FACTS AND FIGURES FIRST HALF OF THE YEAR

HALF-YEAR FINANCIAL REPORT 2022

NFON AG

Who we are

AG NFON, headquartered in Munich, is a European provider of integrated business communications from the cloud. The listed company (Frankfurt Stock Exchange, Prime Standard), with over 3,000 partners in 15 European countries and seven branches, counts more than 50,000 companies. With its core product Cloudya, the smart cloud communication platform, NFON offers voice calls, easy video conferences and smooth integration of CRM and collaboration tools for small and medium-sized enterprises. The NFON portfolio consists of four areas: business communication with Cloudya, customer contact, integration and enablement. All NFON cloud services are operated in certified computer centres in Germany, with all energy coming from renewable sources. NFON accompanies companies with intuitive communication solutions into the future of business communication.

corporate.nfon.com/en

Key performance indicators[1]

In EUR million	H1 2022	H1 2021	Change in %	Q2 2022	Q2 2021	Change in %
Total revenue	**40.1**	**37.9**	**5.8**	**19.8**	**19.0**	**4.3**
Recurring revenue	36.5	33.7	8.6	18.2	16.8	7.9
Recurring revenue as a share of total revenue (in %)	91.1	88.9	n/a	91.6	88.6	n/a
Non-recurring revenue	3.6	4.2	–15.9	1.7	2.2	–23.2
Non-recurring revenue as a share of total revenue (in %)	8.9	11.1	n/a	8.40	11.4	n/a
ARPU blended (in EUR)[2]	9.82	10.03	–2.1	9.65	9.88	–2.3
Seat growth	**609,640**	**557,401**	**9.4**			
Adjusted EBITDA[3]	–1.5	2.3	n/a	–2.0	0.5	n/a

1 Unless stated otherwise, all figures in the Consolidated Financial Statements and the related notes are rounded. Therefore, rounding differences can occur in the tables.
2 Based on average number of seats per month in the periods under review.
3 Explanations on the adjustments can be found in the Earnings Position section.

Legend

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List of abbreviations

API	Application Programming Interface
CCaaS	Contact Center as a Service
CRM	Customer Relationship Management
CTI	Computer-Telephone Intergration
ERP	Enterprise Resource Planning
PBX	Abbreviation for Private Branch Exchange. German: Telefonanlage
PSTN	Public Switched Telephone Network
SaaS	Software as a Service
SDK	Software Development Kits
SDSL	Symmetric Digital Subscriber Line is a DSL access technology to a public digital network
UCC	Unified Communications & Collaboration
UCCaaS	Unified Communications & Collaboration as a Service
CPaaS	Comunication Platform as a Service

CONTENTS

Dear shareholders, dear readers!

After a slow overall economic recovery set in 2021, this trend initially continued in Germany in the first quarter of 2022. There were thus good reasons to expect a significant recovery in 2022 as well. However, from the second quarter on, the consequences of the war in Ukraine and the interest rate turnaround that was initiated had an inhibiting effect on the general global economy. Disrupted supply chains, reduced trade activity and, in particular, the bottleneck in the energy supply combined with significantly higher prices for energy are dampening economic activity in Europe accordingly. The EU Commission has therefore significantly lowered its economic expectations for 2022 and anticipates record inflation.

In view of this general mood, investment decisions and expansion plans are being postponed further on the one hand, and on the other hand company decision-makers increasingly see the need to move from individual cloud investments to company-wide cloud strategies. In doing so, companies are pursuing the goal of increasing the flexibility, agility and the digitalisation and automation of internal processes overall. The disruptions in the working world that are already taking place are thus experiencing a new strategic direction: companies are increasingly planning holistically in terms of integrated business communication. In our opinion, these developments as well as the economic factors will shape the investment behaviour of companies and the market for cloud telephony – with corresponding effects on our business model. We therefore took the right step at the right time by repositioning the company last year.

We have gotten off to a good start in 2022 and have reached important milestones in our focus on Unified Communications & Collaboration and Contact Center solutions. With the launch of Cloudya Meet & Share, our platform offers a full UC suite alongside cloud telephony. In addition, with the omnichannel product Contact Center Hub, which is available throughout Europe, we have an attractive offering for the high-growth CCaaS market in our portfolio. The implementation of our partner programme NGAGE has also yielded initial important results. For instance, we managed to increase the total number of our partners across Europe to nearly 3,500 and gained 1&1 Versatel as a new NFON partner. In total, we now have around 55,000 corporate customers.

The past few months have also shown that our typical sales cycle takes longer than usual under the current circumstances, however, and as a result of the fact that we are growing into the enterprise segment.

We have around
55,000
corporate customers.

With seat growth of 9.4%, we have increased the number of seats installed with customers to 609,640 compared to the previous year. Seats are the basis for our sustainable recurring revenues. These increased by 8.6% to EUR 36.5 million compared to the previous year 2021. With total revenues of EUR 40.1 million, this corresponds to a very high share of 91.1%.

For 2022 as a whole, we expect to meet our forecast in view of the developments in the first half of the year. Thus, we expect a growth rate in seats at the lower end of the projected range of 10% to 12%, as well as an increase in recurring revenue also at the lower end of the forecast range of 10% and 12%. At the same time, we are targeting recurring revenue to account for at least 88% of total revenue.

With our repositioning away from being a pure provider of cloud telephony to a provider of integrated business communication, we have reacted in good time to the changes in the market for cloud telephony that are now becoming apparent. The investments made in recent months were aimed at positioning NFON as a European provider of integrated business communication. The task now is to develop these investments profitably for NFON and to reap the rewards of the measures already initiated. For us, this means that in the current situation we will not increase our growth investments in marketing and personnel any further. Profitability now has clear priority.

We are convinced that, with our strategic orientation, we have laid the foundation for developing NFON into the leading provider of integrated business communication in Europe. This is where we see future growth opportunities for NFON. Opportunities that we would like to exploit together with you. Your trust in us and the company is important to us. We would therefore be delighted if you would continue to accompany us on this path.

Kind regards,

Dr Klaus von Rottkay and Jan-Peter Koopmann

+9.4%

seat growth compared to the previous year

EUR 36.5 million

recurring revenues in the first half-year 2022

Interim Group Management Report for the first half of 2022

91.1%

Share of recurring revenues in total revenue.

Principles of the Group

Business model of the Group

NFON AG (abbreviated "NFON" and together with its subsidiaries "NFON Group"), headquartered in Munich, was founded in 2007 and is a provider of integrated business communications in Europe. NFON counts over 50,000 companies in 15 European countries among its customers and is represented as a company with its own subsidiaries in Germany, Austria, the UK, Spain, Italy, France, Poland and Portugal. In addition, NFON has a large partner network of over 3,000 partners through which sales are recorded in the other countries.

The NFON Group generates most of its revenue with cloud-based telecommunications services for corporate customers. In addition, NFON is expanding its product portfolio in the areas of Unified Communications & Collaboration, e.g. Meet & Share or Integration for Microsoft Teams, or business applications, e.g. Contact Center Hub, Ncontactcenter or CRM Connect. The differentiation of the products is shown in the table on the right.

With proprietary products such as Cloudya and centrexx, customers are provided with the necessary switching service from the cloud in the NFON data centers via the so-called **Cloud PBX**. As a result, customers can dispense with the conventional telephone system on their own premises. As a rule, each customer is charged a one-time activation fee per extension and a monthly provisioning fee per extension used. In addition, NFON can replace the telephone connection so that the customer pays NFON the charges for all telephone traffic. NFON obtains this service from various network providers. NFON can also provide Internet access (enablement) on a reselling basis. If necessary, NFON sells terminal equipment (telephones, headsets) that is sourced from various manufacturers.

Product category	Products
Business Communication Offers telephony, video calls, screen sharing, connection to Customer Relationship Management systems	Cloudya and centrexx (NFON cloud telephone system or the cloud telephone system distributed by Deutsche Telefon Standard), Meet & Share, CRM Connect
Integration NFON's cloud telephone system is ntegrated into existing systems, business processes and workflows on the customer's side.	• NCTI (Standard, Premium & Pro) complements Cloudya's feature set with more comprehensive business process integration and gives maximum freedom to choose preferred communication devices and environments. • NFON Integration for Microsoft Teams (Premium and Standard) provides a professional telephony solution that integrates with the familiar Microsoft Teams environment. It offers PSTN[1] connectivity so customers can make calls with Microsoft Teams and use it as a standalone solution.
Customer Contact Products to optimise customer contact	• Ncontactcenter/NFON Contact Center Hub complements Cloudya with a full-fledged cloud contact center solution that enables efficient customer care across a wide range of channels, agents and locations. • Nhospitality integrates cloud telephony with property management systems (PMS)[2] to offer an efficient communication solution tailored to the hotel industry. • Neorecording allows companies to record conversations in an encrypted and audit-proof manner. • Nmonitoring Queues allows you to monitor and track your own work performance, such as call queues, receive instructions from supervisors and log work breaks in a clear, organised way by simply adding a license in Cloudya. • Noperatorpanel offers a professional control panel for voice answering. Customers can answer incoming calls, make calls via the integrated softphone and forward specific calls to their recipients.
Enablement NFON prepares companies for the cloud and provides them with the right infrastructure	• Nconnect Voice enables a seamless transition to flexible, scalable IP communications. Existing legacy or IP PBX systems are connected to the NFON International Carrier Network and complete number blocks and voice channel capacity are registered. • Nconnect Data (only in Germany) offers high-performance Internet access

1 The Public Switched Telephone Network, abbreviated PSTN, refers to a telecommunications network that enables voice communication between subscribers at different locations. The alternative term Plain Old Telephone Service (POTS) is often used.
2 Hotel Property Management Systems manage all aspects of hotel operations, including ensuring a superior guest experience.

+600,000

Seats in Europe

For products from the Integration and Customer Contact categories, consulting and services are generally provided by NFON. Monthly provision fees are charged per user for the respective products.

In addition, NFON offers industry solutions, for the finance & insurance sector, for instance.

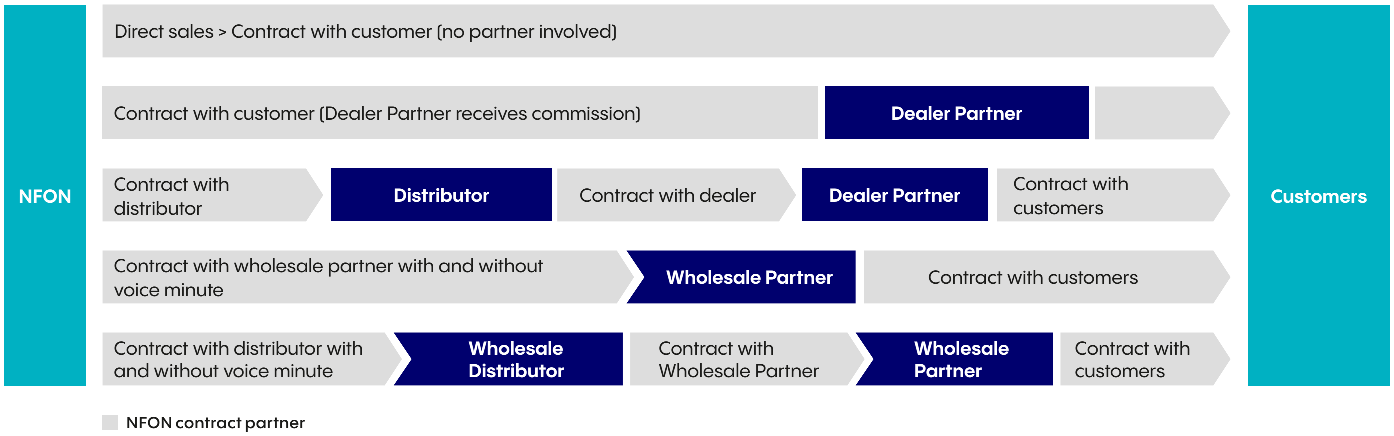
NFON distinguishes between recurring and non-recurring revenues. Recurring revenues include monthly fees for all products and solutions as well as ongoing call charges and **SDSL** monthly fees. By contrast, non-recurring revenues are one-time revenues, in particular from the sale of hardware, setup fees for the cloud telephone system (PBX) and the other products, setup fees for SDSL or consulting services.

Direct sales: NFON handles sales directly.

Dealer partners: The dealer partner has his own customer base and acquires new customers to whom he sells NFON products and solutions. The dealer partner takes over the service for these customers. NFON takes over the delivery of the contractually agreed services.

Distributors: Distributors have their own dealer network and generally do not market NFON's services themselves. They act as an intermediary between the dealer and the manufacturer or service provider and place the respective product in their own dealer network.

Distribution takes place through five channels with a clear focus on indirect partner distribution.



+3,000

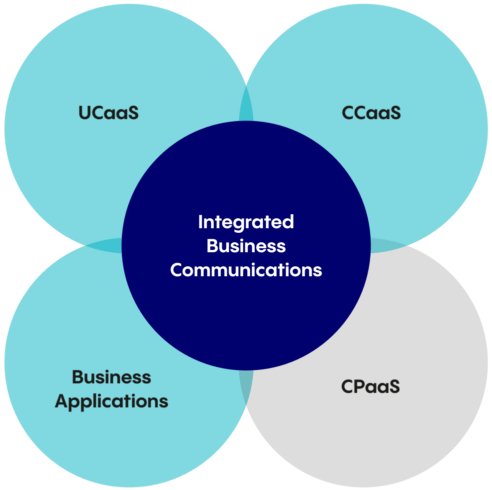
partners in Europe

Wholesale partners: In order to accelerate the expansion of its customer base, NFON enters into distribution agreements with wholesale partners. Under these agreements, NFON provides services on a white-label basis, i.e. the wholesale partners market NFON's services to end customers under their own brands or under the co-branding of their own brand and the NFON brand. There is no direct contractual relationship between the customers of the wholesale partners and NFON. Within the group of wholesale partners, a further distinction is made between those partners who purchase voice minutes from NFON and those who do not.

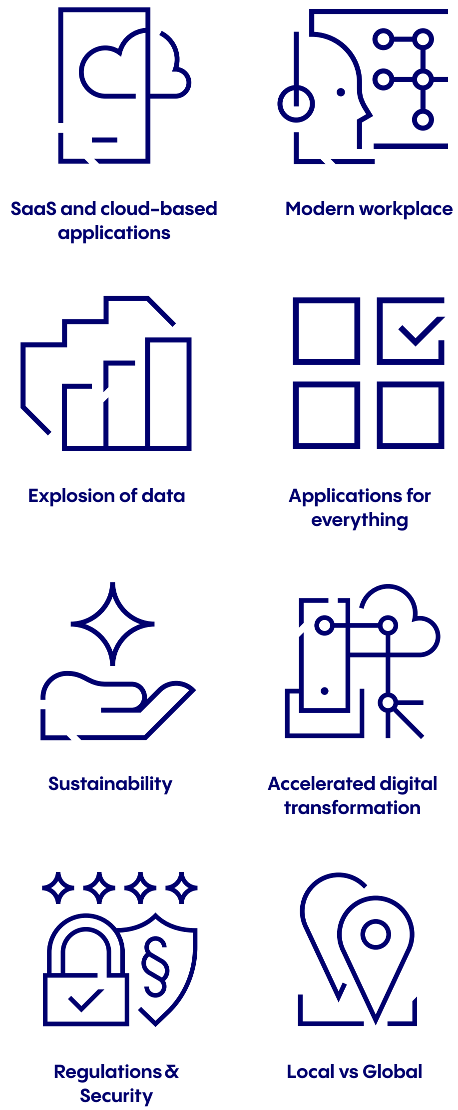
Wholesale distributors: Wholesale distributors have other wholesale partners or their own network of wholesale partners through which NFON's services are sold.

General market characteristics

Until recently, the areas of business telephony, Unified Communications & Collaboration, Contact Centers, business applications and communication platforms existed independently of each other. With the disruptive changes in the market, these areas are moving closer and closer together and form the intersection of integrated business communication.



The main trends driving this development are:



8.4%

CAGR (21–25) for the Collaborations Market

Market for Unified Communications & Collaboration

Unified Communications & Collaboration (UCC) services and products combine various communication services. This improves the accessibility of users and promotes teamwork. With this concept, UCC services and products respond to the increasingly complex and growing number of communication options. A key feature of UCC services and products is the possibility of synchronous forms of communication in which participants interact with each other in real time. Unified Communications essentially comprises two aspects:

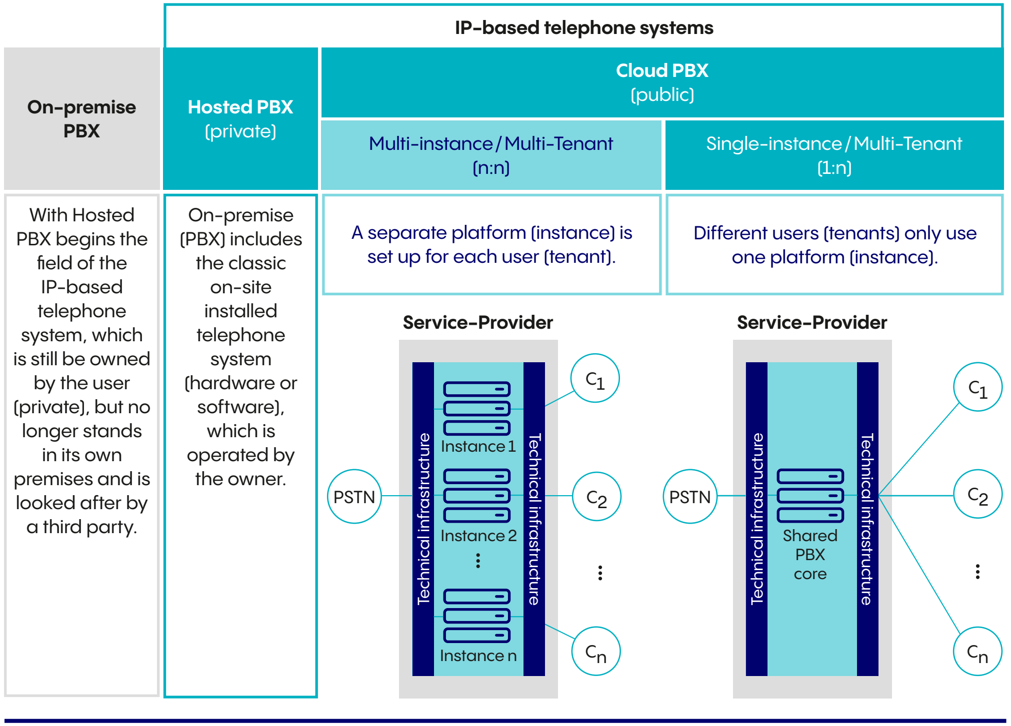
1. Communication independent of location, e.g. via a single telephone number that is used for fax, landline or mobile phone at the same time.
2. Users can add new communication channels to an existing communication: For example, they can start an audio or video transmission from a chat.

Pure voice communication is additionally extended by the possibility of collaboration in real time. This is associated with functionalities such as sharing screens, working together on a document from different locations or using virtual whiteboards.

Unified Communications and Collaboration Services can help to further automate business processes and make them more efficient. Communication processes are directly linked to other systems or user programmes such as a Customer Relationship Management programme or an Enterprise Resource Planning system (ERP system). This can be done by means of computer telephony integration, for example: When a customer makes an inquiry by phone, an employee answers the call directly via computer. The telephone number is identified immediately via automatic number resolution, the details of the customer can be viewed and further automatic processes can be triggered via additional functionalities from other systems.

The business telephony market is now a sub-segment of Unified Communications & Collaboration and encompasses the market for telephone systems in a corporate context. Classic on-site telephone systems are increasingly being replaced by cloud telephone systems. The market for business telephony is divided into three areas:

European business telephony market



NFON offers a single instance/multi-tenant platform with its cloud telephone system. The so-called 1:n relationship means that one platform (instance) is used by many customers (licensees of the telephone system). This distinguishes it from multi-instance/multi-tenant systems. Here, each customer has his own instance/platform. The SIP trunk technology offered by the NFON subsidiary Deutsche Telefon Standard GmbH (DTS) ensures that stationary telephone systems (on-premise PBX) are connected to the so-called Public Switched Telephone Network (PSTN) via the Internet.

Market for business applications

Applications are used to support the administration of companies and organisations. Applications can be simple standard software, e.g. for word processing or address management, application-related standard software, e.g. for accounting or warehousing, or special individual software tailored to specific industry solutions. Business applications as individual software include ERP and Customer Relationship Management systems, for example.

Market for contact center solutions

Gartner defines Contact Center as a Service (CCaaS) as a Software-as-a-Service (SaaS)-based application that enables customer service organisations to holistically manage customer interactions across many communication channels (multichannel or omnichannel). In detail, CCaaS describes the combination of cloud-based contact center infrastructure and contact center hosting to operate as well as manage the contact center infrastructure on premises. CCaaS makes it possible to choose only one specific function or technology, resulting in lower integration, IT and support costs. Companies can adopt these services themselves or through managed or outsourced services. Some companies also use a combination of owned and managed infrastructure with a hybrid model.

Market for a Communications Platform

A Communications Platform as a Service (CPaaS) is a cloud-based platform that allows developers to add real-time communications capabilities to their own applications without having to build back-end infrastructure and interfaces. This typically includes software tools, standards-based application programming interfaces (APIs), sample code and pre-built applications. CPaaS providers also offer support and product documentation to assist developers throughout the development process. Some companies also offer software development kits (SDKs) and libraries for building applications on various desktop and mobile platforms.

Regulatory framework conditions

Following the liberalisation and harmonisation of German telecommunications law (1989), the provision of telecommunications services and the operation of telecommunications networks are subject to the German Telecommunications Act ("TKG", original version dated 25 July 1996, latest revision dated 22 June 2004, latest amendment dated 19 June 2020) as well as certain provisions supplementing the Telecommunications Act. NFON is therefore also subject to the provisions of the TKG. The authority responsible for regulating the German telecommunications market is the Federal Network Agency (BNetzA). Comparable regulatory authorities, which also include the European Commission, can also be found in the other European countries. The provision of telecommunications services in the European Union does not require a license from a regulatory authority. As a commercial provider of publicly available telecommunications services,

16.3%

CAGR (21–25) for the Contact Center Market

NFON must notify the BNetzA of the commencement, any change and the termination of its business activities. Regulatory authorities such as the BNetzA may impose obligations on the company in relation to the provision of the service offered. In addition, as NFON collects, stores and uses data in the ordinary course of its business, the company is subject to the data protection laws and regulations of federal, state and foreign governmental authorities.

Organisation

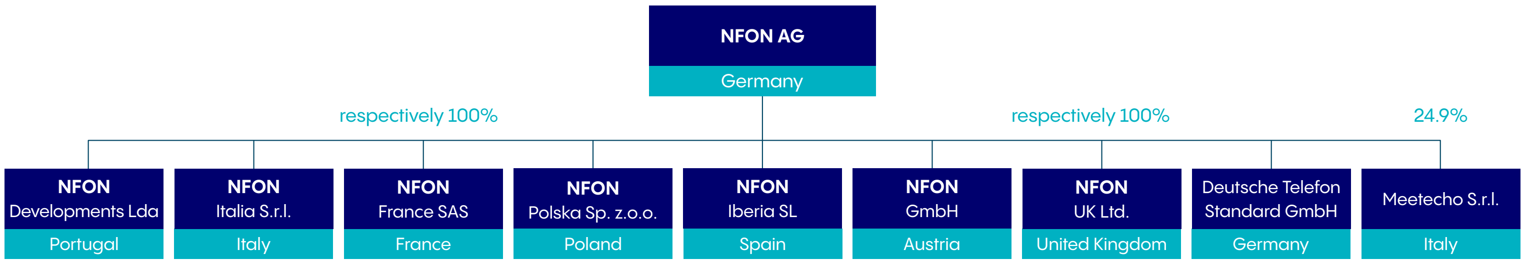
Group structure and locations

The Group structure as of 30 June 2022 is shown in the following overview.

15

European countries comprise the NFON network

Group structure and locations



Management and control

The Management Board works closely with the national executives and the Managing Directors of the foreign subsidiaries. A four-member Supervisory Board oversees the activities of and advises the Management Board, the Chief Executive Officer and the Chief Technical Officer.

Employees

The situation for companies with a pronounced focus on software developers has not changed significantly in 2022 and remains difficult. This means that filling open R&D positions in particular remains a challenge for companies like NFON. In order to attract the desired skilled workers to NFON, NFON already developed and implemented further initiatives in 2019 in addition to the traditional recruitment measures. In view of the situation described, NFON has not set itself a general target for the share of women.

Goals and strategy

The growth strategy of the NFON Group has a clear goal for the years to come: to become the leading provider of integrated business communications in Europe. Voice continues to form the core of the NFON product portfolio – with the Cloudya core product expanded into a UC suite. Customer needs and market developments show that solutions must be integrated and user-friendly in order to be accepted. The flood of cloud solutions overwhelms small and medium-sized companies in particular. But even larger companies sometimes fail because of the fast-moving nature of services and the need to integrate new applications into their IT systems in a flexible and user-friendly way. NFON's technological, go-to-market and acquisition strategy addresses this neuralgic point in many companies' IT strategies.

Technological strategy	Go-to-market strategy			Acquisition strategy
Product development	**Partner development**	**Customer development**	**Market development**	**Market consolidation**
Technical resources are to be expanded even further. New products will continue to be launched on the basis of the company's own R&D resources and a clearly defined product roadmap. These activities will be flanked by the development of further technology partnerships and/or targeted tech M&A measures.	Sales and distribution resources are to be further expanded. (NGAGE and Strong Together). This includes, on the one hand, the acquisition of new partners and, on the other hand, the development of current and new partnerships into high-revenue distribution channels.	Upselling and cross-selling activities are to be increased in the current customer base of over 50,000 customers. Furthermore, the current customer base is to be further expanded through – Verticalisation, – Growing in less developed markets and – Growth in the enterprise segment (>250 extensions).	NFON has evolved from pure cloud telephony towards Unified Communications & Collaboration. The new branding shows the expanded focus and is intended to strengthen the perception of the NFON brand. Two goals are associated with this: – Increasing market share in the core markets of Austria and Germany – Intensifying business in the underrepresented countries, especially Italy and Poland	Inorganic growth in countries with a low cloud penetration rate is an important driver for NFON's development. NFON is essentially pursuing two strategies: Selective acquisition of companies to further increase (1) technological capabilities and (2) market share.

Control

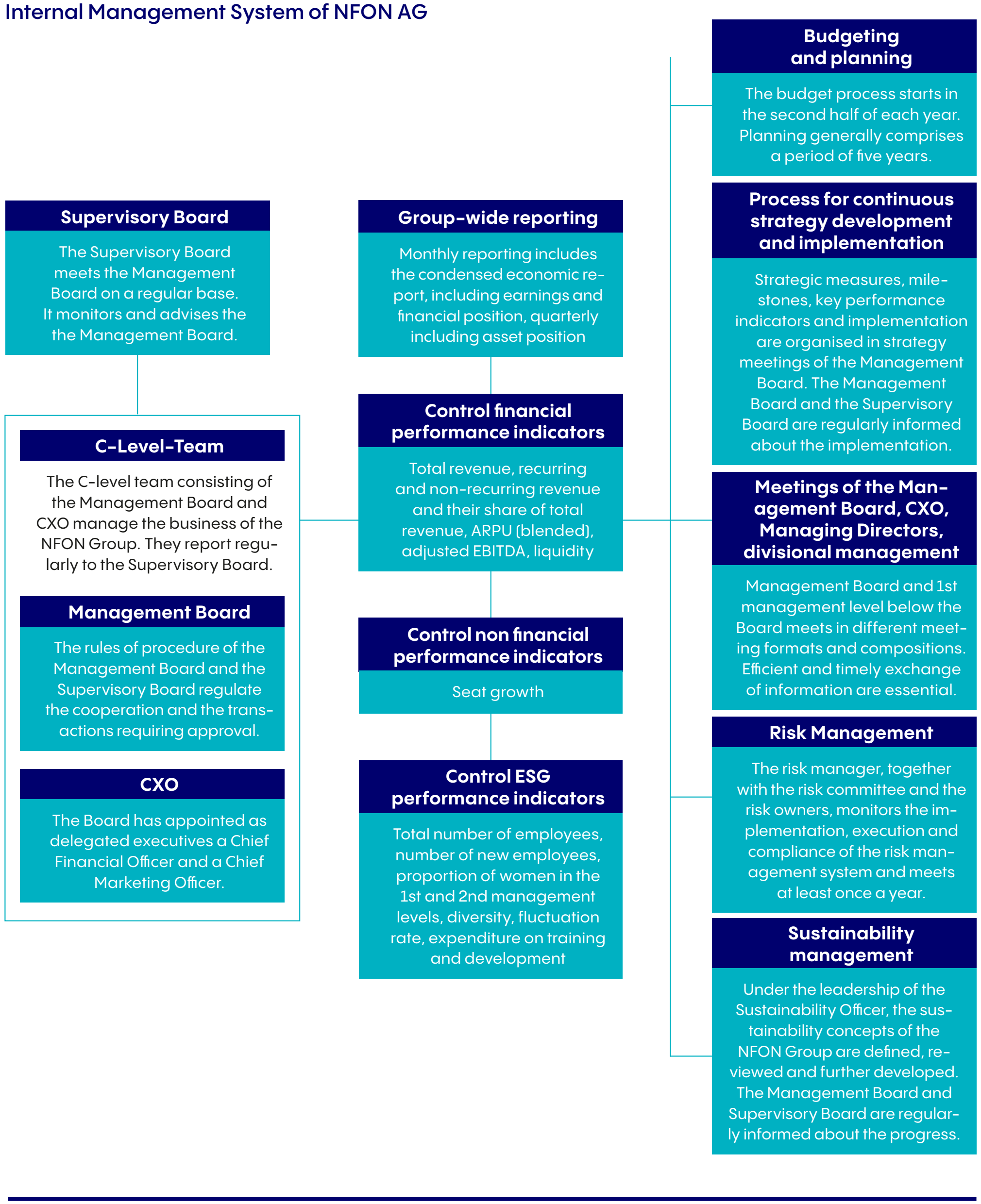
Control systems

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

504

colleagues worked in average at NFON in the first half of the year

Internal Management System of NFON AG



+9.4%

Seat growth as at 31 June 2022

Financial and non-financial performance indicators

Overview of the development of the financial and non-financial performance indicators with corresponding highlighting of the significant key figures (bold):

in EUR million	H1 2022	H1 2021	Change in %	Q2 2022	Q2 2021	Change in %
Total revenues	40.1	37.9	5.8	19.8	19.0	4.3
Recurring revenue	**36.5**	**33.7**	**8.6**	**18.2**	**16.8**	**7.9**
Share of recurring revenue	**91.1**	**88.9**	**n/a**	**91.6**	**88.6**	**n/a**
Non-recurring revenue	3.6	4.2	–15.9	1.7	2.2	–23.2
Share of non-recurring revenue	8.9	11.1	n/a	8.40	11.4	n/a
ARPU blended (in EUR)[1]	9.82	10.03	–2.1	9.65	9.88	–2.3
Seat growth	**609,640**	**557,401**	**9.4**			
Adjusted EBITDA[2]	–1.5	2.3	n/a	–2.0	0.5	n/a

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2 Based on average number of seats per month in the periods under review.
3 Explanations on the adjustments can be found in the Earnings Position section.

Economic Report

Macroeconomic and industry-specific framework conditions

Macroeconomic development in Europe and Germany

The first half of 2022 was primarily characterised by the Russian war on Ukraine and the resulting supply bottlenecks. However, the latter can also be attributed to China's no-COVID strategy. After a slow overall economic recovery in 2021, the general conditions worldwide have developed more negatively again in recent months. The recent turnaround in the interest rate policy of the central banks also played its part in stalling the economic recovery. Overall, according to forecasts by the Kieler Institute for the World Economy (IfW), gross domestic product (GDP) in the eurozone will only increase by 3.1% in 2022, compared to 5.3% in 2021.[1] In Germany, NFON AG's domestic market, economic growth was not as strong as in the eurozone. In the first quarter of 2022 – still hardly impacted by the Ukraine war and in the course of the easing of the epidemic situation in Germany – an economic recovery began with 4% compared to the same quarter of the previous year.[2] For 2022 as a whole, however, the Federal Statistical Office shows an increase in German economic output of only 2.1%. (2021: 2.9%).[3]

1 Kieler Institute for the World Economy (2022), Kieler Konjunkturberichte, Weltwirtschaft im Sommer 2022, p. 22.
2 https://www.destatis.de/DE/Presse/Pressemitteilungen/2022/04/PD22_184_811.html (23.06.2022)
3 Kiel Institute for the World Economy (2022), Kieler Konjunkturberichte, Deutsche Wirtschaft im Sommer 2022, p. 3.

The ifo business climate index is an important indicator for the German economy.[4] After the index had reached values of over 100 points in the previous year, the mood in the German economy has now collapsed.[5] The business climate index reached a low of 91.9 points in April 2022, only to rise again between May 2022 (93.0 points[6]) and June (92.2 points[7]) but enter into a slight pendulum movement. Despite inflation concerns, the war in Ukraine and material shortages, the German economy appears reasonably robust in the spring of 2022; however expectations are more pessimistic, partly because of the looming gas shortage.[8]

The UK is NFON AG's largest foreign market. The British economy also continued to be burdened by the pandemic and the effects of the Brexit as well as the Ukraine war in the current year. The previously strong economic expansion slowed down significantly in the first half of 2022. For 2022 as a whole, the experts of the IfW nevertheless still see an increase in GDP in the UK of 2.9% compared to the strong previous year (2021: 7.4%).[9]

Key sales markets and competitive position of the NFON Group

With the growth strategy published in the spring of 2021, NFON has now adjusted its strategy. Whereas the company had previously seen itself as a provider in the market for cloud telephone systems, the radius has now been expanded to include the markets for Unified Communications & Collaboration and contact centers.

Europe remains a core market for NFON. With the increasing acceptance of cloud products and services in Europe as well, digitalisation is accelerating and with it the potential for growth. The penetration rate of cloud products and services across all products and countries still varies greatly depending on the European country and the overall state of digitalisation.

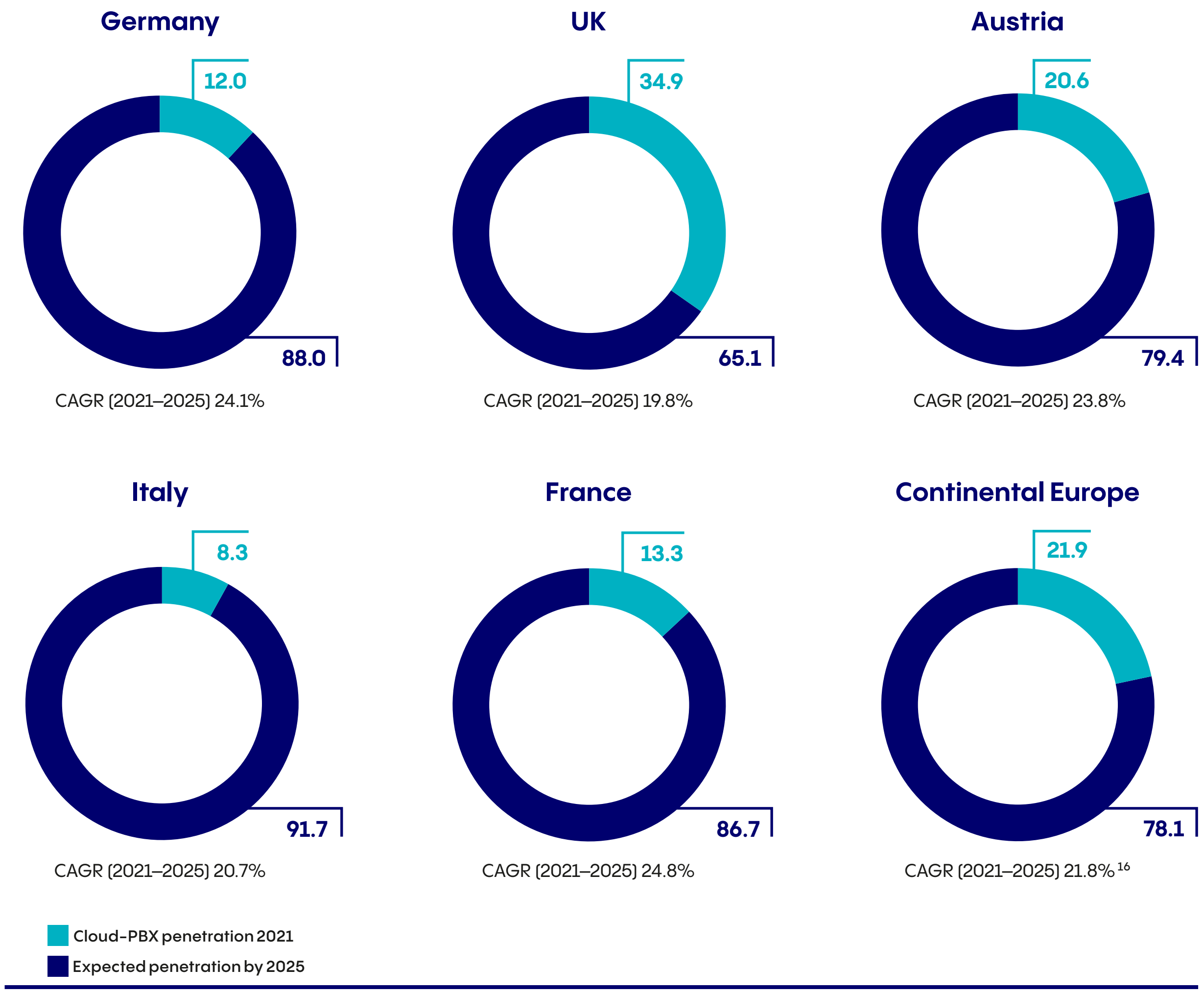
Cloud telephony market

The total European market for telephony has around 131 million extensions[10]. If the data of the market researchers and the company's own assumptions are combined, only 22.9% of the extensions, i.e. around 30 million, are in the cloud[11]. Based on MZA's assumptions, a 5-year CAGR (2021–2025) of around 11% can be assumed[12]. Overall, the number of extensions in the cloud would increase to around 46 million[13].

In a global comparison, North America shows itself to be the most developed in the use of cloud telephony, with a penetration rate of around 32% (around 36 million extensions in the cloud).[14]

4 https://www.ifo.de/umfrage/ifo-geschaeftsklimaindex
5 https://www.ifo.de/node/68645
6 https://www.ifo.de/node/69688
7 https://www.ifo.de/node/70162
8 https://www.ifo.de/node/69688, https://www.ifo.de/node/70162
9 Kiel Institute for the World Economy (2022), Kieler Konjunkturberichte, Weltwirtschaft im Sommer 2022, p. 10.
10 Source: MZA: "The Global Telecommunications Market 2020"
11 NFON own calculation based on Cavell Group: "Cloud Comms Market Report Q4 2020" & MZA: "The Global Telecommunications Market 2020."
12 Source: MZA: "The Global Telecommunications Market 2020"
13 Source: MZA: "The Global Telecommunications Market 2020"
14 Source: MZA: "The Global Telecommunications Market 2018."

Cloud PBX in Europe (penetration %)[15]

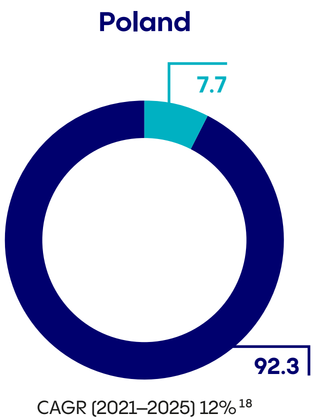


15 Data on penetration rates: Cavell Group: "Cloud Comms Market Report Q4 2020"; CAGR NFON own calculation based on Cavell Group: "Cloud Comms Market Report Q4 2020."

16 The figures for Continental Europe are based solely on the company's own calculations based on Cavell Group: "Cloud Comms Market Report Q4 2020."

NFON has had its own sales company in Poland since May 2021. Until now, sales there were only recorded via the partner network under the management of the Austrian NFON subsidiary. As competition in the Eastern European countries, which include Slovenia or the Czech Republic, for example, is very low and therefore the penetration rate is also very low[17], NFON sees very good growth opportunities with the presence it has already acquired through its partners, the low level of competition and the still low penetration rate.

Cloud-PBX in Poland (penetration in %)



Competitive situation

From the Management Board's perspective, the North American companies RingCentral and 8x8 are the only competitors comparable to NFON[23]. They both have a self-developed cloud telephone system and have significantly expanded the product portfolios they offer for more than ten years by integrating communication media in a uniform application environment (Unified Communications ((UC)) offerings). According to our own market observations, RingCentral in particular has increased its activities in continental Europe.[24] So far, NFON does not perceive this competition as critical. As before, the European market remains very fragmented despite increasing M&A activities. At the same time, companies such as Gamma, Zoom, Avaya, 3CX or fuze Europe GmbH are trying to enter the market.[25]

Market for UCaaS products and solutions

Competitive situation

The market for Unified Communications & Collaboration includes large companies like Microsoft, Google, Zoom, Slack, GoTo or Cisco. NFON clearly sees its market position in the area of voice-centric communication and not in direct competition with the aforementioned companies[26].

Market for contact center solutions

Competitive situation

NFON is new to the market for pan-European providers of contact center solutions. As one would expect, there are intersections here with competitors in the cloud telephony sector, e.g. RingCentral and 8x8. According to the Gartner Magic Quadrant, Genesys, Nice XCone and Talkdesk are among the major competitors. The main differences between NFON and the competition are flexible pricing, also in the interest of small and medium-sized enterprises, no long contract terms, omnichannel, consulting and service[19].

17 Unaudited figure
18 Figures based on company estimates
19 Fortune Business Insight: Contact Center as a Service Market. Europe Industry Analysis, Insights and Forecast, 2020–2027, Report 2020

Presentation of the company's performance

Development of key items in the consolidated statement of comprehensive income

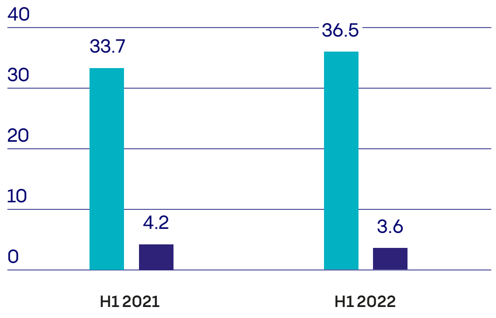
EUR million	H1 2022	H1 2021	Change in %	Q2 2022 (3M)	Q2 2021 (3M)	Change in %
Revenue	40.1	37.9	5.8	19.8	19.0	4.3
of which recurring	36.5	33.7	8.6	18.2	16.8	7.9
of which non-recurring	3.6	4.2	–15.9	1.7	2.2	–23.2
Cost of materials	–7.3	–7.4	–1.6	–3.5	–3.7	–6.0
Gross profit	32.8	30.5	7.6	16.3	15.3	6.8
Other operating income	0.5	0.3	57.9	0.2	0.1	75.1
Staff costs	–19.7	–16.0	23.6	–10.5	–8.0	31.6
Other operating expenses	–17.8	–13.2	34.7	–9.9	–7.2	37.0
EBITDA	–4.1	1.8	n/a	–3.8	0.2	n/a
Adjusted EBITDA	–1.5	2.3	n/a	–2.0	0.5	n/a
Depreciation, amortisation and write-downs	–2.7	–3.8	–30.9	–1.3	–2.4	–43.3
EBIT	–6.8	–2.1	n/a	–5.1	–2.1	n/a
Net interest expense	–0.1	–0.3	–62.3	–0.1	–0.1	–46.9
Income tax expense	–0.4	–0.3	20.8	–0.2	–0.2	–5.4
Deferred tax income	0.2	0.2	7.5	0.1	0.1	–15.9
Consolidated loss	**–7.1**	**–2.5**	**n/a**	**–5.3**	**–2.4**	**n/a**

Consolidated revenue and consolidated seat development

Revenue was increased by 5.8% year on year. Recurring revenue rose by 8.6% year on year and amounted to EUR 36.5 million in the first six months of 2022. This primarily resulted from the acquisition of new customers and a rise in the number of installed seats within the existing customer base, particularly in Germany, the UK and Austria.

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.

High share of recurring revenues by 91.1%



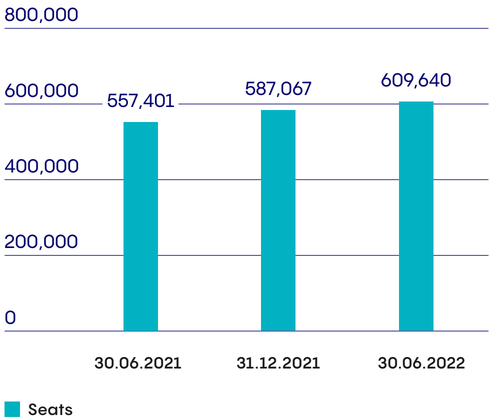
Recurring revenue essentially comprises monthly payments of a fixed licence fee per seat plus a fixed or volume-based fee for voice telephony usage per seat or SIP trunk.

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

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.

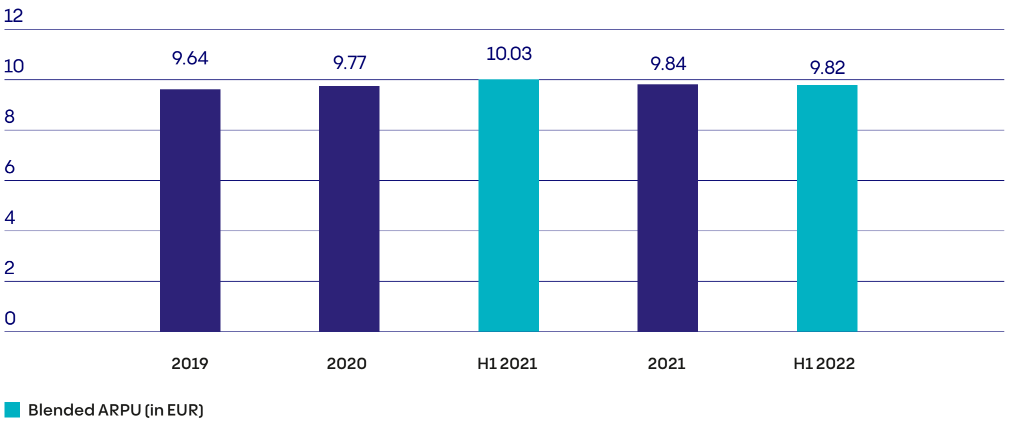
Development in seats

Total number of seats grows by 9.4% year-on-year



Development of ARPU

ARPU development stabilized



The first half of 2021 was positively influenced by the increased level of people working from home. In the course of 2021, the ARPU declined slightly but stabilised.

Income and expense items

Other operating income

Compared to 2021, other operating income increased in the first six months of 2022 (H1 2022: EUR 0.4 million; H1 2021: EUR 0.3 million), mainly due to increased income in connection with offset other non-cash employee benefits (EUR +0.1 million).

Cost of materials

Despite increased revenue, the cost of materials declined in the reporting period by 1.6% from EUR 7.4 million in the same period of the previous year to EUR 7.3 million. This development mainly stems from the decrease in non-recurring revenue, especially in connection with low-margin hardware sales.

This resulted in a lower cost of materials ratio than in the previous year of 18.1% (previous year: 19.4%).

Staff costs

The average number of employees increased from 450 in the previous year to 504. This increase relates to the strategic workforce expansion.

As in the previous year, expenses of EUR 0.3 million from the stock option programme were incurred in the reporting period. The staff costs of the reporting period also include expenses of EUR 0.2 million in connection with the focus on Group-wide activities. Adjusted for these expenses, personnel costs amounted to EUR 19.1 million (H1 2021: EUR 15.6 million) and thus rose by 22.4% year on year. This represents an adjusted personnel costs ratio in relation to revenue of 47.7% in the first half of 2022, after 41.2% in the same period of the previous year.

Other operating expenses including marketing and selling expenses

Other operating expenses rose by EUR 4.6 million to EUR 17.8 million in the first half of 2022 (previous year: EUR 13.2 million).

In the current reporting period, this included expenses in connection with M&A activities of EUR 1.2 million (previous year: EUR 0.2 million) and expenses for rebranding (EUR 0.8 million). These expenses are classified as non-recurring effects.

Adjusted for non-recurring effects, other operating expenses climbed by 20.6% to EUR 15.7 million in the first six months of 2022 (6M 2021: EUR 13.0 million). This represents an adjusted ratio in relation to revenue of 39.2%, up from 34.4% in the previous year.

Marketing expenses

In the first half of 2021, the expenses of EUR 3.6 million for market activities made up only 36.8% of the total annual expenditure. For the first half of 2022, there was therefore a comparatively high increase of 39.4% to EUR 5.0 million. A major component of the marketing expenses in the reporting period was the rebranding of NFON, which resulted in expenses of EUR 0.8 million. As part of the rebranding, NFON is being consistently positioned as a provider of UC solutions.

Selling expenses

Selling expenses rose to EUR 5.3 million in the reporting period (previous year: EUR 4.7 million). Selling expenses mainly include commission paid to NFON AG's sales partners, who share in a percentage of its revenue. The ratio of selling expenses to revenue was 13.2% in the first six months of 2022, after 12.4% in the same period of the previous year.

Depreciation and amortisation

Depreciation and amortisation decreased by EUR 1.2 million year on year to EUR 2.7 million in the first half of 2022 (H1 2021: EUR 3.8 million). In the previous year, externally triggered technical circumstances resulted in a reduction in the useful life of a capitalised development project and an accompanying temporary increase in depreciation and amortisation.

Net interest income

Net interest expense (interest and similar income less interest and similar expenses) amounted to EUR 0.1 million in the current reporting period compared to EUR 0.3 million in the first half of 2021. No loans or credit facilities were utilised in the reporting period. The acquisition loan that was borrowed for the acquisition of Deutsche Telefon Standard was repaid in April 2021.

EBITDA, EBIT, consolidated profit/loss

in EUR million	H1 2022	H1 2021	Change in %	Q2 (3M) 2022	Q2 (3M) 2021	Change in %
EBITDA	-4.1	1.8	n/a	-3.7	0.2	n/a
Adjustments in staff costs:						
Share options/ESOPS	0.3	0.3	10.0	0.2	0.1	9.0
Adjustments in other operating expenses:						
M&A expenses	1.2	0.2	n/a	0.6	0.1	n/a
Rebranding	0.8	0.0	n/a	0.8	0.0	n/a
Focus on Group-wide activities	0.2	0.0	n/a	0.2	0.0	n/a
Total adjustments[1]	2.7	0.5	n/a	0.8	0.2	n/a
Adjusted EBITDA	-1.5	2.3	n/a	-2.0	0.5	n/a
EBIT	-6.8	-2.1	n/a	-5.1	-2.1	n/a
Consolidated loss	-7.1	-2.5	n/a	-5.3	-2.4	n/a
Adjusted consolidated loss	-4.4	-1.9	n/a	-3.5	-2.1	64.0

1 Unless stated otherwise, all values in the consolidated financial statements and the related notes are rounded. Rounding differences can therefore occur in the tables.

Assets, financial position and investments

The increase in intangible assets to EUR 33.6 million as at 30 June 2022 (31 December 2021: EUR 30.0 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 10.5 million as at the end of the reporting period (31 December 2021: EUR 8.2 million), and those for BSS customisation to EUR 5.2 million (31 December 2021: EUR 3.9 million).

Particularly as a result of a new office lease and the related capitalised right-of-use assets from leases, property, plant and equipment increased from EUR 8.2 million as at 31 December 2021 to EUR 10.1 million as at the end of the reporting period.

Bank balances decreased by EUR 10.0 million to EUR 17.7 million, mainly as a result of investments in intangible assets (EUR 4.6 million), the negative operating cash flow of EUR 3.6 million and the payments in connection with leased office space, vehicles and operating and office equipment (EUR 1.1 million).

Equity declined by EUR 6.8 million as against 31 December 2021 (EUR 63.2 million) to EUR 56.4 thousand as at 30 June 2022. This relates in particular to the negative profit or loss for the period of EUR 7.1 million. Capital reserves increased by EUR 0.3 million on the basis of existing share-based payment agreements. The corresponding expense was recognised in staff costs. The currency translation reserve decreased by EUR 0.1 million as at the end of the reporting period compared with 31 December 2021.

Non-current and current financial liabilities increased by EUR 1.8 million in total to EUR 6.8 million as at 30 June 2022. This relates in particular to a new office lease and the lease liabilities recognised in this context. A money market loan agreement in the amount of EUR 5.0 million and maturing on 30 November 2026 was entered into with Bank für Tirol und Vorarlberg (BTV) on 22 December 2021. No funds from this credit facility had been utilised as at 30 June 2022. The acquisition credit facility of EUR 10.0 million arranged in previous years was cancelled at the end of February 2022.

Related party transactions

Information on transactions with related parties can be found in the condensed notes to the condensed consolidated financial statements.

Supplementary report

There were no events after 30 June 2022 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 2021. At the time of this report's publication, with the exception of legal risks in connection with risks from purchasing contracts, no changes have been arisen compared to the Risk and Opportunity Report 2021.

Forecast

The forecast is based on the current state of knowledge at the time the report was published, 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 2021 and the figures actually achieved at the end of 2022.

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 2021. These applied unchanged as at 30 June 2022.

Even now, there are signs that Russia's attack on Ukraine is slowing the recovery of the world economy from the effects of the coronavirus crisis. The extent of this damage is slowly becoming clear. For Germany, the ifo Institute now estimates a growth rate of 2.5% for 2022, which is at the lower end of its forecast for this year. Growth of 3.7% is expected in 2023. [20] The Institute expects the inflation rate to exceed its original estimate and reach 6.8% in 2022, the highest level in nearly 50 years.

In the euro area as well, the impact of the war in Ukraine is hampering the economy as no swift resolution is in sight. While the region is only an immaterial sales market, economic activity is also impaired by the active dissolution of business relations with Russia as well as disruption to supply chains, reduced trade and the greatly elevated general uncertainty. In particular, economic activity in Europe will be hindered by increased energy prices, driving down domestic spending power. In the medium term, the rejection of Russia as an energy supplier entails a substantial inflation risk, which could easily grow into an economic risk. [21]

With regard to the ongoing warfare in Ukraine initiated and perpetuated by Russia, and the repercussions for the global economy this has caused, with all the uncertainty in quantifying the actual impact, NFON anticipates ongoing investment restraint on the part of companies, and is therefore planning seat growth of between 10% and 12% in 2022, and expects to reach them at the lower end. The development of recurring revenue will be slowed by various effects in 2022: Firstly, the ongoing investment restraint by NFON's customers on account of the pandemic and the lower than originally anticipated development in seats in the past fiscal year (2021). Secondly, NFON assumes owing to the major uncertainty stemming from the war, that projects with companies could also be postponed or cancelled. Given these challenges, NFON expects to achieve the lower end of its forecast growth range of between 10% and 12% for recurring revenues in 2022.. Overall, the company expects recurring revenue to account for at least 88% of total revenue.

20 https://www.ifo.de/publikationen/2022/aufsatz-zeitschrift/ifo-konjunkturprognose-sommer-2022-inflation-lieferengpaesse, p. 3.
21 Ibid., p. 7.

Consolidated statement of financial position

as at 30 June 2022

in EUR thousand	30.06.2022	31.12.2021
Non-current assets		
Property, plant and equipment	10,071	8,166
Intangible assets	33,604	29,999
Investments in associates	643	643
Deferred tax assets	2,628	2,381
Other non-financial assets	205	197
Total non-current assets	**47,152**	**41,385**
Current assets		
Inventories	167	155
Trade receivables	11,006	10,900
Other financial assets	390	390
Other non-financial assets	2,792	3,007
Cash and cash equivalents	17,670	27,670
Total current assets	**32,025**	**42,122**
Total assets	**79,177**	**83,507**

in EUR thousand	30.06.2022	31.12.2021
Equity		
Issued capital	16,561	16,561
Capital reserves	108,942	108,600
Loss carryforward	–69,887	–62,822
Currency translation reserve	792	892
Total equity	**56,409**	**63,231**
Non-current liabilities		
Non-current financial liabilities	5,440	3,327
Other non-financial non-current liabilities	65	217
Deferred tax liabilities	1,337	1,333
Total non-current liabilities	**6,841**	**4,877**
Current liabilities		
Trade payables	6,143	6,083
Current provisions	1,568	2,172
Current income tax liabilities	727	452
Current financial liabilities	1,379	1,694
Other non-financial liabilities	6,109	4,998
Total current liabilities	**15,926**	**15,398**
Total equity and liabilities	**79,177**	**83,507**

Consolidated income statement and consolidated statement of comprehensive income

for the period 01.01. to 30.06.2022

in EUR thousand	H1 2022	H1 2021	Q2 2022 (3M)	Q2 2021 (3M)
Revenue	40,089	37,882	19,826	19,006
Other operating income	449	285	213	121
Cost of materials	–7,251	–7,366	–3,497	–3,718
Staff costs	–19,736	–15,974	–10,503	–7,978
Depreciation	–2,654	–3,842	–1,338	–2,358
Other operating expenses	–17,773	–13,191	–9,870	–7,205
Impairment losses on trade and other receivables	102	153	89	–2
Other tax expense	–10	–9	–5	–3
Result from continuing operations before net interest income and incomes taxes	–6,784	–2,062	–5,085	–2,137
Interest and similar income	0	5	0	3
Interest and similar expenses	–100	–271	–73	–140
Net interest income	–100	–266	–73	–137
Earnings before income taxes	–6,885	–2,327	–5,157	–2,274
Income tax expense	–416	–345	–224	–237
Deferred tax income	236	219	119	142
Net loss	–7,065	–2,453	–5,262	–2,369

in EUR thousand	H1 2022	H1 2021	Q2 2022 (3M)	Q2 2021 (3M)
Attributable to:				
Shareholders of the parent company	–7,065	–2,453	–5,262	–2,369
Non-controlling interests	0	0	0	0
Other comprehensive income (can be reclassified to profit or loss)	–100	207	–68	–75
Taxes on other comprehensive income (can be reclassified to profit or loss)	0	0	0	0
Other comprehensive income after taxes	–100	207	–68	–75
Total comprehensive income	–7,165	–2,246	–5,330	–2,444
Attributable to:				
Shareholders of the parent company	–7,165	–2,246	–5,330	–2,444
Non-controlling interests	0	0	0	0
Net loss per share, basic	**–0.43**	**–0.16**	**–0.32**	**–0.15**
Net loss per share, diluted	**–0.42**	**–0.15**	**–0.31**	**–0.15**

Consolidated statement of cash flows

for the period 01.01. to 30.06.2022

in EUR thousand	H1 2022	H1 2021
1. Cash flow from operating activities		
Profit/loss after taxes	–7,065	–2,453
Adjustments to reconcile profit (loss) to cash provided		
Income taxes	181	125
Interest income (expenses), net	100	266
Amortisation of intangible assets and depreciation of property, plant and equipment	2,654	3,842
Impairment losses on trade and other receivables	–102	–153
Equity-settled share-based payment transactions	342	311
Other non-cash income (expense)	–65	–83
Changes in:		
Inventories	–12	22
Trade and other receivables	203	428
Trade payables and other liabilities	945	–468
Provisions	–603	–87
Effects of changes in foreign exchange rates	–100	207
Income from the disposal of fixed assets	–4	0
Interest paid	–27	–210
Income taxes received/paid, net	–60	–21
Cash flow from operating activities	**–3,612**	**1,725**

in EUR thousand	H1 2022	H1 2021
2. Cash flow from investing activities		
Proceeds from the disposal of property, plant and equipment and intangible assets	56	0
Payments on investments in property, plant and equipment	–787	–470
Payments for the acquisition of shares in Meetecho S.r.l.	0	–625
Payments for investments in intangible assets	–4,572	–3,722
Cash flow from investing activities	**–5,303**	**–4,816**
3. Cash flow from financing activities		
Proceeds from the capital increase	0	25,766
Payments for leases (IFRS 16)	–1,063	–970
Repayments of bank loans, bonds and similar liabilities	0	–8,967
Other payments	2	0
Cash flow from financing activities	**–1,061**	**15,829**
Change in cash and cash equivalents	**–9,976**	**12,737**
Effects of movements in exchange rates on cash held	–23	28
Cash and cash equivalents at the beginning of the period	**27,670**	**23,034**
Cash and cash equivalents at the end of the period	**17,670**	**35,799**

As at 30 June 2022, cash and cash equivalents include bank balances of EUR 316 thousand (31 December 2021: EUR 316 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 2022

	Attributable to owners of the company						
in EUR thousand	Issued capital	Capital reserves	Currency translation reserve	Loss carryforward	Total equity	Non-controlling interests	Total
As at 01 January 2022	**16,561**	**108,600**	**891**	**-62,822**	**63,231**	**0**	**63,231**
Total comprehensive income for the period							
Loss (income) for the period	0	0	0	–7,065	–7,065	0	–7,065
Other comprehensive income for the period	0	0	–100	0	–100	0	–100
Total comprehensive income for the period	**0**	**0**	**–100**	**–7,065**	**–7,165**	**0**	**–7,165**
Transactions with owners of the company							
Equity-settled share-based payment transactions	0	342	0	0	342	0	342
Total transactions with owners of the company	**0**	**342**	**0**	**0**	**342**	**0**	**342**
As at 30 June 2022	**16,561**	**108,942**	**792**	**–69,887**	**56,408**	**0**	**56,408**

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	Loss carryforward	Total equity	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 owners 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	311	0	0	311	0	311
Total transactions with owners of the company	**1,506**	**24,571**	**0**	**0**	**26,077**	**0**	**26,077**
As at 30 June 2021	**16,561**	**108,497**	**712**	**-56,364**	**69,407**	**0**	**69,407**

Notes to the condensed consolidated interim financial statements for the first half of the year 2022

Accounting principles

The condensed interim consolidated financial statements for the first half of 2022 with 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 2022 to 30 June 2022. The condensed 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 2021. 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 2021.

The condensed interim consolidated financial statements as at 30 June 2022 were neither audited nor reviewed by the Group's auditor, KPMG AG, Wirtschaftsprüfungsgesellschaft, Munich. They were approved by the Management Board for publication on 18 August 2022.

The condensed 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 2021.

In the context of the deterioration of the economic situation in Europe, increasing inflation, the rise in interest rates, the Ukraine conflict and 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. All assumptions and estimates are made on the basis of conditions prevailing at the end of the reporting period. The actual figures may differ from the assumptions or estimates if the underlying conditions develop differently than predicted at the end of the reporting period.

NFON is a provider of integrated business communications in Europe, counts over 50,000 companies in 15 European countries among its customers and is represented by its own companies in Germany, Austria, the UK, Spain, Italy, France, Poland and Portugal. In addition, NFON has a large partner network through which it sells in the other countries. 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 condensed interim consolidated financial statements contain amounts for the period from 1 January to 30 June 2022 and as at 30 June 2022, which are compared against the period from 1 January 2021 to 30 June 2021 and as at 30 June 2021. The figures in the consolidated statement of financial position as at 30 June 2022 were compared to the consolidated statement of financial position as at 31 December 2021.

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 Ukraine conflict or the coronavirus crisis.

Effects of new accounting standards and interpretations

This half-year financial report uses the same accounting policies as the consolidated financial statements as at 31 December 2021.

The following amendments to the effective standards were made in the current reporting period, but these did not affect the Group's accounting policies or necessitate retrospective adjustments:

- 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

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:

- Disclosure of Accounting Policies (Amendments to IAS 1), effective from 1 January 2023
- Definition of Accounting Estimates (Amendments to IAS 8), effective from 1 January 2023
- Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12), effective from 1 January 2023
- 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.

Intangible assets

Intangible assets amounted to EUR 33,604 thousand as at 30 June 2022 (31 December 2021: EUR 8,166 thousand). The capitalised costs of software customisation, in particular in connection with the new business support system (BSS), have increased by EUR 1,305 thousand as against 31 December 2021 to EUR 5,156 thousand.

As at 30 June 2022, development costs of EUR 10,509 thousand (31 December 2021 EUR 8,235 thousand) were recognised under intangible assets in connection with the development of new products and new features for existing products.

Interest-bearing debt

The financial liabilities include the following items:

EUR thousand	30.06.2022	31.12.2021
Non-current financial liabilities		
Lease liabilities	5,440	3,327
Total non-current financial liabilities	5,440	3,327
Current financial liabilities		
Lease liabilities	1,379	1,688
Other	0	6
Total current financial liabilities	1,379	1,694
Total financial liabilities	**6,819**	**5,021**

Lease liabilities

EUR 1,161 thousand (31 December 2021: EUR 1,393 thousand) of current lease liabilities relates to rented office space, EUR 205 thousand (31 December 2021: EUR 253 thousand) to leased vehicles and EUR 14 thousand (31 December 2021: EUR 42 thousand) to leased operating and office equipment. EUR 5,177 thousand (31 December 2021: EUR 3,000 thousand) of non-current lease liabilities relates to rented office space, EUR 210 thousand (31 December 2021: EUR 296 thousand) to leased vehicles and EUR 53 thousand (31 December 2021: EUR 31 thousand) to leased operating and office equipment. In connection with the newly leased office space, lease liabilities increased significantly as at 30 June 2022 compared with 31 December.

Credit facility

A money market loan agreement in the amount of EUR 5,000 thousand and maturing on 30 November 2026 was entered into with Bank für Tirol und Vorarlberg (BTV) on 22 December 2021. The interest rate to be applied for one year is based on matched-term EURIBOR plus a margin. The margin is 3.0% until 30 June 2022. From 1 July 2022, the margin is based on the EBITDA of the preceding fiscal year and is between 2.25% and 3.0%. In the event that the EURIBOR is below zero, a EURIBOR of zero is considered to be agreed. 35% of the applicable margin must be paid as the commitment fee for the amount of the loan not utilised. NFON must comply with certain financial covenants according to the loan agreement. No funds from this credit facility had been utilised as at 30 June 2022.

The Group had an acquisition credit facility of EUR 10,000 thousand until the end of February 2022. The interest rate of 4% on utilisation as at the date the contract is signed (8 January 2019) was variable and changed in line with average monthly 3-month EURIBOR. The commitment fee was 1%. According to the credit agreement, NFON had to maintain minimum liquidity of EUR 12,000 thousand. This credit facility had not been utilised as at 30 June 2021.

Equity

Equity decreased by EUR 6,823 thousand as against 31 December 2021 to EUR 56,408 thousand as at 30 June 2022. This relates in particular to the negative profit or loss for the period of EUR 7,065 thousand.

Capital reserves increased by EUR 342 thousand on the basis of existing share-based payment agreements. The corresponding expense was recognised in staff costs. The currency translation reserve decreased by EUR 100 thousand as at the end of the reporting period compared with 31 December 2021.

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 June 2022	Amortised cost			Fair value (hierarchy levels)			
EUR thousand	Fair value	Carrying amount	Total carrying amount	Level 1	Level 2	Level 3	Total
Financial assets not measured at fair value							
Trade receivables[1]		11,006	11,006	–	–	–	–
Other financial assets[1]		390	390	–	–	–	–
Cash and cash equivalents[1]		17,670	17,670	–	–	–	–
Total financial assets not measured at fair value		**29,066**	**29,066**	**–**	**–**	**–**	**–**
Financial liabilities not measured at fair value							
Lease liabilities (IFRS 16)		6,819	6,819	–	–	–	–
Trade payables[1]		6,143	6,143	–	–	–	–
Total financial liabilities not measured at fair value		**12,962**	**12,962**	**–**	**–**	**–**	**–**

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

31 December 2021	Amortised cost			Fair value (hierarchy levels)			
EUR thousand	Fair value	Carrying amount	Total carrying amount	Level 1	Level 2	Level 3	Total
Financial assets not measured at fair value							
Trade receivables[1]		10,900	10,900	–	–	–	–
Other financial assets[1]		390	390	–	–	–	–
Cash and cash equivalents[1]		27,670	27,670	–	–	–	–
Total financial assets not measured at fair value		**38,960**	**38,960**	**–**	**–**	**–**	**–**
Financial liabilities not measured at fair value							
Trade payables[1]		6,083	6,083	–	–	–	–
Lease liabilities[1]		5,015	5,015	–	–	–	–
Other financial liabilities[1]		6	6	–	–	–	–
Total financial liabilities not measured at fair value		**11,104**	**11,104**	**–**	**–**	**–**	**–**

1 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 2022.

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 2021 annual report and the management report for the first half of 2022.

Contingent liabilities and obligations

Since the last balance sheet date, potential risks have arisen from purchasing contracts. However, these risks are assessed with a probability of occurrence of significantly less than 50%.

Earnings per share

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

EUR thousand	H1 2022	H1 2021
Profit (loss) for the year attributable to the owners of the parent for basic earnings per share	–7,065	–2,453
Profit (loss) for the year attributable to the owners of the parent for diluted earnings per share	–7,065	–2,452

Quantity	H1 2022	H1 2021
Weighted average number of ordinary shares for basic earnings per share	16,561,124	15,837,785
Weighted average number of ordinary shares for diluted earnings per share	16,755,989	16,098,764

EUR	H1 2022	H1 2021
Loss per share		
Basic earnings	–0.43	–0.16
Diluted earnings	–0.42	–0.15

Revenue

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

EUR thousand	H1 2022	H1 2021
Product/service		
Recurring revenue		
NFON AG	20,955	19,337
Deutsche Telefon Standard GmbH	7,854	7,554
NFON GmbH	3,321	2,815
NFON Ltd.	3,790	3,541
NFON Iberia S.L.	185	183
NFON ITALIA S.R.L.	301	128
NFON France	135	103
Total recurring revenue by segments	36,541	33,660
Reconciliation to recurring consolidated revenue	-1	0
Consolidated recurring revenue	36,540	33,660
Non-recurring revenue		
NFON AG	1,850	2,097
Deutsche Telefon Standard GmbH	560	911
NFON GmbH	613	811
NFON Ltd.	321	292
NFON Iberia S.L.	11	6
NFON ITALIA S.R.L.	136	69
NFON France	18	36
Non-recurring revenue by segment	3,549	4,222
Reconciliation to non-recurring consolidated revenue	0	0
Non-recurring consolidated revenue	3,549	4,222
Consolidated revenue	**40,089**	**37,882**

Contrary to the development in non-recurring revenue, the increase in recurring revenue in the first half of 2022 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 2022: EUR 93 thousand; 31 December 2021: EUR 122 thousand) and contract liabilities (30 June 2022: EUR 195 thousand; 31 December 2021: EUR 305 thousand) are recognised under other non-financial assets (current) and other non-financial liabilities (current).

Other operating income

Other operating income of EUR 449 thousand (H1 2021: EUR 285 thousand) mainly includes income in connection with offset other non-cash employee benefits of EUR 231 thousand (H1 2021: EUR 145 thousand).

Other operating expenses

EUR thousand	H1 2022	H1 2021
Other operating expenses		
Sales commission	5,305	4,713
Marketing expenses	5,029	3,607
Other staff costs	2,034	1,345
Consulting expenses	2,182	1,017
IT costs	1,230	765
Other administrative expenses	833	599
Rental expenses	601	441
Support	230	244
External development costs	7	17
Other expenses	323	443
Total other operating expenses	**17,773**	**13,191**

This increase in sales commission from EUR 4,713 thousand in the first half of 2021 to EUR 5,305 thousand in the reporting period relates to the higher revenue volume in the first half of 2022.

Significantly higher marketing expenses than in the previous year were budgeted for 2022 and implemented in corresponding projects, particularly in connection with the rebranding.

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 in previous years, 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.

In gross terms, 1,119,229 stock options had been granted as at 30 June 2022 (30 June 2021: 901,229). An amount of EUR 342 thousand (previous year: EUR 311 thousand) was recognised in staff costs (offsetting item: capital reserves) in this context in the reporting period.

Income taxes

The tax expenses of EUR 181 thousand for the first half of 2022 (H1 2021: EUR 125 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.

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, level C 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, level C and the Supervisory Board. Unless stated otherwise, related parties are companies with significant influence over NFON AG.

	Transaction values	
EUR thousand	H1 2022	H1 2021
Sales of goods and services and other income[1]	12	11

	Transaction values	
EUR thousand	H1 2022	H1 2021
Purchases of goods and services and other expenses[2]	84	167

	Balance outstanding as at	
EUR thousand	30.06.2022	31.12.2021
Receivables[3]	2	0

	Balance outstanding as at	
EUR thousand	30.06.2022	31.12.2021
Liabilities[4]	13	12

	Balance outstanding as at	
EUR thousand	30.06.2022	31.12.2021
Capital reserves[5]	0	58

1 EUR 8 thousand (previous year: EUR 8 thousand) of which relates to transactions with members of the Management Board and their affiliated companies and EUR 4 thousand (previous year: EUR 3 thousand) of which to transactions with members of the Supervisory Board and their affiliated companies.
2 EUR 30 thousand (previous year: EUR 61 thousand) of which relates to transactions with members of the Management Board and their affiliated companies and EUR 55 thousand (previous year: EUR 106 thousand) of which to transactions with members of the Supervisory Board and their affiliated companies.
3 EUR 1 thousand of which relates to members of the Management Board and their affiliated companies and EUR 1 thousand to members of the Supervisory Board and their affiliated companies.
4 EUR 3 thousand (31 December 2021: EUR 8 thousand) of which relates to liabilities to members of the Management Board and their affiliated companies and EUR 10 thousand (31 December 2021: EUR 4 thousand) of which to liabilities to members of the Supervisory Board and their affiliated companies.
5 The amount recognised as at 31 December 2021 related entirely to transactions in connection with the capital increase performed in the previous year with members of the Supervisory Board and their affiliated companies.

All transactions with these related parties 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. Purchases of goods and services and other expenses essentially include the services provided by companies controlled by related parties. Transaction costs in connection with the capital increase arose on account of the agreements entered into with the supervising investment bank.

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 in the fiscal year. .

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 transactions generally take place on an arm's length basis. However, members of the Management Board and the Supervisory Board and their related parties may benefit from "Family&-Friends" terms as customers of NFON if they are not offered even more favourable terms as "Premium Partners" (with the same terms as other "Premium Partners").

Executive bodies and remuneration

The Management Board

The following table shows the members of the Management Board:

	Place of residence	Function and profession	Other 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:

EUR thousand	H1 2022	H1 2021
Management Board remuneration		
Short-term remuneration	526	495
Total share-based remuneration (long-term incentive)	102	32
Total Management Board remuneration	**628**	**526**

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

Supervisory Board

The Supervisory Board of NFON AG had the following four members as at 30 June 2022:

30.06.2022	Position	Profession	Other Mandates
Rainer-Christian Koppitz	Chairman	CEO of Katek SE, Munich	Chairman of the Supervisory Board of CENIT AG, Stuttgart
Günter Müller	Deputy Chairman	Executive Chairman of ASC Technologies AG, Hösbach	
Dr Rupert Doehner		Lawyer, Managing Director of RECON. Rechtsanwaltsgesellschaft mbH, Munich	
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:

EUR thousand	H1 2022	H1 2021
Supervisory Board remuneration		
Basic remuneration	83	57
Attendance fee	12	14
Total remuneration of members of the Supervisory Board	**95**	**71**

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

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.

Management primarily assesses performance on the basis of revenue and contribution margin 2 as presented in management reporting. Contribution margin 2 is calculated as EBITDA (earnings before interest, taxes, depreciation, amortisation and impairment in accordance with IFRS) adjusted for indirect intercompany transfers. Non-recurring effects in the period that are considered extraordinary are adjusted for in reported EBITDA.

Revenue by reportable segment refers to revenue with external customers and is based on IFRS. Invoices issued between Group companies are presented in the segments as increases and reductions of costs and are not included in revenue. The business cost allocations are included in contribution margin 2, while tax transfer pricing requirements are presented outside contribution margin 2.

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. The financial information of NFON Polska Sp. z o.o., founded in the previous year, is presented together with that of NFON GmbH, as this is in line with internal reporting. The operating activities of NFON Polska Sp. z o.o. are of subordinate importance in terms of both the NFON Group and NFON GmbH.

Revenue and contribution margin 2 by reportable segment

EUR thousand	H1 2022	H1 2021
Revenue		
NFON AG	22,805	21,434
Deutsche Telefon Standard GmbH	8,453	8,465
NFON GmbH inkl. NFON Polska Sp. z.o.o.	3,935	3,626
NFON UK Ltd.	4,111	3,833
NFON Iberia SL	196	189
NFON ITALIA S.R.L.	437	197
NFON France	153	139
Total revenue of the reportable segments	40,090	37,882
Reconciliation	–1	–1
Total consolidated revenue	**40,089**	**37,882**

EUR thousand	H1 2022	H1 2021
Contribution margin 2		
NFON AG	–248	3,231
Deutsche Telefon Standard GmbH	2,225	2,351
NFON GmbH inkl. NFON Polska Sp. z.o.o.	–793	–78
NFON UK Ltd.	–588	–610
NFON Iberia SL	–637	–616
NFON ITALIA S.R.L.	–915	–1,256
NFON France	–504	–893
Total contribution margin 2 by reportable segment	–1,460	2,130
Other segments	31	112
Reconciliation	–2,701	–461
Consolidated EBITDA	–4,130	1,780
Addback:		
Depreciation	2,654	3,842
Net interest income/expenses	–100	–266
Income tax expense	181	126
Consolidated net profit/loss	**–7,065**	**–2,453**

The reconciliation effects of EUR -2,701 thousand as at 30 June 2022 mainly relate to non-recurring effects adjusted for in internal reporting of EUR -2,598 thousand and consolidation effects of EUR -103 thousand.

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.

Revenue by product/service

A description of the Group's products and services can be found in the section on Revenue. Each of the reportable segments presented above offers recurring and non-recurring products and services.

EUR thousand	H1 2022	H1 2021
Product/service		
Recurring revenue	36,540	33,660
Non-recurring revenue	3,549	4,222
Consolidated revenue	**40,089**	**37,882**

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

EUR thousand	H1 2022	H1 2021
Revenue		
Germany	30,749	29,439
Austria and Poland	3,935	3,626
United Kingdom	4,111	3,833
Spain	196	189
Italy	437	197
France	153	139
Other countries	509	459
Reconciliation	-1	-1
Total consolidated revenue	**40,089**	**37,882**

Non-current assets

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

EUR thousand	30.06.2022	31.12.2021
Non-current assets		
Germany	42,240	36,840
Portugal	400	466
United Kingdom	309	456
Austria	798	432
Italy	102	111
Spain	28	11
France	4	25
Total non-current assets	**43,881**	**38,363**

Events after the end of the reporting period

There were no events after 30 June 2022 that could have a significant impact on the company's financial position or financial performance.

Munich, 18 August 2022

Dr Klaus von Rottkay
CEO

Jan-Peter Koopmann
CTO

ADDITIONAL INFORMATION

Responsibility statement

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, 18 August 2022

Dr Klaus von Rottkay CEO	Jan-Peter Koopmann CTO

FINANCIAL CALENDAR 2022

Q3

18.08.2022 Publication Half-Year Financial Statements 2022

August 2022 Annual General Meeting NFON AG

Q4

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