FACTS AND FIGURES 2019

Who we are

Headquartered in Munich and founded 2007, NFON AG is the only pan-European cloud PBX provider – counting more than 40,000 companies across 15 European countries as customers and more than 2,500 partners across Europe. With Cloudya, NFON offers an easy-to-use, independent and reliable solution for advanced cloud business communications. Further premium and industry solutions complete the portfolio in the field of cloud communications. With our intuitive communications solutions, we enable European companies to improve their work a little, every single day. NFON is the new freedom in business communication.

Key figures

in EUR million	2019	2018	Change in %
Total revenue	**57.1**	**43.0**	**32.7**
Recurring revenue	48.1	34.6	38.9
Recurring revenue as share of total revenue (in %)	84.1	80.4	
Non-recurring revenue	9.1	8.4	0.7
Non-recurring revenue as share of total revenue (in %)	15.9	19.6	
ARPU blended [1] (in EUR)	9.64	9.92	–0.28
Seats	**449.711**	**320.728**	**40.2**
Adjusted EBITDA [2]	–5.1	–1. 2	n/a

1 Based on average number of seats per month every year.
2 Explanations of the adjustments can be found in section Results of operations: Personnel expenses and other operating expenses.

List of abbreviations

AOC	Active Ownership Fund
DTS	Deutsche Telefon Standard GmbH
IP	Internet Protocol
PBX	Private Branch Exchange (Telefonanlage)
SaaS	Software-as-a-Service
Seats	Nebenstellen. Lizenzen
UCaaS	Unified-Communication-as-a-Service
VoIP	Voice over IP

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Dear shareholders, dear readers!

The challenges of a globalized business world have been and are being demonstrated to all of us in a very impressive way these days. Being successful in this dynamic market environment requires agile business models, adaptable company strategies and flexible structures. Companies must create the prerequisites for their employees so that they can work according to these exact standards on an everyday basis!

NFON is the new freedom of business communication: simplicity, independence and reliability. We went public with a clearly defined growth strategy based on four areas: development of a customer base, expansion of the UCaaS ("Unified communications as a service") product portfolio, internationalization and M&A activities. Our goal is to leverage the immense potential of the growth market for cloud telephony and become the number 1 in Europe. We continued to systematically implement this strategy in 2019. We acquired Deutsche Telefon Standard at the beginning of the year and successfully integrated the company into the NFON Group. In addition, we founded new subsidiaries in Italy and France and started with sales activities there. The new products NCTI Pro and Nvoice for Microsoft Teams were launched in October. These products allow NFON's telephony solutions to be seamlessly integrated into the modern, digital working world. And finally, by acquiring Onwerk GmbH, we expanded our own R&D capacities to include an experienced development team in the areas of mobile, web frontend and backend as well as client/server by the end of the year. We reached important strategic milestones and laid the foundation for the continued successful development of the NFON Group in 2019.

In view of the general scarcity of resources on the job market in the area of software development and, in particular, the macroeconomic development in all of Europe in 2019, we saw the need to adjust our ambitious targets for the development of the newly acquired seats and the associated development of non-recurring revenue during the year. Nevertheless, we continued to accelerate our overall growth compared to the previous year, thanks also to the acquisition of Deutsche Telefon Standard. Revenue increased by 32.7% to EUR 57.1 million. With respect to recurring revenue, we were able to increase our revenue by 38.9% to EUR 48.1 million. Recurring revenue accounted for 84.1% of our total revenue and thus underscored the strength of our business model. The number of seats increased by 40.2% to around 450,000. This means we achieved all of our adjusted targets for the full year 2019.

Hans Szymanski.
Chief Executive Officer

Jan-Peter Koopmann.
Chief Technology Officer

César Flores Rodríguez.
Chief Sales Officer

We consider NFON to be well positioned, both strategically and operationally. The very high share of recurring revenue that accounts for over 80% of total revenue is our strength. With every new seat we gain, we strengthen the basis for our future, plannable sales. This is a true asset, especially in light of the ongoing macroeconomic uncertainties. We are planning a growth rate of between 22% and 26% for recurring revenue in 2020. NFON is thus maintaining the high organic growth rate of previous years. This does not even take additional growth impulses from possible M&A activities into account. As in the previous financial year 2019, we plan to have recurring revenue account for between 80% and 85% of our total revenue. With regard to seats, we expect growth of between 20% and 24% in 2020 on a steadily increasing basis.

Current developments have not only further sensitized companies worldwide to adopt new solutions for flexible business communication, but have also highlighted the opportunities that digitalization offers. For NFON AG as the only pan-European provider, this will result in even further tailwind. Our highly motivated employees are the decisive factor for the successful development of NFON. We would therefore like to express our sincere thanks and respect to them. Our special thanks also go to our partners and customers as well as our shareholders for the trust they place in us. Please continue to accompany us on our way to the top of European cloud telephony!

Sincerely yours,

Hans Szymanski, Jan-Peter Koopmann and César Flores Rodríguez

Report of the Supervisory Board for financial year 2019

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

After careful examination and consultation, the Supervisory Board voted on the decisions or measures of the Management Board that require the approval of the Management Board by law, the Articles of Association or the rules of procedure, as well as on other decisions of fundamental importance. The decisions were mainly based on the reports and resolution proposals of the Management Board, which were examined in detail by the Supervisory Board. In 2019, the Management Board and Supervisory Board cooperated constructively and thus continued the Company's ongoing growth course.

Composition and changes in the Supervisory Board

From 01 January to 12 December 2019, the Supervisory Board consisted of the following persons:

- Rainer Koppitz (Chairman of the Supervisory Board), Chairman of the Management Board of KATEK SE Group, Munich;
- Dr Rupert Doehner (Deputy Chairman of the Supervisory Board), Attorney-at-law;
- Angélique Werner, Senior Director Customer Success at Salesforce.com Germany GmbH;
- Ralf Grüßhaber, Managing Director and CFO of think project! GmbH.

At the Extraordinary General Meeting on 12 December 2019, Günter Müller and Florian Schuhbauer were elected to the Supervisory Board to replace the Supervisory Board members Angélique Werner and Ralf Grüßhaber, who had resigned their mandates as of that date. From 12 December 2019 onwards, the Supervisory Board therefore consisted of the following persons:

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

Rainer Christian Koppitz,
Chairman of the Supervisory Board

Meetings of the Supervisory Board and main areas of discussion

In fiscal year 2019, the Supervisory Board held four ordinary meetings and four extraordinary meetings. All meetings were attended by all members of the Supervisory Board. In addition, it passed eleven circular resolutions. The Supervisory Board did not form any committees. A closed meeting was regularly on the agenda of the ordinary Supervisory Board meetings.

The meetings of the Supervisory Board in fiscal year 2019 focused in particular on the following topics:

- Discussion of the progress of the THEODOR project for the acquisition of all shares in Deutsche Telefon Standard AG and discussion of the conclusion of a purchase agreement for 100% of the shares in Deutsche Telefon Standard AG
- Increasing the share capital by utilising the authorised capital in the context of the above transaction
- The adoption and approval of the audited annual financial statements and the consolidated financial statements including the Company's combined Group management report for fiscal year 2018
- Preparations for the Annual General Meeting on 05 June 2019 with resolution proposals on increasing the Company's treasury stock
- The report on the risk situation and on risk and compliance management, as well as resolutions and the declaration on the GCGC
- Variable remuneration of the Management Board members for 2018
- The status of development of the Cloudya product, the sales focus with the marketing campaign in Germany
- The resolution on issuing a warrant bond from the conditional capital for the benefit of Active Ownership Capital
- The integration of Deutsche Telefon Standard GmbH in the NFON Group
- The redefinition of key performance indicators for the NFON Group
- The necessary, agenda and scheduling of the Extraordinary General Meeting on 12 December 2019
- The election of the Supervisory Board Chairman and Deputy Chairman following the restaffing of the Supervisory Board with Günter Müller and Florian Schuhbauer
- The discussion and review of the NFON Group's budget for 2020–2022
- The status of strategic partnerships and various M&A activities
- Progress of the asset deal with Onwerk GmbH and approval of its conclusion on 12 December 2019

The Management Board regularly informed the Supervisory Board about the net assets, financial position and results of operations of NFON AG and its subsidiaries and associated companies.

The Supervisory Board examined and approved the budget planning prepared by the Management Board for fiscal year 2020. It discussed and reviewed the strategic orientation of the Company and the Group on the basis of medium-term and long-term corporate planning. The Supervisory Board analysed and reviewed the information received from the Management Board in detail. It paid particular attention to the risk situation and risk management.

In its circular resolutions, the Supervisory Board mainly gave its approval to transactions which, although not of strategic significance, require approval in accordance with the rules of procedure of the Management Board. The Supervisory Board also made time-critical decisions, particularly in connection with the M&A projects implemented and the corporate action, by way of circular resolutions.

Annual and consolidated financial statements and management reports

The Annual General Meeting of the Company on 5 June 2019 appointed KPMG AG Wirtschaftsprüfungsgesellschaft, Munich (hereinafter "**KPMG**") as auditors of NFON AG for fiscal year 2019. The Supervisory Board subsequently commissioned KPMG to audit the company's annual financial statements and consolidated financial statements for fiscal year 2019.

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

All members of the Supervisory Board received the special documentation relevant to the financial statements, in particular the annual financial statements and consolidated financial statements, the combined Group management report and the related audit reports from KPMG, in good time before the Supervisory Board's balance sheet meeting on 31 March 2020. In preparation for this meeting, all members of the Supervisory Board dealt in detail with the aforementioned documents. At the balance sheet meeting, the annual financial statements, the consolidated financial statements and combined Group management report were discussed in detail with the Management Board. The Supervisory Board independently examined the annual financial statements prepared by the Management Board, the consolidated financial statements and the related combined Group management report for their legality, regularity, appropriateness and cost-effectiveness. KPMG's responsible partner and the audit manager also attended the balance sheet meeting on 31 March 2020. They reported on the audit, commented on the focal points of the audit and were available to the Supervisory Board for further questions and information.

After detailed examination of the annual financial statements and the consolidated financial statements as well as the related combined Group management report for fiscal year 2019, the Supervisory Board raised no objections. The Supervisory Board concurred with KPMG's audit findings and approved the annual financial statements and consolidated financial statements of NFON AG. The annual financial statements of NFON AG are thus adopted.

The Supervisory Board would like to thank the members of the Management Board and all employees for their great commitment and achievements in fiscal year 2019. The Supervisory Board particularly wishes to thank the departing Supervisory Board colleagues Angélique Werner and Ralf Grüßhaber for their excellent cooperation, especially in the weeks ahead of the successful IPO and the pioneering year and a half that followed. This can also be seen in the decision to ensure that the shareholder structure is appropriately reflected in the Supervisory Board before the end of the year and to make this possible by way of early resignations.

Munich, March 2020

For the Supervisory Board

Rainer Koppitz
Chairman of the Supervisory Board

The share

The NFON share – Transparency creates trust

In continuous dialogue with capital market participants

Continuity, consistency and transparency are the communication principles of the NFON Investor Relations team. The NFON share is listed in the Prime Standard of the Frankfurt Stock Exchange. The minimum requirements for IR communication work are thus defined for the IR team. In dialogue with all capital market participants, great importance is attached to regular, credible communication tailored to the target groups.

Besides the quarterly statements, the half-year and annual reports, the quarterly telephone conferences for investors and analysts on the figures and press releases, the IR team at NFON AG and the Management Board members present the company in person at several investor conferences and road shows. Road show and conference participation in 2019 was therefore increased significantly again compared to the already very active first trading year. As a result, the Management Board and IR took the opportunity at 18 conferences and road shows and in 172 group and individual discussions to hold a lively and constructive dialogue with investors and analysts on the company's business model, the growth strategy, the milestones already achieved and further plans.

As well as attending the annual Equity Forum and returning to the Berenberg & Goldmann Sachs German Corporate Conference and the Baader Investment Conference 2019 in Munich, NFON also took part in the Berenberg US Conference 2019 in Tarrytown, New York, for the first time. The Management Board and the IR team also presented NFON at the HIT Conference in Hamburg as another new conference. At the same time, NFON's IR team is also further developing the road show and conference formats. A Capital Markets Day and a Finance Blogger Day are therefore being planned for the first time for the upcoming fiscal year 2020. With this latter format in particular, NFON is entering completely new territory. This is based on the conviction that disruptive changes are having an impact in financial communication, too. Networking in a widely diversified financial community is only just beginning and NFON wants to be involved in this right from the start.

Part of the philosophy of NFON AG's IR work is that interested parties should be able to find all relevant information – from the annual report to corporate news, mandatory notifications and the share price and shareholder structure – in the Investor Relations section of the Company's website https://www.nfon.com/de/about-nfon/investor-relations/. Here, too, NFON IR has taken a new approach and started publishing its quarterly statements in a magazine format. Financial news is not separate for operating business. It is a direct result of this business. "Clouds" conveys important topics for the NFON Group and provides a wide range of additional information. This makes it easier to understand NFON's business model better and to put developments in context.

Transparent, continuous and consistent dialogue with the capital market includes accessibility. Sabina Prüser, Head of Investor Relations at NFON AG, is available to answer any questions you may have by e-mail (sabina.prüser@nfon.com) or by calling +49 (0) 89 453 00 134.

Annual General Meeting

The first Annual General Meeting of NFON AG was held in Munich on 5 June 2019. Of the share capital, which is divided into 14,091,554 no-par value shares, 12,768,332 or 90.6% of the voting rights were represented at the Annual General Meeting. All agenda items were approved except for agenda item 5 regarding the resolution on creating Authorised Capital 2019.

At the Extraordinary General Meeting on 12 December 2019, attendance was also at a very high level of 86.7%. A total of 13,055,557 voting rights were represented from the share capital of 15,055,569. The Supervisory Board members Angélique Werner and Ralf Grüßhaber resigned their Supervisory Board mandates as of that date. In their place, Günter Müller, Managing Director of Milestone Venture Capital GmbH, and Florian Schuhbauer, Founding Partner of Active Ownership Fund, Luxembourg, ("AOC"), were elected to the Supervisory Board. In addition, the shareholders created the authorised capital of EUR 3 million at this meeting.

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

NFON share posts slightly positive performance in trading year 2019 and strong start to 2020

Following the general uncertainty on the markets at the end of 2018, the NFON share started 2019 at EUR 9.07. The share remained between EUR 8 and EUR 9 at the start of the year, marking its low for the year of EUR 8.30 during this period. It then left this corridor at the end of February and kept climbing, with a few minor setbacks, up to its high for the year of EUR 12.05 on 5 July 2019. Starting from September, the share price recorded a downward trend and largely remained below the EUR 10 mark from November onwards. At EUR 9.70, the year-end price on 30 December 2019 was up around 7% on its price at the start of the year. Investors saw a positive start to the year in January 2020, with the share climbing back above the EUR 12 mark.

Trading volume

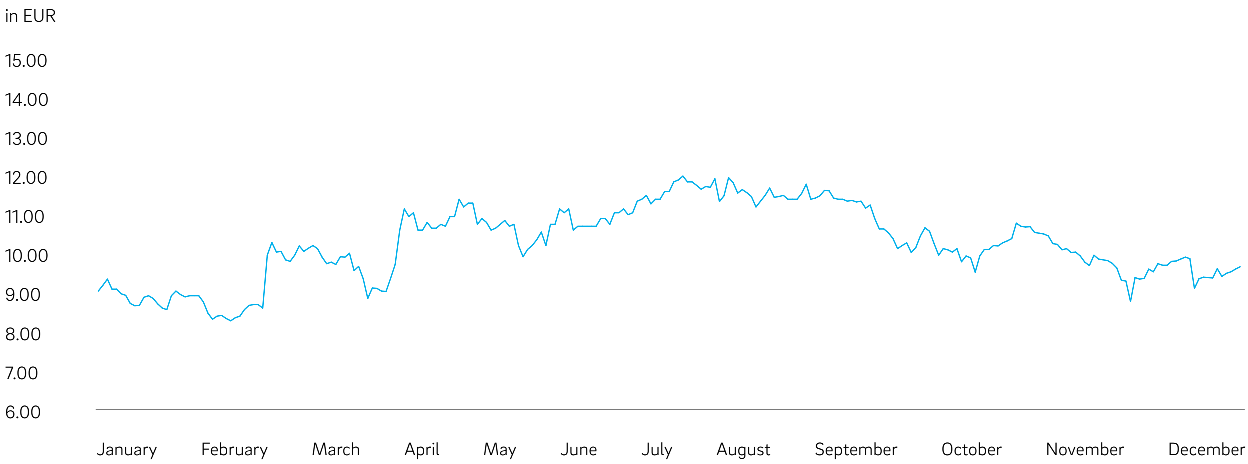
The trading volume of the NFON share on the XETRA platform averaged 5,717 shares traded per day over the course of 2019, with average trading turnover of EUR 57,261.04 per day. Trading turnover displayed a few peaks at the beginning of 2019 at up to EUR 375,640. From April until 20 November 2019, the average volume then amounted to EUR 3,618.54 and was thus below the annual average. From 21 November 2019, when the nine-month figures were published, trading turnover was then considerably higher at an average of EUR 114,271.67. This period also saw the highest level for the year of EUR 435,420.00 on 2 December 2019.

All analysts recommend: Buy

The NFON AG share was tracked by three analysts in 2019. Berenberg Bank, Baader Bank and Hauck & Aufhäuser continued to rate NFON AG regularly, as in the previous year, while ODDO BHF ended its coverage in October 2019. In December, MAINFIRST then presented its initial study and started regular coverage. Investors thus still have assessments by four analysts available to them. All four analysts have recommended the share as a buy since the beginning of their coverage.

The IR team maintains an open dialogue with the analysts, who regularly report on the Company and, in case of relevant events, provide capital market participants with an update or commentary on their current assessment. With coverage by four analysts, NFON AG sees itself in a good starting position to achieve attention and a balanced valuation of the share on the capital market and among investors.

Share chart



Shareholder structure

(on 31 December 2019)

Shareholders[1]	Share in %	Country	City
Milestone Venture Capital GmbH	33.90	Germany	Hösbach
Earlybird Venture Capital	14.05	Germany	Berlin
Active Ownership Capital	11.43	Luxembourg	Grevenmarcher
MainFirst Asset Management	7.74[2]	Germany	Frankfurt
Universal-Investment-Gesellschaft mbH	4.78	Germany	Frankfurt
High-Tech Gründerfonds GmbH & Co KG	3.41[2]	Germany	Bonn
Swedbank Robur Fonder AB	3.18[3]	Sweden	Stockholm

1 Total identified 78.49%

Due to the exercise of the option from the bond by Active Ownership Capital, the share capital increased by 964,015 voting rights to 15,055,569 over the course of fiscal year 2019.

2 Data based on 13.8 million shares

3 Data based on 14.1 million shares

Master data of the NFON share

First day of trading	11 May 2018
Number of shares	15,055,569
Type of shares	No-par value bearer shares
Share capital	EUR 15,055,569.00
Voting rights	Each share confers one vote
Security code number (WKN)	A0N4N5
ISIN (International Security Identification Number)	DE000A0N4N52
Ticker symbol	NFN
Reuters symbol	NFN.DE
Bloomberg symbol	NFN.GY
Trading segment	Regulated market/Prime Standard
Stock exchanges	Frankfurt Stock Exchange/Xetra
Sector	Telecommunications
Designated sponsors	Baader Bank, ODDO Seydler
Coverage	Baader Bank, Berenberg Bank, Hauck & Aufhäuser, MAINFIRST
Paying agent	Baader Bank Aktiengesellschaft

Summary of the trading year 2019 for NFON AG on the Frankfurt Stock Exchange (Prime Standard)

Coverage (as of January 2020)	Berenberg Bank Baader Bank Hauck & Aufhäuser MAINFIRST Durchschnitt	Buy Buy Buy Buy	EUR 14.50 EUR 15.00 EUR 18.00 EUR 14.00 EUR 18.83
Initial listing (11 May 2018)[1]	EUR 13.00		
Closing price (30 Dec. 2019)[1]	EUR 9.70		
High for the year (5 July 2019[1]	EUR 12.05		
Low for the year (12 Feb. 2019)[1]	EUR 8.30		
Market capitalisation as at 31 Dec. 2019[1]	EUR 146.0 million		
Average trading turnover[1]	EUR 52,213.77 per day		
Conference and road show days	18 conference and road show days	172 meetings with investors	

1 All trading data: XETRA

COMBINED GROUP MANAGEMENT REPORT

Profile of the Group

The Group's business model

NFON AG ('NFON' or 'the NFON Group' for short), based in Munich, was founded in 2007 and is the only pan-European provider[1] of cloud-based telephone systems. NFON has over 40,000 business customers in 15 European countries, and has affiliated companies in Germany, Austria, the UK, Spain, Italy and France. In addition, NFON has a large network of partners for sales operations in the remaining countries.

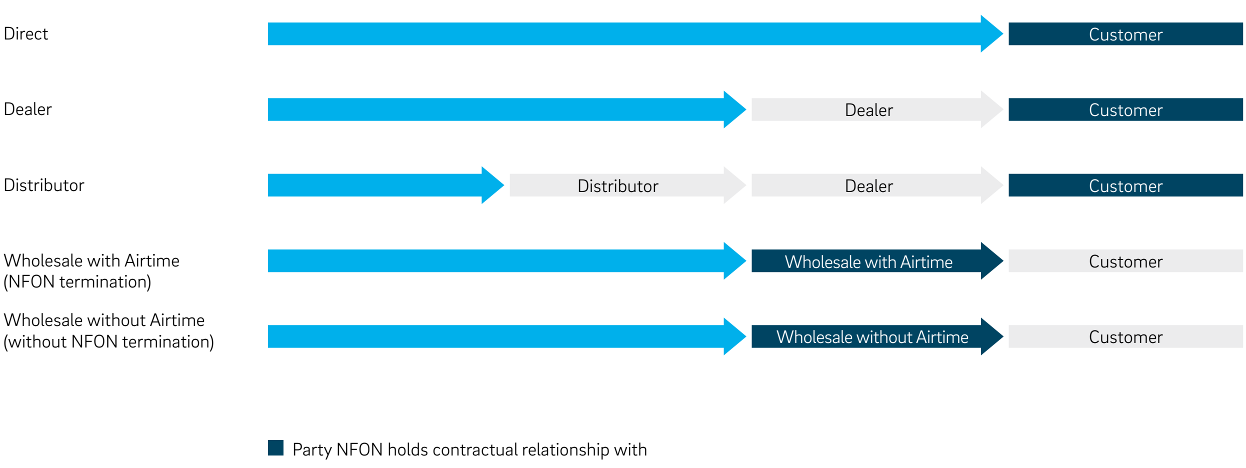
The NFON Group generates revenue mainly by providing cloud-based telecommunication services to business customers. In this process, customers are provided with the required brokerage service from the cloud in NFON data centres via the Cloud PBX (Private Branch Exchange). As a result, these customers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

1 This information has not been audited by the auditor.

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, the NFON Group has for the first time offered a pan-European, homogeneous tariff model with '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 40,000 customers. On request, NFON also sells end devices (telephones, soft clients for PCs and smartphones) and the corresponding software, which the Company procures from several manufacturers, and provides internet access on a reselling basis as required.

NFON divides 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.

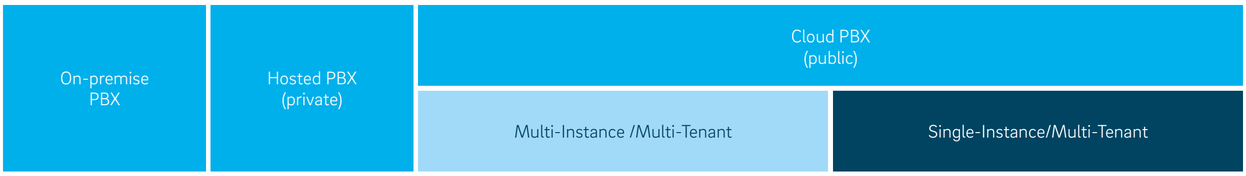
Sales are conducted through five channels with a clear focus on indirect partner sales



General market characteristics

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

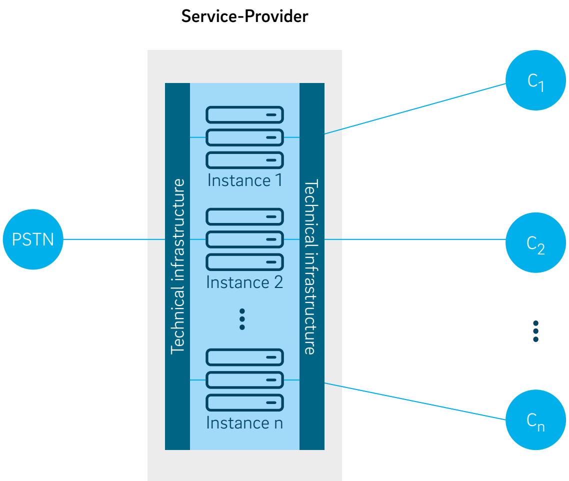
European business telephony market



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 on 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 can use in an infinitely reproducible way (public). This segment is in turn divided into various forms of cloud PBX.

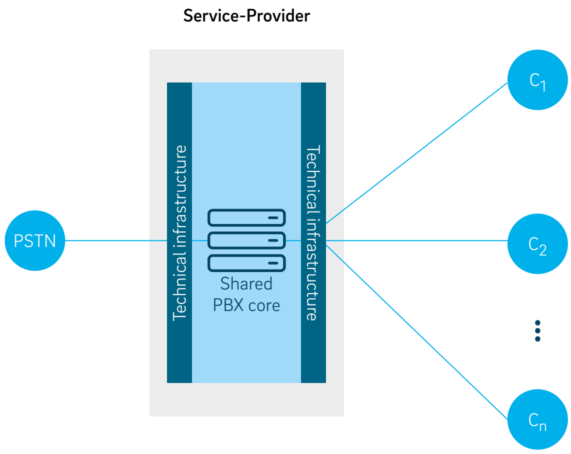
Multi-instance/multi-tenant: A separate platform (instance) is created for each user (tenant).

Multi-Instance/Multi-Tenant (n:n)



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

Single-Instance/Multi-Tenant (1:n)



Objectives and strategies

As the dominant provider[2] in Germany, NFON AG believes that it is in 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 within the existing customer base and the continued acquisition of new customers are significant strategic components for the successful development of the Company. This requires increased awareness of the NFON brand and cloud telephony solutions. With this in mind, sales and marketing activities are being maintained at a high level. 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, Managing Directors.

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

Roll-out of innovative UCaaS functions

A key component of NFON's growth strategy is the roll-out 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 the design and development of new products and 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.

2 This information has not been audited by the auditor.

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 13 European countries: in Germany, the UK, 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.

Consolidation opportunities in highly fragmented cloud PBX markets

The European cloud PBX market is highly fragmented. NFON is taking an active role in the increasing consolidation of the market. In this regard, there are attractive opportunities 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.

Successfully attained milestones in strategic implementation

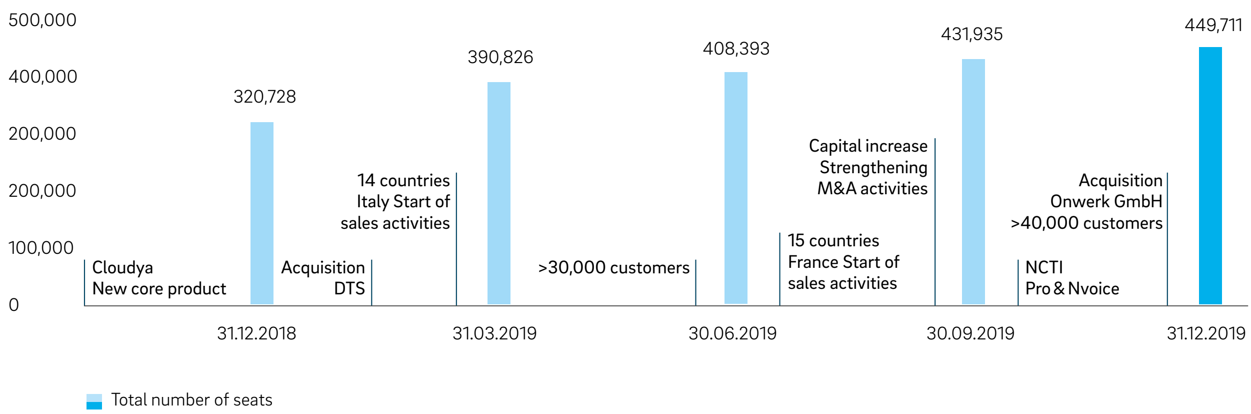
In line with its growth strategy, NFON AG acquired Deutsche Telefon Standard GmbH, Mainz (formerly Deutsche Telefon Standard AG, Mainz; hereinafter DTS) in March 2019. Furthermore, NFON AG issued a warrant bond in July 2019. Exercising the options on 21 October 2019 resulted in further capital for further potential acquisitions. The bond was repaid to AOC on 2 January 2020. With this strategic project, the Company underlines its desire to be the leader in the European cloud communications market.

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.

Last year, the customer base increased from >20,000 to >40,000. This is associated with the growth in activated seats at customers to 449,711.

In addition, at the end of 2019, the NFON Group instantly gained eight highly qualified developers and software and architects with the transfer of all employees of Onwerk GmbH from Mannheim. Via an asset deal that becomes legally effective on 1 April 2020, NFON is expanding its own R&D capacity with a full-stack development team in the mobile, web frontend and backend and client/server areas.

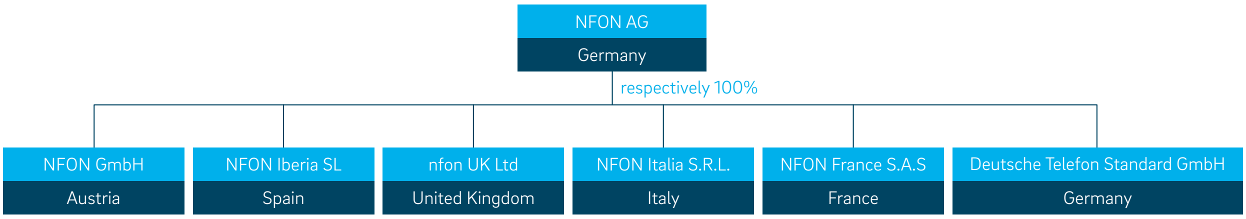
Milestones



Organisation

Group structure and locations

The Group structure as at 31 December 2019 is shown in the following figure.



fairfon Telefonsysteme GmbH was merged with NFON AG with effect from 21 August 2019 based on the contract signed on 26 June 2019. Furthermore, NCONNECT TELEKOMÜNIKA SYON ILETIŞIM HIZMETLERI LTD. ŞTI., Turkey, was wound up and become defunct with effect from 18 September 2019.,

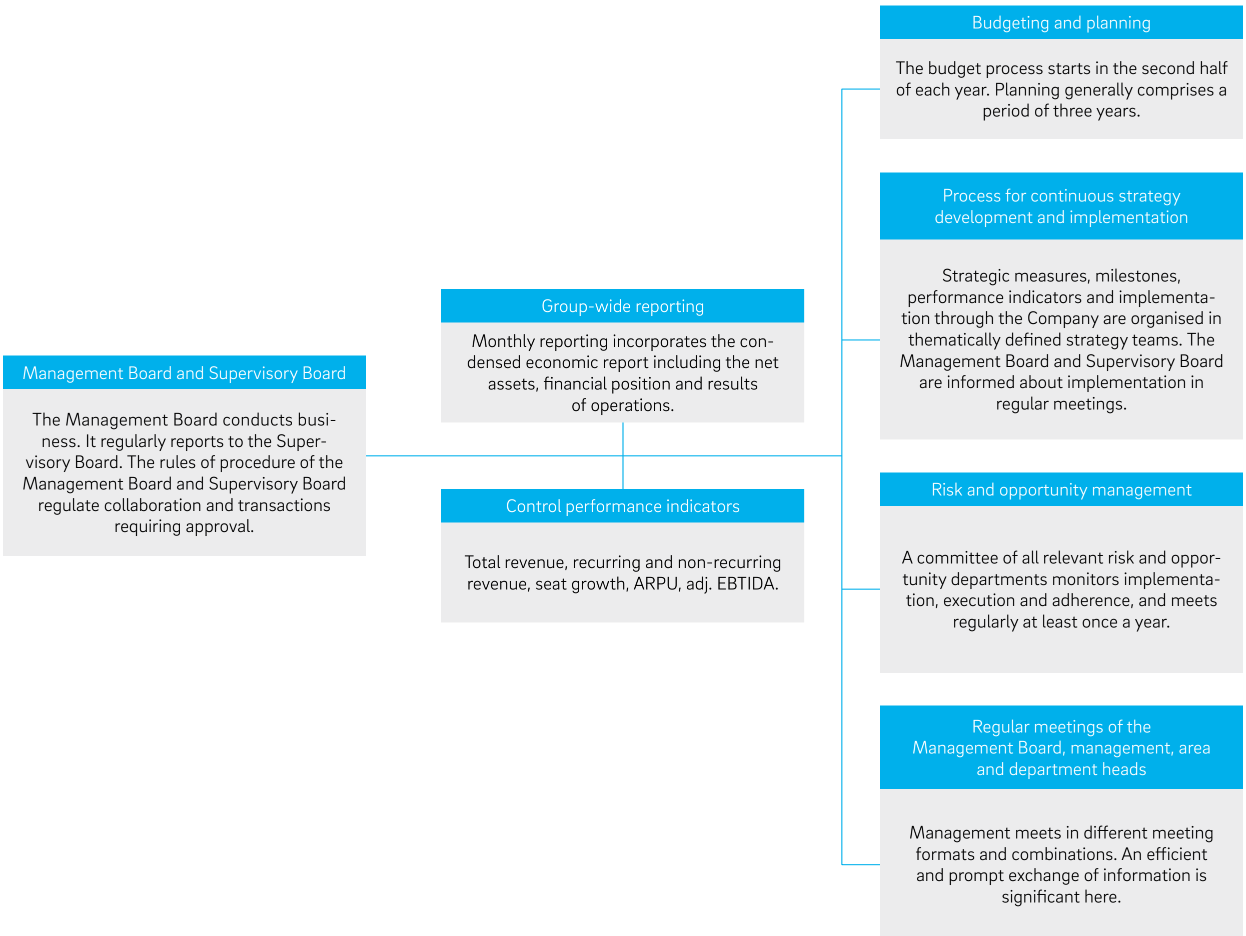
Management and control

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. Until 12 December 2019, the Supervisory Board members were Rainer Christian Koppitz (Chairman of the Supervisory Board), Dr Rupert Doehner (Deputy Chairman), Ralf Grüsshaber and Angélique Werner. The Supervisory Board members Angélique Werner and Ralf Grüsshaber resigned at the Extraordinary General Meeting on 12 December 2019. Günter Müller and Florian Schuhbauer were elected to the Supervisory Board in their place.

Management

Management systems

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:



Financial and non-financial performance indicators

The NFON Group is managed using the following performance indicators:

- Seat growth;
- Total revenue;
- Recurring and non-recurring revenue;
- Recurring and non-recurring revenue as share of total revenue;
- ARPU (blended);
- EBITDA (adjusted).

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

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

SDSL. Recurring and non-recurring revenue is calculated as a share of total revenue.

NFON AG defined total revenue and the share of recurring revenue as key financial performance indicators in fiscal year 2018. Furthermore, the Company also treats seat growth (total number of seats and licences used by customers) at the end of the respective key date as a key non-financial performance indicator. The key financial performance indicators have been adapted slightly compared with fiscal year 2018. Instead of the growth rate of total revenue, the growth rate of recurring revenue will be defined as a key financial performance indicator. Recurring revenue shows the sustainability and stability of the NFON Group's business model. Its positive development is crucial to the entire NFON Group. The Company continues to regard the share of recurring revenue as an important performance indicator. Furthermore, seat growth (total number of seats and licences used by customers) at the end of the respective key date, the basis for recurring revenue, is defined as a key non-financial performance indicator.

NFON uses average revenue per user (blended ARPU) as a further sales-related financial performance indicator, which is calculated from the average total recurring revenue per month divided by the average number of seats per month in each year including revenue and seats from end customers that have a contractual relationship with our wholesale partners.

The Group uses earnings before interest, taxes, depreciation and amortisation (EBITDA) to measure operating performance and the success of the individual business units. Non-operating one-off expenses such as costs from the successful IPO or one-off expenses associated with taxes and matters pertaining to social security are subtracted for purposes of measuring operating performance to give the adjusted EBITDA.

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

	2019	2018	Change %
Total revenue	**EUR 57.1m**	**EUR 43.0m**	**32.7**
Recurring revenue	EUR 48.1m	EUR 34.6m	38.9
Share of recurring revenue	84.1%	80.4%	3.7
Non-recurring revenue	EUR 9.1m	EUR 8.4m	0.7
Share of non-recurring revenue	**15.9%**	**19.6%**	**–3.7**
ARPU blended*	9.64 EUR	9.92 EUR	–0,28
Seat growth	**449,711**	**320,728**	**40.2**
Adjusted EBITDA**	EUR –5.1m	EUR –1.2m	n/a

* Based on average number of seats per month every year.

** Explanations of the adjustments can be found in the section Results of operations

According to the NFON Group forecast published in March 2019, the key performance indicators developed as follows:

	2018	2019	Guidance 2019	adjusted Guidance 2019*	Change	Comments
Total revenue	43.0 Mio. EUR	57.1 Mio. EUR	between 40% and 45%	between 30% and 33%	32.7%	Total revenue reach the upper end of the guidance
Recurring revenue as a share of total revenue	80.4%	84.1%	between 75% and 80%	between 80% and 85%	n/a	Share reaches upper end of guidance
Seat growth	320,728	449,711	At least 45%	between 39% and 41	40.2%	Growth rate is exactly in the middle of the guidance

* Explanations of the guidance adjustment can be found in the section "Presentation of business development".

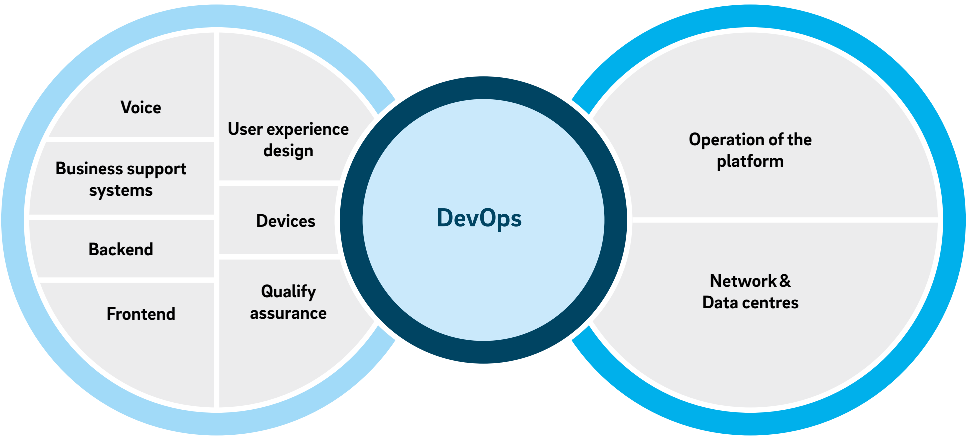
Recurring revenue will be regarded as a key financial performance indicator. For transparency reasons, development of this key ratio is disclosed separately again:

	2018	2019	Expectation 2019 (October 2019)	Change	Comments
Recurring revenue	34.6 Mio. EUR	48.1 Mio. EUR	Growth rate between 38% and 40%	38.9%	The growth rate is exactly in the middle of the expected development.

Research & development

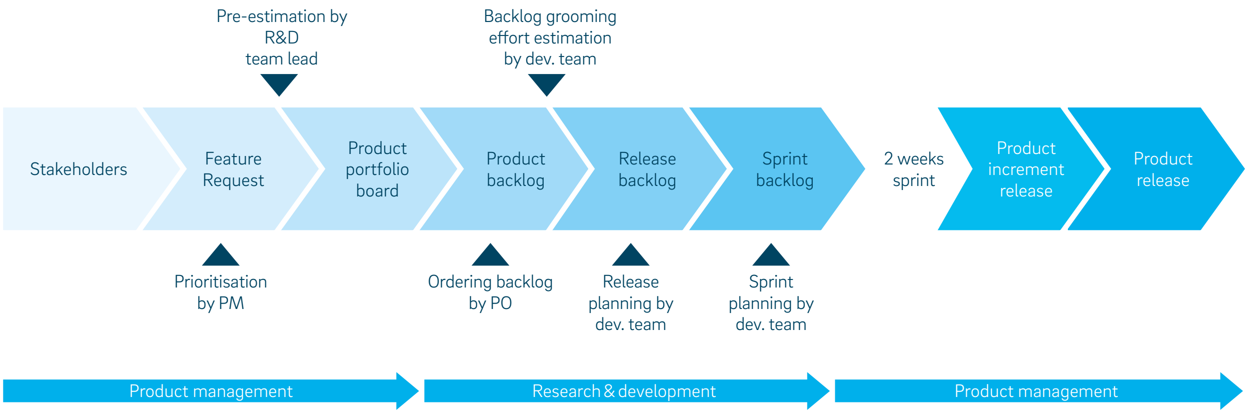
The Research & Development department concentrates both on the development of new products and services and on the development of product expansions and new functions for existing products and services, which are made available to NFON customers through regular updates. Products and services are developed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

Agile development



R&D centres Munich, Mainz, Berlin

NFON develops its products following a clearly defined process.



NFON is currently focusing its R&D activities on the further development of the new NFON client Cloudya. The new solution is the first step towards transforming the successful cloud telephone system into a communication service platform. It forms the basis for further features, technologies and services, which will enrich the NFON platform in the future.

The initial focus of integration from a user perspective is on seat management and the soft phone functionalities. In the near future, all customer-orientated services are to be integrated into the solution. Ultimately, the customer will be able to experience a uniform service which meets all of their needs in daily business communication.

At the end of 2019, there were 95 permanent employees in the Research & Development, Operations and Technical Consultants departments of the NFON Group (previous year: 62 employees); this equates to 25.0% (previous year: 25.3%) of the total workforce. Additional external employees are used on a temporary basis as required. At the end of 2019, they accounted for up to 9.5% of the permanent R&D workforce.

In the year under review, the Group incurred R&D expenses of EUR 4.4 million (2018: EUR 3.3 million). Of this amount, EUR 2.9 million (2018: EUR 0 million) was capitalized as intangible assets. The capitalization rate in the year under review is thus 65% (2018: 0%).

Economic report

General economic conditions and industry environment

Macroeconomic development in Europe and Germany

According to the Kiel Institute for the World Economy (IfW), the economy in the euro zone has noticeably lost momentum since the beginning of 2018, primarily because value added in industry has declined due to a lack of foreign trade stimuli.[3] At the same time, the unemployment rate in the euro zone in 2019 remained on a downward trend despite the restrained production trend that has now lasted for more than a year. The European economy was subsequently on a steady, albeit moderate, growth path in 2019. Annual GDP growth in the euro zone was 1.2%, compared with 1.9% in the previous year 2018.[4]

The year 2019 was marked by a downturn in the domestic market of NFON AG Germany, according to the IfW. After catch-up effects in the first quarter had expanded production, the German economy had practically stagnated in the summer half of the year. There were also no signs of significant momentum in the final quarter. As a result, overall economic capacity utilization has declined significantly this year – by around one percentage point.[5]

According to information from the Federal Statistical Office, the GDP in Germany in 2019 was around 3.44 trillion euros. This means that the change compared to the previous year 2018 amounted to 0.6% after price adjustments.[6]

In NFON AG's most important foreign market, Great Britain, uncertainty about the timing and form of the announced withdrawal from the EU has been dampening economic activity for some time now, according to information from the IfW. At the same time, however, the labour market proved to be extremely resilient here as well, and unemployment will remain at an all-time low in 2019 despite the uncertainties caused by the discussion about brexite. According to the British Office for National Statistics, GDP rose by 1.4 % in 2019, which is slightly above the growth of 1.3 % in the previous year 2018.[7]

3 Kieler Institut für Weltwirtschaft: Kieler Konjunkturberichte – Weltkonjunktur im Winter 2019 (https://www.ifw-kiel.de/fileadmin/Dateiverwaltung/IfW-Publications/-ifw/Konjunktur/Prognosetexte/deutsch/2019/KKB_61_2019-Q4_Welt_DE.pdf

4 Eurostat: Pressemitteilung vom 10.03.2020 (https://ec.europa.eu/eurostat/documents/2995521/10516833/2-10032020-AP-DE.pdf/67d13327-038e-8be6-6585-edc78021f1d1)

5 Kieler Institut für Weltwirtschaft: Kieler Konjunkturberichte – Deutsche Konjunktur im Winter 2019 (https://www.ifw-kiel.de/fileadmin/Dateiverwaltung/IfW-Publications/-ifw/Konjunktur/Prognosetexte/deutsch/2019/KKB_62_2019-Q4_Deutschland_DE.pdf)

6 Statistisches Bundesamt (https://de.statista.com/themen/26/bip/)

7 Office for National Statistics: Statistical bulletin vom 11.02.2020 (https://www.ons.gov.uk/economy/grossdomesticproductgdp/bulletins/gdpfirstquarterlyestimateuk/octobertodecember2019/pdf)

Significant sales markets and the competitive position of the NFON Group[8]

The fast-growing market for cloud telephony is subject to disruptive development. Major technological change is the principal driver of this disruptive development. All European telephone companies are currently making the switch from ISDN to All-IP. This will make traditional telephone systems obsolete, or at least unusable without additional technology. Furthermore, hosted/cloud telephone systems have significant advantages over classic telephone systems that correspond to the general change in the demands of working life. These advantages include flexibility, mobility and independence. Included in this are all the advantages of software as a service, especially lower fix costs and user independent billing. Furthermore, this development is happening in a market with great potential. In Europe, around 10 to 11% of the approx. 135 million seats, i.e. around 13 million,[9] are in the cloud. Market researchers such as the Cavell Group and MZA expect a 5-year CAGR of approx. 16% here. Consequently, the market for cloud communications could double to between 26 million and 30 million seats. In other words, the market is still in its infancy.

NFON has been operating in this market since 2007. In addition to Germany, the NFON Group's domestic market[10], the Company is now also represented through its own subsidiaries in the UK, Austria, Spain, France and Italy. In terms of cloud communication (multi-tenant and multi-instance) users, the UK (4.2 million), Germany (1.8 million) and France (1.2 million) are the biggest European markets in which the NFON Group is represented. Some distance behind them are Spain (0.9 million users), Italy (0.4 million) and Austria (0.3 million). NFON AG already has a dominant market position in its domestic market[10] with around 1.8 million cloud communication users. In addition, NFON is represented by partners in a further nine countries: Croatia, the Czech Republic, Hungary, the Netherlands, Poland, Portugal, Romania, Switzerland and Slovenia. This, according to the Company, makes the NFON Group the only pan-European provider[11] of cloud telephony with a customer base of over 40,000 customers and over 2,500 partners.

NFON also benefited from the sustained trend towards cloud-based solutions for telephone systems in fiscal year 2019. Customers of all sizes can be connected to the cloud telephone system via the sales channels (direct and indirect including wholesale). However, the majority of customers belong to the small and medium-sized segment.

North America is one of the most advanced countries in the world in terms of cloud telephony use. Accordingly, from the Company's perspective, the only competitors comparable to NFON are based in North America: RingCentral and 8x8. Both firms have a cloud PBX developed in-house, and have significantly expanded their product range in the last ten to eleven years with UC services. At around 25%, the current estimated penetration rate in the North American market is far above the penetration rate in Europe.

Competitive pressure is increasing on the European market. Companies such as Enreach (formerly Within Reach) are stoking the consolidation process by acquiring companies in the cloud communications sector throughout Europe with the financial muscle of parent company Waterland Private Equity GmbH, Hamburg. Most recently, Enreach acquired the Spanish cloud telephone provider Masvoz Telecomunicaciones Interactivas, S.L.U. Other companies such as Destiny NV in the Netherlands are also starting to make acquisitions. At the same time, other established companies and new start-ups are attempting to enter the market, such as Zoom, Avaya, 3CX and fuze Europe GmbH, the latter established in 2019.

Overview of market penetration in Europe[12]

Country	Germany	Europe	UK
2019	4%	6%	15%
2024	14%	19%	33%

Germany

Whereas there was widespread scepticism about cloud computing in Germany until a few years ago, acceptance grew perceptibly in 2019. The bitkom Cloud Monitor 2019[13] shows that 73% of German companies now use cloud computing. In 2017, the figure was just 66%. The growth in acceptance is also apparent from the fast growth in the market for cloud communications, which Cavell puts at around 21%. A CAGR of around 23% is expected by 2024.

8 All market figures stated in this section relate to the Cavell Service Provider Insight Report Q2 2019. Different sources are quoted separately.

9 Source: MZA 2017. All other market figures stated in this section relate to the Cavell Service Provider Insight Report Q2 2019. Different sources are quoted separately.

10 This information has not been audited by the auditor.

11 This information has not been audited by the auditor.

13 Details from Cavell Service Provider

13 https://www.bitkom.org/sites/default/files/2019-06/bitkom_kpmg_pk_charts_cloud_monitor_18_06_2019.pdf

UK

Whereas the penetration in the German market is only around 4%, it is much higher in the UK at around 15%. However, as in many other cases, the uncertainty over the imminent Brexit is having a negative impact, with the result that growth in the UK has tailed off somewhat. Even so, market penetration of around 33% is expected by 2024. At approx. 64%, the highest penetration rate is expected at companies with 10–49 employees, while companies with over 250 employees are likely to see a rate of 35%, as this market will still be heavily geared towards SIP trunking.

France

Along with the UK and Germany, France is currently the biggest market in which NFON operates. The new branch was opened in the last fiscal year. Consequently, there is huge market potential for NFON. France currently has approx. 1.2 million users of cloud communications. With a CAGR of 22%, the French market for cloud communications is expected to number around 3 million to 4 million users in five years' time.

Spain

To date, Spain has been a challenging market for NFON. With a predicted 5-year CAGR of 29%, Europe's fourth-largest economy offers great potential for cloud telephony providers like NFON.

Austria

Austria is currently one of the smallest markets in which NFON operates. In the next five years, the market is expected to grow with a CAGR of around 19%. In contrast with the UK, the concentration here is likely to be among companies with more than 250 seats (penetration rate of 17% in 2024).

Italy

Along with Austria, the Italian market is one of the NFON Group's smaller markets. After France, Italy is the second country in which NFON has opened a new subsidiary. Cavell currently expects a 5-year CAGR of 34% in 2024.,

Presentation of the Company's performance

Comparison of actual and forecast business performance in 2019

	2019 forecast	Revised 2019 forecast	Actuals 2019
Total revenue (growth rate)	Between 40% and 45%	Between 30% and 33%	33%
Recurring revenue as a share of total revenue	Between 75% and 80%	Between 80% and 85%	84%
Growth rate for seats (installed by customers) for the year as a whole	At least 45%	Between 39% and 41%	40%

Overall, the pace of growth at the NFON Group accelerated further compared to the previous year. The attraction of NFON's business model is evident in the development of the number of seats, which grew by 40.2% over the previous year, and will provide a sustained revenue contribution. Total revenue growth of 32.7% was clearly above total revenue growth in fiscal year 2018 (end-2018: 20.7%). With a share of total revenue of 84.1% (end-2018: 80.4%) the share of recurring revenue is at the upper end of the forecast range of between 80% and 85% for 2019 as a whole.

Nevertheless, the development of seats and therefore of total revenue fell short of the original highly ambitious expectation for fiscal year 2019. This was mainly due to two effects:

In view of the increasing confirmation of weak economic data for the EU countries during the last fiscal year, customers deferred their own expansion plans and delayed the creation of new jobs. This directly affected planned seats, as these were not activated at the pace communicated to NFON at the beginning of the year.

Irrespective of macroeconomic development throughout Europe, qualified employees in the software development business were available on the job market only to a rather limited extent in line with the growing demand. In order to guarantee the high quality of NFON AG's products with our current resources, the market launch of a few additional functionalities for the cloud telephone system has been delayed. This mainly related to the CTI solution (CTI – computer telephony integration), which allows direct interaction between computer programs such as CRM applications and the cloud telephone system, as well as applications for mobile devices. Consequently, customers postponed the expansion of their seats until the introduction of these functionalities.

At the same time, the NFON Group reached major milestones in the implementation of its growth strategy, thus laying the foundation for the continued successful operational development of NFON. Expenses for further growth were evident in the increased personnel and marketing costs in the course of the year and resulted in a negative EBITDA of EUR -7.0 million. Adjusted for expenses relating to granted share options, retention bonuses and one-time charges partly arising from the acquisition of DTS, NFON reported a negative EBITDA of EUR -5.1 million.

Results of operations

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

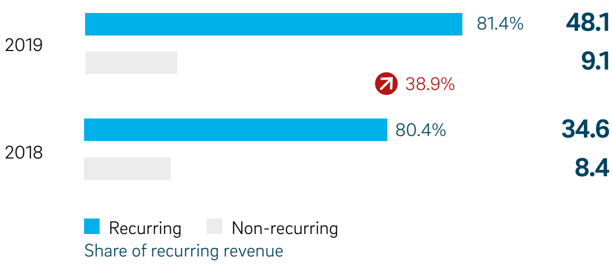
in EUR million	2019	2018	Change in %
Revenue	**57.1**	**43.0**	**32.7**
Cost of materials	13.6	11.1	23.0
Gross profit	**43.5**	**31.9**	**36.1**
Other operating income	0.6	1.3	−49.7
Personnel costs	24.2	22.1	9.8
Other operating expenses	26.8	18.9	43.4
EBITDA	**−7.0**	**−7.8**	**n/a**
Adj. EBITDA	**−5.1**	**−1.2**	**n/a**
Amortisation and depreciation	3.0	0.7	335.6
EBIT	**−10.0**	**−8.5**	**n/a**
Net interest expense	−0.8	−0.1	n/a
Income tax expense/income	−0.1	0.5	n/a
Consolidated loss	**−10.9**	**−8.1**	n/a

2.3 Results of operations

Revenue increased by 32.7% year-on-year. This resulted primarily from the successful acquisition of new customers and a rise in the number of installed seats within the existing customer base, particularly in Germany, the UK and Austria. Italy and France did not yet contribute significantly to the revenue development in the reporting period. The revenue of DTS, fully consolidated since 1 March 2019, was added for ten months. In addition, some of the revenue growth resulted from the intensified sales of the expanded product portfolio among both new customers and the existing customer base.

Share of recurring revenues at the upper end of guidance

in EUR million



Overall, revenue growth accelerated considerably year-on-year; recurring revenue in particular developed very positively. At 38.9%, it increased at a faster rate than total revenue and is therefore far higher than the average market growth in Europe.

Recurring revenue essentially comprises monthly payments of a fixed licence fee per seat plus a fixed or volume-based fee for voice telephony usage per seat or SIP trunk. The 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 relatively small increase in non-recurring revenue compared with the same period of the previous year (7.3%) chiefly reflects the lower revenue from devices due to the delayed activation of new seats described above.

Revenue development by segment

The breakdown by segments corresponds to the individual country companies of the NFON Group, which in the 2019 financial year included two companies from Germany and one subsidiary each in Austria, UK, Spain, France and Italy. Apart from the German stock corporation, which is also responsible for research and development in the Group, the companies in their home markets essentially function as sales companies based on the same business model and the same range of services.

Compared with the annual financial statements as of 31 December 2018, the calculation and presentation of segment reporting has been modified. As of 31 December 2018, the segments were presented according to local accounting standards. The segments were presented in accordance with IFRS for the first time in the 2019 half-year financial statements. The figures as of 31 December 2018 were adjusted accordingly.

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

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

in EUR million	2019	2018
NFON AG	35.8	31.8
Deutsche Telefon Standard GmbH	8.7	
nfon GmbH	5.8	4.7
NFON UK Ltd.	6.7	6.1
NFON Iberia SL	0.3	0.3
NFON ITALIA S.R.L.	0.0	0.0
NFON France	0.0	0.0
Total revenue of the reportable segments	**57.1**	**43.0**
Reconciliation effects	0.0	0.0
Total Group revenue	**57.1**	**43.0**

The positive development in revenues in the NFON AG segment from EUR 31.8 million to EUR 35.6 million is mainly based on an increased seat base compared to the previous year, which directly led to higher recurring revenues.

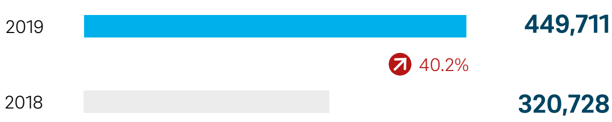
Due to the acquisition of Deutsche Telefon Standard GmbH, revenues of EUR 8.7 million are shown in this segment for the first time.

Due to the acquisition of new customers and expansion of the seat base, revenues in the segment nfon GmbH rose from EUR 4.7 million to EUR 5.8 million. Mainly due to the increased expansion of business with wholesale partners, revenues in the segment NFON UK Ltd. increased from EUR 6.1 million to EUR 6.7 million.

Revenues in the NFON Iberia SL segment developed hesitantly and remained at EUR 0.3 million rounded to EUR 0.3 million. Personnel changes in management and corresponding structural adjustments have led to delays in the growth strategy.

Development of seats

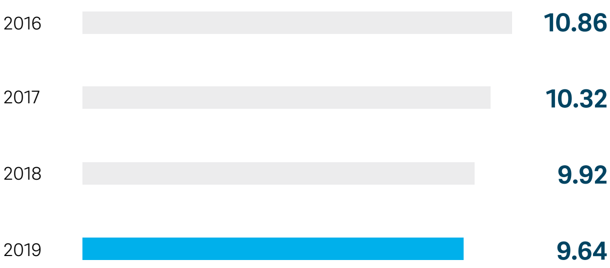
Total number of seats grows by 40.2 % in comparison from previous year



Seat development attests to the increasing demand for cloud telephone systems among business customers. At the same time, it underlines, in the opinion of the management, the high level of satisfaction felt by NFON's very loyal customers[14]. The seats of Deutsche Telefon Standard GmbH (31 December 2019: 63,204) were integrated for the first time.

Development of blended ARPU

Successful business with wholesale partners caused diminishing tendency



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.

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

This partnership with wholesale partners, which is from the perspective of the management developing very successfully, also has a considerable impact on ARPU performance. Firstly, discounted prices are being agreed based on the high number of seats sold and, secondly, some of these partners do not purchase voice minutes through NFON. On average, lower ARPU is generated as the share of seats billed through wholesale partners increases. 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 9.92 (same figure according to old and new calculation method), ARPU amounted to EUR 9.64 in 2019. In the future, the increasing sales of premium solutions with which NFON can achieve additional ARPU contributions will counteract this trend.

Income and expense items

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 than revenue of 23.0% in the reporting period from EUR 11.1 million in the same period of the previous year to EUR 13.6 million. This development mainly stems from the sharp rise in high-margin recurring revenue.

This results in a lower cost of materials ratio year-on-year of 23.9% (previous year: 25.8%). 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.

14 This information has not been audited by the auditor.

Personnel costs

Compared to the previous year, the average number of employees increased from 239 to 360 in the under report. 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. The fact that personnel expenses rose by only a relatively moderate 9.8% is caused by the reduction of personnell costs due to the first time capitalisation of development cost at NFON AG, 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 0.6 million in connection with an employee share option programme implemented at the start of 2019 and bonuses of EUR 0.5 million in connection with a retention programme for managers 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 year-on-year from EUR 17.1 million to EUR 23.1 million. This represents an adjusted personnel costs ratio in relation to revenue of 40.5% in 2019 as against 39.6% in the previous year.

Other operating expenses including marketing and selling expenses

Other operating expenses increased year-on-year to EUR 26.8 million in 2019 (previous year: EUR 18.9 million). This is primarily due to the increased expenses for marketing and the higher expenses for sales commission as a result of increased revenue, as well as the fact that other operating expenses now include an additional subsidiary since the consolidation of DTS.

Furthermore, other operating expenses for 2019 include costs of EUR 0.6 million incurred as part of the acquisition of DTS as at 01 March 2019. The figure for the previous year had included expenses in connection with the IPO of EUR 2.4 million.

Adjusted for non-recurring effects (adjustments), other operating expenses rose by 58% to EUR 26.1 million in 2019. This represents an adjusted ratio in relation to revenue of 45.7%, as against 38.5% in the previous year.

Marketing expenses

As planned, NFON continued to invest in marketing in 2019, for instance launching a marketing campaign with the placing of TV adverts and stepping up marketing activities for its old and new subsidiaries. Consequently, marketing expenses increased by 65.9% to EUR 9.0 million compared with the same period of the previous year (previous year: EUR 5.5 million).

Selling expenses

Selling expenses rose in the 2019 reporting period to EUR 6.7 million (previous year: EUR 4.3 million). Selling expenses mainly include commission paid to NFON AG's sales partners, which account for a percentage of revenue. In terms of revenue, this represents a slight increase in the rate year-on-year from 10.0% to 11.8%. This is due to a significant expansion in sales via partners and the somewhat lower proportion of direct sales for which no commission is incurred. This development is in line with the strategy, as revenue growth can be accelerated more rapidly with sales via partners.

Depreciation and amortisation

In fiscal year 2019, depreciation and amortisation increased significantly year-on-year to EUR 3.0 million (2018: EUR 0.7 million). This was mainly due to the first-time application of the IFRS 16 on lease accounting and an increase in property, plant and equipment depreciated via the straight-line method.

Net interest income

Net interest expense (interest and similar income less interest and similar expenses) amounted to EUR 0.8 million in fiscal year 2019 and was up significantly on the previous year (EUR 0.2 million). This was due to the interest payment for an acquisition loan taken out during the acquisition of DTS and for a short-term fixed-rate loan taken out in the context of the issued warrant bond.

EBITDA by segment

The calculation and presentation of segment reporting as of 31 December 2019 has been modified compared with the notes to the consolidated financial statements as of 31 December 2018. As of 31 December 2018, the segments were presented according to local accounting standards. The segments were presented in accordance with IFRS for the first time in the 2019 interim financial statements. The figures as of 31 December 2018 were adjusted accordingly.

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

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

The breakdown by segments corresponds to the individual country companies of the NFON Group, which in the 2019 fiscal year included two companies from Germany and one subsidiary each in Austria, UK, Spain, France and Italy.

The reconciliation effects mainly include the adjustments made in internal reporting to eliminate special effects for the period, as well as effects from consolidation and currency translation. This results in an adjusted EBITDA of around EUR 5.1 million for NFON AG in the past 2019 financial year.

in EUR million	2019	2018
NFON AG	1.8	2.1
Deutsche Telefon Standard GmbH	1.0	0.0
nfon GmbH	–0.8	–1.6
NFON UK Ltd.	–3.4	–1.9
NFON Iberia SL	–1.1	–1.2
NFON ITALIA S.R.L.	–1.8	0.0
NFON France	–0.8	0.0
Total EBITDA of reportable segments adjusted	**–5.1**	**–2.7**
Reconciliation effects	–1.9	–5.1
Total Group revenue	**–7.0**	**–7.8**

EBITDA, EBIT, consolidated loss

in EUR million	2019	2018
EBITDA	**–7.0**	**–7.8**
Adjustments		
IPO expenses (other operating expenses)	0.0	2.4
Retention bonus	0.5	0.8
Share options/ESOPS/share-based remuneration programme	0.6	3.6
Expenses for DTS acquisition	0.6	0.0
Expenses for AOC capital increase	0.1	0.0
M&A expenses	0.1	0.0
Total adjustments	1.9	6.6
Adjusted EBITDA	**–5.1**	**–1.2**
EBIT	–10.0	–8.5
Consolidated loss	–10.9	–8.1
Adjusted consolidated loss	**–9.1**	**–1.5**

Financial position

There were no liquidity bottlenecks during the reporting period. All payment obligations were met on time. Cash funds amounted to EUR 36.4 million as at the end of the reporting period.

Financing analysis

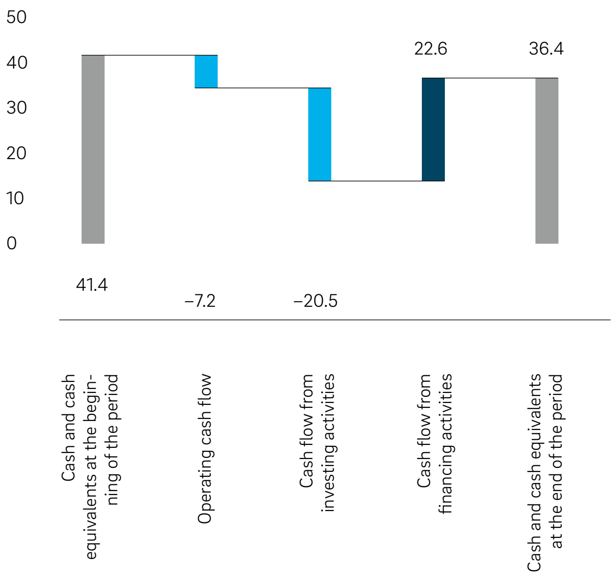
NFON AG's main source of funds in 2019 was proceeds from the IPO and lending agreements with banks. In addition, in the first quarter of 2019, an existing overdraft facility of EUR 4 million was terminated and replaced by an acquisition credit facility of EUR 10 million, which was nearly used in full when acquiring DTS. Furthermore, a short-term fixed-rate loan of EUR 5 million was taken out in the context of the issue of a warrant bond, and was repaid at the beginning of 2020. The option issued under the warrant bond was exercised by the bondholder in the fourth quarter of 2019, as result of which the Group received cash of EUR 10.6 million.

Investment analysis

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 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.

Liquidity analysis in EUR million



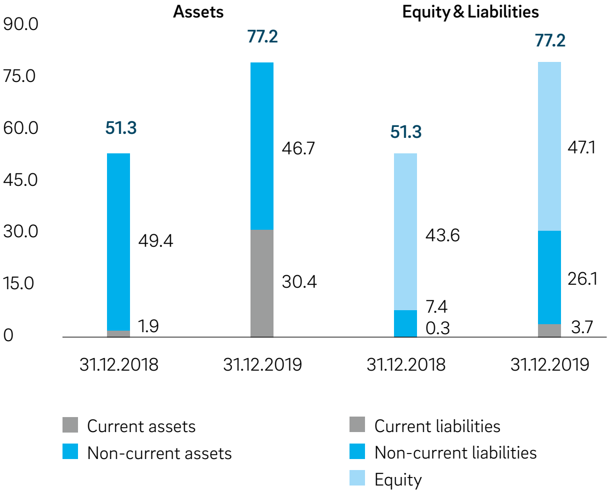
The negative earnings after tax of EUR 10.9 million were reduced in the operating cash flow partly by the amortisation of intangible assets of EUR 3.0 million, the EUR 0.9 million increase in provisions, the expenses of EUR 0.6 million in relation to the employee share option programme which were recognised as an increase in capital reserves, and received tax refunds of EUR 0.4 million. The EUR 2.0 million increase in receivables and inventories and the EUR 0.7 million decrease in liabilities had a particularly negative impact on the operating cash flow.

Cash flows from investing activities of around EUR -20.5 million largely resulted from the payments for the DTS acquisition of EUR 15.3 million. Investments in intangible assets (EUR 3.4 million) and investments in property, plant and equipment (EUR 1.8 million) are also included. Investments in the last fiscal year primarily relate to capitalised R&D activities as well as the IT infrastructure and server hardware to create a corresponding basis for the planned growth, as well as other operating and office equipment which was mainly necessary in the course of leasing new office space.

At EUR 14.0 million, cash flows from financing activities relate to cash inflows from the acquisition loan taken out in the reporting year and the issued warrant bond. Further cash inflows of EUR 10.6 million resulted from the option exercised in 2019. Cash outflows resulted from the repayment of received loans (EUR 0.6 million) and the repayment of lease liabilities (EUR 1.4 million).

Assets and liabilities

Accounting chart in EUR million



Non-current and current assets

in EUR million	2019	2018	Notes/changes
Property, plant and equipment	7.6	1.4	Increase due to the recognition of rights of use for office space (EUR 4.3 million) and vehicles (EUR 0.3 million) as a result of the initial application of IFRS 16 and investment in the IT infrastructure and server hardware to create a corresponding basis for the planned growth, as well as other operating and office equipment which was mainly necessary in the course of leasing new office space.
Intangible assets	22.4	0.2	Significant increase, particularly on account of the goodwill (EUR 12.4 million) and customer base (EUR 4.8 million) acquired in the context of the DTS acquisition as well as the capitalisation of R&D projects (EUR 2.6 million at NFON AG; EUR 1.0 million at DTS).
Other non-financial assets	0.3	0.1	
Deferred tax assets	0.1	0.2	
Non-current assets	**30.4**	**1.9**	
Trade receivables	7.6	5.9	The growth in the customer base is accompanied by a rise in amounts billed and currently due from customers.
Other financial and non-financial assets	2.8	2.0	
Cash and cash equivalents	36.4	41.4	Cash and cash equivalents decreased, partly due to the DTS acquisition.
Current assets	**46.7**	**49.4**	

Equity

As at 31 December 2019, NFON AG had issued 15,055,569 (as at 31 December 2018: 13,806,816) ordinary bearer shares with a notional interest in the share capital of EUR 1.00. Subscribed capital totalled EUR 15.1 million as at 31 December 2019 (31 December 2018: EUR 13,8 milion).

Equity has risen as at 31 December 2019 in comparison with 31 December 2018 from EUR 43.6 million to EUR 47.1 million. On 18 October 2019, Active Ownership Fund SICAV-FIS SCS, Luxembourg (AOC) exercised its option under the warrant bond issued on 02 July 2019, causing equity to increase by EUR 10.6 million. In connection with the partial payment of the purchase price from the DTS acquisition, equity increased by EUR 2.8 million. Issuing employee share options resulted in an increase in equity of EUR 0.6 million. Another EUR 43,000 of the increase in equity related to the equity component of the warrant bond issued to AOC. The currency translation reserve increased by EUR 0.3 million. The consolidated net loss of EUR 10.9 million had an offsetting effect.

Non-current and current liabilities

in EUR million	2019	2018	Notes/changes
Non-current financial liabilities	3.4	0	The increase results from the initial application of IFRS 16 and the associated recognition of lease liabilities in financial liabilities.
Other non-current liabilities	0.2	0.2	
Deferred tax liabilities	0.1	0.1	
Non-current debt	**3.7**	**0.3**	
Trade payables	5.2	3.2	Increase relating to the higher business volume.
Current provisions and income tax liabilities	2.3	1.4	
Current financial liabilities	15.5	0.1	Substantial increase due to the acquisition credit facility utilised in the reporting year (EUR 9.0 million), the warrant bond issued in 2019 (EUR 5.0 million) and the initial application of IFRS 16 and the associated recognition of lease liabilities as financial liabilities (EUR 1.4 million).
Other liabilities	3.4	2.6	
Current liabilities	**26.4**	**7.4**	

Overall evaluation of the economic situation

NFON AG experienced a successful fiscal year 2019. With a growth rate of 32.7%, the Company again accelerated its pace of growth compared with the previous year, 2018 (20.7%). Recurring revenue, as an indicator for the scalable nature of the business model, grew by 38.9%, thus actually outpacing Group total revenue 2019, and contributed 84.1% to revenue overall. The NFON Group's success is built on the sustainable base of seats operated by customers. With a growth rate of 40.2% (449,711 seats), these too grew including the seats won by DTS at a much faster pace than in the previous year (2018: 320,728, up by 26.6%). This increase is evidence that the Company is succeeding in addressing the promising market of cloud telephony and expanding its customer base further.

NFON has a clearly defined growth strategy. In addition to operational progress in 2019, NFON AG also achieved further significant strategic milestones in the reporting period. As well as complementing the product portfolio, the acquisition of DTS significantly increased the seat base. Sales activities in Italy and France were started in March and June. In addition, the new products NCTI Pro and Nvoice for Microsoft Teams were launched in October. Finally, NFON expanded its own R&D capacity with a full-stack development team in the mobile, web frontend and backend and client/server areas at the end of the year through the acquisition of Onwerk GmbH (Closing February 2020).

In view of the positive operational and strategic development in 2019, the Management Board of NFON AG considers that it is well on the way to becoming the number 1 for cloud telephony in Europe. The strength of NFON AG's business model is the very high share of recurring revenue at over 80% of total revenue. Each additional seat builds up the basis for further reliable revenue in the future. Accordingly, the Company continues to expect a dynamic pace of growth.

Subsequent events

Since January 2020, the coronavirus has continued to spread globally (coronavirus epidemic) and poses major challenges to the euro area economy. According to estimates by the Kiel Institute for the World Economy (IfW), a recession - particularly in Italy, but also on average for the monetary union - will be unavoidable. The gross domestic product in the euro zone is expected to shrink by 1 % in the current year.[15]

In the domestic market of NFON AG Germany, the IfW believes that the spread of the corona virus will have a significant impact on the economy. On March 19, 2020, the IfW updated its economic calculations and assumed two scenarios. Firstly, a "lockdown" of the German economy until the end of April, and secondly until the end of July, followed by a recovery of the economy back to the previous level. As a result, GDP will fall by 4.5% this year, provided that the current stress situation lasts until the end of April and then gradually eases from May onwards. If the recovery does not set in until three months later in August, GDP would fall by 8.7% according to calculations by the IfW. Due to the global burden on the economy, both scenarios do not expect any significant catch-up effects in the further course of the year, even if free capacities – especially in industry – would be available for this purpose. In 2021, GDP would then rise sharply by 7.2% and 10.9% respectively due to the catch-up effects in both scenarios.[16]

In the NFON Group, neither purchasing nor sales are directly affected by the epidemic, but there may be unforeseeable effects on future evaluations. In the NFON Group, neither purchasing nor sales are directly affected by the epidemic, but there may be unforeseeable effects on future evaluations.

15 Kieler Institut für Weltwirtschaft: Kieler Konjunkturberichte – Konjunktur im Euroraum im Frühjahr 2020 (https://www.ifw-kiel.de/fileadmin/Dateiverwaltung/IfW-Publications/-ifw/Konjunktur/Prognosetexte/deutsch/2020/KKB_64_2020-Q1_Euroraum_DE.pdf)

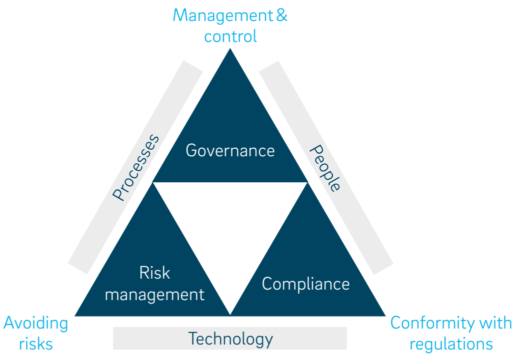
16 Kieler Institut für Weltwirtschaft: Update Konjunkturbericht: Deutsches BIP dürfte 2020 zwischen 4,5 und 9 Prozent einbrechen (https://www.ifwkiel.de/de/publikationen/medieninformationen/2020/update-konjunkturbericht-deutsches-bip-duerfte-2020-zwischen-45-und-9-prozent-einbrechen/)

Risks and opportunities

Risk and opportunity management system

In the reporting period, NFON AG continued to implement its new risk and opportunity management system and adapted it slightly in line with its changed situation as a listed company. The adaptations are set out below. The risk and opportunity management system is based on the triad of risk management, compliance and governance.

Risk and opportunity management system



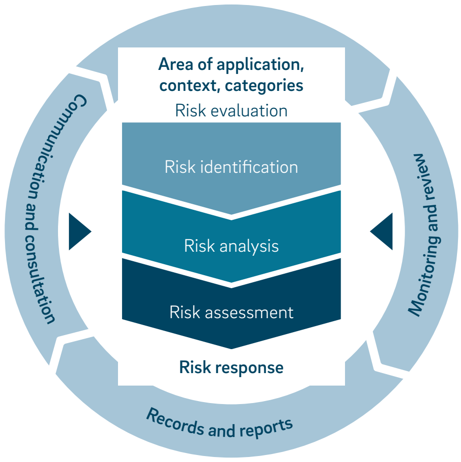
Source: WMC

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

As part of this approach, the risks of all three components (risk management, compliance and governance) are recorded, qualified and controlled in a uniform approach and according to a uniform model.

The risk and opportunity management system of the NFON Group serves to recognise and identify opportunities and risks at an early stage and to contain risks as necessary. In general, the risk and opportunity policy of the NFON Group is geared towards sustainably securing the Company's ability to continue as a going concern and continuously improving its competitiveness. Risk and opportunity management is integrated into the value-driven management and existing structures of the NFON Group in order to recognise and assess potential signals at an early stage. The key phases of the risk management of the NFON Group are[17]:

Phases of risk management



Risk and opportunity management is based largely on ISO 31000 and ISO 27001 in conjunction with further legal regulations, particularly Section 91 (2) of the German Stock Corporation Act (AktG) and Section 107 (3) sentence 2 AktG. Thus, risk and opportunity management is ensured to be governed by a uniform methodology in the NFON Group.

The NFON Group regards risk and opportunity management as a continuous and integrated process. Furthermore, risks identified during the fiscal year that have a high probability of occurrence and high potential damages are communicated promptly to the Management Board through the reporting lines. The risk early detection system is evaluated by the auditor in the course of the financial statement audit to ensure that the legal representatives have appropriately taken the measures required under Section 91 (2) AktG, in particular regarding the creation of a monitoring system, and that the monitoring system is suitable for identifying developments that may jeopardise the continued existence of the Company at an early stage.

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

17 Resource: ISO 31000

Responsibilities

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

On behalf of the Management Board, the Risk/Opportunities Committee monitors the implementation, execution and compliance of a uniform risk strategy and methodology. The following areas of responsibility have been defined for the committee, divided into risk types:

I. Research & Development
II. IT/Support
III. Operations
IV. Technical Consultant
V. Personnel
VI. Procurement
VII. Sales and Distribution
VIII. Regulation, Legal and Compliance
IX. Product Development
X. Market and Reputation
XI. Finance and Controlling

The committee is composed of seven members including the opportunities/risk manager. Each member of the Risk / Opportunities Committee assumes responsibility for coordinating the risk inventory in the areas they have been assigned. The task of identifying, analysing and assessing the risks and opportunities in a specific department remains the responsibility of the department heads. Moreover, they are to ensure that opportunities are exploited and risks managed appropriately. The following areas have each been assigned to one member of the committee:

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

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

Furthermore, the Supervisory Board has the task of regularly monitoring the risk management system.

Risk assessment

In order to identify, evaluate and control all significant risks, the central risk assessment (risk inventory) of the NFON Group takes place at least once a year, and preferably every quarter. The assessed forecast horizon covers the year (12 months) following the inventory. Risk assessment was performed once in 2019. The purpose of risk assessment is to support decisions. This determines the 'loss amount' and the 'probability'. The 'loss amount' is defined as the potential impact of the loss if the risk actually occurs. The financial loss must be estimated numerically. The probability of occurrence is the result of a possible number of incidences of the risk within a defined period.

Risk assessment can lead to the decision:

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

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

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

Loss amount

If a loss occurs, it can have corresponding consequences. The loss has corresponding consequences if the defined amounts are incurred during the respective period. This is regardless of whether the loss was incurred due to one or several events during the respective period. Due to the positive development of net assets, financial position and results of operations, the evaluation criteria were adapted, particularly after the successful IPO in 2018. The following changes were made:

1. Since 2019, the loss amount has related to the impact on liquidity rather than the development of net assets and the results of operations.

2. The assessment scale was increased in line with the changed positive development of net assets, financial position and results of operations. Accordingly, a loss is classified as potential existence-threatening only in the event of a negative impact on liquidity of over EUR 10,000,000. Previously, the existence-threatening loss potential was over EUR 2,000,000. Consequently, the loss categories were increased overall.

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Probability of occurrence

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

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

Classification of the loss amount

Loss amount	Interpretation	Impact on liquidity (new)	Impact on net assets and results of operations (old)
5 – Catastrophic	Existence-threatening loss potential	> EUR 10,000,000	> EUR 2,000,000
4 – Significant	Significant loss potential	> EUR 5,000,000	> EUR 1,000,000
3 – Medium	Medium loss potential	> EUR 1,250,000	> EUR 250,000
2 – Low	Low loss potential	> EUR 100,000	> EUR 10,000
1 – Very low	Insignificant loss potential	<= EUR 100,000	<= EUR 10,000

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

The loss categories described above relate to the total loss of one or several events which may occur in the respective period. In the multiplication shown below, individual events are used as a basis for evaluation.

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

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

Risk classes [18]

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

Loss amount

> EUR 10,000,000	5	5	10	15	20	25
> EUR 5,000,000	4	4	8	12	16	20
> EUR 1,250,000	3	3	6	9	12	15
> EUR 100,000	2	2	4	6	8	10
<= EUR 100,000	1	1	2	3	4	5
Probability of occurrence →		< 1	2	3	4	5
Probability of occurrence in % →		0–19%	20–39%	40–59%	60–79%	80–99%

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

Risk class 5 – red
Risk class 5 covers risks threatening the Company's ability to continue as a going concern. They can **seriously** jeopardise the Company's liquidity situation and ability to continue as a going concern.

Risk class 4 – orange
These risks can **significantly** affect the Company's liquidity situation and ability to continue as a going concern.

Risk class 3 – yellow
These risks can **moderately** affect the Company's liquidity situation and ability to continue as a going concern.

Risk class 2 – green
These risks have **no significant impact** on the Company's liquidity situation and ability to continue as a going concern and can only jeopardise the Company in absolutely exceptional circumstances. Nevertheless, they can strain the Company's liquidity, and should be reduced through organisational safeguards and checks as part of general company monitoring.

Risk class 1 – blue
These risks **do not** affect the Company's liquidity situation or ability to continue as a going concern.

Gross and net risks

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

Net risks are risks which exist after measures have been taken and therefore constitute the residual risk. The net risks are set out below, as a corresponding measure is defined for each identified gross risk.

Net risks for the NFON Group

Employee-related risks

With a nationwide unemployment rate of 4.9% [19], it can be assumed that there is practically full employment in Germany. The situation for growing companies with an increasing need for new employees is particularly challenging in the state of Bavaria, which has an unemployment rate of 2.8% [20]. This situation is even tougher with regard to demand for IT specialists. According to a study published by bitkom on 28 November 2019 [21], there are 124,000 vacant posts for IT specialists, mainly software developers. Compared with the last fiscal year, this situation is new, and has led to a corresponding assessment of the risk situation at the NFON Group.

Filling vacant posts

NFON itself faces this challenge throughout the entire Group. Availability of the qualified employees it seeks is limited, which results in corresponding effects. The individual division-specific risks are reported on in the description of the specific risk areas. Essentially, the risk of being unable to fill vacant posts with ideally qualified candidates in the ideal timeframe has increased. While the probability was rated 'improbable' (2) at the end of 2018, it was raised to 'highly probable' (4) at the end of 2019. In total the risk is assessed as risk class 4.

18 As well as the risks recorded above, IT security and data protection risks are assessed again separately via the CIA triad: confidentiality (C), integrity (I) and availability (A).
19 Source: September 2019 – https://www.arbeitsagentur.de/presse/2019-31-der-arbeitsmarkt-im-september-2019
20 Source: September 2019 – https://www.arbeitsagentur.de/datei/arbeitslosenquote-09-19_ba045973.pdf
21 The labour market for IT specialists, Achim Berg, Bitkom President, Berlin, 28 November 2019

Filling vacant R&D posts

Filling vacant R&D posts has been added as a separate special risk. According to bitkom, the situation is not set to improve in the near future here either. In this respect, this risk has been newly included and assessed as risk class 5.

To attract the ideal employees to NFON, further initiatives have been developed and applied above and beyond the conventional recruitment measures. As well as using recruitment consultants, NFON is increasingly addressing potential candidates via business networks such as LinkedIn and XING. A dedicated IT recruiter specialising in IT experts has been appointed, dealing intensively with active and direct approaches and stepping up cooperation with universities and their networks. In addition, companies, e.g. software agencies, that are open to collaboration with the NFON Group (acqui-hire) are sought, including in the context of M&A activities. Onwerk GmbH came on board in December 2019, marking our first success here.

Market-related risks

Competition situation among the peer group

The market for cloud business communications is very fragmented on the whole at present. This situation is not expected to change significantly over the short term. The sector has just a few larger companies, such as the European providers Gamma, easycall, Fuze, j2global, Sipgate, Vonage, Voz, Voz Telecom and Vozelia or the large US competitors RingCentral and 8x8.

The two US companies in particular already offer numerous solutions in the Unified Communications-as-a-Service (UCaaS) segment. These solutions include video conferencing, collaborative platforms or messaging and chat services. Thus far, both RingCentral and 8x8 have only had a limited presence in continental Europe. NFON currently assumes that the differing regulatory requirements among European countries, the array of languages and the requirements of the EU General Data Protection Regulation will prove to be significant barriers to market entry for the large US companies. Nevertheless, it can be assumed that the US providers regularly evaluate a potential entry into the continental European markets. This evaluation could lead to large competitors accelerating their market entry in continental Europe.

NFON is very aware of this risk and has taken appropriate countermeasures. These include above all the implementation of the strategy. The faster NFON can expand its partner network throughout Europe and strengthen its market position in Europe, the more difficult it will be for competitors to gain market access. Should it come to a market entry of competitors the loss to the NFON Group could be significant (4) and almost certainly occur without corresponding countermeasures. In this respect, the Company still does not regard the risk as low, and has increased the possible loss amount to class 4 without reducing the probability.

Competition situation among internet service companies

The large companies such as Google, Amazon, Microsoft or Oracle are also potential competitors. If one of these or other internet service companies decide to put a strategic focus on cloud PBX, they would be extremely well placed to become a significant provider on the market for cloud PBX given their brand recognition, customer base and financial and technological resources. Previously, NFON has rated this risk as 'improbable' (2). As market development becomes more disruptive, the probability increases. Consequently, NFON has increased the risk to 'probable' (3).

NFON regards this risk as significant for two reasons: firstly, NFON has had the funds required for implementation only since the IPO, and secondly, the challenging situation on the labour market is reflected here. The requisite speed for developing new products and services has been curbed to allow for the high quality requirement. NFON AG is countering the stated risks to competition with corresponding measures concerning partner management and product development. The quicker NFON implements its growth strategy and becomes a dominant provider of cloud business communication solutions in Europe, the less likely it is that competitors will successfully enter the market. In total the risk is assessed as risk class 4.

Use of call minutes

A general trend can be seen in the development of competitors and their portfolio of products/solutions towards the increasing use of digital services in terms of Unified Communications-as-a-Service (UCaaS). This development carries the risk that customers will use ever fewer call minutes, as the use of new Social Media Exchange platforms or Over-the-Top services will increase. NFON also intends to evolve into a UCaaS supplier. NFON is able to mitigate the drop in prices by creating new services. This risk remains unchanged from the previous year (Risk class 5).

Operational risks

NFON AG is currently preparing for its ISO 27001 certification. On account of the related measures to be performed with regard to this, and the partly changed prospects, the risk inventory has also been fundamentally revised. As a result, risks have been subdivided further and described in more detail compared with last year.

Hacker attacks

As a provider of cloud telephony systems, NFON AG is a potential target for hacker attacks or other instances of unauthorised access to company systems to steal data, disrupt operations, delay or interrupt services being provided to customers. This could have various consequences, which may range from a loss of intellectual property and reputational damage to liability actions associated with this. On account of the material risk that would arise for NFON from successful hacker attacks, ever since being established in 2007, the Company has implemented diverse safeguards and preventive measures and continuously updated them to impede the success of potential attacks. This risk remains unchanged from the previous year (risk class 5).

Uncertainties surrounding the future trading relationship between the UK and the European Union (Brexit)

The lack of clarity surrounding the negotiations over the UK's exit from the European Union (Brexit) has led to significant economic, political and social uncertainty, not only in the UK and Europe but around the globe. How significantly Brexit impacts on the NFON Group's business, in particular on its business in the UK, will depend partly on which agreements are reached between the UK and the EU after Brexit and the extent to which the UK continues to apply laws that are based on EU legislation. For example, Brexit may disrupt established trading relationships by causing the introduction of licence fees or withholding of taxes. Ultimately, Brexit may also result in NFON no longer being able to serve customers in the UK from its servers installed in Germany for regulatory reasons, meaning that the Company would have to set up servers in the UK. No assurance can be provided that such server infrastructure could be set up swiftly or even at all in the UK; such a situation would disrupt the business relationship with existing customers in the UK or even lead to contracts eventually being terminated. Notwithstanding the still very uncertain political situation overall, NFON has drawn up initial plans to install hardware in UK data centres, which can be implemented if necessary.

Here too, NFON AG is keeping this risk in focus. At the present time, the risk is rated as class 3, particularly as a result of the adjustment of the matrix. It therefore falls outside the matrix.

Portfolio of products and services (Still "Pace of development" in 2018)

In a highly fragmented market that is experiencing disruptive change, it is important not only to offer high-quality products and services, but also to put them on the market promptly in line with customers' requirements. To this extent, there is a risk that the Company may not be able to achieve the speed that the market demands, or at worst that it may fall well behind the pace of change and thus no longer be able to meet customer needs. As described in the section on employee-related risks, NFON AG faced this risk in 2019. In some cases, it resulted in NFON being unable to meet the customer's quality requirements. The consequences were a lower than expected number of concluded new contracts and a delay to seats activated by customers, as new functions are still being waited for here. Furthermore, this development could also have caused customers to opt for competing products instead of going to NFON.

NFON entered into this risk knowingly, as it only intends to put products on the market with the usual high level of quality. The NFON Group countered this risk at the end of the fiscal year by introducing NCTI Pro and Nvoice for Microsoft Teams, which can already cover some customer requirements. In addition, the risk-minimising measures were applied. Assessment of the risk was adapted in line with the changed assessment matrix. The classification of the possible loss amount was therefore reduced to 'medium loss potential' (3), while the probability of occurrence was increased from 'probable' (3) to 'almost certain' (5). In total this risk is assessed as risk class 5.

Pace of development and provision of new functionalities

To at least keep up with the pace of development required by the market, it is also important to implement development requirements and aims by way of appropriately and sufficiently staffed development teams. As set out in the growth strategy published by the NFON Group, after the IPO the Company has the required funds to expand its development teams to the required size. Furthermore, in the R&D department, there is also the possibility to call in external development capacity. Even so, NFON AG is also confronted by the general market conditions described above. As well as stepping up recruitment and merging with Onwerk GmbH at the end of 2019, NFON is constantly working to improve the overall process for implementation of customer, market and technical requirements. Due to the overall situation at the outset, the probability of the risk occurring was increased from 'probable' (3) to 'highly probable' (4). In total this risk is assessed as risk class 5.

Intellectual property

Despite the efforts to maintain confidentiality, including the obligations of secrecy that have been agreed with NFON employees, suppliers and partners, the NFON Group's intellectual property and expertise may fall into the hands of competitors. This could mean that competitors are able to use the Company's own technological developments and expertise to increase competitive pressure on the Company. This risk is particularly high when employees with specific expertise, for example product managers or software developers, are poached by competitors. If NFON's intellectual property is not appropriately protected, the corresponding expertise may ultimately no longer be put to use in NFON's products. Furthermore, efforts to enforce special intellectual property rights may be met with defence mechanisms, counterclaims and counterclaims against the validity and enforceability of NFON's intellectual property rights. In addition, any legal dispute, whether or not it is resolved in the Company's favour, can incur significant costs and impact the efficiency of the R&D department. NFON AG has implemented appropriate protective mechanisms. The risk has not changed any further compared with the previous year. In total this risk is assessed as risk class 5.

Brand risk

NFON was in the past accused of having violated the brand of a third party and had to enter into a coexistence agreement that limits the use of the nfon brand. The resulting limitations on the use of the 'NFON' brand may prevent the NFON Group from marketing its services under the brand that is most suited to the Company; this may have a negative impact on brand attractiveness for services among potential customers. This risk reduced significantly in the last fiscal year. Major factors here are the changed measurement of the loss amount and the establishment of 'Cloudya' as a standalone brand. For these reasons, the brand risk is no longer assessed as a risk of the class 4 or 5.

Financial risks

Financing risk

Despite NFON AG having generated gross proceeds of EUR 50 million with the capital increase as part of the IPO, the Company may potentially require additional financing in the future. This financing may not be available or may be available only on unfavourable terms. This could have a significantly negative impact on planned future growth, so the risk assessment remains because of that at class 4. However, NFON AG has significantly reduced financing risk overall by way of its IPO.

Special situation COVID-19 (risks)

The spread of the corona virus poses a major challenge to the euro area economy. This situation is also new for the NFON Group, so the associated risks cannot yet be assessed at the present time. However, it cannot be assumed that the outbreak of the corona virus will not affect the business development of NFON AG.

Both negative and positive effects are possible for NFON due to its product portfolio. If there is a recession, combined with insolvencies, this could lead to a loss of revenue for the NFON Group. In addition, it is to be expected that decisions by customers will be delayed. In addition, it must be taken into consideration that the spread of the corona virus could also have an impact on work processes within the NFON Group. NFON has currently taken all necessary measures. A specially established task force decides and coordinates measures, decisions and recommendations at regular intervals and, if necessary, ad hoc.

Overall assessment of the NFON Group's risk situation

Compared with the total of 230 identified, analysed and assessed risks, the number of risks significant to the NFON Group – i.e. risks of class 4 and 5 – is very low at just 10 (4.3%). Bearing in mind possible loss amounts and probabilities of occurrence, there is currently no sign of any risks that will lead to a lasting, significant negative impact on NFON's liquidity situation. Overall, the risks are manageable; the risks of class 5 could nevertheless influence the company's development. In terms of organisation, the Company has created the conditions to be informed of potential new risk exposures at an early stage and to be able to respond quickly.

The following table provides a summarised overview of the risk position (net risks) of the NFON Group as at the reporting date as well as the development of risks relative to the prior year. For transparency reasons, the risks that were still assessed as significant in the last fiscal year have been included again and labelled as '(Old)' or 'Reduced (-) omitted)'. Unless their assessment changes during fiscal year 2019, these risks will no longer be listed in the next report.

Risks	Loss amount	Probability of occurrence	Risk class	Development
Employee-related risks				
Filling vacant posts (general)	3	4	4	Increased (+)
Filling vacant R&D posts	5	3	5	New
Market-related risks				
Competition situation among the peer group	4	4	5	Increased (+)
Competition situation among internet service companies	4	3	4	Increased (+)
Use of call minutes	3	5	5	Unchanged (≈)
Operational risks				
Brexit	5 (old)	2 (old)	4 (old)	Reduced (-) omitted
Hacker attacks	5	3	5	Unchanged (≈)
Portfolio of products and services (still "Pace of development" in 2018)	3	5	5	Increased (+)
Pace of development and provision of new functionalities	5	4	5	Increased (+)
Intellectual property	5	4	5	Unchanged (≈)
Brand risk	5 (alt)	2 (alt)	4 (alt)	Reduced (-) omitted
Financial risks				
Financing	5	2	4	Unchanged (≈)

Opportunities for the NFON Group

The NFON Group fundamentally reconsidered and redefined its corporate strategy at the end of 2017. In this regard, the opportunities in the disruptive development of the market for cloud communication were diligently reviewed and newly evaluated (see "Objectives and strategies" section). The NFON Group has determined its opportunities on a qualitative basis; opportunities were not quantified or compiled in an opportunities matrix for tax purposes. The assessed forecast horizon covers the year (12 months) following the inventory. The opportunities inventory was performed once in 2019.

The NFON Group's growth strategy is pursuing the objective of becoming number 1 for cloud business communications in Europe. The subsequent disruptive factors in respect of both market conditions and customer behaviour form the basis for the successful implementation of the growth strategy defined by NFON. These factors also provide the culture for positive opportunities to further develop NFON AG:

1. The conversion from ISDN to All IP announced by all telephony providers (carriers).
2. The introduction of digital technologies, which impact on many business processes and increase the necessity to integrate diverse digital solutions on one platform.
3. The need for digital scalable services to be as flexible as necessary and the need to only post expenses that are actually incurred.
4. The remote deployment of all digital technologies used in one business.
5. The minimisation of administrative and maintenance services by central control of all used performance and services.
6. The considerable reduction of costs and increase in efficiency in all work and business processes.

Market opportunities

The NFON Group is now represented in 15 European countries and is thus the only pan-European provider of cloud technology[22]. In a highly fragmented European market for cloud telephony, this puts NFON in a strong starting position[1] to become the dominant provider of cloud telephony in Europe. For this reason, the growth strategy of NFON AG has defined market development and market consolidation as two of the five growth vectors. In line with the plans published with the IPO, the NFON Group commenced sales activities in Italy and established a new subsidiary in France in 2019. This chiefly relates to the development of the partner network and accordingly the gaining of new customers. In combination with the endeavours of NFON to become an active part of intensifying market consolidation, market entry in France and Italy could be accelerated. In addition, it is likely that the large number of smaller providers in the European market could decline considerably. Consequently, the market opportunities for larger providers could rise.

These developments are also receiving additional impetus from the ongoing conversion of ISDN to All-IP. Businesses with a known brand and corresponding reputation will find it easier to gain customers in this environment. As market leader[1] in Germany and with its increasing brand awareness in other European countries, NFON has already developed a corresponding reputation.

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

Opportunities as an employer

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

By creating attractive employment conditions and the opportunity to work throughout Europe, NFON is already presenting itself as an interesting employer. Agility, excellence, team spirit, innovation and a focus on the customer are the lived values that we practice. In this way, the NFON Group could differentiate itself internationally from the competition and hire staff who will clearly advance the development of NFON in terms of its product and market strategy.

22 This information has not been audited by the auditor.

Furthermore, NFON has adopted new methods of personnel recruitment. Along with conventional measures and the use of recruitment consultants, a dedicated IT recruiter was appointed last year. NFON also sees major opportunities to gain qualified employees through company acquisitions (acqui-hire).

Product opportunities

Business communication is no longer confined to just telephony. Following the triumph of email, chat and messaging functionalities, collaboration platforms along with web and video conferencing are increasingly being used. Networked and remote working will lead to increasing use of Unified Communications-as-a-Service, UCaaS. This will result in the migration of telephony, communication and collaboration to a single system in a cloud environment. Advanced UC platforms already offer diverse functionalities such as internal chats, web meetings, virtual team work, telephony and video conferencing and also ensure the mobile accessibility at all times of field staff or those in home office. Additional services that could be offered via a UC platform are contact centre functionalities such as automated switchboards, IVR technology (interactive voice response), call forwarding or integration with standard CRM approaches. Full flexibility and scalability for day-to-day business will be possible with these services.

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

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

Sales opportunities

A significant factor for the positive development of the NFON Group is a growing and successful partner network. The NFON Group already had a partner network of more than 2,000 partners in 2019. This network is maintained by the established partner management in the NFON Group and is being expanded further. In addition, opportunities also arise through activities relating to market consolidation to expand the partner network with networks that are already established and thus to step up growth. Increased penetration of the market is possible through expanding the partner network.

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

Special situation COVID-19 (opportunities)

As already mentioned in the discussion of risks, the spread of the corona virus is an unknown challenge for the euro area economy. For NFON, positive as well as negative effects are possible due to the product portfolio and are already making themselves felt, although it must be said that at the time of writing it is not yet clear which effects could outweigh the risks. It is still true that the business model has a certain robustness to market fluctuations due to the high proportion of recurring revenues. In addition, the crisis is forcing almost all companies to convert their work processes to home offices. This generates additional demand impulses. On the one hand, existing customers are shifting their activities to the home office and are therefore increasingly requesting not only telephony but also the option of telephone conferencing. On the other hand, NFON is also receiving enquiries from interested parties who do not yet have a solution with which they can flexibly set up home office workstations. In addition to these current effects, the crisis could also lead to a fundamental rethink among companies and significantly increase the acceptance of cloud services.

Overall evaluation of the opportunities position

The opportunities and risks are balanced.

Compliance management system

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

Compliance matters are routinely the subject of consultation between the Supervisory Board/chairperson of the Supervisory Board and the Management Board. The corporate culture of the NFON Group is based on trust and mutual respect, as well as the will to strictly abide by laws and internal rules. Nevertheless, it can never be completely ruled out that legal violations due to an individual's misconduct might occur.

Employees and third parties can report misconduct in the Company to the compliance officer appointed for this purpose. NFON AG has set up a system for its employees and third parties to report such matters confidentially (whistleblower system). The Company makes every effort to minimise this risk as far as possible, uncover misconduct and rigorously follow it up.

The observance of legal and ethical rules and principles is of central importance. The rules and principles, as well as responsible handling of insider information, are laid down in the Compliance Policy. These serve to provide all staff with guidance regarding integrity in business dealings. Managers and staff receive training on the compliance policy.

Internal control system (accounting process)

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

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

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

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

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

- accounting guidelines at Group level,
- clearly defined separation of duties and the assignment of responsibilities between the departments involved in the accounting process,
- involving external experts where necessary, for example to measure share-base payment transactions or purchase price allocations,
- Using suitable IT finance systems and applying detailed permission concepts to ensure task-oriented authorisations taking into account the segregation of duties,
- system-based controls and other process controls for accounting in the companies, consolidation as part of the consolidated financial statements and other relevant processes at Group and Company level,
- consideration of risks recorded and assessed in the risk management system in the annual financial statements, provided this is necessary in accordance with existing accounting regulations.

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

This board member is supported by the Vice President for Finance. By employing qualified and specialist staff, through targeted and regular training and adhering to the principle of dual control, the NFON Group ensures strict compliance with local and international accounting standards in its annual and consolidated financial statements.

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

Forecast

Recurring revenue as share of total revenue	Between 80% and 85%
Growth rate of recurring revenue	Between 22% and 26%
Growth rate of seats	Between 20% and 24%

The budget as well as all following comments are based on the state of knowledge at the beginning of fiscal year 2020 taking account of the opportunities and risks described for the NFON Group. As a result, deviations may arise between the budgeted figures and the figures actually reached at year-end. This also applies to the assumptions made in respect of the general economic conditions.

This forecast does not yet fully take into account the effects of the spread of COVID-19, but at the time of publishing this report it cannot be assumed that there will be no impact on the business development of NFON AG due to the outbreak of the corona virus.

Both negative and positive effects are possible for NFON due to its product portfolio. In principle, the business model still has a certain robustness to market fluctuations due to the high proportion of recurring revenue. Should there be a recession, combined with insolvencies, this could nevertheless lead to a loss of revenues for the NFON Group. In addition, it is to be expected that decisions by customers will be delayed. As a result, gaining of new seat could fall short of the expectations mentioned above. On the other hand, however, additional demand impulses may arise as customers increasingly switch to home offices. On the one hand, existing customers are shifting their activities to the home office and are therefore increasingly requesting not only telephony but also the possibility of telephone conferences. On the other hand, NFON is also receiving enquiries from interested parties who do not yet have a solution with which they can flexibly set up home office workstations.

In addition the following assumptions apply to the forecasts made by NFON:

- all forecasts take no further company acquisitions into account;
- the ongoing conversion from ISDN to All-IP announced by all telephony providers (carriers);
- the change in business communication to increased use of digital UC solutions and services, e.g. collaboration tools, chat and messaging (UCaaS);
- the opportunity to be able to recruit the staff necessary for the further development of the business;
- the introduction of digital communication technologies, which impact on many business processes and increase the necessity to integrate diverse digital solutions on one platform;
- businesses' growing need for scalable digital services to be as flexible as necessary and the need to only post expenses that are actually incurred;

The forecasts of the NFON Group and its reportable segments for fiscal year 2020 are based on the expectations and assumptions for general economic development and the country-specific industry developments relevant to NFON. Detailed information can be found in the 'General economic conditions and industry environment' section.

Expected general economic conditions and industry environment

The market for business communications is undergoing a historic transformation. NFON AG is benefiting from the structural shift to cloud-based telephony solutions, which permanently changes the business communication market. The European cloud telephony market is likely to grow by an annual average of 16% between 2018 and 2023[23]. The detailed description of the market development can be found in the 'General economic conditions and industry environment' section.

Expected business performance of the NFON Group

As the current sole pan-European provider[24] of cloud-based telephony systems, the NFON Group has the opportunity to grow considerably more rapidly than the European total market. On the basis of the growth strategy defined by the NFON Group, further major milestones in implementation were achieved in 2019. These activities will also be continued in 2020. Following the start of sales at the new subsidiaries in France and Italy, these activities have been stepped up further, while the expansion of the partner network and customer base has progressed apace. Expanding the new sales companies in these two countries will also require future investment. For 2020, NFON is also planning to offer further services via the new core product Clouyda, and is exploring the possibility of acquiring attractive companies in the cloud telephony area. One or more possible acquisitions are not considered in the forecast.

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

Based on the successful fiscal year 2019, with revenue of EUR 57.1 million, and the advancing implementation of the growth strategy, the Company is entering fiscal year 2020 in a stronger position. NFON has adapted its key performance indicators slightly compared with fiscal year 2019. Instead of the expected growth rate for total revenue, the growth rate for recurring revenue will be forecast from fiscal year 2020. Compared with the previous year, NFON envisages a growth rate of between 22% and 26% for 2020 here. The subsidiaries in Germany, the UK, Austria and Spain mainly contributed to the organic growth of revenue in fiscal year 2019. For fiscal year 2020, NFON expects all subsidiaries to contribute to organic growth. As in fiscal year 2019, NFON expects recurring revenue to account for between 80% and 85% of total revenue. In respect of seats operated at customers, NFON AG is projecting growth of between 20% and 24% for 2020 as a whole, which also means an increase in total revenue compared to the previous year.

In line with the goal of becoming no. 1 in the European market for cloud telephony, the NFON Group will continue to invest heavily in gaining market share. Consequently, with stable macroeconomic development and a European cloud communication market expanding at the expected pace, NFON has the ambition to continue its dynamic revenue growth with possible extra impetus from further M&A activities. EBITDA break-even could be achieved in the medium term with the current investment intensity. Investments to exploit additional growth opportunities arising in the short term are not taken into account here.

23 Source: MZA 2017. All other market figures mentioned in this chapter refer to the Cavell Service Provider Insight Report Q2 2019. other sources are quoted separately.

24 This information has not been audited by the auditor.

Disclosures relevant to the acquisition – Explanatory report from the Management Board on the disclosures pursuant to Sections 289a (1) and 214a (1) HGB

Composition of subscribed capital

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

Restrictions affecting voting rights or the transfer of shares

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

Direct or indirect shareholdings that exceed 10% of the voting rights

As at 31 December 2019, the following direct and indirect shareholdings exceeded 10% of the voting rights:

Name/company	Direct/indirect share of more than 10% of the voting rights
Milestone Venture Capital GmbH, registered office in Hösbach, Germany	Direct (33.9%)
Earlybird Verwaltungs GmbH, registered office in Munich, Germany	Direct (14.05%, date on which the threshold was exceeded 21 October 2019, previously 17.82%)
Florian Schuhbauer	Indirect (11.43%, date on which the threshold was exceeded 04 December 2019)
Klaus Röhrig	Indirect (11.43%, date on which the threshold was exceeded 04 December 2019)

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

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

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

Shares with special rights

NFON AG has not issued any shares with special rights.

Voting controls for employee participation

There are no voting controls.

Legal requirements and provisions of the Articles of Association on the appointment and dismissal of members of the Management Board and on changes to the Articles of Association

Rules and provisions of the Articles of Association on the appointment and dismissal of members of the Management Board comply with the regulation pursuant to Section 84 AktG. A member of the Management Board can be dismissed with or without reason and/or be replaced by Supervisory Board resolution at any time. The Supervisory Board is entitled to make amendments to the Articles of Association that relate solely to the wording (§ 18 no. 3 of the articles of association of NFON AG).

Management Board's authorities, particularly in respect of issuing or repurchasing shares

The Management Board's authorisation to issue shares is regulated in Article 4 of the Articles of Association in conjunction with the statutory regulations. As at 31 December 2019, the Management Board had the following authorisations to issue shares:

Authorised capital

The Extraordinary General Meeting of NFON AG on 12 December 2019 cancelled Authorised Capital I existing as at that date and created Authorised Capital 2019. Accordingly, the Management Board is authorised, with the approval of the Supervisory Board, to increase share capital on one or more occasions by a total of EUR 3,000,000.00 by 11 December 2024 by issuing new no-par bearer shares with profit participation rights from the beginning of the fiscal year in which they were issued in exchange for cash or non-cash contributions. Shareholders have pre-emption rights. The Management Board is authorised, with the approval of the Supervisory Board, to decide on the content of share rights and the terms for issuing the shares and to determine the details of the capital increase. The authorisation contains provision for the subscription right of shareholders to be fully or partially excluded in certain cases (Section 4 (3) a) to c)).

Contingent Capital I

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

Contingent Capital II (share option plan)

The Company's share capital is contingently increased further by up to EUR 964,015.00 through the issue of up to 964,015 new no-par bearer shares. The contingent capital increase is carried out only insofar as holders of share options issued by the Company in the period up to 8 April 2023 on the basis of the authorising resolution passed by the Annual General Meeting of 9 April 2018 exercise their right to subscribe for shares in the Company and the Company does not grant treasury shares or cash settlement in fulfilment of the subscription rights. The issued new shares of NFON AG carry dividend rights from the start of the fiscal year in which they are issued.

Significant agreements of the parent company conditional on a change of control in the event of a takeover bid and the related implications

No significant agreements of the parent company conditional on a change of control in the event of a takeover bid have been concluded either with third parties or subsidiaries.

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

Share option plan

The options that have been issued remain unaffected should a third party assume control of the Company within the meaning of Section 29 (2) of the German Securities Acquisition and Takeover Act (WpÜG). A 'delisting event' is deemed to have taken place if the shares in the Company are no longer listed on an organised market (Section 2 (5) WpHG). If a delisting event occurs, the beneficiary has the right, within the scope of legal provisions, to demand that the Company or its legal successor pay out the option value for each option. The option value is paid out within 2 weeks of the occurrence of the delisting event.

Group corporate governance report

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

Remuneration report

I. Management Board

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

The short-term variable salary of all three members of the Management Board is 50% dependent on NFON Group revenue and 50% on NFON Group EBITDA. It is capped at 150% if targets are achieved in each case. No variable salary is due if less than 80% of the targets are achieved. The short-term variable salary component is between 21% and 32% of the fixed basic salary, depending on the member of the Management Board. In addition, the Supervisory Board may grant a discretionary bonus in the maximum amount of one fixed annual basic salary according to the Executive Board employment contract, which, however, was not granted in the fiscal year.

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

- Term of the program: until April 22 April 2022
- Duration from allocation: 10 years
- Exercise price: arithmetic mean of the closing prices of the Company's shares in Xetra trading (or a comparable successor system) on the Frankfurt Stock Exchange on the last ten trading days prior to the issue of the respective stock option (date of acceptance of the beneficiary's subscription declaration by the Company or the credit institution engaged by the Company for settlement)
- Personal prerequisites for exercising the option:
  - Achievement of the performance target: Growth in revenue as shown in the consolidated financial statements for the financial year in which the options are allocated, compared with the turnover as shown in the consolidated financial statements for the last financial year prior to allocation, by 20%.
  - Fulfilment of the waiting period of 4 years from allocation
  - Existence of an employment relationship or service relationship at the time of exercise. In the case of the Management Board, the Supervisory Board may waive this rule in individual cases.
- Cap limit: sum of the basic (fixed) salaries of the Management Board members of the company until the options are exercised, multiplied by a factor of 1.5.

These stock options were allocated for the first time in the 2019 financial year and entitle the members of the Management Board to purchase a certain number of shares in the company. The performance target was achieved in fiscal year 2019.

A post-contractual non-competition clause has been agreed with the members of the Management Board in their contracts of employment, as a result of which the respective Management Board member would have to be paid compensation of 50% of the last contractually agreed remuneration for a period of one year upon leaving the company. In addition, Board member Jan-Peter Koopmann is entitled to an exit-related bonus payment of EUR 0.1 million payable by the Company upon expiry of his contract under an agreement from 2013, which was adjusted and renewed in the 2018 financial year.

II. Supervisory Board

By resolution of the annual general meeting on 09 April 2018, all members of the Supervisory Board of NFON AG will receive – along with the reimbursement of expenses according to the Articles of Association of NFON AG – the following cash payments:

a) a basic salary of EUR 40,000 for the Chairman of the Supervisory Board and EUR 25,000 for the remaining members of the Supervisory Board after conclusion of a fiscal year, plus any due turnover tax;

b) for each meeting of the Supervisory Board (plenary sitting) which the respective Supervisory Board member fully attends, additionally after conclusion of a fiscal year, they will receive an attendance fee of EUR 1,000 plus any due turnover tax.

Any memberships and chairmanships in committees are compensated with this compensation. Members of the Supervisory Board who only belong to the Supervisory Board or hold the chairmanship of the Supervisory Board for part of the fiscal year will receive the compensation stated in a) respectively pro rata temporis. The amounts will be rounded up to full months.

The compensation stated in a) and b) will continuously be paid to the members of the Supervisory Board in the following years, unless the general meeting decides otherwise.

Consequently, Chairman of the Supervisory Board Rainer Koppitz was paid EUR 40,000 in basic remuneration and EUR 6,000 in attendance fees plus turnover tax for fiscal year 2019, Supervisory Board member Dr Rupert Doehner was paid EUR 25,000 in basic remuneration and EUR 6,000 in attendance fees plus turnover tax for fiscal year 2019, Supervisory Board members Angélique Werner and Ralf Grüsshaber each received basic remuneration of EUR 25,000 and attendance fees of EUR 5,000 plus any due turnover tax, and Supervisory Board members Günter Müller and Florian Schuhbauer were each paid EUR 2,083.33 in basic remuneration and EUR 1,000 in attendance fees plus any due turnover tax for fiscal year 2019.

Therefore, the total remuneration of the Supervisory Board amounted to EUR 0.1 million net in fiscal year 2019 excluding reimbursement of expenses. In fiscal year 2018 (from 9 April 2018), the total remuneration of the Supervisory Board amounted to EUR 0.1 million excluding reimbursement of expenses.

NFON AG (HGB)

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

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

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

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

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

Results of operations

Income statement of NFON AG pursuant to HGB (abridged version)

in EUR million	2019	2018
Revenue	37.6	22.9
Other operating income	0.5	9.1
Cost of materials	6.9	7.2
Personnel costs	16.9	14.7
Depreciation and amortisation	0.7	0.6
Other operating expenses	27.1	20.4
Write-downs of financial assets	0.0	0.0
Net interest income	–0.6	0.2
Income taxes	0.0	0.4
Profit/loss after taxes	**–14.0**	**–10.2**
Other taxes	0.0	0.1
Net profit/loss for the year	**–14.0**	**–10.3**

Revenue

The increase in revenue is mainly attributable to the adjustment of the system of transfer pricing which was carried out last year. Due to the cost-plus transfer pricing method, an amount totalling EUR 9.4 million for the period 2009 to 2017 was invoiced to the subsidiaries in the previous year but one (2017). This method was changed as a result of a tax audit in 2018. The transaction-based net margin method has been applicable since 2018.

The prior-year revenue figures are thus not comparable due to the adjustments in the system of transfer pricing. The previous year includes negative effects on income from transfer pricing of EUR 8.9 million. A credit entry was made in 2018, which was treated as negative revenue. This transfer pricing revenue is shown as non-recurring.

Excluding transfer pricing income and credit entries relating to this, revenue of EUR 35.8 million resulted in 2019 and revenue of EUR 31.8 million in 2018.

After adjustment for these transfer prices, 2019 revenue increased over the previous year by approx. 12.2% due to the increased customer base (recurring revenue) and the sale of hardware and other services (non-recurring revenue).

Revenue comprises recurring income of EUR 29.9 million and non-recurring income of EUR 5.8 million.

Other operating income

Investment grants of EUR 0.2 million from the state of Berlin for the location there are particularly included in 2019.

Other operating income in 2018 mainly consisted of a reversal of impairment losses (recognised in previous years) on loans to and receivables from subsidiaries of EUR 7.1 million associated with the adjustment of the system of transfer pricing. In addition, there was a reimbursement of IPO costs as well as management bonuses relating to the IPO by existing investors in the amount of EUR 1.3 million.

Cost of materials

The cost of materials fell by 4.6% despite the expanding business activities. The reason for this was a decrease in hardware revenue with a low margin compared to the overall product portfolio, thus driving down a disproportionately large cost item. More favourable terms were attained for purchased voice minutes.

Personnel costs

The increase in personnel expenses by 14.9% is particularly due to rention bonus related to the IPO of EUR 0.5 million and employee share options of EUR 0.6 million as well as the continuous strategic expansion of staffing. This resulted also in a slight increase in contributions and expenses for employee benefits.

Depreciation and amortisation

Investments consisted of replacement investment and minor expansion investment. Consequently, amortisation and depreciation remained at the same level. No impairment losses were recognised.

Other operating expenses

The increase in other operating expenses is mainly due to expenses for the profit transfer of subsidiaries as part of the application of the transaction-based net margin method in the amount of EUR 8.9 million for 2019 compared to EUR 3.5 million for 2018. The opening of the national subsidiaries in Italy and France had a particular impact here.

As planned, marketing expenses increased again from EUR 3.8 million in 2018 to EUR 5.3 million in 2019.

Conversely, consulting costs fell from EUR 4.2 million to EUR 1.4 million. EUR 0.6 million was spent on the acquisition of DTS here.

In 2018, legal and consulting costs of EUR 3.6 million were incurred in conjunction with the IPO.

Net interest income

NFON AG paid interest on a loan for the acquisition of DTS and on an issued warrant bond.

Income taxes

Taxes on income in 2018 included tax credits relating to other periods.

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

Profit/loss after taxes

The change in the transfer pricing method in the wake of the tax audit contributed significantly to the considerable year-on-year differences in earnings after tax. In addition, extensive consulting costs associated with the successful IPO had a significant impact.

Other taxes

Relative to the previous year, tax back payments from previous years ceased to apply in other taxes, resulting in this item solely constituting a low amount of vehicle taxes.

Net loss for the year

The increased net loss for the year mainly resulted from the expansive approach of NFON AG. New subsidiaries were opened in Italy and France, the start-up costs of which must be fully borne by NFON AG under the transaction-based net margin method. Furthermore, marketing was stepped up significantly in order to further improve the company's positioning on the German market.

FINANCIAL POSITION

Statement of cash flows of NFON AG pursuant to HGB (abridged version)

The cash flow from operating activities is significantly stems from net loss for the year of EUR 14.0 million. Reference is made to the comments in the results of operations.

Investing activities in the year under review mainly include the cash outflows in connection with the acquisition of all shares in DTS.

At EUR 14.0 million, cash flows from financing activities relate to cash inflows from the acquisition loan taken out in the reporting year and the issued warrant bond. Further cash inflows of EUR 10.6 million result from the option exercised in 2019. In the previous year, cash inflows were dominated by the issue proceeds of EUR 50.0 million gross from the IPO.

Overall, cash and cash equivalents decreased by EUR 5.5 million year-on-year to EUR 27.3 million. NFON AG was able to meet its payment obligations at all times.

ASSETS AND LIABILITIES

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

in EUR million	2019	2018
Fixed assets	43.1	24.2
Current assets	32.0	37.9
Prepaid expenses	0.9	0.4
Assets	**76.0**	**62.5**
Equity	50.8	51.0
Provisions	3.4	2.7
Liabilities	21.8	8.9
Liabilities	**76.0**	**62.5**

Fixed assets

The significant rise in fixed assets primarily results from the purchase of the shares in DTS in the reporting year (EUR 17.2 million). Furthermore, property, plant and equipment increased by EUR 1.0 million, particularly as a result of investment in the IT infrastructure and server hardware to create a corresponding basis for the planned growth, as well as other operating and office equipment which was mainly necessary in the course of leasing new office space.

On the other hand, loans to affiliated companies decreased by EUR 2.6 million. Amortisation of intangible assets totalled EUR 0.7 million in 2019.

Current assets

The reduction in current assets is primarily based on the EUR 5.5 million decrease in cash held at banks compared with the previous year.

Equity

Despite the net loss for the year of EUR 14.0 million, equity was virtually unchanged in the reporting year (EUR 50.8 million) compared to the previous year (EUR 50.9 million) on account of the capital increase from authorised capital (EUR 2.5 million) carried out in the context of the DTS acquisition and the capital increase relating to the option exercised by AOC in the reporting year (EUR 10.6 million) as well as the issued employee stock options (EUR 0.6 million).

Provisions

The increase in provisions is mainly attributable to the increase in provisions for missing incoming invoices. In addition, provisions for partner commission increased from EUR 0.6 million to EUR 0.7 million due to the rise in revenue generated via partners.

In total, provisions increased from EUR 2.7 million to EUR 3.4 million.

Liabilities

The increase in liabilities mainly relates to the acquisition loan taken out in the reporting year at EUR 9.0 million and the warrant bond issued in 2019 at EUR 5.0 million. Trade payables rose from EUR 2.0 million as at 31 December 2018 to EUR 2.3 million as at 31 December 2019 as a result of the increased business volume. At the same time, liabilities to affiliated companies increased (EUR -1.4 million to EUR 4.3 million as at 31 December 2019).

Overall Evaluation of the Economic Situation

2019 was a successful year overall for NFON AG. The Company contained to grow, invested the funds generated from the IPO in the previous year in organic and inorganic growth as planned, posted increased revenue and stabilised gross profit. In addition to the financial resources received from the IPO in 2018, further financial resources were generated from the issue of a warrant bond. As a result, equity increased by EUR 10.6 million.

Risks and Opportunities

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

Forecast

Due to NFON AG's links with the group companies, we refer to the statements in the forecast report of the group management report, which in particular also reflect the expectations for the parent company. The statements on COVID-19 made in the group forecast report apply to NFON AG without reservation. At this point in time, the effects of the spreading virus on the economic development of NFON AG cannot yet be estimated. Regardless of this, NFON AG expects a slightly stronger increase in recurring revenue and thus in total sales for the financial year 2020 compared to the reporting year. Taking into account a cost allocation of costs to the subsidiaries and without applying transfer pricing, the Management Board expects a significant improvement in EBITDA compared to the reporting period. This is due to the improved gross profit resulting from revenues and the realization of economies of scale in other operating expenses. The number of seats operated at the customer's premises will grow at a similar rate compared to the 2019 financial year. This planning is based on the state of knowledge as of 31 March 2020 and the company points out that there may be a deviation between the planned data and the values actually achieved at the end of the year.

Responsibility statement of the legal representatives in accordance with section 315 (1) sentence 5 and section 289 (1) sentence 5 HGB

We hereby confirm that, to the best of our knowledge, the consolidated financial statements give a true and fair view of the Group's assets, liabilities financial position and financial performance in accordance with applicable accounting policies, and that the management report for the Group and the Company gives a true and fair view of the Group's business development including its performance and financial position, and also describes significant opportunities and risks relating to the Group's anticipated development.

Munich, 31 March 2020

Hans Szymanski
CEO & CFO

César Flores Rodríguez
CSO

Jan-Peter Koopmann
CTO

CONSOLIDATED FINANCIAL STATEMENT

Consolidated statement of profit or loss and other comprehensive income

for the period from 01 January to 31 December 2019

EUR thousand	Note	2019	2018
Revenue	18	57,117	43,028
Changes in inventories of finished goods and work in progress		–27	9
Other operating income	15	636	1,256
Cost of materials		–13,637	–11,083
Personnel costs	17	–24,248	–22,082
Depreciation and amortisation	4/5/6	–3,005	–690
Other operating expenses	16	–26,773	–18,875
Impairment loss on trade and other receivables	21	–42	–73
Other tax expense		–10	38
Income from continuing operations before net interest income and income taxes		**–9,989**	**–8,473**
Interest and similar income		36	13
Interest and similar expense		–852	–168
Net interest income		**–816**	**–155**
Earnings before income taxes		**–10,805**	**–8,628**
Income taxes	12	–39	376
Deferred tax expenses	12	–81	139
Net profit/loss		**–10,924**	**–8,113**
Attributable to:			
Shareholders of the parent company		–10,924	–8,113
Non-controlling interests		0	0
Other comprehensive income (will be reclassified to profit or loss)		333	–113
Tax on other comprehensive income		0	0
Other comprehensive income after taxes		**333**	**–113**
Total comprehensive income		**–10,592**	**–8,225**
Attributable to:			
Shareholders of the parent company		–10,592	–8,225
Non-controlling interests		0	0
Net loss per share, basic and diluted	**14**	**–0.77**	**–0.76**

Consolidated statement of financial position

as at 31 December 2019

EUR thousand	Note	31 Dec 2019	31.12.2018
Non-current assets			
Property, plant and equipment	4/5	7,606	1,352
Intangible assets	5	22,438	233
Deferred tax assets	12	132	203
Other non-financial assets	9	289	99
Total non-current assets		**30,467**	**1,886**
Current assets			
Inventories	7	208	92
Trade receivables	8	7,558	5,859
Other financial assets	8	390	390
Other non-financial assets	9	2,164	1,206
Income tax receivables	9	0	399
Cash and cash equivalents	21	36,419	41,436
Total current assets		**46,740**	**49,382**
Total assets		**77,206**	**51,268**

EUR thousand	Note	31.12.2019	31 Dec 2018
Equity			
Share capital	13	15,056	13,807
Capital reserves	13	82,987	70,131
Retained earnings		–51,674	–40,749
Currency translation reserve		778	445
Total equity		**47,146**	**43,633**
Non-current financial liabilities		3,436	**0**
Other non-current liabilities	9	172	172
Deferred tax liabilities	12	77	63
Total non-current liabilities		**3,685**	**236**
Current liabilities			
Trade payables	21	5,174	3,237
Current provisions	10	2,176	1,310
Current income tax liabilities	9	125	82
Current financial liabilities	11	15,451	128
Other non-financial liabilities	9	3,449	2,643
Total current liabilities		**26,374**	**7,399**
Total equity and liabilities		**77,206**	**51,268**

Consolidated statement of cash flows

for the period from 01 January to 31 December 2019

EUR thousand	Note	2019	2018
1. Cash flows from operating activities			
Profit/loss after taxes		**–10,924**	**–8,113**
Adjustments to reconcile profit/loss to cash provided			
Income taxes	12	120	–515
Interest income (expenses), net		816	155
Amortisation of intangible assets and depreciation of property, plant and equipment	4/5	3,005	690
Impairment loss on trade and other receivables		42	73
Equity-settled share-based payments		638	3,551
Other non-cash income (expense)	19	233	–136
Change in: Inventories		42	–83
Trade and other receivables		–1,974	–1,898
Trade and other payables		–119	1,165
Provisions and employee benefits		873	47
Deferrals in connection with the IPO in 2018 and deferral items		0	297
Interest paid		–655	–206
Income taxes paid, net		385	–4
The effects of changes in foreign exchange rates		333	15
Cash flows from operating activities		**–7,187**	**–4,960**

EUR thousand	Note	2019	2018
2. Cash flows from investing activities			
Proceeds on disposal of property, plant and equipment and intangible assets	4	0	0
Payments on investments in property, plant and equipment	4	–1,847	–943
Payments on investments in intangible assets	5	–3,372	–112
Payments in connection with the DTS acquisition		–15,260	0
Cash flows from investing activities		**–20,480**	**–1,055**
3. Cash flows from financing activities			
Equity contributions from the capital increase by shareholders of the parent company (in the previous year, after offset against IPO costs and cost reimbursement by previous shareholders)	13	10,605	47,720
Proceeds from loans and borrowing		14,007	0
Repayments of bank loans and liabilities similar to bank loans	11	–649	–2,438
Payments in connection with leases		–1,357	0
Cash flows from financing activities		**22,606**	**45,282**
Changes of cash and cash equivalents		**–5,060**	**39,267**
Effect of movements in exchange rates on cash held		43	–7
Cash and cash equivalents at the beginning of the period		**41,436**	**2,176**
Cash and cash equivalents at the end of the period		**36,419**	**41,436**

The payments for the acquisition of DTS take into account negative cash reserves of EUR 565 thousand held by DTS at the time of acquisition.

Cash and cash equivalents at the end of the period include deposits with banks of EUR 340 thousand as at 31 December 2019 (31 December 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.

Statement of changes in equity

as at 31 December 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 1 January 2019	**13,807**	**70,132**	**444**	**–40,750**	**43,634**	**0**	**43,634**
Total comprehensive loss for the period							
Loss (Income) for the period	0	0	0	–10,924	–10,924	0	–10,924
Other comprehensive income for the period	0	0	333	0	333	0	333
Total comprehensive loss for the period	**0**	**0**	**333**	**–10,924**	**–10,529**	**0**	**–10,529**
Transactions with owners of the Company							
Equity-settled share-based payments	0	638	0	0	638	0	638
Increase in share capital from authorised capital for partial payment of the purchase price for the DTS acquisition	285	2,534	0	0	2,819	0	2,819
Equity component of the warrant bond issued in the reporting year	0	43	0	0	43	0	43
Increase in equity from authorised capital in connection with the exercise of the warrant bond issued in the reporting year	964	9,640	0	0	10,604	0	10,604
Total transactions with owners of the company	**1,249**	**12,855**	**0**	**0**	**14,104**	**0**	**14,104**
Balance as at 31 December 2019	**15,056**	**82,987**	**777**	**–51,674**	**47,146**	**0**	**47,146**

Statement of changes in equity

as at 31 December 2018

	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 1 January 2018	**371**	**32,052**	**557**	**–32,637**	**343**	**0**	**343**
Total comprehensive loss for the period							
Loss (Income) for the period	0	0	0	–8,113	–8,113	0	–8,113
Other comprehensive income for the period	0	0	–113	0	–113	0	–113
Total comprehensive loss for the period	**0**	**0**	**–113**	**–8,113**	**–8,225**	**0**	**–8,225**
Transactions with owners 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 February 2018	9,269	–9,269	0	0	0		0
Payments into equity due to the IPO	4,167	45,833	0	0	50,000		50,000
Expenses and income related to the IPO recognised equity	0	–2,035	0	0	–2,035	0	–2,035
Total transactions with owners of the company	**13,436**	**38,080**	**0**	**0**	**51,516**	**0**	**51,516**
Balance as at 31 December 2018	**13,807**	**70,131**	**445**	**–40,749**	**43,634**	**0**	**43,634**

NOTES

1. Basis of presentation

Company overview

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

The consolidated financial statements for the fiscal year as at 31 December 2019 were approved for publication by Management Board resolution on 31 March 2020.

Consolidated financial statements

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

Currency

The consolidated financial statements have been prepared in Euro (EUR), which represents the functional and reporting currency of NFON AG. Unless otherwise indicated, all figures in the consolidated financial statements and related notes are rounded to the nearest thousand euro. Therefore, rounding differences may occur within the tables included in the notes to the consolidated financial statements.

Other

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

Comparative information

The consolidated financial statements include amounts as at and for the periods ended 31 December 2019 compared to 31 December 2018.

2. Significant accounting policies

A. Basis of preparation

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

The fiscal year is the calendar year.

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

In the period beginning on 1 January 2019, NFON applied the following standards and amendments to existing standards for the first time:

- IFRS 16 "Leases"
- Prepayment Features with Negative Compensation – amendments to IFRS 9
- Long-term Interests in Associates and Joint Ventures – amendments to IAS 28
- Annual Improvements to IFRSs (2015-2017 Cycle)
- Plan Amendment, Curtailment or Settlement – amendments to IAS 19
- IFRIC 23 "Uncertainty over Income Tax Treatments"

C. Changes in significant accounting policies – first-time application of IFRS 16

The first-time application of the new regulations of IFRS 16 was based on the modified retrospective method, under which the cumulative effect of the first-time application as at 1 January 2019 is recognised in retained earnings. For this reason, the comparative information for 2018 was not restated, i.e. it was presented in accordance with IAS 17 and the related interpretations as before. Details of the changes in accounting policies are provided below. In addition, the disclosure requirements in IFRS 16 were not generally applied to the comparative information.

1. Definition of a lease

Previously, the Group determined at inception whether an arrangement was or contained a lease in accordance with IFRIC 4 "Determining whether an arrangement contains a lease". The Group now assesses whether a contract is or contains a lease based on the definition of a lease described in Note 2.

For the transition to IFRS 16, the Group decided to apply the practical expedient of retaining the assessment as to which transactions are leases. The Group applies IFRS 16 only to contracts previously identified as leases. Contracts that were not identified as leases in accordance with IAS 17 and IFRIC 4 were not reviewed to determine whether there was a lease in accordance with IFRS 16. For this reason, the definition of a lease in accordance with IFRS 16 was applied only to contracts that were concluded or amended on or after 1 January 2019.

2. NFON as lessee

The Group leases various assets, including real estate and vehicles, as a lessee. The Group previously categorised leases as operating leases or finance leases based on its assessment as to whether the lease transferred substantially all the risks and rewards incidental to ownership of the underlying asset to the Group. In accordance with IFRS 16, the Group recognises rights of use and lease liabilities for most of these leases, meaning that these leases are shown in the statement of financial position.

At the commencement date or when amending a contract that contains a lease component, the Group allocates the contractually agreed fee based on the relative stand-alone prices.

The Group previously classified real estate and vehicle leases as operating leases in accordance with IAS 17. On transition, the lease liabilities for these leases were measured at the present value of the remaining lease payments, discounted at the Group's incremental borrowing rate as at 1 January 2019 or at the internal interest rate used by the lessor, if this was known to the Group.

Rights of use are measured at the amount of the lease liability.

As at the transition date, there were no indications of impairment of the rights of use.

NFON used a number of practical expedients for the application of IFRS 16 to leases that were classified as operating leases in accordance with IAS 17. Specifically, the Group:

- did not recognise rights of use or lease liabilities for leases whose term ended within 12 months of the date of initial application
- did not recognise rights of use or lease liabilities for leases for which the underlying asset was of low value
- excluded initial direct costs from the measurement of the right-of-use asset at the date of initial application
- determined the term of leases retroactively

3. Effects on the financial statements

The effects on transition to IFRS 16 are as follows:

- Rights of use for property, plant and equipment: EUR 4,635 thousand
- Lease liabilities: EUR 4,635 thousand

The weighted average discount rate is 1.9%.

The reconciliation of operating leases as at 31 December 2018 (as stated in accordance with IAS 17 in the 2018 consolidated financial statements) is as follows:

	EUR thousand
Obligations from operating leases reported as at 31 December 2018	5,775
These obligations discounted as at 1 January 2019	5,603
Less short-term leases recognised as expense on a straight-line basis	969
Lease liabilities recognised on 1 January 2019	4,635
Thereof current lease liabilities	1,056
Thereof non-current lease liabilities	3,580

The other changes listed in Section B are not expected to have any significant impact on the current or future periods.

D. New standards that are not yet applied

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

- Amendments to References to the Conceptual Framework in IFRS Standards, to be applied from 1 January 2020
- Definition of a Business (amendments to IFRS 3), to be applied from 1 January 2020
- Definition of "Material" (amendments to IAS 1 and IAS 8), to be applied from 1 January 2020
- Amendments to IFRS 9, IAS 39 and IFRS 7: interest rate benchmark reform, to be applied from 1 January 2020
- Amendments to IAS 1: classification of liabilities as current or non-current, to be applied from 1 January 2020
- IFRS 17 "Insurance Contracts", to be applied from 1 January 2021
- Amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture", date for initial application not yet set

NFON applies new standards for the first time at the date when their application first becomes mandatory.

E. Basis of consolidation

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

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

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

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

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

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

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

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

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

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

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

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

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

fairfon Telefonsysteme GmbH, Munich, Germany (2018: wholly owned by NFON AG) was merged with NFON AG as at 1 January 2019 by way of the merger agreement dated 26 June 2019.

Purchase price allocation of DTS

As at 01 March 2019, the Group acquired all shares in Deutsche Telefon Standard, Mainz. DTS specialises in professional SIP communications and is a leading provider of network PBXs. With DTS, the Group is acquiring a successful competitor, increasing its customer base and achieving economies of scale. 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 – EUR 14.7 million of which was paid in cash – 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 contractually agreed 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 equity component includes 284,738 NFON AG shares that were measured at the stock market price at the transaction date.

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

in EUR thousand	Carrying amount as at 01.03.2019	Disclosed hidden reserves	Fair value as at 01.03.2019
Assets			
Property, plant and equipment	1,090	0	1,090
Intangible assets (incl. goodwill)	2,018	17,397	19,415
Inventories	158	0	158
Trade receivables	808	0	808
Other non-financial assets	52	0	52
Total assets	**4,126**	**17,397**	**21,523**
Liabilities			
Financial liabilities	1,812	0	1,812
Trade payables	787	0	787
Other non-financial liabilities	1,138	270	1,408
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 12,384 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.

With regard to trade receivables, no significant credit risks are anticipated.

The goodwill to be recognised is based on the future synergy effects associated with the acquisition. In accordance with our expectations, the goodwill to be recognised in the consolidated financial statements is not tax-deductible.

In the period from 01 March to 31 December 2019, DTS generated revenue of EUR 8,740 thousand and an annual net profit of EUR 106 thousand.

If the acquisition had taken place on 1 January 2019 already, consolidated pro-forma revenue of EUR 58,631 thousand and an annual net loss of EUR 11,028 thousand would have been reported by the Group for the fiscal year ended 31 December 2019. The contributions were calculated based on DTS's revenues and earnings for January and February 2019 and adjusted for the differences from the accounting policies of the NFON Group and DTS and the additional amortisation that would have been recognised if the adjustment of intangible assets to their fair values, together with the corresponding tax adjustments, had taken place from 1 January 2019 already.

Preliminary purchase price allocation for Onwerk GmbH, Mannheim

As at 20 December 2019, the Group agreed with Onwerk GmbH, Mannheim (Onwerk), that various assets and contractual relationships and in particular the existing employment contracts (including the employment contracts of the two managing partners) would be transferred from Onwerk to NFON for a cash purchase price of EUR 150 thousand. The transfer date is 1 April 2020.

The purchase price depends on the number of employees to be transferred to NFON as at 1 April 2020 (i.e. with an employment contract in place between the employee in question and NFON AG on 1 April 2020). A maximum of eight employees can be transferred and the expectation is that all employees will be transferred. If no employees were transferred, no purchase price would be paid.

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

As the assets and contractual relationships acquired are of relatively low value, the entire purchase price is allocated to goodwill. This goodwill to be recognised is based on the future revenue potential to be generated with the products and features developed with the help of the employees acquired. The goodwill is recognised in full for tax purposes. The purchase price allocation is preliminary and will be adjusted - if necessary - in the 12-month window.

F. Inventories

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

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

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

G. Trade and other receivables

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

H. Property, plant and equipment

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

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

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

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

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

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

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

I. Intangible assets

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

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

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

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

1. Goodwill

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

2. Intangible assets from business combinations

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

3. Capitalised development projects

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

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

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

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

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

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

Research and development expenditure amounted to EUR 4,410 thousand in the reporting year (2018: EUR 3,289 thousand), of which EUR 2,831 thousand (2018: EUR 0 thousand) was capitalised as intangible assets.

J. Impairment testing

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

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

The carrying amounts of non-financial assets (other than inventories and deferred tax assets) are reviewed at each reporting date whether there is any indication of impairment. If there is any such indication, then the asset's recoverable amount is estimated.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use and that is largely independent of the cash inflows of other assets or cash-generating units (CGUs). Goodwill arising from a business combination is allocated to CGUs or groups of CGUs that are expected to benefit from the synergies of the combination. The segments identified by management as the operating segments are also the CGUs for reviewing the indications of impairment.

The recoverable amount of an asset or CGU is the greater of its corresponding value in use and its fair value less costs to sell. In assessing the value in use, the estimated future cash flows are discounted to their present value using a discount rate before tax that reflects current market assessments of the value of money and the risks specific to the asset or CGU. An impairment loss is recognised if the carrying value of an asset or of a CGU exceeds its recoverable amount. Such impairment losses are recognised in profit or loss. First the carrying amount of the goodwill allocated to the CGU is reduced. If this figure is zero, then pro rata impairment is taken on the carrying amounts of the other assets of the CGU/the group of CGUs.

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

K. Government grants

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

L. Foreign currency translation

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

Transactions in foreign currencies are translated into the respective functional currencies of Group companies at the exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the exchange rate at the reporting date. Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the functional currency at the exchange rate when the fair value was determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated at the exchange rate at the date of the transaction.

Foreign currency translation differences are recognised in profit or loss.

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

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

	Spot rates		Average rates	
	As at 31.12.2019	As at 31.12.2018	2019	2018
GBP	1.1754	1.11791	1.1393	1.13031

M. Segment reporting

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

N. Income taxes

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

Current tax assets and current tax liabilities for the current and prior periods are measured at the amount expected to be paid to or recovered from the taxation authorities, using the tax rates and tax laws that have been enacted by the balance sheet date. Current tax also includes any tax arising from dividends.

Deferred tax is recognised using the liability method on the temporary differences between the recognition of an asset or a liability in the balance sheet and the amount used for tax purposes as at the balance sheet date. Deferred tax liabilities are recognised for all taxable temporary differences with the exception of

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

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

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

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

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

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

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

O. Cash and cash equivalents

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

P. Provisions

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

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

Q. Revenue

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

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

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

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

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

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

1. Recurring revenue

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

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

2. Non-recurring revenue

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

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

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

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

3. Month-to-month contracts

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

4. Long-term contracts

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

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

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

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

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

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

5. Incremental costs of obtaining a contract

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

R. Share-based payments

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

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

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

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

S. Equity

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

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

T. Financial instruments

Accounting for financial instruments is based on the regulations of IFRS 9.

1. Recognition and initial measurement of financial assets

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

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

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

2. Classification and subsequent measurement of financial assets

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

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

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

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

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

Business model assessment

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

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

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

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

Financial assets: Subsequent measurement and gains and losses

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

Financial liabilities: Classification, subsequent measurement and gains and losses

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

3. Derecognition

Financial assets

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

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

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

Financial liabilities

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

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

4. Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

5. Impairment of financial instruments

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

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

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

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

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

Measurement of ECLs

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

Credit-impaired financial assets

At each reporting date, the Group assesses whether financial assets carried at amortised cost are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

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

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

Non-derivative financial assets

Financial assets not classified as at FVTPL, were assessed at each reporting date to determine whether there was objective evidence of impairment.

Objective evidence that financial assets were impaired included:

- default or delinquency by a debtor;
- restructuring of an amount due to the Group on terms that the Group would not consider otherwise;
- indications to bankruptcy of a debtor or issuer;
- adverse changes in the payment status of borrowers or issuers;
- the disappearance of an active market for a security because of financial difficulties; or
- observable data indicating that there was a measurable decrease in the expected cash flows from a group of financial assets.

For an investment in an equity instrument, objective evidence of impairment included a significant or prolonged decline in its fair value below cost. The Group considered a decline of 20% to be significant and a period of nine months to be prolonged.

Financial assets measured at fair value
The Group considered evidence of impairment for these assets at both an individual asset and a collective level. All individually significant assets were individually assessed for impairment. Those found not to be impaired were then collectively assessed for any impairment that had been incurred but not yet individually identified. Assets that were not individually significant were collectively assessed for impairment. Collective assessment was carried out by grouping together assets with similar risk characteristics.

In assessing collective impairment, the Group used historical information on the timing of recoveries and the amount of loss incurred, and made an adjustment if current economic and credit conditions were such that the actual losses were likely to be greater or lesser than suggested by historical trends.

An impairment loss was calculated as the difference between an asset's carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses were recognised in profit or loss and reflected in an impairment account. When the Group considered that there were no realistic prospects of recovery of the asset, the relevant amounts were written off. If the amount of impairment loss subsequently decreased and the decrease was related objectively to an event occurring after the impairment was recognised, then the previously recognised impairment loss was reversed through profit or loss.

Financial assets measured at fair value
Impairment losses on available-for-sale financial assets were recognised by reclassifying the losses accumulated in the fair value reserve to profit or loss. The amount reclassified was the difference between the acquisition cost (net of any principal repayment and amortisation) and the current fair value, less any impairment loss previously recognised in profit or loss. If the fair value of an impaired available-for-sale debt security subsequently increased and the increase was related objectively to an event occurring after the impairment loss was recognised, then the impairment loss was reversed through profit or loss. Impairment losses recognised in profit or loss for an investment in an equity instrument classified as available-for-sale were not reversed through profit or loss.

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

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

6. Write-off

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

7. Finance income and finance costs

The Group's finance income and finance costs include:

- interest income; and
- interest expense.

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

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

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

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

U. Fair value measurement

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

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

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

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

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

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

V. Earnings per share

1. Basic earnings per share

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

2. Diluted earnings per share

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

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

W. Leases

The Group applied IFRS 16 in line with the modified retrospective approach and therefore did not restate the comparative information, but instead continued to present it in line with IAS 17 and IFRIC 4. Details of the accounting methods under IAS 17 and IFRIC 4 are presented separately.

Method applied from 1 January 2019 onwards
At the inception of a contract, the Group assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract contains the right to control an identified asset, the Group uses the definition of a lease in accordance with IFRS 16.

This method is applied to contracts concluded on or after 1 January 2019.

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

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

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

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

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

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

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

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

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

Method applied prior to 1 January 2019

When a contractual agreement was entered into, the Group determined whether the agreement was or contained a lease.

At inception or on reassessment of an agreement that contained a lease, the Group separated payments and other consideration required by the agreement into those for the lease and those for other elements on the basis of their relative fair values.

Where an entity within the Group was a lessee in a lease which did not transfer substantially all the risks and rewards incidental to ownership from the lessor to the entity, the total lease payments were recognised in profit or loss (net of any incentives received from the lessor) on a straight-line basis over the lease term. The lease term was the non-cancellable period for which the lessee had contracted to lease the asset together with any further terms for which the lessee had the option to continue to lease the asset, with or without further payment, when at the inception of the lease it was reasonably certain that the lessee would exercise the option. Initial direct costs attributable to negotiating and arranging leases were recognised as non-financial assets and recognised in profit and loss over the term of the lease. Lease incentives received were recognised as an integral part of the total lease expense, over the term of the lease.

Leases of property, plant and equipment that transferred to the Group substantially all the risks and rewards of ownership were classified as finance leases by the Group. The leased assets were measured initially at an amount equal to the lower of their fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the assets were accounted for in accordance with the accounting policy applicable to that asset.

Assets held under other leases were classified as operating leases and were not recognised in the Group's statement of financial position.

Payments made under operating leases were recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received were recognised as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases were apportioned between the finance expense and the reduction of the outstanding liability. The finance expense was allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

In the comparative periods, NFON did not have any contracts classified as finance lease.

3. Summary of estimates, judgements and assumptions

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

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

A. Revenue

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

B. Share-based payment (IFRS 2)

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

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

Please refer to Note 2.I. and J. The planned revenue and the discount rate used in the impairment tests involve estimates to a large extent.

D. Development costs

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

E. Current and deferred taxes

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

In addition, the Group has tax losses carried forward of various legal entities in different tax jurisdictions which could result in lower tax payments in future years. Deferred tax assets have been recognised to the extent that their recovery is probable, taking into account the projected future taxable income of the related entity. Please refer to the accounting policies on income taxes and the income tax disclosures in Note 12 – Income taxes.

F. Compound financial instruments

The Group has issued a euro-denominated warrant bond that grants the holder the right to purchase equity interests in the Company at the fixed option price. This is accounted for in line with the provisions on compound financial instruments.

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

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

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

G. Provisions

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

H. Expected credit loss of financial assets

We apply assumptions and estimates in determining the expected credit loss of financial assets. Refer to Note 21. (Financial instruments – impairment of financial instruments).

I. Basis of measurement

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

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

4. Property, plant and equipment

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

A. Reconciliation of gross carrying amount

EUR thousand	01.01.2019	Changes in basis of con- solidation	Additions	Reclassifi- cations	Disposals	31.12.2019
Cost						
Leasehold improvements	44	0	166	5	0	217
Furniture, fixtures and other equipment	3,810	463	1,757	–5	83	5,942
Total cost 2019	**3,854**	**463**	**1,923**	**0**	**83**	**6,157**

EUR thousand	01.01.2018	Changes in basis of con- solidation	Additions	Reclassifi- cations	Disposals	31.12.2018
Cost						
Leasehold improvements	19	0	25	0	0	44
Furniture, fixtures and other equipment	2,893	0	917	0	0	3,810
Total cost 2018	**2,912**	**0**	**942**	**0**	**0**	**3,854**

B. Reconciliation of accumulated amortisation and carrying amount

EUR thousand	01.01.2019	Depreciation	Disposals	31.12.2019
Depreciation				
Leasehold improvements	1	19	0	20
Furniture, fixtures and other equipment	2,501	826	54	3,273
Total depriciation 2019	**2,502**	**845**	**54**	**3,293**

EUR thousand	01.01.2018	Depreciation	Disposals	31.12.2018
Depreciation				
Leasehold improvements	1	1	0	1
Furniture, fixtures and other equipment	1,901	601	1	2,501
Total depriciation 2018	**1,901**	**601**	**1**	**2,502**

Carrying amounts

EUR thousand	31.12.2019	31.12.2018
Carrying amount		
Leasehold improvements	195	43
Furniture, fixtures and other equipment	2,669	1,309
Total carrying amount	**2,864**	**1,352**

The Company did not recognise any impairment charges on property, plant and equipment for the years ended 31 December 2018 and 2019. The impact of foreign currency exchange rate changes is immaterial.

5. Rights of use from leases

A. Reconciliation of gross carrying amount

Rights of use from leases changed as follows:

EUR thousand	01.01.2019	Changes in basis of con-solidation	Additions	Disposals	31.12.2019
Gross carrying amount					
Rights of use from leases for buildings	4,338	516	551	0	5,405
Rights of use from leases for vehicles	297	107	303	0	727
Total rights of use from leases in 2019	**4,635**	**623**	**874**	**0**	**6,132**

B. Reconciliation of accumulated amortisation and carrying amount

Accumulated depreciation is as follows:

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

Carrying amounts:

EUR thousand	31.12.2019	31.12.2018
Carrying amount		
Rights of use from leases for buildings	4,258	3,921
Rights of use from leases for vehicles	484	297
Total carrying amount	**4,745**	**4,218**

The impact of foreign currency exchange rate changes is immaterial.

6. Intangible assets

A. Reconciliation of gross carrying amount

Movements in intangible assets are as follows:

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

EUR thousand	01.01.2018	Changes in basis of consolidation	Additions	Reclassifications	Disposals	31.12.2018
Gross carrying amount						
Software	291	0	100	0	0	391
Internally developed software	0	0	0	0	0	0
Capitalised R&D costs	0	0	0	0	0	0
Capitalised R&D costs in development	0	0	0	0	0	0
Customer base	0	0	0	0	0	0
Goodwill	0	0	0	0	0	0
Other intangible assets	12	0	12	0	0	24
Total intangible assets in 2019	**303**	**0**	**111**	**0**	**0**	**414**

B. Reconciliation of accumulated amortisation and carrying amount

Accumulated amortisation and depreciation are as follows:

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

EUR thousand	01.01.2018	Amortisation	Disposals	31.12.2018
Amortisation				
Software	86	89	0	175
Internally developed software	0	0	0	0
Capitalised R&D costs	0	0	0	0
Capitalised R&D costs in development	0	0	0	0
Customer base	0	0	0	0
Goodwill	0	0	0	0
Other intangible assets	7	0	0	7
Total amortisation on intangible assets 2018	**93**	**89**	**0**	**182**

Carrying amounts:

EUR thousand	31.12.2019	31.12.2018
Carrying amount		
Software	1,536	216
Internally developed software	132	0
Capitalised R&D costs	521	0
Capitalised R&D costs in development	3,046	0
Customer base	4,804	0
Goodwill	12,384	0
Other intangible assets	16	17
Total carrying amount	**22,438**	**233**

The impact of foreign currency exchange rate changes is immaterial.

C. Acquired goodwill

As at 31 December 2019, derivative goodwill for which an annual impairment test must be conducted was recognised for the first time (31 December 2019: EUR 12.4 million). No impairment losses were recognised in financial year 2019.

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

The goodwill recognised as at 31 December 2019 resulted entirely from the acquisition of Deutsche Telefon Standard GmbH, Mainz, in the reporting year.

The recoverable amount is calculated based on the value in use of the cash-generating unit. The cash flows used are the expected cash flows for the next three years based on the approved budget. This is followed by a seven-year convergence phase in which a reduction of the revenue growth planned and approved for 2022 of 2% per year has been applied. The perpetual annuity takes account of growth in revenues in the amount of the basic interest rate of 0.2%. The discount rate used is a pre-tax interest rate and reflects the specific risks for DTS. It is calculated in line with the capital asset pricing model (CAPM), under which the equity costs are composed of the risk-free interest rate and a risk premium calculated as the difference between the average market return and the risk-free interest rate multiplied by the company-specific risk (beta factor). The beta factor is derived from a group of comparable companies. In 2019, a discount rate of 7.96% was used.

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

D. Acquired customer base

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

E. Capitalised development costs and internally developed software

The impairment testing method for development projects and internally developed software currently under development (there was no amortisation yet as at 31 December 2019) corresponds to the method described in the "Acquired goodwill" section. The basic assumptions and estimation uncertainties are identical.

7. Inventories

Inventories amounted to EUR 208 thousand as at 31 December 2019 (2018: EUR 92 thousand). Inventories mainly comprise hardware, e.g. telephone devices. Hardware on hand is usually minimal within the Group as hardware is shipped just-in-time by the suppliers whenever requested by NFON based on customer orders. No material reserves for obsolete inventory were required in the periods presented.

The cost of materials includes expenses of EUR 5,008 thousand (2018: EUR 4,451 thousand) for the procurement of hardware.

8. Trade accounts receivables and other financial assets

	Fiscal year ended 31 December	
EUR thousand	2019	2018
Trade receivables due from related parties	0	280
Other trade receivables	7,557	5,579
Total	**7,558**	**5,859**

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

Measurement of expected credit losses

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

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

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

Other financial assets amounted to EUR 390 thousand as at December 2019 (2018: EUR 390 thousand). The position contains restricted cash because of recourse rights of banks for direct debits from customers.

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

As at 31 December 2019 and 2018, other non-financial assets were as follows:

	Fiscal year ended 31.12.	
EUR thousand	2019	2018
Other current assets		
Contract assets	220	210
Capitalised contract costs	108	124
Tax receivables	361	76
Prepaid expenses	1,217	473
Other non-financial assets	258	323
Subtotal other current assets	**2,163**	**1,206**
Other non-current assets		
Prepayments	178	47
Other	112	51
Subtotal other non-current assets	**289**	**99**
Other assets	**2,454**	**1,305**

As at 31 December 2019 and 2018, other non-financial liabilities were as follows:

	Fiscal year ended 31.12.	
EUR thousand	2019	2018
Other current (non-financial) liabilities		
Tax payables	688	720
Liabilities to employees	1,253	1,306
Other non-financial liabilities	1,509	617
Subtotal other current (non-financial) liabilities	**3,450**	**2,643**
Other	172	172
Subtotal other non-current (non-financial) liabilities	**172**	**172**
Other (non-financial) liabilities	**3,622**	**2,815**

Other non-current liabilities contain contract liabilities in the amount of EUR 290 thousand (31 December 2018: EUR 18 tousand).

The current income tax receivables of EUR 399 thousand recognised in the previous year mainly related to refundable tax prepayments by NFON AG.

Current income tax liabilities amounted to EUR 125 thousand as at 31 December 2019 (31 December 2018: EUR 82 thousand) and particularly related to previous years.

10. Provisions

EUR thousand	Carrying amount as at 01.01.2019	Change in basis of consolidation	Additions	Utilisation	Reversal	Carrying amount as at 31.12.2019
Current provisions						
Personnel-related provisions	128	0	90	11	0	207
Other provisions	1,183	20	1,819	1,044	9	1,968
Total	**1,310**	**20**	**1,908**	**1,054**	**9**	**2,175**

EUR thousand	Carrying amount as at 01.01.2018	Change in basis of consolidation	Additions	Utilisation	Reversal	Carrying amount as at 31.12.2018
Current provisions						
Personnel-related provisions	7		121	0	0	128
Other provisions	879		1,183	736	143	1,183
Total	**885**		**1,303**	**736**	**143**	**1,310**

Other provisions mainly comprise provisions for outstanding invoices for sales commissions amounting to EUR 901 thousand (2018: EUR 750 thousand) and provisions for annual reports and annual financial statements amounting to EUR 377 thousand (2018: EUR 258 thousand).

As at 31 December 2019, personnel-related provisions primarily include EUR 113 thousand in obligations for share-based payments to a member of the Management Board.

There are no provisions for warranties, order-related losses and risks for environmental obligations.

11. Interest-bearing debt

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

	Fiscal year ended 31.12.	
EUR thousand	2019	2018
Current financial liabilities		
Acquisition loan	8,967	0
Warrant bond	5,000	0
Working capital loan	26	121
Lease liabilities	1,342	0
Other	115	7
Subtotal current financial liabilities	**15,451**	**128**
Non-current financial liabilities		
Lease liabilities	3,436	0
Subtotal non-current financial liabilities	**3,436**	**0**
Total financial liabilities	**18,886**	**128**

All loans are granted without collateral and subordination agreements.

Credit facility

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

Since 8 January 2019, the Group has had an acquisition credit facility of EUR 10,000 thousand. 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%. As at the reporting date, this credit facility had been utilised in the amount of EUR 8,967 thousand. According to the loan agreement, NFON has to maintain a minimum liquidity of EUR 12,000 thousand. According to the loan agreement, NFON has to maintain a minimum liquidity of EUR 12,000 thousand.

Warrant bond

As at 1 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 2 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.

Working capital loan

The Group entered into an agreement in Austria in order to finance hardware purchases. Hardware may be sold to customers. However, customers may pay the price of such hardware over the duration of a long-term contract. Therefore, working capital financing was used historically whenever hardware for such types of contracts was sold. Historically, the average interest rate on monthly drawings was 13% p.a. and the average repayment term for drawings was 36 months. The remaining loan amount as at 31 December 2019 was EUR 26 thousand. Since July 2017, no new loans have been received.

Lease liabilities

EUR 1,107 thousand of the current lease liabilities relates to rented office space and EUR 235 thousand to leased vehicles. EUR 3,184 thousand of the non-current lease liabilities relates to rented office space and EUR 252 thousand to leased vehicles. Please refer to the information on leasing in Note 19 – Leases.

12. Income taxes

A. Amounts recognised in profit and loss

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

A. Tax on profit for the year

	Fiscal year ended 31.12.	
EUR thousand	2019	2018
Current tax expense (income) (federal and state)	39	–376
Deferred tax expense (income)	81	–139
Income tax expense (income)	**120**	**–515**

The current tax expense in the reporting year relates entirely to the current year. In the previous year, EUR 390 thousand of the tax income related to tax income for earlier years and EUR 14 thousand related to tax expense for the current year. Deferred tax expense of EUR 102 thousand results from the adjustment of deferred tax assets on tax losses carried forward. Remaining deferred taxes results from the recognition of deferred taxes on temporary differences.

B. Amounts recognised in OCI

In the reporting period and in the prior-year period, there were no transactions which has an impact on deferred taxes in other comprehensive income.

C. Reconciliation of effective tax rate

In Germany, the calculation of current tax is based on a combined tax rate of 32.5% for the Group, consisting of a corporate tax rate of 15%, a solidarity surcharge thereon of 5.5% and an average trade tax rate of 16.7%.

EUR thousand	2019	2018
Profit before tax from continuing operations	–10,805	–8,628
Tax using the Company's domestic tax rate of 32.5%	3,509	2,815
Tax effect on:		
Difference due to foreign tax rates	132	–368
Non-deductible expenses	–151	–76
Tax effect related to share-based payments in accordance with IFRS adjustment	0	–1,159
Current-year losses for which no deferred tax assets are recognised	–3,048	–2,408
Tax impact in connection with the recognition of IPO costs	0	664
Adjustments for current taxes of previous years	0	390
Reversals of impairments done in previous years	0	140
Usage of tax losses carried forward for which no DTA was recognised in prior year	73	31
Minimum taxation	0	2
Change in realisability of deferred tax assets and tax credits	–719	415
Other	84	69
Current income taxes	**–120**	**515**
Current tax expense (income)	–39	376
Deferred tax expense (income)	–81	139
Income tax expense (income)	**–120**	**515**

The reconciliation to deferred taxes is significantly impacted by the non-recognition of tax losses carried forward at NFON AG. The tax rates used locally by the Group companies range between 18% and 32.5%.

D. Movement in deferred tax balances

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

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

E. Deferred tax assets/liabilities

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

	Fiscal year ended 31.12.2018			
EUR thousand	Deferred tax assets	Deferred tax liabilities	Changes in the current fiscal year	thereof affecting net income
Assets				
Non-current assets				
Property, plant and equipment	12	21	–19	–19
Intangible assets	8	0	8	8
Other non-current assets	0	16	–16	–16
Current assets				
Inventories	0	1	2	2
Trade receivables	12	125	–107	–107
Other current assets	12	69	15	15
Equity				
Capital reserves	0	0	–312	–312
Liabilities				
Non-current liabilities				
Other non-current liabilities	0	17	–81	–81
Current liabilities				
Trade payables	1	0	1	1
Current provisions	0	64	–64	–64
Current financial liabilities	30	0	–27	–27
Other current liabilities	225	1	183	183
Consolidation effects	37	4	33	33
Sub-total temporary differences	**337**	**319**	**–384**	**–384**
Tax losses carried forward	141	0	141	141
Sub-total temporary differences	**478**	**319**	**–243**	**–243**
Offset	–256	–256	0	0
Sub-total temporary differences after balancing	**222**	**63**	**–243**	**–243**
Impairment	–23	0	–22	–22
Reversal of an impairment	438	0	438	438
Impairment prior year	–434	0	–33	–33
Total temporary differences	**203**	**63**	**139**	**139**

F. Tax losses carried forward

No deferred tax assets are reported for trade tax losses carried forward of EUR 50,296 thousand (2018: EUR 31,596 thousand) and for corporate income tax losses carried forward of EUR 54,547 thousand (2018: EUR 31,918 thousand). Of the trade tax losses carried forward, EUR 13,511 thousand relates to the reporting year and EUR 36,785 thousand to earlier periods. Of the corporation tax losses carried forward, EUR 13,883 thousand relates to the reporting year and EUR 40,665 thousand to earlier periods. The trade tax and corporation tax losses carried forward for which no deferred tax assets were recognised, are not subject to any restriction relating to utilisation.

G. Uncertainty over income tax treatments

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

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

13. Equity

Capital increases and consolidated net profit

Equity increased from EUR 43,633 thousand as at 31 December 2018 to EUR 47,146 thousand as at 31 December 2019. On 18 October 2019, Active Ownership Fund SICAV-FIS SCS, Luxembourg (AOC) exercised its option under the warrant bond issued on 2 July 2019, causing equity to increase by EUR 10,604 thousand. In connection with the partial payment of the purchase price from the DTS acquisition, equity increased by EUR 2,819 thousand. Issuing employee share options resulted in an increase in equity of EUR 638 thousand. Another EUR 43 thousand of the increase in equity related to the equity component of the warrant bond issued to AOC. The currency translation reserve increased by EUR 333 thousand. The consolidated net loss of EUR 10,924 thousand had an offsetting effect.

Subscribed capital and ordinary shares

As at 31 December 2019, NFON AG had issued 15,055,569 (as at 31 December 2018: 13,806,816) ordinary bearer shares with a notional interest in the share capital of EUR 1.00. Subscribed capital totalled EUR 15,056 thousand as at 31 December 2019 (31 December 2018: EUR 13,807 thousand).

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

All issued and outstanding shares are fully paid in as at 31 December 2019 and 2018.

Capital reserves

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

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

Authorised capital

In accordance with the resolution of the Annual General Meeting on 12 December 2019, the Management Board is authorised, with the approval of the Supervisory Board to increase the share capital of NFON AG on one or more occasions in one or more tranches in the period to 11 December 2024 by up to EUR 3,000,000 by the issue of up to 3,000,000 bearer shares in exchange for cash or non-cash contributions (Authorised Capital 2019). Shareholders have pre-emption rights. This authorises the Management Board, with the approval of the Supervisory Board, to decide on the disapplication of shareholder subscription rights. However, they may be excluded only in the following cases:

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

The Authorised Capital I of EUR 653,409 in place as at 31 December 2018 was cancelled in the reporting year.

Contingent capital

The creation of contingent capital (Contingent Capital I) at the Annual General Meeting on 9 April 2018 in the form that the NFON AG share capital is contingently increased by up to EUR 3,856,060 as a result of the issue of up to 3,856,060 new no-par value bearer shares, serves to authorise the Management Board, with approval of the Supervisory Board, in the period to 8 April 2023 to issue bearer convertible bonds, warrant bonds, participation rights, participating bonds or combinations of these instruments with or without a restriction on duration up to a total amount of EUR 115,681,800 and to grant bearers and creditors of convertible or warrant bonds conversion or option rights to new shares of the Company with a pro rata amount in the share capital of up to EUR 3,856,060, the issue of which can take place on a non-cash basis.

In addition, to secure subscription rights from share options (subscription rights within the meaning of Section 192 (2) No. 3 AktG) issued in the period from 9 April 2018 to 8 April 2023, the NFON AG share capital is contingently increased on the basis of the authorisation of the Annual General Meeting on 9 April 2018 by up to EUR 964,015 by the issue of up to 964,015 new bearer shares (Contingent Capital II).

Contingent Capital I amounted to EUR 2,892,045 as at 31 December 2019 (31 December 2018: EUR 3,856,060). Contingent Capital II was unchanged as at 31 December 2019 as compared to the resolution at the Annual General Meeting on 9 April 2018.

Retained earnings

Retained earnings contains losses incurred in prior years and in 2019.

Currency translation reserve

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

Voting rights

In 2019, NFON AG published the following notifications on the Group's website in line with Section 33 (1), Section 38 (1) and Section 40 German Securities Trading Act:

Date of change in equity investment	Name of holder of equity investment	Thresholds exceeded/ fallen short of	Share of voting rights
25 March 2019	KBC Asset Management NV, Brussels, Belgium	Below 3%	2,99%
25 April 2019	Swedbank Robur Fonder AB, Sundyberg, Sweden	Above 3%	3,18%
21 May 2019	Dr Matthias Hallweger (indirect)	Below 5%, below 3%	0,00%
28 May 2019	FIL Limited, Pembroke, Bermuda	Below 3%	2,80%
17 July 2019	FIL Limited, Pembroke, Bermuda	Above 3%	3,05%
9 Aug. 2019	FIL Limited, Pembroke, Bermuda	Below 3%	2,95%
1 Oct. 2019	Klaus Röhrig (indirect)	Above 3%	3,12%
1 Oct. 2019	Florian Schubhauer (indirect)	Above 3%	3,12%
21 Oct. 2019	Earlybird Verwaltungs GmbH, Munich, Germany	Below 15%	14,05%
21 Oct. 2019	Klaus Röhrig (indirect)	Above 5%	9,33%
21 Oct. 2019	Florian Schuhbauer (indirect)	Above 5%	9,33%
4 Dec. 2019	Klaus Röhrig (indirect)	Above 10%	11,43%
4 Dec. 2019	Florian Schuhbauer (indirect)	Above 10%	11,43%

Capital management

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

No dividend is distributed at present.

14. Earnings per share

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

Diluted earnings per share are calculated by adjusting earnings after tax attributable to the ordinary shareholders of the parent company and the weighted average number of ordinary shares outstanding during the reporting period for the effects of any dilutive effects inherent in converting potential ordinary shares. There were no dilutive instruments for the historical periods presented. Even though the Company has granted cash-settled and equity-settled share-based payments to members of management, any future payment under the plans will be through cash, and therefore, the granted awards are not considered potential ordinary shares outstanding for the purposes of calculating earnings per share.

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

EUR thousand	2019	2018
Profit (loss) for the year, attributable to the owners of the parent for basic earnings	–10,924	–8,113
Profit (loss) for the year, attributable to the owners of the parent for diluted earnings	–10,924	–8,113

Quantity	2019	2018
Weighted average number of ordinary shares for basic earnings per share	14,190,255	10,669,523
Weighted average number of ordinary shares for diluted earnings per share	14,190,255	10,669,523

	Fiscal year ended 31 December 2019	
EUR	2019	2018
Loss per share		
Basic earnings	–0.77	–0.76
Diluted earnings	–0.77	–0.76

15. Other operating income

EUR thousand	2019	2018
Other operating income		
Non-cash employee-related benefits	277	277
Miscellaneous other income	359	239
Management bonus	0	740
Total other operating income	**635**	**1,256**

Non-cash employee-related benefits include charges to employees for car usage. EUR 102 thousand of miscellaneous other income relates to income from subletting office space. The payments made to the Management Board as a result of the prior year's IPO were borne by the previous 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. Other operating income includes income from public subsidies of EUR 199 thousand (2018: EUR 117 thousand).

16. Other operating expenses

EUR thousand	2019	2018
Other operating expenses		
Marketing expenses	9,044	5,452
Sales commission	6,733	4,305
General administration	1,487	992
Support costs	523	405
Selling costs	88	147
Consultancy expenses	2,616	2,711
IT expenses	1,359	753
Travel expenses	1,297	1,022
Rental costs	808	1,181
Other personnel costs	2,820	1,908
Total other operating expenses	**26,773**	**18,875**

The increase in marketing expenses in the reporting year as compared to the prior year results in particular from various marketing projects in connection with Cloudya.

As sales commission represent a percentage share of revenues generated through distribution partners or dealers, the increase from EUR 4,305 thousand in fiscal year 2018 to EUR 6,733 thousand in fiscal year 2019 was driven mainly by the increase of total revenues and especially by the increased portion of revenues generated through partner channels.

The increase in travel expenses in the reporting year as compared to the prior year resulted primarily from the higher business volume in comparison to the prior year and the related expansion of travel activities, particularly by sales staff.

In fiscal year 2019, consultancy expenses included legal costs of EUR 750 thousand and consultancy fees of EUR 1,865 thousand.

The increase in other personnel costs from EUR 1,908 thousand in fiscal year 2018 to EUR 2,820 thousand in fiscal year 2019 was mainly due to higher costs for freelancers, which were necessary to support our growth strategy.

The decrease in rental costs resulted from the initial application of IFRS 16 in the reporting year.

17. Personnel costs and employees

Personnel costs comprised the following:

EUR thousand	2019	2018
Wages and salaries	19,582	15,745
Social security contributions	3,780	2,314
Share-based payment plans[1]	638	3,664
Expenses for pensions and other benefits	135	39
Other personnel costs	110	319
Total	**24,246**	**22,082**
[1] Thereof equity-settled	638	3,551

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

EUR 3,551 thousand of the expenses for share-based payment programmes in the prior year related to the cancellation of the (equity-settled) share-based payment plans concluded in prior years with members of the Management Board. The payment of these payment plans related both to the occurrence of an exit, but also 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. There was and there will be (also in the future) no payment from these payment plans. Nevertheless, in accordance with the requirements of IFRS 2, the fair values defined when the payment programs were granted would have to continue to be applied and allocated to the capital reserve with an effect on expenses until the end of the vesting period (in 2021). The bonus agreement concluded with the Management Board members in connection with the IPO on the condition that the claims from share-based payment arrangements concluded in prior years lapse was to be assessed as a cancellation within the meaning of IFRS 2 of these share-based payment arrangements concluded in prior years. 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 prior year ('accelerated vesting'). The corresponding bonus payments were reimbursed by the existing shareholders, so there was no net cash outflow at the Group.

In 2019, the average number of employees was 346 and managers 14 (2018: 228 and 11).

18. Revenue

A. Nature of goods or services

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

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

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

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

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

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

B. Disaggregation of revenue

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

EUR thousand	2019	2018
Product/service		
Recurring revenue		
NFON AG	29,900	25,621
Deutsche Telefon Standard GmbH	7,718	0
nfon GmbH	4,319	3,688
NFON UK Ltd.	5,811	5,076
NFON Iberia SL	301	199
NFON ITALIA S.R.L.	7	0
NFON France	5	0
Total recurring revenue by segments	**48,060**	**34,584**
Transition to Group recurring revenue	**–5**	**0**
Group recurring revenue	**48,055**	**34,584**
Non-recurring revenue		
NFON AG	5,654	6,626
Deutsche Telefon Standard GmbH	1,022	
nfon GmbH	1,496	1,037
NFON UK Ltd.	842	1,106
NFON Iberia SL	33	75
NFON ITALIA S.R.L.	9	
NFON France	5	
Non-recurring revenue by segment	**9,063**	**8,443**
Reconciliation to non-recurring Group revenue		
Non-recurring Group revenue	**9,063**	**8,443**
Group revenue	**57,117**	**43,028**

C. Contract balances

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

	Fiscal year ended 31 December	
EUR thousand	2019	2018
Receivables, which are included in trade accounts receivables	7,558	5,859
Contract assets	220	210
Contract liabilities	290	18

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

The contract liabilities from long-term contracts, which are presented under other liabilities on the statement of financial position, primarily relate to the advance consideration received from customers for services at inception of the contract (e.g. activation fees, porting of numbers) which do not classify as a separate performance obligation and are recognised as part of the contractual performance obligations over time.

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

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

	2018				
EUR thousand	01.01.	Reversal	New in	Reversal new	31.12.
Contract assets	18	7	242	43	210
Contract liability	28	18	9	1	18

D. Transactions price allocated to the remaining performance obligations

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

	Fiscal year ended 31.12.	Recognition		
EUR thousand	2019	2020	2021	2022 and subsequent years
Unsatisfied allocated transaction price to performance obligations	1,795	875	545	375
Portion	100%	49%	30%	21%

The Group applies the practical expedient in paragraph C5(d) of IFRS 15 and does not disclose the amount of the transaction price allocated to the remaining performance obligations as at 31 December 2019.

E. Costs to obtain a contract

Costs to obtain contracts relate to incremental commission fees which range between 25.0% and 85.0% paid to intermediaries (mainly dealers and wholesalers) as a result of obtaining customer contracts. With regards to long-term contracts, these costs are amortised on a straight-line basis over the non-cancellable contract term as this reflects the period over which NFON transfers products and services to the customers.

Management expects that commission fees paid to its partners for obtaining the whole contract can be invoiced to the customer over the contract duration. Whenever the contract term is more than twelve months, the Group capitalises commission fees as contract costs. These amounted to EUR 108 thousand as at 31 December 2019 (2018: EUR 124 thousand).

For month-to-month contracts, which represent the majority of customer contracts in the NFON Group, applying the practical expedient in IFRS 15, NFON recognises the incremental costs of obtaining a contract as an expense when incurred. Commissions under such contracts amounted to EUR 6,529 thousand in 2019 (2018: EUR 4,316 thousand) and are reflected in other operating expenses in the consolidated statement of profit or loss.

19. Leases

The Group rents office space and vehicles. The term of the lease agreements is typically between three and five years. If these contracts are based on a short term, the Group does not recognise rights of use or lease liabilities. The associated expenses are recognised in the operating cash flow. With regard to the lease liabilities expensed as financial liabilities, the Group recognises the corresponding payments in the financing cash flow in the consolidated statement of cash flows. For some contracts, the Group has decided to agree a lease extension option to give it a range of operational options on a short-term basis.

Information on leases in which NFON is the lessee is presented below.

Rights of use

EUR thousand	Land and buildings	Vehicles	Total
Balance as at 1 Jan. 2019	**4,337**	**297**	**4,634**
Changes in basis of consolidation	516	107	623
Amortisation in the fiscal year	–1,147	–241	–1,388
Additions to rights of use	551	323	874
Balance as at 31 Dec. 2019	**4,257**	**484**	**4,741**

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

Lease liabilities

EUR thousand	Non-current financial liabilities	Current financial liabilities	Total
Land and buildings	3,184	1,107	4,291
Vehicles	252	235	487
	3,436	**1,342**	**4,778**

Amounts recognised in the income statement

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

2018 – Operating leases in accordance with IAS 17	EUR thousand
Lease expenses	961

20. Share-based payments

A. Employee share option programme

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

The group of beneficiaries is regulated individually in each case. Following the resolution by the Annual General Meeting on 9 April 2018, 31% of the share options – a total of 298,845 subscription rights – were issued to Group 1, 11% – a total of 106,042 subscription rights – to Group 2, 42% – a total of 404,886 subscription rights – to Group 3 and 16% – a total of 154,242 subscription rights – to Group 4. The exact group of beneficiaries and the scope of the respective offer are defined by the Management Board with the approval of the Supervisory Board or, if the Management Board is affected, by the Supervisory Board.

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

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

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

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

The following calculation parameters were used for the new options issued in 2019:

Weighted average exercise price [1]	8.98 EUR
Weighted expected volatility	39.9%
Term	10 Jahre
Weighted risk-free interest rate	0.15%

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

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

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

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

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

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

	Number of options	Weighted average exercise price (EUR)
Options granted	710,229	8.98
Options exercised	n/a	n/a
Options forfeited	5,000	8.78
Options expired	n/a	n/a
Outstanding options as at 31 Dec. 2019	705,229	8.98
Thereof exercisable options	n/a	n/a

Expenses recognised in the reporting year in connection with share-based payments amount to EUR 638 (2018: EUR 3,551 thousand).

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

In the fiscal year ended 31 December 2018, the Group had concluded the following equity-settled share-based payment arrangements (programmes 1-5, not listed below, were already fully settled in 2017):

6) On 8 December 2016, the Group established a share appreciation right (SAR) programme that entitles a key executive to a cash payment in the event that an exit event occurs until 31 December 2019. The programme comprises a fixed amount of 1,112 SARs. The awards are fully vested at the grant date. The amount of the cash payment is determined based on the exit proceeds (the exit being a trade sale of more than 50% of NFON's shares in a single or in multiple related transactions) calculated for 100% of the shares of NFON less transaction costs less a contractually agreed base price.

   The cash payment per SAR is derived by dividing the increase in value (from the base price to the exit proceeds less transaction costs) by the diluted number of shares of NFON (i.e. the shares and the total number of granted SARs).

7) On 6 December 2016, the Group established a share appreciation right (SAR) programme that entitles a key executive to a cash payment in the event that an exit event occurs until 31 December 2019. The programme comprises a fixed amount of 3,708 SARs. The vesting period starts on 1 October 2016 and ends on 1 October 2019. If the employee leaves employment before the end of the full vesting period, he is allowed to keep the vested proportion of the award. In case the exit event occurs prior to 30 September 2019, all SARs vest (accelerated vesting). The amount of the cash payment is determined based on the exit proceeds (the exit being a trade sale of more than 50% of NFON's shares in a single or in multiple related transactions) calculated for 100% of the shares of NFON less transaction costs less a contractually agreed base price.

   The cash payment per SAR is derived by dividing the increase in value (from the base price to the exit proceeds less transaction costs) by the diluted number of shares of NFON (i.e. the shares and the total number of granted SARs).

8) On 12 December 2016, the Group established a share appreciation right (SAR) programme that entitles a key executive to a cash payment in the event that an exit event occurs until 31 December 2019. The programme comprises a fixed amount of 5,562 SARs. The vesting period starts on 30 June 2016 and ends on 30 June 2019. If the employee leaves employment before the end of the full vesting period, he is allowed to keep the vested proportion of the award. In case the exit event occurs prior to 30 June 2019, all SARs vest (accelerated vesting). The amount of the cash payment is determined based on the exit proceeds (the exit being a trade sale of more than 50% of NFON's shares in a single or in multiple related transactions) calculated for 100% of the shares of NFON less transaction costs less a contractually agreed base price.

   The cash payment per SAR is derived by dividing the increase in value (from the base price to the exit proceeds less transaction costs) by the diluted number of shares of NFON (i.e. the shares and the total number of granted SARs).

9) On 2 March 2017, the Group established a share appreciation right (SAR) programme that entitles a former senior employee to a cash payment in the event that an exit event occurs until 31 December 2019. The programme comprises a fixed amount of 1,584 SARs. Vesting occurred in 36 monthly instalments of 1/36 starting on 1 January 2015 and up to 31 December 2017; i.e. at the grant date 26/36 of the awards were vested. If the employee leaves employment before the end of the full vesting period, he is allowed to keep the vested proportion of the award. If the exit event had occurred prior to 31 December 2017, all SARs would have been vested (accelerated vesting). The amount of the cash payment is determined based on the exit proceeds (the exit being a trade sale of more than 50% of NFON's shares in a single or in multiple related transactions) calculated for 100% of the shares of NFON less transaction costs less a contractually agreed base price.

   The cash payment per SAR is derived by dividing the increase in value (from the base price to the exit proceeds less transaction costs) by the diluted number of shares of NFON (i.e. the shares and the SARs).

Modifications of SAR programmes 7) and 8):

On 19 December 2017, the Group modified the SAR programmes 7) and 8) in order to provide an incentive for the two key executives with regard to an envisaged initial public offering (IPO).

The number of the respective SARs remains unchanged by the modification. The modification reflects a modified vesting schedule with several vesting periods.

- Tranche 1: x%, x being the portion of shares of NFON which – in the course of the IPO – are sold in secondary transactions (vesting date of Tranche 1 = IPO date)
- Tranche 2: (100 – x)%/4 (vesting date of Tranche 2 = IPO date + 15 months)
- Tranche 3: (100 – x)%/4 (vesting date of Tranche 3 = IPO date + 18 months)
- Tranche 4: (100 – x)%/4 (vesting date of Tranche 4 = IPO date + 21 months)
- Tranche 5: (100 – x)%/4 (vesting date of Tranche 5 = IPO date + 21 months)

The key executives need to remain in employment until the stipulated dates in order for the respective tranches to vest.

For Tranche 1, there is a market condition of an IPO with minimum proceeds exceeding the base price. For Tranches 2 to 5, there is an additional market condition that the secondary transactions in the course of the IPA need to amount to at least EUR 40,000 thousand.

The derivation of the cash payments under the modified SARs basically remains unchanged. The exit proceeds are replaced with the IPO proceeds (NFON shares prior to the IPO multiplied by the issuing price for the shares).

Any payments under the SAR programmes 6) to 9) and under the modifications are borne by the shareholders of NFON by way of assumption of debt and hence are accounted for as equity-settled. NFON is therefore the receiving entity for the services but has no obligation to settle the awards.

With the arrangement (SAR) 7) and 8) and with the modifications to these programmes (modifications of 19 December 2017), within a bonus agreement between the NFON parent and the beneficiaries there was a cancellation on 18 May 2018. In this connection, the amounts that otherwise would have been recognised for services received over the remainder of the vesting period were recognised immediately in the second quarter of 2018.

10) On 26 February 2018, the Group established a share appreciation right (SAR) programme that entitles a key executive to a cash payment in the event that an IPO occurs before 28 August 2021. The programme comprises a fixed amount of 4,449 SARs. The following vesting schedule with several vesting periods applies in the case on an IPO.

    - Tranche 1: x/36, where x is the number of completed calender months from March 2018 to the IPO
    - Tranche 2: (18 – x)/36 to the end of August 2019
    - Tranche 3: 12/36 to the end of August 2020
    - Tranche 4: 6/36 to the end of February 2021

    The amount of the cash payment is calculated for 100% of the shares of NFON less transaction costs less a contractually agreed basis price.

    The key executive needs to remain in employment until the stipulated dates in order for the respective tranches to vest.

    Any payments under the SAR programmes A.1.10) are borne by the shareholders of NFON by way of assumption of the liability and hence are accounted for as equity-settled. NFON is therefore the receiving entity for the services but has no obligation to settle the awards.

    With the arrangement (SAR) 10), in the context of a bonus agreement between the NFON parent and the beneficiaries there was a cancellation on 18 May 2018. In this connection, the amounts that otherwise would have been recognised for services received over the remainder of the vesting period were recognised immediately in the second quarter of 2018.

The key terms and conditions related to the grants under the programmes in place in the fiscal year ending 31 December 2018 are as follows:

Grant date/ employees entitled	No.	Number of instruments	Term	Vesting at grant date (%)	Vesting until	Exercise price per SAR (EUR)
SARs granted to key management personnel (equity-settled)						
On 8 December 2016	SAR 6	1,112	31 Dec 2019	100.0	8 Dec 2016	119.89
On 19 December 2017	SAR 7 mod.	3,708	31 Dec 2019	0.0	Various [2]	125.83 [1, 3]
On 19 December 2017	SAR 8 mod.	5,562	31 Dec 2019	0.0	Various [2]	125.83 [1, 3]
On 26 February 2018	SAR 10	4,449	28 Feb 2022	0.0	Various [2]	142.15
SARs granted to senior employees (equity-settled)						
On 2 March 2017	SAR 9	1,584	31 Dec 2019	72.2	31 Dec 2017	37.54
Total SAR		**16,415**				
Total SAR as at 31 Dec. 2018 (after cancellations)	**SAR 6. 9**	**2,696**				

1 See text regarding change
2 Cancellation in May 2018
3 Fair value at grant date: EUR 236.29.

For all tranches there is the market condition of an IPO with minimum proceeds exceeding the base price an that the secondary transactions in the course of the IPO need to amount to at least EUR 40,000 thousand.

The fair value of the SAR programmes as at 31 December 2018 was measured using a discounted cash flow model (to determine the grant date fair value of the underlying shares) and the Black-Scholes formula (to determine the grant date fair value of the SARs and of the modifications). Service and non-market performance conditions attached to the arrangements were not taken into account in measuring fair value.

Since employee service up to the exit event is not required for the SAR programmes, the exit condition is a non-vesting condition. The probability and the estimated date of an exit event therefore are factored into the grant date fair value of the SARs. For the modifications to SAR 6) and 7), the IPO event and the additional requirements are vesting conditions.

The incremental fair value resulting from the modifications SAR 6) and 7) – measured as the difference between the fair value of the modified equity instrument and that of the original equity instrument (both estimated as at the modification date 19 December 2017) – amounted to approximately EUR 236 per SAR.

The inputs used in the measurement of the fair values at grant date of the equity-settled SAR programmes granted in the fiscal year ended 31 December 2018 were as follows:

	SAR 10 2018	SAR 9 2017	SAR 6 2016	SAR 7 2016	SAR 8 2016
B.1. Equity-settled					
Value per SAR at grant date (reflecting probability of exit)					
Intrinsic value (in EUR)	266.95	66.50	53.94	57.15	54.08
Time value (in EUR)	0.00	0.00	0.38	0.29	0.33
Fair value (in EUR)	266.95	66.50	54.32	57.44	54.41
Expected term (in years)	0.2	0.08	0.31	0.31	0.31
Expected probability of exit (in %)	80.0	40.0	70.0	70.0	70.0
Expected volatility (in %)	35.0	37.5	40.0	40.0	40.0
Expected dividend yield (in %)	0.0	0.0	0.0	0.0	0.0
Risk-free interest rate (based on sovereign bonds) (in %)	−0.6	−0.8	−0.7	−0.7	−0.7

Expected volatility has been based on an evaluation of the historical volatility of the share price of peer group companies whose business model resembles that of NFON.

The number and weighted average exercise prices of SARs under the SAR programmes 6) to 10) were as follows:

	Fiscal year ended 31 Dec			
	31.12.2019		31.12.2018	
	Number of SARs	Weighted average exercise price (EUR)	Number of SARs	Weighted average exercise price (EUR)
C. Reconciliation of outstanding SARs				
Outstanding as at 1 January	2,696	71.51	11,966	108.99
Expired during the fiscal year	2,696	71.51	0	0
Exercised during the fiscal year	0	0	0	0
Cancelled in the fiscal year (immediate vesting)	0	0	13,719	127.11
Granted during the fiscal year	0	0	4,449	142.15
Outstanding as at 31 December	**0**	**0**	**2,696**	**71.51**
Exercisable as at 31 December	0		0	

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

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

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

The IPO took place on 10 May 2018 and the beneficiary received share-based cash compensation of EUR 113,035 (0.5% of the amount which actually flowed to the selling shareholders on the occasion of the IPO).

The fair value was measured using a discounted cash flow model (to determine the fair value of the underlying shares). Based on the expected fair value of the underlying shares at the end of the first quarter of 2018, the amount was EUR 200,000 as at 22 February 2018. When the transaction was implemented, an amount of EUR 113,035 resulted (0.5% of the amount which actually flowed to the selling shareholders on the occasion of the IPO), which was recognised under other provisions as at 31 December 2019.

21. Financial instruments

A. Accounting classifications and fair values

Fair value

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

31 Dec. 2019	Amortised cost		Fair value			
EUR thousand	Carrying amount	Total carrying amount	Level 1	Level 2	Level 3	Total
Financial assets not measured at fair value						
Trade receivables[1]	7,558	7,558	0	0	0	0
Other financial assets[1]	390	390	0	0	0	0
Cash and cash equivalents[1]	36,419	36,419	0	0	0	0
Total financial assets not measured at fair value	**44,367**	**44,367**	**0**	**0**	**0**	**0**
Financial liabilities not measured at fair value						
Acquisition loan	8,967	8,967				
Warrant bond	5,000	5,000				
Working capital loan[1]	26	26	0	0	0	0
Trade payables[1]	5,174	5,174	0	0	0	0
Total financial liabilities not measured at fair value	**19,167**	**19,167**	**0**	**0**	**0**	**0**

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

31 Dec. 2018	Amortised cost		Fair value			
EUR thousand	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	0	0	0
Trade payables [1]	3,237	3,237	0	0	0	0
Total financial liabilities not measured at fair value	**3,358**	**3,358**	**0**	**0**	**0**	**0**

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

The Group did not recognise any significant net gains or net losses from financial assets or liabilities in its statement of comprehensive income. In the reporting year, calculated interest expense of EUR 164 thousand (2018: EUR 0 thousand) in connection with financial assets not measured at fair value through profit or loss was recognised in the finance result in line with the effective interest method.

Trade receivables

The carrying amount of trade receivables generally approximates to fair value due to their short maturities. All the trade and other receivables outstanding as the balance sheet date are considered as current receivables having short term maturities.

Trade payables

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

Cash and cash equivalents

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

Interest-bearing borrowings/payables

The fair value of interest-bearing borrowings or payables is computed using discounted cash flow method. The valuation model considers the expected future payments which are discounted using a risk-adjusted discount rate (8.00% p.a.).

Reclassification of financial assets

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

Defaults

The Group did not have any defaults of principal or interest, or other breaches with respect to its loans and borrowings during the fiscal years 2019 and 2018.

B. Financial risk management

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

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

Risk management framework

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

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

General financial market risks

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

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

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

1. Credit risk

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

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

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

EUR thousand	2019	2018
Impairment loss on trade and other receivables		
Impairment loss on trade and other receivables (including contract assets)	28	73
Impairment loss on cash and cash equivalents[1]	0	0
Impairment loss on trade and other receivables	**28**	**73**

1 see sub chapter "Cash and cash equivalents" below.

Trade and other receivables

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

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

EUR thousand	Fiscal year ended 31.12. 2019	2018
Countries		
Germany	5,563	4,252
United Kingdom	1,233	1,058
Austria and rest of Europe	762	549
Total maximum credit risk exposure	**7,558**	**5,859**

The Group obtains a credit rating for every new customer from a credit rating agency. If a customer has a lower rating, then at the initial stage the Group obtains a security deposit from such customer. No further track of customer rating is maintained by the Group as the amounts receivables are collected through direct debits. Only in the cases where the customers have negative bank balance or where the customer's bank details are insufficient or incorrect, there is a possibility of non-receipt of cash from trade receivables. A weekly tracking of non-payments is done by the Group. In case of non-payment, after eight weeks of the invoice date the Group discontinues the provision of its services to such customers.

There is no material contractual amount outstanding on financial assets that where written off during the reporting period and is still subject to enforcement activity.

Expected credit loss assessment for customers as at 31 December 2019 and 2018

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

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

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

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

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

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

	Gross carrying amount in TEUR	Loss rate in %	Impairment	Credit impaired
Germany				
Not past due	5,378	2.04	58	No
1 - 90 days past due	6	20.85	3	No
Greater than 90 days past due	237	49.13	31	Yes
Total trade receivables in Germany	**5,621**		**92**	
United Kingdom				
Not past due	859	0.37	3	No
1 - 90 days past due	512	0.89	5	No
Greater than 90 days past due	61	18.22	11	Yes
Total trade receivables in United Kingdom	**1,431**		**19**	
Austria and other countries				
Not past due	646	0.87	4	No
1 - 90 days past due	83	3.12	2	No
Greater than 90 days past due	95	5.84	4	Yes
Total trade receivables in Austria and other countries	**824**		**10**	
Grand total for receivables	**7,876**		**121**	
Contract assets	220	0.37	0	No

The following table provides information about the exposure to credit risk and ECLs for trade receivables and contract assets from individual customers as at 31 December 2018:

	Gross carrying amount in TEUR	Loss rate in %	Impairment	Credit impaired
Germany				
Not past due	3,074	0.49	15	No
1 - 90 days past due	862	1.85	21	No
Greater than 90 days past due	474	4.94	22	Yes
Total trade receivables in Germany	**4,410**		**58**	
United Kingdom				
Not past due	548	0.19	1	No
1 - 90 days past due	514	0.41	2	No
Greater than 90 days past due	–1	101.97	–1	Yes
Total trade receivables in United Kingdom	**1,061**		**2**	
Austria and other countries				
Not past due	400	4.94	5	No
1 - 90 days past due	130	16.62	5	No
Greater than 90 days past due	87	23.93	8	Yes
Total trade receivables in Austria and other countries	**617**		**18**	
Grand total for receivables	**6,088**		**78**	
Contract assets	210	2.14	0	No

The movement in impairment in respect of trade receivables during fiscal year 2019 was as follows:

	Movement during	
EUR thousand	2019	2018
Impairment loss		
Opening balance as on 1 Jan	78	77
Impairment loss recognised	42	73
Amounts written off	120	66
Closing as on 31 Dec	**121**	**78**

Concentrations of credit risk

Concentrations of risks are determined by the management based on amounts outstanding from individual customers as at period end. Due to the pan-European activities and diversified customer structure of the Group, there is no significant concentration of credit risk except with one customer - Telefónica Germany GmbH & Co. OHG. The receivable balance due from this customer as at 31 December 2019 is EUR 720 thousand (31 December 2018: EUR 865 thousand).

Cash and cash equivalents
As at 31 December 2019, the Group held cash and cash equivalents of EUR 36,419 thousand (2018: EUR 41,436 thousand). The cash and cash equivalents are held with bank and financial institution counterparties, which are rated A-1 to A-2, based on S&P Global's ratings.

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

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

The Group aims to maintain the level of cash and cash equivalents at an amount of excess of expected cash outflows on financial liabilities (other than trade payables). The Group also monitors the level of expected cash inflows on trade receivables together with expected cash outflows on trade and other payables. To avoid concentration of liquidity risks with cash inflows from normal sales, the Group additionally maintains an acquisition credit facility of EUR 10,000 thousand. The interest rate of 4% 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%.

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

31.12.2019	Contractual maturities of financial liabilities					
EUR thousand	Carrying amount	Contractual cash flows	1 year or less	1–2 years	2–5 years	5 years and above
Financial liabilities						
Working capital loan	26	35	35	0	0	0
Acquisition loan	8,967	9,326	9,326	0	0	0
Warrant bond	5,000	5,075	5,075	0	0	0
Trade payables	5,174	5,174	5,174	0	0	0
Lease liabilities	4,778	5,057	1,593	1,456	2,009	0
Other financial liabilities	115	115	115	0	0	0
Total financial liabilities	**24,060**	**24,782**	**21,318**	**1,456**	**2,009**	**0**

31.12.2018	Contractual maturities of financial liabilities					
EUR thousand	Carrying amount	Contractual cash flows	1 year or less	1–2 years	2–5 years	5 years and above
Financial liabilities						
Working capital loan	121	134	99	35	0	0
Trade payables	3,237	3,237	3,237	0	0	0
Other financial liabilities	7	7	7	0	0	0
Total financial liabilities	**3,365**	**3,378**	**3,343**	**35**	**0**	**0**

3. Market risk

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

Currency risk

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

Exposure to currency risk

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

	Fiscal year ended 31.12.	
EUR thousand	2019	2018
Receivables/liabilities	3,304	3,014
Bank balances	0	0
Net exposure	**3,304**	**3,014**

The following rates have been applied:

	Spot rates		Average rates	
	As at 31.12.2019	As at 31.12.2018	2019	2018
GBP	1.17536	1.11791	1.13925	1.13031

Sensitivity analysis

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

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

	Profit or loss		quity net of tax	
EUR thousand	Strengthening (10% decrease)	Weakening (10% increase)	Strengthening (10% decrease)	Weakening (10% increase)
Sensitivity analysis for the net exposure				
31.12.2019	–330	330	320	–320
31.12.2018	–301	301	305	–305

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

Interest rate risk

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

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

Exposure to interest rate risk

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

EUR thousand	2019	2018
Financial liabilities		
Working capital loan	26	121
Acquisition loan	8,967	0
Total financial liabilities	**8,993**	**121**

Fair value sensitivity analysis for interest-bearing financial liabilities

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

The analysis assumes all the other variables except the interest rate remain constant (this analysis includes all the significant interest-bearing debts outstanding at the balance sheet dates).

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

22. Related party transactions

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

The following tables show transactions with related parties with the exception of the compensation of members of the Management Board (in the prior year including the reimbursement of the IPO bonus by the former shareholders; see Note 15 – Other operating income) and the Supervisory Board. Unless otherwise stated, related parties are companies with significant influence over NFON AG.

	Transaction values	
EUR thousand	2019	2018
Sales of goods and services and other income [1]	24	606

	Transaction values	
EUR thousand	2019	2018
Purchases of goods and services and other expenses [2]	250	232

	Balance outstanding as at 31 December	
EUR thousand	2019	2018
Receivables	0	280

	Balance outstanding as at 31 December	
EUR thousand	2019	2018
Liabilities [3]	7	11

1 Thereof EUR 19 thousand (prior year: EUR 45 thousand) relates to transactions with members of the Management Board and EUR 5 thousand (prior year: EUR 0 thousand) to transactions with members of the Supervisory Board.

2 Thereof EUR 176 thousand (prior year: EUR 59 thousand) relates to transactions with members of the Management Board and EUR 74 thousand (prior year: EUR 32 thousand) transactions with members of the Supervisory Board.

3 Thereof EUR 0 thousand (prior year: EUR 5 thousand) relates to liabilities to member of the Management Board and EUR 7 thousand (prior year: EUR 0 thousand) to liabilities to members of the Supervisory Board.

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

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

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

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

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

A. Company bodies and compensation

1. Management Board

The Management Board is made up of:

	Residence	Function and profession	External mandates
Hans Szymanski	Berlin	CEO & CFO, degree in business administration	n. a.
Jan-Peter Koopmann	Nackenheim	CTO, degree in computer science and business administration	n. a.
César Flores Rodríguez	Pullach im Isartal	CSO, degree in business administration	n. a.

Pursuant to Section 314 (1) no. 6 a sentences 1 to 3 HGB, the Management Board received remuneration of EUR 1,858 thousand in the reporting year (prior year: EUR 2,852 thousand). This included the grant values for share-based payments of EUR 805 thousand (prior year: EUR 1,388 thousand). For the share-based payment recognised in the prior year, full cost absorption by the shareholders was agreed. A total of 199,229 share options were granted (in the prior year, 4,449 SARs were granted).

On the basis of the resolution of the Annual General Meeting of 9 April 2018, no information is provided in accordance with Section 314 (1) No. 6 a) Sentences 5 to 8 HGB.

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

EUR thousand	2019	2018
Management Board compensation		
Total current compensation	1,053	1,464
Total share-based compensation (long-term incentive)	193	3,664 [1]
Total Management Board compensation	**1,246**	**5,128**

1 An amount of EUR 3.5 million was not paid and will never be paid, cf. comments under Note 17 – Personnel costs and employees.

Current compensation of the Group's Management Board personnel includes salaries and bonuses.

2. Supervisory Board

The Supervisory Board of NFON AG had the following members as at 31 December 2019:

31.12.2019	Function	Function and profession	External mandates
Supervisory Board			
Rainer Christian Koppitz	Chairman	CEO of Katek SE, Munich.	n. a.
Dr. Rupert Doehner	Deputy Chairman	Lawyer, Managing Director of RECON. Rechtsanwaltsgesellschaft mbH, Munich.	n. a.
Günter Müller (since 12 December 2019)		Managing Director of Milestone Venture Capital GmbH, Hösbach.	n. a.
Florian Schuhbauer (since 12 December 2019)		Managing Director of Active Owneship Capital S.a.r.l and Active Ownership Corporation S.a.r.l., Grevenmacher, Luxembourg;	Member of the Supervisory Board of PNE AG, Cuxhaven.
Ralf Grüßhaber (until 12 December 2019),		Managing Director and CFO of think project! GmbH, Munich,	Supervisory Board member 11880 Solutions AG, Essen (until 30 September 2018).
Angelique Werner, (until 12 December 2019),		Senior Director of Customer Success at salesforce.com Germany GmbH, Munich.	n. a.

The members of the Supervisory Board receive the following compensation:

EUR thousand	2019	2018
Supervisory Board compensation		
Basic remuneration	119	86
Attendance fee	24	24
Total Supervisory Board remuneration	**143**	**110**

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

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

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

23. Segment information

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

Segment results that are reported include items directly attributable to a segment 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 was modified in comparison to the annual financial statements for the year ended 31 December 2018. As at 31 December 2018, the segments were presented according to local accounting standards. In the half-year financial statements for 2019, the segments were presented in accordance with IFRS for the first time. The figures from 31 December 2018 were adjusted accordingly.

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

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

A. Revenue and EBITDA by reportable segment

EUR thousand	2019	2018
Revenue		
NFON AG	35,554	31,848
Deutsche Telefon Standard GmbH	8,740	0
nfon GmbH.	5,815	4,725
NFON UK Ltd.	6,654	6,181
NFON Iberia SL	334	273
NFON ITALIA S.R.L.	16	0
NFON France	10	0
Total revenue of the reportable segments	**57,123**	**43,028**
Reconciliation	–5	0
Total Group revenue	**57,117**	**43,028**

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.

The reconciliation effects of EUR -5 thousand (prior year: EUR 0 thousand) relate to exchange rate differences in the translation of NFON UK, which was performed at the monthly average rate in management reporting and at the annual average rate in the consolidated financial statements.

The reconciliation effects in revenue in the amount of EUR 9 thousand from IFRS adjustments, which were included in the 2018 consolidated financial statements due to the presentation at that time, were allocated to the respective companies in line with their causes.

EUR thousand	2019	2018
EBITDA		
NFON AG	1,779	2,141
Deutsche Telefon Standard GmbH	1,024	0
nfon GmbH	–842	–1,639
NFON UK Ltd.	–3,354	–1,949
NFON Iberia SL	–1,079	–1,225
NFON ITALIA S.R.L.	–1,811	0
NFON France	–840	0
Total reportable segments EBITDA	**–5,124**	**–2,673**
Other segments	0	32
Reconciliation	–1,860	–5,142
Group EBITDA	**–6,984**	**–7,783**
Addback:		
Depreciation and amortisation	–3,005	–690
Net interest income/expenses	–816	–155
Income tax expense	–120	515
Group net profit/loss	**–10,924**	**–8,113**

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

The reconciliation effects of EUR 1,860 thousand as at 31 December 2019 relate to special effects adjusted in internal reporting of EUR 1,138 thousand for retention bonuses and stock options and expenses for capital increases and M&A activities of EUR 722 thousand.

As at 31 December 2018, the reconciliation effect of EUR 5,152 thousand primarily related to special effects adjusted in internal reporting of EUR 5,818 thousand resulting from costs of the IPO and the recognition of retention bonuses as expenses. Effects from consolidation and currency translation are included in the amount of EUR 666 thousand.

The reconciliation effects included in EBITDA in the amount of EUR 1,778 thousand from IFRS adjustments in the 2018 consolidated financial statements due to the presentation at that time were allocated to the respective companies in line with their causes. The IFRS adjustments mainly related to the recognition of share-based payments in the amount of EUR -3,551 thousand and the proportionate reclassification of IPO costs to Group equity in the amount of EUR 2,428 thousand, as well as the reclassification of a cost sharing agreement for IPO costs in the amount of EUR -525 thousand to Group equity.

B. Revenue by product/service

For a description of the Group's products and services refer to Note 187 – Revenue. Each of the reportable segments presented above offers recurring and non-recurring products and services.

EUR thousand	2019	2018
Product/service		
Recurring revenue	48,055	34,584
Non-recurring revenue	9,063	8,443
Group revenue	**57,117**	**43,028**

C. Information about geographical areas

The tables below show revenue and non-current assets by country. The geographical allocation of revenue and assets is based on the domicile of the legal entities in the countries.

1. Revenue from external customers

EUR thousand	2019	2018
Revenue		
Germany	43,515	31,006
Austria	5,815	4,725
United Kingdom	6,648	6,181
Spain	334	273
Italy	16	0
France	10	0
Other countries	779	843
Total revenue	**57,117**	**43,028**

2. Non-current assets

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

EUR thousand	2019	2018
Non-current assets		
Germany	29,269	1,455
United Kingdom	457	131
Austria	113	95
Italy	126	
Spain	41	2
France	26	
Total non-current assets	**30,332**	**1,683**

D. Major customers

The Group does not have any significant customer concentration. No single external customer accounted for 10.0% or more of the Group's total revenue.

24. Consolidated statement of cash flows

The statement of cash flows was prepared in line with the regulations of IAS 7. Cash and cash equivalents in the consolidated statement of cash flows corresponds to the "Cash" statement of financial position item and contains exclusively cash held at banks payable at short notice. Cash flows from investing and financing activities are calculated directly, the cash flow from operating activities is derived indirectly on the basis of profit after taxes. In the context of the indirect calculation, the changes of made in statement of financial position items are adjusted by foreign currency translation effects. For this reason, they cannot be reconciled with the corresponding changes on the basis of the published consolidated statement of financial position.

25. Contingencies and commitments

Based on the initial application of IFRS 16 in the reporting year and the associated capitalisation of rights of use for leases with a term of more than 12 months together with their recognition as financial liabilities, leases with a useful life of less than 12 months are presented below. The corresponding minimum lease payments as at 31 December 2019 amounted to EUR 115 thousand.

As at 31 December 2018, liabilities from future minimum lease payments under non-cancellable leases were as follows:

	Minimum lease payments payable in		
EUR thousand	less than 1 year	1–5 years	more than 5 years
Rental payments	1,101	4,011	198
Car lease payments	215	249	0
Total lease commitments as at 31 December 2018	**1,316**	**4,260**	**198**

In fiscal year 2018, total expenses for operating leases amounted to EUR 961 thousand.

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

The Group may be subject to litigation, claims and governmental and regulatory proceedings arising in the ordinary course of business. In such cases, the Group recognises a provision for these matters when it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated. While uncertainties are inherent in the final outcome of these matters, the Group believes, after consultation with counsel, that the disposition of these proceedings will not have a material adverse effect on the Group's financial position, results of operations or cash flows.

26. Other disclosures

A. Auditors' fee

KPMG AG Wirtschaftsprüfungsgesellschaft, Munich, a member of the Audit Chamber in Berlin, has been the statutory auditor of the Company and the Group since this year. The auditor responsible for the Company is Matthias Koeplin.

In the fiscal years 2019 and 2018, the following fees were recognised for the statutory auditor.

EUR thousand	2019	2018
Audit of the financial statements	407	201
Other assurance services	0	626
Other services	156	211

Fees for the audit of the financial statements mainly related to the audit of the consolidated financial statements and the annual financial statements of NFON AG. In 2019, EUR 103 thousand of these fees related to the audit of the financial statements as at 31 December 2018.

Other assurance services in the previous year related to the audit of financial statements and the issue of comfort letters in connection with the IPO.

Other services relate to quality assurance support services in connection with the introduction of new accounting principles in accordance with IFRS and for the further development of guidelines, systems and processes against the background of the requirements placed on a listed company.

27. List of shareholdings

nfon GmbH, St Pölten/Austria
Share: 100.00 %
Annual net profit in 2019: 12 kEUR
Equity: 8,752 kEUR

NFON UK Ltd., Maidenhead/UK
Share: 100.00%
Annual net profit in 2019: 323 kEUR
Equity: 4,888 kEUR

NFON Iberia SL, Madrid/Spain
Share: 100.00%
Annual net loss in 2019: –22 kEUR
Equity: –854 kEUR

NFON Italia S.R.L, Mailand/Italy
Share: 100.00%
Annual net loss in 2019: –48 kEUR
Equity: 52 kEUR

NFON France SAS, Paris/France
Share: 100.00%
Annual net loss in 2019: –8 kEUR
Equity: 92 kEUR

Deutsche Telefon Standard GmbH, Mainz
Share: 100.00%
Annual net profit in 2019: 23 kEUR
Equity: 410 kEUR

The stated figures for annual net profit and equity are based on the figures from the IFRS reporting packages (HB II) prepared by the subsidiaries for the purposes of preparing these consolidated financial statements.

28. Events after the reporting period

Since January 2020 the Coronavirus is spreading worldwide (Coronavirus epidemic). This is expected to have a significant negative impact on worldwide economic growth but also German economic growth.

Within NFON Group neither procurement nor sales is directly affected by the epidemic, however there might be unforeseeable effects on future assessments.

29. Declaration of conformity in accordance with the German Corporate Governance Code

The Management Board and the Supervisory Board have submitted the Declaration of Conformity on compliance with the German Corporate Governance Codex required to be submitted in accordance with Section 161 of the German Stock Corporation Act (AktG) and have published it on the Company's website (https://corporate.nfon.com/de/ueber-nfon/corporate-governance/entsprechenserklaerung/).

31. March 2020

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

Independent Auditors Report

To NFON AG, München

Report on the Audit of the Consolidated Financial Statements and of the Group Management Report

Opinions

We have audited the consolidated financial statements of NFON AG and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the financial year from 01 January to 31 December 2019, and notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the combined group management report of NFON AG for the financial year from 01 January to 31 December 2019. In accordance with German legal requirements we have not audited the content of those components of the group management report specified in the "Other Information" section of our auditor's report.

The management report includes references not provided for in the law that have been marked as unaudited. In accordance with German legal requirements, we have audited neither the content of these references nor the content of the information referred to by these references.

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to Section 315e (1) HGB [Handelsgesetzbuch: German Commercial Code] and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as at 31 December 2019, and of its financial performance for the financial year from 01 January to 31 December 2019, and

- the accompanying group management report as a whole provides an appropriate view of the Group's position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our opinion on the group management report does not cover the content of the parts of the group management report which are listed in the "Other Information" section. The management report includes references not provided for by the law that have been marked as unaudited. Our opinion covers neither these references nor any information referred to by these references.

Pursuant to Section 322 (3) sentence 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the group management report. .

Basis for the Opinions

We conducted our audit of the consolidated financial statements and of the group management report in accordance with Section 317 HGB and the EU Audit Regulation No. 537 / 2014 (referred to subsequently as "EU Audit Regulation") and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of

Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report" section of our auditor's report. We are independent of the group entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2) point (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinions on the consolidated financial statements and on the group management report.

Key Audit Matters in the Audit of the Consolidated Financial Statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the financial year from 01 January to 31 December 2019. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, we do not provide a separate opinion on these matters.

Acquisition of Deutsche Telefon Standard AG

Please refer to Sections 2.E and 6 in the notes to the consolidated financial statements for more information on the accounting policies applied.

The financial statement risk

On 01 March 2019 NFON Group acquired Deutsche Telefon Standard AG, Mainz (DTS). The purchase price amounted to EUR 17,5 million. Giving consideration to the net assets acquired in the amount of EUR 0,4 million, the identified customer relationship of EUR 5,0 million and the acquired not previously identified liabilities of EUR 0,3 million goodwill totaling EUR 12,4 million resulted.

Pursuant to IFRS 3, the identifiable assets acquired and the liabilities assumed are, as a rule, recorded at their fair value on the acquisition date. NFON engaged an external expert to determine and measure the identifiable assets acquired and the liabilities assumed.

The identification and measurement of the assets acquired and the liabilities assumed is complex and based on the Executive Board's judgemental assumptions. The significant assumptions comprise the projections of the acquired business' sales and margins as well as the cost of capital

There is the financial statement risk that the assets acquired and the liabilities assumed are insufficiently identified or incorrectly measured. In addition, there is the risk that the disclosures in the notes to the consolidated financial statements are not complete and appropriate.

Our audit approach

With the support of our valuation specialists we assessed, among other things, the appropriateness of the significant assumptions as well as the identification and valuation approaches. We initially obtained an understanding of the acquisition based on inquires of employees in the finance department as well as by assessing the relevant contracts.

We agreed the total purchase price, consisting of a cash and a share component, with the underlying purchase agreement, the stock exchange price at the reporting date and evidence of payment.

We assessed the competency, skills and objectivity of the independent expert engaged by NFON. Furthermore, we assessed the process of the identification of the assets acquired and liabilities assumed in terms of conformity with the requirements of IFRS 3 using our knowledge of DTS business model. We considered the consistency of the measurement methods used and the measurement principles applicable.

We discussed the expected development of sales and margins with those responsible for planning. Furthermore, we reconciled these with the budgets prepared by the Executive Board which were approved by the Supervisory Board and assessed the consistency of the assumptions with external market views. The assumptions and parameters underlying the cost of capital – in particular the risk-free interest rate, the market risk premium and the beta factor – were compared with own assumptions and publicly available data.

To assess the mathematical accuracy we recalculated amounts selected using a risk-oriented approach.

Finally, we assessed whether the disclosures in the notes to the consolidated financial statements with respect to the acquisition of DTS are complete and appropriate.

Our observations
The approaches underlying the identification and valuation of the assets acquired and the liabilities assumed are appropriate and consistent with the applicable accounting policies. The significant assumptions and parameters are appropriate and the disclosures in the notes to the consolidated financial statements are complete and appropriate.

Revenue recognition

Please refer to Sections 2 and 18 in the notes to the consolidated financial statements for more information on the accounting policies applied.

The financial statement risk
The consolidated financial statements of NFON AG for financial year 2019 report revenue of EUR 57,1 Mio. Revenues mainly include monthly fees, minute-based voice tariffs and non-recurring revenue, such as the sale of hardware, and the provision of services.

The predominant part of the services of the NFON AG Group is rendered via the cloud and depends on factors such as the number of extensions and the number of voice minutes which are recorded by the Company's IT system and invoiced monthly. Accordingly, beyond the system recordings of the Company, there is in many cases no external proof of performance. Customers are entitled to a right of objection typically of 60 days, after which the invoiced services are considered to have been accepted.

There is the risk for the financial statements that revenues are invoiced without effective acceptance of services and are therefore overstated.

Our audit approach
As provider of publicly accessible telecommunication services in Germany, the Company is required to ensure the accuracy of invoicing and the correctness of remuneration of data processing facilities by a quality assurance system and to have this audited annually (Section 45g of the German Telecommunications Act [TKG]). We considered the corresponding audit report in order to obtain an overview of the process in place for revenue recognition.

For a sample of revenues per customer selected by means of a mathematical-statistical procedure, we assessed the underlying contracts and other evidence of the existence of the customer relationship. Furthermore, we examined possible complaints within the respective deadlines and obtained confirmations from customers for revenues also selected on the basis of a mathematicalstatistical procedure.

Based on the receipts of payment of the year under review recorded in bank accounts, we calculated the expected value of revenue for the full financial year and analysed any deviations from the amount of revenue recognised.

Our observations
The method for recognising revenue is appropriate.

Other Information

Management and the supervisory board are responsible for the other information. The other information comprises the following parts of the group management report, whose content was not audited:

- the group corporate governance statement, referred to in the group management report,
- information extraneous to management reports and marked as unaudited.

The other Information includes also the remaining parts of the annual report.

The other Information does not include the consolidated financial statements, the group management report whose content has been audited and our auditor's report.

Our opinions on the consolidated financial statements and on the group management report do not cover the other information, and consequently we do not express an opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially inconsistent with the consolidated financial statements, with the group management report information audited for content or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

Responsibilities of Management and the Supervisory Board for the Consolidated Financial Statements and the Group Management Report

Management is responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e (1) HGB and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position, and financial performance of the Group. In addition, management is responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, management is responsible for the preparation of the group management report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, management is responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a group management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the group management report.

The supervisory board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and of the group management report.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the group management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our opinions on the consolidated financial statements and on the group management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Section 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this group management report.

We exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements and of the group management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the group management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of these systems.
- Evaluate the appropriateness of accounting policies used by management and the reasonableness of estimates made by management and related disclosures.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the group management report or, if such disclosures are inadequate, to modify our respective opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e (1) HGB.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express opinions on the consolidated financial statements and on the group management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our opinions.
- Evaluate the consistency of the group management report with the consolidated financial statements, its conformity with [German] law, and the view of the Group's position it provides.
- Perform audit procedures on the prospective information presented by management in the group management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by management as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

Other Legal and Regulatory Requirements

Further Information pursuant to Article 10 of the EU Audit Regulation

We were elected as group auditor by the annual general meeting on 5 June 2019. We were engaged by the supervisory board on 5 June 2019. We have been the group auditor of the NFON AG as capital-market oriented company without interruption since the financial year 2018.

We declare that the opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

German Public Auditor Responsible for the Engagement

The German Public Auditor responsible for the engagement is Matthias Koeplin.

München, 31 March 2020

KPMG AG
Wirtschaftsprüfungsgesellschaft
[Original German version signed by:]

Koeplin	Rothfelder
Wirtschaftsprüfer	Wirtschaftsprüfer
[German Public Auditor]	[German Public Auditor]

FINANCIAL CALENDAR

Q1

31.03.2020	Publication of the Group Annual Financial Report 2019

Q2

18.05.2020	Presentation of the Results for the 1st Quarter 2019 (Web und Telephone Conference)
28.05.2020	Annual General Meeting of NFON AG

Q3

20.08.2020	Presentation Half-year Results 2019 (Web und Telephone Conference)

Q4

16.11.2020	Publication of the preliminary financial results for the 3rd quarter 2020 (Presentation at the Equity Forum)
21.11.2020	Presentation 9 Month Results 2019 (Web und Telephone Conference)

Imprint

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