THE NEW FREEDOM IN BUSINESS COMMUNICATIONS.

Interim report Q3 2018

KEY FIGURES

Business customers

20,000+

Development of seats

305,000+

Revenue 9 months 2018

EUR 31.2 M

Share of recurring revenue

81%

List of abbreviations:

PBX – Private Branch Exchange (telephone system)
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 with its headquarter in Munich, is the only true pan-European cloud PBX provider and has over 20,000 business customers in 13 European countries. With Cloudya, NFON offers a simple, independent and reliable solution for modern cloud business communication. Further premium and industry solutions supplement the portfolio in the area of cloud communications. Our intuitive communication solutions enable Europe's companies to become a little bit better each and every day. NFON is the new freedom in business communications.

www.nfon.com

Founded in

2007

Active in

13 European countries

Employees

227

Financial and non-financial performance indicators:

	9 months 2018	9 months 2017	Change (9 months)	Q3 2018	Q3 2017	Change (Q3)
Total revenue	**EUR 31.2 m**	EUR 26.0 m	20.2 %	**EUR 10.6 m**	EUR 9.0 m	17.5 %
Recurring revenue	**EUR 25.3 m**	EUR 19.8 m	27.9 %	**EUR 8.8 m**	EUR 7.0 m	26.4 %
Share of recurring revenue to total revenue	**80.9 %**	76.0 %		**82.8 %**	76.9 %	
Non-recurring revenue	**EUR 6.0 m**	EUR 6.2 m	-4.0 %	**EUR 1.8 m**	EUR 2.1 m	-12.3 %
Share of non-recurring revenue to total revenue	**19.1 %**	24.0 %		**17.2 %**	23.1 %	
ARPU blended	**EUR 9.96**	EUR 10.17	-2.1 %	**EUR 9.79**	EUR 10.01	-2.2 %
Adj. EBITDA	**EUR 0.1 m**	EUR -0.5 m	n/a	**EUR 0.0 m**	EUR 0.3 m	n/a
Seats (no.)	**305,616**	238,053	28.4 %			

Please note that for computational reasons, rounding differences to the exact mathematical figures (monetary units, percentages, etc.) may occur.

ONE WORD

Dear shareholders,
dear readers,

The new freedom in business communications is simple, independent and reliable. This is embodied by NFON and our "Cloudya" client, which we launched as scheduled in Q3. Cloudya stands for device-independent and intuitive communication with a special focus: absolutely user-friendly – anytime, anywhere and any device. The new NFON client is the basis for future integrated collaboration services and was developed for the digital working world of the future.

The fact that our services have been able to capture the essence of our time is reflected also in our operating performance during the first nine months of 2018. The number of seats installed at our customers increased year-on-year by 28 % and, thus, is fully in line with our expectations. In doing so, we exceeded the 300,000 seat mark for the first time. Commensurate with this favourable performance, we were also able to considerably increase our revenue over the prior year by roughly 20 % to EUR 31.2 million. The share of recurring revenue to total revenue of just under 81 % means we are up by four percentage points over the prior year and even slightly above the target range set at the beginning of the year. Thus, recurring revenue rose in the first nine months of 2018 by approx. 28 % to EUR 25.2 million in nominal terms. These figures underscore the high satisfaction and loyalty of our customers and provide a very stable and solid basis for our further growth plans.

As the only pan-European Cloud PBX provider, our goal is to develop telephony of the future and become the No. 1 for cloud telephony in Europe. Accordingly, we are further pushing our expansion plans and currently setting up a new company in Italy. Simultaneously, with Cloudya, we have launched a pan-European and homogeneous tariff model – and are thereby sending out a clear message to the European market. The successes realised so far in 2018 show that NFON is on the right track for the coming months. Join us on this exciting journey to freedom in business communication!

Best wishes,

Hans Szymanski

Hans Szymanski
CEO / CFO NFON AG

BUSINESS PERFORMANCE

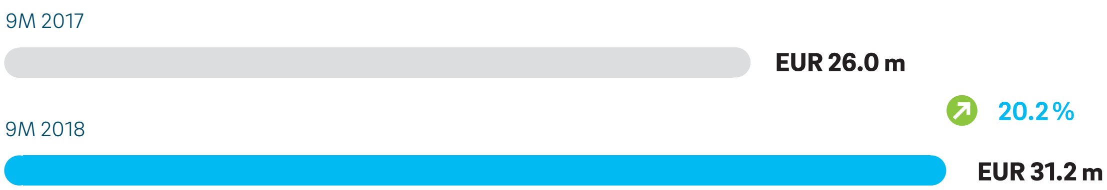
Profit Situation

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

in m EUR	9 months 2018	9 months 2017	Change in % (9 months)	Q3 2018	Q3 2017	Change in % (Q3)
Revenue	**31.2**	**26.0**	**20.2**	**10.6**	**9.0**	**17.5**
Cost of materials	**-7.9**	-7.2	8.5	**-2.4**	-2.5	-1.6
Gross profit	**23.4**	**18.7**	**24.7**	**8.2**	**6.6**	**24.7**
Other operating income	**1.0**	0.4	148.1	**0.1**	0.0	47.7
Personnel expenses	**-17.4**	-10.2	70.7	**-4.3**	-3.4	28.7
Other operating expenses	**-13.5**	-9.3	44.5	**-3.9**	-3.5	26.6
EBITDA	**-6.5**	**-0.5**	**n/a**	**0.0**	**0.2**	**n/a**
Adj. EBITDA	**0.1**	**-0.5**	**n/a**	**0.0**	**0.3**	**n/a**
Amortisation and depreciation	**-0.5**	-0.5	n/a	**-0.2**	-0.2	n/a
EBIT	**-7.0**	**-1.1**	**n/a**	**-0.1**	**0.0**	**n/a**
Net interest expenses	**-0.1**	-0.1	n/a	**0.0**	0.0	n/a
Income tax expenses	**0.0**	-0.1	n/a	**0.0**	-0.1	n/a
Consolidated loss	**-7.1**	**-1.2**	**n/a**	**-0.2**	**-0.1**	**n/a**

Revenue performance

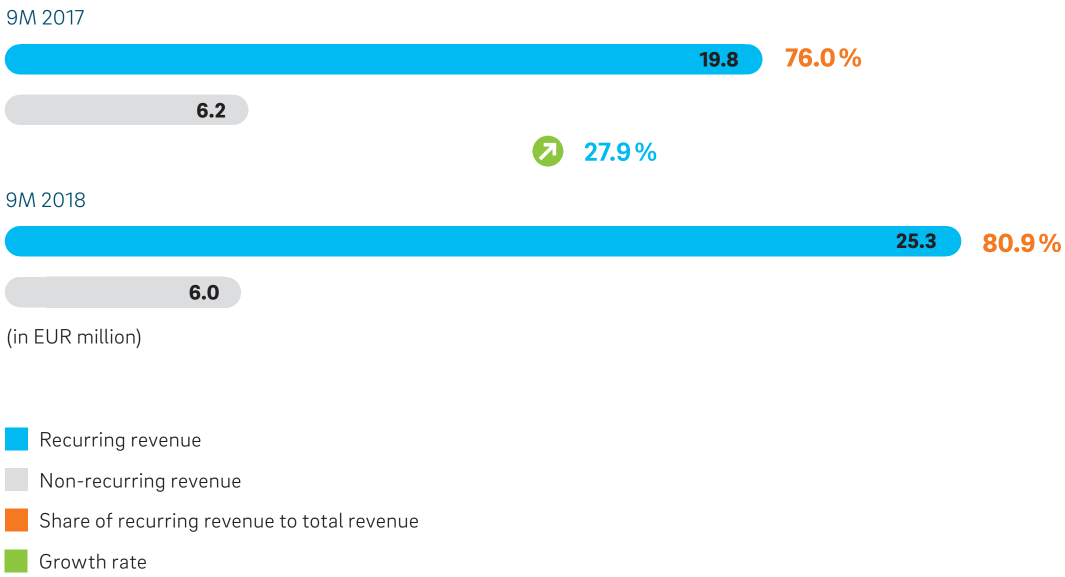
Consolidated revenue: at 20.2 %, revenue growth is considerably up over the prior year



Year-on-year revenue growth in the first nine months of 2018 was primarily driven by acquiring new customers and increasing the number of installed extensions (seats) among existing customers, particularly in Germany, the UK and Austria, as well as by expanding the product portfolio.

BUSINESS PERFORMANCE

Recurring vs. non-recurring revenue: recurring revenue is developing very favourably



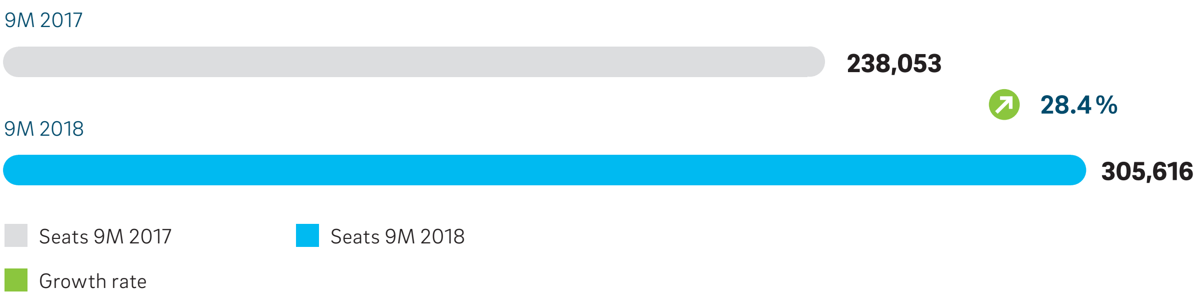
Recurring revenue essentially includes monthly payments of a fixed license fee per seat plus a fixed or volume-based fee for using airtime.

With a share of 80.9 % (PY: 76.0 %) to total revenue, the share of recurring revenue is slightly above the range forecast for all of 2018 of between 75 % and 80 %. The typical cumulative effect (related to the number of seats gained over the year) of sales development is reflected by the progress of recurring revenue generated in each quarter of the reporting period.

Non-recurring revenue includes, among other, sales revenue from the sale of devices (phones, soft clients for PCs and smartphones) and the one-time activation fee per extension upon initial connection.

The decline in non-recurring revenue compared to the same period of the previous year (-4.0 %) is explained in particular by lower revenue from devices.

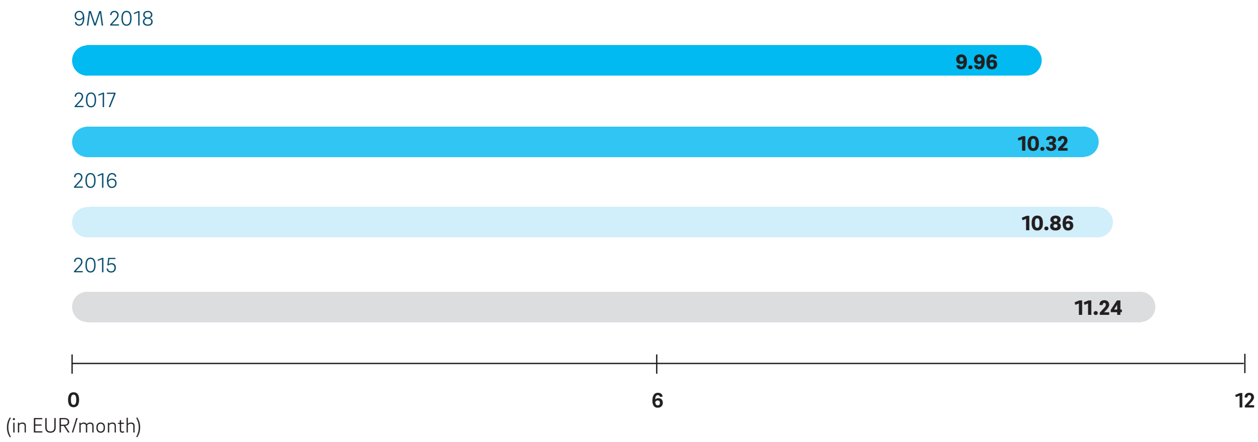
Expected development of seat growth



BUSINESS PERFORMANCE

NFON uses the average recurring revenue per user from all services, sales channels and countries – "ARPU" (Average Revenue Per User) – to measure the operating performance of current business. ARPU is calculated as the ratio of average recurring revenue per month and 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 ways. It is currently changing especially due to the fact that NFON is increasingly winning over additional customers through its 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 share of PBXs billed through wholesale partners is generating on average lower ARPU. NFON is countering this trend by increasing the sale of premium solutions in the future, which, in turn, is enabling the Company to realise above-average ARPU.

ARPU: blended ARPU is developing as expected



Other operating income

Other operating income increased in the 2018 nine-month period by 148 % to EUR 1.0 million (PY: EUR 0.4 million). The one-off payments from former shareholders in connection with the debt assumption of the agreed management board bonuses from the first half of 2018 still continue to have an impact on the EUR 1.0 million.

BUSINESS PERFORMANCE

Cost of materials

The cost of materials rose disproportionately low in relation to revenue by approx. 8.5 % from EUR 7.2 million in the prior-year period to EUR 7.9 million in the first nine months of 2018. This led to a lower cost of materials ratio for the first nine months of 2018 of 25.2 % (PY: 27.9 %). This is developing according to budget within the regular fluctuation range.

Personnel costs

Personnel expenses increased year-on-year in the first nine months of 2018 by roughly 70.7 % to EUR 17.4 million (PY: EUR 10.2 million). The reasons for this sharp rise was due both to the ongoing strategic increase in staff as well as the significant continued one-time effect from the share-based payments of EUR 3.7 million and bonuses granted totalling EUR 1.3 million. The share-based payment of EUR 3.6 million (PY: EUR 0.3 million) is based on payment agreements with the management board made in previous years, for which a debt assumption was agreed with the former shareholders. The claims from these sharebased payments plans have expired as a result of the 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 share premium account of the current period under IFRS 2. In addition, there is a share-based payment arrangement with a management board member, for which the existing shareholders have not assumed any debt. EUR 0.1 million was recognised in other provisions in connection with this arrangement. The bonuses granted relate on the one hand 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. On the other hand, they relate to the retention programme for executives of EUR 0.7 million, which – as in the case of the management board bonuses granted – are related to the IPO.

Adjusted for these one-time effects, personnel costs increased year-on-year (based on a 9 month period) by 25.3 % to EUR 12.4 million. This corresponds to an adjusted personnel expense ratio of 39.6 % after 38.2 % in the same period of the prior year.

Other operating expenses

Other operating expenses rose year-on-year in the first nine months of 2018 to EUR 13.5 million (PY: EUR 9.3 million). This was largely due to the increased expenses for marketing and sales and the one-off expenses of EUR 2.4 million in connection with the successful IPO. Adjusted for this one-off effect, other operating expenses increased in the first nine months of 2018 by 18.8 % to EUR 11.1 million. This corresponds to an adjusted ratio of 35.5 % after 36.0 % in the same period of the prior year.

BUSINESS PERFORMANCE

Marketing expenses

As planned, NFON invested further in marketing in the nine-month period of 2018. Marketing expenses increased by 50.1% to EUR 3.6 million compared to the same period of the prior year (PY: EUR 2.4 million).

Selling expenses

Selling expenses rose in the 2018 reporting period to EUR 3.2 million (PY: EUR 2.8 million). In terms of revenue, this represents a stable year-on-year ratio of approx. 10 %. Selling expenses include in particular payment commissions to NFON AG's sales partners, which participate at a percentage share proportional to revenue.

EBITDA, EBIT, consolidated profit and loss

in EUR million	30.09.18 9M	30.09.17 9M	Q3 2018 3M	Q3 2017 3M
EBITDA	**-6.5**	**-0.5**	**0.0**	**0.2**
IPO expenses (other operating expenses)	**2.4**	0	**0.0**	0.0
Retention bonus	**0.6**	0	**0.0**	0.0
Share-based payments plan	**3.7**	0	**0.0**	0.1
Total amount of adjustments EBITDA	**6.7**	0	**0,0**	0.1
EBITDA adjusted	**0.1**	**-0.5**	**0.0**	**0.3**
EBIT	**-7.0**	-1.1	**-0.1**	0.0
Consolidated loss	**-7.1**	-1.2	**-0.2**	**-0.1**
Consolidated loss adjusted	**-0.5**	**-1.2**	**-0.2**	**0.0**

Financial and asset position

There were no liquidity bottlenecks during the reporting period. The Company met its payment obligations on time during the reporting period. Cash and cash equivalents amounted to EUR 44.0 million as at the reporting date.

BUSINESS PERFORMANCE

Financing analysis

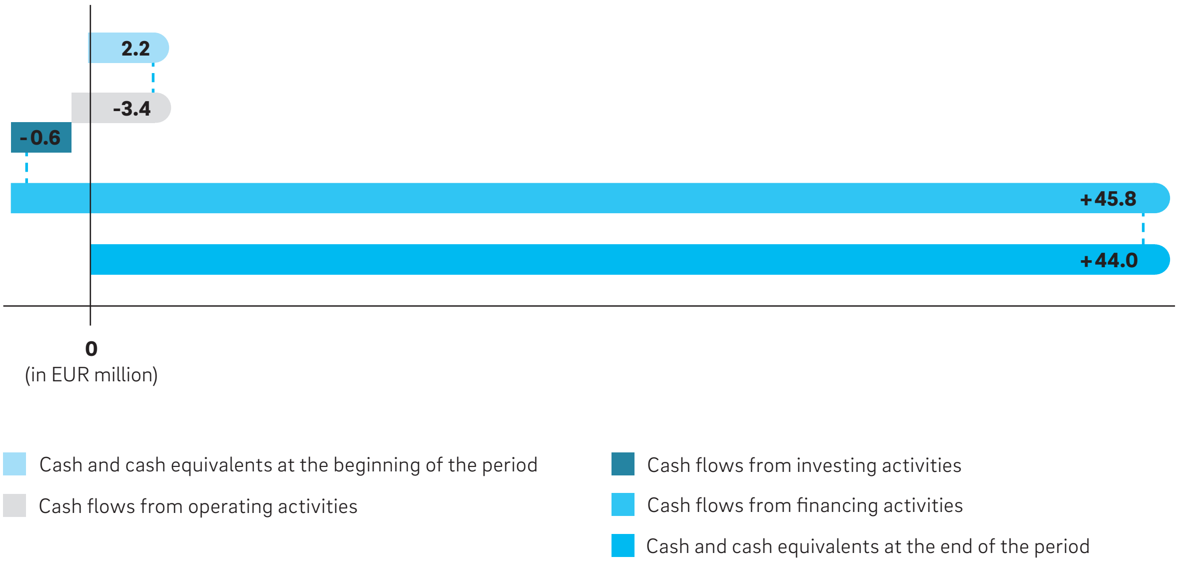
The Company has been listed in the Prime Standard of the Frankfurt Stock Exchange since 11 May 2018. The Company's share capital amounts to EUR 13,806,816.00.

For funding, NFON AG used in the first nine months of 2018 primarily proceeds from the IPO as well as funds from loan arrangements with banks. The acquisition loan in connection with the purchase of non-controlling interests in NFON GmbH, Austria, in Q4 2017 was repaid in Q3 2018 in the amount of EUR 2.3 million.

The capital expenditures in the reporting period totalling EUR 0.6 million were mainly invested in IT infrastructure.

Liquidity analysis

Cash flow 9M 2018



Equity

As at 30 September 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.

Equity rose as at 30 September 2018 compared to 31 December 2017 by EUR 44.5 million to EUR 44.8 million. This increase was largely due to the IPO on 11 May 2018. Refer to the economic report and the notes to the consolidated financial statements included in the half-year financial report, which was published on 20 September 2018 and can be downloaded at https://ir.nfon.com/websites/nfon/English/3000/reports.html.

SUBSEQUENT EVENTS

No circumstances occurred after 30 September 2018 that could have significantly impacted the net assets, financial position and financial performance.

OUTLOOK

The market for business communications is undergoing a historic transformation. NFON is benefiting from the structural shift to cloud telephony solutions, which is permanently changing the business communications market. The European cloud telephony market is expected to grow at a CAGR of 16 % between 2017 and 2022, offering a unique opportunity for NFON to further develop as the only true pan-European cloud PBX provider and grow significantly faster than the market. Based on the successful 2017 financial year with revenue of EUR 35.7 million and first-time break-even of the adjusted EBITDA, as well as the business performance in 2018 to date, the Company expects further dynamic growth for all of 2018 and coming years. This development will be supported by continuing growth in the market for cloud telephony and UCaaS.

On the basis of the developments in the 2017 financial year and business performance in 2018 to date, we expect our customer base to grow significantly in 2018 by approx. 30 %. Furthermore, we expect the revenue growth rate for 2018 to clearly outperform the revenue growth rate in the prior year of around 17 %. We expect recurring revenue in 2018 to be between 75 % and 80 % of total revenue. This would underscore the sustainability of our business model. We expect this development to be mainly driven by continued strong momentum in our largest markets (Germany and UK).

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Consolidated statement of profit and loss and other comprehensive income

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

kEUR	01.01. - 30.09.2018	01.01. - 30.09.2017	01.07. - 30.09.2018	01.07. - 30.09.2017
Revenue	**31,247**	25,994	**10,630**	9,048
Other operating income	**965**	389	**67**	46
Cost of materials	**-7,859**	-7,246	**-2,444**	-2,485
Personnel costs	**-17,382**	-10,184	**-4,318**	-3,355
Depreciation and amortisation	**-466**	-537	**-158**	-211
Other operating expenses	**-13,504**	-9,347	**-3,924**	-3,099
Impairment loss on trade and other receivables	**-5**	23	**0**	0
Other tax expense	**-4**	- 145	**-2**	32
Income from continuing operations before net interest income and income taxes	**-7,008**	**- 1,053**	**-149**	**-24**
Interest and similar income	**9**	10	**3**	4
Interest and similar expenses	**-122**	- 101	**-15**	-10
Net interest expense	**-113**	**- 91**	**-12**	**-6**
Earnings before income taxes	**-7,121**	**-1,144**	**-161**	**-30**
Income tax expense	**0**	- 97	**0**	-93
Net Loss	**-7,121**	**- 1,241**	**-161**	**-123**
Attributable to:				
Shareholders of the parent company	**-7,121**	1,702	**-161**	307
Non-controlling interests	**0**	- 2,943	**0**	-430
Other comprehensive income	**37**	96	**43**	-30
Other comprehensive income after taxes	**37**	**96**	**43**	**-30**
Total comprehensive income	**-7,084**	**-1,145**	**-118**	**-153**
Attributable to:				
Shareholders of the parent company	**-7,084**	1,798	**-118**	277
Non-controlling interests	**0**	-2,943	**0**	-430
Net loss per share, basic and diluted in EUR	**-0.74**	4.59	**-0.01**	0.83

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Consolidated statement of financial positions

Assets as of 30 September 2018

kEUR	30.09. 2018	31.12. 2017
Non-current assets		
Property, plant and equipment	**1,113**	1,011
Intangible assets	**240**	210
Other non-financial assets	**153**	62
Total non-current assets	**1,506**	**1,283**
Current assets		
Inventories	**9**	18
Trade receivables	**5,447**	4,628
Other financial assets	**508**	390
Other non-financial assets	**1,251**	787
Cash and cash equivalents	**43,989**	2,176
Total current assets	**51,204**	**7,999**
Total assets	**52,710**	**9,282**

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Consolidated statement of financial positions

Equity and Liabilities as of 30 September 2018

kEUR	30.09. 2018	31.12. 2017
Equity		
Subscribed capital	**13,807**	371
Capital reserves	**70,154**	32,052
Retained earnings	**- 39,757**	- 32,637
Currency translation reserve	**594**	557
Total equity	**44,798**	**343**
Non-current liabilities		
Other long-term liabilities	**184**	266
Total non-current liabilities	**184**	**266**
Current liabilities		
Trade payables	**2,120**	2,576
Short-term provisions	**1,629**	1,551
Short-term financial liabilities	**945**	2,565
Other non-financial liabilities	**3,034**	1,981
Total current liabilities	**7,728**	**8,673**
Total equity and liabilities	**52,710**	**9,282**

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Consolidated statement of cash flows

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

kEUR	30.09.2018	30.09.2017
Cash flow from operating activities		
Profit / Loss after taxes	**-7,121**	**- 1,241**
Adjustments to reconcile profit (loss) to cash provided		
Income taxes	**0**	97
Interest income (expense), net	**113**	91
Amortisation of intangible assets	**64**	34
Depreciation on tangible assets	**402**	462
Impairment on financial assets	**5**	-23
Equity-settled share-based payment transactions	**3,551**	268
Other non-cash income (expense)	**260**	-89
Changes in:		
Inventories	**9**	-29
Trade and other receivables	**- 1,451**	- 256
Trade and other payables	**514**	7
Provisions and employee benefits	**-262**	561
Deferred income/revenue / IPO Sachverhalte	**549**	0
Changes in balance sheet items not affecting payments and earnings due to foreign currency effects	**37**	105
Interest paid	**-77**	-74
Cash flows from operating activities	**- 3,407**	**- 87**

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Consolidated statement of cash flows

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

kEUR	30.09.2018	30.09.2017
Cash flows from investing activities		
Proceeds on disposal of property, plant and equipment and intangible assets	1	5
Payments on investments in property, plant and equipment	- 484	- 686
Payments on investments in intangible assets	- 115	- 136
Cash flows from investing activities	**- 598**	**- 817**
Cash flows from financing activities		
Proceeds from the capital increase by the shareholders of the parent company	47,439	0
Proceeds from loan and borrowing	800	0
Repayments of bank loans and liabilities similar to bank loans	- 2,420	- 1,497
Cash flows from financing activities	**45,819**	**- 1,497**
Changes in cash and cash equivalents	**41,815**	**- 2,401**
Effect of movements in exchange rates on cash held	-1	-9
Cash and cash equivalents at the beginning of the period	**2,176**	**5,777**
Cash and cash equivalents at the end of the period	**43,989**	**3,367**

The cash and cash equivalents on 30 September 2018 include deposits with banks of EUR 0.3 million (31 December 2017: EUR 0.3 million; 30 September 2017: EUR 0.4 million) which are not freely remissible to the group, because of security deposits from customers with bad credit ratings. All restricitions on such deposits are short term in nature.

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Consolidated statement of changes in equity

as at 30 September 2018

	Attributable to owners of the company						
kEUR	Share capital	Capital reserves	Currency translation reserve	Retained Earnings	Total equity	Non-con-trolling interests	Total
Balance as at 01.01.2018	**371**	**32,052**	**557**	**-32,637**	**343**	**0**	**343**
Total comprehensive loss for the period							
Loss (Income) for the period	0	0	0	-7,121	-7,121	0	-7,121
Other comprehensive income for the period	0	0	37	0	37	0	37
Total coomprehensive loss for the period	**0**	**0**	**37**	**-7,121**	**-7,084**	**0**	**-7,084**
Transactions with owners of the company and equity transactions							
Equity-settled share-based payments	0	3,551	0	0	3,551	0	3,551
Capital increase by resolution of the Annual General Meeting on 22.02.2018	9,269	-9,269	0	0		0	
Payments into equity due to the IPO	4,167	45,833	0	0	50,000	0	50,000
IPO related costs and income allocated to equity	0	-2,012	0	0	-2,012	0	-2,012
Total transactions with owners of the company and equity transactions	**13,436**	**38,103**	**0**	**0**	**51,539**	**0**	**51,539**
Balance as at 30.09.2018	**13,807**	**70,155**	**594**	**-39,758**	**44,798**	**0**	**44,798**

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Consolidated statement of changes in equity

as at 30 September 2017

kEUR	Share capital	Capital reserves	Currency translation reserve	Retained Earnings	Total equity	Non-con-trolling interests	Total
	Attributable to owners of the company						
Balance as at 01.01.2017	**371**	**34,696**	**409**	**-30,616**	**4,860**	**97**	**4,957**
Total comprehensive loss for the period							
Loss (Income) for the period	0	0	0	1,702	1,702	-2,943	- 1,241
Other comprehensive income for the period	0	0	96	0	96	0	96
Total comprehensive loss for the period	**0**	**0**	**96**	**1,702**	**1,798**	**-2,943**	**-1,145**
Tansactions with the owners of the company							
Equity settled share-based payments	0	267	0	0	267	0	267
Total transactions with owners of the company	**0**	**267**	**0**	**0**	**267**	**0**	**267**
Balance as at 30.09.2017	**371**	**34,963**	**505**	**- 28,914**	**6,925**	**-2,846**	**4,079**

ADDITIONAL INFORMATION

Financial Calendar

27th November 2018	Deutsches Eigenkapitalforum Frankfurt (German Equity Forum)
Early March 2019	Publication of preliminary 2018 figures
11th April 2019	Consolidated financial statements for 2018

Imprint

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Information about this quarterly report

This document complies with new guidelines for quarterly reporting in accordance with section 51a of the Regulations of the Frankfurt Stock Exchange. As a result of amendments to European law, the legal obligation for listed companies to issue quarterly financial reports was revoked in Germany in 2015. In future, companies will have the possibility to publish a condensed quarterly report in this way for the first and third quarters of a fiscal year.

Easy. Independent. Reliable.

Within reach anywhere, anytime and on any device. With Cloudya, the cloud telephone system from NFON.