THE NEW FREEDOM IN BUSINESS COMMUNICATIONS.

Half-year Financial Report 2018

KEY FIGURES

Business customers

15,000+

Development of seats

287,000+

Revenue for the first half of 2018

EUR 20.6 M

Share of recurring revenue

80 %

List of abbreviations:

PBX – Private Branch Exchange
UCaaS – Unified Communication as a Service
SaaS – Software as a Service
VoIP – Voice over IP
IP – Internet Protocol
Seats – Extensions, licences

WHO WE ARE

NFON AG ("NFON" for short), headquartered in Munich, was founded in 2007 and is the only pan-European Cloud PBX provider. NFON has over 15,000 business customers in 13 European countries. NFON has affiliated companies in Germany, Austria, United Kingdom (UK for short) and Spain. NFON further has a large network of more than 1,100 partners for sales in Germany and the remaining countries.

Founded in

2007

Active in

13 European countries

Employees

216

Benefits

CLOUD SOLUTION 'MADE IN GERMANY'

HIGH SAVINGS POTENTIAL

UNLIMITED CAPACITY

INTELLIGENT FUNCTIONS

EASY TO USE

NETWORK OF LOCAL SERVICE PARTNERS

ONE WORD

Dear shareholders,
dear readers,

NFON is the new freedom of business communication. The developments during the first half of the year showed that we have our finger on the pulse of time. Following a good start of operations in 2018, we continued our success story by going public and further dynamic growth during the second quarter. The basis for our success are our attractive offers and services which – with the help of effective sales and marketing efforts – allow us to keep acquiring more NFON customers. This means that we increased the number of customer seats during the first half of 2018 by 30 % compared to the last year, which is right on target!

In line with this good development, we were also able to increase our revenue by about 22 % compared to the previous year reaching 20.6 million euros. We should particularly point out that the share of recurring revenue in total revenue is around 80 % – which is, at the end of our guidance, more than four percent points higher than last year. Nominally speaking, the recurring revenue for the first half of 2018 therefore grew by about 29 %, reaching 16.5 million euros. This shows a high level of satisfaction and loyalty among our customers. They are a very sound and solid basis for our further plans for growth.

As the sole pan-European provider of cloud-based telephone systems, we believe we are in an excellent position to shape telephony of the future and become number 1 in cloud telephony in Europe. We have therefore pushed our growth strategy further as planned, and invested in sales, marketing, research and development. At the same time, we are working hard on our new NFON Client, which is due to be released this year. We first introduced the NFON Client at this year's CeBIT. There was tremendous interest among customers and partners, and we received consistently positive feedback!

Thanks to the sound development in the first half of the year and the course set for growth, we believe that NFON is on the right track for the coming months. Stay with us on this exciting journey!

Best regards

Hans Szymanski

Hans Szymanski
CEO / CFO NFON AG

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Please note that there may be rounding differences in the mathematically precise values (monetary unit, percent values etc.).

01 PRINCIPLES OF THE GROUP

1.1 Group business model

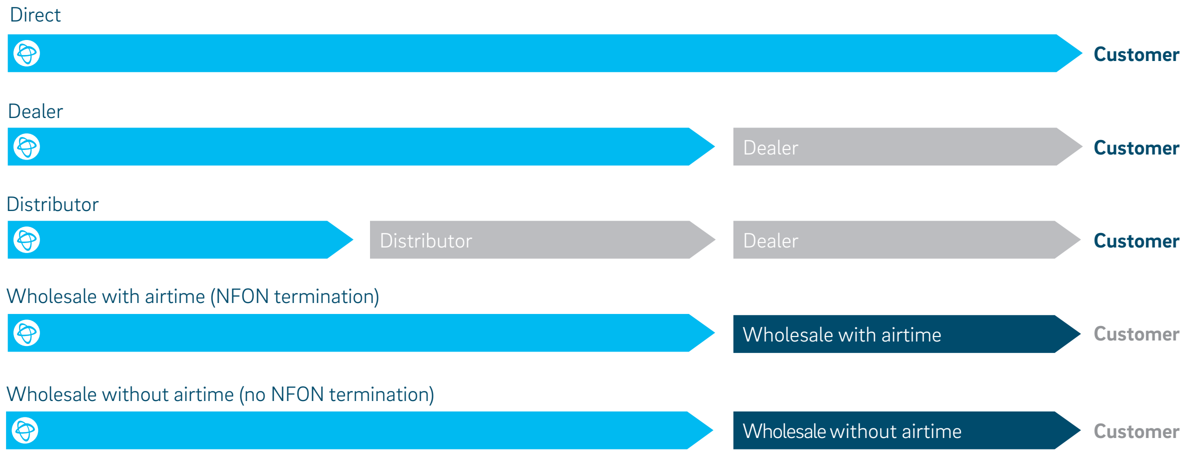
NFON AG ('NFON' for short), based in Munich, was founded in 2007 and is the only pan-European provider of cloud-based telephone systems. NFON has a clientele of over 15,000 companies in 13 European countries. NFON has affiliated companies in Germany, Austria, the United Kingdom and Spain. It also has a large network of partners for sales in Germany and in the remaining countries.

NFON primarily generates revenue by offering cloud-based telecommunications services to corporate customers. In doing so, the customer is provided with the necessary operation service from the cloud in the NFON data centres via so-called cloud PBX (Private Branch Exchange or cloud telephone system) so that they can forgo standard telephone systems at their own offices. The customer generally pays a one-time activation fee per extension and a monthly service fee is charged per extension used. Moreover, NFON replaces the telephone connection so that the customer pays the fees for all telephone calls to NFON. In turn, NFON procures this service from various carriers. In addition to the core functions associated with the telephone system, such as telephone conference rooms, automatic call distribution (ACD) or automatic call forwarding to the relevant person, NFON provides its customers with optional services and premium services, which are billed separately.

If needed, NFON also sells the devices and corresponding software (phones, soft clients for PCs and smartphones), which the company obtains from several manufacturers, and provides internet access on a reselling basis if applicable. Research and development services are exclusively carried out in Germany at the group headquarters in Munich and the subsidiaries in Mainz and Berlin.

The foreign subsidiaries do not have any research and development services themselves, but are tasked with routine activities relating to market research in addition to their operating sales transactions.

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



01 PRINCIPLES OF THE GROUP

1.2 Employees

The number of employees as of 30th June 2018 in comparison with the previous year is distributed as follows across the regions and departments:

Regions	Half-year 2018	2017	Change in %
Germany	**164**	146	12.3
United Kingdom	**25**	23	8.7
Austria	**20**	19	5.3
Spain	**7**	7	0
Total	**216**	**195**	**10.8**

Position	Half-year 2018	2017	Change in %
Administration	**41**	28	19.0
Support	**35**	31	12.9
Sales & Marketing	**81**	81	0
Research & Development incl. Technical Support	**59**	55	7.3
Total	**216**	**195**	**10.8**

1.3 Goals and strategies

The vision: Freedom in communication. The mission: To simplify communication for companies throughout Europe and to offer intuitive communication solutions for companies. NFON is already a market leader in Germany. Our goal is to become Europe's number 1. To achieve this goal, NFON AG pursues a clear growth strategy, which is divided into five areas and relates to customers, products and markets:

Increase penetration and adoption	**Transform product**	**Open APIs**	**Expand regionally**	**Capitalise on high market fragmentation**
Increase marketing efforts to drive penetration of existing clients and adoption of new clients in existing markets	Roll-out of innovative features will attract additional customers, increase ARPU and add value to the core product	Further develop open APIs to allow broad access for third party solutions	Leverage proven market entry strategy to cover continental Europe	Consolidate highly fragmented European market by capitalising on opportunities to gain further market share

Customer development + **Product development** + **Market development** + **Market consolidation**

01 PRINCIPLES OF THE GROUP

1.3 Goals and strategies

Expansion and further development of the customer base in existing markets

Further expansion of the existing customer base and the resulting continued acquisition of new customers are significant strategic components for the successful development of the company. This requires an increased awareness of the brand NFON and cloud telephony solutions. For this purpose, NFON is planning to significantly increase its marketing and sales activities. This includes further development of the existing partner network, which NFON principally uses as a sales channel. With the multi-channel approach, NFON AG is able to significantly increase the range of sales and to reach out to and attract different customer target groups using the suitable sales channels.

Roll-out of innovative UCaaS functions

Currently, NFON is working on the new NFON Client, a system that makes it significantly easier for customers to manage their phones and to make calls. The new NFON Client is due to be launched later this year. The new Client will integrate services such as the Softphone[1] and Ncontrol[2] in one application, which makes use noticeably easier for the end user. Technologies offered separately until now completely lose their significance as a result. In a subsequent step, there are plans to integrate further UCaaS such as video conferences or collaboration options into the new NFON Client.

Development of open APIs

The development of open APIs (programme interfaces) enables the integration of the NFON Cloud telephony solutions in service solutions from third party providers, and also establishes a potential future field of activity for NFON by offering a communication Platform-as-a-Service.

Targeted further growth throughout Europe

NFON is currently represented in 13 European countries - Austria, Croatia, the Czech Republic, Germany, Hungary, the Netherlands, Poland, Portugal, Romania, Slovakia, Spain, Switzerland and the United Kingdom. The current market conditions in the European countries and the disruptive changes in the field of cloud telephony provide just the right environment for further expansion in Europe. The primary countries of focus for NFON are France and Italy, and the expansion of business in the Netherlands is also of significance.

Consolidation opportunities in highly fragmented cloud PBX markets

The European cloud PBX market is highly fragmented. NFON is planning to take an active role in the increasing consolidation of the market. Here, NFON could gain attractive opportunities to acquire competitors in a very targeted way according to established criteria, and to take on companies with suitable, appealing technologies to expand the existing NFON product and solution portfolio. To this end, the company is striving to completely meet all of their customers' communication needs in one place.

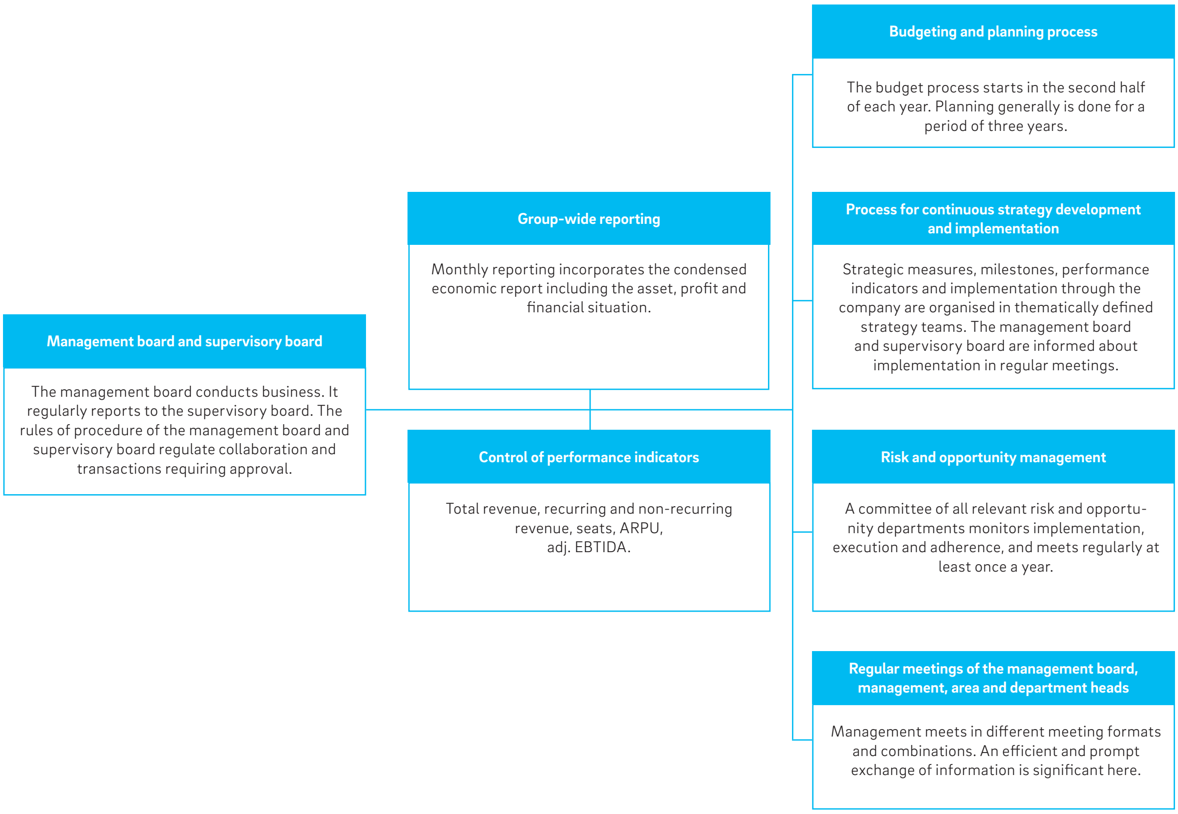
[1] A Softphone is a piece of software, which enables Voice over IP (VoIP) calls to be made online. This type of software can be installed on a computer, laptop or a mobile device. The user interface often resembles a standard phone with a keypad and further controls such as calls, hang ups and contacts. Examples of Softphones include the NFON cloud telephone system and Skype for Business.

[2] The Ncontrol user interface enables every employee to easily and individually manage their extension – via web access or on the new NFON Client in future.

01 PRINCIPLES OF THE GROUP

1.4 Control systems

The management board of NFON AG has introduced an internal management system for the management of the group, which is reflected in the following diagram:



Financial and non-financial performance indicators

The management of the NFON group mainly uses the following performance indicators

- Seats
- Total revenue
- Recurring and non-recurring revenue
- Average revenue per user (blended)
- Adjusted EBITDA

These performance indicators ensure that the company can analyse and control the measures set to achieve the growth goals. In addition to revenue amounts, total revenue, recurring and non-recurring revenue and blended ARPU (average revenue per user), the number of seats (total number of extensions or licences used by the customer) also serve to measure NFON AG's success.

NFON divides the revenue into recurring and non-recurring revenue. Recurring revenue include monthly fees for cloud PBX, ongoing call charges and SDSL monthly fees (Symmetric Digital Subscriber Line is a DSL access technology for a public digital network). On the other hand, non-recurring revenue are one-time revenue from the sale of hardware, set-up fees for cloud PBX or set-up fees for SDSL.

NFON uses the average revenue per user (blended ARPU) as a further revenue-based financial performance indicator, which is calculated from the average total revenue from recurring revenue per month divided by the average number of seats per month each year including the revenue and seats of end customers who have contractual relationships with our wholesale partners. Earnings before interest, tax

1.4 Control systems

and amortisation (EBITDA) less the non-operating, one-time expenses, e.g. costs from successful IPO and one-time expenses in connection with taxes and social insurance matters, measures the operating performance and is deemed to be a suitable size for internal management.

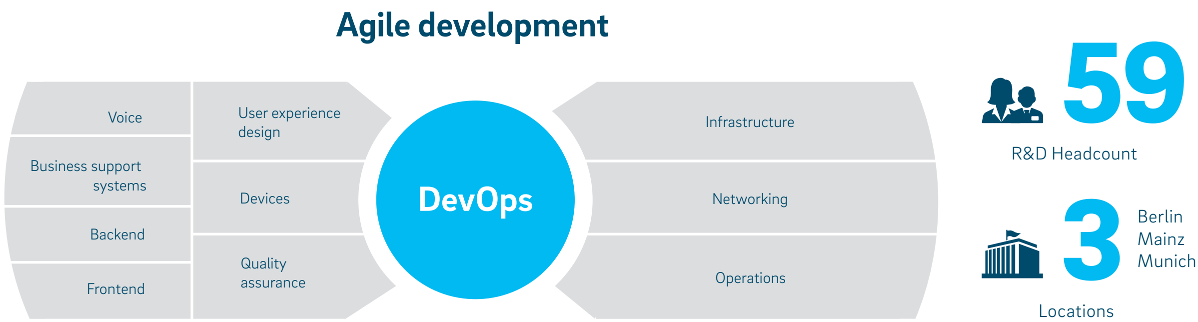
Overview of the development of financial and non-financial performance indicators:

	Half-year 2018	Half-year 2017	Change
Total revenue	**EUR 20.6 m**	EUR 16.9 m	21.7 %
Recurring revenue	**EUR 16.5 m**	EUR 12.8 m	28.6 %
Proportion of recurring revenues in the total revenue	**79.9 %**	75.6 %	
Non-recurring revenue	**EUR 4.1 m**	EUR 4.1 m	0.1 %
Proportion of non-recurring revenue in the total revenue	**20.1 %**	24.4 %	
ARPU blended	**EUR 10.05**	EUR 10.26	- 2.0 %
Seats	**287,998**	221,540	30.0 %
Adj. EBITDA	**EUR 0.1 m**	EUR - 0.8 m	n/a

1.5 Research and development

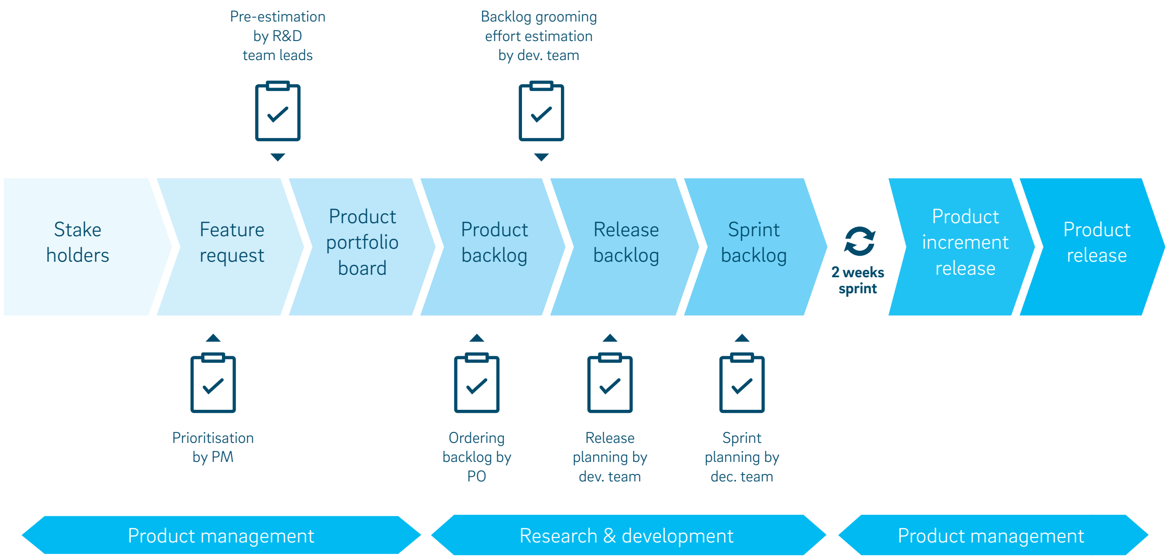
The research and development department concentrates both on the development of new products and services, and on the development of product extensions and new functions for the existing products and services, which are provided to NFON customers as regular updates.

The internal development is based on fast software development and incorporates the following areas:



In the research and development department, NFON also has technical consultants. They support NFON customers and NFON sales partners, particularly in the adaptation, implementation and use of the NFON cloud telephone system and premium solutions, e.g. Ncontactcenter or Nhospitality, or to help with tendering procedures. NFON sees the infrastructure, networking and technical consultants departments collectively as operations.

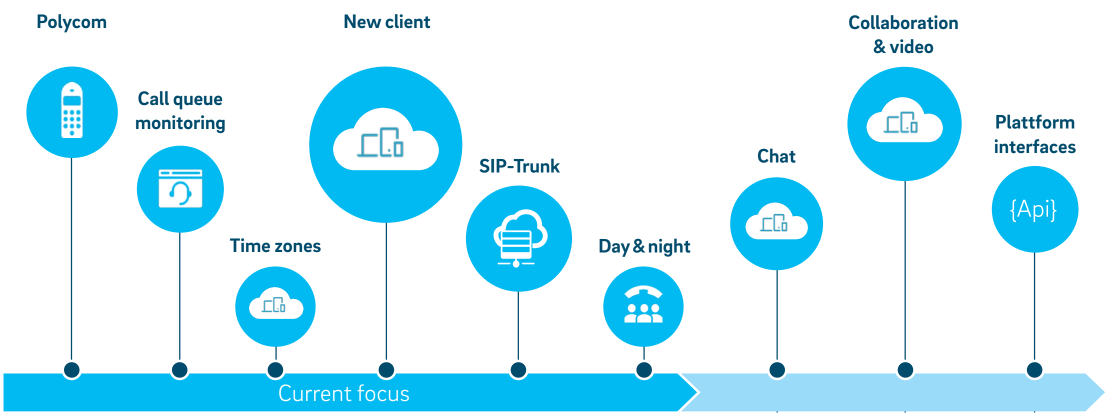
NFON follows a clearly defined process in their product development:



01 PRINCIPLES OF THE GROUP

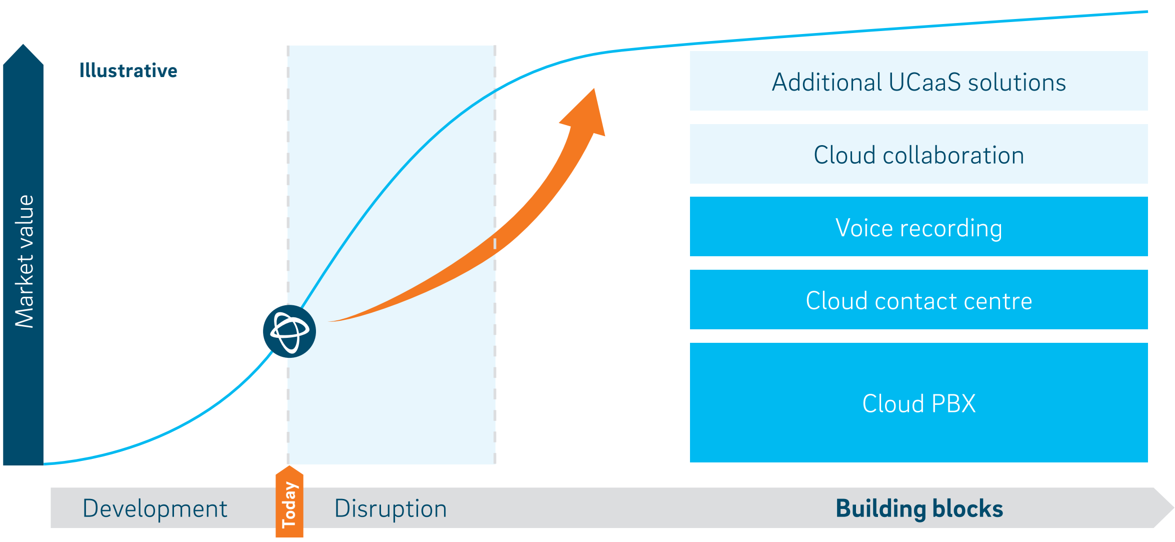
1.5 Research and development

Currently, the research and development activities concentrate on developing the new NFON Client[3]. Further UCaaS solutions like video conferencing and collaboration functions, e.g. screen sharing or chat functions have been planned for the Client.



NFON believes that the integration of additional UCaaS solutions is a necessary step to meet the need for more comprehensive communication solutions in a fast-changing work environment and to be able to fully meet customer requirements.

European cloud business communication market development



As of 30th June 2018, the research and development department, including the technical consultants department, had 59 employees.

[3] In this context, the Client is the system used by the NFON cloud telephone system to make and manage calls.

02 ECONOMIC REPORT

Macroeconomic and branch-related framework conditions

Macroeconomic development in Europe[4]

Economic momentum has slowed down in Europe. Gross Domestic Product (GDP) growth fell to 0.4 % in the first quarter of 2018. However, the basic principles important to sustainable growth still apply. The Eurozone continues to benefit from the ECB's expansionary monetary policy. The economy will likely continue to grow over the course of the year and in 2019, but slower than in 2017.

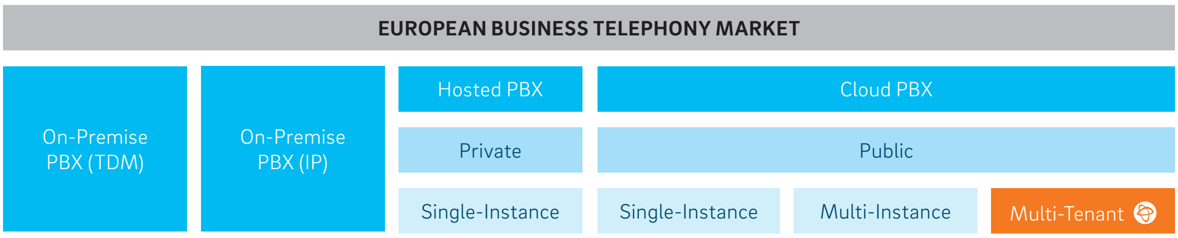
On NFON AG’s German home market, economic growth fell from 0.6 % to 0.3 % in the first quarter. But the GDP is expected to increase due to the good conditions on the German labour market and growing employee wages to 1.9 % this year. The IFO business climate index is slightly negative, which is an important indicator for the German economy. The index fell by a minimal amount in July 2018, but it is still far above a long-term average.

On NFON AG’s biggest foreign market, the United Kingdom, the GDP fell by 0.2 % in the first quarter of 2018 based on preliminary information. The economy there is suffering from uncertainty in the process of the planned departure from the EU according to experts. It is understood that it is in a period of modest growth, as a result of which only a total growth of 1.3 % can be predicted for the year 2018.

[4] Source: European Commission - European Economic Forecast, Summer 2018 (July, interim)

General market characteristics and trends of the PBX market

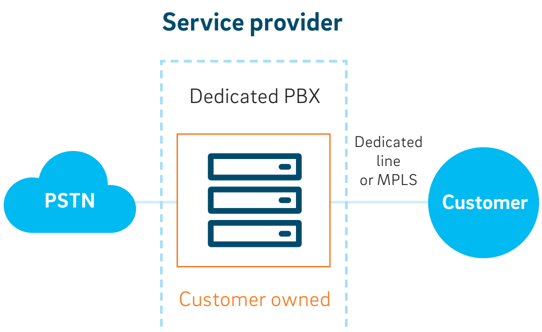
The European market for business telephony can be divided broadly into four areas.



On-premise PBX (TDM) and on-premise PBX (IP) incorporate the traditional fixed telephone system installed on site. The area of IP-based telephone systems starts with hosted PBX.

A decisive feature of hosted PBX is that the telephone system is operated on a server and as software but is the property of the end user, who is also responsible for maintance (single instance).

Private Single-Instance (1:1) (Hosted PBX)

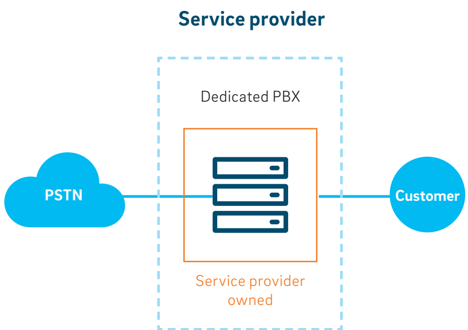


02 ECONOMIC REPORT

Macroeconomic and branch-related framework conditions

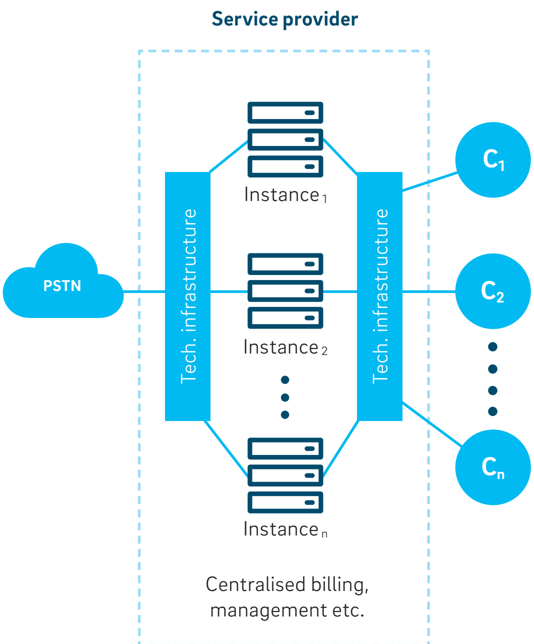
Public cloud telephone systems (PBX) are distinguished from these and are again divided into:
Single-Instance, the telephone system, which is already owned by the service operator, but in which individual users have their own system,

Private Single-Instance (1:1) (Cloud PBX)



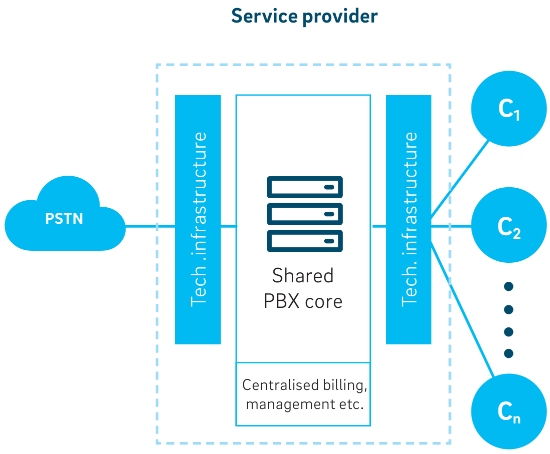
Multi-Instance, the telephone system in which the individual user/customer owns their instance in a system, and

Private Multi-Instance (N:N) (Cloud PBX)



Multi-Tenant, the telephone system with which a variety of customers/end users share a platform.

Public Multi-Tenant (1:N) (Cloud PBX)



In the development of the European market for telephone systems, a clear tendency away from traditional on-premise telephone systems (PBX - Private Branch Exchange) to hosted/cloud telephone systems can be observed. There are various reasons for this. Two significant reasons are listed here:

- There are significant advantages of using hosted/cloud telephone systems compared with classic telephone systems, which relate to the general change in the demands of working life. The advantages include: flexibility, mobility and independence. Included in this are all the advantages of a Software-as-a-Service. No costs are accrued for the operation of the system and the customer only pays for what they actually use and need, so the customer can save up to 50 % of their overall costs.

- This trend is accelerating as the subsidiary companies will change from ISDN to All-IP in the foreseeable future. Therefore, standard telephone systems will no longer be usable.

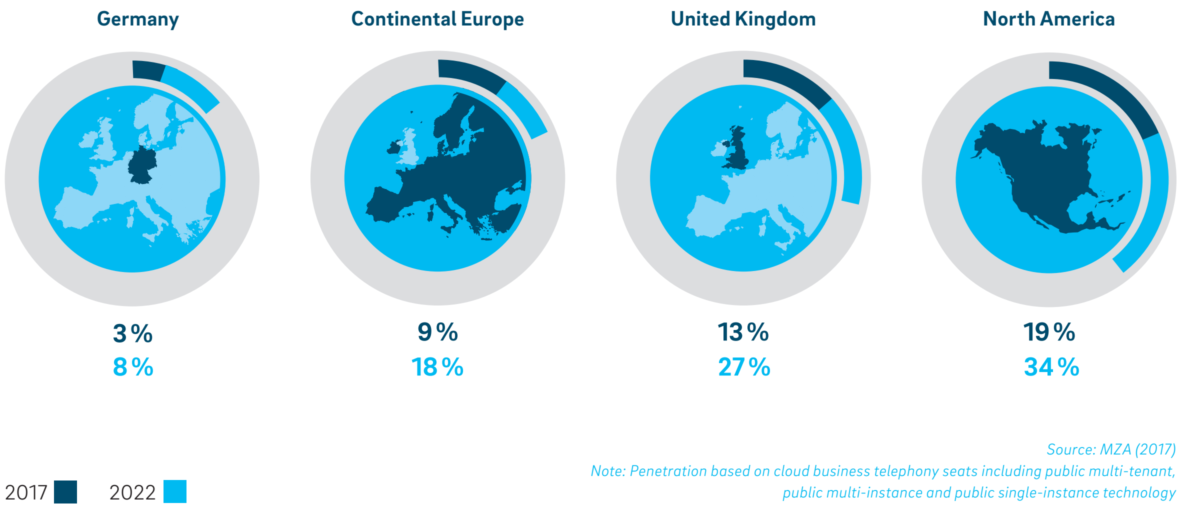
02 ECONOMIC REPORT

Macroeconomic and branch-related framework conditions

The European market for all telephone system extensions (PBX seats) was estimated at a total of 135 million at the end of the last business year (2017). This includes 13 million cloud PBX seats including approx. 10 million public multi-tenant seats. In comparison with the North American market, which generally pre-empts significant technology trends, it appears to have enormous market potential. With a penetration rate of 19 % at the end of 2017, North America is twice as big as continental Europe.

So, it is to be expected that continental Europe will reach the penetration rate of North America in around five years.

Cloud PBX penetration (%)

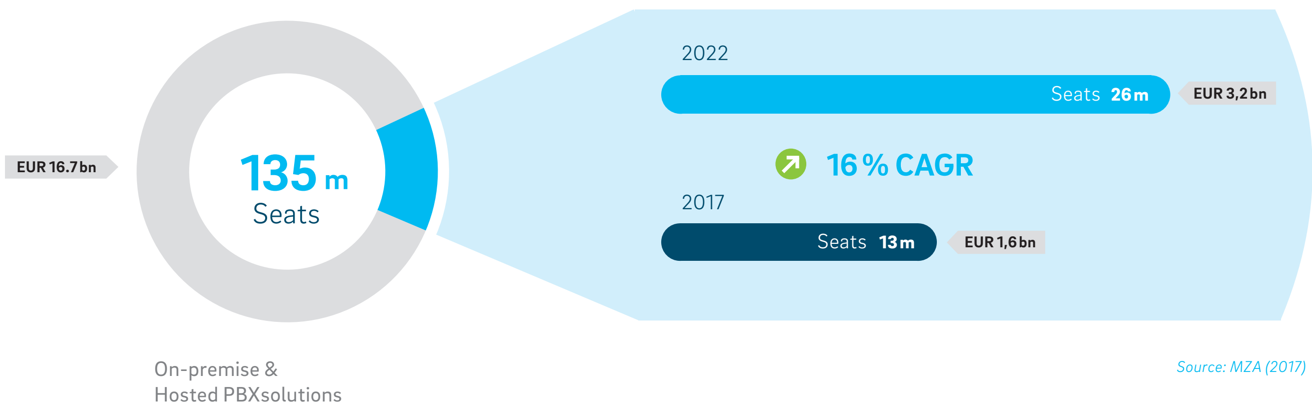


Source: MZA (2017)
Note: Penetration based on cloud business telephony seats including public multi-tenant, public multi-instance and public single-instance technology

For the German and British markets, this corresponds to around twice the current penetration rate. In relation to the overall development of the market, an average annual growth rate (CAGR) of around 16 % is thus calculated so that in five years the number of cloud seats may have increased to around 26 million on the European market.

European business PBX market 2017

Disruptive business PBX market

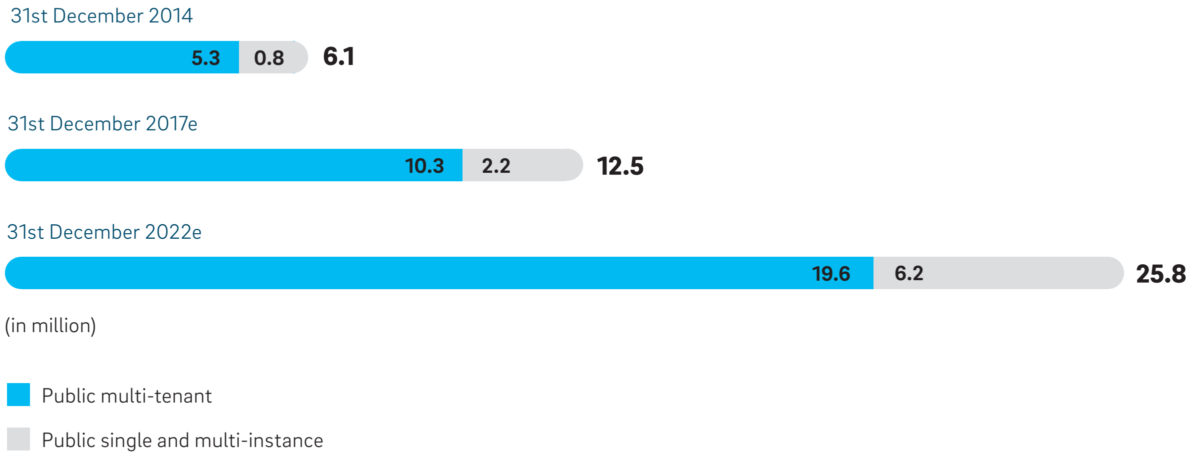


Source: MZA (2017)

02 ECONOMIC REPORT

Macroeconomic and branch-related framework conditions

With regard to the different PBX provided, there is a significant trend here towards public multi-tenant PBX - the area that NFON exclusively works in.



The public multi-tenant cloud PBX market in Germany and the United Kingdom
The high popularity of telephone systems (TDM and IP) in Germany can be put down to several factors. However, it can be attributed in particular to the fact that in the past, German customers were conservative with the introduction of cloud PBX delivery models. The number of multi-tenant seats in Germany is expected to increase by more than 20 % each year from 2017 to 2022.

In comparison with Germany, the overall PBX market in the United Kingdom has far fewer seats. But it has higher cloud PBX penetration. Fundamentally, the United Kingdom has a higher affinity for internet-based technologies - similarly to North America. In connection with this, there is definitely a lower level of risk aversion when using data. As of 31st December 2017, the estimated number of public multi-tenant PBX seats in the United Kingdom was around 1.8 million. This number will likely almost double from 2017 to 2022.

The development of the cloud PBX on future markets
In France, the estimated number of public multi-instance and multi-tenant PBX seats totalled 1.3 million at the end of 2017. The number of public multi-instance and multi-tenant PBX seats in France will probably increase by around 26 % to a total of 4.2 million between 2017 and 2022.

The estimated number of public multi-instance and multi-tenant PBX seats in Italy was 0.2 million at the end of 2017. By the end of 2022, this number will probably increase by around 34 % each year to a total of 1.0 million. In Belgium and the Netherlands, 1.6 million seats were recorded at the end of 2017. The total public multi-instance and multi-tenant PBX seats in these countries will probably increase to a total 3.2 million, which corresponds to an annual growth rate of around 15 % by the end 2022.

02 ECONOMIC REPORT

Presentation of the course of business

Overall, NFON AG is developing in accordance with their forecasts for the whole year 2018 published in May, which shows sustainability of the business undertaken by NFON. As expected, the number of seats was increased by 30 % in comparison with the previous year. Revenue were significantly over the total revenue growth of the 2017 business year at 21.7 % (end of 2017: 17.4 %). With a share of revenue of 79.9 % (previous year: 75.6 %) the share of recurring revenue is at the upper end of the forecast range for the overall year 2018 between 75 % and 80 %. As expected, the company is currently experiencing lowering of the blended ARPU. This ARPU includes a mix effect, which is a result of the fact that NFON is growing very successfully with the wholesale partners, who do not contract airtime with NFON and therefore generate a below-average ARPU. In future, the increasing sales of premium solutions with which the company achieves an above average ARPU will counteract this trend. Strengthened by the new capital gained through succesful IPO, NFON can now continue driving forward its growth strategy. This is seen in the first half of the year in increased expenses in the personnel department as well as marketing costs. The increased expenses are also reflected in the development of the EBITDA. Adjusted for IPO expenses, the retention bonuses granted in connection with this and the one-time charges due to the share-based payments, NFON was nevertheless able to achieve a positive EBITDA of EUR 0.1 million. NFON is working at high pressure on introducing their new NFON Client, which is to be put on the market in the second half of the year. NFON Client was shown on this year's CeBIT for the first time and generated substantial interest amongst customers and partners of NFON AG.

2.1 Profit Situation

Development of significant items on the consolidated statement of comprehensive income

in m EUR	Half-year 2018	Half-year 2017	Adjustment
Revenue	**20.6**	16.9	21.7
Material costs	**5.4**	4.8	13.7
Gross profit	**15.2**	**12.2**	**24.8**
Other operating income	**0.9**	0.4	161.8
Personnel costs	**13.1**	6.8	91.3
Other operating expenses	**9.6**	6.2	53.3
EBITDA	**- 6.6**	- 0.7	n/a
Adj. EBITDA	**0.1**	- 0.8	n/a
Amortisation and depreciation	**0.3**	0.3	0
EBIT	**- 6.9**	- 1.0	n/a
Net interest expenses	**- 0,1**	- 0,1	n/a
Income tax expenses	**0**	0	n/a
Net loss	**- 7.0**	**- 1.1**	**n/a**

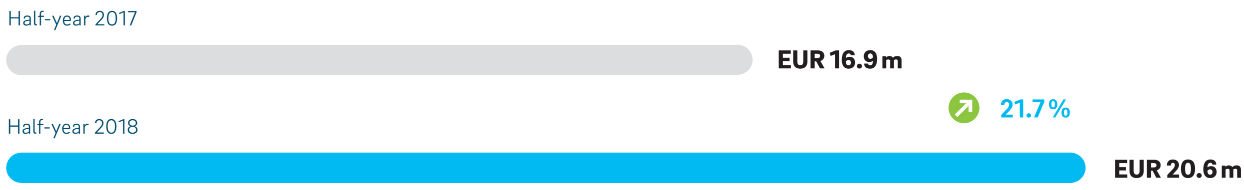
The revenue and EBITDA are presented by reportable segments in the notes from page 40 onwards.

02 ECONOMIC REPORT

2.1 Profit situation

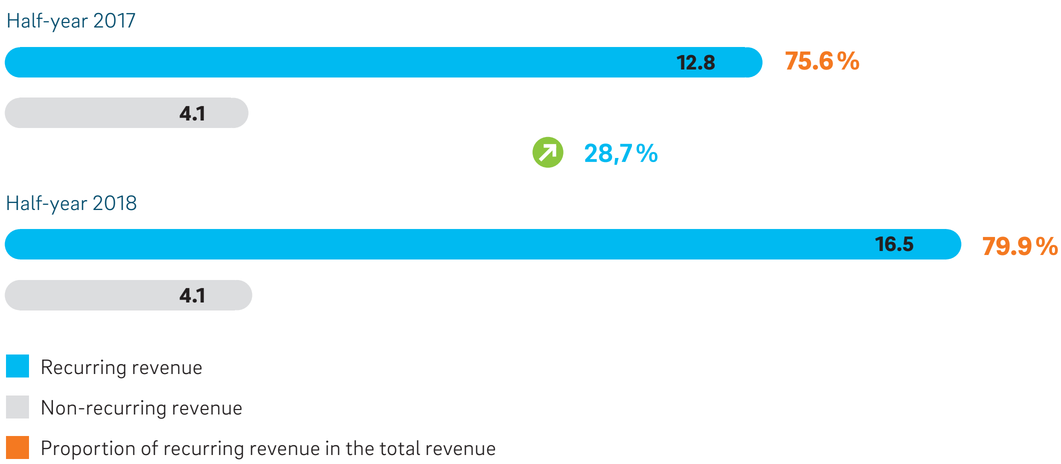
Revenue development

Revenue: Revenue growth at a rate of 21.7% significantly above the previous year



Revenue growth in the first half of 2018 as compared to the same period of the previous year primarily stems from acquiring new customers, an increase in the number of installed extensions (seats) amongst the existing client base, particularly in Germany, the UK and Austria, and expanding the product portfolio.

Recurring vs non-recurring revenue: Recurring revenue is developing very positively



02 ECONOMIC REPORT

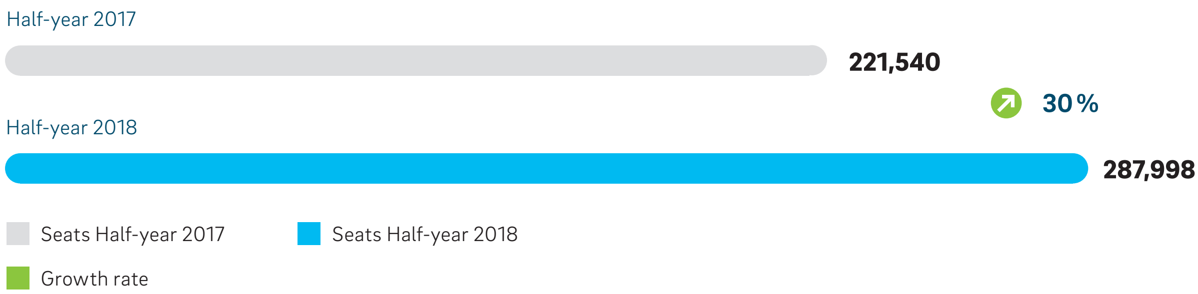
2.1 Profit situation

Recurring revenue primarily stems from the monthly payment of a fixed licence fee per seat plus a fixed or volume-based fee for using voice telephony.

With a share of total revenue of 79.9 % (previous year: 75.6 %) the share of recurring revenue is at the upper threshold of the forecast range for the overall year 2018 between 75 % and 80 %.

Non-recurring revenue includes revenue from the sale of devices and the corresponding software (phones, soft clients for PCs and smartphones) and the one-time activation fee per extension during initial installation.

Seats: Seat development is at 30 % exactly in the expectations

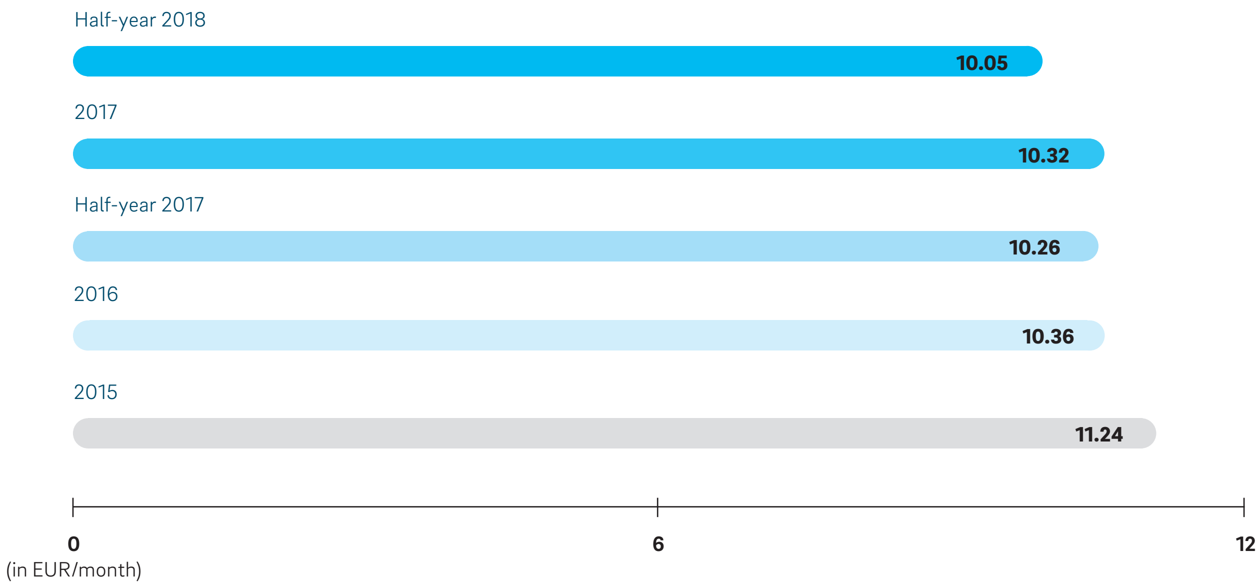


NFON uses the average recurring revenue per user from all services, sales channels and countries, the so-called "ARPU" (Average Revenue Per User), to measure the operating performance of ongoing business. The ARPU is calculated from the average recurring revenue per month divided by the average number of seats per month (including revenue and seats for customers under contract with NFON wholesale partners). The (blended) ARPU is influenced by various factors in different directions. At the moment, it is changing due to the fact that NFON fortunately is increasingly winning additional customers through wholesale partners. On the one hand, discounted prices are agreed due to the high number of sold seats, and on the other hand, these partners sometimes do not receive airtime via NFON. Overall, the growing proportion of PBXs billed through wholesale partners generates on average lower ARPU. NFON counteracts this trend by increasing the sale of premium solutions in the future, with which the company in turn achieves above-average ARPU.

02 ECONOMIC REPORT

2.1 Profit situation

ARPU: ARPU shows sustainability of business model



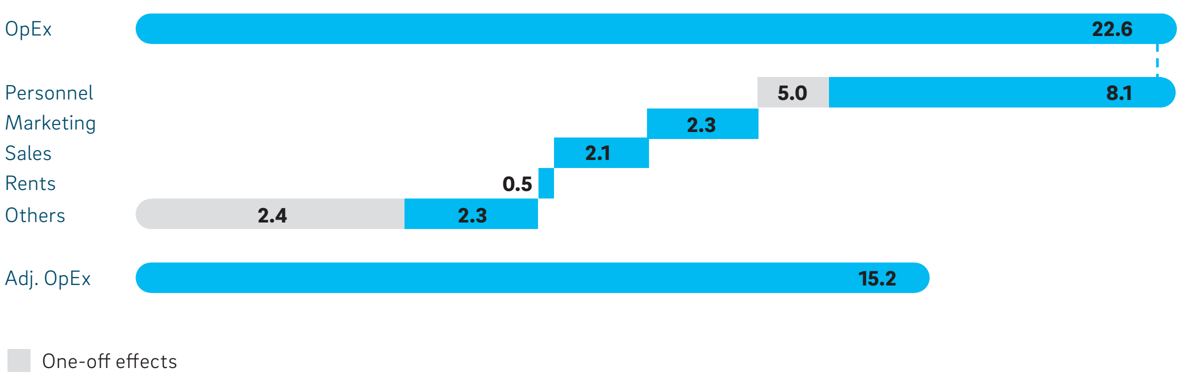
Other operating income

Other operating income increased significantly in the 2018 reporting period by 162.6 % to EUR 0.9 million. (previous year: EUR 0.3 million), this includes one-off payments from existing investors in connection with the acquisition of the agreed management board bonuses.

Cost of materials

The cost of materials increased in the reporting period from EUR 4.8 million in comparison to the same period of the previous year at a slower rate than revenue by around 13.7 % to EUR 5.4 million in the first half of 2018. This results in a decreasing material cost rate for the first half of the year 2018 of 26.3 % (previous year: 28.1 %). It is behaving as planned within the regular fluctuation margin.

Operating expenses



02 ECONOMIC REPORT

2.1 Profit situation

Personnel costs

Personnel expenses increased in the first six months of 2018 as compared with the same period of the previous year by around 91.3 % to EUR 13.1 million (previous year: EUR 6.8 million). This is mainly due to the strategic personnel expansion. In addition, share-based payments at EUR 3.7 million and the bonuses granted at a total of EUR 1.3 million are seen as one-off effects. The share-based payment in the amount of EUR 3.6 million (previous year EUR 0.2 million) is based on agreements made in previous years, for which a debt assumption was agreed with former shareholders and which expired due to a bonus agreement concluded in connection with the IPO. As a result, the amount was not and will never be disbursed at any time, but must be recognised in full in the additional paid-in capital at the current period under IFRS 2. In addition, there is a share-based payment agreement with one member of the management board for which there is no assumption of debt by former shareholders. In the context of this agreement, EUR 0.1 million was recognised under other provisions in the reporting period. The bonuses granted relate firstly to members of the management board, although it should be noted that these bonuses are borne by the former shareholders, which is why corresponding relief is recognised under other operating income (see also "Other operating income"). On the other hand, they relate to the retention programme for executives, which, like the management board bonuses granted, is related to the IPO. Adjusted for these one-time effects, personnel costs increased by around 21 % to EUR 8.1 million in comparison to the previous year. This corresponds to an adjusted personnel expense ratio of 39.1 %, compared to 39.3 % in the same period of the previous year.

Other operating expenses

The other operating expenses increased significantly to EUR 9.6 million in the first half of the year 2018 in relation to the previous year's period (EUR 6.2 million). This is largely due to the increased expenses in marketing and sales and the one-off expenses at EUR 2.4 million in connection with successful IPO. Adjusted for this one-off effect, the other operating expenses increased by 15.0 % to EUR 7.2 million in the first half of the year. This corresponds to an adjusted rate in terms of revenue from 34.8 % compared to 36.9 % in the same period of the previous year.

Marketing expenses

As planned, NFON invested further in marketing in the first half of the year 2018. Marketing expenses increased by 30.0 % to EUR 2.3 million compared with the same period of the previous year (previous year: EUR 1.8 million)

Sales expenses

Sales expenses increased in the 2018 reporting period to EUR 2.1 million (previous year: EUR 1.9 million). In terms of revenue, this is at a stable rate of around 10 % as compared to the same period of the previous year. Sales expenses particularly include payment commissions to NFON AG's sales partners, which are involved at a percentage proportional to revenue.

02 ECONOMIC REPORT

2.1 Profit situation

Scheduled amortisation and depreciation

In the first half of the year 2018, amortisation remained unchanged in relation to the same period of the previous year at EUR 0.3 million.

Net interest cost

The net interest cost (interest and similar profits less interest and similar expenses) totalled at EUR 0.1 million. (previous year: EUR 0.1 million) in the first half of the year 2018.

EBITDA, EBIT, consolidated profit and loss

in m EUR	HY 2018	HY 2017
EBITDA	**- 6.6**	**- 0.7**
IPO expenses (other operating expenses)	**2.4**	0
Retention bonus	**0.6**	0
ESOPS	**3.7**	- 0.1
Total amount of adjustments EBITDA	**6.7**	- 0.1
EBITDA adjusted	**0.1**	**- 0.7**
EBIT	**- 6.9**	- 1.0
Consolidated profit & loss	**- 7.0**	**- 1.1**
Consolidated profit & loss adjusted	**- 0.3**	**- 1.2**

2.2 Financial situation

With a monthly forecast of cash and cash equivalents, it was and is ensured that tight liquidity positions can be recognised early and if necessary countermeasures can be taken. In the reporting period there were no serious liquidity shortfalls, which might have led to financial disadvantages for the enterprise. The company met the deadlines for its payment obligations in the reporting period. On the reporting date, liquid assets were at EUR 47.4 million. Of this, EUR 0.3 million serves as collateral for the direct debit obligation in Germany.

Financing analysis

Flotation and issue proceeds

The corporation has been successfully listed in the Prime Standard since 11th May 2018 on the Frankfurt Stock Exchange. Together with and for the purpose of the tender, the corporation issued 4,166,666 new shares as part of flotation. The capital increase was decided by the management board on 9th May 2018 with the agreement of the supervisory board on the same day using the authorised capital. After recording the capital increase in the commercial registry, the company's share capital is EUR 13,806,816.00 and is divided into 13,806,816 common shares (no-par shares) issued to the owner. All shares in the company are paid in full. Net proceeds of around EUR 48.0 million resulted from IPO.

NFON AG primarily used cash flow from operating business activity, credit agreements with financial institutes and financing leasing agreements for financing in the first six months of this business year.

Investment analysis

The investments made in the reporting period in fixed assets in the amount of EUR 0.4 million largely pertain to expenses for IT infrastructure and server hardware to create a corresponding basis for the planned growth at EUR 0.2 million. Furthermore, investments were made primarily in operating and business equipment, for example the IT equipment for new employees.

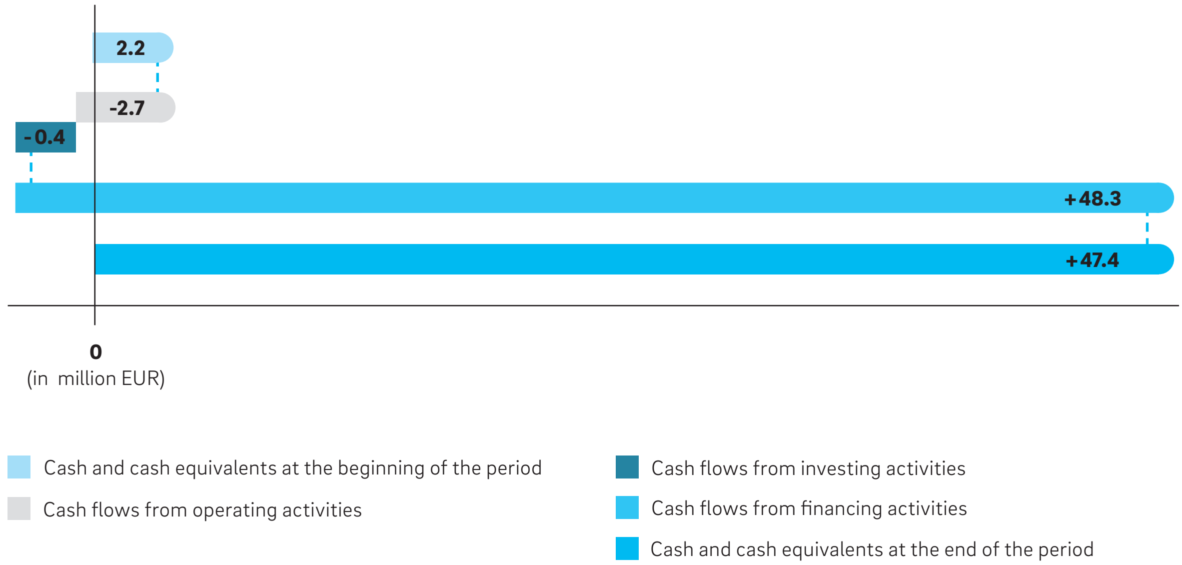
The investments in intangible assets relate to the software acquired.

02 ECONOMIC REPORT

2.2 Financial situation

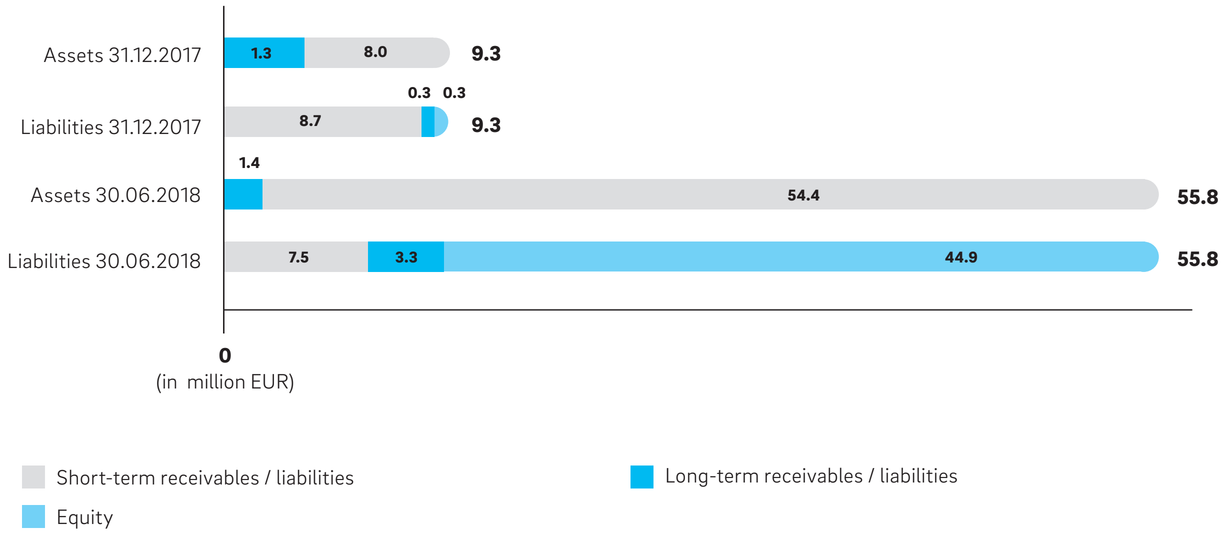
Liquidity analysis

Cash flow half-year 2018



2.3 Asset situation

Balance 31st December 2017 vs 30th June 2018



02 ECONOMIC REPORT

2.3 Asset situation

Equity

As of 30th June 2018, the share capital of NFON AG was EUR 13.8 million, divided into 13,806,816 no-par value bearer shares without nominal value.

The equity has risen as of 30th June 2018 in comparison with 31st December 2017 by EUR 44.6 million to EUR 44.9 million. The increase results largely from the IPO on 11th May 2018, during which a gross amount of EUR 50 million was collected. As such, subscribed capital increased as of 30th June 2018 by EUR 4.2 million and capital reserve rose by EUR 45.8 million In connection with the flotation, transaction costs at EUR 2.6 million were directly recorded in the capital reserve. An additional amount of EUR 2.4 million was recorded in the reporting period as other operating expenditure in the profit and loss statement. This also relates to expenses in connection with the IPO, but for the placement of existing shares. The distinction between recording such expenditure as transaction costs in the capital reserve and as other operating expenditure in the profit and loss statement is organised on the basis of the criteria listed in IAS 32.37. Reimbursements by the existing shareholders at EUR 0.5 million have been offset with the capital reserve. The capital increase made through flotation followed the decision of the general meeting on 22nd February 2018 to increase the corporation's share capital by EUR 9.3 million with funds from the capital reserve.

Due to the existing share-based remuneration agreements, personnel expenses of EUR 3.7 million were recorded in the reporting period. The capital reserve increased in connection with this by EUR 3.6 million.

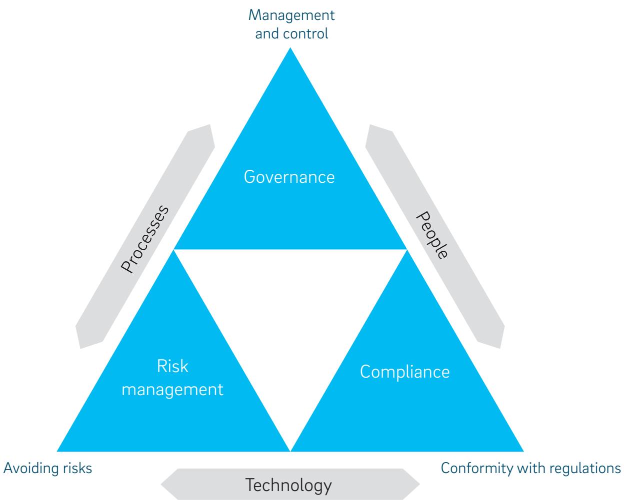
03 SUPPLEMENTARY REPORT

After 30th June 2018 no matters arose, which could affect the assets as well as financial and profit situation.

04 RISK AND OPPORTUNITY REPORT

4.1 Risk and opportunity management system

NFON AG redeveloped and implemented their risk and opportunity management system in the first half of the year 2018. It is based on triad risk management, compliance and governance.



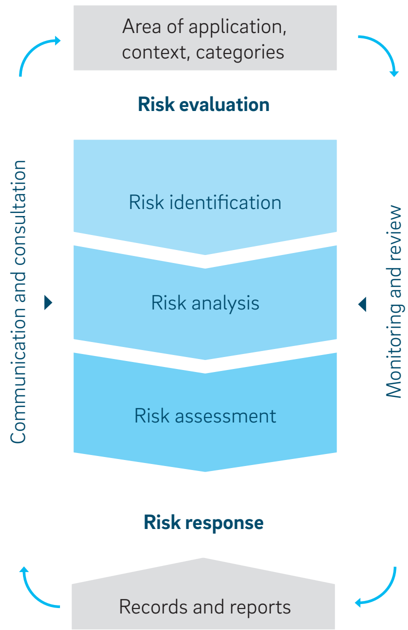
Source: WMC

This is an integrated, holistic approach, which ensures that the organisation can conduct itself ethically, in accordance with its risk affinity and within internal and external guidelines – enabled by the coordination of strategies, processes, people and technology - whereby efficiency and effectiveness are increased.

As part of 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 NFON group's risk and opportunity management system enables opportunities and risks to be recognised, taken notice of and limited. Fundamentally, the NFON group's risk and opportunity policy is organised to sustainably secure the company's existence and continually improve competitiveness. Risk and opportunity management is integrated in value-based management and the existing structures of the NFON group in order to recognise and evaluate possible signs early.

The risk management key stages of the NFON group are:



Risk and opportunity management is based largely on ISO 31000 and ISO 27001 in conjunction with further legal regulations, particularly § 91 para 2 Stock Corporation Act and § 107 para 3 line 2 Stock Corporation Act. Thus it can be ensured that risk and opportunity management is subject to a uniform methodology in the NFON group.

The NFON group sees risk and opportunity management as a continuous and consistent process. Furthermore, risks identified during the year, which have a high likelihood of occurring and which could cause a lot of damage, are immediately reported using the direct line to the management board. The risk and opportunity recognition system is evaluated by the annual auditor as part of the audit to ensure that the system is suitable for promptly recording, evaluating and communicating all potential risks which pose a threat to the company.

4.2 Responsibilities

The management board is responsible for implementing the risk management system. They set the risk management goals and methods for the group including their methods for hedging.

On behalf of the management board, the risk and opportunity committee monitors the implementation of, execution of and adherence to a uniform risk strategy and methodology.

The following areas of responsibility have been defined for the committee divided into risk types:

I. Research & development
II. IT / Support
III. Operations
IV. HR
V. Purchasing
VI. Sales
VII. Regulation, law and compliance
VIII. Product development
IX. Market and reputation
X. Finances and controlling

The committee is composed of department heads, managing directors of the subsidiary companies and the IT security employees and data protection employees (DPE) in accordance with the areas of responsibility. The department heads and thus the members of the risk and opportunity committee are tasked with the identification, analysis and evaluation of opportunities and risks as well as the associated taking of opportunities and handling of risks within their respective areas of responsibility. In the combined committee meeting, they coordinate the identification, analysis and evaluation of risks and opportunities at regular intervals. The risk and opportunity report drawn up by the risk/opportunity committee is regularly coordinated with the management board.

Furthermore, the supervisory board has the task of regularly monitoring the risk management system.

4.3 Compliance management system

The management board must ensure compliance with statutory provisions and company policies and see to it that these are observed by the group companies (compliance). Compliance matters are routinely discussed between the supervisory board or the chairman of the supervisory board and the management board. The corporate culture of the NFON group is characterised by trust and mutual respect and the willingness to strictly comply with the law and internal policies. Nevertheless, statutory violations due to an individual's misconduct cannot be completely ruled out. Employees and third parties can report misconduct within the company to the compliance officer appointed for this purpose. Due to the organisational expenditure, the company is refraining from implementing an anonymous reporting system (whistleblower system). The company makes every effort to minimise this risk as far as possible, to uncover misconduct and to consistently follow up on this. Observing legal and ethical rules and principles is paramount. Rules and principles, along with the responsible handling of insider information, are laid down in the compliance guidelines. These serve to orient all employees to conduct themselves with integrity in business transactions. Management and employees are trained on compliance guidelines.

4.4 Internal control and risk management 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 ensure sufficient security for the creation of a financial statement which complies with the regulations, when controls are implemented. The NFON group's ICS is largely based on a functioning internal control system on the basis of the existing processes and process-integrated, organisational security measures such as access restrictions in the IT department or payment guidelines. Process-integrated controls reduce the likelihood of errors occurring and support the detection of errors which have occurred.

The supervisory board advises on risk management and monitors the effectiveness of the risk management system, the internal control system and the accounting process as well as the audit and its independent nature. The significant features of the internal control system and the risk management system with regard to the accounting process can be described as follows:

NFON AG prepares the consolidated financial statement as the parent company of the NFON group. This process follows financial reporting for the group companies included in the consolidated financial statement. Both processes are monitored by a stringent internal control system, which ensures both the correctness of accounting and adherence to the relevant legal conditions.

The key functions in all departments are controlled centrally, whereby the individual subsidiaries have a set level of independence in the creation of their financial statements. Significant regulations and instruments in the preparation of the consolidated financial statement include:

- Balancing guidelines on a group level,
- Clearly defined separation of duties and the assignment of responsibilities between the departments involved in the accounting process,
- Involving external experts, where necessary, for example for the evaluation of pension obligations,
- Using suitable IT finance systems and applying detailed authorisation concepts to ensure the task-oriented entitlements considering the principle of segregation of duties,
- System-based controls and other process controls for accounting in the companies, consolidation as part of the comprehensive financial statement and other relevant processes on the group and company level,
- Consideration of risks recorded and evaluated in the risk management system in the annual financial statements, provided this is necessary in accordance with existing balancing regulations.

The management is responsible for implementing these rules and using the instruments in the group companies of the various countries. The consolidated financial statement is the responsibility of the CFO of the NFON AG. The member of the management board is supported in this by the vice president for finance. By employing qualified, specialized professionals, regular targeted training and development and observing the dual control principle, the NFON group ensures strict adherence to the local and international accounting regulations in the annual and consolidated financial statement. All annual financial statements of significant group companies, which are involved in group consolidation, are subject to auditing by an annual auditor. With the obligation of all subsidiary companies to report their business numbers to NFON AG on a monthly basis in a standard reporting format, differences between targets and performances can be recognised promptly throughout the year so they can be reacted to quickly.

4.5 Risk assessment

In order to identify, evaluate and control all fundamental risks, the central risk assessment (risk inventory) of the NFON group will be completed at least once a year in future. The purpose of risk assessment is to support decisions. This determines the 'loss amount' and the 'probability'. The 'loss amount' is defined as the potential bearing of the loss if the risk actually occurs. The financial loss must be estimated numerically. The probability is the result of a possible number of incidents 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 analyses to better understand the risk (minimisation),
- to maintain existing controls or to reconsider objectives.

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

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

Loss amount
If a loss occurs, it can have consequences. The loss has consequences, if the defined amounts are incurred during the respective period. This is regardless of whether the loss was incurred by one or several events during the respective period.

04 RISK AND OPPORTUNITY REPORT

4.5 Risk assessment

Classification of the loss amount

Loss amount	Interpretation	Effect on the asset and profit situation
5 – catastrophic	**Loss potential threatening existence**	**> EUR 2,000,000**
4 – significant	**Significant loss potential**	**> EUR 1,000,000**
3 – medium	**Medium loss potential**	**> EUR 250,000**
2 – low	**Low loss potential**	**> EUR 10,000**
1 – very low	**Negligible loss potential**	**< EUR 10,000**

Examples: One incident costing EUR 2.5 million is incurred within one year. This would threaten the existence of the company - catastrophic. Three incidents at EUR 0.75 million are incurred within one year. The total loss is EUR 2.25 million and is therefore just as much a threat to the existence of the company - catastrophic.

The above loss classes refer to the total loss of one or several events which occur within the period considered. The multiplication below uses single events for evaluation.

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

Probability

Probability is defined as follows, per period, which is individually specified:

Class	Description (qualitative)	Probability (quantitative)	
5	**Almost certain**	**80 – 99 %**	**Monthly**
4	**Very likely**	**60 – 79 %**	**Annually**
3	**Likely**	**40 – 59 %**	**On average once every 1 – 2 years**
2	**Unlikely**	**20 – 39 %**	**On average once every 3 – 5 years**
1	**Very unlikely**	**0 – 19 %**	**On average at most once every 5 years**

The probability is determined based on experience and results from previous periods (e.g. results of a management review, incidents), where applicable. The values may alternatively be estimated.

04 RISK AND OPPORTUNITY REPORT

4.5 Risk assessment

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

Loss amount						
> EUR 2,000,000	5	5	10	15	20	25
> EUR 1,000,000	4	4	8	12	16	20
> EUR 250,000	3	3	6	9	12	15
> EUR 10,000	2	2	4	6	8	10
< EUR 10,000	1	1	2	3	4	5
Probability		<1	2	3	4	5

Please refer to the following risk portfolio for the result of multiplying the probability and the loss amount, and the associated risk classification.

Risk class 5 – red
Risk class 5 covers risks threatening existence. They can profoundly jeopardise the company's financial and asset position or the company's existence.

Risk class 4 – orange
These risks can seriously affect the company's financial and asset position or the company's existence.

Risk class 3 – yellow
These risks can moderately affect the company's financial and asset position or the company's existence.

Risk class 2 – green
These risks have no significant impact on the company's financial and asset position or the company's existence and can only jeopardise the company in absolute exceptional circumstances. Nevertheless, they can strain the company's asset position, and organisational safeguards and checks should be used in line with general company monitoring to reduce these.

Risk class 1 - blue
These risks do not affect the company's financial and asset position or the company's existence.

CIA values
As well as the risks recorded above, IT security and data protection risks are assessed again separately. Each IT security and data protection risk must be assessed based on the respective fundamental values of confidentiality (C), integrity (I) and availability (A).

The synergy of fundamental values is referred to as a CIA profile.

04 RISK AND OPPORTUNITY REPORT

4.5 Risk assessment

Profile	C	I	A
Degree of impact	**Violation of confidentiality**	**Violation of integrity**	**Violation of availability**
catastrophic	**4**	**4**	**4**
significant	**3**	**3**	**3**
low	**2**	**2**	**2**
very low	**1**	**1**	**1**

Gross and net risks

The assessment uses gross and net risks. Gross risks constitute risks which exist if no measures have been implemented to address the risk. Measures which have already been implemented are not considered.

Net risks are risks which exist after measures are taken and therefore constitute the residual risk.

NFON AG explained risks and opportunities in detail in the listing prospectus from 24th April 2018. Furthermore, currently no further risks and opportunities have been recognised.

05 OUTLOOK

The market for business communication is undergoing a historic transformation. NFON is benefiting from the structural shift to cloud telephony solutions, which permanently changes the business communication market. The European cloud telephony market alone is expected to grow at a CAGR of 16 % between 2017 and 2022, offering a unique opportunity for our further development as the only true pan-European cloud PBX provider.

On the basis of a successful financial year 2017 with revenue of EUR 35.7 million and a first-time break-even on adjusted EBITDA level, NFON expects further dynamic growth in 2018 and coming years on the back of the continuing growth in the market for cloud telephony and UCaaS. On the basis of the developments in the financial year ended 31st December 2017, NFON expects a significantly growing customer base by around 30 % in 2018. Besides, the company expects the revenue growth rate for 2018 to clearly outperform the revenue growth rate in 2017 of around 17 %. It should be noted that revenue in the first quarters of the year are typically lower than total revenue for the full year. This is due to the cumulative effect of gained seats on the customer base in the course of the year. NFON expects the resulting recurring revenue in 2018 will be between 75 % and 80 % of total revenue in 2018. This would underpin the sustainability of the NFON business model. NFON expects this development to be mainly driven by continued strong momentum in our largest markets Germany and the UK.

06 CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

6.1 Consolidated statement of profit and loss and other comprehensive income

for the period from 1st January to 30th June 2018

in TEUR	Half-year 2018	Half-year 2017
Revenue	20,617	16,946
Other operating income	898	343
Cost of materials	- 5,415	- 4,761
Personnel costs	- 13,064	- 6,829
Depreciation and amortisation	- 308	- 326
Other operating expenses	- 9,580	- 6,248
Impairment loss on trade and other receivables	- 5	23
Other tax expenses	- 2	- 177
Income from continuing operations before net interest income and incomes taxes	**- 6,859**	**- 1,029**
Interest and similar income	6	6
Interest and similar expenses	- 107	- 91
Net interest expenses	**- 101**	**- 85**
Earnings before income taxes	**- 6,960**	**- 1,114**
Income tax expenses	0	- 4
Deferred tax expenses	0	0
Net loss	**- 6,960**	**- 1,118**
Attributable:		
Shareholders of the parent company	- 6,960	1,395
Non-controlling interests	0	- 2,513
Other comprehensive income	- 6	126
Taxes on other comprehensive income	0	0
Other comprehensive income after taxes	**- 6**	**126**
Total comprehensive income	**- 6,966**	**- 992**
Attributable to:		
Shareholders of the parent company	- 6,966	1,521
Non-controlling interests	0	- 2,513
Net loss per share, basic and diluted (EUR)	- 0.93	3.76
Weighted average number of shares (basic and diluted, unit)	**7,480,230**	**370,775**

06 CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

6.2 Consolidated statement of financial positions

Assets as of 30th June 2018

in TEUR	30th June 2018	31st December 2017
Non-current assets		
Property, plant and equipment	**1,104**	1,011
Intangible assets	**242**	210
Other non-financial assets	**74**	62
Total non-current assets	**1,420**	**1,283**
Current assets		
Inventories	**9**	18
Trade account receivables	**5,011**	4,628
Other financial assets	**416**	390
Other non-financial assets	**1,575**	787
Cash and cash equivalents	**47,357**	2,176
Total current assets	**54,368**	**7,999**
Total assets	**55,788**	9,282

06 CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

6.2 Consolidated statement of financial positions

Equity and Liabilities as of 30 June 2018

in TEUR	30th June 2018	31st December 2017
Equity		
Subscribed capital	13,807	371
Capital reserves	70,154	32,052
Retained earnings	- 39,595	32,637
Currency translation reserve	551	557
Total equity	**44,917**	**343**
Non-current liabilities		
Non-current accruals	10	0
Non-current financial liabilities	3,163	0
Other non-current liabilities	194	266
Total non-current liabilities	**3,367**	**266**
Current liabilities		
Trade accounts payable	2,651	2,576
Short-term provisions	1,598	1,551
Short-term financial liabilities	179	2,565
Other non-financial liabilities	3,075	1,981
Total current liabilities	**7,503**	**8,673**
Total equity and liabilities	**55,788**	**9,282**

06 CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

6.3 Consolidated statement of cash flows

for the period from 1st January to 30th June 2018

in TEUR	Half-year 2018	Half-year 2017
Cash flows from operating activities		
Profit/Loss after taxes	**- 6,960**	- 1,118
Adjustments to reconcile profit (loss) to cash provided		
Income taxes	**0**	4
Interest income (expenses), net	**101**	85
Amortisation and depreciation of intangible assets and tangible assets	**308**	325
Gains (losses) on the disposal of property, plant and equipment and intangible assets	**- 9**	- 15
Equity-settled share-based payment transactions	**3,551**	173
Other non-cash income (expenses)	**19**	19
Change in:		
Inventories	**9**	2
Trade and other receivables	**- 1,198**	- 388
Trade and other payables	**1,097**	- 556
Provisions and employees benefits	**58**	390
Adjustments of other receivables and provisions for items recognised in equity (IPO costs)	**356**	0
Interest paid	**- 49**	- 70
Foreign currency revaluation through profit and loss	**1**	85
Cash flows from operating acitives	**- 2,717**	**1,064**

06 CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

6.3 Consolidated statement of cash flows

for the period from 1st January to 30th June 2018

in TEUR	Half-year 2018	Half-year 2017
Cash flows from investment activities		
Proceeds on disposal of property, plant and equipment	**1**	0
Payments on investments in property, plant and equipment	**- 361**	- 278
Payments on investments in intangible assets	**- 64**	- 93
Cash flows from investment activities	**- 424**	**- 371**
Cash flows from financing activity		
Proceeds from capital increase by the shareholders of the parent company (IPO)	**50,000**	0
Proceeds for transaction costs in connection with the IPO (IPO costs)	**- 2,420**	0
Proceeds from loans and borrowings	**800**	74
Repayments of bank loans and similar to bank loans	**- 57**	- 1,387
Cash flows from financing activities	**48,323**	**- 1,313**
Changes of cash and cash equivalents	**45,181**	**- 2,748**
Cash and cash equivalents at the beginning of the period	**2,176**	**5,777**
Cash and cash equivalents at the end of the period	**47,357**	**3,028**

The cash and cash equivalents on 30th June 2018 include deposits with banks of TEUR 332 (31st December 2017: TEUR 333; 30th June 2017: TEUR 338, 31st December 2016 TEUR 427) which are not freely remissilbe to the group, because of security deposits from customers with bad credit ratings. All restricitions on such deposits are short term in nature.

06 CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

6.4 Consolidated statement of changes in equity

as of 30th June 2018

	Attributable to owners of the company						
TEUR	Share capital	Capital reserve	Retained earnings	Currency translation reserves	Total equity	Non-controlling interests	Total equity
As of 1st January 2018	**371**	**32,052**	**32,637**	**557**	**343**	**0**	**343**
Total comprehensive income for the period							
Loss (income) in the period	0	0	- 6,960	0	- 6,960	0	- 6,960
Other comprehensive income for the period	0	0	0	- 6	- 6	0	- 6
Total comprehensive income for the period	**0**	**0**	**- 6,960**	**- 6**	**- 6,960**	**0**	**- 6,960**
Transactions with owners of the company and equity transactions							
Share-based payments Equity settled	0	3,551	0	0	3,551	0	3,551
Increasing share capital by decision of the general meeting on 22nd February 2018	9,269	- 9,269	0	0	0	0	0
Payments into equity due to the IPO	4,167	45,833	0	0	50,000	0	50,000
Expenses and income related to the IPO recognised in equity	0	- 2,012	0	0	- 2,012	0	- 2,012
Transactions with owners of the company and equity transactions	**13,436**	**38,203**	**0**	**0**	**51,539**	**0**	**51,539**
As of 30th June 2018	**13,807**	**70,155**	**- 39,597**	**551**	**44,916**	**0**	**44,916**

06 CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

6.4 Consolidated statement of changes in equity

as of 30th June 2017

	Attributable to owners of the company						
in TEUR	Share capital	Capital reserve	Retained earnings	Currency translation reserves	Total equity	Non-controlling interests	Total equity
As of 1st January 2017	**371**	**34,696**	**- 30,616**	**409**	**4,860**	**97**	**4,957**
Total comprehensive income for the period							
Loss (income) for the period	0	0	1,394	0	1,394	- 2,513	- 1,119
Other comprehensive income for the period	0	0	0	126	126	0	126
Total comprehensive income for the period	**0**	**0**	**1,394**	**126**	**1,520**	**- 2,513**	**- 993**
Transactions with owners of the company							
Share-based payments Equity settled	0	173	0	0	173	0	173
Total transactions with owners of the company	**0**	**173**	**0**	**0**	**173**	**0**	**173**
As of 30th June 2017	**371**	**34,869**	**- 29,222**	**535**	**6,553**	**- 2,416**	**4,137**

07 NOTES ON THE CONSOLIDATED FINANCIAL STATEMENT

7.1 Accounting principles

The condensed interim financial statement for the first half of 2018 and the notes show the business activity of NFON AG (the 'company') and its subsidiary companies (collectively 'NFON', 'group' or 'NFON group') for the period from 1st January to 30th June 2018. The consolidated interim financial statement has been compiled in accordance with the provisions of IAS 34, and thus the International Financial Reporting Standards (IFRS) as published by the International Accounting Standard Board (IASB) and adopted by the European Union (EU).

The consolidated half-year financial statement has not been audited. It was approved by the management board for publicationon on the 20th of September 2018.

The consolidated half-year financial statement is in euros (EUR), which is the functional currency and reporting currency of NFON AG. Unless stated otherwise, all values in the consolidated financial statement and the accompanying notes are rounded to the nearest thousand euros (TEUR). Therefore, the tables in the consolidated notes may include rounding differences.

The consolidated balance sheet is divided into current and non-current assets and liabilities in accordance with IAS 1. The consolidated income statement is put together in accordance with the total cost method.

The NFON group provides cloud telephone services for user-friendly and effective communication for customers at all locations and for all employees at any time and on different devices like smartphones, tablets, PCs and landline telephones. The group is active in various European countries, particularly Germany, Austria, the United Kingdom and Spain. The company is based at Machtlfinger Straße 7, 81379 Munich and is registered on the commercial register of Munich district court under HRB 168022. The company is a stock corporation under German law.

Comparative information

The consolidated half-year financial statement includes amounts as of and for the period up until 30th June 2018, as compared to that up until 30th June 2017. The consolidated balance sheet as of 30th June 2018 has been compared with the consolidated balance sheet on the reporting date, 31st December 2017.

Exceptional and significant events and transactions

The following relevant events occurred in this half year from 31st December 2017 until 30th June 2018: As part of the IPO on 11th May 2018, the company received gross proceeds of EUR 50 million from the issue of 4,166,666 new shares.

Income taxes

The tax expenses of EUR 0 for the first half of 2018 were determined on the basis of the average annual tax rate in accordance with IAS 34 as is expected for the whole of 2018 and is 0 % on the basis of the current estimates of NFON AG. This tax rate is to be attributed to the negative pre-tax income.

Seasonal influences on business activity

The business model of NFON AG is little affected by seasonal circumstances as the core business is active first and foremost in the business customer segment. Furthermore, the business model is based to a very large extent on monthly recurring revenue, which is consistent over the year.

07 NOTES ON THE CONSOLIDATED FINANCIAL STATEMENT

7.2 Interest-bearing loan capital

The following credits and loans are recorded in the financial liabilities.

in TEUR	30th June 2018	31st December 2017
Non-current financial liabilities		
Acquisition consideration payable	**2,335**	0
Bank loans	**800**	0
Current financial liabilities		
Acquisition consideration payable		2,335
Working capital loans	**178**	230
Total financial liabilities	**3,313**	**2,565**

Acquisition consideration payable

The Group has outstanding consideration payable for its acquisition of the remaining 49.8 % stake in nfon GmbH in October 2017. The outstanding consideration bears interest at a rate per annum equal to 2.50 % over the 3-month EURIBOR but at least 2.50 % per annum. Repayment of the liability reported on 30th June 2018 is to take place in 5 instalments, beginning on 30th April 2020 and with a final instalment on 1st October 2025.

On 31st December 2017, it appeared that the total outstanding return was due as part of the pending flotation and the related expected transfer of more than 50 % of the shares of the existing shareholders on 31st May 2018, as a result of which this is categorised as a short-term financial liability. As the structure of the transfer of existing shares as part of flotation has been adjusted in the short-term, this condition has not come to pass.

7.2 Interest-bearing loan capital

Bank loans

The group concluded a loan for TEUR 800 in the reporting period with UniCredit Bank AG. The loan is due on 31st December 2020 and charges interest with EURIBOR plus 4.1%

7.3 Equity

Equity has risen as of 30th June 2018 in comparison with 31st December 2017 by TEUR 44,574 to TEUR 44,917. The increase is largely the result of the IPO on 11th May 2018, during which a gross amount of EUR 50 million was collected. As such, subscribed capital increased as of 30th June 2018 by EUR 4.2 million and capital reserve rose by EUR 45.8 million. Transaction costs in connection with the placement of new shares as part of the flotation at EUR 2.6 million have been directly recorded in the capital reserve. An additional amount of EUR 2.4 million was recorded in the reporting period as other operating expenses in the profit and loss statement. This also includes expenses in connection with the flotation, but for the placement of existing shares. The distinction between recognising such expenses as transaction costs in the capital reserve and as other operating expenses in the profit and loss statement is based on the criteria listed in IAS 32.37. Reimbursements by the existing shareholders at EUR 0.5 million have been offset with the capital reserve. The capital increase made in flotation followed the decision of the general meeting on 22nd February 2018 to increase the corporation's share capital by EUR 9.3 million with funds from the capital reserve.

Due to the existing share-based payment agreements, personnel expenses of EUR 3.7 million were recorded in the first half of 2018. The capital reserve increased in connection with this by EUR 3.6 million.

Non-controlling interests affect outside shareholders who hold 49.8% of the shares in nfon GmbH, Austria as of 30th June 2017. These shares were acquired on 30th October 2017 by NFON AG throughout its subsidiary company fairfon Telefonsysteme GmbH, Munich. In the first half of the year 2017, transfer prices (for previous years) were charged by NFON AG for nfon GmbH, resulting in nfon GmbH, Austria's expenses, which is profit-neutral in the group due to the elimination of expenses and profit, but leads to a corresponding annual loss in the local financial statements of nfon GmbH, Austria. For group accounting purpurses this results in corresponding earning allocation to non-controlling interests in consolidated financial statements as of 30th June 2018.

07 NOTES ON THE CONSOLIDATED FINANCIAL STATEMENT

7.4 Financial instruments

Classifications and fair values

The following table presents the carrying amounts and fair values of the financial assets and liabilities including their level in the fair value hierarchy. It contains no information on fair values for financial assets and liabilities, which have not been calculated for fair values if the carrying amount is a reasonable approximation of the fair value.

30th June 2018	Amortised costs			Fair value (hierarchy levels)			
in TEUR	Fair value	Carrying amount	Total carrying amount	Level 1	Level 2	Level 3	Total
Financial assets not measured at fair value							
Trade receivable*)		5,011	5,011				
Other financial assets*)		416	416				
Cash and cash equivalents*)		47,357	47,357				
Total financial assets not measured at fair value		**52,784**	**52,784**				
Financial liabilities not measured at fair value							
Acquisition consideration payable		2,335	2,335	1,911			1,911
UniCredit loan		800	800	789			789
Working capital loan		179	179	178			178
Trade payable*)		2,651	2,651	-			–
Total financial liabilities not measured at fair value		**5,965**	**5,965**	**2,878**			**2,878**

*) fair value is not given as this corresponds roughly to the carrying value.

07 NOTES ON THE CONSOLIDATED FINANCIAL STATEMENT

7.4 Financial instruments

31st June 2017	Amortised costs			Fair value (hierarchy levels)			
in TEUR	Fair value	Carrying amount	Total carrying amount	Level 1	Level 2	Level 3	Total
Financial assets not measured at fair value							
Trade receivable*)		4,628	4,628				
Other financial assets*)		390	390				
Cash and cash equivalents*)		2,176	2,176				
Total financial assets not measured at fair value		**7,194**	**7,194**				
Financial liabilities not measured at fair value							
Acquisition considerable payable		2,335	2,335		2,282		2,282
Working capital loan		230	230		239		239
Trade payable*)		2,576	2,576				
Total financial liabilities not measured at fair value		**5,141**	**5,141**		**2,521**		**2,521**

*) fair value is not given as this corresponds roughly to the carrying value.

The group recorded no significant net gains or net losses from financial assets or liabilities in their consolidated income statement.

Valuation techniques for determining fair value
The fair values are measured on the basis of the market information available on the balance sheet date and in accordance with market valuation methods. The fair values of the group's interest-bearing loans are determined using the discounted cash flow method, based on a discount rate that reflects NFON's borrowing rate at the end of the reporting period.

Regrouping between hierarchy levels
Within the first six months of 2018, no reclassifications were made between the individual hierarchy levels.

Financial risk management
All risks which may have significant negative effects on our business, asset, financial and profit situation as well as the reputation of NFON are listed in prospectus published in connection with the IPO on 11th May 2018. These risk management themes have been developed there extensively in written and table form. In the reporting period up until 30th June 2018 no further significant financial risks were identified.

7.5 Contingent liabilities and obligations

The company leases facilities and equipment as part of long-term operating leasing agreements. The leasing agreements primarily relate to leased office spaces and vehicles leased for particular employees. Most of these contracts can be renewed after the expiry of the established leasing period. Some of these contracts can be cancelled early. The total cost for operating leasing relationships for the first half of the year 2018 is TEUR 721.

30th June 2018	Minimum rental payments payable in		
in TEUR	less than 1 year	1–5 years	more than 5 years
Rental payments	605	2,222	268
Payments for car leasing	114	132	0
Total lease obligations as of 30th June 2018	**719**	**2,354**	**268**
Rental payments	638	2,505	444
Payments for car leasing	123	152	0
Total lease obligations as of 31st December 2017	**761**	**2,657**	**444**

In April 2017, the company concluded an agreement on a parent company guarantee, according to which NFON AG as the guarantor of one of its partners, British Telecommunications plc, gives a guarantee for all payments to be made by the subsidiary company NFON UK Ltd.

The group may be involved in legal disputes, claims for damages and administrative and regulatory proceedings with various partners as part of their standard business activity and the conclusion of their agreements from the last few years. In these cases, the group puts together a reserve for these matters if it is likely to result in a loss and the amount lost can be estimated with sufficient certainty. Indeed, uncertainty about the final outcome of such occurrences is normal, but after consulting with legal advisers, NFON is of the opinion that the regulation of these procedures will have no negative consequences for the asset, financial and profit situation and the cash flow of the group.

7.6 Earnings per share

As of 30th June 2018 there were no diluted instruments. Though the company has granted members of the company management share-based remuneration transactions with cash settlement and compensation by equity instruments, future payments are to be made in cash as part of the plans. Therefore, the granted premiums are not considered to be potential ordinary shares outstanding in the sense of the calculation of the earnings per share.

The earnings per share in accordance with the following table show the result from continuing business:

in TEUR	Half-year 2018	Half-year 2017
Profit (loss) attributable to the owners of the parent company for undiluted earnings per share for the year	**-6,960**	1,395
Profit (loss) attributable to the owners of the parent company for diluted earnings per share for the year	**-6,960**	1,395

Quantity	Half-year 2018	Half-year 2017
Weighted average number of ordinary shares for undiluted earnings per share	**7,480,230**	370,775
Weighted average number of ordinary shares for diluted earnings per share	**7,480,230**	370,775

in TEUR	Half-year 2018	Half-year 2017
Loss/profit per share		
Undiluted earnings	**-0.93**	3.76
Diluted earnings	**-0.93**	3.76

7.7 Revenue

in TEUR	Half-year 2018	Half-year 2017
Product/service		
Recurring revenue	**16,472**	12,806
Non-recurring revenue	**4,145**	4,140
Total revenue	**20,617**	**16,946**

The significant increase in recurring revenue as compared to non-recurring revenue in the first half of 2018 results largely from the customer base, which expansed to half-year 2017.

NFON AG has used the regulations of IFRS 15 since changing to the IFRS in the 2015 business year. The contractual assets recorded in connection with IFRS 15 (30th June 2018: TEUR 23.6; 31st December 2017: TEUR 18), additional costs in the initiation of a contract (30th June 2018: TEUR 142.5; 31st December 2017: TEUR 115) and contractual liabilities (31st December 2018: TEUR 33.5; 31st December 2017: TEUR 28.3) are recorded under other non-financial assets (short-term) and other non-financial liabilities (short-term).

7.8 Other operating income

in TEUR	Half-year 2018	Half-year 2017
Other operating income		
Management bonus reimbursement	**740**	0
Non-cash employee-related services	**90**	55
Dissolution of accruals	**0**	246
Various other earnings	**68**	42
Total other operating income	**898**	**343**

The bonuses paid to the executive board following the IPO were reimbursed by the existing shareholders. This reimbursement was received in the amount of TEUR 740 in the reporting period in other operating profits. The corresponding expenses are recorded in personnel expenses. The reversal of provisions is first recorded in the reporting period with expenses, which was used when setting up the corresponding provision. Through this, the cost of materials was reduced by TEUR 16 and the other operating expenses were reduced by TEUR 14. The profits from the dissolution of accruals in the comparison period affect with TEUR 242 the reversal of provisions for share-based payments.

7.9 Other operating expenses

in TEUR	Half-year 2018	Half-year 2017
Other operating expenses		
Marketing expenses	2,298	1,768
Sales commission	2,089	1,895
Other personnel expenses	1,418	887
Rental expenses	519	500
External development costs	48	251
IT costs	535	232
Support	165	207
Consulting expenses	1,892	185
Other administrative expenses	179	186
Other expenses	438	137
Total other operating expenses	**9,580**	**6,248**

The increase in other operating expenses results primarily from IPO expenses recorded in this section in connection with the flotation carried out in the reporting period at EUR 2.4 million. It is referenced in the explanations in the equity section.

7.10 Share-based payment

In previous years and in the first quarter of the reporting period, share-based compensation plans were concluded for the members of the management board for which debt assumption was agreed with the existing shareholders. Their payment depends both on the occurrence of an exit and on the achievement of a certain percentage of (existing) shares, which would have had to be transferred to new shareholders in the event of an exit. The second condition was not met at the IPO in May 2018. To this extent, these compensation plans did not and will not (in the future) result in any payments. In any case, corresponding bonus payments would have been assumed by the existing shareholders, which would not have led to a net cash outflow to the company. Nevertheless, in accordance with the requirements of IFRS 2, the accounting parameters defined in the initial measurement of the compensation programs must continue to be applied and amounts must be allocated to the capital reserve with an effect on expenses until the end of the vesting period (in 2021). A bonus agreement concluded with members of the management board in connection with the IPO and subject to the condition that the claims from the share-based payment agreements concluded in previous years expire is to be regarded as a "cancellation" based on the meaning of IFRS 2 with regard to the share-based payment agreements concluded in previous years and in the first quarter of the reporting period. As a result, with regard to these compensation plans, the amounts remaining at the time of the cancellation that were originally planned to be transferred to capital reserves over the vesting period ending in fiscal year 2021 must be recognized in full in the reporting period (accelerated vesting). In this connection, TEUR 3,551 was recorded in personnel expenses for the reporting period. In addition, there is

7.10 Share-based payment

a share-based payment agreement with a member of the management board for which no debt assumption consists from the existing shareholders. In the context of this agreement, TEUR 113 was recognized in other provisions in the reporting period.

7.11 Balances and transactions with related companies and related parties

Parent company and controlling company
The top controlling company in the group is NFON AG.

Business transactions with members of management in key positions,
overview of the members of management in key positions
The members of management in key positions include the members of NFON AG's management and the members of the NFON AG supervisory board. The members of management in key positions are:

30th June 2018	Position	Entry / appointment date	Exit / dismissal date
Management/key position			
Hans Szymanski	**CEO and CFO**	**1st July 2016**	**still active**
Jan Peter Koopmann	**CTO**	**1st October 2012**	**still active**
César Flores Rodríguez	**CSO**	**1st March 2018**	**still active**

Remuneration of the members of management and the supervisory board
The members of management received the following remuneration:

in TEUR	Half-year 2018	Half-year 2017
Executive remuneration		
Total short-term remuneration	**288**	222
Total share-based remuneration (long-term incentive)	**3,664**	173
Benefits after the end of the employment contract (Work service costs and intragroup applications for acquired pension claims)	**4**	2
Bonus payments	**790**	0
Total remuneration of the members of management	**4,746**	**397**

07 NOTES ON THE CONSOLIDATED FINANCIAL STATEMENT

7.11 Balances and transactions with related companies and related parties

The remuneration of the members of the group's management includes salaries, emoluments granted in tangible assets and contributions to a contribution-based plan for services after the end of the employment contract. The supervisory board of NFON AG had four members on 30th June 2018.

The supervisory board changed as part of the general meeting on 9th April 2018.

The supervisory board for the first half of 2018 consists of:

30th June 2018	Position	Entry / appointment date	Exit / dismissal date
Supervisory board			
Rainer Christian Koppitz	**Chair**	**24th July 2017**	**still active**
Dr. Rupert Doehner	**Vice Chair**	**9th April 2018**	**still active**
Ralf Grüßhaber		**9th April 2018**	**still active**
Angélique Werner		**9th April 2018**	**still active**
Kristian Schmidt-Garve		**21st September 2009**	**9th April 2018**
Dr. Hendrik Brandis		**7th July 2009**	**9th April 2018**
Günther Müller		**26th September 2013**	**9th April 2018**
Elmar Meid		**11th May 2015**	**9th April 2018**
Ann-Kathrin Müller		**27th July 2016**	**9th April 2018**

The members of the supervisory board receive the following remuneration:

in TEUR	Half-year 2018	Half-year 2017
Supervisory board remuneration		
Basic remuneration	29	0
Attendance fee	8	0
Total remuneration of the members of the supervisory board	**37**	**0**

The remuneration of the supervisory board is designated as other short-term liabilities and under other operating expenses.

According to the general meeting on 9th April 2018, the members of the supervisory board receive cash payments in the form of a basic annual remuneration and an attendance fee in addition to the reimbursement of expenses in accordance with the bylaws. The chairperson of the supervisory board

7.11 Balances and transactions with related companies and related parties

receives a basic remuneration of TEUR 40 and the rest of the members receive TEUR 25 each (plus any VAT accrued). For each meeting of the supervisory board that the member has fully participated in, an attendance fee of TEUR 1 (plus any VAT accrued) is also paid.

With this remuneration, memberships and chairs for committees are also compensated. The relevant significant remuneration is paid on a pro rata temporis basis and is rounded to full months. The remuneration also applies to the following years. A change can only be adopted by a general meeting. Numerous members of management in key positions or people close to them have positions in other companies, which means that they control these companies or have significant influence on these companies.

Several of these companies have dealt with the group over the course of the business year. The conditions of these transactions were not more advantageous than those which arose from similar transactions at standard market conditions with companies that do not have a relationship with the members of management in key positions or more advantageous than could be expected within reason.

Members of management in key positions, or their related companies or persons, may occasionally purchase 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 recorded under other transactions with related companies and persons.

Other transactions with related companies and persons

The following table shows transactions with related companies and persons with the exception of the remuneration of members of company management in key positions:

in TEUR	Half-year 2018	Half-year 2017
Sales of goods and services and other profit	**41**	**53**
Purchases of goods and services and other expenses	**113**	275
Receivables	**2**	4
Liabilities	**4**	254

For the related persons and companies listed above, this relates primarily to members of the supervisory board and companies controlled by them, which deal with units of the NFON group. All transactions with these related companies and persons have been concluded under standard market conditions and are to be paid within two months of the reporting date.

The receivables and liabilities in relation to the related persons have not significantly changed as of 30th June 2018 in relation to 31st December 2017.

07 NOTES ON THE CONSOLIDATED FINANCIAL STATEMENT

7.12 Segment information

The company's management rates the performance first and foremost on the basis of the information on revenue and EBITDA indicated in the management reporting. The EBITDA is the return before interest, taxes and scheduled amortisation.

The preparation and presentation of segment reporting on 30th June 2018 has been modified in relation to the notes in the consolidated financial statement from 31st December 2017. On 31st December 2017, reporting to management was based on a management reporting, for which the segments were based on the countries, which did not necessarily correspond to the legal entities. In the first quarter of 2018, NFON AG revised the organisation of corporate control and amended reporting in such a way that in future the operating segments will correspond to the legal entities of the NFON group.

The group includes 4 business segments, which have been outlined separately below as reportable segments. The four business segments are NFON AG, nfon GmbH, NFON UK Ltd and NFON Iberia SL.

Following this, the segment information for the activities in the first half of 2018 is presented on the basis of the new segment structure. The values for the previous year were also adopted to the new structure. Business segments are reported on in such a way that the report corresponds to the internal reporting to the chief operating decision-makers.

Revenue and EBITDA by reportable segment

in TEUR	Half-year 2018	Half-year 2017
Revenue		
NFON AG	**16,507**	12,724
nfon GmbH	**2,270**	1,988
NFON UK Ltd,	**2,929**	2,358
NFON Iberia SL	**138**	68
Total revenues of reportable segments	**21,843**	**17,139**
All other segments	**0**	0
Reconciliation effects	**-1,226**	-193
Total consolidated revenue	**20,617**	**16,946**

For internal reporting, the segments are presented in accordance with local accounting standards and include internal group invoicing if applicable. The reconciliation effects of TEUR 1,226 (1st half-year of 2017 TEUR 193) relate primarily to elimination of inter-company invoices at TEUR 1,237 (1st half-year of 2017 TEUR 98) and IFRS adjustments at TEUR -12 (1st half-year of 2017 TEUR 95).

07 NOTES ON THE CONSOLIDATED FINANCIAL STATEMENT

7.12 Segment information

in TEUR	Half-year 2018	Half-year 2017
EBITDA		
NFON AG	1,838	565
nfon GmbH	- 558	- 14
NFON UK Ltd.	- 250	- 144
NFON Iberia SL	- 466	- 247
Total EBITDA of reportable segments	**564**	**161**
All other segments	- 1	0
Reconciliation effects	- 7,114	- 865
Group EBITDA	**- 6,551**	**- 703**
Addition:		
Amortisation	- 308	- 326
Net interest income/expenses	- 101	-85
Income tax expenses	0	- 4
Group profit/loss	**- 6,960**	**- 1,118**

Internal reporting does not correspond to IFRS reporting standards and is based on information according to the relevant local accounting standards. The group's adjustments in the first half of the year are based primarily on the adjustment for IPO costs at TEUR 4,816 (1st half-year of 2017 TEUR 0) and IFRS adjustments at TEUR 2,059 (1st half-year of 2017 TEUR 833). In 2018 the IFRS adjustments primarily include the increase in personnel costs due to share-based payments at TEUR 3,664 (1st half-year of 2017 TEUR 173) and the reclassification of IPO costs to equity at TEUR 2,368 (1st half-year of 2017 TEUR 0).

07 NOTES ON THE CONSOLIDATED FINANCIAL STATEMENT

7.13 Subsequent events

No subsequent events occurred after the reporting date - 30th June 2018 – which are to be mentioned in this half-year financial statement

Munich, 20th September 2018

Hans Szymanski	Jan-Peter Koopmann	César Flores Rodríguez
CEO and CFO	CTO	CSO

08 ADDITIONAL INFORMATION

8.1 Affirmation by the legal representatives

We, the members of the management board of NFON AG, to the best of our knowledge affirm that, in accordance with the applicable reporting princip-les, the unaudited interim group management report and the interim consolidated financial statements of the NFON group represent a true and fair view of the net assets, financial position and performance of the group, together with a description of the principal opportunities and risks associated with the expected development of the group.

Munich, 20th September 2018

Hans Szymanski	Jan-Peter Koopmann	César Flores Rodríguez
CEO and CFO	CTO	CSO

08 ADDITIONAL INFORMATION

8.2 Financial calendar

Results as of the 3rd quarter of 2018	22nd November 2018

8.3 Imprint

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Freedom knows no bounds.

(NFON AG is active in 13 European markets.)