FACTS AND FIGURES FIRST HALF OF THE YEAR

Who we are

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

Key figures

in EUR million	H1 2020	H1 2019	Change in %	Q2 2020 (3M)	Q2 2019 (3M)	Change in %
Revenue	32.8	26.3	24.5	16.4	14.3	15.1
Recurring revenue	28.7	22.4	28.0	14.6	12.0	21.5
in % from total revenue	87.6	85.2		89.3	84.7	
Non recurring revenue	4.1	3.9	4.3	1.7	2.2	–20.0
in % from total revenue	12.4	14.8		10.7	15.3	
Seats	494,132	408,393	21.0			

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Dear shareholders, dear readers!

NFON has made good use of the momentum of increasing digitalisation in the first half of 2020. Recurring revenue increased by 28.0% compared to the previous year to EUR 28.7 million. Our total revenue increased by 24.5% to EUR 32.8 million. In total, recurring revenue accounts for an 87.6% share of our total revenue. Our average revenue per user (ARPU), i.e. the average recurring revenue across all services, sales channels and countries per user, has also developed positively and amounted to EUR 9.83 for the entire reporting period after EUR 9.76 in the corresponding period of the previous year. The increased ARPU with a very high proportion of recurring revenue is also reflected in the development of earnings: earnings before interest, taxes, depreciation and amortisation (EBITDA) were slightly positive in the first half of 2020 at EUR 0.8 million. If we look at our adjusted EBITDA, it is even EUR 1.4 million and thus clearly positive.

The overall positive revenue development is due to the increased home office activity since the beginning of March. This has resulted in increased demand for our cloud-based solutions and a sharp rise in voice minutes. This extraordinary increase returned to normal somewhat in the course of the second quarter. Nevertheless, the good practical experience with flexible telephony or teleconferencing from the cloud is becoming more and more popular and provides additional momentum in the cloud telephony market. While some NFON customers are taking longer to make investment decisions than in normal times, as expected, due to the current market uncertainties, we view the 21% increase in the number of customer-operated seats from 408,393 as of 30 June 2019 to 494,132 as of 30 June 2020 as a solid basis for the further course of the year.

Hans Szymanski.
Chief Executive Officer

Jan-Peter Koopmann.
Chief Technology Officer

César Flores Rodríguez.
Chief Sales Officer

We cannot say with certainty how the economic situation will develop in Europe and worldwide and what impact this may have on NFON. The markets in Spain, Italy and France in particular are currently still very challenging.

Against this backdrop, we confirm our forecast for the full year of a growth rate of between 22% and 26% in recurring revenue. We are thus maintaining the high organic growth rate of recent years. We expect recurring revenue to account for between 80% and 85% of total revenue. With regard to seats, we expect growth of between 20% and 24% in 2020.

The development in the first half of the year once again underscores the potential of our business model. We have already achieved a lot. Our strategic focus remains correspondingly clearly directed towards growth and the associated investments. The implementation of our growth strategy guides us and clearly shows the way forward.

In these times, we would like to thank our employees in particular for their dedication and commitment. Special thanks also go to our partners and customers as well as our shareholders for the trust they have placed in us. Please continue to accompany us on our way to the top of European cloud telephony!

Stay healthy!

Kind regards,

Hans Szymanski. Jan-Peter Koopmann and César Flores Rodríguez

Profile of the Group

The Group's business model

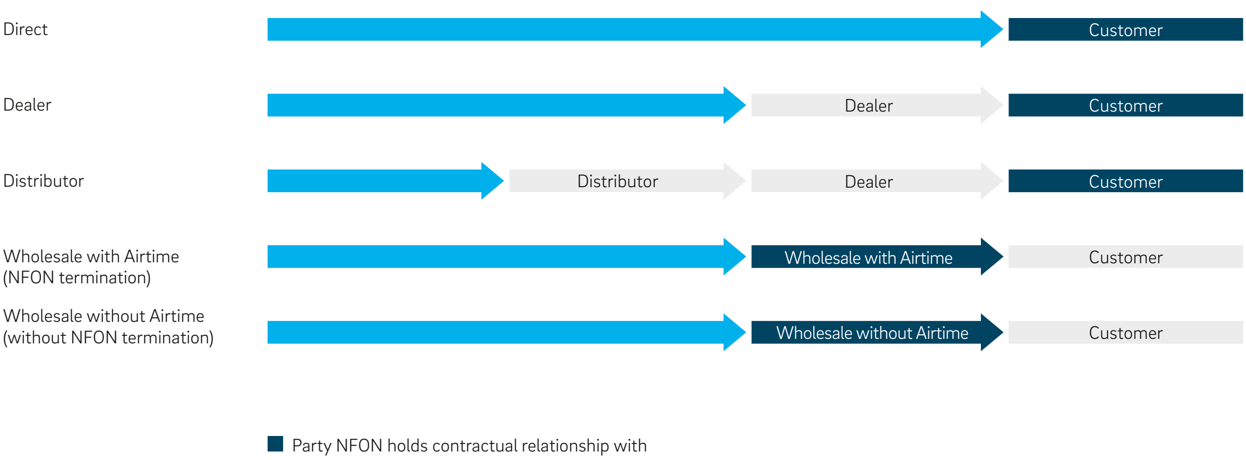
NFON AG (referred to as NFON or the NFON Group), based in Munich, was founded in 2007 and is the only pan-European provider of cloud-based telephone systems. NFON has over 40,000 business customers in 15 European countries, and has affiliated companies in Germany, Austria, the UK, Spain, Italy and France.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

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

Furthermore, NFON can replace the telephone connection, meaning that the customer pays the fees for all telephone traffic to NFON. NFON procures this service itself from various carriers. For the first time since November 2018, the NFON Group has 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 its 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) and premium solutions such as Neorecording and Ncontact. By 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.

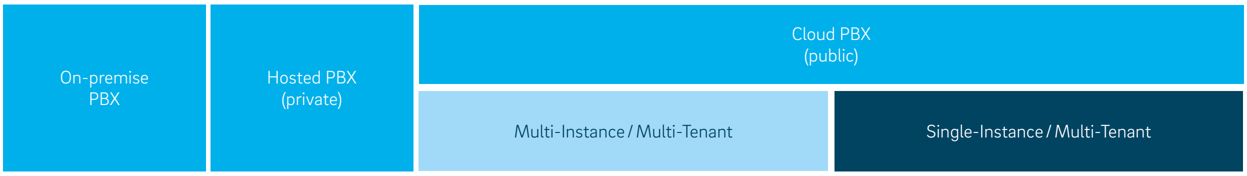
Sales are conducted through five channels with a clear focus on indirect partner sales



General market characteristics

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

European business telephony market

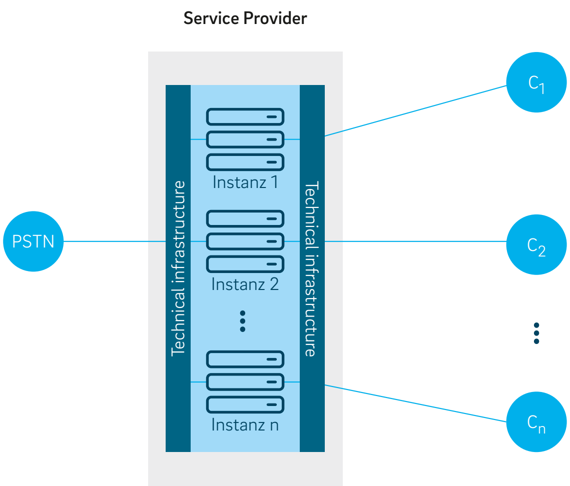


On-premise (PBX) incorporates the traditional telephone system installed on site (hardware or software) that is operated by the owner. The IP-based telephone systems segment begins with hosted PBX, which is still owned by the user (private), but is no longer located on their own premises and can be serviced by a third party. This is separate from 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.

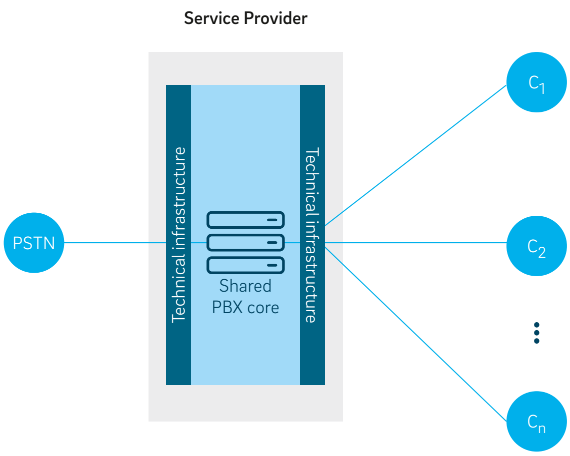
Multi-Instance / Multi-tenant: A separate platform (instance) is created for each user (tenant).

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

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



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



Objectives and strategies

As the dominant provider in Germany, NFON AG believes that it is in a strong position on the highly fragmented international cloud telephony market. Using its strategy based on five growth vectors, the Group is pursuing its clearly defined aim of becoming the 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. On an extremely fragmented telecommunications market, the importance of a brand that clearly shows how a purely B2B product benefits the customer cannot be underestimated. This requires a nuanced and 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:

- channels: 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 rollout of innovative UCaaS functions and the associated further evolution of NFON into a unified-communication-as-a-service company. The introduction of NFON's new core product Cloudya in November 2018 represents a key milestone in the company's growth strategy. Cloudya forms the basis for further functionalities, technologies and services, which will enrich the NFON platform in the future. In this respect, substantial investments are being made not only in improvements of existing solutions but in particular 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.

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

NFON is now represented in 15 European countries: in Germany, the UK, Austria, Spain and Italy through its own subsidiaries and in 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.

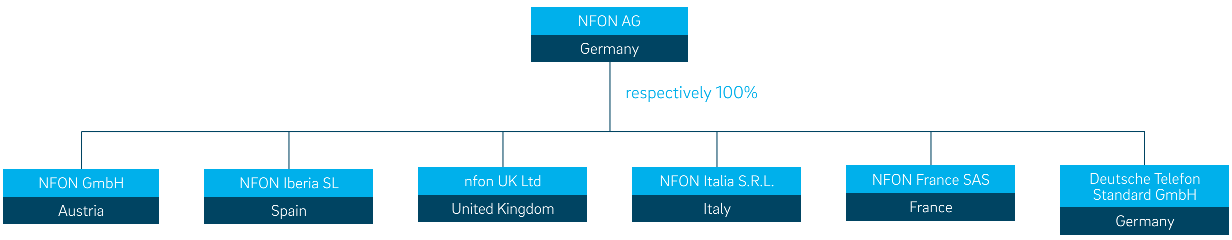
Consolidation opportunities in highly fragmented cloud PBX markets

The European cloud PBX market is highly fragmented. NFON is taking an active role in the increasing consolidation of the market. 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.

Organisation

Group structure and locations

The Group structure as at 30 June 2020 is shown by the following diagram.



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 and advises the Management Board. Since 12 December 2019, the members of the Supervisory Board have been Rainer Christian Koppitz (Chairman of the Supervisory Board), Günter Müller (Deputy Chairman), Florian Schuhbauer and Rupert Doehner.

Management systems

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

Management Board and Supervisory Board

The Management Board conducts business. It regularly reports to the Supervisory Board. The rules of procedure of the Management Board and Supervisory Board regulate collaboration and transactions requiring approval.

Group-wide reporting

Monthly reporting incorporates the condensed economic report including the net assets, financial position and results of operations.

Control performance indicators

Total revenue, recurring and non-recurring revenue, seat growth, ARPU, adj. EBTIDA.

Budgeting and planning

The budget process starts in the second half of each year. Planning generally comprises a period of three years.

Process for continuous strategy development and implementation

Strategic measures, milestones, performance indicators and implementation through the Company are organised in thematically defined strategy teams. The Management Board and Supervisory Board are informed about implementation in regular meetings.

Risk and opportunity management

A committee of all relevant risk and opportunity departments monitors implementation, execution and adherence, and meets regularly at least once a year.

Regular meetings of the Management Board, management, area and department heads

Management meets in different meeting formats and combinations. An efficient and prompt exchange of information is significant here.

Financial and non-financial performance indicators

in EUR million	H1 2020	H1 2019	Change
Total revenue	32.8	26.3	24.5 %
Recurring revenue	28.7	22.4	28.0 %
Share of recurring revenue	87.6 %	85.2 %	
Non-recurring revenue	4.1	3.9	4.3 %
Share of non-recurring revenue	12.4 %	14.8 %	
ARPU blended[1]	9.83	9.76	0.8 %
Seat growth	494,132	408,393	21.0 %
Adjusted EBITDA[2]	1.4	–2.6	n / a

1 Based on average number of seats per month in the periods under consideration

2 Adjusted for expenses for retention bonus and stock options as well as expenses for DTS acquisition (H1 2019 only).

Economic report

General economic conditions and industry environment

General economic development in Europe and Germany

The COVID-19 pandemic and the necessary measures to curb its spread have disrupted the economy immensely. Global demand, supply chains, labour supply, industrial production, prices of raw materials and international trade and capital flows have all been negatively impacted. Given the unforeseeable nature of the shock, the EU is anticipating the worst economic recession in its history. Growth in euro area gross domestic product amounted to 1.3% in 2019. In June, the Kiel Institute for the World Economy projected a significant decline in GDP of 8.6% for 2020.

The coronavirus pandemic has left its mark on NFON AG's domestic German market. Never before has there been such a rapid and drastic interruption of economic activity. The IfW is forecasting that the German economy will shrink by 6.8% in 2020. An increase of 6.3% is expected in 2021. There was an enormous economic slump in the second quarter of 2020 in particular. According to the IfW, production crashed by 12%. A significant recovery in GDP is expected in the second half of 2020, though experts believe that a full recovery will take some time longer on account of the remaining uncertainty, low international demand and the distressed capital base of many companies. A key indicator for the German economy is the Ifo Business Climate Index, which fell to a historic low of 74.3 points in April 2020.

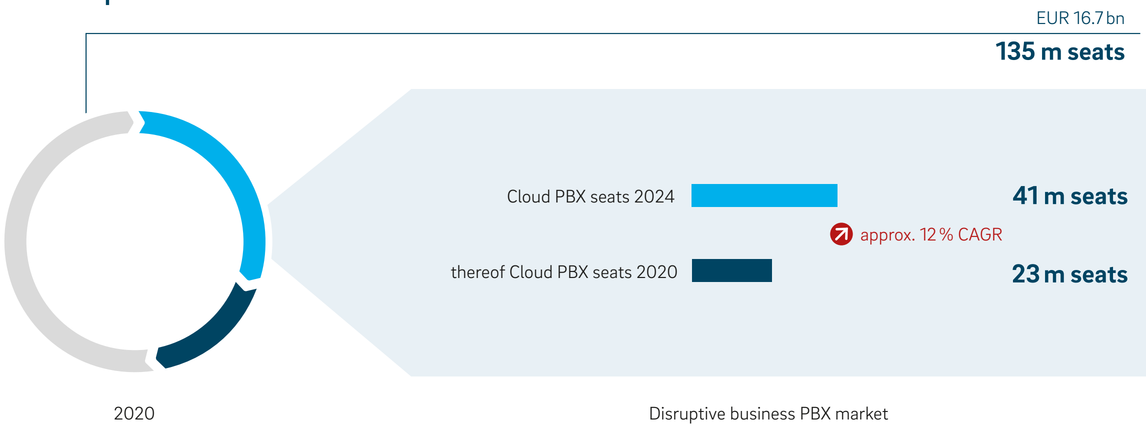
The UK is NFON AG's largest foreign market. Economic growth in the UK was highly volatile throughout the whole of 2019 on account of the lingering uncertainty over a no-deal Brexit. Its GDP rose by 1.4% overall in 2019. Since leaving the EU on 31 January 2020, the UK is now in a one-year transition phase during which existing regulations continue to apply. The UK's economic growth also suffered as a result of the restrictions to combat the pandemic in the first half of 2020. This resulted in a pronounced slowdown of business activity in many sectors. A decline in the UK's GDP of 8.25% is predicted for 2020 as a whole.

Significant sales markets and competitive position of the NFON Group

NFON AG operates as a provider exclusively on the rapidly growing European market for cloud telephone systems, which is undergoing disruptive development. The main drivers of this disruptive development are major technological change (move from ISDN to ALL IP) and the significant advantages over conventional telephone systems in line with the general changes in the demands of working life. These advantages include flexibility, mobility and independence.

This development is happening on a market with great potential.

Total European PBX-market

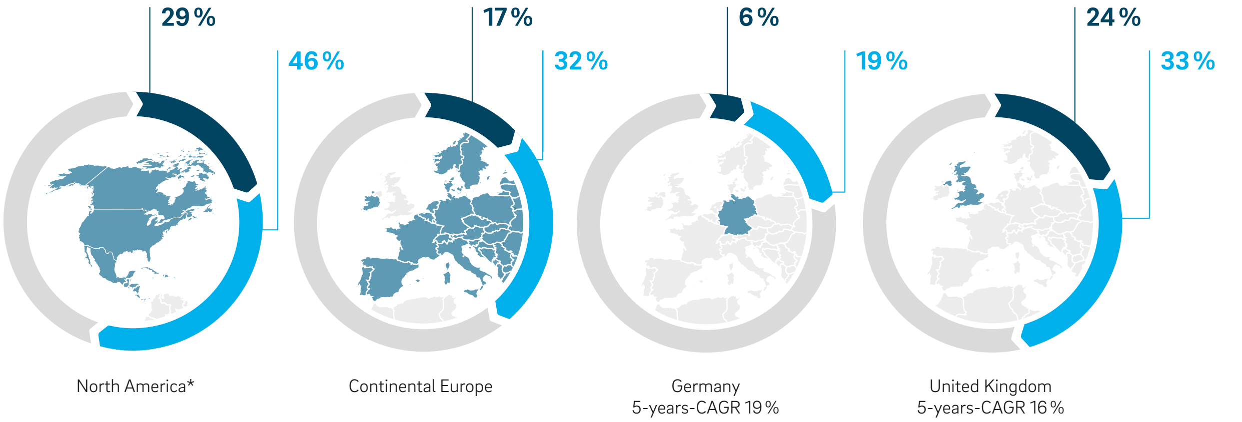


In addition to Germany, the NFON Group's domestic market, NFON AG is now also represented in the UK, Austria, Spain, France and Italy through its own subsidiaries. In addition, NFON is represented by partners in a further nine countries: Croatia, Czechia, Hungary, the Netherlands, Poland, Portugal, Romania, Switzerland and Slovenia. According to the company, this makes the NFON Group the only pan-European provider of cloud telephony with a customer base of over 40,000 customers and over 2,700 partners. The NFON Group mainly focuses on customers in the small and mid-sized segment, but is happy to do business with customers of all sizes.

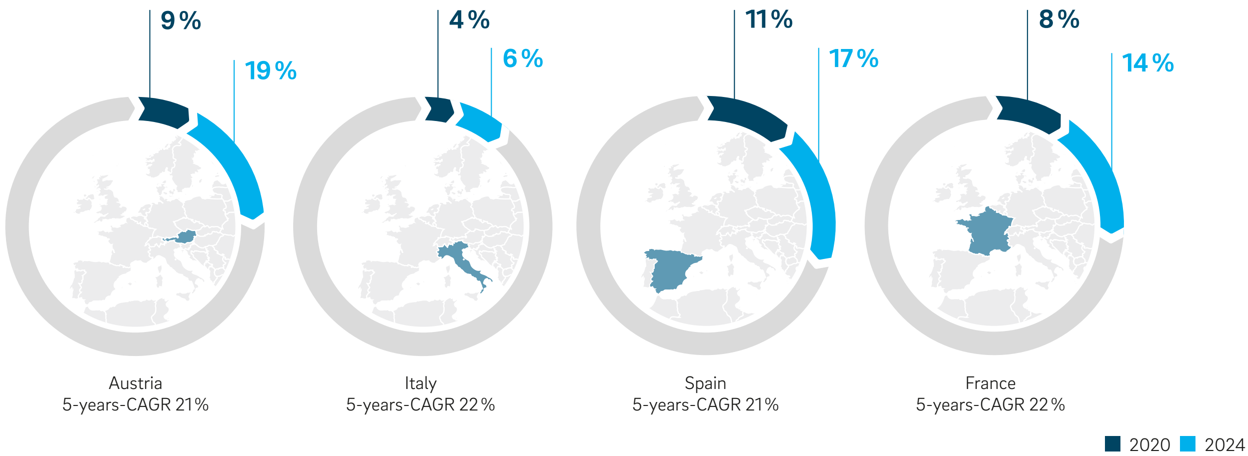
As a result of the restrictions to combat the COVID-19 pandemic, many companies were forced to have to allow employees to work from home on a large scale. The company believes that this experience showed many firms the value added of the flexibility of a cloud-based telephone system. As a result, NFON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

North America is the most advanced in the world in terms of cloud telephony use. Accordingly, from the company's perspective, the only competitors comparable to NFON are based in North America: RingCentral and 8x8. These companies have a cloud PBX developed in-house, and have significantly expanded their product range in the last ten to eleven years with UC services.

Cloud PBX penetration



Market development of countries with NFON subsidiaries



Sources: MZA „The Global Telecommunication Market 2018" used for the US-market; Cavell: „Cloud Comms Market Report Q4 2019"
* 2018 / 2022

Presentation of the company's performance

Overall, the NFON Group's performance was highly positive in the first half of 2020 as well. In particular, the business model's appeal can be seen by the good performance in recurring revenue. Recurring revenue rose by 28% as against the same period of the previous year, outperforming the growth rate forecast for 2020 of between 22% and 26%. At EUR 28.7 million, recurring revenue accounts for 87.6% of total revenue, also higher than the share projected for 2020 as a whole of between 80% and 85%. The seat growth of 21% is in line with the forecast published in the 2019 financial report. This is most likely due to the lockdown precipitated by COVID-19 and the associated delays in customer decisions. Average revenue per user (ARPU) developed very well, rising slightly to EUR 9.83 (H1 2019: EUR 9.76). The positive trend that began in the first quarter of 2020 is therefore continuing for now.

Financial performance

Development of key items in the consolidated statement of comprehensive income

in EUR million	H1 2020	H1 2019	Change in %	Q2 2020 (3M)	Q2 2019 (3M)	Change in %
Revenue	**32.8**	**26.3**	**24.5**	**16.4**	**14.3**	**15.1**
of which recurring	28.7	22.4	28.0	14.6	12.0	21.5
of which non-recurring	4.1	3.9	4.3	1.7	2.2	–20.0
Cost of materials	–6.8	–6.0	12.9	–3.2	–3.4	–6.1
Gross profit	**25.9**	**20.3**	**27.9**	**13.2**	**10.9**	**21.7**
Other operating income	0.5	0.1	n/a	0.2	0.1	n/a
Staff costs	–14.3	–12.0	19.7	–7.2	–6.4	11.4
Other operating expenses	–11.3	–12.2	–7.8	–5.3	–6.6	–19.7
EBITDA	**0.8**	**–3.8**	**n/a**	**0.9**	**–2.1**	**n/a**
Adjusted EBITDA	**1.4**	**–2.6**	**n/a**	**1.1**	**–1.7**	**n/a**
Depreciation and amortisation	–1.7	–1.4	27.2	–0.9	–0.8	7.8
EBIT	**–0.9**	**–5.2**	**n/a**	**0.1**	**–2.9**	**n/a**
Net interest expense	–0.2	–0.2	n/a	–0.1	–0.2	n/a
Income tax expense	0	–0.1	n/a	0	–0.4	n/a
Consolidated loss	**–1.2**	**–5.5**	**n/a**	**–0.1**	**–3.5**	**n/a**

Consolidated revenue

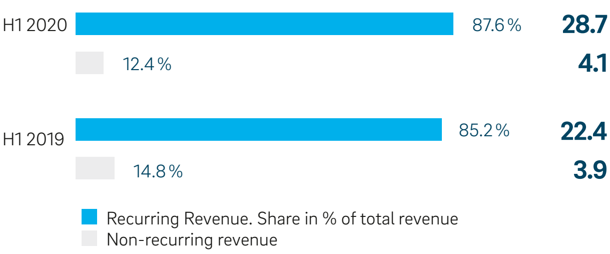
The trend in revenue growth remained positive overall as against the previous year. In particular, recurring revenue climbed very well, at a faster rate than overall revenue (28%). Revenue growth of 24.5% in the first six months primarily resulted from the acquisition of new customers, a rise in the number of installed seats within the existing customer base, particularly in Germany, the UK and Austria, and higher overall revenue from voice telephony.

In addition, following the acquisition of all shares in Deutsche Telefon Standard GmbH, Mainz (formerly AG; DTS), as at 01 March 2019, that company's figures will be included in the Group's consolidated financial statements for the whole of 2020. NFON AG had acquired DTS in the same period in 2019 and immediately began integrating the company. Deducting the revenue contribution arising from the acquisition of DTS for January and February 2019, the total revenue of the NFON Group rose by 17% in the first half of 2020[1].

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.

Recurring and non-recurring revenue

in EUR million

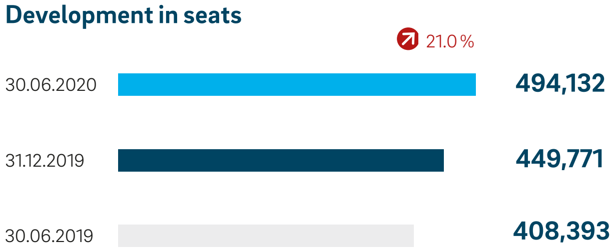


Recurring revenue essentially comprises monthly payments of a fixed licence fee per seat plus a fixed or volume-based fee for voice telephony usage per seat or SIP trunk.

The cumulative effect typical for revenue performance, in relation to seats gained over the year, is evident from the trend in the recurring revenue generated in the individual quarters of the reporting period. Non-recurring revenue includes revenue from sales of devices (telephones, soft clients for PCs and smartphones), consulting fees and the one-time activation fee per seat when it is first connected.

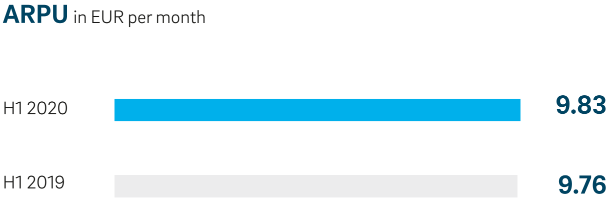
This trend in seats testifies to the growing demand for cloud telephone systems among business customers. At the same time, it underlines the high level of satisfaction felt by NFON's very loyal customers. In the first half of 2020, the number of seats was increased by 9.9%. Compared to 30 June, 2019, the number of seats increased by 21.0% as of 30 June, 2020.

Development in seats



1 The NFON Group did not include the revenue generated by DTS in consolidation for January or February 2019. To show the organic growth on a comparable basis, the Group's revenue figures for the first two months of 2020 have therefore been reduced by the amount generated by DTS in the same months of 2019.

Development of average ARPU in line with expectations:



The partnership with wholesale partners, which is developing very successfully, also has a relevant impact on ARPU performance. Firstly, discounted prices are being agreed thanks to the high number of seats sold and, secondly, some of these partners do not purchase voice minutes through NFON. On average, lower ARPU is generated as the share of seats billed through wholesale partners increases. NFON is countering this trend by increasing sales of premium solutions which, in turn, allows the company to achieve a strong ARPU.

The unchanged / slightly higher ARPU level in the reporting period as compared to the same period of the previous year mainly results from the higher revenue from voice minutes in the first half of 2020, with very strong ARPU in March in particular. This is a positive, non-recurring effect of the coronavirus crisis and the increased level of home office activity, especially in the first few months.

Other operating income

Other operating income of EUR 0.5 million (H1 2019: EUR 0.1 million) mainly includes foreign currency gains of EUR 0.2 million and EUR 0.1 million in income in connection with other non-cash employee benefits.

Cost of materials

The cost of materials rose at a slower rate than revenue in the reporting period, by around 13% from EUR 6.0 million in the same period of the previous year to EUR 6.8 million. The cost of materials was even down by approximately 6% year-on-year at EUR 3.2 million in the three-month period of the second quarter of 2020. This resulted in a lower cost of materials ratio for the first six months than in the previous year of 20.9% (previous year: 23.0%). This falls within regular fluctuations, in line with planning. The positive development reflects firstly the economies of scale achieved, and secondly the high share of recurring revenue, which has a much higher margin than non-recurring revenue.

Staff costs

Average headcount rose by 14.4% year-on-year, from 348 to 398 in the first half of 2020.

This increase was brought about by ongoing strategic recruitment.

Staff costs rose by around 19.7% year-on-year in the first half of 2020 to EUR 14.3 million (previous year: EUR 12.0 million). As the employees taken on in conjunction with the acquisition of DTS were only included in staff costs for four months, but were already fully taken into account in the calculation of average headcount for the first half of 2019 as this figure is calculated on a quarterly basis, there are different growth rates in average headcount and staff costs in the first half of 2020 as compared to the first half of 2019.

Adjusted for non-recurring effects, staff costs rose by 20.4% year-on-year from EUR 11.4 million to EUR 13.8 million. This represents an adjusted staff costs ratio in relation to revenue of 42.0% in the first half of 2020, after 43.4% in the same period of the previous year. The adjustments in the reporting period include EUR 0.2 million in retention bonuses recognised for management and EUR 0.4 million in stock option programme expenses. Retention bonuses of EUR 0.2 million and stock option programme expenses of EUR 0.3 million had been recognised in the same period of the previous year.

Other operating expenses

Other operating expenses decreased to EUR 11.3 million in the first half of 2020 (previous year: EUR 12.2 million). This was essentially due to the reduction in marketing expenses of EUR 0.8 million to EUR 3.2 million. More extensive marketing activities are planned in the second half of 2020 than in the second half of 2019. According to current planning, marketing expenses for 2020 as a whole will be at roughly the same high level as the previous year.

The increase in sales commission from EUR 3.0 million in the first half of 2019 to EUR 4.0 million in the reporting period relates to the higher revenue volume in the first half of 2020. As a percentage of revenue, selling expenses rose slightly to 12.1% in the reporting period (H1 2019: 11.4%) as a result of the expansion in partner sales.

Other operating expenses for the first half of 2019 included costs of EUR 0.6 million incurred in conjunction with the acquisition of DTS as at 01 March 2019.

Adjusted for this non-recurring effect, other operating expenses declined by 2,7% from EUR 11.6 million to EUR 11.3 million in the first half of 2020. This represents an adjusted ratio in relation to revenue of 34.4% after 44.0% in the same period of the previous year. In addition to the postponement of marketing activities described above, this positive development is also thanks to economies of scale.

in EUR million	H1 2020	H1 2019	Q2 (3M) 2020	Q2 (3M) 2019
EBITDA	**0.8**	**–3.8**	**1.0**	**–2.1**
Adjustments in staff costs:				
Retention bonus	0.2	0.2	0.1	0.1
Stock options	0.4	0.3	0.2	0.2
Adjustments in other operating expenses:				
Social security contributions for previous years	–0.1	0	–0.1	0
Expenses for DTS acquisition	0	0.6	0	0
Total adjustments	**0.5**	**1.2**	**0.2**	**0.3**
Adjusted EBITDA	1.4	**–2.6**	1.1	**–1.7**
EBIT	–0.9	**–5.2**	0.1	**–2.9**
Consolidated loss	**–1.2**	**–5.5**	**–0.1**	**–3.5**
Adjusted consolidated loss	**–0.6**	**–4.3**	**0.1**	**–3.1**

Assets and liabilities

The increase in intangible assets to EUR 25.0 million as at 30 June 2020 (31 December 2019: EUR 22.4 million) mainly results from capitalised development costs in connection with new products and new features for existing products. Capitalised R&D costs for the projects in development amount to EUR 4.9 million as at the end of the reporting period (31 December 2019: EUR 3.0 million).

As a result of depreciation in particular – mainly in connection with capitalised right-of-use assets from leases – property, plant and equipment declined from EUR 7.6 million as at 31 December 2019 to EUR 7.2 million as at the end of the reporting period.

In current assets, bank balances especially declined by EUR 10.1 million as at 31 December 2019 to EUR 26.4 million as at 30 June 2020 – in particular on account of the repayment of the 2019 warrant bond in the reporting period (EUR –5.0 million) and investments in non-current assets in the first half of 2020 (EUR –3.8 million).

Under equity and liabilities, trade payables were down by EUR 1.0 million at EUR 4.2 million as at 30 June 2020 due to reporting date effects. Current financial liabilities were also down by EUR 5.2 million at EUR 10.2 million as at the balance sheet date, in particular as a result of the repayment of the warrant bond issued in the previous year.

Equity decreased by EUR 1.1 million as against 31 December 2019 to EUR 46.1 million as at 30 June 2020, mainly on account of the net loss. The share capital of the company amounts to EUR 15.1 million as at 30 June 2020 with capital reserves of EUR 83.3 million.

Financial position

There were no liquidity shortfalls in the reporting period and the company satisfied its payment obligations on time. Cash funds amounted to EUR 26.4 million as at the end of the reporting period.

NFON AG's main source of financing in the first six months of 2020 was proceeds from the IPO and lending agreements with banks.

The warrant bond of EUR 5.0 million issued in the previous year was repaid in full in the first half of 2020. As at the end of the reporting period, the company has an acquisition credit facility of EUR 10.0 million, utilised in the amount of EUR 9.0 million as at 30 June 2020. According to the credit agreement, NFON is required to maintain a minimum liquidity of EUR 12,000 thousand.

With regard to the financial position in the 12-month window after 30 June 2020, reference is made to the explanations in the notes to the consolidated financial statements.

Investments

Investments in non-current assets of EUR 3.8 million in total in the reporting period mainly relate to capitalised development costs in connection with new products and new features for existing products in particular.

Supplementary report

There were no events after 30 June 2020 that could have a significant impact on the company's financial position or financial performance.

Risks and opportunities

NFON AG has explained its risks and opportunities in detail in its annual report for 2019. As far as was possible at the time, the special situation due to COVID-19 was also presented in this context. Since then, NFON has performed an inventory of the potential risks and opportunities alike. The risks and opportunities cannot be conclusively appraised. It was therefore decided to continue the risk inventory at short intervals. It is clear that, thanks to NFON's product portfolio, not just negative but positive effects as well are possible. The risks and opportunities presented here thus only relate to the changes since 31 December 2020. The commentary as at 31 December 2019 otherwise still applies.

Special COVID-19 situation (risks)

The spread of the coronavirus poses a major challenge to the euro economy. This situation is new for the NFON Group as well, and the associated risks are subject to constant review and adjustment at the present time. However, it cannot be assumed that the coronavirus outbreak will not affect NFON AG's business performance. 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. Also, it must be taken into consideration that the spread of the coronavirus could affect work processes within the NFON Group. NFON has taken all necessary measures at the current time. A specially established task force decides and coordinates measures, decisions and recommendations at regular intervals and, if necessary, ad hoc.

Special COVID-19 situation (opportunities)

It is still true that the business model has a certain robustness to market fluctuations thanks to the high share of recurring revenue. In addition, the crisis is forcing almost all companies to convert their work processes to home office. This is generating additional demand stimulus. On the one hand, existing customers are shifting their activities to home office and are therefore increasingly requesting not only telephony but also the option of telephone conferencing. On the other, 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.

Liquidity risk – further growth opportunity

As set out in the notes to the consolidated financial statements in chapter 1 (Basis of presentation), there is significant uncertainty regarding the liquidity situation if the expansive growth strategy continues. There is the risk that the company could require additional liquidity from the end of the first half of 2021. This is a risk with the potential to threaten the company as a going concern (5), but at the same time it is considered highly unlikely (1), and has thus been assigned to risk class 3 overall (risks in this range can moderately influence the liquidity situation or existence of the company). The company arrived at this assessment as there are sufficient opportunities for the further financing of NFON's growth strategy. For example, there is the option of raising capital by means of, for example, a mezzanine loan or by taking advantage of government measures to facilitate borrowing in the countries affected by the coronavirus crisis. As a listed company, NFON also has access to further equity finance on the capital market.

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 %

Planning is based on the information available as at 30 June 2020, taking the opportunities and risks of the NFON Group as presented into account. Thus, deviations can occur between the planning data published in the 2019 financial report and the figures actually achieved at the end of 2020. This also applies to the assumptions regarding general economic conditions.

It should be noted that NFON's confirmed forecast for fiscal 2020 does not yet fully take into account the effects of COVID-19. Both negative and positive effects are possible for NFON due to its product portfolio. It is still true that the business model has a certain robustness to market fluctuations thanks to the high share of recurring revenue. It should be noted that NFON was able to benefit from the effects of the coronavirus crisis in the first half of 2020. However, at the time of this report being published, it cannot be assumed that the business performance of the NFON Group will not be negatively affected by the outbreak of COVID-19 in the near future, as already anticipated in the forecast published at the end of 2019. Please also refer to the comments in the report on risks and opportunities in the financial report as at 31 December 2019. These apply unchanged as at 30 June 2020.

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Consolidated income statement and consolidated statement of comprehensive income

for the period 01.01. bis 30.06.2020

in EUR thousand	H1 2020	H1 2019	Q2 2020 (3M)	Q2 2019 (3M)
Revenue	32,770	26,328	16,379	14,230
Other operating income	468	112	153	56
Cost of materials	–6,827	–6,054	–3,155	–3,365
Staff costs	–14,325	–11,965	–7,168	–6,437
Depreciation and amortisation	–1,718	–1,351	–865	–803
Other operating expenses	–11,258	–12,216	–5,279	–6,574
Impairment loss on trade and other receivables	0	0	0	–3
Other tax expense	–7	–4	–3	–1
Income from continuing operations before net interest income and incomes taxes	**–897**	**–5,151**	**62**	**–2,897**
Interest and similar income	9	17	4	13
Interest and similar expense	–231	–266	–114	–193
Net interest expense	**–223**	**–250**	**–110**	**–180**
Earnings before income taxes	**–1,119**	**–5,400**	**–48**	**–3,077**
Income tax expense	0	0	0	0
Deferred tax expense	–33	–73	–4	–391
Net loss	**–1,152**	**–5,473**	**–52**	**–3,468**
Attributable to:				
Shareholders of the parent company	–1,152	–5,473	–52	–3,468
Non-controlling interests	0	0	0	0
Other comprehensive income	–285	145	–105	–15
Tax on other comprehensive income	0	0	0	0
Other comprehensive income after taxes	**–285**	**145**	**–105**	**–15**
Total comprehensive income	**–1,437**	**–5,329**	**–157**	**–3,482**
Attributable to:				
Shareholders of the parent company	–1,437	–5,329	–157	–3,482
Non-controlling interests	0	0	0	0
Net loss per share, basic	**–0.08**	**–0.39**	**0**	**–0.25**
Net loss per share, diluted	**–0.08**	**–0.39**	**0**	**–0.25**

Consolidated statement of financial position

as at 30.06.2020

in EUR thousand	30.06.2020	31.12.2019
Non-current assets		
Property, plant and equipment	7,152	7,606
Intangible assets	24,953	22,438
Deferred tax assets	102	132
Other non-financial assets	195	289
Total non-current assets	**32,402**	**30,467**
Current assets		
Inventories	301	208
Trade receivables	8,525	7,558
Other financial assets	390	390
Other non-financial assets	2,038	2,164
Cash and cash equivalents	26,369	36,419
Total current assets	**37,623**	**46,740**
Total assets	**70,025**	**77,206**

in EUR thousand	30.06.2020	31.12.2019
Equity		
Share capital	15,056	15,056
Capital reserves	83,342	82,987
Retained earnings	−52,826	−51,674
Currency translation reserve	493	778
Total equity	**46,065**	**47,146**
Non-current liabilities		
Non-current financial liabilities	2,908	3,436
Other non-current liabilities	163	172
Deferred tax liabilities	72	77
Total non-current liabilities	**3,144**	**3,685**
Current liabilities		
Trade payables	4,198	5,174
Current provisions	1,894	2,176
Current income tax liabilities	24	125
Current financial liabilities	10,246	15,451
Other non-financial liabilities	4,454	3,449
Total current liabilities	**20,816**	**26,374**
Total equity and liabilities	**70,025**	**77,206**

Consolidated statement of cash flows

for the period from 01.01. bis 30.06.2020

in EUR thousand	H1 2020	H1 2019
1. Cash flow from operating activities		
Profit / loss after taxes	**–1,152**	**–5,473**
Adjustments to reconcile profit (loss) to cash provided		
Income taxes	25	73
Interest income (expenses), net	223	250
Amortisation of intangible assets and depreciation of property, plant and equipment	1,718	1,350
Equity-settled share-based payments	356	307
Other non-cash income (expense)	–408	–270
Changes in: Inventories, trade and other receivables	–839	–698
Trade payables and other liabilities	19	–987
Provisions and employee benefits	–382	291
Interest received	0	9
Interest paid	–81	–61
Income tax refunds / payments	–3	284
Cash flow from operating activities	**–525**	**–4,904**

in EUR thousand	H1 2020	H1 2019
2. Cash flow from investing activities		
Payments on investments in property, plant and equipment	–730	–996
Payments on investments in intangible assets	–2,878	–1,097
Payments for the Onwerk acquisition (previous year: acquisition of DTS)	–150	–15,260
Cash flow from investing activities	–3,758	**–17,353**
3. Cash flow from financing activities		
Proceeds from loans and borrowings	0	8,967
Repayments of bank loans, bonds and similar liabilities	–5,075	–608
Payments for leases (IFRS 16)	–657	–640
Other payments (previous year: other receipts)	–21	20
Cash flow from financing activities	**–5,753**	**7,739**
Change in cash and cash equivalents	**–10,035**	**–14,518**
Effects of movements in exchange rates on cash held	–15	10
Cash and cash equivalents at the beginning of the period	**36,419**	**41,436**
Cash and cash equivalents at the end of the period	**26,368**	**26,928**

As at 30 June 2020, cash and cash equivalents include bank balances of EUR 330 thousand (31 December 2019: EUR 338 thousand) that the Group cannot access freely as they are security deposits by customers with poor credit ratings. All restrictions on such deposits are short term in nature.

The payments for the acquisition of DTS in the first half of 2019 took into account negative cash reserves of EUR 565 thousand at DTS as at the acquisition date.

Consolidated statement of changes in equity

as at 30.06.2020

in EUR thousand	Attributable to owners of the company: Issued capital	Capital reserves	Currency translation reserve	Retained earnings	Total equity	Non-controlling interests	Total
As at 01.01.2020	**15,056**	**82,987**	**777**	**–51,674**	**47,146**	**0**	**47,146**
Total comprehensive income for the period							
Loss (income) for the period	0	0	0	–1,152	–1,152	0	–1,152
Other comprehensive income for the period	0	0	–285	0	–285	0	–285
Total comprehensive income / loss for the period	**0**	**0**	**–285**	**–1,152**	**–1,437**	**0**	**–1,437**
Transactions with owners of the company							
Equity-settled share-based payments	0	356	0	0	356	0	356
Total transactions with owners of the company	**0**	**356**	**0**	**0**	**356**	**0**	**356**
As at 30.06.2020	**15,056**	**83,343**	**492**	**–52,826**	**46,065**	**0**	**46,065**

Consolidated statement of changes in equity

as at 30.06.2019

in EUR thousand	Attributable to owners of the company						
	Issued capital	Capital reserves	Currency translation reserve	Retained earnings	Total equity	Non-controlling interests	Total
As at 01.01.2019	**13,807**	**70,132**	**444**	**–40,750**	**43,634**	**0**	**43,634**
Total comprehensive income for the period							
Loss (income) for the period	0	0	0	–5,473	–5,473	0	–5,473
Other comprehensive income for the period	0	0	145	0	145	0	145
Total comprehensive income / loss for the period	**0**	**0**	**145**	**–5,473**	**–5,329**	**0**	**–5,329**
Transactions with owners of the company							
Equity-settled share-based payments	0	306	0	0	306	0	306
Increase in equity from authorised capital for partial payment of the purchase price for DTS acquisition	285	2,215	0	0	2,500	0	2,500
Total transactions with owners of the company	**285**	**2,521**	**0**	**0**	**2,806**	**0**	**2,806**
As at 30.06.2019	**14,092**	**72,653**	**589**	**–46,223**	**41,111**	**0**	**41,111**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of presentation

The condensed interim consolidated financial statements for the first half of 2020 and selected notes reflect the business activities of NFON AG (the company) and its subsidiaries (collectively referred to as NFON, the Group or the NFON Group) for the period from 01 January 2020 to 30 June 2020. The interim financial report has been prepared in accordance with the provisions of IAS 34, and thus the International Financial Reporting Standards (IFRS) as published by the International Accounting Standard Board (IASB) and endorsed by the European Union (EU), and is based on the same accounting policies that were applied in the consolidated financial statements as at 31 December 2019. However, the condensed interim consolidated financial statements do not contain all the information and disclosures required in the consolidated annual financial statements, and should therefore be read in conjunction with the consolidated annual financial statements as at 31 December 2019.

Even though there are still risks in the wake of the Corona crisis, NFON AG's business model has proven to be very robust in these challenging times for all companies. In addition, the increased use of home offices also offers great opportunities for NFON AG in the medium and long term. Therefore, the management board of NFON AG has decided to maintain its strategy of expansive growth in the current environment for the time being. As already widely communicated on the capital market and to investors, the strong expansion currently still requires considerable liquid funds, which cannot be generated entirely from gross profit in the phase of high growth rates. In order to make the best possible use of the opportunities that now present themselves, NFON AG will require additional liquidity towards the end of the first half of 2021, as already planned in the 2020 budget, in accordance with the company forecast towards the end of the first half of 2021, which also takes into account the effects of COVID-19.

This is mainly due to the fact that cash and cash equivalents (EUR 26,369 thousand as of 30 June 2020) include EUR 8,967 thousand from an acquisition credit facility granted to NFON AG by Hypovereinsbank Unicredit Bank AG until further notice. According to a corresponding clause, Unicredit would be entitled to collect the line and to demand the funds issued if the required minimum liquidity of EUR 12,000 thousand is not reached.

Thus, there is a significant uncertainty in the liquidity situation. However, a materialisation of the risk is considered very unlikely, as the company is making intensive efforts to mitigate the risk by using the various options open to it.

In the event of a shortage of funds, the company can counteract a possible liquidity risk from its own resources if it is not possible to raise further funds in good time. Due to the high-margin recurring revenues with a large existing customer base, the Company could, if necessary, stop the outflow of liquidity with relatively little advance notice if it temporarily refrains from investing heavily in growth, even if this would mean slowing the pace of growth.

Before doing so, however, the possibilities for raising debt and equity capital must be examined. There is, for example, the possibility of obtaining outside capital via, for example, a mezzanine loan or by using state-subsidised measures to facilitate the procurement of liquidity in the countries affected by the Corona crisis.

Last but not least, NFON AG is listed on the stock exchange and thus has access to investors via the capital market. Already at this point in time, existing as well as new investors have expressed their fundamental willingness to participate for the first time or additionally in NFON AG by means of an equity capital increase to the necessary extent. It seems possible that the company could be provided with additional liquidity already in the current fiscal year by means of an equity increase. These financial statements have therefore been prepared on a going concern basis.

The condensed interim consolidated financial statements as at 30 June 2020 were neither audited nor reviewed by the Group's auditor, KPMG AG, Wirtschaftsprüfungsgesellschaft, Munich. They were approved by the Management Board for publication on 20 August 2020.

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

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

For further information on the specific accounting policies applied, please refer to the consolidated financial statements of NFON AG as at 31 December 2019.

Against the background of COVID-19, the Group has dealt in detail with the resulting risks and the effects on the accounting, e.g. in the form of adjustments to estimates, and has determined that no adjustments are currently required in this regard.

The NFON Group provides cloud telephone services for user-friendly and effective communication for its customers' employees – at all locations, at any time and on multiple devices, such as smartphones, tablets, PCs and landline telephones. It operates in various countries in Europe, most significantly in Germany, Austria, the United Kingdom and Spain. The parent company of the Group is NFON AG, which has its registered office at Machtlfinger Strasse 7, 81379 Munich, and is entered in the commercial register of the Munich Local Court under HRB 168022. The company is a stock corporation according to German law.

Comparative information

The interim consolidated financial statements contain amounts for the period from 01 January to 30 June 2020 and as at 30 June 2020, which are compared against the period from 01 January 2019 to 30 June 2019 and as at 30 June 2019. The consolidated statement of financial position as at 30 June 2020 has been compared to the consolidated statement of financial position as at 31 December 2019.

Seasonal and other influences on business activities

NFON AG's business model is hardly affected by seasonal circumstances as its core business is primarily with corporate clients, covering various industries and generating relatively consistent revenue throughout the year. Furthermore, the business model is based to a very large extent on monthly recurring revenue.

In the reporting period, NFON was able to benefit from the effects of the coronavirus crisis, in particular in the form of higher revenue from the sale of voice minutes. However, it cannot be assumed that the business performance of the NFON Group will not be negatively affected by the outbreak of COVID-19 as time goes on.

2. Scope of Consolidation – Provisional purchase price allocation for Onwerk GmbH, Mannheim

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

On behalf of its customers, Onwerk developed comprehensive and individual software solutions in various fields and sectors. This development work was 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 insignificant value, the entire purchase price was allocated to goodwill. This goodwill recognised is based on the future revenue potential to be generated with the products and features developed with the help of the employees taken on. The goodwill is recognised in full for tax purposes. The purchase price allocation is provisional and will be adjusted – if necessary – within a 12-month window.

3. Effects of new accounting standards and interpretations

With the exception of estimates of income taxes and the standards and interpretations (or amendments) effective for the first time, this half-year financial report uses the same accounting policies as the consolidated financial statements as at 31 December 2019.

New standards and interpretations effective for the first time in 2020

The following standards and interpretations were effective for the first time in the reporting period:

- Amendments to References to the Conceptual Framework in IFRS Standards, effective from 01 January 2020;
- definition of a business (amendments to IFRS 3), effective from 01 January 2020;
- definition of "material" (amendments to IAS 1 and IAS 8), effective from 01 January 2020;
- amendments to IFRS 9, IAS 39 and IFRS 7: interest rate benchmark reform, effective from 01 January 2020;
- amendments to IAS 1: classification of liabilities as current or non-current, effective from 01 January 2022.

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

New standards and interpretations not yet applied

In 2020 and previous years, the IASB and IFRIC have released further standards and interpretations that are not yet effective for fiscal 2020 or for this interim report for the period from 01 January 2020 to 30 June 2020. Also, application requires endorsement in European law in some cases.

- IFRS 17 "Insurance Contracts", effective from 01 January 2021;
- amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture", effective date not yet set.

NFON applies new standards for the first time when they become effective. It is assumed that the amendments listed will have no effect or only an insignificant effect on the consolidated financial statements in the period when they are applied for the first time.

4. Intangible assets

Goodwill has increased by EUR 150 thousand as against 31 December 2019 as a result of the Onwerk transaction.

Development costs of EUR 1.9 million were recognised under intangible assets in connection with the development of new products and new features for existing products in the first half of the year.

5. Interest-bearing debt

The financial liabilities include the following items:

in EUR thousand	30.06.2020	31.12.2019
Non-current financial liabilities		
Lease liabilities	2,908	3,436
Total non-current liabilities	**2,908**	**3,436**
Current financial liabilities		
Acquisition credit facility	8,967	8,967
Warrant bond	0	5,000
Lease liabilities	1,243	1,342
Working capital loan	0	26
Other	37	115
Total current financial liabilities	**10,246**	**15,451**
Total financial liabilities	**13,155**	**18,886**

Credit Facility

The Group has no outstanding borrowings under revolving credit facilities with the following exceptions.

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

Lease liabilities

EUR 1,029 thousand (31 December 2019: EUR 1,107 thousand) of the current lease liabilities relate to rented office space and EUR 214 thousand (31 December 2019: EUR 235 thousand) to leased vehicles. EUR 2,694 thousand (31 December 2019: EUR 3,184 thousand) of the non-current lease liabilities relate to rented office space and EUR 215 thousand (31 December 2019: EUR 252 thousand) to leased vehicles.

Warrant bond

On 01 July 2019, the Management Board resolved with the approval of the Supervisory Board, to issue a warrant bond with a nominal amount of EUR 5,000 thousand ("Bonds") as part of a private placement to Active Ownership Fund SICAV-FIS SCS, Luxembourg. The bond bears interest at 6.00% p.a. for a term up to and including 02 January 2020. The bond was issued together with a warrant issued by NFON AG. The warrant entitled the holder to subscribe to 964,015 ordinary bearer shares from the conditional capital of NFON AG with a proportion of 1.00 EUR attributable to each shares of the share capital. The exercise price per share was Euro 11.00. The subscription right of the shareholders was excluded. The bond was repaid at the beginning of January 2020.

6. Equity

Equity declined by EUR 1,081 thousand as against 31 December 2019 to EUR 46,065 thousand as at 30 June 2020. The decline is mainly due to the loss for the period of EUR 1,152 thousand.

Capital reserves increased by EUR 356 thousand on the basis of existing share-based payment agreements. The corresponding expense was recognised in staff costs.

7. Financial instruments

Accounting classifications and fair values

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

30.06.2020	Amortised cost			Fair value (hierarchy levels)			
in EUR thousand	Fair value	Carrying amount	Total carrying amount	Level 1	Level 2	Level 3	Total
Financial assets not measured at fair value							
Trade receivables*)		8,525	8,525	0	0	0	0
Other financial assets*)		390	390	0	0	0	0
Cash and cash equivalents*)		26,369	26,369	0	0	0	0
Total financial assets not measured at fair value		**35,284**	**35,284**	**0**	**0**	**0**	**0**
Financial liabilities not measured at fair value							
Acquisition loan		8,967	8,967	0	0	0	0
Lease liabilities (IFRS 16)		4,151	4,151	0	0	0	0
Other financial liabilities		37	37	0	0	0	0
Trade payables*)		4,198	4,198	0	0	0	0
Total financial liabilities not measured at fair value		**17,353**	**17,353**	**0**	**0**	**0**	**0**

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

31.12.2019	Amortised cost			Fair value (hierarchy levels)			
in EUR thousand	Fair value	Carrying amount	Total carrying amount	Level 1	Level 2	Level 3	Total
Financial assets not measured at fair value							
Trade receivables*)		7,558	7,558	0	0	0	0
Other financial assets*)		390	390	0	0	0	0
Cash and cash equivalents*)		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	0	0	0	0
Warrant bond		5,000	5,000	0	0	0	0
Working capital loan		26	26	0	0	0	0
Trade payables*)		5,174	5,174	0	0	0	0
Total financial liabilities not measured at fair value		**19,167**	**19,167**	**0**	**0**	**0**	**0**

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

The Group did not recognise any significant net gains or net losses from financial assets or liabilities in its statement of comprehensive income.

Methods for determining fair value

The fair values are measured on the basis of the market information available at the end of the reporting period using standard methods. The fair values of the Group's interest-bearing loans are estimated using a DCF model based on a discount rate that reflects NFON's borrowing rate as at the end of the reporting period.

Reclassification between hierarchy levels

There were no reclassifications between the individual hierarchy levels in the first six months of 2020.

Financial risk management

All risks that might have a significant negative impact on the business situation, financial position and financial performance or reputation of the NFON Group have been outlined in the 2019 annual report and the management report for the first half of 2020.

Above all, NFON was able to benefit from the effects of the coronavirus crisis, in particular in the form of higher revenue from the sale of voice minutes in the first half of 2020. However, it cannot be assumed with confidence that the business performance and the financial position and financial performance of the NFON Group will not be negatively affected by the outbreak of COVID-19 as time goes on.

As set out in the notes to the consolidated financial statements in chapter 1 (Basis of presentation), there is significant uncertainty regarding the liquidity situation if the expansive growth strategy continues. There is the risk that the company could require additional liquidity from the end of the first half of 2021. This is a risk with the potential to threaten the company as a going concern (5), but at the same time it is considered highly unlikely (1), and has thus been assigned to risk class 3 overall (risks in this range can moderately influence the liquidity situation or existence of the company). The company arrived at this assessment as there are sufficient opportunities for the further financing of NFON's growth strategy. For example, there is the option of raising capital by means of, for example, a mezzanine loan or by taking advantage of government measures to facilitate borrowing in the countries affected by the coronavirus crisis. As a listed company, NFON also has access to further equity finance on the capital market.

8. Contingent liabilities and obligations

There have been no significant changes since 31 December 2019.

9. Earnings per share

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

in EUR thousand	H1 2020	H1 2019
Profit (loss) for the year attributable to the owners of the parent for basic earnings per share	–1,152	–5,473
Profit (loss) for the year attributable to the owners of the parent for diluted earnings per share	–1,152	–5,473

Quantity	H1 2020	H1 2019
Weighted average number of ordinary shares for basic earnings per share	15,055,569	13,965,703
Weighted average number of ordinary shares for diluted earnings per share	15,061,514	14,041,116

EUR	H1 2020	H1 2019
Loss per share		
Basic earnings	−0.08	−0.39
Diluted earnings	−0.08	−0.39

10. Revenue

The following table shows revenue broken down by segment and by recurring and non-recurring revenue from products / services.

in EUR thousand	H1 2020	H1 2019
Product / service		
Recurring revenue		
NFON AG	17,102	14,469
Deutsche Telefon Standard GmbH	5,727	2,904
nfon GmbH	2,482	2,067
NFON Ltd.	3,161	2,840
NFON Iberia S.L.	176	140
NFON ITALIA S.R.L.	28	0
NFON France	20	0
Total recurring revenue by segment	**28,695**	**22,419**
Reconciliation to consolidated recurring revenue	0	**0**
Consolidated recurring revenue	**28,695**	**22,420**
Non-recurring revenue		
NFON AG	2,354	2,425
Deutsche Telefon Standard GmbH	643	351
nfon GmbH	629	827
NFON Ltd.	353	279
NFON Iberia S.L.	15	26
NFON ITALIA S.R.L.	67	0
NFON France	14	0
Non-recurring revenue by segment	**4,075**	**3,908**
Reconciliation to non-recurring consolidated revenue	0	**0**
Non-recurring consolidated revenue	4,075	**3,908**
Consolidated revenue	**32,770**	**26,328**

Contrary to the development in non-recurring revenue, the significant increase in recurring revenue in the first half of 2020 essentially results from the customer base, now broader than in the previous year, and higher revenue from voice telephony. Recurring revenue essentially comprises monthly payments of a fixed licence fee per seat plus a fixed or volume-based fee for voice telephony usage on the part of the customer base at seats or SIP trunks. Non-recurring revenue includes revenue from sales of devices (telephones, soft clients for PCs and smartphones) and the one-time activation fee per seat when it is first connected.

The contract assets recognised in connection with IFRS 15 (30 June 2020: EUR 173.5 thousand; 31 December 2019: EUR 173.9 thousand), additional contract initiation costs (30 June 2020: EUR 58.9 thousand; 31 December 2019: EUR 155.6 thousand) and contract liabilities (30 June 2020: EUR 247.5 thousand; 31 December 2019: EUR 95.0 thousand) are recognised under other non-financial assets (current) and other non-financial liabilities (current).

11. Other operating income

Other operating income of EUR 468 thousand (H1 2019: EUR 111.7 thousand) mainly includes foreign currency gains of EUR 196 thousand and EUR 145 thousand in income in connection with other non-cash employee benefits.

12. Other operating expenses

in EUR thousand	H1 2020	H1 2019
Other operating expenses		
Marketing expenses	3,194	3,943
Sales commission	3,975	3,005
Other staff costs	1,552	1,639
Rental expenses	399	376
External development costs	9	356
IT costs	589	656
Support	228	274
Consulting expenses	670	1,337
Other administrative expenses	451	304
Other expenses	190	629
Total other operating expenses	**11,258**	**12,216**

In particular, other operating expenses are EUR 3,194 thousand below the prior-year level as marketing expenses are EUR 749 thousand lower. More extensive marketing activities are planned in the second half of 2020 than in the second half of 2019. According to current planning, marketing expenses for 2020 as a whole will be at roughly the same high level as the previous year.

This increase in sales commission from EUR 3,005 thousand in the first half of 2019 to EUR 3,975 thousand in the reporting period relates to the higher revenue volume in the first half of 2020.

Other operating expenses for the first half of 2019 included costs of EUR 0.6 million incurred in conjunction with the acquisition of DTS as at 01 March 2019.

13. Share-based payment

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

The Group measures the costs of granting equity instruments and share appreciation rights to employees at the fair value of these equity instruments and share appreciation rights as at the grant date. To estimate the fair value, a suitable measurement method must be specified for the granting of equity instruments and share appreciation rights; this is dependent on the grant conditions. In addition, various parameters such as the expected option term, volatility and dividend yield have to be defined.

718,229 stock options had been granted as at 30 June 2020 (30 June 2019: 645,229). An amount of EUR 356 thousand (previous year: EUR 306 thousand) was recognised in staff costs (offsetting item: capital reserves) in this context in the reporting period.

In addition, there is a Cash-settled share-based payment arrangement with one member of the Management Board. An amount of EUR 113 thousand was recognised under other provisions in connection with this agreement as at 30 June 2020.

14. Income taxes

The tax expenses of EUR 33 thousand for the first half of 2020 were calculated on the basis of the best possible estimate of the average annual income tax rate in accordance with IAS 34. The expected income tax rate was calculated on the basis of tax planning for the fiscal year as a whole.

15. Related party transactions

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

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

	Transaction values	
in EUR thousand	H1 2020	H1 2019
Sales of goods and services and other income [1]	9	3

	Transaction values	
in EUR thousand	H1 2020	H1 2019
Purchases of goods and services and other expenses [2]	105	113

	Balance outstanding as at	
in EUR thousand	H1 2020	H1 2019
Receivables [3]	2	0

	Balance outstanding as at	
in EUR thousand	H1 2020	H1 2019
Liabilities [4]	20	7

1) EUR 6 thousand (previous year: EUR 0 thousand) of which relates to transactions with members of the Management Board and EUR 3 thousand (previous year: EUR 3 thousand) of which to transactions with members of the Supervisory Board.

2) EUR 61 thousand (previous year: EUR 63 thousand) of which relates to transactions with members of the Management Board and EUR 44 thousand (previous year: EUR 20 thousand) of which to transactions with members of the Supervisory Board.

3) These relate exclusively to members of the Management Board.

4) EUR 11 thousand (31 December 2019: EUR 0 thousand) of which relates to liabilities to members of the Management Board and EUR 9 thousand (31 December 2019: EUR 7 thousand) of which to liabilities to members of the Supervisory Board.

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

Sales of goods and services and other income include cloud-based services provided to related parties on the same terms and conditions as for any other customer of the Group. Purchases of goods and services and other expenses essentially include the services provided by companies 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 did business with the Group over the reporting period. 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.

16. Executive bodies and remuneration

1. Management Board

The following table shows the members of the Management Board:

	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.

The members of the Management Board received the following remuneration:

in EUR thousand	H1 2020	H1 2019
Management Board remuneration		
Short-term remuneration	515	501
Total share-based remuneration (long-term incentive)	97	97
Total Management Board remuneration	**611**	**598**

The remuneration of the Management Board includes salaries, benefits in kind, share-based payments and bonuses.

2. Supervisory Board

The Supervisory Board of NFON AG had the following four members as at 30 June 2020:

30.06.2020	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		Managing Director of Milestone Venture Capital GmbH, Hösbach	n.a.
Florian Schuhbauer		Managing Director of Active Ownership Capital S.a.r.l and Active Ownership Corporation S.a.r.l., Grevenmacher, Luxembourg	Member of the Supervisory Board of PNE AG, Cuxhaven

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

in EUR thousand	H1 2020	H1 2019
Supervisory Board remuneration		
Basic remuneration	57.5	57.5
Attendance fee	15	16
Total Supervisory Board remuneration	**72.5**	**73.5**

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

17. Segment information

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

Segment results that are reported include items directly attributable to a segment and those that can be allocated on a reasonable basis. Segment reporting does not include inter-segment sales, but it does include inter-segment transfers or charges. Management assesses performance primarily on the basis of revenue and earnings before interest, taxes, depreciation and amortisation (EBITDA) as presented in management reporting.

The Group's segment structure reflects how management currently makes financial decisions and allocates resources.

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

The segment information for the activities in the first half of 2020 is presented below.

Revenue and EBITDA by reportable segment

in EUR thousand	H1 2020	H1 2019
Revenue		
NFON AG	19,456	16,894
Deutsche Telefon Standard GmbH	6,368	3,254
nfon GmbH	3,110	2,894
NFON UK Ltd.	3,516	3,119
NFON Iberia SL	191	166
NFON ITALIA S.R.L.	95	0
NFON France	34	0
Total revenue of the reportable segments	**32,770**	**26,327**
Reconciliation	0	1
Total consolidated revenue	**32,770**	**26,328**

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

in EUR thousand	H1 2020	H1 2019
EBITDA		
NFON AG	4,226	529
Deutsche Telefon Standard GmbH	1,036	329
nfon GmbH	–199	–266
NFON UK Ltd.	–1,021	–1,939
NFON Iberia SL	–665	–525
NFON ITALIA S.R.L.	–1,003	–619
NFON France	–1,010	–165
Total EBITDA of the reportable segments	**1,363**	**–2,656**
Other segments		
Reconciliation	–541	–1,144
Consolidated EBITDA	**822**	**–3,800**
Addback:		
Depreciation and amortisation	–1,718	–1,351
Net interest income / expenses	–223	–250
Income tax expense	–33	73
Consolidated net profit / loss	**–1,152**	**–5,328**

Internal reporting is based on IFRS. Non-recurring effects in the period that are considered extraordinary are adjusted for in reported EBITDA.

The reconciliation effects of EUR 541 thousand in the first half of 2020 mainly relate to non-recurring effects adjusted for in internal reporting of EUR 356 thousand in connection with costs for stock options.

The reconciliation effects of EUR 1,144 thousand in the first half of 2019 mainly relate to non-recurring effects adjusted for in internal reporting of EUR 1,153 thousand from costs of retention bonuses and stock options of EUR 527 thousand, plus expenses for capital increases and M&A activities of EUR 626 thousand.

Revenue by product / service

Each of the reportable segments presented above offers recurring and non-recurring products and services.

in EUR thousand	H1 2020	H1 2019
Product / service		
Recurring revenue	28,695	22,420
Non-recurring revenue	4,075	3,908
Consolidated revenue	**32,770**	**26,328**

Information on geographical areas

The tables below show revenue and non-current assets by country. The geographical allocation of revenue and assets is based on the domicile of the legal entities in the countries.

Revenue with external customers

in EUR thousand	H1 2020	H1 2019
Revenue		
Germany	25,426	19,768
Austria	3,110	2,894
United Kingdom	3,516	3,119
Spain	191	166
Italy	95	0
France	34	0
Other countries	398	381
Total revenue	**32,770**	**26,328**

Non-current assets

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

in EUR thousand	30.06.2019	31.12.2019
Non-current assets		
Germany	31,143	29,269
United Kingdom	445	457
Austria	322	413
Italy	121	126
Spain	52	41
France	21	26
Total non-current assets	**32,104**	**30,332**

18. Events after the end of the reporting period

There were no events after 30 June 2020 that could have a significant impact on the company's financial position or financial performance.

Munich, 20. August 2020

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

Additional information

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

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

Munich. 20. August 2020

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

FINANCIAL CALENDAR

Q3

20.08.2020	Half-year results 2020

Q4

26.11.2020	Presentation 9-Month Results 2020

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