FACTS AND FIGURES FOR THE FIRST HALF OF THE YEAR

Who we are

Headquartered in Munich and founded 2007, NFON AG is the only pan-European cloud PBX provider – counting more than 30,000 companies across 15 European countries as customers and more than 2,000 partners across Europe. With Cloudya, NFON offers an easy-to-use, independent and reliable solution for advanced cloud business communications. Further premium and industry solutions complete the portfolio in the field of cloud communications. With our intuitive communications solutions, we enable European companies to improve their work a little, every single day. NFON is the new freedom in business communication.

Key figures

in mEUR	H1 2019	H1 2018	Change in %	Q2 2019	Q2 2018	Change in %
Revenue	26.3	20.6	27.7%	14.2	10.6	33.8%
Recurring revenue	22.4	16.5	36.1%	12.0	8.4	43.0%
in % from total revenue	85.2%	79.9%		84.7%	79.2%	
Non recurring revenue	3.9	4.1	–5.7%	2.2	2.2	-1.4%
in % from total revenue	14.8%	20.1%		15.3%	20.8%	
Seats	408,393	287,998	41.8%	408.393	287.998	41,8

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Dear shareholders, Dear readers,

NFON continues to grow dynamically in 2019. With a 28% increase in revenue, we are growing much faster than in the previous year (21%). This has been achieved thanks to the consistently on-going implementation of our growth strategy. At the same time, we continue to benefit from the very high share of recurring revenue, which we increased at a faster rate than total revenue, namely by 36%, to EUR 22.4 million. At 85%, the share in total revenue is therefore considerably higher than in the previous year (80%) and considerably higher than the range forecast for the full year 2019.

Our accelerated rate of growth is based on the increase in seats. In the first half of 2019, we increased the number of seats by a whopping 42% to over 408,000. Deutsche Telefon Standard AG (DTS) made an important contribution here, too. We acquired DTS on 01 March and successfully integrated the sales and development teams into the NFON Group. Since this acquisition, we have also been seeing a stabilisation in the average revenue per customer (ARPU). But we were not only active in Germany. In March and June of this year, we officially started sales in Italy and France and began building up the partner network.

As is usual in our business, we see a cumulative effect in revenue development in the course of the year, so revenue will increase further in the second half of the year. Aside from the general economic downturn, which is also affecting NFON, the time lag in the onboarding of major customer projects will slightly dampen our growth momentum over the year as a whole. Against this backdrop, and assuming that the macroeconomic environment does not deteriote further, we continue to expect our revenue to increase by between 40% and 45% year on year in 2019, albeit at the lower end of the range. From today's perspective the share of recurring revenue will be at the upper end of the forecast range of 75% to 80%. With regard to seats, we continue to project growth of at least 45%.

Hans Szymanski.
Chief Executive Officer

Jan-Peter Koopmann.
Chief Technology Officer

César Flores Rodríguez.
Chief Sales Officer

With more than 408,000 seats, over 30,000 corporate customers and more than 2,000 partners in 15 countries, NFON is the only pan-European provider. This is a clear competitive advantage and also an excellent foundations for raising the growth rate once again in the second half of the year. We will keep building on our strong market position by enlarging our product portfolio, expanding regionally and making targeted acquisitions. At the beginning of July, we significantly strengthened our capacity to make potential acquisitions by issuing a warrant bond with a volume of up to EUR 15.6 million.

NFON is growing. Cloud services are also finding increasing acceptance in Europe, where digital disruption is only just beginning. At NFON, we have taken up a good position to be a leading part of this development. Our target is clear: We want to become the number 1 in cloud telephony in Europe. With this in mind, we thank you for your trust and would be delighted for you to continue following us on this journey.

Kind regards,

Hans Szymanski, Jan-Peter Koopmann and César Flores Rodríguez

Profile of the Group

Business model

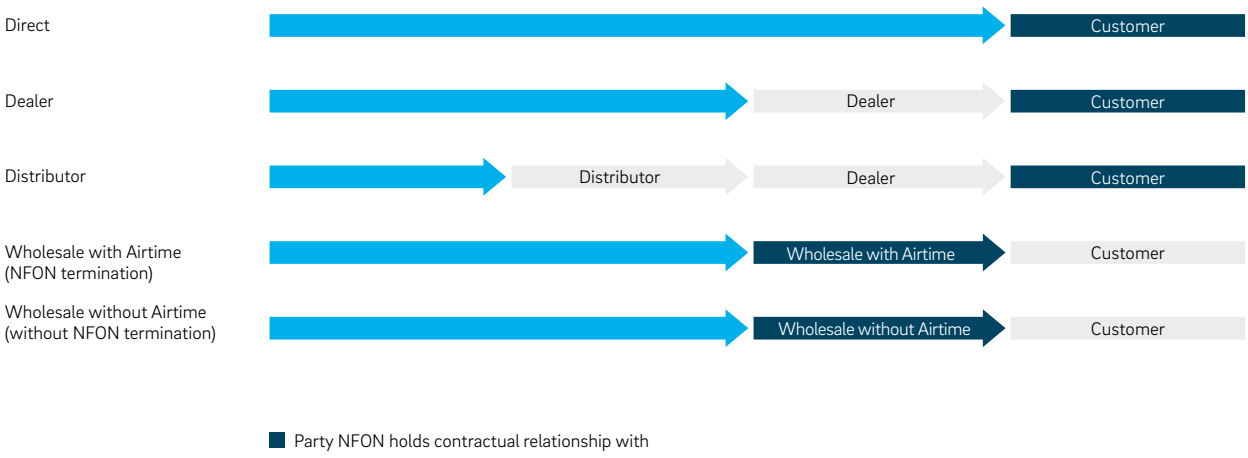
NFON AG ("NFON" for short), based in Munich, was founded in 2007 and is the only pan-European provider of cloud-based telephone systems. NFON has over 30,000 business customers in 15 European countries. NFON has affiliated companies in Germany, Austria, Great Britain, Spain, Italy and France. It also has a large network of partners for sales operations in the remaining countries.

NFON generates revenue mainly by providing cloud-based telephone services to business customers. In this process, customers are provided with the required brokerage service from the cloud in NFON data centres via the Cloud PBX (Private Branch Exchange), meaning that they do not need to have traditional telephone systems at their own premises. Generally, the customer initially pays a one-off activation fee for each extension in addition to a monthly service fee for each extension used. Furthermore, NFON can replace the telephone connection, meaning that the customer pays the fees for all telephone traffic to NFON. NFON procures this service itself from various carriers. Since November 2018, NFON AG has for the first time offered a pan-European, homogeneous tariff model with its core product "Cloudya", which covers the core functions associated with a telephone system, such as telephone conference facilities, automatic call forwarding (ACF) or the automatic forwarding of calls to the person responsible. NFON also offers premium services to over 30,000 customers. On request, NFON also sells end devices (telephones, soft clients for PCs and smartphones) and the corresponding software, which the Company procures from several manufacturers, and provides internet access on a reselling basis as required.

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

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

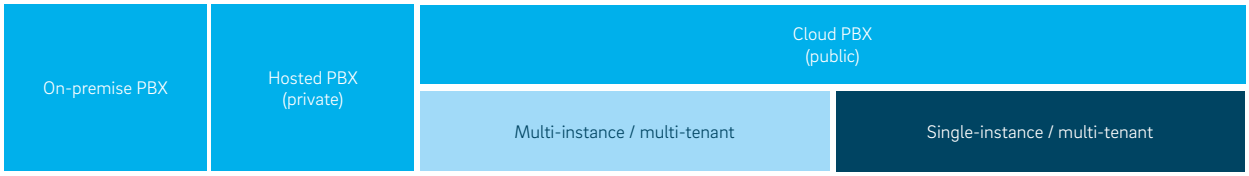
Sales are conducted through five channels with a clear focus on indirect partner sales



General market characteristics

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

European business telephony market

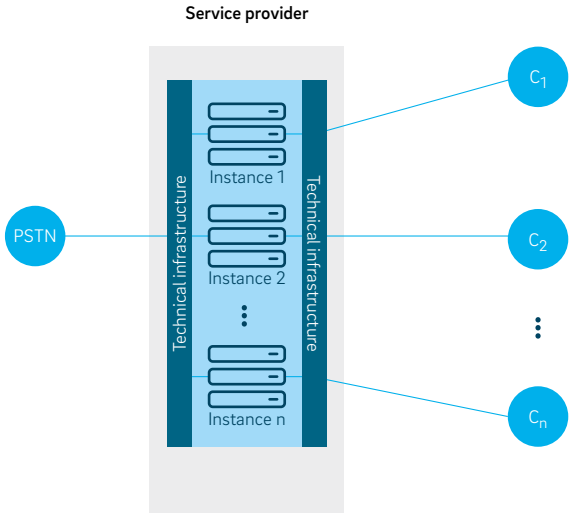


On-premise (PBX) incorporates the traditional telephone system installed on site (hardware or software) that is operated by the owner. The IP-based telephone systems segment begins with hosted PBX, which is still owned by the user (private), but is no longer located in their own premises and can be serviced by a third party. Distinguished from this is the cloud PBX segment. This is a public service that anyone, infinitely reproducible, can use (public). This segment is in turn divided into various forms of cloud PBX.

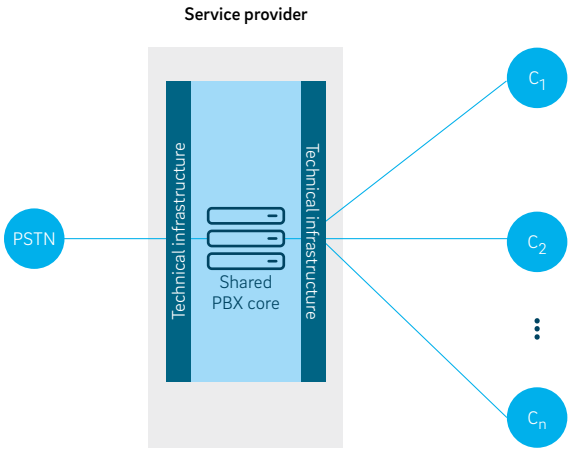
Multi-instance / multi-tenant: A separate platform (instance) is created for each user (tenant).

Single-instance / multi-tenant: Various users (tenants) use just one platform (instance).

Multi-instance / multi-tenant (n:n)



Single-instance / multi-tenant (1:n)



Objectives and strategies

As the market leader in Germany, NFON AG already holds a strong position in the highly fragmented international cloud telephony market. Using its strategy based on five growth vectors, the Group is pursuing its clearly defined aim of becoming the no. 1 for cloud telephony services in Europe.

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

Expansion and further development of the customer base in existing markets

The exploitation of cross-selling and up-selling potential among the existing customer base and the continued acquisition of new customers are significant strategic components for the successful development of the Company. This requires increased awareness of the NFON brand and cloud telephony solutions. For this purpose, NFON is significantly increasing its marketing and sales activities.

In an extremely fragmented telecommunications market, the importance of a brand that clearly shows how a purely B2B product benefits the customer cannot be underestimated. This requires a nuanced and real multi-channel-marketing approach and means combining extremely well targeted B2B communication, in particular for NFON premium solutions, with communication to a wider range of target groups. NFON aims to exploit three main target groups:

- Channel: partners, specialists, resellers
- IT managers: IT specialists, IT departments
- Decision makers: Management Board level, CEOs

Furthermore, the existing partner network must be continuously optimised and expanded, while, in addition to marketing activities, the scope of sales must also be significantly expanded and the three main target groups addressed in a focused manner via the appropriate sales channels to acquire them as customers.

Roll-out of innovative UCaaS functions

A key component of NFON's growth strategy is the rollout of innovative UCaaS functions and the associated further evolution of NFON into a Unified-Communication-as-a-Service company. The introduction of NFON's new core product Cloudya in November 2018 represents a key milestone in the Company's growth strategy. Cloudya forms the basis for further functionalities, technologies and services, which will enrich the NFON platform in the future. In this respect, substantial investments are being made not only in improvements of existing solutions, but in particular in the design and development of new products and new services. With the development and introduction of Cloudya, NFON has taken the first important step towards becoming a Unified-Communication-as-a-Service (UCaaS) company. Cloudya is the basis for all further developments towards areas of further potential collaboration.

Development of open APIs

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

Targeted further growth throughout Europe

At the start of the year, NFON was represented in 14 European countries: in Germany, Great Britain, Austria, Spain and Italy through its own subsidiaries and in the other countries via its dealer network. The current market conditions in European countries and the disruptive changes in the cloud telephony sector provide exactly the right environment to expand further in Europe.

After Italy, NFON founded a further subsidiary in France, NFON France S.A.S, on 23 March 2019 and thus completed the objective set at the time of the IPO of further expansion to Italy and France. Following NFON's market entry model, the first step was to establish a team of sales and service staff. This team is now concentrating on building up the partner network.

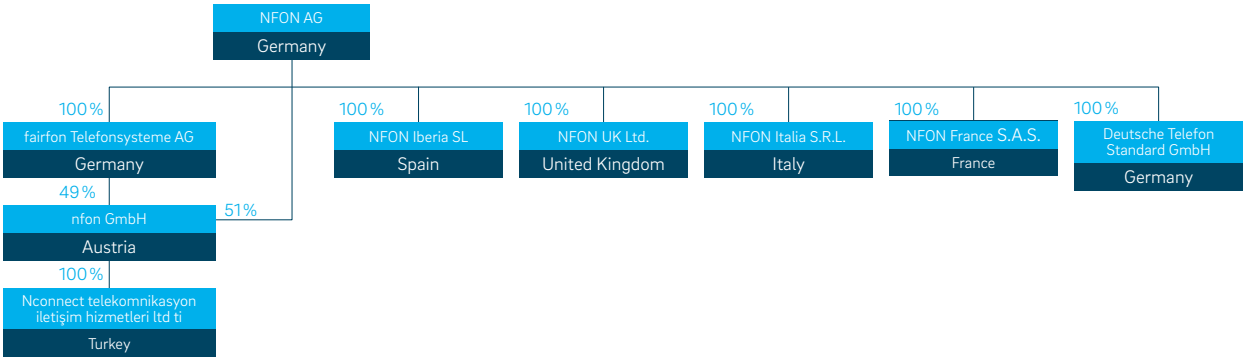
Consolidation opportunities in highly fragmented cloud PBX markets

The European cloud PBX market is highly fragmented. NFON plans to take an active role in the increasing consolidation of the market. In this regard, there are attractive opportunities for NFON to acquire competitors in a targeted manner and in line with established criteria, and also to take over companies with suitable, appealing technologies to complement the existing NFON product and solution portfolio. Accordingly, NFON AG acquired Deutsche Telefon Standard GmbH, Mainz (formerly Deutsche Telefon Standard AG Mainz; hereinafter DTS) in March 2019. In addition, NFON AG issued a warrant bond in July 2019 in order to quickly raise the financial resources required for further potential acquisitions. With this strategic project, the Company underlines its desire to be the leader in the European cloud communications market.

Organisation

Group structure and location

The Group structure as at 30 June 2019 is shown in the following figure.



Management and control

The members of the Management Board work in close collaboration with the managers in the respective countries and the managing directors of the foreign subsidiaries. A Supervisory Board of four members monitors the activities of the Management Board and provides it with advice. Since the previous fiscal year, the Chairman of the Supervisory Board, Rainer-Christian Koppitz, has been joined by Dr Rupert Doehner (Deputy Chairman), Ralf Grüßhaber and Angélique Werner.

Employees

The number of employees as at 30 June 2019 compared to the previous year is broken down as follows by region and function:

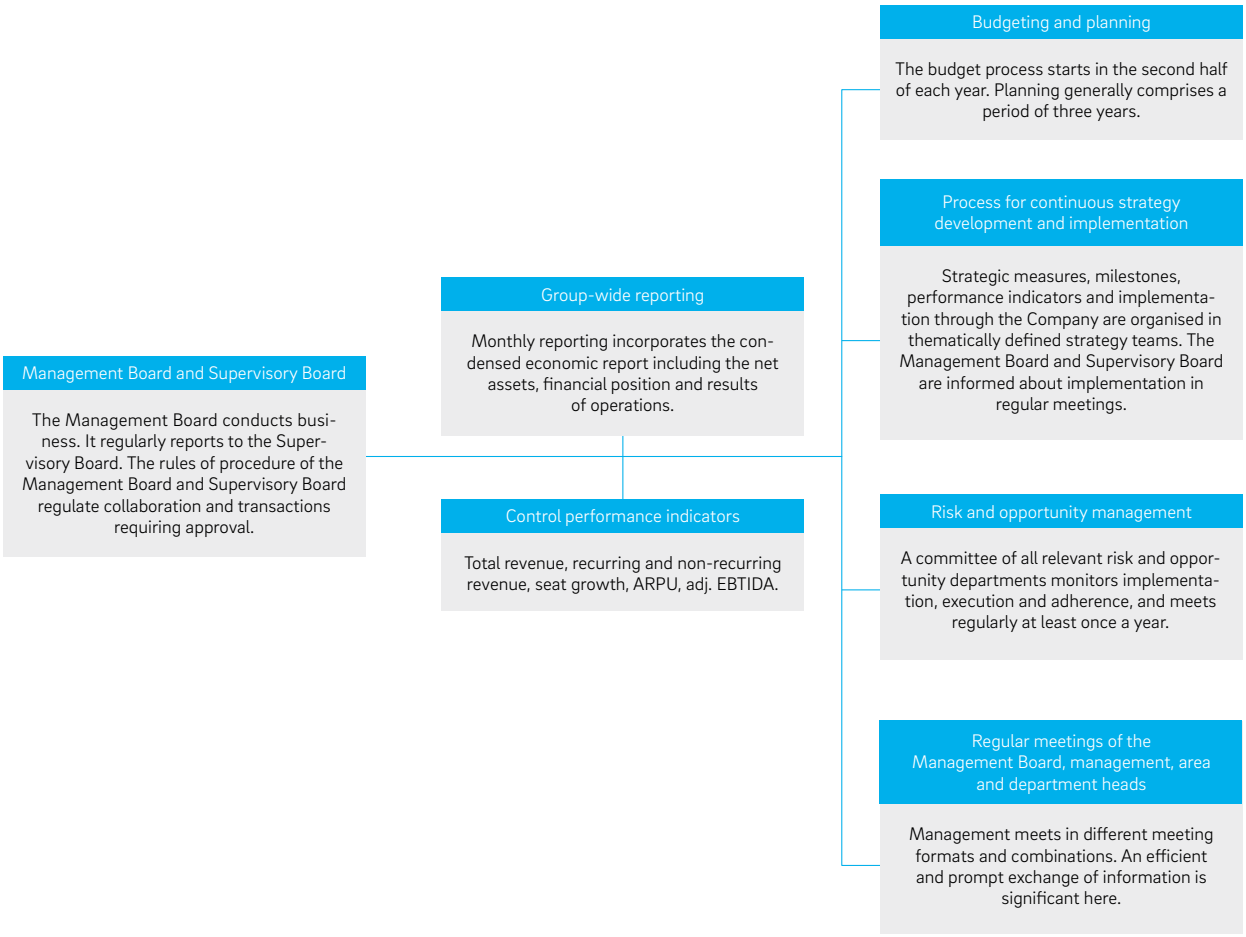
Regions	30.06.2019[1]	30.06.2018	Change in %
Germany	268	164	63.4%
United Kingdom	43	25	72.0%
Austria	30	20	50.0%
Spain	8	7	14.3%
Italy	8	n/a	n/a
France	5	n/a	n/a
Total	**362**	**216**	**67.6%**

Function	30.06.2019[1]	30.06.2018	Change in %
Administration	55	41	34.1%
Support	85	35	142.9%
Sales & Marketing	145	81	79.0%
Research & Development including Technical Support	77	59	30.5%
Total	**362**	**216**	**67.6%**

1 incl. employees of DTS

Management System

The Management Board of NFON AG has introduced an internal management system for the management of the Group, which is depicted in the following figure:



Economic report

General economic conditions and industry environment

Macroeconomic development in Europe

The trend of restrained economic activity in Europe continued at the beginning of 2019. This was due to tighter conditions for financing around the world, unresolved trade tensions and, as a result, exceptionally weak manufacturing. Gross domestic product (GDP) is therefore expected to grow by 1.2% in 2019. This is a further slowdown after 1.9% in 2018, expected to be followed in 2020 by a slight increase to 1.5%. The important fundamentals for sustainable growth are still in place. Domestic demand is proving to be constant. Employment continues to grow, albeit at a somewhat weaker rate. The eurozone continues to benefit from rising wages, curbed inflation and the European Central Bank's fiscal policy. [1]

After a sharp slowdown in economic growth in NFON AG's German home market in the second half of 2018 and early 2019, the outlook for the remaining part of the year is also less positive and the forecast for real GDP growth has been revised downwards compared to the spring. Economic activity appears to have declined in the second quarter in particular. Some of this reflects a statistical "amortization" for the growth power of the first quarter, while the cooling of overall economic sentiment has intensified in recent months. German exporters also fear that an escalation of protectionism could weigh on corporate confidence worldwide and thus dampen global investment demand. Overall, real GDP is now forecast to rise by 0.5% in 2019 and by 1.4% in 2020, slightly less than expected in spring. The Ifo Business Climate Index, an important indicator for the German economy, shows continued negative development. The index fell again in August 2019, but is still well above its long-term average. [2]

In NFON AG's largest foreign market, the United Kingdom (UK), economic growth slowed last year and is expected to remain subdued. The continuing uncertainty about future relations with the euro area is leading to subdued corporate investment. At the same time, foreign demand is weakening. The number of employees is expected to remain stable. This leads to an expected overall growth of 1.3% of GDP in the UK in 2019. However, in view of the ongoing ratification process of the withdrawal agreement, the forecast for 2019 is based on a purely technical assumption of the status quo in trade relations between the EU27 and the United Kingdom. [3]

Significant sales markets and the competitive position of the NFON Group

NFON AG operates as a provider solely in the highly fragmented European market for cloud telephone systems. In its German domestic market, NFON AG has a market share of more than 25% based on the published data of MZA 2017 and Cavell 2018 and its own estimates, and is thus market leader. In addition to sales in Germany, the Europe-wide sales are carried out by NFON's subsidiaries in Great Britain, Austria, Spain, Italy and France as well as a dense partner network of more than 2,000 partners. The NFON Group is also benefiting from the sustained trend to cloud-based solutions for telephone systems in fiscal year 2019. Customers of all sizes can be connected to cloud telephone systems via the sales channels. Nevertheless, the majority of customers doubtlessly belong to the small and medium-sized segment.

As regards the development of the European market for telephone systems, a clear shift – continuing the trend of previous years – can be observed from traditional on-premise telephone systems (PBX – Private Branch Exchange) to hosted / cloud telephone systems. From the perspective of the Company, there are various reasons for this. Two main reasons are:

- Using hosted / cloud telephone systems as opposed to classic telephone systems brings significant advantages that correspond 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 software as a service. No costs are incurred to operate the system and the customer only pays for what they actually use and need, meaning that they can save up to 50%[4] of their overall costs.
- This trend is accelerating as the telephone companies will change from ISDN to All-IP in the foreseeable future. Therefore, standard telephone systems will no longer be usable.

1 Source: European Economic Forecast, Spring 2019 (European Commission, May 2019)

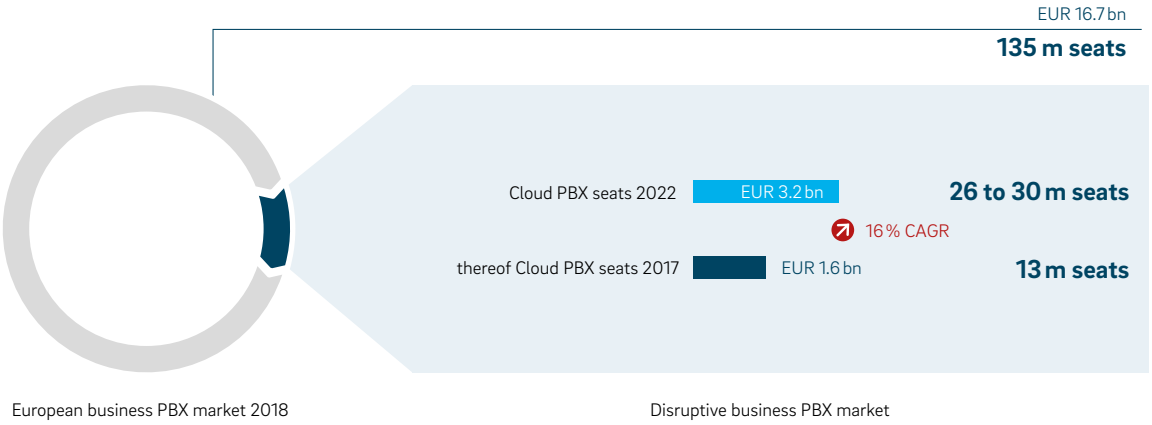
2 Source: https://ec.europa.eu/info/sites/info/files/economy-finance/ecfin_forecast_summer_10_07_19_de_en.pdf); https://www.ifo.de/node/44274

3 Source:https://ec.europa.eu/info/sites/info/files/economy-finance/ecfin_forecast_summer_10_07_19_uk_en.pdf

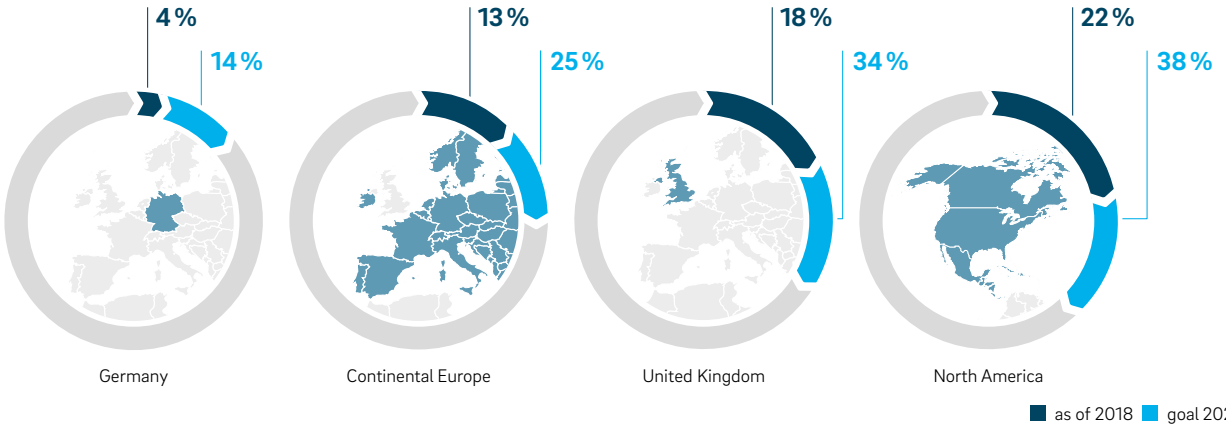
4 Estimation of the Company, Competition mentioned even higher figures of cost savings.

The European market for all telephone system extensions (On-premise and Cloud) was estimated at a total of 135 million at the end of the last fiscal year (2018). 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 to 30 million on the European market. In comparison with the North American market, which generally preempts significant technology trends, it appears to have enormous market potential. With a penetration rate of 22% at the end of 2018, North America is nearly twice as well developed as continental Europe. It can be expected that continental Europe will have reached North America's penetration rate in about five years.

Cloud PBX penetration Europe



Worldwide Cloud PBX penetration



Source: Cavell Report 2018

Main cloud PBX markets of NFON AG

Germany

There is an increasing acceptance of cloud computing happening within Germany due to the fast growth within the cloud market. According to the Cloud Monitor 2018, two out of three companies in Germany use cloud computing solutions in their company. Acceptance of cloud services in the public sector is not as high as within the private sector. There still remains a scepticism about public and hybrid cloud services. The market estimates a CAGR of around 23% until 2023.

UK

Over the last year, the UK Cloud Communications market has grown by more than 700,000 users. Cavell estimates the penetration of Cloud Services to have reached approx. 18% of the market, with user growth strongest in the Small business, but growth now being seen in all areas. In addition, an increase in M&A activity, including Gamma entering the mainland European Market with acquisition of DeanOne, is to be seen.

Austria

The market has grown by around 30% since 2017. Cavell is forecasting this growth to steadily rise to 33% by the end of 2019. Until 2023 Cavell estimates an CAGR of 31%.

France

There are around 1 million cloud communications users in France. The market has grown by 18% since 2017. Cavell is forecasting this growth to accelerate to around 22% in the next 12 months. In addition, market researchers forecast that the market will grow by more than 2 million users, corresponding to a CAGR of 26% over the next five years.

Italy

The Italian market counts together with Austria to the smaller markets of the NFON Group. Nevertheless, Italy is a promising market. Cavell is forecasting this growth to accelerate to 40% in the next 12 months. The market is forecast to grow by 1,3 million users (CAGR: 35%) over the next five years to a total user base of 1,7 million in 2023.

Presentation of the Company's performance

Overall, NFON AG is developing in accordance with its forecasts for the whole year 2019 published at the beginning of March 2019 and shows the sustainability of the business undertaken by NFON, particularly in the high proportion of recurring revenue in total revenue. DTS, 100% of which was acquired in March 2019, has been fully consolidated since 01 March 2019 and fully contributed to NFON's revenue for the first time in the second quarter. Because prices in the DTS business are lower than in the NFON business, the ARPU (average revenue per user) fell slightly in the reporting period compared to the previous year; compared to the first quarter of 2019, however, the ARPU developed stably in the second quarter of 2019. The development also includes a mix effect, which is a result of NFON's very successful business with wholesale partners who do not contract their purchased airtime with NFON and therefore generate a below-average ARPU. In the future, the increasing sales of premium solutions with which NFON achieves additional ARPU-contributions will counteract this trend.

At 27.7%, revenue growth accelerated well above compared to the first half of 2018 (2018: 21.7%). In contrast, the share of recurring revenue in total revenue of 85.2% (first half of 2018: 79.9%) is considerably higher than the forecast range between 75% and 80% for the full year 2019.

The increase in the number of seats by 41.8% in comparison with 30 June 2018 is in line with expectations and was considerably above the previous year's figure. In the same period of 2018, the number of seats increased by 30%.

The implementation of the growth strategy begun in the previous year continued in the reporting period. For example, DTS was successfully acquired and integrated into the NFON Group. In addition, NFON started the expansion into Italiy and France with the foundation of its own subsidiaries. As a result of the implementation of the strategy, expenses primarily increased in the areas of personnel, sales, marketing, and research & development. The increased expenses are reflected accordingly in the development of the EBITDA. Adjusted for expenses for the acquisition of DTS, the retention bonuses granted in connection with the previous year's IPO and the charges due to share-based payment, NFON reported negative EBITDA of EUR 2.6 million (first half of 2018: EUR 0.1 million).

Results of operations

Development of key items in the consolidated statement of comprehensive income

in mEUR	6M 2019	6M 2018	Change in %	Q2 2019 (3M)	Q2 2018 (3M)	Change in %
Revenue	**26.3**	**20.6**	**27.7%**	**14.2**	**10.6**	**33.8%**
Cost of materials	–6.0	–5.4	11.7%	–3.4	–2.8	18.7%
Gross profit	**20.3**	**15.2**	**33.4%**	**10.9**	**7.8**	**39.2%**
Other operating income	0.1	0.9	–88.5%	0.1	0.7	n / a
Personnel expenses	–12.0	–13.1	–8.4%	–6.4	–8.9	n / a
Other operating expenses	–12.2	–9.6	27.5%	–6.6	–5.7	n / a
EBITDA	**–3.8**	**–6.6**	**n / a**	**–2.1**	**–6.1**	**n / a**
Adj. EBITDA	**–2.6**	**0.1**	**n / a**	**–1.7**	**0**	**n / a**
Amortisation and depreciation	–1.4	–0.3	n / a	–0.8	–0.1	n / a
EBIT	**–5.2**	**–6.9**	**n / a**	**–2.9**	**–6.2**	**n / a**
Net interest expense	–0.2	–0.1	n / a	–0.2	–0.1	n / a
Income tax expense	–0.1	0	n / a	–0.4	0.1	n / a
Consolidated loss	**–5.5**	**–7.0**	**n / a**	**–3.5**	**–6.2**	**n / a**

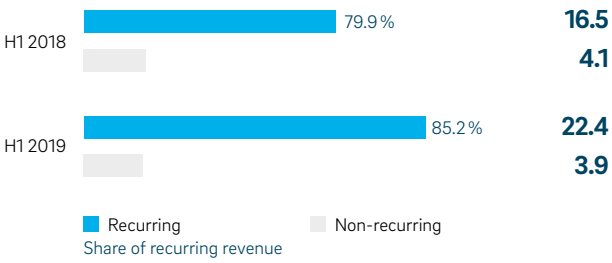
Group revenue

Revenue growth of 27.7% in the first six months primarily stemmed from the successful acquisition of new customers and an increase in the number of installed extensions (seats) amongst the existing client base, particularly in Germany, the UK and Austria. Italy and France did not yet contribute to the revenue development in the reporting period. The revenue of DTS, fully consolidated since 1 March 2019, was added for four months. In addition, some of the revenue growth resulted from the intensified sales of the expanded product portfolio to both new customers and the existing customer base.

Overall, revenue growth accelerated considerably year-on-year; recurring revenue in particular developed very positively. At 36.1%, it increased at a faster rate than total revenue and is therefore significantly higher than the average market growth in Europe. Despite the dynamic revenue growth, the development is at the lower end of the NFON's forecast range for this period. This is mainly due to slight delays in the onboarding of major customer projects. Overall, the gloomier economic prospects are currently resulting in reluctance to invest. These factors are affecting both recurring and non-recurring revenue. Although we expect catch-up effects in the second half of the year in the implementation of the major customer projects, the slightly weaker growth in seats in the first half of the year will influence revenue development in the second half of the year and thus the revenue of 2019 as a whole.

Share of recurring revenue considerably above the forecast range:

Recurring / non-recurring revenue in mEUR



Recurring revenue essentially comprises monthly payments of a fixed licence fee per seat plus a fixed or volume-based fee for voice telephony usage per seat or SIP trunk. The typical cumulative effect in revenue development, relating to the new seats gained over the course of the year, is evident from the development of the recurring revenue generated in the

individual quarters of the reporting period. Non-recurring revenue includes revenue from sales of devices (telephones, soft clients for PCs and smartphones) and the one-time activation fee per seat when it is first connected. The decline in non-recurring revenue compared with the same period of the previous year (–5.7%) chiefly reflects the lower revenue from devices in connection with the above-described delays in the implementation of major customer projects.

The total number of seats as at 30 June 2019 was 408,393, 41.8% higher than as at 30 June 2018. The development attests to the increasing demand for cloud telephone systems among business customers. At the same time, it underscores the high level of satisfaction of very loyal NFON customers. The seats of Deutsche Telefon Standard GmbH were integrated for the first time. This is a good basis for a further expected acceleration of revenue growth in the second half of 2019.

Seat growth in line with expectations:

Seat growth

NFON uses the average recurring revenue across all services, sales channels and countries per user (seat), known as the "ARPU" (average revenue per user) method, to measure current operating performance in NFON AG's core business – cloud telephony.

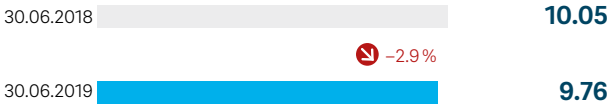
Due to the first-time consolidation of DTS, NFON AG considers it necessary to provide more specific details on the ARPU performance indicator used to date. The acquisition of DTS has unlocked additional potential for NFON AG, allowing the company to bolster its seat base. This seat base arises not only from the acquisition of new cloud telephony users, but also from the potential transformation of existing SIP trunk channels into seats, which will not be counted as seats until the transformation. If the transformation goes ahead, the licence fee will change, but the use of voice minutes will not.

ARPU is calculated from the quotient of average recurring revenue from seats and SIP trunks per month less the recurring revenue from SIP trunk licence fees in relation to the average number of seats per month including revenue and seats for customers under contract with NFON wholesale partners.

This partnership with wholesale partners, which is developing very successfully, also has a considerable impact on ARPU performance. Firstly, discounted prices are being agreed thanks to the high number of seats sold, and secondly, some of these partners do not purchase voice minutes through NFON. On average, lower ARPU is generated as the proportion of seats billed through wholesale partners increases. The first-time consolidation of DTS is also reflected in a slight reduction in blended ARPU year-on-year, as DTS offers its seats in the mid-price segment. In comparison with the previous year's figure of EUR 10.05 (same figure according to old and new calculation method), ARPU in the first half of 2019 amounted to EUR 9.76. NFON is countering this trend by increasing the sale of premium solutions, which, in turn, allows the Company to achieve additional ARPU. Initial successes were already seen in 2019: compared to the first quarter of 2019, the ARPU developed stably in the second quarter.

Development of average ARPU in line with expectations:

ARPU in EUR per month



Other operating income

The other operating income of the previous year includes EUR 0.7 million in bonuses reimbursed by existing shareholders that were paid out to the Management Board as a result of the IPO in 2018. These were accordingly included in the personnel expenses of the previous year.

Cost of materials

The cost of materials increased at a slower rate (11.7%) than revenue in the reporting period from EUR 5.4 million in the same period of the previous year to EUR 6.0 million. This results in a lower cost of materials ratio year-on-year of 23.0% (previous year: 26.3%). It is behaving as planned within the regular fluctuation margin. The positive development reflects the high share of recurring revenue, which has a much higher margin than non-recurring revenue.

Personnel costs

Compared to the previous year, the number of employees increased by 67.5% as at 30 June 2019 from 216 to 362. Firstly, staffing was increased in sales in particular. Secondly, headcount increased due to the integration of DTS in March 2019 and to the new companies in Italy and France founded in the reporting period. Personnel expenses nevertheless fell by EUR 1.1 million year-on-year to EUR 12.0 million in the reporting period due in particular to the one-time effect of a share-based payment of EUR 3.6 million which will never be disbursed at any time, recognised in the previous year and bonuses totalling EUR 1.3 million granted in the previous year. In addition, personnel expenses in the NFON AG were reduced (EUR 0.6 million in the first half of 2019) by the capitalisation of development costs for the first time in the reporting period, which will only influence the results of operations via depreciation and amortisation in subsequent years.

The share-based payment is based on agreements made with the Management Board members, for which a debt assumption was agreed with existing 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 had to be recognised in full in the capital reserve in accordance with IFRS 2 in the first half of 2018. Expenses of EUR 0.3 million in connection with an employee share option programme implemented at the start of 2019 and bonuses of EUR 0.2 million in connection with a retention programme for employees in key positions were recognised in the reporting period. Please refer to the remarks on other operating income for information on the Management Board bonuses recognised in the previous year in connection with the IPO.

Adjusted for these one-time effects (adjustments), personnel costs increased by 42.0% year-on-year from EUR 8.1 million to EUR 11.4 million. This corresponds to an adjusted personnel expense ratio based on revenue of 43.4% in the first half of 2019 compared to 39.1% in the same period of the previous year. This moderate increase is related to the increase in personnel to secure our growth strategy.

Other operating expenses

Other operating expenses increased year-on-year to EUR 12.2 million in the first six months of 2019 (previous year: EUR 9.6 million). This is primarily due to the increased expenses for marketing and the higher sales commissions as a result of increased revenue, as well as the fact that the other operating expenses now include an additional subsidiary since the consolidation of DTS.

In addition, the other operating expenses of the first half of 2019 include costs of EUR 0.6 million incurred in connection with the acquisition of DTS as at 01 March 2019. In the previous year, expenses in connection with the IPO of EUR 2.4 million were included.

Adjusted for these one-time effects (adjustments), other operating expenses increased by 19.4% to EUR 11.6 million in the first half of 2019. This corresponds to an adjusted rate in terms of revenue of 44.0% compared to 34.8% in the same period of the previous year.

Marketing expenses

As planned, NFON continued to invest further in marketing in the first six months of 2019 and continues with marketing activities, e.g. TV advertising. Marketing expenses increased by 71.6% to EUR 3.9 million compared with the same period of the previous year (previous year: EUR 2.3 million).

Sales

Selling expenses rose in the 2019 reporting period to EUR 3.0 million (PY: EUR 2.1 million). In terms of revenue, this is at a stable rate of 11.4% compared to 10.1% in the same period of the previous year. Selling expenses include in particular payment commissions to NFON AG's sales partners, which participate in a percentage share of revenue.

Depreciation and amortisation

Depreciation and amortisation amounted to EUR 1.4 million in the reporting period, up EUR 1.1 million on the same period of the previous year. This is chiefly due to the first-time application of IFRS 16 in the reporting period, which means expenses in connection with certain rental agreements and leases (for office space and vehicles) are not recognised in other operating expenses, like before, but are instead included in depreciation and amortisation as a result of the capitalisation of the corresponding rented or leased assets. In this context, depreciation and amortisation increased by EUR 0.7 million compared to the same period of the previous year.

In addition, the depreciation and amortisation includes the amortisation of the customer base recognised as part of the DTS purchase price allocation of EUR 0.1 million.

EBITDA, EBIT, consolidated profit and loss

in mEUR	6M 2019	6M 2018	Q2 (3M) 2019	Q2 (3M) 2018
EBITDA	**–3.8**	**–6.6**	**–2.1**	**-6.1**
Adjustments				
IPO expenses (other operating expenses)	0	2.4	0	1.9
Retention bonus	0.2	0.6	0.1	0.6
Share options/ESOPS	0.3	3.7	0.2	3.5
Expenses for acquisition of DTS	0.6	0	0.1	0
Total adjustments	1.2	6.7	0.4	6.0
Adjusted EBITDA	**–2.6**	**0.1**	**–1.7**	**0**
EBIT	–5.2	–6.9	–2.9	–6.2
Consolidated loss	–5.5	–7.0	–3.5	–6.2
Adjusted consolidated loss	**–4.3**	**–0.3**	**–3.1**	**–0.2**

Assets and liabilities

The NFON Group's total assets increased from EUR 51.3 million as at 31 December 2018 to EUR 64.4 million as at 30 June 2019 due in particular to the accounting impact of the acquisition of DTS and to the first-time application of IFRS 16.

As at 30 June 2019, the share capital of NFON AG was EUR 14.1 million, divided into 14,091,554 no-par value bearer shares. The equity has fallen as at 30 June 2019 in comparison with 31 December 2018 by EUR 2.5 million to EUR 41.1 million. The decline is largely the result of the loss for the period of EUR 5.5 million. This was countered by the capital increase in connection with the DTS acquisition.

Acquisition of DTS

Hidden reserves resulting from the acquisition of DTS were recognised as at 30 June 2019 at EUR 12.1 million in goodwill and EUR 5.0 million in the customer base. In addition, other current liabilities include hidden reserves of EUR 0.3 million.

Effects of IFRS 16

NFON has applied the new requirements for lease accounting in accordance with IFRS 16 since 01 January 2019. According to these requirements, lessees must recognise right-of-use assets and lease liabilities for all leases, which

at NFON have been recognised in property, plant and equipment and as financial liabilities since 01 January 2019. For further details, please refer to the remarks under Note 3 "Impact of new accounting standards and interpretations".

With regard to the effects on results of operations, please also refer to the information under depreciation and amortisation.

Financial position

There were no liquidity bottlenecks during the reporting period. All payment obligations were met on time during the reporting period. As at the end of the reporting period, cash and cash equivalents equalled EUR 26.9 million.

NFON AG's main source of funds in the first six months of 2019 were proceeds from the IPO and lending agreements with banks.

In the first quarter of 2019, an existing overdraft facility of EUR 4 million was terminated and replaced by an acquisition credit facility of EUR 10 million, which was nearly used in full when acquiring DTS.

Investments

In the reporting period, all shares in DTS were acquired for EUR 17.2 million. The investments made in the reporting period in property, plant and equipment totalling EUR 1.0 million primarily went on IT infrastructure and also served to establish the new national subsidiaries in Italy and France. The investments in intangible assets largely related to capitalised R&D activities.

Subsequent events

As at 01 July 2019, the Management Board resolved, with the approval of the Supervisory Board, to issue a warrant bond with a nominal value of EUR 5.0 million ('bond') by way of private placement to Active Ownership Fund SICAV-FIS SCS, Luxembourg. The bond bears interest at 6.00% p.a. for a term up to and including 02 January 2020. The bond is issued together with a warrant issued by NFON AG. The warrant entitles the holder to purchase 964,015 bearer shares from the conditional capital of NFON AG with a share in the share capital attributable to each share of EUR 1.00 per share. The exercise price per share is EUR 11.00. The shareholders' subscription right was excluded.

Risks and opportunities

NFON AG explained risks and opportunities in detail in the 2018 Annual Report. Furthermore, currently no further risks and opportunities have been recognised.

Forecast

If the macroeconomic environment remains stable, NFON expects to achieve, albeit at the lower end, the forecast growth rate of between 40% and 45% year-on-year. As things stand, the share of recurring revenue will be at the upper end of or even above the forecast range of 75% – 80%. The original estimate was specified as a result of the factors explained in the Group revenue section. In respect of seats operated at customers, NFON continues to project growth of at least 45% in 2019 as a whole.

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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Consolidated income statement and consolidated statement of comprehensive income

for the period 01.01. to 30.06.2019

in EUR thousand	H1 2019	H1 2018	Q2 2019 (3M)	Q2 2018 (3M)
Revenue	26,328	20,617	14,230	10,638
Other operating income	112	898	56	743
Cost of materials	–6,054	–5,415	–3,365	–2,835
Personnel costs	–11,965	–13,064	–6,437	–8,904
Depreciation and amortisation	–1,351	–308	–803	–149
Other operating expenses	–12,216	–9,580	–6,574	–5,687
Impairment loss on trade and other receivables	0	–5	-3	–5
Other tax expense	–4	–2	–1	–1
Income from continuing operations before net interest income and income taxes	**–5,151**	**–6,859**	**–2,897**	**–6,200**
Interest and similar income	17	6	13	3
Interest and similar expense	–266	–107	–193	–58
Net interest expense	**–250**	**–101**	**–180**	**–55**
Earnings before income taxes	**–5,400**	**–6,960**	**–3,077**	**–6,255**
Income tax expense	0	0	0	0
Deferred tax expenses	–73	0	–391	53
Net loss	**–5,473**	**–6,960**	**–3,468**	**–6,202**
Attributable to:				
Shareholders of the parent company	–5,473	–6,960	-3,482	–6,202
Non-controlling interests	0	0	0	0
Other comprehensive income	145	–6	–14.5	26.4
Tax on other comprehensive income	0	0	0	0
Other comprehensive income after taxes	**145**	**–6**	**–14.5**	**26.4**
Total comprehensive income	**–5,329**	**–6,966**	**–3,482**	**–6,176**
Attributable to:				
Shareholders of the parent company	–5,329	–6,966	–3,482	–6,176
Non-controlling interests	0	0	0	0
Net loss per share, basic	**–0.39**	**–0.93**	**–0.25**	**–0,51**
Net loss per share, diluted	**–0.39**	**–0.93**	**–0,24**	**–0,51**
Weighted average number of shares (basic, unit)	13,965,703	7,480,230	14,091,554	12,066,890
Weighted average number of shares (diluted, unit)	14,041,116	7,480,230	14,208,213	12,066,890

Consolidated statement of financial position

as at 30.06.2019

in EUR thousand	30.06.2019	31.12.2018
Non-current assets		
Property, plant and equipment	7,721	1,352
Intangible assets	20,127	233
Deferred tax assets	167	203
Other non-financial assets	94	99
Total non-current assets	**28,109**	**1,886**
Current assets		
Inventories	330	92
Trade receivables	6,903	5,859
Other financial assets	390	390
Other non-financial assets	1,760	1,605
Cash and cash equivalents	26,928	41,436
Total current assets	**36,312**	**49,382**
Total assets	**64,421**	**51,268**

in EUR thousand	30.06.2019	31.12.2018
Equity		
Share capital	14,092	13,807
Capital reserves	72,653	70,131
Retained earnings	–46,223	–40,749
Currency translation reserve	590	445
Total equity	41,112	**43,633**
Non-current liabilities		
Non-current financial liabilities	3,848	0
Other non-current liabilities	194	172
Deferred tax liabilities	98	63
Total non-current liabilities	**4,140**	**236**
Current liabilities		
Trade payables	2,654	3,237
Current provisions	1,796	1,392
Current financial liabilities	10,512	128
Other non-financial liabilities	4,207	2,643
Total current liabilities	**19,169**	**7,399**
Short-term provisions	**64,421**	**51,268**

Consolidated statement of cash flows

for the period from 01.01. to 30.06.2019

in EUR thousand	H1 2019	H1 2018	Q2 2019 (3M)	Q2 2018 (3M)
1. Cash flow from operating activities				
Profit / Loss after taxes	**–5,452**	**–6,960**	**–3,467**	**–6,202**
Adjustments to reconcile profit (loss) to cash provided				
Income taxes	73	0	391	–53
Interest income (expense), net	250	101	180	55
Amortisation and depreciation of intangible assets and property, plant and equipment	1,350	308	802	149
Gains / losses on the disposal of property, plant and equipment and intangible assets	0	–9	0	–9
Equity-settled share-based payments	307	3,551	156	3,469
Other non-cash income (expense)	–249	19	–103	–169
Changes in:				
Inventories	–80	9	–62	16
Trade and other receivables	–618	–1,198	60	576
Trade and other payables	–987	1,097	–786	3
Provisions and employee benefits	291	58	–207	–572
Adjustments of other receivables and provisions for items recognised in equity (IPO costs)	0	356	0	356
Interest received	9	0	9	0
Interest paid	–61	–49	–55	–43
Income tax refunds / payments	284	0	332	430
Cash flows from operating activities	**–4,904**	**–2,718**	**–2,749**	**–1,994**

in EUR thousand	H1 2019	H1 2018	Q2 2019 (3M)	Q2 2018 (3M)
2. Cash flows from investing activities				
Proceeds on disposal of property, plant and equipment and intangible assets	0	1	0	1
Payments on investments in property, plant and equipment	–996	–361	–511	–223
Payments on investments in intangible assets	–1,097	–64	–619	–29
Payments for DTS acquisition	–17,760	0	0	0
Cash flows from investing activities	**–19,853**	**–424**	**–1,129**	**–252**
3. Cash flows from financing activities				
Proceeds from capital increase by the shareholders of the parent company (IPO)	0	50,000	0	50,000
Payments for transaction costs in connection with the IPO (IPO costs)	0	–2,420	0	–2,420
Proceeds from the capital increase from authorised capital	2,500	0	0	0
Proceeds from loans and borrowings	8,967	800	0	0
Repayments of bank loans and liabilities similar to bank loans	–608	–57	–25	–28
Leasing payments (IFRS 16)	–640	0	–329	0
Other cash receipts	20	0	20	0
Cash flows from financing activities	**10,239**	**48,323**	**–333**	**47,552**
Changes in cash and cash equivalents	**–14,518**	**45,181**	**–4,212**	**45,306**
Effect of movements in exchange rates on cash held	10	1	–16	3
Cash and cash equivalents at the beginning of the period	**41,436**	**2,176**	**31,156**	**2,048**
Cash and cash equivalents at the end of the period	**26,928**	**47,357**	**26,928**	**47,357**

The payments for the acquisition of DTS include negative cash holdings of EUR 565 thousand at DTS as at the acquisition date.

The cash and cash equivalents on 30 June 2019 include deposits with banks of EUR 338 thousand (31.12.2018: EUR 339 thousand) which are not freely remissible to the Group because of security deposits from customers with bad credit ratings. All restrictions on such deposits are short term in nature.

Consolidated statement of change in equity

as at 30.06.2019

	Attributable to owners of the Company						
in EUR thousand	Share capital	Capital reserves	Currency translation reserve	Retained earnings	Total equity	Non-controlling interests	Total
Balance as at 01.01.2019	**13,807**	**70,132**	**444**	**–40,750**	**43,634**	**0**	**43,634**
Total comprehensive income for the period							
Loss (income) for the period	0	0	0	–5,473	-5,473	0	–5,473
Other comprehensive income for the period	0	0	145	0	145	0	145
Total comprehensive income for the period	**0**	**0**	**145**	**–5,473**	**–5,329**	**0**	**–5,329**
Transactions with the shareholders of the Company							
Equity-settled share-based payments	0	306	0	0	306	0	306
Increase in equity from authorised capital for partial payment of the purchase price for the DTS acquisition	285	2,215	0	0	2,500	0	2,500
Total transactions with the shareholders of the Company	**285**	**2,521**	**0**	**0**	**2,806**	**0**	**2,806**
Balance as at 30.06.2019	**14,092**	**72.653**	**589**	**–46,233**	**41,111**	**0**	**41,111**

Consolidated statement of change in equity

as at 30.06.2018

	Attributable to owners of the Company						
in EUR thousand	Share capital	Capital reserves	Retained earnings	Currency translation reserve	Total equity	Non-con-trolling interestsv	Total
Balance as at 01.01.2018	**371**	**32,052**	**–32,637**	**557**	**343**	**0**	**343**
Total comprehensive income for the period							
Loss (income) for 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**	**–6,966**	**0**	**–6,966**
Transactions with the shareholders of the Company							
Equity-settled share-based payments	0	3,551	0	0	3,551	0	3,551
Increasing share capital by decision of the Annual General Meeting on 22.02.2018	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
Total transactions with the shareholders of the Company	**13,436**	**38,203**	**0**	**0**	**51,539**	**0**	**51,539**
Balance as at 30.06.2018	**13,807**	**70,155**	**–39,597**	**551**	**44,916**	**0**	**44,916**

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1. Basis of presentation

The condensed consolidated interim financial statements for the first half of 2019 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 1 January 2019 to 30 June 2019. The condensed consolidated interim financial statements has been prepared 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) and is essentially based on the same accounting policies that were applied in the consolidated financial statements as at 31 December 2018. However, the condensed consolidated interim financial statements do not contain all the information and disclosures required in the consolidated annual financial statements and should therefore be read in conjunction with the consolidated annual financial statements as of 31 December 2018. Changes arising from the first-time application of IFRS 16 are presented in Note 3.

The condensed interim consolidated financial statements as of 30 June 2019 were neither audited nor reviewed by the group auditor, KPMG AG, Wirtschaftsprüfungsgesellschaft, Munich. They were approved by the Management Board for publication on 23 August 2019.

The consolidated interim financial statements are in euros (EUR), which is the functional currency and reporting currency of NFON AG. Unless stated otherwise, all values in the consolidated financial statements and the accompanying notes are rounded to the nearest thousand euros (EUR thousand). Therefore, rounding differences may occur within the tables included in the notes to the consolidated financial statements.

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

For further information on the specific accounting policies applied, please refer to the NFON consolidated financial statements as at 31 December 2018.

For the first time, the interim financial statements include Deutsche Telefon Standard GmbH, Mainz, which was acquired in the reporting period, and the newly founded NFON France SAS, Paris, which commenced business operations in the reporting period.

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. It operates in various countries in Europe, most significantly in Germany, Austria, United Kingdom and Spain. The Company has its registered offices in Machtlfinger Straße 7, 81379 Munich, and is entered in the Commercial Register of the Munich District Court under HRB 168022. The Company is a stock corporation according to German law.

Comparative information

The consolidated half-year financial statements include amounts as at and for the periods ended 30 June 2019 compared to 30 June 2018. The consolidated statement of financial position as at 30 June 2019 has been compared with the consolidated statement of financial position as at 31 December 2018.

2. Changes in the group of consolidation

As at 1 March 2019, the Group acquired all shares in DTS, Mainz. The acquisition was preceded by the purchase and transfer agreement relating to the acquisition of the stake in DTS signed on 6 February 2019. NFON is financing approximately EUR 17 million of the purchase price for DTS from parts of the 2018 IPO proceeds and from debt. In addition, the existing shareholders of DTS participate in NFON on the basis of the issue of new shares in the context of a capital increase from authorised capital with a total volume of approximately EUR 2.5 million. For this purpose, the share capital of NFON was increased by 284,738 shares; the share capital amounts to EUR 14,091,554 following the capital increase and is divided into 14,091,554 no-par shares.

The preliminary purchase price allocation in connection with the DTS acquisition is as follows:

in EUR thousand	Carrying amount as at 28.02.2019	Disclosed hidden reserves	Fair value at 28.02.2019
Assets			
Property, plant and equipment	1,090	0	1,090
Intangible assets (incl. goodwill)	2,018	17,078	19,096
Inventories	158	0	158
Trade receivables	808	0	808
Other non-financial assets	52	0	52
Total assets	**4,126**	**17,078**	**21,204**
Liabilities			
Financial liabilities	1,122	0	1,122
Trade payables	787	0	787
Other non-financial liabilities	1,829	270	2,099
Total liabilities	**3,739**	**270**	**4,009**

The fair value of intangible assets includes disclosed hidden reserves in connection with the customer base (EUR 5,013 thousand) and goodwill (EUR 12,065 thousand). The calculation of the provisional customer base is based on a useful life of 20 years. Deferred tax liabilities relating to the customer base in the amount of EUR 1,481 thousand are offset against deferred tax assets in the amount of EUR 1,481 thousand. In other non-financial liabilities, hidden reserves acquired as part of the transaction of EUR 270 thousand were disclosed. The goodwill to be recognized is based on the future synergy effects associated with the acquisition. In line with our expectations, the goodwill recognized in the consolidated financial statements is not tax deductible.

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.

3. Impact of new accounting standards and interpretations

Except for the first-time application of IFRS 16, the accounting policies used in the consolidated financial statements as at 31 December 2018 were continued unchanged in this half-year financial report.

New standards and interpretations whose application was mandatory for the first time in 2019

The following standards and interpretations were applicable for the first time in the reporting period.

Standard	Topic / amendment	Date of mandatory application	Effects on net assets, financial position and results of operations
IFRS 16	Leases	01.01.2019	See remarks below
Amendments to IFRS 9	Prepayment Features with Negative Compensation	01.01.2019	None
Amendments to IAS 19	Plan Amendment, Curtailment or Settlement	01.01.2019	None
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures	01.01.2019	None
Annual Improvements 2017	The improvements include amendments of: IFRS 3 / IFRS 11 – Business Combinations / Joint Arrangements; IAS 12 – Income Taxes; IAS 23 – Borrowing Costs	01.01.2019	None
IFRIC 23	Uncertainty over Income Tax Treatments	01.01.2019	None

New standards and interpretations not yet applied

The IASB and IFRIC have adopted additional standards and interpretations in 2019 and the previous years, but their application is not yet mandatory for fiscal year 2019. Moreover, in some cases application requires adoption into European law.

Standard	Topic / amendment	Date of mandatory application	Effects on net assets, financial position and results of operations
IFRS 17	Insurance Contracts	01.01.2021	None
Amendments to the IFRS Conceptual Framework	Revised definitions of assets and liabilities and new guidance on recognition, measurement and derecognition, presentation and disclosure	01.01.2020	Being analysed now
Amendments to IFRS 3	Definition of a Business	01.01.2020	Being analysed now
Amendments to IAS 1 and IAS 8	Definition of Material	01.01.2020	Being analysed now

Effects of IFRS 16

NFON has applied the new requirements for lease accounting in accordance with IFRS 16 (Leases) since 1 January 2019. According to these requirements, lessees must recognise a right-of-use asset and a lease liability for all leases in principle. This has resulted in right-of-use assets to be recognised in property, plant and equipment and lease liabilities to be recognised as financial liabilities starting on 01 January 2019.

An analysis by the Group revealed that the leases to be accounted for in the future primarily constitute office rental agreements and fleet leases. NFON has recognised right-of-use assets and corresponding financial liabilities for these agreements on the basis of the modified retrospective method. The cost of a right-of-use asset is calculated as the present value of the future lease payments. The right-of-use asset is depreciated on a straight-line basis over the shorter of useful life or expected term of the lease. The first-time recognition of lease liabilities is calculated as the present value of future lease payments. Each lease payment is divided into payments of principal and finance costs. On subsequent measurement, the carrying amount of the lease liability is increased to reflect interest and reduced through other comprehensive income to reflect the lease payments made.

On first-time application, the simplification options to exclude short-term and low-value leases from the recognition of right-of-use assets were exercised.

In the consolidated statement of cash flows, payments resulting from IFRS 16 of EUR 640 thousand are recognised in the first half of 2019 as cash outflow from financing activities, which would have been recognized as cash outflow from operating activities under the previous accounting in accordance with IAS 17.

As at 30 June 2019, right-of-use assets for properties of EUR 4,951 thousand (01.01.2019: EUR 4,043 thousand) and for vehicles of EUR 340 thousand (01.01.2019: EUR 312 thousand) are recognised in property, plant and equipment in connection with the application of IFRS 16. Non-current financial liabilities of EUR 3,712 thousand (01.01.2019: EUR 3,219 thousand) for properties and EUR thousand 136 (01.01.2019: EUR thousand 163) for cars and current financial liabilities of EUR 1,291 thousand (01.01.2019: EUR 825 thousand) for properties and EUR 162 thousand (01.01.2019: EUR 150 thousand) for vehicles were recognised accordingly on the liabilities side.

The corresponding effects in the income statement are recognised at EUR 652 thousand in depreciation and amortisation and at EUR 43 thousand in interest expenses. EBITDA was positively affected by EUR 641 thousand.

4. Intangible assets

Due to the possibility to estimate the relevant expenses now on a reliable basis, capitalised development costs in connection with the product platforms offered by NFON AG amounting to EUR 792 thousand were recognised as intangible assets for the first time as of the balance sheet date. Since the corresponding products have not yet been completed or launched on the market, no amortisation is recorded.

5. Interest-bearing debt

The financial liabilities include the following items:

in EUR thousand	30.06.2019	31.12.2018
Non-current financial liabilities		
Lease liabilities for property	3,712	0
lease liabilities for cars	136	0
Total non-current liabilities	**3,848**	**0**
Current financial liabilities		
Acquisition credit facility	8,967	0
Property lease liabilities	1,291	0
Vehicle lease liabilities	163	0
Working capital loan	70	121
Others	23	7
Total current financial liabilities	**10,512**	**128**
Total financial liabilities	**14,360**	**128**

Acquisition loan

In the first quarter of 2019, the Group terminated an existing overdraft facility of EUR 4 million and replaced it with an acquisition credit facility of EUR 10 million, which was nearly used in full when acquiring DTS. The credit facility can be terminated bilaterally at any time. The interest rate of 4% on drawdown at the time the contract is concluded is variable and changes if the monthly average of the 3-month EURIBOR changes. The commitment fee is 1%.

6. Equity

As at 30 June 2019, equity fell by EUR 2,523 thousand compared with 31 December 2018 to EUR 41,112 thousand. The decline is mainly due to the loss for the period of EUR 5,473 thousand. This was countered by the capital increase in connection with the DTS acquisition. As such, subscribed capital increased as at 30 June 2019 by EUR 285 thousand and capital reserves by EUR 2,215 thousand.

On the basis of existing share-based payment agreements, capital reserves also increased by EUR 306 thousand. The corresponding expense was recognised in staff costs.

7. Financial instruments

Accounting classifications and fair values

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

30.06.2019	Amortised cost			Fair value (hierarchy levels)			
in EUR thousand	Fair value	Carrying amount	Total carrying amount	Level 1	Level 2	Level 3	Total
Financial assets not measured at fair value							
Trade receivables[1]		6,903	6,903	0	0	0	0
Other financial assets[1]		390	390	0	0	0	0
Cash and cash equivalents[1]		26,928	26,928	0	0	0	0
Total financial assets not measured at fair value		**34,221**	**34,221**	**0**	**0**	**0**	**0**
Financial liabilities not measured at fair value							
Acquisition loan		8,967	8,967	0	0	0	0
Working capital loan[1]		70	70	0	0	0	0
Lease liabilities (IFRS 16)		5,301	5,301	0	0	0	0
Other financial liabilities		22	22	0	0	0	0
Trade payables[1]		2,654	2,654	0	0	0	0
Total financial liabilities not measured at fair value		**17,014**	**17,014**	**0**	**0**	**0**	**0**

1 Without specification of the fair value as this corresponds closely to the carrying amount.

31.12.2018	Amortised cost			Fair value (hierarchy levels)			
in EUR thousand	Fair value	Carrying amount	Total carrying amount	Level 1	Level 2	Level 3	Total
Financial assets not measured at fair value							
Trade receivables[1]		5,859	5,859	0	0	0	0
Other financial assets[1]		390	390	0	0	0	0
Cash and cash equivalents[1]		41,436	41,436	0	0	0	0
Total financial assets not measured at fair value		**47,685**	**47,685**	**0**	**0**	**0**	**0**
Financial liabilities not measured at fair value							
Working capital loan[1]		121	121	0	121	0	121
Trade payables[1]		3,237	3,237	0	0	0	0
Total financial liabilities not measured at fair value		**3,358**	**3,358**	**0**	**121**	**0**	**121**

1 Without specification of the fair value as this corresponds closely to the carrying amount.

The Group recorded no significant net gains or net losses from financial assets or liabilities in its consolidated statement of comprehensive income.

Valuation techniques for determining fair value

The fair values are measured on the basis of the market information available at the end of the reporting period 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 2019, no reclassifications were made between the individual hierarchy levels.

Financial risk management

All risks which may have significant negative effects on our business situation, net assets, financial position and results of operations as well as reputation are listed in the Annual Report for 2018. No further significant financial risks were identified in the reporting period up until 30 June 2019.

8. Contingent liabilities and obligations

In April 2017, the Company entered into a parent company guarantee agreement where NFON AG as the guarantor guarantees to one of its partners, British Telecommunications plc, all payments that become payable by its subsidiary NFON UK.

The 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 such cases, the Group recognises a provision for these matters when it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated. No provisions of this kind are included in the statement of financial position as at 30 June 2019.

9. Earnings per share

Earnings per share as per the table below reflect earnings from continuing operations:

in EUR thousand	H1 2019	H1 2018
Loss for the year, attributable to the owners of the parent for basic earnings	–5,473	–6,960
Loss for the year, attributable to the owners of the parent for diluted earnings	–5,473	–6,960

Quantity	H1 2019	H1 2018
Weighted average number of ordinary shares for basic earnings per share	13,965,703	7,480,230
Weighted average number of ordinary shares for diluted earnings per share	14,041,116	7,480,230

EUR	H1 2019	H1 2018
Loss per share		
Basic earnings	–0.39	–0.93
Diluted earnings	–0.39	–0.93

10. Revenue

In the following table, revenue is broken down by segment into recurring and non-recurring revenue from products and services.

in EUR thousand	H1 2019	H1 2018
Product/ Services		
Recurring revenue		
NFON AG	14,469	12,261
Deutsche Telefon Standard GmbH	2,904	0
nfon GmbH	2,067	1,759
NFON Ltd.	2,840	2,373
NFON Iberia S.L.	140	81
NFON ITALIA S.R.L.	0	0
NFON France S.A.S.	0	0
Total recurring revenue by segments	**22,419**	**16,474**
Transition to Group recurring revenue	1	–1
Group recurring revenue	**22,420**	**16,473**
Non-recurring revenue		
NFON AG	2,425	3,032
Deutsche Telefon Standard GmbH	351	0
nfon GmbH	827	522
NFON Ltd.	279	535
NFON Iberia S.L.	26	56
NFON ITALIA S.R.L.	0	0
NFON France S.A.S.	0	0
Total non-recurring revenue by segments	**3,908**	**4,145**
Transition to group non-recurring revenue	0	0
Group non-recurring revenue	**3,908**	**4,145**
Group revenue	**26,328**	**20,617**

The significant increase in recurring revenue in contrast to the development of non-recurring revenue in the first half of 2019 results largely from the customer base, which expanded year-on-year. Recurring revenue essentially comprises monthly payments of a fixed licence fee per seat plus a fixed or volume-based fee for voice telephony usage on the part of the customer base at seats or SIP trunks. Non-recurring revenue includes revenue from the sale of devices (phones, soft clients for PCs and smartphones) and the one-time activation fee per extension during initial installation. The decline in non-recurring revenue compared with the same period of the previous year chiefly reflects the lower revenue from devices.

NFON AG has applied the requirements of IFRS 15 since transitioning to IFRS in fiscal year 2015. The contractual assets recorded in connection with IFRS 15 (30.06.2019: EUR 173.9 thousand; 31.12.2018: EUR 210.0 thousand), additional costs in the initiation of a contract (30.06.2019: EUR 155.6 thousand; 31.12.2018: EUR 124.0 thousand) and contractual liabilities (30.06.2019: EUR 95.0 thousand; 31.12.2018: EUR 18.3 thousand) are recorded under other non-financial assets (current) and other non-financial liabilities (non-current).

11. Other operating income

Other operating income of EUR 111.7 thousand (H1 2018: EUR 898.1 thousand) primarily includes allocated other non-cash benefits of employees of EUR 137.8 thousand. The bonuses paid to the Management Board in the previous year as a result of the IPO were borne by the existing shareholders. In the previous year, this reimbursement of EUR 740 thousand was contained in other operating income. The corresponding expense was recognised in staff costs.

12. Other operating expenses

in EUR thousand	H1 2019	H1 2018
Other operating expenses		
Marketing expenses	3,943	2,298
Sales commission	3,005	2,089
Other personnel expenses	1,639	1,418
Rental expenses	376	519
External development costs	356	48
IT costs	656	535
Support	274	165
Consultancy expenses	1,337	1,892
Other administrative expenses	304	179
Other expenses	325	438
Total other operating expenses	**12,216**	**9,580**

The EUR 1,645 thousand increase in marketing expenses in the reporting period as against the previous year relates in particular to targeted measures to raise awareness of the "NFON" brand. The increase in sales commission results from the higher revenue volume.

In addition, the other operating expenses of the first half of 2019 include costs of EUR 0.6 million incurred in connection with the acquisition of DTS as at 01 March 2019. In the previous year, expenses in connection with the IPO of EUR 2.4 million were included.

Despite the first-time application of IFRS 16 in the reporting period and the associated reduction in rental expenses (see information in Note 3), rental expenses amounted to EUR 376 thousand in the reporting period, only slightly down on the previous year (EUR 519 thousand). This is chiefly due to the rental expenses for the new office space in Italy and France, which are recognised as such in other operating expenses as a result of the exercise of the exemption of short-term leases from the application of IFRS 16. In addition, the rental expenses include incidental rental costs, which increased year-on-year due in particular to new office space in Berlin and Mainz and to the first-time inclusion of DTS' office space.

13. Depreciation and amortisation

Depreciation and amortisation amounted to EUR 1,351 thousand in the reporting period, up EUR 1,043 thousand on the same period of the previous year. This is primarily due to the first-time application of IFRS 16 in the reporting period. Please refer to the remarks under note 3 "Impact of new accounting standards and interpretations".

In addition, the depreciation and amortisation includes the amortisation of the customer base recognised as part of the DTS purchase price allocation of EUR 85 thousand.

14. Share-based payment

A share option plan (resolved by the Annual General Meeting on 09 April 2018 – "share option plan 2018") was launched at the start of 2019, on the basis of which employees in key positions at the Group were allocated share options.

The costs of granting equity instruments and share appreciation rights to employees are measured in the Group at the fair value of these equity instruments and share appreciation rights at the grant date or at the end of the reporting period. To estimate the fair value, a suitable measurement technique must be specified for the granting of equity instruments and share appreciation rights; this depends on the grant conditions. In addition, various parameters such as the expected option term, volatility and dividend yield have to be defined.

As at the end of the reporting period on 30 June 2018, 645,229 share options had been granted. In the reporting period, EUR 306 thousand was recognised in personnel expenses (offsetting item: capital reserves) in connection with this.

In addition, there is a share-based payment agreement with a member of the Management Board for which the existing shareholders assume no debt. In connection this agreement, EUR 113 thousand was recognised in other provisions in the reporting period.

As at 30 June 2018, share-based payment plans concluded for members of the Management Board in previous years and the first quarter of the previous year's reporting period were recognised, for which debt assumption was agreed with the existing shareholders. Their payment related both to the occurrence of an exit and to reaching a certain percentage of (existing) shares, which would have had to be transferred to new shareholders in the case of an exit. The latter condition was not achieved in the May 2018 IPO. To this extent, these payment 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 payment programs had to continue to be applied and amounts had to 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 was to be regarded as a "cancellation" in accordance with 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, for these payment plans, the amounts remaining at the point of cancellation, which originally would have been allocated to the capital reserve over the vesting period ending in fiscal year 2021, had to be fully recognised in the reporting period ("accelerated vesting"). In connection with this, EUR 3,551 thousand was recorded in personnel expenses in the previous year's period.

15. Income taxes

The tax expenses of EUR 73 thousand for the first half of 2019 were determined on the basis of the average annual Group tax rate in accordance with IAS 34. The expected Group tax rate was determined on the basis of tax planning for the entire fiscal year. The tax expenses in the second quarter of 2019 include adjustments in intra-Group transfer pricing.

16. Balances and transactions with related parties

Parent company and controlling company

The top controlling company in the Group is NFON AG.

Transactions with members of the Management Board and the Supervisory Board

The following table shows the members of the Management Board:

30.06.2019	Function	Entry / appointment date	Exit / dismissal date
Management / key position			
Hans Szymanski	CEO and CFO	01.07.2016	still active
Jan-Peter Koopmann	CTO	01.10.2012	still active
César Flores Rodríguez	CSO	01.03.2018	still active

The members of the Management Board received the following remuneration:

in EUR thousand	H1 2019	H1 2018
Management Board remuneration		
Short-term remuneration	501	1,082
Total share-based payment (long-term incentive)	97	3,664
Total Management Board remuneration	**598**	**4,746**

The remuneration of the Management Board includes salaries, benefits in kind, share-based payments and bonuses. In the previous year, short-term remuneration included bonuses of EUR 740 thousand, which were reimbursed by the existing shareholders (shareholders before the IPO). The corresponding reduction in expenses is included in other operating income. Please refer to 14 "Share-based payment" for information on the share-based payment of the previous year.

Overview of members of the Supervisory Board

The Supervisory Board of NFON AG had the following four members as at 30 June 2019:

30.06.2019	Function	Entry/ appointment date	Exit/ dismissal date
Supervisory Board			
Rainer Christian Koppitz	Chairman	24.07.2017	still active
Dr Rupert Doehner	Vice Chairman	09.04.2018	still active
Ralf Grüßhaber		09.04.2018	still active
Angélique Werner		09.04.2018	still active

The members of the Supervisory Board receive the following remuneration:

in EUR thousand	H1 2019	H1 2018
Supervisory Board remuneration		
Basic remuneration	57.5	29
Attendance fee	16	8
Total Supervisory Board remuneration	**73.5**	**37**

The remuneration of the Supervisory Board is recognised as other current liabilities and under other operating expenses.

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

A number of these companies transacted with the Group in the reporting period. The terms of these transactions were not more advantageous than those on which similar transactions with third parties were or would have been based.

Members of management in key positions, or their related parties, 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 or customers and are reported under "Other transactions with related parties" in accordance with the above.

Other transactions with related parties

The following table shows transactions with related parties with the exception of the remuneration of members of the Management Board and the Supervisory Board:

in EUR thousand	H1 2019	H1 2018
Sales of goods and services and other income	3	41
Purchases of goods and services and other expenses	97	113
Receivables	0	2
Liabilities	12	4

All transactions with these related parties have been concluded under standard market conditions and are to be settled within two months of the reporting date.

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

Receivables from and liabilities to related parties did not change significantly as of 30 June 2019 compared to 31 December 2018.

17. Segment information

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

Segment results that are reported include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Segment reporting does not contain inter-segment sales. It does contain inter-segment transfers or charges. Management evaluates performance primarily on the basis of revenue and EBITDA as presented in the management reporting. EBITDA is measured as earnings before interest, tax, depreciation and amortisation.

The Group's segment structure reflects how management currently makes financial decisions and allocates resources. The calculation and presentation of segment reporting were modified in comparison to the half-year financial statements as at 30 June 2018. As at 30 June 2018, the segments were presented according to local accounting standards. In the half-year financial statements for 2019, the segments are presented in accordance with IFRS for the first time. The figures from the first half of 2018 were adjusted accordingly.

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

The segment information for the activities in the first half of 2019 is presented below.

Revenue and EBITDA by reportable segment

in EUR thousand	H1 2019	H1 2018
Revenue		
NFON AG	16,894	15,271
Deutsche Telefon Standard GmbH	3,254	0
nfon GmbH	2,894	2,281
NFON UK Ltd.	3,119	2,929
NFON Iberia SL	166	138
NFON ITALIA S.R.L.	0	0
NFON France S.A.S.	0	0
Total revenue of the reportable segments	**26,237**	**20,618**
Reconciliation	1	–1
Total Group revenue	**26,328**	**20,617**

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

in EUR thousand	H1 2019	H1 2018
EBITDA		
NFON AG	529	1,175
Deutsche Telefon Standard GmbH	329	0
nfon GmbH	–266	–515
NFON UK Ltd.	–1,939	–209
NFON Iberia SL	–525	–466
NFON ITALIA S.R.L.	–619	0
NFON France S.A.S.	–165	0
Total reportable segments EBITDA	**–2,656**	**–15**
Other segments	0	–1
Reconciliation	–1,145	–6,536
Group EBITDA	**–3,800**	**–6,551**
Addback:		
Depreciation and amortisation	–1,351	–308
Net interest income / expenses	–250	–101
Income tax expense	–73	0
Group net profit / loss	**–5,328**	**–6,960**

Internal reporting is based on IFRS. Special effects of the period that are considered extraordinary are adjusted in the reported EBITDA.

EUR 1,154 thousand of the reconciliation effects in the first half of 2019 of EUR 1,145 thousand related to special effects adjusted in internal reporting resulting from costs of the acquisition of Deutsche Telefon Standard at EUR 577 thousand, a warrant bond issued at the start of July 2019 at EUR 49 thousand and the recognition of retention bonuses and share-based payments as

expenses at EUR 528 thousand. Effects from consolidation and currency translation are included in the amount of EUR 9 thousand.

In the first half of 2018, the reconciliation effect of EUR 6,536 thousand primarily related to special effects adjusted in internal reporting of EUR 6,186 thousand resulting from costs of the IPO at EUR 1,915 thousand and the recognition of retention bonuses and share-based payments as expenses at EUR 4,270 thousand. EUR 350 thousand related to consolidation and currency translation effects.

Information on geographical areas

The following tables show sales revenues and non-current assets by country. The geographical allocation of sales revenues and assets is based on the location of the companies in the respective countries.

Revenue from external customers

in EUR thousand	H1 2019	H1 2018
Revenue		
Germany	19,769	14,885
Austria	2,894	2,281
United Kingdom	3,119	2,908
Spain	166	138
Italy		
France		
Other countries	381	405
Total revenue	**26,328**	**20,617**

Non-current assets

The table below presents non-current assets other than financial instruments and deferred taxes.

in EUR thousand	H1 2019	H1 2018
Non-current assets		
Germany	9,072	1,455
United Kingdom	511	131
Austria	544	95
Spain	17	2
Italy	5	0
France	0	0
Total non-current assets	**10,149**	**1,683**

18. Events after the reporting period

As at 01 July 2019, the Management Board resolved, with the approval of the Supervisory Board, to issue a warrant bond with a nominal value of EUR 5,000 thousand ("bond") by way of private placement to Active Ownership Fund SICAV-FIS SCS, Luxembourg. The bond bears interest at 6.00% p.a. for a term up to and including 02 January 2020. The bond is issued together with a warrant issued by NFON AG. The warrant entitles the holder to purchase 964,015 bearer shares from the conditional capital of NFON AG with a share in the share capital attributable to each share of EUR 1.00 per share. The exercise price per share is EUR 11.00. The shareholders' subscription right was suspended.

Munich, 23 August 2019

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

Additional information

Responsibility statement

We hereby confirm that, to the best of our knowledge, the consolidated half-year financial statements give a true and fair view of the Group's net assets, financial position and results of operations in accordance with applicable accounting policies for half-year financial reporting, and that the interim Group management report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group for the remaining months of the fiscal year.

Munich, 23 August 2019

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

FINANCIAL CALENDAR

Q4

21.11.2019	Presentation 9-Month Results 2019 (Web and Telephone Conference)

Imprint

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