NFON GROUP | ANNUAL REPORT **2023**

Transformation. Integration. Implementation.

NFON **AG** Annual Report 2023

Who **we** are

NFON AG with its headquarters in Munich, Germany, is a leading European provider of integrated cloud business communications. The listed company (Frankfurt Stock Exchange, Prime Standard) with more than 3,000 partners in 18 European countries and eight branches counts more than 55,000 companies among its customers.

The NFON portfolio comprises four areas: Business Communications, Integration, Customer Contact and Enablement. With its core product Cloudya, the smart cloud communications platform, NFON offers hassle-free voice calls, simple video conferencing and seamless integration of CRM and collaboration tools for small and medium-sized companies.

All NFON's cloud services are operated in certified data centres in Germany, with 100% of their energy needs covered by renewable sources. NFON accompanies companies into the future of business communication by offering intuitive communication solutions.

CORPORATE.NFON.COM/EN

NAVIGATION

Page forward

Page back

Table of contents

List of abbreviations

More Information

Quick links

Key figures **2023**

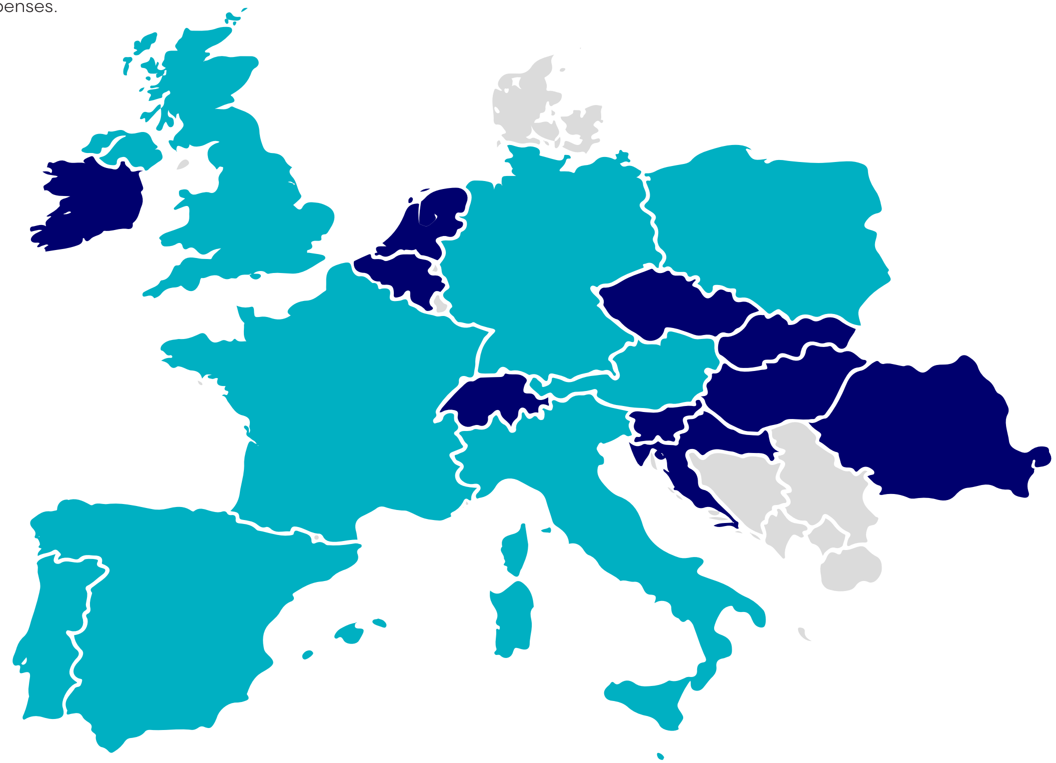
In EUR million	2023	2022	Change
Total revenue	82.3	80.8	1.9 %
Recurring revenue	**77.1**	**73.6**	**4.8 %**
Share of recurring revenue	**93.7 %**	**91.1 %**	**–**
Non-recurring revenue	5.2	7.2	–27.8 %
Share of non-recurring revenue	6.3 %	8.9 %	–
Blended ARPU (in EUR)	9.71	9.72	–0.1 %
Number of seats (total)	655,967	634,288	3.4 %
Adjusted EBITDA*	**8.4**	**–1.0**	**–**

* Explanations of the adjustments can be found in Results of operations section: Personnel expenses and other operating expenses.

Here we **are**

Every day, we provide companies in Europe with intuitive communication solutions to improve their business operations.

The Group operates as a telecommunications company in 18 European countries and is represented by its own companies in Germany, Austria, the UK, Spain, Italy, France, Poland and Portugal.



NFON activities with a local presence

NFON activities without a local presence

Table of contents

Interactive table of contents You can click on the individual topics to go to the respective page.

About this report

Table of contents

The Annual Report 2023 of the NFON Group presents our annual economic performance for the financial year and is available at ⊕ corporate.nfon.com/en/investor-relations/reports.

Basic presentation information

The combined Group management report of the NFON Group (hereinafter referred to as "we", "NFON", "the company", "the Group", "the NFON Group") and the management report of NFON Aktiengesellschaft (NFON AG) have been prepared pursuant to sections 289, 289a, 289f, 315, 315a, 315d and 315e (1) HGB and according to German Accounting Standards (DRS) No. 20. The report covers NFON AG and all subsidiaries controlled by NFON AG (and the non-consolidated Meetecho S.r.l.), which we therefore include in our International Financial Reporting Standards (IFRS) consolidated financial statements.

Data

All financial and non-financial key figures and disclosures for the reporting period are reported using ERP/consolidation software solutions and provided by the responsible business areas.

Unless otherwise stated, all information in this report relates to 31 December 2023 or the financial year that ends on this date. The rounding of totals and the calculation of percentages in this report may give rise to minor discrepancies.

Forward-looking statements

This management report contains forward-looking statements and information that are based on the opinions and assumptions of the management. These in turn are based on the information that is currently available to the management. All statements contained in this report that are not historical facts are forward-looking statements. These forward-looking statements are the result of our current expectations, assumptions and forecasts concerning future circumstances and events. As a result, these forward-looking statements and information are subject to a range of risks and uncertainties, many of which are beyond our control. If one or more of these risks and uncertainties occur, or if the assumptions of the management prove to be incorrect, our actual results could differ substantially from those described in or implied by the forward-looking statements and information. The relevant risks and uncertainties are described in the ⊕ Opportunities and risks and ⊕ Risks of the NFON Group sections.

Words such as "expect", "believe", "anticipate", "continue", "estimate", "forecast", "intend", "be confident", "assume", "plan", "predict", "should", "strategy", "may", "could", "will", "outlook", "expected development" and "goals" as well as similar expressions relating to NFON indicate these types of forward-looking statements.

The forward-looking statements reflect the viewpoint at the time they were made or as at the date of this report. We recommend that readers do not place undue trust in these statements. Apart from our legal disclosure obligations, we are under no obligation to the public to update or correct forward-looking statements due to new information or circumstances arising after the date of publication, future events or for other reasons.

This report contains statistical data relating to the telecommunications industry and global economic trends that are taken from publications from various information sources. NFON does not stand behind the statistical data contained in this report. Furthermore, this type of data is subject to risks and inaccuracies and may change as a result of various factors, including the factors described above or those described in the ⊕ Opportunity and risk management and ⊕ Risks of the NFON Group sections and in other parts of the report. These and other factors could cause our results to deviate substantially from those estimated by third parties and from the results reported by NFON.

To keep the report as up to date as possible, we have included all relevant information available up to 17 April 2024. The report is available in German and English. In the event of discrepancies, the German version is binding.

Independent audit and evaluation

Our consolidated financial statements and our combined Group management report have been audited by KPMG AG Wirtschaftsprüfungsgesellschaft (KPMG). Further information on the scope of the audit by our auditor and the underlying reporting criteria can be found in the ⊕ Independent Auditor's Report by KPMG.

LETTER FROM THE MANAGEMENT BOARD

Dear Shareholders,
Dear Ladies and Gentlemen,

The year 2023 marked a turning point for NFON in that we not only exceeded our profitability targets but also laid the foundation for a sustainably successful future. With an increase in **recurring revenue** to EUR 77.1 million – corresponding to a continued very high **share of total revenue** of 93.7% – and a significant improvement in our **adjusted earnings before interest, taxes, depreciation and amortisation (EBITDA)** to EUR 8.4 million, we have demonstrated that our focus on operational excellence and customer centricity is already beginning to bear fruit. We are particularly proud to report a positive free cash flow for the first time since our stock market listing.

Setting the course for future growth

This success is the result of the systematic implementation of our strategy, which focuses on the three core areas of technology, product and sales. In 2023, we reached important milestones by restructuring our management level and filling a key position on the Management Board team with the appointment of Andreas Wesselmann as CTO. His experience and technological expertise will help us realise our vision of being an innovative pioneer of integrated cloud business communication in the European market.

Therefore, the past year marks the beginning of a comprehensive transformation process at NFON. We have started to optimise our organisational structure and revise our processes and IT landscape. These efforts are essential if we are to increase our agility, boost our efficiency and continue to deliver first-class solutions for our customers.

Our view to the future

We will continue our transformation journey in the current financial year as well. We expect growth in **recurring revenue** in the mid to upper single-digit percentage range. On this basis, we anticipate a **share of recurring revenue of >90%** of total revenue. **Adjusted EBITDA** is expected to be between EUR 10 million and EUR 12 million. Our forecast also reflects our conviction that growth and profitability must go hand in hand for a technology company such as NFON. We firmly believe that our strategic pillars – innovative product development, a focus on sales excellence and stronger partnerships – will form the basis for our long-term success.

We are working with all our strength to guide NFON further along its chosen path to sustainable profitable growth. Our employees play an essential role here, and I would like to take this opportunity to thank them – also on behalf of my fellow Management Board members – for their tireless efforts and extraordinary dedication. Without them, the changes required to ensure the company's long-term success would not be possible. I would also like to pay special tribute to the Supervisory Board for its commitment and excellent cooperation over the past year. Last but certainly not least, we would like to thank you, our loyal shareholders, for the trust you have placed in our company.

Sincerely,

Patrik Heider
Chief Executive Officer

Transformation. Innovation. Added value.

C-level talk

PATRIK HEIDER ____ CHIEF EXECUTIVE OFFICER/CHIEF FINANCIAL OFFICER

ANDREAS WESSELMANN ____ CHIEF TECHNOLOGY OFFICER

MERANO METTBACH ____ CHIEF SALES OFFICER

MARKUS KRAMMER ____ CHIEF PRODUCT OFFICER

From left: Andreas Wesselmann, Merano Mettbach, Patrik Heider, Markus Krammer

What do transformation, integration and implementation mean for NFON and its stakeholders? The C-level that supports Patrik Heider and Andreas Wesselmann, CEO of NFON AG, discusses the three decisive directions for the company's success.

From left: Markus Krammer, Andreas Wesselmann, Patrik Heider, Merano Mettbach

Patrik Heider (CEO/CFO): We have now completed the first months of NFON with a new management team. This is the right time to give you all a big thumbs up and to say thank you. I am immensely proud of the positive spirit and commitment with which everyone in this team is driving the transformation at NFON. The fact that the measures in 2023 have put us on the right track is demonstrated by the solid growth with a significant improvement in earnings and a positive free cash flow for the first time since our stock market listing.

Andreas Wesselmann (CTO): The 2023 figures really speak for themselves, Patrik. The initial successes also highlight the potential at NFON. This is also very much in line with my impressions of NFON since becoming the new CTO at the start of 2024. NFON is already enjoying profitable growth, we have over 16 years of experience in the field of cloud business communications, a strong product portfolio and a partner network that is unique in Europe. As a result, we are well positioned and can operate from a position of strength in realising our vision of being an innovative pioneer of integrated cloud business communications in the European market again in the future. Until then, however, we still

"We believe that growth and profitability must go hand in hand for a technology company such as NFON."

PATRIK HEIDER —— CEO/CFO

“Innovative technologies are enablers for successful products, satisfied customers and corporate success at NFON.”

ANDREAS WESSELMANN —— CHIEF TECHNOLOGY OFFICER

have a lot of housekeeping to do. From a technological perspective, the scalability of our IT infrastructure and our products as well as the topic of artificial intelligence are particular areas of focus.

Markus Krammer (CPO): I agree with you, Andreas – impressive, innovative products and scalability are the keys to NFON’s success. One of the biggest challenges we face as a technology company is the high pace of innovation in the market. To satisfy the needs of our customers, our products must comply with the latest developments in the industry. It is crucial to always strike the right balance between the financial attractiveness of a product for NFON and technological feasibility at the quality level demanded by the market. Engaging in close dialogue with our customers is extremely important to us. To help us utilise our available resources efficiently, we are also currently working on operational excellence in this area. We are establishing processes to ensure that our products can address the needs of our customers precisely and effectively.

Patrik Heider (CEO/CFO): The efficient use of resources is without doubt a key success factor, and I would like to make a brief point here. From a financial perspective, we are focusing on profitable growth and developing our free cash flow. The current transformation processes are influencing our investment decisions to the extent that we are setting clear priorities based on the anticipated added value of each investment.

TOTAL REVENUE 2023

EUR 82.3 million

Previous year
EUR 80.8 million = + 1.9%

"It should be fun to do business with NFON. Which is why we continually align our sales strategies with the business models of our partners."

MERANO METTBACH — CHIEF SALES OFFICER

SHARE OF RECURRING REVENUE

93.7%

Previous year 91.1%

Put simply, this means that we prefer to make a few good investments that maintain a strategic clarity across teams. This, in turn, encourages cost discipline in all areas, which is why we expect to be able to finance the transformation of NFON entirely from our own resources.

Merano, how do you see the go-to-market issue from a sales perspective?

Merano Mettbach (CSO): I see go-to-market as a key issue for NFON. With that in mind, we will focus on centring our business strategy around our customers and sales partners in 2024. Now is the time for us to evaluate and consolidate these relationships. We will examine the customer and partner configurations in which we can best utilise our strengths and intensify our efforts there in a targeted manner. For me, this also means, above all else, that we should abandon regional mindsets, learn collectively from the experiences in the respective countries and consistently apply best practices across borders. We still have a few miles to go.

If we take the development of seats as an example, we can see that the number has been rising steadily for years and is an expression of strong customer loyalty. However, it is also true that growth rates have slowed in recent years. Therefore, our priorities for 2024 must be selling additional NFON products to our loyal customer base while, at the same time, boosting new customer acquisition. Consequently, we are aligning our sales activities more closely with the needs of our customers to achieve greater customer loyalty and market penetration. I think we have assembled the right team to keep our collective goal in sight.

"Our USP is based on three pillars: the technology, the product design and the emotional appeal that NFON generates in the European markets."

MARKUS KRAMMER —— CHIEF PRODUCT OFFICER

Andreas Wesselmann (CTO): Go-to-market is of course also a critical factor in technology development. The pace of innovation in AI technology is dramatic, and we must ensure that we can convert our innovative strength into corresponding growth in the medium and long term through rapid implementation.

In 2024, we will create the essential conditions for this. On the one hand, this means that our IT infrastructure must be scalable across all areas in line with the immense potential. However, scalability also means that our solutions can keep pace with the increasing requirements of our customers and that we can continuously integrate innovative technologies.

At the same time, we are focusing on building up our AI expertise. Our call centre applications are already making use of artificial intelligence. In the future, we want to enable AI-supported business processes and improve our communication solutions for customers. The priority for us is to leverage existing expertise and ensure integration across all areas – development, sales, service and support.

Markus Krammer (CPO): I agree with you, Andreas. Overall, the market reaction to the competitiveness of NFON products and technologies compared to the US competition calls for a nuanced analysis. Our unique selling point is not only based on technology, but also on our cultural roots in Europe. I believe this gives us a unique competitive edge. For this reason, we will position NFON even more strongly in the market as a trustworthy partner with European values.

CUSTOMERS 2023

> 55,000

Previous year
> 50,000

"It is now a matter of continuing to work on operational excellence at NFON in the transformation year 2024."

PATRIK HEIDER —— CEO/CFO

ADJUSTED EBITDA 2023

EUR 8.4 million

Previous year
EUR -1.0 million

Merano Mettbach (CSO): NFON definitely understands the unique characteristics of the European market for business communication solutions – we must harness and build on this knowledge in order to bring the relationship level and service concept to the fore. From acquisition to ongoing support, we will focus all our efforts on establishing NFON as the secure and reliable partner that is the most fun to do business with.

Patrik Heider (CEO/CFO): That's what I like: happy customers and happy partners! If we manage to successfully implement our collective vision, then NFON can look forward to a successful long-term future in which profitability grows faster than revenue and revenue faster than the market! Let's tackle this together.

Investor Relations

NFON in dialogue with capital market participants

Despite the subdued sentiment on the markets, we managed to successfully complete our strategic positioning as a provider of integrated business communications in 2023. With the goal of living up to our self-image as an innovative pioneer in integrated cloud business communications on the European market with the ability to exploit market potential accordingly in the future, we launched the transformation process during the first six months of 2023.

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. 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.

We provide extensive information about NFON and the NFON share on the internet. All important information from the Annual Report to the Sustainability Report, Corporate News, mandatory announcements to the share price and shareholder structure can always be found on the company's website in the ⊕ Investor Relations section. Investors can contact the Investor Relations team directly by telephone (+49 89 45300-449) and via e-mail at ⊕ ir-info@nfon.com. We also publish an overview of the current analyst consensus on the website at ⊕ corporate.nfon.com/en/investor-relations/ir-at-a-glance.

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 BHF
Coverage	Baader Bank, NuWays, ODDO BHF
Paying agent	Baader Bank Aktiengesellschaft

Annual General Meeting

The Annual General Meeting of NFON AG was held on 30 June 2023. After being forced to attend the event virtually in previous years due to the COVID-19 pandemic, numerous shareholders were able to gather in person at the Munich Stock Exchange in 2023 to engage directly with the Management Board of NFON AG. A total of 81.56% of the share capital was represented at the Annual General Meeting. The Management Board and Supervisory Board reported in detail on financial year 2022 and developments in 2023.

All items on the agenda were approved by a large majority. As in previous years, KPMG AG Wirtschaftsprüfungsgesellschaft was confirmed as auditor and Group auditor for financial year 2023. All documents relating to the Annual General Meetings, including the speeches and presentation by the Management Board, can also be found in the ⊕ Investor Relations section of the NFON website.

Our share

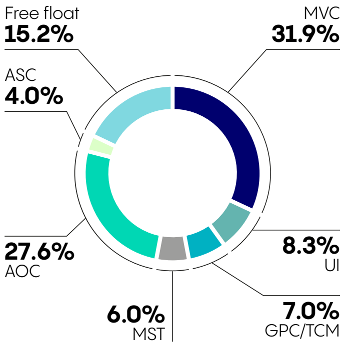
The NFON share started off the year 2023 at a price of EUR 6.12 and reached its high of EUR 8.34 on 24 April 2023. In the months that followed, the share price declined overall and reached its low of EUR 4.98 for the year on 24 October 2023. Afterwards, a slight recovery to EUR 6.86 was recorded by the end of the year. This price was also the closing price on 29 December 2023 and represents an increase of approx. 11% for the year.

Trading volume

The trading volume of the NFON share on the Xetra platform averaged 2,246 shares traded per day over the course of 2023, with average trading turnover of EUR 14,601.04 per day. Trading turnover was well above average during the first half of the year, while in the second half of the year, as in the previous year, it was again well below the annual average for 2023.

SHARE CHART

SHAREHOLDER STRUCTURE



31.9%	Milestone Venture Capital (MVC)
27.6%	Active Ownership Capital S.à r.l. (AOC)
8.3%	Universal Investment (UI)
7.0%	Gerlin Participaties Coöperatief/ Teslin Capital Management (GPC/TCM)
6.0%	Morgan Stanley (MST)
4.0%	ASC Technologies (ASC)
15.2%	Free float

Analysts recommend the share as a buy

The share of NFON AG was constantly covered by three analysts in 2023. Baader Bank, ODDO BHF and NuWays appraised NFON AG on a regular basis. Three of four analysts have recommended the share as a buy since the beginning of their coverage in 2023. The average target price in March 2024 was EUR 11.35. The detailed recommendations and price targets of all analysts can be found in the table below "Overview: NFON AG on the Frankfurt Stock Exchange (Prime Standard)". 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.

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

Coverage (Status in March 2024)	Baader Bank Berenberg NuWays ODDO BHF Average	Buy Buy Buy Hold Buy	EUR 16.00 EUR 9.00 EUR 11.70 EUR 8.70 EUR 11.35
Trading data*	In EUR		
Initial listing (11 May 2018)	13.00		
Closing price (29 Dec. 2023)	6.86		
High for the year (24 Apr. 2023)	8.34		
Low for the year (24 Oct. 2023)	4.98		
Market capitalisation as of 29 Dec. 2023	114 mill.		
Average trading volume	14,601.04 EUR/Day		

* All trading data: Xetra.

Shareholder structure (April 2024)

Based on the most recently published voting rights notifications, the shareholder structure of NFON AG is as follows:

Shareholder structure

Shareholders	Share in %	Country	City
Milestone Venture Capital	31.9	Germany	–
Active Ownership Capital S.à r.l.	27.6	Luxembourg	Grevenmacher
Universal investment	8.3	Great Britain	London
Gerlin Participaties Coöperatief/ Teslin Capital Management B.V.	7.0	Germany	Berlin
Morgan Stanley	6.0	USA	Wilmington, Delaware
ASC Technologies AG	4.0	Germany	Hösbach

Based on the voting rights notifications from shareholders and in accordance with the definition of Deutsche Börse Group, the free float of the NFON share as at 17 April 2024 is 15.2% (April 2023: 40.3%).

Report of the Supervisory Board

For more information about topic, please visit corporate.nfon.com

In the past financial 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 2023 and in this way continued the company's continuous growth course.

Composition and changes in the Supervisory Board

In financial year 2023, the Supervisory Board consisted of the following persons throughout the year:

- Rainer Koppitz (Chairman of the Supervisory Board), Chairman of the Executive Board of the KATEK SE Group (until February 2024), Entrepreneur, 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 and Managing Director of Active Ownership Advisors GmbH, Frankfurt am Main, and 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 financial year 2023, the Supervisory Board held five ordinary meetings. All Supervisory Board members attended all meetings, with the exception of the meeting on 13 February 2023, at which Florian Schuhbauer sent his apologies. Three meetings were held as video conferences; two as in-person meetings. The Supervisory Board also passed eight resolutions by circulation. At the ordinary meetings held on 13 February, 25 April and 29 September 2023, 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 financial year 2023 was on the following topics:

- New appointments to the Management Board with a new CEO and a new CTO
- The nomination of candidates for the Supervisory Board in the coming period of office
- The structure of a new stock option programme
- Advising the Management Board in selecting and procuring a new Business Support System
- Passing resolutions regarding the merger of Deutsche Telefon Standard GmbH with NFON AG
- Adoption or approval of the audited annual financial statements and the combined management report of the company and the Group for financial year 2022
- Monitoring of the liquidity situation
- Preparation of the Annual General Meeting held on 30 June 2023
- Report on the risk situation and on risk and compliance management as well as resolutions and the Declaration on the German Corporate Governance Code (GCGC)
- Discussion of the status of Internal Audit and the internal control system
- Variable remuneration for the members of the Management Board in 2022
- Discussion of the NFON Group's product roadmap and strategy
- Status review and further action regarding the NFON Group's Business Support System (BSS)
- Organisation (organisational structure) of the NFON Group and appointments to key functions at the first and second levels
- Discussion and review of the NFON Group's 2024 – 2028 budget, particularly with regard to a sustainable increase in profitability 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 financial year 2024 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 30 June 2023 appointed KPMG AG Wirtschaftsprüfungsgesellschaft, Munich (hereinafter "KPMG"), as auditor of NFON AG for financial year 2023. The Supervisory Board subsequently commissioned KPMG with the audit of the annual and consolidated financial statements of the company for financial year 2023.

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 315e (1) of the German Commercial Code (HGB) in accordance with the version of the International Financial Reporting Standards (IFRS) approved for use 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 18 April 2024. 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 attended the meeting of the Audit Committee on 11 April 2024. 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 (RMS), including the compliance management system (CMS). The objective of the ICS is to implement controls to provide reasonable assurance for the company-wide processes, including the preparation of financial statements and the combined management report 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. 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 management 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 financial year 2023, 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 financial year 2023.

Munich, April 2024

For the Supervisory Board

Rainer Koppitz
Chairman of the Supervisory Board

02 Combined Group management report

Table of contents

Interactive table of contents You can click on the individual topics to go to the respective page.

Basic information on the Group

Business model

The NFON Group ("we", "NFON", "the company", "the Group", "the NFON Group") was founded in 2007 and is a leading provider of integrated cloud business communication in Europe. NFON, with its Group management based in Munich, employs approximately 450 people. The NFON customer base includes more than 55,000 companies. The Group operates as a telecommunications company in 18 European countries and is represented by its own companies in Germany, Austria, the UK, Spain, Italy, France, Poland and Portugal. NFON also has a large network of more than 3,000 partners that handle the majority of our ⊕ sales. NFON can provide local telephone numbers in over 50 countries that can be integrated into the cloud telephony system.

The NFON Group generates most of its revenue by providing cloud-based telecommunication services to business customers. NFON is also expanding its product portfolio in the areas of unified communications and collaboration, such as Meet & Share, NFON Integration for Microsoft Teams (MS Teams) or business applications. 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 symmetric digital subscriber line (SDSL) monthly fees. Non-recurring revenue is one-time revenue from the sale of hardware, set-up fees for the cloud PBX and other products, such as Contact Center Hub, set-up fees for SDSL or consulting services.

The NFON Group has been a full local exchange carrier in Germany since 2023, which reduces its reliance on suppliers and allows it to act independently and with much greater speed and flexibility in customer projects. In addition, we have successfully completed important certifications such as BSI C5, ISO 9001, ISO 27001 and the Telekom Privacy and Security Assessment, which are documented in detail in the ⊕ Trust Centre on our company website.

Product areas

NFON provides services in the following areas:

Business communication: includes the range of telephony, video calls, screen sharing and the associated hardware components

Integration: Our cloud telephony system is integrated into customers' existing systems, business processes and workflows.

Customer contact: includes products to optimise customer contact

Enablement: We prepare companies for the cloud and make sure they have the right infrastructure at their disposal.

Organisation

Group structure

NFON Aktiengesellschaft (NFON AG) is the parent company of the NFON Group under commercial law. You can also find the consolidated subsidiaries of NFON AG in the ⊕ consolidated financial statements. The management report of NFON AG and the Group management report have been summarised (combined management report).

The Group structure as at 31 December 2023 is shown by the following diagram. The breakdown into segments reflects the individual consolidated subsidiaries of the NFON Group.

NFON PRODUCT AREAS

Business Communication

- Cloudya (cloud telephony)
- Meet & Share (video calls and screen sharing)

Integration

- CRM Connect
- NCTI (Standard, Premium and Pro)
- NFON Integration for Microsoft Teams (Premium and Standard)
- ASC Recording Insights for Microsoft Teams (UK only)

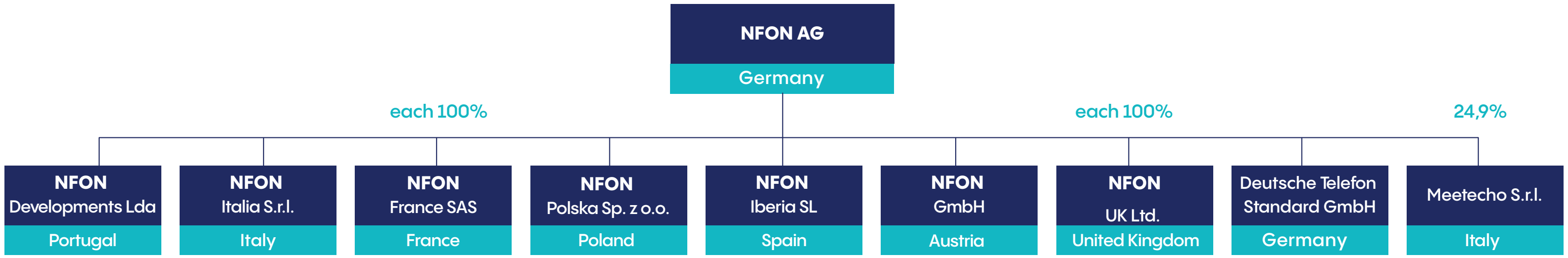
Customer Contact

- Contact Center Hub
- Nmonitoring Queues
- Neorecording
- Noperatorpanel
- Nhospitality

Enablement

- Nconnect Voice (SIP trunk)
- Nconnect Data (DE only)

Group structure and locations



Management and control

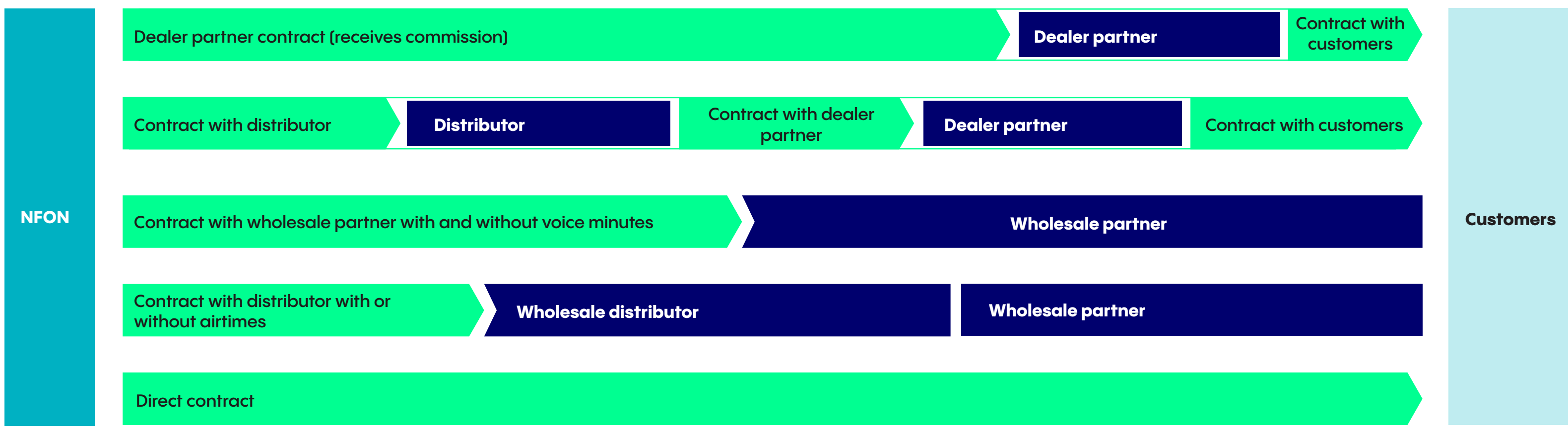
The Management Board of NFON AG works closely with the other managers throughout the NFON Group on operational matters. A Supervisory Board of four members monitors the activities of and advises the Management Board. Further information can be found in the ⊕ Management of key performance indicators section.

Sales

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

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

THE NFON CONTRACTUAL RELATIONSHIPS



We have created a strong partner network for the best customer experience and profitable growth.

NFON contract partner

Distributors: Distributors have their own dealer network and serve 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. NFON provides the services to the wholesale partners on a white-label basis under these agreements. 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 partner's customers and NFON. With our wholesale partners, we distinguish between those that purchase voice minutes from NFON and those that do not.

Wholesale distributors: Wholesale distributors have further wholesale partners meaning their own network of wholesale partners to market NFON's services.

Direct contract: Our focus is on indirect sales, which is why our partner account managers primarily support the NFON sales partners in sales negotiations and with technically complex offerings.

Strategy and goals

The personnel reshuffle at management level and the expansion of the C-level to include new areas of responsibility (Commercial, Sales and Product), which was completed in mid-2023, is in line with the goal of continuously and sustainably developing the NFON Group profitably with a view to the future. We expect earnings to grow faster than revenue, although revenue growth should at least match market growth over the medium term.

With the goal of living up to its self-image as an innovative pioneer in integrated cloud business communications on the European market and capable of exploiting market potential accordingly in the future, NFON sees operational excellence as the basis for this. This requires us to optimise the alignment between the customer- and market-based product management and the service-focused sales units, as well as the agile development. We have already achieved initial milestones for an optimised organisational structure with the management level reshuffle, including new areas of responsibility at C-level.

In order to boost profitability, we have also already initiated measures to optimise the process landscape and cost base. Building on this foundation, NFON continues to focus on three strategic growth pillars: innovative product development, a focus on sales excellence and cementing partnerships.

Innovative product development

The goal of the NFON Group is to continuously develop the Cloudya cloud communication platform. Cloudya represents our cloud PBX solution in the Unified Communications as a Service (UCaaS) market. In addition, we are focusing on improving our Contact Center Hub product (CC Hub), which we are positioning in the market for Contact Center as a Service (CCaaS). We also intend to expand our portfolio by driving forward opportunities for smart integration into the digital ecosystem. Further information can be found in the ⊕ General market situation section.

We began revising our product strategy in 2023 and will progress this initiative in 2024. As part of this, we initiated the Re:Shape project at the end of 2023. For us, Re:Shape means modernising the technological foundation of our products, defining and establishing transparent processes and corresponding responsibilities. This enables our customers to use our solutions productively faster and more reliably.

Our new guiding principle follows the "Seed, Grow, Scale" mindset. We are using it to focus on three areas: the development of new products and solutions (Seed), the evolution of existing products and functions (Grow) and the improvement of operational excellence (Scale) through increased automation.

PRODUCT STRATEGY

Development of new products and solutions

Digital ecosystem
Public APIs

Further development of existing products and functions

CC Hub
Cloudya & UC
SIP trunk

Driving operational excellence through increased automation

NFON portals
Platform availability
Automation

In this context, our primary focus is on improving partner and customer experiences and expanding our service portfolio by implementing new technologies such as artificial intelligence (AI). We are already using this technology in our CC Hub and will continue to further integrate it in our portfolio.

At the same time, we are working hard to expand our digital ecosystem by delivering more comprehensive integration options with the help of application programming interfaces (APIs). The expansion of existing integrations to enable open interfaces not only allows our customers to integrate applications more deeply but also positions NFON as a strong and agile partner that can lay the foundations for medium- and long-term growth. We also plan to expand our SIP trunk product for all country markets in which we are active and integrate new functions so as to offer customised communication solutions for our customers.

Another focal point is the technical integration of our UCaaS and CCaaS offerings in order to strengthen our position in these rapidly growing markets. Innovations such as AI-based chatbots, workforce management and other solutions are attracting growing interest. In addition to these strategic initiatives, we are concentrating on redesigning our development processes to increase agility and the pace of innovation and to make the go-to-market process more efficient overall. Further information can be found in the section ⊕ General market situation and ⊕ Research and development.

Focus on sales excellence

Indirect sales through partners and resellers (channel) is a crucial success factor for us, especially in the European IT environment. For this reason, NFON continues to attach importance to establishing and developing an excellent channel and outstanding channel infrastructure.

To achieve this, NFON rolled out the ⊕ NGAGE international partner programme in 2022 and established a partner management platform, which was also continued in 2023.

Cementing partnerships

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 and strategic partnerships: in a dynamic market environment, NFON continues to focus on partnering with technological leaders in their segment in order to promote innovative product development. This is exemplified by our partnerships with ⊕ Daktela and ⊕ Meetecho.
- Sales and distribution partnerships: NFON wants to establish and expand existing and new partnerships because they form the basis for further growth in the integrated business communication market and the continued success of our business. Noteworthy examples in this context include our activities with ⊕ Telefónica Deutschland or ⊕ Deutschen Telekom.

Given the current market environment with its continuing trend for consolidation in the field of communication solutions, mergers and acquisitions (M&A), such as the successful integration of Deutsche Telefon Standard (DTS), are an essential part of our corporate strategy and yet another element of our business success – both nationally and internationally.

In 2024, NFON will revise the Group strategy and, as part of this, will anchor the topic of sustainability as a key component of the corporate strategy. Among other things, therefore, we are contributing to compliance with ⊕ Directive (EU) 2022 / 2464[1] of the European Parliament and of the European Council of 14 December 2022 amending the Corporate Sustainability Reporting Directive and with the ⊕ German Corporate Governance Code[2] (DCGC), which came into force on 27 June 2022 and was revised with regard to sustainable corporate governance in particular. Details of the sustainability targets, measures and indicators defined by the Management Board can be found in our ⊕ Sustainability Report, which is published separately and unaudited.

Management of key performance indicators

Management and key figures

Based on the Group strategy, the performance and success of the NFON Group are reflected both in our financial and non-financial key figures. These are a central component of the internal control system. We begin by outlining the management system of the NFON Group below. This is followed by an explanation of the key performance indicators that are defined in accordance with DRS 20 and applied to a significant extent as part of our corporate governance.

[1] https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32022L2464
[2] https://www.dcgk.de//files/dcgk/usercontent/en/download/code/220627_German_Corporate_Governance_Code_2022.pdf

Control systems

The Management Board of NFON AG has introduced an internal management system for the management of the Group.

Internal management system of NFON AG

Supervisory Board

The Supervisory Board meets regularly with the Management Board. It monitors and advises the Management Board.

C-level-team

The C-level team consisting of the Management Board and CXO manages the business of the NFON Group. It reports 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 Management Board has appointed a Chief Commercial Officer, a Chief Sales Officer and a Chief Product Officer as delegated executives.

Group-wide reporting

Monthly reporting 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, blended ARPU, adjusted EBITDA

Management of non-financial performance indicators

Seat growth

Management of 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 Management Board and the Supervisory Board are regularly informed about the implementation.

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

C-level and the further first management level below the Management Board meet in different meeting formats and compositions. The efficient and timely exchange of information is essential.

Risk management system, internal control system and compliance management system

The risk manager, together with the risk committee, monitors the implementation, execution and compliance of the risk management system (RMS). They meet 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).

Sustainability management

Under the leadership of the Vice President Investor Relations & Sustainability, 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.

Financial and non-financial performance indicators

The NFON Group was managed in 2023 with the help of performance indicators: We use the following performance indicators to ensure that we can measure the company's success and analyse and manage the measures defined to achieve our corporate goals.

Financial performance indicators

- Total revenue
- Recurring revenue and the relevant growth rate
- Recurring revenue as a share of total revenue
- Blended ARPU
- Adjusted earnings before interest, taxes, depreciation and amortisation (adjusted EBITDA)

Total revenue: The amount of total revenue of the NFON Group is a reflection of the company's market success in financial terms.

Recurring revenue: 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 Group.

Blended ARPU: 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.

Adjusted EBITDA: The Group uses adjusted EBITDA to measure its operating performance and success of the individual business units. Adjusted EBITDA is calculated by subtracting non-operating costs and one-time expenses from EBITDA.

Non-financial performance indicators

- Seat growth

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

ESG performance indicators

ESG performance indicators were selected in 2022 on the basis of relevant standards or laws. These include the Global Reporting Initiative (GRI), the requirements of the German CSR Directive Implementation Act (CSR-RUG) and the 17 Sustainable Development Goals (SDGs) published by the United Nations. The ESG performance indicators can be found in the ⊕ Sustainability Report, which is published separately to the Annual Report on our website and unaudited. As part of the revision of our sustainability strategy, we will also review the existing ESG performance indicators in 2024.

Key performance indicators

NFON also divides these indicators into two groups: the key performance indicators and the other performance indicators. Based on the strategy and the underlying strategic objectives, the management of the NFON Group in financial year 2023 was based on the key performance indicators described below.

- Growth rate of recurring revenue (in %)
- Recurring revenue as a share of total revenue (%)
- Adjusted EBITDA (in EUR million)

Corporate governance declaration

The contents of the corporate governance declaration required in accordance with sections 289f and 315d HGB can be found in the ⊕ Corporate governance – Corporate governance declaration section and on the internet at ⊕ corporate.nfon.com/en/about-nfon/corporate-governance/governance.

General market situation

Business communication: an evolution[3]

In the area of business communication, the market for business telephony as part of the Unified Communications (UC) or Unified Communications & Collaboration (UCC) market comprises three main segments: conventional on-premise telephony systems (on-premise PBX), private but no longer on-premise telephony systems (hosted PBX) and cloud telephony systems (cloud PBX).

- **On-premise PBX:** This solution relates to telephony systems that are physically installed and maintained on a company's premises. They offer direct control, but require capital investment for the hardware and regular maintenance and updates by internal IT teams or external service providers.
- **Hosted PBX:** This is a telephony solution in which the telephony system is hosted by an external provider. Companies use the services of this provider and usually pay a monthly fee per user. This reduces the need for internal maintenance and investment in hardware.
- **Cloud PBX:** This solution is similar to a hosted PBX system, but relies on the cloud infrastructure to provide telephony services. Physical hardware is further eliminated and the telephony system is provided via the internet, which allows for greater flexibility and scalability.

The ongoing transformation of business telephony towards unified communications marks a key phase that is largely characterised by the transition to IP telephony. The transformation can essentially be described as the merging of different communication tools and platforms within an organisation to enable seamless and effective interactions. The goal is to merge communication technologies and channels towards integrated business communication to ensure seamless collaboration and dialogue. To an increasing degree, the ability to adapt to diverse scenarios is becoming essential. UC not only offers flexibility but also agility and mobility by enabling access from different locations and devices.

The introduction of UCaaS underscores the omnipresence of these products and highlights in particular the ongoing development and provision of communication solutions as a service. This change marks a paradigm shift from traditional, hardware-based on-premise telephony systems (on-premise PBX) to adaptive, software-based communication platforms (cloud PBX) that meet the evolving requirements of modern business environments.

UC has four key advantages:

- **Higher productivity:** Teams have the flexibility to connect using their preferred method by using whatever device or medium best meets their needs.
- **Optimising costs:** The implementation of UC systems in the cloud enables a shift to a strategy based on operating costs with lower initial expenditure.
- **Improved efficiency:** Employees can communicate and collaborate immediately. This allows customer problems to be solved more quickly, which in turn can have a positive effect on the corporate image.
- **Improved user experience:** A well-thought-out UC strategy can inspire employees and even reduce the turnover rate in the company by giving employees greater freedom of choice over how they work.

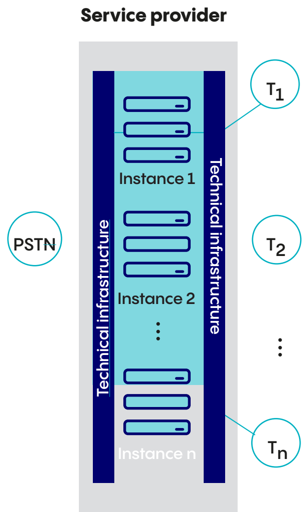
The NFON Group originally positioned itself as a provider of cloud telephony systems in the relevant market. Due to market developments and the dynamic environment, we have expanded our focus by expanding our presence into the areas of unified communications and collaboration as well as contact centres and business applications. This development allows us to target and progress the integration of different communication channels.

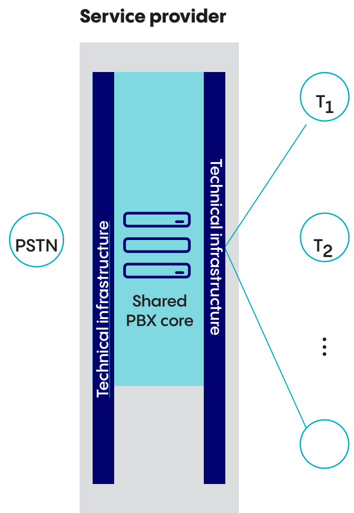
[3] https://www.techtarget.com/searchunifiedcommunications/feature/UCaaS-vs-CCaaS-vs-CPaaS-Whats-the-difference

The market for business telephony covers several segments. Overall, the market is shifting towards integrated business communication.

EUROPEAN MARKET FOR BUSINESS TELEPHONY

	IP-based telephone systems		
		Cloud PBX (public)	
On-premise PBX	**Hosted PBX (private)**	**Multi-instance/Multi-tenant (1:1)**	**Single-instance/Multi-tenant (1:n)**
On-premise PBX comprises the traditional on-site telephone system operated by the owner.	Hosted PBX enters the realm of IP-based telephone systems that are still owned by the user (private), but are no longer located on the user's own premises and can be managed by a third party.	A separate platform (instance) is set up for each user (tenant).	Different users (tenants) only use one platform (instance).





Market for unified communications and collaboration

UCC services and products bundle various communication services, including chat, telephony, video conferencing, file sharing, in-person functions and integration into digital ecosystems such as CRM or ERP systems. This makes it possible to adapt to the increasing flexibility of and changes in working models. The variety of these offerings enables the use, both internally and externally, of a broad range of communication possibilities from a single solution, which can significantly improve employee availability and productivity. One feature of UCC products is the option of synchronous forms of communication that allow people to interact in real time and use various communication channels (simultaneously).

Market for contact centre solutions

CCaaS enables customer service organisations to manage customer interactions holistically across various communication channels – using either multichannel or omnichannel approaches. At its core, CCaaS combines a cloud-based contact centre infrastructure with hosting options that enable this infrastructure to be operated and managed on-site. The flexible selection of specific functions or technologies leads to a reduction in integration, IT and support costs. Companies have the choice of managing these services in-house or outsourcing them to external service providers, and some even prefer hybrid models that integrate both in-house and managed infrastructure.

Market for communication platforms

In the field of business communications, Communications Platform as a Service (CPaaS) is becoming increasingly relevant. CPaaS is gradually encroaching on the markets for UCC, business applications and contact centre solutions and is becoming an integral component of integrated business communication. As a cloud-based delivery model, CPaaS enables companies to use application programming interfaces (APIs) to augment business applications with real-time communication functions such as voice, video and messaging. Organisations use APIs to integrate communication into their applications, while cloud providers and developers integrate communication functions into their services. API-based communication facilitates the integration of different solutions and promotes the development of customised applications.

Economic report

General economic conditions and industry environment

General economic development in Europe, Germany and key foreign markets

According to the Kiel Institute for the World Economy (IfW), the eurozone experienced a period of economic weakness in 2023, after the previous year had been characterised by a strong recovery following the COVID-19 pandemic. According to the IfW experts' March 2024 economic report, the increase in price-adjusted gross domestic product (GDP) for 2023 as a whole was 0.5% compared to the previous year (2022: 3.4%).[4]

Germany, our home market, also experienced a phase of stagnation in 2023. According to the IfW, the decline in consumer spending and a slowdown in foreign business are the primary causes of this economic weakness. Against this backdrop, the IfW expects price-adjusted GDP to decline by 0.3% in 2023 compared with the previous year (2022: growth of 1.8%).[5]

An important foreign market for the NFON Group is Austria. Based on information from the European Commission, as of mid-February 2024, the Austrian economy slowed in 2023. Real GDP shrank by 0.7% (previous year: growth of 4.8%).[6]

The United Kingdom is one of NFON's foreign markets. The British economy was slow to pick up momentum in 2023. High consumer price inflation and high interest rates had a dampening effect on investments, among other things. For 2023, the IfW therefore forecasts a price-adjusted GDP increase of 0.1% (previous year: 4.3%).[7]

NFON defied the economic slowdown in the target markets in 2023, which represented a departure from the dynamic recovery of the previous year, with solid growth and a significant increase in earnings. However, the general reluctance of companies to invest and extended sales cycles also had a dampening effect on NFON's performance.

[4] https://www.ifw-kiel.de/fileadmin/Dateiverwaltung/IfW-Publications/fis-import/6aa6a98f-44b7-4fb4-8e1f-de5a57d2ca3e-KKB_111_2024-Q1_Welt.pdf – downloaded 14.03.2024
[5] https://www.ifw-kiel.de/fileadmin/Dateiverwaltung/IfW-Publications/fis-import/854f12d1-6d4b-4257-a39a-30120582e9ee-KKB_112_2024-Q1_Deutschland_DEV3.pdf– downloaded 14.03.2024
[6] https://economy-finance.ec.europa.eu/economic-surveillance-eu-economies/austria/economic-forecast-austria_en – downloaded 9.01.2024)
[7] https://www.ifw-kiel.de/fileadmin/Dateiverwaltung/IfW-Publications/fis-import/6aa6a98f-44b7-4fb4-8e1f-de5a57d2ca3e-KKB_111_2024-Q1_Welt.pdf – downloaded 14.03.2024)

Key sales markets and competitive position

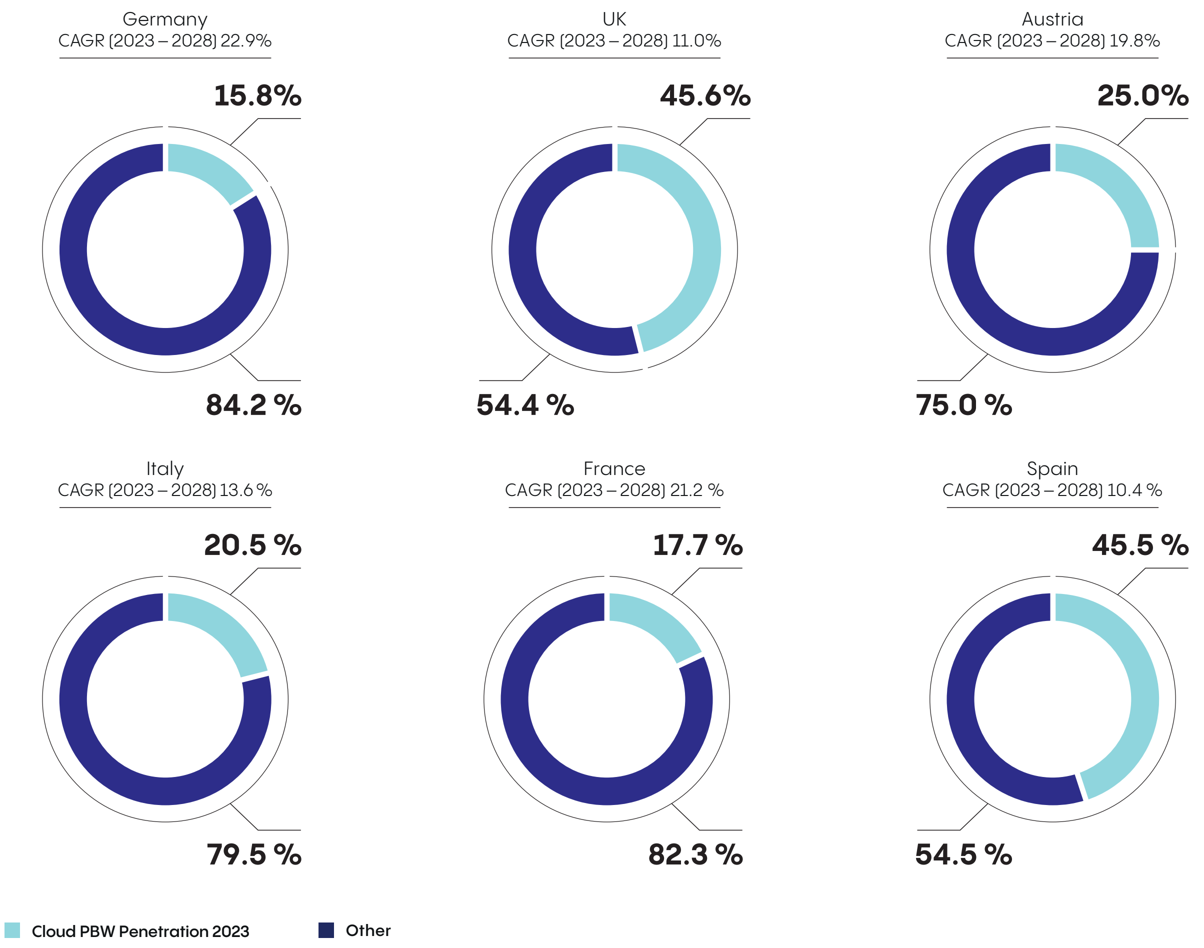
NFON still sees Europe as its primary market, and maintains a particular focus on the German domestic market. The growing acceptance of cloud products and services in Europe is accelerating digitalisation and opening up considerable growth potential as a result. It should be noted, however, that the distribution of cloud products and services still varies considerably across different products and countries. NFON is concentrating in particular on markets with lower cloud penetration, as greater growth opportunities and a less saturated competitive environment can be expected there.

Market for cloud telephony

The European market for telephony as a whole numbers around 127 million seats in 2023.[8] Aggregating the data available from market researchers and applying the company's own assumptions, only around 32% of seats – around 41 million – are in the cloud[9]. Based on assumptions by MZA, a CAGR (2023 – 2027) of around 9%[10] can be assumed in the cloud PBX segment and as much as 12% for multi-tenant technology offered by NFON[11]. This would increase the total number of seats in the cloud (multi-tenant) to around 56 million by 2027[12].

North America is one of the most advanced countries in the world in terms of cloud telephony use with a penetration rate of around 55% (approximately 46 million seats in the cloud)[13]. According to Cavell, a CAGR (2023 – 2028) of 7.9% can be assumed in this case.[14]

CLOUD PBX IN EUROPE[15] (PENETRATION IN %)



[8] MZA: "Hosted/Cloud Business Telephony 2022".
[9] NFON internal calculation based on the Cavell Group's "Cloud Comms Market Report Q2 2023" and MZA's "Hosted/Cloud Business Telephony 2022".
[10] MZA: "Hosted/Cloud Business Telephony 2022".
[11] MZA: "Hosted/Cloud Business Telephony 2022".
[12] MZA: "Hosted/Cloud Business Telephony 2022".
[13] Cavell Group: "USA Cloud Comms Report 2023".
[14] Cavell Group: "USA Cloud Comms Report 2023".
[15] Data on penetration rates: Cavell Group: "Cloud Comms Market Report Q2 2023"; data on CAGR: NFON internal calculation based on the Cavell Group's: "Cloud Comms Market Report Q2 2023".

Competitive situation

Management sees the competitive environment as complex. In terms of their offerings, the North American companies RingCentral, Cisco with Webex and 8x8 are very similar. This similarity is borne out by the fact that, like NFON, they have cloud telephony systems developed in-house and have been expanding their product portfolio for more than ten years by integrating communication media in a unified application environment (UC services). 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[17]. The ongoing consolidation in the European market is giving rise to further companies that are positioning themselves internationally. They do this with technically heterogeneous platforms because their acquisition of various providers has made it possible to incorporate solutions from these providers into the company portfolio. Migrating these platforms is a highly complex undertaking in technical terms. This applies, for example, to Enreach, Gamma, Telavox or Dstny[17]. So far, NFON perceives this competition to be visible but not critical. The diversity of these providers across the various markets means there is no single platform with an offering identical to NFON's in terms of market presence or strength. Other providers from adjacent markets (UCCaaS, CCaaS or CPaaS) such as Zoom or LogMeIn are also trying to gain a foothold in the UC market. However, they are only suitable for specific requirements due to the small set of features in the field of conventional telephony[18]. With a standardised platform throughout Europe, NFON can provide the entire value chain of a cloud PBX provider and therefore remains one of the few providers (beside RingCentral and 8x8). The platform's effectiveness and the development towards UCCaaS are in line with the market. In conjunction with the "Made in Germany" label and the focus on platform integration in other business applications, NFON believes it is well positioned in this competitive environment.

Market for UCCaaS products and solutions

There is no standard definition of the market for UCCaaS solutions, which makes it difficult to precisely model the addressable market. When estimating the market potential, NFON assumes that users of the MS Teams collaboration functions can be counted directly towards the addressable market for NFON.[19] In contrast, the enablement of the solution in the telephony sector is part of the cloud PBX market potential. The remaining addressable segment in the UCC market has a market volume of EUR 7.3 billion with average annual growth (2022–2024) of 9%.[20]

Competitive situation

The market for UCC includes major providers such as Microsoft, Google, Zoom, Slack, GoTo and Cisco. NFON feels that its market position is more in the field of integrated and voice-centric communications and not in direct competition with these companies.[21] MS plays a particular role in collaboration solutions. Due to the enormous growth and dominance of MS Office solutions in the B2B environment, Teams has already experienced strong market penetration in the last 24 months. The performance of the product and the market suggests that MS Teams will play a leading role here.[22] Providers like NFON, however, are able to participate in this market development and offer added value to customers with differentiated offerings in certain segments, especially telephony and business processes.

[16] Cavell Group: "Cloud Comms Market Report Q2 2023".
[17] https://www.enreach.de/blog/der-unified-communications-markt-ist-im-umbruch-das-muessen-sie-jetzt-wissen.html
18 Unaudited information.
[19] Unaudited information.
[20] NFON internal calculation based on IDC EMEA Unified Communications & Collaboration Tracker, October 2021, unaudited information
[21] Unaudited information.
[22] Fortune Business Insights: "Contact Center as a Service Market. Europe Industry Analysis, Insights and Forecast, 2019 – 2023, Report 2023".

Market for contact centre solutions

As a result of the introduction of cloud-based contact centres across all industries and a growing acceptance of self-service through improved AI, the CCaaS market finds itself in a strong growth phase. The volume in the CCaaS sector is already around EUR 1.1 billion. With a CAGR (2023–2030) of around 17.3%[23], the market is extremely attractive and continues to offer very high potential.

Competitive situation

The European market for CCaaS is fragmented because the four biggest providers, Genesys, NICE, Talkdesk and Five9, only have a market share of around 50%[24]. NFON is a relatively new player on the market of pan-European providers for contact centre solutions. There are overlaps here with competitors in the area of cloud telephony, such as RingCentral and 8x8, which likewise offer contact centre solutions. These providers also originate from the traditional telephony sector and have added contact centres to their portfolio alongside other related services. Like NFON, they are now providers of solutions for integrated business communication. To position itself competitively on the market, NFON relies on the powerful CCaaS platform of its partner Daktela in the contact centre area. NFON has added it to its portfolio and integrated it into the platform. Depending on the region, NFON markets it exclusively or in cooperation with Daktela.

Based on the future market potential, NFON has various addressable markets: cloud PBX, UCaaS and CCaaS. The core area is cloud PBX. As of 2023, NFON has a market share of around 10% in this market[25]. However, NFON is also targeting the UCaaS and CCaaS markets and is growing continuously in these areas. With a total volume of over EUR 14 billion[26] and percentage growth rates well into double digits, the attractiveness these markets will remain stable in the long term.

Regulatory framework

Since the deregulation and harmonisation of German telecommunications law (1989), the provision 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 to or termination of, business activities. In addition, the German Telecommunications Act also contains reporting and information obligations in relation to security incidents with a considerable impact on network operations, the performance of services or in the event of a breach of personal data that 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. Since 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.

[23] Fortune Business Insights: "Contact Center as a Service Market. Europe Industry Analysis, Insights and Forecast, 2019 – 2023, Report 2023".
[24] Cavell Group: "Cloud Comms Market Report Q2 2023".
[25] Cavell Group: "Cloud Comms Market Report Q2 2023".
[26] NFON internal calculation based on IDC EMEA Unified Communications & Collaboration Tracker, October 2021, unaudited information.

Research and development

Research and development activities in financial year 2023 focused on improving the user experience (UX) in our core products and their significantly expanded integration in MS Teams, for example, through the Cloudya app for Teams and the synchronisation of availability information with MS Teams (available from 2024). By continuously improving the integration options, we want to offer our customers the best possible combination of collaboration and telephony.

Another focus in 2023 was on ground-breaking projects, such as the development of a new user management system (user management tool) for our partners and customers. This system will provide a uniform foundation for authentication and authorisation within our portals and various applications and will be integrated on a phased basis starting in 2024. It enables not only standardised access data but also single sign-on and multi-factor authentication. In addition, the development of the new Cloudya configuration portal gained significant momentum. The first version will be available to our partners and end customers as early as 2024. The ongoing work on our platform ensures that we can guarantee further growth, innovation, stability, performance and security. Work was also carried out on implementing and customising the new BSS. In addition, the focus is on automation, user interfaces (UI) and UX as well as increasing productivity. Further information can be found in the ⊕ Innovative product development section.

During the reporting year, R&D expenses for product development in the Group amounted to EUR 10.1 million (previous year: EUR 10.3 million). EUR 4.3 million (previous year: EUR 5.3 million) of this was capitalised under intangible assets both from employees and from external service providers. The capitalisation rate in the reporting year was 42.5% (previous year: 51.5%). In addition, capitalised development expenses from external service providers for internally generated software amounted to EUR 0.9 million (previous year: EUR 2.0 million). Scheduled amortisation of capitalised internally generated intangible assets was recognised in the amount of EUR 3.0 million (previous year: EUR 2.5 million).

Presentation of the company's performance

In EUR million	2023	2022	Change
Total revenue	82,3	80,8	1.9%
Recurring revenue	**77,1**	**73,6**	**4,8%**
Share of recurring revenue	**93.7%**	**91.1%**	**–**
Non-recurring revenue	5,2	7,2	-27.8%
Share of non-recurring revenue	6.3%	8.9%	–
Blended ARPU (in EUR)	9.71	9.72	0.0%
Seat growth (number of seats)	**655.967**	**634.288**	**3.4%**
Adjusted EBITDA*	8,4	-1,0	–

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".

Key performance indicators compared to the 2023 forecast and the forecast revised in August and November 2023

	Growth in recurring revenue	Share of recurring revenue in total revenue	Adjusted EBITDA
2023	4.8%	93.7%	EUR 8.4 million
Forecast 2023 (April)	In the mid to upper single-digit percentage range	At least 88%	> EUR 4 million
Adjusted forecast 2023 (August)	Unchanged	Unchanged	EUR 6–7 million
Adjusted forecast 2023 (November)	Unchanged	Unchanged	EUR 7.8–8.3 million
Explanation of target achievement versus the			
Forecast 2023 (April)	Achieved	Clearly achieved	Exceeded
Adjusted forecast 2023 (August)	-	-	Exceeded
Adjusted forecast 2023 (November)	-	-	Exceeded

Against the backdrop of current challenges, the Management Board of NFON AG take an overall positive view of the business performance and the economic situation. Nevertheless, the downturn of the European economy in the wake of the Ukraine war and the reluctance to invest are putting pressure on the NFON Group's growth momentum. In response to the ongoing subdued market sentiment, NFON refined its growth strategy to focus clearly on sustainable profitable growth. Although there was continued investment in growth in 2023, the adjustment of organisational and cost structures was also significantly accelerated.

Overall, NFON increased its revenue by 1.9% year-on-year to EUR 82.3 million for financial year 2023 (previous year: EUR 80.8 million). The growth rate for recurring revenue was 4.8% at the end of the year, primarily due to the development of revenue from seats. Although price increases had already been implemented in some areas, the lower revenue with voice minutes due to changes in end customers' telephony behaviour led to a slight downturn in blended ARPU, which amounted to EUR 9.71 as at the end of the year (previous year: EUR 9.72). NFON again significantly increased recurring revenue as a share of total revenue to 93.7% (previous year: 91.1%) or EUR 77.1 million (previous year: EUR 73.6 million).

Earnings, financial and asset position

Results of operations

Development of key items of the consolidated statement of comprehensive income

In EUR million			Change
Revenue	**82.3**	**80.8**	**1.9%**
Cost of materials	–13.0	–14.4	–9.9%
Gross profit	**69.4**	**66.4**	**4.5%**
Other operating income	0.9	1.1	–16.0%
Staff costs	–34.9	–37.4	–6.6%
Other operating expenses	–28.5	–35.4	–19.6%
EBITDA	**6.8**	**–5.3**	**–**
Adjusted EBITDA*	**8.4**	**–1.0**	**–**
Depreciation, amortisation and write-downs	–7.3	–6.7	9.0%
EBIT	**–0.5**	**–12.0**	**95.8%**
Net interest income	–0.2	–0.2	0.0%
Income tax expense/income	–0.1	–3.4	97.1%
Net loss for the period	**–0.8**	**–15.6**	**94.8%**

* See section "Income and expense items" for reconciliation of EBITDA with adjusted EBITDA.

NFON continued its growth trajectory in 2023 and achieved the revenue targets of the forecast. The increase in the share of high-margin recurring revenue meant that gross profit rose more strongly than revenue.

On the cost side, staff costs fell due to the reduction in resources in the sales, support and marketing areas, among others. The first measures on the path to sustainable profitable growth are particularly noticeable in the development of other operating expenses. Marketing expenses fell by around 48% as against 2022 to EUR 4.4 million.

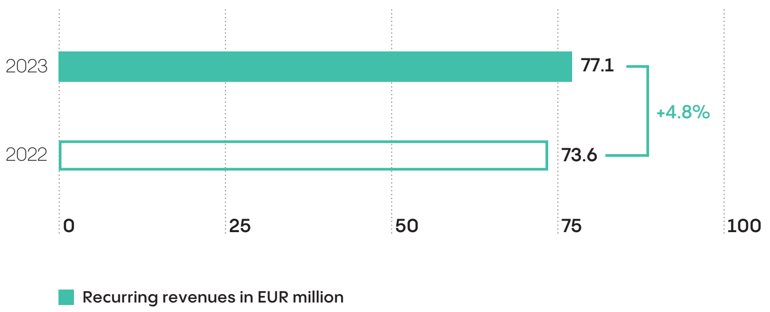
Staff costs and other operating expenses include non-recurring effects of EUR 1.6 million in the financial year compared to EUR 4.3 million in the previous year. Further information can be found in the ⊕ Income and expense items section.

An increase in revenue, higher gross profit as well as cost reductions in the area of staff costs and other operating expenses led to unadjusted EBITDA of EUR 6.8 million and adjusted EBITDA of EUR 8.4 million in 2023, which was clearly positive and an improvement on the previous year. EBIT also improved for the same reasons to EUR -0.5 million.

Consolidated revenue and consolidated seat development

Revenue increased moderately by 1.9% year-on-year. NFON managed to increase revenue by acquiring new customers, activating additional seats within the existing customer base in Germany and Austria in particular, and offering expanded products (premium solutions) to existing customers. This was offset by the significant year-on-year decline in revenue in the hardware area.

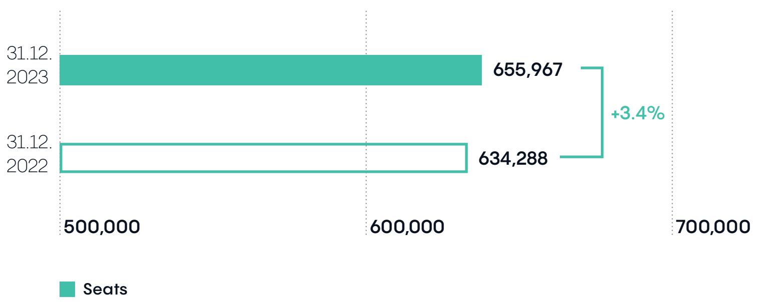
High share of recurring revenues



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 4.8%, this increased at a proportionately higher rate than total revenue. The year-on-year decline in non-recurring revenue of 27.9% is primarily the result of significantly lower hardware sales due to a range of factors that include falling demand and a competitive market environment.

Growth in total seat numbers



In the financial year 2023, NFON successfully acquired new customers and thus increased the number of seats by 3.4%. Nevertheless, this development fell short of expectations. Among other things, the post-contract churn of a major client in the second quarter of 2023, which corresponds to around 1.45% of the seat base as at 31 December 2023, had a negative impact on seat development.

Revenue and seat development by segment

The NFON Group comprises a total of nine segments. The breakdown by segment reflects the individual international subsidiaries of NFON, which, in the financial year 2023, included two companies from Germany (NFON AG, Deutsche Telefon Standard GmbH) and one subsidiary each in Austria (NFON GmbH), the UK, (NFON UK Ltd.), Spain (NFON Iberia SL), France (NFON France SAS), Italy (NFON Italia S.r.l.), Poland (NFON Polska. Sp. z o.o.) and Portugal (NFON Developments Lda.).

Eight of these are segments with external revenue and are shown separately below as reportable segments. The subsidiary in Portugal exclusively performs development services (software) and will never generate any revenue outside the Group. Aside from the German stock corporation, which is also responsible for research and development, the other subsidiaries essentially function as independent sales companies in their domestic markets. However, Deutsche

Telefon Standard GmbH continues to provide development services for maintaining its own products and, since 2021, for the NFON product portfolio. 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:

Revenue in the segments

	Revenue		Recurring revenue		Change in recurring revenue in %	Recurring revenue as a share of total revenue in %	
In EUR million	2023	2022	2023	2022		2023	2022
NFON AG	46.3	46.1	44.2	42.4	4.2	95.5	92.0
Deutsche Telefon Standard GmbH	17.0	16.8	16.3	15.7	3.8	95.9	93.2
NFON GmbH (AT)	8.6	8.2	7.3	6.8	7.4	84.9	83.5
NFON UK Ltd.	7.9	8.0	7.1	7.2	–1.4	89.9	90.2
NFON Iberia SL	0.5	0.4	0.5	0.4	25.0	98.6	92.6
NFON Italia S.r.l.	1.2	0.9	0.9	0.7	28.6	80.7	79.2
NFON France SAS	0.4	0.3	0.4	0.3	33.3	98.1	83.2
NFON Polska Sp. z o.o.*	0.4	0.0	0.4	0.0	n/a	93.7	–
Total for the reportable segments	**82.3**	**80.8**	**77.1**	**73.6**	**4.8**	**93.7**	**91.0**
Total revenue	**82.3**	**80.8**	**77.1**	**73.6**	**4.8**	**93.7**	**91.1**

* In the financial year 2022, revenue from customers with whom NFON Polska Sp. z o.o. generated revenue in the financial year 2023 was mainly generated by NFON GmbH.

Recurring revenue at NFON AG increased from EUR 42.4 million to EUR 44.2 million. The development in recurring revenue, which rose by just EUR 0.2 million in total, was slowed by significantly lower hardware sales.

Deutsche Telefon Standard GmbH managed to increase revenue, particularly from PBX and SIP trunk.

Unlike in the previous year, reported revenue from the NFON GmbH segment no longer includes revenue from Poland in the financial year 2023 (2023: EUR 0.4 million) as the Polish company NFON Polska. Sp z o.o will be reported separately from 2023 onwards. Nonetheless, revenue at NFON GmbH increased to EUR 8.6 million as a result of new customer acquisitions and the expansion of the seat base (previous year: EUR 8.2 million).

As a result of strong competition in the UK market, revenue in the NFON UK Ltd. segment fell slightly from EUR 8.0 million in 2022 to EUR 7.9 million in 2023.

Revenue growth at NFON ITALIA S.r.l., from EUR 0.9 million to EUR 1.2 million, was mainly due to the acquisition of new customers and the expansion of the seat base.

Revenue growth in the NFON Iberia SL and NFON France SAS segments declined year-on-year as business activities in these two companies were already significantly reduced last year as part of the strategic shift initiated by the previous management.

Seats in segments

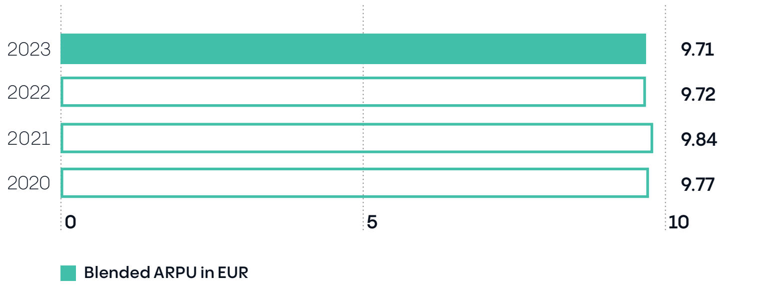
NFON AG	399,838	391,175
Deutsche Telefon Standard GmbH	82,047	79,756
NFON GmbH (AT)	71,293	68,384
NFON UK Ltd.	79,292	79,469
NFON Iberia SL	4,738	5,146
NFON Italia S.r.l.	10,180	6,977
NFON France SAS	3,956	3,381
NFON Polska Sp. z o.o.*	4,623	0
Total	**655,967**	**634,288**

* In the financial year 2022, revenue from customers with whom NFON Polska Sp. z o.o. generated revenue in the financial year 2023 was mainly generated by NFON GmbH.

Development of average revenue per user

NFON uses the average recurring revenue across all services, sales channels and countries per user or seat, referred to as blended average revenue per user (ARPU), to measure operating performance per seat. The average voice minutes sold per seat have a significant influence on blended ARPU. These have fallen slightly compared to the years 2020 and 2021 during the COVID-19 pandemic. To stabilise blended ARPU, prices for selected products and customer cohorts were increased as far back as the third quarter of 2022. Thanks to this measure, blended ARPU decreased only slightly in 2023 compared to 2022, despite the effect of the trend in voice minutes.

Stable blended ARPU



Income and expense items

Other operating income

The remeasurement of intercompany loans at NFON UK led to exchange rate losses of EUR 0.1 million in the financial year 2023 (previous year: EUR 0.2 million). As a result, other operating income fell to EUR 0.9 million in 2023 (previous year: EUR 1.1 million).

Cost of materials

The cost of materials was reduced significantly year-on-year to EUR 13.0 million in the financial year 2023 (previous year: EUR 14.4 million). This development mainly stems from lower hardware sales in 2023. As a result, the cost of materials ratio decreased to 15.8% as against the previous year (previous year: 17.8%).

Staff costs

The average number of employees (individuals) fell by 13.9%, to 453, in the reporting year (previous year: 526). This was due to the reorganisation that began in the third quarter of 2022 as part of our focus on the core sales markets. Staff costs reduced to EUR 34.9 million as a result (previous year: EUR 37.4 million).

In the reporting period, expenses of EUR 0.1 million were recognised in conjunction with the focus on the core sales markets. The reorganisation of top management led to additional expenses of EUR 1.1 million. Furthermore, expenses of EUR 0.1 million (previous year: EUR 0.5 million) were recognised in connection with an employee stock option programme implemented at the start of 2019.

Adjusted for these non-recurring effects, staff costs fell from EUR 36.4 million in the previous year to EUR 33.7 million. This represents an adjusted ratio of staff costs to revenue of 40.9% (previous year: 45.0%).

Other operating expenses

The first visible measures aimed at delivering sustainable profitable growth at NFON led to lower other operating expenses of EUR 28.5 million (previous year: EUR 35.4 million). Marketing expenses in particular were reduced by around 48% to EUR 4.4 million. Consulting costs also fell by EUR 1.3 million. In 2022, this cost type was burdened by a project for the preparation of a capital market transaction, among other things. Costs for freelancers also declined by EUR 0.3 million compared to the previous year.

In 2023, the following other operating expenses classified as non-recurring effects were incurred: EUR 0.1 million in connection with the reorganisation of top management, EUR 0.1 million for administrative costs and EUR 4 thousand for focusing on core sales markets.

Adjusted for these non-recurring effects, other operating expenses fell to EUR 28.2 million in 2023 (previous year: EUR 32.1 million). This represents an adjusted ratio in relation to revenue of 34.2% after 39.7% in the previous year.

Other operating expenses include marketing expenses of EUR 4.4 million (previous year: EUR 8.5 million). The savings measure was implemented as part of our sustainable profitable growth strategy.

Other operating expenses include selling expenses of EUR 11.7 million (previous year: EUR 11.1 million). Selling expenses mainly include commission paid to NFON's sales partners, who share in a percentage of its revenue. The ratio of selling expenses to revenue was 14.1% in 2023 after 13.7% in the previous year. The slight increase was driven by various factors including additional partner incentives involving special campaigns and increased expenditure on training.

Depreciation and amortisation

Depreciation and amortisation increased to EUR 7.3 million in the financial year 2023 (previous year: EUR 6.7 million). The increase is mainly attributable to higher amortisation of internally generated intangible assets. Parts of the newly introduced Business Support System (BSS) were completed at the end of 2022. These have since led to higher amortisation. A BSS refers to a system for managing contractual relationships with customers/suppliers/partners, for managing products and resources and for billing.

Net interest income

Net interest expense (interest and similar expenses less interest and similar income) amounted to EUR 0.2 million in the financial year 2023 (previous year: EUR 0.2 million). Higher interest expenses for building leases and guarantee commissions were offset by higher interest income from fixed-term deposits.

Income tax expense/income

The income tax expense of EUR 0.1 million consists of current income taxes of EUR 0.9 million and, offsetting this, deferred tax income of EUR 0.8 million. The deferred tax expense of EUR 0.6 million relates to income tax expenses at Deutsche Telefon Standard GmbH. As a result of the cancellation of the profit transfer agreement with Deutsche Telefon Standard GmbH as at 31 December 2023 and the associated ineffectiveness of the profit transfer agreement from its inception, the tax expenses for the financial years 2022 and 2023 were recognised in the reporting year. The cancellation of the profit transfer agreement was necessary with regard to the utilisation of the existing tax loss carryforwards at Deutsche Telefon Standard GmbH as part of a planned merger.

EBITDA, adjusted EBITDA, EBIT, consolidated loss

In EUR million		
EBITDA	**6.8**	**–5.3**
Non-recurring effects		
Reorganisation of top management	1.3	0.0
Stock options/ESOPS	0.1	0.5
Focus on core markets	0.2	0.5
Expenses for preparing capital market transactions	0.0	1.4
Rebranding	0.0	0.9
Administrative expenses	0.1	0.0
Licence payment provisions	0.0	0.9
Total non-recurring effects	1.6	4.3
Adjusted EBITDA	**8.4**	**–1.0**
EBIT	**–0.5**	**–12.0**
Net loss for the period	–0.8	–15.6
Total non-recurring effects	1.6	4.3
Adjusted consolidated loss	**0.8**	**–11.3**

An increase in revenue, higher gross profit as well as cost reductions in the area of staff costs and other operating expenses led to unadjusted EBITDA of EUR 6.8 million and adjusted EBITDA of EUR 8.4 million in 2023, which was clearly positive and an improvement on the previous year. EBIT also improved for the same reasons to EUR -0.5 million.

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 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 (such as 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 6.8 million for NFON in the financial year 2023.

Apart from the expenses for the non-recurring effects “focus on core markets” and “administrative costs” of EUR 0.1 million, the adjustments were made exclusively in the NFON AG segment.

Contribution margin 2 by segment

In EUR million		
NFON AG	4.1	0.2
Deutsche Telefon Standard GmbH	4.6	3.8
NFON GmbH	1.1	–1.1
NFON UK Ltd.	–0.1	–1.1
NFON Iberia SL	0.0	–1.0
NFON Italia S.r.l.	–1.2	–1.6
NFON France SAS	–0.3	–0.6
NFON Polska Sp. z o.o.*	–0.3	0.0
Total contribution margin 2 by reportable segment	**7.9**	**–1.5**
Other segments	0.2	0.1
Consolidation (especially currency effects) and closing entries	0.3	0.4
Non-recurring effects	–1.6	–4.3
EBITDA	**6.8**	**–5.3**

* In the financial year 2022, revenue from customers with whom NFON Polska Sp. z o.o. generated revenue in the financial year 2023 was mainly generated by NFON GmbH.

The contribution margin at NFON AG was significantly increased as a result of the savings made in connection with the goal of sustainable profitable growth. In addition to revenue growth, this is based on savings achieved in the areas of staff costs and other operating expenses.

The first effects of the strategic approach to deliver sustainable profitable growth are also apparent in the other segments, which managed to improve the contribution margin 2 in combination with revenue increases.

Financial position

Liquidity requirements were largely covered by the company's own cash flow from operations in the financial year 2023. A money market loan agreement in the amount of EUR 5.0 million and maturing on 30 November 2026 was entered into with Bank für Tirol und Vorarlberg (BTV) in the financial year 2021. The credit facility was unutilised as at 31 December 2023.

Investment analysis

Investment in 2023 mainly related to development activities, some of which were capitalised in the amount of EUR 4.3 million (previous year: EUR 5.3 million). These were recognised under intangible assets. Investment in property, plant and equipment of EUR 0.6 million in the reporting period primarily focused on IT infrastructure.

A total of EUR 0.9 million was also capitalised for the implementation and customising of a new BSS, whose development has not yet been completed.

Liquidity analysis

Operating cash flow rose sharply to EUR 6.8 million in 2023 (previous year: EUR -3.9 million). This is essentially thanks to the positive development of the results of operations. Earnings before taxes improved from EUR -12.2 million to EUR -0.7 million in the reporting year. The increase in other receivables and assets of EUR 0.6 million had the effect of reducing cash flow. Meanwhile, other provisions increased by EUR 0.8 million, essentially in connection with the reorganisation of top management, which had a positive effect on operating cash flow. In the financial year 2023, NFON recognised income of EUR 0.1 million from changes in exchange rates (previous year: expense of EUR 0.3 million), which essentially 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.

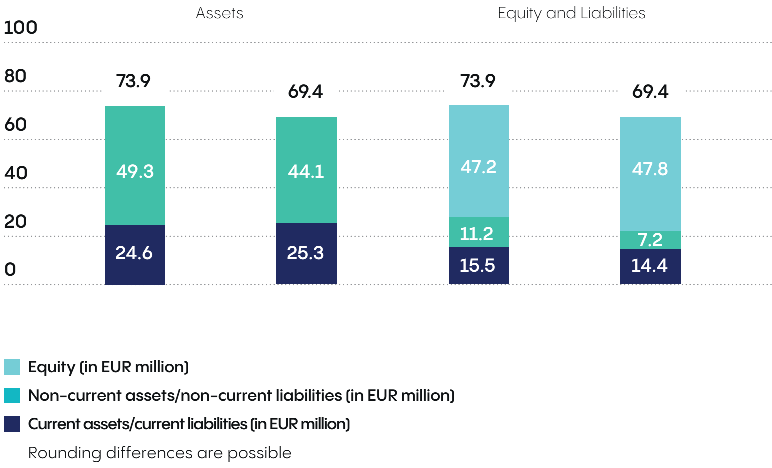
The cash flow from investing activities of around EUR -5.9 million resulted from the investment in intangible assets of EUR 5.2 million attributable to development projects and the implementation and customisation of the new BSS. In addition, EUR 0.6 million was invested in property, plant and equipment, mainly IT infrastructure and hardware.

The negative cash flow from financing activities of EUR 1.9 million essentially results from the payment of lease liabilities.

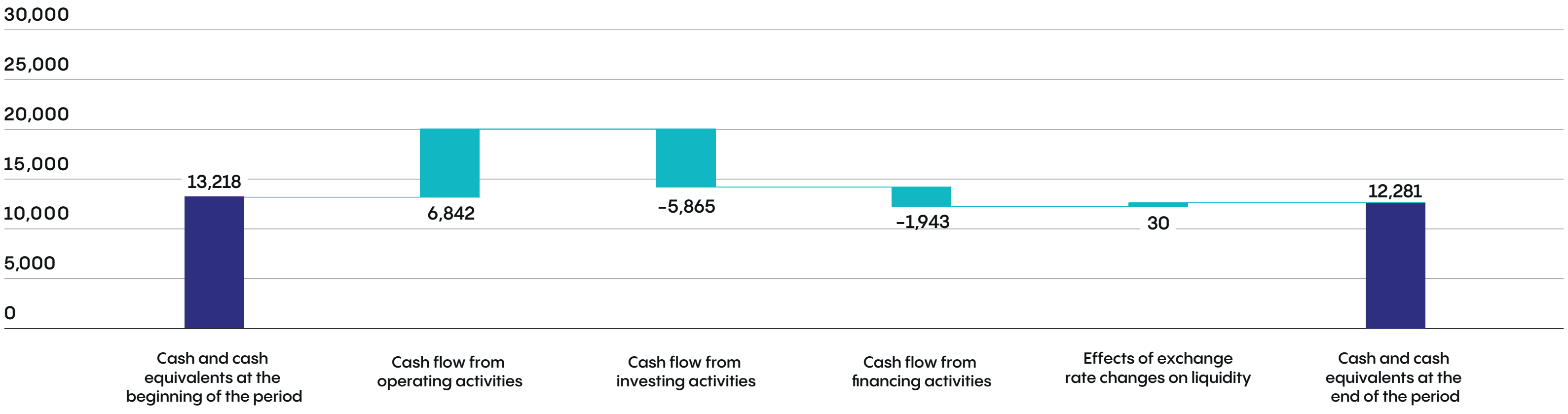
The company monitors its liquidity status on an ongoing basis. An improvement in the liquidity situation is targeted within the planning period. There are no indications that the liquidity in the planning period will not be sufficient to meet the company's payment obligations at all times. As a liquidity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

Assets and liabilities

Accounting chart in EUR million



Liquidity analysis (in EUR thousand)



Non-current and current assets

Assets

In EUR million			Comments/changes
Property, plant and equipment	11.6	8.7	The increase is primarily due to the rights of use for new office space in Munich (balance sheet values EUR 8.6 million in 2023 vs. EUR 5.3 million in 2022).
Intangible assets	35.4	34.0	Among other things, capitalised development projects: 2023: EUR 13.2 million; 2022: EUR 10.9 million as well as other internally generated intangible assets (new Business Support System): 2023: EUR 5.5 million; 2022: EUR 5.4 million
Investments in associates	0.7	0.7	Investment in Meetecho S.r.l.
Other non-financial assets	0.7	0.4	–
Deferred tax assets	0.8	0.3	The increase in deferred tax assets results from the capitalisation of deferred tax assets from loss carryforwards at Deutsche Telefon Standard GmbH.
Non-current assets	**49.3**	**44.1**	**–**
Trade receivables	9.0	9.3	–
Other financial and non-financial assets	3.4	2.8	–
Cash funds	12.3	13.2	–
Current assets	**24.6**	**25.3**	**–**

Equity

Taking into account the negative consolidated result due to the consolidated loss of EUR -0.8 million (2022: EUR -15.6 million), the addition to capital reserves due to employee share options of EUR 0.1 million and an increase of EUR 0.1 million in the currency translation reserve, equity amounts to EUR 47.2 million as at 31 December 2023.

Non-current and current liabilities

Liabilities

In EUR million			Comments/changes
Non-current financial liabilities	8.5	4.1	The increase is made – corresponding to the increase in property, plant and equipment – within the liabilities recognised in lease accounting for the use of office space (new rental agreement in Munich).
Other non-current (non-financial) liabilities	0.6	0.7	Relates primarily to additional licence payments from an existing contract, which are subject to interest.
Deferred tax liabilities	2.2	2.5	–
Non-current liabilities	**11.2**	**7.2**	**–**
Trade payables	5.0	4.2	Increase in trade payables as at the reporting date, primarily at NFON AG (EUR 0.6 million). Trade payables are non-interest-bearing.
Current provisions	3.1	2.3	The increase in short term provisions compared to the prior year is mainly due to liabilities for severance payments of EUR 0.7 million.
Income tax liabilities	0.8	0.3	These are non-interest-bearing liabilities to the respective tax authorities (all in EUR). The increase is due to income tax expenses at Deutsche Telefon Standard GmbH.
Current financial liabilities	1.4	1.8	Relates to interest-bearing lease liabilities
Other current non-financial liabilities	5.2	5.8	The increase is mainly due to higher liabilities for leave and bonuses.
Current liabilities	**15.5**	**14.4**	**–**

Overall assessment of the economic situation

The fundamental trend towards the digitalisation of business communication is continuing undiminished, even as the European economy continues to be marked by uncertainty. Overall, this is also reflected in the economic situation of the NFON Group. NFON has a clearly defined growth strategy, which was updated in the reporting year to include the focus on sustainable profitable growth. The future lies in the markets for products in the areas of unified communications and collaboration and contact centre. Recurring revenue, which accounts for 93.7% of total revenue (previous year: 91.1%), is a clear indicator of the business model's stability. At 4.8% (previous year: 8.3%), growth in recurring revenue again outpaced that of total consolidated revenue in 2023 (1.9%; previous year: 6.5%). This stability is contributing to the ongoing positive revenue performance of NFON. Our success so far is founded on the sustainable base of seats operated by customers, which also expanded further thanks to a growth rate of 3.4% (previous year: 8.0%). The year 2023 was not an easy one for NFON and was characterised by transformation in line with the goal of continuously and sustainably developing the NFON Group profitably with a view to the future. Nonetheless, the company achieved or exceeded its most recent targets in what remains a challenging market environment. Furthermore, we must optimally align the cooperation between the customer- and market-based product management and service-oriented sales units and agile development to ensure the continued positive development of the (most important) performance indicators. We have already achieved initial milestones for an optimised organisational structure with the management level reshuffle, including new areas of responsibility at C-level. In order to boost profitability, we have also already initiated measures to optimise the process landscape and cost base. Thanks to the funding already available and the path to profitability that has now been initiated and should result in positive cash inflows, we have created a secure financial situation that offers scope for further investment in growth. Against this background, the Management Board believes that NFON AG is well on its way to living up to its self-image as an innovative pioneer of integrated cloud business communication in the European market and exploiting market potential accordingly in the future.

Opportunities and risks

Opportunity and risk management

The NFON Group anticipates opportunities that are important for the achievement of its strategic goals. However, we 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. The failure to identify risks and minimise the potential consequences for the Group 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 as well as 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 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 the overall risk position. After every inventory, this overall risk position 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 using business assessments, among other things.

The NFON Group 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 the risk owners or to the risk manager at any time in person, by telephone or via e-mail (bottom up). The underlying process also controls 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 from monetary points of view. 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 occurring in the twelve months following the inventory.

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

The NFON Group uses a 5x5 risk calculation matrix for categorisation that breaks down both the potential loss volume and the respective probability of occurrence into five classes. The threshold values were adjusted compared to the previous year's values and the definition was changed.

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).

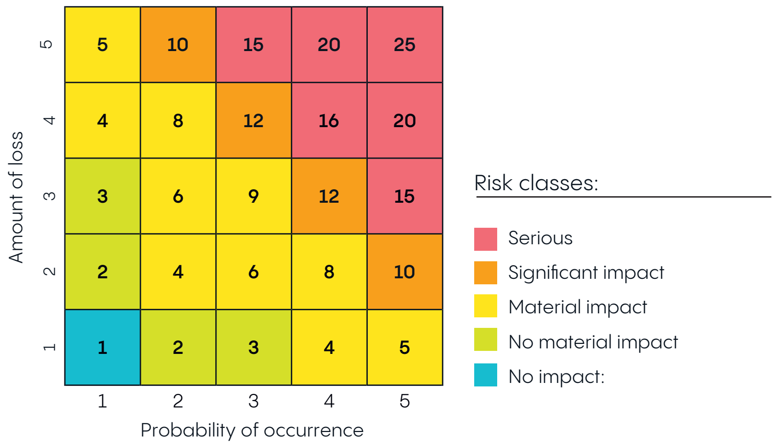
Loss amount

Loss amount		
Class	Description	Influence on the liquidity of the NFON Group in EUR
5 – Very high	Serious loss potential	> 1,500,000
4 – High	Significant loss potential	> 750,000
3 – Medium	Medium loss potential	> 500,000
2 – Low	Low loss potential	> 250,000
1 – Very low	Insignificant loss potential	> 50,000

Probability of occurrence

Probability of occurrence		
Class	Description	PO
5 – Almost certain	Almost certain risks are anticipated in every financial year.	90% < x < 100%
4 – Probable	Probable risks that occur every one to two years	50% < x ≤ 90%
3 – Possible	Possible risks that occur every two to five years	20% < x ≤ 50%
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 ten years	0% < x ≤ 10%

Risk matrix



The aim of process-integrated controls is to continuously monitor and track the process steps of the risk management system. 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. In financial year 2023, the RMS of the NFON Group was audited by Internal Audit via an external service provider. An audit of this type is carried out at least every three years.

Opportunities of the NFON Group

The NFON Group identifies 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 mid-2023, the management level of the NFON Group was reorganised and new areas of responsibility were added to the C-level. The new management is pursuing the goal of continuously and sustainably developing the NFON Group profitably. We expect earnings to grow faster than revenue, although revenue growth should at least match market growth over the medium term. The growth strategy from which the NFON Groups opportunities are derived is based on three pillars: innovative product development, focussing on sales excellence and cementing partnerships. Further information can be found in the ⊕ Strategy and goals section.

Innovative product development

NFON AG sees significant growth opportunities in the further development of its own product landscape, especially the Cloudya cloud communication platform. The aim is to improve existing products in order to increase customer satisfaction. In the area of CCaaS, our focus remains on improving the Contact Center Hub (CC Hub) product. We are also developing new products and solutions. These include options for smart integration that can incorporate customer applications more deeply and comprehensively.

Focus on sales excellence

Indirect sales via partners and resellers (channels) play a key role in the targeted sales growth. For this reason, NFON continues to direct its main focus towards establishing and developing an excellent channel with an outstanding infrastructure. Our international partner programme NGAGE aims to acquire additional partners and improve communication and cooperation with existing partners.

Cementing partnerships

In the past, strategic partnerships have led to growth and efficient innovation. We want to continue utilising this principle and expanding it wherever this is effective and necessary. In addition to the independent development of products and the expansion of the channel, NFON sees strong growth potential in strategic partnerships in the areas:

- **Technological and strategic partnerships** aimed at promoting innovative product developments with technological leaders
- **Sales and distribution partnerships** that are established or expanded to leverage market potential and achieve growth targets in the market for integrated business communication

Risks of the NFON Group

In financial year 2023, 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.

Following the risk inventory, the risk inventory comprises a total of eleven active risks. Only one risk is 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. In the Annual Report, we only show the risks that have a significant or material impact on the liquidity situation.

Risks that could have a significant impact on the liquidity situation

Business Support System

The further development of the Business Support System (BSS) is a key issue for NFON in 2024. A steering committee is tasked with ensuring that the project goals are achieved within the defined budget. Due to the high level of complexity and the ambitious project goals, there is nevertheless a risk that expenditure will be higher than planned in 2024.

Risks that can have a material impact on the liquidity situation

Re:Shape

The Re:Shape project was launched in 2023 and is due to be completed in the first half of 2024. Re:Shape is modernising the technological basis of NFON products. The relocation of development capacities associated with Re:Shape may result in a slowdown in the expansion of seats and thus to lower liquidity in 2024. In order to minimise the liquidity effect of this risk, NFON's management is closely monitoring Re:Shape activities and product development.

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, for example 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 Quality Management & 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 or monitoring and spot checks of ongoing processes.

Sales risk – 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 because many steps in the process are carried out manually. The NFON Group hopes to reduce these risks in 2024, for example, by introducing automated review steps or new CRM software.

Contractual risks

Due to 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 back payments will have to be made to suppliers under licence agreements because of unidentified errors in contracts concluded in the past. To identify weaknesses in contract design at an early stage and to make any necessary adjustments, the legal department is involved in drafting important contracts with suppliers and customers.

Overall assessment of the NFON Group's opportunities and risk situation

Overall, we see opportunities and risks in a balanced relationship. As a result of our analyses of opportunities and risks, countermeasures, safeguards and provisions, there are no risks based on the current risk assessment that could jeopardise the net assets, financial position and results of operations of the NFON Group as a going concern. Compared to the 2022 risk inventory, the following risks are no longer listed as active in the 2023 inventory:

- **Churn:** Due to persistently high energy prices, rising inflation and higher interest rates in the eurozone, this had a negative impact on overall economic development at the end of 2022. At this time, there was a concrete risk of an increased number of company insolvencies among NFON customers. However, the churn rate for 2023, excluding individual effects, was below the 2022 rate, which is why a specific risk is no longer assumed in the current inventory.
- **Competition in core markets:** NFON operates in a highly competitive market environment, which is taken into account in the economic planning. Compared to the previous year 2023, NFON does not expect any competitive pressure not anticipated in the forecast for 2024 that would have to be categorised as a risk. For this reason, this risk was classified as "inactive" in the inventory for 2023.
- **Market presence:** As part of the profitable growth strategy initiated in 2022, expenditure on marketing and sales measures was reduced. However, these measures increased the risk of losing market share and generating new business more slowly. However, over the course of 2023, this measure was not found to have a negative impact on the achievement of sales targets. The risk was therefore categorised as "inactive" in the new inventory.

The following table summarises the risk situation (net risks) of the NFON Group as at the end of the reporting period and the development of risks compared to the previous year:

Business risks

Risks	Risk class	Year-on-year change
Business Support System	Significant impact	New in
Re:Shape	Material impact	New in
Data protection breach	Material impact	Unchanged
Sales risk – CRM system	Material impact	Unchanged
Contractual risks	Material impact	Unchanged

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 the regular monitoring with the aim of remedying identified weaknesses. Based on such findings, we 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.[27]

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. 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). In financial year 2023,

[27] Unaudited information.

an internal audit by an external service provider and a role coordinating this within the company were implemented. The internal audit is responsible for independently auditing 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. [28]

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 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, the processes are monitored by an internal control system that aims to ensure both the appropriateness of accounting and compliance with the relevant legal regulations. In addition, the process of compliant and appropriate consolidated financial reporting is supported by supplementary procedural instructions, for example intercompany guidelines, standardised reporting formats, IT systems and IT-supporting reporting and consolidation processes. 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. All IFRS reporting packages of significant Group companies that are included in Group consolidation are audited by the local auditor or the Group auditor.

[28] Unaudited information.

Governance

Corporate governance report – corporate governance declaration[28]

IN ACCORDANCE WITH SECTIONS 289F AND 315D HGB

The Management Board and Supervisory Board report annually on the company's corporate governance in the Group corporate governance declaration in accordance with section 315d HGB in conjunction with section 289f HGB. A central component of this Group declaration is the declaration regarding the Corporate Governance Code in accordance with section 161 AktG.

The German Corporate Governance Code – the guideline for responsible corporate governance

The German Corporate Governance Code (GCGC or the "Code") contains principles, recommendations and suggestions for the Management Board and the Supervisory Board that are intended to help ensure that NFON is managed in the interests of the company. In their actions, the Management Board and Supervisory Board are aware of the company's role in society and their social responsibility. This also includes an understanding that social and environmental factors influence the company's success and that NFON AG's activities have an impact on people and the environment. These factors are appropriately considered in the management and monitoring of NFON AG by the Management Board and Supervisory Board in the interests of the company.

The aim of the Code is to make Germany's dual board corporate governance system transparent and comprehensible. It clarifies the obligation of the Management Board and Supervisory Board to ensure the continued existence of the company and its sustainable value creation ("interest of the company") according to the principles of the social market economy, and taking into account the interests of shareholders, employees and other groups associated with the company ("stakeholders"). These principles not only call for legality, but also ethically sound, responsible behaviour ("guiding principle of the businessperson of integrity"). The Management Board and Supervisory Board of NFON AG are committed to the principles, recommendations and suggestions contained in the Code. The Management Board and Supervisory Board report on possible deviations from the recommendations of the Code both in the declaration of compliance and in the following detailed explanations, based on the Code as amended on 28 April 2022.

Declaration of compliance with the Corporate Governance Code

In accordance with section 161 AktG, the Management Board and Supervisory Board of NFON AG explain in the declaration of conformity which recommendations of the "German Corporate Governance Code" published by the Federal Ministry of Justice in the official section of the electronic Federal Gazette as amended on 28 April 2022 have been and will be complied with or which recommendations have not been or will not be applied.

C.2 Overall, the Supervisory Board should possess the skills considered to be essential given the activities of the NFON Group. This includes in-depth experience and knowledge in the management of a medium-sized or larger, international company in the telecommunications industry, in accounting and financial reporting, in controlling/risk management and in the area of corporate governance/compliance. Given the importance of this experience and knowledge, the Supervisory Board has decided not to impose an age limit.

C.5 The Chairman of the Supervisory Board, Rainer Koppitz, is a member of the Management Board of a listed company and is therefore not permitted to serve as chairman of a Supervisory Board of a listed company outside the Group. He is also Chairman of the Supervisory Board of CENIT AG. The Management Board and Supervisory Board take the view that his activities as Chairman of

28 Unaudited information.

the Supervisory Board of NFON AG are consistent with his other management board and supervisory board mandates.

C.10, D.2 and D.4 Due to the size of the Supervisory Board of four members with the exception of the Audit Committee, the Supervisory Board of NFON AG has dispensed with the formation of committees. The Chairman of the Audit Committee is Florian Schuhbauer. Florian Schuhbauer acts independently of the company and the Management Board and possesses the necessary expertise in auditing. The other members of the Audit Committee are Rainer Koppitz and Günter Müller.

F.2 Due to the extensive consolidation work involved, the consolidated financial statements are prepared within four months of the end of the financial year. The quarterly reports and the half-year report are also published within two to three months of the end of the reporting period at the latest due to the extensive consolidation work required in accordance with the Stock Exchange Rules and Regulations and the German Act Implementing the Transparency Directive.

G.17 Contrary to the recommendation of the Code, the members of the Audit Committee are not remunerated separately due to the comparatively low amount of time required for the work of the Audit Committee.

Munich, April 2024

Basic information about the corporate governance structure and underlying regulations

NFON AG with its registered office in Munich is subject to German stock corporation law and has a Management Board, Supervisory Board and Annual General Meeting. The management of the company is based on close and trusting cooperation between all executive bodies and the active and constant flow of information between them. Shareholders can ask questions of the company management and exercise their voting rights at the Annual General Meeting in particular.

Taking responsibility is very much a part of the NFON self-image. The company assumes responsibility for products and processes, employees, customers and partners as well as for the environment and society. The company engages openly with its stakeholders and maintains a continuous dialogue. German stock corporations are required by law to have a dual board management system consisting of a management board and a supervisory board.

Information about corporate governance practices that go beyond the legal requirements

Naturally, the NFON Group is managed in accordance with legal requirements. The values on which good corporate governance is based call for more than just legality. They are also inherently based on ethically sound and responsible behaviour. When it comes to implementing the corporate strategy geared towards profitable growth, the Management Board and Supervisory Board, as well as the employees of the NFON Group, embrace the following corporate values:

entrepreneurial actions and thinking – team results – respect.

At NFON, each individual value stands on its own, but only defines what NFON is all about when combined with the other two values.

The corporate governance practices applied by NFON cover regulatory areas such as company-wide ethical standards, labour and social standards, compliance and sustainability guidelines and are set out in the ⊕ Sustainability Report. This is available together with the Annual Report 2023 at ⊕ corporate.nfon.com/en/investor-relations/reports.

Entrepreneurial thinking and action: The NFON mission is to make business communication as effective and seamless as possible. All NFON employees believe firmly that they can follow this path. What does this require? Pragmatic ideas and, above all, people who are not discouraged and who can bridge the last mile to the finish line. And if plan A doesn't work? The alphabet has 25 other letters from which to choose.

Team result: Obviously, each person also works towards very individual, personal milestones. Nevertheless, the success of the team is what counts at the end of the day. A common goal inspires us to achieve the extraordinary. A positive and goal-orientated culture is the ace up our sleeve. A culture in which every person receives the constructive feedback they deserve. A culture in which mistakes are not stumbling blocks but pave the way for collective breakthroughs.

Respect: Our actions are based on respect. Whether in our dealings with each other, partners or customers, NFON values the commitment of others and is open to different opinions. Our goal is to create a stable environment for all. To do this, we keep an open mind. We listen to what others have to say. We communicate – directly and honestly with each other instead of about each other. Feedback is more valuable than gold. We learn from each other and appreciate our mutual good intentions.

Management Board

In accordance with the Articles of Association, the Supervisory Board may appoint one or more persons to the Management Board of the company. The Management Board of NFON AG consists of two members in April 2024. Together with the Chief Commercial Officer, the Chief Sales Officer and the Chief Product Officer as delegated managers, the Management Board forms the C-level team. The age limit for the Management Board is set at 65.

In accordance with the provisions of the German Stock Corporation Act and the German Corporate Governance Code, the Supervisory Board has set a target of 50% for the proportion of women on the Management Board, which is to be reached by 1 January 2027. The Supervisory Board will take the topic of diversity into account when searching for suitable candidates for new Management Board positions. The Management Board is also obliged to set a target for the proportion of women at the management level below the Management Board. The Management Board has defined the managing directors of the foreign companies, the Chief Commercial Officer, the Chief Sales Officer, the Chief Product Officer and the Vice Presidents in Germany or equivalent staff functions within the company as the first management level below the Management Board. The NFON Group does not have a second management level below the Management Board. For the NFON Group, the Management Board resolved on 7 December 2021 in accordance with section 76 (4) AktG to set a quota of six women at the management level below the Management Board (out of a total of 22 managers at these two management levels). This is to be achieved by 1 January 2026. With three women currently in management positions, 50% of this target quota has been achieved.

The Management Board is responsible for managing the company in the interests of the company. In accordance with the Rules of Procedure issued by the Supervisory Board, the Management Board manages the company's business according to standardised plans and guidelines. The Management Board is jointly responsible for the overall management of the company. As part of this overall responsibility for managing the company, the two members of the Management Board work together in a cooperative and trusting manner in their respective functions for the benefit of the company. The Management Board formulates the strategic direction of the company in the C-level team. In addition to long-term economic goals, the Management Board defines environmental and social goals within the corporate strategy in the C-level team. A key component of sustainability management within NFON AG is the systematic process of identifying and assessing the risks and opportunities associated with social and environmental factors for NFON AG as well as the ecological and social impact of the company's activities, which in turn are incorporated into the corporate strategy. The C-level team agrees the strategy with the Supervisory Board and is responsible for implementing it together with colleagues in the C-level team.

In addition to complying with legal regulations and internal company policies, including in the Group companies, the C-level team also ensures that business risks are dealt with in a responsible manner. To ensure this, the C-level team has implemented an internal control system and risk management system. Further details can be found in the report on risks and opportunities, including the report on the internal control system in the combined Group management report.

Together with the C-level team, the Management Board is responsible for ensuring compliance with legal regulations and internal company guidelines and works to ensure that these are observed by the Group companies (compliance). Compliance issues are regularly the subject of discussions between the Supervisory Board or the Chairman of the Supervisory Board and the C-level team. The corporate culture of the NFON Group is based on trust and mutual respect as well as the will to ensure strict compliance with laws and internal regulations. Despite this, legal violations due to individual misconduct can never be entirely ruled out. Employees and third parties have the opportunity to report cases of misconduct in the company (whistle-blower system ⊕ corporate.nfon.com/en/compliance-nfon/whistleblowing). The company makes every effort to minimise this risk as far as possible, to uncover misconduct and to pursue it consistently. Compliance with legal and ethical rules and principles is extremely important. Rules and principles, as well as the responsible handling of insider information, are set out in the compliance guidelines. They offer guidance for all employees on how to behave with integrity in business dealings.

Managers and employees are provided with training on how to adhere to the compliance guidelines.

The Supervisory Board

The Supervisory Board takes diversity into account with regard to its composition and making corresponding election proposals to the Annual General Meeting. This includes not only the recommended composition of the Supervisory Board of male and female members in accordance with the German Stock Corporation Act and the Corporate Governance Code but also the consideration of the individual members' experience based on age, professional experience and internationality. The authoritative guidance for election proposals is the interests of the company and the requirements defined in Principle 11 and following recommendations of the Code regarding the knowledge, skills and professional experience of a Supervisory Board member. With regard to its composition, the Supervisory Board should also take appropriate account of the number of independent Supervisory Board members as defined in C.1 of the Code. Following an appropriate application and nomination process that takes into account the need for a balanced composition of the Supervisory Board in terms of knowledge, ability, experience and independence, the Supervisory Board then proposes the most suitable candidates.

In accordance with section 111 (5) AktG, the Supervisory Board defines targets for the proportion of women on the Supervisory Board. The Supervisory Board has set a target of 25% or one person for the proportion of women on the Supervisory Board. This quota is to be reached by 1 September 2028. In addition to the requirement of the self-imposed target for the proportion of women, the Code (C.6) recommends that the ownership structure be taken into account in the composition of the Supervisory Board. According to the executive bodies of NFON AG, the Supervisory Board would have to have more than four members in order to fulfil both requirements. However, this is not appropriate given the size of the company.

In accordance with the Articles of Association, the Supervisory Board of NFON AG consists of four members elected by the Annual General Meeting. Its members are: Rainer Koppitz, CEO of KATEK SE (until February 2024), Entrepreneur, Munich, (Chairman of the Supervisory Board since 9 April 2018 and member of the Supervisory Board since 2015); Günter Müller, Executive Chairman of ASC Technologies AG, Germany, and Managing Director of Milestone Venture Capital GmbH, Germany, (member of the Supervisory Board and Deputy Chairman of the Supervisory Board since 12 December 2019); Florian Schuhbauer, founding partner, Active Ownership Capital S.à r.l., Luxembourg, (member of the Supervisory Board since 12 December 2019 and Chairman of the Audit Committee since 6 April 2022) and Dr Rupert Doehner (Deputy Chairman of the Supervisory Board until 12 December 2019; member of the Supervisory Board since 9 April 2018), founding partner of RECON Advisory GmbH & Co. KG, lawyer and specialist lawyer for commercial and corporate law. Further information on the membership and composition of the Supervisory Board can be found in the notes to the consolidated financial statements of NFON AG. At the Extraordinary General Meeting on 12 December 2019, Florian Schuhbauer and Günter Müller were newly elected to the Supervisory Board as shareholder representatives. With this vote, greater consideration was given to the ownership structure. Within the meaning of the Code, both Supervisory Board members are independent from the company as they have no personal or business connection to

NFON or its Management Board. A significant and not merely temporary conflict of interest does not arise. Neither Florian Schuhbauer nor Günter Müller can be defined as controlling shareholders. No control agreement has been concluded with any of the shareholders. Nor do any of the shareholders have an absolute majority of votes or a lasting majority at the Annual General Meeting.

The Supervisory Board members of NFON AG are committed to acting in the best interests of the company. With regard to its composition, the Supervisory Board ensures that its members as a whole possess the requisite knowledge, skills and professional experience to perform their duties properly. Overall, the Supervisory Board as a whole should possess the skills considered to be essential given the activities of the NFON Group. With regard to Principle 11 and Recommendation C.1, the Supervisory Board has defined the following competence profile with the corresponding objectives for the entire board:

- Each member of the Supervisory Board must fulfil the legal and statutory requirements for membership of the Supervisory Board (see section 100 (1) to (4) AktG) and possess the knowledge and skills required to properly perform the duties incumbent on them in accordance with the law and the Articles of Association.
- Collectively, the Supervisory Board members must be familiar with the sector in which the company operates (see section 100 (5) sentence 2 AktG).
- Each Supervisory Board member must be sufficiently available and willing to devote the necessary time and attention to the office.
- In addition to these general requirements, the entire board should fulfil the following requirements in particular:
  - At least two members should fulfil the criterion of internationality to a particular degree or have gained operational experience in international companies.
  - Each member should have a general understanding of NFON AG's business, in particular the software, IT and telecommunications industries, as well as of customer needs, the regions in which the company operates and the company's strategic direction.
  - At least three members should have operational experience in corporate management and in the finance area.
  - One or more members should have expertise in the field of sustainability.
  - At least one member of the Supervisory Board must have expertise in the field of accounting, and at least one other member must have expertise in the field of auditing financial statements. Accounting and auditing also include sustainability reporting and the auditing of same.
  - One or more members of the overall board should have experience in the areas of transformation management, legal/compliance, HR and sales/R&D.

The Supervisory Board of the company currently considers the above-mentioned objectives for the composition of the Supervisory Board to be fulfilled.

As Chairman of the Audit Committee, Florian Schuhbauer possesses the necessary expertise in the field of auditing financial statements and auditing sustainability reporting. He has more than 20 years of experience in the operational management of various German and foreign companies. Due to his many years of international investment experience, he is also familiar with sustainability issues. Florian Schuhbauer previously held the position of CFO and Executive Vice President at DHL Global Mail in the USA, a subsidiary of Deutsche Post AG. Before founding Active Ownership Capital S.à r.l. and Active Ownership Corporation S.à r.l. (AOC), he was a partner at the private equity firms General Capital Group and Triton Partners. Florian Schuhbauer has been a member of the Supervisory Board of PNE AG since May 2017 and a member of the Supervisory Board of Vita 34 AG since July 2020, both of which are listed stock corporations. Based on his professional experience, Florian Schuhbauer is therefore well equipped to deal with all the tasks assigned to him as Chairman of the Audit Committee on an equal footing with the CFO and the auditor.

Rainer Koppitz can look back on more than 20 years of experience as a managing director and board member of industrial companies in various sectors (such as Siemens Enterprise Communications GmbH, BT Germany, NFON AG, B2X GmbH, Siemens IT Solutions & Services GmbH & Co OHG, KATEK SE) as well as in various supervisory and advisory board mandates (such as Tyde GmbH, CENIT AG). Both CENIT AG and KATEK SE are listed companies. Based on the relevant professional experience outlined above and, not least, due to his activity as CEO and co-founder of KATEK SE, Rainer Koppitz has the expertise required by the German Stock Corporation Act and the Corporate Governance Code in the application of reporting principles, internal control and risk management systems as well as sustainability reporting.

Günter Müller has the know-how required in the fields of accounting, auditing financial statements and sustainability reporting. He has been Executive Chairman of ASC Technologies AG, a leading global software provider in the field of omnichannel recording, quality management and analytics, since 1979. Günter Müller is also Managing Director of Milestone Venture Capital GmbH. Günter Müller previously worked for Gasa Produktions GmbH, Eisenwerke Kaiserslautern and Bosch-Rexroth.

The implementation status of the skills profile is disclosed as follows (qualification matrix):

Goals/skills	Rainer Koppitz	Günter Müller	Florian Schuhbauer	Rupert Doehner
Requirements for membership of the Supervisory Board in accordance with the law and the Articles of Association (section 100 (1) to (4) AktG)	X	X	X	X
Familiarity with the sector in which NFON AG operates	X	X	X	X
Each member should have a general understanding of NFON AG's business, in particular the software, IT and telecommunications industries, as well as of customer needs, the regions in which the company operates and the company's strategic direction.	X	X	X	X
At least two members fulfil the criterion of internationality or have gained operational experience in international companies.	X	X	X	X
At least three members should have operational experience in corporate management and in the finance area.	X	X	X	X
One or more members should have expertise in the field of sustainability.	X	X	X	X
At least one member of the Supervisory Board must have expertise in the field of accounting. Accounting also includes sustainability reporting and the auditing of same.	X	X	X	X
At least one other member of the Supervisory Board must have expertise in the field of auditing financial statements. Accounting and auditing also include sustainability reporting and the auditing of same.	X	X	X	X
One or more members of the overall board should have experience in the areas of transformation management, legal/compliance, HR and sales/R&D.	X	X	X	X

Given the importance of this experience and knowledge, the Supervisory Board has decided not to impose an age limit.

Although the women's quota of 25% has not been met for the time being since the election of the new Supervisory Board, it remains a target to be reached by 1 September 2028.

No member of the Supervisory Board performs executive or advisory functions for major competitors.

The Chairman and a Deputy Chairman are elected from among the members of the Supervisory Board. The Rules of Procedure, which the Supervisory Board has drawn up for itself, govern its working methods. The Rules of Procedure for the Supervisory Board can be viewed on the company's website (⊕ corporate.nfon.com/en/investor-relations/downloadcentre).

As recommended by the Code, the personal and business relationships of each candidate to the company, to the company's executive bodies and to a shareholder with a material interest in the company are disclosed in the proposals for election to the Supervisory Board at the Annual General Meeting, where applicable. Each candidate proposal is accompanied by a curriculum vitae that provides information about the candidate's relevant knowledge, skills and professional experience; this is supplemented by an overview of their main activities in addition to the Supervisory Board mandate. The respective curriculum vitae of all Supervisory Board members is published on the company's website and is updated annually (⊕ corporate.nfon.com/en/about-nfon/management#c12232). In performing their duties, each member of the Supervisory Board ensures that they have sufficient time available to meet their responsibilities. The Chairman of the Supervisory Board, Rainer Koppitz, is a member of the Management Board of a listed company. Contrary to the recommendation of the Corporate Governance Code (C.5), Rainer Koppitz also chaired the Supervisory Boards of NFON AG and CENIT AG in addition to his role as Chief Executive Officer of KATEK SE (until February 2024). The Management Board and Supervisory Board of NFON AG take the view that his activities as Chairman of the Supervisory Board of NFON AG are consistent with his other management board and supervisory board mandates.

To ensure that the Supervisory Board advises and monitors the Management Board independently, the Rules of Procedure for the Supervisory Board stipulate that more than half of the members of the Supervisory Board should be independent as defined by the German Corporate Governance Code. In the view of the Supervisory Board, there are currently no definite indications of relevant circumstances or relationships, specifically with the company, members of the Management Board or other Supervisory Board members, which could give rise to a material and not merely temporary conflict of interest and therefore contradict the condition of independence.

Due to the size of the company and the number of Supervisory Board members specified by the Articles of Association, committees are generally not formed. One exception is the three-member Audit Committee that was established by resolution on 6 April 2022 and was chaired by Florian Schuhbauer. He has expertise in the area of auditing. The other members of the Audit Committee are Rainer Koppitz and Günter Müller.

In accordance with the Articles of Association, the Supervisory Board of NFON AG meets once every calendar quarter, with two meetings taking place every six months. Extraordinary meetings are convened by the Chairman of the Supervisory Board as required and based on his professional judgement. Resolutions of the Supervisory Board are generally passed in meetings. The Supervisory Board is quorate if at least half of its members are involved in the passing of resolutions. Outside of meetings, resolutions may be passed in writing, by telex, fax, telephone or telegraph. They may also be passed by e-mail or video conference. The Supervisory Board also meets regularly without the Management Board of NFON AG.

The Supervisory Board conducts regular reviews of the efficiency of its activities. The last efficiency review took place on 8 December 2022. Regular training and further education is essential for the efficient work of the Supervisory Board. The members of the Supervisory Board acquire significant experience in their everyday work outside of their Supervisory Board mandate. Notwithstanding this, the company provides appropriate support to the Supervisory Board members with regard to training and further education.

Cooperation with the auditor

The auditor supports the Audit Committee in monitoring the management, in particular in auditing the accounting and overseeing the control and risk management systems that relate to accounting. In line with the resolution of the Annual General Meeting on 30 June 2023, the Audit Committee commissioned KPMG AG Wirtschaftsprüfungsgesellschaft, Munich, to audit the annual and consolidated financial statements for 2023. In accordance with the recommendations of the Code, it was agreed with the auditor that the Supervisory Board would be informed immediately of all findings and events of relevance to the Supervisory Board's duties that come to the auditor's attention during the audit. The Supervisory Board will also immediately be informed if the auditor discovers any facts that point to an inaccuracy in the declaration regarding the Code issued by the Management Board and Supervisory Board in accordance with section 161 AktG. Furthermore, the Audit Committee and the auditor jointly discussed the audit risk, audit strategy and audit planning. The Chairman of the Audit Committee, Florian Schuhbauer, was in regular contact with the auditor to discuss the progress of the audit. In accordance with the recommendation of the Corporate Governance Code, the committee was informed by the committee chairman. The committee meetings were also held without the Management Board.

Cooperation between the Management Board and Supervisory Board

The common goal of the close cooperation between the Management Board and the Supervisory Board is to ensure the continued existence of the company and its ability to create value over the long term. The Management Board and Supervisory Board meet regularly to discuss the extent to which the previously agreed strategic direction of the company has been implemented. The Management Board also regularly informs the Supervisory Board of all company-relevant issues concerning planning, business development, the risk situation, risk management, internal accounting, sustainability management and compliance. The Management Board reports if the company's performance deviates from the set plans and targets and provides reasons for this. The Supervisory Board has defined in the Rules and Procedures the manner in which the Management Board must inform and report. For decisions or measures that fundamentally alter the earnings, financial and asset positions of the company and for transactions of material significance, the Rules of Procedure of the Management Board stipulate that the Supervisory Board must give its approval.

The Management Board and Supervisory Board are obliged to act in the interests of the company and are not permitted to pursue personal interests in their decisions or in connection with their activities, nor may they grant benefits to other persons or exploit for themselves business opportunities to which the company is entitled. Each Management Board member is obliged to disclose conflicts of interest to the Supervisory Board and must inform the other members of the Management Board. Each Supervisory Board member must also disclose any conflicts of interest to the Supervisory Board. In its report to the Annual General Meeting, the Supervisory Board provides information on any conflicts of interest that have arisen and how they were handled. No conflicts of interest requiring disclosure occurred in 2023.

The Supervisory Board and the Management Board cooperate to ensure long-term succession planning for membership of the Management Board. With this in mind, the Supervisory Board is constantly looking for promising young managers both internally and outside the company. Depending on the specific circumstances in each case, the Supervisory Board generally recommends that specific succession planning should commence at the earliest two years before the current Management Board contracts expire. Eligible internal candidates are systematically analysed independently of this. An age limit of 65 years has been set for members of the Management Board.

Function of the Annual General Meeting

The Management Board convenes the Annual General Meeting at least once a year. The shareholders of NFON AG exercise their voting and control rights at the Annual General Meeting. At the Annual General Meeting, the shareholders decide in particular on the allocation of profits and the discharge of the Management Board and Supervisory Board. They also elect the shareholder representatives to the Supervisory Board and the auditor. The Annual General Meeting makes decisions regarding the legal basis of the company and, in particular, regarding amendments to the Articles of Association, capital measures, company agreements and conversions. With regard to approving the remuneration system for the Management Board members presented by the Supervisory Board and the specific remuneration of the Supervisory Board, the Annual General Meeting generally acts in an advisory capacity. It also makes recommendations regarding the approval of the remuneration report for the past financial year. In the event of a takeover bid, the Management Board convenes an Extraordinary General Meeting, which aims to give shareholders the opportunity to discuss the takeover offer and, if necessary, to decide on measures under company law.

Naturally, it is in the interests of the company and the shareholders to ensure that the Annual General Meeting is conducted swiftly. Under the terms of the Articles of Association, the Chairman of the Annual General Meeting has the option of imposing reasonable time limits on the shareholders' rights to ask questions and speak at the meeting.

Transparency and external reporting

For NFON AG, corporate governance means managing and controlling the company in a responsible and transparent manner. In particular, this includes the equal treatment of shareholders when it comes to disclosing information. All shareholders, financial analysts and comparable recipients are provided with all new facts without delay. This includes the publication of information in German and English on the NFON AG website as well as the use of systems that ensure the simultaneous publication of information in Germany and abroad. NFON AG uses the EQS Group AG system for this purpose.

Shareholders and third parties are informed primarily through the consolidated financial statements and the Group management report, including the Sustainability Report, and – during the financial year – through the quarterly reports and the half-year financial report. Contrary to the recommendation of the Code, the quarterly report and the half-year financial report are published within two and three months of the end of the reporting period at the latest, due to the extensive consolidation work required in accordance with the Stock Exchange Rules and Regulations of the German Securities Trading Act.

Remuneration of the Management Board and Supervisory Board

As part of its corporate strategy, NFON AG is pursuing the long-term goal of consolidating and further expanding its position as a leading provider of integrated cloud business communication in Europe with ambitious growth targets. In this context, the NFON Group focuses its actions on long-term and sustainable corporate success and takes its corporate responsibility seriously.

In line with these goals, the remuneration system for the Management Board is based on three central guidelines:

1. A pronounced performance orientation and high performance differentiation through ambitious internal and external objectives place the focus firmly on the company's sustainable profitable growth.

2. Long-term components avoid incentives to take disproportionate risks.

3. The remuneration system is designed to create a strong share culture and thus helps to align the interests of shareholders, management and other stakeholders. In particular, the configuration of individual targets also creates special incentives to foster sustainable behaviour in terms of the criteria from the environment, social and governance areas (ESG).

The current Management Board contracts are already aligned with the remuneration system – i.e. the remuneration system as part of the revised recommendations of the Code.

The peer group as defined by recommendation G.3 of the GCGC comprises Telefónica, United Internet, EQS and Gamma. The remuneration of the company's Management Board members is in the lower range in this peer group comparison.

The remuneration report for the last financial year and the auditor's report in accordance with section 162 AktG can be found in the Annual Report 2023, which is available on the company's website at ⊕ corporate.nfon.com/en/investor-relations/reports. The separate remuneration report can be download from the following link: ⊕ corporate.nfon.com/en/about-nfon/corporate-governance/governance. The remuneration report also contains detailed explanations of the remuneration system and the individual remuneration of the Management Board and Supervisory Board members. The applicable remuneration system for the Management Board is also available separately at the following link: ⊕ corporate.nfon.com/en/about-nfon/corporate-governance/governance.

The auditor's report in accordance with section 162 AktG is publicly available at ⊕ corporate.nfon.com/en/investor-relations/reports.

We are sustainable

The C-level team and managers are responsible for the development of the company, which includes not only administrative processes but also the development of and responsibility for the organisation's values, mission, strategy, policies and goals with regard to sustainable development.

The Supervisory Board and C-level team monitor the organisation's due diligence and other processes in order to identify and manage the organisation's impact on the economy, the environment and people. The C-level team does this by setting up special projects, encouraging the workforce to adopt sustainable work practices and contributing ideas on how NFON could become even more sustainable.

The C-level team and the Supervisory Board consider the results of these processes through regular reports that they receive from the owners of the delegated sustainability projects, measures and tasks.

With the support of the owners of the delegated sustainability projects, the C-level team ensures that all stakeholders are involved. The company plans to publish the results of the sub-projects on a regular basis and to evaluate the respective successes.

The Group Corporate Governance Statement, which includes the declaration of conformity, is published on the NFON AG website: ⊕ corporate.nfon.com/en/about-nfon/corporate-governance/governance.

Remuneration report 2023

of NFON AG, Munich, pursuant to section 162 AktG

In view of the legal requirements, particularly in sections 87, 87a and 120a AktG and the German Corporate Governance Code (GCGC, the "Code"), the Management Board and Supervisory Board report on the remuneration of the members of the Management Board and Supervisory Board of NFON AG for financial year 2023 in accordance with the requirements of section 162 AktG. The remuneration granted and owed as well as the benefits promised are reported individually for the members of the executive bodies.

The current remuneration system, which was approved by the Annual General Meeting on 24 June 2021 with an approval rate of 99.99%, can be found under "Annual General Meeting" on the website ⊕ corporate.nfon.com. To make this remuneration report easier to read and to avoid repetition, reference is made to the remuneration system. The remuneration report was approved by the company's Annual General Meeting on 30 June 2023 with an approval rate of 81.56%.

I. Management Board

As part of its corporate strategy, NFON AG is pursuing the long-term goal of consolidating and further expanding its position as one of the leading providers of integrated business communication with ambitious growth targets. As a result, the company's primary strategic focus is on profitable growth. In this context, the NFON Group focuses its actions on long-term and sustainable corporate success and takes its corporate responsibility seriously.

In line with these goals, the remuneration system for the Management Board is based on three central guidelines:

1. A pronounced performance orientation and high performance differentiation through ambitious internal and external objectives place the focus firmly on the company's above-average growth.

2. Long-term components avoid incentives to take disproportionate risks.

3. The remuneration system is designed to create a strong share culture and thus helps to align the interests of shareholders, management and other stakeholders. In particular, the configuration of individual targets also creates special incentives to foster sustainable behaviour in terms of the criteria from the environment, social and governance areas (ESG).

Procedure for reviewing the remuneration

It is essential that the structure and level of remuneration are customary and competitive in the market. This is ensured through regular remuneration comparisons with peer groups that are relevant for NFON AG. In addition, care is taken to ensure an appropriate relationship between the remuneration of the Management Board and the remuneration of managers and employees. Its appropriateness both internally and externally is reviewed at regular intervals.

Remuneration structure

The remuneration of the NFON Management Board members comprises fixed and variable components.

The total remuneration of the Management Board members is performance-oriented and made up of various components. Specifically, this consists of non-performance-related fixed annual remuneration (fixed salary), performance-related variable remuneration consisting of a short-term incentive (STI) programme and a long-term incentive (LTI) programme, as well as fringe benefits.

According to the remuneration system, the maximum annual remuneration is EUR 1.5 million in the case of the Chairman of the Management Board and EUR 0.75 million in the case of an ordinary member of the Management Board. In contrast to the remuneration system, the provision regarding maximum remuneration was not included in the Management Board employment contracts.

The target corridors for total annual remuneration are defined as follows: fixed salary 30 - 50%, the STI 10 - 25% and the LTI 40 - 50%.

Annual fixed remuneration

The fixed salary is paid in twelve equal monthly instalments.

Variable remuneration components

The performance-related variable remuneration comprises two components: the STI and the LTI.

The performance-related variable remuneration amounts granted to the Management Board member, but in particular the LTI, are to be invested by them primarily in shares in the company or granted accordingly on a share-based basis.

a. STI

The Supervisory Board determined individual STIs and their weighting for each member of the Management Board for the upcoming financial year. In addition to operational objectives, the STIs contribute to the implementation of the corporate strategy and to the long-term and sustainable development of the NFON Group. The STIs are demanding and ambitious. They are formulated in sufficiently specific terms to allow target achievement to be measured. Specific key figures or expectations regarding target achievement were specified in each case. The performance criteria to be used by the Supervisory Board as part of the annual target agreement were both financial and non-financial in nature and included a performance criterion from the ESG area.

Examples of ESG criteria include:
- Customer satisfaction
- Employee satisfaction
- Diversity
- Risk management
- Compliance
- Corporate governance
- Corporate social responsibility
- Limiting CO_2 emissions/sparing use of resources
- Reporting and communication
- Succession planning

As a criterion to determine the financial performance criteria of the STI in a company at the stage of maturity and development of the NFON Group, relevant benchmarks such as consolidated earnings before interest, taxes, depreciation and amortisation (EBITDA) or consolidated revenue are currently used for all stakeholders.

The target value for the STI is based on the planning for the respective financial year. After the end of the respective remuneration year, the Supervisory Board assessed the target achievement for each Management Board member. This means that 150% of the target amount is paid out if the planned value is exceeded by 50% or more. In the case of intermediate target achievement values, a corresponding value within the range is paid out.

The target parameters defined by the Supervisory Board for the STIs for the upcoming financial year cannot be changed retrospectively.

The STIs are paid out in the following year after the annual financial statements have been finalised and approved by the Supervisory Board.

These target parameters, supplemented by individual targets, were also applied to the majority of senior executives to ensure a uniform and consistent target system throughout the Group.

Since the STIs are linked to the performance of revenue and earnings, they provide significant support to the short- and medium-term growth strategy with regard to the targeted growth in both size and earnings. The STIs therefore make an important contribution to the implementation of the corporate strategy because they ensure that the interests of the Management Board members are aligned with the short- and medium-term corporate strategy.

In the remuneration system structure, 45% of the STI of the Management Board members Dr Klaus von Rottkay and Jan-Peter Koopmann is dependent on the recurring revenue of the NFON Group, 45% on the EBITDA of the NFON Group and 10% on the achievement of the sustainability target. The STI for all Management Board members is capped at a target achievement of 150%. No STI was granted in financial year 2023 if less than 80% of the target was achieved. Depending on the Executive Board member, the STI amounts to between 21.1% and 42.3% of the sum of the fixed basic salary and STI in the event of 100% target achievement. According to the Management Board employment contract and contrary to the remuneration system, the Supervisory Board may also grant a discretionary bonus amounting to a maximum of one fixed basic annual salary, although this was not granted in financial year 2023.

The following individual STIs were granted to the active members of the Management Board in financial year 2023:

Weighting	Description	Target**	Target achievement	Target achievement in %	STI amount von Rottkay	STI amount Koopmann	STI amount Heider***
45%	Recurring revenues of the NFON Group 2023	EUR 80.2 million	–	–	–	–	–
45%	EBITDA of the NFON Group 2023	EUR -0.3 million	–	–	–	–	–
10%	Successful implementation of a project to increase the sustainability (ESG) of the NFON Group*		–	–	–	–	–
100%					HY1 EUR 138,600 HY2 (July-November) EUR 114,583 Total: EUR 253,183	HY1 EUR 37,800 HY1 EUR 37,500 Total: EUR 75,300	EUR 156,250

* 2023: Implementation of sustainability management for the NFON Group.
** The variable remuneration for 2023 for the members of the Management Board of Rottkay and Koopmann was guaranteed in accordance with the termination agreement for the first half of 2023 in line with the target agreement based on the half-year figures for 2023 with a target achievement of 100.8% and the variable remuneration for the second half of 2023 (or Klaus von Rottkay July to November 2023) with a target achievement level of 100%.
*** The Executive Board member Patrik Heider was contractually guaranteed variable remuneration in 2023 with a target achievement level of 100% and was paid pro rata temporis to the period of service with the company.

b. LTI

To focus the Management Board remuneration structure more strongly on long-term and sustainable corporate development, an LTI is also part of the Management Board remuneration. The LTI consists of stock options from the company's 2018, 2021 and 2023 stock option programmes (SOP 2018, SOP 2021 and SOP 2023).

The LTI also makes a significant contribution to promoting the corporate strategy, as both SOP 2018 and SOP 2021 stipulate the achievement of a certain level of revenue growth and SOP 2023 stipulates the achievement of a certain level of EBIT growth as a performance hurdle. It also incentivises an increase in the company's share price and market value, which is in the interests of our stakeholders in the company.

NFON AG granted the Management Board member Patrik Heider 100,000 stock options from the 2023 stock option programme for Management Board members as long-term variable remuneration with the following key parameters:

Exercise price: EUR 7.53

Vesting period: 4 years

The personal requirements for exercising the option are that

- the relevant reference price exceeds the exercise price by more than 60% if exercised after at least 48 months from the allocation date, by more than 75% if exercised after at least 60 months from the allocation date and by more than 90% if exercised after at least 72 months from the allocation date, irrespective of whether all or only some of the stock options can actually be exercised at the relevant time, taking into account the blocking periods, and (cumulatively)
- the EBIT according to the IFRS consolidated financial statements on the last reporting date prior to the exercising of stock options is positive and amounts to at least 110% of the positive EBIT according to the IFRS consolidated financial statements on the penultimate reporting date prior to the exercising of stock options

- Cap for payout values: total basic salary of the Management Board (fixed salary) at the company until the options are exercised multiplied by a factor of 1.5

These stock options were allocated to the Management Board member Patrik Heider in financial year 2023 and entitle the Management Board member to purchase 100,000 shares in the company, subject to achieving the exercise conditions.

c. Fringe benefits and other remuneration components

In addition to the fixed salary, the Management Board members receive fringe benefits in the form of non-cash benefits; these can mainly consist of contributions to statutory or private pension or health insurance policies and the use of company cars for business and private purposes.

In addition to the salary, there is a D&O liability insurance policy and a D&O legal expenses insurance policy, whereby an excess of 10% of the loss up to one and a half times the fixed annual remuneration is agreed as part of the D&O insurance.

The following table shows the remuneration granted and owed individually to active and former members of the Management Board in financial year 2023. Since remuneration granted and owed is not always accompanied by a payment during the respective financial year, the following table shows the remuneration granted to the members of the Management Board for financial year 2023. In this case, the non-performance-related remuneration components below were granted and accrued in financial year 2023. The STI 2023 is shown as the underlying activity was provided in full in 2023.

	2023		2022	
	In EUR thousand	In %	In EUR thousand	In %
Remuneration of Heider, Patrik CEO (since 15 May 2023)				
Basic remuneration	281	41.8	–	–
+ fringe benefits	9	1.3	–	–
= Total fixed remuneration	290	43.1	–	–
+ short-term variable remuneration	156	23.2	–	–
+ long-term variable remuneration	227	33.7	–	–
= Total remuneration	673	100.0	–	–
Remuneration of Dr von Rottkay, Klaus, CEO (until 30 November 2023)				
Basic remuneration	344	57.6	375	61.8
+ fringe benefits	0	0.0	0	0.0
= Total fixed remuneration	344	57.6	375	61.8
+ short-term variable remuneration	253	42.4	232	38.2
+ long-term variable remuneration	0	0.0	0	0.0
= Total remuneration	597	100.0	607	100.0
Remuneration of Koopmann, Jan-Peter, CTO				
Basic remuneration	280	78.9	280	74.7
+ fringe benefits	0	0.0	32	8.5
= Total fixed remuneration	280	78.9	312	83.2
+ short-term variable remuneration	75	21.1	63	16.8
+ long-term variable remuneration	0	0.0	0	0.0
= Total remuneration	355	100.0	375	100.0

The remuneration granted and owed as described above is in line with the remuneration system for the Management Board approved by the 2022 Annual General Meeting. It was not necessary to amend the Management Board employment contracts to take account of the approved remuneration system because the main features of the approved remuneration system were already known at the time the Management Board employment contracts were concluded. The remuneration system promotes the long-term development of the company because a large number of stock options have been granted that can only be exercised after the statutory vesting period of four years. They also have a performance hurdle that is linked to recurring revenue. In addition to a performance criterion from the ESG area, the STIs are based on revenue and EBITDA benchmarks. Both benchmarks are widely used and appropriate for companies of NFON's scale and stage of development. They primarily incentivise the company's growth and thus promote its long-term development.

Comparative presentation of the annual change in the remuneration granted and owed to active and former members of the Management Board and Supervisory Board as well as the remuneration of employees with the company's financial performance:

In EUR million	Change 2021 to 2020	Change 2022 to 2021	2022	2023	Change compared to previous year
Earnings development (net loss for the year according to HGB)	-50%	+16%	20.15	7.76	–
Average remuneration of employees	-1,8%	+7,5%	–	–	+2,9%
In EUR thousand					
Remuneration of Patrik Heider	–	–	–	673	–
Remuneration of Dr Kaus von Rottkay	+94%	–52%	607*	597	+1,7%
Remuneration of Jan-Peter Koopmann	+83%	0%	375	355	–5,3%
Remuneration of Rainer Koppitz	+45%	+28%	82	80	–2.4%
Remuneration of Günter Müller	+63%	+37%	67	65	–3.0%
Remuneration of Florian Schuhbauer	+30%	+21%	47	45	–4.3%
Remuneration of Dr Rupert Doehner	+30%	+21%	47	45	–4.3%

* Notionally extrapolated in a linear manner

Average employee remuneration refers to gross staff costs (i.e. costs excluding the employer's share of social security contributions) less Management Board salaries and employee bonuses divided by average full-time equivalents (FTE) per year multiplied by average head counts (HC) per year (to achieve FTE). All employees of NFON AG in permanent employment were included. The Supervisory Board did not reclaim any variable remuneration components in financial year 2023.

No member of the Management Board was promised or granted benefits by a third party with regard to their activities as a Management Board member during the financial year.

Post-employment benefits

If the appointment to the Management Board is revoked prematurely without good cause in accordance with section 626 BGB, and if the employment contract is terminated without notice, the Management Board member receives a severance payment in the amount of one fixed annual salary, limited to the total remuneration owed for the remaining term. In the event of a change of control, 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. From the occurrence of a change of control, the right of termination pursuant to section 2 (2) sentence 3 (termination with severance pay of one fixed annual salary) is suspended for a period of twelve months.

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.

The entitlement to severance pay lapses or the severance pay already received must be repaid if the company issues an effective extraordinary termination of the employment contract for good cause in accordance with section 626 BGB or if it becomes apparent within the six months following the end of this employment contract that there was good cause for extraordinary termination and the company demands repayment in writing.

A severance payment under section 2 (2) can only be offset against any compensation for non-competition in accordance with section 10 of this contract if the Management Board member has exercised their right of termination as set out in this paragraph.

A post-contractual non-competition clause has been agreed with the members of the Management Board in their employment contracts, which would entitle the respective Management Board member to a compensation payment of 50% of the last contractually agreed remuneration for a period of one year upon leaving the company.

II. Supervisory Board

In accordance with the resolution of the Annual General Meeting of 21 June 2021, the members of the Supervisory Board of NFON AG received the following cash payment in financial year 2023 – in addition to the reimbursement of expenses in accordance with the Articles of Association of NFON AG:

a. basic remuneration, payable after the end of the financial year, of EUR 75,000.00 for the Chairman of the Supervisory Board, EUR 60,000.00 for the Deputy Chairman of the Supervisory Board and EUR 40,000.00 for the other members of the Supervisory Board, plus any applicable VAT in each case

b. an additional attendance fee of EUR 1,000.00 plus any applicable VAT for each meeting of the Supervisory Board (plenary meeting) that they have attended in full, payable after the end of the financial year

The following table shows the remuneration granted and owed to the members of the Supervisory Board in financial year 2023, including their relative share in accordance with section 162 AktG. Since remuneration granted and owed is not always accompanied by a payment in the respective financial year, the following table shows the amount of remuneration granted to the members of the Supervisory Board for financial year 2023 in which the underlying activity was performed in full.

In EUR	Fixed remuneration 2023	Share of total remuneration	Fixed remuneration 2022	Share of total remuneration	Attendance fee 2023	Share of total remuneration	Attendance fee	Share of total remuneration	Total remuneration 2023	Total remuneration 2022
Rainer Koppitz	75,000	93.8%	75,000	91.5%	5,000	6.3%	7,000	8.5%	80,000	82,000
Günter Müller	60,000	92.3%	60,000	89.6%	5,000	7.7%	7,000	10.4%	65,000	67,000
Florian Schuhbauer	40,000	88.9%	40,000	85.1%	5,000	11.1%	7,000	14.9%	45,000	47,000
Dr Rupert Doehner	40,000	88.9%	40,000	85.1%	5,000	11.1%	7,000	14.9%	45,000	47,000

Munich, 17 April 2024

The Management Board

The Supervisory Board

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

For more information about this topic, please visit corporate.nfon.com.

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

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 "Equity" 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 2023:

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 17.5%

* Based on voting rights notification dated 2 December 2020 and based on a number of shares of 15,055,569. With 16,561,124 shares, this would correspond to a stake of 15.9%.

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 Aktiengesetz (AktG – German Stock Corporation Act). A member of the Management Board can be dismissed with cause or replaced by way of Supervisory Board resolution. 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 2023:

Authorised capital

Authorised Capital 2019 was created by the Extraordinary General Meeting on 12 December 2019 in the amount of EUR 3,000,000.00, of which EUR 1,505,555 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 financial year in which they were issued in exchange for cash or non-cash contributions (Authorised Capital 2021). Section 4 (3) of the Articles of Association of NFON AG provides further details.

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 financial 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, selected executives of NFON AG and among the 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 based on shares, the Annual General Meeting on 24 June 2021 passed a resolution to create the option to issue subscription rights to NFON AG shares to members of the Management Board and management as well as to selected employees of NFON AG and affiliated companies in conjunction with an additional 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 financial 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.

Contingent Capital 2023

The Annual General Meeting on 30 June 2023 authorised the Supervisory Board and the Management Board (with the approval of the Supervisory Board) until the end of 29 June 2028, but not before Contingent Capital 2023 becomes effective on being entered in the commercial register (which occurred on 21 July 2023), to grant up to 572,883 stock options with pre-emption rights to shares in the company with a term of up to seven years in one or more tranches to be issued annually (2023 stock option plan, Contingent Capital 2023/I). 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 pre-existing authorisation in conjunction with the 2021 stock option plan was utilised in the amount of EUR 375,000 at this time. The unused authorisation was also cancelled by way of resolution of the Annual General Meeting and Contingent Capital 2021 was reduced accordingly in Article 4(6) of the Articles of Association.

The share capital of the company was contingently increased by up to EUR 572,883 by issuing up to 572,883 new no-par value bearer shares (Contingent Capital 2023/I). Contingent Capital 2023/I 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 30 June 2023 in the period from 30 June 2023 to 29 June 2028. 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 2023 at the exercise price set under the above authorisation of the Annual General Meeting of 30 June 2023. The new shares participate in profits from the beginning of the financial 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

The parent company has not entered into any significant agreements subject to a change of control in the event of a takeover bid with subsidiaries.

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 remain unaffected if a third party acquires control of the company within the meaning of section 29(2) of the of the German Securities Acquisition and Takeover Act (WpÜG). 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 delisting event occurring.

Supplementary report

Merger of Deutsche Telefon Standard GmbH with NFON AG

In financial year 2024, NFON plans to merge Deutsche Telefon Standard GmbH with NFON AG. The merger is intended to realise further synergies between the two companies. We assume that the legal merger process can be completed in the second half of 2024. Further information can be found in the ⊕ notes.

Beyond this, no other events of particular significance occurred at NFON after the balance sheet date of 31 December 2023 that have a major impact on the Group's net assets, financial position and results of operations with an effect on accounting and reporting.

Forecast

The planning and all the commentary below for 2024 are based on the information available as at 31 March 2024. The opportunities and risks presented for the NFON Group may result in a deviation between the planning data and the values actually achieved at the end of the year. Deviations are also possible as a result of the assumptions regarding general economic conditions. Further information can be found in the ⊕ General economic conditions and industry environment and ⊕ Opportunities and risks sections.

Expected general economic conditions and industry environment

A gradual economic recovery is expected for the eurozone in 2024, with GDP growth of 0.7%. Inflation is expected to fall to 2.3%. The IfW expects Germany's gross domestic product to increase by 0.1% in 2024, with this development being driven by a gradual recovery in consumer spending and foreign trade. Inflation will probably fall to 2.3%. The IfW is forecasting moderate GDP growth of 0.4% for the UK, influenced by a restrictive economic policy and persistently high interest rates. Inflation is also expected to ease here in 2024 and should come in at 3.6%. A slight upturn is also expected for the Austrian economy in 2024, with GDP growth of 0.6%. Inflation will probably fall to 4.0%.[30, 31, 32]

Despite the current macroeconomic trends, the generally positive assessment of conditions in the sector still holds true: the market for business communication is still undergoing disruption and is growing. The NFON Group 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. The company takes the view that the future of business communication lies in the markets for products in the area of unified communications and collaboration and contact centres, and in the newly emerging market for integrated business communication.

The NFON Group's forecast for financial year 2024 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 market characteristics and ⊕ General economic conditions and industry environment sections.

Expected business performance of the NFON Group

In financial year 2023, NFON implemented measures to increase profitability and reduced the investment volume in line with its sustainable profitable growth target. The NFON Group believes it is well positioned to successfully implement the strategy that will see the company live up to its self-image as an innovative pioneer of integrated cloud business communication in the European market and exploit market potential accordingly in the future. Building on the foundation of operational excellence, NFON continues to focus on three strategic growth pillars: innovative product development, a focus on sales excellence and cementing partnerships. In addition, the company continues to push forward with measures to reduce the cost base and thus increase efficiency. In

[30] https://www.ifw-kiel.de/fileadmin/Dateiverwaltung/IfW-Publications/fis-import/6aa6a98f-44b7-4fb4-8e1f-de5a57d2ca3e-KKB_111_2024-Q1_Welt.pdf
[31] https://www.ifw-kiel.de/fileadmin/Dateiverwaltung/IfW-Publications/fis-import/854f12d1-6d4b-4257-a39a-30120582e9ee-KKB_112_2024-Q1_Deutschland_DEV3.pdf
[32] https://economy-finance.ec.europa.eu/economic-surveillance-eu-economies/austria/economic-forecast-austria_en

2024 financial year, these measures will have a decisive influence on operating earnings, adjusted EBITDA and free cash flow. The initiatives relating to our three strategic growth pillars will continue to result in revenue growth, although a growth rate moderately higher than in previous years is expected. For further information, please refer to our commentary in the ⊕ Objectives and strategies section.

Expected development of key performance indicators

We expect our key performance indicators to develop as follows in 2024:

Outlook 2024

	2023 reported	2024 outlook
Growth rate recurring revenues	4.8%	In the mid to upper single-digit percentage range
Share of recurring revenue	93.7%	At least 90%
Adjusted EBITDA	EUR 8.4 million	EUR 10-12 million

Overall assessment of forecast development

In line with the NFON Group's clearly formulated strategy of living up to its self-image as an innovative pioneer of integrated cloud business communication in the European market and exploiting market potential accordingly in the future, the measures to increase profitability introduced in 2023 will continue to come into play over the course of 2024. Given the anticipated rapid expansion of the market for cloud business communication in Europe, we believe that we are well positioned to share in the development of the market for integrated business communication in the coming years.

NFON AG (HGB)

The annual financial statements of NFON AG have been prepared in accordance with the provisions of the German Commercial Code (HGB). Unless stated otherwise, 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: Zielstattstrasse 36, 81379 Munich.

Results of operations

Income statement of NFON AG (HGB) (condensed)

In EUR million		
Revenue	53.6	53.9
Other operating income	0.8	0.5
Cost of materials	–5.8	–6.5
Staff costs	–24.3	–25.7
Depreciation and amortisation	–1.3	–1.2
Other operating expenses	–30.3	–40.9
Net interest income	–0.5	–0.1
Income taxes	0.0	0.0
Profit/loss after taxes	**–7.8**	**–20.1**
Other taxes	0.0	0.0
Net profit/loss for the year	**–7.8**	**–20.1**

Sales

Not including transfer pricing income or credit notes, sales amounted to EUR 46.5 million in the financial year 2023 and EUR 46.2 million in the financial year 2022.

After adjusting for this transfer pricing income, recurring revenue in particular increased by 4.1% to EUR 44.4 million in 2023. However, owing particularly to falling hardware sales, non-recurring revenue was in decline overall at EUR 2.1 million in the financial year 2023 (2022: EUR 3.6 million). The number of seats rose by 2.2% from 391,175 to 399,838. The growth is therefore below the previous year's level (2022: 8.2%).

Recurring revenue as a share of total external revenue (95.5%) was significantly higher than the expected figure of >88%, though the increase of 4.1% was lower than in the previous year (previous year: 9.0%). The disproportionately high increase compared to seat growth results both from price increases and changes in the product mix towards higher-priced solutions. However, the moderate rate of growth overall can be attributed to the weakening of the German economy, which has also impacted the growth dynamic at NFON AG. Furthermore, the loss of a major client during the financial year 2023 also had a negative effect on revenue growth.

Other operating income

At EUR 0.8 million, other operating income is up on the previous year's figure of EUR 0.5 million, essentially as a result of higher reversals of provisions and income from the disposal of fixed assets.

Cost of materials

The cost of materials fell by 11.4% despite the expansion of business activities. This is due to a changed composition of the revenue mix with lower hardware revenue in the financial year 2023.

Personnel expenses

The decline in personnel expenses of 5.6% to EUR 24.3 million is as a result of the headcount reduction compared to the previous year as well as lower expenses for employee bonuses and lower expenses for the employee stock option programme. This was countered within personnel expenses by expenses for severance payments/dismissals.

Depreciation and amortisation

Depreciation and amortisation increased due to replacement investment and expansion investment in data centre capacity. No write-downs and impairment losses were recognised.

Other operating expenses

The costs for other operating expenses fell significantly, to EUR 30.3 million, in the financial year 2023 (previous year: EUR 40.9 million).

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 that NFON AG uses to assume the current operating losses of subsidiaries. These losses were reduced, compared with the financial year 2022, to EUR 4.9 million (previous year: EUR 9.9 million) due to the profitability measures introduced at the subsidiaries. Selling expenses rose slightly, to EUR 7.0 million, during the 2023 reporting year (previous year: EUR 6.7 million).

Expenses for freelancers and consulting fell from EUR 7.9 million to EUR 6.4 million in 2023. In 2022, these expenses related to two major projects in which opportunities for capital market transactions were evaluated with the help of external consultants. Marketing costs also followed a downward trajectory, falling from EUR 5.1 million to EUR 3.1 million as a result of the reorientation and focusing of marketing activities. The drop of EUR 1.5 million in expenses for maintenance and IT also had a positive effect on the development in other operating expenses. The decline is essentially as a result of the lower costs in connection with the business support system (BSS).

Net interest income

Net interest income deteriorated compared to the previous year due to higher intercompany liabilities, falling to EUR -0.5 million (previous year: EUR -0.1 million).

Income taxes

No income taxes were incurred in 2023 or 2022, as earnings before taxes were still negative.

Other taxes

This exclusively comprises minor vehicle taxes (2023: EUR 6.0 thousand; 2022: EUR 0.2 thousand).

Net loss for the year

The net loss for the financial year 2023 declined to EUR 7.8 million (previous year: EUR 20.1 million), essentially as a result of lower other operating expenses and lower personnel expenses. The current operating losses 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.

Financial position

The cash flow from operating activities improved as a result of lower other operating expenses and personnel expenses. Please refer to the information in the "Results of operations" section. The cash outflow in 2023 was anticipated in line with the liquidity plans for this year and was updated and monitored in the forecasts during the year. It essentially relates to the operating cash flow, which was still negative in the year under review, and the negative cash flow from investing activities.

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

For financing purposes, NFON AG utilised the cash funds available and an intercompany loan from Deutsche Telefon Standard GmbH in 2023.

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

Net assets

Balance sheet of NFON AG (HGB) (condensed)

In EUR million		
Fixed assets	35.1	35.5
Current assets	7.9	12.6
Deferred income	1.7	1.6
Assets	**44.7**	**49.7**
Equity	25.0	32.7
Provisions	3.9	4.0
Liabilities	14.7	12.9
Deferred income	1.1	0.2
Liabilities	**44.7**	**49.7**

Fixed assets

Amortisation of intangible assets and depreciation of property, plant and equipment amounted to EUR 1.3 million in 2023. Additions to fixed assets amounted to EUR 0.9 million in the financial year and essentially related to IT and office equipment. Fixed assets declined slightly to EUR 35.1 million in total (previous year: EUR 35.5 million).

Current assets

The reduction in current assets is mainly based on the year-on-year decrease of EUR 4.9 million in bank balances. Trade receivables, other receivables and other assets were virtually unchanged year-on-year at EUR 6.1 million (2022: EUR 5.8 million).

Equity

Due to the net loss for the year, equity decreased by EUR 7.7 million. Capital reserves increased by EUR 0.1 million on the basis of employee stock options issued.

Provisions

Provisions declined slightly from EUR 4.0 million to EUR 3.9 million in the financial year 2023. This was essentially as a result of lower bonus provisions, though this was countered by the rise in provisions for severance payments.

Liabilities

Liabilities climbed from EUR 12.9 million to EUR 14.7 million. The increase essentially resulted from the rise of EUR 1.4 million in liabilities to affiliated companies and liabilities to banks of EUR 0.3 million in conjunction with rent guarantees.

Deferred income

Deferred income increased as a result of the re-invoicing of development expenses to Deutsche Telefon Standard GmbH and the associated option to use the business support system for the period 1 July 2023 to 31 December 2027.

Overall assessment of the economic situation

The economic performance of NFON AG in 2023 reflects the consistently tough economic situation throughout Europe overall. The company continued to grow in terms of recurring revenue, gross profit and seats in 2023. In particular, it managed to reduce its net loss for the year significantly but fell just short of its forecast targets. Recurring revenue increased as a share of total external revenue. Adjusted EBITDA was higher than forecast for 2023 in the year under review. The forecast for adjusted EBITDA of > EUR 4 million was therefore achieved.

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 2023 identified no additional risks at the subsidiaries that were not already included in the inventory or accounted for in the budget for 2024 to 2028. The risks and opportunities are described in ⊕ Opportunities and risks in the Group management report.

Supplementary report

There are plans to merge Deutsche Telefon Standard GmbH with NFON AG in the financial year 2024. The merger should allow both companies to leverage further synergies. We assume that the legal merger process can be completed in the second half of 2024. This will have a material impact on the net assets and financial position of NFON AG. The assets and liabilities of DTS will be transferred to NFON AG as part of the universal succession process. The effects on the results of operations are presented in the notes to the annual financial statements.

Apart from this, no other events of particular significance occurred at NFON after the end of the reporting period as at 31 December 2023 that have a major impact on the Group's results of operations, net assets and financial position and an effect on accounting and reporting.

Forecast

In view of NFON AG's links with the Group companies, please refer in all cases 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 expects total revenue and recurring revenue to grow in the low to mid single-digit percentage range in the financial year 2024. In this context, we assume that recurring external revenue as a share of total external revenue will remain stable. We anticipate a revenue contribution of around EUR 17.5 to 18 million from the merger. On the basis of the operating performance and the merger, NFON AG's EBITDA (and thus its adjusted EBITDA as well) will improve significantly. Further information about the forecast can be found in the NFON Group's ⊕ forecast.

Munich, 17 April 2024

Patrik Heider
Chief Executive Officer

Andreas Wesselmann
Management Board

03 Consolidated financial statements

Contents

Interactive table of contents You can click on the individual topics to go to the respective page.

Consolidated statement of financial position

as at 31 December 2023

In EUR thousand	Note	31.12.2023	31.12.2022
Non-current assets			
Property, plant and equipment and IFRS 16 right-of-use assets	4/5	11,630	8,736
Intangible assets	6	35,433	34,045
Investments in associates	7	680	672
Deferred tax assets	8	823	262
Other non-current, non-financial assets	11	691	420
Total non-current assets		**49,257**	**44,135**
Current assets			
Inventories	9	114	87
Trade receivables	10	8,966	9,276
Current other financial assets	10	724	390
Current other non-financial assets	11	2,564	2,314
Cash and cash equivalents	12	12,281	13,218
Total current assets		**24,650**	**25,285**
Total assets		**73,907**	**69,420**

In EUR thousand	Note	31.12.2023	31.12.2022
Equity			
Issued capital	13	16,561	16,561
Capital reserves	13	109,153	109,086
Loss carryforward		–79,206	–78,404
Currency translation reserve		647	558
Total equity		**47,155**	**47,801**
Non-current liabilities			
Non-current financial liabilities	16	8,483	4,051
Other non-current, non-financial liabilities	11	563	693
Deferred tax liabilities	8	2,176	2,476
Total non-current liabilities		**11,222**	**7,220**
Current liabilities			
Trade payables	12	4,963	4,205
Current provisions	15	3,118	2,310
Current income tax liabilities	11	812	259
Current financial liabilities	16	1,418	1,811
Current other non-financial liabilities	11	5,219	5,814
Total current liabilities		**15,530**	**14,400**
Total equity and liabilities		**73,907**	**69,420**

Consolidated statement of income and consolidated statement of comprehensive income

for the period from 1 January to 31 December 2023

In EUR thousand	Note	2023	2022
Revenue	18	82,339	80,792
Other operating income	19	924	1,088
Cost of materials		–12,973	–14,414
Staff costs	20	–34,917	–37,428
Depreciation, amortisation and impairments		–7,322	–6,760
Other operating expenses	4/5/6	–28,474	–35,267
Impairment losses on trade and other receivables	21	–89	–22
Other tax expense	12	–11	–15
Income from continuing operations before net interest income and income taxes		**–523**	**–12,026**
Interest and similar income		179	4
Interest and similar expenses		–369	–188
Net interest income		**–190**	**–184**
Income from associates	7	8	29
Earnings before income taxes		**–705**	**–12,181**
Income taxes	22	–949	–134
Deferred tax income (py: tax expenses)	22	851	–3,267
Net loss for the period		**–802**	**–15,582**

In EUR thousand	Note	2023	2022
Attributable to:			
Shareholders of the parent company		–802	–15,582
Non-controlling interests		0	0
Other comprehensive income (will be reclassified to profit or loss)		89	–334
Taxes on other comprehensive income (will be reclassified to profit or loss)		0	0
Other comprehensive income after taxes		**89**	**–334**
Total comprehensive income		**–713**	**–15,916**
Attributable to:			
Shareholders of the parent company		–713	–15,916
Non-controlling interests		0	0
Net loss per share, basic (in EUR)	23	**–0.05**	**–0.94**
Net loss per share, diluted (in EUR)	23	**–0.05**	**–0.94**

Consolidated statement of cash flow

for the period from 1 January to 31 December 2023

In EUR thousand	Note	2023	2022
1. Cash flow from operating activities			
Profit/loss after taxes		–802	–15,582
Adjustments to reconcile profit (loss) to cash provided			
Income taxes	22	97	3,401
Interest income (interest expenses), net		190	184
Amortisation of intangible assets and depreciation of property, plant and equipment	4/5/6	7,322	6,760
Impairment losses on trade and other receivables		89	22
Equity-settled share-based payment transactions	14	67	486
Other non-cash income and expenses		–17	–64
Changes in:			
Inventories		–27	68
Trade and other receivables		–579	2,072
Trade payables and other liabilities		33	–754
Provisions and employee benefits		808	138
Income from associates		–8	–29
Income (expenses) from sales of fixed assets		–28	–4
Interest paid		–4	–20
Income taxes received/paid, net		–388	–211
Effects of changes in foreign exchange rates		89	–334
Cash flow from operating activities		**6,842**	**–3,867**

In EUR thousand	Note	2023	2022
2. Cash flow from investing activities			
Proceeds from the disposal of property, plant and equipment and intangible assets		0	92
Payments for investments in property, plant and equipment	4/6	–639	–1,200
Payments for investments in intangible assets	4	–5,226	–7,340
Cash flow from investing activities		**–5,865**	**–8,448**
3. Cash flow from financing activities			
Proceeds from capital increases	13	0	0
Payments in connection with leases	16	–1,901	–2,108
Other proceeds/payments		–42	23
Cash flow from financing activities		**–1,943**	**–2,085**
Change in cash and cash equivalents		**–966**	**–14,399**
Effects of changes in exchange rates on cash held		30	–53
Cash and cash equivalents at the beginning of the period		**13,218**	**27,670**
Cash and cash equivalents at the end of the period*		**12,281**	**13,218**

* Cash and cash equivalents at the end of the period include deposits with banks in the amount of EUR 298 thousand as at 31 December 2023 (31 December 2022: EUR 309 thousand), which cannot be returned to the Group without restriction due to collateral provided by customers with poor credit ratings. All restrictions relating to such collateral are of a short-term nature.

Consolidated statement of changes in equity

as at 31 December 2023

	Attributable to owners of the company						
In EUR thousand	Issued capital	Capital reserves	Currency translation reserve	Loss carryforward	Total equity	Non-controlling interests	Total
As at 01.01.2023	**16,561**	**109,086**	**558**	**–78,404**	**47,801**	**0**	**47,801**
Total comprehensive income for the period							
Loss (income) for the period	0	0	0	–802	–802	0	–802
Other comprehensive income for the period	0	0	89	0	89	0	89
Total comprehensive income for the period	**0**	**0**	**89**	**–802**	**–713**	**0**	**–713**
Transactions with owners of the company							
Equity-settled share-based payment transactions	0	67	0	0	67	0	67
Total transactions with owners of the company	**0**	**67**	**0**	**0**	**67**	**0**	**67**
As at 31.12.2023	**16,561**	**109,153**	**647**	**–79,206**	**47,155**	**0**	**47,155**

Consolidated statement of changes in equity

as at 31 December 2022

	Attributable to owners of the company						
In EUR thousand	Issued capital	Capital reserves	Currency translation reserve	Loss carryforward	Total equity	Non-controlling interests	Total
As at 01.01.2022	**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**	**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**

Notes

Contents

1. Accounting principles

Company overview

NFON is a provider of voice-centric business communication in Europe, has more than 55,000 business customers in 18 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 Zielstattstrasse 36, 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 financial year ended 31 December 2023 were approved for publication by way of resolution of the Management Board on 17 April 2024.

Consolidated financial statements

The consolidated financial statements and notes present the operations of the NFON Group (hereinafter referred to as "we", "NFON", "the company", "the Group", "the NFON 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) Handelsgesetzbuch (HGB – German Commercial Code). These consolidated financial statements are based on the going concern principle.

The financial year is the calendar year.

Currency

The consolidated financial statements have been prepared in euros (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 euros (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 31 December 2023 compared to 31 December 2022 and for the period 1 January 2023 to 31 December 2023 compared to the period 1 January 2022 to 31 December 2022.

2. Significant accounting policies

A. 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 2023:

- 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
- Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction – Amendments to IAS 12, effective from 1 January 2023
- International Tax Reform – Pillar Two Model Rules – Amendments to IAS 12, effective from 23 May 2023

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

B. 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:

- Non-current Liabilities with Covenants – Amendments to IAS 1, effective from 1 January 2024
- Classification of Liabilities as Current or Non-current – Amendments to IAS 1, effective from 1 January 2024
- Amendments to IAS 1 and IFRS 7 regarding "supplier finance agreements", effective from 1 January 2024

- Lease Liability in a Sale and Leaseback (Amendments to IFRS 16), effective from 1 January 2024
- Lack of Exchangeability – Amendments to IAS 21, effective from 1 January 2025
- 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.

C. 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.

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. Acquisition-related costs are expensed as incurred. Agreed contingent consideration is recognised at fair value on 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 is included in the consolidated financial statements of the NFON Group as at 31 December 2023 as an associate using the equity method.

D. Property, plant and equipment

Property, plant and equipment are stated at historical cost less cumulative depreciation and impairment. 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 3 to 15 years. Subsequent expenditure is only capitalised if it is probable that the future economic benefits that are associated with the investment property will flow to the Group.

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.

E. 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 only capitalised for existing other intangible assets 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 the estimated useful life of 15 years. As in the previous year, annual amortisation amounts to EUR 353 thousand.

3. Capitalised development projects

Development costs for newly developed software are capitalised if they satisfy the requirements of IAS 38.

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 generally 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.

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

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

F. 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 or 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.

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. 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).

G. Inventories

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.

H. 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 or 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 on the outstanding principal amount.

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 amortised 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 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 90 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.

I. 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 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

J. 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 consolidated financial statements are presented in euros, which is the Group's 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 pounds 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 this 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 31.12.2023	As at 31.12.2022	2023	2022
GBP	1.1507	1.1275	1.1535	1.1727
PLN	0.2304	0.2136	0.2263	0.2135

K. 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.

L. Share-based payment

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 staff 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.

M. 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 is 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.

N. 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. The Group recognises a right-of-use asset and a lease liability at the commencement date. 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 revaluations 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; and
- 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.

O. 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; and
- 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 are 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 following 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 an 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 they result in an extension of the NFON network and do 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 the 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 all 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 or 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. 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.

P. Income taxes

Current tax and deferred tax are recognised in profit or loss except to the extent that they relate 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 or 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 carryforward 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 carryforward 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 that 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.

Q. 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 the 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 or planned EBITDA and the discount rate used in the impairment tests involve estimates to a large extent.

C. Development costs

Development costs are capitalised using the accounting policies 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. Also, 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. 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	01.01.2023	Additions	Reclassifications	Disposals	31.12.2023
Cost					
Leasehold improvements	534	64	169	99	668
Operating and office equipment	8,853	577	–169	274	8,987
Total cost 2023	**9,387**	**641**	**0**	**373**	**9,655**

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**

B. Reconciliation of cumulative depreciation and amortisation and carrying amount

In EUR thousand	01.01.2023	Depreciation and amortisation	Reclassifications	Disposals	31.12.2023
Depreciation and amortisation					
Leasehold improvements	155	164	155	58	416
Operating and office equipment	6,222	1,198	–155	290	6,975
Total depreciation and amortisation 2023	**6,376**	**1,362**	**0**	**348**	**7,391**

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	31.12.2023	31.12.2022
Carrying amount		
Leasehold improvements	252	379
Operating and office equipment	2,012	2,631
Total carrying amounts	**2,264**	**3,011**

The Group did not recognise any impairment on property, plant and equipment for the years ended 31 December 2023 and 2022. 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	01.01.2023	Additions	Disposals	31.12.2023
Gross carrying amount				
Right-of-use assets from leases for buildings	10,894	5,177	122	15,949
Right-of-use assets from leases for vehicles	1,433	669	14	2,088
Bicycles	6	0	0	6
Operating and office equipment	90	8	0	98
Total right-of-use assets from leases in 2023	**12,423**	**5,855**	**136**	**18,141**

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**

B. Reconciliation of cumulative depreciation and amortisation and carrying amount

In EUR thousand	01.01.2023	Depreciation and amortisation	Disposals	31.12.2023
Depreciation and amortisation				
Right-of-use assets from leases for buildings	5,595	1,766	2	7,359
Right-of-use assets from leases for vehicles	1,070	307	8	1,369
Bicycles	1	2	0	3
Operating and office equipment	31	14	0	45
Total depreciation and amortisation 2023	**6,697**	**2,089**	**10**	**8,776**

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	31.12.2023	31.12.2022
Carrying amount		
Right-of-use assets from leases for buildings	8,590	5,300
Right-of-use assets from leases for vehicles	719	362
Bicycles	3	5
Operating and office equipment	53	58
Total carrying amounts	**9,365**	**5,726**

6. Intangible assets

A. Reconciliation of gross carrying amount

Intangible assets developed as follows:

In EUR thousand	01.01.2023	Additions	Reclassification	Disposals	31.12.2023
Gross carrying amount					
Software	3,068	1	0	0	3,069
Internally generated software (in progress)	1,833	869	–1,339	0	1,363
Internally generated software	4,054	0	1,339	0	5,393
Capitalised development projects	11,069	18	4,382	0	15,469
Capitalised development projects in development	5,753	4,261	–4,382	0	5,632
Customer base	5,013	0	0	0	5,013
Goodwill	12,534	0	0	0	12,534
Other intangible assets	409	94	0	0	503
Total intangible assets in 2023	**43,732**	**5,243**	**0**	**0**	**48,976**

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	2,036	–4,054	0	1,833
Internally generated software	0	0	4,054	0	4,054
Capitalised development projects	7,445	0	3,624	0	11,069
Capitalised development projects in development	4,246	5,264	–3,624	133	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	0	409
Total intangible assets in 2022	**36,248**	**7,618**	**0**	**133**	**43,732**

B. Reconciliation of cumulative depreciation and amortisation and carrying amount

Cumulative amortisation is as follows:

In EUR thousand	01.01.2023	Additions	Impairment	Disposals	31.12.2023
Amortisation of intangible assets					
Software	2,487	324	0	0	2,811
Internally generated software (in progress)	0	0	0	0	0
Internally generated software	531	760	0	0	1,291
Capitalised development projects	5,424	2,265	0	0	7,689
Capitalised development projects in development	0	0	0	0	0
Customer base	1,063	353	0	0	1,416
Goodwill	0	0	0	0	0
Other intangible assets	181	154	0	0	335
Total amortisation of intangible assets 2023	**9,687**	**3,856**	**0**	**0**	**13,542**

In EUR thousand	01.01.2022	Additions	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**

Carrying amounts

In EUR thousand	31.12.2023	31.12.2022
Carrying amount		
Software	230	581
Internally generated software (in progress)	1,363	1,833
Internally generated software	4,102	3,523
Capitalised development projects	7,779	5,644
Capitalised development projects in development	5,631	5,753
Customer base	3,596	3,949
Goodwill	12,534	12,534
Other intangible assets	197	228
Total carrying amounts	**35,433**	**34,045**

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 2023 (31 December 2022: EUR 12.5 million), for which an annual impairment test must be performed. No impairment losses were recognised in the financial year 2023 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.

The goodwill of EUR 12.4 million recognised as at 31 December 2023 – unchanged since 31 December 2022 – results 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 of revenue in the detailed planning phase (five years) is 3.6% (2022: 5.7%). The perpetual annuity assumes growth in revenue of 1.5% (2022: 1.5%) and an EBIT margin of 25.6%. 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 post-tax discount rate of 11.07% (9.57% for perpetual annuity) was used in 2023 (2022: 9.92% or 8.42% for perpetual annuity). The pre-tax discount rate for the year under review is 15.31% or 13.81% for perpetual annuity.

The present value of the cash-generating unit significantly exceeds its carrying amounts (including goodwill).

In the course of sensitivity analyses, neither a 10% lower EBITDA over the planning period (including perpetual annuity) nor a 10% higher discount rate resulted in any impairment.

D. Acquired customer base

The recognised customer base of EUR 3,596 thousand in the reporting year (31 December 2022: EUR 3,949 thousand) results from the acquisition of DTS as at 1 March 2019. Amortisation in the reporting year amounted to EUR 354 thousand (2022: EUR 354 thousand).

E. Capitalised development projects

Research and development expenses in the reporting year amounted to EUR 10,065 thousand (2022: EUR 10,312 thousand). Of this amount, EUR 4,278 thousand (2022: EUR 5,265 thousand) was capitalised under intangible assets. In addition, development expenses for internally developed software were capitalised in the amount of EUR 869 thousand (2022: EUR 2,036 thousand).

As in the previous year, no impairment losses were recognised in the reporting period to adjust the carrying amount of capitalised development projects in line with their recoverable amount.

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 of revenue in the detailed planning period is 9.3% (2022: 9.7%) and the EBIT margin in perpetual annuity is 15.2% (2022: 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 exclusively include 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 the financial year 2023 (EUR 24 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 2023 (31 December 2022) and for the financial year 2023 (2022) is as follows:

In EUR thousand	2023	2022
Current assets	798	696
Non-current assets	5	4
Current liabilities	301	284
Non-current liabilities	0	0
Revenue	724	759
Net profit for the year	96	178
Other comprehensive income	0	0
Total comprehensive income	**96**	**178**

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 carryforward of unused tax losses.

A. Deferred tax assets/liabilities

In EUR thousand	Financial year ended 31.12.2023 Deferred tax assets	Deferred tax liabilities	Changes in the current financial year	thereof in profit or loss
Assets				
Non-current assets				
Property, plant and equipment	0	2,876	–1,130	–1,130
Intangible assets	4	7,024	–520	–520
Current assets				
Trade receivables	73	0	12	12
Other current assets	46	0	46	46
Liabilities				
Non-current liabilities				
Non-current financial liabilities	2,647	0	1,399	1,399
Current liabilities				
Current provisions	20.0	2.0	20.0	20.0
Current financial liabilities	379	4	–145	–145
Other current liabilities	51	0	–10	–10
Consolidation effects	0	0	28	28
Subtotal of temporary differences	**3,219**	**9,906**	**–301**	**–301**
Tax loss carryforward	5,334	0	1,163	1,153
Subtotal of temporary differences	**8,553**	**9,906**	**862**	**852**
Netting	–7,730	–7,730	0	0
Total temporary differences	**823**	**2,176**	**862**	**852**

	Financial year ended 31.12.2022			
In EUR thousand	Deferred tax assets	Deferred tax liabilities	Changes in the current financial 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	0	1
Liabilities				
Non-current liabilities				
Non-current financial liabilities	1,249	0	251	251
Current liabilities				
Current provisions	0.0	2.0	–2.0	–2.0
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**

B. Tax loss carryforward

No deferred tax assets are reported for trade tax loss carryforwards of EUR 83,101 thousand (31 December 2022: EUR 83,203 thousand) or for corporate income tax loss carryforwards of EUR 85,647 thousand (31 December 2022: EUR 85,526 thousand). EUR 8,588 thousand of the trade tax loss carryforwards relates to the reporting year and EUR 74,514 thousand to earlier periods. EUR 9,465 thousand of the corporation tax loss carryforwards relates to the reporting year and EUR 76,182 thousand to earlier periods. The profit transfer agreement entered into between NFON AG and DTS in 2022 was cancelled in the reporting year, thereby retroactively revoking the combined tax entity. Thus, at the level of DTS corporation tax loss carryforwards of EUR 3,048 thousand and trade tax loss carryforwards of EUR 3,052 thousand were utilised in calculating taxes for the financial year 2023. Deferred tax assets of EUR 1,653 thousand were recognised on the remaining loss carryforward as at 31 December 2023. 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.

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. In Germany, the law on global minimum tax was passed by the Bundestag and Bundesrat in November/December 2023 and published in the Federal Gazette. The law will become effective for the first time for financial years beginning after 30 December 2023. The Group is not subject to minimum tax as it has not yet reached the relevant revenue thresholds. Furthermore, none of the subsidiaries operate in countries where the statutory tax rate is less than 15%.

E. German Growth Opportunities Act

Wachstumschancengesetz (German Growth Opportunities Act) was adopted on being approved by the Bundesrat on 22 March 2024. For the Group, this will result in higher loss utilisation options in the area of corporation tax from the financial year 2024 in particular. If the new law had already been applicable in the reporting year, this would have affected the utilisation of loss carryforwards for the financial year 2023. The current tax expense would have been EUR 54 thousand lower in the reporting year as a result. Also, deferred tax assets on loss carryforwards would have been EUR 269 thousand higher.

9. Inventories

Inventories amounted to EUR 114 thousand as at 31 December 2023 (31 December 2022: EUR 87 thousand). Inventories essentially comprise hardware, such as 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 2,310 thousand (previous year: EUR 3,694 thousand) for the procurement of hardware.

10. Trade receivables and other financial assets

As at the end of the reporting period, trade receivables amounted to EUR 8,966 thousand (31 December 2022: EUR 9,276 thousand). This includes write-downs of EUR 484 thousand (31 December 2022: EUR 458 thousand). Expenses for bad debt losses and defaults of EUR 206 thousand were recognised in the reporting year (previous year: EUR 407 thousand).

Information about 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 724 thousand as at 31 December 2023 (31 December 2022: 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 as at 31 December 2023 and 2022 were as follows:

	Financial year ended 31.12.	
In EUR thousand	2023	2022
Other current assets		
Contract assets	56	70
Tax receivables	237	198
Other prepaid expenses	1,726	1,567
Other non-financial assets	544	479
Subtotal other current assets	**2,564**	**2,314**
Other non-current assets		
Prepayments	292	359
Other	399	61
Subtotal other non-current assets	**691**	**420**
Other assets	**3,255**	**2,734**

Other non-financial liabilities were as at 31 December 2023 and 2022 as follows:

	Financial year ended 31.12.	
In EUR thousand	2023	2022
Other current (non-financial) liabilities		
Tax payables	1,433	1,315
Liabilities to employees	2,023	2,451
Contractual cash flows	352	336
Other non-financial liabilities	1,411	1,713
Subtotal other current (non-financial) liabilities	**5,219**	**5,814**
Other non-current liabilities		
Other	563	693
Subtotal other non-current (non-financial) liabilities	**563**	**693**
Other (non-financial) liabilities	**5,782**	**6,507**

The current income tax liabilities of EUR 812 thousand recognised as at 31 December 2023 (31 December 2022: EUR 259 thousand) essentially related to the reporting year.

12. Financial instruments

A. Accounting classifications and fair values

Fair value

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

31.12.2023	Amortised cost			Fair value			
In EUR thousand	Fair value	Carrying amount	Total carrying amounts	Level 1	Level 2	Level 3	Total
Financial assets not measured at fair value							
Trade receivables		8,966	8,966	–	–	–	–
Other financial assets*		724	724	–	–	–	–
Cash and cash equivalents		12,281	12,281	–	–	–	–
Total financial assets not measured at fair value		**21,971**	**21,971**	**–**	**–**	**–**	**–**
Financial liabilities not measured at fair value				**–**	**–**	**–**	**–**
Trade payables		4,963	4,963	–	–	–	–
Lease liabilities (current and non-current)*		9,901	9,901	–	–	–	–
Total financial liabilities not measured at fair value		**14,864**	**14,864**	**–**	**–**	**–**	**–**

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

31.12.2022	Amortised cost			Fair value			
In EUR thousand	Fair value	Carrying amount	Total carrying amounts	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.

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 is 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 the financial years 2023 or 2022.

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 the 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 the 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 million	2023	2022
Impairment losses on trade and other receivables		
Impairment losses on trade and other receivables (including contract assets)	117	386
Impairment losses on cash and cash equivalents*	0	0
Impairment losses on trade and other receivables	**117**	**386**

* 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 2023:

	Financial year ended 31.12.	
In EUR thousand	2023	2022
Countries		
Germany	7,011	7,219
United Kingdom	871	804
Austria and rest of Europe	1,439	1,253
Total maximum credit risk exposure	**9,322**	**9,276**

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 and for which the payment of trade receivables is no longer being made.

Assessment of expected credit loss for customers as at 31 December 2023 and 2022

The Group calculates its expected credit losses (ECLs) using the simplified approach under IFRS 9. This approach requires the recognition of impairment amounting to the lifetime expected loss 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 about current conditions
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 maturity structure 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 table to the right shows the credit risk and ECLs for trade receivables and contract assets from individual customers as at 31 December 2023.

31.12.2023	Gross carrying amount [in EUR thousand]	Loss rate [in %]	Impairment [in TEUR]
Germany			
Not past due	6,286	2.49	158
1-90 days past due	335	12.33	41
More than 90 days past due	514	16.39	84
Total trade receivables in Germany	**7,136**		**284**
United Kingdom			
Not past due	766	2.23	20
1-90 days past due	160	10.04	16
More than 90 days past due	0	100	0
Total trade receivables in United Kingdom	**926**		**36**
Other countries			
Not past due	1,154	1	11
1-90 days past due	130	3.51	4
More than 90 days past due	160	13.47	22
Total trade receivables in other countries	**1,444**		**36**
Grand total for receivables (not including impairment losses)	**9,506**		**356**
- thereof contract assets	56	2.23	0
Total for ECL-impairment losses	356		
Total for specific impairment losses	**127**		

Of the total receivables portfolio, EUR 175 thousand is impaired. The impairment losses attributable to these receivables amount to EUR 127 thousand.

The table to the right 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 [in EUR thousand]	Loss rate [in %]	Impairment [in 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	10.9	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.

Impairment losses arising from ECLs (not including specific valuation allowances) on trade receivables developed as follows in the financial year 2023:

	Change in	
In EUR thousand	2023	2022
Expected credit loss on trade receivables		
Opening balance as at 01.01.	275	258
Net remeasurement	81	18
Amounts written off	0	0
Closing balance as at 31.12.	**356**	**275**

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 Cybersecurity & Cloud Tech Deutschland GmbH. The net receivable from this customer was EUR 903 thousand as at 31 December 2023 (31 December 2022: EUR 1,225 thousand).

Cash and cash equivalents

The Group held cash and cash equivalents of EUR 12,281 thousand as at 31 December 2023 (31 December 2022: EUR 13,218 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 risk 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 in 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). Since 1 July 2022, the margin has been based on the EBITDA of the preceding financial 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. A total of 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:

In EUR thousand	Carrying amount	Contractual cash flows	1 year or less	1-5 years	5 years and more
Financial liabilities					
Trade payables	4,963	4,963	4,963	0	0
Lease liabilities	9,901	11,501	1,718	5,740	4,043
Total financial liabilities	**14,864**	**16,464**	**6,681**	**5,740**	**4,043**

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	6,459	1,915	2,943	1,601
Total financial liabilities	**10,068**	**10,664**	**6,120**	**2,943**	**1,601**

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 (GBP) and Polish zloty (PLN). 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:

	Financial year ended 31.12.	
In EUR thousand	2023	2022
Receivables subject to currency risks	5,776	1,262
Net exposure	**5,776**	**1,262**

The following rates have been applied:

	Spot rates		Average rates	
	As at 31.12.2023	As at 31.12.2022	2023	2022
GBP	1.151	1.128	1.153	1.173

SENSITIVITY ANALYSIS

A 10% depreciation/appreciation of the 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	Apprecia-tion (10% decrease)	Deprecia-tion (10% increase)	Apprecia-tion (10% decrease)	Deprecia-tion (10% increase)
Sensitivity analysis for net exposure				
31.12.2023	–578	578	–579	579
31.12.2022	–126	126	–131	131

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

	Financial year ended 31.12.	
In EUR thousand	2023	2022
Liabilities subject to currency risks	966	831
Net exposure	**966**	**831**

The following rates have been applied:

	Spot rates		Average rates	
	As at 31.12.2023	As at 31.12.2022	2023	2022
PLN	0.230	0.214	0.226	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	Apprecia-tion (10% decrease)	Deprecia-tion (10% increase)	Apprecia-tion (10% decrease)	Deprecia-tion (10% increase)
Sensitivity analysis for net exposure				
31.12.2023	97	–97	95	–95

The net currency exposure results from EUR receivables (liabilities) of NFON UK and NFON Polska where the functional currencies are GBP and PLN, respectively.

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 2022) 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 67 thousand. The currency translation reserve rose by EUR 89 thousand. The consolidated loss for the year of EUR 1,756 thousand had a negative effect on the development of equity.

Issued capital and ordinary shares

As at 31 December 2023, NFON AG had issued 16,561,124 (31 December 2022: 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 2023 (31 December 2022: 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 2023 and 2022.

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 financial 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) 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 financial 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 and 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 and conversion rights or fulfilling the conversion obligation; and
- 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 ten years in one or more tranches to be issued annually (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. Contingent Capital 2021/1 was reduced to EUR 375,000 by way of resolution of the Annual General Meeting on 30 June 2023.

The Annual General Meeting on 30 June 2023 authorised the Supervisory Board and the Management Board (with the approval of the Supervisory Board) until the end of 29 June 2028, but not before Contingent Capital 2023 becomes effective on being entered in the commercial register (which occurred on 21 June 2023), to grant up to 572,883 stock options with pre-emption rights to shares in the company with a term of up to seven years in one or more tranches to be issued annually (2023 stock option plan, Contingent Capital 2023/1). 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.

Contingent Capital II amounts to EUR 708,229 as at 31 December 2023 (31 December 2022: EUR 708,229). Contingent Capital 2021/1 amounts to EUR 375,000 as at the end of the reporting period (31 December 2022: EUR 947,883). The new Contingent Capital 2023/1 created in the reporting year amounts to EUR 572,883 as at the end of the reporting period.

Loss carryforward

The loss carryforward contains losses incurred in prior years and in 2023.

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 2023, NFON AG published the following notifications in accordance with section 33(1), section 38(1) and section 40 Wertpapierhandelsgesetz (WpHG – German Securities Trading Act) on the Group’s website:

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	11.04.2023	Other reason: Voluntary group notification due to a subsidiary reaching a threshold	Universal-Investment-Gesellschaft mit beschränkter Haftung, Frankfurt am Main, Germany	n/a	31.03.2023	Total shares: 8.28%, of which: Shares of voting rights: 8.28% Shares of instruments: 0.00%	**Voting rights** (section 34 WpHG) attributed 1,371,003 or 8.28%
Section 40(1) WpHG	28.06.2023	As a result of a legal ("side step") merger between Gerlin N.V. and the newly founded Gerlin Participaties Coöperatief U.A., the shareholders of Gerlin N.V. became shareholders of Gerlin Participaties on 16 June 2023, the same date on which Gerlin N.V. ceased to exist.	Gerlin Participaties Coöperatief U.A., Maarsbergen, Netherlands	n/a	16.06.2023	Total shares: 7.01%, of which: Shares of voting rights: 7.01% Shares of instruments: 0.00%	**Voting rights** (section 34 WpHG) attributed 1,161,747 or 7.01%
Section 40(1) WpHG	08.08.2023	Other reason: Voluntary group notification due to a subsidiary reaching a threshold	Morgan Stanley, Wilmington, Delaware, USA	Morgan Stanley & Co. International plc	01.08.2023	Total shares: 9.09%, of which: Shares of voting rights: 5.96% Shares of instruments: 3.13%	**Voting rights** (section 34 WpHG) attributed 986,524 or 5.96% **Instruments** (section 38(1) no. 2 WpHG) Equity swap maturing 24 Feb. 2026, at any time 518,859 or 3.31%

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 reporting year and in previous years, 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, 2021 stock option plan and 2023 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 receive a combined maximum of 10%, i.e. 94,788 stock options and the resulting pre-emption rights. Group 3 beneficiaries 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 breakdown of the 2023 stock option plan (as resolved by the Annual General Meeting on 30 June 2023) is as follows: Group 1 beneficiaries receive a combined maximum of 250,000 stock options and the resulting pre-emption rights. Group 2 beneficiaries receive a combined maximum of 100,000 stock options and the resulting pre-emption rights. Group 3 beneficiaries receive a combined maximum of 200,000 stock options and the resulting pre-emption rights. Group 4 beneficiaries receive a combined maximum, 22,883 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. The total term of the 2018 stock option plan and the 2021 stock option plan is ten years and that of the 2023 stock option plan is five years. 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 financial year in which the options are allocated, compared to the revenue as reported in the consolidated financial statements for the previous financial 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 of 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). Stock options under the 2023 stock option plan can only be exercised if the relevant reference price exceeds the exercise price by more than 60% if exercised after at least 48 months from the allocation date, by more than 75% if exercised after at least 60 months from the allocation date and by more than 90% if exercised after at least 72 months from the allocation date, irrespective of whether all or only some of the stock options can actually be exercised at the relevant time, taking into account the blocking periods, and the EBIT according to the IFRS consolidated financial statements on the last reporting date prior to the exercising of stock options is positive and amounts to at least 110% of the positive EBIT according to the IFRS consolidated financial statements on the penultimate reporting date prior to the exercising of stock options. The “relevant reference price” in this case is the unweighted arithmetic mean of the closing prices for company shares of the same class in Xetra trading on the Frankfurt Stock Exchange during the last ten trading days prior to the day on which the pre-emptive rights arising from the stock options are exercised.

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. The weighted average fair value of the options granted in the reporting year was EUR 7.52 at the measurement date (2023 stock option plan). No options were granted in the previous year.

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

	2023
Weighted average exercise price*	EUR 7.52
Weighted expected volatility	40.0%
Term	5 years
Weighted risk-free interest rate	2.68%

* 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 ten trading days before the stock options were issued.

Only options from the 2023 stock option plan were issued in 2023.

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 2023 stock option plan is 14%. The options from the 2021 stock option plan expired in previous years. The vesting period for the options from the 2018 stock option plan expired as at the end of the reporting period.

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	
	2023	2022	2023	2022
Options granted as at 31 Dec.	1,466,729	1,119,229	10.95	12.02
Thereof new in the reporting year	347,500	0	7.52	n/a
Options exercised	n/a	n/a	n/a	n/a
Options forfeited	220,500	127,000	9.78	10.65
Thereof new in the reporting year	93,500	39,000	8.60	10.28
Options expired	389,000	389,000	17.21	17.21
Thereof new in the reporting year	0	281,250	n/a	17.38
Outstanding options as at 31 Dec.	857,229	603,229	8.41	8.96
Thereof exercisable options	553,229	n/a	8.88	n/a

The average remaining contractual term of the options outstanding as at the end of the reporting period is five years as at 31 December 2023 (31 December 2022: six years). The range of exercise prices of the options outstanding as at 31 December 2023 is between EUR 7.10 and EUR 14.31 (31 December 2022: between EUR 8.78 and EUR 14.31).

Expenses recognised in connection with share-based payments amounted to EUR 67 thousand in the reporting year. This expense amounted to EUR 486 thousand in the previous year.

15. Provisions

In EUR thousand	Carrying amount as at 01.01.2023	Additions	Utilisation	Reversal	Carrying amount as at 31.12.2023
Current provisions					
Personnel-related provisions	296	823	277	4	838
Other provisions	2,014	2,143	1,740	137	2,280
Total	**2,310**	**2,966**	**2,017**	**141**	**3,118**

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**

Other provisions essentially comprise provisions for outstanding invoices and sales commission of EUR 991 thousand (31 December 2022: EUR 959 thousand) and provisions for the audit of annual and consolidated financial statements of EUR 576 thousand (31 December 2022: EUR 444 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:

	Financial year ended 31.12.	
In EUR thousand	2023	2022
Current financial liabilities		
Lease liabilities	1,418	1,811
Other	0	0
Subtotal current financial liabilities	**1,418**	**1,811**
Non-current financial liabilities		
Lease liabilities	8,483	4,051
Subtotal non-current financial liabilities	**8,483**	**4,051**
Total financial liabilities	**9,901**	**5,862**

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 financial 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. A total of 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

Please refer to the information on leases in note 17 – Leases.

Nature of change in financial liabilities

	Financial year ended 31.12.	
In EUR thousand	2023	2022
As at 01.01.	5,862	5,021
Non-cash change	6,012	2,949
Cash change	–1,973	–2,108
As at 31.12.	**9,901**	**5,862**

17. Leases

The Group rents office space, vehicles and other operating and office equipment and bicycles. 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	2023	2022	2023	2022	2023	2022
Land and buildings	8,064	3,844	1,068	1,583	9,132	5,427
Vehicles	379	157	331	214	710	371
Operating and office equipment and bicycles	40	49	19	15	59	64
Total	8,483	4,051	1,418	1,812	9,901	5,862

Amounts recognised in the income statement

In EUR thousand	2023	2022
Leases in accordance with IFRS 16		
Income from subleasing right-of-use assets, recognised in other operating income	120	136
Interest expenses for lease liabilities (recognised in finance result)	217	165
Expenses for short-term leases	252	213
Repayment of lease liabilities	1,901	2,108
Total cash outflows in connection with leases	2,370	2,486

18. Revenue

A. Nature of goods or services

The principal activities from which the Group generates its revenue are described below:

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 and 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 for which the customer has concluded an agreement. 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 (for example, 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 (for example, 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, for example, in the month when airtime on a per-minute basis is used by the customer.

Products and services	Nature and 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 the 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, for example, 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 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	2023	2022
Product/service		
Recurring revenue		
NFON AG	44,209	42,403
Deutsche Telefon Standard GmbH	16,314	15,716
NFON GmbH (AT)	7,339	6,830
NFON UK Ltd.	7,128	7,240
NFON Iberia SL	476	412
NFON Italia S.r.l.	948	688
NFON France SAS	343	283
NFON Polska Sp. z o.o.*	376	0
Consolidated recurring revenue	**77,133**	**73,572**
Non-recurring revenue		
NFON AG	2,121	3,678
Deutsche Telefon Standard GmbH	715	1,125
NFON GmbH	1,256	1,354
NFON UK Ltd.	821	791
NFON Iberia SL	7	33
NFON Italia S.r.l.	226	181
NFON France SAS	42	57
NFON Polska Sp. z o.o.	18	0
Non-recurring consolidated revenue	**5,206**	**7,219**
Consolidated revenue	**82,339**	**80,791**

* In the financial year 2022, revenue from customers with whom NFON Polska Sp. z o.o. generated revenue in the financial year 2023 was mainly generated by NFON GmbH.

C. Contract balances

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

	Financial year ended 31.12.	
In EUR thousand	2023	2022
Receivables included in trade receivables	8,966	9,276
Contract assets	56	70
Contract liabilities	352	336

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 issued 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.

	2023					2024
In EUR thousand	01.01.	Reversal	New	New reversal	31.12.	Reversal
Contract assets	74	51	43	9	56	33
Contract liabilities	341	282	401	108	352	267

	2022					2023
In EUR thousand	1.1.	Reversal	New	New reversal	31.12.	Reversal
Contract assets	122	74	33	7	74	49
Contract liabilities	304	228	367	102	341	262

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 the inception of the contract (for example, 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 2023 (as in 2022), 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 the 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).

	Financial year ended 31.12.	Recognition		
In EUR thousand	2023	2024	2025	2026 and subsequent years
Unsatisfied allocated transaction price to performance obligations	5,531	3,196	1,908	426
Share	100%	58%	34%	8%

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 11,364 thousand in 2023 (previous year: EUR 10,780 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 1 thousand as at 31 December 2023 (31 December 2022: EUR 0 thousand).

19. Other operating income

In EUR thousand	2023	2022
Other operating income		
Non-cash employee-related benefits	427	470
Miscellaneous other income	497	618
Total other operating income	**924**	**1,088**

Non-cash employee-related benefits include charges to employees for car usage, for example. EUR 89 thousand (previous year: EUR 267 thousand) of miscellaneous other income relates to foreign currency gains. A further EUR 120 thousand (previous year: EUR 136 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	2023	2022
Wages and salaries	28,602	29,772
Social security contributions	5,800	6,334
Share-based payment plans*	67	486
Expenses for pensions and other benefits	137	180
Other staff costs	311	657
Total	**34,917**	**37,428**

* Equity-settled.

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 2023, the average number of employees was 439 and managers 14 (previous year: 512 and 14).

21. Other operating expenses

In EUR thousand	2023	2022
Other operating expenses		
Sales commission	11,694	11,090
Marketing expenses	4,369	8,463
Consulting expenses	2,208	3,520
General administration	1,519	3,270
IT expenses	3,007	3,164
Other staff costs	2,474	2,823
Travel expenses	1,379	1,309
Rental costs	1,251	1,089
Support costs	393	425
Selling costs	68	79
Currency translation expenses	112	35
Total other operating expenses	28,474	35,267

As sales commission represents a percentage share of revenue generated through distribution partners or dealers, the increase in the financial year 2023 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 realigned marketing activities with a focus on cooperation with sales partners.

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

In the previous year, general administrative costs included licence back payments in connection with an existing contract amounting to EUR 900 thousand.

The rental costs primarily include incidental rental costs of EUR 999 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.

Tax on profit for the year

	Financial year ended 31.12.	
In EUR thousand	2023	2022
Current tax income (expense)	–949	–134
Deferred tax income/expense	851	–3,267
Income tax income/expense	**–97**	**–3,401**

The current tax expense for the reporting year amounts to EUR 949 thousand, including EUR 314 thousand in taxes from previous years. This essentially relates to income tax expenses for the financial year 2022 of EUR 268 thousand resulting from the cancellation of the profit transfer agreement with Deutsche Telefon Standard GmbH. The deferred tax income for the reporting year comprises income amounting to EUR 1,154 thousand from deferred tax assets on loss carryforwards and expenses of EUR 303 thousand from the adjustment of deferred taxes on temporary differences. The deferred tax income essentially results from the recognition of deferred tax assets on loss carryforwards at Deutsche Telefon Standard GmbH. By cancelling the profit transfer agreement, the company is able utilise its previously frozen loss carryforwards again.

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 32.14% 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 16.31%.

In EUR thousand	2023	2022
Profit before tax from continuing operations	–705	–12,181
Taxes using the company's domestic tax rate of 31.41%	226	3,826
Tax effect on:		
Differences due to different tax rates	–304	670
Non-deductible expenses	–235	–250
Adjustments for previous years	211	41
Losses for which no deferred tax assets are recognised	–1,820	–3,774
Adjustments for current taxes of previous years	–268	0
Use of tax loss carryforwards for which no deferred tax assets were recognised in the previous year	21	0
Change in realisability of deferred tax assets and tax credits	2,071	–3,592
Tax effect from permanent differences	–21	–161
Other	21	–161
Current income taxes	**–97**	**–3,401**
Current tax income (expense)	–949	–134
Deferred tax income/expense	851	–3,267
Income tax income/expense	**–97**	**–3,401**

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 32.14%. The line item "Adjustments for previous years" contains the effects of the cancellation of the combined tax entity with Deutsche Telefon Standard GmbH.

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	2023	2022
Profit (loss) for the year attributable to the owners of the parent for basic earnings per share	–802	–15,582
Profit (loss) for the year attributable to the owners of the parent for diluted earnings per share	–802	–15,582

Quantity	2023	2022
Weighted average number of ordinary shares for basic earnings per share	16,561,124	16,561,124
Weighted average number of ordinary shares for diluted earnings per share	16,561,124	16,662,929

In EUR	2023	2022
Loss per share		
Basic earnings	–0.05	–0.94
Diluted earnings	–0.05	–0.94

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, the C-level 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.

	Transaction values	
In EUR thousand	2023	2022
Sales of goods and services and other income*	18	19

* EUR 0 thousand (2022: EUR 4 thousand) of which relates to transactions with members of the Management Board and their affiliated companies and EUR 18 thousand (2022: EUR 15 thousand) of which to transactions with members of the Supervisory Board and their affiliated companies.

	Transaction values	
In EUR thousand	2023	2022
Purchases of goods and services and other expenses*	287	292

* EUR 34 thousand (2022: EUR 61 thousand) of which relates to transactions with members of the Management Board and their affiliated companies and EUR 253 thousand (2022: EUR 230 thousand) of which to transactions with members of the Supervisory Board and their affiliated companies.

	Balance outstanding as at 31 Dec.	
In EUR thousand	2023	2022
Trade receivables*	8	8

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

	Balance outstanding as at 31 Dec.	
In EUR thousand	2023	2022
Liabilities*	11	25

* EUR 0 thousand (2022: EUR 3 thousand) of which relates to liabilities to members of the Management Board and their affiliated companies and EUR 11 thousand (2022: EUR 22 thousand) to 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 financial 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. Management Board

The members of the Management Board are:

Management Board	Place of residence	Function and profession	Other mandates
Patrik Heider (as of 15 May 2023)	Munich	CEO, degree in business administration	–
Andreas Wesselmann (as of 1 January 2024)	Wilhelmsfeld	CTO, Master of Business Administration, graduate mathematician	–
Dr Klaus von Rottkay (until 27 July 2023)	Munich	CEO, doctorate in physics	–
Jan-Peter Koopmann (until 27 July 2023)	Nackenheim	CTO, degree in computer science and business administration	–

In accordance with section 314(1) no. 6 a sentence 1 to 3 HGB, the Management Board received remuneration of EUR 1,625 thousand in the reporting year (previous year: EUR 949 thousand). In the reporting year, this included grant values for share-based payments of EUR 227 thousand (previous year: EUR 0 thousand).

A total of 100,000 stock options were granted in the reporting year. In accordance with IFRS regulations, Management Board remuneration is as follows:

In EUR thousand	2023	2022
Management Board remuneration		
Short-term remuneration	1,399	949
Total share-based remuneration (long-term incentive)	14	0
Total remuneration of members of management	**1,413**	**949**

After their resignation from the Management Board took effect, the former members of the Management Board Klaus von Rottkay and Jan-Peter Koopmann received fixed salaries totalling around EUR 252 thousand and variable remuneration of around EUR 127 thousand in 2023 in accordance with the provisions of their termination agreements.

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

2. Supervisory Board

The members of the Supervisory Board of NFON AG were as follows as at 31 December 2023:

Supervisory Board	Function	Profession
Rainer Christian Koppitz	Chairman	CEO of Katek SE (until February 2024), entrepreneur, Munich
Günter Müller	Deputy Chairman	Executive Chairman of ASC Technologies AG, Hösbach
Dr Rupert Doehner		Lawyer, Managing Director of RECON Rechtsanwaltsgesellschaft mbH, Munich
Florian Schuhbauer		Managing Director of Active Ownership Capital S.à r.l. and Active Ownership Corporation S.à r.l., Grevenmacher, Luxembourg

In addition to his Supervisory Board work for NFON AG, Rainer Koppitz also serves as the 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 a member of the Supervisory Board of PNE AG, Cuxhaven.

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

In EUR thousand	2023	2022
Supervisory Board remuneration		
Basic remuneration	215	215
Attendance fee	20	28
Total remuneration of members of the Supervisory Board	**235**	**243**

25. Segment information

In accordance with IFRS 8, operating segments must be defined on the basis of the internal reporting 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 decision as to which information is reported is based on the internal organisational and management structure and the structure of internal financial 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 adjusted for indirect intercompany transfers. EBITDA is earnings before interest, taxes, depreciation, amortisation and impairment in accordance with IFRS. 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 NFON Group comprises a total of nine segments. Eight of these are segments with external revenue and are shown separately below as reportable segments. The eight segments are NFON AG, Deutsche Telefon Standard GmbH, NFON GmbH, NFON UK Ltd., NFON Iberia SL, NFON Italia S.r.l., NFON France SAS and NFON Polska Sp. z o.o.

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	2023	2022
Revenue		
NFON AG	46,329	46,081
Deutsche Telefon Standard GmbH	17,029	16,841
NFON GmbH (AT)	8,595	8,183
NFON UK Ltd.	7,949	8,031
NFON Iberia SL	483	445
NFON Italia S.r.l.	1,174	869
NFON France SAS	386	340
NFON Polska Sp. z o.o.*	394	0
Total revenue of the reportable segments	**82,339**	**80,790**
Reconciliation	0	0
Total revenue	**82,339**	**80,792**

* In the 2022 financial year, revenue from customers with whom NFON Polska Sp. z o.o. generated revenue in the 2023 financial year was mainly generated by NFON GmbH.

In EUR thousand	2023	2022
Contribution Margin 2		
NFON AG	4,057	201
Deutsche Telefon Standard GmbH	4,580	3,808
NFON GmbH (AT)	1,120	–1,146
NFON UK Ltd.	–121	–1,132
NFON Iberia SL	–46	–991
NFON Italia S.r.l.	–1,164	–1,623
NFON France SAS	–251	–623
NFON Polska Sp. z o.o.*	–334	0
Total contribution margin 2 by reportable segment	**7,841**	**–1,506**
Other segments	208	132
Reconciliation	–1,251	–3,892
EBITDA	**6,798**	**–5,266**
Addback:		
Depreciation and amortisation	–7,322	–6,760
Net interest income/expenses	–190	–184
Income from associates	8	29
Income tax expense	–97	–3,401
Net profit/loss for the period	**–802**	**–15,582**

* In the 2022 financial year, revenue from customers with whom NFON Polska Sp. z o.o. generated revenue in the 2023 financial year was mainly generated by NFON GmbH.

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 –1,251 thousand as at 31 December 2023 mainly relate to non-recurring effects adjusted for in internal reporting of EUR –1,554 thousand and subsequent adjustments in the consolidated financial statements of EUR 303 thousand.

The reconciliation effects of EUR –3,892 thousand as at 31 December 2022 include EUR –4,264 thousand in non-recurring effects adjusted for in internal reporting and EUR 372 thousand in consolidation effects and subsequent entries in the consolidated financial statements following presentation of management reporting.

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

- Restructuring of top management: EUR 1,274 thousand
- Focus on core markets: EUR 153 thousand
- Stock options: EUR 67 thousand
- Administrative costs: EUR 60 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	2023	2022
Product/service		
Recurring revenue	77,133	73,573
Non-recurring revenue	5,205	7,219
Total revenue	**82,339**	**80,792**

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	2023	2022
Revenue		
Germany	62,220	61,847
Austria	8,595	8,183
United Kingdom	7,949	8,031
Italy	1,174	869
Spain	483	445
Netherlands	726	676
Switzerland	412	400
Poland*	394	0
France	385	340
Reconciliation	0	0
Total revenue	**82,339**	**80,792**

* In the 2022 financial year, revenue from customers with whom NFON Polska Sp. z o.o. generated revenue in the 2023 financial year was mainly generated by NFON GmbH.

2. Non-current assets

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

In EUR thousand	2023	2022
Non-current assets		
Germany	46,354	41,965
Portugal	228	352
Austria	507	339
Poland	204	238
United Kingdom	364	206
Italy	84	78
Spain	10	21
France	1	2
Total non-current assets	**47,753**	**43,201**

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 flow

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 recognised changes in balance sheet 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 twelve months together with their recognition as financial liabilities, leases with a useful life of less than twelve months are presented below. The corresponding minimum lease payments amount to EUR 30.5 thousand as at 31 December 2023 (31 December 2022: EUR 267 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 to be very low, as NFON UK has sufficient cash and cash equivalents to service its current liabilities to British Telecommunications plc.

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). The probability of utilisation is considered to be very low, as DTS has sufficient cash and cash equivalents to service the current liabilities to BT Germany GmbH & Co. KG.

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 275 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 2023 and 2022:

In EUR thousand	2023	2022
Audit of the financial statements	483	398
Other assurance services	42	9
Other services	87	86

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

The other assurance services related to ISO/IEC 27001 and ISO 9001 certifications in the reporting year. Other services relate to assurance services in connection with current BaFin enforcement proceedings and 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 2023 in EUR thousand	Equity in EUR thousand
NFON GmbH, St. Pölten, Austria	100.00%	475	2,487
NFON UK Ltd., Maidenhead, United Kingdom	100.00%	513	6,802
NFON Iberia SL, Madrid, Spain	100.00%	–49	–1,115
NFON Italia S.r.l., Milan, Italy	100.00%	20	591
NFON France SAS, Paris, France	100.00%	6	24
Deutsche Telefon Standard GmbH, Mainz, Germany	100.00%	4,073	11,633
NFON Developments Lda., Lisbon, Portugal	100.00%	49	259
NFON Polska Sp. z o.o., Warsaw, Poland	100.00%	19	–483
Meetecho S.r.l., Naples, Italy	24.90%	96	502

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 after the end of the reporting period that had a significant impact on the financial position and financial performance of the Group as at 31 December 2023. NFON plans to merge Deutsche Telefon Standard GmbH with NFON AG in the financial year 2024. The merger should allow both companies to realise further synergies. We assume that the legal merger process can be completed in the second half of 2024. The effects of the merger on the financial position and financial performance of the Group essentially relate to tax expenses. As a result of the positive earnings contribution by Deutsche Telefon Standard GmbH to NFON AG following the merger, the tax expense can presumably be reduced on account of existing tax loss carryforwards.

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 ⊕ Corporate website.

Munich, 17 April 2024

Patrik Heider
Chief Executive Officer

Andreas Wesselmann
Management Board

04 Further information

Table of contents

Interactive table of contents You can click on the individual topics to go to the respective page.

Declaration of the Board of Management

To the best of our knowledge, we declare that, in accordance with applicable financial reporting principles, the annual financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the company, and the Management Report of the company, which is combined with the Group management report, provides a fair review of the development and performance of the business and the position of the company, together with a description of the principal opportunities and risks associated with the expected development of the company.

Munich, 17 April 2024

Patrik Heider	**Andreas Wesselmann**
Chief Executive Officer	Management Board

Independent Auditor's Report

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, 2023, 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, 2023, 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, 2023.

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

The group management report contains references not required by law. In accordance with German legal requirements, we have not audited the cross-references referred to in the "Other Information" section of our Independent Auditor's Report or the information to which the cross-references refer.

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

- the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to Section 315e (1) HGB [Handelsgesetzbuch: German Commercial Code] and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as of December 31, 2023, and of its financial performance for the financial year from January 1 to December 31, 2023, 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. The group management report contains references not required by law. Our audit opinion does not extend to the cross-references in the "Other Information" section or to the information to which the cross-references refer.

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, 2023. 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, 2023. Intangible assets in development totaled EUR 7.0 million as of December 31, 2023. In total, with a share of 26.5%, 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, 2023.

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 unit 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 the budget prepared by management and approved by the Supervisory Board and other internally available forecasts. 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

In financial year 2023, NFON AG reported recurring revenue of EUR 77.1 million in the consolidated financial statements. In particular, monthly fees and minute-based voice tariffs contribute to recurring revenue. NFON AG reported a share of recurring revenue to total revenue of 93.7% for financial year 2023.

The predominant part of the services of the NFON 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 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 for the full financial year and analyzed any deviations from the amount of revenue recognized.

OUR OBSERVATIONS
NFON AG's approach for recognizing recurring revenue is appropriate.

Other Information

The Management Board and/or the Supervisory Board are/is 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 Group included in a separate section of the group management report, and
- information extraneous to management reports and marked as unaudited, and
- the following components of the group management report, whose content was not audited:
  - cross-reference to the "Trust Center" on NFON AG's company website, as well as information referred to by the cross-reference
  - cross-reference to the "Sustainability Report", as well as information referred to by the cross-reference
  - cross-reference to "corporate.nfon.com" and "corporate.nfon.com/de/news/ir-news/stimmrechtsmitteilungen", as well as information referred to by the cross-reference.

The other information also includes 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, 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 the group management report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, 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 judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements and of the group management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than 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

Report on the Assurance 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 have performed 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") contained in the electronic file „nfonag-2023-12-31.zip" (SHA256-Hashwert: 8d055700c63aed4a45ed40212afc647f9c73b5dbe308ef6314f-da102e51a5454) made available and prepared for publication purposes complies in all material respects with the requirements of Section 328 (1) HGB for the electronic reporting format ("ESEF format"). In accordance with German legal requirements, this assurance work extends only to the conversion of the information contained in the consolidated financial statements and the group management report into the ESEF format and therefore relates neither to the information contained in these renderings nor to any other information contained in the file identified above.

In our opinion, the rendering of the consolidated financial statements and the group management report contained in the electronic file made available, identified above and prepared for publication purposes complies in all material respects with the requirements of Section 328 (1) HGB for the electronic reporting format. Beyond this assurance opinion and our audit opinion on the accompanying consolidated financial statements and the accompanying group management report for the financial year from January 1 to December 31, 2023, contained in the "Report on the Audit of the Consolidated Financial Statements and the Group Management Report" above, we do not express any assurance opinion on the information contained within these renderings or on the other information contained in the file identified above.

We conducted our assurance work on the rendering of the consolidated financial statements and the group management report contained in the file made available and identified above 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)). Our responsibility in accordance therewith is further described below. Our audit firm applies the IDW Standard on Quality Management 1: Requirements for Quality Management in Audit Firms (IDW QMS 1 (09.2022)).

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 objective is to obtain reasonable assurance about whether the ESEF documents are free from material intentional or unintentional non-compliance with the requirements of Section 328 (1) HGB. We exercise professional judgment and maintain professional skepticism throughout the assurance work. We also:

- Identify and assess the risks of material intentional or unintentional non-compliance with the requirements of Section 328 (1) HGB, design and perform assurance procedures responsive to those risks, and obtain assurance evidence that is sufficient and appropriate to provide a basis for our assurance opinion.
- Obtain an understanding of internal control relevant to the assurance on the ESEF documents in order to design assurance procedures that are appropriate in the circumstances, but not for the purpose of expressing an assurance opinion on the effectiveness of these controls.
- Evaluate the technical validity of the ESEF documents, i.e. whether the file made available containing the ESEF documents meets the requirements of Commission Delegated Regulation (EU) 2019/815, as amended as of the reporting date, on the technical specification for this electronic file.
- Evaluate whether the ESEF documents provide an XHTML rendering with content equivalent to the audited consolidated financial statements and the audited group management report.
- Evaluate whether the tagging of the ESEF documents with Inline XBRL technology (iXBRL) in accordance with the requirements of Articles 4 and 6 of the Commission Delegated Regulation (EU) 2019/815, as amended as of the reporting date, enables an appropriate and complete machine-readable XBRL copy of the XHTML rendering.

Further Information pursuant to Article 10 of the EU Audit Regulation

We were elected as group auditor at the annual general meeting on June 30, 2023. We were engaged by the Audit Committee on August 4, 2023. 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).

Other Matter – Use of the Auditor's Report

Our auditor's report must always be read together with the audited consolidated financial statements and the audited group management report as well as the examined ESEF documents. The consolidated financial statements and group management report converted to the ESEF format – including the versions to be entered in the German Company Register [Unternehmensregister] – are merely electronic renderings of the audited consolidated financial statements and the audited group management report and do not take their place. In particular, the ESEF report and our assurance opinion contained therein are to be used solely together with the examined ESEF documents made available in electronic form.

German Public Auditor Responsible for the Engagement

The German Public Auditor responsible for the engagement is Rainer Rupprecht.

Munich, April 18, 2024

KPMG AG

Wirtschaftsprüfungsgesellschaft

[signature] Rupprecht Wirtschaftsprüfer	[signature] David Wirtschaftsprüfer
[German Public Auditor]	[German Public Auditor]

Independent Auditor's Assurance Report on the Examination of the Remuneration Report pursuant to Section 162 (3) AktG

To NFON AG, Munich

Opinion

We have formally examined the remuneration report of NFON AG, Munich, for the financial year from January 1 to December 31, 2023, to determine whether the disclosures pursuant to Section 162 (1) and (2) AktG have been made in the remuneration report. In accordance with Section 162 (3) AktG, we have not examined the content of the remuneration report.

In our opinion, the accompanying remuneration report complies, in all material respects, with the disclosure requirements pursuant to Section 162 (1) and (2) AktG. Our opinion does not cover the content of the remuneration report.

Basis for the Opinion

We conducted our examination of the remuneration report in compliance with Section 162 (3) AktG taking into account the IDW assurance standard: Examination of the remuneration report pursuant to Section 162 (3) AktG (IDW AsS 870 (09.2023)). Our responsibilities under this regulation and this standard are further described in the "Auditor's Responsibilities" section of our assurance report. Our audit firm applies the IDW Standard on Quality Management 1: Requirements for Quality Management in Audit Firms (IDW QMS 1) (09.2022). We have complied with our professional duties pursuant to the German Public Accountants Act [WPO] and the Professional Charter for Auditors/Chartered Accountants [BS WP/vBP], including the independence requirements.

Responsibilities of the Management Board and the Supervisory Board

The Management Board and the Supervisory Board are responsible for the preparation of the remuneration report, including the related disclosures, in accordance with the requirements of Section 162 AktG. In addition, they are responsible for such internal controls as they have determined necessary to enable the preparation of the remuneration report, including the related disclosures, that is free from material misstatement, whether due to fraud (i.e. fraudulent financial reporting and misappropriation of assets) or error.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the remuneration report complies, in all material respects, with the disclosure requirements pursuant to Section 162 (1) and (2) AktG, and to issue an assurance report that includes our opinion.

We planned and performed our examination to obtain evidence about the formal completeness of the remuneration report by comparing the disclosures made in the remuneration report with the disclosures required by Section 162 (1) and (2) AktG. In accordance with Section 162 (3) AktG, we have not examined whether the disclosures are correct or individual disclosures are complete or whether the remuneration report is fairly presented.

Handling Potential Misrepresentations

In connection with our examination, our responsibility is to read the remuneration report by taking into account the findings of the audit of the financial statements and, in doing so, remain alert for indications of misrepresentations in the remuneration report to determine whether the disclosures are correct or individual disclosures are complete or whether the remuneration report is fairly presented.

If, based on the work we have performed, we conclude that there is such misrepresentation, we are required to report that fact. We have nothing to report in this regard.

Munich, April 18, 2024

KPMG AG

Wirtschaftsprüfungsgesellschaft

[signature] Rupprecht Wirtschaftsprüfer	[signature] David Wirtschaftsprüfer
[German Public Auditor]	[German Public Auditor]

Glossary

Application programming interface (API) – An API – also known as a program interface – is a part of a program that a software system makes available to other programs to enable them to connect to the system. Therefore, this interface enables applications to communicate with each other.

Average revenue per user (ARPU) – This is a blended ARPU, which means that the average is taken across all products, channels and regions. Blended ARPU is calculated as the recurring revenue for the period in question divided by the total number of active 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. To avoid diluting the ARPU figure, recurring revenues from monthly fees with SIP trunks are therefore deducted. However, sold voice minutes from SIP trunks are counted because these could also be generated on conversion into seats as part of a targeted medium-term migration to cloud PBX.

BSI C5 – The BSI C5 certificate refers to a certification procedure of the Federal Office for Information Security (BSI) in Germany. It is used by cloud service providers as verification that they meet certain security requirements. The abbreviation "C5" stands for "Cloud Computing Compliance Criteria Catalogue" and includes criteria that are relevant to the security of cloud services.

Business applications – Software products used in the administration of businesses and organisations, such as enterprise resource planning systems (ERP systems).

Business Support System (BSS) – In the telecommunications industry, the Business Support System is used to manage contractual relationships with customers/suppliers/partners, managing products and resources and for billing.

Channel – Here, especially indirect sales via partners.

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, on the basis of 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 platform – A communication platform as a software or online platform that enables users to communicate and interact with one another 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.

Communications Platform 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.

Compliance – This is an important component of corporate governance and is understood to refer to compliance with laws and directives as well as voluntary codes within the company.

Compound annual growth rate (CAGR) – This is the annual growth rate.

Contact Center as a Service (CCaaS) – CCaaS is a Software-as-a-Service(SaaS)-based application that helps customer service organisations to fully manage customer interactions across many communication 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.

CSR Directive Implementation Act (CSR-RUG) – The CSR Directive Implementation Act (CSR-RUG) is the German implementation of the European Non-Financial Reporting Directive (NFRD).

CXO – Derived from the designations used to denote the highest management functions of a company. The C stands for chief, the O for cfficer. 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 Chief Commercial Officer (CCO), the Chief Sales Officer (Germany) (CSO) and the Chief Product Officer (CPO).

Digital subscriber line (DSL) – This refers to 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.

Distributors – Distribution refers to the distribution of goods or services from a manufacturer or supplier to end customers or retailers.

EBITDA – Earnings before interest, taxes, depreciation and amortisation.

EBITDA adjusted / adj. – Adjusted EBITDA is calculated by subtracting non-operating and / or one-time expenses, such as expenses for stock options, from EBITDA.

Employee stock option plan (ESOP) – The employee stock option plan is a programme that enables employees to acquire shares in their own company.

Enablement – The process of preparing companies for the cloud and providing them with the right infrastructure.

Enterprise resource planning (ERP) – Enterprise resource planning describes 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.

Environment, social, governance (ESG) – This refers 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.

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.

ISO 27001 – ISO 27001 is an international standard for information security management systems (ISMS). It defines requirements for the management of information security in organisations and aims to identify, assess and deal with risks to ensure the confidentiality, integrity and availability of information. Companies that receive ISO 27001 certification have demonstrated that they have implemented appropriate security controls and measures to protect information and to manage the risks associated with information security.

ISO 9001 – ISO 9001 is an internationally recognised standard for quality management systems. It defines the requirements for effective quality management in organisations and offers a framework for the continuous improvement of processes, products and services. Companies that receive ISO 9001 certification have demonstrated that they have established a quality management system that is focused on customer orientation, process optimisation and continuous improvement.

Key performance indicator (KPI) – KPIs are used to measure specific developments and trends in a company.

Meet & Share – This is an NFON product for video calls with the option of not only watching the video but also sharing the screen.

Multi-factor authentication – Multi-factor authentication is an authentication method that requires users to provide two or more verification factors to gain access to a resource such as an application, an online account or a VPN.

Net promoter score (NPS) – This is a key figure used to measure customer satisfaction and loyalty. NPS is based on a simple question to customers: “How likely are you to recommend our product/service to a friend or colleague?” Customers can answer on a scale from 0 to 10.

On-premise – On-site.

Private branch exchange (PBX/cloud 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”.

Seat – A seat is a telephone extension installed with a customer.

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.

Single sign-on – Single sign-on refers to the use of a single authentication process to gain access to services, applications or resources. It replaces individual login procedures with different types of user data and relies on a universal user identity.

SIP trunk technology – SIP trunking refers to a telephone line or system connection that is provided via an IP connection using the standard protocol SIP (Session Initiation Protocol). This technology enables companies to transmit telephone calls via the Internet Protocol (IP) instead of conventional telephone lines. By utilising a broadband internet connection, businesses can make and receive calls without the need for separate physical phone lines.

Software as a Service (SaaS) – Software as a service (SaaS) is a cloud computing model that makes software applications available 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.

Stock options – Share options.

Symmetric digital subscriber line (SDSL) – A symmetric digital subscriber line is a DSL technology that provides access to a public digital network.

Unified Communications (UC) / Unified Communications as a Service (UCaaS) – Unified communications 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 & Collaboration (UCC) / Unified Communications & Collaboration as a Service (UCCaaS) – Unified communications is usually offered together with collaboration functionalities. These include sharing screens, collaborating on a single document and shared use of software such as whiteboards. See also "Unified Communications".

UCCaaS is a Software-as-a-Service(SaaS)-based application that offers programs in the UCC area as a service. See also "Unified Communications" and "Unified Communications & Collaboration".

Verticals – Verticals or vertical markets are markets in which goods and services from different business areas of a sector-specific value chain are offered.

Voice channels – "Voice channels" in a SIP trunk (Session Initiation Protocol) refer to the number of simultaneous voice connections that can be handled via this trunk. A single voice channel enables simultaneous communication between two parties.

White label – The term "white label" refers to products and services that are not marketed by a manufacturer or provider under the actual core brand, but have the same quality characteristics as the original.

Wholesale distributor – A wholesale distributor has further wholesale partners or their own network of wholesale partners to market NFON's services. See also "Distributors".

Abbreviations

AI – Artificial intelligence

AktG – German Stock Corporation Act

AOC – Active Ownership Capital

API – Application programming interface

ARPU – Average revenue per user

BSI – German Federal Office for Information Security

BSS – Business Support System

CAGR – Compound annual growth rate

CCaaS – Contact Center as a Service

CC Hub – Contact Center Hub

CMS – Compliance management system

CPaaS – Communications Platform as a Service

CRM – Customer relationship management

CSR-RUG – German CSR Directive Implementation Act

DCGC – German Corporate Governance Code

DRS 20 – German Accounting Standard No. 20

DSL – Digital subscriber line

EBIT – Earnings before interest and taxes

EBITDA – Earnings before interest, taxes, depreciation and amortisation

ERP – Enterprise resource planning

ESG – Environment, social, governance

ESOP – Employee stock option plan

FTE – Full-time equivalents

GDP – Gross domestic product

GRI – Global Reporting Initiative

HC – Head counts

ICS – Internal control system

IFRS – International Financial Reporting Standard

IfW – Kiel Institute for the World Economy

IP – Internet Protocol

KPI – Key performance indicator

LTI – Long-term incentive

NPS – Net promoter score

PBX – Private branch exchange

R&D – Research and development

RMS – Risk management system

SaaS – Software as a Service

SDG – Sustainable Development Goal

SDSL – Symmetric digital subscriber line

STI – Short-term incentive

UC – Unified Communications

UCaaS – Unified Communications as a Service

UCC – Unified Communications & Collaboration

UCCaaS – Unified Communications & Collaboration as a Service

UX – User experience

VoIP – Voice over Internet Protocol

WpHG – German Securities Trading Act

WpÜG – German Securities Acquisition and Takeover Act

Financial calendar **2024**

23.05.2024

Quarterly statement – January – March 2024

28.06.2024

Annual Shareholder Meeting of NFON AG

22.08.2024

Half-yearly financial report 2024

21.11.2024

Quarterly statement January – September 2024

corporate.nfon.com/en/investor-relations/financial-calendar

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Social media

The NFON Group maintains an extensive presence on various social media channels: Facebook, LinkedIn, YouTube and X (formerly Twitter). Our company blog blog.nfon.com also provides valuable insights, specialist articles and all the latest news.

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