

Sustainable TOGETHER

NFON Group
Annual and Sustainability Report 2021

Who we are?

Headquartered in Munich, NFON AG is the European provider for voice-centric business communication from the cloud, counting more than 50,000 companies across 15 European countries as its customers. With Cloudya, NFON offers an easy-to-use, independent and reliable solution for advanced cloud business communications. Further premium and industry solutions complete the portfolio in the field of cloud communications. With our intuitive communications solutions, we enable European companies to improve their work a little every single day. ▼ corporate.nfon.com/en

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List of abbreviations

AOC	Active Ownership Fund
PBX	Private Branch Exchange (telephone system)
CCaaS	Contact Center as a Service
SaaS	Software-as-a-Service
VoIP	Voice over IP
DTS	Deutsche Telefon Standard GmbH
IP	Internet Protocol
Seats	Extensions, Licenses

Key figures

In EUR million	2021 ¹	2020	Change
Total revenue	75.9	67.6	12.3%
Recurring revenue	68.0	59.4	14.4%
Recurring revenue as a share of total revenue (in %)	89.5%	87.8%	n/a
Non-recurring revenue	7.9	8.2	-3.5%
Non-recurring revenue as a share of total revenue (in %)	10.5%	12.2%	n/a
ARPU blended ² (in EUR)	EUR 9.84	EUR 9.77	0.7%
Seats	587,067	524,791	11.9%
Adjusted EBITDA ³	-1.3	3.5	n/a

¹ Unless otherwise stated, all values in the consolidated financial statements and the related notes are rounded. Therefore, rounding differences may occur in the tables.

² Based on an average number of seats per month every year.

³ Explanations of the adjustments can be found in Results of operations section: Personnel expenses and other operating expenses.

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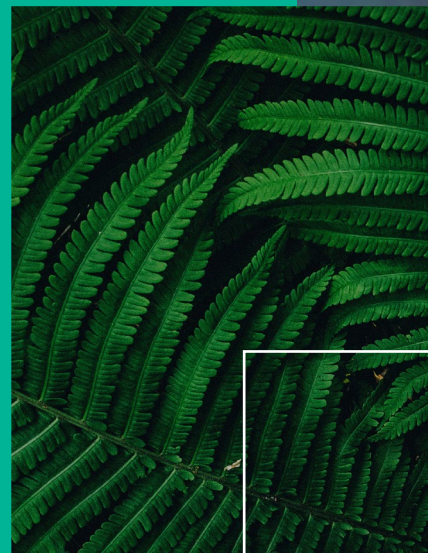
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SUSTAINABLE TOGETHER

Sustainably connected

Spoken words create a feeling of closeness, show respect and speed up the flow of information. Modern voice communication therefore makes an important contribution to a company's long-term success – and paves the way for acting sustainably.



Environment &
Climate



Social



Governance &
Compliance



Technology &
Working environment



The spoken word takes precedence – this sentence is not only written above speech manuscripts. It also determines everyday life in the business world, as the Bitkom Digital Office Index 2020 shows. Video meetings, landlines and cell phones are among the most popular communication channels for companies. And there is much to suggest that this will not change. No wonder, since our voice creates closeness. It gives cold facts a personal touch, conveys information just as quickly as it does emotions. In other words, spoken language gives communication that human touch.

At NFON, we consider it our mission to make business communication better and better. As a leading European provider, we rely on cloud technology. It allows our customers to talk to each other

anywhere in the world with little effort and the simplest of means, while simultaneously exchanging data and jointly editing documents.

Releases new forces

For many companies, this creates huge opportunities in the age of working from home and New Work. After all, the stationary workstation at the place of work has become a thing of the past. Where calls used to land in the mailbox or be rejected on old telephone systems, cloud telephony makes it easy to work remotely from home or while traveling. Employees can be reached directly on the devices of their choice at any time. This enables smarter business communication, reduces stress and frees up resources that can be used more sustainably elsewhere.

Spoken language also creates trust and openness. It strengthens relationships between people across company boundaries. As a result, personal networks – in which people also discuss industry trends and potential orders – grow. The forms of voice-centric communication that NFON offers thus make a contribution to the long-term, sustainable success of companies that should not be underestimated.

Many companies in Germany, Switzerland and Austria are of the same opinion. In a survey conducted by Computerwoche and CIO, around a third of the companies polled were using a cloud telephone system in 2019. Trend rising.

For us, however, sustainability goes far beyond the long-term growth of our business. We also consider it our task to conserve natural resources and thus protect the climate and the environment. In

addition, social concerns of employees, suppliers and other partners are important to us. Good corporate governance is also close to our hearts, however. We want to do our part to promote honesty, openness and reliability in business life.

Values guide actions

Sustainable entrepreneurial thinking and actions are important to us. This is why we are publishing our Sustainability Report for the first time this year.

In the following chapters we present what we have achieved in the past financial year. We describe our initiatives and concepts as our contributions to a sustainable business world.

We take sustainability very personally. That is why we speak of a sustainable "We." Only together will we succeed in not only focusing on the interests and needs of the present generation, but also on the needs of future generations.



NFON

Sustainability Report (following GRI 2-3, 2-4)

For the first time, we are publishing our Sustainability Report in parallel to and in connection with the Combined Group Management Report, Consolidated Financial Statements and Notes to the Consolidated Financial Statements, the Group Declaration on Corporate Governance, and the Report of the Supervisory Board. Content that is already presented and discussed in other reports is therefore not repeated in the Sustainability Report, but rather only referred to. The Sustainability Report covers the financial year from 1 January to 31 December 2021.

The content of the report relates to NFON AG and the Group. The underlying data basis for the non-financial key figures of the NFON Group essentially corresponds to the scope of consolidation

of financial reporting. If there is a deviating inclusion, we point this out. The measures presented in relation to the respective aspects are ongoing in their temporal dimension, unless stated otherwise.

In preparing this report, we have made use of the GRI Standards published by the Global Sustainability Standards Board (GSSB) in October 2021. In addition to the GRI, we use the Sustainability Development Goals of the United Nations (SDG), the SASB Standard for Technology and Communications – Telecommunications Services as the basis for sustainability reporting. In principle, we follow the reporting structure suggested in Section 289c (3) of the German Commercial Code (HGB) and describe the concepts, including the due diligence processes, the results of the due diligence, material risks, if any, and the significant non-financial performance indicators for the main fields of action identified by us.

External audit of the Sustainability Report

We have prepared this report voluntarily. No audit by an auditor is currently planned. Nevertheless, the concepts, processes and key figures we have presented here, as they are also explained in parts in the Group Management Report, the Group Declaration on Corporate Governance and the Report of the Supervisory Board, will either be audited or reviewed by the auditor or resolved by the Annual General Meeting. In addition, the report is reviewed by both the Management Board and the Supervisory Board in accordance with the reporting structure. (according to GRI 2-5)

Governance structure and composition

Economic – ecological – social

Every company activity has an impact on people and the environment. The Management Board and Supervisory Board take this into account when managing and monitoring the company.

The governing bodies of NFON AG

The Annual General Meeting

The Annual General Meeting elects the members of the Supervisory Board

The Supervisory Board

The Supervisory Board appoints the Management Board and advises and monitors the Management Board

The Management Board

(highest governing body)
CEO & CFO

C-Level-Team

CEO & CFO & CTO & CMO

On behalf of the Management Board, the ecological and social impacts of the company's activities are systematically identified and evaluated using the process specified by the GRI standard.

It is the task of the delegated managers together with the board of directors to establish a dialogue with the stakeholders and to maintain it.

ESG-Management

Senior Executives

Employees of NFON Group

The Supervisory Board monitors

- how environmental and social sustainability is considered in the strategic direction of the company and its implementation.
- that strategic and operational plans include financial and sustainability objectives.
- that the internal control and risk management system is also aligned with sustainability-related concerns.

The chairperson of the audit committee has special knowledge of sustainability reporting.

The Management Board ensures

that the environmental and social impacts of the company's activities are systematically identified and assessed. It carries out special projects and encourages employees to work sustainably and to come up with ideas on how NFON can become even more sustainable.

In addition, the CFO and a few senior executives take responsibility for developing, improving and updating the NFON Group's purpose, values, policies and objectives with regard to all aspects of sustainability.

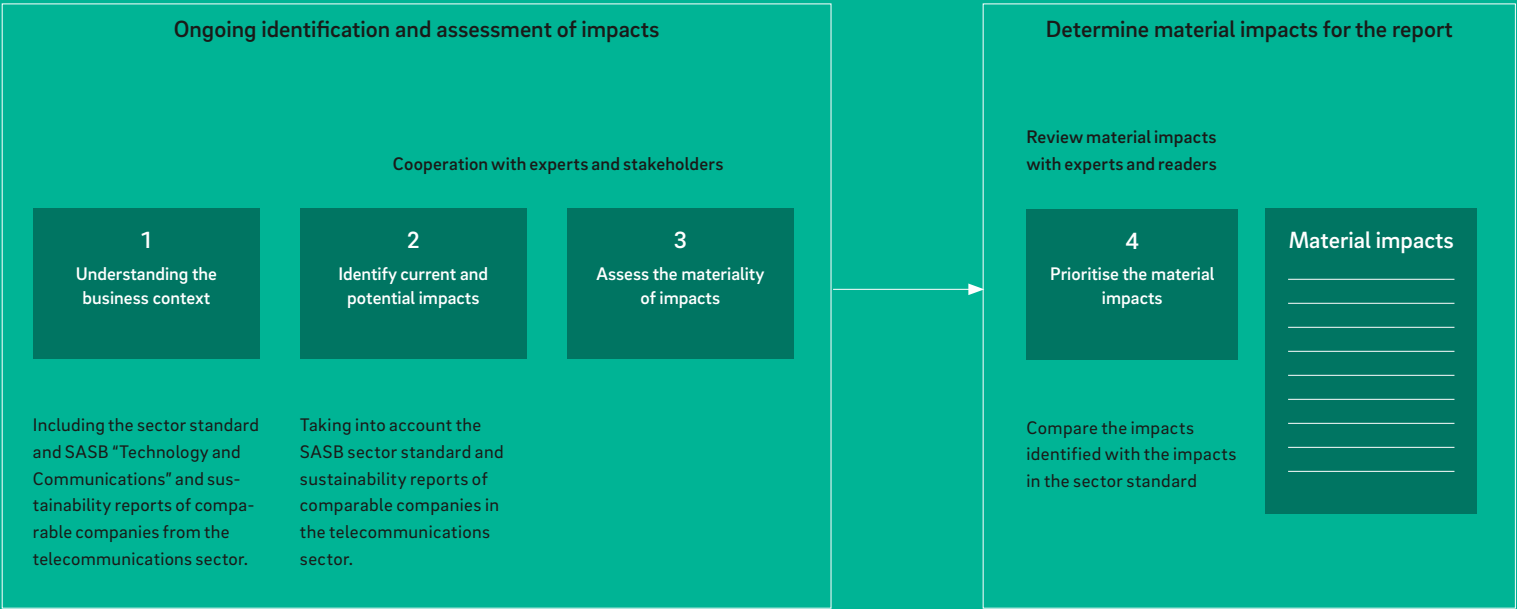
The Management Board receives regular reports from the delegated executives on the progress of the sustainability projects and their results. In addition, NFON will publish a Sustainability Report as an integral part of the Annual Report for the first time with the Annual Report 2021.

Material Topics

As NFON Group and as a company operating throughout Europe, we bear responsibility for sustainable development that not only has the interests and needs of the present generation in mind, but also of future generations. Every company activity has an impact on people and the environment.

As a provider of cloud-based voice-centric business communications, we operate in the telecommunications services sector. In order to identify and prioritise the topics that are material for us in terms of the GRI standard, we have carried out the process suggested by it:

Process for identifying and prioritising the material topics



Overview of our activities and business relationships, the sustainability context in which we and our stakeholders find ourselves

Approach to stakeholder engagement (following GRI 2-29)

Stakeholders do not act independently of each other at any time. They are part of the system and influence it through their activities. The relationship between our stakeholders is determined by their proximity to NFON. This also determines the possibility of direct or indirect influence. Accordingly, we position our stakeholders on a scale between internal and external. Internal stakeholders include our employees, the Management Board and the Supervisory Board with the possibility of direct influence and impact. External groups, on the other hand, include authorities, associations or universities with an indirect possibility of influence and impact. Depending on the specific relationship between the individual interest groups, external interest groups can also have a direct influence on NFON.

We are in dialogue with our stakeholders in various ways. The closest contact is of course with the internal stakeholders, the employees, the Management Board and the Supervisory Board (For more information on the dialogue between the Management Board and the Supervisory Board, see also the Group Declaration on Corporate Governance). Through our sales channels and partner programmes, we are in regular exchange with our partners and customers (see NGAGE and Strong Together). We are in regular contact with our

investors (see chapter Share) as well as with journalists. The more distant the stakeholders are from us as a company, the more contact shifts to project-related, departmental (universities, associations) or case-related (authorities) communication.

Overview of our activities and business relationships



Stakeholders

Internal	☒ Employees
	☒ The Management Board and Supervisory Board
	☒ Partners and wholesale partners
	☒ Customers
	☒ Investors and journalists
	☒ Suppliers and business partners
	☒ Potential new employees
	☒ Universities, colleges, research institutes
	☒ Banks and financial institutions
	☒ Authorities
External	☒ Associations, politicians

Sustainability context (following GRI 3-1)

Sustainability is nothing new for NFON. We are already sustainable in our essence. Our sustainability context is determined by our mission and values.

Our first starting point – our mission

We want to become the leading provider of integrated business communication from the cloud in Europe.

The statements linked to our mission determine our economic actions. At various points, they touch on environmental, social, governance and technology aspects, including human rights aspects, at the local, regional and international level, which are described below:

Aspects of the sustainability context

Topic	Environment & Climate	Social	Governance & Compliance	Technology & Working environment
Cloud services provider	Resource (Electricity)		– Fundamental liberties – Regulation by public authorities – Corruption – Supply chains/circular economy	– Data – Information Technology – Platforms
Europe	Travel activities	Integration – Working conditions – Work organisation – Health – Customers		
Corporate Communications		– Partners – Jobs – Diversity – Promotion of employees	– Development of the company – Equal treatment – Remuneration system – External stakeholders	– Innovation – Development of UCC and CC products and solutions
Growth	Greenhouse gas			

Our second starting point – our values

The maxims of our actions result from the connection between our mission and our company values. They show us our fields of action in which sustainability aspects have an impact on us or we as a company have an impact on sustainability aspects.

The topics presented in their fields of action were listed by us for the first time and initially only discussed and agreed internally. In the future, these topics will also be discussed with our stakeholders.

The company values of NFFON

	Entrepreneurial Attitude	Respect	Team Result
	Attitude beats experience	Respect guides our daily interaction with employees, partners and customers as well as our environment.	 is more than individual achievements
	We get things DONE. If plan A doesn't work, the alphabet has 25 other letters.	We value each other's commitment and listen to diverse opinions.	Together – we can only be successful together: One common goal leads us to extraordinary, overall results and a positive team spirit.
What we offer	– Ownership – Responsibility – Trust	– Direct and open communication – Fairness – Customer and partner orientation	– Development – Community
What we expect	– Solution orientation – Ambition – Reliability	– Open minded – Agile mindset – Active listening	– be positive and goal-oriented – great performance

The maxims of our actions

Topic	Environment & Climate	Social	Governance & Compliance	Technology & Working environment
Entrepreneurial Attitude	– Reduction of travel – Use and promotion of sustainable transport modes	– Job creation – Agile work organisation – Promotion of employees	– Sustainable orientation of the company – Remuneration system designed for sustainable and long-term development	– Promotion of innovations – Sustainable operation of platforms
Respect	Respectful use of resources: electricity consumption, greenhouse gas emissions	– Integration and diversity – Attraction and retention of employees – Satisfying partners and customers – Creating good working conditions	– Reliable, credible communication with stakeholders – Compliance guidelines (freedom of expression, respect for human rights, labour rights, prevention of corruption, equal treatment) – Compliance with national and international regulations – Sustainable supply chains / circular economy	Data protection and IT security Promoting and supporting the digital transformation of companies (UCC and CC)
Team Result		Organisational development opportunities		

Materiality analysis

The materiality analysis focuses on two questions:

1. Where do we make a significant environmental, social, technological and governance contribution?
2. Where do significant environmental, social, technology and governance aspects impact us?

By asking ourselves these two questions, we follow the principle of double materiality, the so-called outside-in and inside-out approach. This means that, in accordance with the German Sustainability Code, we disclose what aspects of our own business activities have a material impact on aspects of sustainability and what material influence the aspects of sustainability have on our business activities. At the same time, we analyse the positive and negative impacts and show how these findings are incorporated into our processes.

In the Materiality Matrix we have developed, we divide the topics we have identified into three materiality areas.

Materiality analysis according to the principle of dual materiality



Three areas of materiality

Less material	– Low positive and negative impacts on sustainability aspects as well as – minor opportunities and risks arising from the handling of sustainability aspects – The further development of the aspects is monitored
Material	– High positive and negative impacts on sustainability aspects, but – lower opportunities and risks from dealing with sustainability aspects – Form indicators – Measure aspects – Establish concepts and measures – Involve external or internal stakeholders
Very material	– Both high positive and negative impacts on sustainability aspects as well as – major opportunities and risks from dealing with sustainability aspects – Manage aspects strategically – Involve internal and external stakeholders

Materiality

The topics classified in the field "very material" are the subject of our sustainability report including the "material" topics.

For these topics, we describe below our concepts including the due diligence processes we apply, the material risks and opportunities associated with these topics, and the significant non-financial performance indicators.



Environment and climate (following GRI 302)

The topics in the field of action Environment and Climate are implemented in separate projects on the one hand and in separate departments on the other. The following overview shows the links between the topics and projects:

Topic	Project	Department(s)
Use and promotion of sustainable means of transport	Job bike	HR
	Corporate car policy	Procurement
	Integrated business communication with cloud products and services	Research & Development Product Management Sales
Reduction of travel activities	Hybrid Working @ NFON	HR Internal IT
Dealing with resources	Electricity:	Procurement
	Green power in data centers	HR

More

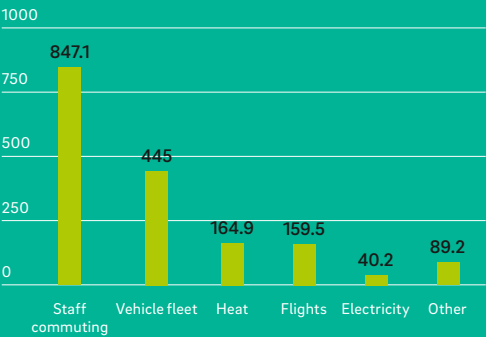
Job bikes

than company cars.

As NFON, we naturally also assume our responsibility in terms of global economic development that conserves resources and reduces greenhouse gases. We think of economic development and ecological responsibility together. For us, as for everyone else, it is important to preserve what sustains us and to protect our resources. Protecting the environment and nature is therefore an essential part of our business activities.

We worked with Climate Partner for the first time in 2019 to determine our Corporate Carbon Footprint. The result: our biggest sources of CO2 emissions are the trips made by our employees and our vehicle fleet.

The largest emission sources in t CO₂

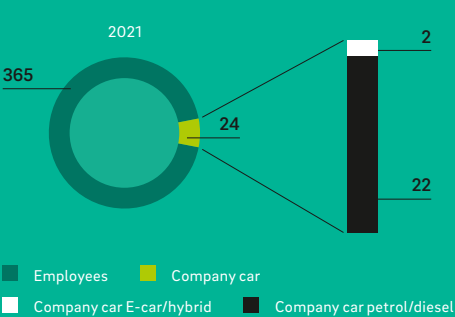


It was therefore only logical to implement further resource-saving measures in this area in particular.

Car policy (applies only to Germany)

In line with our environmental responsibility, we have specified the use of fuel-efficient vehicle and engine types and also envisaged the use of battery electric vehicles (BEV) or plug-in hybrid vehicles (PHEV) where this makes economic, environmental and logistical sense. For the determination of the company vehicle category, the CO2 emissions/km now also come into play. In this context, we have introduced a bonus scheme that favours the choice of a BEV or PHEV.

Company car



Job bike (applies only to Germany)

We launched the "Job Bike" initiative in 2022. We offer our employees in Germany the opportunity to lease a company bicycle. Job bike turns bicycles and e-bikes into company bikes. The bike can be used for travelling to work, for everyday travel, on holiday or for sports.

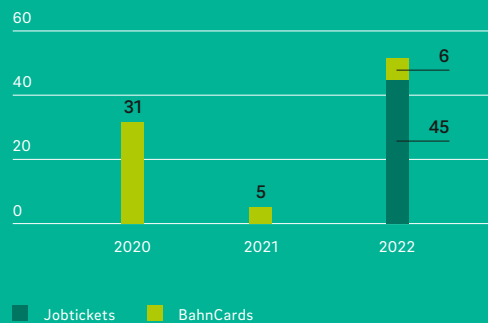
Job bike



Job ticket and BahnCard

Together with the Hybrid Working @ NFON project, we offer employees who travel to the office at least three days a week support for a job ticket. In addition, employees who undertake many business trips can receive a BahnCard. The development in 2020 and 2021 was mainly influenced by the pandemic and shows that we also travelled significantly less on business in Germany in these years than in the years before.

Job ticket / BahnCards (Germany)



DB key figures

Deutsche Bahn expenditure in 2021:	30,167 EUR
CO2 savings compared to passenger cars in 2021:	29,057 kg
Deutsche Bahn expenditure in 2020:	24,451 EUR
CO2 savings compared to passenger cars in 2020:	31,839 kg

Integrated business communication with cloud products and services

The bitkom climate protection study published in March 2021 impressively shows that digitalisation is a decisive lever for climate protection. According to the results of the study conducted by accenture on behalf of bitkom, digital technologies can contribute 41% to Germany's 2030 climate target. At the same time, the achievement of the target depends to a large extent on the pace of digitalisation in Germany. Here, it is not only the Federal Government itself that is called upon, but also companies. On the one hand, they have to drive their own digitalisation forward. On the other hand, it is also companies like us that must develop and market the respective products and solutions. The study looks into the savings potential in the seven application areas with the highest emissions, which include manufacturing, mobility, energy, buildings, agriculture and health, as well as work and business. In other words, precisely the area of application in which negative and positive impacts can be seen through our business activities as a provider of voice-centric business communication.

If we follow the results of the study, then in the context of work & business, mobile working can reduce between 14-16% of transport and primary energy emissions through collaborative digital solutions & cloud sharing platforms. Mobile working here means the ability to work and collaborate independent of location, e.g. through access to data and platforms and digital collaboration.

According to bitkom, the most important technologies are:

- Cloud-based platforms (Platform as a Service)
- Connectivity and exchange through smart devices
- Telecommunications platforms that enable collaboration
- Video conferencing
- Virtual meetings
- Voice communication via the Internet Protocol (VoIP)

These are all technologies that are at the core of the products and solutions we offer.

Green electricity at NFON data centers

As a telecommunications service provider, we consume significant amounts of electricity in our data centers. In line with the Green Deal adopted by the EU in summer 2021¹ and the 2030 Agenda adopted by the United Nations,² the German government has decided to increase the share of electricity from renewable energy sources in gross electricity consumption to at least 80 % by 2050.³ We are committed to this goal and purchase only electricity from renewable energy sources for our data centers in Munich, Nuremberg and Frankfurt. In addition, we are constantly examining the possibility of using electricity from renewable energy sources in the offices we rent. At the same time, we consider the risk of German companies being highly dependent on fossil energy sources. This risk has become particularly obvious through the

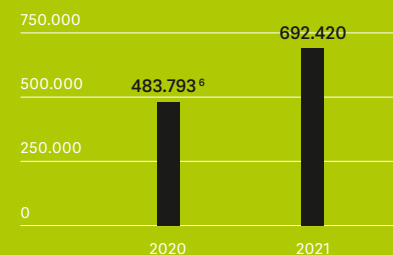
¹ https://ec.europa.eu/commission/presscorner/detail/de/IP_21_3541

² <https://www.2030agenda.de/de/article/our-common-agenda-momentum-fuer-einen-inklusive-und-vernetzten-multilateralismus-fuer>

³ <https://www.bundesregierung.de/breg-de/themen/nachhaltigkeitspolitik/bezahlbare-und-saubere-energie-1581908>

political developments in February 2022. In this respect, the use of renewable energies also shows the opportunity of securing the continued existence of essential infrastructures not only in Germany, but throughout Europe. With our cloud services, we connect companies with companies just as much as companies with their customers. Our services ensure that major travel activities can be discontinued. What applies to our corporate customers naturally also applies to us. Here, too, we are committed to the German government's goal of making a contribution to reducing greenhouse gas emissions.⁴

Energy consumption data centres in kW



Materiality impacts on sustainability aspects	Outside-in approach Influences	Inside-out approach Impact	Risks	Opportunities
Digitalisation is a decisive lever for climate protection ⁵	Climate change Resource scarcity Global climate targets	Development and marketing of cloud products and solutions Support for mobile working	Slowed implementation of digitalisation strategies	Increased demand for cloud services More flexible scheduling Increased employee satisfaction Less traffic

⁴ <https://www.umweltbundesamt.de/daten/klima/treibhausgasminderungsziele-deutschlands#internationale-vereinbarungen-weis-en-den-weg>; <https://www.bmuv.de/themen/klimaschutz-anpassung/klimaschutz/bundes-klimaschutzgesetz>

⁵ Klimateffekte der Digitalisierung. Studie zur Abschätzung des Beitrags digitaler Technologien zum Klimaschutz. bitkom durchgeführt von accenture, March 2021

⁶ Fourth data centre goes into operation in May 2020

The Supervisory Board



Rainer Christian Koppitz,
Chairman of the
Supervisory Board

Report of the Supervisory Board for financial year 2021

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 2021 and in this way continued the company's continuous growth course.

Composition and changes in the Supervisory Board

In 2021, the Supervisory Board consisted of the following persons throughout the year:

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

Meetings of the Supervisory Board and focal points of consultation

In financial year 2021, the Supervisory Board held four ordinary meetings and met for three extraordinary meetings. All members of the Supervisory Board participated in all meetings. In addition, it passed six resolutions by circulation. At its meeting on 09 December 2021, the Supervisory Board formed an Audit Committee consisting of the members Florian Schuhbauer, Günter Müller and Rainer Koppitz. At each ordinary meeting, with the

exception of the meeting on 28 September 2021, the Supervisory Board also met in closed session for a period of time.

The main focus of the Supervisory Board's meetings in financial year 2021 was on the following topics:

- Advising on commissioning a strategy consultant
- The approval of a capital increase
- Adoption or approval of the audited Annual Financial Statements and the Combined Management Report of the Company and the Group for financial year 2020.
- Preparation of the Annual General Meeting held on 24 June 2021
- Report on the risk situation and on risk and compliance management as well as resolutions and the Declaration on the GCGC
- Variable remuneration for the members of the Management Board in 2020
- The status of the development of the Cloudya product and the discussion of the NFON Group's product roadmap and strategy
- Approval of the establishment of a subsidiary in Poland
- The discussion and review of the 2022–2026 budget of the NFON Group
- Advising on the status and passing of resolutions regarding strategic partnerships and various M&A activities, in particular the acquisition of shares in Meetecho S.R.L.

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 2022 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 risk situation and risk management.

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

Annual and Consolidated Financial Statements and Group Management Report

The Annual General Meeting of the Company on 24 June 2021 appointed KPMG AG Wirtschaftsprüfungsgesellschaft, Munich, (hereinafter "KPMG") auditor of NFON AG for financial year 2021. The Supervisory Board subsequently commissioned KPMG with the audit of the Annual and Consolidated Financial Statements of the Company for financial year 2021.

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

First the Audit Committee and then all members of the Supervisory Board received the special documentation relevant to the financial statements, in particular the Annual Financial Statements 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 06 April 2022. The Audit Committee of the Supervisory Board dealt in detail with the aforementioned documents in preparation for this meeting. At the balance sheet meeting, the Annual Financial Statements, the Consolidated Financial Statements and the Combined Group Management

Report were discussed in detail with the Management Board. The Audit Committee and the Supervisory Board independently examined the Annual Financial Statements prepared by the Management Board as well as the Consolidated Financial Statements and the Combined Group Management Report for its legality, correctness, expediency and economic efficiency. The two responsible auditors from KPMG also attended the meetings of the Audit Committee and the Supervisory Board on 06 April 2022. 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.

After detailed examination of the Annual Financial Statements and the Consolidated Financial Statements as well as the Combined Group Management Report for financial year 2021, the Supervisory Board raised no objections to this. The Supervisory Board concurred with the audit findings of KPMG and approved the Annual Financial Statements and the Consolidated Financial Statements 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 2021 despite the hardships of the corona pandemic.

Munich, April 2022

For the Supervisory Board

Rainer Koppitz
Chairman of the Supervisory Board

Governance & Compliance

Responsibility for the topics of the Governance & Compliance field of action lies with the Management Board and Supervisory Board or the Compliance Manager of NFON AG. The following overview facilitates the allocation of the topics identified by NFON for the general commitment to sustainable corporate governance in terms of the company's interest.

Topic	Fields	Explanations
Sustainable orientation of the company	Management Board and Supervisory Board	Declaration on Corporate Governance
Reliable and credible communication with stakeholders	Management Board and Supervisory Board Public Relations Investor Relations Internal Communication	Declaration on Corporate Governance Chapter on the share
Remuneration system designed for sustainable and long-term development	Management Board and Supervisory Board	Remuneration Report
Compliance with national and international regulations	Management Board Compliance Manager Legal Department	Chapter on regulations
Compliance policy	Management Board Compliance Manager	Code of Ethics Overview of policies and guidelines
Integrity and diversity	HR Management Board and Supervisory Board	Declaration on Corporate Governance Chapter on employees

There are two complementary approaches to achieving this. On the one hand, we give ourselves clear rules: what is allowed, but also what is not allowed. Of course, we comply with the law and with our internal rules, i.e. the Code of Conduct, Rules and Procedures. Our Code of Ethics [<https://corporate.nfon.com/de/compliance-nfon/nfon-group-code-of-ethics>] is the central behavioural guideline. It summarises the most important rules and regulations that apply to the management and all employees. Guidelines give us detailed and concrete guidance on how to conduct ourselves in important areas of business on a day-to-day basis.

The second approach complements the rules. Everyone knows that there cannot be a predetermined rule for every decision-making situation. But how do we behave in cases that are not regulated from the outset? The answer: ethically and with integrity! To make this a matter of course, "fairness" is anchored in the values of the NFON Group and is taken into account in the instruments of human resources policy and corporate social responsibility.

Integrity takes precedence over short-term business success. When in doubt, we refrain from accepting an order or entering into a commitment.

The NFON Group is committed to the highest standards in the conduct of its business, in particular respect for human rights, labour law and the environment. Every employee is required to act with integrity and to comply with all applicable rights and regulations in the course of their professional activities.

The Code applies to all business units of the NFON Group as well as to its direct suppliers, contractors and licensees. We require all direct suppliers to comply with the provisions of this Code and require that these suppliers in turn require compliance from their subcontractors. All parties to whom this Code applies are required to comply with applicable national and international laws. Where the provisions of this Code provide greater protection than national law, the provisions of this Code shall prevail.

Overview of policies and guidelines

Responsible corporate governance	Declaration on Corporate Governance Code of Ethics Whistleblowing Procurement guideline Code of Conduct
Employer	– Travel policy – IT policy
	– Mobile device policy – Logging policy – Penetration testing policy – Access control policy – Risk management policy – Physical security policy – Information classification policy – Backup policy – Secure engineering policy – Cryptography policy – Information retention policy – Privacy policy – Supplier policy – Testing policy – Responsible disclosure policy – Clear desk and clear screen policy – Secure development policy – Information security policy – Password policy
Information security and data protection	
Environment & Climate	Car policy

Website:
<https://corporate.nfon.com/en/compliance-nfon/nfon-group-code-of-ethics>

NFON Code of Ethics (Compliance Guidelines)

We know that it is not only about achieving business goals, but also about HOW we achieve them. Our clients, our business partners, our shareholders, our lenders, the public and not least us as employees expect us all to act fairly and with integrity in our business relationships.

The NFON Share in 2021 – Into the future together with confidence

Trust through transparent dialogue with shareholders

With our 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 all of Germany. At NFON, however, we are not satisfied with meeting the minimum standard. Transparent, consistent and continuous dialogue is important to us. Particularly in a year in which the markets are characterised by continuing uncertainty and NFON has launched its sharpened growth strategy, reliability is a great asset because it creates trust. We reached important strategic milestones in 2021 on the way to becoming the leading provider of voice-centric business communications and will continue to consistently pursue this course in 2022. We are thus laying the foundation to accelerate our growth trajectory in the years ahead and, with the confidence of the capital market, to ensure a positive development of the NFON share in the long term.

Despite the many restrictions on travel and contact, NFON AG's Investor Relations department, together with its Management Board members, was once again very active in 2021. In particular, many investors and analysts took part in our first virtual Capital Market Day. As part of this event,

the Management Board provided detailed information on the opportunities for cloud communications in the European markets as well as the strategic roadmap and milestones on the way to becoming a fully comprehensive provider of voice-centric business communications. We will be holding a Capital Market Day again this year, on 07 April 2022. Under the motto "Technology – Market – Growth," we will present the strategy with which we want to take another step closer to our goal for 2022 at this event and discuss the market trends and market potentials in the UCaaS and CCaaS market, our product and solution roadmap, the sales strategy and the outlook.

In addition to the quarterly statements, half-year financial and annual reports, quarterly conference calls for investors and analysts on the figures as well as press releases, NFON presented itself regularly at digital investor conferences and held many discussions with investors and analysts on the business model, the growth strategy, the milestones achieved and its further plans. In addition, NFON's IR team also initiated its own investor access activities on the North American market and thus established new contacts with North American investors.

As part of NFON AG's IR work, all important information, from the Group Financial Report to Corporate News, from mandatory announcements to the share price and shareholder structure, is made available on the company's own website in the Investor Relations section in an easily accessible and easy-to-find manner: <https://www.nfon.com/de/about-nfon/investor-relations/>.

Transparent, continuous and consistent dialogue with the capital market also means being accessible. Please do not hesitate to contact Sabina Prüser, Head of Investor Relations at NFON AG, by e-mail (sabina.pruser@nfon.com) or by phone +49 (0) 89 453 00 134 if you have any questions.

Financing growth in 2021

At the end of March 2021, NFON managed to place 1,505,555 shares with institutional investors at a placement price of EUR 17.50 per share as part of an accelerated book building process. This corresponds to gross issue proceeds of EUR 26,347,212.50. The share capital was thus increased by around 10% through partial utilisation of the authorised capital. The net proceeds will be invested in the further growth of the company, in particular in the further development of the product portfolio through internal development projects or technology investments, the expansion of the pan-European partner network as well as marketing activities. We would once again like to express our sincere thanks to all investors who have placed their trust in us in the course of this capital increase!

Annual General Meeting

The Annual General Meeting of NFON AG was once again held in a purely virtual format on 24 June 2021. The COVID-19 pandemic mitigation law made it possible for a total of 87.93% of the share capital to be represented at the AGM, even in these special times. This enabled the Management Board and Supervisory Board to report in detail to NFON shareholders on fiscal year 2020 and developments in 2021.

All items on the agenda were approved by the shareholders and KPMG AG Wirtschaftsprüfungsgesellschaft was confirmed as auditor and Group auditor for fiscal year 2021.

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

Following the general uncertainty on the markets in 2020, the NFFON share started 2021 at a price of EUR 19.90. In the first few months, the share price rose to EUR 22.85 on 03 March, which was also the high in 2021. In the months that followed, the

share price fell again and reached its low of EUR 12.95 for the year on 15 December 2021. As of 15 December, the price rose with minor setbacks to EUR 15.25 by the end of the year. This also represents the closing price on 31 December 2021 and an annual decline of approx. 23%.

Trading volume

The trading volume of the NFFON share on the XETRA platform averaged 7,018 shares traded per day over the course of 2021, with average trading turnover of EUR 120,010.09 per day. The trading turnover showed a significant increase, especially in the second half of 2021, to an average of around EUR 140,000 and reached a volume of more than

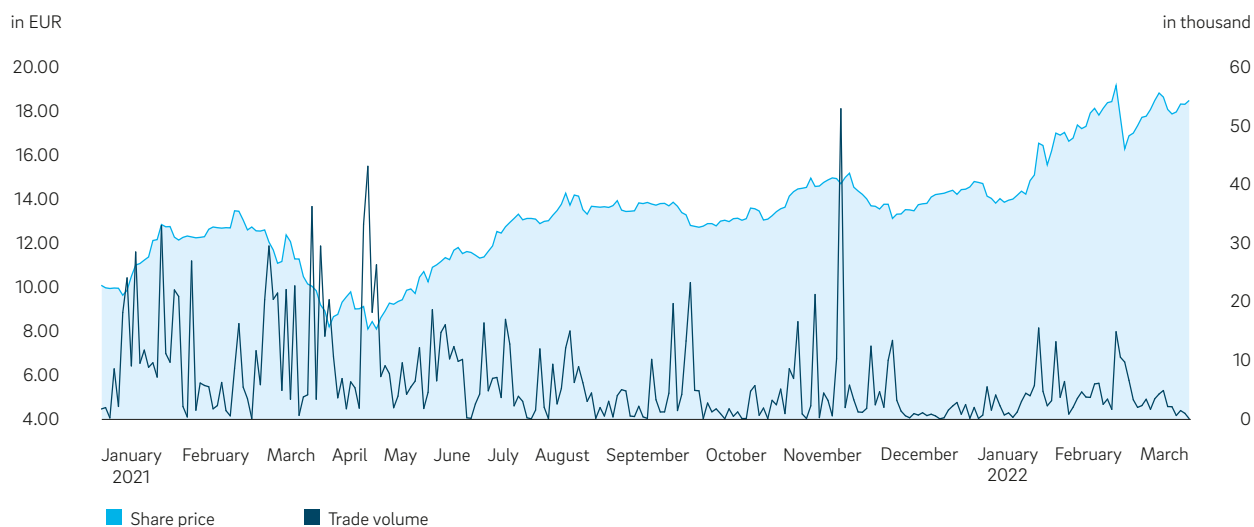
EUR 500,000 on several trading days. From the summer months on into November, the average volume was then above the annual average at around EUR 128,567.37. In the final months of the year, the turnover then increased significantly again to nearly EUR 140,000 per day.

All analysts recommend buying the share

The NFFON AG share was consistently covered by four analysts in 2021. Berenberg, Baader Bank, Stifel Europe and Hauck & Aufhäuser appraised NFFON AG on a regular basis, as in the previous year. Bryan, Garnier & Co initiated coverage of the NFFON share in May 2021 for the first time. All analysts have recommended the share as a buy since the start of their coverage. In July 2021, the US investment bank Barclays also initiated research by issuing an "equal weight" rating. At the beginning of 2021, the average price target was still EUR 19.75. Over the course of the year, the price target increased to an average of EUR 22.17 in February 2022. The detailed recommendations and price targets of all analysts can be found below in the subsection "Overview: NFFON AG on the Frankfurt Stock Exchange." NFFON 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 when relevant events occur.

Coverage was strengthened even further in 2021 with Bryan, Garnier & Co and Barclays with a view to US investors. We hope this will provide additional visibility for the NFFON share on the American

Share chart

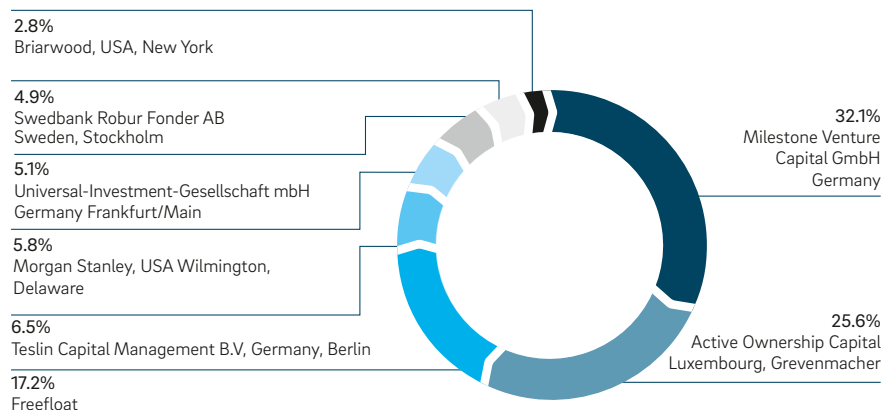


market. The expansion of the analyst portfolio means investors will have access to the ratings of six analysts in the future. With this level of coverage, NFON AG sees itself in a good position to attract attention and achieve an increasingly fair valuation of its share on the capital market and with investors around the world.

Shareholder structure

The changes in NFON AG's shareholder structure were characterised, among other factors, by intensified activities on the North American market. With Morgan Stanley and Briarwood, NFON was able to add two US investors to the shareholder group, who had significantly increased their shareholdings over the course of 2021. The shareholders Swedbank, Teslin and Universal-Invest, who already held more than 3% of the shares in the previous year, have also increased their shareholdings since then.

Shareholder structure



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

Coverage (Status in March 2022)	Berenberg Bank	Buy	EUR 23.00
	Baader Bank	Strong Buy	EUR 24.00
	Hauck & Aufhäuser	Buy	EUR 27.00
	Stifel Europe	Buy	EUR 23.00
	Bryan, Garnier & Co	Buy	EUR 21.00
	Barclays	Equal Weight	EUR 16.00
	Average		EUR 22.17
Initial listing (11.05.2018) ¹	EUR 13.00		
Closing price (30.12.2021) ¹	EUR 15.25		
High for the year (03.03.2021) ¹	EUR 22.85		
Low for the year (15.12.2021) ¹	EUR 12.95		
Market capitalisation as of 30.12.2021 ¹	EUR 253 million		
Average trading volume ¹	EUR 120,010.09/day		

¹ all trading data: XETRA

Master data of the NFON share

First day of trading	11 Mai 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	Regulated Market/ Prime Standard
Trading segment	Frankfurt Stock Exchange / Xetra
Stock exchanges	Telecommunications
Sector	Baader Bank, ODDO Seydler
Designated sponsors	Baader Bank, ODDO Seydler
Coverage	Baader Bank, Berenberg Bank, Hauck & Aufhäuser, Stifel Europe, Bryan, Garnier & Co, Barclays
Paying agent	Baader Bank Aktiengesellschaft

Group Corporate Governance Declaration

The Management Board and Supervisory Board report annually on the corporate governance at the company in the Group Corporate Governance Declaration pursuant to Section 315d HGB in conjunction with Section 289f HGB. An essential component of this Group declaration is the declaration on the Corporate Governance Code pursuant to Section 161 of the German Stock Corporation Act (AktG). The German Corporate Governance Code (the "Code") contains principles, recommendations and suggestions for the Management Board and Supervisory Board that are intended to help ensure that the company is managed in its best interests. In their actions, the Management Board and Supervisory Board are aware of the role that the company plays in society and their social responsibility. The Code seeks to make the dual German 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 in accordance with the principles of the social market economy, taking into account the interests of shareholders, employees and other groups associated with the company ("stakeholders") ("corporate interest"). These principles require not only legality, but also ethically sound, self-responsible behaviour ("model of the honourable businessman"). The Management Board and Supervisory Board of NFON AG are committed to the principles, recommendations and suggestions of the Code. The Management Board and Supervisory Board report on possible deviations from the

recommendations of the Code both in the Declaration of Conformity and in the following detailed explanations, with reference to the Code as amended on 16 December 2019.

Declaration of Conformity with the Corporate Governance Code

Pursuant to Section 161 of the German Stock Corporation Act (AktG), the Management Board and Supervisory Board of NFON AG declare 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 (Bundesanzeiger) in the version dated 16 December 2019 have been and are being complied with or which recommendations have not been or are not being applied.

- **C.2:** The Supervisory Board as a whole shall possess the competencies deemed essential in view of the activities of the NFON Group. These include, among other abilities, in-depth experience and knowledge in the management of a medium-sized or larger, internationally active company, in the telecommunications industry or in the UCaaS business and value creation along connected value chains, in accounting and financial reporting, in controlling/risk management and in the area of corporate governance/compliance. In view of the importance of this experience and knowledge, the Supervisory Board has refrained from setting an age limit.
- **C.5:** The Chairman of the Supervisory Board, Rainer Koppitz, is a member of the Executive Board of a listed company and shall therefore not chair the Supervisory Board of a listed

company outside the Group. He is also the Chairman of the Supervisory Board of Cenit AG. The Executive Board and Supervisory Board are of the opinion that his activities as Chairman of the Supervisory Board of NFON AG are compatible with his other Executive Board and Supervisory Board mandates.

- **C.10 and D.2, D.5, D.11:** The Supervisory Board of NFON AG has refrained from forming committees due to the size of the Supervisory Board of four members. Consequently, no chairpersons of committees have been appointed. One exception is the formation of the Audit Committee. An Audit Committee was formed for the first time by resolution dated 09 December 2021.
- **F.2:** The Consolidated Financial Statements are prepared within four months of the end of the financial year due to the extensive consolidation effort involved. The quarterly financial statements and the half-yearly report are also published within two or three months of the end of the reporting period at the latest, respectively, due to the extensive consolidation effort required in accordance with the Stock Exchange Rules and the Transparency Directive Implementation Act.

Munich, March 2022

Basic information on the structure of corporate governance and the underlying rules

NFON AG, headquartered in Munich, is subject to German stock corporation law and has the following governing bodies: the Management Board, the Supervisory Board and the Annual General Meeting. The company's management is based on close

and trusting cooperation between all corporate bodies as well as a lively and constant flow of information between them. At the Annual General Meeting in particular, shareholders may ask questions of the company's management and exercise their voting rights.

Taking responsibility is part of NFON's self-image. The company assumes responsibility for products and processes, employees, customers and partners, as well as for the environment and society. In doing so, the company maintains an open relationship with its stakeholders and engages in continuous dialog. A dual management system consisting of a Management Board and a Supervisory Board is required by law for German stock corporations. 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, by name: Rainer Koppitz, CEO of KATEK SE, Munich (Chairman of the Supervisory Board since 09 April 2018 and member of the Supervisory Board since 2015), Dr Rupert Doehner (Deputy Chairman of the Supervisory Board until 12 December 2019; member of the Supervisory Board since 09 April 2018), founding partner of RECON Advisory GmbH & Co. KG, lawyer and specialist attorney for commercial and corporate law, Florian Schuhbauer, Founding Partner, Active Ownership Capital S.à.r.l., Luxembourg (member of the Supervisory Board since 12 December 2019) and 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). 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. The Chairperson and a Deputy Chairperson are elected from among the members of the Supervisory Board. The rules of procedure of the Supervisory Board, which the Supervisory Board has adopted for itself, govern its work. The rules of procedure of the Supervisory Board can be viewed on the company's website (<https://corporate.nfon.com/de/investor-relations/downloadcenter>).

In accordance with the Articles of Association, the Supervisory Board of NFON AG meets once every calendar quarter, with two meetings taking place every calendar half-year. Extraordinary meetings are convened by the Chairman of the Supervisory Board as required and at his due discretion. Resolutions of the Supervisory Board are generally adopted at meetings. The Supervisory Board shall constitute a quorum if at least half of its members participate in the passing of resolutions. Outside of meetings, resolutions may be adopted in writing, by telex, telecopy, telephone or telegraph, or by e-mail or video conference. The Supervisory Board also meets regularly without the Management Board of NFON AG.

Function of the General Meeting

The Management Board convenes the Annual General Meeting at least once a year. At the Annual General Meeting, the shareholders of NFON AG exercise their co-administration and control rights. At the Annual General Meeting, the shareholders decide in particular on the appropriation of profits and the ratification of the actions of the Management Board and Supervisory Board, and they elect the shareholder representatives to the Supervisory Board and the auditor. In addition, the Annual General Meeting decides on the legal basis of the

company, in particular on amendments to the Articles of Association, capital measures, intercompany agreements and conversions. The Annual General Meeting will generally adopt resolutions of an advisory nature on the approval of the compensation system for the Management Board members presented by the Supervisory Board, on the specific compensation of the Supervisory Board, and of a recommendatory nature on the approval of the remuneration report for the past fiscal year. In the event of a takeover bid, the Management Board shall convene an extraordinary General Shareholders Meeting. This is to give the shareholders the opportunity to discuss the takeover bid and, if necessary, to resolve on measures under company law.

It is of course in the interests of the company and the shareholders to conduct the Annual General Meeting quickly. In accordance with the Articles of Association, the chairperson of the meeting therefore has the option of limiting the time allowed for shareholders to ask questions and speak.

Appointment of the Management Board

In accordance with the Articles of Association, the Supervisory Board may appoint one or more persons to the company's Management Board. The Management Board of NFON AG currently consists of two members. The Management Board manages the company on its own responsibility in accordance with the principles of the social market economy, taking into account the interests of the shareholders, the workforce and other groups associated with the company ("stakeholders") with the aim of ensuring the continued existence of the company and its sustainable value creation ("company interest"). In accordance with the Rules of Procedure issued by the Supervisory Board, the

25%

women's quota on the Supervisory Board will continue to be strived for.

Management Board manages the company's business in accordance with uniform plans and guidelines. In doing so, the Management Board bears joint responsibility for the overall management of the company. As part of their overall responsibility for the management of the company, the two members of the Management Board work together in a collegial and trusting manner in their respective assigned areas of responsibility for the benefit of the company. The Management Board develops the strategic direction of the company and coordinates this with the Supervisory Board. In addition to ensuring compliance with legal requirements and internal policies, including in the Group companies, the Management Board also ensures appropriate risk management and controlling as well as corresponding opportunity management in the company. More details are provided in the risk and opportunities report in the Group Management Report. The company will publish a Sustainability Report together with the Group Management Report for the first time for fiscal year 2021. NFON considers itself to be in line with global efforts to achieve sustainable corporate development that meets the needs of the present without risking that future generations will not be able to meet their own needs. Meetings of the Management Board are held at regular intervals, bi-weekly if possible.

The Supervisory Board and the Management Board jointly ensure long-term succession planning for appointments to the Management Board. To this end, the Supervisory Board is constantly on the lookout, both within and outside the company, for promising management candidates. In principle, the Supervisory Board believes that concrete succession planning is advisable at the earliest

two years before the expiry of current Management Board contracts and depends on the specific circumstances in each case. Potential internal candidates are systematically analysed independently of this. An age limit of 65 years has been set for Management Board members.

Composition of the Supervisory Board and elections to the Supervisory Board

The Supervisory Board is composed of representatives of the shareholders. The representatives are generally elected by the Annual General Meeting. They are committed to the interests of the company. In its composition, the Supervisory Board ensures that its members as a whole have the knowledge, skills and professional experience required to perform their duties properly. The Supervisory Board has set itself specific targets for its composition and drawn up a competence profile for the entire body. The Supervisory Board as a whole already fulfils its competency profile. The 25% quota for women has not been met for the time being since the election of the new Supervisory Board, yet remains a target. In contrast to the rules for the Management Board, no age limit has been set for the Supervisory Board. The Supervisory Board as a whole is to have the competencies that are considered essential in view of the activities of the NFON Group. These include in-depth experience and knowledge in the management of a medium-sized or larger, internationally active company, in the telecommunications industry or in the UCaaS business and value creation along connected value chains, in accounting and financial reporting, in controlling/risk management and in the area of corporate governance/compliance.

As suggested by the Code, the personal and business relationships of each candidate with the company, the corporate bodies of the company and a significant shareholder with an interest in the company are disclosed, where applicable, in the proposals for election to the Supervisory Board to the Annual General Meeting. Each candidate nomination shall be accompanied by a curriculum vitae providing information on the relevant knowledge, skills and professional experience; this shall be supplemented by an overview of the main activities in addition to the Supervisory Board mandate. The respective curriculum vitae of all Supervisory Board members will be published on the company's website and be updated annually.

Independence of the members of the Supervisory Board

In order to ensure independent advice to and supervision of the Management Board by the Supervisory Board, the Rules of Procedure of the Supervisory Board stipulate that more than half of the members of the Supervisory Board shall be independent within the meaning of the German Corporate Governance Code. In the opinion of the Supervisory Board, there are currently no concrete indications of relevant circumstances or relationships in the case of any member of the Supervisory Board, in particular with the company, members of the Management Board or other members of the Supervisory Board, which could constitute a material and not merely temporary conflict of interest and would therefore contradict independence.

In accordance with the Articles of Association, the Supervisory Board consists of four members. At the Extraordinary General Meeting on 12 December 2019, Florian Schuhbauer and Günter Müller

were newly elected to the Supervisory Board as shareholder representatives. This election took greater account of the ownership structure. Within the meaning of the Code, both Supervisory Board members are independent of the company, as they have no personal or business relationship with NFON or its Management Board. A material and not merely temporary conflict of interest is not justified. 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 sustainable majority at the Annual General Meeting.

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

Committees of the Supervisory Board

Due to the size of the company and the number of members of the Supervisory Board determined by the Articles of Association, the formation of committees or panels is generally dispensed with. For this reason, the Supervisory Board as a whole resolves and reviews issues relating to the remuneration system for the Management Board, including the main contractual elements. One exception is the formation of the Audit Committee. An Audit Committee was formed for the first time by resolution of 09 December 2021. At least one member of the Supervisory Board has the required special knowledge in the area of accounting.

Diversity concept

Diversity is essential for the entire NFON Group. Accordingly, the Supervisory Board takes the issue of diversity into account in its composition and the corresponding election proposals to the Annual General Meeting. This includes not only the recommended composition of the Supervisory Board with female and male members in accordance with the German Stock Corporation Act and the Corporate Governance Code, but also the consideration of the experience of the individual members in terms of age, professional experience and internationality. The decisive guideline for election proposals is the interest of the company, respectively the requirements for the knowledge, skills and professional experience of a Supervisory Board as defined by Principle 11 and the following recommendations of the Code. In addition, the Supervisory Board shall give appropriate consideration to the number of independent Supervisory Board members within the meaning of C.1 of the Code for its composition. Accordingly, the Supervisory Board – after an appropriately conducted application or proposal procedure and taking into account a balanced composition of the Supervisory Board in terms of knowledge, ability, experience and independence – proposes the most qualified candidates.

Furthermore, the German Stock Corporation Act and the Code stipulate that the supervisory board of listed companies must define targets for the share of women. In addition to the requirement of the self-imposed target for the share of women, the Code (C.6) recommends that the ownership structure be taken into account in the composition

of the Supervisory Board. With a Supervisory Board consisting of four members, it is not always possible to meet both requirements. At the Extraordinary General Meeting of NFON AG on 12 December 2019, the Supervisory Board was reconstituted and the ownership structure was taken into account with the election of Florian Schuhbauer and Günter Müller. As a result, there is currently no woman on the company's Supervisory Board. The target of a 25% share of women set on 23 April 2018, which is to be achieved by 22 April 2023, at the latest, remains unchanged.

The new rules for appointments to the Management Board must be viewed under the same conditions. As is the case for the Supervisory Board, the interests of the company are the decisive guideline for filling management positions. In the case of Management Board positions, it is also important to ensure continuity in the upcoming strategic development of the company. In accordance with the provisions of the German Stock Corporation Act and the German Corporate Governance Code, the Supervisory Board has therefore resolved a target of 25% for the share of women on the Management Board, to be achieved by 22 April 2023. In this respect, too, the Supervisory Board will therefore take the issue of diversity into account in its search for appropriate female and male candidates for new Management Board positions. With the new appointment of the Management Board and the composition of the Management Board from two Management Board members, the target figure for the share of women on the Management Board will be newly resolved by the Supervisory Board.

In addition, the Management Board is required to set a target for the share of women in the first and, where applicable, also second management level below the Management Board. The Management Board has defined the Managing Directors of the foreign companies and the Chief X Officers and Vice Presidents in Germany or equivalent staff functions in 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 decided on 07 December 2021, on the date of setting a quota in the management level according to FöPoG II of 12 women (out of 47 executives). Currently, 9 executives in the first management level below the Management Board are women.

Cooperation between the Management Board and Supervisory Board

The joint objective of the close cooperation between the Management Board and the Supervisory Board is to ensure the continued existence of the company and its sustainable value creation. At regular intervals, the Management Board and Supervisory Board discuss the extent to which the previously agreed strategic alignment of the company has been implemented. The Management Board also regularly informs the Supervisory Board of all issues of relevance to the company relating to planning, business development, the risk situation, risk management, internal accounting and compliance. The Management Board reports on any deviations in the course of business from the plans and targets drawn up and gives reasons for them. The Supervisory Board has defined the manner in which the Management Board must inform and report in the Rules of Procedure

for the Management Board. For decisions or measures that fundamentally change the earnings, financial and asset situation of the company and for transactions of major importance, the rules of procedure for the Management Board stipulate reservations of approval in favour of the Supervisory Board.

Cooperation with the auditor

The auditor supports the Supervisory Board in monitoring the management of the company, in particular by performing selective checks as part of the audit of the Financial Statements and the early risk detection system. In accordance with the resolution of the Annual General Meeting on 24 June 2021, the Supervisory Board has commissioned KPMG AG Wirtschaftsprüfungsgesellschaft, Munich, to audit the 2021 Annual and Consolidated Financial Statements. In accordance with the recommendations of the Code, it was agreed with the auditor that the Supervisory Board would be informed without delay of all findings and events of importance to the Supervisory Board's duties that come to the attention of the auditor during the performance of the audit. The Supervisory Board will also be informed without delay if the auditor discovers facts which show that the Declaration of Conformity with the Code issued by the Management Board and Supervisory Board pursuant to Section 161 of the German Stock Corporation Act (AktG) is incorrect.

Efficiency review and education and training

The Supervisory Board reviews the efficiency of its activities on a regular basis. In accordance with the resolution of the Supervisory Board of 08 April 2019, Rupert Doehner was appointed as rapporteur in matters relating to the efficiency review.

Regular training and continuing education are essential for the efficient work of the Supervisory Board. Supervisory Board members gain essential experience in their daily work outside the Supervisory Board mandate. Notwithstanding this, the members of the Supervisory Board receive appropriate support from the company in matters relating to training and continuing education.

Conflicts of interest

The Management Board and Supervisory Board are committed to the interests of the company and may not pursue personal interests in their decisions or in connection with their activities, nor may they grant advantages to other persons or take advantage of business opportunities to which the company is entitled for themselves. Each member of the Management Board discloses conflicts of interest to the Supervisory Board and informs the other members of the Management Board. Likewise, each member of the Supervisory Board discloses conflicts of interest to the Supervisory Board. The Supervisory Board provides information on any conflicts of interest that have arisen and how they have been dealt with in its report to the Annual General Meeting. No conflicts of interest requiring disclosure arose in 2021.

Transparency and external reporting

For NFON AG, corporate governance means responsible and transparent management and control of the company. In particular, this includes the equal treatment of shareholders in the disclosure of information. The Chairman of the Supervisory Board is prepared to hold discussions with investors on topics specific to the Supervisory Board within an appropriate framework. These are issues for which the Supervisory Board is

solely responsible and which are to be decided on by it alone. In the case of issues that can only be decided jointly by the Management Board and the Supervisory Board, discussions with investors are held either by the Management Board alone or by the Chairman of the Supervisory Board together with the Management Board.

All shareholders, financial analysts and comparable addressees are provided with all new facts without delay. This includes the dissemination of information in German and in English both on NFON AG's website and the use of systems that ensure the simultaneous publication of information in Germany and abroad. NFON AG uses the system from EQS AG for this purpose.

Shareholders and third parties are informed primarily by way of the Consolidated Financial Statements and – during the fiscal year – also through the quarterly statements and the half-yearly financial report. In deviation from the recommendation of the Code, the quarterly statement and the half-yearly financial report are published at the latest within two and three months respectively after the end of the reporting period due to the high consolidation effort required in accordance with the Stock Exchange Rules and the Securities Trading Act.

Remuneration of the Management Board and Supervisory Board

As part of its company strategy, NFON AG is pursuing the goal of consolidating and further expanding its position as a leading provider of voice-centric business communications in Europe over the long term with ambitious growth ambitions. The company's strategic focus is thus

primarily on growth. The NFON Group's actions are geared towards long-term, sustainable company success and it takes a holistic approach to its corporate responsibility.

In line with these objectives, the remuneration system for the Management Board is based on three key guidelines: First, a pronounced performance orientation and high performance differentiation through ambitious internal and external targets place the focus on the above-average growth of the company. Second, long-term components avoid incentives to take disproportionate risks. Thirdly, the remuneration system seeks to create a strong shareholding culture, thus helping to align the interests of shareholders, management and other stakeholders. Particularly through the design of individual targets, special incentives are also provided for sustainable action in line with ESG criteria.

The current Management Board contracts already correspond to the remuneration system within the framework of the revised recommendations of the Code.

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

The Remuneration Report for the financial years from 31 December 2020 onwards is available to the public on the company's website at <https://corporate.nfon.com/de/investor-relations/finanzberichte>.

The applicable remuneration system pursuant to Section 87a (1) and (2) sentence 1 German Stock Corporation Act (AktG) and the latest resolution pursuant to Section 113 (3) German Stock Corporation Act (AktG) on the remuneration of the Supervisory Board have been made publicly available at <https://corporate.nfon.com/de/investor-relations/hauptversammlung>. The auditor's report pursuant to Section 162 German Stock Corporation Act (AktG) has been made publicly available at <https://corporate.nfon.com/de/investor-relations/finanzberichte>.

Compliance

The Management Board is responsible for ensuring compliance with statutory provisions and internal policies and works towards their observance by the Group companies (compliance). Compliance issues are discussed regularly between the Supervisory Board or the Chairman of the Supervisory Board and the Management Board. The company culture of the NFON Group is characterized by trust and mutual respect as well as the will to strictly comply with laws and internal regulations. Nevertheless, legal violations due to individual misconduct can never be completely ruled out. Employees and third parties have the opportunity to report misconduct within the company (whistleblower system <https://corporate.nfon.com/de/compliance-nfon/whistle-blowing>). The company does everything in its power to minimize this risk as far as possible, to uncover misconduct and to pursue it consistently. Compliance with legal and ethical rules and principles is of great importance. Rules and principles are set out in the compliance policy, as is the responsible handling of insider information. It serves as a guide for all employees on how to conduct business with integrity. Managers and employees receive training on the compliance policy.

Disclosures on corporate governance practices applied beyond the legal requirements

The NFON Group is naturally managed in accordance with legal requirements. The values underlying good corporate governance do not just call for legality. They are also based very substantially on ethically founded and responsible conduct. In implementing the growth-oriented company strategy, the Management Board and Supervisory Board, as well as the employees of the NFON Group, follow the following company values:

Entrepreneurial Attitude – Team Result – Respect.

For NFON, each individual value stands alone, but only in the context of all three together is this what NFON is all about.

The corporate governance practices applied by NFON cover regulatory areas such as company-wide ethical standards, labour and social standards, compliance guidelines and sustainability and are outlined in our Sustainability Report. The Sustainability Report will be available together with the 2021 Annual Report at <https://corporate.nfon.com/de/investor-relations/finanzberichte>.

Entrepreneurial Attitude: Everyone actively acts and actively finds a solution. Things get done. If plan A doesn't work, then plan B follows. If that doesn't work either, the alphabet has another 24 letters. Ownership, responsibility and trust is what NFON offers. Solution orientation, ambition and trust is what NFON expects.

Team Result: Only together can we be successful. The common goal leads us to special achievements, to common results and to a positive team spirit. We provide development and community and expect positive and goal-oriented action. This leads us to great performance together.

Respect: We listen to all opinions and respect everyone's commitment. Respect is the basis for interaction with our stakeholders. We offer open and direct communication, fairness and partner and customer orientation. We expect an open mind, an agile mindset and the ability to actively listen.

The sustainable we: Under the supervision of the Management Board, the CXO and senior executives are responsible for the development of the company, which includes not only administrative processes, but also the development of and responsibility for the organization's values, mission, strategy, policies, and goals related to sustainable development.

The role of the Supervisory Board and the Management Board is to monitor due diligence and other processes of the organization in order to identify and manage the organization's impact on the economy, the environment and people. The Board does this by setting up special projects, encouraging the workforce to work sustainably, and contributing ideas on how NFON could become even more sustainable.

The Management Board and Supervisory Board take into account the results of these processes by receiving regular reports from the owners of the delegated sustainability projects, measures and tasks.

The Management Board, with the support of the owners of the delegated sustainability projects, ensures that all stakeholders are involved. It is planned to regularly publish the results of the sub-projects and evaluate the respective successes.

In this context, the successful implementation of a project to increase and measure the sustainability of the NFON Group's actions was defined by the Supervisory Board as a performance criterion for the Management Board. Accordingly, the Supervisory Board, as the controlling body of NFON, assumes responsibility for reviewing the Sustainability Report.

The Group Corporate Governance Declaration including the Declaration of Conformity is published on the website of NFON AG:

<https://corporate.nfon.com/de/ueber-nfon/corporate-governance>

COMBINED GROUP MANAGEMENT REPORT

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Dear shareholders and readers!



Dr Klaus von Rottkay,
Chief Executive Officer

Business communication is making advances – rapidly. The working world is being forced to re-think many areas and the introduction of cloud services is accelerating. We at NFON are part of this movement and are continuing to expand our position in the emerging market for integrated business communications. The goal is to become the leading provider of business communications in Europe. We already achieved key strategic milestones in financial year 2021. As planned, we significantly expanded our development teams and increased our headcount by 41%. We also increased our investment in marketing by 46% and developed our partner programmes NGAGE and Gemeinsam stark (Strong Together). With our Polish subsidiary, which we founded in May, we are strengthening our presence in the Eastern European countries and, last but not least, we were able to conclude our investment in the Italian WebRTC provider Meetecho in June and the partnership with the Czech contact center provider Daktela in November.

The strength of our as-a-service business model was clearly demonstrated once again in 2021. Even in turbulent times, we benefit from our sustainable recurring revenue and thus have a solid basis for growth in the years ahead. In 2021, recurring revenue increased by 14.4% to EUR 68.0 million, reaching a share of 89.5% of total revenue. Overall, total revenue increased by 12.3% to EUR 75.9 million. In addition, we further increased the number of

installed extensions (seats) with customers by 11.9% to 587,067. At the same time, we succeeded in increasing the average revenue per user (blended ARPU) in the past financial year to EUR 9.84 (2020: EUR 9.77). Earnings before interest, taxes, depreciation and amortisation (EBITDA) amounted to EUR –2.0 million in the reporting period (2020: EUR 2.3 million) due to increased growth investments in personnel and marketing.

Our strategic focus and investment activities are aimed at the growth markets of Unified Communications as a Service (UCaaS) and Contact Center as a Service (CCaaS). With the launch of Meet & Share, we now offer a complete UC suite and at the same time are entering the high-growth CCaaS market with our pan-European omnichannel contact center product “Contact Center Hub.”

One thing is clear: NFON is now more than just a provider of cloud telephone systems. We repositioned ourselves last year. On this basis, we will continue to add new partners in 2022 and significantly increase our sales activities. Experience shows that these new sales partnerships take a few months to come to fruition. We therefore anticipate seat development to gain momentum in the second half of the year.

Despite the current uncertainties resulting from the war in Ukraine, the effects on the overall economic and industry-specific framework conditions

of which cannot yet be predicted, we are optimistic about the long-term development of our company. Nevertheless, we cannot disregard the economic development in Europe and expect effects from a restrained investment propensity of our customers for this year. We anticipate further growth in seats of between 10% and 12% in 2022 and expect recurring revenue to grow between 10% and 12%. Overall, we are planning for recurring revenue to account for at least 88% of our total revenue.

In line with our strategic orientation, we have positioned NFON in the high-growth UCaaS and CCaaS markets. We will benefit from this potential and achieve our goal of becoming the leading provider in Europe. Please continue to accompany us on our course.

Your Management Board,

Dr Klaus von Rottkay and Jan-Peter Koopmann



Jan-Peter Koopmann,
Chief Technology Officer

Group profile

Group business model

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

The NFON Group essentially generates revenue by providing cloud-based telecommunication services to business customers. NFON is also expanding its product portfolio in the areas of unified communications&collaboration, such as Meet&Share or Integration for Microsoft Teams, or business applications, such as Ncontactcenter or CRM Connect. *The products and product categories can be seen in the table on the right:*

The proprietary products such as Cloudya and centrex provide customers with the required brokerage service from the cloud in NFON data centres via the Cloud PBX (Private Branch Exchange). As a result, customers do not need to have conventional telephone systems on their own premises. Typically, each customer is initially charged a one-off activation fee for each seat and a monthly service fee for each seat used. Furthermore, NFON can replace the telephone connection, meaning that the customer pays the fees for all telephone

traffic to NFON. NFON procures this service from various network providers. On request, NFON also sells end devices (such as, telephones, soft clients for PCs and smartphones) and the corresponding

software, which the company procures from several manufacturers, and provides Internet access (enablement) on a reselling basis as required.

Product category	Products
Business communication Telephony, video calls, screen-sharing, connecting to customer relationship management systems	Cloudya and centrex (NFON cloud telephony system or cloud telephony system distributed by Deutsche Telefon Standard), Meet&Share, CRM Connect
Integration NFON's cloud telephony system is integrated into customers' existing systems, business processes and workflows.	- NCTI (Standard, Premium& Pro) rounds out the range of Cloudya functions with the more comprehensive integration of business processes and provides maximum freedom of choice for the preferred communication devices and environments. - NFON Integration for Microsoft Teams (Premium and Standard) offers a professional telephony solution that can be integrated into the familiar Microsoft Teams environment. It offers PSTN¹ connectivity, allowing customers to make calls with Microsoft Teams and use it as a standalone solution.
Customer contact Products for optimising customer contact	- Ncontactcenter/NFON Contact Center Hub supplements Cloudya with a fully-fledged cloud contact centre solution that facilitates efficient customer support across a wide range of channels, agents and locations. - Nhospitality integrates cloud telephony into property management systems (PMS)² and thus provides an efficient communications solution tailored to the hotel industry. - Neorecording allows companies to record conversations and retain them in a tamper-proof and encrypted environment. - Nmonitoring Queues make it possible, simply by adding a licence in Cloudya, to monitor and track internal work performance, e.g. call waiting queues, receiving instructions from supervisors and logging breaks in a clear and organised structure. . - Noperatorpanel provides a professional voice reception panel. Customers can receive incoming calls and forward certain calls to their intended recipients.
Enablement NFON prepares companies for the cloud and makes sure they have the right infrastructure at their disposal	- Nconnect Voice allows a seamless transition to flexible, scalable IP communications. Legacy or IP-PBX systems are connected with the NFON International Carrier Network and complete number blocks, including voice channel capacity, are registered. - Nconnect Data (only available in Germany) offers high-performance Internet access

1 A public switched telephone network (PSTN) is a telecommunication network that enables voice communication by participants at different locations. The alternative term, plain old telephone service (POTS), is often used as well
2 Hotel property management systems manage all aspects of hotel operations, including providing an outstanding guest experience.

1 Unaudited information

Consulting and other services for products in the integration and customer contact categories are typically provided by NFON. Monthly service fees are incurred per user for the respective products.

Also, NFON provides industry solutions, e.g. for the finance and insurance sector.

NFON divides its revenue into recurring and non-recurring revenue. Recurring revenue includes monthly fees for all products and solutions as well as ongoing call charges and SDSL² monthly fees. The contracts for the seats provided to customers typically last for 30 days and can therefore be cancelled at short notice. By contrast, non-recurring

revenue is one-off revenue from the sale of hardware, set-up fees for the cloud PBX and other products, set-up fees for SDSL or cloud services.

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

Direct sales: NFON handles sales directly.

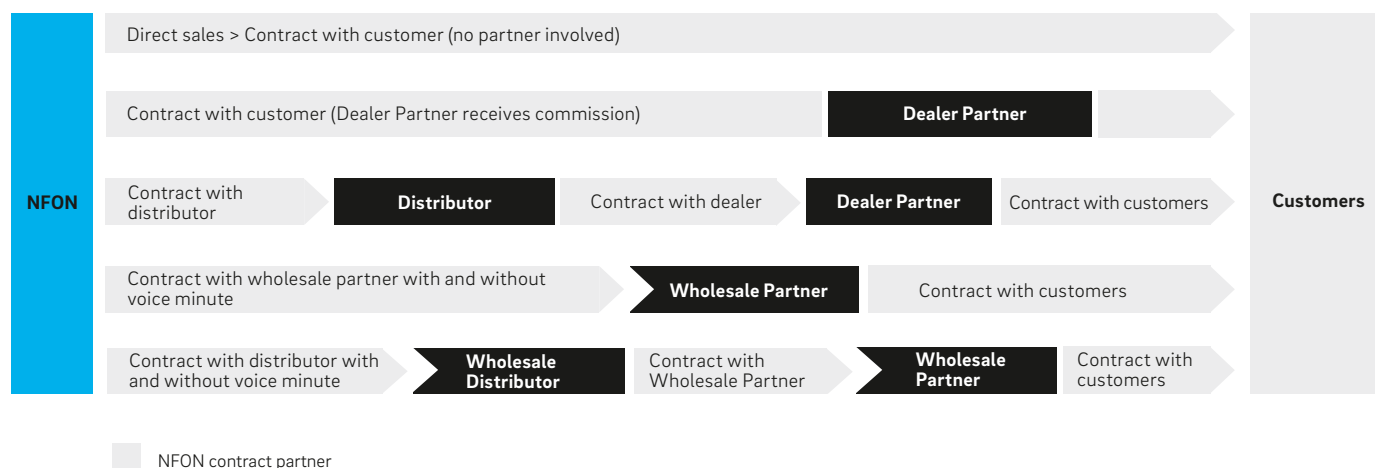
Dealer partners: The dealer has its own customer base and acquires new customers to whom it sells NFON products and solutions. The dealer provides service for these customers. NFON delivers the contractually agreed performance.

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

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

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

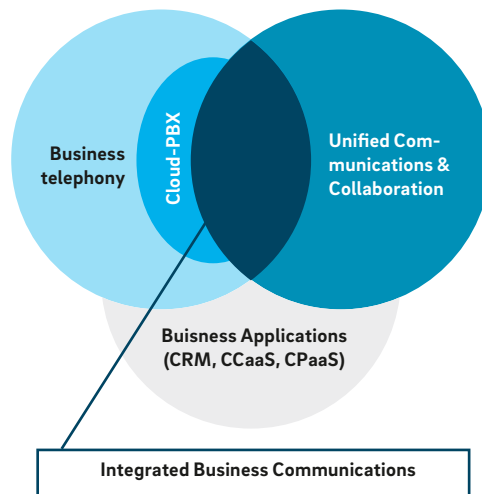
Distribution takes place through five channels with a clear focus on indirect partner distribution:



² Symmetric Digital Subscriber Line is a DSL access technology to a public digital network

General market characteristics

The third wave of disruption is rolling. Following the transition from ISDN to all IP and the ongoing replacement of on-site telephone systems to cloud PBX telephony systems, business telephony/cloud PBX, unified communications & collaborations and business applications are now converging. The following diagram illustrates this development:



These three markets co-existed separately until a few years ago.

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

Market for unified communications & collaboration: Market for video conferencing, chat functions, software for digital collaboration.

Market for business applications: Market for software products used in the administration of businesses and organisations. Examples: customer relations management (CRM), contact centre as a service (CCaaS) or communications platform as a service (CPaaS).

These markets are now increasingly converging to form the market for integrated business communication.

In 2007, NFON began developing its own cloud telephony system for the business telephony market. As a result of the markets coming together, new markets – and therefore further growth potential – are opening up to NFON. With its adjusted growth strategy, NFON is thus growing into the market for integrated business communication, where it sees itself as a specialist in the field of voice-centric business communication.

The market for business telephony is divided into three areas:

With its cloud telephony system, NFON offers a single-instance/multi-tenant platform (1:n). The SIP trunk technology offered by the subsidiary of NFON AG DTS ensures that stationary telephone systems (on-premises PBX) are connected to the PSTN³ via the internet.

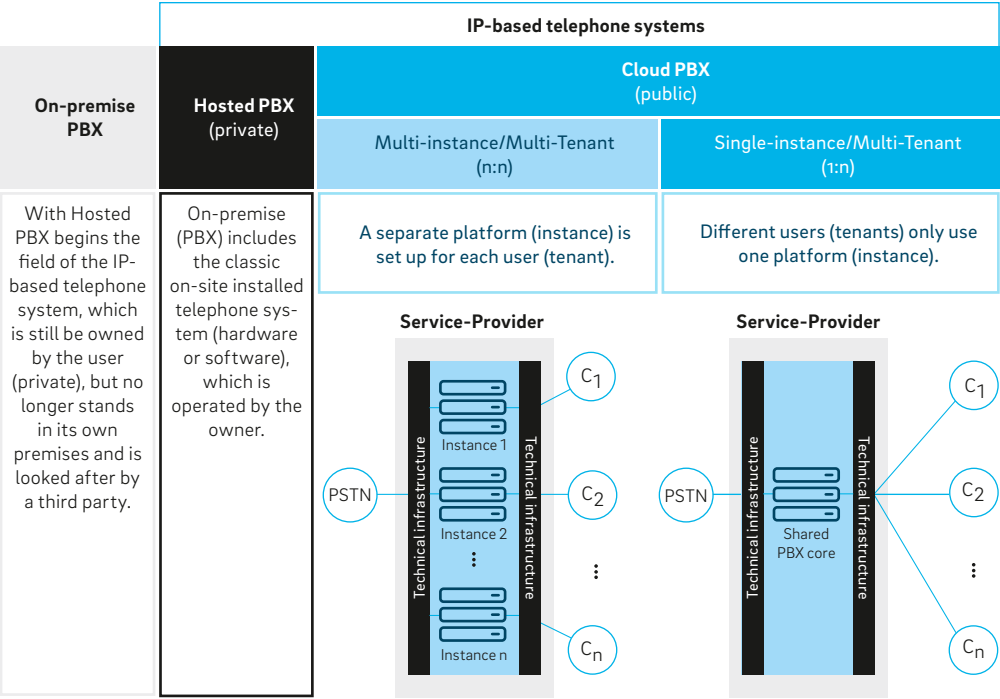
Market for unified communications & collaboration

Unified communications & collaboration services and products combine a range of communication services. This improves reachability for users and fosters collaboration within teams. Applying this concept, unified communications is a response to the increasingly complex and growing number of communication possibilities. A key feature of UCC products is the option of synchronous forms of communication, where participants can interact in real time. Unified communications (UC) essentially comprises two aspects:

1. Communication independently of location, for instance using a single telephone number that can be used for faxes, a fixed line or a mobile phone at the same time.
2. Users can add new display forms to ongoing communications, for example launching an audio or video line from within a chat.

³ A public switched telephone network (PSTN) is a telecommunication network that enables voice communication by participants at different locations.

European business telephony market



(CTI): When a customer calls with a question, employees receive the call directly on their computer. CTI can immediately identify the caller via automatic call number identification, show the customer’s details and trigger automated processes through other functionalities.⁴

Market for business applications

Applications are used in the administration of businesses and organisations. Applications can include simple standard software, e.g. for word processing or address management, application-based standard software, e.g. for accounting or warehousing, or even individual software tailored to specific industry solutions. Business applications as individual software include enterprise resource planning systems (ERP), customer relationship management systems or even contact centre management systems⁵. As a provider of voice-centric business communication, the contact centre as a service (CCaaS) solutions market is especially interesting to NFON.

In addition to pure communication, there is also the option of real-time collaboration. This combines functionalities such as screen-sharing, working jointly on the same document from different locations or the use of virtual whiteboards.

Unified communications and collaboration services can help to further automate and streamline business processes. Communication processes are linked directly with other systems or user programs such as a customer relationship management program or ERP. This can be achieved, for example, with computer telephony integration

4 <https://de.statista.com/statistik/daten/studie/1232372/umfrage/marktanteile-am-weltweiten-umsatz-auf-den-ucc-markt/> <https://www.netzwoche.ch/news/2021-08-25/geschaeft-mit-unified-communications-boomt>
5 https://www.call-center.ag/index.php?option=com_content&view=article&id=472&catid=35

Market for contact centre solutions

Gartner defines contact centre as a service (CCaaS) as a software as a service (SaaS)-based application that helps customer service companies to fully manage customer interactions across channels (multichannel or omnichannel). Specifically, contact centre as a service describes the combination of a cloud-based contact centre infrastructure and contact centre hosting to run and manage the contact centre infrastructure in a single location. Contact centre as a service makes it possible to choose just one specific function or technology, which means lower costs for integration, IT and support. Companies can handle these services themselves or rely on managed/outsourced services. Some companies also use a combination of their own and a managed infrastructure in a hybrid model⁶.

Regulatory framework

Following the deregulation and harmonisation of German telecommunications law (1989), the performance of telecommunications services and the operation of telecommunications networks are subject to the Telekommunikationsgesetz (TKG – German Telecommunications Act, original version dated 25 July 1996, last new version dated 22 June 2004, last amendment dated 19 June 2020) and certain supplementary provisions. NFON is therefore also subject to the German Telecommunications Act. The body in charge of regulating the German telecommunications market is the German Federal Network Agency. Similar authorities, which include the European Commission, likewise exist in other European countries. A licence from a regulating body is not required to perform telecommunications services in the European Union. As a commercial provider of publicly accessible

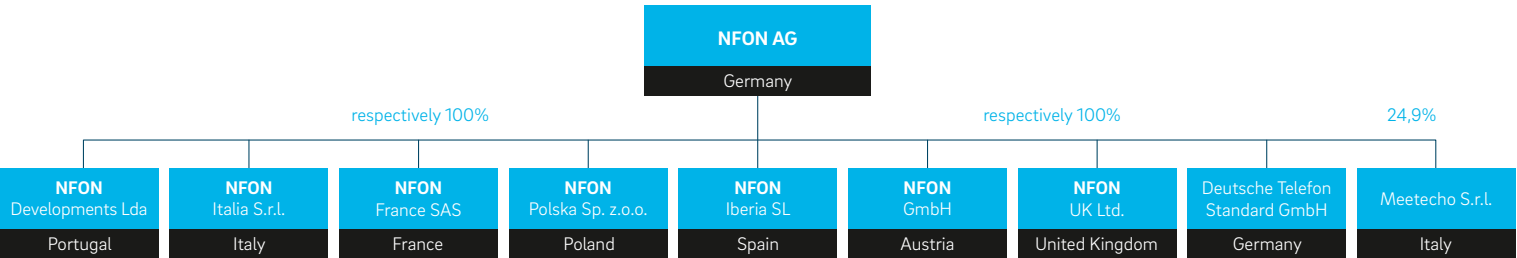
telecommunications services, NFON must also notify the German Federal Network Agency of the commencement of or any amendment and termination of business activities. Regulating bodies such as the German Federal Network Agency can impose obligations on the company in relation to the performance of the service offered. As NFON collects, stores and utilises data in conjunction with its ordinary business activities, the company is also subject to the data protection laws and regulations of federal, state and international government authorities.

Organisation

Group structure and locations

The Group structure as at 31 December 2021 is shown by the following diagram.

Group structure and locations



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

NFON Polska Sp. z o.o, Warsaw (Poland), was established effective 11 May 2021. It handles sales for the Polish market and provides support for partners in Poland, which was previously done by the subsidiary in Austria. Furthermore, in June 2024, NFON acquired 24.9% in Meetecho S.r.l., based in Naples, Italy.

Management and control

The members of the Management Board work closely with the managers in the respective countries and the managing directors of the foreign subsidiaries. A Supervisory Board of four members monitors the activities of the Management Board, the Chief Executive Officer and the Chief Technical Officer, and advises them.

Employees⁷

The situation for companies with a pronounced focus on software developers has not changed significantly in 2021 and remains difficult. With an unemployment rate of 3.2%, Germany – the NFON Group’s domestic market – is well below the EU 27 average of 6.5 %⁸ and also significantly lower than

average jobless rate for the euro area of around 7.2%⁹. As before, the availability of qualified employees on the labour market is limited. According to Bitkom, the shortage of IT specialists has even escalated. The number of vacancies across all sectors has increased by 12% from 86,000 in 2020 to 96,000¹⁰. Thus, filling R&D vacancies in particular remains challenging for companies such as NFON.

To attract the ideal employees to NFON, NFON already developed and implemented further initiatives above and beyond the conventional recruitment measures in 2019. In particular, the Management Board’s goal for 2021 had been to increase the headcount in R&D specifically by more than 50%. Given the difficult situation described above, this ambitious goal was not entirely achieved. Nonetheless, 12 new employees already began working for NFON’s Development department in 2021 with a further 16 now under contract. The total headcount has therefore risen to 41%. (Please refer to Research & Development for further details).

Average number of employees grew by 16.0%

Average number of employees



With this situation as it is, NFON did not set a general target for the share of women. Nonetheless, the number of women employed rose by 18.8% as against fiscal 2020.

7 Unaudited information
8 <https://www.destatis.de/Europa/DE/Thema/Bevoelkerung-Arbeit-Soziales/Arbeitsmarkt/EUArbeitsmarktMonat.html;jsessionid=53C6BDBA6B1477C5591CCF39FD0C931F.live721/>; <https://de.statista.com/statistik/daten/studie/160142/umfrage/arbeitslosenquote-in-den-eu-laendern/#:-:text=Waren%20im%20M%C3%A4rz%202020%2C%20zu,rund%207%2C8%20Prozent%20an.>
9 <https://de.statista.com/statistik/daten/studie/160142/umfrage/arbeitslosenquote-in-den-eu-laendern/#:-:text=Waren%20im%20M%C3%A4rz%202020%2C%20zu,rund%207%2C8%20Prozent%20an.>
10 <https://www.bitkom.org/Presse/Presseinformation/IT-Fachkraefteluecke-wird-groesser>

Social

The topics in the social field of action are implemented in separate projects and separate departments. The following overview shows the links between the topics and projects:

Topic	Project	Department(s)
Creating good working conditions	Hybrid Working @ NFON	HR
Promotion of employees	Hybrid Working @ NFON	HR
Agile work organisation	Hybrid Working @ NFON	HR Agile Coaches
Recruitment and retention of employees	Hybrid Working @ NFON	HR
Organisational development opportunities	Hybrid Working @ NFON	HR
Satisfied partners and customers	NGAGE and "Gemeinsam Stark" (Strong Together)	Sales Marketing

Hybrid Working @ NFON

Creating good working conditions, an agile work organisation, attracting and retaining employees, organisational development opportunities

Hybrid working is sustainable and meets the needs of large parts of our workforce. But what does this mean for our working conditions, for how work is organised, for the recruitment and retention of new employees and those who have been with us for a long time, or for organisational development opportunities? We want to find this out and have launched a pilot project – the first answers to these questions are now available.

During the pandemic, our office was no different from any other office in the world. Many desks were deserted, employees worked from home and communicated by phone or video. It worked so well that many of us expressed the wish not to return to the office at all. So we started a survey and now we know: around 30 percent of employees want to work at home and 70 percent want to come to the office at least two days a week. The result is not singular. Many employers are experiencing this at the moment and this is the beginning of thinking about previously existing company or work cultures. This question arises especially in countries where there is virtually full employment. Only then can we, as an attractive employer, retain our people in the long term. That is why we, as management and staff, have decided to drive the change process forward together. In doing so, we are building on past experience. After all, networked work is nothing new for us. At our five German sites and seven branches in other European countries, it is part of everyday life to work together via video conferences and telephone.

We therefore view hybrid working as an opportunity. Those who have the choice between offices in different locations and working from home will better coordinate their life needs and thus use their energies in a more targeted way. Family and work can be reconciled more easily. In addition, long journeys to the office can be eliminated, which can have a positive effect on the CO2 footprint. It remains to be emphasised that we also want to ensure that the workplace in the office and working in one place is justified. That is why we support employees who come to the office more than two days a week by providing them with job tickets.

There are also advantages for the company because, if we master the technical and social tools to work together over long distances, then many business trips will no longer be necessary. Fewer flights, fewer trips by car – that is also the goal of our new travel expenses guideline, which we issued after the experiences of the past years.

Recruiting young talent worldwide

With the free choice of work location, we can also convince new employees of our company and retain them. "This is especially important in our industry, where highly qualified IT professionals are hard to find," says Natalie Seiter, People Operation Manager at NFON. The remote working option makes it possible to hire people from all over the world without them having to move and leave their home environment.

We are aware that the new agile working world cannot be created at the push of a button. There are still questions that need to be answered. How can a Group that is spread across different locations or flats be managed successfully? Can a team grow together without office calls or chit-chat in the kitchenette? Can supervisors support their people if they are only in contact with them digitally? And how do you take precautions when employees work so much from home and thus endanger their health?

To answer these and other questions, we at NFON have launched the Hybrid Working @ NFON pilot project for our German sites. The project is aimed at actively involving employees in the further development of the organisation.

Because top-down concepts do not fit into our company culture, everyone who can and wants to is allowed to participate in the project. In the first meetings, a strategic roadmap was jointly drafted and five focus topics were named, each of which is the responsibility of a peer group.

The Office Design group addresses the issue of office space and tries to clarify how an office should be organised when many employees are no longer on site every day. Other peer groups deal with new forms of collaboration and technical requirements. There is also a group that takes a closer look at the tools and apps available for hybrid working. Another key topic is the planning of events to strengthen team spirit. The entire pilot project will initially run for one year.

One of the first results concerns the division of space. "In the future, only those who are in the office for three days or more will have their own fixed workstation," says Danilo Haase from the Office Design group. Everyone else can book their place at a "shared desk."

How is that supposed to work? There is a solution for that, too. The seating plans at the German site will be stored on a booking app. "Anyone who wants to go to the office can reserve an appropriate seat several weeks in advance," says Philipp Krummenauer from the peer group "collaboration." Depending on personal needs, there are workplaces where conversations can be held with colleagues. Quiet zones are also provided though. One special feature is the "Back Stage Room" planned, a room that is completely black like the

rooms behind the stages. There you can work in a very concentrated way, as you would shortly before a performance.

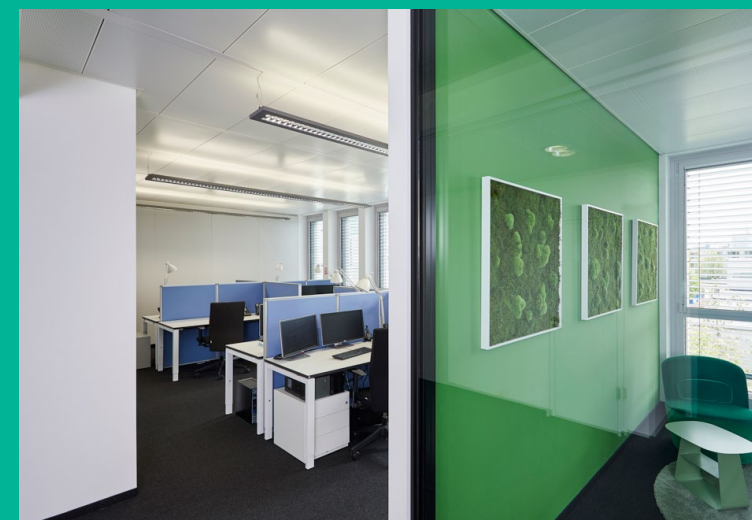
Special attention is paid to new employees who work from home and are rarely in the office in person. We need new solutions here too, for example, a constantly open virtual space. Those who work remotely can reach their team colleagues here without any obstacles.

Virtual team spirit

Teams scattered across several locations can get work done. But can a spirit of togetherness be developed in the hybrid world of work? Answers to this question come from the peer group for events. The virtual chocolate tasting, for which all participants received a test package, the contents of which were later tasted together on the screen, is only one example. A "moving lunch break" has proven itself. A trainer explains on the screen what constitutes a healthy posture and then shows the proper exercises. Healthcare as a joint event in the office and home office.

The work of the project teams continues because, although we have already gathered important insights into hybrid working, questions remain. Example: Hybrid video conferences harbour the risk of a two-class society. Some people sit at home, others talk to each other in the office – but those who are connected don't hear this. "A person who moderates and keeps an eye on the structure of the hybrid conference can help," says Philipp Krummenauer, who also works as an agile coach at NFON.

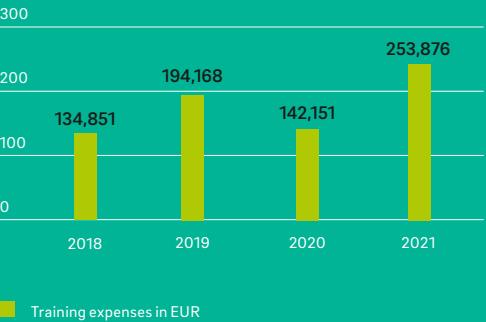
One of the important findings of the pilot project is that there are currently no blanket solutions to the challenges of the hybrid world of work. Hybrid work is not just sitting at a computer screen and talking on the phone. The scope of this topic, including health aspects, is only slowly seeping into the consciousness of employers and employees. Some people need a lot of personal exchange, others are only at their best when they can work undisturbed. The important thing is to talk to each other, exchange ideas and pay attention to others.



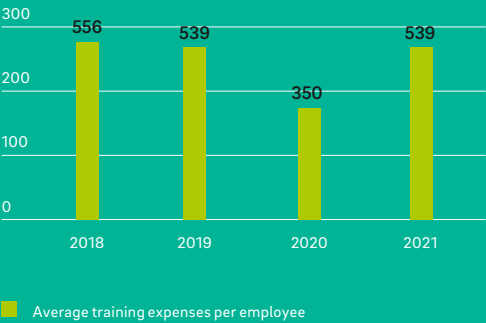
Training and Education (following GRI 404)

The development of our employees is an important part of our corporate governance. For this reason, we have established our own Agile Coach Team and have been conducting regular training and coaching for our employees since 2021. The years 2019 and 2020 in particular were marked by the pandemic situation. Here, the conceptualised and planned training courses could not be carried out as planned, which significantly reduced expenditure. We were then able to make offers again in financial year 2021. We have thus brought the average expenditure per employee back to the level of 2019 despite a significantly higher number of employees.

Training expenses in EUR



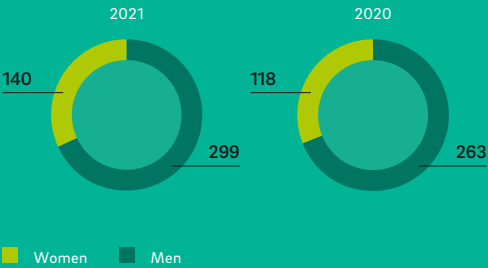
Average training expenses per employee



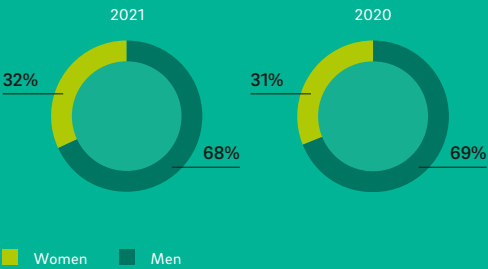
Employees

In view of the difficult labour market situation, we have not set a target for the filling of vacancies by women below the first management level after the Management Board. We pursue the goal of filling every position with the best possible expertise. Nevertheless, the number of female employees also increased by 18.8% compared to financial year 2020.

Total average number of NFON employees by gender in 2021 and 2020



Total average share of NFON employees by gender in 2021 and 2020 (in %)

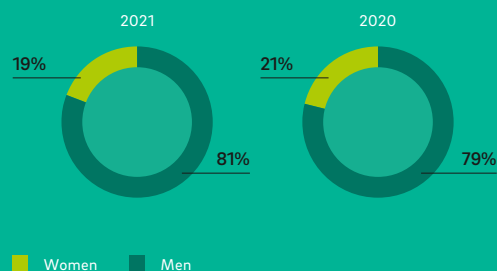


You can find more on this
under Group Corporate Governance
Declaration on page 23

Total share of women in the first management level below the Management Board in 2021 and 2020 for all of NFON

We expanded the first management level below the Management Board quite significantly by adding new positions last year. In absolute terms, nine women now belong to the management level, up from four women previously.

Total share of women in the first management level below the Management Board in 2021 and 2020 for all of NFON



Overview of employees in subsidiaries of the NFON Group

Subsidiary	Total number		Head Counts male		Share of males		Head Counts female		Share of females	
	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020
NFON AG	242	214	169	155	72.4%	69.8%	73	60	30.2%	28.0%
DTS GmbH	75	74	48	47	63.5%	64.0%	27	27	36.0%	36.5%
NFON Ltd., UK	39	35	27	26	74.3%	69.2%	12	9	30.8%	25.7%
NFON GmbH, Austria	37	30	20	16	53.3%	54.1%	16	14	43.2%	46.7%
NFON France	9	7	5	4	57.1%	55.6%	4	3	44.4%	42.9%
NFON Iberia	10	8	6	6	71.3%	60.0%	5	3	50.0%	34.7%
NFON Italia	13	11	11	9	81.8%	84.6%	3	2	23.1%	18.2%
NFON Polska SP. z o.o. (Established in May 2021)	1	n/a	1	n/a	n/a	n/a	1	n/a	n/a	–
NFON Developments Unipessoal Lda	13	1	13	1	n/a	n/a	1	n/a	7.7%	–

NGAGE and “Gemeinsam stark” (Strong Together)

Satisfaction of partners and customers

We developed two new partner programmes in 2021. Both programmes are important tools for intensifying our partner relationships across Europe. Our partner programmes consist of a number of guiding principles:

- Clarity and transparency
- More services and tools for partner development
- Greater financial benefits
- Focus on business development

What are the specific goals we are pursuing with this?

Besides strengthening long-term and trusting relationships and the commitment of each individual partner, we focus on building a partner community to connect partners with each other. This includes annual partner events, a Partner Board meeting held with our management twice a year, as well as management roundtables and fireside chats to provide insights into new products and upcoming features.

Even though we have developed two partner programmes for our two brands Deutsche Telefon Standard and NFON, we are united by one idea: We are a European company and we think European. That is why NGAGE is a Europe-wide partner programme:

One framework for all partners.

Materiality impacts on sustainability aspects	Outside-in approach Influences	Inside-out approach Impact	Risks	Opportunities
Workplaces from the perspective of inclusive and equitable working conditions	Significantly increase the number of workers with the skills needed for employment, decent work and entrepreneurship, including technical and vocational skills	– Creation of jobs – Offer of further training – Development opportunities	– Shortage of labour – Economic challenges caused by crises leading to a slowdown in economic growth	– Promoting innovation – Attracting young and experienced workers



Objectives and strategies

The NFON Group's growth strategy for the coming years has one clear goal: to become the leading provider of voice-centric business communications in Europe. This mission is built on a five-point plan:

- 1. Growth:** NFON is continuing to focus on growth. This entails corresponding investment in marketing, sales and product development.
- 2. Provider of voice-centric communications:** NFON has created its platform for voice-centric business communication with Cloudya and centrex 3. NFON offers products and solutions for UCaaS and CCaaS that augment the platform in the area of business communication.
- 3. Business:** NFON has made it its business to provide companies throughout Europe with intuitive communications solutions to improve their operations. NFON operates in 15 European countries. The foundation for its success is formed by its almost 500 employees.
- 4. Europe:** NFON sees itself as a European company. The market for cloud communications has major potential to keep on growing.
- 5. Leader:** As the market for cloud communications keeps on changing as a result of disruptive innovations, NFON intends to carve out a leading role as a provider for voice-centric business communication.

The market conditions in Europe and the disruptive changes in the business communication sector – amplified by the coronavirus pandemic – are creating the ideal conditions for NFON.

Systematic and ongoing growth in the number of installed client seats is essential for the company's successful development. Securing new partners and boosting the activation of existing partners are key strategic components in this. To this end, NFON firstly launched two new partner programmes in 2021 – "NGAGE" and "Gemeinsam stark" ('Strong Together'). Secondly, the NFON brand was also redefined and redesigned in 2021. On an extremely fragmented market for cloud communications, the importance of a brand that clearly shows how a purely B2B product benefits the customer cannot be underestimated. This means that the brand has to be clearly differentiated from the competition. The company's new brand identity will be launched in the second quarter of fiscal 2022. There are clear goals in mind for these steps:

1. the further growth of the pan-European partner network; and
2. rising pan-European awareness of the NFON brand.

Further key components of NFON's growth strategy include the roll-out of innovative products for voice-centric business communication in the field of cloud telephony, unified communications and contact centre solutions on the one hand and the expansion of sector-specific solutions on the other. NFON already has the platform for professional business communication today in its cloud telephony system. NFON will augment and expand this with further UCaaS, CCaaS and, in future, iPaaS (integration platform as a service) functionalities, technologies and services as well. NFON is not just pursuing an internal development strategy, but also believes that there is a chance to

obtain products or technologies through partnerships or acquisitions. By rolling out innovative products and expanding its sector-specific solutions, NFON will leverage changing market conditions to its own advantage and seize the opportunity for growth on markets while they are still developing.

The European market for cloud communications is highly fragmented. NFON anticipates an active role in the advancing consolidation of the market. There are a number of opportunities here to acquire both companies with suitable, attractive technologies that supplement the existing NFON product and solution portfolio and also competitors using highly precise and defined criteria. NFON already has its first acquisitions and partnerships under its belt, and will continue on this path in the years ahead.

Europe will continue to be NFON's regional target market. However, while NFON has focused heavily on small and mid-sized markets in previous years, the company is now expanding its client base to include the enterprise segment with up to 5,000 seats. Furthermore, the expansion of the product portfolio to include pan-European cloud-based contact centre solutions will lead to additional potential as well. In fiscal 2022, NFON will be reaching out both to companies in search of a cloud telephony solution per se and also to those just looking for a contact centre solution. This is not expected to make any significant contribution to revenue in 2022, but will support the growth strategy for 2023 and 2024 overall. Furthermore, NFON is stepping up its commitment in the countries of Eastern Europe. To this end, NFON has established another sales company in

Warsaw, Poland. Unlike in Western Europe, the competition for cloud products and solutions in countries such as Poland, Slovenia, Slovakia or Romania is relatively low¹¹. The company anticipates faster growth here from its investments. At the same time, NFON is re-examining its sales activities in the western countries and is leaving the door open to scale back its sales operations.

With its partner network becoming larger all the time, the ongoing growth of its seat base, rising brand awareness on the European market and a product and solutions portfolio tailored to the needs of its customers, NFON feels it is well positioned to become the leading provider for voice-centric business communication in the coming years.

Management

Management systems

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

Internal Management System of NFON AG



11 Unaudited information

Financial and non-financial performance indicators

The NFON Group is managed using the following performance indicators:

- seat growth¹²;
- total revenue;
- recurring and non-recurring revenue and their respective growth rates;
- recurring and non-recurring revenue as a share of total revenue;
- ARPU¹³ (blended);
- EBITDA (adjusted).

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

As its strategy is primarily geared to growth, NFON AG has defined the growth rate of recurring revenue and non-recurring revenue as a share of total revenue as its key financial performance indicators. Seat growth is a non-financial performance indicator. Seat growth over a reporting period is the basis for 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. Its positive development is crucial to the overall success of the NFON Group.

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

The Group uses adjusted earnings before interest, taxes, depreciation, amortisation and impairment (adjusted EBITDA) to measure its operating

performance and the success of the individual business units. Non-operating one-time expenses, such as those in connection with taxes and social security matters or retention bonuses, are deducted from EBITDA to measure operating performance. This is known as adjusted EBITDA.

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

	2021	2020 ¹	Change in %
Total revenue	EUR 75.9 million	EUR 67.6 million	12.3%
Recurring revenue	EUR 68.0 million	EUR 59.4 million	14.4%
Share of recurring revenue	89.5%	87.8%	n/a
Non-recurring revenue	EUR 7.9 million	EUR 8.2 million	-3.5%
Share of non-recurring revenue	10.5%	12.2%	n/a
ARPU blended ²	EUR 9.84	EUR 9.77	0,7%
Seat growth	587,067	524,791	11.9%
Adjusted EBITDA ³	EUR -1.3 million	EUR 3.5 million	n/a

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

2 Based on average number of seats per month every year

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

¹² Total number of seats and licences used by customers

¹³ Average revenue per user

In line with the guidance updated in November 2021, the key performance indicators developed as follows:

In EUR thousand	2020	2021	Forecast for 2021	Revised forecast for 2021	Change 2020/2021	Note on forecast of March 2021	Note on forecast of November 2021
Seats	524,791	587,067	between 15% and 17%	between 12% and 14%	11.9%	As was announced when the forecast was revised in November 2021, the original growth target was not achieved.	The target was achieved at the lower end of the forecast range
Growth rate of recurring revenue	EUR 59.4 million	EUR 68.0 million	between 14% and 16%	No changes	14.4%	The target was achieved at the lower end of the forecast range.	n/a
Recurring revenues as share of total revenues	87.8%	89.5%	> 85%	No changes	n/a	The target was comfortably achieved.	n/a

Research & Development

Milestones achieved in 2021:

- Development of a new native iOS app
- Centrexx 3 – Release of the cloud telephony system distributed by Deutsche Telefon Standard GmbH, runs on NFON platform for the first time
- Nconnect Voice 2.0 of the newly developed SIP trunk with a series of new functionalities, e.g. fraud management, multi-number management, black/whitelisting, failover & backup
- Meet & Share, the option to launch video calls from within NFON's own cloud telephony system Cloudya and to share screens
- CRM Connect, connecting Cloudya to the respective customer relationship management system

Areas to be concentrated on in 2022 (selection):

- Ongoing expansion and improvement of cloud telephony with further UC functionalities
- Launch of the Contact Center Hub
- New desktop apps with better system integration and therefore further improvements in user experience

At the end of 2021, there were 121 permanent employees in the R&D, Operations and Product Management departments of the NFON Group (previous year: 103), accounting for 24.7% (previous year: 23.8%) of the total workforce of 491 employees¹⁴. In particular, there were 12 new hires in Development in 2021. 16 further employees are already under contract and will begin work on the

developer teams at the start of fiscal 2022. For certain projects, additional external employees are hired on a temporary basis as required. They accounted for 10.7% of the permanent R&D workforce at the end of 2021.

The Group incurred R&D expenses of EUR 8.6 million in the year under review (2020: EUR 5.5 million). EUR 4.2 million (2020: EUR 3.9 million) of this was capitalised under intangible assets. The capitalisation rate in the year under review is thus 46.9% (2020: 71.2%). Amortisation of EUR 2.9 million (2020: EUR 0.4 million) was recognised on capitalised development projects in the reporting year. In addition, development expenses for internally generated software amounting to EUR 2.5 million (2020: EUR 1.2 million) were capitalised.

¹⁴ As at the end of the reporting period, not including trainees, students or the marginally employed

Technology & World of Work

The topics in the technology field of action are implemented both in separate projects and in the departments responsible for them. The following overview shows the connection between the topics and projects or departments:

Thema	Projekt	Abteilungen
Promoting innovation	Agile transition	Agile coaches HR
Promoting and supporting the digital transformation of companies	Smart workflow	R&D Product management Marketing
Data protection and IT security	ISO certification	Data protection and IT security

Agile Transition

Promoting innovation

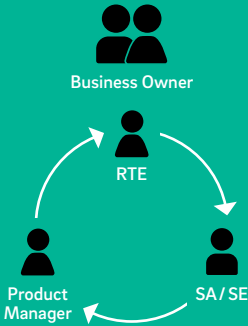
With the challenges posed by the pandemic, the world of work has been forced to rethink in large parts. Major technological upheavals are nothing new anymore. But instead of taking centuries or decades to spread around the world, as was the case with telephony or the printing press, new technologies are now becoming routine within a few years. Only 15 years ago, there were no modern smartphones. Today, more than half the people in the world own one. The world of work is also experiencing such a phenomenon with cloud services. The adoption of cloud services and the associated hybrid and virtual forms of work are accelerating. Any company management that thinks its industry is immune to this dynamic will not survive for long. This is clearly linked to the call to increase the speed of innovation.

Voice-centric communication between companies and between companies and customers is a key aspect of this development. This means the future belongs to UCaaS, CCaaS and iPaaS solutions. Voice is our core competence. With Cloudya, the cloud telephone system from NFON, we have already created a platform for professional business communication. In the years ahead, the focus of our development teams will be on expanding the current platform in the direction of "smart workflow" and the provision of unified communications and contact center products. In order to meet this increasing pace of innovation, we not only need more capacity in the area of development, but also new working methods.

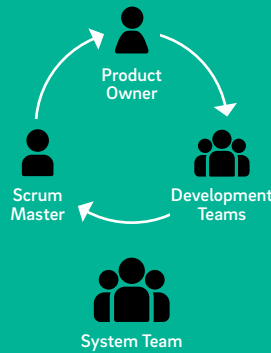
Teams and roles

Our development teams work according to the Scaled Agile Framework (SAFe process) and are therefore organised in an Agile Release Train (ART) with cross-thematic teams according to the following structure:

Portfolio Level



Agile Teams Scrum Teams



Portfolio Level

Business Owners are a group (usually two people) who have primary business and technical responsibility for governance, compliance and return on investment (ROI) for a developed solution in order to prioritise and steer the overall development programme.

Product / Program Level

The *Release Train Engineer (RTE)* is the lead for the Agile Release Train (ART). The RTE's main responsibilities are to facilitate ART events and processes and support teams in adding value. RTEs communicate with stakeholders, escalate obstacles, help manage risk and drive continuous improvement of the process and the organisation.

Product Management is responsible for defining and supporting the development of desirable, achievable, viable and sustainable products in the form of initiatives that meet customer needs during the product market lifecycle. Product Management is responsible for the end-to-end delivery of products in collaboration with the agile development teams.

The *System Architect (SA)* provides direction and guidance for technical solutions and creates enabler epics from a technical architecture and infrastructure perspective (SAFe System Architect).

The *Solution Engineer (SE)* provides descriptions of solutions and creates the bridge between initiatives and user stories by providing epics (SAFe Solution Engineer).

Agile Teams

Scrum Teams

- In his role, the *Product Owner (PO)* is autonomous and responsible for the team's product(s). He or she decides on the content of the team backlog and gives the team business and financial direction.
- The *Scrum Master / Facilitator (SM)* guides the development team through the process and coaches them to continuously become more efficient and effective.
- The *Development Team (Dev)* is responsible for implementing the business requirement in the form of a technically meaningful solution, advising the Product Owner on equal footing in order to jointly create the best possible solution for the customers.
- The *System Team* is a specialised agile team based in Platform Operations that helps build and support the agile development environment.

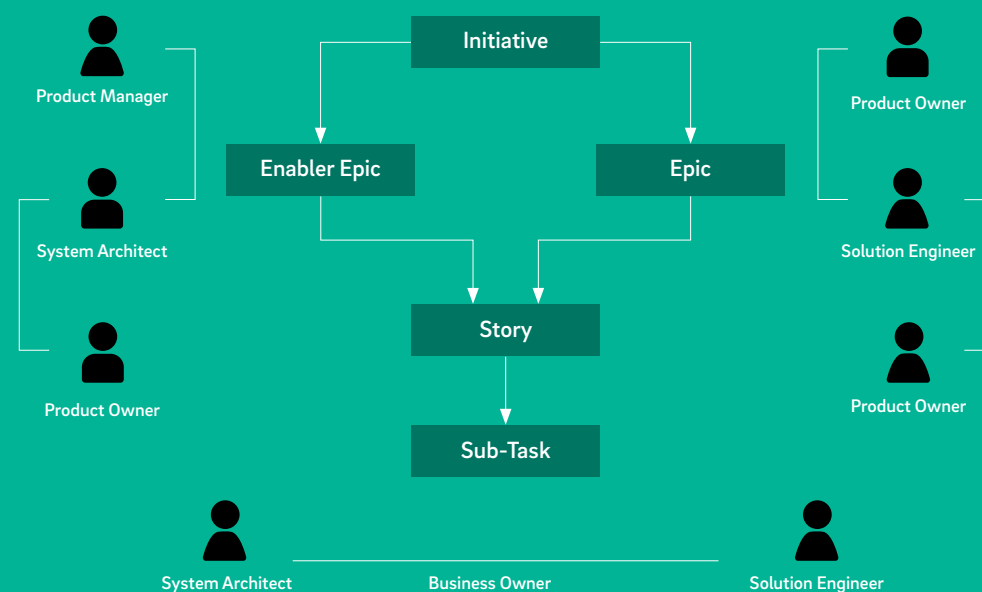
The development of a product generally follows the following steps:

The initiative for a new product comes from product management. Epics are formed based on the requirements of the customers or end users defined there. An epic is a task unit that is to be implemented as part of a programme increment that runs over 6 sprints, distributed across several teams. Each epic is in turn subdivided into stories. Stories are descriptions of a small part of the desired functionality, which are implemented by the development teams in a sprint called "iterations." In order to coordinate all teams and to be able to manage dependencies well, the sprints of all teams are synchronised in time.

The professional management of the teams' dependencies and consistent planning of the entire programme from the roadmap down to the individual steps of development are a very important aspect here. NFON therefore pursues transparent and visualised planning, which enables all participants to see at any time what time and technical dependencies exist between the teams and what progress can be seen in the initiation.

The teams are then responsible for evaluating, coordinating and reviewing this transparency and planning regularly as part of programme increment planning. This ensures solid and sustainable implementation that allows complex topics to be carried out professionally in an agile environment and not only closely involves the employees in the development process, but also significantly increases employee satisfaction.

Product development





Materiality based on 9.1 of the 17 UN Sustainability Development Goals

Materiality impacts on sustainability aspects	Outside-in approach Influences	Inside-out approach Impact	Risks	Opportunities
Building a resilient infrastructure and supporting innovation	Digitalisation speed Innovation pressure	Development of a high-quality, reliable, sustainable and resilient infrastructure to promote economic development and human well-being	Shortage of skilled workers Speed of innovation and development	Expansion of the product portfolio Creation of new jobs

Smart Workflow

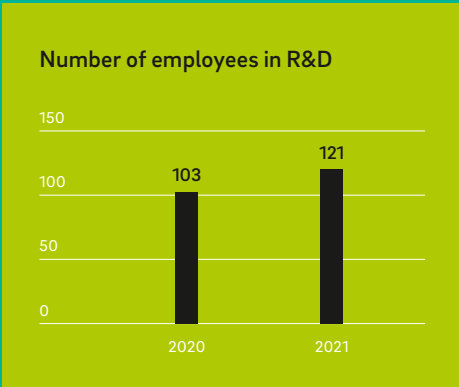
Promoting and supporting the digital transformation of companies

"Cloud computing makes the greatest contribution to the digitalisation of internal processes and the automation of workflows." ⁷

Cloud computing has been a key component of the IT infrastructure of the German economy for years. Nevertheless, the digital transformation poses a challenge for many companies. ⁸ It isn't enough to

simply move utilities to the cloud. Companies must link their cloud strategy with their digital strategy. Digitalised processes run better when they are well implemented and user-friendly. Accordingly, progress in process digitalisation can lead to greater satisfaction. In any case, people as users of digital technologies must not be neglected in the development and subsequent use of digital technologies. Complexity, flooding or unavailability are significant factors for the psychological stress of users and

thus increase the risk of a drop in performance, demotivation and even burn-out. At NFON, we firmly believe that digital work, and in our particular case voice-centric digital work, must feel natural. This is the only way to reduce stress factors or prevent them from arising in the first place. Driven by this thought, we are working on products that are quick to understand and easy to use. We want to make work smarter, not harder.



⁷ KPMG: Cloud Monitor 2021. Die Goldenen Zwanziger für die Cloud? In collaboration with bitkom research, p. 5
⁸ <https://digital.abbby.com/fraunhofer-studie.html>
⁹ <https://gesund-digital-arbeiten.de/downloadliste/>, <https://www.boeckler.de/de/boeckler-impuls-wenn-digitalisierung-stress-macht-27641.htm>
¹⁰ Prävention für sicheres und gesundes Arbeiten mit digitalen Technologien. Abschlussbericht des Verbundprojektes PräDiTec. Prof. Dr. H. Gimpel, Universität Augsburg und Projektgruppe Wirtschaftsinformatik des Fraunhofer FIT 2021

We have made this topic our brand core.

Intuitive: We know that cloud systems are not necessarily everybody's cup of tea. That is why we want to make them as simple and smooth as possible.

Progressive: We provide answers even before the questions are asked. And we transform ideas into solutions that inspire our partners and customers.

Reliable: People can count on us, our expertise and our commitment.

In our development process, we follow agile values and principles and have adapted them to our situation and our partners and customers.

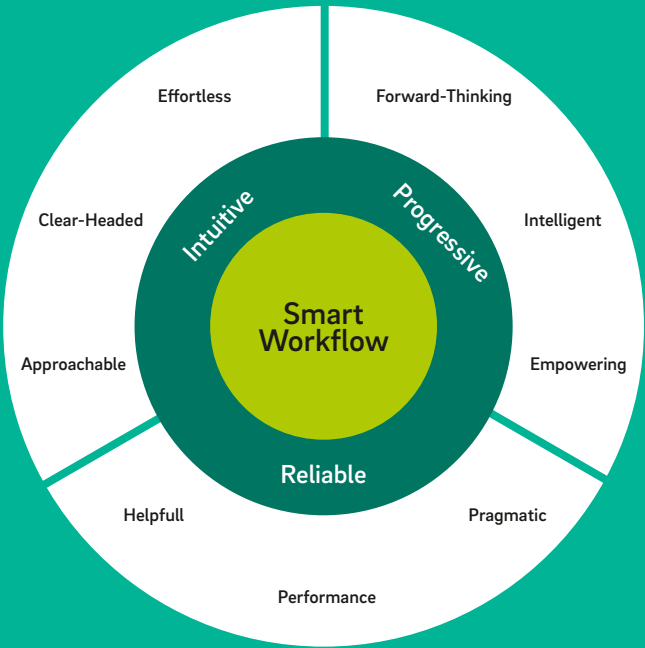
EFFORTLESS: We are easy to deal with. We ensure smooth processes. Both in terms of technology and partnership.

CLEAR-HEADED: We take a structured approach and solve complex issues systematically.

APPROACHABLE: We are accessible. No one should hesitate to ask a question for fear of not understanding the answer.

FORWARD-THINKING: We try to stay one step ahead of the developments and the resulting needs of our clients.

Smart Workflow



INTELLIGENT: We react quickly. For us, intelligence means being able to adapt to new environments and deliver simple solutions to complex problems.

EMPOWERING: For us, innovation is not an end in itself. Everything we do is designed to open up more opportunities for people.

HELPFUL: We are fully committed to helping others.

PERFORMING: We do our best to make everything work.

PRAGMATIC: We are part of the tech industry, but not an aloof start-up. We have our feet firmly on the ground.



Materiality based on 8.2, 8.3 and 9.3 of the 17 UN Sustainability Development Goals

Materiality Impacts on sustainability aspects	Outside-in approach Influences	Inside-out approach Impact	Risks	Opportunities
Promote sustained, inclusive and sustainable economic growth and full and productive employment.	Increase the need for e-commerce solutions Change in working conditions Increase in teleworking and mobile workplaces	Improve access to cloud products and solutions for small and medium-sized enterprises. Achieve higher levels of economic productivity through technological modernisation and innovation	Misdevelopment Speed of digitalisation Increasing competition	Further development with the customer Unique selling point in the SME sector Expertise for the European market

Data protection and IT security

The protection of personal data is a fundamental right of all natural persons. We respect the protection of personal data and therefore implement appropriate measures. In accordance with the requirements of the GDPR, an integrated data protection management system (DMS) has been implemented to document, monitor and adjust data protection aspects as needed. Integral components of the DMS include the processes for the general handling of data protection incidents and breaches and thus also of incidents and breaches involving personal data of customers or other business partners of NFON AG.

With our information security management system, we pursue the goal of managing information in such a way that it is safe and secure. NFON was certified according to ISO/IEC 27001:2017 for the scope: "Operation of the virtual telephone system, including the operation of internal IT, insofar as this has an influence on the operation" for the sites in Munich, Berlin, Mannheim, Mainz as well as mobile workplaces on 3 December 2021.

A separate team within the NFON Group works in the area of IT security and data protection. Knowledge of and compliance with IT security and data protection guidelines are ensured through online training on NFON's own learning platform NFON Learn:

All employees must complete an online training course that familiarises them with the various aspects of data protection and IT security using practical examples.

Multiple-choice questions were included to check the learning level. Employees are informed about their level of knowledge when they complete the course.

In addition, all information on the ISMS and DMS has been made available on NFON's own intranet. In principle, all questions and approvals can be handled via the IT security and data protection officers.

Materiality impacts on sustainability aspects	Outside-in approach Influences	Inside-out approach Impact	Risks	Opportunities
Personal data as a fundamental personal right Company secrets as a basis for the existence of companies	Data protection and IT security laws or regulations	Protection against IT security incidents, customer privacy or data breaches	Data protection breaches Gaps in IT security	Adherence to the highest possible standards for the benefit of the reputation

Economic report

General economic conditions and industry environment

General economic development in Europe and Germany

2021 continued to be dominated by the COVID-19 pandemic, though a general economic recovery began as the year progressed. Conditions around the world became more positive again, though it was not possible to fully exploit the opportunities on account of supply shortages. According to forecasts by the Kiel Institute for the World Economy (IfW), gross domestic product (GDP) in the euro area expanded by 5.3%¹⁵ in 2021 after having contracted by 6.4% in 2020¹⁶.

The economic recovery in Germany, NFON AG's domestic market, was not as strong as in the rest of the euro area. The Federal Statistical Office puts the growth of the German economy in 2021 at 2.9% (2020: -4.6%).¹⁷ Despite this recovery, GDP has not yet returned to the pre-COVID level of 2019. In the second quarter of 2021 in particular, the easing of the public health situation triggered

a dramatic economic recovery of 10.8% as against the previous quarter. However, this growth then ebbed again as infection numbers climbed in the third and especially the fourth quarter.¹⁸

A key indicator for the German economy is the ifo business climate index. According to this, the business climate deteriorated steadily in the second half of the year, from a high of 101.7 points in June 2021 to 94.8 points in December 2021.¹⁹ The reasons for this included the less optimistic business projections for future months on the one hand and the effects of the next COVID wave and supply shortages on the other.²⁰

The UK is NFON AG's largest foreign market. The UK economy continued to be rocked by the pandemic and the effects of Brexit in the past year. In the second half of 2021, its previously energetic economic expansion slowed considerably. Nonetheless, IfW experts are forecasting that the UK's GDP will have risen by 6.9%²¹ year-on-year over 2021 as a whole (2020: -9.8%)²².

Significant sales markets and competitive position of the NFON Group

NFON recalibrated its existing strategy with the new growth strategy released in spring 2021. While the company previously saw itself as a provider of cloud telephony systems and thus felt itself to be in the right place on the market for cloud telephony systems, its radius was enlarged to encompass the markets for unified communications & collaboration and contact centres as a sub-market of the market for business applications.

While adding these product markets, Europe continues to be NFON's core geographic market. The growing acceptance of cloud products and services in Europe as well is accelerating the digital transformation and thus the growth potential. It should be noted that the penetration rate for cloud products and services still varies considerably across all products and countries.

Market for cloud telephony

The European market for telephony as a whole numbers around 131 million seats²³. Aggregating the data available from market researchers and applying the company's own assumptions, only 22.9% of seats – around 30 million – are in the cloud²⁴. Based on assumptions by MZA, a

¹⁵ IfW forecast (link), final figures pending (provisionally March 2022)

¹⁶ <https://www.ifw-kiel.de/de/themendossiers/konjunktur/#m-tab-0-euroraum> (26 January 2022)

¹⁷ <https://www.destatis.de/DE/Themen/Wirtschaft/Volkswirtschaftliche-Gesamtrechnungen-Inlandsprodukt/Tabellen/bip-bubbles.html> (26 January 2022)

¹⁸ <https://www.destatis.de/DE/Themen/Wirtschaft/Volkswirtschaftliche-Gesamtrechnungen-Inlandsprodukt/Tabellen/bip-bubbles.html> (26 January 2022)

¹⁹ <https://www.ifo.de/umfrage/ifo-geschaeftsklimaindex> (26 January 2022)

²⁰ <https://www.ifo.de/node/67010> (26 January 2022)

²¹ So far only forecast from Q4 report, actual figure to follow

²² KKB_85_2021-Q4_Welt_DE.pdf (ifw-kiel.de) (26 January 2022)

²³ Source: MZA: "The Global Telecommunications Market 2020"

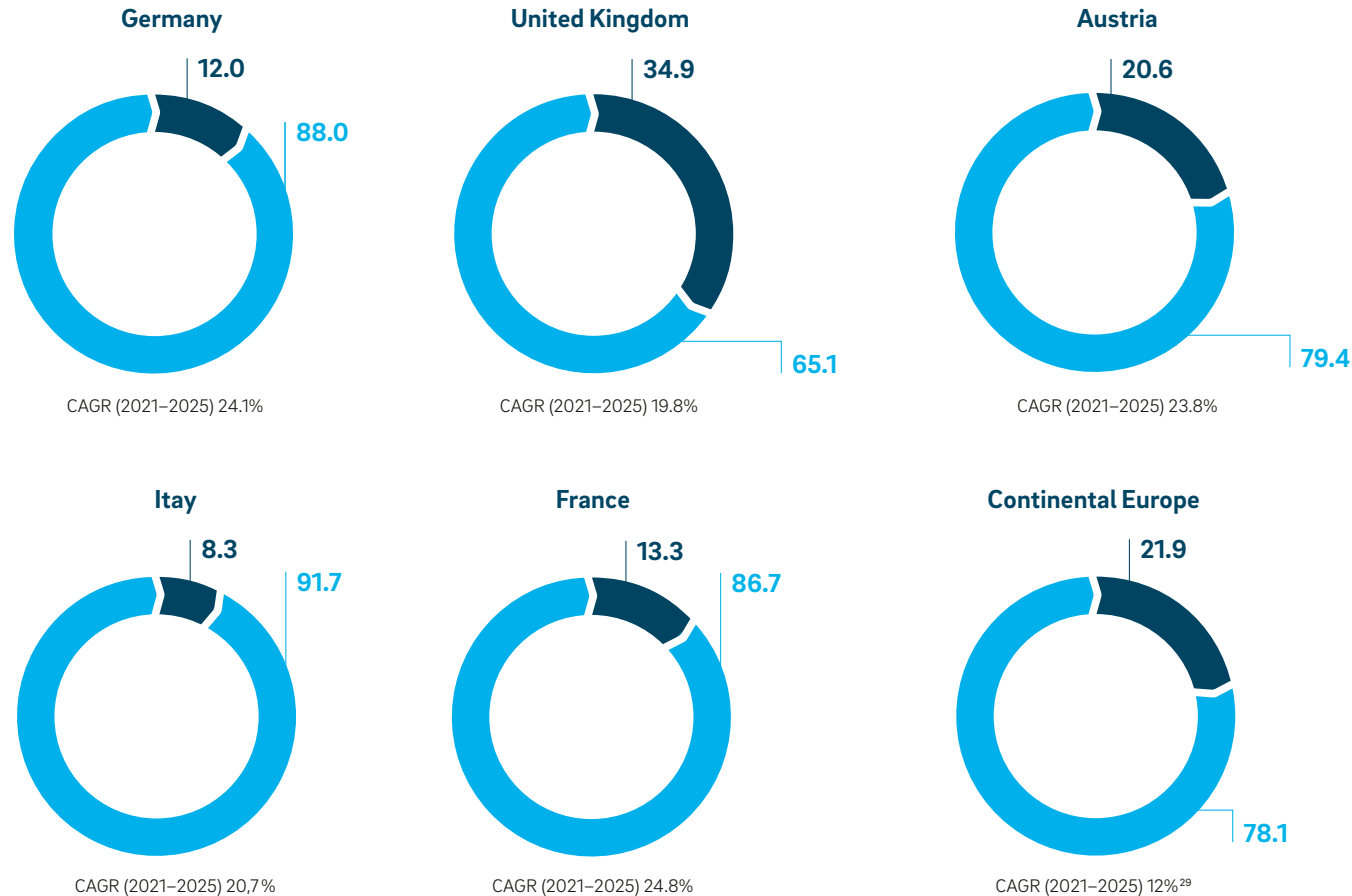
²⁴ NFON internal calculation based on the Cavell Group's "Cloud Comms Market Report Q4 2020" & MZA's "The Global Telecommunications Market 2020"

five-year CAGR (2021 to 2025) of around 11% is projected²⁵. This would increase the total number of seats in the cloud to around 46 million²⁶.

North America is one of the most advanced countries in the world in terms of cloud telephony use with a penetration rate of around 32% (approximately 36 million seats in the cloud)²⁷.

Cloud-PBX in Europe (penetration in %)²⁸

Cloud-PBX penetration



²⁵ NFON internal calculation based on the Cavell Group's "Cloud Comms Market Report Q4 2020" & MZA's "The Global Telecommunications Market 2020"

²⁶ Source: MZA: "The Global Telecommunications Market 2020"

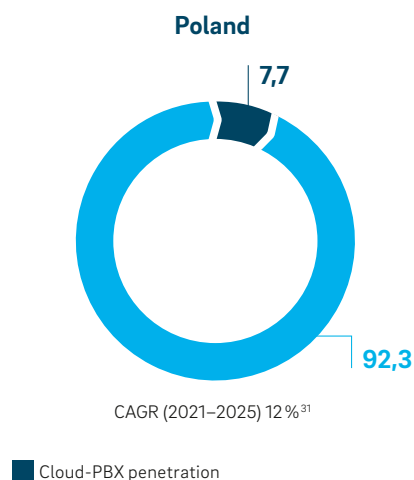
²⁷ Source: MZA: "The Global Telecommunications Market 2020"

²⁸ Data on penetration rates: Cavell Group: "Cloud Comms Market Report Q4 2020"; Data on CAGR: NFON internal calculation based on the Cavell Group's: "Cloud Comms Market Report Q4 2020"

²⁹ The data on continental Europe are exclusively the company's internal calculations based on the Cavell Group's: "Cloud Comms Market Report Q4 2020"

NFON has had its own sales company in Poland since May 2021. To date, sales activities were carried out here only through the partner network under the direction of the Austrian NFON subsidiary. As the level of competition in these countries is still very low, and therefore the penetration rate is very low³⁰ as well, NFON anticipates excellent growth prospects thanks to the presence it has already established through its partners, the level of competition and the low penetration rate.

Cloud-PBX in Poland (penetration in %)



Competitive situation

In the opinion of the company's management, the only competitors comparable to NFON are the North American companies RingCentral and 8x8³². These companies have a cloud telephony system developed in-house and have been expanding their product ranges considerably for more than ten years by integrating communication media in a unified application environment (unified communications (UC) services). Based on the company's own market observations, RingCentral has stepped up its activities in continental Europe especially.³³ This competition has not come to NFON's notice to date. Despite advances in M&A activity, the European market is still highly fragmented, with companies such as Gamma, Zoom, Avaya, 3CX and fuze Europe GmbH attempting to enter the market.³⁴

Market for UCaaS products and solutions

Competitive situation

The market for unified communications & collaboration has major providers such as Microsoft, Google, Zoom, Slack, GoTo or Cisco. NFON feels that its market position is very clearly in the field of voice-centric communications and not in direct competition with these companies.³⁵

Market for contact centre solutions

Competitive situation

NFON is a new player on the market of pan-European providers for contact centre solutions. As one would expect, there are overlaps with competitors in the area of cloud telephony, e.g. RingCentral and 8x8. According to the Gartner Magic Quadrant, the major competitors are Genesys, Nice XConne and Talkdesk. The key things that set NFON apart from the competition are flexible pricing that benefits small and mid-sized enterprises, not having long contract terms and offering omnichannel, consulting and service³⁶.

³⁰ Unaudited information

³¹ Figures based on estimates by the company

³² Unaudited information

³³ Unaudited information

³⁴ Unaudited information

³⁵ Unaudited information

³⁶ Fortune Business Insight: Contact Center as a Service Market. Euroa Industry Analysis, Insights and Forecast, 2020–2027, Report 2020

Presentation of the company's performance

Comparison of actual and forecast business performance in 2021

	Forecast for 2021	Revised 2021 forecast (November 2021)	Actual figures for 2021
Growth rate of recurring revenue	between 14% and 16%	No changes	14.4%
Non-recurring revenue	> 85%	No changes	89.5%
Growth rate for seats (installed by customers) for the year as a whole	between 15% and 17%	between 12% and 14%	11.9%

The NFON Group's performance has been positive on the whole. Nonetheless, the trend in seat growth is reflective of the consistently tough economic situation throughout Europe: supply shortages and the ongoing COVID pandemic have been hard on NFON as well, even though the general economic situation in Europe had recovered somewhat. NFON was therefore unable to achieve its originally envisaged growth target for seats, only reaching the bottom edge of its revised forecast by the end of 2021 with 587,067 seats – a growth rate of 11.9%. This situation, which has been going on since last year, has not been without its impact on recurring revenue. While the growth rate in recurring revenue was a gratifying 15.7% in the first nine months – and thus at the upper end of the forecast – the growth rate flattened off on account of the development in seats as anticipated in the interim financial report as at 30 September 2021 and

was 14.4% by the end of the year. A positive effect offsetting this continues to be the high demand for high-margin voice minutes. This revenue allowed ARPU to stabilise at EUR 9.84 as at the end of the year (2020: EUR 9.77). Throughout 2021, NFON systematically implemented the growth strategy that it refined at the start of the year and maintained its investment in marketing and personnel. As planned, the activities in these areas caused much higher expenses and thus EBITDA of EUR –2.0 million. Overall, NFON further increased its revenue by 12.3% year-on-year to EUR 75.9 million for fiscal 2020 (2021: EUR 67.6 million). NFON's recurring revenue as a percentage of total revenue rose significantly to 89.5% (2020: 87.9%) at EUR 68.0 million (2020: EUR 59.4 million).

Results of operations

Development of key items of the consolidated statement of comprehensive income

in EUR million	2021	2020	Change in %
Sales	75.9	67.6	12.3
Cost of materials ¹	14.5	14.0	3.2
Gross profit	61.4	53.6	14.6
Other operating income	0.6	1.0	–41.4
Personnel expenses	31.7	28.5	11.3
Other operating expenses	32.3	23.6	37.0
EBITDA	–2.0	2.3	n/a
Adjusted EBITDA	–1.3	3.5	n/a
Depreciation, amortisation and impairments ²	6.9	4.2	67.2
EBIT	–9.0	–1.8	n/a
Net interest income	–0.3	–0.5	n/a
Income tax expense/income	+0.3	+0.1	n/a
Consolidated loss	–8.9	–2.2	n/a

¹ including a change in inventories of EUR 0 thousand (previous year: EUR 19 thousand)

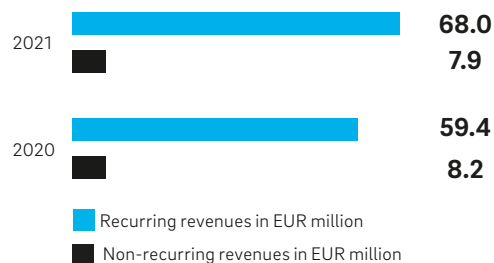
² contains impairments of EUR 101 thousand (previous year: EUR 0 thousand)

Consolidated revenue and consolidated seat development

Revenue increased by 12.3% year-on-year. This primarily resulted from the successful acquisition of new customers and a rise in the number of

installed seats within the existing customer base, particularly in Germany, Austria and the UK. Furthermore, earnings power per seat was increased by higher ARPU.

High share of recurring revenues of 89.5% (Previous year: 87.9%)



For the reasons outline above, recurring revenue in particular climbed very well and at a faster rate than overall revenue (14.4%). In particular, the drop in non-recurring revenue as against the same period of the previous year (–3.5%) reflects the lower revenue from devices, which was mainly as a result of customers spending more time working from home because of the COVID-19 pandemic. Significantly fewer desk/conference telephones, etc. were therefore needed.

Recurring revenue essentially comprises monthly payments of a fixed licence fee per seat plus a fixed

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

Development in seats

Total number of seats grows by 11.9% year-on-year



The trend in seats testifies to the growing demand for cloud telephone systems among business customers. At the same time, it underlines the high level of satisfaction felt by NFON's very loyal customers³⁷. Even though the rise in new seats fell slightly short of expectations, customer loyalty remained constant at a high level.

Revenue and seat development by segment

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

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

The company NFON developments unipessoal Lda. will never generate revenue as it is a software development company. NFON Polska z.o.o was founded only in 2021 has not yet generated any revenue.

³⁷ Unaudited information

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:

In EUR million	Revenue		Recurring revenue		Change in recurring revenue in %	Recurring revenue as a share of total revenue in %	
	2021	2020	2021	2020		2021	2020
NFOR AG	43.2	39.5	39.1	35.0	11.8	90.6	88.5
Deutsche Telefon Standard GmbH	16.5	13.9	14.9	12.4	20.4	90.8	89.2
NFOR GmbH	7.3	6.4	5.9	5.1	15.2	80.2	80.3
NFOR UK Ltd.	7.8	7.0	7.2	6.4	12.3	91.4	90.7
NFOR Iberia SL	0.4	0.4	0.4	0.4	1.2	97.1	94.1
NFOR ITALIA S.R.L.	0.5	0.2	0.3	0.1	179.9	68.0	48.3
NFOR France SAS	0.3	0.2	0.2	0.1	245.3	80.3	39.8
Total for the reportable segments	75.9	67.6	68.0	59.4	14.4	89.5	87.8
Reconciliation effects	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total consolidated revenue	75.9	67.6	68.0	59.4	14.4	89.5	87.8

The positive development in revenue in the NFOR AG segment from EUR 39.5 million to EUR 43.2 million is mainly due to an increased seat base compared to the previous year, which directly led to higher recurring revenue.

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

Thanks to the acquisition of new customers and the growth of the seat base, revenue in the nfon GmbH segment rose from EUR 6.4 million to

EUR 7.3 million. Mainly as a result of wider business with wholesale partners, revenue in the NFOR UK Ltd. segment rose from EUR 7.0 million to EUR 7.8 million.

The growth in revenue at NFOR ITALIA S.R.L., from EUR 0.2 million to EUR 0.5 million, was mainly thanks to new customers and the expansion of the seat base.

The revenue performance in the NFOR Iberia SL and NFOR France SAS segments was restrained. The negative effects of the COVID-19 pandemic,

which restricted the economy to an extraordinary degree in these markets, were particularly noticeable here. In addition, the increase telephone minutes as a result of more people working from home did not have a significant effect here as the customer base was still small.

Seats	2021	2020
NFOR AG	361,534	321,532
Deutsche Telefon Standard GmbH	75,182	70,255
NFOR GmbH	59,083	50,075
NFOR UK Ltd.	80,284	76,125
NFOR Iberia SL	3,718	3,518
NFOR ITALIA S.R.L.	4,604	2,038
NFOR France SAS	2,662	1,248
Total EBITDA	587,067	524,791

Development of ARPU

ARPU development stabilises

2021	9.84
2020	9.77
2019	9.64
2018	9.92

Blended ARPU in EUR

ARPU is calculated as the average recurring revenue from seats and SIP trunks per month less recurring revenue from SIP trunk licence fees in relation to the average number of seats per month, including revenue and seats from customers who maintain contractual relations with NFON's wholesale partners.

NFON uses the average recurring revenue across all services, sales channels and countries per user (seat), referred to as average revenue per user (ARPU), to measure operating performance per seat. Thanks to the consistently high volume of voice minutes and the positive performance at the NFON subsidiary Deutsche Telefon Standard GmbH in particular, ARPU rose slightly again year-on-year to EUR 9.84 in 2021 (2020: EUR 9.77). Moving forward, this trend will continue to be supported by growing sales of premium solutions, with which NFON can generate additional ARPU contributions.

Income and expense items

Other operating income

Income from currency translation decreased by EUR 0.2 million as against 2020.

Cost of materials

The cost of materials rose at a slower rate than revenue in the reporting period, by 3.2% from EUR 14.0 million in the same period of the previous year to EUR 14.5 million. This development mainly stems from the sharp rise in the share of high-margin recurring revenue.

This resulted in a lower cost of materials ratio than in the previous year of 19.0% (previous year: 20.7%). This falls within the regular range of fluctuation, in line with planning.

Personnel expenses

The average number of employees increased from 406 in the previous year to 471, with more staff recruited in sales and development in particular.

In accordance with IAS 38, staff costs for product development of EUR 3.6 million were capitalised after EUR 3.0 million in the previous year.

Expenses of EUR 0.4 million (2020: EUR 0.9 million) in connection with an employee stock option programme implemented at the start of 2019 and bonuses of EUR 0.1 million (2020: EUR 0.2 million) in connection with a retention programme for managers were recognised in the reporting period.

Adjusted for these effects, staff costs rose from EUR 27.3 million in the previous year to EUR 31.2 million. This represents an adjusted staff costs ratio in relation to revenue of 41.2% in fiscal 2021, after 40.4% in the same period of the previous year.

Other operating expenses including marketing and selling expenses

Other operating expenses climbed to EUR 32.3 million in 2021 (previous year: EUR 23.6 million). However, it should be noted that spending was scaled back sharply in 2020 owing to the COVID pandemic. These costs had amounted to EUR 26.8 million in 2019.

In accordance with IAS 38, external developer costs for product development of EUR 0.5 million were capitalised after EUR 0.9 million in the previous year. There are also capitalised costs for the development of the BS system of EUR 2.5 million after EUR 1.2 million in the previous year.

The 2021 figure had included expenses of EUR 0.3 million in connection with M&A activities. These are classified as non-recurring effects.

Adjusted for non-recurring effects, other operating expenses climbed by 35.6% to EUR 32.0 million in 2021 (2020: EUR 23.6 million). This represents an adjusted ratio in relation to revenue of 42.2%, up from 34.9% in the previous year.

Marketing expenses

Marketing expenses rose by 45.8% year-on-year to EUR 9.8 million (previous year: EUR 6.7 million). Savings were implemented when the COVID-19 pandemic began in the previous year. Marketing expenses had amounted to EUR 9.0 million in 2019.

Selling expenses

Selling expenses rose to EUR 9.9 million in the 2021 reporting period (previous year: EUR 8.0 million). Selling expenses mainly include commission paid to NFON AG's sales partners, who share in a percentage of its revenue. The ratio of selling expenses to revenue was 13.1% in 2021, after 11.9% in the previous year.

Depreciation and amortisation

Depreciation and amortisation increased to EUR 6.9 million in fiscal 2021 (2020: EUR 4.2 million). This is mainly due to the completion of development work and thus the start of depreciation. This item also includes impairments of EUR 101 thousand in 2021 (previous year: EUR 0 thousand).

Net interest income

Net interest expense (interest and similar income less interest and similar expenses) amounted to EUR 0.3 million in fiscal 2021 and was down significantly on the previous year (EUR 0.5 million). The acquisition loan that was borrowed for the acquisition of DTS was repaid in April 2021.

EBITDA, EBIT, consolidated loss

In EUR million	2021	2020
EBITDA	-2.0	2.3
Adjustments		
Retention bonus	0.1	0.2
Stock options/ESOPS/share-based remuneration programme	0.4	0.9
M&A expenses	0.3	0.0
Total extraordinary effects	0.7	1.2
Adjusted EBITDA	-1.3	3.5
EBIT	-9.0	-1.8
Consolidated loss	-8.9	-2.2
Total extraordinary effects	0.7	1.2
Adjusted consolidated loss	-8.2	-1.1

Contribution margin 2 by segment

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

Indirect intercompany transfers and charges include costs and expenses incurred in central functions to maintain marketing activities not specific to any one segment, general expenses for providing products and services and for customer support. In the respective contribution margin 2, the directly attributable intercompany transfers, such

as IT infrastructure costs or attributable marketing activities are still attributed in line with their segment allocation. They do not include non-operational central activities (general management, legal and finance). These remain with the original company.

The reconciliation effects mainly include the adjustments made in internal reporting to eliminate extraordinary effects in the period, and effects from consolidation and currency translation. This results in adjusted EBITDA of around EUR -1.3 million for the NFON Group in fiscal 2021.

In EUR million	2021	2020
NFON AG	3.0	6.9
Deutsche Telefon Standard GmbH	4.3	3.0
nfon GmbH	-0.6	-0.4
NFON UK Ltd.	-1.3	-1.3
NFON Iberia SL	-1.3	-1.1
NFON ITALIA S.R.L.	-2.3	-2.0
NFON France SAS	-2.0	-1.9
Total adjusted contribution margin 2 by reportable segment	-0.3	3.3
Other segments	0.1	0.1
Consolidation & currency effects & closing entries	-1.1	0.0
Extraordinary effects	-0.7	-1.2
Consolidated EBITDA	-2.0	2.3

The adjustments were made exclusively in the NFON AG segment as this is where the original transactions took place.

The sharp drop in NFON AG's contribution margin relates to the massive rise in marketing investment and the expansion of R&D and sales resources. In addition to cultivating its own market, central functions were augmented in support of the ongoing acceleration of growth at the international subsidiaries.

Deutsche Telefon Standard's business performance remained positive, which was reflected in improved positive earnings contributions.

Earnings improvements have not yet been achieved in the other segments despite positive trends in seat and revenue numbers. This is partly due to the fact that, after the savings triggered by the COVID-19 pandemic in 2020, more was invested in expansion again in 2021.

Furthermore, the revenue base is still so low at NFON Iberia SL, NFON ITALIA S.R.L. and NFON France SAS in particular that economies of scale have not yet set in.

Financial position

There were no liquidity shortfalls in the reporting period. Cash funds amounted to EUR 27.7 million as at the end of the reporting period.

Financing analysis

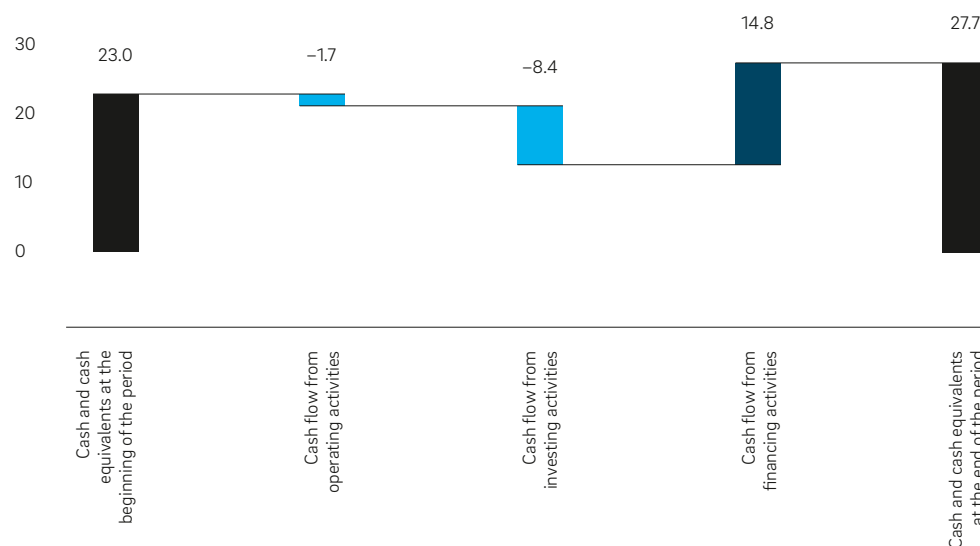
NFON AG's main source of financing in 2021 was the proceeds from the capital increase performed in 2021. In connection with the most recent capital increase (EUR 25.8 million net, offset against the costs of raising capital), an acquisition credit facility from 2019 in the amount of EUR 9.0 million was repaid in the reporting period. This credit facility was terminated at the end of February 2022. Lease liabilities of EUR 2.0 million were repaid as well. A money market loan agreement in the amount of EUR 5,000 thousand and maturing on

30 January 2026 was entered into with Bank für Tirol und Vorarlberg (BTV) on 22 December 2021. The credit facility was unutilised as at 31 December 2021.

Investment analysis

Investment in 2021 mainly related to R&D activities recognised under intangible assets. Investment in property, plant and equipment in the reporting period primarily focused on the IT infrastructure.

Liquidity analysis in EUR million



In particular, EUR 2.5 million was invested in the implementation and customising of a new business support system (BS system, BSS). In the telecommunications industry, this refers to a system for managing contractual relationships with customers/suppliers/partners, managing products and resources and billing.

Liquidity analysis

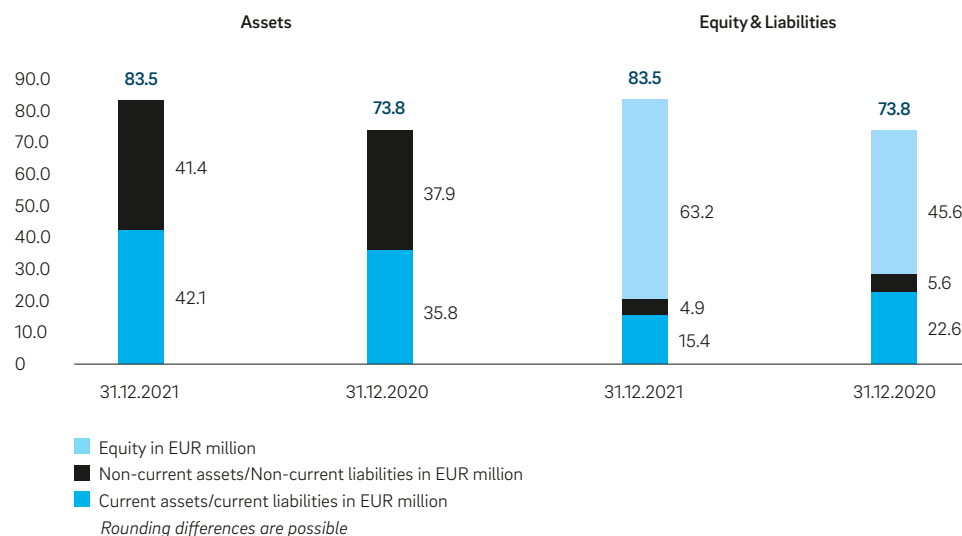
The negative earnings after taxes of EUR 8.9 million were increased in operating cash flow by factors including the amortisation of intangible assets and depreciation of property, plant and equipment of EUR 6.9 million, the increase of EUR 1.5 million in liabilities (trade payables were up by EUR 1.1 million, other liabilities by EUR 0.4 million), expenses of EUR 0.4 million in connection with the employee stock option programme, which were recognised as an increase in capital reserves, and interest expenses of EUR 0.3 million. The increase of EUR 1.6 million in trade receivables and other assets, as well as the interest payments of EUR 0.2 million, had a particularly negative impact on operating cash flow.

The cash flow from investing activities of around EUR –8.5 million essentially resulted from the payments for capitalised R&D projects, capitalised software customisation and enhancements to the new BS system, IT infrastructure and server hardware to create a corresponding basis for the planned growth and other operating and office equipment, which was mainly necessary in conjunction with the letting of new office space.

EUR 25.8 million of the positive cash flow from financing activities relates to the capital increase. At EUR 5.1 million, the cash flow from financing activities was mainly influenced by the repayment of the warrant bond in the previous year. There were cash outflows of EUR 9.0 million for the repayment of the acquisition credit facility. Another EUR 2.0 million relates to the repayment of lease liabilities in the reporting year.

Assets and liabilities

Accounting chart in EUR million



Non-current and current assets

In EUR million	2021	2020	Comments/changes
Property, plant and equipment	8.2	9.5	The decline mainly relates to depreciation on right-of-use assets for office premises (carrying amounts: EUR 5.6 million in 2020 as against EUR 4.3 million in 2021).
Intangible assets	30.0	27.1	Including R&D projects in 2021: EUR 8.2 million; 2020: EUR 7.1 million Software customisation (new business support system) 2021: EUR 3.9 million; 2020: EUR 1.4 million
Investments in associates	0.6	0.0	The equity investment in Meetecho S.r.l. is included here for the first time from 2021.
Other non-financial assets	0.2	0.3	
Deferred tax assets	2.4	1.1	The increase in deferred tax assets relates to the recognition of deferred tax assets on tax loss carryforwards at DTS.
Non-current assets	41.4	37.9	
Trade receivables	10.9	10.0	The growth in the customer base is accompanied by a rise in amounts billed and currently due from customers. There was also a delay in receipts from a major customer. These have since been received.
Other financial and non-financial assets	3.4	2.8	
Cash funds	27.7	23.0	Cash funds rose mainly as a result of a capital increase. Among other things, these funds were used to repay the acquisition loan of EUR 9 million.
Current assets	42.1	35.8	

The development of the asset situation is in line with the expectations of the Management Board.

Equity

A capital increase was implemented with pre-emption rights disapplying in the reporting period, whereby the share capital of the company was increased by EUR 1.5 million by the issue of 1,505,555 new shares. The placement price was EUR 17.50 per share, with the result that the Group

received cash funds of EUR 26.3 million in total. The difference between the placement price and the par value per new share of EUR 548 thousand was recognised, after the deduction of transaction costs, at a total amount of EUR 24,293 thousand in capital reserves. The capital increase was entered in the commercial register on 29 March 2021.

Employee stock options increased capital reserves by EUR 380 thousand. The currency translation reserve rose by EUR 386 thousand. Offsetting this, equity was affected by the negative consolidated result of EUR 8,911 thousand.

Non-current and current liabilities

In EUR million	2021	2020	Comments/changes
Non-current financial liabilities	3.3	4.6	The decline – in line with the drop in property, plant and equipment – relates to liabilities for the use of office space recognised in lease accounting.
Other non-current liabilities	0.2	0.2	
Deferred tax liabilities	1.3	0.8	The increase is mainly related to R&D projects recognised at NFON AG and the deferred tax liabilities based on them.
Non-current liabilities	4.9	5.6	
Trade payables	6.1	4.9	Increase relates to growth in business activities
Current provisions and income tax liabilities	2.6	2.4	
Current financial liabilities	1.7	10.7	Decline due to the payment of the acquisition credit facility in the amount of EUR 9 million.
Other liabilities	5.0	4.6	
Current liabilities	15.4	22.6	

Overall assessment of the economic situation

The fundamental trend towards the digitalisation of business communication is continuing undiminished, though the European economy continues to be marked by uncertainty. The economic situation of the NFON Group reflects the consistently tough economic situation throughout Europe overall, which slowed the development in countries such as Spain or France and also impacted NFON's partner business in the UK. Supply shortages and the ongoing COVID pandemic were the most significant hurdles to the growth plans of NFON's customers. NFON has a clearly defined growth strategy. The future lies in the markets for unified

communications & collaboration and contact centre products. Recurring revenue, which accounts for 89.5% of total revenue, is a clear indicator of the business model's stability. At 14.4%, their growth again outpaced that of total consolidated revenue in 2021 (12.3%). This stability guarantees the ongoing positive performance of the NFON Group. The NFON Group's success is built on the sustainable base of seats operated by customers. This was expanded again with a growth rate of 11.9%, even though this fell slightly short of original expectations. 2021 was no easy year for NFON. Nonetheless, the company achieved its most recent targets in a consistently challenging market environment. The ongoing development and expansion of the product and solutions portfolio on the one hand and the network of partners across

the whole of Europe on the other will be crucially important for the development of the seat base and thus the NFON Group's recurring revenue. The business foundations for this have been laid in 2021. Thanks to the funding already available and the additional liquidity generated by a capital increase in March, a secure financial situation has been created providing the basis for further investment in organic growth. In light of this, the Management Board believes that NFON AG is well on its way to becoming a leading provider of voice-centric business communication in Europe.

Supplementary report

On 24 February 2022, the Russian army commenced acts of war on Ukraine that have continued undiminished since then. Even now, there are signs that the Russian attack could slow the recovery of the world economy from the effects of the coronavirus crisis. Despite Russia's relatively minor economic output, the international economy is dependent on Russia. The Western states have responded with massive economic sanctions. Russia's total isolation also leads to economic effects in the rest of the world. The extent of this harm is unknown at this time. For Germany, the ifo Institute is forecasting a growth rate of between 2.2% and 3.1% after originally 3.7%, with an inflation rate estimated at between 5.1% and 6.1% after the originally anticipated 3.3%.

In the euro area as well, the effects of the war in Ukraine will have a negative impact on the economy. In particular, economic activity will be hindered by high energy prices, driving down domestic spending power. While Russia and Ukraine are only immaterial sales markets for many countries, economic activity will likely also be impaired by the disruption to supply chains, reduced trade and the greatly elevated uncertainty. Precise statements on how this will unfold and the resulting effects on economic performance are not possible at this time.

Risks and opportunities

Risk and opportunity management system

In line with the needs of the shareholders, the workforce and other stakeholders in the company, the Supervisory Board and the Management Board strive to ensure the future of the company as a going concern and its long-term value added. To detect and counteract risks early on, NFON introduced a risk management system (RMS) and began fundamentally revising this in fiscal 2021.

The objectives of the RMS are derived from the risk culture, corporate strategy and business goals and formulated into a risk strategy. This comprises the following components in particular:

1. Risk policy
2. Internal capital adequacy

The purpose of risk policy is to analyse and shape the company's risk situation in a focused and planned manner with a view to achieving the company's business goals. The risk policy determines who in the company performs risk management and to what end, and which means and methods can be used for this. Corporate strategy and the associated business goals form the framework for the activities and procedures of the company's risk policy. The risk policy and the company's business

goals inherently exist within a trade-off of profitability, liquidity and risk. This is resolved by internal capital adequacy. Risks must be entered into – appropriately and controllably – in order to achieve a certain profitability while preserving liquidity. Therefore, there must always be procedures to monitor and manage risks.

NFON is a growing company. The goal of the company's strategy is to become the leading provider for voice-centric business communication in Europe. Key risk policy issues are therefore the assessment of growth opportunities, the development of products and solutions in the field of voice-centric business communication, networking within Europe and the associated financing requirements of the growth course. In order for the NFON Group to optimise its operations, it is essential to carefully weigh growth, earnings and risk in terms of possible entrepreneurial courses of action.

NFON's goal is to deliberately enter into risks only when the associated opportunities can make an appropriate contribution to enterprise value at the same time, and any potential going concern risk can be ruled out with a probability bordering on certainty. Thus, the risk management system predominantly monitors risks to the financial position and competitive capability. Risks in relation to the achievement of planning or forecasts are the subject of the procedures described only where they overlap with the primary objectives.

The risk management manual contains detailed descriptions of the procedures for risk identification, risk assessment and risk control.

On the basis of the risks identified and assessed, the risk owners make decisions on suitable procedures for ensuring the future of the company as a going concern, e.g. risk avoidance, risk reduction, risk sharing or risk transfer. Risk management decisions are defined for significant individual risks and are transparently explained, documented and monitored by the risk owners.

This is done in an iterative process by:

- formulating and selecting risk response options;
- planning and implementing risk response;
- assessing the effectiveness of this response;
- deciding whether the residual risk is acceptable;
- if it is not acceptable, proceeding with a different response.

In conjunction with the risk inventory performed at least once per year, risk management is reviewed by the Risk Committee and the Management Board.

Owing to the overhaul of the risk management system, matters were coordinated directly with the members of the extended Management Board in 2021, hence no meetings of the Risk Committee were convened in 2021. The preparation of the risk inventory ensures that similar or cumulative risks are grouped together and thus considered holistically.

The risk management system plans regular training for all responsible employees to ensure a uniform structured process for risk tracking and assessment. The Management Board receives a report once per year in a structured process. The Supervisory Board performs its review duties accordingly.

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

Risk assessment

The identified risks are classified into strategic, operational, financial and compliance risks that could have a significant impact on the financial position and competitive capability. The assessment is based on gross and net risks. Gross risks constitute risks which exist if no measures have been implemented to address the risk. Net risks are risks which exist after measures have been taken and therefore constitute the residual risk.

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

Loss amount (old)

Loss amount	Interpretation	Effect on the liquidity of the NFON Group
5 – Catastrophic	Existence-threatening loss potential	> EUR 10,000,000
4 – Significant	Significant loss potential	> EUR 5,000,000
3 – Medium	Medium loss potential	> EUR 1,250,000
2 – Low	Low loss potential	> EUR 100,000
1 – Very low	Insignificant loss potential	<= EUR 100,000

Loss amount (new)

Category	Description	Effect on the liquidity of the NFON Group
5 Very high	Existence-threatening loss potential	> EUR 2,000,000
4 High	Significant loss potential	> EUR 1,000,000
3 Medium	Medium loss potential	> EUR 500,000
2 Low	Low loss potential	> EUR 250,000
1 Very low	Insignificant loss potential	> EUR 50,000

Probability of occurrence (old)

Category	Description (qualitative)	Probability of occurrence (quantitative)	
5	Almost certain	80 to 99%	Monthly
4	Highly probable	60 to 79%	Annual
3	Probable	40 to 59%	Every 1 to 2 years on average
2	Improbable	20 to 39%	Every 3 to 5 years on average
1	Highly improbable	0 to 19%	No more than every 5 years on average

Probability of occurrence (new)

Category	Description	Probability of occurrence
5	Almost certain risks are anticipated in every fiscal year.	$75\% < x < 100\%$
4	Probable risks occur every one to two years.	$50\% < x \leq 75\%$
3	Possible risks that occur every 4 to 2 years.	$25\% < x \leq 50\%$
2	Improbable risks that occur every 4 to 20 years.	$5\% < x \leq 25\%$
1	Extreme risks or remote risks that occur less frequently than every 20 years.	$0\% < x \leq 5\%$

The individual risks are divided into five classes based on the combination of the potential loss amount and the estimated probability of occurrence: serious impact, significant impact, moderate impact, insignificant impact and no impact.

Risks with a very high loss volume of more than EUR 2 million and a probability of occurrence of at least "possible" are classified as having a serious impact. Risks with a high or medium loss amount are also assigned to this category as the probability of occurrence increases. As the probability of occurrence and loss volume decrease, the risks are assigned to the lower categories accordingly.

Interdependence of risks

Risks do not always exist independently of other events. For instance, the occurrence of a risk can cause another risk. The interdependence of risks was reviewed by the Management Board for the 2021 risk inventory. No interdependencies were identified.

Internal capital adequacy

Internal capital adequacy is highly significant in risk analysis.

As referred to by IDW Assurance Standard 340 (new version), internal capital adequacy describes the maximum amount of risk that the company can withstand without jeopardising going concern.

Risk matrix

Loss amount (Liquidity)	> EUR 2 million very high	5	10	15	20	25
	> EUR 1 million high	4	8	12	16	20
	> EUR 500,000 medium	3	6	9	12	15
	> EUR 250,000 low	2	4	6	8	10
	> EUR 50,000 very low	1	2	3	4	5
		0% < x ≤ 5% rarely	5% < x ≤ 25% unlikely	25% < x ≤ 50% possible	50% < x ≤ 75% likely	75% < x < 100% almost certain

- serious endanger
- considerably influence
- medium influence
- not significantly influence
- not significantly influence
- no influence

It is determined by comparing the total risk, which is aggregated by calculating the expectancy value or, moving forward, a Monte Carlo simulation, and the financial funds available to cover risks, referred to as the risk-bearing capacity. The risk-bearing capacity is the business capacity of the financial position and financial performance that can be utilised to cushion the effects in the event of risks occurring.

A situation that poses a going concern risk to the company could arise if the ratio of risk-bearing capacity to total risk is insufficient in the event of multiple risks occurring simultaneously. In analysing internal capital adequacy, the Management Board must weigh the ratio of risk-bearing capacity to total risk. From a business perspective, it makes no sense to maintain too much risk-bearing capacity relative to total risk, as this could potentially hinder the investment that is vital to the company's ongoing development. By being aware of the internal capital adequacy, the Management Board can therefore make mindful and far-reaching business decisions, thereby safeguarding the business success and the existence of the company.

The Management Board did not identify any going concern risks (red category) for fiscal 2021.

Net risks of the NFON Group

For fiscal 2021, NFON identified 14 active risks in total in conjunction with the risk management system described above and added them to the risk inventory. The risk assessment was performed as at the end of the reporting period. Two of these risks are classified as being capable of significantly influencing the company's ability to continue as a going concern. Eight of the other risks can influence the forecast published by the company.

Net risks with a possible impact on forecasting

If they were to occur, the risks described below could have a negative impact on the forecast published by the company for the development of the seat base, recurring revenue or recurring revenue as a percentage of total revenue. The period under review is the twelve months following the inventory. The risk inventory was completed in December 2021.

Strategic risks

Competitive situation among the peer group

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

With their product portfolio of various communications and collaboration applications and services for online meetings and team collaboration, the competitors already offer functionalities that are increasingly sought after by customers. A stronger market presence, essentially by securing or acquiring partners coupled with an aggressive marketing strategy, could lead to a possible loss of partners and customers for NFON. NFON is countering this risk with a new partner and marketing strategy and the accelerated launch of new products and solutions.

The risk has been revised since the previous year: medium loss amount of > EUR 500,000, probability of occurrence unlikely, moderate impact overall, not significant.

Operating risks

Loss of major partners or wholesale partners

NFON distributes its products and solutions through indirect channels. There is generally no cluster risk. Nevertheless, some partners or wholesale partners are more successful than others. There is the risk that one or more of these partners exits its contract with NFON and migrates its customers to other products. NFON is countering this risk with two new partner programmes and close partner management. If this risk materialises, it could lead to losses in the seat base and thus in revenue.

The risk was included for the first time: high loss amount of > EUR 1 million, probability of occurrence remote, moderate impact overall, not significant.

General procurement difficulties

Owing to the general shortage of raw materials, the temporary blockage of the Suez Canal and the economic repercussions of the COVID pandemic, it is not possible to supply products according to market demand. This is resulting in general supply shortages that also affected NFON in the procurement of telephones or headsets. This can delay the implementation of contracts. NFON became aware of this risk for the first time in the past year and it could also affect business performance for the next twelve months.

The risk was assessed as having a low loss amount of > EUR 250,000, a likely probability of occurrence and therefore a moderate impact overall, but not significant.

Price risk

The general supply difficulties are causing price increases for suppliers: Customers may be unwilling to pay the higher prices and therefore switch to other providers, stick with the products they are already using or demand lower prices. This development can have a negative impact on revenue and seat growth.

The risk was included for the first time and assessed as having a very low loss amount of > EUR 50,000 and an unlikely probability of occurrence, and is therefore rated as having no significant impact overall.

Failure of the telephony system

It is possible that the telephony systems of NFON's customers could be rendered inoperative by cyberattacks or technical problems. In a worst-case scenario, this can harm the company's reputation and thus lead to an increase in contract terminations. NFON counters this risk with a number of safeguards. The possibility of occurrence nonetheless remains.

The risk was included for the first time and assessed as having a medium loss amount of > EUR 500,000 and a remote probability of occurrence, and is therefore rated as having no significant impact overall.

Misdirected development

On a highly fragmented market that is undergoing disruptive change, it is important not only to offer high-quality products and solutions, but also to match them perfectly to customer and market requirements. If time is spent developing a product or a solution that proves unmarketable when launched, this could lead to risk to the development of the seat base and thus revenue. NFON counters this risk with dedicated product management, a development process that is clearly focused on customer requirements and corresponding product marketing.

The risk has been revised and reassessed since previous reports: medium loss amount of > EUR 500,000, probability of occurrence possible, moderate impact overall, not significant. The risk was previously described as "Rate of development and provision of new functionalities (product and service portfolio)" and therefore also included the rate of development. This has been removed as a risk. Instead of "provision", NFON now regards misdirected development as a risk. The assessment of the risk in its original form assumes a probability of occurrence of 5 (almost certain, monthly) and a potential loss amount of 3 (medium loss potential, > EUR 1.25 million), which corresponded to risk class A (the risk could seriously affect the company's liquidity situation/development).

Business support system

A business support system (BSS) is an IT system that supports the business processes of a telephone company. NFON is introducing a new business support system. If the system cannot be launched on schedule or with the planned quality, there is the risk that products cannot be sold as processing is prevented or processes do not function without error. NFON is introducing the new system gradually with the assistance of suitable experts. Existing systems can thus continue to operate while the new system is being introduced.

The risk was included for the first time: medium loss amount of > EUR 500,000, probability of occurrence possible, moderate impact overall, not significant.

Shortage of specialists

As before, the availability on the labour market of the qualified employees sought after is limited. Filling R&D vacancies in particular is a risk factor. To attract the ideal employees to NFON, further initiatives were developed and implemented above and beyond the conventional recruitment measures in 2019. The new development location in Portugal paid off in particular in this context. Also, M&A activities includes seeking out companies, such as software agencies that may be open to working with the NFON Group (acqui-hire).

The risk has been revised since the previous year: medium loss amount of > EUR 500,000, probability of occurrence possible, moderate impact overall, but not significant.

Net risks that can significantly influence the company

Operating risks

Data protection breach

Data protection is an essential right of NFON's employees and its customers alike. NFON has corresponding guidelines and internal data protection officers to ensure compliance with the statutory regulations. Nonetheless, breaches can occur in isolated cases, e.g. non-erasure of data, cookie banners or data processing with no legal basis. Data protection breaches are also possible as a result of cyberattacks. If a risk occurs, this can lead to a loss of reputation or the cancellation of ongoing contracts and therefore seat and revenue losses.

The risk was included in the risk inventory for the first time: very high loss amount of > EUR 2 million, probability of occurrence unlikely, significant impact overall.

Cost explosion

As disruptive innovation continues, the speed of development is accelerating as well. NFON counters this trend by using agile development processes. Although agile methods can significantly increase the speed of development, this approach

is not designed to define the exact number of person-days required in advance. Furthermore, even in an agile development environment, there is the risk of determining all the technical difficulties that could potentially arise in advance. In this context, it can occur that the development of planned products and functionalities is only achieved with a far higher number of person-days or hours than planned. This can result in expenses exceeding projections.

The risk was included in the risk inventory for the first time: high loss amount of > EUR 1 million, probability of occurrence possible, significant impact overall.

Overall assessment of the NFON Group's risk situation

Comparison of the risks shown for 2021 and the risks shown for 2020 that can influence forecasting.

Risks	Loss amount	Probability of occurrence	Risk class	Change 2020/2021
Net risks that can influence the company's forecasting				
Strategic risks				
Competitive situation among the peer group	Medium ¹ , > EUR 500,000 (previously 3)	Unlikely, 5% > x ≤ 25% (previously 4)	Moderate impact, not significant	Reduced
Operating risks				
Loss of major partners or wholesale partners	High ¹ , > EUR 1 million	Remote, 0% > x ≤ 5%	Moderate impact, not significant	Included for first time
General procurement risks	Low ¹ , > EUR 250,000	Likely, 50% > x ≤ 75%	Moderate impact, not significant	Included for first time
Price risk	Very low ¹ , > EUR 50,000	Unlikely, 5% > x ≤ 25%	No significant impact	Included for first time
Failure of the telephony system	Medium ¹ , > EUR 500,000	Remote, 0% > x ≤ 5%	No significant impact	Included for first time
Misdirected development (previously rate of development and provision of new functionalities (product and service portfolio))	Medium ¹ , > EUR 500,000 (previously 3)	Unlikely, 5% > x ≤ 25% (previously 5)	Moderate impact, not significant	Modified
Business support system	Medium ¹ , > EUR 500,000	Possible, 25% > x ≤ 50%	Moderate impact, not significant	Included for first time
Shortage of specialists (previously filling vacant posts (general))	Medium ¹ , > EUR 500,000 (previously 3)	Possible, 25% > x ≤ 50% (previously 4)	Moderate impact, not significant	Reduced
Net risks that can significantly influence the company				
Operating risks				
Data protection breach	Very high ² , > EUR 2 million	Unlikely, 5% > x ≤ 25%	Significant impact	Included for first time
Cost explosion	High ² , > EUR 1 million	Possible, 25% > x ≤ 50%	Significant impact	Included for first time

1 Quantified in relation to the liquidity situation for internal purposes. For the risks presented, the liquidity risk is the potential loss amount in relation to forecast revenue

2 Quantified in relation to the liquidity situation. There is no direct impact on the forecast revenue.

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

The economic repercussions described in the supplementary report and the associated uncertainty stemming from Russia's war against Ukraine can have a negative impact on the economic development of the NFON Group. In particular, general economic activity will be hindered by high energy prices, driving down domestic spending power. While Russia and Ukraine are not sales markets for NFON, NFON could also be affected by the disruption to supply chains, reduced trade and the greatly elevated uncertainty among NFON customers. Above all, purchase decisions could be delayed or suspended on account of higher product prices. This risk could especially counteract the planned development in new customer acquisition. At the time of preparing this report, it was not possible to make meaningful statements on the development of the warfare in Ukraine or the general impact of economic sanctions and economic developments in the euro area, or to meaningfully assess the risk to the business performance of the NFON Group on this basis.

Opportunities of the NFON Group

The NFON Group determines its opportunities qualitatively. Opportunities have therefore not been quantified or compiled in an opportunities matrix for management purposes. The assessment of opportunities was performed as at the end of the reporting period. The assessed forecast horizon covers the year (twelve months) following the inventory. The inventory was completed in December 2021.

The objective behind the NFON Group's growth strategy is to become the leading provider of cloud-based, voice-centric business communications in Europe. Awareness of cloud communications was on the rise even before COVID, though the level of acceptance in the different countries of Europe varied considerably. Now, not only has the acceptance of cloud-based services increased, but the use of the cloud has increased significantly as well. Cloud solutions are increasingly penetrating the IT infrastructure³⁸. According to KPMG, roughly half of companies on average want to run their productive applications from the cloud by 2025. And managers are no longer mostly considering whether or not they should use cloud services, but rather how they can and will do so. Those in charge are especially considering office/collaboration applications, ERP applications and CRM applications, and are planning how to use them in their own companies³⁹. Set against this market trend, NFON is well positioned to leverage the additional growth potential in line with its refined growth strategy and to expand UCaaS and CCaaS products.

Market opportunities

Cloud telephony

The NFON Group is now represented in 15 European countries. On a highly fragmented European market for cloud telephony, it therefore has a unique selling proposition⁴⁰ that highlights the NFON Group's strong position on the European market for cloud telephony. For this reason, both the trend in the number of seats and market consolidation are key growth factors for NFON. The advances in digital transformation are opening up corresponding growth opportunities for NFON, which it will exploit in fiscal 2022 as well and that will help the NFON Group to secure its leading position in Europe in the next few years.

Integrated business communication with UCaaS and CCaaS

The market for cloud telephony is in flux. Business telephony, unified communications & collaboration and business applications are increasingly converging. They are combining to form integrated business communication. UCaaS and CCaaS solutions are the future. Accordingly, in fiscal 2021, NFON added video telephony and screen sharing functionalities to its Cloudya telephony platform (Meet & Share), and will offer video conferencing as an integral function of Cloudya from fiscal 2022. Furthermore, the partnership between the Czech contact centre provider Daktele and NFON has opened up the possibility for joining the pan-European market for cloud contact centre products, particularly for small and mid-sized enterprises. NFON is now able to acquire contact centre customers throughout Europe in addition to cloud telephony system customers.

³⁸ KPMG Cloud Monitor 2021. Die Goldenen Zwanziger für die Cloud? In cooperation with Bitkom research, p. 3

³⁹ KPMG Cloud Monitor 2021. Die Goldenen Zwanziger für die Cloud? In cooperation with Bitkom research, p. 16

⁴⁰ Unaudited information

Opportunities as an employer

For many companies, the search for qualified employees has become a critical success factor. Despite all the challenges that NFON faced in the past fiscal year, the company considers this factor to be a major opportunity in the rapidly changing market for cloud communication. The brand essence defined for NFON also applies to NFON's employees: the key issue is freedom of business communication.

By creating attractive employment conditions and the opportunity to work throughout Europe, NFON is already seen as an attractive employer today. An entrepreneurial attitude, team result and respect are the values that NFON practices. This enables the NFON Group to distinguish itself internationally from its competitors⁴¹ and to recruit those specialists who will significantly advance the company's development in terms of product and market strategy⁴².

Furthermore, NFON is continuing its successful new efforts in recruitment. In addition to conventional measures and the use of HR consultants and in-house IT recruiters, a new development location was opened in Portugal and, as expected, is doing very well. NFON also anticipates major opportunities to gain qualified employees through company acquisitions (acquire).

Sales opportunities

The growth opportunities of the NFON Group are largely dependent on the successful growth of its partner network. The NFON Group had a network of more than 3,000 partners in 2021. The existing partner programmes of the NFON Group were internally reviewed and entirely overhauled in 2021. Two partner programmes – NGAGE and Gemeinsam stark ("Strong Together") – were developed to attract new partners on the one hand and to boost the activation of existing partners on the other. Furthermore, opportunities also arise through activities relating to market consolidation to expand the partner network with networks that are already established and thus to grow faster. Increased penetration of the market is possible by expanding the partner network. These activities will make NFON the leading channel provider in Europe.

Overall assessment of the opportunities situation

NFON believes that its risks and opportunities are balanced overall.

Internal control system (accounting process)

The accounting-related internal control system (ICS) is an integral component of the company-wide control and risk management system. The objective of the ICS in the accounting process is to implement controls to provide reasonable assurance that the financial statements and the combined management report will be prepared in accordance with the applicable regulations.

The NFON Group's ICS is based on organisational safeguards such as the separation of functions and integrated controls, e.g. access restrictions in the area of IT or payment guidelines, as these reduce the probability of errors. The ICS is also predominantly based on downstream detective controls, particularly in the context of monthly controlling.

The key features of the internal control system with regard to the accounting process can be described as follows

NFON AG prepares the consolidated financial statements and the combined management report of the NFON Group as its parent company. This process is preceded by financial reporting for the Group companies included in the consolidated

⁴¹ Unaudited information

⁴² Unaudited information

financial statements. All processes are monitored by management using a rigorous internal control system that ensures both the compliance of accounting and adherence to the relevant legal regulations.

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. Significant regulations and instruments in the preparation of the consolidated financial statements and the combined management report include:

- accounting guidelines at Group level;
- clearly defined separation of duties and the assignment of responsibilities between the departments involved in the accounting process;
- consultation with external experts, where necessary, to calculate share-base payment transactions or purchase price allocation;
- using suitable IT finance systems and applying detailed permission concepts;
- system-based controls and other process controls for accounting in the companies;
- consolidation within the consolidated financial statements at Group and company level;;
- consideration of risks tracked and assessed in the risk management system in the annual financial statements, provided this is necessary in accordance with existing accounting regulations.

The management of the Group companies in the various countries is responsible for implementing these regulations and using these instruments. The consolidated financial statements and the combined management report are the responsibility of the member of the Management Board of NFON AG in charge of finance. This member of the Management Board is aided in this by the Chief Financial Officer, who is responsible for the consolidated financial statements. By employing qualified and specialist staff, through targeted and regular training and adherence to the principle of dual control, the NFON Group ensures strict compliance with local and international accounting standards in its annual and consolidated financial statements and the combined management report.

All separate financial statements of significant Group companies that are included in Group consolidation are audited by a statutory auditor. With subsidiary companies required to report their business figures to NFON AG on a monthly basis in a standard reporting format, differences between targets and results can be recognised promptly throughout the year and reacted to quickly.

Forecast

The planning and all the commentary below are based on the information available as at 06 April 2022. As a result of the NFON Group's risks and opportunities as presented, deviations can occur between the planning data and the figures actually achieved at the end of the year. Deviations are also possible as a result of the assumptions regarding general economic conditions.

It is not possible to conclusively quantify the effects of Russia's war against Ukraine in the forecast at this time. The same is true for the ongoing effects of the COVID crisis, which is still dominating the economic landscape. Generally, and this was proven over the past year, the cloud telephony business model has a certain robustness to market fluctuations thanks to the high share of recurring revenue. Nonetheless, NFON could essentially also be affected by general investment restraint on the part of companies due to the uncertainty triggered by the economic sanctions adopted, rising inflation and the lower forecasts for economic growth or possible supply shortages. Overall, this situation could lead to NFON gaining fewer new seats with a corresponding effect on revenue growth.

Despite these short-term scenarios, NFON feels it is well positioned for a highly positive performance in the medium term. By expanding its solutions for cloud telephony to include unified communications & collaboration services (Meet&Share) and adding contact centre solutions to its product portfolio, NFON is becoming a fully-fledged provider for integrated business communication. NFON intends to exploit the very high speed with which the markets for business telephony, unified communications & collaborations and business applications are converging. The following aspects are key:

- the change in business communication towards the increased use of digital UC solutions and services, e.g. collaboration tools (UCaaS);
- the introduction of digital technologies that affect multiple business processes and create the need to integrate various digital solutions on one platform;
- businesses' growing need for scalable digital services to be as flexible as necessary and the need to only post expenses that are actually incurred.

The following assumption also apply to NFON's forecast:

- the forecast takes no further company acquisitions into account.

The forecasts of the NFON Group for fiscal 2022 are based on the expectations and assumptions for general economic development and the specific industry developments in the countries relevant to NFON. Detailed information can be found in the "General economic conditions and industry environment" section.

Expected general economic conditions and industry environment

Even now, there are signs that Russia's attack on Ukraine could slow the recovery of the world economy from the effects of the coronavirus crisis. The extent of this harm is unknown at this time. For Germany, the ifo Institute is forecasting a growth rate of between 2.2% and 3.1% for 2022 after originally 3.7%, with an inflation rate estimated at between 5.1% and 6.1% after the originally anticipated 3.3%.

In the euro area as well, the effects of the war in Ukraine will have a negative impact on the economy. In particular, economic activity will be hindered by high energy prices, driving down domestic spending power. While Russia and Ukraine are only immaterial sales markets for many countries, economic activity will likely also be impaired by the disruption to supply chains, reduced trade and the greatly elevated uncertainty. Precise statements on how this will unfold and the resulting effects on economic performance in Europe are not possible at this time.

Despite the current macroeconomic developments, the generally positive assessment of conditions in the sector still holds true: The market for business communication is undergoing historic disruption. NFON AG intends to benefit from this structural shift towards cloud-based products and solutions. Against the backdrop of this transition, NFON feels it is especially well positioned in the area of voice-centric business communication. NFON anticipates that material developments are still to come in the field of cloud telephony systems in the coming year. According to analyst estimates, this market will grow by an average of 11% over a period of five years (2021 to 2025)⁴³. Nonetheless, NFON believes that its future lies in the markets for unified communications & collaboration and contact centre products. The detailed presentation of market developments can be found in the sections on "General market characteristics" and "General economic conditions and industry environment". The new market for integrated business communication is increasingly of interest for NFON.

43 Source: MZA: "The Global Telecommunications Market 2020" and the company's own calculations. The growth rate refers to the development in seats installed with customers.

Expected business performance of the NFON Group

Following NFON's investment restraint due to COVID in fiscal 2020 in particular, significantly more was invested in HR and marketing again in the past year (2021). The effects of the measures implemented in 2021, such as the expansion of development capacity or the introduction of new partner programmes, will be felt over the course of 2022. Thanks to the new partner programmes "NGAGE" and "Gemeinsam stark" ('Strong Together') in combination with increased marketing activities (rebranding or the adjustment of the product portfolio), existing partners will be activated and new ones will be secured. On this basis, initially setting aside the possible impact of the war in Ukraine, NFON is forecasting a clearly positive development in the new seats contracted and activated. The NFON Group's long-term success is built on the sustainable base of seats operated by customers. The ongoing development and expansion of the product and solutions portfolio on the one hand and the network of partners across the whole of Europe on the other will be crucially important for the development of the seat base and thus the NFON Group's recurring revenue. This development will also be supported by the product extensions from last year (2021) on the one hand and the launch of new ones in 2022 on the other:

- Ongoing expansion and improvement of cloud telephony with further UC functionalities
- Launch of the Contact Center Hub
- New desktop apps with better system integration and therefore further improvements in user experience

Forecast development in key performance indicators

In terms of the ongoing warfare in Ukraine initiated and perpetuated by Russia, and the repercussions for the global economy this has caused, with all the uncertainty in quantifying the actual impact, NFON anticipates ongoing investment restraint on the part of companies, and is therefore planning seat growth of between 10% and 12% in 2022. The development of recurring revenue will be slowed by various effects in 2022: Firstly, the ongoing investment restraint by NFON's customers on account of the pandemic and the lower than originally anticipated development in seats in the past fiscal year (2021). Secondly, NFON assumes owing to the major uncertainty stemming from the war, that projects with companies could also be postponed or cancelled. Despite these challenges, NFON is forecasting growth in recurring revenue of between 10% and 12% in 2022. Overall, the company expects recurring revenue to account for at least 88% of total revenue, which is below the 2021 level of around 90%.

Overall assessment of forecast development

The future lies in integrated business communication. In line with the clearly defined growth strategy of the NFON Group with the clear goal of becoming the leading provider for voice-centric business communication in Europe, the measures introduced in 2021 will come into play over the course of 2022. On top of this, NFON will also take further action to implement its growth strategy in 2022 as well. With the cloud communications market in Europe expected to expand rapidly and assuming that general economic developments stabilise, NFON feels it is well positioned to continue its dynamic revenue growth with possible additional stimulus from further M&A activities in the years ahead.

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

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

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

Restrictions relating to voting rights or the transfer of shares

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

Direct or indirect shareholdings exceeding 10% of voting rights

There were the following direct and indirect shareholdings exceeding 10% of voting rights as at 31 December 2021:

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

Voting rights notifications published by NFON AG are available online at:

<https://corporate.nfon.com/de/news/ir-news>.

Shares with special rights

NFON AG has not issued any shares with special rights.

Voting controls for employee participation

There are no voting controls.

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

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

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

The Management Board's authorisation to issue shares is regulated in Article 4 of the Articles of Association in conjunction with the statutory provisions. The Management Board had the following authorisations to issue shares as at 31 December 2021:

Authorised capital

Authorised Capital 2019 was created by the extraordinary general meeting on 12 December 2019 in the amount of EUR 3,000,000, EUR 1,505,555 of which had been utilised. Thus, the remaining EUR 1,494,445 of Authorised Capital 2019 in accordance with Article 4(3) of the Articles of Association did not come close to exhausting the amount

of authorised capital provided for by law. In order to grant the company greater flexibility in its financing, the remaining Authorised Capital 2019 was cancelled and a new Authorised Capital 2021 was created with the option for the moderate disapplication of subscription rights.

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

Contingent Capital I

Following the partial utilisation of the Management Board's authorisation of 09 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 08 April 2023 on the basis of the authorising resolution of 09 April 2018 exercise their subscription rights to shares of the company

and the company does not grant treasury shares or cash settlement in fulfilment of these rights. The new shares in the company arising as a result of these subscription rights being exercised participate in profits from the beginning of the fiscal year in which they are issued. The Management Board was authorised, with the approval of the Supervisory Board, to determine the further details of the contingent capital increase.

Contingent Capital 2021

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

The share capital of the company was contingently increased by up to EUR 947,883 by issuing up to 947,883 new no-par value bearer shares (Contingent Capital 2021). Contingent Capital 2021 is intended to serve subscription rights from

stock options issued on the basis of the authorisation of the Annual General Meeting of the company on 24 June 2021 in the period from 24 June 2021 to 23 June 2026. The contingent capital increase will only be carried out to the extent that stock options are issued and the bearers of these exercise their subscription rights to shares of the company and the company does not grant treasury shares or cash settlement in fulfilment of these rights. Shares will be issued under Contingent Capital 2021 at the exercise price set under the above authorisation of the Annual General Meeting of 24 June 2021. The new shares participate in profits from the beginning of the fiscal year in which they are issued. The Management Board is authorised, with the approval of the Supervisory Board, to determine the further details of the contingent capital increase.

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

No significant agreements of the parent company subject to a change of control in the event of a takeover bid have been entered into with subsidiaries. Corresponding agreements have been made in the contracts with the members of the Management Board. Accordingly, the company and the member of the Management Board have a one-time right to cancel the employment contract with notice of two months to the end of a month and to dismiss the member of the Management Board as at the same date. This special right of termination only exists for one month from the date at which a change of control that has actually occurred

becomes known. The special right of termination on the part of the company is thus dependent on the knowledge of the Chairman or the Supervisory Board, while the special right of termination on the part of the member of the Management Board is dependent on that member's knowledge. A change of control requires at least 50.1% of the share capital to be consolidated under the control of a single shareholder. In such event, the member of the Management Board receives severance pay of two fixed annual salaries, limited to the total remuneration owed for the remaining term including fringe benefits.

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

Stock option plan

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

Group corporate governance declaration

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

NFON AG (HGB)

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

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

Results of operations

Income statement of NFON AG (HGB) (condensed)

In EUR million	2021	2020
Sales	48.1	44.4
Other operating income	0.3	0.7
Cost of materials	6.6	6.5
Personnel expenses	20.8	19.5
Depreciation and amortisation	1.1	0.8
Other operating expenses	37.2	26.7
Net interest income	-0.1	-0.3
Income taxes	0.0	0.0
Profit/loss after taxes	-17.4	-8.7
Other taxes	0.0	0.0
Net profit/loss for the year	-17.4	-8.7

Sales

The number of seats rose by 12.4% from 321,532 to 361,534 million. An increase matching that of the previous year (16.4%), as was forecast, was therefore not achieved.

The share of recurring revenue in total external sales (90.6%) was higher than the expected figure (85%), though the increase (11.8%) was slightly lower than expected (14%, as in the previous year). Among other things, this is due to the fact that the originally forecast rise in seats was not achieved.

Not including transfer pricing income or credit notes, sales amounted to EUR 43.3 million in fiscal 2021 and EUR 39.6 million in fiscal 2020.

After adjustment for this income from transfer pricing, revenue increased by around 9.3% year-on-year in 2021 as a result of the larger customer base (recurring revenue) and other services (non-recurring revenue).

External sales comprise recurring income of EUR 39.1 million and non-recurring income of EUR 4.2 million. Please refer to the comments above.

Other operating income

The decline in other operating income relates to the reduction in the reversal of provisions and the fact that the investment subsidies recognised in 2021 were significantly lower.

Cost of materials

The cost of materials rose by just 1.5% despite the expansion of business activities. This was as a result of a decline in low-margin hardware sales as a share of the product portfolio as a whole, thus driving down a disproportionately large cost item.

Personnel expenses

The increase in personnel expenses of 6.4% is due in particular to the ongoing strategic recruitment drive. This also resulted in an increase in contributions and pension expenses.

Depreciation and amortisation

Investments consisted of replacement investment and expansion investment in data centre capacity. Depreciation increased as a result. No impairment was recognised.

Other operating expenses

In addition to the higher business volume, the increase in other operating expenses in 2021 was heavily influenced by the savings measures implemented in 2020 in conjunction with the COVID-19 pandemic. The costs rose from EUR 26.7 million in the previous year to EUR 37.2 million in 2021.

Marketing expenses in particular climbed from EUR 3.7 million (2020) to EUR 5.3 million.

There was a further significant increase in the intercompany personnel expenses recognised under consulting costs in accordance with HGB. These expenses relate to personnel who are employed by subsidiaries but work for NFON AG. This is in line with the plan for a larger workforce in the NFON Group overall. The associated expenses rose from EUR 0.4 million to EUR 2.1 million.

In IT, there was again a massive amount of investment in the launch of new software tools. The associated costs rose from EUR 1.3 million in 2020 to EUR 2.8 million in 2021.

A material effect in other operating expenses is due to higher expenses as against 2020 for the profit transfer by subsidiaries in conjunction with the application of the transactional net margin method (2021: EUR 11.6 million; 2020: EUR 9.9 million). The expansion of the national subsidiaries affected this in particular.

Net interest income

NFON AG paid interest on a loan for the acquisition of DTS. This was repaid at the start of the year, with the result that interest expenses were lower in 2021 than in 2020.

Income taxes

No income taxes were incurred in 2021 or 2020 as earnings before taxes are still negative.

Other taxes

Only minor vehicle taxes are paid here.

Net loss for the year

The higher net loss for the year is essentially as a result of the acceleration in recruitment (both at NFON AG itself and for employees who work for it indirectly through subsidiaries) and higher marketing costs with the aim of further expanding the market share and the increase in other operating expenses in conjunction with the larger business volume. As described above, the latter two factors were reduced in 2020 as a result of the COVID-19 pandemic.

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

Financial position

The cash flow from operating activities is largely influenced by the net loss for the year of EUR 17.4 million. Please refer to the comments on the results of operations.

Investing activities in the reporting year essentially include the cash outflows for the expansion of data centre capacity. Furthermore, shares were acquired in Meetecho S.r.l. in the amount of EUR 0.6 million.

There was a capital increase of EUR 26.3 million to finance the company. An acquisition loan of EUR 9.0 million was repaid in this context. Further net lending of EUR 4.0 million relates to the financing of subsidiaries.

Overall, cash and cash equivalents increased by EUR 2.2 million year-on-year to EUR 23.3 million. NFON AG was able to meet its payment obligations at all times.

Assets and liabilities

Balance sheet of NFON AG (HGB) (condensed)

In EUR million	2021	2020
Fixed assets	39.2	37.1
Current assets	30.8	26.6
Prepaid expenses	1.5	1.1
Assets	71.4	64.8
Equity	52.3	43.0
Provisions	3.6	2.5
Liabilities	15.4	18.9
Deferred income	0.2	0.4
Liabilities	71.4	64.8

Fixed assets

The growth in fixed assets is mainly as a result of the increase in lending to affiliated companies of EUR 1.7 million and the acquisition of shares in Meetecho S.R.L in the amount of EUR 0.6 million.

Amortisation of intangible assets and depreciation of property, plant and equipment amounted to EUR 1.1 million in 2021.

Current assets

The rise in current assets is mainly based on the year-on-year increase of EUR 2.2 million in bank balances and the growth in trade receivables of EUR 1.8 million. Besides the higher business volume, this was on account of a delay in receipts from a major customer. These have since been received.

Equity

Equity was increased by a capital increase in the amount of EUR 26.3 million and employee stock options issued in the amount of EUR 0.4 million. This increase was reduced by the net loss for the year of EUR 17.4 million.

Provisions

The rise in provisions of EUR 1.0 million is essentially due to the higher provisions for outstanding incoming invoices.

Liabilities

The decline in liabilities mainly relates to the repayment of the acquisition credit facility arranged in 2019 at EUR 9.0 million. Trade payables fell from EUR 3.1 million as at 31 December 2020 to EUR 2.7 million as at 31 December 2021. By contrast, liabilities to affiliated companies rose by EUR 5.6 million to EUR 11.3 million as at 31 December 2021. The latter is due to transfer pricing with subsidiaries for tax reasons (transactional net margin method).

Deferred income

The deferred income recognised as at 31 December 2021 is for income relating to subsequent periods and is due to invoices issued to a distribution partner.

Overall assessment of the economic situation

2021 was a successful year overall for NFON AG. The company continued its growth trajectory, invested the funds generated by the IPO in 2018 and the capital increase in 2021 in organic growth as planned, and increased both its revenue and gross profit. The originally forecast targets for seat growth and the related recurring revenue were not quite achieved, though their share of total external revenue increased.

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. Owing to the revised system of transfer pricing, NFON AG is exposed to the risk of having to financially bear potential start-up losses of the subsidiaries. The risks and opportunities are described in the report on risks and opportunities within the Group management report.

Outlook

In view of NFON AG's links with the Group companies, please refer to the statements in the forecast report of the Group management report, which also reflect the expectations for the parent company in particular. Specifically, NFON AG is forecasting a slight year-on-year acceleration in the growth rate of recurring external revenue in fiscal 2022, and that the share of recurring external revenue within total external revenue will remain unchanged. Seats operated by customers are expected to grow on a like-for-like basis, as in 2021. The company advises readers that deviations can occur between the planning data and the figures actually achieved at the end of the year.

Munich, 31 March 2022

Dr Klaus von Rottkay
CEO

Jan-Peter Koopmann
CTO

CONSOLIDATED FINANCIAL STATEMENT

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Consolidated income statement and consolidated statement of comprehensive income

for the period from 01 January to 31 December 2021

In EUR thousand	Note	2021	2020
Revenue	18	75,893	67,602
Changes in inventories of finished goods and work in progress		0	19
Other operating income	19	561	958
Cost of materials		-14,453	-14,024
Personnel expenses	20	-31,703	-28,495
Depreciation, amortisation and impairments	4/5/6	-6,940	-4,150
Other operating expenses	21	-32,310	-23,584
Impairment losses on trade and other receivables	12	1	-137
Other tax expense		-18	-16
Income from continuing operations before net interest income and income taxes		-8,970	-1,828
Interest and similar income		5	14
Interest and similar expenses		-275	-510
Net interest income		-270	-496
Income from associates		18	0
Earnings before income taxes		-9,222	-2,324
Income taxes	22	-436	-135
Deferred tax income	22	748	222
Consolidated net loss		-8,911	-2,237

In EUR thousand	Note	2021	2020
Attributable to:			
Shareholders of the parent company		-8,911	-2,237
Non-controlling interests		0	0
Other comprehensive income (will be reclassified to profit or loss)		386	-272
Taxes on other comprehensive income (will be reclassified to profit or loss)		0	0
Other comprehensive income after taxes		386	-272
Total comprehensive income		-8,525	-2,509
Attributable to:			
Shareholders of the parent company		-8,525	-2,509
Non-controlling interests		0	0
Net loss per share, basic (in EUR)	23	-0.55	-0.15
Net loss per share, diluted (in EUR)	23	-0.54	-0.15

Consolidated statement of financial position

as at 31 December 2021

In EUR thousand	Note	31.12.2021	31.12.2020
Non-current assets			
Property, plant and equipment and IFRS 16 right-of-use assets	4/5	8,166	9,482
Intangible assets	6	29,999	27,079
Investments in associates		643	0
Deferred tax assets	8	2,381	1,079
Other non-financial assets	11	197	283
Total non-current assets		41,385	37,924
Current assets			
Inventories	9	155	149
Trade receivables	10	10,900	9,973
Other financial assets	10	390	390
Current other non-financial assets	11	3,007	2,290
Cash and cash equivalents	12	27,670	23,034
Total current assets		42,122	35,837
Total assets		83,507	73,761

In EUR thousand	Note	31.12.2021	31.12.2020
Equity			
Subscribed capital	13	16,561	15,056
Capital reserves	13	108,600	83,926
Loss carryforward		-62,822	-53,911
Currency translation reserve		892	506
Total equity		63,231	45,577
Non-current liabilities			
Non-current financial liabilities		3,327	4,577
Other non-current liabilities	11	217	186
Deferred tax liabilities	8	1,333	802
Total non-current liabilities		4,877	5,565
Current liabilities			
Trade payables	12	6,083	4,931
Current provisions	15	2,172	2,262
Current income tax liabilities	11	452	137
Current financial liabilities	16	1,694	10,690
Other non-financial liabilities	11	4,998	4,600
Total current liabilities		15,398	22,619
Total equity and liabilities		83,507	73,761

Consolidated statement of cash flows

for the period from 01 January to 31 December 2021

In EUR thousand	Note	2021	2020
1. Cash flow from operating activities			
Profit/loss after taxes		-8,911	-2,237
Adjustments to reconcile profit (loss) to cash provided			
Income taxes	22	-311	-85
Interest income (expenses), net		270	496
Amortisation of intangible assets and depreciation of property, plant and equipment	4/5/6	6,940	4,150
Impairment losses on trade and other receivables		-1	137
Equity-settled share-based payment transactions	14	381	940
Other non-cash income and expenses		-31	47
Changes in:			
Inventories		-6	59
Trade and other receivables		-1,556	-2,672
Trade payables and other liabilities		1,471	1,018
Provisions		-90	76
Income from associates		-18	0
Interest paid		-164	-384
Income taxes received/paid, net		-117	-125
Effects of changes in foreign exchange rates		386	-272
Cash flow from operating activities		-1,756	1,149

In EUR thousand	Note	2021	2020
2. Cash flow from investing activities			
Proceeds from the disposal of property, plant and equipment and intangible assets	4	42	62
Payments for investments in property, plant and equipment	4	-1,203	-1,557
Payments for investments in intangible assets	6	-6,693	-6,043
Payments for the acquisition of shares in Meetecho (previous year: Onwerk acquisition)		-625	-150
Cash flow from investing activities		-8,479	-7,688
3. Cash flow from financing activities			
Proceeds from the capital increase performed in the reporting year	13	25,799	0
Repayments of loans and similar liabilities	16	-8,967	-5,141
Payments in connection with leases		-2,007	-1,668
Cash flow from financing activities		14,825	-6,809
Change in cash and cash equivalents		4,590	-13,348
Effects of changes in exchange rates on cash held		46	-37
Cash and cash equivalents at the beginning of the period		23,034	36,419
Cash and cash equivalents at the end of the period		27,670	23,034

Cash and cash equivalents at the end of the period include bank deposits of EUR 316 thousand as at 31 December 2021 (31 December 2020: EUR 323 thousand) that cannot be repaid to the Group without restrictions due to collateral provided by customers with poor credit ratings. All restrictions on such deposits are of a short-term nature.

Statement of changes in equity

as at 31 December 2021

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

Statement of changes in equity

as at 31 December 2020

In EUR thousand	Attributable to owners of the company				Non-controlling interests	Total
	Issued capital	Capital reserves	Currency conversion reserve	Loss carryforward	Total equity	
As at 01.01.2020	15,056	82,987	777	-51,674	47,146	0
Total comprehensive income for the period						
Loss (income) for the period	0	0	0	-2,237	-2,237	0
Other comprehensive income for the period	0	0	-272	0	-272	0
Total comprehensive income for the period	0	0	-272	-2,237	-2,509	0
Transactions with owners of the company						
Equity-settled share-based payment transactions	0	939	0	0	939	0
Total transactions with owners of the company	0	939	0	0	939	0
As at 31.12.2020	15,056	83,926	506	-53,911	45,577	0

NOTES

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1. Accounting principles

Company overview

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

The company has its registered office at Machtlfinger Strasse 7, 81379 Munich, and is entered in the commercial register of the Munich Local Court under HRB 168022. The company is a stock corporation according to German law and is registered in Germany. The business headquarters are in Munich.

The consolidated financial statements for the fiscal year as at 31 December 2021 were approved for publication by Management Board resolution on 31 March 2022.

Consolidated financial statements

The consolidated financial statements and notes present the operations of NFON AG (the "company") and its subsidiaries (together referred to as "NFON" or the "Group"). The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS)

as published by the International Accounting Standard Board (IASB) and endorsed by the European Union (EU), taking into account the interpretations of the International Financial Reporting Interpretations Committee (IFRIC) and the accounting rules of section 315e(1) of the Handelsgesetzbuch (HGB – German Commercial Code).

Currency

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

Miscellaneous

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

Comparative information

The consolidated financial statements include amounts as at and for the periods ended 31 December 2021 compared to 31 December 2020.

2. Significant accounting policies

A. Basis of preparation

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

The fiscal year is the calendar year.

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

NFON applied the following standards and amendments to existing standards for the first time in the reporting period beginning 01 January 2021:

- COVID-19-Related Rent Concessions (Amendments to IFRS 16), effective from 01 June 2020
- Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16), effective from 01 January 2021

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

C. New standards not yet applied

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

- COVID-19-Related Rent Concessions beyond 30 June 2021 (Amendments to IFRS 16), effective from 1 April 2021
- Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37), effective from 01 January 2022
- Annual Improvements to IFRSs 2018–2020 Cycle, effective from 01 January 2022
- Property, Plant and Equipment – Proceeds before intended Use (Amendments to IAS 16), effective from 01 January 2022
- References to the Conceptual Framework (Amendments to IFRS 3), effective from 01 January 2022
- Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12), effective from 01 January 2023
- Classification of Liabilities as Current or Non-current (Amendments to IAS 1), effective from 01 January 2023
- IFRS 17 Insurance Contracts and Amendments to IFRS 17 Insurance Contracts, effective from 01 January 2023

- Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2), effective from 01 January 2023
- Definition of Accounting Estimates (Amendments to IAS 8), effective from 01 January 2023
- Amendments to IFRS 10 and IAS 28 “Sale or Contribution of Assets between an Investor and its Associate or Joint Venture”, effective date not yet set

NFOR 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 still pending, the amendments have not yet been endorsed by the EU.

D. Basis of consolidation

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

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

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

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

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

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

Profit or loss and each component of other comprehensive income (OCI) are attributed to the shareholders of the parent of the NFOR Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their

accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income and expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

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

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

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

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

The composition of the consolidated group is 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.z.oo, Warsaw, Poland (wholly owned subsidiary of NFON AG).

NFON Polska Sp.z.oo, Warsaw, Poland, was founded in the reporting year with share capital of PLN 5,000.

Effective 23 June 2021, NFON AG acquired an interest of 24.9% in Meetecho S.r.l., Naples, Italy (Meetecho) for a purchase price of EUR 625 thousand. Meetecho focuses on the development and marketing of real-time multimedia applications, in particular in the area of WebRTC technology. Meetecho is included in the consolidated financial statements of the NFON Group as an associate using the equity method as at 31 June 2021, as the transaction granted NFON significant influence over the company.

E. Property, plant and equipment

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

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

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

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

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

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

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

F. Intangible assets

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

1. Goodwill

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

2. Customer base from business combinations

The customer base from business combinations has a finite useful life. It is measured at fair value and amortised on a straight-line basis over an estimated useful life of 20 years. It is tested for possible impairment if there are indications that its net realisable value could have decreased.

3. Capitalised development projects

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

- a clear allocation of expenses is possible;
- both the technical feasibility and the marketing of the newly developed products are ensured;
- the development activities are sufficiently likely to result in future cash inflows;
- NFON intends and is able to complete and use the development project; and
- adequate technical, financial and other resources are available to complete the development and be able to use and sell the asset.

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

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

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

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

Research and development expenses amounted to EUR 8,596 thousand in the reporting year (2020: EUR 5,493 thousand), EUR 4,169 thousand of which (2020: EUR 3,911 thousand) was capitalised as intangible assets. In addition, development expenses for internally developed software were capitalized in the amount of EUR 2,478 thousand (2020: EUR 1,242 thousand).

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

G. Impairment testing

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

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

H. Inventories

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

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

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

I. Financial instruments

Financial instruments are accounted for in accordance with IFRS 9.

1. Recognition and initial measurement of financial assets

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

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

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

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

2. Classification and subsequent measurement of financial assets

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

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

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

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

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

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

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

Business model assessment

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

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

The cash flow criterion is assessed in conjunction with classification. The classification then determines the measurement category. For the purposes of the assessment, "principal" is defined as the fair value of the financial asset on initial recognition. "Interest" is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding over a

particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), plus an appropriate profit margin.

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

Financial assets: Subsequent measurement and gains and losses

Financial assets at FVTPL	These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss.
Financial assets at 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 (ECL) on financial assets measured at amortised cost through profit or loss. Impairment losses for trade receivables and contract assets are always measured at an amount equal to lifetime ECL.

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

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

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

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

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive).

Credit-impaired financial assets

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

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

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

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

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

6. Depreciation

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

7. Finance income and costs

The Group's finance income and finance costs include:

- interest income; and
- interest expense.

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

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

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

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

J. Fair value measurement

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

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

The best evidence of the fair value of a financial instrument on initial recognition is typically the transaction price – i.e. the fair value of the consideration given or received. If the Group determines that the fair value on initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a

valuation technique for which any unobservable inputs are judged to be insignificant in relation to the measurement, the financial instrument is initially measured at the fair value, adjusted to defer the difference between the fair value on initial recognition and the transaction price. This difference is then recognised in profit or loss over the term of the instrument.

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

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

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

K. Government grants

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

L. Foreign currency conversion

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

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

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

Foreign currency conversion differences are recognised in profit or loss.

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

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

The following exchange rates have been used for the respective consolidated financial statements:

	Spot rates		Average rates	
	31.12.2021	31.12.2020	2021	2020
GBP	1.1901	1.1123	1.1630	1.1252
PLN	0.2175	n/a	0.2187	n/a

M. Equity

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

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

N. Share-based payments

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

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

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

O. Provisions

A provision is recognised when there is a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and that obligation can be measured reliably. If the effect of the time value of money is material, provisions are discounted using a discount rate that reflects current market assessments and the risks specific to the obligation. The corresponding interest effect 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.

P. Leases

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

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

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

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

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

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

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

The lease liability is measured at its amortised carry amount using the effective interest method. It is remeasured if the future lease payments change as a result of an index or (interest) rate change, if the Group adjusts its estimate for the expected payments under a residual value guarantee, if the Group changes its assessment regarding the exercise of a purchase, extension or termination option, or if a de-facto fixed lease payment changes.

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

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

Q. Revenue

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

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

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

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

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

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

1. Recurring revenue

Recurring revenue is generated when customers pay for monthly telephone services under a per seat model to use NFON's cloud technology. The amount of monthly license 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 license fees deviate marginally in different countries. All tariffs across segments and regions offer customers the advantage that all platform, maintenance and feature upgrades are included in the monthly license fee and updates are available automatically for every user once released, without the need for additional on-site service. Customers can pay NFON for voice telephony usage

(i.e. airtime) either on the basis of a flat rate for airtime or on a per minute-based charging model. Customer contracts can also include both: a monthly flat rate and monthly variable per-minute airtime services.

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

2. Non-recurring revenue

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

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

The Group combines two or more contracts when the contracts are entered into at or near the same time with the same customer or related parties of the customer, contracts are entered with a single performance objective where the amount of consideration of one contract is dependent on the price or performance of the other contract and the

goods or services promised in the contracts are single performance obligations. Total consideration in the contract is allocated to all the products and services based on the relative standalone selling prices of each performance obligation.

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

3. Month-to-month contracts

For month-to-month contracts, revenue is recognised over time in the month when it is collected. 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 and the customer cannot choose to not purchase e.g. activation activities without significantly affecting the monthly telephone services (service not possible without activated port). Additionally, the customer cannot choose to contract with different parties for the activation activities on the one hand and the monthly telephone services on the other hand. Therefore, NFON concludes that non-recurring services such as activation or porting are not a separate performance obligation. The consideration received for services which do not qualify as a performance obligation is allocated to the performance obligations over the life of the contract.

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

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

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

the statement of financial position under other non-financial assets when a customer has paid consideration prior to the entity fulfilling its performance obligation by transferring the related good or service to the customer.

5. Incremental costs of obtaining a contract

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

R. Income taxes

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

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

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

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

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

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

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

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

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

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

S. Earnings per share

1. Basic earnings per share

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

2. Diluted earnings per share

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

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

T. Segment reporting

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

3. Summary of estimates, judgements and assumptions

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

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

A. Share-based payment (IFRS 2)

The Group measures the costs of granting equity instruments and share appreciation rights to employees at the fair value of these equity instruments and share appreciation rights as at the grant date or the end of the reporting period. To estimate the fair value, a suitable measurement method must be specified for the granting of equity instruments and share appreciation rights; this is dependent on the grant conditions. It is also necessary to determine the expected option term, volatility and dividend yield as well as beneficiary turnover and other assumptions. Further details can be found in note 14 – Share-based payment.

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

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

C. Development costs

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

D. Current and deferred taxes

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

Also, the Group has tax loss carryforwards of various legal entities in different tax jurisdictions that could result in lower tax payments in future years. Deferred tax assets have been recognised to the extent that their recovery is probable, taking into account the projected future taxable income of the related entity. In the reporting year, deferred tax

assets were recognised on the tax loss carryforwards at DTS and NFON Iberia in the amount of EUR 3,528 thousand and EUR 150 thousand respectively as it is assumed as at 31 December 2021 that these two companies will have corresponding tax loss carryforwards that can be offset against taxable income in the coming years. Deferred tax assets on tax loss carryforwards were recognised for the first time at NFON Iberia in the reporting year. 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	01.01.2021	Additions	Disposals	31.12.2021
Cost				
Leasehold improvements	339	22	0	361
Operating and office equipment	7,313	1,181	43	8,452
Total cost 2021	7,653	1,203	43	8,813

In EUR thousand	01.01.2020	Additions	Disposals	31.12.2020
Cost				
Leasehold improvements	215	125	0	339
Operating and office equipment	5,942	1,432	60	7,313
Total cost 2020	6,157	1,557	60	7,653

B. Reconciliation of cumulative depreciation and carrying amount

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

In EUR thousand	01.01.2020	Depreciation	Disposals	31.12.2020
Depreciation				
Leasehold improvements	20	60	0	80
Operating and office equipment	3,273	951	0	4,224
Total depreciation 2020	3,293	1,010	0	4,304

Carrying amounts

In EUR thousand	31.12.2021	31.12.2020
Carrying amount		
Leasehold improvements	253	260
Operating and office equipment	2,979	3,089
Total carrying amount	3,232	3,349

The Group did not recognise any impairment on property, plant and equipment for the years ended 31 December 2021 and 2020. 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	01.01.2021	Additions	Disposals	31.12.2021
Gross carrying amount				
Right-of-use assets from leases for buildings	8,104	166	0	8,270
Right-of-use assets from leases for vehicles	1,105	389	155	1,339
Office equipment	0	90	0	90
Total right-of-use assets from leases in 2021	9,209	645	155	9,699

In EUR thousand	01.01.2020	Additions	Disposals	31.12.2020
Gross carrying amount				
Right-of-use assets from leases for buildings	5,405	2,697	2	8,104
Right-of-use assets from leases for vehicles	727	376	2	1,105
Total right-of-use assets from leases in 2020	6,132	3,073	4	9,209

B. Reconciliation of cumulative depreciation and carrying amount

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

In EUR thousand	01.01.2020	Depreciation	Disposals	31.12.2020
Depreciation				
Right-of-use assets from leases for buildings	1,147	1,364	0	2,511
Right-of-use assets from leases for vehicles	241	323	0	564
Total depreciation 2020	1,388	1,687	0	3,075

In EUR thousand	31.12.2021	31.12.2020
Carrying amount		
Right-of-use assets from leases for buildings	4,294	5,592
Right-of-use assets from leases for vehicles	567	541
Office equipment	72	0
Total carrying amount	4,933	6,133

Due to a modification to an existing lease, right-of-use assets with a residual carrying amount of EUR 623 thousand were disposed of in the reporting year. At the same time, there was an addition of EUR 693 thousand for the same asset.

6. Intangible assets

A. Reconciliation of gross carrying amount

Intangible assets developed as follows:

In EUR thousand	01.01.2021	Additions	Reclassification	Disposals	31.12.2021
Gross carrying amount					
Software	2.943	39	53	0	3.035
Internally generated software (in progress)	1.373	2.478	0	0	3.851
Capitalised R&D costs	5.836	538	1.072	0	7.445
Capitalised R&D costs in development	1.698	3.653	-1.072	33	4.246
Customer base	5.013	0	0	0	5.013
Goodwill	12.534	0	0	0	12.534
Other intangible assets	85	97	-53	5	124
Total intangible assets in 2021	29.483	6.804	0	39	36.248

In EUR thousand	01.01.2020	Additions	Reclassification	Disposals	31.12.2020
Gross carrying amount					
Software	2.213	702	29	1	2.943
Internally generated software (in progress)	132	1.242	0	0	1.373
Capitalised R&D costs	578	0	5.259	1	5.836
Capitalised R&D costs in development	3.046	3.911	-5.259	0	1.698
Customer base	5.013	0	0	0	5.013
Goodwill	12.384	150	0	0	12.534
Other intangible assets	24	90	-29	0	85
Total intangible assets in 2020	23.390	6.095	0	2	29.483

B. Reconciliation of cumulative amortisation and carrying amount

Cumulative amortisation is as follows:

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

In EUR thousand	01.01.2020	Depreciation	Impairment	Disposals	31.12.2020
Amortisation of intangible assets					
Software	677	814	0	0	1,491
Internally generated software (in progress)	0	0	0	0	0
Capitalised R&D costs	57	385	0	0	442
Capitalised R&D costs in development	0	0	0	0	0
Customer base	209	250	0	0	459
Goodwill	0	0	0	0	0
Other intangible assets	8	2	0	0	10
Total amortisation of intangible assets 2020	951	1,452	0	0	2,403

In EUR thousand	31.12.2021	31.12.2020
Carrying amount		
Software	1,076	1,450
Internally generated software (in progress)	3,851	1,373
Capitalised R&D costs	3,990	5,392
Capitalised R&D costs in development	4,245	1,700
Customer base	4,303	4,553
Goodwill	12,534	12,534
Other intangible assets	0	77
Total carrying amount	29,999	27,079

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 2021 (31 December 2020: EUR 12.5 million), for which an annual impairment test must be performed. No impairment losses were recognised in fiscal 2021 or the previous year.

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

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

The recoverable amount for DTS is calculated based on the value in use of the cash-generating unit. The cash flows used are the expected cash flows for the next five years based on the approved budget. The approved budget is based partially on past experience and partially on management forecasts for future business performance. The average CAGR in the detailed planning phase (five years) is 15%. The perpetual annuity assumes growth in revenue in the amount of the basic

interest rate of 0.1% (2020: –0.2%) and an EBIT margin of 24%. In the previous year, the expected cash flows for the next three years were based on the approved budget, followed by a seven-year convergence phase preceding perpetual annuity. The discount rate used reflects the specific risks of the assets measured. It is calculated in line with the capital asset pricing model (CAPM), under which the equity costs are composed of the risk-free interest rate and a risk premium calculated as the difference between the average market return and the risk-free interest rate multiplied by the risk specific to the company (beta factor). The beta factor is derived from a group of comparable companies. A discount rate of 6.79% (6.69% for perpetual annuity) was used in 2021 (2020: 7.61% or 7.81% for perpetual annuity).

D. Acquired customer base

The recognised customer base of EUR 4,303 thousand (31 December 2020: EUR 4,553 thousand) results from the acquisition of DTS as at 1 March 2019. Due to the low willingness to move that has been observed, the customer base will be amortised over 20 years in line with the expected duration of the customer relationships. Amortisation in the reporting year amounted to EUR 251 thousand (2020: EUR 251 thousand).

E. Capitalised development projects

Due to externally triggered technical circumstances, the originally planned useful life of a development project completed at the end of 2020 of 24 months was corrected to eight months, hence the project was written off in full in the second quarter of the reporting year. No impairment was required as a result of its inclusion in the cash-generating unit. The total development costs capitalised for this project amounted to EUR 1,645 thousand as at 31 December 2020.

Impairment losses of EUR 101 thousand (previous year: EUR 0 thousand) 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 in the detailed planning period is 18% and the EBIT margin in perpetual annuity 14%. 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 R&D costs in development. After the feature is

completed, the corresponding development costs are assigned to the development project to which the new feature relates.

7. Investments in associates

Investments in associates include the unrecognised gains and losses as at the acquisition date recognised in the reporting year (EUR –8 thousand) and the pro rata result of the investment for fiscal 2021 (EUR 26 thousand). No dividend was distributed.

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

In EUR thousand	2021
Current assets	511
Non-current assets	6
Current liabilities	281
Non-current liabilities	0
Revenue	644
Net income	104
Other comprehensive income	0
Total comprehensive income	104

8. Changes in deferred taxes

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

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

A. Deferred tax assets/liabilities

in EUR	Fiscal year ended 31 December 2021			
	Deferred tax assets	Deferred tax liabilities	Changes in the current fiscal year	Thereof in profit or loss
Assets				
Non-current assets				
Property, plant and equipment	0	1,480	284	284
Intangible assets	5	5,297	-1,142	-1,142
Current assets				
Trade receivables	59	0	13	13
Other current assets	0	2	4	4
Liabilities				
Non-current liabilities				
Non-current financial liabilities	996	0	-342	-342
Current liabilities				
Current provisions	2	2	-2	-2
Current financial liabilities	481	7	10	10
Other current liabilities	65	0	-1	-1
Consolidation effects	55	0	37	37
Sub-total of temporary differences	1,663	6,789	-1,137	-1,137
Tax loss carryforward	6,174	0	1,885	1,885
Sub-total of temporary differences	7,837	6,789	748	748
Netting	-5,457	-5,457	0	0
Total temporary differences	2,380	1,333	748	748

Fiscal year ended 31 December 2020				
in EUR	Deferred tax assets	Deferred tax liabilities	Changes in the current fiscal year	Thereof in profit or loss
Assets				
Non-current assets				
Property, plant and equipment	14	1,780	-344	-344
Intangible assets	0	4,150	-1,512	-1,512
Current assets				
Trade receivables	46	0	62	62
Other current assets	0	6	26	26
Equity				
Capital reserves	0	0	-105	-105
Liabilities				
Non-current liabilities				
Non-current financial liabilities	1,338	0	331	331
Current liabilities				
Trade payables	0	0	-36	-36
Current provisions	1	0	0	0
Current financial liabilities	464	0	95	95
Other current liabilities	66	0	-52	-52
Consolidation effects	0	5	-31	-31
Sub-total temporary differences	1,929	5,941	-1,566	-1,566
Tax loss carryforward	4,289	0	1,127	1,127
Sub-total temporary differences	6,218	5,941	-439	-439
Netting	-5,139	-5,139	0	0
Sub-total temporary differences after netting	1,079	802	-439	-439
Impairment	0	0	665	665
Reversal of an impairment	0	0	-23	-23
Impairment in the previous year	0	0	19	19
Total temporary differences	1,079	802	222	222

B. Tax loss carryforward

No deferred tax assets are reported for trade tax loss carryforwards of EUR 61,644 thousand (31 December 2020: EUR 53,059 thousand) or for corporate income tax loss carryforwards of EUR 62,846 thousand (31 December 2020: EUR 54,921 thousand). EUR 14,201 thousand of the trade tax loss carryforwards relates to the reporting year and EUR 47,443 thousand to earlier periods. EUR 14,464 thousand of the corporation tax loss carryforwards relates to the reporting year and EUR 48,382 thousand to earlier periods. The trade tax and corporation tax loss carryforwards for which no deferred tax assets were reported are 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%.

9. Inventories

Inventories amounted to EUR 155 thousand as at 31 December 2021 (31 December 2020: EUR 149 thousand). Inventories essentially comprise hardware, e.g. telephones. The Group typically has low levels of hardware on hand as hardware is shipped by suppliers just-in-time when requested by NFON based on customer orders. No material reserves for obsolete inventory were required in the periods presented.

The cost of materials includes expenses of EUR 3,816 thousand (2020: EUR 4,336 thousand) for the procurement of hardware.

10. Trade receivables and other financial assets

Expenses resulting from bad debt losses and specific valuation allowances amounted to EUR 51 thousand in the reporting year (previous year: EUR 170 thousand). The expenses in the previous year were higher than the long-term average for previous years due to two major customer insolvencies.

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

Other financial assets amounted to EUR 390 thousand as at 31 December 2021 (31 December 2020: EUR 390 thousand). The item contains restricted cash due to the rights of recourse of banks for direct debits from customers.

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

Other non-financial assets were as follows as at 31 December 2021 and 2020:

In EUR thousand	Fiscal year ended 31 December	
	2021	2020
Other current assets		
Contract assets	122	165
Capitalised contract costs	0	18
Tax receivables	431	290
Other prepaid expenses	1,819	1,467
Other non-financial assets	635	350
Subtotal other current assets	3,007	2,290
Other non-current assets		
Prepayments	193	117
Other	14	166
Subtotal other non-current assets	197	283
Other assets	3,204	2,573

Other non-financial liabilities were as follows as at 31 December 2021 and 2020:

In EUR thousand	Fiscal year ended 31 December	
	2021	2020
Other current (non-financial) liabilities		
Tax payables	1,076	1,068
Liabilities to employees	2,158	1,865
Other non-financial liabilities	1,763	1,666
Subtotal other current (non-financial) liabilities	4,998	4,600
Other non-current liabilities		
Other	217	186
Subtotal other non-current (non-financial) liabilities	217	186
Other (non-financial) liabilities	5,215	4,785

Other non-current liabilities include contract liabilities of EUR 305 thousand (31 December 2020: EUR 599 thousand).

The current income tax liabilities of EUR 452 thousand recognised as at 31 December 2021 (31 December 2020: EUR 137 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.

31.12.2021	Amortised cost		Fair value			
in TEUR	Carrying amount	Total carrying amount	Level 1	Level 2	Level 3	Total
Financial assets not measured at fair value						
Trade receivables ¹	10,900	10,900	–	–	–	–
Other financial assets ¹	390	390	–	–	–	–
Cash and cash equivalents ¹	27,670	27,670	–	–	–	–
Total financial assets not measured at fair value	38,960	38,960	–	–	–	–
Financial liabilities not measured at fair value						
Trade payables ¹	6,083	6,083	–	–	–	–
Other financial liabilities ¹	6	6	–	–	–	–
Lease liabilities ¹	5,015	5,015	–	–	–	–
Total financial liabilities not measured at fair value	11,104	11,104	–	–	–	–

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

31.12.2020	Amortised cost		Fair value			
In EUR thousand	Carrying amount	Total carrying amount	Level 1	Level 2	Level 3	Total
Financial assets not measured at fair value						
Trade receivables ¹	9,973	9,973	–	–	–	–
Other financial assets ¹	390	390	–	–	–	–
Cash and cash equivalents ¹	23,034	23,034	–	–	–	–
Total financial assets not measured at fair value	33,398	33,398	–	–	–	–
Financial liabilities not measured at fair value						
Acquisition loan	8,967	8,967	–	–	–	–
Warrant bond	0	0	–	–	–	–
Working capital loan ¹	0	0	–	–	–	–
Trade payables ¹	4,931	4,931	–	–	–	–
Other financial liabilities ¹	4	4	–	–	–	–
Lease liabilities	6,296	6,296	–	–	–	–
Total financial liabilities not measured at fair value	20,197	20,197	–	–	–	–

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

The Group did not recognise any significant net gains or net losses from financial assets or liabilities in its statement of comprehensive income. In the reporting year, as in the previous year, the

financial result did not include any interest expense calculated using the effective interest method in connection with financial liabilities not measured at cost.

Trade receivables

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

Trade payables

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

Cash and cash equivalents

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

Defaults

The Group did not report any defaults on payments of principal or interest, or other breaches on loans and borrowings in fiscal 2021 or fiscal 2020.

B. Financial risk management

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

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

Risk management framework

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

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

General financial market risks

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

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

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

1. Credit risk

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

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

Specific valuation allowances for financial assets and contract assets recognised in profit or loss were as follows:

In EUR thousand	2021	2020
Impairment losses on trade and other receivables		
Impairment loss on trade and other receivables (including contract assets)	51	170
Impairment loss on cash and cash equivalents ¹	0	0
Impairment losses on trade and other receivables	51	170

1 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:

In EUR thousand	Fiscal year ended 31 December	
	2021	2020
Countries		
Germany	8,801	8,078
United Kingdom	1,056	1,149
Austria and rest of Europe	1,043	747
Total maximum credit risk exposure	10,900	9,973

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

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

Assessment of expected credit loss for customers as at 31 December 2021 and 2020

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

- information on current conditions; and
- reasonable and reliable forecasts of future economic conditions, including the anticipated macro-economic environment.

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

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

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

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

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

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

The following table shows the credit risk and ECLs for trade receivables and contract assets from individual customers as at 31 December 2020:

	Gross carrying amount in EUR thousand	Loss rate in %	Impairment in EUR thousand
Germany			
Not past due	8,008	0.60	56
1–90 days past due	27	5.64	7
More than 90 days past due	137	13.55	28
Total trade receivables in Germany	8,173		90
United Kingdom			
Not past due	795	0.10	3
1–90 days past due	501	0.23	1
More than 90 days past due	17	4.77	1
Total trade receivables in United Kingdom	1,313		5
Other countries			
Not past due	684	11.43	87
1–90 days past due	185	41.97	39
More than 90 days past due	56	100.0	38
Total trade receivables in other countries	924		164
Grand total for receivables (not including impairment losses)	10,411		
Grand total for impairment losses			259
Contract assets	165	0.10	0

Of the total receivables portfolio, EUR 8 thousand is impaired. The impairment losses attributable to these receivables amount to EUR 0 thousand.

Impairment losses arising from ECLs (not including specific valuation allowances) on trade receivables developed as follows in fiscal 2021:

In EUR thousand	Change in	
	2021	2020
Expected credit loss on trade receivables		
Opening balance as at 01.01.	259	121
Net remeasurement	-1	138
Amounts written off	0	0
Closing balance as at 31.12.	258	259

Concentrations of credit risk

Concentrations of risks are determined by management based on amounts outstanding from individual customers as at the end of the period. As the Group operates throughout the whole of Europe and has a diversified customer structure, there are no significant concentrations of credit risk with the exception of one customer – Telefónica Germany GmbH & Co. OHG. The net receivable from this customer was EUR 2,733 thousand as at 31 December 2021 (31 December 2020: EUR 919 thousand), though receivables from fiscal 2021 were already reduced to EUR 1,422 thousand in January 2022.

Cash and cash equivalents

The Group held cash and cash equivalents of EUR 27,670 thousand as at 31 December 2021 (31 December 2020: EUR 23,034 thousand). The cash and cash equivalents are held with banks and financial institutions with an S&P Global rating of A-1 to A-2.

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

2. Liquidity risk

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

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

The Group also has an acquisition credit facility of EUR 10,000 thousand. The interest rate of 4% on utilisation as at the date the contract is signed is variable and changes in line with average monthly 3-month EURIBOR. The commitment fee is 1%. This credit facility was terminated by NFON at the beginning of 2022.

The following table presents the contractual undiscounted interest and payments for the Group's financial liabilities. The maturities are based on the contractually agreed interest rates for the financial instruments. As all the financial liabilities listed below have repayment periods of one year or less, contractual maturities are considered on an annual basis:

31.12.2021

In EUR thousand	Carrying amount	Contractual cash flows	1 year or less	1–5 years	5 years and more
Financial liabilities					
Trade payables	6,083	6,083	6,083	0	0
Lease liabilities	5,014	5,014	1,736	2,730	549
Other financial liabilities	6	6	6	0	0
Total financial liabilities	11,204	11,204	7,825	2,730	549

31.12.2020

In EUR thousand	Carrying amount	Contractual cash flows	1 year or less	1–5 years	5 years and more
Financial liabilities					
Acquisition loan	8,967	9,326	9,326	0	0
Trade payables	4,931	4,931	4,931	0	0
Lease liabilities	6,296	6,296	1,778	3,869	650
Other financial liabilities	4	4	4	0	0
Total financial liabilities	20,198	20,557	16,039	3,869	650

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 and pound sterling. 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:

In EUR thousand	Fiscal year ended 31 December	
	2021	2020
Receivables/liabilities	4,544	3,666
Bank balances	0	0
Net exposure	4,544	3,666

The following rates have been applied:

	Spot rates		Average rates	
	As at 31.12.2021	As at 31.12.2020	2021	2020
GBP	1.1901	1.1123	1.1630	1.1252

Sensitivity analysis

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

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

In EUR thousand	Profit or loss		Equity net of tax	
	Appreciation (10% decrease)	Depreciation (10% increase)	Appreciation (10% decrease)	Depreciation (10% increase)
Sensitivity analysis for net exposure				
31.12.2021	-454	454	444	-444
31.12.2020	-367	367	371	-371

The net currency exposure results from Euro payables of NFON UK where the functional currency is GBP. The items of the statement of financial position of NFON PL, whose functional currency is PLN, included in the consolidated financial statements as at 31 December 2021 are not material.

Interest rate risk

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

The Group's interest rate exposure relates to current loans, which are subject to the fixed and floating interest rate. The Group's objective is to minimise the cost of net borrowings and to minimise the impact of interest rate changes on the Group's interest expense and net earnings.

Exposure to interest rate risk

The interest rate exposure of the Group's variable interest-bearing financial instruments as reported to the Group's management is as follows:

In EUR thousand	2021	2020
Financial liabilities		
Working capital loan	0	0
Acquisition loan	0	8.967
Total financial liabilities	0	8.967

Fair value sensitivity analysis for interest-bearing financial liabilities

With regard to the acquisition loan utilised in the previous year, a change in the interest rate of 1% would have increased equity and the profit or loss in the reporting year by EUR 90 thousand (decrease) or reduced them by EUR 90 thousand (increase). The loan bears interest at an annual rate of 4% and changes if the monthly average of the 3-month EURIBOR changes.

The analysis assumes all the other variables except the interest rate remain constant (this analysis includes all the significant interest-bearing debts outstanding at the ends of the reporting periods).

All other financial liabilities have a fixed interest rate and are not subject to interest rate risk.

13. Equity

Capital increases and consolidated net profit

A capital increase was implemented with pre-emption rights disappplied in the reporting period, whereby the share capital of the company was increased by EUR 1.5 million by the issue of 1,505,555 new shares. The placement price was EUR 17.50 per share, with the result that the Group received cash funds of EUR 26.3 million in total. The difference between the placement price and the par value per new share of EUR 548 thousand was recognised, after the deduction of transaction costs, at a total amount of EUR 24,293 thousand in capital reserves. The capital increase was entered in the commercial register on 29 March 2021.

Employee stock options increased capital reserves by EUR 381 thousand. The currency translation reserve rose by EUR 386 thousand. Offsetting this, equity was affected by the negative consolidated result of EUR 8,911 thousand.

Issued capital and ordinary shares

As at 31 December 2021, NFON AG had issued 16,561,124 (31 December 2020: 15,055,569) ordinary bearer shares (no-par shares) with a nominal interest in the share capital of EUR 1.00. The issued capital amounted to EUR 16,561 thousand as at 31 December 2021 (31 December 2020: EUR 15,056 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 2021 and 2020.

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 share option programmes recognised as staff costs in the reporting period and in the previous year, plus the equity component of the warrant bond issued in 2019.

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

Authorised capital

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

- to avoid fractional shares;
- if shares are issued in return for non-cash contributions to acquire companies, investments in companies, parts of companies or other assets, including rights and receivables, and the new shares for which shareholders' pre-emption rights have been disapplied do not exceed 20% of the share capital as at 24 June 2021, at the time this authorisation becomes effective or at the time it is exercised;
- to the extent necessary, to grant pre-emption rights to new shares to bearers/creditors of convertible bonds or bonds with warrants that are or have been issued by the company or subordinate Group companies in the amount they would be owed after exercising their option/conversion rights or fulfilling the conversion obligation;
- if the capital is increased in return for cash contributions, the issue price of the new shares is not significantly lower than the stock market price at the time the issue price is finalised, and the new shares for which shareholders' pre-emption rights have been disapplied do not exceed 10% of the share capital as at 24 June 2021, at the time this authorisation becomes effective or at the time it is exercised.

Authorised Capital 2019 was cancelled by way of resolution of the Annual General Meeting on 24 June 2021.

Contingent capital

On the basis of the authorisation of the Annual General Meeting on 09 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 09 April 2018 and 08 April 2023, the share capital of NFON AG was contingently increased by up to EUR 964,015 against the issue of up to 964,015 new bearer shares (Contingent Capital II). Contingent Capital II was reduced to EUR 708,229 by way of resolution of the Annual General Meeting on 24 June 2021.

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

The Contingent Capital I created by the Annual General Meeting on 09 April 2018 was cancelled in full by way of resolution of the Annual General Meeting on 24 June 2021 and amounts to EUR 0 as at 31 December 2021 (31 December 2020: EUR 2,892,045). Contingent Capital II amounts to EUR 708,229 as at 31 December 2021 (31 December 2020: EUR 964,015). The new Contingent Capital 2021/1 created in the reporting year amounts to EUR 947,883 as at 31 December 2021.

Loss carryforward

The loss carryforward contains losses incurred in prior years and 2021.

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 2021, NFON AG received the following notifications in accordance with section 33(1) and section 38(1) of the Wertpapierhandelsgesetz (WpHG – German Securities Trading Act) and published them on the Group's website in accordance with section 40 WpHG:

Type of notification	Date of report	Date of change	Name of reporting party/ shareholder	Relevant threshold/total number of voting rights	Details of voting rights held	Share of voting rights
Section 41(2) WpHG	30.03.2021		NFON AG	16,561,124		
Section 41(1) WpHG	30.03.2021	30.03.2021	NFON AG	16,561,124		
Section 40(1) WpHG	06.07.2021		Universal-Investment- Gesellschaft mit beschränkter Haftung, Frankfurt/Main, Germany	Voluntary group notification due to a subsidiary reaching a threshold: Universal- Investmentaktien- gesellschaft mit Teilgesellschaftsvermögen 3.02%		4.83%
Section 40(1) WpHG	03.08.2021		Universal-Investment- Gesellschaft mit beschränkter Haftung, Frankfurt/Main, Germany	Universal-Investment- aktiengesellschaft mit Teilgesellschaftsvermögen 3.25%	Attributed as per section 34 WpHG	5.06%
Section 40(1) WpHG	01.09.2021		Montagu Private Equity LLP, London, UK	5%	Attributed as per section 34 WpHG	5.06%
Section 40(1) WpHG	02.09.2021		Montagu Private Equity LLP, London, UK	No longer attributed through subsidiaries following a declaration of independence in accordance with sec- tion 35 WpHG	Attributed as per section 34 WpHG	0%
Section 40(1) WpHG	03.09.2021		Morgan Stanley & Co. LLC	3%	Attributed as per section 34 WpHG	3.17%
Section 40(1) WpHG	14.10.2021		Morgan Stanley & Co. LLC	5%	Attributed as per section 34 WpHG	Share of voting rights: 4.18%; Share of instruments: 1.10%; Total number of voting rights: 5.27%
Section 40(1) WpHG	26.11.2021		Morgan Stanley	Voluntary group notification due to a subsidiary reaching a threshold	Attributed as per section 34 WpHG	Share of voting rights: 4.06%; Share of instruments: 1.10%; Total number of voting rights: 5.16%

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

A. Employee share option programme

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

The group of beneficiaries is regulated individually in each case. Following the resolution by the Annual General Meeting on 09 April 2018 (2018 stock option plan), 31% of the stock options – 298,845 pre-emption rights – were issued to group 1, 11% – 106,042 pre-emption rights in total – to group 2, 42% – 404,886 pre-emption rights in total – to group 3 and 16% – 154,242 pre-emption rights in total – to group 4.

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

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

All pre-emption rights from the above programmes have a vesting period of four years and an overall term of 10 years. Pre-emption rights from the stock options under the 2018 stock option plan can only be exercised in the event of a 20% increase in revenue as reported in the consolidated financial statements for the fiscal year in which the options are allocated, compared to the revenue as reported in the consolidated financial statements for the previous fiscal year prior to allocation. A cap in accordance with section 4.2.3. of the German Corporate Governance Code is also intended for members of the Management Board. The exercise restriction over the four-year vesting period 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).

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 6.23 (2018 stock option plan) and EUR 7.57 (2021 stock option plan) at the measurement date (previous year: EUR 5.29).

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

	2021	2020
Weighted average exercise price ¹	EUR 17.46	EUR 12.59
Weighted expected volatility	37.0%	45.0%
Term	10 years	10 years
Weighted risk-free interest rate	-0.27%	-0.52%

¹ Corresponds to the weighted average arithmetic mean of the closing prices of the company's shares in Xetra trading on the Frankfurt Stock Exchange on the last 10 trading days before the stock options were issued

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

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

An expected average turnover rate of 0% was assumed for the beneficiary members of the Management Board. The expected turnover rate for other beneficiary employees is 17.4% for the 2018 stock option plan and 20% for the 2021 stock option plan.

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	
	2021	2020	2021	2020
Options granted as at 31.12.	1,119,229	724,229	12.02	9.05
Thereof new in the reporting year	395,000	14,000	17.46	12.59
Options exercised	n/a	n/a	n/a	n/a
Options forfeited	88,000	16,000	11.42	9.49
Thereof new in the reporting year	72,000	16,000	11.85	9.49
Options expired	107,750	14,000	16.59	11.30
Thereof new in the reporting year	93,750	14,000	17.38	11.30
Outstanding options as at 31.12.	923,479	694,229	11.52	8.97
Thereof exercisable options	n/a	n/a	n/a	n/a

The average remaining contractual term of the options outstanding as at the end of the reporting period is eight years as at 31 December 2021 (31 December 2020: 9 years). The range of exercise prices of the options outstanding as at 31 December 2021 is between EUR 8.78 and EUR 19.04 (31 December 2020: between EUR 8.78 and EUR 11.04).

Expenses recognised in connection with share-based payments amounted to EUR 381 thousand in the reporting year (previous year: EUR 940 thousand). EUR 285 thousand of the expense in the previous year related to expenses that were recognised directly in the previous year due to the retirement of two members of the Management Board from the time that their retirement became known. Thus, the expense to be recognised for the vesting period remaining after the end of the previous reporting period until the first possible exercise date of the options was brought forward to 31 December 2020.

B. Cash-settled share appreciation rights issued by 31 December 2018

The Group had entered into the following cash-settled share-based payment arrangement in the fiscal year ended 31 December 2018:

A cash-settled share-based payment arrangement resulted from a programme for share appreciation rights (SAR) established on 22 February 2018 that entitles a key executive to a cash payment in the event of a sale of more than 50% of the shares in NFON or an IPO (exit) occurs before 30 September 2019. If the beneficiary was still employed at the time of the exit, they received a cash payment. If the beneficiary ended their employment before the exit or there was no exit by 30 September 2019, the claims lapsed. The cash payment was based on the sales proceeds/IPO proceeds calculated for 100% of the shares in NFON. The cash payment was limited to the lower of EUR 200,000 and 0.5% of the amount that actually flowed to the selling shareholders, including the greenshoe, as a result of the exit.

An IPO took place on 10 May 2018 and a share-based cash payment of EUR 96 thousand was recognised for the beneficiary under other provisions as at 31 December 2020. EUR 96 thousand was paid out in the reporting year.

15. Provisions

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

In EUR thousand	Carrying amount as at 01.01.2020	Additions	Utilisation	Reversal	Carrying amount as at 31.12.2020
Current provisions					
Personnel-related provisions	207	187	123	64	207
Other provisions	1,968	1,708	1,574	48	2,055
Total	2,175	1,896	1,697	113	2,262

Other provisions essentially comprise provisions for outstanding invoices and sales commission of EUR 932 thousand in total (31 December 2020: EUR 959 thousand) and provisions for annual reports and annual financial statements of EUR 575 thousand (31 December 2020: EUR 355 thousand).

Provisions for personnel essentially include contributions to occupational health and safety agencies as at the end of the reporting period. There were also obligations for share-based payments to a member of the Management Board of EUR 97 thousand as at 31 December 2020.

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

The following loans and borrowings are recognised under current financial liabilities. Further details can be found in note 12 – Financial instruments.

In EUR thousand	Fiscal year ended 31 December	
	2021	2020
Current financial liabilities		
Acquisition loan	0	8,967
Lease liabilities	1,688	1,719
Other	6	4
Subtotal current financial liabilities	1,694	10,690
Non-current financial liabilities		
Lease liabilities	3,327	4,577
Subtotal non-current financial liabilities	3,327	4,577
Total financial liabilities	5,021	15,267

All loans are granted without collateral and subordination agreements.

Credit facilities

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

The Group had an acquisition credit facility of EUR 10,000 thousand from 08 January 2019. The interest rate of 4% on utilisation as at the date the contract is signed is variable and changes in line with average monthly 3-month EURIBOR. The commitment fee is 1%. EUR 0 thousand (previous year: EUR 8,967 thousand) of this credit facility had been utilised as at the end of the reporting period. According to the credit agreement, NFON must maintain minimum liquidity of EUR 12,000 thousand. EUR 8,697 thousand of the credit facility had been utilised as at 31 December 2020. The amount utilised was repaid in full in the reporting year. The credit facility was terminated at the end of February 2022.

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. The margin is 3.0% until 30 June 2022. From 01 July 2022, the margin is based on the EBITDA of the preceding fiscal year and is between 2.25% and 3.0%. In the event that the EURIBOR is below zero, a EURIBOR of zero is considered to be agreed. 35% of the applicable margin must be paid as the commitment fee for the amount of the loan not utilised. NFON must comply with certain financial covenants according to the loan agreement.

Lease liabilities

EUR 1,393 thousand (31 December 2020: EUR 1,442 thousand) of current lease liabilities relates to rented office space, EUR 253 thousand (31 December 2020: EUR 277 thousand) to leased vehicles and EUR 42 thousand (31 December 2020: EUR 0 thousand) to leased operating and office equipment. EUR 3,000 thousand (31 December 2020: EUR 4,316 thousand) of non-current lease liabilities relates to rented office space, EUR 296 thousand (31 December 2020: EUR 261 thousand) to leased vehicles and EUR 31 thousand (31 December 2020: EUR 0 thousand) to leased operating and office equipment. Please refer to the information on leases in note 17 – Leases.

17. Leases

The Group rents office space, vehicles and other operating and office equipment. The term of the lease agreements is typically between three and five 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. As at 31 December 2021, there was one lease agreement that did not begin until 2022. The right-of-use asset to be recognised will amount to EUR 3,060 thousand at the start of the lease.

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

Lease liabilities

In EUR thousand	Non-current financial liabilities		Current financial liabilities		Total	
	2021	2020	2021	2020	2021	2020
Land and buildings	3,000	4,316	1,393	1,442	4,393	5,758
Vehicles	296	261	253	277	549	538
Operating and office equipment	31	0	42	0	73	0
	3,327	4,577	1,688	1,719	5,015	6,296

Amounts recognised in the income statement

Leases in accordance with IFRS 16	EUR thousand	
	2021	2020
Interest expenses for lease liabilities (recognised in finance result)	111	116
Income from subleasing right-of-use assets, recognised in other operating income	111	111
Expenses for short-term leases	246	177
Repayment of lease liabilities	2,009	1,668
Total cash outflows in connection with leases	2,366	1,961

18. Revenue

A. Nature of goods or services

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

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

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

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

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

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

B. Revenue breakdown

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

In EUR thousand

2021

2020

Product/service		
Recurring revenue		
NFON AG	39,078	34,968
Deutsche Telefon Standard GmbH	14,935	12,402
nfon GmbH	5,873	5,097
NFON UK Ltd.	7,169	6,386
NFON Iberia SL	357	353
NFON ITALIA S.R.L.	319	114
NFON France	231	67
Total recurring revenue by segments	67,962	59,387
Reconciliation to non-recurring consolidated revenue	0	0
Consolidated recurring revenue	67,962	59,387
Non-recurring revenue		
NFON AG	4,067	4,559
Deutsche Telefon Standard GmbH	1,520	1,505
nfon GmbH	1,453	1,253
NFON UK Ltd.	673	652
NFON Iberia SL	11	22
NFON ITALIA S.R.L.	150	122
NFON France	57	101
Non-recurring revenue by segment	7,931	8,214
Reconciliation to non-recurring consolidated revenue	0	0
Non-recurring consolidated revenue	7,931	8,214
Consolidated revenue	75,893	67,602

C. Contract balances

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

In EUR thousand	Fiscal year ended 31 December	
	2021	2020
Receivables included in trade receivables	10,900	9,973
Contract assets	122	165
Contract liabilities	304	599

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

The contract liabilities from long-term contracts, which are presented under other liabilities in the statement of financial position, mainly relate to the advance consideration received from customers for services at inception of the contract (e.g. activation fees, porting of numbers) which do not classify as a separate performance obligation and

are recognised as part of the contractual performance obligations over time. In 2021 (as well in 2020) 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.

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

In EUR thousand	2020					2021
	01.01.	Reversal	New in	New reversal	31.12.	Reversal in
Contract assets	220	116	78	17	165	106
Contract liability	290	121	523	93	599	318

D. Transaction price allocated to the remaining performance obligations

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

In EUR thousand	Fiscal year ended 31.12.	Recognition		
	2021	2022	2023	2024 and subsequent years
Unsatisfied allocated transaction price to performance obligations	4,934	2,954	1,658	322
Share	100%	48%	42%	10%

The Group applies the practical expedient under IFRS 15 C5(d) and does not disclose the amount of the transaction price allocated to the remaining performance obligations as at 31 December 2021.

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 9,720 thousand in 2021 (2020: EUR 7,504 thousand) and is recognised in other operating expenses in the consolidated income statement.

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

With regards to long-term contracts, these costs are amortised on a straight-line basis over the non-cancellable contract term as this reflects the period over which NFON transfers products and services to the customers. Whenever the contract term is more than twelve months, the Group capitalises commission as contract costs. This amounted to EUR 0 thousand as at 31 December 2021 (31 December 2020: EUR 18 thousand).

19. Other operating income

In EUR thousand

	2021	2020
Other operating income		
Non-cash employee-related benefits	282	302
Miscellaneous other income	279	657
Total other operating income	561	958

Non-cash employee-related benefits particularly include charges to employees for car usage. A further EUR 111 thousand (2020: EUR 111 thousand) of miscellaneous other income relates to income from subletting office space.

20. Personnel costs and employees

Staff costs break down as follows

In EUR thousand	2021	2020
Wages and salaries	25,347	22,495
Social security contributions	5,366	4,464
Share-based payment plans ¹	381	940
Expenses for pensions and other benefits	197	228
Other personnel costs	411	369
Total	31,703	28,495
1 Thereof equity-settled	381	940

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 2021, the average number of employees was 451 and managers 15 (2020: 392 and 14).

21. Other operating expenses

In EUR thousand	2021	2020
Other operating expenses		
Sales commission	9,944	8,044
Marketing expenses	9,794	6,718
Other personnel costs	3,480	2,547
IT expenses	2,240	1,360
Consulting expenses	2,381	1,420
General administration	1,871	1,459
Rental costs	957	843
Travel expenses	790	659
Support costs	468	436
Currency translation expenses	299	24
Selling costs	86	74
Total other operating expenses	32,310	23,584

As sales commission represents a percentage share of revenue generated through distribution partners or dealers, the increase in fiscal 2021 was mainly due to the increase in total revenue overall and also to the higher share of revenue generated through partner channels.

The rise in marketing expenses was mainly due to the lifting of the previous year's restrictions on advertising due to the general economic uncertainty stemming from the COVID-19 pandemic in 2020.

In fiscal 2021, consulting expenses included legal costs of EUR 413 thousand and other advisory services of EUR 1,968 thousand. Consulting costs of EUR 548 thousand were recognised directly in capital reserves in connection with the capital increase performed in the reporting year.

Other staff costs mainly include costs for freelancers in R&D and expenses for recruitment, which were necessary to support our growth strategy.

22. Income taxes

A. Amounts recognised in profit and loss

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

A. Tax on profit for the year

In EUR thousand	Fiscal year ended 31.12.	
	2021	2020
Current tax expense (income) (federal and state taxes)	436	135
Deferred tax expense (income)	-748	-222
Income tax expense (income)	-312	-87

EUR 454 thousand of the current tax expense in the reporting year relates to the current year and EUR -18 thousand to the previous year. The tax income in the previous year related exclusively to 2019. The current tax expense was reduced by EUR 750 thousand in the reporting year as a result of previously unrecognised tax losses.

The deferred tax expense for the reporting year comprises income of EUR 1,885 thousand from the adjustment of deferred tax assets on tax loss carryforwards and expenses of EUR 1,137 thousand from the adjustment of deferred taxes on temporary differences. The deferred tax expense was reduced by the recognition of deferred tax assets on loss carryforwards in the amount of EUR 1,217 thousand in the reporting year.

B. Amounts recognised in OCI

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

C. Reconciliation of effective tax rate

In Germany, the calculation of current tax is based on a combined tax rate of 32.4% for the Group, consisting of a corporate tax rate of 15%, a solidarity surcharge on this of 5.5% and an average trade tax rate of 16.6%.

In EUR thousand

	2021	2020
Profit before tax from continuing operations	-9,223	-2,324
Taxes using the company's domestic tax rate of 32.4%	2,992	752
Tax effect on:		
Differences due to different tax rates	58	147
Non-deductible expenses	-185	-193
Adjustments for previous years	9	303
Losses for which no deferred tax assets are recognised	-4,503	-2,023
Adjustments for current taxes of previous years	18	4
Use of tax loss carryforwards for which no deferred tax assets were recognised in the previous year	750	547
Change in realisability of deferred tax assets and tax credits	1,284	888
Tax effect from permanent differences	-98	-297
Other	-13	-41
Current income taxes	312	87
Current tax expense (income)	-436	-135
Deferred tax expense (income)	748	222
Income tax expense (income)	312	87

The reconciliation to current taxes is significantly affected by the non-recognition of tax loss carry-forwards at NFON AG. The tax rates used locally by the Group companies range between 17% and 32.4%.

23. Earnings per share

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

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

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

In EUR thousand

	2021	2020
Profit (loss) for the year attributable to the owners of the parent for basic earnings per share	-8,911	-2,237
Profit (loss) for the year attributable to the owners of the parent for basic earnings per share	-8,911	-2,237

Quantity

	2021	2020
Weighted average number of ordinary shares for basic earnings per share	16,204,436	15,055,569
Weighted average number of ordinary shares for diluted earnings per share	16,474,180	15,162,315

Fiscal year ended 31.12.

In EUR

	2021	2020
Loss per share		
Basic earnings	-0.55	-0.15
Diluted earnings	-0.54	-0.15

24. Related party transactions

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

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

In EUR thousand	Transaction values	
	2021	2020
Sales of goods and services and other income ¹	23	22
In EUR thousand	Transaction values	
	2021	2020
Purchases of goods and services and other expenses ²	251	274
In EUR thousand	Balance outstanding as at 31.12.	
	2021	2020
Receivables	0	0
In EUR thousand	Balance outstanding as at 31.12.	
	2021	2020
Liabilities ³	12	57
In EUR thousand	Net amount recognised as at 3.12.	
	2021	2020
Capital reserves ⁴	58	0

1 EUR 22 thousand (2020: EUR 16 thousand) of which relates to transactions with members of the Management Board and their affiliated companies and EUR 1 thousand (2020: EUR 6 thousand) of which to transactions with members of the Supervisory Board and their affiliated companies.

2 EUR 130 thousand (2020: EUR 183 thousand) of which relates to transactions with members of the Management Board and their affiliated companies and EUR 121 thousand (2019: EUR 91 thousand) of which to transactions with members of the Supervisory Board and their affiliated companies.

3 EUR 8 thousand (2020: EUR 48 thousand) of which relates to liabilities to members of the Management Board and their affiliated companies and EUR 4 thousand (2019: EUR 9 thousand) of which to liabilities with members of the Supervisory Board and their affiliated companies.

4 EUR 0 thousand (2020: EUR 0 thousand) of which relates to transactions with members of the Management Board and their affiliated companies and EUR 58 thousand (2019: EUR 0 thousand) of which to the capital increase performed in the reporting year with members of the Supervisory Board and their affiliated companies.

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

Sales of goods and services and other income include cloud-based services provided to related parties. Purchases of goods and services and other expenses essentially include the services provided by companies controlled by related parties. Transaction costs in connection with the capital increase arose on account of the agreements entered into with the supervising investment bank.

Various members of the Management Board and Supervisory Board or related parties hold positions in other companies which result in them controlling these companies or exercising a material influence over these companies.

A number of these companies did business with the Group in the fiscal year.

From time to time, members of the Management Board or Supervisory Board, or their related parties, may buy goods and services from the Group or sell goods and services to the Group.

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

A. Executive bodies and remuneration

1. The Management Board

The members of the Management Board are:

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

In accordance with section 314 (1) no. 6 a sentence 1 to 3 HGB, the Management Board received remuneration of EUR 1,613 thousand in the reporting year (2020: EUR 1,062 thousand). This includes the grant values for share-based payments of EUR 561 thousand (2020: EUR 0 thousand). A total of 180,000 stock options were granted in the reporting year. No stock options were granted in the previous year. The consolidated financial statements included EUR 260 thousand in severance payments for members of the Management Board who left in 2020.

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

In EUR thousand	2021	2020
Management Board remuneration		
Short-term remuneration	1,052	1,122 ¹
Total termination benefits	0	200
Total remuneration of members of management	137	467 ²
Total remuneration of members of management	1,189	1,789

¹ Includes remuneration of EUR 60 thousand for after the end of executive service.

² Includes income of EUR 16 thousand from the adjustment of a cash-settled share appreciation right issued in previous years (see note 14.B). Expenses of EUR 285 thousand relate to the termination of service by two members of the Management Board in the previous year and the associated immediate recognition in profit or loss of the fair values of the stock options granted that had not yet been recognised in equity since the date on which the termination of service became known. EUR 35 thousand of the total expense relates to the period after the end of executive service.

The short-term remuneration for the members of the Management Board includes salaries and bonus payments. Severance payments were also included in the previous year.

2. Supervisory Board

The members of the Supervisory Board of NFON AG were as follows as at 31 December 2021:

31.12.2020	Position	Profession	Other Mandates
Supervisory Board			
Rainer Christian Koppitz	Chairman	CEO of Katek SE, Munich	Chairman of the Supervisory Board of Cenit AG, Stuttgart
Dr Rupert Doehner	Deputy Chairman	Lawyer, Managing Director of RECON Rechtsanwaltskanzlei mbH, Munich	n/a
Günter Müller		Executive Chairman of ASC Technologies AG, Hösbach.	n/a
Florian Schuhbauer		Managing Director of Active Ownership Capital S.a.r.l and Active Ownership Corporation S.a.r.l., Grevenmacher, Luxembourg;	Member of the Supervisory Board of PNE AG, Cuxhaven Deputy Chairman of the Supervisory Board of vita 34 AG, Leipzig

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

In EUR thousand	2021	2020
Supervisory Board remuneration		
Basic remuneration	165	115
Attendance fee	24	19
Total remuneration of members of the Supervisory Board	189	134

25. Segment information

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

Management primarily assesses performance on the basis of revenue and, since 2021, contribution margin 2 (previously: EBITDA) as presented in management reporting. Contribution margin 2 is calculated as EBITDA (earnings before interest, taxes, depreciation, amortisation and impairment in accordance with IFRS) adjusted for indirect intercompany transfers. Non-recurring effects in the period that are considered extraordinary are adjusted for in reported EBITDA.

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

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

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

A. Revenue and contribution margin 2 by reportable segment

In EUR thousand	2021	2020
Revenue		
NFON AG	43,145	39,526
Deutsche Telefon Standard GmbH	16,456	13,886
nfon GmbH	7,326	6,350
NFON UK Ltd.	7,842	7,032
NFON Iberia SL	368	375
NFON ITALIA S.R.L.	468	236
NFON France	288	168
Total revenue of the reportable segments	75,893	67,574
Reconciliation	0	27
Total consolidated revenue	75,893	67,602

In EUR thousand

	2021	2020
Contribution margin 2		
NFON AG	3,032	6,928
Deutsche Telefon Standard GmbH	4,292	3,007
nfon GmbH	-644	-415
NFON UK Ltd.	-1,329	-1,255
NFON Iberia SL	-1,279	-1,120
NFON ITALIA S.R.L.	-2,285	-1,972
NFON France	-2,039	-1,863
Total contribution margin 2 by reportable segment	-251	3,309
Other segments	148	137
Reconciliation	-1,926	-1,124
Consolidated EBITDA	-2,029	2,322
Addback:		
Depreciation	-6,940	-4,150
Net interest income/expenses	-271	-496
Income from associates	18	
Income tax expense	312	87
Consolidated net profit/loss	-8,911	-2,237

1 contains impairments of EUR 46 thousand

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

The reconciliation effects of EUR -1,124 thousand as at 31 December 2020 mainly relate to non-recurring effects adjusted for in internal reporting of EUR -1,153 thousand and consolidation effects of EUR 29 thousand.

B. Revenue by product/service

For a description of the Group's products and services, refer to Note 18 – Revenue. Each of the reportable segments presented above offers recurring and non-recurring products and services.

In EUR thousand	2021	2020
Product/service		
Recurring revenue	67,962	59,387
Non-recurring revenue	7,931	8,215
Consolidated revenue	75,893	67,602

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	2021	2020
Revenue		
Germany	58,688	52,617
Austria	7,326	6,350
United Kingdom	7,842	7,032
Spain	368	375
Italy	468	236
France	288	168
Other countries	913	795
Reconciliation	0	27
Total consolidated revenue	75,893	67,602

2. Non-current assets

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

In EUR thousand	2021	2020
Non-current assets		
Germany	36,840	35,195
Portugal	466	496
United Kingdom	456	631
Austria	432	339
Italy	111	105
Spain	33	42
France	25	35
Total non-current assets	38,363	36,845

D. Major customers

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

26. Consolidated statement of cash flows

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

27. Contingencies and commitments

Based on the application of IFRS 16 and the associated capitalisation of right-of-use assets for leases with a term of more than 12 months together with their recognition as financial liabilities, leases with a useful life of less than 12 months are presented below. The corresponding minimum lease payments amount to EUR 234 thousand as at 31 December 2021 (31 December 2020: EUR 117 thousand).

Please refer to note 17 – Leases in connection with the lease contractually agreed as at 31 December 2022 that does not commence until 2022.

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

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

There is an agreement with Meetecho under which Meetecho will perform consulting services for NFON for a period of five years. This results in a total obligation on the part of NFON of EUR 495 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 2021 and 2020:

In EUR thousand	2021	2020
Audit of the financial statements	372	288
Other assurance services	30	0
Other services	85	27

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

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

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

B. List of shareholdings

nfon GmbH, St Pölten, Austria

Share:	100.00%
Net income in 2021:	EUR 378 thousand
Equity:	EUR 1,664 thousand

NFON UK Ltd., Maidenhead, UK

Share:	100.00%
Net income in 2021:	EUR 304 thousand
Equity:	EUR 6,108 thousand

NFON Iberia SL, Madrid, Spain

Share:	100.00%
Net income in 2021:	EUR 59 thousand
Equity:	EUR –907 thousand

NFON Italia S.R.L., Milan, Italy

Share:	100.00%
Net income in 2021:	EUR –17 thousand
Equity:	EUR 564 thousand

NFON France SAS, Paris, France

Share:	100.00%
Net income in 2021:	EUR –24 thousand
Equity:	EUR 47 thousand

Deutsche Telefon Standard GmbH, Mainz, Germany

Share:	100.00%
Net income in 2021:	EUR 3,966 thousand
Equity:	EUR 6,616 thousand

NFON developments Lda., Lisbon, Portugal

Share:	100.00%
Net income in 2021:	EUR 106 thousand
Equity:	EUR 237 thousand

NFON Polska Sp.z.oo, Warsaw, Poland

Share:	100.00%
Net income in 2021:	EUR –137 thousand
Equity:	EUR –136 thousand

Meetecho S.r.l., Naples, Italy

Share:	24.90%
Net income in 2021:	EUR 104 thousand
Equity:	EUR 236 thousand

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

The war in Ukraine had no effect on the consolidated financial statements as at 31 December 2021. Possible repercussions for the Group's business performance are being monitored on an ongoing basis. No material effects have become known to date. An assessment of how this conflict could influence NFON's future business performance is not possible at the current time. For further details, please refer to the comments in the combined management report.

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

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

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

31. Declaration of compliance with the German Corporate Governance Code

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

31 March 2022

Dr Klaus von Rottkay
CEO

Jan-Peter Koopmann
CTO

Independent Auditor's Report

To NFON AG, Munich

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

Audit Opinions

We have reviewed the Consolidated Financial Statements of NFON AG, Munich, and its subsidiaries (the Group) – comprising the Consolidated Statement of Financial Position as of 31 December 2021, the Consolidated Statement of Income, the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Changes in Equity, and the Consolidated Statement of Cash Flows for the financial year from 01 January to 31 December 2021 and the Notes to the Consolidated Financial Statements, including a summary of significant accounting policies. In addition, we have audited the report on the situation of the company and the Group (hereinafter referred to as the "Group Management Report") of NFON AG for the financial year from 01 January until 31 December 2021.

In accordance with German legal requirements, we have not audited the content of the components of the Group Management Report set out in the section "Other information" of our auditor's report.

The Group Management Report contains cross-references marked as unaudited that are not required by law. In accordance with German legal requirements, we have not audited the content of these cross-references or the information to which they refer.

In our opinion, based on the findings of our audit,

- the attached Consolidated Financial Statements in all material respects comply with the IFRSs as adopted by the EU, and the additional requirements of German law pursuant to Section 315e (1) German Commercial Code (HGB) and give a true and fair view of the financial position and the results of operations of the Group as of 31 December 2021 and its earnings position for the financial year from 01 January until 31 December 2021 and
- the enclosed Group Management Report overall provides a true and fair view of the situation of the Group. In all material respects, it is consistent with the Consolidated Financial Statements, complies with German legal requirements and accurately present the opportunities and risks of future development. Our audit opinion on the Group Management Report does not extend to the content of the components of the Group Management Reports contained in the section "Other information." The Group Management Report contains cross-references marked as unaudited that are not required by law. Our opinion does not cover these cross-references or the information to which the cross-references refer.

Pursuant to Section 322 paragraph 3 sentence 1 German Commercial Code (HGB), we declare that our audit has not led to any reservations concerning the orderliness of the Consolidated Financial Statements and of the Group Management Reports.

Basis for the audit judgements

We have conducted our audit of the Consolidated Financial Statements and of the Group Management Reports in accordance with Section 317 German Commercial Code (HGB) and the EU Regulation on Auditors (No. 537/2014; hereinafter "EU-APrVO") and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). Our responsibility according to these regulations and principles is described in the section "Auditor's responsibility for the audit of the Consolidated Financial Statements and of the Group Management Report" of our audit opinion. We are independent of the Group companies in accordance with European law and German commercial and professional regulations and have fulfilled our other German professional obligations in accordance with these requirements. Furthermore, pursuant to Article 10 (2) (f) EU-APrVO, we declare that we have not performed any prohibited non-audit services pursuant to Article 5 (1) EU-APrVO. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions on the Consolidated Financial Statements and the Group Management Report.

Particularly important audit matters in the audit of the Consolidated Financial Statements

Key audit matters are those matters that, in our professional judgement, were of the greatest significance in our audit of the Consolidated Financial Statements for the financial year from 01 January to 31 December 2021. These matters were considered in the context of our audit of the financial statements as a whole and in forming our opinion thereon; we do not provide a separate opinion on these matters.

The recoverability of goodwill and intangible assets under development is assessed on the basis of the following criteria

For the accounting and valuation principles applied, we refer to Sections 2F and 6 of the Notes to the Consolidated Financial Statements.

The risk to the consolidated financial statements

Goodwill amounts to EUR 12.5 million as of 31 December 2021. Intangible assets under development amount to EUR 8.1 million as of 31 December 2021. In total, these assets represent a significant share of the total assets at 24.7%.

Goodwill and new intangible assets under development are tested for impairment annually at the level of the cash-generating unit or group of cash-generating units, irrespective of the event. If impairment triggers arise during the year, an impairment test is also carried out during the year.

For this purpose, the carrying amount is compared with the recoverable amount of the cash-generating unit or group of cash-generating units. If the carrying amount is higher than the recoverable amount, an impairment loss is recognised. The recoverable amount is the higher of the fair value less costs to sell and the value in use of the cash-generating unit or group of cash-generating units. The reporting date for the impairment test is 31 December 2021.

The impairment test is complex and is based on a number of discretionary assumptions. These include, among other factors, the expected business and earnings development of the cash-generating units or group of cash-generating units as well as the assumed long-term growth rates and the discount rates used.

There is a risk to the Consolidated Financial Statements that an existing impairment was not recognised. There is also a risk that the related disclosures in the Notes are not appropriate.

Our approach to the audit

After having consulted with our valuation experts, we assessed, among other things, the appropriateness of the key assumptions and the company's calculation method. For this purpose, we discussed the expected business and earnings development as well as the assumed long-term growth rates with the persons responsible for planning. We also performed reconciliations with other internally available forecasts, e.g. for tax purposes, and the budget prepared by the legal representatives and approved by the Supervisory Board.

Furthermore, we assessed the consistency of the assumptions with external market estimates.

Furthermore, we convinced ourselves of the company's previous forecasting quality by comparing the planning of previous financial years with the results actually realised and analysed deviations. We compared the assumptions and data underlying the discount rate, in particular the risk-free interest rate, the market risk premium and the beta factor, with our own assumptions and publicly available data.

In order to assess the methodologically and mathematically appropriate implementation of the valuation method, we have reconstructed the valuation carried out by the company using our own calculations and analysed deviations.

In order to account for the existing forecast uncertainty, we have examined the effects of possible changes in the discount rate, the development of earnings or the long-term growth rate on the value in use by calculating alternative scenarios and comparing them with the values of the company (sensitivity analysis).

Finally, we assessed whether the disclosures in the Notes on the recoverability of goodwill and intangible assets under development are appropriate.

Our conclusions

The calculation method on which the impairment test is based is appropriate and in accordance with the applicable valuation principles. The assumptions and data of the company underlying the valuation are appropriate. The related disclosures in the Notes are appropriate.

Revenue recognition

For the accounting and valuation principles applied, please refer to sections 2Q and 18 of the Notes to the Consolidated Financial Statements.

The risk to the financial statements

The Consolidated Financial Statements for financial year 2021 of NFON AG show revenues of EUR 75.9 million. Monthly fees, minute-based call tariffs and non-recurring revenues such as the sale of hardware and the provision of services are the main contributors to revenue.

The majority of the NFON Group's services are cloud-based and depend on factors such as the number of extensions or the number of call minutes, which are recorded by the company's IT system and billed on a monthly basis. Accordingly, beyond the company's system records, in many cases there is no external evidence of performance. The customer has a right of objection of normally 60 days, after which the billed services are deemed to have been accepted.

There is a risk to the Consolidated Financial Statements that revenue is recognised without effective acceptance of services and therefore overstated.

Our approach to the audit

As a provider of publicly available telecommunications services in Germany, the company is obliged to ensure the billing accuracy and correctness of the charges of the data processing facilities by means of a quality assurance system and to have it audited regularly (§ 45g TKG). We have examined the corresponding audit reports in order to gain an overview of the established revenue recognition process.

We checked possible objections by customers within the respective period and obtained confirmations from customers for sales revenues selected on the basis of a mathematical-statistical procedure. We also assessed the underlying contracts and other evidence of the existence of the customer relationship for a sample of revenue per new customer selected using a mathematical-statistical method.

Based on the incoming payments recorded in the bank accounts for the financial year, we calculated an expected value of the sales revenue for the entire financial year and analysed deviations from the amount of realised sales revenue.

Our conclusions

NFON AG's approach to revenue recognition is appropriate.

Other information

The legal representatives respectively the Supervisory Board are responsible for the other information. The other information comprises the following unaudited components of the Group Management Report:

- the Group Corporate Governance Statement to which reference is made in the Group Management Report, and
- the information contained in the Group Management Report that is unrelated to the Management Report and is marked as unaudited.

The other information also includes the other parts of the Annual Report. The other information does not include the Consolidated Financial Statements, the content of the audited Group Management Report disclosures and our audit opinion thereon.

Our audit opinions on the Consolidated Financial Statements and the Group Management Report do not extend to the other information and, accordingly, we do not express an opinion or any other form of conclusion on it.

In connection with our audit, we have a responsibility to read the other information referred to above and, in doing so, assess whether the other information is

- material inconsistent with the Consolidated Financial Statements, with the content of the audited Group Management Report or our knowledge obtained in the course of the audit; or
- otherwise appears to be materially misrepresented.

Responsibility of the legal representatives and the Supervisory Board for the Consolidated Financial Statements and the Group Management Report

The legal representatives are responsible for the preparation and fair presentation of these Consolidated Financial Statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU, and the additional requirements of German law pursuant to Section 315e (1) German Commercial Code (HGB), and for such internal control as management determines is necessary to enable the preparation of Consolidated Financial Statements that give a true and fair view of the asset, financial and earnings position of the Group in accordance with these requirements. Furthermore the legal representatives responsible for such internal control as they determined to be necessary to enable the preparation of Consolidated Financial Statements that are free from material misstatement, whether due to fraud or error.

In the preparation of the Consolidated Financial Statements, the legal representatives are responsible for ensuring the ability of the Group to continue as a going concern. Furthermore, they are responsible for preparing the financial statements on a going concern basis unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

In addition, the legal representatives are responsible for the preparation of the Group Management Report, which as a whole provides an accurate view of the Group's position and is consistent in all material respects with the Consolidated Financial Statements, complies with German legal requirements, and suitably presents the opportunities and risks of future development. Furthermore, the legal representatives are responsible for the arrangements and measures (systems) that they have deemed necessary to enable the preparation of a Group Management Report in accordance with the applicable German legal requirements and to provide sufficient appropriate evidence for the statements made in the Group Management Report.

The Supervisory Board is responsible for overseeing the financial reporting process of the Group for the preparation of the Consolidated Financial Statements and of the Group Management Report.

Auditor's responsibility for the audit of the Consolidated Financial Statements and the Group Management Report

Our objective is 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 as a whole provide a suitable view of the Group's position and suitably present the opportunities and risks of future development and whether they are consistent, in all material respects, with the Consolidated Financial Statements and with the findings of our audit, comply with German legal requirements, and accurately present the opportunities and risks of

future development and to issue an auditor's report that includes our audit 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 German Commercial Code (HGB) and the EU-APrVO and in compliance with German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from violations or inaccuracies and are considered material if they could reasonably be expected, individually or in the aggregate, to affect the presentation of the financial statements based on these Consolidated Financial Statements and the Group Management Report and the economic decisions of users made on the basis of this report.

During the audit, we exercise professional judgement and maintain a critical attitude. Furthermore,

- we identify and assess the risks of material misstatement of the Consolidated Financial Statements and the Group Management Report, whether due to fraud or error, plan and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinion. The risk of not detecting material misstatements is higher for non-compliance than for misstatement because non-compliance can involve fraud, forgery, intentional omissions, misrepresentations, or override of internal controls.

- we gain an understanding of the internal control system relevant to the audit of the Consolidated Financial Statements and the arrangements and measures relevant to the audit of the Group Management Report in order to design audit procedures that are appropriate under the circumstances, but not for the purpose of expressing an opinion on the effectiveness of those systems.
- we evaluate the appropriateness of the accounting policies used by the legal representatives and the reasonableness of accounting estimates and related disclosures.
- we conclude on the appropriateness of the going concern basis of accounting used by the legal representatives and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that could 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 our auditor's report to the related disclosures in the Consolidated Financial Statements and the Group Management Report or, if such disclosures are inadequate, to modify our respective audit opinion. We draw our conclusions on the basis of the audit evidence obtained up to the date of our audit opinion. However, future events or conditions could result in the Group being unable to continue as a going concern.

- we assess the overall presentation, structure and content of the Consolidated Financial Statements, including the disclosures, and whether the Consolidated Financial Statements represent the underlying transactions and events in a manner that the Consolidated Financial Statements give a true and fair view of the asset, financial and earnings position of the Group in accordance with IFRSs as adopted by the EU, and the additional requirements of German law pursuant to § 315e Abs. 1 German Commercial Code (HGB).
- we obtain sufficient appropriate audit evidence regarding the accounting information of the entities or business activities within the Group to express an opinion on the Consolidated Financial Statements and on the Group Management Report. We are responsible for directing, supervising and performing the audit of the Consolidated Financial Statements. We are solely responsible for our audit opinions.
- we assess the consistency of the Group Management Report with the Consolidated Financial Statements, their compliance with the law, and the understanding of the Group's position conveyed by them.
- We perform audit procedures on the by the legal representatives the forward-looking statements made in the Group Management Report the consolidated financial statements. On the basis of sufficient appropriate audit evidence, we in particular verify the significant assumptions underlying the forward-looking disclosures and assess their by the legal

representatives assumptions underlying the forward-looking statements and evaluate the appropriateness of the information derived from these assumptions. We do not express an independent opinion on the forward-looking statements or the underlying assumptions. There is a significant unavoidable risk that future events will differ materially from the forward-looking statements.

We discuss with those charged with governance, among other matters, the planned scope and timing of the audit and significant audit findings, including any deficiencies in internal control that we identify during our audit.

We make a declaration to those charged with governance that we have complied with the relevant independence requirements and discuss with them all relationships and other matters that may reasonably be thought to bear on our independence and the safeguards that have been put in place to address them.

From the matters we discussed with those charged with governance, we determine those matters that were of most significance in the audit of the Consolidated Financial Statements for the current period and are therefore the key audit matters. We describe these matters in the auditor's report unless the law or regulations preclude public disclosure of the matter.

Other statutory and other legal requirements

Report on the audit of the electronic reproduction, prepared for the purpose of disclosure, of the Consolidated Financial Statements and of the Group Management Reports in accordance with Section 317 (3a) of the German Commercial Code (HGB)

Pursuant to Section 317 (3a) of the German Commercial Code (HGB), we have performed a reasonable assurance engagement to determine whether the reproductions of the Consolidated Financial Statements contained in the file provided "nfonag-2021-12-31-en.zip" (SHA256 hash value: 533de200a8d8a70b5448fbed6ed76c7cb8a6e1d34f7ce8852d743a9a8eb5d589) and prepared for the purposes of disclosure of the Consolidated Financial Statements and of the Group Management Report (hereinafter also referred to as the "ESEF Documents") comply in all material respects with the electronic reporting format ("ESEF Format") requirements of § 328 para. 1 German Commercial Code (HGB). In accordance with the German statutory provisions, this audit only covers the transfer of the information of the Consolidated Financial Statements and the Group Management Report into the ESEF format and therefore neither to the information contained in these reproductions nor to any other information contained in the aforementioned file.

In our opinion, the reproductions of the Consolidated Financial Statements contained in the file provided above and prepared for the purposes of disclosure comply with the Consolidated Financial Statements and the Group Management Report,

in all material respects, with the requirements of Section 328 paragraph 1 German Commercial Code (HGB) regarding the electronic reporting format. We report on this opinion and on our audit procedures described in the preceding "Report on the audit of the Consolidated Financial Statements and the Group Management Report" on the accompanying Consolidated Financial Statements and on the attached Group Management Report for the financial year from 01 January to 31 December 2021. In addition, we do not express an opinion on the information contained in these reproductions or on the other information contained in the above-mentioned file.

We have audited the reproductions of the Consolidated Financial Statements contained in the above-mentioned file and the Group Management Report in accordance with Section 317 (3a) German Commercial Code (HGB) and IDW Auditing Standard: Audit of Electronic Reproductions of Financial Statements and Management Reports Prepared for Disclosure Purposes in Accordance with Section 317 (3a) German Commercial Code (HGB) (IDW PS 410 (10.2021)). Our responsibility thereafter is further described below. Our auditing practice has complied with and applied the quality assurance system requirements of the IDW Quality Assurance Standard: Requirements for Quality Assurance in the Auditing Practice (IDW QS 1).

The legal representatives of the company are responsible for the preparation of the ESEF documents containing the electronic reproductions of the Consolidated Financial Statements and the Group Management Report in accordance with Section 328 para. 1 sentence 4 no. 1 German Commercial Code (HGB) and for the mark up of the Consolidated Financial Statements in accordance

with Section 328 para. 1 sentence 4 no. 2 German Commercial Code (HGB).

Furthermore, the legal representatives of the company are responsible for the internal controls that they consider necessary to enable the preparation of the ESEF documents that are free from material non-compliance, whether due to fraud or error, with the electronic reporting format requirements of Section 328 (1) German Commercial Code (HGB).

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 non-compliance, whether due to fraud or error, with the requirements of Section 328 (1) German Commercial Code (HGB). During the audit, we exercise professional judgement and maintain a critical attitude. Furthermore,

- we identify and assess the risks of material non-compliance with the requirements of Section 328 (1) German Commercial Code (HGB), 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 audit opinion.
- we obtain an understanding of internal control relevant to the audit of the ESEF documents 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 those controls.

- we assess the technical validity of the ESEF documentation, i.e. whether the file provided containing the ESEF documentation complies with the requirements of Delegated Regulation (EU) 2019/815, as amended as of the reporting date, regarding the technical specification for that file.
- we assess whether the ESEF documentation provides a faithful XHTML representation of the audited and Consolidated Financial Statements and of the audited Group Management Report.
- we assess whether the mark-up of the ESEF documents with Inline XBRL Technology (iXBRL) in accordance with Articles 4 and 6 of Delegated Regulation (EU) 2019/815 as applicable as of the reporting date provides an adequate and complete machine-readable XBRL copy of the XHTML rendition.

Other information according to Article 10 EU-APrVO

We were elected by the Annual General Meeting on 24 June 2021 as auditors of the Consolidated Financial Statements. We were commissioned by the Supervisory Board on 24 June 2021. We have served as auditors of the Consolidated Financial Statements of NFON AG as a capital market-oriented company since financial year 2018.

We declare that the audit opinions contained in this audit report are consistent with the additional report to the audit committee pursuant to Article 11 EU-APrVO (audit report).

Other matters – use of the audit opinion

Our auditor's report is always to be read in conjunction with the audited Consolidated Financial Statements and the audited Group Management Report and the audited ESEF documents. The Consolidated Financial Statements converted to the ESEF format and the Group Management Report – also the versions to be published in the Federal Gazette – are merely electronic reproductions of the audited Consolidated Financial Statements and the audited Group Management Report and do not replace them. In particular, the ESEF opinion and our audit opinion contained therein can only be used in conjunction with the audited ESEF documents provided in electronic form.

Auditor in charge

The auditor responsible for the audit is Matthias Koeplin.

Munich, 06 April 2022

KPMG AG
Wirtschaftsprüfungsgesellschaft
[Original German version signed by:]

gez. Koeplin
Wirtschaftsprüfer
[German Public Auditor]

gez. Rothfelder
Wirtschaftsprüfer
[German Public Auditor]

FINANCIAL CALENDAR 2022

Q2

07.04.2022 Publication of the Annual and Sustainability Report 2021

09.05.2022 Presentation of the Results for the 1st Quarter 2022
(Web und Telephone Conference)

Q3

18.08.2022 Presentation Half-year Results 2022

August 2022 Annual General Meeting of NFON AG

Q4

17.11.2022 Presentation of the Results for the 3rd Quarter 2022

Imprint

Sabina Prüser
Machtlfinger Str. 7
81379 Munich, Germany
Tel.: +49 89 45300-134
Fax: +49 30 45300-33134
sabina.prueser@nfon.com
<https://corporate.nfon.com>

Concept and Design
IR-ONE AG & Co. KG, Hamburg, Germany
www.ir-one.de

NFON AG

MACHTLFINGER STR. 7 TELEPHONE: +49 89 453 00 0 ➤ [HTTPS://CORPORATE.NFON.COM](https://corporate.nfon.com)
81379 MUNICH, GERMANY TELEFAX: +49 89 453 00 100