Facts and figures 2022

NFON Group
Annual Report 2022

Facts and figures 2022

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

Table of key figures

in EUR million	2022	2021[1]	Change
Total revenue	**80.8**	**75.9**	**6.5%**
Recurring revenue	73.6	68.0	8.3%
Share of recurring revenues in total revenue (%)	91.1	89.5	n/a
Non-recurring revenue	7.2	7.9	-9.0%
Non-recurring revenue as a share of total revenue (%)	8.9	10.5	n/a
ARPU blended[2] (in EUR)	9.72	9.84	-1.2%
Seats	**634,288**	**587,067**	**8.0%**
Adjusted EBITDA[3]	1.0	-1.3	n/a

1 Unless otherwise stated, all values in the consolidated financial statements and the related notes are rounded. Therefore, rounding differences may occur in the tables.
2 Based on an average number of seats per month every year.
3 Explanations of the adjustments can be found in Results of operations section: Personnel expenses and other operating expenses.

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FOREWORD

Dear shareholders and readers!

When we look back at 2022, we can see that our business model has continued to mature and that the NFON Group has successfully positioned itself as a provider of integrated business communications. In addition to cloud telephony and the integration of CRM solutions, we now also offer a full-fledged UC suite with Cloudya Meet & Share. In addition, we have entered the high-growth CCaaS market with Contact Center Hub, an omni-channel product available across Europe. And thanks to our investments in growth in terms of personnel, product development and rebranding, the foundation has been laid to establish NFON as a leading player in the European market. The resilience of our business model is reflected in NFON's entrepreneurial development in the past financial year: Despite general economic uncertainties and a noticeable reluctance on the part of companies to invest, we succeeded in increasing our revenue in 2022 and steadily increased the number of extensions installed with customers.

Recurring revenue, the solid growth basis of our business model, increased by 8.3% to EUR 73.6 million in the reporting period. With total revenue of EUR 80.8 million, this represents a further increase in the share of recurring revenue to 91.1%. At the same time, we managed to increase the number of extensions (seats) installed on our customers' sites by 8.0% to 634,288. Average revenue per user (blended ARPU) remained at the pre-pandemic level of EUR 9.72. Due to the high investments in growth in the first half of 2022, earnings before interest, taxes, depreciation and amortisation (EBITDA) amounted to EUR -5.3 million in the reporting period (2021: EUR -2.0 million). After adjustments of EUR 4.3 million, the result is an EBITDA of EUR -1.0 million (2021: EUR -1.3 million).

We began implementing measures aimed at improving our profitability in the second half of financial year 2022. These will already have a positive impact on operating profit in the current financial year 2023. Based on an extensive customer base, a solid partner network, and a diversified product portfolio, our goal is to achieve profitable monetization of the investments made to date from 2023 on. We have accordingly adjusted the most important performance indicators for 2023. The growth rate of recurring revenue and the share of non-recurring revenue in total revenue remain unchanged, while adjusted EBITDA will replace growth in the number of extensions as the most important performance indicator from 2023 on.

For 2023, we are looking to achieve growth in recurring revenue in the mid to upper single-digit percentage range, a share of recurring revenue in total revenue of more than 88%, and adjusted EBITDA of more than EUR 4 million.

We are convinced of the long-term positive development of the NFON Group as a provider of integrated business communications. With a clearly defined product roadmap, a focus on high-growth markets and a stable base of partners and customers, we have established all the prerequisites to achieve our goal of becoming a leading player in Europe together with you.

Your Management Board,

Dr. Klaus von Rottkay **Jan-Peter Koopmann**

REPORT OF THE SUPERVISORY BOARD FOR FINANCIAL YEAR 2022

In the past fiscal year, the Supervisory Board of NFON AG (hereinafter also referred to as the "company") performed the duties incumbent upon it in accordance with the law, the Articles of Association and the Rules of Procedure and intensively accompanied the management of the business by the Management Board in fulfilment of its advisory and supervisory function. The Supervisory Board was directly involved in all decisions of fundamental importance to the company. The Management Board informed the Supervisory Board in writing and verbally about the business situation and development, the current earnings situation, the risk situation, risk management, short and long-term planning as well as investments and organisational measures. The Chairman of the Supervisory Board was in close contact with the Management Board at all times and was kept regularly informed about the development of the business situation and important business transactions.

The Supervisory Board voted on the decisions or measures of the Management Board that require approval according to the law, the Articles of Association or the Rules of Procedure of the Management Board, as well as on other decisions of fundamental importance, after careful examination and consultation. The resolutions were predominantly based on the reports and resolution proposals of the Management Board, which the Supervisory Board had examined in detail. The Management Board and the Supervisory Board worked together constructively in 2022 and in this way continued the company's continuous growth course.

Composition and changes in the Supervisory Board

In 2022, the Supervisory Board consisted of the following persons throughout the year:

- Rainer Koppitz (Chairman of the Supervisory Board), Chairman of the Management Board of KATEK SE Group, Munich
- Günter Müller (Vice Chairman of the Supervisory Board), Managing Director of Milestone Venture Capital GmbH and Executive Chairman of ASC Technologies AG, Hösbach
- Dr Rupert Doehner (Member of the Supervisory Board), Lawyer, Munich
- Florian Schuhbauer (Member of the Supervisory Board and Chairman of the Audit Committee), Founding Partner & Managing Director of Active Ownership Advisors GmbH, Frankfurt / Main, as well as Active Ownership Capital S.à.r.l. and Active Ownership Corporation S.à.r.l., both Grevenmacher, Luxembourg

Meetings of the Supervisory Board and focal points of consultation

In fiscal 2022, the Supervisory Board held five ordinary meetings and met for three extraordinary meetings. All members of the Supervisory Board participated in all meetings. All meetings were held as a video conference. In addition, it passed six resolutions by circulation. At the ordinary meetings on 1 November and 8 December 2022, the Supervisory Board also met in closed session for a period of time. The Supervisory Board also discussed urgent and important issues in closed session in numerous informal telephone calls and telephone conferences between the meetings.

The main focus of the Supervisory Board's meetings in fiscal 2022 was on the following topics:

- Consultation on the strategy consultant's work and findings
- Adoption or approval of the audited annual financial statements and the combined management report of the company and the Group for fiscal 2021
- Monitoring of the liquidity situation.
- Preparation of the Annual General Meeting held on 24 August 2022
- Report on the risk situation and on risk and compliance management as well as resolutions and the Declaration on the GCGC
- Discussion of the status of Internal Audit and the internal control system
- Variable remuneration for the members of the Management Board in 2021
- Discussion of the NFON Group's product roadmap and strategy
- Discussion and review of the 2023-2027 budget of the NFON Group
- Consultation on a disputed amount claimed by a supplier
- Consultation on the status of two strategic partnerships and M&A opportunities
- Consultation on the effects of the situation in the capital, financial and sales markets on NFON's business situation, particularly the definition of key points for a business policy more closely focused on EBIT and cash flow

The Management Board informed the Supervisory Board regularly of the asset, financial and earnings positions of NFON AG and its subsidiaries and associated companies.

The Supervisory Board reviewed and approved the budget planning for fiscal 2023 prepared by the Management Board. It advised on and reviewed the strategic orientation of the company and the Group on the basis of medium- and long-term company planning. The Supervisory Board analysed and reviewed the information received from the Management Board in detail. It paid particular attention to corporate governance, especially the internal control system, Internal Audit, the risk situation and risk management.

In the circular resolutions, the Supervisory Board predominantly gave its approval to transactions which, although not of strategic importance, require approval according to the rules of procedure of the Management Board and are at the same time time-critical.

Annual and consolidated financial statements and Group management report

The Annual General Meeting of the company on 24 August 2022 appointed KPMG AG Wirtschaftsprüfungsgesellschaft, Munich (hereinafter "KPMG"), auditor of NFON AG for fiscal 2022. The Supervisory Board subsequently commissioned KPMG with the audit of the annual and consolidated financial statements of the company for fiscal 2022.

The Management Board has prepared the annual financial statements in accordance with the provisions of commercial and stock corporation law on accounting and the consolidated financial statements in accordance with section 315a (3) of the German Commercial Code (HGB) in accordance with the version of the International Financial Reporting Standards (IFRS) released by the EU and supplementary provisions of commercial and stock corporation law. KPMG audited the annual financial statements and the consolidated financial statements, including the related combined Group management report, together with the underlying accounting records of the company. The audit was conducted in accordance with the provisions of the German Commercial Code and the generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). The auditor's examination and the examination by the Supervisory Board did not lead to any reservations or objections. The auditor issued the audit certificates required by law without qualification.

First the Audit Committee and then all members of the Supervisory Board received the special documentation relevant to the financial statements, in particular the annual financial statement and consolidated financial statement documents, the combined Group management report and the associated audit reports from KPMG in good time before the Supervisory Board's balance sheet meeting on 25 April 2023. The Audit Committee of the Supervisory Board dealt in detail with the aforementioned documents in preparation for this meeting. At the balance sheet meeting, the annual financial statements, the consolidated financial statements and the combined Group management report were discussed in detail with the Management Board. The Audit Committee and the Supervisory Board independently examined the annual financial statements prepared by the Management Board as well as the consolidated financial statements and the combined Group management report for its legality, correctness, expediency and economic efficiency. The two responsible auditors from KPMG also attended the meetings of the Audit Committee and the Supervisory Board on 11 April 2023. They reported on the audit, commented on the focal points of the audit and were available to the Audit Committee to answer additional questions and provide information.

One focus of the Audit Committee was the internal control system (ICS) which is an integral component of the company-wide control and risk management system, including the compliance management system (CMS). The objective of the ICS is to implement controls to provide reasonable assurance for the company-wide processes, e.g. that the financial statements and the combined management report will be prepared in accordance with the applicable regulations.

NFON AG's internal control system and risk management system also cover sustainability-related objectives. This includes processes and systems for the collection, processing and external reporting of sustainability-related data. The ICS and RMS including the CMS entail regular monitoring with the objective of remedying identified weaknesses. On the basis of such findings, the Audit Committee monitors particularly the ongoing improvement of the ICS and RMS including the CMS. Except for these weaknesses, the Audit Committee currently sees no indications that the risk management, internal control and compliance systems of NFON AG are not appropriate or effective.

After detailed examination of the annual financial statements and the consolidated financial statements as well as the combined Group management report and Remuneration Report for fiscal 2022, the Supervisory Board raised no objections to this. The Supervisory Board concurred with the audit findings of KPMG and approved the annual financial statements, the consolidated financial statements and the Remuneration Report of NFON AG. The annual financial statements of NFON AG are thus adopted.

The Supervisory Board thanks the members of the Management Board and all employees for their great commitment and their performance in fiscal 2022 despite the global economic hardships and upheavals.

Munich, April 2023

For the Supervisory Board

Rainer Koppitz
Chairman of the Supervisory Board

THE NFON SHARE

For more information
on this topic see
corporate.nfon.com ⊕

The NFON Share in 2022 – Communicating change transparently

Providing for visibility through regular dialogue with shareholders

Despite the general uncertainty on the markets, we managed to successfully complete our strategic positioning as a provider of integrated business communications in 2022. The investment measures implemented thus far are having an effect, therefore we plan to continue growing while focusing clearly on profitability. This is news that has been received positively by our shareholders.

With the listing of the NFON share in the Prime Standard of the Frankfurt Stock Exchange, we have committed ourselves to the segment with the highest transparency requirements in Germany. We therefore place great importance on a transparent and consistent dialogue. We provided detailed information on our sharpened strategy at our second virtual Capital Market Day. Together with the Investor Relations department, the C-Level reported on key milestones in the further development of NFON AG, such as the launch of Cloudya Meet & Share, the intensification of our activities in Eastern Europe, including the opening of the branch office in Warsaw, and the strategic partnerships with Meetecho and Daktela.

In addition to the quarterly announcements, half-yearly financial and annual reports, quarterly web conferences for investors and analysts on the figures and press releases, NFON also presented itself at investor conferences and was available for discussions with investors and analysts.

All important information from the Group Financial Report to Corporate News, mandatory announcements to the share price and shareholder structure can always be found on the Company's own homepage in the Investor Relations section: NFON Corporate Website ⊕.

Please do not hesitate to contact the Investor Relations team at NFON AG by e-mail or telephone if you have any further questions.

Annual General Meeting

The Annual General Meeting of NFON AG was held virtually once again on 24 August 2022. A total of 82.26% of the share capital was represented at the Annual General Meeting. The Management Board and Supervisory Board reported in detail on financial year 2021 and developments in 2022.

All items on the agenda were approved by the shareholders. As in previous years, KPMG AG Wirtschaftsprüfungsgesellschaft was confirmed as auditor and Group auditor for financial year 2022.

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

Share performance

The NFON share started off the year 2022 at a price of EUR 15.50 and already reached its high of EUR 17.50 on 14 January 2022. In the months that followed, the share price declined overall and reached its low of EUR 4.95 for the year on 26 October 2022. Afterwards, a slight recovery to EUR 6.22 was recorded by the end of the year. This price was also the closing price on 31 December 2022 and represents a loss of approx. 60% for the year.

Trading volume

The trading volume of the NFON share on the XETRA platform averaged 3,472 shares traded per day over the course of 2022, with average trading turnover of EUR 39,119.47 per day. The trading turnover showed a brief increase, particularly at the beginning of May, to a volume of more than EUR 1 million at its peak. In the second half of the year, the trading volume was once again significantly below the annual average for 2022.

Share chart

All analysts recommend the share as a buy

The share of NFON AG was constantly covered by four analysts in 2022. Berenberg, Baader Bank, ODDO BHF and Hauck & Aufhäuser appraised NFON AG on a regular basis. All analysts have recommended the share as a buy since the beginning of their coverage. The average target price in March 2023 was EUR 16. The detailed recommendations and price targets of all analysts can be found below in the subsection "Overview: NFON AG on the Frankfurt Stock Exchange." NFON AG's IR team maintains an open dialogue with analysts, who report on the company and communicate their current assessment to capital market participants in the form of an update or commentary in the event that relevant events take place.

Shareholder structure (April 2023)

NFON regularly made use of the shareholder ID option last year. According to the current shareholder ID in combination with the voting rights notifications published, the shareholder structure for NFON AG is as follows: NFON welcomed Mitsubishi Corporation as a new Japanese investor to the shareholder base in 2022, with a share of 3.0%. ASC Technologie, based in Germany, also reported a share above 3.0% for the first time. On the other hand, Stockholm-based Swedbank sold its entire shareholding of 3.18% in 2022. Based on the voting rights notifications received from shareholders and in accordance with the definition of Deutsche Börse Group, the free float of the NFON share is 40.3%.

Shareholder structure

Shareholders	Share in %	Country	City
Milestone Venture Capital	32.1 %	Germany	-
Active Ownership Fund SICAV-FIS SCS	27.6 %	Luxembourg	Grevenmacher
Teslin Capital Management B.V.	6.5 %	Germany	Berlin
Gané Business Partner Fund	6.3 %	Germany	Frankfurt
Morgan Stanley	5.8 %	USA	Wilmington, Delaware
ASC Technologies AG	3.4 %	Germany	Hösbach
Mitsubishi Corporation	3.1 %	Japan	Chiyoda Ku
Briarwoods	2.8 %	USA	New York
West Elk	2.5 %	USA	Atlanta

Overview: NFON AG on the Frankfurt Stock Exchange (Prime Standard)

Coverage (Status in March 2023)	Berenberg Bank Baader Bank Hauck & Aufhäuser ODDO BHF Average	 Buy Buy Buy Buy	EUR 15.00 EUR 15.00 EUR 19.00 EUR 15.00 EUR 16.00
Initial listing (11 May 2018)[1]	EUR 13.00		
Closing price (30 Dec. 2022)[1]	EUR 6.22		
High for the year (14 Jan. 2022)[1]	EUR 17.50		
Low for the year (26 Oct. 2022)[1]	EUR 4.95		
Market capitalisation as of 30 Dec. 2022[1]	EUR 103 million		
Average trading volume[1]	EUR 39,119.47/day		

1 all trading data: XETRA

Master data of the NFON share

First day of trading	11 May 2018
Number of shares	16,561,124
Type of shares	No-par value registered shares made out to the bearer
Share capital	EUR 16,561,124.00
Voting rights	Each share grants one vote
Security Identification Number (WKN)	A0N4N5
ISIN (International Security Identification Number)	DE000A0N4N52
Ticker symbol	NFN
Reuters symbol	NFN.DE
Bloomberg symbol	NFN.GY
Trading segment	Regulated Market/ Prime Standard
Stock exchanges	Frankfurt Stock Exchange/Xetra
Sector	Telecommunications
Designated sponsors	Baader Bank, ODDO Seydler
Coverage	Baader Bank, Berenberg Bank, Hauck Aufhäuser Lampe Privatbank AG, ODDO BHF
Paying agent	Baader Bank Aktiengesellschaft

02 Combined Group Management Report

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1. Group profile

1.1 Group business model

NFON AG (referred to as NFON), based in Munich, was founded in 2007 and is a provider for integrated business communication in Europe. NFON has more than 50,000 business customers in 15 European countries, and operates as a telecommunications company through its own companies in Germany, Austria, the UK, Spain, Italy, France and Portugal. NFON also has a large network of more than 3,000 partners for sales operations in other countries.[1]

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 and collaboration, e.g. Meet & Share, Integration for Microsoft Teams, and business applications (see section 1.2 “General market characteristics” for explanations of the terms unified communications and collaboration and business applications).

NFON provides services in the following areas:

Business communication
Telephony, video calls, screen sharing, and the associated hardware components

Integration
NFON’s cloud telephony system is integrated into customers’ existing systems, business processes and workflows.

Customer contact
Products to optimise customer contact

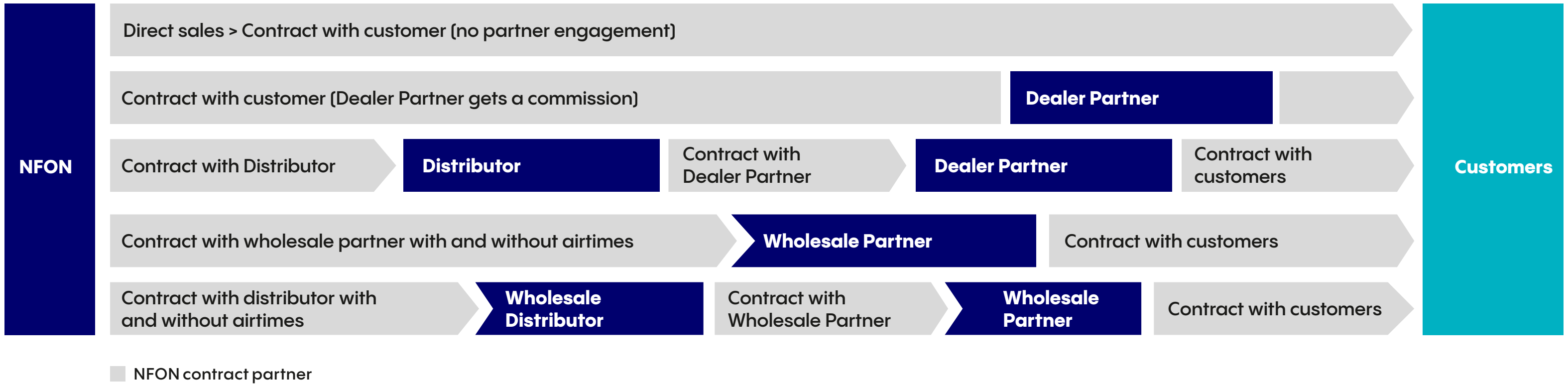
Enablement
NFON prepares companies for the cloud and makes sure they have the right infrastructure at their disposal

NFON distinguishes between recurring and non-recurring revenue. Recurring revenue includes monthly fees for all products and solutions as well as ongoing call charges and SDSL monthly fees. By contrast, non-recurring revenue is one-time revenue from the sale of hardware, set-up fees for the cloud PBX and other products, e.g. CC Hub, set-up fees for SDSL or cloud services.

Sales are conducted through five channels with a clear focus on sales via dealer partners.

1 Unaudited information

Distribution channels



Direct sales: Direct sales primarily supports NFON's sales partners in sales negotiations and assists with technically complex offerings (direct touch support). In selected cases, NFON's direct sales handles sales directly.

Dealer partners: The dealer has its own customer base and acquires new customers to whom it sells NFON products and solutions. The dealer provides service for these customers. NFON delivers the contractually agreed performance.

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

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

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

1.2 General market situation

While the early 2000s saw a gradual evolution in communication towards IP telephony, this accelerated considerably in the 2010s thanks to the introduction of cloud PBX technology and the associated as-a-service availability of business telephony. Driven by the COVID-19 pandemic and the growing shift toward New Work, this sub-segment of business communication is increasingly coalescing with other solution segments within companies: People, machines, processes and services are becoming more and more interconnected. Available and reliable information has become the most important success factor. Fast access to all relevant information is essential for key business decisions. In this respect, the markets for business applications, contact centre solutions and communication platforms have developed in parallel with the markets for business telephony, collaboration and video communication.

Market for integrated business communication emerges

The need to interconnect people, machines, processes and services is now increasingly resulting in companies' need for integrated solutions. While collaboration and video communication were initially separate solutions with separate markets, they and eventually also the market for business telephony merged into the market for "unified communications and collaboration" (UCC). At the same time, the markets for business applications, contact centre solutions and communication platforms evolved and developed shared interfaces. The markets for UCC, business applications, contact centre solutions and communication platforms therefore continue to coalesce into the integrated business communication market.

Communication platforms as a service another part of the integrated business communication market

The market for communication platforms as a service (CPaaS) is also gradually encroaching on the markets for UCC, business applications and contact centre solutions and becoming part of the integrated business communication market. This is a cloud-based delivery model that enables companies to use application programming interfaces (APIs) to augment business applications with real-time communication functions such as voice, video and messaging. CPaaS is used firstly by organisations that want to embed communication in their business applications and secondly by cloud providers and developers that want to add communication functions to their applications and services.

Communication solutions are becoming increasingly integrated

These developments are making the range of communication solutions for businesses increasingly integrated and complex. There are solutions and providers in every area of unified communications that can cover specialist use cases. At the same time, the integration of all these solutions with other processes and solutions from the field of contact centre solutions and business applications within a company or its IT infrastructure adds considerable value for businesses. As a result, the customer experience can be improved enormously with well executed integration, and internal processes can be automated and made much more efficient.

1.2.1 Specific market characteristics[2]

Market for unified communications and collaboration (UCC): Market for video conferencing, chat functions, software for digital collaboration, and business telephony

2 See https://www.uctoday.com/unified-communications/what-is-unified-communications/(30 March 2023)

Unified communications and collaboration (UCC) services and products combine various communication services. This is a response to the ever increasing flexibility of and changes in working models and practices. With the aid of diverse internal and external offerings, it is possible to cover a wide range of means of communication with a single solution and thus improve the reachability and productivity of employees.

A key feature of UCC products is the option of synchronous forms of communication, where participants can interact in real time and use various communication channels (also synchronously). Unified communications (UC) essentially comprises two aspects:

1. Communication independently of location, for instance using a single telephone number that can be used for faxes, a fixed line or a mobile phone at the same time.

2. Users can start new display forms from ongoing communications. During a video conference, for example, it is possible to communicate simultaneously with other participants via the chat function.

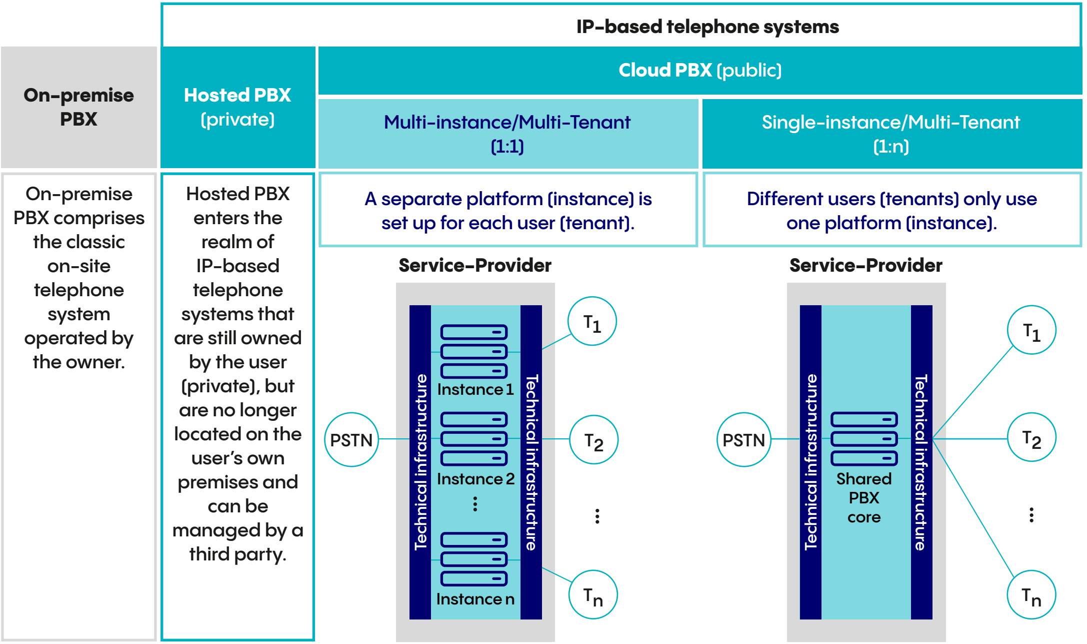
In addition to pure communication, it is also possible to collaborate in real time. This is associated with functionalities such as sharing screens, working together on one document from different locations or using virtual whiteboards.

Market for business telephony as part of UCC: Market for telephony systems used in a business context. Conventional on-premises telephony systems are increasingly being replaced by cloud telephony systems.

Until the pandemic, the markets for business telephony and UCC were distinctly separate markets. Customers' growing need for a single communication platform that enables video telephony, telephony and collaboration means that the UCC market is merging with the market for business telephony and business telephony is seen as part of the UCC market. The market for business telephony as part of UCC is divided into three main areas: the market for conventional on-premises telephony systems (on-premises PBX), private but no longer on-premises telephony systems (hosted PBX), and cloud telephony systems.

Diagram of the technological differences in business telephony in Europe:

European business telephony market



Market for business applications: Market for software products used in the administration of businesses and organisations, such as enterprise resource planning (ERP) systems.

Applications are used to support the administration of businesses. Applications can be simple standard software, e.g. for word processing or address management, application-based standard software, e.g. for accounting or warehousing, or special individual software tailored to industry solutions.

Market for contact centre solutions

Contact centre as a service (CCaaS) is a software as a service (SaaS)-based application that helps customer service companies to fully manage customer interactions across channels (multichannel or omnichannel). Specifically, contact centre as a service describes the combination of a cloud-based contact centre infrastructure and contact centre hosting to run and manage the contact centre infrastructure in a single location. Contact centre as a service makes it possible to choose just one specific function or technology, which means lower costs for integration, IT and support. Companies can handle these services themselves or outsource them to third parties. Some companies also use a combination of their own and a managed infrastructure in a hybrid model[3].

Market for communication platforms

Communication platforms as a service (CPaaS) is a cloud-based delivery model that enables companies to use application programming interfaces (APIs) to augment business applications with real-time communication functions such as voice, video and messaging. APIs can also be used to combine various solutions directly from their respective providers or external partners and thus continuously develop new, specific solutions. At first, the connection

3 Fortune Business Insight: Contact Center as a Service Market. Europe Industry Analysis, Insights and Forecast, 2020–2027, Report 2020

of other software products is thus much easier. Then, third parties can also use this interface to integrate further applications.

1.2.2 Regulatory framework

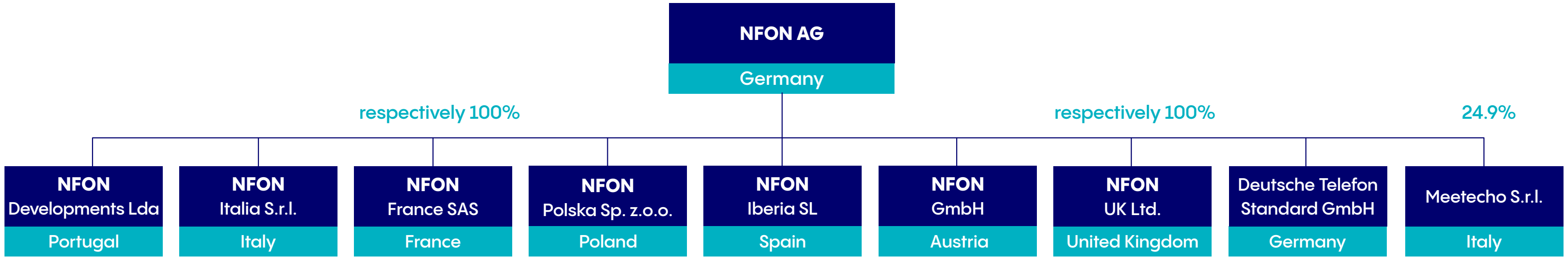
Since the deregulation and harmonisation of German telecommunications law (1989), the performance of telecommunications services and the operation of telecommunications networks have been subject to the Telekommunikationsgesetz (TKG – German Telecommunications Act, original version dated 25 July 1996, 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 body in charge of regulating the German telecommunications market is the German Federal Network Agency. Similar authorities, which include the European Commission, likewise exist in other European countries. 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. In addition, the TKG also contains reporting and information obligations with regard to security incidents with a significant impact on network operation or service provision, as well as in the event of a breach of the protection of personal data, which NFON complies with accordingly. 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.

1.3 Organisation

1.3.1 Group structure and locations

The Group structure as at 31 December 2022 is shown by the following diagram. The breakdown into segments reflects the individual, fully consolidated subsidiaries of the NFON Group.

Group structure and locations



1.3.2 Management and control

The members of the Management Board of NFON AG work closely with the other managers throughout the NFON Group. A four-member Supervisory Board oversees the activities of and advises the Management Board.

1.4 Objectives and strategies

A dynamic market environment, a business area undergoing disruption, and a technology that already has a strong position in the newly emerging market for integrated business communication: This is the position that NFON intends to use for further growth.

In previous years, the focus – due to the enormous growth rates in the market – was almost exclusively on rapidly increasing the seat base and entering new markets. Due to the changes in the market dynamics in a generally cooling economic environment, NFON changed direction in the second half of 2022 and is now aiming for profitable growth. Fundamentally, the three pillars of the strategy, which are aimed at revenue growth, remain the same: product growth, expansion of sales (channel), and partnerships and alliances. In the interests of increasing profitability, measures have also been taken to reduce the cost base and thus to increase profitability. In the course of refining the NFON growth strategy, sustainability is also coming to the fore as a strategic component. Not least due to initiatives such as Directive (EU) 2022/2464 of the European Parliament and of the Council of 14 December 2022 as regards corporate sustainability reporting[4] or the Corporate Governance Code enacted on 27 June 2022, which particularly included revisions in the area of sustainable corporate governance, and the realignment of many companies in the technology sector, sustainability is a prerequisite for successful business. On this basis, NFON therefore sees sustainability as an integral element of the corporate strategy.

4 Regulation (EU) No 537/2014 and Directives 2004/109/EC, 2006/43/EC and 2013/34/EU

The NFON Group's growth strategy stands on three pillars: product growth, development into a best-in-class channel organisation and growth acceleration through partnerships and alliances. These are described below:

1. Product growth

One of NFON's primary objectives is to continue improving its core offering and to increase the number of customers. This development focuses on the cloud PBX/voice and integration capabilities of the communication platform. The company wants to concentrate on improving user experience (UX) and expanding the functions for large businesses (enterprise PBX functions). NFON thus wishes to enlarge the platform's addressable market for the company. In addition, NFON plans to extend and deepen the integration into other business processes and systems such as CRM or ERP solutions. This approach also enables a greater focus on specific sectors and areas of industry. NFON is developing specific and integrated solutions for these sectors. Alongside the offerings for the hotel industry, in which NFON is already active, NFON will also step up its activities in commerce and logistics, healthcare and the public sector.

In addition to these deeper integrations into business processes, there is also a particular focus on the integration into and of Microsoft Teams. Offerings for the expansion of Teams into a full-scale telephony and communication solution and the integration of the NFON platform into Microsoft Teams in various versions enables broad coverage of the market requirements. With strong growth expected for Microsoft Teams as a collaboration solution, a leading position in this segment is a key building block for growth.

Besides the expansion of the capabilities and target groups of the core platform, NFON also plans to further expand the contact centre as a service (CCaaS) segment in order to further establish itself in this young market. An expansion of the existing integrations towards open interfaces (APIs) for the deeper integration of additional applications and the use of NFON as a provider in third-party solutions lays the foundation for further medium- and long-term growth.

2. Development into a best-in-class channel organisation
Indirect sales via partners and resellers (channel) is a crucial success factor, especially in the European IT environment. For this reason, NFON continues to direct its main focus towards establishing and developing an excellent channel and outstanding channel infrastructure.

To achieve this, NFON rolled out the new international partner programme NGAGE in 2022. With NGAGE, NFON hopes to become more attractive to new partners. All in all, the partner programme's structure was made clearer and more transparent for partners, so that every partner knows exactly what the services and tools for partner development and the financial advantages are. Partners can progress within three levels – silver, gold and platinum. Every level contains defined targets and corresponding commission rates. NFON has also developed a new partner management platform that is being continuously rolled out and expanded with additional features. This platform is intended both to improve communication and to enable the efficient management of customer relationships. Moreover, more partners from the IT segment are to be acquired in addition to the telecommunications partners.

3. Growth through partnerships and alliances
In addition to the independent development of products and the expansion of the channel, NFON sees strong growth potential in strategic partnerships in three areas:

a. Technological partnerships: In a competitive and enormously innovative environment, it makes little sense to develop every innovation independently. Therefore, NFON is increasingly looking to partnerships with other providers in order further increase capacity for innovation.

b. Sales and distribution partnerships: On the foundation of existing partnerships, such as with Telefónica Deutschland or Deutsche Telekom, NFON wants to establish and expand additional partnerships and thus continue to grow, especially in the enterprise and verticals sector and in integrated business communication.

c. Alliances and strategic partnerships: NFON can secure technologies or market positions via alliances and strategic partnerships, such as with the Italian company Meetecho.

In addition to these growth activities, NFON is sounding out the market for M&A activities both as regards technology and in the interest of consolidation in the communication solutions sector.

Alongside the three strategic pillars relating to revenue growth, NFON is increasingly aiming for profitability. Relevant measures to increase profitability were already taken in the second half of 2022. In 2023, there will also be measures along these lines to improve processes and encourage employees to take individual responsibility. In addition, the Management Board has expressly committed to sustainable growth in two senses. The Management Board has therefore set itself the strategic goal of meeting the needs of the current generation without impairing future generations' ability to meet their own needs. Details on the sustainability targets, measures and indicators defined by the Management Board can be found in the non-financial statement, which is published separately.

With a targeted expansion of the product portfolio, development towards a leading channel position, selective strategic partnerships and a clear profitability strategy, NFON believes it is in a good position to become a leading provider for integrated business communication in Europe in the next few years.

1.5 Management

1.5.1 Management systems

The Management Board of NFON AG has introduced an internal management system for the management of the Group, which is shown in the following diagram (page 21).

1.5.2 Financial and non-financial performance indicators

In 2022, the NFON Group was managed using the following performance indicators:

- Seat growth
- Recurring revenue and the relevant growth rate
- Recurring revenue as a share of total revenue
- Total revenue
- Blended ARPU – hereinafter referred to as ARPU
- EBITDA (adjusted)

These performance indicators ensured that the company could analyse and manage the measures that had been defined in order to achieve growth targets, and that it could measure its success.

NFON also divides these indicators into two groups – the key performance indicators and the performance indicators. In fiscal 2022, NFON AG defined seat growth, the growth rate of recurring revenue and recurring revenue as a share of total revenue as its key financial performance indicators.

Seat growth over a reporting period is the basis for recurring revenue and belongs to the non-financial performance indicators.

The growth in recurring revenue generated from all seats and the successful development in recurring revenue as a share of total revenue illustrate the sustainability and stability of the NFON Group's business model. The positive development of recurring revenue is crucial to the overall success of the NFON Group.

NFON uses average revenue per user across all sales channels (ARPU) as a further revenue-based financial performance indicator. This is calculated as the recurring revenue for the period in question less the monthly fees with SIP trunks for the period in question divided by the total number of seats (seat base) for the period in question.

The Group uses adjusted earnings before interest, taxes, depreciation, amortisation and impairment (adjusted EBITDA) to measure its operating performance and the success of the individual business units. Adjusted EBITDA is calculated by subtracting non-operating costs and one-time expenses from EBITDA.

Internal Management System of NFON AG

Supervisory Board

The Supervisory Board meets regularly and at least once a quarter for Supervisory Board meetings with and without the Management Board. It monitors and advises the Management Board.

C-Level-Team

The C-level team consisting of the Management Board, CFO and CMO manage the business of the NFON Group. They report regularly to the Supervisory Board.

Management Board

The rules of procedure of the Management Board and the Supervisory Board regulate the cooperation and the transactions requiring approval.

CXO

The Board has appointed a Chief Financial Officer and a Chief Marketing Officer as delegated executives.

Group-wide reporting

Monthly reporting to the Management Board and Supervisory Board includes the abridged economic report, including the earnings and financial situation, and quarterly including the asset situation.

Management of financial performance indicators

Total revenue, recurring and non-recurring revenue and their share in total revenue, ARPU (blended), adjusted EBITDA

Management of non-financial performance indicators

Seatgrowth

Control ESG performance indicators

In the areas of environmental concerns, employee concerns, education and training, social concerns, compliance, respect for human rights, product responsibility

Budgeting and planning process

The budget process is started annually in the second half of the year. Planning regularly covers the period of five years.

Process for continuous strategy development and implementation

Strategic measures, milestones, key performance indicators and implementation are organised in C-level strategy meetings. The Executive Board and the Supervisory Board are regularly informed about the implementation.

Meetings of C-level management, divisional management and staff units

C-level and 1st management level below the Management Board meet in different meeting formats and compositions. Efficient and timely exchange of information is essential.

Risk management, internal control system and compliance management system

The risk manager, together with the risk committee, monitors the implementation, execution and compliance of risk management and meets at least once a year. The internal control system (ICS) is an integral part of the company-wide control and risk management system including the compliance management system (CMS). The Supervisory Board of NFON AG monitors the appropriateness and effectiveness of the ICS. The scope and design of the ICS are at the discretion and responsibility of the Management Board in accordance with Section 91 (3) of the German Stock Corporation Act (AktG).
A component of the ICS and RMS, including the CMS, is regular monitoring, on the basis of which identified weaknesses are remedied.

Sustainability management

Under the leadership of the Sustainability Manager, the sustainability concepts of the NFON Group are defined, reviewed and further developed. C-Level and the Supervisory Board are regularly informed about the progress.

In fiscal 2023, the classification of the performance indicators will be changed to reflect the amendment of the growth strategy, whereby NFON's objective from fiscal 2023 onwards will be profitable growth. From 2023, adjusted EBITDA will be deemed a key performance indicator, and seat growth will instead be reported only as a performance indicator, as the targeted profitable growth will still relate to recurring revenue, but this will also be generated through products beyond the basic fee for a seat.

1.6 Research and development

In fiscal 2022, research and development activities concentrated on the ongoing expansion and improvement of cloud telephony with further UC functionalities, the launch of the Contact Center Hub and new desktop apps with better system integration and therefore further improvements in user experience.

The Group incurred R&D expenses for product development excluding development expenses for internally generated software in connection with the newly introduced BSS of EUR 10.3 million in the year under review (2021: EUR 8.6 million). EUR 5.3 million (2021: EUR 4.2 million) of this was capitalised under intangible assets both from employees and from external service providers. The capitalisation rate in the year under review is thus 51.5% (2021: 46.9%). Amortisation of EUR 2.1 million (2021: EUR 2.9 million) was recognised on capitalised development projects in the reporting year. In addition, development expenses for internally generated software both from employees and from external service providers amounting to EUR 2.0 million (2021: EUR 2.5 million) were capitalised.

2. Economic report

2.1 General economic conditions and industry environment

2.1.1 General economic development in Europe, Germany and material foreign markets

Over the course of 2022, the eurozone economy initially proved robust despite the impact of the Russia-Ukraine war. However, persistently high energy prices, stubbornly high inflation and rising interest rates had a negative effect on general economic development at the end of 2022.[5] According to the Kiel Institute for the World Economy (IfW), gross domestic product (GDP) in the eurozone consequently grew by 3.5% in 2022 after growth of 5.3% in the previous year.[6]

In Germany, NFON's domestic market, economic development was also stable overall despite the difficult general economic conditions. The Federal Statistical Office puts the growth of the German economy in 2022 at 1.9% (2021: 2.6%).[7] Following the recovery from the effects of the pandemic, the economy was particularly underpinned by private consumer spending in the first three quarters of 2022.[8] However, the impact of the Russia-Ukraine war and associated energy price increases resulted in stagnation of German economic output as the year progressed.[9]

The ifo business climate index, an important indicator for the German economy, reached a high of 98.8 points in February 2022. This declined as the year progressed, but grew slightly again to 88.6 points in December.[10] This

5 https://www.ifw-kiel.de/fileadmin/Dateiverwaltung/IfW-Publications/-ifw/Konjunktur/Prognosetexte/deutsch/2022/KKB_94_2022_Q3_Euroraum_DE.pdf (29 March 2023)
6 https://www.ifw-kiel.de/fileadmin/Dateiverwaltung/IfW-Publications/-ifw/Konjunktur/Prognosetexte/deutsch/2023/KKB_100_2023_Q1_Euroraum.pdf (29 March 2023)
7 https://www.destatis.de/DE/Presse/Pressemitteilungen/2023/02/PD23_070_811.html (29 March 2023)
8 https://www.destatis.de/DE/Presse/Pressemitteilungen/2023/01/PD23_037_811.html (29 March 2023)
9 https://www.destatis.de/DE/Presse/Pressemitteilungen/2023/02/PD23_070_811.html (29 March 2023)
10 https://www.ifo.de/fakten/2023-01-25/ifo-geschaeftsklimaindex-gestiegen-januar-2023 (29 March 2023)

development is primarily due to the effects of the global economic downturn in conjunction with high inflation rates and price rises.[11]

NFON AG's largest foreign market is the UK. The UK economy continued to be rocked by the ongoing effects of the pandemic in the past year.[12] Nonetheless, IfW experts are forecasting that the UK's GDP will have risen by a generally significant 4.0% over 2022 as a whole (2021: 7.6%).[13]

Another important foreign market for NFON AG is Austria. Until summer 2022, the Austrian economy saw substantial growth as a result of the gradual recovery from the pandemic and increased goods exports. In the second half of the year, however, the economy was negatively affected by the global economic downturn and high inflation.[14] Accordingly, GDP growth in 2022 was 5.0% after 4.7% in the previous year.[15]

The year-on-year economic downturn in the NFON Group's target markets in 2022 was also reflected in NFON's operating performance in fiscal 2022. For example, companies in the markets relevant to NFON were clearly reluctant to invest, which resulted in longer sales cycles.

2.1.2 Significant sales markets and competitive position of the NFON Group

NFON recalibrated its existing strategy with the new growth strategy released in spring 2021. While the company previously saw itself as a provider of cloud telephony systems and thus felt itself to be in the right place on the market for cloud telephony systems, its radius was enlarged to encompass the markets for unified communications and collaboration, contact centres and business applications. The strategy developed this focus, with the market dynamics making it more necessary to focus on the integration of the various communication channels.

Geographically, NFON continues to see Europe as its core market. The growing acceptance of cloud products and services in Europe as well is accelerating the digital transformation and thus the growth potential. It should be noted that the penetration rate for cloud products and services still varies considerably across all products and countries. NFON concentrates primary on markets with low cloud penetration, since greater growth opportunities and a sparser competitive environment are expected there.

11 https://www.ifo.de/publikationen/2022/aufsatz-zeitschrift/ifo-konjunkturprognose-herbst-2022-inflation-wuergt-privaten (17 January 2023)

12 NFON AG's largest foreign market is the UK. The UK economy continued to be rocked by the ongoing effects of the pandemic in the past year. Nonetheless, IfW experts are forecasting that the UK's GDP will have risen by a generally significant 4.0% over 2022 as a whole (2021: 7.6%).

13 https://www.ifw-kiel.de/fileadmin/Dateiverwaltung/IfW-Publications/-ifw/Konjunktur/Prognosetexte/deutsch/2023/KKB_99_2023-Q1_Welt.pdf (29 March 2023)

14 https://www.wifo.ac.at/jart/prj3/wifo/resources/person_dokument/person_dokument.jart?publikationsid=70406&mime_type=application/pdf (29 March 2023)

15 https://www.ifw-kiel.de/fileadmin/Dateiverwaltung/IfW-Publications/-ifw/Konjunktur/Prognosetexte/deutsch/2022/KKB_97_2022-Q4_Welt.pdf (29 March 2023)

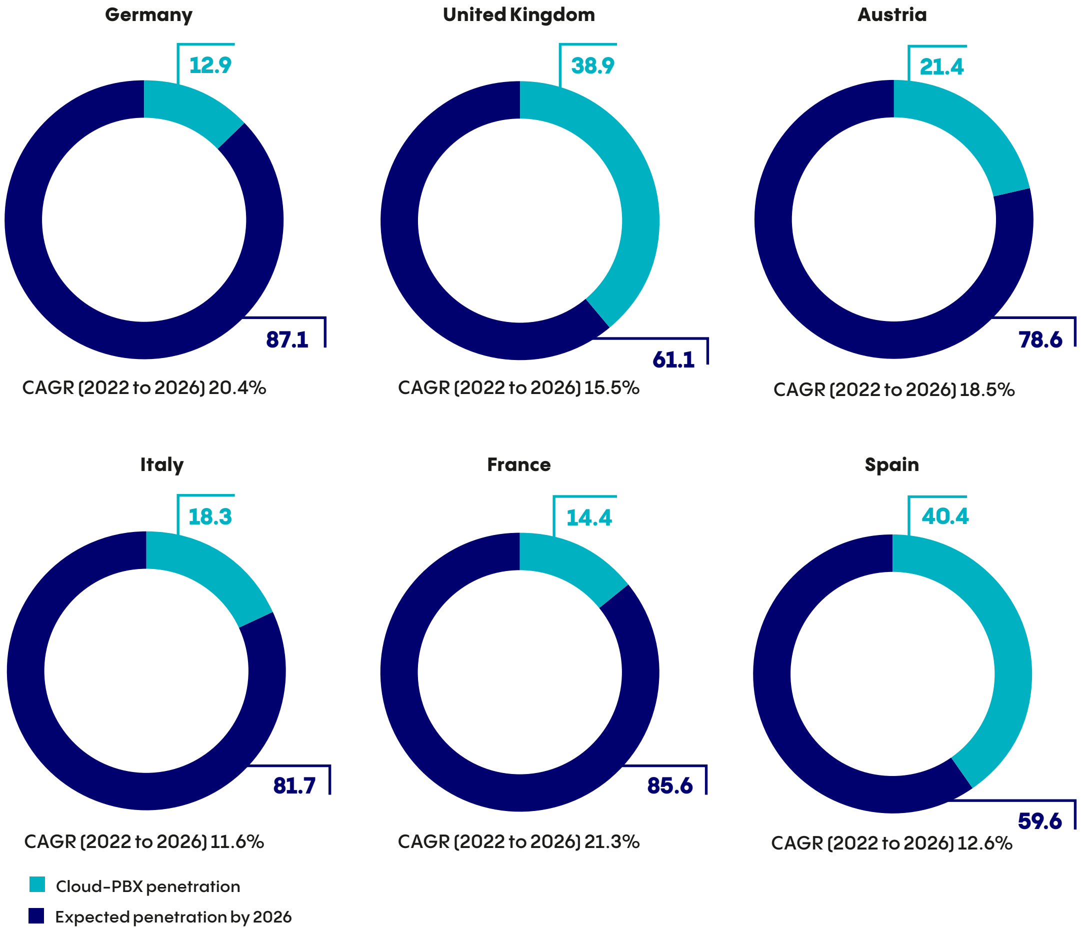
Market for cloud telephony

The European market for telephony as a whole numbers around 128 million seats[16]. Aggregating the data available from market researchers and applying the company's own assumptions, only around 28% of seats – around 36 million – are in the cloud[17]. Based on assumptions by MZA, a CAGR (2022 – 2026) of around 10%[18] can be assumed in the cloud PBX segment and of 13% for multi-tenant technology offered by NFON[19]. This would increase the total number of seats in the cloud (multi-tenant) to around 47.5 million by 2027[20].

North America is one of the most advanced countries in the world in terms of cloud telephony use with a penetration rate of around 51% (approximately 44 million seats in the cloud)[21].

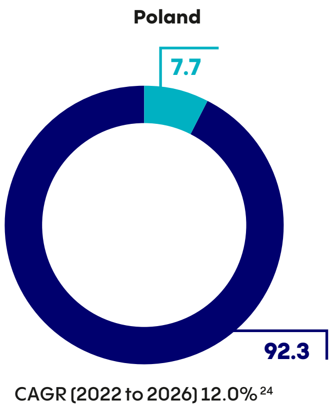
16 Source: MZA: "Hosted-Cloud Business Telephony 2022"
17 Source: NFON internal calculation based on the Cavell Group's "Cloud Comms Market Report Q2 2022" and MZA's "Hosted-Cloud Business Telephony 2022"
18 Source: MZA: "Hosted-Cloud Business Telephony 2022"
19 Source: MZA: "Hosted-Cloud Business Telephony 2022"
20 Source: MZA: "Hosted-Cloud Business Telephony 2022"
21 Source: Cavell Group: "USA Cloud Comms Report 2022"

Cloud PBX in Europe (penetration in %, blue)[22]



22 Data on penetration rates: Cavell Group: "Cloud Comms Market Report Q2 2022"; data on CAGR: NFON internal calculation based on the Cavell Group's: "Cloud Comms Market Report Q2 2022"

NFON has had its own sales company in Poland since May 2021. As the level of competition in Poland and other countries in Eastern Europe is still very low, and therefore the penetration rate is low[23] as well, NFON anticipates excellent growth prospects thanks to the presence it has already established through its partners, the level of competition and the low penetration rate. With a CAGR (2022–2026) of 11% in Eastern Europe, Poland – as the largest economy in this area – is an exciting market with high growth potential.



Competitive situation

In the management's view, the competitive environment is multi-layered. The North American companies RingCentral and 8x8 have very similar offerings. Like NFON, they have a cloud telephony system developed in-house and have been expanding their product ranges considerably for more than ten years by integrating communication media in a unified application

23 Unaudited information

24 Figures based on estimates by the company

environment (unified communications (UC) services).[25] They also operate in multiple countries. According to internal market observations, RingCentral in particular has stepped up its activities in continental Europe in the last few years, whereby these endeavours have also been reduced again due to the market dynamics at least in certain countries, such as Germany.[26] Furthermore, the continuing consolidation in the European market is resulting in additional companies, including enreach, Gamma, Telavox and dstny[27], with international positioning but diverse technical platforms, since their portfolios contain the proprietary solutions of various acquired providers and it is technically very difficult to migrate these platforms. Currently, NFON perceives this competition to be visible but not critical, as the diversity of these providers in the various markets means there is no single platform with an offering identical to NFON's with regard to market presence or strength. Other providers from adjacent areas such as collaboration, CCaaS and CPaaS, including Zoom and LogMeIn, also are trying to gain a greater foothold in the market, but are only suitable for specific requirements due to the small set of features in the field of conventional telephony.[28] Thanks to its European presence with a unified platform, NFON remains one of the few providers (see RingCentral and 8x8) that can offer the entire value chain of a cloud PBX provider Europe-wide. The platform's effectiveness and the development toward UCaaS are in line with the market. In conjunction with the 'Made in Germany' label and the focus on the integration of the platform into other business applications and the integration of NFON solutions into these applications, NFON considers itself to be well positioned in this competitive environment.

Market for UCCaaS products and solutions

Competitive situation

The market for unified communications and collaboration has major providers such as Microsoft, Google, Zoom, Slack, GoTo or Cisco. NFON feels that its market position is more in the field of integrated as well as voice-centric communications and not in direct competition with these companies.[29] Microsoft Teams plays a particular role in the collaboration solutions. Due to the very strong growth and dominance of Microsoft Office solutions in the B2B environment, Teams has already enjoyed strong market penetration in the last 24 months. The performance of the product and the market suggest that Microsoft Teams will play a leading role here.[30] Providers like NFON, however, are able to participate at least partially in this development with superior offerings in certain segments, especially telephony and integration into business processes.

There is no standard definition of the market for UCCaaS solutions. Exact and clear-cut modelling of the addressable market is therefore impossible. When estimating the market potential, NFON assumes that users of Microsoft Teams' collaboration functions can be counted directly towards the addressable market for NFON.[31] In contrast, the enablement of the solution in the telephony sector is part of the cloud PBX market potential. The remaining addressable segment for NFON outside of cloud PBX has a market volume of EUR 4.8 billion with average annual growth (2022–2026) of 7%.[32]

25 Unaudited information
26 Unaudited information
27 Unaudited information
28 Unaudited information
29 Unaudited information
30 Watson, Patrick: Huge Growth to Come in Microsoft Teams Telephony Market, (27 July 2022), (URL: https://cavellgroup.com/huge-growth-microsoft-teams-telephony-market/- last accessed 28 February 2023)
31 Unaudited information
32 NFON internal calculation based on IDC EMEA Unified Communications & Collaboration Tracker, October 2021, unaudited information

Market for contact centre solutions

Competitive situation

NFON is a new player on the market of pan-European providers for contact centre solutions. Here, there are overlaps with competitors in the area of cloud telephony, e.g. RingCentral and 8x8, which likewise offer contact centre solutions. What these providers have in common with NFON is that they come from telephony to offer contact centres as a solution and thus offer integrated solutions for business communication that provide conventional telephony or other related services in addition to contact centres. Some other providers from the direct competitive environment have likewise augmented their solutions with a CCaaS offering. According to the Gartner Magic Quadrant, specialist contact centre providers, such as the major competitors Genesys, Nice XCone and Talkdesk[33], also operate in this environment alongside the integrated providers. To be competitive on the market, in the field of contact centres as a solution NFON uses the CCaaS platform of its partner Daktela, which NFON integrates into its portfolio and platform and markets exclusively or in cooperation with Daktela depending on the region, thus providing an integrated offering for customers.

The market is at a very early stage. Nevertheless, the volume in the CCaaS sector is already around EUR 1 billion (as of 2021).[34] With a CAGR (2022–2026) of around 16%[35], the market is extremely attractive and offers very high potential in its early stage.

On the basis of the differing market potential, NFON has various addressable markets in the core segment of cloud PBX, but also in the UCCaaS and CCaaS markets, which NFON partially addresses. With a total volume of over EUR 11.3 billion[36] and percentage growth rates well into double digits, the attractiveness these markets will remain stable in the long term.

2.2 Presentation of the company's performance

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

	2022	2021	Change
Total revenue	EUR 80.8 million	EUR 75.9 million	6.5%
Recurring revenue	EUR 73.6 million	EUR 68.0 million	8.3%
Share of recurring revenue	91.1%	89.5%	n/a
Non-recurring revenue	EUR 7.2 million	EUR 7.9 million	-9.0%
Share of non-recurring revenue	8.9%	10.4%	n/a
ARPU	EUR 9.72	EUR 9.84	-1.2%
Seat growth (number of seats)	**8.0%** (634,288)	**11.9%** (587,067)	
Adjusted EBITDA**	EUR 1.0 million	-EUR 1.3 million	n/a

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

** Notes on the adjustments can be found under "Results of operations"

33 Fortune Business Insight: Contact Center as a Service Market. Europe Industry Analysis, Insights and Forecast, 2020–2027, Report 2020
34 Fortune Business Insight: Contact Center as a Service Market. Europe Industry Analysis, Insights and Forecast, 2020–2027, Report 2020
35 Fortune Business Insight: Contact Center as a Service Market. Europe Industry Analysis, Insights and Forecast, 2020–2027, Report 2020
36 Information on total market potential and CAGR: NFON internal calculation based on the above market studies

Key performance indicators compared with 2022 forecast and the forecast revised in November 2022:

	Growth of recurring revenue in %	Recurring revenue as a share of total revenue	Seat growth in %
2022	8.3%	91.1%	8.0%
2022 forecast (April)	Between 10% and 12%	At least 88%	Between 10% and 12%
Revised 2022 forecast (November)	Between 8% and 9%	At least 90%	Between 7% and 8%
Note on forecast of April 2022	As was announced when the forecast was revised in November 2022, the original growth target was not achieved.	The target was comfortably achieved.	As was announced when the forecast was revised in November 2022, the original growth target was not achieved.
Note on forecast of November 2022	The target was achieved at the lower end of the forecast range.	The target was comfortably achieved.	The target was achieved at the upper end of the forecast range.

The NFON Group's performance has been positive on the whole. Although the pandemic situation, which diminished investment appetites in the previous years, increasingly quietened over the course of the year, the downturn of the European economy in the wake of the Ukraine war affected NFON's growth momentum in the same way the pandemic did. NFON was therefore unable to achieve its original, ambitious target for seat growth and, with 634,288 seats at the end of 2022, achieved a growth rate of 8.0%, which is at the upper edge of the revised forecast. The growth rate for recurring revenue was 8.3% at the end of the year, primarily due to the development of revenue with voice minutes. While the volume of voice minutes sold was high in the first half of the year due to the effects of the pandemic, the level declined during the second half of the year as a result of customers' altered telephony behaviour (increased return to enforced attendance and greater use of MS Teams). Although price increases had already been implemented in some areas, this lower revenue with voice minutes led to a slight downturn in ARPU, which amounted to EUR 9.72 as at the end of the year (2021: EUR 9.84).

In response to the ongoing uncertainty of the markets, NFON refined its growth strategy to focus clearly on profitable growth. Although there was therefore continued investment in growth in 2022, the cost structure was adjusted in certain areas.

Overall, NFON increased its revenue by 6.5% year-on-year to EUR 80.8 million for fiscal 2021 (2022: EUR 75.9 million). NFON again significantly increased recurring revenue as a share of total revenue to 91.1% (2021: 89.5%) or EUR 73.6 million (2021: EUR 68.0 million).

2.3 Results of operations

Development of key items of the consolidated statement of comprehensive income

in EUR million	2022	2021	Change in %
Revenue	**80.8**	75.9	6.5
Cost of materials	-14.4	-14.5	0.3
Gross profit	66.4	61.4	8.0
Other operating income	1.1	0.6	93.9
Staff costs	-37.4	-31.7	-18.1
Other operating expenses	-35.3	-32.3	-9.2
EBITDA	**-5.3**	-2.0	< -100%
Adjusted EBITDA*	**-1.0**	-1.3	22.2
Depreciation, amortisation and write-downs**	-6.8	-6.9	2.6
EBIT	**-12.0**	-9.0	-34.3
Net interest income	-0.2	-0.3	48.3
Income tax expense/income	-3.4	0.3	< -100%
Consolidated loss	**-15.6**	-8.9	-74.9

* See section 2.3.4 for reconciliation of EBITDA with adjusted EBITDA

** 2021 contains write-downs of EUR 101 thousand (2022: EUR 0 thousand)

NFON continued its growth trajectory in 2022 and achieved the revenue targets of the updated forecast. Because high-margin recurring revenue increased in particular, gross profit increased by an even higher percentage than revenue. With regard to costs, staff costs grew due to the increase in resources in sales and technology. In other operating expenses, selling expenses increased as a result of revenue, as did consulting expenses, while marketing expenses declined versus 2021.

In 2022, staff costs and other operating expenses include non-recurring effects of EUR 4.3 million compared with EUR 0.7 million in 2021 (see 2.3.4).

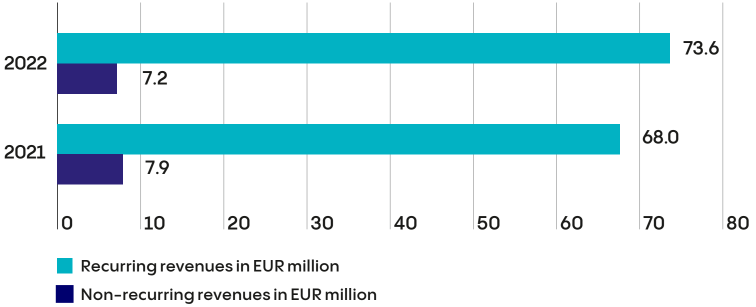
While unadjusted EBITDA is EUR 3.3 million lower than in 2021 due to the excess costs, EBITDA adjusted for non-recurring effects is slightly more positive in 2022 than in 2021.

The change in EBIT is for the same reasons as the change in unadjusted EBITDA.

2.3.1 Consolidated revenue and consolidated seat development

Revenue increased by 6.5% year-on-year. 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 and Austria.

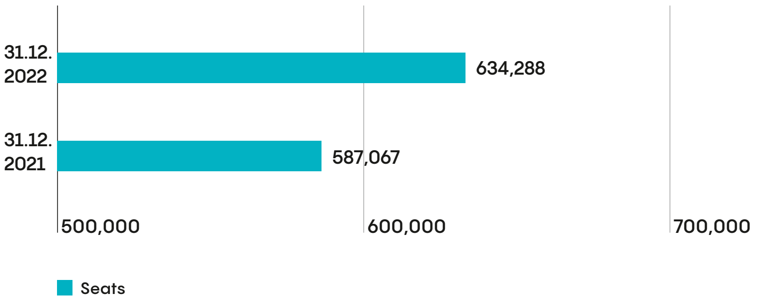
High share of recurring revenues of 91.1% of total revenues



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

Recurring revenue in particular developed positively. At 8.3%, it increased at a faster rate than total revenue, since the development of non-recurring revenue weakened the overall development. The decline in non-recurring revenue year-on-year (-9.0%) is due above all to the comparatively small seat gains.

Total number of seats grows by 8.0% year-on-year



The trend in seats testifies to the continuing demand for cloud telephony systems among business customers. At the same time, it underlines the high level of satisfaction felt by NFON's very loyal customers[37]. Even though the rise in new seats fell short of expectations, customer loyalty remained constant at a high level.

2.3.2 Revenue and seat development by segment

The breakdown by segment reflects the individual international subsidiaries of the NFON Group, which in fiscal 2022 included two companies from Germany and one subsidiary each in Austria, the UK, Spain, France, Italy and Portugal. Aside from the German stock corporation, which is also responsible for research and development, the companies essentially function as independent sales companies. However, Deutsche Telefon Standard GmbH continues to provide development services for maintenance of its own products and, since 2021, for the NFON product portfolio. The subsidiary in Portugal exclusively performs development services and does not generate any revenue outside the Group. The subsidiary in Poland founded in 2021 (NFON Polska z.o.o) again did not generate any significant revenue in 2022, since most revenue in Poland is still invoiced via NFON GmbH.

The Group has seven segments with external revenue, which are shown separately below as reportable segments. The seven segments are NFON AG, Deutsche Telefon Standard GmbH, NFON GmbH (Austria), NFON UK Ltd., NFON Iberia SL, NFON Italia S.R.L. and NFON France SAS.

37 Unaudited information

The company NFON developments unipessoal Lda. will never generate revenue as it is a software development company.

The revenue generated by the Group as a whole with external customers breaks down as follows among the individual international subsidiaries and is reported in accordance with IFRS:

The positive development in revenue in the NFON AG segment from EUR 43.1 million to EUR 46.1 million is mainly due to an increased seat base compared to the previous year, which directly led to higher recurring revenue.

Revenue rose at Deutsche Telefon Standard GmbH in line with the generally positive trend, and in particular from SIP trunk.

Revenues in segments

	Revenue		Recurring revenue		Change in recurring revenue in %	Recurring revenue as a share of total revenue in %	
in EUR million	2022	2021	2022	2021		2022	2021
NFON AG	46.1	43.1	42.4	39.1	8.6	92.0	90.6
Deutsche Telefon Standard GmbH	16.8	16.5	15.7	14.9	5.2	93.2	90.8
NFON GmbH (AT)	8.2	7.3	6.8	5.9	16.3	83.5	80.2
NFON UK Ltd.	8.0	7.8	7.2	7.2	1.0	90.2	91.4
NFON Iberia SL	0.4	0.4	0.4	0.4	15.4	92.6	97.1
NFON ITALIA S.r.l.	0.9	0.5	0.7	0.3	116.0	79.2	68.1
NFON France SAS	0.3	0.3	0.3	0.2	22.4	83.2	80.3
Total for the reportable segments	**80.8**	75.9	**73.6**	68.0	8.3	**91.0**	89.5
Total consolidated revenue	**80.8**	75.9	**73.6**	68.0	8.3	**91.1**	89.5

Thanks to the acquisition of new customers and the growth of the seat base, revenue in the nfon GmbH segment rose from EUR 7.3 million to EUR 8.2 million.

Revenue in the NFON UK Ltd. segment was virtually stable at EUR 8.0 million (2021: EUR 7.8 million).

The growth in revenue at NFON ITALIA S.r.l., from EUR 0.5 million to EUR 0.9 million, was mainly thanks to new customers and the expansion of the seat base.

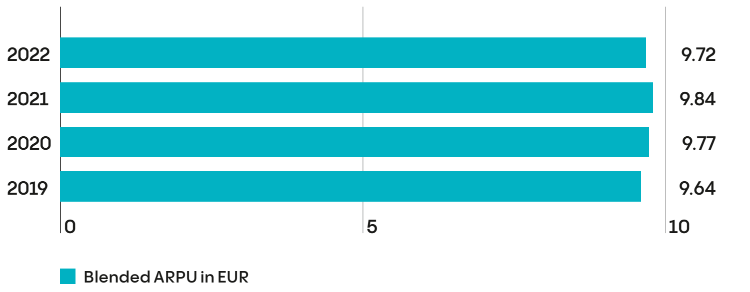
Revenue growth in the NFON Iberia SL and NFON France SAS segments slowed sharply as operations in these two companies were significantly reduced as part of the strategic shift towards profitable growth.

Seats in segments

	2022	2021
NFON AG	391,175	361,534
Deutsche Telefon Standard GmbH	79,756	75,182
NFON GmbH (AT)	68,384	59,083
NFON UK Ltd.	79,469	80,284
NFON Iberia SL	5,146	3,718
NFON ITALIA S.R.L.	6,977	4,604
NFON France SAS	3,381	2,662
Total EBITDA	**634,288**	587,067

2.3.3 ARPU development

ARPU back to pre-pandemic level



NFON uses the average recurring revenue across all services, sales channels and countries per user (seat), referred to as average revenue per user (ARPU), to measure operating performance per seat. The average voice minutes sold per seat have a significant influence on ARPU. These declined slightly versus the pandemic years 2020 and 2021, which resulted in a slightly lower ARPU of EUR 9.72 compared with ARPU of EUR 9.84 in 2021. However, they were stable compared with the pre-pandemic figures, so the ARPU from 2019 (before the pandemic) was surpassed. In the third quarter of 2022, NFON reacted to the burden of inflation and successively increased prices for selected products and customer cohorts. In addition, more premium solutions are to be sold in the future, with which NFON can generate additional ARPU contributions. Both measures will help to keep ARPU stable.

2.3.4 Income and expense items

Other operating income

As against 2021, income from currency translation rose by EUR 0.3 million and income from the cost type 'offset other non-cash employee benefits' rose by EUR 0.2 million. The additional income from currency translation mainly comes from NFON UK, where the GBP/EUR exchange rate positively affected the valuation of the IC loans and the IC transfers.

Cost of materials

In the reporting period, the cost of materials remained at the previous year's level (2022: EUR 14.4 million; 2021: EUR 14.5 million). This development mainly stems from the sharp rise in the share of high-margin recurring revenue and the lower sales relating to non-recurring revenue.

Due to the increased revenue and a changed composition of the revenue mix with less low-margin hardware revenue in fiscal 2022, the cost of materials ratio decreased from 19.0% in the previous year to 17.8%.

Staff costs

The average number of employees increased from 466 in the previous year to 526 in the reporting year (growth of 12.9%). In line with the strategy, there was a particular increase in sales and technical staff. In response to the high inflation and to avoid an increase in employee turnover, selected salaries were increased and new employees were offered attractive remuneration packages. This increased staff costs from EUR 31.7 million to EUR 37.4 million.

Expenses of EUR 0.5 million (2021: EUR 0.4 million) in connection with an employee stock option programme implemented at the start of 2019 and of EUR 0.5 million in connection with the focus on our core sales markets were recognised in the reporting period.

Adjusted for these non-recurring effects, staff costs rose from EUR 31.2 million in the previous year to EUR 36.4 million. This represents an adjusted staff costs ratio in relation to revenue of 45.0% in fiscal 2022, after 41.2% in the same period of the previous year.

Other operating expenses

Other operating expenses climbed to EUR 35.3 million in 2022 (2021: EUR 32.3 million). This was primarily due to higher selling expenses with partners (+ EUR 1.2 million versus 2021), which are tied to the revenue volume, and higher consulting costs (+ EUR1.2 million versus 2021), including for various projects relating to governance and in connection with preparations for a capital market transaction. Due to long-running contracts with suppliers in the major cost items, high inflation did not affect other operating expenses in 2022.

In 2022, the following other operating expenses classified as non-recurring effects were incurred: expenses of EUR 1.4 million in connection with preparations for a capital market transaction to widen the equity base, EUR 0.9 million for the rebranding of the NFON brand with Cloudya as the main product, and EUR 0.9 million for provisions for licence back payments from an existing contract.

Aided by external consultants, NFON evaluated opportunities for capital market transactions in two major projects in 2022. While one project is on hold, the second project will continue in 2023.

Adjusted for these non-recurring effects, other operating expenses were on par with the previous year at EUR 32.0 million in 2022 (2021: EUR 32.0 million). This represents an adjusted ratio in relation to revenue of 39.7%, up from 42.2% in the previous year.

Other operating expenses include **marketing expenses** of EUR 8.5 million (2021: EUR 9.8 million). Marketing expenses adjusted for rebranding costs fell by 21.0% year-on-year to EUR 7.7 million (2021: EUR 9.8 million). The decline is the result of the altered sales strategy, which now focuses on cooperation with sales partners.

Other operating expenses include **selling expenses** of EUR 11.1 million (2021: EUR 9.9 million). Selling expenses mainly include commission paid to the NFON Group's sales partners, who share in a percentage of its revenue. The ratio of selling expenses to revenue was 13.7% in 2022, after 13.1% in the previous year. The slight increase resulted among other things from additional partner incentives involving special campaigns.

Due to the high number of long-term contracts with suppliers in the most important cost blocks, the high inflation did not have a significant impact on other operating expenses in 2022.

Depreciation and amortisation

In fiscal 2022, depreciation and amortisation amounted to EUR 6.8 million, level with the previous year (EUR 7.0 million). There was no impairment in the reporting year.

Net interest income

Net interest expense (interest and similar income less interest and similar expenses) amounted to EUR 0.2 million in fiscal 2022 (2021: EUR 0.3 million) and resulted from changes in interest rates in the recognition of leasing transactions.

Income tax expense/income

The income tax expense of EUR 3.4 million is primarily the result of deferred taxes. EUR 1.9 million of this relates to deferred tax expense due to the reversal of the deferred tax assets on tax loss carryforwards recognised at Deutsche Telefon Standard GmbH as at 31 December 2021. As a result of the income tax group comprising NFON AG and Deutsche Telefon Standard GmbH since 1 January 2022, these loss carryforwards currently cannot be utilised. A further EUR 0.7 million results from deferred tax liabilities, which relate to items at NFON AG and – as a result of the income tax group – Deutsche Telefon Standard GmbH.

EBITDA, adjusted EBITDA, EBIT, consolidated loss

in EUR million	2022	2021
EBITDA	**-5.3**	-2.0
Non-recurring effects		
Retention bonus	0.0	0.1
Stock Options/ESOPS	0.5	0.4
Focus on core markets	0.5	0.0
Expenses for preparing capital market transactions	1.4	0.3
Rebranding	0.9	0.0
Licence payment provisions	0.9	0.0
Total non-recurring effects	4.3	0.7
Adjusted EBITDA	**-1.0**	-1.3
EBIT	**-12.0**	-9.0
Consolidated loss	-15.6	-8.9
Total non-recurring effects	4.3	0.7
Adjusted consolidated loss	**-11.3**	-8.2

The growth in revenue and gross profit is offset by high costs for sales and technical staff, so adjusted EBITDA in 2022 is only slightly more positive than in 2021.

Contribution margin 2 by segment

Contribution margin 2 is calculated as EBITDA (earnings before interest, taxes, depreciation and amortisation) adjusted for indirect intercompany transfers, non-recurring effects and reconciliation effects.

Indirect intercompany transfers and charges include costs and expenses incurred in central functions to maintain marketing activities not specific to any one segment, general expenses for providing products and services and for customer support. In the respective contribution margin 2, the directly attributable intercompany transfers, such as IT infrastructure costs or attributable marketing activities, are still attributed in line with their segment allocation. They do not include non-operational central activities (general management, legal and finance). These remain with the original company.

The reconciliation effects include effects of consolidation, especially from currency translation. This results in an adjusted EBITDA of around EUR -1.1 million for the NFON Group in the past financial year 2022.

Contribution margin 2 by segment

in EUR million	2022	2021
NFON AG	0.5	3.0
Deutsche Telefon Standard GmbH	3.8	4.3
NFON GmbH	-1.1	-0.6
NFON UK Ltd.	-1.1	-1.3
NFON Iberia SL	-1.0	-1.3
NFON ITALIA S.R.L.	-1.6	-2.3
NFON France SAS	-0.6	-2.0
Total contribution margin 2 by reportable segment	**-1.1**	-0.3
Other segments	0.1	0.1
Consolidation (especially currency effects) & closing entries	0.1	-1.2
Non-recurring effects	-4.3	-0.7
Consolidated EBITDA	**-5.3**	-2.0

Apart from the expenses for the two non-recurring effects 'focus on core markets' and 'rebranding' of EUR 0.5 million, the adjustments were made exclusively in the NFON AG segment.

NFON AG's contribution margin has declined significantly. This is due firstly to increased staff costs and secondly to the diminished ability to transfer central costs to subsidiaries now with reduced business activities. Less fixed costs can be apportioned to subsidiaries whose revenue has declined.

Deutsche Telefon Standard GmbH showed a stable business development, which led to continued positive contributions to earnings, albeit reduced due to increased allocations of central functions and software development costs.

Earnings improvements were achieved in some other segments. This is partly because revenue in these segments was increased without being offset by significantly higher costs.

2.4 Financial position

As in the previous year, NFON AG's main source of financing in 2022 was the proceeds from the capital increase performed in 2021. A money market loan agreement in the amount of EUR 5.0 million and maturing on 30 January 2026 was entered into with Bank für Tirol und Vorarlberg (BTV) in fiscal 2021. The credit facility was unutilised as at 31 December 2022.

The high cash outflow in 2022 was already anticipated in the budget for this year and was updated and monitored in the forecasts during the year. In the second half of the year, cash flow actually developed better than provided for in the budget.

2.4.1 Investment analysis

Investment in 2022 mainly related to development activities, some of which were capitalised. These were recognised under intangible assets (EUR 7.3 million). Investment in property, plant and equipment of EUR 1.2 million in the reporting period primarily focused on IT infrastructure.

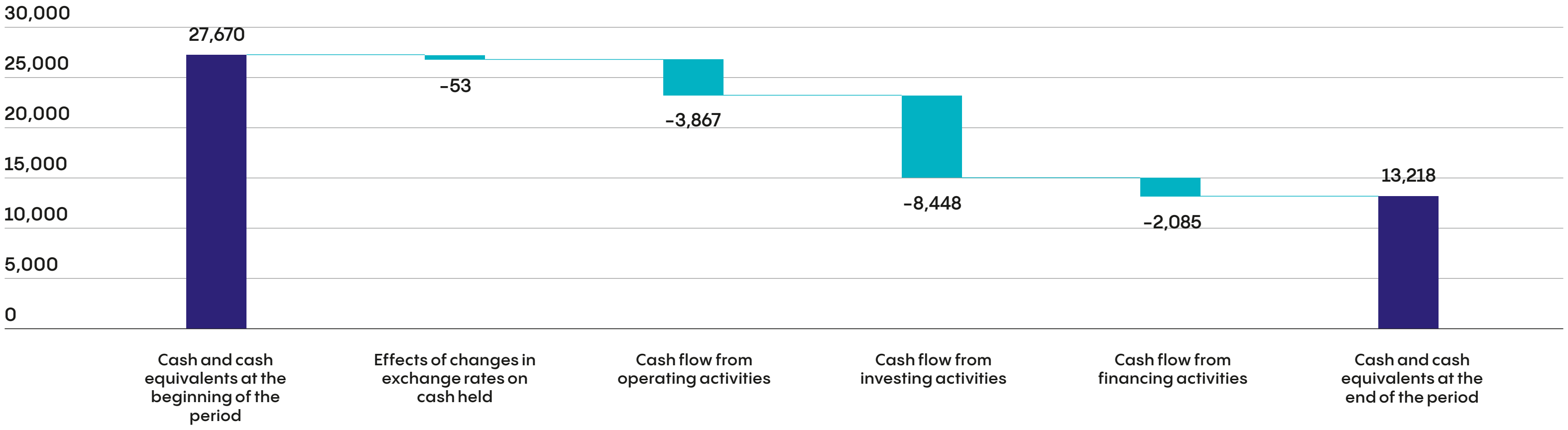
EUR 2.0 million was capitalised for the implementation and customising of a new business support system (BS system, or BSS), the development of which has not yet been completed. In the telecommunications industry, this refers to a system for managing contractual relationships with customers/suppliers/partners, managing products and resources and billing.

2.4.2 Liquidity analysis

Operating cash flow fell from EUR -1.8 million in 2021 to EUR -3.9 million in 2022. This is mainly attributable to the decline in earnings after taxes from EUR -8.9 million in 2021 to EUR -15.7 million in 2022. This development is partly based on the increase in staff costs by EUR 5.2 million in 2022 versus 2021. After tax income of EUR 0.3 million in 2021, a tax expense of EUR 3.4 million was incurred in fiscal 2022 – primarily due to the income tax group comprising NFON AG and Deutsche Telefon Standard GmbH since 1 January 2022.

Trade and other receivables increased in 2021 as a result of defaults by major customers. These payments were received in fiscal 2022. In contrast, trade payables (EUR -1.8 million, of which EUR -0.8 million at NFON AG and EUR -0.5 million at NFON UK) and other liabilities (EUR +1.2 million, including provisions for licence back payments) of EUR 0.6 million were paid off in 2022. In fiscal 2022, NFON recognised income of EUR 0.3 million from changes in exchange rates (2021: expense of EUR 0.4 million), which primarily stems from the translation of GBP and EUR at the UK subsidiary. The income there chiefly results from the valuation of intercompany loans and intercompany transfers.

Liquidity analysis (in EUR thousand)



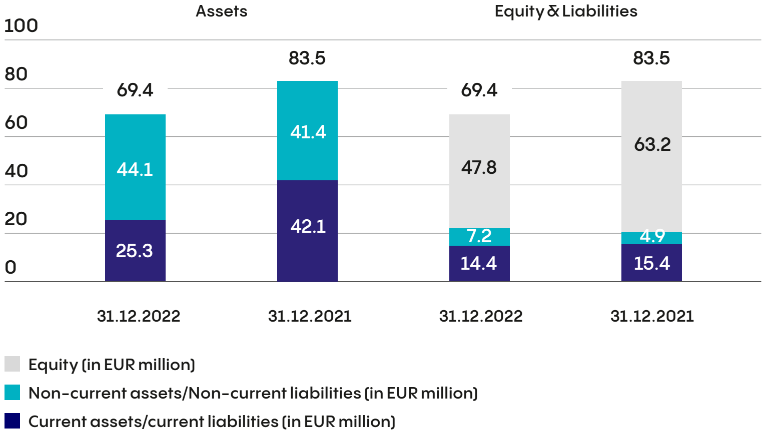
The cash flow from investing activities of around EUR -8.5 million resulted from investment in intangible assets of EUR 7.3 million attributable to development projects and the implementation and customisation of the new BS system. In addition, EUR 1.2 million was invested in property, plant and equipment, mainly IT infrastructure and hardware.

The negative cash flow from financing activities of EUR 2.1 million primarily results from the payment of lease liabilities.

The company monitors its liquidity status on an ongoing basis. An improvement in the liquidity situation is targeted within the planning period. There are no indications that the liquidity in the planning period will not be sufficient to meet the company's payment obligations at all times. As a liquidity reserve, the company holds an undrawn credit line of EUR 5.0 million as of the balance sheet date, which is available to the company until 30 November 2026.

2.5 Assets and liabilities

Accounting chart in EUR million



Rounding differences are possible

2.5.1 Non-current and current assets

Assets

in EUR million	2022	2021	ments/changes
Property, plant and equipment	8.7	8.2	The increase mainly relates to right-of-use assets for office premises (carrying amounts: EUR 5.3 million in 2022 as against EUR 4.3 million in 2021).
Intangible assets	34.0	30.0	Including Capitalised development projects: 2022: EUR 10.9 million; 2021: EUR 7.4 million Software customisation (new BSS): 2022: EUR 5.4 million; 2021: EUR 3.9 million
Investments in associates	0.7	0.6	Equity investment in Meetecho S.r.l.
Other non-financial assets	0.4	0.2	
Deferred tax assets	0.3	2.4	The decline in deferred tax assets relates to the establishment of an income tax group comprising NFON AG and Deutsche Telefon Standard GmbH as at 1 January 2022 and the associated decline in deferred tax assets on tax loss carryforwards.
Non-current assets	**44.1**	41.4	
Trade receivables	9.4	10.9	In the previous year, there were delayed payments from a major customer, which were received in the reporting year.
Other financial and non-financial assets	2.7	3.4	
Cash funds	13.2	27.7	Cash and cash equivalents decreased primarily as a result of investments in marketing, product development and development of the BS system. In addition, there was cash outflow due to one-time expenses in connection with preparations for a capital market transaction to widen the equity base, which were corrected for in adjusted earnings. Monthly cash outflows decreased significantly in the second half of the year (EUR 4.5 million) as against the first half of the year (EUR 10 million), primarily due to the adjustment of the cost structure (mainly marketing and staff costs).
Current assets	**25.3**	42.1	

2.5.2 Equity

Taking into account the negative consolidated result due to the consolidated loss of EUR 15.8 million, the addition to the capital reserve due to employee stock options of EUR 0.5 million, and a reduction in the currency translation reserve of EUR 0.3 million, equity amounted to EUR 47.7 million as at 31 December 2022.

2.5.3 Non-current and current liabilities

Liabilities

in EUR million	2022	2021	Comments/changes
Non-current financial liabilities	4.1	3.3	The increase – in line with the increase in property, plant and equipment – relates to liabilities for the use of office space (new lease in Mainz) recognised in lease accounting.
Other non-current liabilities	0.7	0.2	Relates primarily to back royalty payments from an existing contract recorded in the group currency, which are subject to interest.
Deferred tax liabilities	2.5	1.3	
Non-current liabilities	**7.2**	4.9	
Trade payables	4.2	6.1	Reduction in trade payables primarily at NFON UK (EUR 0.5 million, recognised in GBP) and NFON AG (EUR 0.8 million). The trade payables are non-interest bearing.
Current provisions	2.3	2.2	
Income tax liabilities	0.3	0.5	These are non-interest-bearing liabilities to the respective tax authorities (all in EUR).
Current financial liabilities	1.8	1.7	Relates to interest-bearing leasing liabilities in the respective national currency (mainly EUR)
Other liabilities	5.8	5.0	Increases primarily attributable to: - EUR 0.4 million other liabilities for holiday and bonuses - EUR 0.3 million liabilities from taxies and levies - EUR 0.3 million other liabilities The other liabilities are mainly non-interest-bearing and recorded in euros.
Current liabilities	**14.4**	15.4	

2.6 Overall assessment of the economic situation

The fundamental trend towards the digitalisation of business communication is continuing undiminished, though the European economy continues to be marked by uncertainty. The economic situation of the NFON Group reflects the consistently tough economic situation throughout Europe overall. NFON has a clearly defined growth strategy, which was updated in the fiscal year to focus on profitable growth. The future lies in the markets for unified communications and collaboration and contact centre products. Recurring revenue, which accounts for 91.1% of total revenue, is a clear indicator of the business model's stability. At 8.3%, it again grew at a faster rate than total consolidated revenue in 2022 (6.5%). This stability guarantees the ongoing positive revenue performance of the NFON Group. The NFON Group's success so far is built on the sustainable base of seats operated by customers. This was expanded again with a growth rate of 8.0%, even though this fell slightly short of original expectations. 2022 was no easy year for NFON. Nonetheless, the company achieved its most recent targets in a consistently challenging market environment. The ongoing development and expansion of the product and solutions portfolio on the one hand and the network of partners across the whole of Europe on the other will be crucially important for the development of the seat base and thus the NFON Group's recurring revenue. Thanks to the funding already available and the new targeted path to profitability, which should result in positive cash contributions, there is a secure financial situation providing the basis for further investment in organic growth. In light of this, the Management Board believes that NFON AG is well on its way to becoming a leading provider of integrated business communication in Europe.

3. Supplementary report

There were no further events with a significant impact on the Group's position after the end of the reporting period.

4. Risks and opportunities

4.1 Risk and opportunity management

The NFON Group anticipates opportunities that are important for the achievement of its strategic goals. However, the company must also take risks in order to utilise opportunities. Risk management is designed to identify and counteract risks at the earliest possible stage.

Every business activity entails risks that can impede the target attainment process. If risks are not identified and the potential consequences for the Group minimised, they can jeopardise the successful development of the company. To respond appropriately, the Management Board has introduced a risk management system (RMS). This is intended to identify new risks or changes in existing risks early, enabling the Management Board to take suitable measures to safeguard the future of the company. There is a particular focus on risks to the company as a going concern.

Risk management covers all strategic, operating, financial and compliance risks. The risk manual approved by the Management Board in December 2022 stipulates how to handle risks within the NFON Group and defines a standard method that applies in all areas and companies of the NFON Group.

Risk identification

Risk identification comprises the regular and systematic analysis of internal and external developments and events that could result in negative deviations from the defined targets of the RMS. Corporate risks are continuously monitored and reviewed by the risk owners. A complete survey of the NFON Group's risks (risk identification) is conducted once a year. During the year, the risks are updated after six months, with the risk owners communicating their risks to the risk manager. The latter collates all risks in a central risk inventory and determines a maximum amount of risk. After every inventory, this maximum amount of risk is compared with the available cash and cash equivalents to determine the internal capital adequacy. After every inventory, the risk manager reports to the Management Board about the result of the inventory and the internal capital adequacy analysis. The Management Board informs the Supervisory Board after the main inventory about the NFON Group's risk situation.

Opportunities are not covered by the risk inventory of the risk management system, but are analysed within strategy processes at management level.

NFON utilises both bottom-up and top-down methods of risk identification. Risk owners use interviews and questionnaires to determine and update the risks of their area or to provide input for risks of other areas (bottom up). The Management Board is likewise involved in this process, particularly evaluating corporate strategy risks (top down).

In addition, all employees are involved in risk identification via an ad hoc risk process. They can report risks to risk owners or to the risk manager at any time in person, by telephone or by e-mail (bottom up). The underlying process also stipulates the reporting rules if risks with a serious or significant impact are reported.

Risk assessment

Risk assessment deals with the impact of risks on the company's financial targets. The risks are assessed at the level of the individual risk before and after countermeasures. The assessment is transparent and clear and uses consistent methodology. Risks are assessed in terms of monetary aspects. The loss amount is defined as the extent of a risk regardless of the nature/method of determination. The probability of occurrence is defined as the calculated or estimated probability of occurrence of the risk in the assessment period.

The risk assessment distinguishes between gross and net risks. Gross risks constitute risks which exist if no other measures have yet been taken to mitigate the risk. Net risks are risks which exist after measures have been taken and therefore constitute the residual risk. The total risk exposure is the total of the net risks assessed.

NFON uses a 5x5 risk calculation matrix that breaks down both the potential loss volume and the respective probability of occurrence into five classes. The thresholds have been revised and the definition amended since the previous year.

The individual risks are divided into five classes based on the combination of the potential loss amount and the estimated probability of occurrence. They are presented visually in the 5x5 risk matrix: serious (red), significant impact (orange), material impact (yellow), no material impact (green) and no impact (blue).

Loss amount

Loss amount (old)			Loss amount (new)			
Loss amount	Interpretation	Effect on the liquidity of the NFON Group in euro	Category		Description	Effect on the liquidity of the NFON Group in euro
5-Very high	Existence-threatening loss potential	>2,000,000	5	Very high	Serious loss potential	>1,500,000
4-High	Significant loss potential	>1,000,000	4	High	Significant loss potential	>750,000
3-Medium	Medium loss potential	>500,000	3	Medium	Medium loss potential	>500,000
2-Low	Low loss potential	>250,000	2	Low	Low loss potential	>250,000
1-Very low	Insignificant loss potential	>50,000	1	Very low	Insignificant loss potential	> 50,000

Probability of occurrence

Probability of occurrence (old)			Probability of occurrence (new)		
Category	Description	PO	Category	Description	PO
5-Almost certain	Almost certain risks are anticipated in every fiscal year.	75% < x <100%	5-Almost certain	Almost certain risks are anticipated in every fiscal year.	90% < x <100%
4-Probable	Probable risks occur every one to two years.	50% < x ≤75%	4-Probable	Probable risks occur every one to two years.	50% < x ≤90%
3-Possible	Possible risks that occur every four to two years.	25% < x ≤50%	3-Possible	Possible risks that occur every two to five years.	20% < x ≤50%
2-Improbable	Improbable risks that occur every four to 20 years.	5% < x ≤25%	2-Improbable	Improbable risks that occur every five to ten years.	10% < x ≤20%
1-Remote	Extreme risks or remote risks that occur less frequently than every 20 years.	0% < x ≤5%	1-Remote	Extreme risks or remote risks that occur less frequently than every ten years.	0% < x ≤10%

Risk matrix

Loss amount (Liquidity) \ Probability of occurrence	1	2	3	4	5
5	5	10	15	20	25
4	4	8	12	16	20
3	3	6	9	12	15
2	2	4	6	8	10
1	1	2	3	4	5

In process-integrated controls, the risk manager continuously monitors and tracks the process steps of the risk management system on the basis of a risk control matrix. The focus is on an orderly process. The risk committee reviews the status of the controls and documents the review at least once a year. At least every three years beginning fiscal 2023, the NFON's RMS is subject to a review by Internal Audit. The next review is scheduled in 2023.

4.2 Risks of the NFON Group

In fiscal 2022, NFON conducted a risk inventory as part of the risk management system described above. The risks were assessed as at the end of the reporting period, and the assessment period was the twelve months following the inventory. In total, the risk inventory identified 15 active risks and added them to the risk inventory. Only two of these risks are classified as being capable of significantly influencing the liquidity situation. Four of the other risks could have a material impact on the liquidity situation. The impact refers to the net assessment of the risks, i.e. measures to reduce the risk are already taken into account.

Risks that could have a significant or material impact on the liquidity situation

Risks that could have a significant or material impact on the liquidity situation are presented below. They are arranged in decreasing order by expected value of the net assessment.

1. Sales risk I – market presence

Market presence is a material factor for NFON's future business performance. Nevertheless, the company must weigh up the benefits of market presence against the necessary investments so as not to jeopardise the targeted path to profitability. Even moderate investments in marketing carry the risk of not achieving the targeted new business in 2023. The NFON Group is responding to this risk with increased partner sales. This model allows the probability of occurrence of the risk to be reduced, since partners have their own sales channels and growth can thus be achieved with lower marketing investments.

The risk was included for the first time: high to very high loss amount of EUR 750 thousand < x ≤ EUR 1.5 million, possible probability of occurrence. Overall, the risk is classified as having a significant impact.

2. Competition in core markets (name in 2021: competitive situation among the peer group)

The market for cloud business communications remains highly fragmented. The major competitors of the NFON Group include European providers and large US competitors.

With their product portfolios of various communications and collaboration applications, the competitors already offer functionalities that are increasingly sought after by customers. A stronger market presence, essentially by securing or acquiring partners coupled with an aggressive marketing strategy, could lead to a possible loss of partners and customers for NFON. NFON counters this risk with measures against churn, e.g. increasing customer loyalty and the attractiveness of products and improving product quality. A partner sales model ensures lower churn, as partners remain loyal for longer than end customers alone. Further measures are also being evaluated to identify potential churn early.

The risk was adjusted year-on-year: high to very high loss amount (2021: low to medium) of EUR 750 thousand < x ≤ EUR 1.5 million, possible probability of occurrence (2021: improbable). Overall, the risk is classified as having a significant impact.

3. Contractual risks

Because of its business model, the NFON Group has a very large number of contractual agreements with customers and suppliers. There is a risk, for example, that – because of unidentified errors in contracts concluded in the past– backpayments will have to be made to suppliers under licence agreements. To identify weaknesses in contract design at an early stage and to make any necessary adjustments, the Legal department reviews all contracts of suppliers and customers that have annual revenue greater than EUR 100 thousand with NFON AG or with which NFON AG generates annual revenue greater than EUR 100 thousand.

The risk was included for the first time: very high loss amount of > EUR 1.5 million, remote probability of occurrence. Overall, the risk is classified as having a material impact.

4. Churn due to company insolvencies

The Ukraine war had a negative impact on the global economy in 2022, and a further downturn in the economic situation in 2023 cannot be ruled out. There is therefore a real risk on an increase in company insolvencies in the NFON Group's sales territory. Due to the circumstances of this risk, it is difficult for the NFON Group to take measures against it.

The risk was included for the first time: due to the high diversification of NFON sales in terms of region, sector and customer size, the loss amount is estimated to be low to medium at EUR 250 thousand ≤ x < EUR 500 thousand, possible probability of occurrence. Overall, the risk is classified as having a material impact.

5. Sales risk II – CRM system

The sales-supporting CRM system is a central tool at the NFON Group, which is subject to continuous improvement. Nevertheless, there are risks from making offers, as many steps in the process are carried out manually. The NFON Group hopes to reduce these risks in 2023, e.g. by introduced automated review steps or new CRM software.

The risk was included for the first time: very low to low loss amount of EUR 50 thousand ≤ x < EUR 250 thousand, probable probability of occurrence. Overall, the risk is classified as having a material impact.

6. Data protection breach

NFON has corresponding guidelines and internal data protection officers to ensure compliance with the statutory data protection regulations. Nonetheless, breaches can occur in isolated cases, e.g. non-erasure of data, cookie banners or data processing with no legal basis. Data protection breaches are also possible as a result of cyberattacks. If a risk occurs, this can lead to a loss of reputation, fines, contractual penalties or the cancellation of ongoing contracts.

The QM & Data Protection department takes continuous measures to prevent occurrence of the risk or minimise the probability of occurrence, such as raising employees' awareness with regular training and monitoring and spot checks of ongoing processes.

Compared with 2021, the potential loss amount has fallen from very high at > EUR 2 million to high to very high at EUR 750 thousand ≤ x < EUR 1.5 million. The loss amount is classified as lower than in the previous year due to a fine. The measures taken in 2022 reduced the probability of occurrence from improbable in 2021 to remote in 2022. Overall, the risk is classified as having a material impact.

The risk of 'cost explosion (in product development)', which was classified as having a 'significant impact' in 2021, is no longer classified as a risk in 2022. Sufficient resources are available and there are no known critical projects that would require a costly increase in resources.

Overall assessment of the NFON Group's risk situation

The table below shows the risks that could have a significant or material impact on the liquidity situation in 2022. It also shows the change versus 2021:

Net risks that could have a significant or material impact on the liquidity situation

Risks	Loss amount	Probability of occurrence	Risk class	Change 2022/2021
Sales risk I – market presence	High to very high EUR 750 thousand ≤ x ≤ EUR 1.5 million	Possible 20% < x ≤ 50%	Significant impact	Included for first time
Competition in core markets	High to very high EUR 750 thousand ≤ x ≤ EUR 1.5 million (previous year: medium)	Possible 20% < x ≤ 50% (previous year: improbable)	Significant impact	Increased
Breach of contract	Very high > EUR 1.5 million	Remote 0% < x ≤ 10%	Material impact	Included for first time
Churn due to company insolvencies	Low to medium EUR 250 thousand ≤ x < EUR 500 thousand	Possible 20% < x ≤ 50%	Material impact	Included for first time
Sales risk II – sales system	Very low to low EUR 50 thousand ≤ x < EUR 250 thousand	Probable 50% < x ≤ 90%	Material impact	Included for first time
Data protection breach	High to very high EUR 750 thousand ≤ x ≤ EUR 1.5 million (previous year: high)	Remote 0% < x ≤ 10% (previous year: improbable)	Material impact	Reduced

The risks are manageable taking internal capital adequacy into account. In terms of organisation, the company has created the conditions to learn of potential new risk exposures at an early stage and to be able to respond quickly.

4.3 Opportunities of the NFON Group

The NFON Group determines its opportunities qualitatively. Opportunities have therefore not been quantified or compiled in an opportunities matrix for management purposes. The assessment of opportunities was performed as at the end of the reporting period. The assessed forecast horizon covers the year (twelve months) following the inventory.

In 2022, changed market dynamics and a generally cooling economic environment resulted in a change in strategic direction and thus a change in the NFON Group's opportunities.

Whereas previous years were characterised by efforts for rapid seat growth, the target is now profitable growth. The growth strategy from which NFON Group's opportunities are derived is based on three pillars: product growth, development of the best-channel approach and growth acceleration through partnerships and alliances.

1. Product growth

NFON AG sees significant growth opportunities in the further development of its own product landscape. Firstly, existing products are to be improved in order to increase customer satisfaction and to become more attractive to larger enterprises. Secondly, there is also a focus on the integration into and of Microsoft Teams. With strong growth expected for Teams as a collaboration solution, a leading position in this segment is a key building block for growth. The contact centre as a service (CCaaS) segment is also to be further expanded. An expansion of existing integrations is also intended to lay the foundation for further medium- and long-term growth.

2. Development into a best-in-class channel organisation

NFON sees indirect sales via partners and resellers (channel) as playing a key role for seat growth. For this reason, NFON continues to direct its main focus towards establishing and developing an excellent channel and outstanding channel infrastructure. In 2022, the new international partner programme NGAGE was rolled out and a new partner management platform developed. These measures are aimed at acquiring new partners and improving communication and collaboration with existing partners.

3. Growth through partnerships and alliances

In the past, strategic partnerships have led to growth and efficient innovation. NFON wants to continue using this principle and also build on it.

In addition to the independent development of products and the expansion of the channel, NFON sees strong growth potential in strategic partnerships in three areas:

- Technological partnerships to increase capacity for innovation
- Sales and distribution partnerships, especially in the enterprise and verticals sector and in integrated business communication
- Partnerships at different levels, such as strategic investments or communication partnerships via product integration

Overall assessment of the opportunities situation

NFON believes that its risks and opportunities are balanced overall.

4.4 Internal control system

The internal control system (ICS) is an integral component of the company-wide control and risk management system, including the compliance management system (CMS). The objective of the ICS is to implement controls to provide reasonable assurance for the company-wide processes, e.g. that the financial statements and the combined management report will be prepared in accordance with the applicable regulations.

NFON AG's internal control system and risk management system also cover sustainability-related objectives. This includes processes and systems for the collection, processing and external reporting of sustainability-related data.

Part of the ICS and RMS, including the CMS, is regular monitoring with the aim of remedying identified weaknesses. Based on such findings, we continuously improve our ICS and RMS, including the CMS. With the exception of these weaknesses, the Management Board currently has no indication that NFON AG's risk management and internal control and compliance systems are not adequate or effective.[38]

The Supervisory Board of NFON AG monitors the appropriateness and effectiveness of the ICS as required by section 107(3) sentence 2 in conjunction with section 107(4) sentence 1 AktG. In accordance with section 91(3) AktG, the scope and design of the ICS are at the discretion and in the responsibility of the Management Board. The implementation of an Internal Audit has begun. From the next fiscal year, it will be responsible for independently reviewing the functionality and effectiveness of the ICS in the Group and at NFON AG.

The ICS comprises both preventive and detective controls, such as:

- IT-supported and manual coordination
- Separation of functions
- Dual-control principle
- Management controls
- General programmatic IT controls such as access rules in IT systems and change management.

The ICS is continually evolving with the operating processes and consistently responds to new technologies and working practices.

Accounting-related internal control system

The accounting-related internal control system contains the principles, procedures and measures for ensuring appropriate accounting. It is continually updated and pursues the following objective: The consolidated financial statements of NFON AG are prepared in accordance with the provisions of commercial and stock corporation law on accounting and consolidated financial statements in accordance with section 315e(1) of the German Commercial Code (HGB) in accordance with the version of the International Financial Reporting Standards (IFRS) released by the EU and supplementary provisions of commercial and stock corporation law. The accounting-related ICS also pursues the objective that the annual financial statements of NFON AG and the combined management report are prepared in accordance with the provisions of commercial law.

NFON AG prepares the consolidated financial statements and the combined management report of the NFON AG as the parent company. This process is preceded by financial reporting for the Group companies included in the consolidated financial statements. In the Management Board's view, all processes are monitored by an internal control system that – as is customary at smaller enterprises – aims to ensure both the appropriateness of accounting

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and compliance with the relevant legal regulations. In addition, the process of compliant and appropriate consolidated financial reporting is supported by supplementary procedural instructions, e.g. intercompany guidelines, standardised reporting formats, IT systems and IT-supporting reporting and consolidation processes. If necessary, external appraisers are also consulted, e.g. for the measurement of pension obligations or in connection with purchase price allocations. The key functions in all departments are controlled centrally from the finance department of NFON AG, with the individual subsidiaries having a set level of independence in preparing their financial statements. The employees involved in the accounting process receive regular training. The legal representatives of NFON AG and the Group companies are responsible for compliance with Group-wide guidelines, standards and procedures. The Group companies ensure the appropriate and timely execution of their accounting-related processes and systems.

The management of the Group companies in the various countries is responsible for implementing these regulations and using these instruments. The consolidated financial statements and the combined management report are the responsibility of the member of the Management Board of NFON AG in charge of finance. This member of the Management Board is aided in this by the Chief Financial Officer, who is responsible for the consolidated financial statements. All separate financial statements of significant Group companies that are included in Group consolidation are audited by the statutory auditor.

5. Forecast

The planning and all the commentary below for fiscal 2023 are based on the information available as at 31 March 2023. As a result of the NFON Group's risks and opportunities as presented, deviations can occur between the planning data and the figures actually achieved at the end of the year. Deviations are also possible as a result of the assumptions regarding general economic conditions.

While revenue growth was the exclusive focus of business activities in the preceding fiscal years, NFON began to shift the focus to profitable growth in the second half of fiscal 2022. In the interests of increasing profitability, therefore, measures in addition to the strategic growth measures relating to products, sales and partnerships are now also being taken to reduce the cost base and thus to increase efficiency.

NFON AG considers itself to be well positioned for the successful implementation of the strategy with the aim of becoming a leading provider of integrated business communication in Europe. By expanding its solutions for cloud telephony to include unified communications and collaboration services (Meet & Share) and adding contact centre solutions to its product portfolio, NFON has become a provider of integrated business communication. NFON is therefore in a position to participate in the development of the market for integrated business communication. The following aspects are key:

- the change in business communication towards the increased use of digital UCC solutions and services, e.g. collaboration tools;

- the introduction of digital technologies that affect multiple business processes and create the need to integrate various digital solutions on one platform;
- businesses' growing need for scalable digital services to be as flexible as necessary and the need to only post expenses that are actually incurred.

The NFON Group's forecast for fiscal 2023 is based on the expectations and assumptions for general economic development and the industry developments relevant to NFON. Detailed information can be found in the "General economic conditions and industry environment" section.

Expected general economic conditions and industry environment

Despite the effects of the Russia-Ukraine war, the economy in Europe and especially in Germany proved robust in 2022. In 2023, slight GDP growth of between 0.7% and 0.9%[39] year-on-year is expected for the eurozone, and growth of 0.2%[40] year-on-year is expected for Germany. NFON has included these effects in the forecasts and taken the slower economic growth into account. A detailed description of risks and opportunities can be found in the "Risks and opportunities" section.

Despite the current macroeconomic developments, the generally positive assessment of conditions in the sector still holds true: The market for business communication market is still undergoing disruption and is growing. NFON AG intends to benefit from this structural shift towards integrated cloud-based products and solutions. Against the backdrop of this transition, NFON considers itself in a good position. In the company's view, the future of business communication lies in the markets for unified communication and collaboration and contact centre products and in the newly emerging integrated business communication market. The detailed presentation of market developments can be found in the sections on "General market characteristics" and "General economic conditions and industry environment".

Expected business performance of the NFON Group

After NFON significantly increased investments in staff and marketing in 2021 in particular, it began to implement measures to increase profitability and reduce the investment volume at the start of the second half of 2022 in the interests of profitable growth. In fiscal 2023, these measures will have a decisive influence on operating earnings, adjusted EBITDA. The strategic initiatives relating to products, sales and partnerships will also continue to result in revenue growth, whereby the growth rate is expected to be lower than in previous years.

Expected development of key performance indicators

In connection with the strategy focused on profitable growth, NFON has reweighted the key performance indicators. Whereas the growth rate of recurring revenue, non-recurring revenue as a share of total revenue, and seat growth associated with cloud telephony were previously defined as key performance indicators, adjusted EBITDA will be considered a key performance indicator from 2023 onward, and seat growth will be reported only as a performance indicator. This change is in line with the adjustment of the growth strategy: In 2023, NFON pursues the goal of profitable growth. This growth is still based on recurring revenue. However, this is increasingly generated by products that are not based on seats. For example, these include the contact centre solutions offered by NFON. For 2023, the company plans growth in recurring revenue of a mid- to upper-single-digit percentage. Accordingly, the company is planning for recurring revenue to account for >88% of total

39 https://www.bmwk.de/Redaktion/DE/Schlaglichter-der-Wirtschaftspolitik/2023/03/12-die-lage-der-weltwirtschaft.html (30 March 2023)
40 https://www.bundesregierung.de/breg-de/aktuelles/jahreswirtschaftsbericht-2023-2160264 (30 March 2023)

revenue, which is slightly lower than the previous year's figure of 89.5 %. Adjusted EBITDA is expected to be > EUR 4 million (2021: EUR -1.3 million).

Overall assessment of forecast development

In line with the NFON Group's clearly formulated strategy to become the leading provider for integrated business communication in Europe, the measures to increase profitability introduced in 2022 will come into play over the course of 2023. With the cloud communications market in Europe expected to expand rapidly, NFON feels it is well positioned for profitable revenue growth.

6. Takeover disclosures – Report of the Management Board on the disclosures in accordance with sections 289a and 315a HGB

For more information on this topic see corporate.nfon.com ⊕

Composition of issued capital, showing separately the rights and obligations of each class and the share of the company's capital

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

Restrictions relating to voting rights or the transfer of shares

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

Direct or indirect shareholdings exceeding 10% of voting rights

There were the following direct and indirect shareholdings exceeding 10% of voting rights as at 31 December 2022:

Shareholdings

Name/company	Direct/indirect shareholding exceeding 10% of voting rights
Milestone Venture Capital GmbH, registered office in Hösbach, Germany	Direct 32.1%
Active Ownership Fund SICAV-FIS SCS, Grevenmacher, Luxembourg	Direct 17.2%

Voting rights notifications published by NFON AG are available online at: https://corporate.nfon.com/en/news/ir-news/voting-rights.

Shares with special rights

NFON AG has not issued any shares with special rights.

Voting controls for employee participation

There are no voting controls.

Statutory regulations and provisions of the Articles of Association for the appointment and dismissal of members of the Management Board and the amendment of the Articles of Association

Statutory regulations and provisions of the Articles of Association on the appointment and dismissal of members of the Management Board are consistent with section 84 of the Aktiengesetz (AktG – German Stock Corporation Act). A member of the Management Board can be dismissed with or without cause or replaced by way of Supervisory Board resolution at any time. The Supervisory Board is authorised to make amendments to the Articles of Association that affect its wording only (Article 18(3) of the Articles of Association of NFON AG).

Authorisations of the Management Board, in particular to issue or buy back shares

The Management Board's authorisation to issue shares is regulated in Article 4 of the Articles of Association in conjunction with the statutory provisions. The Management Board had the following authorisations to issue shares as at 31 December 2022:

Authorised capital

Authorised Capital 2019 was created by the extraordinary general meeting on 12 December 2019 in the amount of EUR 3,000,000, EUR 1,505,555 of which had been utilised. Thus, the remaining EUR 1,494,445 of Authorised Capital 2019 in accordance with Article 4(3) of the Articles of Association did not come close to exhausting the amount of authorised capital provided for by law. In order to grant the company greater flexibility in its financing, the remaining Authorised Capital 2019 was cancelled and a new Authorised Capital 2021 was created with the option for the moderate disapplication of subscription rights.

The Management Board was authorised, with the approval of the Supervisory Board, to increase share capital on one or more occasions by a total of up to EUR 4,140,281 by 23 June 2026 by issuing new no-par bearer shares with profit participation rights from the beginning of the fiscal year in which they were issued in exchange for cash or non-cash contributions (Authorised Capital 2021). Further details can be found in Article 4(3) of NFON AG's Articles of Association.

Contingent Capital I

Following the partial utilisation of the Management Board's authorisation of 9 April 2018 to issue bonds, Contingent Capital I of EUR 2,892,045 remained in accordance with Article 4(4) of the Articles of Association. As there were no plans to utilise the remaining authorisation volume before the end of the authorisation window, Contingent Capital I was cancelled.

Contingent Capital II (stock option plan)

The share capital of the company was contingently increased by up to a further EUR 708,229 by issuing up to 708,229 new no-par value bearer shares (Contingent Capital II). The contingent capital increase will only be carried out to the extent that the holders of stock options issued by the company before 8 April 2023 on the basis of the authorising resolution of 9 April 2018 exercise their subscription rights to shares of the company and the company does not grant treasury shares or cash settlement in fulfilment of these rights. The new shares in the company arising as a result of these subscription rights being exercised participate in profits from the beginning of the fiscal year in which they are issued. The Management Board was authorised, with the approval of the Supervisory Board, to determine the further details of the contingent capital increase.

Contingent Capital 2021

In order to promote loyalty to NFON AG among members of the Management Board and selected executives of NFON AG, as well as managing directors and selected executives of its affiliated companies, by granting special remuneration linked to the company's success with a long-term incentive effect and a risk nature on the basis of shares, by way of resolution of the Annual General Meeting on 24 June 2021, the option was created to issue subscription rights to NFON AG shares to members of the Management Board and management, as well as selected employees of NFON AG and affiliated companies, in conjunction with a new 2021 stock option plan. The pre-existing authorisation in conjunction with the 2018 stock option plan was utilised in the amount of EUR 708,229 at this time. The unused authorisation was also cancelled by way of resolution of the Annual General Meeting and Contingent Capital II was reduced accordingly in Article 4(5) of the Articles of Association.

The share capital of the company was contingently increased by up to EUR 947,883 by issuing up to 947,883 new no-par value bearer shares (Contingent Capital 2021). Contingent Capital 2021 is intended to serve subscription rights from stock options issued on the basis of the authorisation of the Annual General Meeting of the company on 24 June 2021 in the period from 24 June 2021 to 23 June 2026. The contingent capital increase will only be carried out to the extent that stock options are issued and the bearers of these exercise their subscription rights to shares of the company and the company does not grant treasury shares or cash settlement in fulfilment of these rights. Shares will be issued under Contingent Capital 2021 at the exercise price set under the above authorisation of the Annual General Meeting of 24 June 2021. The new shares participate in profits from the beginning of the fiscal year in which they are issued. The Management Board is authorised, with the approval of the Supervisory Board, to determine the further details of the contingent capital increase.

Significant agreements of the parent company subject to a change of control in the event of a takeover bid and their repercussions

No significant agreements of the parent company subject to a change of control in the event of a takeover bid have been entered into with subsidiaries. Corresponding agreements have been made in the contracts with the members of the Management Board. Accordingly, the company and the member of the Management Board have a one-time right to cancel the employment contract with notice of two months to the end of a month and to dismiss the member of the Management Board as at the same date. This special right of termination only exists for one month from the date at which a change of control that has actually occurred becomes known. The special right of termination on the part of the company is thus dependent on the knowledge of the Chairman or the Supervisory Board, while the special right of termination on the part of the member of the Management Board is dependent on that member's knowledge. A change of control requires at least 50.1% of the share capital to be consolidated under the control of a single shareholder. In such event, the member of the Management Board receives severance pay of two fixed annual salaries, limited to the total remuneration owed for the remaining term including fringe benefits.

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

Stock option plan

The options issued are not affected if a third party acquires control of the company as referred to by section 29(2) of the **Wertpapiererwerbs- und Übernahmegesetz** (WpÜG – German Securities Acquisition and Takeover Act). A "delisting event" is deemed to have occurred if the shares of the company are no longer listed on an organised market (section 2(5) WpHG). In the event of delisting, the beneficiary has the right under the statutory provisions to demand that the company or its legal successor pays out the option value for each option. The option value is paid out within two weeks of the occurrence of the delisting event.

7. Group corporate governance declaration

The corporate governance declaration of the NFON Group includes the disclosures required in accordance with section 315d HGB in conjunction with section 289f HGB and is published on the NFON AG homepage under Investor Relations (https://corporate.nfon.com/en/about-nfon/corporate-governance/declaration-of-compliance).

For more information on this topic see corporate.nfon.com ⊕

8. NFON AG (HGB)

The annual financial statements of NFON AG have been prepared in accordance with the provisions of the German Commercial Code (HGB). The comments on the Group also apply to NFON AG.

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

8.1 Results of operations

Income statement of NFON AG (HGB) (condensed)

In EUR million	2022	2021
Revenue	53.9	48.1
Other operating income	0.5	0.3
Cost of materials	-6.5	-6.6
Staff costs	-25.7	-20.8
Depreciation and amortisation	-1.2	-1.1
Other operating expenses	-40.9	-37.2
Net interest income	-0.1	-0.1
Income taxes	0.0	0.0
Profit/loss after taxes	**-20.1**	-17.4
Other taxes	0.0	0.0
Net profit/loss for the year	**-20.2**	-17.4

Revenue

Not including transfer pricing income or credit notes, sales amounted to EUR 46.2 million in fiscal 2022 and EUR 43.3 million in fiscal 2021.

After adjustment for this income from transfer pricing, revenue increased by a total of around 6.3% year-on-year in 2022 as a result of the larger customer base (recurring revenue) and other services (non-recurring revenue). Revenue adjusted for transfer pricing income comprises recurring revenue of EUR 42.6 million and non-recurring revenue of EUR 3.6 million.

Seats increased by 8.2% from 361,534 to 391,175. The growth is therefore below the previous year's level (2021: 12.4%).

Recurring revenue as a share of total external revenue (92.0%) was higher than the expected figure (88%), though the increase of 9.0% was lower than in the previous year (2021: 11.8%, in line with the previous year's increase). Among other things, this is due to the fact that the originally forecast rise in seats was not achieved. The main reason for the deviation from plan is to be found in the weakening of the European economy due to the Ukraine war and the pandemic, which also affected NFON AG's growth dynamics.

Other operating income

At EUR 0.5 million, other operating income is higher than the previous year's figure of EUR 0.3 million due to greater reversal of provisions and an increase in offset non-cash employee benefits.

Cost of materials

The cost of materials fell by 0.5% despite the expansion of business activities. This is due to a changed composition of the revenue mix with less low-margin hardware revenue in fiscal 2022.

Staff costs

The increase in staff costs of 23.9% is due in particular to the ongoing strategic recruitment drive. This also resulted in an increase in contributions and pension expenses.

Depreciation and amortisation

Depreciation and amortisation increased due to replacement investment and expansion investment in data centre capacity. No impairment was recognised.

Other operating expenses

Costs for other operating expenses increased from EUR 37.2 million in the previous year to EUR 40.9 million in 2022.

A material portion of other operating expenses results from expenses for the profit transfer by subsidiaries in conjunction with the application of the transactional net margin method, with which NFON AG assumes subsidiaries' start-up costs. The costs decreased from EUR 11.6 million in the previous year to EUR 9.9 million due to the reduction of business activities in individual subsidiaries (NFON France and NFON Iberia).

Selling costs climbed from EUR 5.9 million (2021) to EUR 6.7 million.

Expenses for freelancers and consulting increased from EUR 5.4 million to EUR 7.9 million in 2022. Freelancer and consultancy costs mainly include expenses for external consultancy and support services provided by affiliated companies in connection with sales, marketing, technology and development. Furthermore, NFON evaluated opportunities for capital market transactions in two major projects with the help of external consultants in 2022.

In IT, there was again a massive amount of investment in the launch of new software tools. The associated costs rose from EUR 2.8 million in 2021 to EUR 3.0 million in 2022.

Net interest income

The interest result improved slightly compared to the previous year (2022: EUR -0.11 million vs. 2021: EUR -0.13 million).

Income taxes

No income taxes were incurred in 2022 or 2021 as earnings before taxes are still negative.

Other taxes

Only minor vehicle taxes are paid here.

Net loss for the year

The higher net loss for the year is essentially as a result of the acceleration in recruitment (both at NFON AG itself and via subsidiaries), the consistently high marketing costs with the aim of further expanding the market share, and the increase in other operating expenses in conjunction with the larger business volume.

The start-up costs of the subsidiaries, which NFON AG bears in conjunction with its Group-wide transfer pricing system based on the transactional net margin method, remain a significant cost item at NFON AG.

8.2 Financial position

The cash flow from operating activities is largely influenced by the net loss for the year of EUR 20.2 million. Please refer to the comments on the results of operations. The high cash outflow in 2022 was already anticipated in the budget for this year and was updated and monitored in the forecasts during the year and is mainly based on the investment activity and the loans extended to the subsidiaries.

Investing activities in the reporting year essentially include the cash outflows for the expansion of data centre capacity.

As in the previous year, NFON AG's main source of financing in 2022 was the proceeds from the capital increase performed in 2021.

NFON AG was able to meet its payment obligations at all times.

8.3 Assets and liabilities

Balance sheet of NFON AG (HGB) (condensed)

In EUR million	2022	2021
Fixed assets	35.5	39.2
Current assets	12.6	30.8
Prepaid expenses	1.6	1.5
Assets	**49.7**	71.4
Equity	32.7	52.3
Provisions	4.0	3.6
Liabilities	12.9	15.4
Deferred income	0.2	0.2
Liabilities	**49.7**	71.4

Fixed assets

Amortisation of intangible assets and depreciation of property, plant and equipment amounted to EUR 1.2 million in 2022. The decrease in fixed assets is mainly due to the offsetting of loans and liabilities to affiliated companies.

Current assets

The reduction in current assets is mainly based on the year-on-year decrease of EUR 16.7 million in bank balances and the decline in trade receivables of EUR 1.2 million. Trade and other receivables had increased due to delayed payments from major customers in 2021. These payments were received in the 2022 financial year.

Equity

Due to the net loss for the year, equity decreased by EUR 20.3 million. Capital reserves increased by EUR 0.5 million on the basis of employee stock options issued.

Provisions

The rise in provisions of EUR 0.4 million is essentially due to the higher bonus provisions and holiday provisions.

Liabilities

Liabilities of EUR 12.9 million fell by EUR 2.5 million compared to the previous year. The decrease is mainly due to the reduction in trade payables from EUR 2.7 million as at 31 December 2021 to EUR 2.0 million as at 31 December 2022, as well as a reduction of EUR 2.7 million in liabilities to affiliated companies. The decrease is due to the adjusted accounting of the suppliers and the offsetting of the loan and liability accounts of the affiliated companies.

8.4 Overall assessment of the economic situation

The economic performance of NFON AG in 2022 reflects the consistently tough economic situation throughout Europe overall. The company continued to grow in terms of revenue, gross profit and seats in 2022, but fell just short of its forecast targets. Recurring revenue increased as a share of total external revenue.

8.5 Risks and opportunities

The business performance of NFON AG is subject to the same risks and opportunities as the Group. NFON AG participates in the risks of its subsidiaries in full as these are exclusively wholly owned companies of NFON AG. However, the risk inventory in November 2022 identified no additional risks at the subsidiaries that were not already included in the inventory or accounted for in the budget for 2023-2027. The risks and opportunities are described in the report on risks and opportunities within the Group management report.

8.6 Outlook

In view of NFON AG's links with the Group companies, please refer to the statements in the forecast report of the Group management report, which also reflect the expectations for the parent company in particular. Specifically, NFON AG is forecasting a slight year-on-year acceleration in the growth rate of recurring external revenue in fiscal 2023, and that the share of recurring external revenue within total external revenue will remain unchanged. In accordance with the changed key performance indicators at the level of the parent company, NFON AG expects adjusted EBITDA of greater than EUR 4 million. The company advises readers that deviations can occur between the planning data and the figures actually achieved at the end of the year.

Munich, 24 April 2023

Dr Klaus von Rottkay
Chief Executive Officer

Jan-Peter Koopmann
The Management Board

03
Consolidated Financial Statement

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Consolidated statement of financial position

as at 31 December 2022

in EUR thousand	Note	31.12.2022	31.12.2021
Non-current assets			
Property, plant and equipment and IFRS 16 right-of-use assets	4/5	8,736	8,166
Intangible assets	6	34,045	29,999
Investments in associates	7	672	643
Deferred tax assets	8	262	2,381
Other non-financial assets	11	420	197
Total non-current assets		**44,135**	**41,385**
Current assets			
Inventories	9	87	155
Trade receivables	10	9,276	10,900
Other financial assets	10	390	390
Current other non-financial assets	11	2,314	3,007
Cash and cash equivalents	12	13,218	27,670
Total current assets		**25,285**	**42,122**
Total assets		**69,420**	**83,507**

in EUR thousand	Note	31.12.2022	31.12.2021
Equity			
Issued capital	13	16,561	16,561
Capital reserves	13	109,086	108,600
Loss carryforward		-78,404	-62,822
Currency translation reserve		558	892
Total equity		**47,801**	**63,231**
Non-current liabilities			
Non-current financial liabilities	16	4,051	3,327
Other non-current liabilities	11	693	217
Deferred tax liabilities	8	2,476	1,333
Total non-current liabilities		**7,220**	**4,877**
Current liabilities			
Trade payables	12	4,205	6,083
Current provisions	15	2,310	2,172
Current income tax liabilities	11	259	452
Current financial liabilities	16	1,811	1,694
Other non-financial liabilities	11	5,814	4,998
Total current liabilities		**14,400**	**15,398**
Total equity and liabilities		**69,420**	**83,507**

Consolidated income statement and consolidated statement of comprehensive income

for the period from 01 January to 31 December 2022

in EUR thousand	Note	2022	2021
Revenue	18	80,792	75,893
Changes in inventories of finished goods and work in progress		0	0
Other operating income	19	1,088	561
Cost of materials		-14,414	-14,453
Staff costs	20	-37,428	-31,703
Depreciation, amortisation and impairments	4/5/6	-6,760	-6,940
Other operating expenses	21	-35,267	-32,310
Impairment losses on trade and other receivables	12	-22	1
Other tax expense		-15	-18
Income from continuing operations before net interest income and income taxes		**-12,026**	**-8,970**
Interest and similar income		4	5
Interest and similar expenses		-188	-275
Net interest income		**-184**	**-270**
Income from associates	7	29	18
Earnings before income taxes		**-12,181**	**-9,222**
Income taxes	22	-134	-436
Deferred tax expense (previous year: income)	22	-3,267	748
Consolidated net loss		**-15,582**	**-8,911**

in EUR thousand	Note	2022	2021
Attributable to:			
Shareholders of the parent company		-15,582	-8,911
Non-controlling interests		0	0
Other comprehensive income (will be reclassified to profit or loss)		-334	386
Taxes on other comprehensive income (will be reclassified to profit or loss)		0	0
Other comprehensive income after taxes		**-334**	**386**
Total comprehensive income		**-15,916**	**-8,525**
Attributable to:			
Shareholders of the parent company		-15,916	-8,525
Non-controlling interests		0	0
Net loss per share, basic (in EUR)	**23**	**-0.94**	**-0.55**
Net loss per share, diluted (in EUR)	**23**	**-0.94**	**-0.55**

Consolidated statement of cash flows

for the period from 01 January to 31 December 2022

in EUR thousand	Note	2022	2021
1. Cash flow from operating activities			
Profit/loss after taxes		**-15,582**	**-8,911**
Adjustments to reconcile profit (loss) to cash provided			
Income taxes	22	3,401	-311
Interest income (expenses), net		184	270
Amortisation of intangible assets and depreciation of property, plant and equipment	4/5/6	6,760	6,940
Impairment losses on trade and other receivables		22	-1
Equity-settled share-based payment transactions	14	486	381
Other non-cash income and expenses		-64	-31
Changes in:			
Inventories		68	-6
Trade and other receivables		2,072	-1,556
Trade payables and other liabilities		-754	1,471
Provisions		138	-90
Income from associates		-29	-18
Income (expenses) from sales of fixed assets		-4	0
Interest paid		-20	-164
Income taxes received/paid, net		-211	-117
Effects of changes in foreign exchange rates		-334	386
Cash flow from operating activities		**-3,867**	**-1,756**

in EUR thousand	Note	2022	2021
2. Cash flow from investing activities			
Proceeds from the disposal of property, plant and equipment and intangible assets	4/6	92	42
Payments for investments in property, plant and equipment	4	-1,200	-1,203
Payments for investments in intangible assets	6	-7,340	-6,693
Payments for the acquisition of shares in Meetecho		0	-625
Cash flow from investing activities		**-8,448**	**-8,479**
3. Cash flow from financing activities			
Proceeds from capital increases	13	0	25,799
Repayments of loans and similar liabilities	16	0	-8,967
Payments in connection with leases		-2,108	-2,007
Other proceeds/payments		23	0
Cash flow from financing activities		**-2,085**	**14,825**
Change in cash and cash equivalents		**-14,399**	**4,590**
Effects of changes in exchange rates on cash held		-53	46
Cash and cash equivalents at the beginning of the period		**27,670**	**23,034**
Cash and cash equivalents at the end of the period		**13,218**	**27,670**

Cash and cash equivalents at the end of the period include bank deposits of EUR 309 thousand as at 31 December 2022 (31 December 2021: EUR 316 thousand) that cannot be repaid to the Group in full on account of collateral provided by customers with poor credit ratings. All restrictions on such deposits are of a short-term nature.

Statement of changes in equity

as at 31 December 2022

in EUR thousand	Attributable to owners of the company						
	Issued capital	Capital reserves	Currency translation reserve	Loss carryforward	Total equity	Non-controlling interests	Total
As at 01.01.2022	**16,561**	**108,600**	**892**	**-62,822**	**63,231**	**0**	**63,231**
Total comprehensive income for the period							
Loss (income) for the period	0	0	0	-15,582	-15,582	0	-15,582
Other comprehensive income for the period	0	0	-334	0	-334	0	-334
Total comprehensive income for the period		**0**	**-334**	**-15,582**	**-15,916**	**0**	**-15,916**
Transactions with owners of the company							
Equity-settled share-based payment transactions	0	486	0	0	486	0	486
Total transactions with owners of the company	**0**	**486**	**0**	**0**	**486**	**0**	**486**
As at 31.12.2022	**16,561**	**109,086**	**558**	**-78,404**	**47,801**	**0**	**47,801**

Statement of changes in equity

as at 31 December 2021

in EUR thousand	Issued capital	Capital reserves	Currency translation reserve	Loss carryforward	Total equity	Non-controlling interests	Total
	Attributable to owners of the company						
As at 01.01.2021	**15,056**	**83,926**	**506**	**-53,911**	**45,577**	**0**	**45,577**
Total comprehensive income for the period							
Loss (income) for the period	0	0	0	-8,911	-8,911	0	-8,911
Other comprehensive income for the period	0	0	386	0	386	0	386
Total comprehensive income for the period	**0**	**0**	**386**	**-8,911**	**-8,525**	**0**	**-8,525**
Transactions with owners of the company							
Capital increase performed in the reporting year	1,506	24,293	0	0	25,799	0	25,799
Equity-settled share-based payment transactions	0	381	0	0	381	0	381
Total transactions with owners of the company	**1,506**	**24,674**	**0**	**0**	**26,180**	**0**	**26,180**
As at 31.12.2021	**16,561**	**108,600**	**892**	**-62,822**	**63,231**	**0**	**63,231**

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1. Accounting principles

Company overview

NFON is a provider of voice-centric business communication in Europe, has more than 50,000 business customers in 15 European countries, and has affiliated companies in Germany, Austria, the UK, Spain, Italy, France, Poland and Portugal. NFON also has a large network of partners for sales operations in other countries.

NFON AG 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 and is registered in Germany. The business headquarters are in Munich.

The consolidated financial statements for the fiscal year ended 31 December 2022 were approved for publication by Management Board resolution on 24 April 2023.

Consolidated financial statements

The consolidated financial statements and notes present the operations of NFON AG (the "company") and its subsidiaries (together referred to as "NFON" or the "Group"). The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as published by the International Accounting Standard Board (IASB) and endorsed by the European Union (EU), taking into account the interpretations of the International Financial Reporting Interpretations Committee (IFRIC) and the accounting rules of section 315e(1) of the **Handelsgesetzbuch** (HGB – German Commercial Code). These consolidated financial statements are based on the going concern principle.

Currency

The 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) in line with commercial practice. Rounding differences can therefore occur in the tables in the notes to the consolidated financial statements.

Miscellaneous

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.

Comparative information

The consolidated financial statements include amounts as at and for the periods ended 31 December 2022 compared to 31 December 2021.

2. Significant accounting policies

A. Basis of preparation

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

The fiscal year is the calendar year.

B. New and amended standards effective for the first time in the reporting year

NFON applied the following standards and amendments to existing standards for the first time in the reporting period beginning 1 January 2022:

- 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

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

C. New standards not yet applied

The following standards are expected to have no effect or only an insignificant effect on the consolidated financial statements in the period when they are applied for the first time:

- 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 2024
- IFRS 17 Insurance Contracts and Amendments to IFRS 17 Insurance Contracts, effective from 1 January 2023
- Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2), effective from 1 January 2023
- Definition of Accounting Estimates (Amendments to IAS 8), effective from 1 January 2023
- Lease Liability in a Sale and Leaseback (Amendments to IFRS 16), effective from 1 January 2024
- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28), effective date not yet set

NFON applies new standards for the first time when they become effective. The effective dates shown above are the dates of initial application of the corresponding amendment in the European Union. If the date of initial application is not yet set (and for initial application from 1 January 2024), the amendments have not yet been endorsed by the EU.

D. Basis of consolidation

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

Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and the ability to utilise its control so as to influence the amount of returns from the investee.

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

- control over the investee (i.e. existing rights that give the Group the current ability to control the relevant activities of the investee);
- exposure, or rights, to variable returns from its involvement with the investee; and
- the ability to utilise its control so as to influence the amount of returns from the investee.

It is typically assumed that a majority of voting rights results in control.

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

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

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

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

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

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

The (fully) consolidated Group companies are as follows:

- NFON AG, Munich, Germany (ultimate parent entity);
- nfon GmbH, St. Pölten, Austria (wholly owned subsidiary of NFON AG);
- NFON UK Ltd., Maidenhead, United Kingdom (wholly owned subsidiary of NFON AG);
- NFON Iberia SL, Madrid, Spain (wholly owned subsidiary of NFON AG);
- NFON Italia S.R.L., Milan, Italy (wholly owned subsidiary of NFON AG);
- NFON France SAS, Paris, France (wholly owned subsidiary of NFON AG);
- Deutsche Telefon Standard GmbH, Mainz (DTS) (wholly owned subsidiary of NFON AG);
- NFON Developments Unipessoal LDA, Lisbon, Portugal (wholly owned subsidiary of NFON AG);
- NFON Polska Sp.zo.o, Warsaw, Poland (wholly owned subsidiary of NFON AG).

In addition, NFON AG holds a 24.9% interest in Meetecho S.r.l., Naples, Italy (Meetecho), which as of 31 December 2022 is included in the consolidated financial statements of the NFON Group as an associate using the equity method.

E. Property, plant and equipment

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

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

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

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

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

On disposal of items of property, plant and equipment, the cost and related cumulative depreciation and impairment are removed from the consolidated statement of financial position and the net amount, less any proceeds, is recognised in the consolidated income statement.

Property, plant and equipment are tested for impairment as soon as events or changes in circumstances indicate that the carrying amount of an asset may no longer be recoverable. If necessary, the asset's recoverable amount is estimated. The segments identified by management as the operating segments are also the cash-generating units (CGUs) for reviewing indications of impairment.

F. Intangible assets

Intangible assets are stated at cost less any cumulative amortisation and impairment. The costs of development activities are capitalised when the recognition criteria of IAS 38 are met. Subsequent expenditure is capitalised for existing other intangible assets only if it satisfies the general recognition criteria and enhances the functionality of an existing asset to which it relates. All other expenditure on internally generated products or assets (e.g. research costs) is recognised in the consolidated statement of profit and loss as incurred.

1. Goodwill

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

2. Customer base from business combinations

The customer base from business combinations has a finite useful life. It is measured at fair value and amortised on a straight-line basis over an estimated useful life, which as of the reporting year is 15 years. In the previous year, the useful life was 20 years. It was reduced in the reporting year in line with the management's adjusted estimate. This change in estimate increases the annual amortisation on the customer base from EUR 251 thousand to EUR 353 thousand.

The customer base is tested for possible impairment if there are indications that its net realisable value could have decreased.

3. Capitalised development projects

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

- a clear allocation of expenses is possible;
- both the technical feasibility and the marketing of the newly developed products are ensured;

- the development activities are sufficiently likely to result in future cash inflows;
- NFON intends and is able to complete and use the development project; and
- adequate technical, financial and other resources are available to complete the development and be able to use and sell the asset.

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

After initial recognition of development projects, the assets are measured at cost less cumulative amortisation and impairment. Amortisation is recognised on a straight-line basis starting from the date when the newly developed product or feature reaches the definition of done. This amortisation is recognised on the basis of an estimated useful life that is usually between three and seven years. The useful lives are assessed at least once per year to determine whether they need to be shortened due to technological progress or other events.

Development projects that are not yet completed are tested for impairment annually and when there are indications of impairment. Completed development projects that are subject to amortisation are tested for impairment when there are indications of impairment. The segments identified by management as the operating segments are also the CGUs for reviewing the indications of impairment. Jointly used assets that cannot be allocated to the cash-generating units are tested for impairment both individually at the level of the units that use them and at the level of the group of these units (there including jointly used assets).

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

Research and development expenses amounted to EUR 10,312 thousand in the reporting year (2021: EUR 8,596 thousand), EUR 5,265 thousand of which (2021: EUR 4,169 thousand) was capitalised as intangible assets. In addition, development expenses for internally developed software were capitalised in the amount of EUR 2,036 thousand (2021: EUR 2,478 thousand).

The above principles also apply to the development of software used internally and not intended for direct marketing.

G. Impairment-Test

The recoverable amount of an asset or CGU is the greater of its corresponding value in use and its fair value less costs to sell. In assessing the value in use, the estimated future cash flows are discounted to their present value using a discount rate before tax that reflects current market assessments of the value of money and the risks specific to the asset or CGU. An impairment loss is recognised if the carrying amount of an asset or CGU exceeds its recoverable amount. Such impairment losses are recognised in profit or loss. Generally, the carrying amount of the goodwill allocated to the CGU is reduced first. If this figure is zero, then pro rata impairment is taken on the carrying amounts of the other assets of the CGU/the group of CGUs. If there is an indication of impairment of an asset within a CGU that contains goodwill, however, the said asset is tested for impairment first, before this test is performed for the CGU. Any impairment is then initially allocated to the asset in question. If any impairment remains, the (general) procedure described above is applied accordingly.

An impairment loss on goodwill is not reversed in subsequent years. Impairment on other assets can only be reversed taking into account any depreciation or amortisation recognised in the interim.

H. Inventories

Inventories are measured at the lower of cost and net realisable value and written down as necessary. Net realisable value is the estimated selling price less estimated costs of completion and estimated costs necessary to make the sale.

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

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

I. Financial instruments

Financial instruments are accounted for in accordance with IFRS 9.

1. Recognition and initial measurement of financial assets

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

Trade receivables are initially recognised when they are originated. Customers are granted appropriate payment terms based on an assessment of the customer's financial situation. Trade and other receivables consist of amounts billed and currently due from customers and other debtors to the Group. All other financial assets and financial liabilities are initially recognised when the Group becomes a party to the contractual provisions of the instrument. A trade receivable without a significant financing component is initially measured at the transaction price.

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

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

2. Classification and subsequent measurement of financial assets

On initial recognition, a financial asset is classified as measured at amortised cost, fair value through other comprehensive income (debt instruments) or fair value through profit or loss (equity instruments). With the exception of current trade receivables, financial assets are initially recognised at fair value, including any transaction costs.

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

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

The asset is held within a business model whose objective is to hold assets to collect contractual cash flows.

The contractual terms of the asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Trade and other receivables are subsequently measured at amortised cost using the effective interest method, less impairment. The approach for measuring impairment losses is described in Note 10 (Trade receivables and other financial assets).

All financial assets not measured at amortised cost as described above are measured at fair value through profit or loss.

Business model assessment

The Group defines the business model in which the financial assets are held at a portfolio level.

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

The cash flow criterion is assessed in conjunction with classification. The classification then determines the measurement category. For the purposes of the assessment, "principal" is defined as the fair value of the financial asset on initial recognition. "Interest" is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding over a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), plus an appropriate profit margin.

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

Financial assets: Subsequent measurement and gains and losses

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

Financial liabilities: Classification, subsequent measurement and gains and losses

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

3. Derecognition

Financial assets

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

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

Financial liabilities

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

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

4. Offsetting

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

5. Impairment of financial instruments

The scope of expected credit losses includes debt instruments at amortised cost, contractual assets, lease receivables, financial assets (FVOCI debt instruments) and certain financial guarantees and loan commitments. The Group recognises impairment losses for expected credit losses (ECL) on financial assets measured at amortised cost through profit or loss. Impairment losses for trade receivables and contract assets are always measured at an amount equal to lifetime ECL.

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

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

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

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

Measurement of ECLs

ECLs are calculated using the simplified approach. This means that ECLs are recognised over the lifetime of trade receivables and contract assets without the need to identify significant increases in credit risk.

Credit-impaired financial assets

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

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

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

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

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

6. Depreciation

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

7. Finance income and costs

The Group's finance income and finance costs include:

- interest income; and
- interest expense.

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

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

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

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

J. Fair value measurement

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

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

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

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

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

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

K. Government grants

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

L. Foreign currency translation

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

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

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

Foreign currency translation differences are recognised in profit or loss.

The functional currency of the foreign subsidiary, NFON UK Ltd. is pound sterling (GBP). The functional currency of the foreign subsidiary NFON Polska Sp.z.o.o is the Polish zloty (PLN).

As at the end of the reporting period, the assets and liabilities of these subsidiary are translated into the Group's reporting currency at the rate of exchange prevailing at the end of the reporting period (spot exchange rate). The statement of comprehensive income is translated at the average exchange rate for the reporting period. The foreign currency translation differences are reported in other comprehensive income and recognised as a separate component of equity. On disposal of the foreign entity, the foreign currency translation differences recognised up to this point in equity are recognised in the statement of comprehensive income. The consolidated statement of cash flows is translated at the average exchange rate for the period; cash and cash equivalents are translated at the closing rate for the period.

The following exchange rates (foreign currency unit in EUR) have been used for the respective consolidated financial statements:

	Spot rates		Average rates	
	As at 31.12.2022	As at 31.12.2021	2022	2021
GBP	1.1275	1.1901	1.1727	1.1630
PLN	0.2136	0.2175	0.2135	0.2187

M. Equity

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

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

N. Share-based payments

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

The fair value as at the grant date of equity-settled share-based payment arrangements granted to employees is recognised as a personnel cost, with a corresponding increase in equity, on a straight-line basis over the vesting period. This period ends on the day when it first becomes possible to exercise the options. The fair value is calculated by an external expert using a suitable option pricing model and taking any market performance conditions into account. There is no true-up for differences between expected and actual results. By contrast, non-market performance conditions and the minimum holding period by the company are reassessed in the quantity structure as at the end of each reporting period.

The dilutive effect of the outstanding stock options is taken into account, in line with dilution protection, when calculating earnings per share.

O. Provisions

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

Further details on provisions can be found in note 15 – Provisions and note 27 – Contingencies and commitments.

P. Leases

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

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

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

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

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

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

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

The lease liability is measured at its amortised carry amount using the effective interest method. It is remeasured if:

- the future lease payments change as a result of an index or (interest) rate change,
- the Group adjusts its estimate for the expected payments under a residual value guarantee,
- the Group changes its assessment regarding the exercise of a purchase, extension or termination option, or a de facto fixed lease payment changes.

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

The Group has opted not to recognise right-of-use assets or lease liabilities for leases for low-value assets (with a cost of less than EUR 5 thousand) or short-term leases, including IT equipment. The Group recognises the lease payments in connection with these leases as an expense on a straight-line basis over the term of the lease.

Q. Revenue

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

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

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

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

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

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

1. Recurring revenue

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

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

2. Non-recurring revenue

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

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

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

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

3. Month-to-month contracts

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

4. Long-term contracts

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

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

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

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

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

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

5. Incremental costs of obtaining a contract
NFON regularly enters into commission arrangements with different partners, dealers and other third parties. Commission that can be incurred by NFON at the start of the contract (i.e. one-time) and on a monthly basis is capitalised as costs of obtaining the contract when they are incremental and are expected to be recovered. This capitalised commission is reversed in line with revenue recognition for the associated contract. If the expected amortisation period is one month, then the commission fee is expensed immediately when incurred.

R. Income taxes

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

Current tax assets and tax liabilities for the current and earlier periods are measured at the amount expected to be refunded by the tax authority/paid to the tax authority. The amount is calculated based on the tax rates and tax laws applicable at the end of the respective reporting period. Current tax also includes any tax arising from dividends.

Deferred tax is recognised using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes as at the end of the reporting period. Deferred tax liabilities are recognised for all taxable temporary differences, except:

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

Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

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

In accordance with IAS 12.74, deferred taxes are offset if the requirements for offsetting have been met.

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

S. Earnings per share

1. Basic earnings per share

Basic earnings per share are calculated by dividing the profit attributable to the owners of the company. This does not include the costs of servicing equity (except for ordinary shares and the weighted average number of outstanding ordinary shares in the fiscal, adjusted for bonus shares issued in the fiscal year) or treasury shares.

2. Diluted earnings per share

For diluted earnings per share, the value used to calculate basic earnings per share is adjusted to reflect:

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

T. Segment reporting

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

3. Summary of estimates, judgements and assumptions

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

Information on assumptions and estimation uncertainty with a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities in the next reporting period is presented below.

A. Share-based payment (IFRS 2)

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 or the end of the reporting period. 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. It is also necessary to determine the expected option term, volatility and dividend yield as well as beneficiary turnover and other assumptions. Further details can be found in note 14 – Share-based payment.

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

Please refer to note 2.F. and G. – Significant accounting policies – Intangible assets and impairment testing. The planned revenue and the discount rate used in the impairment tests involve estimates to a large extent.

C. Development costs

Development costs are capitalised as described in note 2.F.3. – Significant accounting policies – Intangible assets – Capitalised development projects. Initial capitalisation of costs is based on management's judgement that technological and economic feasibility is confirmed, usually when a development project has reached a defined milestone according to an established project management model. In determining the amounts to be capitalised, management makes assumptions regarding the future economic success of the products or features resulting from the development projects. The corresponding carrying amounts are shown under note 6 – Intangible assets.

D. Current and deferred taxes

Current taxes entail the risk that changes in tax legislation, administrative practice or case law could have adverse tax consequences for the company.

Also, the Group has tax loss carryforwards of various legal entities in different tax jurisdictions that could result in lower tax payments in future years. Deferred tax assets have been recognised to the extent that their recovery is probable, taking into account the projected future taxable income of the related entity. In the reporting year, deferred tax assets were recognised on the tax loss carryforwards at NFON Polska in the amount of EUR 88 thousand as it is assumed as at 31 December 2022 that this company will have corresponding tax loss carryforwards that can be offset against taxable income in the coming years. Further details on the accounting policies for income taxes and income tax disclosures can be found in note 22 – Income taxes.

E. Expected credit loss on financial assets

We apply assumptions and estimates in determining the expected credit loss of financial assets. Further details can be found in note 12 – Financial instruments – (Impairment of financial instruments).

4. Property, plant and equipment

The major categories of property, plant and equipment and changes in the carrying amount of each category is as follows:

A. Reconciliation of gross carrying amount

in EUR thousand	01.01.2022	Additions	Disposals	31.12.2022
Cost				
Leasehold improvements	361	231	58	534
Operating and office equipment	8,452	942	540	8,853
Total cost 2022	**8,813**	**1,172**	**598**	**9,387**

in EUR thousand	01.01.2021	Additions	Disposals	31.12.2021
Cost				
Leasehold improvements	339	22	0	361
Operating and office equipment	7,313	1,181	43	8,452
Total cost 2021	**7,653**	**1,203**	**43**	**8,813**

B. Reconciliation of cumulative depreciation and amortisation and carrying amount

in EUR thousand	01.01.2022	Depreciation and amortisation	Disposals	31.12.2022
Depreciation and amortisation				
Leasehold improvements	108	82	36	155
Operating and office equipment	5,472	1,290	540	6,222
Total depreciation and amortisation 2022	**5,580**	**1,373**	**577**	**6,376**

in EUR thousand	01.01.2021	Depreciation and amortisation	Disposals	31.12.2021
Depreciation and amortisation				
Leasehold improvements	80	28	0	108
Operating and office equipment	4,224	1,265	18	5,472
Total depreciation and amortisation 2021	**4,304**	**1,293**	**18**	**5,580**

Carrying amounts

in EUR thousand	31.12.2022	31.12.2021
Carrying amount		
Leasehold improvements	379	253
Operating and office equipment	2,631	2,979
Total carrying amount	**3,011**	**3,232**

The Group did not recognise any impairment on property, plant and equipment for the years ended 31 December 2022 and 2021. The effect of exchange rate changes is immaterial.

5. Right-of-use assets from leases

A. Reconciliation of gross carrying amount

Right-of-use assets from leases developed as follows:

in EUR thousand	01.01.2022	Additions	Disposals	31.12.2022
Gross carrying amount				
Right-of-use assets from leases for buildings	8,270	2,933	308	10,893
Right-of-use assets from leases for vehicles	1,339	94	0	1,433
Bicycles	0	6	0	6
Operating and office equipment	90	0	0	90
Total right-of-use assets from leases in 2022	**9,699**	**3,033**	**308**	**12,423**

in EUR thousand	01.01.2021	Additions	Disposals	31.12.2021
Gross carrying amount				
Right-of-use assets from leases for buildings	8,104	166	0	8,270
Right-of-use assets from leases for vehicles	1,105	389	-155	1,339
Operating and office equipment	0	90	0	90
Total right-of-use assets from leases in 2021	**9,209**	**645**	**-155**	**9,699**

B. Reconciliation of cumulative depreciation and amortisation and carrying amount

in EUR thousand	01.01.2022	Depreciation and amortisation	Disposals	31.12.2022
Depreciation and amortisation				
Right-of-use assets from leases for buildings	3,976	1,637	18	5,595
Right-of-use assets from leases for vehicles	772	299	0	1,070
Bicycles	0	1	0	1
Operating and office equipment	18	14	0	31
Total depreciation and amortisation 2022	**4,765**	**1,950**	**18**	**6,697**

in EUR thousand	01.01.2021	Depreciation and amortisation	Disposals	31.12.2021
Depreciation and amortisation				
Right-of-use assets from leases for buildings	2,511	1,465	0	3,976
Right-of-use assets from leases for vehicles	564	319	-112	772
Operating and office equipment	0	18	0	18
Total depreciation and amortisation 2021	**3,075**	**1,801**	**-112**	**4,765**

in EUR thousand	31.12.2022	31.12.2021
Carrying amount		
Right-of-use assets from leases for buildings	5,300	4,294
Right-of-use assets from leases for vehicles	362	567
Bicycles	5	0
Operating and office equipment	58	72
Total carrying amount	**5,726**	**4,933**

6. Intangible assets

A. Reconciliation of gross carrying amount

Intangible assets developed as follows:

in EUR thousand	01.01.2022	Additions	Reclassification	Disposals	31.12.2022
Gross carrying amount					
Software	3,035	33	0	0	3,068
Internally generated software (in progress)	3,851	2,035	-4,054	0	1,833
Internally generated software	0	0	4,054		4,054
Capitalised development projects	7,445	0	3,621	0	11,069
Capitalised development projects in development	4,246	5,264	-3,621	136	5,753
Customer base	5,013	0	0	0	5,013
Goodwill	12,534	0	0	0	12,534
Other intangible assets	124	285		0	409
Total intangible assets in 2022	**36,248**	**7,619**	**0**	**136**	**43,732**

in EUR thousand	01.01.2021	Additions	Reclassification	Disposals	31.12.2021
Gross carrying amount					
Software	2,943	39	53	0	3,035
Internally generated software (in progress)	1,373	2,478	0	0	3,851
Capitalised development projects	5,836	538	1,072	0	7,445
Capitalised development projects in development	1,698	3,653	0	33	4,246
Customer base	5,013	0	-1,072	0	5,013
Goodwill	12,534	0	0	0	12,534
Other intangible assets	85	97	-53	5	124
Total intangible assets in 2021	**29,483**	**6,804**	**0**	**39**	**36,248**

B. Reconciliation of cumulative depreciation and amortisation and carrying amount

Cumulative amortisation is as follows:

in EUR thousand	01.01.2022	Depreciation and amortisation	Impairment	Disposals	31.12.2022
Amortisation of intangible assets					
Software	1,960	527	0	0	2,487
Internally generated software (in progress)	0	0	0	0	0
Internally generated software	0	531	0	0	531
Capitalised development projects	3,455	1,968	0	0	5,424
Capitalised development projects in development	0	0	0	0	0
Customer base	710	354	0	0	1,063
Goodwill	0	0	0	0	0
Other intangible assets	124	57	0	0	181
Total amortisation of intangible assets 2022	**6,249**	**3,437**	**0**	**0**	**9,687**

in EUR thousand	01.01.2021	Depreciation and amortisation	Impairment	Disposals	31.12.2021
Amortisation of intangible assets					
Software	1,491	467	0	0	1,960
Internally generated software (in progress)	0	0	0	0	0
Capitalised development projects	442	2,912	101	0	3,455
Capitalised development projects in development	0	0	0	0	0
Customer base	459	250	0	0	710
Goodwill	0	0	0	0	0
Other intangible assets	10	116	0	0	124
Total amortisation of intangible assets 2021	**2,403**	**3,745**	**101**	**0**	**6,249**

Carrying amounts

in EUR thousand	31.12.2022	31.12.2021
Carrying amount		
Software	581	1,076
Internally generated software (in progress)	1,833	3,851
Internally generated software	3,523	0
Capitalised development projects	5,644	3,990
Capitalised development projects in development	5,753	4,245
Customer base	3,949	4,303
Goodwill	12,534	12,534
Other intangible assets	228	0
Total carrying amount	**34,045**	**29,999**

The effect of exchange rate changes is immaterial. The other intangible assets were purchased.

C. Purchased goodwill

Derivative goodwill of EUR 12.5 million was recognised as at 31 December 2022 (31 December 2021: EUR 12.5 million), for which an annual impairment test must be performed. No impairment losses were recognised in fiscal 2022 or the previous year.

A legally independent entity is regarded as a cash-generating unit if it is able to generate revenue largely independently of other Group companies on the basis of its own market responsibility, customer base and sales channels.

EUR 12.4 million of the goodwill recognised as at 31 December 2022 – unchanged since 31 December 2021 – resulted from NFON AG's acquisition in 2019 of Deutsche Telefon Standard GmbH, Mainz (DTS), and EUR 150 thousand from the acquisition in 2020 of assets, contractual relationships and the existing employment contracts of Onwerk GmbH, Mannheim (Onwerk).

The recoverable amount for DTS is calculated based on the value in use of the cash-generating unit. The cash flows used are the expected cash flows for the next five years based on the approved budget. The approved budget is based partially on past experience and partially on management forecasts for future business performance. The average CAGR in the detailed planning phase (five years) is 5.7%. The perpetual annuity assumes growth in revenue of 1.5% (2021: 0.1%) and an EBIT margin of 19.7%. In the previous year, the growth of revenue in the perpetual annuity was based on the basic interest rate. In the reporting year, this growth is below the basic interest rate in effect as at the end of the reporting period. The discount rate used reflects the specific risks of the asset measured. It is calculated in line with the capital asset pricing model (CAPM), under which the equity costs are composed of the risk free interest rate and a risk premium calculated as the difference between the average market return and the risk-free interest rate multiplied by the risk specific to the company (beta factor). The beta factor is derived from a group of comparable companies. A discount rate of 9.92% (8.42% for perpetual annuity) was used in 2022 (2021: 6.79% or 6.69% for perpetual annuity).

D. Acquired customer base

The recognised customer base of EUR 3,949 thousand (31 December 2021: EUR 4,303 thousand) results from the acquisition of DTS as at 1 March 2019. In the reporting year, the original 20-year amortisation period was reduced to 15 years. This change in estimate is based on the adjusted expected useful life of the customer relationships. Amortisation in the reporting year amounted to EUR 354 thousand (2021: EUR 251 thousand).

E. Capitalised development projects

No impairment losses (previous year: EUR 101 thousand) were recognised in the reporting period to adjust the carrying amount of capitalised development projects in line with their recoverable amount. The impairment loss recognised in the previous year related to DTS GmbH.

The impairment testing method for development projects and internally developed software currently in development is as described under "Purchased goodwill". The basic assumptions and estimation uncertainty are identical. The average CAGR in the detailed planning period is 9.7% and the EBIT margin in perpetual annuity 15.6%. The projects in development are tested for impairment at least once a year, as at 31 December.

If new functions or features are developed for development projects already completed and amortised, the development costs incurred to complete the feature are recognised under the capitalised development costs in development. After the feature is completed, the corresponding development costs are assigned to the development project to which the new feature relates.

7. Investments in associates

Investments in associates include exclusively the interest in Meetecho and show the unrecognised gains and losses as at the acquisition date recognised in the reporting year (EUR -16 thousand) and the pro rata result of the investment for fiscal 2022 (EUR 45 thousand). No dividend was distributed. Among other things, Meetecho provides a key technology basis for the video functions marketed by the Group.

The financial information for Meetecho as at 31 December 2022 (31 December 2021) and for fiscal 2022 (2021) is as follows:

in EUR thousand	2022	2021
Current assets	696	511
Non-current assets	4	6
Current liabilities	284	281
Non-current liabilities	0	0
Revenue	759	644
Net profit for the year	178	104
Other comprehensive income	0	0
Total comprehensive income:	**178**	**104**

8. Changes in deferred taxes

Deferred tax assets and liabilities are recognised on the basis of all temporary differences applying the liability method. Temporary differences arise between the tax base of assets and liabilities and their carrying amounts which are offset over time.

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

A. Deferred tax assets/liabilities

	Fiscal year ended 31.12.2022			
EUR	Deferred tax assets	Deferred tax liabilities	Changes in the current fiscal year	Thereof in profit or loss
Assets				
Non-current assets				
Property, plant and equipment	0	1,746	-264	-264
Intangible assets	4	6,505	-1,209	-1,209
Current assets				
Trade receivables	61	0	3	3
Other current assets	0	0	1	1
Liabilities				
Non-current liabilities				
Non-current financial liabilities	1,249	0	251	251
Current liabilities				
Current provisions	0	2	-2	-2
Current financial liabilities	521	0	46	46
Other current liabilities	66	4	-3	-3
Consolidation effects	0	28	-87	-87
Subtotal of temporary differences	**1,901**	**8,286**	**-1,264**	**-1,264**
Tax loss carryforward	4,171	0	-2,003	-2,003
Subtotal of temporary differences	**6,072**	**8,286**	**-3,267**	**-3,267**
Netting	-5,810	-5,810	0	0
Total temporary differences	**262**	**2,476**	**-3,267**	**-3,267**

EUR	Fiscal year ended 31.12.2021			
	Deferred tax assets	Deferred tax liabilities	Changes in the current fiscal year	Thereof in profit or loss
Assets				
Non-current assets				
Property, plant and equipment	0	1,480	284	284
Intangible assets	5	5,297	-1,142	-1,142
Current assets				
Trade receivables	59	0	13	13
Other current assets	0	2	4	4
Liabilities				
Non-current liabilities				
Non-current financial liabilities	996	0	-342	-342
Current liabilities				
Current provisions	2	2	-2	-2
Current financial liabilities	481	7	10	10
Other current liabilities	65	0	-1	-1
Consolidation effects	55	0	37	37
Subtotal of temporary differences	**1,663**	**6,789**	**-1,137**	**-1,137**
Tax loss carryforward	6,174	0	1,885	1,885
Subtotal of temporary differences	**7,837**	**6,789**	**748**	**748**
Netting	-5,457	-5,457	0	0
Total temporary differences	**2,380**	**1,333**	**748**	**748**

B. Tax loss carryforward

No deferred tax assets are reported for trade tax loss carryforwards of EUR 83,203 thousand (31 December 2021: EUR 61,644 thousand) or for corporate income tax loss carryforwards of EUR 85,526 thousand (31 December 2021: EUR 62,846 thousand). EUR 10,386 thousand of the trade tax loss carryforwards relates to the reporting year and EUR 72,817 thousand to earlier periods. EUR 11,168 thousand of the corporation tax loss carryforwards relates to the reporting year and EUR 74,358 thousand to earlier periods. The trade tax and corporation tax loss carryforwards for which no deferred tax assets were reported are generally not subject to any restrictions on use. The exception to this are the trade tax and corporation tax loss carryforwards of DTS GmbH, which cannot be utilised for at least the next five years during the period of an income tax group existing with NFON AG from 2022 onwards.

C. Uncertainty over income tax treatments

The Group believes that the provisions recognised for tax liabilities are appropriate for all outstanding tax years based on its assessment of multiple factors, including interpretations of tax law and past experience. In particular, we point out that various tax audits (operating taxes, payroll taxes and social security contributions) are carried out at regular intervals.

Future taxation of any dividend distributions is currently at a flat rate withholding tax rate of 25.0% plus a solidarity surcharge on this amount of 5.5%.

D. Global minimum tax

Various global agreements have been reached to address concerns about uneven profit distribution and the uneven tax payments of large multinational enterprises, including an agreement between more than 135 countries to introduce a global minimum tax rate of 15%. In December 2021, the OECD published a draft legal framework, followed by detailed guidance in March 2022, which the individual countries that have signed the deal will use to amend their local tax laws. The Group could be subject to the minimum tax rate as soon as the changes to tax laws are enacted or substantively enacted in countries in which the Group operates. When the consolidated financial statements were authorised for issue, the tax legislation relating to the minimum tax rate was neither enacted nor substantively enacted in any of the countries in which the Group operates. The Group is not expected to be subject to the minimum tax rate, as it has no subsidiaries in countries in which the statutory tax rate is less than 15%. The Management Board closely follows the progress of legislative procedures in every country in which the Group operates. As at 31 December 2022, the Group did not have enough information to determine the potential quantitative impact.

9. Inventories

Inventories amounted to EUR 87 thousand as at 31 December 2022 (31 December 2021: EUR 155 thousand). Inventories essentially comprise hardware, e.g. telephones. The Group typically has low levels of hardware on hand as hardware is shipped by suppliers just-in-time when requested by NFON based on customer orders. No material reserves for obsolete inventory were required in the periods presented.

The cost of materials includes expenses of EUR 3,694 thousand (2021: EUR 3,816 thousand) for the pro-curement of hardware.

10. Trade receivables and other financial assets

As at the end of the reporting period, trade receivables amounted to EUR 9,498 thousand (31 December 2021: EUR 10,900 thousand). This included expenses resulting from bad debt losses and specific valuation allowances of EUR 367 thousand in the reporting year (previous year: EUR 51 thousand).

Information on the Group's exposure to credit and market risks, impairment losses for trade and other receivables and changes in impairment can be found in note 12 – Financial instruments.

Other financial assets amounted to EUR 390 thousand as at 31 December 2022 (31 December 2021: EUR 390 thousand). The item contains restricted cash due to the rights of recourse of banks for direct debits from customers.

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

Other non-financial assets were as follows as at 31 December 2022 and 2021:

	Fiscal year ended 31.12.	
in EUR thousand	**2022**	**2021**
Other current assets		
Contract assets	70	122
Tax receivables	198	431
Other prepaid expenses	1,567	1,819
Other non-financial assets	479	635
Subtotal other current assets	**2,314**	**3,007**
Other non-current assets		
Prepayments	359	193
Other	61	4
Subtotal other non-current assets	**420**	**197**
Other assets	**2,734**	**3,204**

Other non-financial liabilities were as follows as at 31 December 2022 and 2021:

	Fiscal year ended 31.12.	
in EUR thousand	**2022**	**2021**
Other current (non-financial) liabilities		
Tax payables	1,315	1,076
Liabilities to employees	2,451	2,158
Other non-financial liabilities	2,049	1,763
Subtotal other current (non-financial) liabilities	**5,814**	**4,998**
Other non-current liabilities		
Other	693	217
Subtotal other non-current (non-financial) liabilities	**693**	**217**
Other (non-financial) liabilities	**6,507**	**5,215**

Other current non-current liabilities include contract liabilities of EUR 336 thousand (31 December 2021: EUR 305 thousand).

The current income tax liabilities of EUR 259 thousand recognised as at 31 December 2022 (31 December 2021: EUR 452 thousand) essentially related to the reporting year.

12. inancial instruments

A. Accounting classifications and fair values

Fair value

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

31.12.2022	Amortised cost			Fair value			
in EUR thousand	Fair value	Carrying amount	Total carrying amount	Level 1	Level 2	Level 3	Total
Financial assets not measured at fair value							
Trade receivables*		9,276	9,276	–	–	–	–
Other financial assets*		390	390	–	–	–	–
Cash and cash equivalents*		13,218	13,218	–	–	–	–
Total financial assets not measured at fair value		**22,884**	**22,884**	**–**	**–**	**–**	**–**
Financial liabilities not measured at fair value							
Trade payables*		4,205	4,205	–	–	–	–
Lease liabilities (current and non-current)*		5,862	5,862	–	–	–	–
Total financial liabilities not measured at fair value		**10,067**	**10,067**	**–**	**–**	**–**	**–**

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

31.12.2021	Amortised cost			Fair value			
in EUR thousand	Fair value	Carrying amount	Total carrying amount	Level 1	Level 2	Level 3	Total
Financial assets not measured at fair value							
Trade receivables*		10,900	10,900	–	–	–	–
Other financial assets*		390	390	–	–	–	–
Cash and cash equivalents*		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*		6,083	6,083	–	–	–	–
Other financial liabilities*		6	6	–	–	–	–
Lease liabilities (current and non-current)*		5,015	5,015	–	–	–	–
Total financial liabilities not measured at fair value		**11,104**	**11,104**	**–**	**–**	**–**	**–**

* 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. In the reporting year, as in the previous year, the financial result did not include any interest expense calculated using the effective interest method in connection with financial liabilities not measured at cost.

Trade receivables

The carrying amount of trade receivables is typically roughly the same as their fair value due to their short maturities. All the trade and other receivables outstanding as at the end of the reporting period are considered as current receivables having short-term maturities.

Trade payables

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

Cash and cash equivalents

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

Defaults

The Group did not report any defaults on payments of principal or interest, or other breaches on loans and borrowings in fiscal 2022 or fiscal 2021.

B. Financial risk management

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

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

Risk management framework

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

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

General financial market risks

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

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

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

1. Credit risk

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

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

Specific valuation allowances for financial assets and contract assets recognised in profit or loss (including losses on bad debts) were as follows:

in EUR thousand	2022	2021
Impairment losses on trade and other receivables		
Impairment loss on trade and other receivables (including contract assets)	386	51
Impairment loss on cash and cash equivalents*	0	0
Impairment losses on trade and other receivables	**386**	**51**

* Please see "Cash and Cash equivalents" below.

Trade and other receivables

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

After taking account of the specific valuation allowances recognised, the remaining exposure to credit risk for trade receivables by region was as follows as at 31 December:

	Fiscal year ended 31.12.	
in EUR thousand	2022	2021
Countries		
Germany	7,219	8,801
United Kingdom	804	1,056
Austria and rest of Europe	1,253	1,043
Total maximum credit risk exposure	**9,276**	**10,900**

The Group obtains a credit rating for new customers from a credit rating agency. If a customer has a lower rating, then at the initial stage the Group obtains a security deposit from such customer. The Group does not track the customer rating further, as the receivables are largely collected by direct debit. It is only possible that cash will not be received from trade receivables in cases where the customers have negative bank balances or where the customer's bank information is insufficient or incorrect.

There are no material contractual amounts outstanding in connection with receivables that were written off in the reporting period and are still subject to enforcement.

Assessment of expected credit loss for customers as at 31 December 2022 and 2021

The Group calculates its expected credit losses (ECLs) using the simplified approach under IFRS 9. This approach requires to recognise the lifetime expected loss provision for all trade receivables. The Group uses an impairment matrix to compute the credit allowances for trade receivables, which comprise a large number of small balances. Under this approach, the Group uses information on past rates of default on its trade receivables and adjusts the past rates of default to reflect:

i. information on current conditions; and
ii. reasonable and reliable forecasts of future economic conditions, including the anticipated macroeconomic environment.

None of the trade receivables and contract assets are purchased or originated credit impaired.

Loss rates are calculated using a roll rate method based on the probability of a receivable progressing through successive stages of delinquency to write-off. Roll rates are calculated for various geographical segments based on the ageing buckets of receivables.

Amounts are written off when the customer is declared insolvent. For all other receivables from customers, the expected credit loss is calculated based on the loss rates described above.

The following table shows the credit risk and ECLs for trade receivables and contract assets from individual customers as at 31 December 2022:

31.12.2022	Gross carrying amount [EUR thousand]	Loss rate [%]	Impairment [EUR thousand]
Germany			
Not past due	5,653	1.74	94
1-90 days past due	1,397	7.27	90
More than 90 days past due	444	16.57	64
Total trade receivables in Germany	**7,495**		**248**
United Kingdom			
Not past due	692	0.15	1
1-90 days past due	159	0.49	0
More than 90 days past due	24	10.90	2
Total trade receivables in United Kingdom	**875**		**2**
Other countries			
Not past due	1,026	0.86	9
1-90 days past due	125	3.51	4
More than 90 days past due	129	9.25	11
Total trade receivables in other countries	**1,281**		**25**
Grand total for receivables (not including impairment losses)	**9,652**		
Grand total for impairment losses			**275**
Contract assets	70	0.15	0

Of the total receivables portfolio, EUR 83 thousand is impaired. The impairment losses attributable to these receivables amount to EUR 10 thousand.

The following table shows the credit risk and ECLs for trade receivables and contract assets from individual customers as at 31 December 2021:

31.12.2021	Gross carrying amount [EUR thousand]	Loss rate [%]	Impairment [EUR thousand]
Germany			
Not past due	5,354	0.67	34
1-90 days past due	1,709	3.55	59
More than 90 days past due	1,868	6.31	118
Total trade receivables in Germany	**8,930**		**211**
United Kingdom			
Not past due	727	0.11	1
1-90 days past due	329	0.31	1
More than 90 days past due	6	5.33	0
Total trade receivables in United Kingdom	**1,061**		**2**
Other countries			
Not past due	775	1.90	10
1-90 days past due	195	7.27	14
More than 90 days past due	123	19.85	17
Total trade receivables in other countries	**1,094**		**41**
Grand total for receivables (not including impairment losses)	**11,085**		
Grand total for impairment losses			**258**
Contract assets	122	0.11	0

Of the total receivables portfolio, EUR 39 thousand is impaired. The impairment losses attributable to these receivables amount to EUR 2 thousand.

Impairment losses arising from ECLs (not including specific valuation allowances) on trade receivables developed as follows in fiscal 2022:

in EUR thousand	Change in 2022	Change in 2021
Expected credit loss on trade receivables		
Opening balance as at 01.01.	258	259
Net remeasurement	17	-1
Amounts written off	0	0
Closing balance as at 31.12.	**275**	**258**

Concentrations of credit risk

Concentrations of risks are determined by management based on amounts outstanding from individual customers as at the end of the period. As the Group operates throughout the whole of Europe and has a diversified customer structure, there are no significant concentrations of credit risk with the exception of one customer – Telefónica Germany GmbH & Co. OHG. The net receivable from this customer was EUR 1,225 thousand as at 31 December 2022 (31 December 2021: EUR 2,733 thousand).

Cash and cash equivalents

The Group held cash and cash equivalents of EUR 13,218 thousand as at 31 December 2022 (31 December 2021: EUR 27,670 thousand). Cash and cash equivalents are held with banks and financial institutions rated A- on the basis of ratings from Moody's, S&P Global and GBB.

Impairment on cash has been measured on a twelve-month expected loss basis and reflects the short-term maturities of the exposures. NFON considers that its cash has low credit risk based on the external credit ratings of the counterparties.

2. Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's liquidity management is designed to ensure sufficient liquidity to meet its liabilities when they become due, under both normal and stressed conditions, while also avoiding unacceptable losses or risking damage to the Group's reputation.

The Group aims to maintain the level of cash and cash equivalents at an amount of excess of expected cash outflows on financial liabilities (other than trade payables). The Group also monitors the level of expected cash inflows on trade receivables together with expected cash outflows on trade and other payables.

The Group also has a money market loan agreement in the amount of EUR 5,000 thousand and maturing on 30 November 2026. The interest rate is based on matched-term EURIBOR plus a margin (related to the time of utilisation). 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. These primarily depend on revenue and EBITDA.

The following table presents the contractual interest and payments for the Group's financial liabilities. The maturities are based on the contractually agreed interest rates for the financial instruments. For all the financial liabilities listed below, contractual maturities are considered on an annual basis:

31.12.2022

in EUR thousand	Carrying amount	Contractual cash flows	1 year or less	1-5 years	5 years and more
Financial liabilities					
Trade payables	4,205	4,205	4,205	0	0
Lease liabilities	5,863	5,863	1,781	2,801	1,280
Total financial liabilities	**10,068**	**10,068**	**5,986**	**2,801**	**1,280**

31.12.2021

in EUR thousand	Carrying amount	Contractual cash flows	1 year or less	1-5 years	5 years and more
Financial liabilities					
Trade payables	6,083	6,083	6,083	0	0
Lease liabilities	5,021	5,021	1,736	2,730	549
Other financial liabilities	6	6	6	0	0
Total financial liabilities	**11,104**	**11,104**	**7,825**	**2,730**	**549**

3. Market risk

Market risk is the risk that changes in market prices, such as exchange rates or interest rates, will affect the value of financial instruments or the earnings of the Group. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Currency risk

The Group is exposed to currency risk to the extent that there is a mismatch between the currencies in which revenue, purchases, receivables, loans and other financial instruments are denominated and the respective functional currencies of Group companies. The functional currencies of Group companies are the euro, pound sterling and Polish zloty. The currency in which these transactions are primarily denominated is the euro.

Exposure to currency risk

The summary quantitative data on the Group's exposure to currency risk in GBP as reported to the Group's management is as follows:

	Fiscal year ended 31.12.	
in EUR thousand	2022	2021
Receivables subject to currency risks	1,262	4,544
Net exposure	**1,262**	**4,544**

The following rates have been applied:

	Spot rates		Average rates	
	As at 31.12.2022	As at 31.12.2021	2022	2021
GBP	1.127	1.190	1.173	1.163

Sensitivity analysis
A 10% depreciation/appreciation of pound sterling would have increased/reduced equity and profit or loss by the amounts shown below. This calculation assumes that the change occurred at the end of the reporting period and was applied to risk exposures existing at that date.

This analysis assumes that all other variables other than currency exchange rate remain constant.

	Profit or loss		Equity net of tax	
in EUR thousand	Appreciation (10% decrease)	Depreciation (10% increase)	Appreciation (10% decrease)	Depreciation (10% increase)
Sensitivity analysis for net exposure				
31.12.2022	-126	126	-131	131
31.12.2021	-454	454	-444	444

The summary quantitative data on the Group's exposure to currency risk in PLN is as follows:

in EUR thousand	31.12.2022
Liabilities subject to currency risks	831
Net exposure	**831**

The following rates have been applied:

	Spot rates	Average rates
	As at 31.12.2022	2022
PLN	0.214	0.214

Sensitivity analysis
A 10% depreciation/appreciation of the Polish zloty would have increased/reduced equity and profit or loss by the amounts shown below. This calculation assumes that the change occurred at the end of the reporting period and was applied to risk exposures existing at that date.

This analysis assumes that all other variables other than currency exchange rate remain constant.

	Profit or loss		Equity net of tax	
in EUR thousand	Appreciation (10% decrease)	Depreciation (10% increase)	Appreciation (10% decrease)	Depreciation (10% increase)
Sensitivity analysis for net exposure				
31.12.2022	83	-83	83	-83

The net currency exposure results from EUR receivables (liabilities) of NFON UK (NFON Polska) where the functional currency is GBP (PLN). The items of the statement of financial position of NFON Polska, whose functional currency is PLN, included in the consolidated financial statements as at 31 December 2021 were not material.

Interest rate risk
Interest rate risk is the risk that the fair value of a financial instrument could fluctuate as a result of changes in market interest rates or that in the case of floating-rate liabilities the interest rates and consequently the cash flows could change.

The Group was not exposed to material interest rate risk in the reporting year.

Exposure to interest rate risk
All financial liabilities recognised as at the end of the reporting period (likewise as at 31 December 2021) have a fixed interest rate and are not subject to interest rate risk.

13. Equity

Development in the reporting year

Employee stock options increased capital reserves by EUR 486 thousand. The currency translation reserve fell by EUR 334 thousand. The consolidated loss for the year of EUR 15,582 thousand had a negative effect on the development of equity.

Issued capital and ordinary shares

As at 31 December 2022, NFON AG had issued 16,561,124 (31 December 2021: 16,561,124) ordinary bearer shares (no-par shares) with a notional interest in the share capital of EUR 1.00. The issued capital amounted to EUR 16,561 thousand as at 31 December 2022 (31 December 2021: EUR 16,561 thousand).

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

All issued and outstanding shares are fully paid in as at 31 December 2022 and 2021.

Capital reserves

The capital reserves contain the premium from issued shares and the transaction costs reimbursed by the then shareholders in connection with the IPO. The capital reserves were reduced by transaction costs recognised in connection with the placement of shares in conjunction with the IPO and capital increases. Furthermore, capital reserves include cumulative expenses for share-based payment transactions for certain members of the Management Board recognised as staff costs in previous periods, expenses from the employee stock option programmes recognised as staff costs in the reporting period and in the previous year, plus the equity component of the warrant bond issued in 2019.

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

Authorised capital

In accordance with the resolution of the Annual General Meeting on 24 June 2021, the Management Board is authorised until 23 June 2026, with the approval of the Supervisory Board, to increase the share capital of NFON AG on one or more occasions in one or more tranches by up to EUR 4,140,281 by issuing no-par bearer shares with profit participation rights from the start of the fiscal year in which they are issued in exchange for cash or non-cash contributions (Authorised Capital 2021). As far as the law allows, deviating from this and from section 60(2) of the Aktiengesetz (AktG – German Stock Corporation Act), the Management Board, with the approval of the Supervisory Board, can stipulate that the new shares can participate in profits from the start of a fiscal year that is already over for which there had not yet been a resolution by the Annual General Meeting on the appropriation of net profits at the time that they were issued. Shareholders have pre-emption rights. The new shares can also be acquired by one or more banks with the obligation to offer them to shareholders for subscription (indirect pre-emption rights). The Management Board is authorised, with the approval of the Supervisory Board, to decide the content of share rights and the terms for issuing shares, and to determine the details of the capital increase and, with the approval of the Supervisory Board, to disapply shareholder pre-emption rights in the following cases:

- to avoid fractional shares;
- if shares are issued in return for non-cash contributions to acquire companies, investments in companies, parts of companies or other assets, including rights and receivables, and the new shares for which shareholders' pre-emption rights have been disapplied do not exceed 20% of the share capital as at 24 June 2021, at the time this authorisation becomes effective or at the time it is exercised;
- to the extent necessary, to grant pre-emption rights to new shares to bearers/creditors of convertible bonds or bonds with warrants that are or have been issued by the company or subordinate Group companies in the amount they would be owed after exercising their option/conversion rights or fulfilling the conversion obligation;
- if the capital is increased in return for cash contributions, the issue price of the new shares is not significantly lower than the stock market price at the time the issue price is finalised, and the new shares for which shareholders'

pre-emption rights have been disapplied do not exceed 10% of the share capital as at 24 June 2021, at the time this authorisation becomes effective or at the time it is exercised.

Contingent capital

On the basis of the authorisation of the Annual General Meeting on 9 April 2018 in order to secure the pre-emption rights from stock options (pre-emption rights as referred to by section 192(2) no. 3 AktG) issued between 9 April 2018 and 8 April 2023, the share capital of NFON AG was contingently increased by up to EUR 964,015 against the issue of up to 964,015 new bearer shares (Contingent Capital II). Contingent Capital II was reduced to EUR 708,229 by way of resolution of the Annual General Meeting on 24 June 2021.

The Annual General Meeting on 24 June 2021 authorised the Supervisory Board and the Management Board (with the approval of the Supervisory Board) until the end of 23 June 2026, but not before Contingent Capital 2021 becomes effective on being entered in the commercial register (which occurred on 28 June 2021), to grant up to 947,883 stock options with pre-emption rights to shares in the company with a term of up to 10 years in one or more tranches to be issued annually in accordance with the following provisions (2021 stock option plan, Contingent Capital 2021/1). The stock options are exclusively intended for members of the Management Board of the company and employees of the company, as well as the members of management and employees of affiliated companies as referred to by sections 15 and 17 AktG.

The Contingent Capital I created by the Annual General Meeting on 9 April 2018 was cancelled in full by way of resolution of the Annual General Meeting on 24 June 2021. Contingent Capital II amounts to EUR 708,229 as at 31 December 2022 (31 December 2021: EUR 708,229). The new Contingent Capital 2021/1 created in the previous year is unchanged year-on-year and amounts to EUR 947,883 as at 31 December 2022.

Loss carryforward

The loss carryforward contains losses incurred in prior years and 2022.

Currency translation reserve

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

Voting rights

In 2022, NFON AG received the following notifications in accordance with section 33(1) and section 38(1) of the **Wertpapierhandelsgesetz** (WpHG – German Securities Trading Act) and published them on the Group's website in accordance with section 40 WpHG:

Type of notification	Date of report	Reason for notification	Details of reporting party	Names of shareholders	Date on which the threshold was reached	Total voting rights	Details of voting rights held
Section 40(1) WpHG	28.01.2022	Acquisition of shares with voting rights Acquisition of instruments	Aalap Mahadevia, born 7 Oct. 1981	n/a	24.01.2022	Total shares: 5.13%, of which: Share of voting rights: 2.82% Share of instruments: 2.31%	**Voting rights** (section 34 WpHG) attributed 467,503 or 2.82% **Instruments** (section 38(1) no. 2 WpHG) Equity swap 381,759 or 2.31%
Section 40(1) WpHG	28.01.2022	Acquisition of shares with voting rights	Morgan Stanley, Wilmington, Delaware, USA	n/a	24.01.2022	Total shares: 7.16%, of which: Share of voting rights: 5.14% Share of instruments: 2.02%	**Voting rights** (section 34 WpHG) attributed 850,700 or 5.14% Instruments (section 38(1) no. 1 WpHG) Right of recall for securities lending orders at any time 4,100 or 0.02% **Instruments** (section 38(1) no. 2 WpHG) Equity swap maturing 24 Feb. 2026, at any time 330,725 or 2.00%
Section 40(1) WpHG	01.02.2022	Acquisition of instruments Voluntary group notification due to a subsidiary reaching a threshold	Morgan Stanley, Wilmington, Delaware, USA	n/a	25.01.2022	Total shares: 7.47%, of which: Share of voting rights: 5.14% Share of instruments: 2.33%	**Voting rights** (section 34 WpHG) attributed 850,701 or 5.14% Instruments (section 38(1) no. 1 WpHG) Right of recall for securities lending orders at any time 4,100 or 0.02% **Instruments** (section 38(1) no. 2 WpHG) Equity swap maturing 24 Feb. 2026, at any time 381,759 or 2.31%
Section 40(1) WpHG	03.03.2022	Acquisition of instruments Voluntary group notification due to a subsidiary reaching a threshold	Morgan Stanley, Wilmington, Delaware, USA	n/a	24.02.2022	Total shares: 8.78%, of which: Share of voting rights: 5.83% Share of instruments: 2.96%	**Voting rights** (section 34 WpHG) attributed 964,694 or 5.83% Instruments (section 38(1) no. 1 WpHG) Right of recall for securities lending orders at any time 4,100 or 0.02% **Instruments** (section 38(1) no. 2 WpHG) Equity swap maturing 24 Feb. 2026, at any time 485,459 or 2.93%
Section 40(1) WpHG	09.09.2022	Disposal of shares with voting rights	Swedbank Robur Fonder AB, Sundbyberg, Sweden	n/a	07.09.2022	Total shares: 0.00%	
Section 40(1) WpHG	12.09.2022	Acquisition of shares with voting rights	Günter Müller, 31 Aug 1949	ASC Technologies AG	07.09.2022	Total shares: 3.41%	**Voting rights** (section 34 WpHG) attributed 563,927 or 3.41%

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

No dividend is distributed at present.

14. Share-based payments

In the previous year and the reporting year, NFON issued stock options to the members of the Management Board of NFON AG (group 1), managing directors of affiliated companies (group 2) and selected employees of NFON AG (group 3) and affiliated companies (group 4) (2018 stock option plan and 2021 stock option plan).

The group of beneficiaries is regulated individually in each case. Following the resolution by the Annual General Meeting on 9 April 2018 (2018 stock option plan), 31% of the stock options – 298,845 pre-emption rights – were issued to group 1, 11% – 106,042 pre-emption rights in total – to group 2, 42% – 404,886 pre-emption rights in total – to group 3 and 16% – 154,242 pre-emption rights in total – to group 4.

The breakdown of the 2021 stock option plan (as resolved by the Annual General Meeting on 24 June 2021) is as follows: Group 1 beneficiaries receive a combined maximum of 33%, i.e. 312,802 stock options and the resulting pre-emption rights. Group 2 beneficiaries each receive a combined maximum of 10%, i.e. 94,788 stock options and the resulting pre-emption rights. Group 3 beneficiaries each receive a combined maximum of 41%, i.e. 388,632 stock options and the resulting pre-emption rights. Group 4 beneficiaries each receive a combined maximum of 16%, i.e. 151,661 stock options and the resulting pre-emption rights.

The exact group of beneficiaries and the scope of the respective offer are defined by the Management Board with the approval of the Supervisory Board or, if the Management Board is affected, by the Supervisory Board.

All pre-emption rights from the above programmes have a vesting period of four years and an overall term of 10 years. Pre-emption rights from the stock options under the 2018 stock option plan can only be exercised in the event of a 20% increase in revenue as reported in the consolidated financial statements for the fiscal year in which the options are allocated, compared to the revenue as reported in the consolidated financial statements for the previous fiscal year prior to allocation. A cap in accordance with section 4.2.3. of the German Corporate Governance Code is also intended for members of the Management Board. The exercise restriction over the four-year vesting period for the 2021 stock option plan does not apply outright, rather it only applies to recurring and organic revenue growth. An increase in recurring revenue of at least 15% is required for the first year and at least 20% in each of the following three years (always year-on-year).

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

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

The fair value of the options is calculated based on a binomial model. No options were granted in the reporting year. The weighted average fair value of the options granted in the previous year was EUR 7.57 at the measurement date (2021 stock option plan).

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

	2021
Weighted average exercise price*	17.46 EUR
Weighted expected volatility	37.0%
Term	10 years
Weighted risk-free interest rate	-0.27%

* Corresponds to the weighted average arithmetic mean of the closing prices of the company's shares in Xetra trading on the Frankfurt Stock Exchange on the last 10 trading days before the stock options were issued

Only options from the 2021 stock option plan were issued in 2021.

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

An expected average turnover rate of 0% was assumed for the beneficiary members of the Management Board. The expected turnover rate for other beneficiary employees in the 2018 stock option plan is 20.6%. The remaining options from the 2021 stock option plan expired in the reporting year.

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

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

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

	Number of options		Weighted average exercise price in EUR	
	2022	2021	2022	2021
Options granted as at 31 Dec.	1,119,229	1,119,229	12.02	12.02
Thereof new in the reporting year	0	395,000	n/a	17.46
Options exercised	n/a	n/a	n/a	n/a
Options forfeited	127,000	88,000	10.65	11.42
Thereof new in the reporting year	39,000	72,000	10.28	11.85
Options expired	389,000	107,750	17.21	16.59
Thereof new in the reporting year	281,250	93,750	17.38	17.38
Outstanding options as at 31 Dec.	603,229	923,479	8.96	11.52
Thereof exercisable options	n/a	n/a	n/a	n/a

The average remaining contractual term of the options outstanding as at the end of the reporting period is six years as at 31 December 2022 (31 December 2021: 8 years). The range of exercise prices of the options outstanding as at 31 December 2022 is between EUR 8.78 and EUR 14.31 (31 December 2021: between EUR 8.78 and EUR 19.04).

Expenses recognised in connection with share-based payments amounted to EUR 486 thousand in the reporting year (previous year: EUR 381 thousand).

15. Provisions

in EUR thousand	Carrying amount as at 01.01.2022	Additions	Utilisation	Reversal	Carrying amount as at 31.12.2022
Current provisions					
Personnel-related provisions	138	288	130	0	296
Other provisions	2,033	1,920	1,875	64	2,014
Total	**2,171**	**2,208**	**2,004**	**64**	**2,310**

in EUR thousand	Carrying amount as at 01.01.2021	Additions	Utilisation	Reversal	Carrying amount as at 31.12.2021
Current provisions					
Personnel-related provisions	207	122	190	0	138
Other provisions	2,055	1,881	1,809	93	2,033
Total	**2,262**	**2,002**	**2,000**	**93**	**2,171**

Other provisions essentially comprise provisions for outstanding invoices and sales commission of EUR 959 thousand in total (31 December 2021: EUR 932 thousand) and provisions for annual and consolidated financial statements of EUR 444 thousand (31 December 2021: EUR 575 thousand).

Provisions for personnel essentially include severance payments and contributions to occupational health and safety agencies as at the end of the reporting period.

The outflow of funds is expected in the following year for all provisions. All provisions are based on the best possible estimate of the amount as at the end of the reporting period.

16. Interest-bearing debt

Interest-bearing debt is as follows at the end of the reporting period:

	Fiscal year ended 31.12.	
in EUR thousand	2022	2021
Current financial liabilities		
Lease liabilities	1,811	1,688
Other	0	6
Subtotal current financial liabilities	**1,811**	**1,694**
Non-current financial liabilities		
Lease liabilities	4,051	3,327
Subtotal non-current financial liabilities	**4,051**	**3,327**
Total financial liabilities	**5,862**	**5,021**

Credit facilities

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

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 is based on matched-term EURIBOR plus a margin (related to the time of utilisation). 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.

Lease liabilities

EUR 1,583 thousand (31 December 2021: EUR 1,393 thousand) of current lease liabilities relates to rented office space, EUR 214 thousand (31 December 2021: EUR 253 thousand) to leased vehicles and EUR 16 thousand (31 December 2021: EUR 42 thousand) to leased operating and office equipment and bicycles. EUR 3,844 thousand (31 December 2021: EUR 3,000 thousand) of non-current lease liabilities relates to rented office space, EUR 157 thousand (31 December 2021: EUR 296 thousand) to leased vehicles and EUR 49 thousand (31 December 2021: EUR 31 thousand) to leased operating and office equipment and bicycles. Please refer to the information on leases in note 17 – Leases.

Nature of change in financial liabilities

	Fiscal year ended 31.12.	
in EUR thousand	2022	2021
As at 01.01.	5,021	15,267
Non-cash change	2,949	728
Cash change	-2,108	-10,974
As at 31.12.	**5,862**	**5,021**

17. Leases

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

For further details, please refer to note 5 – Right-of-use assets from leases.

Lease liabilities

The non-current lease liabilities shown in the following table have remaining durations of more than one year, the current lease liabilities have remaining durations of less than one year.

	Non-current financial liabilities as at 31.12.		Current financial liabilities as at 31.12.		Total as at 31.12.	
in EUR thousand	2022	2021	2022	2021	2022	2021
Land and buildings	3,844	3,000	1,583	1,393	5,427	4,393
Vehicles	157	296	214	253	371	549
Operating and office equipment and bicycles	49	31	16	42	65	73
	4,051	**3,327**	**1,811**	**1,688**	**5,862**	**5,015**

Amounts recognised in the income statement

in EUR thousand	2022	2021
Leases in accordance with IFRS 16		
Interest expenses for lease liabilities (recognised in finance result)	165	111
Income from subleasing right-of-use assets, recognised in other operating income	136	111
Expenses for short-term leases	213	246
Repayment of lease liabilities	2,108	2,007
Total cash outflows in connection with leases	2,486	2,364

18. Revenue

A. Nature of goods or services

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

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

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

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

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

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

B. Revenue breakdown

The following table shows revenue broken down by segment and by recurring and non-recurring revenue from products/services. As in the previous year, all revenue in the reporting year resulted from contracts with customers.

in EUR thousand	2022	2021
Product/service		
Recurring revenue		
NFON AG	42,403	39,078
Deutsche Telefon Standard GmbH	15,716	14,935
nfon GmbH	6,830	5,873
NFON UK Ltd.	7,240	7,169
NFON Iberia SL	412	357
NFON ITALIA S.R.L.	688	319
NFON France	283	231
Consolidated recurring revenue	**73,573**	**67,962**
Non-recurring revenue		
NFON AG	3,678	4,067
Deutsche Telefon Standard GmbH	1,125	1,520
nfon GmbH	1,354	1,453
NFON UK Ltd.	791	673
NFON Iberia SL	33	11
NFON ITALIA S.R.L.	181	150
NFON France	57	57
Non-recurring consolidated revenue	**7,219**	**7,931**
Consolidated revenue	**80,792**	**75,893**

C. Contract balances

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

	Fiscal year ended 31.12.	
in EUR thousand	2022	2021
Receivables included in trade receivables	9,276	10,900
Contract assets	70	122
Contract liabilities	341	304

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

	2022					2023
in EUR thousand	01.01.	Reversal	New in	New reversal	31.12.	Reversal
Contract assets	122	74	33	7	74	49
Contract liability	304	228	367	102	341	262

	2021					2022
in EUR thousand	01.01.	Reversal	New in	New reversal	31.12.	Reversal
Contract assets	165	109	82	16	122	122
Contract liability	599	331	43	6	304	304

The contract liabilities from long-term contracts, which are presented under other liabilities in the statement of financial position, mainly relate to the advance consideration received from customers for services at inception of the contract (e.g. activation fees, porting of numbers) which do not classify as a separate performance obligation and are recognised as part of the contractual performance obligations over time. In 2022 (as well in 2021) no revenue was recognised due to adjustments of performance obligations recognised in prior years.

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

D. Transaction price allocated to the remaining performance obligations

The following table includes revenue expected to be recognised in future in connection with the performance obligations not (or only partially) fulfilled in the reporting period. This mainly relates to future revenue from fixed price components under long-term contracts (i.e. bundles).

	Fiscal year ended 31.12.	Recognition		
in EUR thousand	2022	2023	2024	2025 and subsequent years
Unsatisfied allocated transaction price to performance obligations	4,893	2,954	1,610	330
Share	100%	60%	33%	7%

E. Costs to obtain a contract

In the NFON Group, nearly all customer contracts can be terminated month-to-month. For these contracts, the NFON Group applies the practical expedient in IFRS 15 and recognises the incremental costs of obtaining a contract as an expense when incurred. Commission under such contracts amounted to EUR 10,780 thousand in 2022 (2021: EUR 9,720 thousand) and is recognised in other operating expenses in the consolidated income statement.

Management expects that commission paid to its partners for obtaining the whole contract can be invoiced to the customer over the contract's term.

With regards to long-term contracts, these costs are amortised on a straight-line basis over the non-cancellable contract term as this reflects the period over which NFON transfers products and services to the customers. Whenever the contract term is more than twelve months, the Group capitalises commission as contract costs. This amounted to EUR 0 thousand as at 31 December 2022 (31 December 2021: EUR 0 thousand).

19. Other operating income

in EUR thousand	2022	2021
Other operating income		
Non-cash employee-related benefits	470	282
Miscellaneous other income	618	279
Total other operating income	**1,088**	**561**

Non-cash employee-related benefits include charges to employees for car usage, for example. EUR 267 thousand (2021: EUR 0 thousand) of miscellaneous other income relates to foreign currency gains. A further EUR 136 thousand (2021: EUR 111 thousand) of miscellaneous other income relates to income from subletting office space.

20. Staff costs and employees

Staff costs break down as follows:

in EUR thousand	2022	2021
Wages and salaries	29,772	25,347
Social security contributions	6,334	5,366
Share-based payment plans*	486	381
Expenses for pensions and other benefits	180	197
Other staff costs	657	411
Total	**37,428**	**31,703**
* Thereof equity-settled	486	381

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

In 2022, the average number of employees was 512 and managers 14 (2021: 451 and 15).

21. Other operating expenses

in EUR thousand	2022	2021
Other operating expenses		
Sales commission	11,090	9,944
Marketing expenses	8,463	9,794
Consulting expenses	3,520	2,381
General administration	3,270	1,871
IT expenses	3,164	2,240
Other staff costs	2,823	3,480
Travel expenses	1,309	790
Rental costs	1,089	957
Support costs	425	468
Selling costs	83	86
Currency translation expenses	35	299
Total other operating expenses	**35,267**	**32,310**

As sales commission represents a percentage share of revenue generated through sales partners or dealers, the increase in fiscal 2022 was mainly due to the increase in total revenue overall and also to the higher share of revenue generated through partner channels.

The decline in marketing expenses is primarily the result of the altered sales strategy with a focus on cooperation with sales partners.

In fiscal 2022, consulting expenses primarily included one-time expenses of EUR 1,397 thousand in connection with preparations for a capital market transaction to widen the equity base.

The increase in general administrative costs results in particular from licence backpayments in connection with an existing contract of EUR 900 thousand.

The rental costs primarily include incidental rental costs of EUR 876 thousand.

Other staff costs mainly include costs for freelancers in R&D.

22. Income taxes

A. Amounts recognised in profit and loss

Current taxes on the profit or loss for the year are recognised as an expense in the consolidated income statement with any changes in provisions for deferred taxes.

A. Tax on profit for the year

	Fiscal year ended 31.12.	
in EUR thousand	2022	2021
Current tax expense (income)	134	436
Deferred tax expense (income)	3,267	-748
Income tax expense (income)	**3,401**	**-312**

EUR 137 thousand of the current tax expense in the reporting year relates to the current year and EUR -3 thousand to the previous year. EUR 454 thousand of the tax expense in the previous year related to the previous year and EUR -18 thousand to earlier years.

The deferred tax expense for the reporting year comprises impairment of deferred tax assets on tax loss carryforwards of EUR 2,003 thousand and expenses of EUR 1,264 thousand from the adjustment of deferred taxes on temporary differences. The deferred tax expense was reduced by the recognition of deferred tax assets on loss carryforwards in the amount of EUR 88 thousand in the reporting year.

B. Amounts recognised in OCI

There were no transactions affecting deferred taxes in other comprehensive income in the reporting period or the previous year.

C. Reconciliation of effective tax rate

In Germany, the calculation of current tax is based on a combined tax rate of 31.4% for the Group, consisting of a corporate tax rate of 15%, a solidarity surcharge on this of 5.5% and an average trade tax rate of 15.6%.

in EUR thousand	2022	2021
Profit before tax from continuing operations	-12,181	-9,223
Taxes using the company's domestic tax rate of 31.41%	3,826	2,992
Tax effect on:		
Differences due to different tax rates	670	58
Non-deductible expenses	-250	-185
Adjustments for previous years	41	9
Losses for which no deferred tax assets are recognised	-3,774	-4,503
Adjustments for current taxes of previous years	0	18
Use of tax loss carryforwards for which no deferred tax assets were recognised in the previous year	0	750
Change in realisability of deferred tax assets and tax credits	-3,592	1,284
Tax effect from permanent differences	-161	-98
Other	-161	-13
Current income taxes	**-3,401**	**312**
Current tax income (expense)	-134	-436
Deferred tax income (expense)	-3,267	748
Income tax income (expense)	**-3,401**	**312**

The reconciliation to current taxes is significantly affected by the non-recognition of tax loss carryforwards at NFON AG. The tax rates used locally by the Group companies range between 19% and 31.4%.

23. Earnings per share

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

Diluted earnings per share are calculated by recognising earnings after tax attributable to the ordinary shareholders of the parent company, the weighted average number of ordinary shares outstanding in the reporting period and the effects of any dilutive effects inherent in converting potential ordinary shares.

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

in EUR thousand	2022	2021
Profit (loss) for the year attributable to the owners of the parent for basic earnings per share	-15,582	-8,911
Profit (loss) for the year attributable to the owners of the parent for basic earnings per share	-15,582	-8,911

Quantity	2022	2021
Weighted average number of ordinary shares for basic earnings per share	16,561,124	16,204,436
Weighted average number of ordinary shares for diluted earnings per share	16,662,929	16,474,180

EUR	2022	2021
Loss per share		
Basic earnings	-0.94	-0.55
Diluted earnings	-0.94	-0.55

24. 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.

A. Summary of transactions with related parties

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 EUR thousand	Transaction values 2022	2021
Sales of goods and services and other income *	19	23

* EUR 4 thousand (2021: EUR 22 thousand) of which relates to transactions with members of the Management Board and their affiliated companies and EUR 15 thousand (2021: EUR 1 thousand) of which to transactions with members of the Supervisory Board and their affiliated companies.

in EUR thousand	Transaction values 2022	2021
Purchases of goods and services and other expenses *	292	251

* EUR 61 thousand (2021: EUR 130 thousand) of which relates to transactions with members of the Management Board and their affiliated companies and EUR 230 thousand (2021: EUR 121 thousand) of which to transactions with members of the Supervisory Board and their affiliated companies.

in EUR thousand	Balance outstanding as at 31.12. 2022	2021
Receivables *	8	0

* These exclusively relate to receivables from members of the Supervisory Board and their affiliated companies.

in EUR thousand	Balance outstanding as at 31.12. 2022	2021
Liabilities *	25	12

* EUR 3 thousand (2021: EUR 8 thousand) of which relates to liabilities to members of the Management Board and their affiliated companies and EUR 22 thousand (2021: EUR 4 thousand) of which to liabilities with members of the Supervisory Board and their affiliated companies.

in EUR thousand	Net amount recognised as at 31.12. 2022	2021
Capital reserves *	0	58

* In 2021, EUR 0 thousand related to transactions with members of the Management Board and their affiliated companies and EUR 58 thousand to 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.

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").

B. Executive bodies and remuneration

1. The Management Board

The members of the Management Board are:

Management Board	Place of residence	Function and profession	Other mandates
Dr Klaus von Rottkay	Munich	CEO, doctorate in physics	n.a.
Jan-Peter Koopmann	Nacken-heim	CTO, degree in computer science and business administration	n.a.

In accordance with section 314(1) no. 6 a sentence 1 to 3 HGB, the Management Board received remuneration of EUR 1,005 thousand in the reporting year (2021: EUR 1,613 thousand). In the previous year, this included grant values for share-based payments of EUR 561 thousand (reporting year: EUR 0 thousand). A total of 180,000 stock options were granted in the previous year. No stock options were granted in the reporting year.

In accordance with IFRS regulations, Management Board remuneration is as follows:

in EUR thousand	2022	2021
Management Board remuneration		
Short-term remuneration	949	1,052
Total share-based remuneration (long-term incentive)	0	137
Total remuneration of members of management	**1,005**	**1,189**

The short-term remuneration for the members of the Management Board includes salaries and bonus payments.

2. The Supervisory Board

The members of the Supervisory Board of NFON AG were as follows as at 31 December 2022:

Supervisory Board	Function	Profession
Rainer Christian Koppitz	Chairman	CEO of Katek SE, Munich
Günter Müller	Deputy Chairman	Executive Chairman of ASC Technologies AG, Hösbach
Dr Rupert Doehner		Lawyer, Managing Director of RECON Rechtsanwalts-gesellschaft mbH, Munich
Florian Schuhbauer		Managing Director of Active Ownership Capital S.a.r.l and Active Owner-ship Corporation S.a.r.l., Grevenmacher, Luxembourg

In addition to his Supervisory Board work for NFON AG, Rainer Koppitz also serves as Chairman of the Supervisory Board of Cenit AG, Stuttgart. Florian Schuhbauer is also the Deputy Chairman of the Supervisory Board of vita 34 AG, Leipzig, and member of the Supervisory Board of PNE AG, Cuxhaven.

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

in EUR thousand	2022	2021
Supervisory Board remuneration		
Basic remuneration	215	165
Attendance fee	28	24
Total remuneration of members of the Supervisory Board	**243**	**189**

25. 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 source of the revenue of all segments is described in note 2 Q – Significant accounting policies – Revenue and note 18 – Revenue.

A. Revenue and contribution margin 2 by reportable segment

in EUR thousand	2022	2021
Revenue		
NFON AG	46,081	43,145
Deutsche Telefon Standard GmbH	16,841	16,456
nfon GmbH	8,183	7,326
NFON UK Ltd.	8,031	7,842
NFON Iberia SL	445	368
NFON ITALIA S.R.L.	869	468
NFON France	340	288
Total revenue of the reportable segments	**80,792**	**75,893**
Reconciliation	0	0
Total consolidated revenue	**80,792**	**75,893**

in EUR thousand	2022	2021
Contribution margin 2		
NFON AG	201	3,032
Deutsche Telefon Standard GmbH	3,808	4,292
nfon GmbH	-1,146	-644
NFON UK Ltd.	-1,132	-1,329
NFON Iberia SL	-991	-1,279
NFON ITALIA S.R.L.	-1,623	-2,285
NFON France	-623	-2,039
Total contribution margin 2 by eportable segment	**-1,506**	**-251**
Other segments	132	148
Reconciliation	-3,892	-1,926
Consolidated EBITDA	**-5,266**	**-2,029**
Addback:		
Depreciation and amortisation	-6,760	-6,940
Net interest income/expenses	-184	-271
Income from associates	29	18
Income tax expense	-3,401	312
Consolidated net profit/loss	**-15,582**	**-8,911**

Internal reporting is based on IFRS and adjusted EBITDA. Adjusted EBITDA is calculated by subtracting non-operating costs and one-time expenses ("non-recurring effects") from EBITDA.

The reconciliation effects of EUR -3,892 thousand as at 31 December 2022 mainly relate to non-recurring effects adjusted for in internal reporting of EUR -4,264 thousand and consolidation effects and subsequent adjustments in the consolidated financial statements of EUR +372 thousand.

The reconciliation effects of EUR -1,926 thousand as at 31 December 2021 include EUR -1,129 thousand in non-recurring effects adjusted for in internal reporting and EUR -833 thousand in consolidation effects and subsequent entries in the consolidated financial statements after presentation of management reporting mainly as a result of adjustments to IAS 38 entries.

The adjusted non-recurring effects primarily relate to the following items:

- Expenses for preparing capital market transactions: EUR 1,422 thousand
- Rebranding: EUR 890 thousand
- Subsequent licence payments: EUR 900 thousand
- Focus on core markets: EUR 547 thousand
- Stock options: EUR 486 thousand

B. Revenue by product/service

A description of the Group's products and services can be found under note 18 – Revenue. Each of the reportable segments presented above offers recurring and non-recurring products and services.

in EUR thousand	2022	2021
Product/service		
Recurring revenue	73,573	67,962
Non-recurring revenue	7,219	7,931
Consolidated revenue	**80,792**	**75,893**

C. 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.

1. Revenue with external customers

in EUR thousand	2022	2021
Revenue		
Germany	61,847	58,688
Austria	8,183	7,326
United Kingdom	8,031	7,842
Spain	445	368
Italy	869	468
France	340	288
Other countries	1,076	913
Reconciliation	0	0
Total consolidated revenue	**80,792**	**75,893**

2. Non-current assets

The table below shows non-current assets other than financial instruments, investments in associates and deferred taxes.

in EUR thousand	31.12.2022	31.12.2021
Non-current assets		
Germany	41,965	36,840
Portugal	352	466
Austria	339	432
Poland	238	0
United Kingdom	206	456
Italy	78	111
Spain	21	33
France	2	25
Total non-current assets	**43,201**	**38,363**

D. Major customers

The Group does not have any significant customer concentration. No single external customer accounted for 10.0% or more of the Group's total revenue.

26. Consolidated statement of cash flows

The statement of cash flows was prepared in accordance with IAS 7. The cash and cash equivalents reported in the consolidated statement of cash flows are equal to the "Cash and cash equivalents" item in the statement of financial position and exclusively comprise short-term cash at banks. Cash flows from investing and financing activities are calculated directly, the cash flow from operating activities is derived indirectly on the basis of profit after taxes. In the context of the indirect calculation, the changes of made in statement of financial position items are adjusted by foreign currency translation effects. For this reason, they cannot be reconciled with the corresponding changes on the basis of the published consolidated statement of financial position.

27. Contingencies and commitments

Based on the application of IFRS 16 and the associated capitalisation of right-of-use assets for leases with a term of more than 12 months together with their recognition as financial liabilities, leases with a useful life of less than 12 months are presented below. The corresponding minimum lease payments amount to EUR 267 thousand as at 31 December 2022 (31 December 2021: EUR 234 thousand).

In April 2017, the company entered into a parent company guarantee agreement whereby NFON AG, as the guarantor, guarantees to one of its partners, British Telecommunications plc, all payments that become payable by its subsidiary NFON UK. The probability of utilisation is considered very low.

In June 2021, NFON AG provided a directly enforceable guarantee for BT Germany GmbH & Co. oHG, Munich, which covers all the creditor's receivables from DTS (subsidiary of the guarantor).

There is an agreement with Meetecho under which Meetecho will perform consulting services for NFON for a period of five years. This results in a total obligation on the part of NFON of EUR 385 thousand.

The Group may be subject to litigation, claims and governmental and regulatory proceedings arising in the ordinary course of business. In such cases, the Group recognises a provision for these matters when it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated. While uncertainties are inherent in the final outcome of these matters, the Group believes, after consultation with counsel, that the disposition of these proceedings will not have a material adverse effect on the Group's financial position, results of operations or cash flows.

28. Other disclosures

A. Auditor's fee

KPMG AG Wirtschaftsprüfungsgesellschaft, Munich, a member of the Chamber of Public Accountants in Berlin, has been the statutory auditor of the company and the Group since 2018.

The following fees were recognised for the statutory auditor in 2022 and 2021:

in EUR thousand	2022	2021
Audit of the financial statements	398	372
Other assurance services	9	30
Other services	86	85

Fees for the audit of the financial statements mainly related to the audit of the consolidated financial statements and the annual financial statements of NFON AG and a subsidiary.

The other consulting services related to ISO/IEC 27001 certification in the reporting year.

Other services relate to assurance services in connection with the ongoing development of guidelines, systems and processes in light of the requirements placed on a listed company.

B. List of shareholdings

	Share	Net income 2022	Equity
nfon GmbH, St Pölten, Austria	100.00%	293 TEUR	2,012 TEUR
NFON UK Ltd., Maidenhead, UK	100.00%	392 TEUR	6,164 TEUR
NFON Iberia SL, Madrid, Spain	100.00%	-160 TEUR	-1,067 TEUR
NFON Italia S.R.L, Milan, Italy	100.00%	7 TEUR	571 TEUR
NFON France SAS, Paris, France	100.00%	-29 TEUR	18 TEUR
Deutsche Telefon Standard GmbH, Mainz, Germany	100.00%	944 TEUR	7,560 TEUR
NFON developments Lda., Lisbon, Portugal	100.00%	-37 TEUR	200 TEUR
NFON Polska Sp.z.o.o., Warsaw, Poland	100.00%	-431 TEUR	-565 TEUR
Meetecho S.r.l., Naples, Italy	24.9%	178 TEUR	416 TEUR

The figures shown for net income and equity are based on the figures from the IFRS reporting packages (HB II) prepared by the subsidiaries for the purposes of preparing these consolidated financial statements.

29. Events after the end of the reporting period

There were no events with a significant impact on the financial position and financial performance of the Group after the end of the reporting period.

30. Proposal for the appropriation of the parent company's earnings

It is proposed to carry the net income of the parent company to new account.

31. Declaration of compliance with the German Corporate Governance Code

The Management Board and the Supervisory Board have submitted the declaration of compliance with the German Corporate Governance Code required in accordance with section 161 of the German Stock Corporation Act and have published it on the company's website (https://corporate.nfon.com/de/ueber-nfon/corporate-governance/entsprechenserklaerung/).

24 April 2023

Dr Klaus von Rottkay
CEO

Jan-Peter Koopmann
CTO

Independent Auditor's Report[1]

To NFON AG, Munich

Report on the Audit of the Consolidated Financial Statements and of the Group Management Report

Opinions

We have audited the consolidated financial statements of NFON AG, Munich, and its subsidiaries (the Group), which comprise the consolidated balance sheet as of December 31, 2022, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the financial year from January 1 to December 31, 2022, and notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the combined management report of the Company and the Group (hereinafter the "group management report") of NFON AG for the financial year from January 1 to December 31, 2022.

In accordance with German legal requirements, we have not audited the content of those components of the group management report specified in the "Other Information" section of our auditor's report.

In our opinion, on the basis of the knowledge obtained in the audit,

1 This is a translation of the German original. Solely the original text in German language is authoritative.

- the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to Section 315e (1) HGB [Handelsgesetzbuch: German Commercial Code] and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as of December 31, 2022, and of its financial performance for the financial year from January 1 to December 31, 2022, and
- the accompanying group management report as a whole provides an appropriate view of the Group's position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our opinion on the group management report does not cover the content of those components of the group management report specified in the "Other Information" section of the auditor's report.

Pursuant to Section 322 (3) sentence 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the group management report.

Basis for the Opinions

We conducted our audit of the consolidated financial statements and of the group management report in accordance with Section 317 HGB and the EU Audit Regulation No 537/2014 (referred to subsequently as "EU Audit Regulation") and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report" section of our auditor's report. We are independent of the group entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2)(f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinions on the consolidated financial statements and on the group management report.

Key Audit Matters in the Audit of the Consolidated Financial Statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the financial year from January 1 to December 31, 2022. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, we do not provide a separate opinion on these matters.

Recoverability of goodwill as well as intangible assets in development

Please refer to Sections 2F and 6 in the notes to the consolidated financial statements for further information on the accounting policies applied.

The Financial Statement Risk

Goodwill amounted to EUR 12.5 million as of December 31, 2022. Intangible assets in development totaled EUR 7.6 million as of December 31, 2022. In total, with a share of 29.0%, these assets account for a considerable part of the balance sheet total.

The impairment of goodwill as well as of intangible assets in development is tested annually without a specific cause on the level of the cash-generating unit or group of cash-generating units. If impairment triggers arise in the course of the year, an ad hoc / indicator-based impairment test is additionally performed during the year. Impairment testing compares the carrying amount to the recoverable amount of the cash-generating unit or group of cash-generating units. If the carrying amount exceeds the recoverable amount, an impairment loss is recognized. The recoverable amount is the higher of fair value less costs to sell and value in use of the unit or group cash-generating units. The reporting date for the impairment test is December 31, 2022.

Impairment testing is complex and based on a range of assumptions that require judgment. These include, among other things, the expected business and earnings performance of the cash-generating units or group of cash-generating units as well as the assumed long-term growth rates and the discount rates used.

There is the risk for the consolidated financial statements that an existing need to recognize an impairment loss on goodwill as well as on new intangible assets in development is not identified. There is also the risk that the related disclosures in the notes are not appropriate.

Our Audit Approach

We obtained an understanding of the Company's process for the identification of indications of impairment as well as for the determination of the recoverable amount based on explanations provided by accounting staff as well as an assessment of the group accounting policy.

With the involvement of our valuation experts, we also assessed the appropriateness of the key assumptions and calculation method of the Company. To this end, we discussed the expected development of business and earnings as well as the assumed long-term growth rates with those responsible for planning. We also reconciled this information with internally available forecasts, e.g. for tax purposes, as well as the budget prepared by management and approved by the Supervisory Board. In addition, we evaluated the consistency of assumptions with external market assessments.

We also confirmed the accuracy of the Company's previous forecasts by comparing the budgets of previous financial years with actual results and analyzed deviations. We compared the assumptions and data underlying the discount rate, in particular the risk-free rate, the market risk premium and the beta coefficient, with our own assumptions and publicly available data.

To assess the methodically and mathematically correct implementation of the valuation method, we verified the Company's valuation using our own calculations and analyzed deviations.

In order to take forecast uncertainty into account, we examined the impact of potential changes in the discount rate, earnings performance and the long-term growth rate on the recoverable amount by calculating alternative scenarios and comparing these with the values stated by the Company (sensitivity analysis).

Finally, we assessed whether the disclosures in the notes regarding recoverability of goodwill as well as intangible assets in development are appropriate.

Our Observations

The calculation method used for impairment testing of goodwill as well as the intangible assets in development is appropriate and in line with the accounting policies to be applied. The Company's assumptions and data used for measurement are appropriate. The related disclosures in the notes are appropriate.

Existence of recurring revenue

Please refer to Sections 2Q and 18 in the notes to the consolidated financial statements for further information on the accounting policies applied.

The Financial Statement Risk

NFON AG reported recurring revenue of EUR 73.6 million in the consolidated financial statements for the 2022 reporting year. In particular, monthly fees and minute-based voice tariffs contribute to recurring revenue. NFON AG reported for the 2022 financial year a share of recurring revenue to total revenue with customers of 91.1%.

The predominant part of the services of the NFON AG Group is rendered via the cloud and depends on factors such as the number of extensions and the number of voice minutes which are recorded by the Company's IT system and invoiced monthly. Accordingly, beyond the Company's system records, there is in many cases no external proof of services rendered. Customers are entitled to a right of objection typically of 60 days, after which the invoiced services are considered to have been accepted.

There is the risk for the financial statements that the recurring revenue is invoiced without effective acceptance of services performed and is thus overstated.

Our Audit Approach

As a provider of publicly accessible telecommunication services in Germany, the Company is required to ensure the accuracy of invoicing and the correctness of remuneration of data processing facilities by a quality assurance system and to have this audited regularly (Section 45g of the German Telecommunications Act [TKG]). We considered the corresponding audit reports in order to obtain an overview of the process in place for revenue recognition. We assessed the design, implementation and effectiveness of the established internal control that monitors the actual existence of contractual relationships with customers.

We checked potential objections by customers within the respective deadlines and, taking a statistical approach, obtained customer confirmations from the customers for selected revenue. Furthermore, we assessed the underlying contracts and other evidence of the existence of the customer relationship for a sample of sales revenues per new customer selected using a statistical process.

Based on the receipts of payment of the year under review recorded in bank accounts, we calculated the expected value of revenue from customers for the full financial year and analyzed any deviations from the amount of the revenue recognized.

Our Observations

NFON AG's approach to the recognition of recurring revenue is appropriate.

Other Information

The Management Board and / or the Supervisory Board are responsible for the other information. The other information comprises the following components of the group management report, whose content was not audited:

- the combined corporate governance statement for the Company and the Group referred to in the group management report, and
- information extraneous to management reports and marked as unaudited.

The other information also includes:

- the separate non-financial report of the Group, which is disclosed together with the group management report, and
- the remaining parts of the annual report.

The other information does not include the consolidated financial statements, the group management report information audited for content and our auditor's report thereon.

Our opinions on the consolidated financial statements and on the group management report do not cover the other information, and consequently we do not express an opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially inconsistent with the consolidated financial statements, with the group management report information audited for content or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Management Board and the Supervisory Board for the Consolidated Financial Statements and the Group Management Report

The Management Board is responsible for the preparation of consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e (1) HGB and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position, and financial performance of the Group. In addition, the Management Board is responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud (i.e., fraudulent financial reporting and misappropriation of assets) or error.

In preparing the consolidated financial statements, the Management Board is responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, the Management Board is responsible for the preparation of a group management report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the Management Board is responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a group management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the group management report.

The Supervisory Board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and of the group management report.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the group management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our opinions on the consolidated financial statements and on the group management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Section 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this group management report.

We exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements and of the group management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than the risk of not detecting a material misstatement resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.
- Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the group management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of these systems.
- Evaluate the appropriateness of accounting policies made by the Management Board and the reasonableness of estimates made by management and related disclosures.
- Conclude on the appropriateness of the Management Board's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the group management report or, if such disclosures are inadequate, to modify our respective opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e (1) HGB.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express opinions on the consolidated financial statements and on the group management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our opinions.
- Evaluate the consistency of the group management report with the consolidated financial statements, its conformity with [German] law, and the view of the Group's position it provides.
- Perform audit procedures on the prospective information presented by the Management Board in the group management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the Management Board as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the actions taken or safeguards applied to eliminate independence threats.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

Other Legal and Regulatory Requirements

Disclaimer of opinion on the Electronic Rendering of the Consolidated Financial Statements and the Group Management Report Prepared for Publication Purposes in Accordance with Section 317 (3a) HGB

We were engaged to perform assurance work in accordance with Section 317 (3a) HGB to obtain reasonable assurance about whether the rendering of the consolidated financial statements and the group management report (hereinafter the "ESEF documents") complies in all material respects with the requirements of Section 328 (1) HGB for the electronic reporting format ("ESEF format").

We do not express an opinion on the ESEF documents. Because of the significance of the matter described below, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an opinion on the ESEF documents.

As the Management Board had not submitted the ESEF documents to us for audit by the time the auditor's report was issued, we do not express an opinion on the ESEF documents.

The Company's Management Board is responsible for the preparation of the ESEF documents including the electronic rendering of the consolidated financial statements and the group management report in accordance with Section 328 (1) sentence 4 item 1 HGB and for the tagging of the consolidated financial statements in accordance with Section 328 (1) sentence 4 item 2 HGB.

In addition, the Company's Management Board is responsible for such internal control as they have considered necessary to enable the preparation of ESEF documents that are free from material intentional or unintentional non-compliance with the requirements of Section 328 (1) HGB for the electronic reporting format.

The Supervisory Board is responsible for overseeing the process of preparing the ESEF documents as part of the financial reporting process.

Our responsibility is to perform an audit of the ESEF documents in accordance with Section 317 (3a) HGB and the IDW Assurance Standard: Assurance Work on the Electronic Rendering of Financial Statements and Management Reports Prepared for Publication Purposes in Accordance with Section 317 (3a) HGB (IDW AsS 410 (06.2022)). Due to the circumstances described above, we were unable to obtain sufficient appropriate audit evidence to provide a basis for our audit opinion on the ESEF documents.

Further Information pursuant to Article 10 of the EU Audit Regulation

We were elected as group auditor at the Annual General Meeting on August 24, 2022. We were engaged by the Audit Committee on September 23, 2022. We have been the group auditor of NFON AG without interruption since financial year 2018.

We declare that the opinions expressed in this auditor's report are consistent with the additional report to the Audit Committee pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

In addition to the financial statement audit, we have provided to the Company or its subsidiaries the following services that are not disclosed in the annual financial statements or in the combined management report of the audited company: Support in preparing for potential enforcement proceedings.

German Public Auditor Responsible for the Engagement

The German Public Auditor responsible for the engagement is Rainer Rupprecht.

Munich, April 25, 2023

KPMG AG
Wirtschaftsprüfungsgesellschaft

gez. Rupprecht Wirtschaftsprüfer	gez. David Wirtschaftsprüfer

05 Miscellaneous

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Definitions and abbreviations

Adjusted EBITDA
EBITDA is adjusted for non-recurring effects and expenses for stock options, for example.

API
Application programming interface

ARPU
Average revenue per user – blended ARPU, i.e. the average is taken across all products, channels and regions. Blended ARPU is calculated as the recurring revenue for the period in question – less the recurring revenue from monthly fees with SIP trunks – divided by the total number of seats (seat base) for the period in question. Monthly fees with SIP trunks are not seat-based. An SIP trunk is counted toward the number of voice channels sold. So as not to dilute the ARPU figure, recurring SIP trunk revenue is therefore deducted. However, sold voice minutes from SIP trunk are counted, since these could also be generated on conversion into seats as part of a targeted medium-term migration.

BSS
Business support system – in the telecommunications industry, this refers to a system for managing contractual relationships with customers/suppliers/partners, managing products and resources and billing.

Business applications
Software products used in the administration of businesses and organisations, such as enterprise resource planning (ERP) systems.

CAGR
Compound annual growth rate

Channel
Sales channel, here especially indirect sales via partners. "Best in class" means the best sales organisation in the comparable industry.

Churn
Churn refers to the customer deactivation/termination rate.

Churn rate
NFON measures the extent of subscriber deactivations in a certain period, in our case monthly, with the gross deactivation/termination rate. We define the gross deactivation rate as the number of seats lost in a certain period divided by the total number of seats at the end of the period. As a rule, we calculate the gross churn rate on a monthly basis. We include both contract terminations and unterminated contracts under which no seat has been activated for six months.

Cloud
The cloud refers in general to a group of remote computers and servers that are connected over the internet and can jointly provide resources such as storage, processing power and applications. Users can access these resources via the internet without having to physically access hardware or infrastructure. The cloud enables users and businesses to scale and use data and applications quickly and flexibly without having to take responsibility for the administration and maintenance of the underlying infrastructure.

Communication platforms

A communication platform as a software or online platform that enables users to communicate and interact in real time. These platforms typically offer functions such as messaging, voice and video calls, file transfer and real-time collaboration. Communication platforms are used by individuals, businesses and organisations to enable effective internal and external communication and optimise business processes. Examples of communication platforms are Slack, Microsoft Teams, Zoom, Skype and WhatsApp.

Communication platforms as a service (CPaaS)

CPaaS is a cloud-based delivery model that enables companies to use application programming interfaces (APIs) to augment business applications with real-time communication functions such as voice, video and messaging.

Contact centre as a service (CCaaS)

CCaaS is a software as a service (SaaS)-based application that helps customer service companies to fully manage customer interactions across channels (multichannel or omnichannel).

Contact centre solutions

A contact centre is a central unit of a company or organisation responsible for the management of incoming and outgoing communication. It is a place where customer enquiries and problems can be dealt with via various channels such as telephone, e-mail, chat, social media, etc. Contact centres typically use specialised software tools such as customer relationship management (CRM) systems, ticketing systems and automated telephony systems to manage and optimise interaction with customers. The objective of a contact centre is to promote customer satisfaction and loyalty and to make customer support more effective and efficient.

CRM

Customer relationship management

CXO

Derived from the English designation of the highest management functions of a company. The C stands for Chief, the O for Officer. Since there can be different chief officer functions in a company, the X stands for the variable. In the case of NFON, these are currently the CEO (Chief Executive Officer), the CTO (Chief Technology Officer), the CMO (Chief Marketing Officer) and the CFO (Chief Financial Officer).

Distributor

Distribution refers to the distribution of goods or services from a manufacturer or supplier to end customers or retailers.

DSL

Digital subscriber line – a range of transfer standards of the physical layer, whereby data can be transmitted and received at high speeds (up to 1,000 Mbps) via simple copper lines such as the subscriber line.

EBITDA

Earnings before interest, taxes, depreciation and amortisation (EBITDA). Adjusted EBITDA is calculated by subtracting non-operating, one-time expenses from EBITDA.

EBITDA adjusted

For adjusted EBITDA, non-operating costs and one-off expenses are excluded from EBITDA.

Enterprise resource planning (ERP)
Enterprise resource planning is the business task of planning, managing and administrating staff, resources, capital, equipment, materials, and information and communication technology in a timely and needs-based manner in line with the corporate purpose.

ESG
Environment, social and governance refer to factors that investors and businesses consider in order to assess E-, S- and G-related risks and opportunities. ESG measures ecological and social impact and how a business is run. ESG is an analytical approach that uses data to assess businesses according to these factors. It is generally used to evaluate companies and investments.

ESOP
Employee stock option plan – a programme whereby employees can acquire shares in their own company.

IP telephony
IP telephony (also known as VoIP – voice over internet protocol) is a technology that allows voice and multimedia communication to be transmitted via the internet protocol (IP). In contrast to traditional telephone systems, which use the public telephone network infrastructure, IP telephony converts voice signals into digital data packets and transfers them via the internet or a private IP network. IP telephony can be used via various devices such as computers, smartphones, IP telephones and special hardware devices.

KPI
Key performance indicator

Meet & Share
NFON product for video calls with the option of not only video transmission but also screen sharing.

NPS
Net promoter score – a key figure used to measure customer satisfaction and loyalty. NPS is based on a simple question to customers: "How likely is it that you would recommend our product/service to a friend or colleague?" Customers can answer on a scale from 0 to 10.

PBX/cloud PBX
PBX (private branch exchange) is a general term for a telephony system for businesses that offers multiple incoming and outgoing lines, call forwarding, voicemail and call management functions. If this is operated over a cloud (see "Cloud"), this telephony system is referred to as "cloud PBX".

SDSL
Symmetric digital subscriber line is a DSL access technology to a public digital network.

Seat
Seats are telephone extensions installed with customers.

Seat base
The seat base is the total number of seats and licences used by customers. NFON always calculates the seat base as at the end of the reporting period, e.g. 31 December.

SIP trunk technology
A telephone line or system connection that can be provided using the standard protocol SIP (session initiation protocol) via IP connection.

Software as a service (SaaS)
Software as a service (SaaS) is a cloud computing model whereby software applications are provided over the internet. In contrast to traditional software solutions, in which users have to install and run software on their own computers, SaaS applications can be used directly via web browser.

Unified communications (UC)
Unified communications (UC) is an integrated solution that combines various communication methods in one platform to improve collaboration and information exchange. UC systems enable users to use various communication channels such as voice, video, chat, e-mail and collaboration in real time via a single interface.

UC also integrates various functions such as voice and video calls, teleconferences, messaging and file transfer in a single application or platform. Through the integration of communication channels and functions, UC offers a seamless and efficient way to collaborate and improves the productivity and effectiveness of teams and organisations.

Unified communications and collaboration (UCC)
UC is typically offered jointly with collaboration functions. These include sharing screens, collaborating on a single document, and shared use of software, e.g. whiteboards.

Unified communications and collaboration as a service (UCCaaS)
See software as a service. In this case, UCC programs are offered as a service.

Verticals
Verticals or vertical markets are markets in which goods and services from different business areas of a sector-specific value chain are offered.

Wholesale distributor
Wholesale distributors have further wholesale partners or their own network of wholesale partners through which NFON's services are sold. See also 'Distributor'.

Financial Calendar 2023

Q2

27 April 2023

Presentation Group Annual Report 2022

25 May 2023

Presentation Financial result as at 31 March 2023

30 June 2023

Annual Shareholder Meeting of NFON AG

Q3

24 August 2023

Presentation Half-year report 2023

Q4

23 November 2023

Presentation Financial result as at 30 September 2023

Imprint

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