FACTS AND FIGURES FIRST HALF OF THE YEAR

Who we are

Headquartered in Munich, NFON AG is the European provider for voice-centric business communication from the cloud, counting more than 40,000 companies across 15 European countries as its customers. 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. https://corporate.nfon.com/en/

Key figures

in EUR million	H1 2021	H1 2020	Change in %	Q2 2021 (3M)	Q2 2020 (3M)	Change in %
Revenue	37.9	32.8	15.6	19.0	16.4	16.0
Recurring revenue	33.7	28.7	17.3	16.8	14.6	15.1
in % from total revenue	88.9	87.6		88.6	89.3	
Non recurring revenue	4.2	4.1	3.6	2.2	1.7	24.3
in % from total revenue	11.1	12.4		11.4	10.7	
Seats	557,401	494,132	12.8			

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Dear shareholders, dear readers,

The market for business communication is undergoing a profound transformation: telephony, collaboration and business applications are growing together. The spoken word is the main form of communication with customers, business partners and employees and is the core of the NFON Group's business model. This will result in considerable opportunities for NFON in the years ahead, which we are addressing with particular focus through our Growth Strategy 2024. The potential has already become clear in some areas in the first half of 2021 and will increasingly materialise for NFON from 2022 on.

The attractiveness of our business model is particularly evident in the good development of recurring revenues and thus primarily in the acquisition of new customers, an increase in installed extensions (seats) within the existing customer base and higher revenues from voice telephony. Compared to the first half of the previous year, recurring revenues increased by 17.3% and thus disproportionately to total revenue. At EUR 33.7 million, the share of total revenue remained very high at 88.9%. At EUR 37.9 million, total revenue was above the previous year's figure of EUR 32.8 million (plus 15.6%).

The uncertainty caused by COVID-19 and the delay it caused in customer decisions continued to be felt in the second quarter of 2021. The resulting effect is particularly evident in the growth of our seat base. While the same period last year was largely unaffected by this, we now recorded comparatively lower seat growth of 12.8% compared to 30 June 2020. Notwithstanding this exceptional situation, the 557,401 seats in the meantime and the continuing very low termination rate of around six percent per year underscore the steadily increasing demand for cloud telephone systems in the business customer segment. In line with our Growth Strategy 2024, we have been investing more heavily again since the second quarter of 2021. These activities are currently reflected in increased marketing expenses and the further expansion of our partner network. Our products are now being sold by more than 3,000 partners throughout Europe! With this scalable sales approach, we will increasingly accelerate the Company's growth in the coming years. Furthermore, we entered into a strategic partnership with the Italian company Meetecho as part of an investment at the end of June. This gives us direct access to industry-leading WebRTC expertise and accelerates the implementation of our own UC strategy. This represents an important step toward strengthening our independence from third-party technology in the long term. At the same time, we have entered into

Dr Klaus von Rottkay,
Chief Executive Officer

Jan-Peter Koopmann,
Chief Technology Officer

a service and collaboration agreement with Meetecho to jointly leverage the further potential of the Janus WebRTC Server. Already today, the Janus WebRTC Server is used as a central real-time communications technology by many companies such as Internet Engineering Task Force (IETF), Alcatel-Lucent Enterprise, Twitter, Highfive and Alibaba Cloud due to its multifunctional and modular design and its proven performance.

The potential of our business model is also reflected in the positive development of blended ARPU (Average Revenue Per User). Compared to the first half of 2020 (EUR 9.83), blended ARPU for the reporting period is EUR 10.03. The positive trend of the previous quarters thus continued and resulted primarily from the higher revenue with voice minutes from the increased remote working activity of many employed persons. The potential to further increase the ARPU level is opened up by the expansion of the NFON offering beyond the SIP/PBX business in the direction of "smart workflow" voice-centric communication with Unified Communications as a Service (UCaaS), Contact Center as a Service (CCaaS) and in future Integration Platform as a Service (iPaaS). The increased blended ARPU and the year-on-year improvement in the marketing and personnel expense ratios were still positively reflected in the earnings development at present. This is due to the fact that investments in marketing and personnel are increasing slowly. Adjusted earnings before interest, taxes, depreciation and amortisation (EBITDA) amounted to EUR 2.3 million (previous year: EUR 1.4 million).

We know our customers, our partners, our market and Europe: We already count more than 40,000 companies in 15 European countries among our customers and accompany them into the future of business communication with intuitive and flexible communication solutions. In 2021, with the Growth Strategy 2024 "Target – Enhance – Scale," we will lay the foundation to continue the Company's positive development in the years to come. Priority will be given to investment and growth in the coming years. And the goal is clearly formulated: NFON wants to become the leading provider of voice-centric business communications in Europe. Join us on this exciting journey.

Kind regards,

Dr Klaus von Rottkay   Jan-Peter Koopmann

Group profile

Group business model

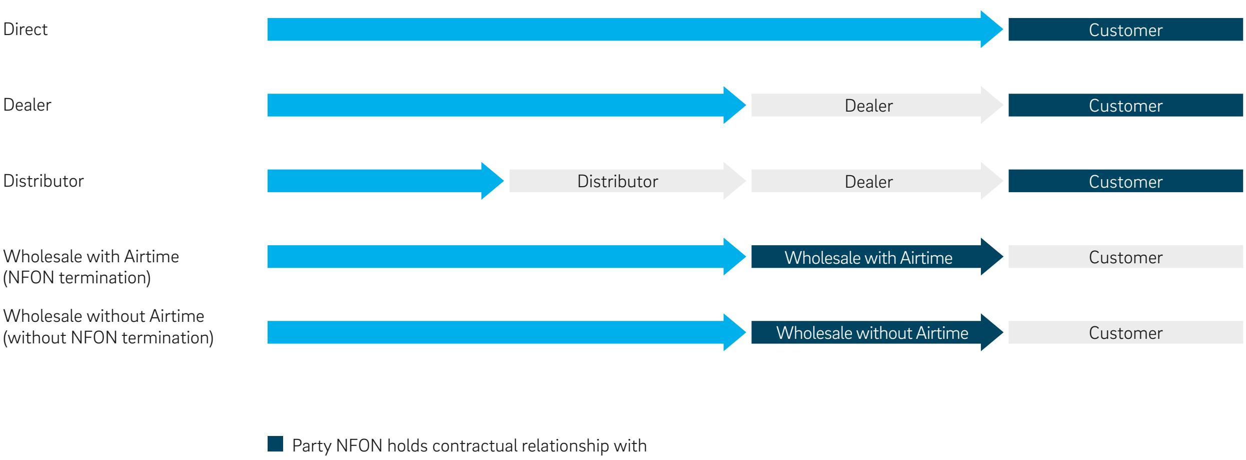
NFON AG (referred to as NFON or the NFON Group), based in Munich, was founded in 2007 and is a provider for voice-centric business communication in Europe. NFON has more than 40,000 business customers in 15 European countries, and has affiliated companies in Germany, Austria, the UK, Spain, Italy, France, Portuga and Poland. 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. The NFON Group offers 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 Ncontactcenter. 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



Direct sales: NFON handles sales directly.

Dealers: The dealer has its own customer base and acquires new customers to whom it sells the cloud telephony system. The dealer provides service for these customers. NFON has a direct service agreement with the customers and provides the telephony solution.

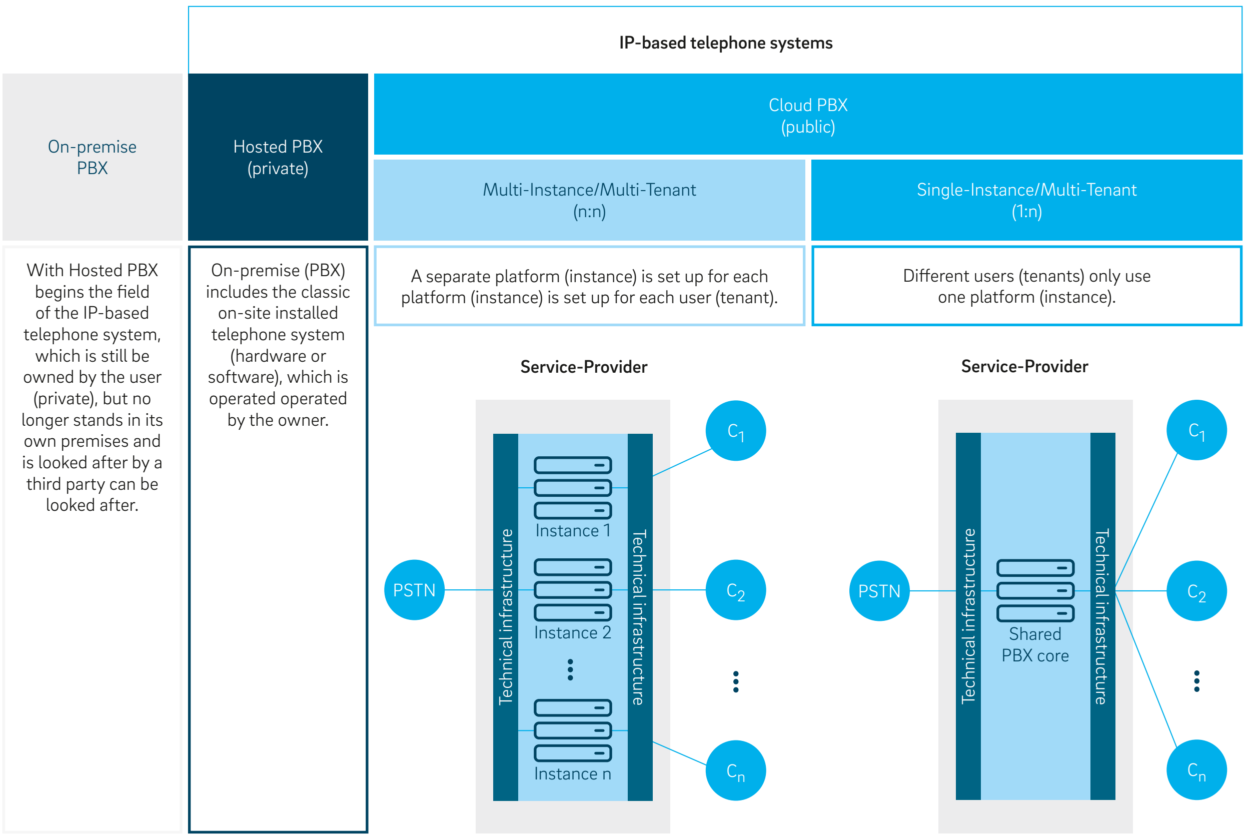
Distributors: Distributors have their own network of dealers and typically do not market NFON's services themselves. They serve as an intermediary between the dealer and the manufacturer or service provider and introduce the respective product to their own network.

Wholesale partners: NFON enters into sales agreements with wholesale partners to accelerate the expansion of its customer base. In conjunction with these agreements, NFON provides the services on a white label basis, i.e. the wholesale partners market NFON's services to consumers under their own brands or co-branded under their own brands and the NFON brand. There is no direct contractual relationship between the wholesale partner's customers and NFON. Among the wholesale partners, a distinction is also made between partner that purchase voice minutes from NFON and those that do not purchase voice minutes.

General market characteristics

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

European business telephony market



With its cloud telephony system, NFON offers a single-instance/multi-tenant platform (1:n). The SIP trunk technology offered by the subsidiary of NFON AG DTS ensures that stationary telephone systems (on-premise PBX) are connected to the PSTN[1] via the internet.

Regulatory framework

Following the deregulation and harmonisation of German telecommunications law (1989), the performance of telecommunications services and the operation of telecommunications networks are subject to the Telekommunikationsgesetz (TKG – German Telecommunications Act, original version dated 25 July 1996, last new version dated 22 June 2004, last amendment dated 19 June 2020) and certain supplementary provisions.

NFON is therefore also subject to the German Telecommunications Act. The German Telecommunications Act implements the European legal framework for electronic communications networks and services that was amended in November 2009. The legal framework consisted, inter alia, of the Framework Directive (2002/21/EC), the Authorisation Directive (2002/20/EC), the Access Directive (2002/19/EC), the Universal Service Directive (2002/22/EC) and the Privacy and Electronic Communications Directive (2002/58/EC). These regulations ceased to apply when the European Electronic Communications Code (EECC) became effective on 20 December 2018. The EECC was to be enacted in national law by 21 December 2020/31 December 2020. The body in charge of regulating the German telecommunications market is the German Federal Network Agency. Similar authorities, which include the European Commission, also exist in other European countries. Furthermore, various German authorities at state and municipal level and other EU bodies are authorised to regulate the providers of telecommunications services as performed by NFON and to monitor their business. The German Federal Network Agency has substantial powers to enforce the German Telecommunications Act and the associated provisions. These powers include the approval or review of telecommunications charges and providers' terms and conditions. Furthermore, the German Federal Network Agency is the body in charge of managing telephone numbers and ensuring data protection and network security in the telecommunications sector. The German Federal Network Agency's decisions can be appealed before the competent administrative courts.

A licence from a regulating body is not required to perform telecommunications services in the European Union. As a commercial provider of publicly accessible telecommunications services, NFON must also notify the German Federal Network Agency of the commencement of or any amendment and termination of business activities.

Regulating bodies such as the German Federal Network Agency can impose obligations on the company in relation to the performance of the service offered. As NFON collects, stores and utilises data in conjunction with its ordinary business activities, the company is also subject to the data protection laws and regulations of federal, state and international government authorities. Data protection laws restrict the storage, use, processing, disclosure, transmission and protection of personal data, including debit and credit card data, provided to NFON by its customers, and the data that NFON collects from its customers and employees. Compliance with the above obligations necessitates substantial expenses on the part of NFON. Any failure or perceived failure to comply with the above obligations or any other legal, regulatory or contractual requirements could result in legal proceedings, lawsuits or sanctions on NFON by state agencies.

Objectives and strategies

The business communications market is currently in its third wave of disruption. Telephony, collaboration and business applications are converging. Working in flexible working environments and hybrid working models consisting of working from home and at the office are becoming the new normal. The change in the world of work can no longer be held back. The future of business communications belongs to unified communications as a service (UCaaS), contact centre as a service (CCaaS) and integration platform as a service (iPaaS). Voice is still the primary channel of communication between customers, business partners and employees, and is at the heart of the NFON Group's business model.

NFON knows its customers, knows its partners, knows the market and knows Europe: The company already has more than 40,000 companies as customers in 15 European countries. With its intuitive communications solutions, NFON is guiding companies across the whole of Europe into the future of business communication. Unlike many other companies, NFON is familiar with the specific needs of corporate clients by country and industry in Europe. Its pan-European network of more than 3,000 partners is a unique competitive advantage.

1 A public switched telephone network (**PSTN**) is a telecommunication network that enables voice communication by participants at different locations.

NFON will leverage this foundation with its 2024 growth strategy "Target – Enhance – Scale" and further accelerate the company's development.

NFON already has the platform for professional business communication today in Cloudya. The company will continue to actively optimise its product portfolio and go-to-market approach with its 2024 growth strategy. Customers can communicate more easily thanks to NFON. But of course, communication between companies and their customers is subject to ongoing change. NFON is therefore expanding its existing Cloudya platform in the direction of "smarter workflow", offering various products and solutions in the areas of UCaaS, CCaaS and, in future, iPaaS with its network of partners. The key advantage: Business communication by NFON flexibly adapts to the communication requirements of its customers and can be put together individually.

As before, the core customer segment of the NFON Group will be SMEs with up to 250 seats. At the same time, however, the company has the opportunity to further augment its growth in the segment of enterprise customers with up to several thousand seats.

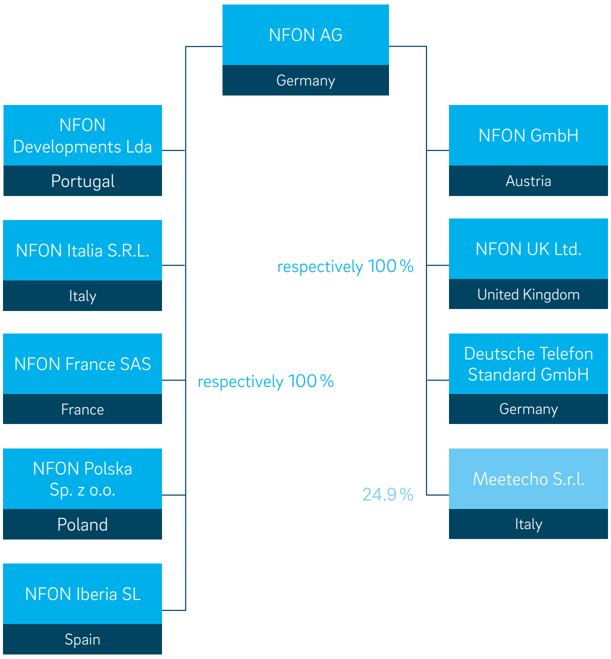
This growth will be generated by the extensive network of partners across the whole of Europe. NFON is 100% a channel company with an indirect sales approach through partners. Scalable sales operations with partners and its partner network are the centrepiece of the NFON Group's sales activities. NFON will therefore continue to invest massively in expanding its existing partner network. The expansion of the partner network and the acquisition of new customers will accelerate the company' growth. Broadening its product portfolio will also allow the company to grow among its existing customers. Moreover, there is plenty of potential on NFON's new European markets.

In 2021 the company will be laying the foundation for continuing its positive performance in the years ahead as well. The company's priorities for the next few years are investment and growth. And its goal is quite clear: NFON wants to become the leading provider for voice-centric business communication in Europe.

Organisation

Group structure and locations

The Group's structure as at 30 June 2021 is as follows:



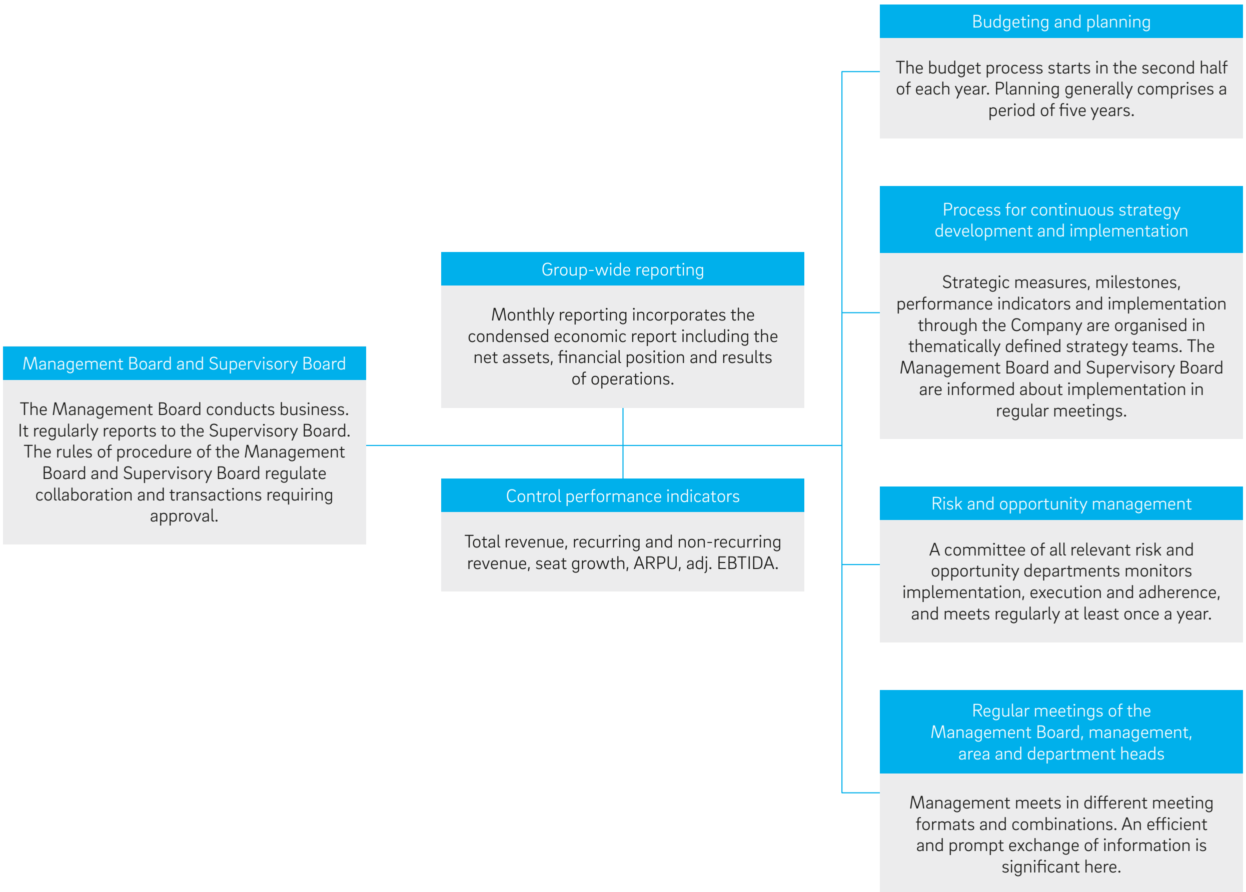
Management and control

The members of the Management Board work closely with the managers in the respective countries and the managing directors of the foreign subsidiaries. Since 1 December 2020, the company has been managed by two members of the Management Board as referred to by section 76 of the Aktiengesetz (AktG – German Stock Corporation Act). A Supervisory Board of four members monitors the activities of and advises the Management Board.

Management

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:



Financial and non-financial performance indicators

in EUR million	H1 2021	H1 2020	Change in %	Q2 2021	Q2 2020	Change in %
Total revenue	37.9	32.8	15.6	19.0	16.4	16.0
Recurring revenue	33.7	28.7	17.3	16.8	14.6	15.1
Share of recurring revenue	88.9%	87.6%		88.6%	89.3%	
Non-recurring revenue	4.2	4.1	3.6	2.2	1.7	24.2
Share of non-recurring revenue	11.1%	12.4%		11.4%	10.7%	
ARPU blended[1]	10.03 EUR	9.83 EUR	2.0	9.88 EUR	9.66 EUR	2.3
Seat growth	557,401	494,132	12.8			
Adjusted EBITDA[2]	2.3	1.4	68.9	0.5	1.1	–58.1

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

2 Adjusted for retention bonus, stock options

Economic report

General economic conditions and industry environment

General economic development in Europe, Germany and UK

At the start of the year, the global economy was still being slowed slightly by the COVID-19 pandemic, but was able to maintain its upward trend. The high infection figures in conjunction with the third wave of the pandemic led to many countries again taking measures to curb the spread of the disease. Nonetheless, many countries were able to sustain their economic activities better than in the first wave of the pandemic. Growth in euro area gross domestic product amounted to –6.6% in 2020. In June, the Kiel Institute for the World Economy (IfW) projected significantly improved growth of 5.3% for 2021.

Germany, NFON AG's domestic market, is one of the markets whose growth was more moderate in the first half of 2021. While production was down by 5.1% in 2020, the IfW is forecasting growth of 3.9% for the current year. Germany is therefore below the European average but still in positive territory, and its overall economic production is expected to return to its pre-crisis level before the end of 2021. A further recovery is expected for the second half of the year, mainly driven by consumer-related sectors. The ifo business climate index, in which companies rate their business situation, recently rose significantly to 101.8 points in June. The companies surveyed are also increasingly optimistic for the second half of 2021.

The UK is NFON AG's largest foreign market. The UK's economic performance fell by 9.8% in 2020 as a result of the effects of the pandemic. The UK began its vaccination campaign relatively early, allowing the rapid easing of restrictions and thus an improvement of the economic situation. The IfW is forecasting that its production will grow 6.8% in 2021. The ongoing uncertainty in connection with Brexit is still a negative factor for economic growth. Most of the challenges due to Brexit are temporary in nature, but are nonetheless slowing the economy.

Significant sales markets and the competitive position of the NFON Group

NFON AG operates as a provider exclusively on the rapidly growing European market for cloud telephony systems.

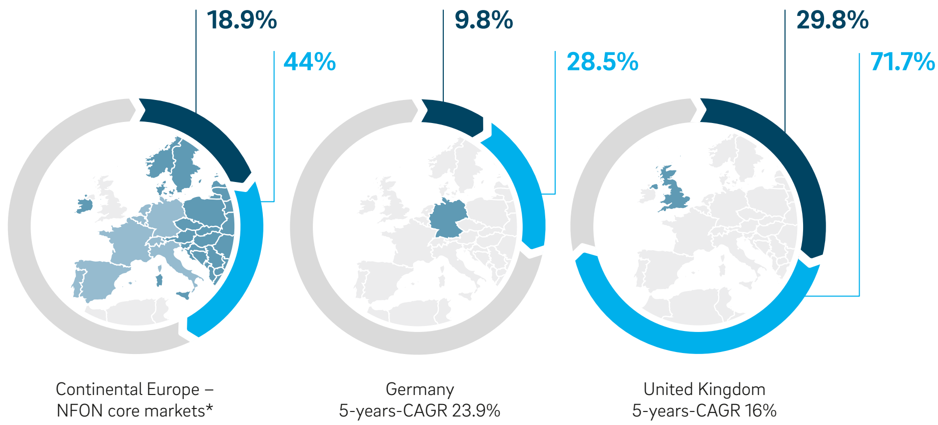
The business communications market is currently in its third wave of disruption. To date, the markets for telephony, collaboration and business applications have coexisted more or less peacefully. The third wave of disruption will change this situation dramatically. Following the transition from ISDN to all IP and the ongoing replacement of on-site telephone systems to cloud telephony systems, telephony, collaboration and business applications are now converging. They are combining to form integrated business communication.

Voice is and remains the primary channel of communication between customers, business partners and employees, and is at the heart of the NFON Group's business model. With this expertise, the company is focused on European corporate customers in the SME to enterprise segment. For them, working in flexible working environments and hybrid working models consisting of working from home and at the office are becoming the new normal. This does not mean that all European companies are already capable of meeting the requirements this entails. A glance at the NFON Group's domestic market shows the potential: 72% of companies anticipate that their biggest difficulties in implementing work-from-home models will be due to the technology, i.e. IT equipment and a lack of broadband. There are also organisational problems that around two thirds of companies will have to deal with. What for some companies is a major challenge is for NFON a major opportunity. Developments may vary depending on where you are in Europe, but the potential in all regions is enormous.

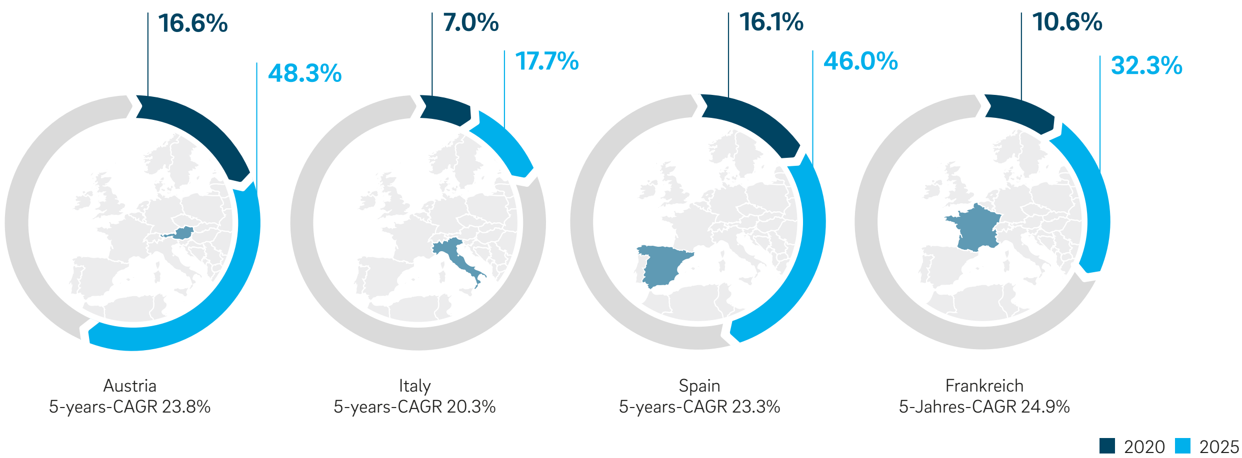
In total, more than 513 million people live in the core markets of the NFON Group. 230 million of these are part of the working population. As not every employee has his or her own seat, for instance in manufacturing, this means 131 million seats in total. Just 26 million of these, barely 20% of the total volume, are already connected to a cloud telephony system.

The overview of the NFON Group's core markets shows the disparity between the use of cloud services and market penetration:

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 2020"

* The figure includes all the national economies recorded by Cavell for Europe. These include Austria, Belgium, France, Germany, Italy, the Netherlands, Portugal, Spain and Switzerland.

In view of the ongoing disruption in Europe, there is mounting pressure on companies to fix the panned "impediments to communication and lack of internal coordination". The entire market is therefore open to the NFON Group.

Presentation of the company's erformance

Overall, the NFON Group's performance was highly positive in the first half of 2021 as well. In particular, the business model's appeal can be seen by the good performance in recurring revenue. Recurring revenue rose by 17.3% as against the same period of the previous year and, at EUR 33.7 million, accounts for 88.9% of total revenue. The seat growth of 12.8% is in line with the forecast published in the 2020 financial report. This still shows the uncertainty caused by COVID-19 and the associated delay in customer descisions. Average revenue per user (ARPU) continued to develop well, amounting to EUR 10.03 after EUR 9.83 in the first half of 2020. The positive trend is therefore continuing for now.

Results of operations

Development of key items in the consolidated statement of comprehensive income

in EUR million	H1 2021	H1 2020	Change in %	Q2 2021 (3M)	Q2 2020 (3M)	Change in %
Revenue	**37.9**	**32.8**	**15.6**	**19.0**	**16.4**	**16.0**
of which recurring	33.7	28.7	17.3	16.8	14.6	15.1
of which non-recurring	4.2	4.1	3.6	2.2	1.7	24.3
Cost of materials	–7.4	–6.8	7.9	–3.7	–3.2	17.8
Gross profit	**30.5**	**25.9**	**17.7**	**15.3**	**13.2**	**15.7**
Other operating income	0.3	0.5	n/a	0.1	0.2	n/a
Personnel costs	–16.0	–14.3	11.5	–8.0	–7.2	11.3
Other operating expenses	–13.2	–11.3	17.2	–7.2	–5.3	36.5
EBITDA	**1.8**	**0.8**	**n/a**	**0.2**	**0.9**	**n/a**
Adj. EBITDA	**2.3**	**1.4**	**n/a**	**0.5**	**1.1**	**n/a**
Depreciation, amortisation and write-downs	–3.8	–1.7	123.6	–2.4	–0.9	172.6
EBIT	**–2.1**	**–0.9**	**n/a**	**–2.1**	**0.1**	**n/a**
Net interest expense	–0.3	–0.2	n/a	–0.1	–0.1	n/a
Tax expense	0.1	0	n/a	0.1	0	n/a
Consolidated loss	**–2.5**	**–1.2**	**n/a**	**–2.4**	**–0.1**	**n/a**

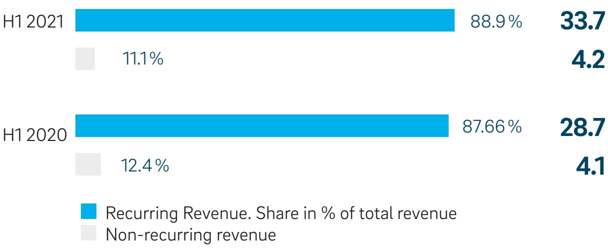
Consolidated revenue

Revenue increased by 15.6% year-on-year. In particular, recurring revenue climbed very well, at a faster rate than overall revenue (17.3%). Revenue growth 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 revenue from voice telephony.

In addition, some of the revenue growth resulted from sales of the expanded product portfolio (premium solutions) among both new customers and the existing customer base.

Recurring and non-recurring revenue

in EUR million

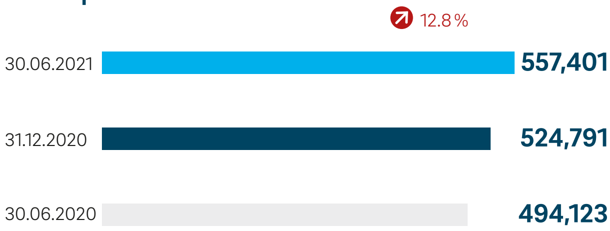


Recurring revenue essentially comprises monthly payments of a fixed licence fee per seat plus a fixed or volume-based fee for voice telephony usage per seat or SIP trunk.

Non-recurring revenue mainly consists of revenue from the sale of hardware and activation fees for seats and premium solutions.

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.

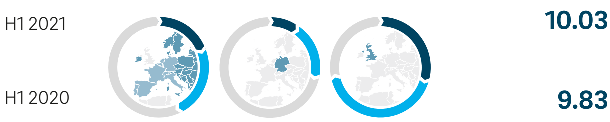
Development in seats



This trend in seats testifies to the growing demand for cloud telephony systems among business customers. At the same time, this development underlines the high level of satisfaction felt by NFON's very loyal customers. The number of seats increased by 6.2% in the first half of 2021, and was up by 12.8% as against 30 June 2020 as at 30 June 2021.

ARPU development in EUR

ARPU in EUR per month



The 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. This is partially a positive, non-recurring effect of the coronavirus crisis and the increased level of people working from home thereafter.

Other operating income

Other operating income of EUR 0.3 million (H1 2020: EUR 0.5 million) mainly includes income from subletting premises of EUR 0.1 million and EUR 0.1 million in income in connection with offset other non-cash employee benefits.

Cost of materials

The cost of materials rose at a slower rate than revenue in the reporting period, by 7.9% from EUR 6.8 million in the same period of the previous year to EUR 7.4 million. This resulted in a lower cost of materials ratio for the first six months than in the previous year of 19.4% (previous year: 20.8%). This falls within regular fluctuations, in line with planning. The positive development in the cost of materials ratio 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.

Personnel costs

As a result of the ongoing strategic recruitment measures, average headcount rose by 13.1% year-on-year from 398 to 450. Accordingly, staff costs rose by around 11.5% year-on-year in the first half of 2021 to EUR 16.0 million (previous year: EUR 14.3 million).

Expenses of EUR 0.3 million were incurred in connection with the stock option programme in the reporting period. Retention bonuses of EUR 0.2 million and stock option programme expenses of EUR 0.4 million were recognised in the same period of the previous year. Adjusted for the expenses of the stock option programme (and also retention bonuses in the previous year), personnel costs amounted to EUR 15.6 million (H1 2020: EUR 13.8 million) and rose by 13.5% from EUR 13.8 million. This represents an adjusted personnel costs ratio in relation to revenue of 41.2% in the first half of 2021, after 42.0% in the same period of the previous year.

Other operating expenses

Other operating expenses rose to EUR 13.2 million in the first half of 2021 (previous year: EUR 11.3 million). This is essentially due to higher sales commission and marketing expenses.

In line with the 2024 growth strategy brought to life by the Management Board in April 2021, marketing expenses rose significantly in the second quarter and increased by 12.9% from EUR 3.2 million to EUR 3.6 million in period under review.

The increase in sales commission from EUR 3.9 million in the first half of 2021 to EUR 4.7 million in the reporting period relates to the higher revenue volume in the first half of 2021. As a percentage of revenue, selling expenses rose slightly to 12.4% in the reporting period (H1 2020: 12.1%) as a result of the expansion in partner sales to currently more than 3,000 partners.

Another notable factor was currency losses of EUR 0.2 million. By contrast, there had been other operating income due to currency effects of EUR 0.2 million in the same period of the previous year.

Other operating expenses for the first half of 2021 included costs of EUR 0.2 million incurred in conjunction with M&A activities. These are based on legal and consulting costs.

Adjusted for this non-recurring effect, other operating expenses rose by 15.5% from EUR 11.3 million to EUR 13.0 million in the first half of 2021. The adjusted staff costs ratio in relation to revenue thus remained stable as against the first half of 2020 at 34.4%.

Depreciation and Armortisation

Depreciation of property, plant and equipment and amortisation of intangible assets increased by EUR 2.1 million to EUR 3.8 million in the reporting period compared to the same period in the previous year. This is mainly due to the fact that the first development projects were completed and recognised as intangible assets in the second half of 2020 and their amortisation burdened the Group's income statement in the reporting period. With regard to the shortened useful life of one of these projects, please refer to the explanations in the notes in the half-year financial report under item 5 (Intangible assets).

in EUR million	H1 2021	H1 2020	Q2 (3M) 2021	Q2 (3M) 2020
EBITDA	**1.8**	**0.8**	**0.2**	**1.0**
Adjustments in staff costs:				
Retention bonus	0.0	0.2	0.1	0.1
Share options/ESOPS	0.3	0.4	0.1	0.2
Adjustments in other operating expenses:				
Social security contributions for previous years	0.0	–0.1	0.0	–0.1
M&A expenses	0.2	0	0,1	0
Total adjustments	**0.5**	**0.5**	**0.3**	**0.2**
Adjusted EBITDA	2.3	**1.4**	0.5	**1.1**
EBIT	–2.1	**–0.9**	–2.1	**0.1**
Consolidated loss	**–2.5**	**–1.2**	**–2.4**	**–0.1**
Adjusted consolidated loss	**–1.9**	**–0.6**	**–2.1**	**0.1**

Assets and liabilities

The increase in intangible assets to EUR 28.3 million as at 30 June 2021 (31 December 2020: EUR 27.1 million) mainly results from capitalised development costs in connection with new products and new features for existing products, and from the development/customisation of the new business support system (BSS). Capitalised R&D costs for the products in development amount to EUR 7.5 million as at the end of the reporting period (31 December 2020: EUR 7.1 million), and those for BSS customisation to EUR 2.6 million (31 December 2020: EUR 1.4 million). The effects of the shortened useful life of one of the development projects capitalised as at 31 December 2020 on the intangible assets are presented in the explanations in the notes in the half-year financial report under item 5 (Intangible assets). 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 9.5 million as at 31 December 2020 to EUR 8.7 million as at the end of the reporting period.

Investments in associates amount to EUR 1.0 million as at 30 June 2021. This relates to the 24.9% interest in Meetecho S.r.l., Naples, Italy, which was acquired on 23 June 2021.

Within current assets, bank balances especially have increased, in particular as a result of the capital increase in the reporting period (EUR 25.8 million). This was offset by investments in non-current assets in the first half of 2021 (EUR –4.8 million). In total, cash funds rose by EUR 12.7 million as against 31 December 2020 to EUR 35.8 million as at 30 June 2021.

Under equity and liabilities, trade payables were down by EUR 0.8 million at EUR 4.1 million as at 30 June 2021 due to reporting date effects. Current financial liabilities were also down by EUR 9.2 million at EUR 1.4 million as at the end of the reporting period, in particular as a result of the repayment of an acquisition credit facility.

Mainly as a result of the capital increase of EUR 25.8 million as at 26 March 2021 (after deducting transaction costs), equity rose from EUR 45.6 million (31 December 2020) to EUR 69.4 million as at 30 June 2021. This was counteracted by the loss of EUR 2.5 million incurred in the reporting period. The share capital of the company amounts to EUR 16.6 million as at 30 June 2021 with capital reserves of EUR 108.5 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 35.8 million as at the end of the reporting period. In the reporting period, a capital increase was performed with pre-emption rights disapplied, whereby the company's share capital was increased by EUR 1.5 million by issuing 1,505,555 new shares. The placement price was EUR 17.50 per share, with the result that the Group received cash funds of EUR 26.3 million in total. The difference between the placement price and the par value per new share was recognised after deduction of transaction costs at an amount totalling EUR 24.3 million in capital reserves. The capital increase was entered in the commercial register on 29 March 2021. The cash funds received in conjunction with the capital increase have provided NFON AG with a basis for further growth. The credit facility utilised in the amount of EUR 9.0 million as at 31 December 2020 was repaid in full on 27 April 2021.

Investments

Investments in non-current assets of EUR 4.8 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 as well as the customisation of the recently launched BSS.

3. Supplementary report

There were no events after 30 June 2021 that could have a significant impact on the company's financial position or financial performance.

4. Risks and opportunities

NFON AG has explained its risks and opportunities in detail in its annual report for 2020. As far as was possible at the time, the special situation due to COVID-19 was also presented in this context.

5. Forecast

The forecast is based on the information available as at 30 June 2021, taking the opportunities and risks of the NFON Group as presented into account. Thus, deviations can occur between the planning data published in the annual report as at 31 December 2020 and the figures actually achieved at the end of 2021. This also applies to the assumptions regarding general economic conditions. Please also refer to the comments in the report on risks and opportunities in the financial report as at 31 December 2020. These applied unchanged as at 30 June 2021.

Recurring revenue as share of total revenue	> 85%
Growth rate of recurring revenue	Between 14% and 16%
Growth rate of seats	Between 15% and 17%

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Consolidated income statement and consolidated statement of comprehensive income

for the period from 01 January to 30 June 2021

in EUR thousand	H1 2021	H1 2020	Q2 2021 (3M)	Q2 2020 (3M)
Revenue	37,882	32,777	19,006	16,389
Changes in inventories of finished goods and work in progress	0	0	0	0
Other operating income	285	468	121	153
Cost of materials	–7,366	–6,833	–3,718	–3,165
Staff costs	–15,974	–14,325	–7,978	–7,168
Depreciation and amortisation	–3,842	–1,718	–2,358	–865
Other operating expenses	–13,191	–11,258	–7,205	–5,279
Impairment losses on trade and other receivables	153	0	–2	0
Other tax expense	–9	–7	–3	–3
Income from continuing operations before net interest income and incomes taxes	**–2,062**	**–897**	**–2,137**	**62**
Interest and similar income	5	9	3	4
Interest and similar expenses	–271	–231	–140	–114
Net interest expense	**–266**	**–223**	**–137**	**–110**
nings before income taxes	**–2,327**	**–1,119**	**–2,274**	**–48**
Income tax expense	–345	0	–237	0
Deferred tax expense	219	–33	142	–4
Net loss	**–2,453**	**–1,152**	**–2,369**	**–52**
Attributable to:				
Shareholders of the parent company	–2,453	–1,152	–2,369	–52
Non-controlling interests	0	0	0	0
Other comprehensive income	207	–285	–75	–105
Taxes on other comprehensive income	0	0	0	0
Other comprehensive income after taxes	**207**	**–285**	**–75**	**–105**
Total comprehensive income	**–2,246**	**–1,437**	**–2,444**	**–157**
Attributable to:				
Shareholders of the parent company	–2,246	–1,437	–2,444	–157
Non-controlling interests	0	0	0	0
Net loss per share, basic	**–0.16**	**–0.08**	**–0.15**	**0**
Net loss per share, diluted	**–0.15**	**–0.08**	**–0.15**	**0**

Consolidated statement of financial position

as at 30 June 2021

in EUR thousand	30.06.2021	31.12.2020
Non-current assets		
Property, plant and equipment	8,738	9,482
Intangible assets	28,316	27,079
Investments in associates	625	0
Deferred tax assets	1,316	1,079
Other non-financial assets	194	283
Total non-current assets	**39,189**	**37,924**
Current assets		
Inventories	127	149
Trade receivables	9,412	9,973
Other financial assets	429	390
Other non-financial assets	2,628	2,290
Cash and cash equivalents	35,799	23,034
Total current assets	**48,395**	**35,837**
Total assets	**87,584**	**73,761**

in EUR thousand	30.06.2021	31.12.2020
Equity		
Issued capital	16,561	15,056
Capital reserves	108,496	83,926
Net loss	–56,364	–53,911
Currency translation reserve	712	506
Total equity	**69,406**	**45,577**
Non-current liabilities		
Non-current financial liabilities	4,059	4,577
Other non-current liabilities	202	186
Deferred tax liabilities	807	802
Total non-current liabilities	**5,067**	**5,565**
Current liabilities		
Trade payables	4,136	4,931
Current provisions	2,175	2,262
Current income tax liabilities	440	137
Current financial liabilities	1,416	10,690
Other non-financial liabilities	4,944	4,600
Total current liabilities	**13,110**	**22,619**
Total equity and liabilities	**87,584**	**73,761**

Consolidated statement of cash flows

for the period from 01 January to 30 June 2021

in EUR thousand	H1 2021	H1 2020
1. Cash flow from operating activities		
Profit/loss after taxes	**–2,453**	**–1,152**
Adjustments to reconcile profit (loss) to cash provided		
Income taxes	125	25
Interest income (expenses), net	266	223
Amortisation of intangible assets and depreciation of property, plant and equipment	3,842	1,718
Impairment losses on trade and other receivables	–153	0
Equity-settled share-based payment transactions	311	356
Other non-cash income (expense)	–83	–124
Changes in: Inventories	22	–93
Trade and other receivables	428	–746
Trade payables and other liabilities	–468	19
Provisions	–87	–382
Effects of changes in foreign exchange rates	207	–285
Interest paid	–210	–81
Income taxes received/paid, net	–21	–3
Cash flow from operating activities	**1,725**	**–525**

in EUR thousand	H1 2021	H1 2020
2. Cash flow from investing activities		
Proceeds from the disposal of property, plant and equipment and intangible assets	0	0
Payments on investments in property, plant and equipment	–470	–730
Payments for the acquisition of shares in Meetecho S.r.l.	–625	–150
Payments for investments in intangible assets	–3,722	–2,878
Cash flow from investing activities	**–4,816**	**–3,758**
3. Cash flow from financing activities		
Proceeds from the capital increase performed	25,766	0
Payments for leases (IFRS 16)	–970	–657
Repayments of bank loans, bonds and similar liabilities	–8,967	–5,075
Other payments	0	–21
Cash flow from financing activities	**15,829**	**–5,753**
Change in cash and cash equivalents	**12,737**	**–10,036**
Effects of movements in exchange rates on cash held	28	–15
Cash and cash equivalents at the beginning of the period	**23,034**	**36,419**
Cash and cash equivalents at the end of the period	**35,799**	**26,368**

As at 30 June 2021, cash and cash equivalents include bank balances of EUR 316 thousand (31 December 2020: EUR 323 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.

Consolidated statement of changes in equity

as at 30 June 2021

	Attributable to owners of the company						
in EUR thousand	Issued capital	Capital reserves	Currency translation reserve	Retained earnings	Total equi	Non-controlling interests	Total
As at 01 January 2021	**15,056**	**83,926**	**506**	**–53,911**	**45,576**	**0**	**45,576**
Total comprehensive income for the period							
Loss (income) for the period	0	0	0	–2,453	–2,453	0	–2,453
Other comprehensive income for the period	0	0	207	0	207	0	207
Total comprehensive income for the period	**0**	**0**	**207**	**–2,453**	**–2,246**	**0**	**–2,246**
Transactions with the shareholders of the company							
Increase in equity in connection with capital increase performed after deduction of transaction costs	1,506	24,260	0	0	25,766	0	25,766
Equity-settled share-based payment transactions	0	310	0	0	310	0	310
Total transactions with owners of the company	**1,506**	**24,570**	**0**	**0**	**26,076**	**0**	**26,076**
As at 30 June 2021	**16,561**	**108,496**	**712**	**–56,364**	**69,406**	**0**	**69,406**

Consolidated statement of changes in equity

as at 30 June 2020

in EUR thousand	Attributable to owners of the company						
	Issued capital	Capital reserves	Currency translation reserve	Retained earnings	Total equi	Non-controlling interests	Total
As at 01 January 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 for the period	**0**	**0**	**–285**	**–1,152**	**–1,437**	**0**	**–1,437**
Transactions with the shareholders of the company							
Equity-settled share-based payment transactions	0	356	0	0	356	0	356
Total transactions with owners of the company							
As at 30 June 2020	**15,056**	**83,343**	**492**	**–52,826**	**46,065**	**0**	**46,065**

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1. Basis of presentation

The condensed interim consolidated financial statements for the first half of 2021 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 1 January 2021 to 30 June 2021. 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 2020. 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 2020.

The condensed interim consolidated financial statements as at 30 June 2021 were neither audited nor reviewed by the Group's auditor, KPMG AG, Wirtschaftsprüfungsgesellschaft, Munich. They were approved by the Management Board for publication on 19 August 2021.

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 2020.

Meetecho S.r.l., Naples, has been included in the interim financial statements for the first time as an associate.

In the context of the ongoing COVID-19 pandemic, the Group has conducted an in-depth analysis of the resulting risks and their impact on the accounting, e.g. in the form of the revision of estimates. The Group has found that no such revisions are necessary at this time.

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 1 January to 30 June 2021 and as at 30 June 2021, which are compared against the period from 1 January 2020 to 30 June 2020 and as at 30 June 2020. The figures in the consolidated statement of financial position as at 30 June 2021 were compared to the consolidated statement of financial position as at 31 December 2020.

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.

To date, NFON has not experienced any material negative effects in connection with the coronavirus crisis. 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. Changes in consolidated group

Effective 23 June 2021. the Group acquired an interest of 24.9% in Meetecho S.r.l., Naples, Italy (Meetecho) for a purchase price of EUR 625 thousand.

Meetecho focuses on the development and marketing of real-time multimedia applications, in particular in the area of WebRTC technology.

Meetecho is included in the consolidated financial statements of the NFON Group as an associate as at 30 June 2021, as the transaction granted NFON significant influence over the company.

3. Corporate actions implemented in the reporting period

A capital increase was implemented with pre-emption rights disapplied in the reporting period. In this context, the share capital of the company was increased by EUR 1.5 million by the issue of 1,505,555 new shares. The placement price was EUR 17.50 per share, with the result that the Group received cash funds of EUR 26.3 million in total. The difference between the placement price and the par value per new share was recognised after deduction of transaction costs at an amount totalling EUR 24.3 million in capital reserves. The capital increase was entered in the commercial register on 29 March 2021. The cash funds received in conjunction with the capital increase have provided NFON AG with a basis for further growth.

4. Effects of new accounting standards and interpretations

With the exception of estimates of income taxes, this half-year financial report uses the same accounting policies as the consolidated financial statements as at 31 December 2020.

While there were some changes to the effective standards in the current reporting period, these did not affect the Group's accounting policies or necessitate retrospective adjustments.

The Group assumes that the following new standards not yet applied 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:

- Onerous Contracts – Cost of Fulfilling a Contract (amendments to IAS 37), effective from 1 January 2022;
- Annual Improvements to IFRSs 2018-2020 Cycle, effective from 1 January 2022;
- Property, Plant and Equipment — Proceeds before Intended Use (amendments to IAS 16), effective from 1 January 2022;
- References to the Conceptual Framework (amendments to IFRS 3), effective from 1 January 2022;
- Classification of Liabilities as Current or Non-current (amendments to IAS 1), effective from 1 January 2023;
- IFRS 17 Insurance Contracts and amendments to IFRS 17 Insurance Contracts, effective from 1 January 2023;
- 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.

5. Intangible assets

The capitalised costs of software customisation, in particular in connection with the new BSS, have increased by EUR 1,274 thousand as against 31 December 2020 to EUR 2,647 thousand.

Development costs of EUR 2,411 thousand 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.

Due to externally triggered technical circumstances, the originally planned useful life of a development project capitalised at the end of 2020 of 24 months was corrected to 8 months. The total development costs capitalised for this project as at 31 December 2020 amounted to TEUR 1,645. After the scheduled amortisation recognised in the first half of 2021, the development costs amounted to of TEUR 1,234 recognised in the first half of 2021, the residual carrying amount as at 30 June 2021 is TEUR 411.

6. Interest-bearing debt

The financial liabilities include the following items:

in TEUR	30.06.2021	31.12.2020
Non-current financial liabilities		
Lease liabilities	4,059	4,577
Total non-current financial liabilities	**4,059**	**4,577**
Current financial liabilities		
Acquisition credit facility	0	8,967
Lease liabilities	1,416	1,719
Other	0	4
Total current financial liabilities	**1,416**	**10,690**
Total financial liabilities	**5,475**	**15,267**

Credit facility

The Group has an acquisition credit facility of EUR 10,000 thousand. The interest rate of 4% on utilisation as at the date the contract is signed (8 January 2019) is variable and changed in line with average monthly 3-month EURIBOR. The commitment fee is 1%. EUR 8,967 thousand of this credit facility had been utilised as at 31 December 2020. According to the credit agreement, NFON must maintain minimum liquidity of EUR 12,000 thousand. The utilised credit facility was repaid in full on 27 April 2021.

Lease liabilities

EUR 1,302 thousand (31 December 2020: EUR 1,442 thousand) of current lease liabilities relates to rented office space and EUR 113 thousand (31 December 2020: EUR 277 thousand) to leased vehicles. EUR 3,705 thousand (31 December 2020: EUR 4,316 thousand) of non-current lease liabilities relates to rented office space and EUR 343 thousand (31 December 2020: EUR 261 thousand) to leased vehicles.

7. Equity

Equity rose by EUR 23,829 thousand as against 31 December 2020 to EUR 69,406 thousand as at 30 June 2021. This relates in particular to the capital increase at the end of March 2021. Please refer to the comments under 3 ("Corporate actions implemented in the reporting period").

Capital reserves increased by EUR 311 thousand (H1 2020: EUR 356 thousand) on the basis of existing share-based payment agreements. The corresponding expense was recognised in staff costs. Consolidated equity was negatively affected by the loss of EUR 2,453 thousand that arose in the first half of 2021.

8. 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.

30.06.2021	Amortised cost			Fair value (hierarchy levels)			
in TEUR	Fair value	Carrying amount	Total carrying amount	Level 1	Level 2	Level 3	Total
Financial assets not measured at fair value							
Trade receivables*		9,412	9,412	–	–	–	–
Other financial assets*		429	429	–	–	–	–
Cash and cash equivalents*		35,799	35,799	–	–	–	–
Total financial assets not measured at fair value		**45,640**	**45,640**	**–**	**–**	**–**	**–**
ancial liabilities not measured at fair value							
Lease liabilities (IFRS 16)		5,464	5,464	–	–	–	–
Other financial liabilities		11	11	–	–	–	–
Trade payables*		4,136	4,136	–	–	–	–
Total financial liabilities not measured at fair value		**9,610**	**9,610**				

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

31.12.2020	Amortised cost			Fair value (hierarchy levels)			
in TEUR	Fair value	Carrying amount	Total carrying amount	Level 1	Level 2	Level 3	Total
Financial assets not measured at fair value							
Trade receivables*		9,973	9,973	–	–	–	–
Other financial assets*		390	390	–	–	–	–
Cash and cash equivalents*		23,034	23,034	–	–	–	–
Total financial assets not measured at fair value		**33,398**	**33,398**	**–**	**–**	**–**	**–**
Financial liabilities not measured at fair value							
Acquisition loan		8,967	8,967	–	–	–	–
Trade payables*		4,931	4,931	–	–	–	–
Total financial liabilities not measured at fair value		**13,897**	**13,897**	**–**	**-**	**–**	**–**

* 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 2021.

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 2020 annual report and the management report for the first half of 2021.

9. Contingent liabilities and obligations

There have been no significant changes since 31 December 2020.

10. Earnings per share

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

in TEUR	H1 2021	H1 2020
Profit (loss) for the year attributable to the owners of the parent for basic earnings per share	–2,453	–2,369
Profit (loss) for the year attributable to the owners of the parent for diluted earnings per share	–2,453	–2,369

Quantity	H1 2021	H1 2020
Weighted average number of ordinary shares for basic earnings per share	15,837,785	15,055,569
Weighted average number of ordinary shares for diluted earnings per share	16,098,764	15,061,514

in EUR	H1 2021	H1 2020
Loss per share		
Basic earnings	–0.16	–0.08
Diluted earnings	–0.15	–0.08

11. Revenue

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

in TEUR	H1 2021	H1 2020
Product / service		
Recurring revenue		
NFON AG	19,337	17,102
Deutsche Telefon Standard GmbH	7,554	5,727
NFON GmbH	2,815	2,482
NFON Ltd.	3,541	3,161
NFON Iberia S.L.	183	176
NFON ITALIA S.R.L.	128	28
NFON France	103	20
Total recurring revenue by segment	**33,660**	**28,695**
Reconciliation to consolidated recurring revenue	0	**0**
Consolidated recurring revenue	**33,660**	**28,695**
Non-recurring revenue		
NFON AG	2,097	2,354
Deutsche Telefon Standard GmbH	911	643
NFON GmbH	811	629
NFON Ltd.	292	353
NFON Iberia S.L.	6	15
NFON ITALIA S.R.L.	69	67
NFON France	36	14
Non-recurring revenue by segment	**4,222**	**4,075**
Reconciliation to non-recurring consolidated revenue	0	**0**
Non-recurring consolidated revenue	4,222	**4,075**
Consolidated revenue	**37,882**	**32,770**

Contrary to the development in non-recurring revenue, the significant increase in recurring revenue in the first half of 2021 essentially results from the customer base, now broader than in the previous year. Recurring revenue essentially comprises monthly payments of a fixed licence fee per seat plus a fixed or volume-based fee for voice telephony usage on the part of the customer base at seats or SIP trunks. Non-recurring revenue includes revenue from 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 2021: EUR 128 thousand; 31 December 2020: EUR 165 thousand), additional contract initiation costs (30 June 2021: EUR 8 thousand; 31 December 2020: EUR 18 thousand) and contract liabilities (30 June 2021: EUR 444 thousand; 31 December 2020: EUR 599 thousand) are recognised under other non-financial assets (current) and other non-financial liabilities (non-current).

12. Other operating income

Other operating income of EUR 285 thousand (H1 2020: EUR 468 thousand) mainly includes income in connection with other non-cash employee benefits of EUR 146 thousand (H1 2020: EUR 145 thousand). This had also included exchange rate gains of EUR 196 thousand in particular in the previous year.

13. Other operating expenses

in TEUR	H1 2021	H1 2020
Other operating expenses		
Sales commission	4,713	3,975
Marketing expenses	3,607	3,194
Other staff costs	1,345	1,552
Consulting expenses	1,017	670
IT costs	765	589
Other administrative expenses	599	451
Rental expenses	441	399
Support	244	228
External development costs	17	9
Other expenses	443	190
Total other operating expenses	**13,191**	**11,258**

This increase in sales commission from EUR 3,975 thousand in the first half of 2020 to EUR 4,713 thousand in the reporting period relates to the higher revenue volume in the first half of 2021.

Significantly higher marketing expenses than in the previous year were budgeted for 2021 and implemented in corresponding projects.

Other expenses include expenses for exchange rate changes of EUR 170 thousand.

14. Share-based payment

Stock option plans (resolved by the Annual General Meetings on 9 April 2018 – "2018 stock option plan" and on 24 June 2021 – "2021 stock option plan") were launched at the start of 2019 and in the middle of 2021, 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.

901,229 stock options had been granted as at 30 June 2021 (30 June 2020: 718,229). An amount of EUR 311 thousand (previous year: EUR 356 thousand) was recognised in staff costs (offsetting item: capital reserves) in this context in the reporting period.

15. Income taxes

The tax expenses of EUR 126 thousand for the first half of 2021 (H1 2020: EUR 33 thousand) 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.

16. 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.

in TEUR	Transaction values H1 2021	Transaction values H1 2020
Sales of goods and services and other income [1]	11	9

in TEUR	Transaction values H1 2021	Transaction values H1 2020
Purchases of goods and services and other expenses [2]	167	105

in TEUR	Balance outstanding as at 30.06.2021	Balance outstanding as at 31.12.2020
Receivables [3]	2	0

in TEUR	Balance outstanding as at 30.06.2021	Balance outstanding as at 31.12.2020
Liabilities [4]	2	57

1 EUR 8 thousand (previous year: EUR 6 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 61 thousand) of which relates to transactions with members of the Management Board and EUR 106 thousand (previous year: EUR 44 thousand) of which to transactions with members of the Supervisory Board.

3 EUR 1 thousand of which relates to members of the Management Board and EUR 1 thousand to members of the Supervisory Board.

4 EUR 2 thousand (31 December 2020: EUR 48 thousand) of which relates to liabilities to members of the Management Board and EUR 0 thousand (31 December 2020: EUR 9 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 are 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.

17. Executive bodies and remuneration

1. The Management Board

The following table shows the members of the Management Board:

	Residence	Function and profession	External mandates
Dr. Klaus von Rottkay	Munich	CEO, doctorate in physics	n.a.
Jan-Peter Koopmann	Nackenheim	CTO, degree in computer science and business administration	n.a.

The members of the Management Board received the following remuneration:

in TEUR	H1 2021	H1 2020
Management Board remuneration		
Short-term remuneration	495	515
Total share-based remuneration (long-term incentive)	32	97
Total Management Board remuneration	**526**	**612**

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 2021:

30.06.2021	Function	Profession	External mandates
Supervisory Board			
Rainer Christian Koppitz	Chairman	CEO of Katek SE, Munich	Chairman of the Supervisory Board of CENIT AG, Stuttgart
Dr. Rupert Doehner	Deputy Chairman	Lawyer, Managing Director of RECON Rechtsanwaltsgesellschaft mbH, Munich	n.a.
Günter Müller		Executive Chairman of ASC Technologies AG, 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 TEUR	H1 2021	H1 2020
Supervisory Board remuneration		
Basic remuneration	57	57
Attendance fee	14	15
Total Supervisory Board remuneration	**71**	**72**

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

18. 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 and charges.

The calculation and presentation of segment reporting has been modified compared to the consolidated financial statements as at 31 December 2020 and the interim financial statements as at 30 June 2021. Management previously primarily assessed performance on the basis of revenue and EBITDA as presented in management reporting. Starting from the reporting period, this is measured on the basis of revenue and contribution margin 2. Contribution margin 2 is equivalent to EBITDA (earnings before interest, taxes, depreciation and amortisation), adjusted for indirect intercompany transfers and charges. Indirect transfers and charges include costs and expenses incurred in central functions for maintaining marketing activities, for providing products and services and for customer support. They do not include non-operational central activities (general management, legal and finance).

The segment information for the reporting period is presented below on the basis of the new segment structure. The prior-year figures are also presented according to the new structure.

The Group has seven segments, which are shown below separately 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.

Revenue and contribution margin 2 by reportable segment

in TEUR	H1 2021	H1 2020
Revenue		
NFON AG	21,434	19,456
Deutsche Telefon Standard GmbH	8,465	6,370
NFON GmbH	3,626	3,110
NFON UK Ltd.	3,833	3,513
NFON Iberia SL	189	191
NFON ITALIA S.R.L.	197	95
NFON France	139	34
Total revenue of the reportable segments	**37,882**	**32,770**
Reconciliation	–1	0
Total consolidated revenue	**37,882**	**32,770**

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 –1 thousand (previous year: EUR 0 thousand) relate to exchange rate differences for currency translation at NFON UK, which uses the monthly average rate in management reporting and the annual average rate in the consolidated financial statements.

in TEUR	H1 2021	H1 2020
Contribution margin 2		
NFON AG	3,231	3,369
Deutsche Telefon Standard GmbH	2,351	1,036
NFON GmbH	–78	13
NFON UK Ltd.	–610	–675
NFON Iberia SL	–616	–582
NFON ITALIA S.R.L.	–1,256	–893
NFON France	–893	–906
Total contribution margin 2 by reportable segment	**2,130**	**1,364**
Other segments	112	0
Reconciliation	–461	–542
Consolidated EBITDA	**1,780**	**822**
Addback:		
Depreciation and amortisation	3,842	1,718
Net interest income / expenses	–266	–223
Income tax expense	126	33
Consolidated net profit/loss	**–2,453**	**–1,152**

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 –461 thousand as at 30 June 2021 mainly relate to non-recurring effects adjusted for in internal reporting of EUR –507 thousand and consolidation effects of EUR 44 thousand.

The reconciliation effects of EUR –542 thousand as at 30 June 2020 mainly relate to non-recurring effects adjusted for in internal reporting of EUR –532 thousand and consolidation effects of EUR 10 thousand.

Revenue by product / service

A description of the Group's products and services can be found under note 11 – Revenue. Each of the reportable segments presented above offers recurring and non-recurring products and services.

in TEUR	H1 2021	H1 2020
Product/service		
Recurring revenue	33,660	28,695
Non-recurring revenue	4,222	4,075
Consolidated revenue	**37,882**	**32,770**

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 TEUR	H1 2021	H1 2020
Revenue		
Germany	29,439	25,428
Austria	3,626	3,110
United Kingdom	3,833	3,513
Spain	189	191
Italy	197	95
France	139	34
Other countries	459	398
Reconciliation	–1	0
Total consolidated revenue	**37,882**	**32,770**

Non-current assets

The table below show non-current assets of the reporting segments, with the exception of financial instruments and deferred taxes.

in TEUR	30.6.2021	31.12.2020
Non-current assets		
Germany	36,682	35.195
United Kingdom	550	631
Austria	370	339
Italy	95	105
Spain	55	42
France	27	35
Total non-current assets	**37,779**	**36.347**

19. Events after the end of the reporting period

There were no events after 30 June 2021 that could have a significant impact on the company's financial position or financial performance.

Munich, 19 August 2021

Dr. Klaus von Rottkay
Chief Executive Officer

Jan-Peter Koopmann
Member of the Management Board

Additional information

Responsibility statement in accordance

To the best of our knowledge, and in accordance with the applicable reporting principles for consolidated financial statements, 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 management report of the company and 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.

Munich, 19 August 2021

Dr. Klaus von Rottkay	Jan-Peter Koopmann
Chief Executive Officer	Member of the Management Board

FINANCIAL CALENDAR

Q3

19.08.2021	Presentation Half-year Results 2021

Q4

18.11.2021	Presentation 9 Month Results 2021

Imprint

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