members of NFON's Management Board consists of fixed and variable components. In addition, the Management Board members Jan-Peter Koopmann and César Flores Rodríguez received a company car, and the Management Board member César Flores Rodríguez has taken out a direct insurance policy with salary conversion. NFON pays the corresponding converted amounts. NFON has also taken out a financial loss liability insurance policy for the members of the Management Board, which takes into account the statutory deductible. These benefits are partly taxable as non-cash benefits for the members of the Management Board.

The short-term variable salary of the Management Board members is 60% dependent on the NFON Group's revenue and 40% on the NFON Group' EBITDA. As the Management Board member Dr Klaus von Rottkay was only appointed as at 01 December 2020, the Supervisory Board resolved to pay him 100% of the pro rata variable salary for December 2020 without agreeing targets. The variable salary is capped at a performance of 150% for all members of the Management Board. No variable salary was due for a performance of less than 80% in fiscal 2020. The short-term variable salary component is between 21% and 73% (with an assumed target achievement of 100%) of the fixed basic salary, depending on the member of the Management Board. Furthermore, according to the Management Board agreements, the Supervisory Board can grant a discretionary bonus in the maximum amount of up to one fixed annual basic salary, though this was not granted in the fiscal year.

In addition, NFON grants its Management Board members stock options as long-term variable remuneration with the following key parameters:

- Term of the program: until 22 April 2022
- Duration from allocation: 10 years
- Exercise price: Arithmetic mean of the closing prices of the company's shares in Xetra trading (or a comparable successor system) on the Frankfurt Stock Exchange on the last ten trading days prior to the issue of the respective stock option (date of acceptance of the beneficiary's subscription declaration by the company or the credit institution engaged by the company for settlement)

- Personal prerequisites for exercising the option:
  - Achievement of the performance target: Growth in revenue as reported in the consolidated financial statements for the fiscal year in which the options are allocated, compared to the revenue as reported in the consolidated financial statements for the previous fiscal year prior to allocation, by 20%.
  - Fulfilment of the vesting period of four years from allocation
  - Existence of an employment or service relationship at the time of exercise or in the case of members of the Executive Board, the stock options remain in effect upon expiry and non-renewal of the appointment as a member of the Executive Board.
- Cap: Total of the basic (fixed) salaries of the members of the Management Board of the company until the options are exercised, multiplied by a factor of 1.5

These stock options were allocated to the (former) members of the Management Board Hans Szymanski, Jan-Peter Koopmann and César Flores Rodríguez for the first time in fiscal 2019 and entitle the members of the Management Board to purchase a certain number of shares in the company. The performance target was achieved in fiscal 2019. The Management Board member Dr Klaus von Rottkay has been offered the prospect of receiving stock options, but none have been allocated to date, whereby the AR is free to decide on an allocation..

A post-contractual non-compete clause has been agreed with the members of the Management Board in their contracts, as a result of which the respective Management Board member would have to be paid compensation of 50% of the last contractually agreed remuneration for a period of one year on leaving the company.

In addition, the Management Board member Jan-Peter Koopmann is entitled to an IPO-related bonus of EUR 0.1 million payable as at 30 April 2021 under an agreement from 2013, which was adjusted and renewed in fiscal 2018.

II. Supervisory Board

By way of resolution of the Annual General Meeting on 09 April 2018, in addition to the reimbursement of their expenses in accordance with the Articles of Association of NFON AG, all members of the Supervisory Board of NFON AG receive the following cash remuneration:

a) a basic remuneration of EUR 40,000 for the Chairman of the Supervisory Board and EUR 25,000 for the other members of the Supervisory Board after the end of a fiscal year, plus any VAT incurred;

b) for each meeting of the (entire) Supervisory Board that the respective Supervisory Board member has attended in full, an attendance fee of EUR 1,000, plus any VAT incurred, also payable after the end of a fiscal year.

Any memberships and chairmanships in committees are covered by this remuneration. Members of the Supervisory Board who only belong to the Supervisory Board or who are the Chairman of the Supervisory Board for part of the fiscal year will receive the remuneration stated in a) pro rata temporis. The amounts will be rounded up to full months.

The remuneration stated in a) and b) will also be paid to the members of the Supervisory Board in the following years, unless resolved otherwise by the Annual General Meeting.

The Chairman of the Supervisory Board Rainer Koppitz thus received basic remuneration of EUR 40,000 and attendance fees of EUR 4,000 for fiscal 2020, plus VAT, and the members of the Supervisory Board Dr Rupert Doehner, Günter Müller and Florian Schuhbauer received basic remuneration of EUR 25,000 and attendance fees of EUR 5,000 for fiscal 2020, plus any VAT.

The total remuneration of the Supervisory Board therefore amounted to EUR 0.1 million (net) in fiscal 2020, not including the reimbursement of expenses. In fiscal 2019, the total remuneration of the Supervisory Board amounted to EUR 0.1 million (net) not including the reimbursement of expenses.

NFON AG (HGB)

The financial statements of NFON AG have been prepared in accordance with the provisions of the German Commercial Code (HGB).

NFON AG (NFON) is the parent company of the NFON Group and has its registered office in Munich, Germany. The business address is Machtlfinger Str. 7, 81379 Munich.

NFON generates revenue mainly by providing cloud-based telephone services to business customers. In this process, customers are provided with the required brokerage service from the cloud in NFON data centres via the Cloud PBX (Private Branch Exchange), meaning that they do not need to have traditional telephone systems at their own premises. Generally, the customer initially pays a one-off activation fee for each extension in addition to a monthly service fee for each extension used. Furthermore, NFON can replace the telephone connection, meaning that the customer pays the fees for all telephone traffic to NFON. NFON procures this service itself from various carriers. On request, NFON also sells end devices (telephones, soft clients for PCs and smartphones) and the corresponding software, which the company procures from several manufacturers, and provides Internet access on a reselling basis as required.

Sales are conducted through five channels with a clear focus on indirect partner sales. The direct channel represents just one of these sales channels. In addition to its own sales function, NFON sells via dealers and involves distributors as intermediaries in a third channel. Two additional sales channels are served with wholesale partners who themselves sell voice minutes or procure them via NFON. The voice minutes comprise the length of the individual telephone calls and generate recurring revenue in the form of call charges.

NFON divides revenue into recurring and non-recurring revenue. Recurring revenue includes monthly fees for the cloud PBX, ongoing call charges and SDSL monthly fees (Symmetric Digital Subscriber Line is a DSL access technology for a public digital network) as well as premium solutions such as Neorecording and Ncontact. In contrast, non-recurring revenue is one-off revenue from the sale of hardware, set-up fees for the cloud PBX or set-up fees for SDSL.

Results of operations

In EUR million	2020	2019
Revenue	44.4	37.6
Other operating income	0.7	0.5
Cost of materials	6.5	6.9
Personnel costs	19.5	16.9
Depreciation and amortisation	0.8	0.7
Other operating expenses	26.7	27.1
Net interest income	–0.3	–0.6
Income taxes	0.0	0.0
Profit/loss after taxes	**–8.7**	**–14.0**
Other taxes	0.0	0.0
Net profit/loss for the year	**–8.7**	**–14.0**

Revenue

Excluding transfer pricing income and credit entries relating to this, revenue of EUR 39.6 million resulted in 2020 and revenue of EUR 35.8 million in 2019.

After adjustment for these transfer prices, 2020 revenue increased over the previous year by approx. 10.7% due to the increased customer base (recurring revenue) and the sale of hardware and other services (non-recurring revenue).

External revenue comprises recurring income of EUR 35.0 million and non-recurring income of EUR 4.6 million.

The share of recurring revenue in total external revenue was slightly above the expected range, even though their increase was somewhat lower than expected. Among other things, this is due to the fact that the originally forecast number of seats was slightly missed.

Other operating income

The increase in other operating income from EUR 0.5 million in 2019 to EUR 0.7 million in 2020 is mainly attributable to the increased reversals of provisions.

Cost of materials

The cost of materials fell by 6.0% despite the expanding business activities. The reason for this was a decrease in hardware revenue with a low margin compared to the overall product portfolio, thus driving down a disproportionately large cost item.

Personnel costs

The increase in personnel costs by 15.6% is mainly due to the continuous, strategic expansion of the workforce as well as the retention bonus of EUR 0.2 million and employee share options of EUR 0.9 million as well as the continuous strategic expansion of staffing. This resulted also in an increase in contributions and expenses for employee pensions.

Depreciation and amortisation

Investments consisted of replacement investment and expansion investment in data centre capacity. Consequently, amortisation and depreciation increased. No impairment losses were recognised.

Other operating expenses

The decrease in other operating expenses from EUR 27.0 million in the previous year to EUR 26.7 million in 2020, despite continuous business and workforce growth, is chiefly attributable to cost-reduction measures in connection with the COVID-19 pandemic.

Marketing expenses in particular fell from EUR 5.3 million (2019) to EUR 3.7 million.

Further savings were made in travel and other further operating expenses.

In contrast, there were large IT investments in the introduction of new software tools. The associated costs rose from EUR 0.3 million in 2019 to EUR 1.3 million in 2020.

A material effect in other operating expenses is due to higher expenses compared with 2019 for the profit transfer of subsidiaries as part of the application of the transaction-based net margin method (2020: EUR 9.9 million; 2019: EUR 8.9 million). The expansion of the national subsidiaries had a particular impact here.

In addition, EUR 0.6 million was spent on the acquisition of DTS in 2019.

Net interest income

NFON AG paid interest on a loan for the acquisition of DTS. An issued warrant bond was repaid at the start of 2020, so interest expense decreased in 2020 compared with 2019.

Income taxes

Due to the continued negative earnings before taxes, no taxes on income were incurred in 2020 or 2019.

Other taxes

Only minor vehicle taxes are paid here.

Net loss for the year

The lower net loss for the year is primarily the result of NFON AG's positive business development in terms of revenue, coinciding with short-term savings measures to cushion any adverse effects of the COVID-19 pandemic and ensure an effective use of funds, especially in marketing.

The start-up costs of the subsidiaries, which NFON AG bears as part of its Group-wide transfer pricing system based on the transaction-based net margin method, remain a significant cost item at NFON AG.

Financial position

The cash flow from operating activities is mainly influenced by the net loss for the year of EUR 8.7 million. Reference is made to the comments in the results of operations.

Investing activities in the reporting year mainly include the cash outflows for the expansion of data centre capacity. A cash inflow for NFON AG resulted from a capital reduction at the subsidiary nfon GmbH and the repayment of the corresponding equity capital of EUR 7.5 million. The establishment of NFON developments unipessoal Lda. (EUR 0.1 million) had the opposite effect.

At EUR 5.1 million, cash flows from financing activities relate to cash outflows due to the repayment of the warrant bond, plus interest.

Overall, cash and cash equivalents decreased by EUR 6.2 million year-on-year to EUR 21.1 million. NFON AG was able to meet its payment obligations at all times.

Assets and liabilities

Statement of financial position of NFON AG pursuant to HGB (abridged version)

In EUR million	2020	2019
Fixed assets	37.1	43.1
Current assets	26.6	32.0
Prepaid expenses	1.1	0.9
Assets	**64.8**	**76.0**
Equity	43.0	50.8
Provisions	2.5	3.4
Liabilities	18.9	21.8
Deferred income	0.4	0
Liabilities	**64.8**	**76.0**

Fixed assets

The significant reduction in fixed assets primarily results from the development of financial assets and relates to the capital reduction of EUR 7.5 million at NFON nfon GmbH. The capital increase at NFON S.R.L. (EUR 0.5 million) and the establishment of NFON developments unipessoal Lda. (EUR 0.1 million) had the opposite effect. Furthermore, property, plant and equipment and intangible assets increased by EUR 0.7 million, particularly as a result of investment in the IT infrastructure and server hardware to create a corresponding basis for the planned growth.

Amortisation of intangible assets and depreciation of property, plant and equipment totalled EUR 0.8 million in 2020.

Current assets

The reduction in current assets is primarily based on the EUR 6.2 million decrease in cash held at banks compared with the previous year.

Equity

Equity has decreased to EUR 43.0 million due to the net loss for the year of EUR 8.7 million and the higher capital reserves as a result of the employee stock options issued (EUR 0.9 million).

Provisions

The decrease in provisions of EUR 0.7 million is mainly attributable to the reduction of provisions for missing incoming invoices.

Liabilities

The decrease in liabilities mainly relates to the repayment of the warrant bond issued in 2019 at EUR 5.1 million. Trade payables rose from EUR 2.3 million as at 31 December 2019 to EUR 3.1 million as at 31 December 2020 as a result of the increased business volume. Liabilities to affiliated companies developed similarly (EUR +1.4 million to EUR 5.7 million as at 31 December 2020).

Deferred income

The deferred income recognised as at 31 December 2020 relates to deferrals to be made at the balance sheet date for income relating to subsequent periods and is related to settlements to a distribution partner.

Overall evaluation of the economic situation

2020 was a successful year overall for NFON AG. The Company contained to grow, invested the funds generated from the IPO in 2018 in organic growth as planned, posted increased revenue and stabilised gross profit. The originally forecast targets for the build-up of seats and the related recurring revenues were slightly missed, while their share of total external revenues was increased.

Risks and opportunities

The business performance of NFON AG is subject to the same risks and opportunities as the Group. NFON participates in the risks of investments and subsidiaries in the full amount as these concern companies in which NFON AG holds 100% of the shares. Owing to the revised system of transfer pricing, NFON AG is exposed to the risk of having to financially bear potential start-up losses of the subsidiaries. The risks and opportunities are described in the Risk and Opportunity Report of the group management report.

Forecast

Due to NFON AG's links with the group companies, we refer to the statements in the forecast report of the group management report, which in particular also reflect the expectations for the parent company. The statements on COVID-19 made in the group forecast report apply to NFON AG without reservation. At this point in time, the effects of the spreading virus on the economic development of NFON AG are difficult to estimate. Regardless of this, NFON AG expects a slightly slower increase in recurring external revenues for the 2021 financial year compared to the reporting year, with their share of total external revenues expected to remain constant. Customer-operated extensions (seats) are expected to grow at a similar rate compared to the 2020 financial year. The company points out that there may be a deviation between the plan data and the values actually achieved at the end of the year.

Responsibility statement in accordance with Section 315(1) sentence 5 and Section 289(1) sentence 5 HGB

To the best of our knowledge, and in accordance with the applicable reporting principles for consolidated financial statements, the interim consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the management report of the company and the Group includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group.

Munich, 13 April 2021

Dr Klaus von Rottkay
Chief Executive Officer

Jan-Peter Koopmann
Chief Technical Officer

CONSOLIDATED FINANCIAL STATEMENT

Consolidated income statement and consolidated statement of comprehensive income

for the period from 01 January to 31 December 2020

In EUR thousand	Note	01.01.–31.12.2020	01.01.–31.12.2019
Revenue	18	67,602	57,117
Changes in inventories of finished goods and work in progress		19	–27
Other operating income	15	958	636
Cost of materials		–14,024	–13,637
Personnel costs	17	–28,495	–24,248
Depreciation and amortisation	4/5/6	–4,150	–3,005
Other operating expenses	16	–23,584	–26,773
Impairment losses on trade and other receivables	21	–137	–42
Other tax expense		–16	–10
Income from continuing operations before net interest income and income taxes		**–1,828**	**–9,989**
Interest and similar income		14	36
Interest and similar expenses		–510	–852
Net interest income		**–496**	**–816**
Earnings before income taxes		**–2,324**	**–10,805**
Income taxes	12	–135	–39
Deferred tax income (previous year: tax expense)	12	222	–81
Consolidated net loss		**–2,237**	**–10,924**
Attributable to:			
Shareholders of the parent company		–2,237	–10,924
Non-controlling interests		0	0
Other comprehensive income (will be reclassified to profit or loss)		–272	333
Taxes on other comprehensive income (will be reclassified to profit or loss)		0	0
Other comprehensive income after taxes		**–272**	**333**
Total comprehensive income		**-2,509**	**–10,592**
Attributable to:			
Shareholders of the parent company		**-2,509**	–10,592
Non-controlling interests		0	0
Net loss per share, basic and diluted	**14**	**–0,15**	**–0.77**
Net loss per share, diluted	**14**	**–0,15**	**–0.77**

Consolidated statement of financial position

as at 31 December 2020

In EUR thousand	Note	31.12.2020	31.12.2019
Non-current assets			
Property, plant and equipment	4/5	9,482	7,606
Intangible assets	5	27,079	22,438
Deferred tax assets	12	1,079	132
Other non-financial assets	9	283	289
Total non-current assets		**37,924**	**30,467**
Current assets			
Inventories	7	149	208
Trade receivables	8	9,973	7,558
Other financial assets	8	390	390
Other non-financial assets	9	2,290	2,164
Cash and cash equivalents	21	23,034	36,419
Total current assets		**35,837**	**46,740**
Total assets		**73,761**	**77,206**

In EUR thousand	Note	31.12.2020	31.12.2019
Equity			
Issued capital	13	15,056	15,056
Capital reserves	13	83,926	82,987
Retained earnings		–53,911	–51,674
Currency translation reserve		506	778
Total equity		**45,577**	**47,146**
Non-current liabilities			
Non-current financial liabilities		4,577	**3,436**
Other non-current liabilities	9	186	172
Deferred tax liabilities	12	802	77
Total non-current liabilities		**5,565**	**3,685**
Current liabilities			
Trade payables	21	4,931	5,174
Current provisions	0	2,262	2,176
Current income tax liabilities	9	137	125
Current financial liabilities	11	10,690	15,451
Other non-financial liabilities	9	4,600	3,449
Total current liabilities		**22,619**	**26,374**
Total equity and liabilities		**73,761**	**77,206**

Consolidated statement of cash flows

for the period from 01 January to 31 December 2020

In EUR thousand	Note	2020	2019
1. Cash flow from operating activities			
Profit/loss after taxes		**–2,237**	**–10,924**
Adjustments to reconcile profit (loss) to cash provided			
Income taxes	12	–85	120
Interest income (expenses), net		496	816
Amortisation of intangible assets and depreciation of property, plant and equipment	5/4	4,150	3,005
Impairment losses on trade and other receivables		137	42
Equity-settled share-based payment transactions	19	940	638
Other non-cash income and expenses		47	233
Changes in:			
Inventories		59	42
Tade and other receivables		–2,672	–1,974
Trade and other payables		1,018	–119
Provisions and employee benefits		76	873
Interest paid		–384	–655
Income taxes paid		–125	385
The effects of changes in foreign exchange rates		–272	333
Cash flow from operating activities		**1,149**	**–7,187**

In EUR thousand	Note	2020	2019
2. Cash flow from investing activities			
Proceeds from the disposal of property, plant and equipment and intangible assets	4	62	0
Payments for investments in property, plant and equipment	4	–1,557	–1,847
Payments for investments in intangible assets	5	–6,043	–3,372
Payments in connection with Onwerk acquisition (previous year: DTS acquisition)		–150	–15,260
Cash flow from investing activities		**–7,688**	**–20,480**
3. Cash flow from financing activities			
Proceeds from capital increase by shareholders of the parent company	13	0	10,605
Proceeds from loans and borrowing		0	14,007
Repayments of loans and similar liabilities	11	–5,141	–649
Payments in connection with leases		–1,668	–1,357
Cash flow from financing activities		**–6,809**	**22,606**
Change in cash and cash equivalents		**–13,348**	**–5,060**
Effect of movements in exchange rates on cash held		–37	43
Cash and cash equivalents at the beginning of the period		**36,419**	**41,436**
Cash and cash equivalents at the end of the period		**23,034**	**36,419**

Cash and cash equivalents at the end of the period include bank deposits of EUR 323 thousand as at 31 December 2020 (31 December 2019: EUR 340 thousand) that cannot be repaid to the Group in full on account of collateral provided by customers with poor credit ratings. All restrictions on such deposits are of a short-term nature.

The payments for the acquisition of DTS in the previous year take into account negative cash reserves of EUR 565 thousand at DTS as at the acquisition date.

Statement of changes in equity

as at 31 December 2020

In EUR thousand	Attributable to owners of the Company						
	Issued capital	Capital reserves	Currency translation reserve	Net loss	Total equity	Non-controlling interests	Total
As at 01.01.2020	**15,056**	**82,987**	**777**	**–51,674**	**47,146**	**0**	**47,146**
Total comprehensive income for the period							
Loss (income) for the period	0	0	0	–2,237	–2,237	0	–2,237
Other comprehensive income for the period	0	0	–272	0	–272	0	–272
Total comprehensive income for the period	**0**	0	**–272**	**–2,237**	**–2,509**	**0**	**–2,509**
Transactions with the shareholders of the company							
Equity-settled share-based payment transactions	0	939	0	0	939	0	939
Total transactions with the shareholders of the company	**0**	**939**	**0**	**0**	**939**	**0**	**939**
As at 31.12.2020	**15,056**	**83,926**	**506**	**–53,911**	**45,576**	**0**	**45,576**

Statement of changes in equity

as at 31 December 2019

	Attributable to owners of the Company						
In EUR thousand	Issued capital	Capital reserves	Currency translation reserve	Net loss	Total equity	Non-controlling interests	Total
As at 01.01.2019	**13,807**	**70,132**	**444**	**–40,750**	**43,634**	**0**	**43,634**
Total comprehensive income for the period							
Loss (income) for the period	0	0	0	–10,924	–10,924	0	–10,924
Other comprehensive income for the period	0	0	333	0	333	0	333
Total comprehensive income for the period	**0**	**0**	**333**	**–10,924**	**–10,592**	**0**	**–10,592**
Transactions with the shareholders of the company							
Equity-settled share-based payment transactions	0	638	0	0	638	0	638
Increase in share capital from authorised capital for partial payment of the purchase price for DTS acquisition	285	2,534	0	0	2,819	0	2,819
Equity component of the warrant bond issued in the reporting year	0	43	0	0	43	0	43
Increase in equity from authorised capital in connection with the exercise of the warrant bond issued in the reporting year	964	9,640	0	0	10,604	0	10,604
Total transactions with the shareholders of the company	**1,249**	**12,855**	**0**	**0**	**14,104**	**0**	**14,104**
As at 31.12.2019	**15,056**	**82,987**	**777**	**–51,674**	**47,146**	**0**	**47,146**

NOTES

1. Basis of presentation

Company overview

The NFON Group provides cloud telephone system services enabling convenient and effective communication for customers across all their locations, all their employees, all the time, on multiple devices, including smartphones, tablets, personal computers and desk phones. It operates in various countries in Europe, most significantly in Germany, Austria, the United Kingdom and Spain.

The Company has its registered offices in Machtlfinger Strasse 7, 81379 Munich, and is entered in the Commercial Register of the Munich District Court under HRB 168022. The company is a stock corporation according to German law and is registered in Germany. The business headquarters are in Munich.

The consolidated financial statements for the fiscal year as at 31 December 2020 were approved for publication by Management Board resolution on 13 April 2021.

Consolidated financial statements

The consolidated financial statements and notes present the operations of NFON AG (the "Company") and its subsidiaries (combined "NFON" or the "Group"). The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and as adopted by the European Union ("EU"), taking account of the interpretation of the International Financial Reporting Interpretations Committee (IFRIC) and accounting provisions in accordance with Section 315e (1) HGB.

Currency

The consolidated financial statements have been prepared in euro (EUR), which is the functional currency and reporting currency of NFON AG. Unless stated otherwise, all values in the consolidated financial statements and the accompanying notes are rounded to the nearest thousand euro (EUR thousand). Rounding differences can therefore occur in the tables in the notes to the consolidated financial statements.

Other

The consolidated statement of financial position is divided into current and non-current assets and liabilities in accordance with IAS 1. The consolidated income statement is prepared using the nature of expense method.

Comparative information

The consolidated financial statements include amounts as at and for the periods ended 31 December 2020 compared to 31 December 2019.

2. Significant accounting policies

A. Basis of preparation

The financial statements have been prepared on an accruals basis and are based on historical costs, modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities and share-based payment transactions.

The fiscal year is the calendar year.

B. New and amended standards to be applied for the first time in the reporting year

In the period beginning on 01 January 2020, NFON applied the following standards and amendments to existing standards for the first time:

- Amendments to References to the Conceptual Framework in IFRS Standards
- Definition of a Business (amendments to IFRS 3)
- Definition of "Material" (amendments to IAS 1 and IAS 8)
- Amendments to IFRS 9, IAS 39 and IFRS 7: Interest Rate Benchmark Reform

These amendments have no significant impact on the current period, and are not expected to have a significant impact on future periods.

C. New standards that are not yet applied

The following standards are expected to have no impact or an immaterial impact on the Company's financial statements in the period of initial application:

- COVID-19-Related Rent Concessions (amendments to IFRS 16), effective from 01 June 2020
- Interest Rate Benchmark Reform – Phase 2 (amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16), effective from 01 January 2021
- Onerous Contracts – Cost of Fulfilling a Contract (amendments to IAS 37), effective from 01 January 2022
- Annual Improvements to IFRS Standards 2018–2020, effective from 01 January 2022
- Property, Plant and Equipment – Proceeds before Intended Use (amendments to IAS 16), effective from 01 January 2022
- References to the Conceptual Framework (amendments to IFRS 3), effective from 01 January 2022
- Classification of Liabilities as Current or Non-current (amendments to IAS 1), effective from 01 January 2023
- IFRS 17 Insurance Contracts and Amendments to IFRS 17 Insurance Contracts, effective from 01 January 2023
- Amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture", effective date not yet set

NFON applies new standards for the first time when they become effective.

D. Basis of consolidation

The consolidated financial statements include all subsidiaries controlled by NFON AG. All intercompany transactions and balances have been eliminated. The financial statements of NFON AG's subsidiaries are included within the Company's consolidated financial statements from the date that control commences until the date that control ceases, and are prepared for the same reporting period using consistent accounting policies.

Control is achieved when the Group is exposed, or has rights, to variability of returns from its involvement with the investee or has contractual rights and has the ability to affect those returns through its control over the investee.

Specifically, the NFON Group controls an investee, if and only if the Group has:

- Control over the investee (i.e. existing rights that give the Group the current ability to control the relevant activities of the investee),
- Exposure, or rights, to variable returns from its involvement with the investee, and
- The ability to use its control over the investee to affect its returns.

Generally, it is deemed that a majority of voting rights results in control.

The Group assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control.

Profit or loss and each component of other comprehensive income ("OCI") are attributed to the owners of the parent of the NFON Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. If necessary, adjustments are made in the financial statements of subsidiaries so that their accounting methods correspond to the Group's accounting methods. All intra-group assets and liabilities, equity, income and expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

If the Group acquires a proportion of the equity held by non-controlling interests, any difference between the amount of the non-controlling interests in Group equity and the fair value of the consideration paid or received is recognised directly in Group equity.

Business combinations are accounted for using the acquisition method. The cost of an acquisition is calculated as the sum of the consideration transferred, measured at its fair value on the acquisition date, and non-controlling interests in the acquiree. For each business combination, NFON measures non-controlling interests either at fair value or at the proportionate share of the acquiree's identifiable net assets. Costs incurred in connection with the business combination are recognised as expenses. Agreed contingent consideration is recognised at fair value at the acquisition date. Subsequent changes in the fair value of contingent consideration that constitutes an asset or a liability are recognised in the income statement in accordance with IFRS 9.

On initial recognition, goodwill is measured at cost, which is calculated as the excess of the consideration transferred over the identifiable assets acquired and liabilities assumed, measured at fair value. If this consideration is lower than the fair value of the acquiree's net assets, the difference is recognised in the income statement after another review.

After initial recognition, goodwill is measured at cost less any necessary impairment. For the purposes of the impairment test, the goodwill acquired in a business combination is, from the acquisition date onward, allocated to the cash-generating units of the Group that are expected to benefit from the business combination. This applies irrespective of whether other assets or liabilities of the acquired company are allocated to these cash-generating units.

The composition of the consolidated group of entities is as follows:

- NFON AG, Munich, Germany (ultimate parent entity)
- nfon GmbH, St. Pölten, Austria (wholly owned by NFON AG)
- NFON UK Ltd., Maidenhead, United Kingdom (wholly owned by NFON AG)
- NFON Iberia SL, Madrid, Spain (wholly owned by NFON AG)
- NFON Italia S.R.L., Milan, Italy (wholly owned by NFON AG)
- NFON France SAS, Paris, France (wholly owned by NFON AG)
- Deutsche Telefon Standard GmbH, Mainz (DTS) (wholly owned by NFON AG)
- NFON Developments Unipessoal LDA, Lisbon, Portugal (wholly owned by NFON AG).

NFON Developments Unipessoal LDA, Lisbon, Portugal, was founded in the reporting year with share capital of EUR 50 thousand.

Purchase price allocation for Onwerk GmbH, Mannheim

As at 20 December 2019, the Group agreed with Onwerk GmbH, Mannheim (Onwerk), that various assets and contractual relationships and in particular the existing employment contracts (including the employment contracts of the two managing partners) would be transferred from Onwerk to NFON for a cash purchase price of EUR 150 thousand. The transfer date was 01 April 2020.

The purchase price depended on the number of employees transferred to NFON as at 01 April 2020 (i.e. with an employment contract in place between the employee in question and NFON AG on 01 April 2020). As all employees were transferred, the maximum possible purchase price was to be paid.

Onwerk develops comprehensive individual software solutions in various fields and sectors. This development is significantly influenced by the employees and the two managing partners of Onwerk. The main reason for the acquisition was to increase the workforce in NFON's development department.

As the assets and contractual relationships (e.g. the rental agreement for office space) acquired were of relatively insignificant value, the entire purchase price was allocated to goodwill. This goodwill to be recognised is based on the future revenue potential to be generated with the products and features developed with the help of the employees acquired. The goodwill is recognised in full for tax purposes.

E. Inventories

Inventories are stated at the lower of cost and net realisable value and are written down, if necessary. Cost is determined on the basis of actual acquisition cost and, where applicable, direct labour cost that has been incurred in bringing the inventory to its present location and condition. Net realisable value is the estimated selling price less estimated costs of completion and estimated costs necessary to make the sale. If net realisable values are below inventory costs, a provision corresponding to this difference is recognised.

If the circumstances that previously caused inventories to be written down to an amount below cost no longer exist, the amount of the write-down is reversed, so that the new carrying amount is the lower of cost and revised net realisable value.

The Group's inventory mainly consists of a minimal stock of hardware, e.g. telephones that are sold to customers or temporarily used by customers for testing purposes.

F. Trade and other receivables

Credit is extended to customers based on the evaluation of the customer's financial condition. Trade and other receivables consist of amounts billed and currently due from customers and other debtors to the Group. Trade and other receivables are recognised initially at amortised costs plus transaction costs that are directly attributable to the acquisition or issue. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses. The approach for measuring impairment losses is described in Note 8 (Trade receivables).

G. Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses. The present value of expected costs for disposing of assets after use is included in the cost of the corresponding asset if the recognition criteria for a provision are satisfied. Cost includes expenditure that is directly attributable to the acquisition of an asset.

Subsequent costs increase the carrying amount of the original asset or are capitalised as a separate asset only when it is probable that an economic benefit will flow to the Group in connection with the assets and that this benefit can be reliably measured. All other repair and maintenance costs are recognised directly in profit and loss as expenses in the period they are incurred.

Depreciation of property, plant and equipment is recognised on a straight-line basis over the estimated useful life. For operating and office equipment the useful life is three to 15 years.

Leasehold improvements are depreciated over the shorter of their estimated useful lives or the lease term.

The assets' carrying amounts, depreciation methods and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

On disposal of items of property, plant and equipment, the cost and related accumulated depreciation and impairments are removed from the consolidated statement of financial position and the net amount, less any proceeds, is taken to the consolidated statement of profit or loss.

The recoverability of property, plant and equipment for impairment is examined as soon as events or changes in circumstances indicate that the carrying amount of an asset may no longer be recoverable. If necessary, the asset's recoverable amount is estimated.

H. Intangible assets

Intangible assets are recognised at cost less any accumulated depreciation and any accumulated impairment losses. Subsequent expenditure is capitalised only for existing other intangible assets if it increases the future economic benefit embodied in the asset to which it relates. Cost of development activities are capitalised when the recognition criteria in IAS 38 are met. All other expenditure on internally generated products or assets (e.g. research costs) is recognised in the consolidated statement of profit and loss as incurred. Amortisation for intangible assets is recognised in the depreciation and amortisation in the consolidated statement of comprehensive income.

The useful lives of other intangible assets are determined individually. Intangible assets with finite useful lives are amortised systematically over the economic useful life and are assessed for impairment if events or circumstances indicate that their carrying amount may no longer be recoverable.

Intangible assets with an indefinite useful life are not amortised. Impairment losses are recognised if the carrying amount is higher than the recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. The useful life of an intangible asset with an indefinite useful life is examined at least once a year as to whether the assessment of an indefinite useful life is supported. If this is not the case, the change in the useful life assessment from indefinite to finite is made on a prospective basis. The assessment of the existence of impairment is taken either at the level of the individual asset or the cash-generating unit (CGU). For the periods presented, the Group did not capitalise any indefinite-lived intangible assets.

Other intangible assets that are not yet completed are also tested for impairment annually.

1. Goodwill

Goodwill acquired in the course of business combinations is assumed – due to the lack of time constraints on the generation of net cash flows for the Group – to have an indefinite useful life. In accordance with IAS 36, impairment tests are conducted at the level of the cash-generating units at least once per year (at the end of the year) and when there are indications of impairment. Once recognised, impairment losses are not reversed in subsequent periods.

2. Intangible assets from business combinations

Intangible assets from business combinations have a finite useful life. They are measured at fair value and amortised on a straight-line basis over their estimated useful life of 20 years. They are tested for impairment if there are indications that their net realisable value could have decreased.

3. Capitalised development projects

Development costs for newly developed software are capitalised as development projects if:

- a clear allocation of expenses is possible,
- both the technical feasibility and the marketing of the newly developed products are ensured,
- the development activities are sufficiently likely to result in future cash inflows,
- NFON intends and is able to complete and use the development project, and
- adequate technical, financial and other resources are available to complete the development and be able to use and sell the asset.

The capitalised development projects include all costs directly attributable to the development process. Financing costs are capitalised if the development project constitutes a qualifying asset as defined in IAS 23 and if the financing costs are not immaterial.

After initial recognition of development projects, the assets are measured at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis starting from the date when the newly developed product or feature reaches the "definition of done". This amortisation is recognised on the basis of an estimated useful life that is usually between three and seven years.

Development projects that are not yet completed are tested for impairment annually and when there are indications of impairment. Completed development projects that are subject to amortisation are tested for impairment when there are indications of impairment. Impairment losses are recognised if there are sufficient reasons to do so.

Research costs are not capitalised and are recognised as an expense in the income statement when they are incurred.

Research and development expenditure amounted to EUR 5,493 thousand in the reporting year (2019: EUR 4,410 thousand), of which EUR 3,911 thousand (2019: EUR 2,831 thousand) was capitalised as intangible assets.

I. Impairment testing

Financial assets are measured at fair value through profit or loss and tested for impairment at each reporting date in order to determine whether they are recoverable. An impairment loss is recognised when there is objective evidence that the asset's carrying amount exceeds the recoverable amount.

For intangible assets with an indefinite useful life, impairment tests are conducted at least once per year and when there are indications of impairment.

The carrying amounts of non-financial assets (other than inventories and deferred tax assets) are reviewed at each reporting date whether there is any indication of impairment. If there is any such indication, 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 and that is largely independent of the cash inflows of other assets or cash-generating units (CGUs). Goodwill arising from a business combination is allocated to CGUs or groups of CGUs that are expected to benefit from the synergies of the combination. The segments identified by management as the operating segments are also the CGUs for reviewing the indications of impairment.

The recoverable amount of an asset or CGU is the greater of its corresponding value in use and its fair value less costs to sell. In assessing the value in use, the estimated future cash flows are discounted to their present value using a discount rate before tax that reflects current market assessments of the value of money and the risks specific to the asset or CGU. An impairment loss is recognised if the carrying value of an asset or of a CGU exceeds its recoverable amount. Such impairment losses are recognised in profit or loss. Generally, the carrying amount of the goodwill allocated to the CGU is reduced first. If this figure is zero, then pro rata impairment is taken on the carrying amounts of the other assets of the CGU/the group of CGUs. If there is an indication of impairment of an asset within a CGU that contains goodwill, however, the said asset is tested for impairment first, before this test is performed for the CGU. Any impairment is then initially allocated to the asset in question. If any impairment remains, the (general) procedure described above is applied accordingly.

An impairment loss on goodwill is not reversed in subsequent years. With other assets, a write-down can be reversed only taking account of depreciation and amortisation to be made in the interim.

J. Government grants

Government grant are recognised when there is reasonable assurance that the grant will be received and the Group complies with the conditions attached. Grants related to costs are recognised as income over the period necessary to match them with the related costs which they are intended to compensate, on a systematic basis. Grants for an asset are recognised in the statement of financial position as a reduction of cost and reversed equally over the estimated useful life of the corresponding assets as depreciation.

K. Foreign currency translation

The financial statements of each entity are measured using the currency of the primary economic environment in which the entity operates (functional currency). The Group's consolidated financial statements are presented in EUR, which is the reporting currency.

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 translation differences are recognised in profit or loss.

The functional currency of the foreign subsidiary, NFON UK Ltd. is British pound sterling (GBP).

As at the reporting date, the assets and liabilities of this subsidiary are translated into the Group's reporting currency at the rate of exchange ruling at the end of the reporting period (spot exchange rate). The statement of comprehensive income is translated at the moving average exchange rate for the reporting period. The foreign currency translation differences are recognised in other comprehensive income and taken directly to a separate component of equity. On disposal of the foreign entity, the foreign currency translation differences recognised up to this point in equity are recognised in the statement of comprehensive income. The consolidated statement of cash flows is translated at the average exchange rate for the period, cash and cash equivalents to the exchange rate on the reporting date.

The following exchange rates have been used for the respective consolidated financial statements:

	Spot rates		Average rates	
	As at 31.12.2020	As at 31.12.2019	As at 31.12.2020	As at 31.12.2019
GBP	1,1123	1,1754	1,1252	1,1393

L. Segment reporting

Segment reporting takes place in a way which matches the internal reporting to the Group's chief operating decision maker.

M. Income taxes

Current tax and deferred tax are recognised in profit or loss except to the extent that it relates to a business combination, or items recognised through other comprehensive income or directly in equity.

Current tax assets and current tax liabilities for the current and prior periods are measured at the amount expected to be paid to or recovered from the taxation authorities, using the tax rates and tax laws in effect as at the end of the reporting period. Current tax also includes any tax arising from dividends.

Deferred tax is recognised using the liability method on the temporary differences between the recognition of an asset or a liability in the statement of financial position and the amount used for tax purposes as at the end of the reporting period. Deferred tax liabilities are recognised for all taxable temporary differences with the exception of

- deferred tax liabilities from the initial recognition of goodwill and from the initial recognition of an asset or a liability in a transaction that is not a business combination and at the time of the transaction, affects neither accounting profit nor taxable profit in the reporting period and the
- deferred tax liabilities from taxable temporary differences associated with investments in subsidiaries if the timing of the reversal of the temporary differences can be influenced and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax losses and unused tax credits to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences and the carry forward of unused tax losses and unused tax credits can be utilised, with the exception of

- deferred tax assets from deductible temporary differences resulting from the initial recognition of goodwill and from the initial recognition of an asset or a liability in a transaction that is not a business combination and at the time of the transaction, affects neither accounting profit nor taxable profit in the reporting period and
- deferred tax assets from deductible temporary differences associated with investments in subsidiaries if it is probable that the temporary differences will not reverse in the foreseeable future and no sufficient taxable income is available against which the temporary differences can be utilised.

The carrying amount of the deferred tax assets is examined at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit is available against which the deferred tax assets can be at least partially utilised. Unrecognised deferred tax assets are examined on each reporting date and recognised to the extent that it has become probable that future taxable income will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on the tax rates and tax laws in effect as at the end of the reporting period. Future changes to tax rates are recognised as at the end of the reporting period provided material substantive conditions in the context of legislative procedures have been fulfilled.

In accordance with IAS 12.74, deferred taxes are offset if the requirements for an offset exist.

IFRIC 23 clarifies the application of the recognition and measurement requirements of IAS 12 when there is uncertainty over the income tax treatment. For the purposes of recognition and measurement, estimates and assumptions need to be made, for example with regard to whether an assessment is to be made separately or together with other uncertainties, whether a likely or expected value is to be used for the uncertainty, and whether changes have occurred in comparison to the prior period. The detection risk when accounting for uncertain items in the statement of financial position is insignificant. Items are accounted for based on the assumption that the taxation authorities will examine the matter in question and have access to all relevant information. There is no significant impact on the consolidated financial statements of NFON AG.

N. Cash and cash equivalents

Cash comprises cash on hand and bank balances. All highly liquid investments with original maturities of three months or less from the date of acquisition are considered cash equivalents. Cash and cash equivalents are measured at amortised cost.

O. Provisions

A provision is recognised when there is a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and that obligation can be measured reliably. If the effect of the time value of money is material, provisions are discounted using a discount rate that reflects current market assessments and the risks specific to the obligation. The corresponding interest effect in recognised in the income statement in the finance result. Provisions are reviewed on a regular basis and adjusted to reflect management's best current estimates. As provisions are subject to certain discretion, the future settlement of the respective obligation may deviate from the amounts recognised in provisions. Significant estimates are involved in the determination of provisions related to legal and regulatory proceedings and governmental investigations.

For a discussion on provisions, refer to Note 10 – Provisions and Note 25 – Contingencies and commitments

P. Revenue

According to IFRS 15 Revenues from contracts with customers NFON recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The following five-step model is used:

- identify the contract(s) with a customer;
- identify the performance obligations in the contract;
- determine the transaction price;
- allocate the transaction price to the performance obligations in the contract;
- recognise revenue when (or as) the entity satisfies a performance obligation.

Customer contracts are mainly month-to-month contracts, i.e. they do not have a minimum contract duration and are prolonged month by month if not cancelled. However, there are also contracts which have a minimum contract duration, e.g. 12, 24 or 36 months. Customer contracts include (i) recurring services, and (ii) non-recurring services and products.

A performance obligation is the unit of account for revenue recognition under IFRS 15. At contract inception, NFON assesses the goods or services promised in the contract and identifies the follows as a performance obligation:

- a good or service (or a bundle of goods or services) that is distinct; or
- a series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer.

NFON performs such evaluation for all goods or services promised and activities explicitly stated in arrangements with the customer. For example, monthly telephone services and delivery of hardware are capable of being distinct, and distinct within a contract. Services such as activation fees or porting of existing numbers are not deemed separate performance obligations as it results in an extension of the NFON network and does not transfer a good or service to the customer. Further, the customer cannot choose not to purchase activation activities without significantly affecting the monthly telephone services.

Recurring revenue

Recurring revenue is generated when the customers pay for monthly telephone services per seat for usage of the NFON cloud technology. The amount of monthly license fee per customer depends on the type and number of available optional features and vertical solutions and the maximum number of devices that can be used per seat. The license fees deviate marginally in different countries. All tariffs across segments and regions offer customers the advantage that all platform, maintenance and feature upgrades are included in the monthly license fee and updates are available automatically for every user once released, without the need for additional on-site service. Customers may pay NFON for voice telephony usage (i.e. airtime) either on the basis of a flat rate for airtime or on a per minute-based charging model. Customer contracts may also include both, a monthly flat rate and monthly variable per-minute airtime services.

If monthly telephone services are provided to the customer, revenue is recognised on a monthly basis.

Non-recurring revenue

Non-recurring revenue is mainly generated when hardware and communication devices are sold to customers and when specific consulting/training services are provided to the customers.

Recurring and non-recurring revenue is measured based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties. The Group recognises revenue when it transfers the control over a product or service to a customer.

The Group combines two or more contracts when the contracts are entered at or near the same time with the same customer or related parties of the customer, contracts are entered with a single performance objective where the amount of consideration of one contract depends on the price or performance of the other contract and the goods or services promised in the contracts are single performance obligations. Total consideration in the contract is allocated to all its products and services based on the relative stand-alone selling prices of each performance obligation.

The Group recognises the revenue when the customer obtains control of the goods or services. Under sales of hardware, control is transferred in the form of delivery of the hardware, i.e. at this point in time. If non-recurring products and services are delivered or provided, the revenue is when the performance obligation is fulfilled.

Month-to-month contracts

For month-to-month contracts, revenue is recognised over time in the month when it is collected. Such contracts include an obligation with regards to monthly telephone services, and at times, an obligation with regards to hardware sales and other non-recurring services at the beginning of the contract.

Long-term contracts

For long-term contracts, i.e. contracts with minimum contract duration, at the beginning of a contract NFON determines whether goods and services are capable of being distinct and distinct within the context of the contract.

The hardware and the monthly telephone services are separable in NFON's contract, because they are not inputs to a single asset (i.e. a combined output) which indicates that NFON is not providing a significant integration service. Neither the hardware nor the monthly telephone services significantly modify or customise each other. In some cases, NFON subsidises the hardware sold for the customer.

Non-recurring services such as activation of the ports or porting of existing numbers result in the extension of NFON's network and the customer cannot choose to not purchase e.g. activation activities without significantly affecting the monthly telephone services (service not possible without activated port). Additionally, the customer cannot choose to contract with different parties for the activation activities on the one hand and the monthly telephone services on the other hand. Therefore, NFON concludes that non-recurring services such as activation or porting are not a separate performance obligation. The consideration received for services which do not qualify as a performance obligation is allocated to the performance obligations over the life of the contract.

Long-term contracts include fixed considerations (e.g. fixed monthly fees for airtime or the price for hardware) and variable considerations (e.g. fee per usage), but not a significant financing component. At the contract start date, after identifying the relevant performance obligations, NFON determines the estimate transaction price for the total initially committed fixed considerations. Variable future consideration for the fee per usage is not committed at inception, and hence, not included in the estimated transaction price. The total consideration is allocated based on their relative stand-alone selling prices to the non-recurring products and services on the one hand and the recurring, i.e. monthly service performance obligation on the other hand. At the level of the performance obligation, NFON determines if revenue is recognised over time or at a point in time.

Relative stand-alone selling prices are based on the Group's price list which is available to customers and potential customers.

Revenue relating to long-term contracts is recognised over time. Where NFON has fulfilled its performance obligation for a specific service or product within the customer contract, the Group recognises revenue. If the Group has not issued an invoice, then the entitlement to the consideration is recognised as other non-financial asset. There is a reclassification to trade receivables when the entitlement to the payment becomes unconditional. A contract liability is presented in the statement of financial position as other non-financial asset where a customer has paid an amount of consideration prior to the entity fulfilling its performance obligation by transferring the related good or service to the customer.

Incremental costs of obtaining a contract

NFON regularly enters into commission arrangements with different partners, dealers and other third parties. Commission fees which may be incurred by NFON at the start of the contract (i.e. one-time) and on a monthly basis are capitalised as costs of obtaining the contract when they are incremental and are expected to be recovered. These capitalised commissions are reversed in line with the revenue recognition for the relevant contract. If the expected amortisation period is one year or less, then the commission fee is expensed immediately when incurred.

Q. Share-based payments

As a form of remuneration and to help retain certain employees (including managers) at the Group, NFON issues employee share options (equity-settled share-based payments). These are reported and measured in accordance with IFRS 2. In the past, cash-settled share-based payment transactions were also agreed.

The fair value as at the grant date of equity-settled share-based payment arrangements granted to employees is recognised as a personnel cost, with a corresponding increase in equity, on a straight-line basis over the vesting period. This period ends on the day when it first becomes possible to exercise the options. The amount recognised as an expense is based on the agreed service and non-market performance conditions at the initial vesting date. Fair value is determined by an external expert using a suitable option pricing model. For share-based payments with non-vesting conditions, the grant date of fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

The dilutive effect of the outstanding share options is taken into account when calculating earnings per share.

The fair value of the amount payable to employees in respect of cash-settled share-based payments is recognised as an expense with a corresponding increase in liabilities over the period during which the employees become unconditionally entitled to payment. The liability is re-measured at each reporting date and at settlement date based on the fair value of the awards. Any changes in the liability are recognised in profit or loss.

R. Equity

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or share options are recognised in equity as deduction from issue proceeds minus taxes.

If a Group company acquires instruments of the Company, for example on the basis of a share buy-back plan or a share-based payment plan, the paid consideration, including any incremental directly attributable costs (less income taxes), is deducted from equity applicable to the owners of the Group as treasury shares until the shares are withdrawn or reissued. If such ordinary shares are subsequently reissued, each consideration received less directly attributable incremental transaction costs and the related income tax effect are included in the equity allocated to the owners of the Group.

S. Financial instruments

Die Bilanzierung von Finanzinstrumenten basiert auf den Regelungen des IFRS 9.

Recognition and initial measurement of financial assets

Trade receivables are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the Group becomes a party to the contractual provisions of the instrument. A trade receivable without a significant financing component is initially measured at the transaction price.

A regular way purchase – or sale – of financial assets is recognised and derecognised as at the trade date.

Cash and cash equivalents comprise cash on hand, cash balances and call deposits. These are recognised at fair value plus transaction costs that are directly attributable to the acquisition or issue.

Classification and subsequent measurement of financial assets

On initial recognition, a financial asset is classified as measured at amortised cost, fair value through other comprehensive income (debt instruments) or fair value through profit or loss (equity instruments).

Financial assets are not reclassified subsequent to their 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 the business model.

A financial asset is measured at amortised cost if it meets both the following conditions and is not designated at fair value through other comprehensive income:

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

All financial assets not classified and measured at amortised cost or FVOCI as described above are measured at FVTPL.

Business model assessment

The Group makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level.

Financial assets: Assessment whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers the contractual terms of the instrument.

Financial assets: Subsequent measurement and gains and losses

Financial assets at FVTPL	These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss.
Financial assets at amortised cost	These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.
Debt investments at FVOCI	These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.
Equity investments at FVOCI	These assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognised in OCI and are never reclassified to profit or loss.

Financial liabilities: Classification, subsequent measurement and gains and losses

Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

Derecognition

Financial assets

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows from a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset.

The Group enters into transactions whereby it transfers assets recognised in its statement of financial position, but retains either all or substantially all the risks and rewards of the transferred assets. In these cases, the transferred assets are not derecognised.

In some circumstances, the renegotiation or modification of the contractual cash flows of a financial asset can lead to the derecognition of the existing financial asset in accordance with IFRS 9. When the modification of a financial asset results in the derecognition of the existing financial asset and the subsequent recognition of the modified financial asset, the modified asset is considered a 'new' financial asset.

Financial liabilities

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire. The Group also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value.

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

Offsetting

Financial assets and financial liabilities 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 amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

Impairment of financial instruments

The Group recognises impairment losses for expected credit losses ("ECL") on financial assets measured at amortised cost through profit or loss. Impairment losses for trade receivables and contract assets are always measured at an amount equal to lifetime ECL.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information.

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 90 days past due.

The Group considers a financial asset to be in default when the counterparty files for bankruptcy. Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive).

Credit-impaired financial assets

At each reporting date, the Group assesses whether financial assets carried at amortised cost are 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 the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or being more than 90 days past due;
- the restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise;
- it is probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

Presentation of impairment losses for ECL in the statement of financial position

Impairment losses for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

Depreciation

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets written off during the reporting period may still be subject to enforcement activity.

Finance income and finance costs

The Group's finance income and finance costs include:

- interest income; and
- interest expense.

Interest income or expense is recognised using the effective interest method. Dividend income is recognised in profit or loss as at the date on which the Group's right to receive payment is established.

The 'effective interest rate' is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

- the gross carrying amount of the financial asset; or
- the amortised cost of the financial liability.

In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortised cost of the liability. However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

T. Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an arm's length transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability or, in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of a liability reflects its non-performance risk.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The best evidence of the fair value of a financial instrument on initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the Group determines that the fair value on initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique for which any unobservable inputs are judged to be insignificant in relation to the measurement, the financial instrument is initially measured at the fair value, adjusted to defer the difference between the fair value on initial recognition and the transaction price. This difference is then recognised in profit or loss over the term of the instrument.

The Group uses measurement techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1: Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2: Measurement techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3: Measurement techniques for which the lowest level input that is significant to the fair value measurement is unobservable

U. Earnings per share

Basic earnings per share

Basic earnings per share are calculated by dividing the profit attributable to the owners of the Company, excluding costs for servicing equity, excluding ordinary shares and the weighted average of the outstanding ordinary shares in the fiscal years, adjusted for bonus shares issued in the fiscal year and without consideration of treasury shares.

Diluted earnings per share

In diluted earnings per share, the value used to determine the undiluted earnings per share is adjusted for consideration of:

- the after-tax effect of interest and other finance costs related to the dilution of potential ordinary shares; and
- the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

V. Leases

At the 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 the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract contains the right to control an identified asset, the Group uses the definition of a lease in accordance with IFRS 16.

At the commencement date, the Group recognises a right-of-use asset and a lease liability. The right of use is initially measured at cost, which corresponds to the initial measurement of the lease liability, adjusted for payments made on or before the commencement date, plus any initial direct costs and the estimated costs to dismantle or remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right of use is then amortised on a straight-line basis from the commencement date until the end of the lease term, unless ownership of the underlying asset is transferred to the Group at the end of the lease term or the cost of the right of use reflects that the Group will exercise a purchase option. In this case, the right of use is amortised over the useful life of the underlying asset, which is determined according to the provisions for property, plant and equipment. In addition, the right of use is continuously adjusted for impairment, where necessary, and to reflect certain remeasurements of the lease liability.

The lease liability is initially recognised at the present value of the lease payments not yet paid at the commencement date, discounted at the interest rate implicit in the lease or, if this cannot be readily determined, at the Group's incremental borrowing rate. The Group normally uses its incremental borrowing rate as the discount rate.

To determine its incremental borrowing rate, the Group obtains interest rates from various external financial sources and makes certain adjustments to take account of the lease conditions and the type of asset.

The lease payments included in the measurement of the lease liability comprise:

- fixed payments, including de facto fixed payments
- variable lease payments that are linked to an index or (interest) rate, initially measured using the index or (interest) rate applicable at the commencement date
- amounts that are expected to be payable on the basis of a residual value guarantee
- the exercise price of a purchase option if the Group is reasonably certain that it will exercise this option, lease payments for an extension option if the Group is reasonably certain that it will exercise this option, and penalty payments for early termination of the lease unless the Group is reasonably certain that it will not terminate the lease early.

The lease liability is measured at its amortised carry amount using the effective interest method. It is remeasured if the future lease payments change as a result of an index or (interest) rate change, if the Group adjusts its estimate for the expected payments under a residual value guarantee, if the Group changes its assessment regarding the exercise of a purchase, extension or termination option, or if a de-facto fixed lease payment changes.

In the event of such a remeasurement of the lease liability, the carrying amount of the right of use is adjusted accordingly and this adjustment is recognised through profit or loss if the carrying amount of the right of use has fallen to zero.

The Group has decided not to recognise rights of use or lease liabilities for leases based on low-value assets or for short-term leases, including IT equipment. The Group recognises the lease payments in connection with these leases as an expense on a straight-line basis over the term of the lease.

3. Summary of estimates, judgements and assumptions

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions, that affect the application of accounting policies and the reported amounts of assets, liabilities, and disclosures of contingent assets and liabilities at the date of these financial statements and the recognised revenues and expenses for the periods presented. Estimates and underlying assumptions are reviewed at end of each reporting period. Revisions to accounting estimates are recognised in the reporting period in which the estimate is revised and future reporting periods, if relevant.

Below is a presentation on information about assumptions and estimation uncertainties that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial reporting period.

A. Revenue

In line with the requirements of IFRS 15, revenues and other operating income are recognised when service is provided or goods are delivered. For long-term contracts, management estimates the total transaction price per contract based on the fixed price components which are contracted and known at the start date of the contract. If contracts will be modified or terminated earlier such estimates may change. Variable components are not taken into account at inception of long-term contracts as they cannot be reliably estimated and depend on customer's usage. For further details on revenue recognition refer to Note 18 – Revenue.

B. Share-based payment (IFRS 2)

The costs of granting equity instruments and share appreciation rights to employees are measured in the Group at the fair value of these equity instruments and share appreciation rights at the grant date or at the end of the reporting period. To estimate the fair value, a suitable measurement technique is specified for the granting of equity instruments and share appreciation rights; this depends on the grant conditions. In addition, the expected option term, volatility, fluctuation and dividend yield must be defined, among other assumptions. In 2020 the assessment regarding the fluctuation of members of the Executive Board changed. With regard to the related personnel expenses, please refer to Note 20 – Share-based payments.

C. Defining cash-generating units and determining the recoverable amount when testing goodwill and non-current assets for impairment

Please refer to Note 2.I. and J. – Significant accounting policies – intangible assets and impairment testing. The planned revenue and the discount rate used in the impairment tests involve estimates to a large extent.

D. Development costs

Development costs are capitalised in line with the accounting policy described in Note 2.I.3. – Significant accounting policies – intangible assets – capitalised development projects. The first-time capitalisation of the costs is based on the management's assessment that technical and commercial feasibility is demonstrated; this is generally the case when a development project has reached a certain milestone in the existing project management model. For the purposes of determining the amounts to be capitalised, the management makes assumptions regarding the future economic success of the products and features resulting from the development projects. The corresponding carrying amounts are shown under Note 6 – Intangible assets.

E. Current and deferred taxes

For current taxes there is a risk that changes in tax legislation, administrative practice or case law could have adverse tax consequences for the Company.

In addition, the Group has tax losses carried forward of various legal entities in different tax jurisdictions which could result in lower tax payments in future years. Deferred tax assets have been recognised to the extent that their recovery is probable, taking into account the projected future taxable income of the related entity. In the reporting year, deferred tax assets were recognised for the first time on the tax loss carryforwards at DTS and NFON UK in the amount of EUR 675 thousand and EUR 330 thousand respectively, as it is assumed for the first time as of 31 December 2020 that these two companies will have corresponding tax loss carryforwards that can be offset against taxable income in the coming years. Please refer to the accounting policies on income taxes and the income tax disclosures in Note 12 – Income taxes.

F. Compound financial instruments

In the previous year, the Group issued a euro-denominated warrant bond (repayment at the start of the reporting year) that granted the holder the right to purchase equity interests in the Company at the fixed option price. This was and is accounted for in line with the provisions on compound financial instruments.

On initial recognition, the debt component of the compound financial instrument was recognised at the fair value of a similar liability that does not contain an option. The equity component was recognised on initial recognition as the difference between the fair value of the compound financial instrument and the fair value of the debt component. Directly attributable transaction costs were allocated in the ratio of the carrying amounts of the debt and equity components of the financial instrument at the date of initial recognition.

The debt component of the compound financial instrument was subsequently measured at amortised cost using the effective interest method. The equity component of the compound financial instrument continued to be carried at the figure recorded on initial recognition.

Interest in connection with the financial liability was recognised in profit or loss. If the option was exercised within the defined exercise window, the option price received was recognised in equity (allocation to share capital and capital reserves).

G. Provisions

With regard to recognition and measurement, there are uncertainties regarding the outcome of legal disputes and the extent, date and probability of utilisation of the respective provision. For details refer to Note 10 – Provisions.

H. Expected credit loss of financial assets

We apply assumptions and estimates in determining the expected credit loss of financial assets. For details refer to Note 21 – Financial instruments – (Impairment of financial instruments).

I. Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for the following items, which are measured on an alternative basis on each reporting date.

Items:	Measurement bases:
Non-derivative financial instruments at FVTPL	Fair value
Available-for-sale financial assets	Fair value
For contingent liabilities assumed in a business combination	Fair value
Liabilities for cash-settled shared-based payment arrangements	Fair value

4. Property, plant and equipment

The major categories of property, plant and equipment ("PP&E") and movement in the carrying value of each category is as follows:

A. Reconciliation of gross carrying amount

in EUR thousand	01.01.2020	Changes in basis of con-solidation	Additions	Reclassifi-cations	Disposals	31.12.2020
Cost						
Leasehold improvements	215	0	125	0	0	339
Furniture, fixtures and other equipment	5,942	0	1,432	0	60	7,313
Total cost 2020	**6,157**	**0**	**1,557**	**0**	**60**	**7,653**

in EUR thousand	01.01.2019	Changes in basis of con-solidation	Additions	Reclassifi-cations	Disposals	31.12.2019
Cost						
Leasehold improvements	44	0	166	5	0	215
Furniture, fixtures and other equipment	3,810	463	1,757	–5	83	5,942
Total cost 2019	**3,854**	**463**	**1,923**	**0**	**83**	**6,157**

B. Reconciliation of accumulated amortisation and carrying amount

in EUR thousand	01.01.2020	Depreciation and amortisation	Disposals	31.12.2020
Depreciation and amortisation				
Leasehold improvements	20	60	0	80
Furniture, fixtures and other equipment	3,273	951	0	4,224
Total depreciation 2020	**3,293**	**1,010**	**0**	**4,304**

in EUR thousand	01.01.2020	Depreciation and amortisation	Disposals	31.12.2020
Depreciation and amortisation				
Leasehold improvements	1	19	0	20
Furniture, fixtures and other equipment	2,501	826	54	3,273
Total depreciation 2020	**2,502**	**845**	**54**	**3,293**

Carrying amounts

in EUR thousand	31.12.2020	31.12.2019
Carrying amount		
Leasehold improvements	260	195
Furniture, fixtures and other equipment	3,089	2,669
Total carrying amount	**3,349**	**2,864**

The Company did not recognise any impairment charges on property, plant and equipment for the years ended 31 December 2020 and 2019. The impact of foreign currency exchange rate changes is immaterial.

5. Rights of use from leases

A. Reconciliation of gross carrying amount

Rights of use from leases changed as follows:

in EUR thousand	01.01.2020	Changes in basis of consolidation	Additions	Disposals	31.12.2020
Gross carrying amount					
Rights of use from leases for buildings	5,405	0	2,697	–2	8,104
Rights of use from leases for vehicles	727	0	376	–2	1,105
Total rights of use from leases in 2020	**6,132**	**0**	**3,073**	**–4**	**9,209**

in EUR thousand	01.01.2019	Changes in basis of consolidation	Additions	Disposals	31.12.2019
Gross carrying amount					
Rights of use from leases for buildings	4,338	516	551	0	5,405
Rights of use from leases for vehicles	297	107	323	0	727
Total rights of use from leases in 2019	**4,635**	**623**	**874**	**0**	**6,132**

B. Reconciliation of accumulated amortisation and carrying amount

in EUR thousand	01.01.2020	Depreciation and amortisation	Disposals	31.12.2020
Depreciation and amortisation				
Rights of use from leases for buildings	1,147	1,364	0	2,511
Rights of use from leases for vehicles	241	323	0	564
Total depreciation 2020	**1,388**	**1,687**	**0**	**3,075**

in EUR thousand	01.01.2019	Depreciation and amortisation	Disposals	31.12.2019
Depreciation and amortisation				
Rights of use from leases for buildings	0	1,147	0	1,147
Rights of use from leases for vehicles	0	241	0	241
Total depreciation 2019	**0**	**1,388**	**0**	**1,388**

Carrying amount

in EUR thousand	31.12.2020	31.12.2019
Carrying amount		
Rights of use from leases for buildings	5,592	4,258
Rights of use from leases for vehicles	541	486
Total carrying amount	**6,133**	**4,744**

6. Intangible assets

A. Reconciliation of gross carrying amount

Movements in intangible assets are as follows:

in EUR thousand	01.01.2020	Changes in basis of consolidation	Additions	Reclassifications	Disposals	31.12.2020
Gross carrying amount						
Software	2,213	0	702	29	1	2,943
Internally developed software (under construction)	132	0	1,242	0	0	1,373
Capitalised R&D costs	578	0	0	5,259	1	5,836
Capitalised R&D costs in development	3,046	0	3,911	–5,259	0	1,698
Customer base	5,013	0	0	0	0	5,013
Goodwill	12,384	0	150	0	0	12,534
Other intangible assets	24	0	90	–29	0	85
Total intangible assets in 2020	**23,390**	**0**	**6,095**	**0**	**2**	**29,483**

in EUR thousand	01.01.2019	Changes in basis of consolidation	Additions	Reclassifications	Disposals	31.12.2019
Gross carrying amount						
Software	391	1,226	572	23	0	2,213
Internally developed software (under construction)	0	0	132	0	0	132
Capitalised R&D costs	0	434	0	144	0	578
Capitalised R&D costs in development	0	359	2,831	–144	0	3,046
Customer base	0	5,013	0	0	0	5,013
Goodwill	0	12,384	0	0	0	12,384
Other intangible assets	23	0	24	–23	0	24
Total intangible assets in 2019	**414**	**19,416**	**3,560**	**0**	**0**	**23,390**

B. Reconciliation of accumulated amortisation and carrying amount

Accumulated amortisation and depreciation are as follows:

in EUR thousand	01.01.2020	Depreciation and amortisation	Disposals	31.12.2020
Amortisation				
Software	677	814	0	1,491
Internally developed software (under construction)	0	0	0	0
Capitalised R&D costs	57	385		442
Capitalised R&D costs in development	0	0		0
Customer base	209	250		459
Goodwill	0	0		0
Other intangible assets	8	2	0	10
Total amortisation on intangible assets 2020	**951**	**1,452**	**0**	**2,403**

in EUR thousand	01.01.2019	Depreciation and amortisation	Disposals	31.12.2019
Amortisation				
Software	175	501	0	677
Internally developed software (under construction)	0	0	0	0
Capitalised R&D costs	0	57		57
Capitalised R&D costs in development	0	0		0
Customer base	0	209		209
Goodwill	0	0		0
Other intangible assets	7	2	0	8
Total amortisation on intangible assets 2019	**181**	**770**	**0**	**951**

Carrying amounts:

in EUR thousand	31.12.2020	31.12.2019
Carrying amount		
Software	1,450	1,536
Internally developed software (under construction)	1,373	132
Capitalised R&D costs	5,392	521
Capitalised R&D costs in development	1,700	3,046
Customer base	4,553	4,804
Goodwill	12,534	12,384
Other intangible assets	77	16
Total carrying amount	**27,079**	**22,438**

The impact of foreign currency exchange rate changes is immaterial.

C. Acquired goodwill

Derivative goodwill of EUR 12.5 million was recognised as at 31 December 2020 (31 December 2019: EUR 12.4 million), for which an annual impairment test must be conducted. No impairment losses were recognised in fiscal year 2020 or in the previous year.

A legally independent entity is generally regarded as a cash-generating unit if it is able to generate revenue largely independently of other Group companies on the basis of its own product portfolio, customer base and sales channels. To conduct the impairment test, goodwill is allocated to the cash-generating unit that contains the Group company whose acquisition gave rise to the goodwill.

Of the goodwill recognised as at 31 December 2020, EUR 12.4 million resulted from the previous year's acquisition of Deutsche Telefon Standard GmbH, Mainz (DTS), and EUR 150 thousand from the reporting year's acquisition of assets, contractual relationships and the existing employment contracts of Onwerk GmbH, Mannheim (Onwerk). All of the goodwill recognised as at 31 December 2019 related to DTS.

The recoverable amount is calculated based on the value in use of the cash-generating unit. The cash flows used are the expected cash flows for the next three years based on the approved budget. This is followed by a seven-year convergence phase in which a reduction of the revenue growth planned and approved for 2023 of 1.5% per year has been applied. The perpetual annuity takes account of growth in revenues in the amount of the basic interest rate of –0.2% (previous year: 0.2%). A slightly declining EBITDA margin is expected for the assessment period. The discount rate used reflects the specific risks of the subjects of the valuation. It is calculated in line with the capital asset pricing model (CAPM), under which the equity costs are composed of the risk-free interest rate and a risk premium calculated as the difference between the average market return and the risk-free interest rate multiplied by the company-specific risk (beta factor). The beta factor is derived from a group of comparable companies. In 2020, a discount rate of 7.61% (7.81% for perpetual annuity) (previous year: 7.96% or 7.76% for perpetual annuity) was used.

Given that an impairment loss as at the reporting date is unlikely, sensitivities are not disclosed.

D. Acquired customer base

The recognised customer base of EUR 4,553 thousand (31 December 2019: EUR 4,804 thousand) results from the acquisition of DTS as at 01 March 2019. The customer base will be amortised over 20 years. Amortisation in the reporting year amounted to EUR 251 thousand (2019: EUR 209 thousand).

E. Capitalised development projects

The impairment testing method for development projects and internally developed software currently under development generally corresponds to the method described in the "Acquired goodwill" section. The cash flows are based on the planning for the next three years and a three-year convergence phase. The basic assumptions and estimation uncertainties are identical. The projects "under construction" are tested for impairment at least once a year.

7. Inventories

Inventories amounted to EUR 149 thousand as at 31 December 2020 (31 December 2019: EUR 208 thousand). Inventories mainly comprise hardware, e.g. telephone devices. Hardware on hand is usually minimal within the Group as hardware is shipped just-in-time by the suppliers whenever requested by NFON based on customer orders. No material reserves for obsolete inventory were required in the periods presented.

The cost of materials includes expenses of EUR 4,336 thousand (2019: EUR 5,008 thousand) for the procurement of hardware.

8. Trade receivables and other financial assets

	Fiscal year ended 31.12.	
in EUR thousand	2020	2019
Trade receivables due from related parties	0	0
Other trade receivables	9,973	7,557
Total	**9,973**	**7,558**

Expenses resulting from bad debt losses amounted to EUR 172 thousand in the reporting year (previous year: EUR 103 thousand).

Information about the Group's exposure to credit and market risks, impairment losses for trade and other receivables and movement in impairment is included in Note 21 – Finanzinstrumente.

Measurement of expected credit losses

The Group applies the simplified approach for providing for expected credit losses (ECLs) prescribed by IFRS 9. This approach requires to recognise the lifetime expected loss allowance for all trade receivables. The Group uses the impairment matrix to compute the credit allowances for trade receivables and contract assets.

Under this approach, the Group uses historical loss experience on its trade receivables and contract assets, and adjusts historical loss rates to reflect:

i. information about current conditions; and
ii. reasonable and supportable forecasts of future economic conditions

Other financial assets amounted to EUR 390 thousand as at 31 December 2020 (31 December 2019: EUR 390 thousand). The position contains restricted cash because of recourse rights of banks for direct debits from customers.

9. Other (non-financial) assets, other (non-financial) liabilities, income tax receivables and income tax liabilities

As at 31 December 2020 and 2019, other non-financial assets were as follows:

	Fiscal year ended 31.12.	
in EUR thousand	2020	2019
Other current assets		
Contract assets	165	220
Capitalised contract costs	18	108
Tax receivables	290	361
Other prepaid expenses	1,467	1,217
Other non-financial assets	350	258
Subtotal other current assets	**2,290**	**2,163**
Other non-current assets		
Prepayments	117	178
Others	166	112
Subtotal other non-current assets	**283**	**289**
Other assets	**2,573**	**2,454**

As at 31 December 2020 and 2019, other non-financial liabilities were as follows:

	Fiscal year ended 31.12.	
in EUR thousand	2020	2019
Other current (non-financial) liabilities		
Tax payables	1,068	688
Liabilities to employees	1,865	1,253
Other non-financial liabilities	1,666	1,509
Subtotal other current (non-financial) liabilities	**4,600**	**3,450**
Other non-current liabilities		
Others	186	172
Subtotal other non-current (non-financial) liabilities	**186**	**172**
Other (non-financial) liabilities	**4,785**	**3,622**

Other non-current liabilities contain contract liabilities in the amount of EUR 599 thousand (31 December 2019: EUR 290 thousand).

10. Provisions

in EUR thousand	Carrying amount as at 01.01.2020	Change in basis of consoli-dation	Additions	Utilisation	Reversal	Carrying amount as at 31.12.2020
Current provisions						
Personnel-related provisions	207	0	187	123	64	207
Other provisions	1,968	0	1,708	1,574	48	2,055
Total	**2,175**	**0**	**1,896**	**1,697**	**113**	**2,262**

in EUR thousand	Carrying amount as at 01.01.2019	Change in basis of consoli-dation	Additions	Utilisation	Reversal	Carrying amount as at 31.12.2020
Current provisions						
Personnel-related provisions	128	0	90	11	0	207
Other provisions	1,183	20	1,819	1,044	9	1,968
Total	**1,310**	**20**	**1,908**	**1,054**	**9**	**2,175**

Other provisions mainly comprise provisions for outstanding invoices and sales commission amounting to EUR 959 thousand (31 December 2019: EUR 901 thousand) and provisions for annual reports and annual financial statements amounting to EUR 355 thousand (31 December 2019: EUR 377 thousand).

As at 31 December 2020, personnel-related provisions primarily include EUR 97 thousand in obligations for share-based payments to a member of the Management Board, which decreased slightly year-on-year (31 December 2019: EUR 113 thousand).

The outflow of funds is expected in the following year for all provisions. All provisions are based on the best possible estimate of the amount at the balance sheet date.

11. Interest-bearing debt

The following loans and borrowings are reflected in short-current financial liabilities. For details refer to Note 21 – Financial instruments.

	Fiscal year ended 31.12.	
in EUR thousand	2020	2019
Current financial liabilities		
Acquisition loan	8,967	8,967
Lease liabilities	1,719	1,342
Warrant bond	0	5,000
Working capital loan	0	26
Others	4	115
Subtotal current financial liabilities	**10,690**	**15,451**
Non-current financial liabilities		
Lease liabilities	4,577	3,436
Subtotal non-current financial liabilities	**4,577**	**3,436**
Total financial liabilities	**15,267**	**18,886**

All loans are granted without collateral and subordination agreements.

Credit facility

With the following exceptions, the Group has no outstanding loans in reference to revolving credit facilities.

Since 08 January 2019, the Group has had an acquisition credit facility of EUR 10,000 thousand. The interest rate of 4% at the time of signing the agreement is variable and changes with changes in the monthly average of the 3-month EURIBOR. The commitment fee is 1%. As at the reporting date, this credit facility had been utilised in the amount of EUR 8,967 thousand. According to the loan agreement, NFON has to maintain a minimum liquidity of EUR 12,000 thousand.

Lease liabilities

EUR 1,442 thousand (31 December 2019: EUR 1,107 thousand) of the current lease liabilities relate to rented office space and EUR 277 thousand (31 December 2019: EUR 235 thousand) to leased vehicles. EUR 4,316 thousand (31 December 2019: EUR 3,184 thousand) of the non-current lease liabilities relate to rented office space and EUR 261 thousand (31 December 2019: EUR 252 thousand) to leased vehicles. Please refer to the information on leasing in Note 19 – Leases.

Warrant bond

On 01 July 2019, the Management Board resolved, with the approval of the Supervisory Board, to issue a warrant bond with a nominal amount of EUR 5,000 thousand ("bond") as part of a private placement to Active Ownership Fund SICAV-FIS SCS, Luxembourg. The bond bore interest at 6.00% p.a. for a term up to and including 02 January 2020. The bond was issued together with a warrant issued by NFON AG. The warrant entitled the holder to purchase 964,015 bearer shares from the conditional capital of NFON AG with a share in the share capital attributable to each share of EUR 1.00 per share. The exercise price per share was EUR 11.00. The shareholders' pre-emption rights were disapplied. The warrant bond was repaid in full at the beginning of the reporting year.

12. Income taxes

A. Amounts recognised in profit and loss

Current tax on the net profit or loss for the year is recognised as an expense in the consolidated statement of profit or loss with any changes in the provision for deferred tax.

A. Tax on profit for the year

	Fiscal year ended 31.12.	
in EUR thousand	2020	2019
Current tax expense (income) (federal and state)	135	39
Deferred tax expense (income)	–222	81
Income tax expense (income)	**–87**	**120**

Of the current tax expense in the reporting year, EUR 139 thousand relates to the current year and EUR –4 thousand to the previous year. The tax income in the previous year related exclusively to 2019. The deferred tax expense of the reporting year comprises income of EUR 1,127 thousand from the adjustment of deferred tax assets on tax losses carried forward and expenses of EUR 905 thousand from the adjustment of deferred taxes on temporary differences. The deferred tax expense was reduced in the reporting year by the first-time recognition of deferred tax assets on loss carryforwards in the amount of EUR 1,005 thousand.

B. Amounts recognised in OCI

In the reporting period (as well as in the prior-year period), there were no transactions that had an impact on deferred taxes in other comprehensive income.

C. Reconciliation of effective tax rate

In Germany, the calculation of current tax is based on a combined tax rate of 32.4% for the Group, consisting of a corporate tax rate of 15%, a solidarity surcharge thereon of 5.5% and an average trade tax rate of 16.5%.

in EUR thousand	2020	2019
Profit before tax from continuing operations	–2,324	–10,805
Tax using the Company's domestic tax rate of 32.4%	752	3,509
Tax effect on:		
Difference due to foreign tax rates	147	132
Non-deductible expenses	–193	–151
Adjustments for previous years	303	0
Losses for which no deferred tax assets are recognised	–2,023	–3,048
Adjustments for current taxes of previous years	4	0
Usage of tax losses carried forward for which no DTA was recognised in prior year	547	73
Change in realisability of deferred tax assets and tax credits	888	–719
Tax effect from permanent differences	–297	0
Others	–41	84
Current income taxes	**87**	**–120**
Current tax expense (income)	–135	–39
Deferred tax expense (income)	222	–81
Income tax expense (income)	**87**	**–120**

The reconciliation to deferred taxes is significantly impacted by the non-recognition of tax losses carried forward at NFON AG. The tax rates used locally by the Group companies range between 17% and 32.4%.

D. Movement in deferred tax balances

Deferred tax assets or liabilities are recorded for deferred taxes on the basis of all temporary differences in accordance with the balance sheet liability method. Temporary differences arise between the tax base of assets and liabilities and their carrying amounts which are offset over time.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date. Deferred tax assets are recognised to the extent that it is probable that future positive taxable income will be generated, against which the temporary differences and tax losses can be offset. Deferred tax assets are the amounts of income taxes recoverable in future periods in respect of deductible temporary differences and the carry forward of unused tax losses.

E. Deferred tax assets/liabilities

	Fiscal year ended 31.12.2020			
in EUR thousand	Deferred tax assets	Deferred tax liabilities	Changes in the current fiscal year	Thereof in profit or loss
Assets				
Non-current assets				
Property, plant and equipment	14	1,780	–344	–344
Intangible assets	0	4,150	–1,512	–1,512
Current assets				
Trade receivables	46	0	62	62
Other current assets	0	6	26	26
Equity				
Capital reserves	0	0	–105	–105
Liabilities				
Non-current liabilities	1,338	0	331	331
Current liabilities				
Trade payables	0	0	–36	–36
Current provisions	1	0	0	0
Current financial liabilities	464	0	95	95
Other current liabilities	66	0	–52	–52
Consolidation effects	0	5	–31	–31
Sub-total temporary differences	**1,929**	**5,941**	**–1,566**	**–1,566**
Tax losses carried forward	4,289	0	1,127	1,127
Sub-total temporary differences	**6,218**	**5,941**	**–439**	**–439**
Offset	–5,139	–5,139	0	0
Sub-total temporary differences after balancing	**1,079**	**802**	**–439**	**–439**
Impairment	0	0	665	665
Reversal of an impairment	0	0	–23	–23
Impairment prior year	0	0	19	19
Total temporary differences	**1,079**	**802**	**222**	**222**

in EUR thousand	Fiscal year ended 31.12.2019			
	Deferred tax assets	Deferred tax liabilities	Changes in the current fiscal year	Thereof in profit or loss
Assets				
Non-current assets				
Property, plant and equipment	14	1,437	–1,414	–1,414
Intangible assets	8	2,646	–2,645	–2,645
Other non-current assets	0	0	16	16
Current assets				
Inventories	0	0	1	1
Trade receivables	15	31	96	96
Other current assets	0	32	26	26
Equity				
Capital reserves	105	0	105	105
Liabilities				
Non-current liabilities	1,007	0	1,007	1,007
Non-current financial liabilities	0	0	14	14
Current liabilities				
Trade payables	36	0	34	34
Current provisions	2	0	66	66
Current financial liabilities	369	0	339	339
Other current liabilities	121	3	–105	–105
Consolidation effects	26	0	–8	–8
Sub-total temporary differences	**1,702**	**4,148**	**–2,465**	**–2,465**
Tax losses carried forward	3,162	0	3,022	3,022
Sub-total temporary differences	**4,864**	**4,148**	**557**	**557**
Offset	–4,071	–4,071	0	0
Sub-total temporary differences after balancing	**793**	**77**	**557**	**557**
Impairment	–665	0	–638	–638
Reversal of an impairment	23	0	–415	–415
Impairment prior year	–19	0	415	415
Total temporary differences	**132**	**77**	**–81**	**–81**

F. Tax losses carried forward

No deferred tax assets are reported for trade tax losses carried forward of EUR 53,059 thousand (2019: EUR 50,296 thousand) and for corporate income tax losses carried forward of EUR 54,921 thousand (2019: EUR 54,547 thousand). Of the trade tax losses carried forward, EUR 7,016 thousand relates to the reporting year and EUR 46,043 thousand to earlier periods. Of the corporation tax losses carried forward, EUR 9,011 thousand relates to the reporting year and EUR 45,909 thousand to earlier periods. The trade tax and corporation tax losses carried forward for which no deferred tax assets were recognised, are not subject to any restriction relating to utilisation.

G. Uncertainty over income tax treatments

The Group believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretations of tax law and prior experience. In particular, we point out that various tax audits (operating taxes, payroll taxes and social security contributions) are carried out at regular intervals.

Future taxation of any dividend distributions is currently made at a flat-rate withholding tax rate of 25.0% plus a solidarity surcharge thereon of 5.5%.

13. Equity

Capital increases and consolidated net profit

Equity decreased from EUR 47,146 thousand as at 31 December 2019 to EUR 45,840 thousand as at 31 December 2020. This resulted in particular from the consolidated net loss of EUR 2,636 thousand and the EUR 272 thousand decrease in the currency translation reserve. The employee share options of EUR 940 thousand had an offsetting effect.

Subscribed capital and ordinary shares

As at 31 December 2020, NFON AG had issued 15,055,569 (31 December 2019: 15,055,569) ordinary bearer shares with a notional interest in the share capital of EUR 1.00. Subscribed capital totalled EUR 15,056 thousand as at 31 December 2020 (31 December 2019: EUR 15,056 thousand).

Each ordinary share entitles the bearer to one vote at the Annual General Meeting and to receive a dividend in the event of a distribution. Ordinary shares are not subject to any restrictions.

All issued and outstanding shares are fully paid in as at 31 December 2020 and 2019.

Capital reserves

The capital reserves contain the premium from issued shares and the transaction costs reimbursed by the then shareholders in connection with the IPO. This offset the transaction costs in connection with the placement of new shares in the context of the IPO as well as deferred taxes recognised in connection with these costs in the reporting year. In addition, the capital reserves contain cumulated expenses for share-based payment transactions for specific members of the Management Board recognised as staff costs in earlier periods, expenses from the employee share option programme recognised as staff costs in the reporting period and in the previous year, and the equity component of the warrant bond issued in the previous year.

The development of the consolidated equity is shown in the statement of changes in equity.

Authorised capital

In accordance with the resolution of the Annual General Meeting on 12 December 2019, the Management Board is authorised, with the approval of the Supervisory Board, to increase the share capital of NFON AG on one or more occasions in one or more tranches by up to EUR 3,000,000 by issuing up to 3,000,000 bearer shares in exchange for cash or non-cash contributions until 11 December 2024 (Authorised Capital 2019). Shareholders have pre-emption rights. The Management Board is authorised, with the approval of the Supervisory Board, to decide whether to disapply shareholders' pre-emption rights, though these can only be disapplied in the following cases:

- to compensate fractional shares;
- if shares are issued against non-cash contributions to acquire companies, investments in companies, parts of companies or other assets, including rights and receivables, and the new shares for which the shareholders' pre-emptive right has been disapplied do not exceed 10% of the share capital as at 31 December 2019, at the time this authorisation becomes effective or at the time it is exercised;
- if the capital is increased in return for cash contributions, the issue price of the new shares is not significantly lower than the stock market price at the time the issue price is finalised, and the new shares for which shareholders' pre-emption rights have been disapplied do not exceed 10% of the share capital as at 31 December 2019, at the time this authorisation becomes effective or at the time it is exercised.

Authorised Capital has not changed since the end of the previous year's reporting period.

Contingent capital

The creation of contingent capital (Contingent Capital I) at the Annual General Meeting on 09 April 2018 in the form that the NFON AG share capital is contingently increased by up to EUR 3,856,060 as a result of the issue of up to 3,856,060 new no-par value bearer shares, serves to authorise the Management Board, with approval of the Supervisory Board, in the period to 08 April 2023 to issue bearer convertible bonds, warrant bonds, participation rights, participating bonds or combinations of these instruments with or without a restriction on duration up to a total amount of EUR 115,681,800 and to grant bearers and creditors of convertible or warrant bonds conversion or option rights to new shares of the Company with a pro rata amount in the share capital of up to EUR 3,856,060, the issue of which can take place on a non-cash basis.

Furthermore, on the basis of the authorisation of the Annual General Meeting on 09 April 2018 in order to secure the pre-emption rights from stock options (pre-emption rights as referred to by Section 192(2) no. 3 AktG) issued between 09 April 2018 and 08 April 2023, the share capital of NFON AG has been contingently increased by up to EUR 964,015 against the issue of up to 964,015 new bearer shares (Contingent Capital II).

Contingent Capital I amounted to EUR 2,892,045 as at 31 December 2020 (31 December 2019: EUR 2,892,045). As at 31 December 2020 (and 31 December 2019), Contingent Capital II was unchanged since the resolution of the Annual General Meeting on 09 April 2018.

Retained earnings

Retained earnings contains losses incurred in prior years and in 2020.

Currency translation reserve

Other comprehensive income serves to recognise differences from the translation of the financial statements of foreign Group companies into the Group currency.

Voting rights

In 2020, NFON AG published the following notifications on the Group's website in line with Section 33 (1), Section 38 (1) and Section 40 German Securities Trading Act:

Type of notification	Date of report	Date of change	Name of reporting party/shareholder	Threshold affected	Share of voting rights
Section 43 WpHG	06.01.2020	09.12.2019	Florian Schuhbauer and subsidiaries	Above 10%	11.43%
Section 33 WpHG	30.01.2020	27.01.2020	Universal-Investment-Gesellschaft mit beschränkter Haftung, Frankfurt, Germany	Below 5%	4.94%
Section 33 WpHG	17.09.2020	11.09.2020	Federal Republic of Germany represented by the Federal Ministry for Economic Affairs and Energy, Berlin, Germany	Below 3%	2.62%
Section 33 WpHG	19.10.2020	15.10.2020	MainFirst SICAV, Senningerberg, Luxembourg	Below 5%	4.78%
Sections 33, 34 WpHG	20.10.2020	16.10.2020	Florian Schuhbauer, Active Ownership Fund SICAV-FIS SCS,	Above 15%	17.51%
Sections 33, 34 WpHG	20.10.2020	16.10.2020	Klaus Röhrig; Active Ownership Fund SICAV-FIS SCS,	Above 15%	17.51%
Section 33 WpHG	21.10.2020	16.10.2020	Earlybird Verwaltungs GmbH, Munich, Germany	Below 10%	7.97%
Sections 33, 34 WpHG	01.12.2020	27.11.2020	Klaus Röhrig; Active Ownership Fund SICAV-FIS SCS; AOC Cloud S.à r.l.	Above 20%	25.48%
Sections 33, 34 WpHG	01.12.2020	27.11.2020	Florian Schuhbauer; Active Ownership Fund SICAV-FIS SCS; AOC Cloud S.à r.l.	Above 20%	25.48%
Section 33 WpHG	01.12.2020	27.11.2020	Earlybird Verwaltungs GmbH, Munich, Germany	Below 3%	0%
Section 33 WpHG	04.12.2020	03.12.2020	MainFirst SICAV, Senningerberg, Luxembourg	Below 3%	1.01%
Sections 33, 34 WpHG	08.12.2020	03.12.2020	Gerlin N.V., Maarsbergen, Netherlands	Above 5%	5.0%
Sections 33, 34 WpHG	08.12.2020	03.12.2020	Teslin Capital Management B.V., Maarsbergen, Netherlands	Above 5%	5.0%

Capital management

The Group aims to maintain and expand a strong capital base in order to preserve the trust of investors, creditors and the markets and ensure the sustainable development of the Group through organic and inorganic growth.

No dividend is distributed at present.

14. Earnings per share

Basic earnings per share are calculated by dividing the profit for the year after tax attributable to the ordinary shareholders of the parent company by the weighted average number of ordinary shares outstanding during the period.

Diluted earnings per share are calculated by recognising earnings after tax attributable to the ordinary shareholders of the parent company, the weighted average number of ordinary shares outstanding during the reporting period and the effects of any dilutive effects inherent in converting potential ordinary shares.

Earnings per share as shown in the table below reflect earnings from continuing operations.

in EUR thousand	2020	2019
Profit (loss) for the year attributable to the owners of the parent for basic earnings per share	–2,237	–10,924
Profit (loss) for the year attributable to the owners of the parent for basic earnings per share	–2,237	–10,924

Quantity	2020	2019
Weighted average number of ordinary shares for basic earnings per share	15,055,569	14,190,255
Weighted average number of ordinary shares for diluted earnings per share	15,162,315	14,190,255

	Fiscal year ended 31.12.	
EUR	2020	2019
Loss per share		
Basic earnings	–0.15	–0.77
Diluted earnings	–0.15	–0.77

15. Other operating income

in EUR thousand	2020	2019
Other operating income		
Non-cash employee-related benefits	302	277
Miscellaneous other income	657	359
Total other operating income	**958**	**635**

Non-cash employee-related benefits particularly include charges to employees for car usage. Further EUR 111 thousand (2019: EUR 102 thousand) of miscellaneous other income relates to income from subletting office space. EUR 200 thousand (2019: EUR 52 thousand) results from foreign currency gains.

16. Other operating expenses

in EUR thousand	2020	2019
Other operating expenses		
Sales commission	8,044	6,733
Marketing expenses	6,718	9,044
General administration	1,483	1,487
Consulting expenses	1,420	2,616
IT expenses	1,360	1,359
Rental costs	843	808
Travel expenses	659	1,297
Support costs	436	523
Selling costs	74	88
Other personnel costs	2,547	2,820
Total other operating expenses	**23,584**	**26,773**

The reduction in marketing expenses was mainly due to the restriction on advertising activities as a result of the general economic uncertainty stemming from the COVID-19 pandemic in the reporting period.

As sales commission represents a percentage share of revenues generated through distribution partners or dealers, the increase from EUR 6,733 thousand in fiscal year 2019 to EUR 8,044 thousand in fiscal year 2020 was driven mainly by the increase of total revenues and especially by the increased portion of revenues generated through partner channels.

The decrease in travel expenses in the reporting year as compared to the prior year is likewise directly related to the COVID-19 pandemic due to the significant reduction in travel.

In fiscal year 2020, consultancy expenses included legal costs of EUR 281 thousand and consultancy fees of EUR 1,139 thousand. In the previous year, they include expenses relating to the acquisition of DTS.

Other personnel costs mainly include costs for freelancers in R&D and expenses for recruitment, which were necessary to support our growth strategy.

17. Personnel costs and employees

Personnel costs comprised the following:

in EUR thousand	2020	2019
Wages and salaries	22,495	19,582
Social security contributions	4,464	3,780
Share-based payment plans[1]	940	638
Expenses for pensions and other benefits	228	135
Other personnel costs	369	112
Total	**28,495**	**24,248**
1 Thereof equity-settled	940	638

Expenses for pensions and other benefits mainly relate to the Company's payments to defined contribution plans (contributions to state plans) which are expensed as the related service is provided. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

Short-time working allowance was granted to a minor extent in the reporting period.

In 2020, the average number of employees was 392 and managers 14 (2019: 346 and 14).

18. Revenue

A. Nature of goods or services

The following is the description of principal activities, from which the Group generates its revenue:

The Group principally generates revenue from telephone services. Most of the contracts entered into by the Group pertain to telephone services with or without hardware sales and other services.

Products and services	Nature, timing of satisfaction of obligation
Recurring revenue	Recurring services are mainly compensated by monthly payments of a fixed license fee per seat plus an additional fixed or volume-based fee for voice telephony usage. **Month-to-month-contracts:** Telephone services are satisfied over time, i.e. in the month of service the customer has agreed to. Based on the services provided, NFON sends monthly invoices to its customers. For the majority of customers direct debit is used to collect monies due. If direct debit is agreed, cash is received with the direct debit run following the month the service was provided. Revenue is recognised when the respective performance obligations are fulfilled, i.e. in the month the telephone service is provided to the customer. **Long-term contracts:** Monthly telephone services are satisfied over time, i.e. over the term of the minimum contract duration (e.g. 24 months). Based on the services provided, NFON sends monthly invoices to the customers. For the majority of customers direct debit is used to collect monies due. If direct debit is agreed, cash is received with the direct debit run following the month the service was provided. Revenue is recognised over time when the respective performance obligations are fulfilled. The amount of revenue is based on the allocation of the transaction price to the performance obligations due to the relative stand-alone selling prices. The total transaction price estimated at inception of a contract is allocated to the performance obligations which are known from the beginning (e.g. monthly flat rate for airtime). Revenue for such performance obligations is recognised over the life of the contract on a straight-line basis which best reflects the revenue for each month of the contact. For services which vary over the contact term, revenue is recognised when the service is provided, e.g. in the month when airtime on a per-minute basis is used by the customer.

Products and services	Nature, timing of satisfaction of obligation
Non-recurring revenue	**Hardware:** Revenue is recognised at the point in time control transfers to the customer. **Activation of the port:** Activating the port results in an extension of Group's network and does not transfer goods or services to the customer. Hence activation of the port is not a separate performance obligation. **Porting of existing numbers/setup of new geographical phone numbers:** The customer cannot choose to not purchase this porting activity without significantly affecting the monthly telephone services. Hence, it is not considered a separate performance obligation. **Consulting services, training services** Revenue is recognised at the point in time when the training is performed, or over the time the consulting service is provided. However such training and services are minimal relative to other services and products. Based on the products or services provided, NFON sends monthly invoices to the customers. The customer pays through direct debit or wire transfer in the month following the month when the performance obligation is fulfilled. Revenue on hardware is recognised when the hardware is delivered and all risks and rewards of ownership are transferred to the customer. Revenue for non-recurring services is recognised when the services are provided, e.g. in the month the training is provided to the customer. Where a service is not considered a performance obligation, the consideration received is allocated to the performance obligations of the contract and recognised as revenue accordingly. For all non-recurring revenue, the respective cash is received in the middle of the month following to the respective transaction.

Customer contracts, which may comprise both recurring and non-recurring services and/or products, mainly do not have a minimum contract duration (month-to-month contracts). In relation to such contracts, management assumes that the contract term is at least one month, as the customer has the right to cancel on a monthly basis, and therefore the actual contract duration cannot be estimated reliably at inception of the contract.

For long-term contracts, i.e. contracts with minimum contract duration, at contract inception NFON determines the total consideration payable by the customer over the life of the contract, based on the fees which can be estimated reliably. Further, the Group determines the performance obligation of each service/product, calculates the relative stand-alone selling price for each performance obligation based on the list prices and allocates the relative stand-alone selling prices to the performance obligations over the life of the contract.

B. Disaggregation of revenue

In the following table, revenue is disaggregated by segments based on recurring and non-recurring products/services. As in the previous year, all revenues in the reporting year resulted from contracts with customers.

in EUR thousand	2020	2019
Product/service		
Recurring revenue		
NFON AG	34,968	29,900
Deutsche Telefon Standard GmbH	12,402	7,718
NFON UK Ltd.	6,386	5,811
nfon GmbH	5,097	4,319
NFON Iberia SL	353	301
NFON ITALIA S.R.L.	114	7
NFON France SAS	67	5
Total recurring revenue by segments	**59,387**	**48,060**
Reconciliation to non-recurring consolidated revenue	**0**	**–5**
Consolidated recurring revenue	**59,387**	**48,055**
Non-recurring revenue		
NFON AG	4,559	5,654
Deutsche Telefon Standard GmbH	1,505	1,022
nfon GmbH	1,253	1,496
NFON UK Ltd.	652	842
NFON ITALIA S.R.L.	122	9
NFON France SAS	101	5
NFON Iberia SL	22	33
Non-recurring revenue by segment	**8,214**	**9,063**
Reconciliation to non-recurring Group revenue	0	
Non-recurring Group revenue	**8,214**	**9,063**
Consolidated revenue	**67,602**	**57,117**

C. Contract balances

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

	Fiscal year ended 31.12.	
in EUR thousand	2020	2019
Receivables, which are included in trade receivables	9,973	7,558
Contract assets	165	220
Contract liabilities	599	290

The contract assets, which are presented under other assets in the statement of financial position, primarily relate to the Group's rights to the consideration for work completed but not yet billed in the reporting period. When invoices are made to the respective customers, the relevant amounts are reclassified in trade receivables. No impairment losses in connection with contract assets were recognised in the reporting periods shown.

The contract liabilities from long-term contracts, which are presented under other liabilities on the statement of financial position, primarily relate to the advance consideration received from customers for services at inception of the contract (e.g. activation fees, porting of numbers) which do not classify as a separate performance obligation and are recognised as part of the contractual performance obligations over time. In 2020 (as well in 2019) no revenue was recognised due to adjustments of performance obligations recognised in prior years.

Due to the rolling nature of the long-term contracts and due to materiality considerations, all contract assets and all contract liabilities are classified as current assets and liabilities respectively. NFON receives upfront payments (e.g. for activation of the port and for porting of existing numbers/ setup of new geographical numbers) which are not dedicated to separate performance obligations. Long-term contracts do not include a significant financing component.

	2020					2021
in EUR thousand	01.01.	Reversal	New in	Reversal new	31.12.	Reversal in
Contract assets	220	116	78	17	165	106
Contract liability	290	121	523	93	599	318

	2019					2020
in EUR thousand	01.01.	Reversal	New in	Reversal new	31.12.	Reversal in
Contract assets	210	78	106	18	220	122
Contract liability	18	9	368	87	290	120

D. Transaction price allocated to the remaining performance obligations

The following table includes revenue expected to be recognised in the future related to the performance obligations that are unsatisfied (or partially unsatisfied) at the reporting period. This mainly relates to future revenue from fixed price components under long-term contracts (i.e. bundles).

	Fiscal year ended 31.12.	Recognition		
in EUR thousand	2020	2021	2022	2023 and subsequent years
Unsatisfied allocated transaction price to performance obligations	4,088	1,964	1,710	414
Portion	100%	48%	42%	10%

The Group applies the practical expedient in paragraph C5(d) of IFRS 15 and does not disclose the amount of the transaction price allocated to the remaining performance obligations as at 31 December 2020.

E. Costs to obtain a contract

In the NFON Group, nearly all customer contracts can be terminated month-to-month. For these contracts, the NFON Group applies the practical expedient in IFRS 15 and recognises the incremental costs of obtaining a contract as an expense when incurred. Commissions under such contracts amounted to EUR 7,504 thousand in 2020 (2019: EUR 6,529 thousand) and are reflected in other operating expenses in the consolidated statement of profit or loss.

Management expects that commission fees paid to its partners for obtaining the whole contract can be invoiced to the customer over the contract duration.

With regards to long-term contracts, these costs are amortised on a straight-line basis over the non-cancellable contract term as this reflects the period over which NFON transfers products and services to the customers. Whenever the contract term is more than twelve months, the Group capitalises commission fees as contract costs. These amounted to EUR 18 thousand as at 31 December 2020 (31 December 2019: EUR 108 thousand).

19. Leases

The Group rents office space and vehicles. The term of the lease agreements is typically between three and five years. If these contracts are based on a short term, the Group does not recognise rights of use or lease liabilities. The associated expenses are recognised in the operating cash flow. With regard to the lease liabilities expensed as financial liabilities, the Group recognises the corresponding payments in the financing cash flow in the consolidated statement of cash flows. For some contracts, the Group has decided to agree a lease extension option to give it a range of operational options on a short-term basis. As of 31. December 2020 there was one lease agreement whose term does not begin until 2021. At the beginning of the lease, the right of use to be recognised will amount to EUR 259 thousand.

For further details, please refer to Note 5 – Rights of use from leases.

Lease liabilities

in EUR thousand	Non-current financial liabilities		Current financial liabilities		Total	
	2020	2019	2020	2019	2020	2019
Land and buildings	4,316	3,184	1,442	1,107	5,758	4,291
Vehicles	261	252	277	235	538	487
	4,577	**3,436**	**1,719**	**1,342**	**6,296**	**4,778**

Amounts recognised in the income statement

2019 – leases in accordance with IFRS 16	in EUR thousand	
	2020	2019
Interest expenses for lease liabilities (recognised in the finance result)	116	89
Income from subleasing rights of use, presented in other operating income	111	102
Expenses for short-term leases	177	221
Total cash outflows for leases	1,668	1,578

20. Share-based payments

A. Employee share option programme

In the previous year and the reporting year, NFON issued share options to the members of the Management Board of NFON AG (Group 1) and to managing directors of affiliated companies (Group 2) as well as to selected employees of NFON AG (Group 3) and of affiliated companies (Group 4) (share option plan 2018).

The group of beneficiaries is regulated individually in each case. Following the resolution by the Annual General Meeting on 09 April 2018, 31% of the share options – a total of 298,845 pre-emption rights – were issued to Group 1, 11% – a total of 106,042 pre-emption rights – to Group 2, 42% – a total of 404,886 pre-emption rights – to Group 3 and 16% – a total of 154,242 pre-emption rights – to Group 4. The exact group of beneficiaries and the scope of the respective offer are defined by the Management Board with the approval of the Supervisory Board or, if the Management Board is affected, by the Supervisory Board.

All pre-emption rights from the above programme have a vesting period of four years and an overall term of 10 years. Pre-emption rights from the share options can be exercised only in the case of a 20% increase in revenue reported in the consolidated financial statements for the fiscal year in which the options were issued relative to revenue as reported in the consolidated financial statements for the final fiscal year before allocation. For members of the Management Board, a cap in accordance with Section 4.2.3. of the German Corporate Governance Code is also stipulated.

The share options are not transferable. This does not affect the share options in the event of the death of the beneficiary. If the beneficiary leaves employment at the Company or at an affiliated company for age-related reasons without having been terminated, all rights from the options remain unaffected. Disability, incapacity and early retirement are considered equivalent to age-related departure. In the case of Management Board members, the expiry and non-renewal of their appointment is considered equivalent to age-related departure. If an employment contract between the beneficiary and the Company or a company of the NFON Group has ended as a result of termination by the beneficiary or ordinary termination by the Company, the beneficiary can exercise his/her options exercisable at the termination date immediately within 60 calendar days of the end of the employment contract; this period is extended by any days on which the options cannot be exercised due to the lock-up period. Any options that have not been exercised by then expire without replacement. Non-exercisable options expire without replacement at the termination date. In the event of a mutually agreed cancellation of the employment contract between the beneficiary and the Company or a company of the NFON Group, the Management Board can decide with the approval of the Supervisory Board – or, if Group 1 beneficiaries are concerned, the Supervisory Board can decide – whether and to what extent options shall remain in place; it can also be determined that options that are not yet exercisable at the termination date will remain in place. If a delisting event occurs, the beneficiary has the right, within the scope of legal provisions, to demand that the Company or its legal successor pay out the option value for each option.

In accordance with the option conditions, each pre-emption right from share options entitles the holder to subscribe to one no-par-value share in the Company. The option conditions also govern the term, the relevant exercise price (subscription price), vesting periods and lock-up periods.

The fair value of the options is calculated based on a binomial model. At the measurement date, the weighted average fair value of the options granted in the reporting year came to EUR 5.29 (previous year: EUR 4.09).

The following calculation parameters were used for the new options issued in 2020:

	2020	2019
Weighted average exercise price[1]	EUR 12.59	EUR 8.98
Weighted expected volatility	45.0%	39.9%
Term	10 Years	10 Years
Weighted risk-free interest rate	−0.52%	0.15%

1 Corresponds to the weighted average of the middle closing prices for the Company's shares in Xetra trading on the Frankfurt Stock Exchange on the last 10 trading days before the share options were issued

Volatility refers to fluctuation in the share price compared to the average price for the period. Expected volatility was calculated based on the past share price performance in each case (historical volatility).

An expected average staff turnover rate of 4% was taken into account.

The risk-free interest rate was calculated based on the interest on risk-free investments with a corresponding term.

When calculating the fair value of the options, it was assumed that no dividend would be distributed.

The development of the number of outstanding options is shown in the tables below:

	Number of options		Weighted average exercise price in EUR	
	2020	2019	2020	2019
Options granted	724,229	710,229	9.05	8.98
Thereof new in the reporting year	14,000	710,229	12.59	8.98
Options exercised	n/a	n/a	n/a	n/a
Options forfeited	16,000	5,000	9.05	8.78
Options expired	14,000	n/a	n/a	n/a
Outstanding options as at 31.12.	694,229	705,229	8.97	8.98
Thereof exercisable options	n/a	n/a	n/a	n/a

The average remaining contractual term of the options outstanding as at the balance sheet date is 9 years as at 31 December 2020 (31 December 2019: 10 years). The range of exercise prices of the options outstanding as at 31 December 2020 and 31 December 2019 is between EUR 8.78 and EUR 11.04.

Expenses recognised in the reporting year in connection with share-based payments amount to EUR 940 thousand (2019: EUR 638 thousand). Of this amount, EUR 285 thousand relates to expenses that were recognised directly in the expenses of the reporting period due to the retirement of two members of the Executive Board from the time the retirement became known. Thus, the expense to be recognised for the waiting period remaining after the balance sheet date until the first possible exercise of the options was brought forward to 31 December 2020.

B. Cash-settled share appreciation rights issued up to 31 December 2018

In the fiscal year ended 31 December 2018, the Group had the following cash-settled share-based payment arrangement:

On 22 February 2018, the Group established a share appreciation right (SAR) programme that entitles a key executive to a cash payment in the event that a sale of stake of more than 50% in NFON or an IPO ("exit") occurs before 30 September 2019. If the beneficiary remains employed until the exit, he receives a cash settlement. If the beneficiary ends the employment relationship prior to the exit or no exit occurs by 30 September 2019, the claim lapses. The cash payment is based on the sales proceeds/IPO proceeds calculated for 100% of the shares of NFON. The cash payment is limited to the lower of EUR 200,000 and 0.5% of the amount which actually flows to the selling shareholders on the occasion of the exit.

An IPO took place on 10 May 2018, and a share-based cash payment of EUR 113 thousand (0.5% of the amount which actually flowed to the selling shareholders on the occasion of the IPO) was recognised for the beneficiary under other provisions as at 31 December 2019. Compared to the previous year, an adjustment of EUR 16 thousand was made in the reporting year as a result of a specification. EUR 96 thousand will be paid out in April 2021.

The fair value was measured using a discounted cash flow model (to determine the fair value of the underlying shares). Based on the expected fair value of the underlying shares at the end of the first quarter of 2018, the amount was EUR 200 thousand as at 22 February 2018. As at the end of the reporting period, an amount to be recognised as a provision was EUR 97 thousand (0.5% of the amount which actually flowed to the selling shareholders on the occasion of the IPO including the exercised greenshoe).

21. Financial instruments

A. Accounting classifications and fair values

Fair value

The following table shows the carrying amounts and fair values of the 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.

31.12.2020	Amortised cost		Fair value			
in EUR thousand	Carrying amount	Total carrying amount	Stufe 1	Level 2	Level 3	Total
Financial assets not measured at fair value						
Trade receivables[1]	9,973	9,973	0	0	0	0
Other financial assets[1]	390	390	0	0	0	0
Cash and cash equivalents[1]	23,034	23,034	0	0	0	0
Total financial assets not measured at fair value	**33,398**	**33,398**	**0**	**0**	**0**	**0**
Financial liabilities not measured at fair value						
Acquisition loan	8,967	8,967				
Acquisition loan	0	0				
Working capital loan[1]	0	0	0	0	0	0
Trade payables[1]	4,931	4,931	0	0	0	0
Total financial liabilities not measured at fair value	**13,897**	**13,897**	**0**	**0**	**0**	**0**

1 No fair value disclosed as this is approximately the carrying amount.

31.12.2019	Amortised cost		Fair value			
in EUR thousand	Carrying amount	Total carrying amount	Level 1	Level 2	Level 3	Total
Financial assets not measured at fair value						
Trade receivables[1]	7,558	7,558	0	0	0	0
Other financial assets[1]	390	390	0	0	0	0
Cash and cash equivalents[1]	36,419	36,419	0	0	0	0
Total financial assets not measured at fair value	**44,367**	**44,367**	**0**	**0**	**0**	**0**
Financial liabilities not measured at fair value						
Acquisition loan	8,967	8,967				
Warrant bond	5,000	5,000				
Working capital loan[1]	26	26	0	0	0	0
Trade payables[1]	5,174	5,174	0	0	0	0
Total financial liabilities not measured at fair value	**19,167**	**19,167**	**0**	**0**	**0**	**0**

1 No fair value disclosed as this is approximately the carrying amount.

The Group did not recognise any significant net gains or net losses from financial assets or liabilities in its statement of comprehensive income. In the reporting year, calculated interest expense of EUR 0 thousand (2019: EUR 164 thousand) in connection with financial liabilities not measured at fair value through profit or loss was recognised in the finance result in line with the effective interest method.

Trade receivables

The carrying amount of trade receivables generally approximates to fair value due to their short maturities. All the trade and other receivables outstanding as at the end of the reporting period are considered as current receivables having short-term maturities.

Trade payables

The carrying amount of trade payables generally approximates to fair value due to their short maturities. All the trade and other payables outstanding as at the end of the reporting period are payable within 30 days from the reporting date as per the terms of payment applicable to the company.

Cash and cash equivalents

The fair value of cash and cash equivalents approximates its carrying amount where the cash is repayable on demand or short term in nature.

Reclassification of financial assets

Financial assets are not reclassified subsequent to their initial recognition unless the Group changes its business model to the management financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model. During the periods presented, the Group has not reclassified any financial assets.

Defaults

The Group did not have any defaults of principal or interest, or other breaches with respect to its loans and borrowings during the fiscal years 2020 and 2019.

B. Financial risk management

The Group has exposure to the following risks arising from financial instruments:

1. Credit risks
2. Liquidity risk
3. Market risks (interest risks and currency risks

Risk management framework

The Group's Management Board has overall responsibility for the establishment and oversight of the Group's risk management framework.

The Group's risk management policies are established to identify and to analyse the risks faced by the Group, to set appropriate risk limits and controls and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and Group's activities. The Group, through its training and management standards and procedures, aims to maintain a disciplined and constructive control environment in which all employees understand their roles and obligations.

General financial market risks

The Group is exposed to various financial market risks as part of its business activity.

If these financial risks occur, they may lead to negative impacts on the net assets, financial position and results of operations of the Group. The Group's Management Board has overall responsibility for the establishment and oversight of the Group's risk management framework. The Group's risk management policies are established to identify and to analyse the risks faced by the Group, to set appropriate risk limits and controls and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and Group's activities. The Group has developed guidelines for risk management processes and for the use of financial instruments including a clear separation of tasks with respect to financial activities, invoicing, financial reporting and associated controlling.

The Group actively monitors these risks using a risk management system.

1. Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers. The carrying amount of financial assets represents the maximum credit exposure.

The Group considers the management of the commercial credit risk to be critical in order to achieve its goals for sustainable growth of the business and the customer base in harmony with its risk management guidelines. Suitable processes have been established for management and monitoring of the credit risk. These include ongoing monitoring of the expected risks and the level of default. Particular attention is paid to customers who could have a significant effect on the consolidated financial statements and for whom, depending on the business area and the type of business relationship, appropriate credit management instruments are used to limit the credit risk.

Impairment losses on financial assets and contract assets recognised in profit or loss were as follows:

in EUR thousand	2020	2019
Impairment losses on trade and other receivables		
Impairment loss on trade and other receivables (including contract assets)	170	28
Impairment loss on cash and cash equivalents[1]	0	0
Impairment loss on cash and cash equivalents	**170**	**28**

1 Refer below to "Cash and Cash equivalents".

Trade and other receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the factors that may influence the credit risk of its customer base, including the default risk associated with the country in which customers operate.

As at 31 December, the maximum exposure to the credit risk for trade receivables by geographic regions was as follows:

	Fiscal year ended 31.12.	
in EUR thousand	2020	2019
Countries		
Germany	8,078	5,563
United Kingdom	1,149	1,233
Austria and rest of Europe	747	762
Total maximum credit risk exposure	**9,973**	**7,558**

The Group obtains a credit rating for new customers from a credit rating agency. If a customer has a lower rating, then at the initial stage the Group obtains a security deposit from such customer. The Group does not track the customer rating further, as the receivables are collected through direct debits. Only in the cases where the customers have negative bank balance or where the customer's bank details are insufficient or incorrect, there is a possibility of non-receipt of cash from trade receivables. A weekly tracking of non-payments is done by the Group. In case of non-payment, after eight weeks of the invoice date the Group discontinues the provision of its services to such customers.

There are no material contractual amounts outstanding in connection with receivables that were written off during the reporting period and are still subject to enforcement activity.

Expected credit loss assessment for customers as at 31 December 2020 and 2019
The Group applies the simplified approach for calculating the expected credit loss (ECL) allowance prescribed by IFRS 9. This approach requires to recognise the lifetime expected loss provision for all trade receivables. The Group uses an impairment matrix to compute the credit allowances for trade receivables, which comprise a large number of small balances. Under this approach, the Group uses historical loss experience on its trade receivables, and adjusts historical loss rates to reflect:

i. information about current conditions; and
ii. reasonable and supportable forecasts of future economic conditions

None of the trade receivables and contract assets are purchased or originated credit impaired.

Loss rates are calculated using a 'roll rate' method based on the probability of a receivable progressing through successive stages of delinquency to write-off. Roll rates are calculated for various geographical segments based on the ageing buckets of receivables.

NFON deems receivables more than 90 days past due to be credit impaired. Management considers the 90-day term to be appropriate. A minimum of 90 days is required to determine the customers' inability to pay, for example due to insolvency. Amounts are written off when the customer is declared as insolvent. If receivables from customers are more 90 days past due, an impairment loss is calculated based on the impairment matrix described above.

The following table provides information about the exposure to credit risk and ECLs for trade receivables and contract assets from individual customers as at 31 December 2020:

	Gross carrying amount in TEUR	Loss rate in %	Impairment in TEUR	Credit impaired
Germany				
Not past due	8,009	0.60	56	No
1 – 90 days past due	27	5.64	7	No
Greater than 90 days past due	137	13.55	28	Yes
Total trade receivables in Germany	**8,173**		**90**	
United Kingdom				
Not past due	795	0.10	3	No
1 – 90 days past due	501	0.23	1	No
Greater than 90 days past due	17	4.71	1	Yes
Total trade receivables in United Kingdom	**1,313**		**5**	
Austria and other countries				
Not past due	684	11.43	87	No
1 – 90 days past due	185	41.97	39	No
Greater than 90 days past due	56	100.00	38	Yes
Total trade receivables in Austria and other countries	**924**		**164**	
Grand total for receivables	**10,411**		**259**	
Thereof: Contract assets	165	0.10	0	No

The following table provides information about the exposure to credit risk and ECLs for trade receivables and contract assets from individual customers as at 31 December 2019:

	Gross carrying amount in TEUR	Loss rate in %	Impairment in TEUR	Credit impaired
Germany				
Not past due	5,378	2.04	58	No
1 – 90 days past due	6	20.85	3	No
Greater than 90 days past due	237	49.13	31	Yes
Total trade receivables in Germany	**5,621**		**92**	
United Kingdom				
Not past due	859	0.37	3	No
1 – 90 days past due	512	0.89	5	No
Greater than 90 days past due	61	18.22	11	Yes
Total trade receivables in United Kingdom	**1,432**		**19**	
Austria and other countries				
Not past due	646	0.87	4	No
1 – 90 days past due	83	3.12	2	No
Greater than 90 days past due	95	5.84	4	Yes
Total trade receivables in Austria and other countries	**824**		**10**	
Grand total for receivables	**7,876**		**121**	
Contract assets	220	0.37	0	No

The movement in impairment in respect of trade receivables during fiscal year 2020 was as follows

	Movement during	
in EUR thousand	2020	2019
Impairment loss		
Opening balance as at 01.01.	121	78
Impairment loss recognised	138	42
Amounts written off	0	120
Closing balance as at 31.12.	**259**	**121**

Concentrations of credit risk
Concentrations of risks are determined by the management based on amounts outstanding from individual customers as at period end. Due to the pan-European activities and diversified customer structure of the Group, there is no significant concentration of credit risk except with one customer – Telefónica Germany GmbH & Co. OHG. The receivable balance due from this customer as at 31 December 2020 is EUR 919 thousand (31 December 2019: EUR 720 thousand).

Cash and cash equivalents
As at 31 December 2020, the Group held cash and cash equivalents of EUR 23,034 thousand (31 December 2019: EUR 36,419 thousand). The cash and cash equivalents are held with bank and financial institution counterparties, which are rated A-1 to A-2, based on S&P Global's ratings.

Impairment on cash and cash equivalents has been measured on a 12-month expected loss basis and reflects the short-term maturities of the exposures. NFON considers that its cash and cash equivalents have low credit risk based on the external credit ratings of the counterparties.

2. Liquidity risk
Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when they are due, under both, normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group aims to maintain the level of cash and cash equivalents at an amount of excess of expected cash outflows on financial liabilities (other than trade payables). The Group also monitors the level of expected cash inflows on trade receivables together with expected cash outflows on trade and other payables. To avoid concentration of liquidity risks with cash inflows from normal sales, the Group additionally maintains an acquisition credit facility of EUR 10,000 thousand. The interest rate of 4% at the time of signing the agreement is variable and changes with changes in the monthly average of the 3-month EURIBOR. The commitment fee is 1%.

The following table presents the contractual undiscounted interest and payments for the Group's financial liabilities. The maturities are based on the contractually determined interest rates of the financial instruments. As all the financial liabilities listed below have repayment periods of one year or less (except for trade payables which are due after 30 days from the invoice date as per the payment terms applicable to the Company), contractual maturities are considered on yearly basis:

31.12.2020		Contractual maturities of financial liabilities			
in EUR thousand	Carrying amount	Contractual cash flows	1 year or less	1–5 years	5 years and above
Financial liabilities					
Acquisition loan	8,967	9,326	9,326	0	0
Trade payables	4,931	4,931	4,931	0	0
Lease liabilities	6,296	6,296	1,787	3,869	650
Other financial liabilities	4	4	4	0	0
Total financial liabilities	**20,198**	**20,557**	**16,039**	**3,869**	**650**

31.12.2019		Contractual maturities of financial liabilities			
in EUR thousand	Carrying amount	Contractual cash flows	1 year or less	1–5 years	5 years and above
Financial liabilities					
Working capital loan	26	35	35	0	0
Acquisition loan	8,967	9,326	9,326	0	0
Warrant bond	5,000	5,075	5,075	0	0
Trade payables	5,174	5,174	5,174	0	0
Lease liabilities	4,778	5,057	1,593	3,465	0
Other financial liabilities	115	115	115	0	0
Total financial liabilities	**24,060**	**24,782**	**21,318**	**3,465**	**0**

3. Market risk

Market risk is the risk that changes in market prices such as changes in exchange rates and interest rates will affect the value of financial instruments or the earnings of the Group. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Currency risk

The Group is exposed to currency risk to the extent that there is a mismatch between the currencies in which revenue, purchases and borrowings are denominated and the respective functional currencies of Group companies. The functional currencies of Group companies are primarily Euro and the British pound. The currencies in which these transactions are primarily denominated are Euro.

Exposure to currency risk

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

	Fiscal year ended 31.12.	
in EUR thousand	2020	2019
Receivables/liabilities	3,666	3,304
Bank balances	0	0
Net exposure	**3,666**	**3,304**

The following rates have been applied:

	Spot rates		Average rates	
	As at 31.12.2020	As at 31.12.2019	2020	2019
GBP	1.11231	1.17536	1.12529	1.13925

Sensitivity analysis

A 10% weakening/strengthening of the British pound would have increased/decreased equity and profit or loss by the amounts shown below. This calculation assumes that the change occurred at the reporting date and had been applied to risk exposures existing at that date.

This analysis assumes that all other variables other than currency exchange rate remain constant.

in EUR thousand	Profit or loss: Strengthening (10% decrease)	Profit or loss: Weakening (10% increase)	Equity net of tax: Strengthening (10% decrease)	Equity net of tax: Weakening (10% increase)
Sensitivity analysis for the net exposure				
31 December 2020	–367	367	371	–371
31 December 2019	–330	330	320	–320

The net currency exposure results from Euro payables of NFON UK where the functional currency is GBP.

Interest rate risk

Interest rate risk is the risk that the fair value of a financial instrument could fluctuate as a result of changes in market interest rates.

The Group's interest rate exposure relates to current loans, which are subject to the fixed and floating interest rate. The Group's objective is to minimise the cost of net borrowings and to minimise the impact of interest rate movements on the Group's interest expense and net earnings.

Exposure to interest rate risk

The interest rate exposure of the Group's variable interest-bearing financial instruments as reported to the management of the Group is as follows:

in EUR thousand	2020	2019
Financial liabilities		
Working capital loan	0	26
Acquisition loan	8,967	8,967
Total financial liabilities	**8,967**	**8,993**

Fair value sensitivity analysis for interest-bearing financial liabilities

With regard to the acquisition loan, a 1% change in the interest rate would have increased equity and the profit or loss in the reporting year by EUR 90 thousand (increase) or reduced them by EUR 90 thousand (decrease). The loan bears interest at an annual rate of 4% and changes if the monthly average of the 3-month EURIBOR changes. A change in the interest rate on the working capital loan would not have any significant effect on equity or the profit or loss in the reporting year.

The analysis assumes all the other variables except the interest rate remain constant (this analysis includes all the significant interest-bearing debts outstanding at the ends of the reporting periods).

All other financial liabilities have a fixed interest rate therefore no analysis is necessary.

22. Related party transactions

Parties are considered to be related if the parties are under common control or if one party has the ability to control the other party or can exercise significant influence or joint control over the other party through its financial and operating policy. In considering each possible related party relationship, attention is paid to the substance of the relationship and not just the legal form. In addition, a related party is any member of the Management Board and the Supervisory Board of NFON AG, including any of their immediate family members and any entity owned or controlled by such persons.

The table below shows transactions with related parties with the exception of the remuneration of members of the Management Board and the Supervisory Board. Unless stated otherwise, related parties are companies with significant influence over NFON AG.

	Transaction values	
in EUR thousand	2020	2019
Sales of goods and services and other income [1]	22	24

	Transaction values	
in EUR thousand	2020	2019
Purchases of goods and services and other expenses [2]	274	250

	Balance outstanding as at 31.12.	
in EUR thousand	2020	2019
Receivables	0	0

	Balance outstanding as at 31.12.	
in EUR thousand	2020	2019
Liabilities[3]	57	7

1 EUR 16 thousand (2019: EUR 19 thousand) of which relates to transactions with members of the Management Board and companies affiliated with them and EUR 6 thousand (2019: EUR 5 thousand) of which to transactions with members of the Supervisory Board and companies affiliated with them.
2 EUR 183 thousand (2019: EUR 176 thousand) of which relates to transactions with members of the Management Board and companies affiliated with them and EUR 91 thousand (2019: EUR 74 thousand) of which to transactions with members of the Supervisory Board and companies affiliated with them.
3 EUR 48 thousand (2019: EUR 0 thousand) of which relates to liabilities to members of the Management Board and companies affiliated with them and EUR 9 thousand (2019: EUR 7 thousand) of which to liabilities to members of the Supervisory Board and companies affiliated with them.

All transactions with these related parties are priced on an arm's length basis and must be settled in cash within two months of the end of the reporting period. None of the balances are secured. No material expense has been recognised in the current year or the previous year for bad or doubtful debts in respect of amounts owed by related parties.

Sales of goods and services and other income include cloud-based services provided to related parties on the same terms and conditions as for any other customer of the Group. Purchases of goods and services and other expenses mainly include the services provided by companies that are controlled by related parties.

Various members of the Management Board and Supervisory Board or related parties hold positions in other companies which result in them controlling these companies or exercising a material influence over these companies.

A number of these companies transacted with the Group during the fiscal year. The terms and conditions of these transactions were no more favourable than those available, or which might reasonably be expected to be available, in similar transactions with non-key management personnel related companies on an arm's length basis.

From time to time, members of the Management Board or Supervisory Board, or their related parties, may buy goods and services from the Group or sell goods and services to the Group. These purchases are on the same terms and conditions as those entered into by other suppliers.

A. Executive bodies and remuneration

1. The Management Board

The Management Board is made up of:

	Residence	Function and profession	External mandates
Dr Klaus von Rottkay (since 01 December 2020)	Munich	CEO, doctor of physics	n.a.
Jan-Peter Koopmann	Nackenheim	CTO, degree in computer science and business administration	n.a.
Hans Szymanski (until 30 November 2020)	Berlin	CEO & CFO, degree in business administration	n.a.
César Flores Rodríguez (until 30 November 2020)	Pullach im Isartal	CSO, degree in business administration	n.a.

Pursuant to Section 314 (1) no. 6 a sentences 1 to 3 HGB, the Management Board received remuneration of EUR 1,062 thousand in the reporting year (2019: EUR 1,858 thousand). In the previous year, this included the grant values for share-based payments of EUR 805 thousand (reporting year: EUR 0 thousand). A total of 199,229 share options were granted in the previous year. No share options were granted in the reporting year. The consolidated financial statements include EUR 260 thousand in severance for Management Board members.

On the basis of the resolution of the Annual General Meeting of 09 April 2018, no information is provided in accordance with Section 314 (1) No. 6 a) Sentences 5 to 8 HGB.

In accordance with IFRS regulations, the Management Board remuneration is as follows:

in EUR thousand	2020	2019
Management Board remuneration		
Short-term remuneration	1,122[1]	1,053
Total share-based remuneration (long-term incentive)	200	0
Total Management Board remuneration	467[2]	193
Summe Vergütung der Mitglieder der Geschäftsführung	**1,789**	**1,246**

1 Contains EUR 60 thousand in remuneration for members of the Management Board who departed in the reporting year for the period after the end of their services.
2 Contains EUR 16 thousand in income from the adjustment of a cash-settled share appreciation right issued in previous years (see Note 20.B). Expenses of EUR 285 thousand relate to the termination of the services of two Management Board members in the reporting year and the associated immediate recognition as expenses of the fair values of granted share options not yet recognised in equity as at the termination date. Of the total expense, EUR 35 thousand relates to the period after the termination of the services of two Management Board members.

The short-term remuneration for the members of the Management Board includes salaries, bonuses and severance payments.

2. Supervisory Board

The Supervisory Board of NFON AG had the following members as at 31 December 2020:

31.12.2019	Position	Profession	External Mandates
Supervisory Board			
Rainer Christian Koppitz	Chairman	Profession: CEO of Katek SE, Munich	n. a.
Dr Rupert Doehner	Deputy Chairman	Profession: Lawyer, Managing Director of RECON Rechtsanwaltsgesellschaft mbH, Munich	n. a.
Günter Müller		Profession: Executive Chairman of ASC Technologies AG, Hösbach	n. a.
Florian Schuhbauer		Profession: Managing Director of Active Ownership Capital S.a.r.l. and Active Ownership Corporation S.a.r.l., Grevenmacher, Luxembourg;	Member of the Supervisory Board of PNE AG, Cuxhaven

The following remuneration was recognised for the members of the Supervisory Board:

in EUR thousand	2020	2019
Supervisory Board remuneration		
Basic remuneration	115	119
Attendance fee	19	24
Total Supervisory Board remuneration	**134**	**143**

Various members of the Management Board and Supervisory Board or related parties hold positions in other companies which result in them controlling these companies or exercising a material influence over these companies.

A number of these companies transacted with the Group during the fiscal year. The terms and conditions of these transactions were no more favourable than those available, or which might reasonably be expected to be available, in similar transactions with non-key management personnel related companies on an arm's length basis.

From time to time, members of the Management Board or Supervisory Board, or their related parties, may buy goods and services from the Group or sell goods and services to the Group. These purchases are made under the same conditions as those with other suppliers and are reported within other transactions with related parties in accordance with the above or the customers.

23. Segment information

Under IFRS 8, operating segments must be defined on the basis of the internal reporting on Group business units that is regularly reviewed by the company's chief operating decision maker, the Chairman of the Management Board (CEO) in order to make decisions on the allocation of resources to these segments and to assess their performance. The basis for the decision which information is reported is the internal organisational and management structure and the structure of internal reporting. The CEO obtains and reviews financial information as part of routine management reporting.

Segment results that are reported include items directly attributable to a segment and those that can be allocated on a reasonable basis. Segment reporting does not contain inter-segment sales. It does contain inter-segment transfers or charges. Management assesses performance primarily on the basis of revenue and earnings before interest, taxes, depreciation and amortisation (EBITDA) as presented in management reporting. The Group's segment structure reflects how management currently makes financial decisions and allocates resources.

The Group has seven segments, which are shown below separately as reportable segments.

The Group has seven segments, which are shown separately below as reportable segments. The seven segments are NFON AG, Deutsche Telefon Standard GmbH, nfon GmbH, NFON UK Ltd, NFON Iberia SL, NFON Italia S.R.L. and NFON France.

The source of the revenue of all segments is described in Note 2 – Significant accounting policies and Note 18 – Revenue.

A. Revenue and EBITDA by reportable segment

in EUR thousand	2020	2019
NFON AG	39,526	35,554
Deutsche Telefon Standard GmbH	13,886	8,740
nfon GmbH	6,350	5,815
NFON UK Ltd.	7,032	6,654
NFON Iberia SL	375	334
NFON ITALIA S.R.L.	236	16
NFON France SAS	168	10
Total revenue of the reportable segments	**67,574**	**57,123**
Reconciliation	27	–5
Total Group revenue	**67,602**	**57,117**

Revenue by reportable segment as shown in the table above corresponds to revenue with external customers and is based on IFRS. Internal invoices are presented in the segments as increases and reductions of costs and are not included in revenue. The business cost allocations are included in EBIDA, while tax transfer pricing requirements are presented outside EBITDA.

The reconciliation effects of EUR 27 thousand (2019: EUR –5 thousand) relate to postings in the consolidated financial statements recognised after the reporting date of management reporting and exchange rate differences in the translation of NFON UK, which was performed at the respective monthly average rate in management reporting and at the annual average rate in the consolidated financial statements.

The reconciliation effects in revenue in the amount of EUR –5 thousand from IFRS adjustments, which were included in the 2019 consolidated financial statements due to the presentation at that time, were allocated to the respective companies in line with their causes.

in EUR thousand	2020	2019
EBITDA		
NFON AG	9,328	1,779
Deutsche Telefon Standard GmbH	3,137	1,024
nfon GmbH	–1,105	–842
NFON UK Ltd.	–2,307	–3,354
NFON Iberia SL	–1,304	–1,079
NFON ITALIA S.R.L.	–2,205	–1,811
NFON France SAS	–2,108	–840
Total EBITDA of the reportable segments	**3,437**	**–5,124**
Other segments	137	
Reconciliation	–1,252	–1,860
Group EBITDA	**2,322**	**–6,984**
Addback:		
Depreciation and amortisation	–4,150	–3,005
Net interest income/expenses	–496	–816
Income tax expense	87	–120
Consolidated net profit/loss	**–2,237**	**–10,924**

Internal reporting is based on IFRS. Non-recurring effects in the period that are considered extraordinary are adjusted for in reported EBITDA.

The reconciliation effects as of 31 December 2020 in the amount of EUR 1,252 thousand are mainly due to non-recurring effects from the costs for retention bonuses and stock options in the amount of EUR 1,182 thousand as well as expenses for M&A activities in the amount of EUR 40 thousand and the reversal of provisions in the amount of EUR –69 thousand, which were adjusted in the internal reporting. In addition, there were timing differences between the management reporting and the finacnial statement figures in connection with Deutsche Telefon Standard GmbH in the amount of EUR 132 thousand and consolidation effects in the amount of EUR –37 thousand.

The reconciliation effects of EUR 1,860 thousand as at 31 December 2019 mainly relate to non-recurring effects adjusted for in internal reporting from costs of retention bonuses and stock options of EUR 1,138 thousand, plus expenses for capital increases and M&A activities of EUR 722 thousand.

B. Revenue by product/service

For a description of the Group's products and services refer to Note ↑ 19 – Leases. Each of the reportable segments presented above offers recurring and non-recurring products and services.

in EUR thousand	2020	2019
Product/service		
Recurring revenue	59,387	48,055
Non-recurring revenue	8,215	9,063
Consolidated revenue	**67,602**	**57,117**

C. Information on geographical areas

The tables below show revenue and non-current assets by country. The geographical allocation of revenue and assets is based on the domicile of the legal entities in the countries.

1. Revenue with external customers

in EUR thousand	2020	2019
Non-current assets		
Germany	52,617	43,515
Austria	6,350	5,815
United Kingdom	7,032	6,648
Spain	375	334
Italy	236	16
France	168	10
Other countries	795	779
Reconciliation	27	0
Total revenue	**67,602**	**57,117**

2. Non-current assets

The table below show non-current assets other than financial instruments and deferred taxes.

in EUR thousand	2020	2019
Non-current assets		
Germany	35,195	29,269
United Kingdom	631	457
Austria	339	413
Italy	105	126
Spain	42	41
France	35	26
Total non-current assets	**36,347**	**30,332**

D. Major customers

The Group does not have any significant customer concentration. No single external customer accounted for 10.0% or more of the Group's total revenue.

24. Consolidated statement of cash flows

The statement of cash flows was prepared in line with the regulations of IAS 7. Cash and cash equivalents in the consolidated statement of cash flows corresponds to the "Cash" statement of financial position item and contains exclusively cash held at banks payable at short notice. Cash flows from investing and financing activities are calculated directly, the cash flow from operating activities is derived indirectly on the basis of profit after taxes. In the context of the indirect calculation, the changes of made in statement of financial position items are adjusted by foreign currency translation effects. For this reason, they cannot be reconciled with the corresponding changes on the basis of the published consolidated statement of financial position.

25. Contingencies and commitments

Based on the application of IFRS 16 in the reporting year and the associated capitalisation of rights of use for leases with a term of more than 12 months together with their recognition as financial liabilities, leases with a useful life of less than 12 months are presented below. The corresponding minimum lease payments as at 31 December 2020 amounted to EUR 117 thousand (31 December 2019: EUR 115 thousand).

In April 2017, the Company entered into a parent company guarantee agreement where NFON AG as the guarantor guarantees to one of its partners, British Telecommunications plc, all payments that become payable by its subsidiary NFON UK. The probability of utilisation is considered very low.

The Group may be subject to litigation, claims and governmental and regulatory proceedings arising in the ordinary course of business. In such cases, the Group recognises a provision for these matters when it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated. While uncertainties are inherent in the final outcome of these matters, the Group believes, after consultation with counsel, that the disposition of these proceedings will not have a material adverse effect on the Group's financial position, results of operations or cash flows.

26. Other disclosures

A. Auditors' fee

KPMG AG Wirtschaftsprüfungsgesellschaft, Munich, a member of Wirtschaftsprüferkammer (German Chamber of Auditors) in Berlin, has been the statutory auditor of the Company and the Group since 2018. The auditor responsible for the Company is Matthias Koeplin.

In fiscal years 2020 and 2019, the following fees were recognised for the statutory auditor:

in EUR thousand	2020	2019
Audit of the financial statements	288	407
Other assurance services	0	0
Other services	27	156

Fees for the audit of the financial statements mainly related to the audit of the consolidated financial statements and the annual financial statements of NFON AG.

Other services relate to quality assurance support services in connection with the introduction of new accounting principles in accordance with IFRS and for the further development of guidelines, systems and processes against the background of the requirements placed on a listed company.

B. List of shareholdings

nfon GmbH, St Pölten/Austria

Share:	100,00%
Annual net profit in 2020:	73 TEUR
Equity:	1.285 TEUR

NFON UK Ltd., Maidenhead/UK

Share:	100,00%
Annual net profit in 2020:	504 TEUR
Equity:	5.124 TEUR

NFON Iberia SL, Madrid/Spain

Share:	100,00%
Annual net profit in 2020:	–122 TEUR
Equity:	–966 TEUR

NFON Italia S.R.L., Mailand/Italy

Share:	100,00%
Annual net profit in 2020:	–18 TEUR
Equity:	582 TEUR

NFON France SAS, Paris/France

Share:	100,00%
Annual net profit in 2020:	–22 TEUR
Equity:	70 TEUR

Deutsche Telefon Standard GmbH, Mainz/Germany

Share:	100,00%
Annual net profit in 2020:	2.240 TEUR
Equity:	2.650 TEUR

NFON developments Lda., Lisbon/Portugal

Share:	100,00%
Annual net profit in 2020:	81 TEUR
Equity:	131 TEUR

The stated figures for annual net profit and equity are based on the figures from the IFRS reporting packages (HB II) prepared by the subsidiaries for the purposes of preparing these consolidated financial statements.

27. Events after the end of the reporting period

After the balance sheet date, a capital increase (pre-emption rights disapplied) was carried out in which the share capital of NFON AG was increased by EUR 1.506 thousand through the issue of 1,505,555 new shares. The placement price was EUR 17.50, as a result of which the Group received liquid funds totalling EUR 26,347 thousand. The capital reserve increased in this context by EUR 24,842 thousand. The capital increase was entered in the commercial register on 29 März 2021.

28. Declaration of compliance with the German Corporate Governance Code

The Management Board and the Supervisory Board have submitted the declaration of compliance with the German Corporate Governance Code required to be submitted in accordance with Section 161 of the German Stock Corporation Act (AktG) and have published it on the Company's website (https://corporate.nfon.com/de/ueber-nfon/corporate-governance/entsprechenserklaerung/).

13 April 2021

Dr Klaus von Rottkay	**Jan-Peter Koopmann**
CEO	CTO

Independent Auditor's Report

To NFON AG, Munich

Report on the Audit of the Consolidated Financial Statements and of the Combined Group Management Report

Opinions

We have audited the consolidated financial statements of NFON AG and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2020, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the fiscal year from 1 January to 31 December 2020, and notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the combined management report of NFON AG for the fiscal year from 1 January to 31 December 2020. In accordance with German legal requirements we have not audited the content of those components of the group management report specified in the "Other Information" section of our auditor's report.

The Group management report includes references not provided for in the law that have been marked as unaudited. In accordance with the German legal regulations, we have not audited the content of these cross-references or the information to which these cross-references relate.

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to section 315e(1) of the Handelsgesetzbuch (HGB – German Commercial Code) and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as at 31 December 2020, and of its financial performance for the fiscal year from 1 January to 31 December 2020, and

- the accompanying combined group management report as a whole provides an appropriate view of the Group's position. In all material respects, this combined group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our opinion on the management report does not cover the content of the parts of the Group management report which are listed in the "Other Information" section. The management report includes cross-references not foreseen by law that are marked as unaudited. Our opinion does not cover these cross-references or the information to which these cross-references relate.

Pursuant to section 322 (3) sentence 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the combined group management report.

Basis for the Opinions

We conducted our audit of the consolidated financial statements and of the combined group management report in accordance with section 317 HGB and the EU Audit Regulation No. 537 / 2014 (referred to subsequently as "EU Audit Regulation") and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Combined Group Management Report" section of our auditor's report. We are independent of the group entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2)(f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinions on the consolidated financial statements and on the combined group management report.

Key Audit Matters in the Audit of the Consolidated Financial Statements

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements for the fiscal year from 1 January to 31 December 2020. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, we do not provide a separate opinion on these matters.

Recoverability of goodwill

Please refer to sections 2 and 6 in the notes to the consolidated financial statements for more information on the accounting policies applied.

Financial statement risk

Goodwill amounts to EUR 12.5 million as at 31 December 2020 and, at 17%, accounts for a significant share of total assets.

The recoverability of goodwill is reviewed each year at business segment level without requiring a specific reason. If impairment triggers arise during a year, goodwill is tested for impairment ad hoc. Goodwill is tested for impairment by comparing the respective segment's carrying amount against its recoverable amount. If the carrying amount is higher than the recoverable amount, an impairment loss must be recognised. The recoverable amount is the higher of the segment's fair value less costs to sell and its value in use. Impairment testing is performed as at 31 December 2020.

The goodwill impairment test is complex and based on a number of discretionary assumptions. These include the forecast business and earnings development of the segments, the assumed long-term growth rates and the discount rate used.

There is a risk for the consolidated financial statements that impairment that existed at the end of the reporting period was not recognised. In addition, there is the risk that the associated disclosures are not appropriate.

Our audit approach
With the support of our valuation specialists we assessed, among other things, the appropriateness of the significant assumptions and the calculation method of the Company. To do so, we discussed the forecast business and earnings development and the assumed long-term growth rates with those in charge of planning. We also consulted other internal forecasts available, e.g. for tax purposes, and the budget prepared by management and approved by the Supervisory Board. Furthermore, we have assessed the consistency of assumptions with external market assessments.

Moreover, we have assured ourselves of the previous forecast quality of the Company by comparing planning from previous fiscal years against the actual results and analysing deviations. We have compared the assumptions and data on which the discount rate is based, in particular the risk-free interest rate, the market risk premium and the beta factor, against our own assumptions and publicly available data.

To ensure that the measurement method was mathematically accurate, we verified the Company's measurement based on our own calculations and analysed deviations.

In order to take existing forecast uncertainty into account, we investigated the effects of potential changes in the discount rate, in earnings performance and the long-term growth rate on the value in use by calculating alternative scenarios and comparing the values stated by the Company (sensitivity analysis).

Finally, we assessed whether the disclosures in the notes on goodwill impairment are appropriate.

Our observations
The underlying method of calculation for testing goodwill impairment is appropriate and consistent with the applicable accounting policies. The assumptions and data used by the Company are appropriate. The related disclosures in the notes are appropriate.

Revenue recognition
Please refer to sections 2 and 18 in the notes to the consolidated financial statements for more information on the accounting policies applied.

Financial statement risk
The consolidated financial statements of NFON AG for fiscal 2020 report revenue of EUR 67.6 million. In particular, revenue includes monthly fees, minute-based voice tariffs and non-recurring revenue, such as the sale of hardware, and the performance of services.

The predominant part of the services of the NFON AG Group is rendered via the cloud and depends on factors such as the number of extensions and the number of voice minutes which are recorded by the Company's IT system and invoiced monthly. Accordingly, beyond the system recordings of the Company, there is in many cases no external proof of performance. Customers are entitled to a right of objection typically of 60 days, after which the invoiced services are considered to have been accepted.

There is the risk for the financial statements that revenue is invoiced without effective acceptance of services and are therefore overstated.

Our audit approach
As provider of publicly accessible telecommunication services in Germany, the Company is required to ensure the accuracy of invoicing and the correctness of remuneration of data processing facilities by a quality assurance system and to have this audited regularly (section 45g of the Telekommunikationsgesetz (TKG – German Telecommunications Act). We considered the corresponding audit reports in order to obtain an overview of the process in place for revenue recognition.

For a sample of revenue per customer selected by means of a mathematical-statistical procedure, we assessed the underlying contracts and other evidence of the existence of the customer relationship. Furthermore, we examined possible complaints by customers within the respective deadlines and obtained confirmations from customers for revenue also selected on the basis of a mathematical-statistical procedure.

Based on the receipts of payment of the year under review recorded in bank accounts, we calculated the expected value of revenue for the full fiscal year and analysed any deviations from the amount of revenue recognised.

Our observations
NFON AG's method for recognising revenue is appropriate.

Other Information

Management and the Supervisory Board are responsible for the other information. The other information includes the following elements of the management report, the content of which has not been audited:

- the Group corporate governance statement, referred to in the combined management report; and
- information extraneous to management reports contained in the Group management report and marked as unaudited.

The other information additionally includes the miscellaneous parts of the annual report.

The other information does not include the consolidated financial statements, the audited content of the group management report or our auditor's report thereon.

Our opinions on the consolidated financial statements and on the group management report do not cover the other information, and consequently we do not express an opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially inconsistent with the consolidated financial statements, with the group management report information audited for content or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

Responsibilities of Management and the Supervisory Board for the Consolidated Financial Statements and the Combined Group Management Report

Management is responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to section 315e(1) HGB and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position, and financial performance of the Group. In addition, management is responsible for such internal control as they have determined 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. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, management is responsible for the preparation of the combined group management report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, management is responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a combined group management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the combined group management report.

The Supervisory Board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and of the combined group management report.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Combined Group Management Report

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 whether the combined group management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our opinions on the consolidated financial statements and on the combined group management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with section 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. 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 and this combined group management report.

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 and of the combined group management report, 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 opinions. 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 of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the combined group management report 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 these systems.

- Evaluate the appropriateness of accounting policies used by management and the reasonableness of estimates made by management and related disclosures.

- 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 the auditor's report to the related disclosures in the consolidated financial statements and in the combined group management report or, if such disclosures are inadequate, to modify our respective opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able 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 present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to section 315e(1) HGB.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express opinions on the consolidated financial statements and on the combined group management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our opinions.

- Evaluate the consistency of the combined group management report with the consolidated financial statements, its conformity with [German] law, and the view of the Group's position it provides.

- Perform audit procedures on the prospective information presented by management in the combined group management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by management as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

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.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

Other Legal and Regulatory Requirements

Report on assurance in accordance with section 317(3b) HGB on the electronic reproduction of the consolidated financial statements and the group management report prepared for publication purposes

We have performed assurance work in accordance with section 317(3b) HGB to obtain reasonable assurance about whether the reproduction of the annual financial statements and the management report (hereinafter the "ESEF documents") contained in the files "nfonag-2020-12-31.zip" (SHA256-Hashwert: d9153b63830ddfe 38e67953e531e8e81d07ac3e5ec988cfc7a5cb3aeea9eb5ee) "NFON AG Lagebericht 2020.xhtml" (SHA256-Hashwert: 6dde10678aa4c8c7b3ec01308939df025307 451452dc 97158639f6e6fdc40141) that can be downloaded by the issuer from the electronic client portal with access protection, and prepared for publication purposes complies in all material respects with the requirements of section 328(1) HGB for the electronic reporting format (ESEF format). In accordance with German legal requirements, this assurance only extends to the conversion of the information contained in the consolidated financial statements and the group management report into the ESEF format and therefore relates neither to the information contained in this reproduction nor any other information contained in the above electronic file.

In our opinion, the reproduction of the consolidated financial statements and the group management report contained in the above electronic file and prepared for publication purposes complies in all material respects with the requirements of section 328(1) HGB for the electronic reporting format. We do not express any opinion on the information contained in this reproduction nor on any other information contained in the above file beyond this reasonable assurance opinion and our audit opinion on the accompanying consolidated financial statements and the accompanying group management report for the fiscal year from 1 January to 31 December 2020 contained in the "Report on the Audit of the Consolidated Financial Statements and of the Combined Group Management Report" above.

We conducted our assurance work of the reproduction of the consolidated financial statements and the group management report contained in the above electronic file in accordance with section 317(3b) HGB and the draft IDW auditing standard: Assurance in accordance with section 317(3b) HGB on the electronic reproduction of financial statements and management reports prepared for publication purposes (IDW EPS 410). Accordingly, our responsibilities are further described below. Our audit firm has applied the IDW Standard on Quality Management 1: Requirements for Quality Management in Audit Firms (IDW QS 1).

The Company's management is responsible for the preparation of the ESEF documents including the electronic reproduction of the consolidated financial statements and the group management report in accordance with section 328(1) sentence 4 item 1 HGB and for tagging the consolidated financial statements in accordance with section 328(1) sentence 4 item 2 HGB.

In addition, the Company's management is responsible for the internal controls they consider necessary to enable the preparation of ESEF documents that are free from material intentional or unintentional non-compliance with the requirements of section 328(1) HGB for the electronic reporting format.

The Company's management is also responsible for the submission of the ESEF documents together with the auditor's report and the attached consolidated financial statements, audited group management report and other documents to be published to the operator of the German Federal Gazette [Bundesanzeiger].

The Supervisory Board is responsible for overseeing the preparation of the ESEF documents as part of the financial reporting process.

Our objective is to obtain reasonable assurance about whether the ESEF documents are free from material intentional or unintentional non-compliance with the requirements of section 328(1) HGB. We exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material intentional or unintentional non-compliance with the requirements of section 328(1) HGB, design and perform assurance procedures responsive to those risks, and obtain assurance evidence that is sufficient and appropriate to provide a basis for our assurance opinion.

- Obtain an understanding of internal control relevant to the assessment of the ESEF documents in order to design assurance procedures that are appropriate in the circumstances, but not for the purpose of expressing an assurance opinion on the effectiveness of these controls.

- Evaluate the technical validity of the ESEF documents, i.e. whether the electronic file containing the ESEF documents meets the requirements of Commission Delegated Regulation (EU) 2019 / 815 on the technical specification for this electronic file.

- Evaluate whether the ESEF documents enable an XHTML reproduction with content equivalent to the audited consolidated financial statements and the audited Group management report.

- Evaluate whether the tagging of the ESEF documents with Inline XBRL technology (iXBRL) enables an appropriate and complete machine-readable XBRL copy of the XHTML reproduction.

Further Information pursuant to Article 10 of the EU Audit Regulation

We were elected as the auditor of the consolidated financial statements by the Annual General Meeting on 28 May 2020. We were engaged by the Supervisory Board on 28 August 2020. We have served as the auditor of the consolidated financial statements of NFON AG without interruption since fiscal 2018.

We declare that the opinions expressed in this auditor's report are consistent with the additional report to the Audit Committee pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

German Public Auditor Responsible for the Engagement

The German Public Auditor responsible for the engagement is Matthias Koeplin.

Munich, 13 April 2021

KPMG AG
Wirtschaftsprüfungsgesellschaft
[Original German version signed by:]

gez. Koeplin	gez. Rothfelder
Wirtschaftsprüfer	Wirtschaftsprüfer
[German Public Auditor]	[German Public Auditor]

FINANCIAL CALENDAR

Q1

15.04.2021	Publication of the Group Annual Financial Report 2020

Q2

20.05.2021	Presentation of the Results for the 1st Quarter 2021 (Web und Telephone Conference)
24.06.2021	Annual General Meeting of NFON AG (virtual)

Q3

19.08.2021	Presentation Half-year Results 2021

Q4

18.11.2020	Presentation 9 Month Results 2021 (Web und Telephone Conference)

Imprint

Investor Relations

Sabina Prüser
Machtlfinger Str. 7
81379 Munich, Germany
Tel.: +49 89 45300-134
Fax: +49 30 45300-33134
sabina.prueser@nfon.com
https://corporate.nfon.com

Concept and Design

IR-ONE AG & Co. KG, Hamburg, Germany
www.ir-one.de

NFON AG
MACHTLFINGER STR. 7
81379 MUNICH, GERMANY

TELEPHONE: +49 89 453 00 0
TELEFAX: +49 89 453 00 100

HTTPS://CORPORATE.NFON.COM