FACTS AND FIGURES 2018

Who we are

Headquartered in Munich and founded 2007, NFON AG is the only pan-European cloud PBX provider – counting more than 30,000 companies across 14 European countries as customers and more than 2,000 partners across Europe. 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. NFON is the new freedom in business communication.

Key figures

in mEUR	2018	2017	Change
Total revenue	**43**	**35,7**	**20.7%**
Recurring revenue	34,6	27,8	24.6%
Recurring revenue as share of total revenue (in %)	80,4	77,9	
Non-recurring revenue	8,4	7,9	7.0%
Non-recurring revenue as share of total revenue (in %)	19,6	22,1	
ARPU blended [1] (in EUR)	9,92	10,32	–3.88%
Seats	**320,728**	**253,36**	**26.6%**
Adjusted EBITDA [2]	–1. 2	0,2	n/a

1 Based on average number of seats per month every year.

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

List of abbreviations

PBX	Private Branch Exchange
UCaaS	Unified Communications-as-a-Service
SaaS	Software-as-a-Service
VoIP	Voice over IP
IP	Internet Protocol
Seats	Licences

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Dear shareholders, dear readers!

We went public with our clear growth strategy in May 2018. Not only do we want to benefit from the immense potential of the growth market for cloud telephony, we also want to become the number 1 in Europe. Since then, we have consistently implemented this strategy and can look back on a successful development of our Company. In operational terms, we clearly met our forecast for 2018, successfully expanded our workforce with qualified specialists, pushed ahead with the internationalisation of NFON, further developed the product portfolio as planned and further strengthened NFON's market position through targeted M&A measures. The first 11 months after the IPO can be summarised as follows: We do what we say and deliver as announced!

NFON is the new freedom of business communication: simplicity, independence and reliability. The old ISDN world will be a thing of the past in the foreseeable future; all European network operators are already converting their telephony to All-IP. As the only pan-European provider with a highly scalable business model and innovative technology, we have considerable growth potential. Our operating performance in 2018 proves that we can exploit this potential: We increased revenue by 20.7% to EUR 43.0 million. Recurring revenues even increased by 24.6% to EUR 34.6 million. At 80.4%, the share of recurring revenues in total revenues is at the upper end of the range forecast for 2018. The main growth driver is the continuously increasing number of extensions operated by our customers ("seats"). The number of seats increased by 26.6% year-on-year to over 320,000 at the end of 2018. This positive development underscores the sustainability of our business model and the attractiveness of NFON AG's products and services.

In a radically changing European telecommunications market, our growth strategy is already securing tomorrow's market share today. With the market launch of the new NFON core product "Cloudya," the foundation has been laid for the planned expansion of the UCaaS product portfolio (Unified Communications-as-a-Service), with which we will offer comprehensive services from the cloud for telephony, communication and collaboration on a single platform. Cloudya stands for device-independent and intuitive communication with a special focus on extremely simple operation – anytime, anywhere, any device. On this basis, we plan to introduce additional collaboration services such as chat, messaging and video by the end of 2019. With a view to international expansion, we initiated our market entry in Italy in the second half of 2018 and completed it in March 2019. We will also continue the internationalisation of our business activities at the beginning of 2019 by establishing another sales unit in France. We will thus be active in 15 European countries.

Besides the expansion of our product portfolio and regional expansion in Europe, targeted M&A activities in a highly fragmented market are a key pillar of our growth strategy. At the beginning of 2019, we successfully completed the acquisition of Deutsche Telefon Standard AG prepared in 2018. The company's expertise lies in the area of SIP trunk communication (Session Initiation Protocol) in Germany. With 65 experienced employees, it also sells the SIP PBX CentrexX, a cloud telephone system in the mid-market segment. This acquisition increases our customer base to over

Hans Szymanski,
Chief Executive Officer

Jan-Peter Koopmann,
Chief Technology Officer

César Flores Rodríguez,
Chief Sales Officer

370,000 seats and over 35,000 SIP trunk channels. At the same time, Deutsche Telefon Standard AG's solutions complement our product portfolio and additional sales opportunities are opened up by the expansion of the partner network to over 2,000 partners throughout Europe. Against the background of the ongoing conversion from ISDN to All-IP in Europe, we thus offe our customers a smooth transition to future-proof business communication.

2018 was the starting shot for a dynamic success story. The European market is developing in our favour, demand for our products is rising and our internal conditions – growth strategy and employees – are excellent. We therefore expect to accelerate our growth course even further in 2019. We plan to increase revenues by between 40% and 45% compared with the previous year. The share of recurring revenues in total revenues for the year as a whole is expected to be between 75% and 80%. With regard to extensions operated by customers, we expect growth of at least 45%.

We would also like to emphasise one thing very clearly: This successful development would not have been possible without the valued expertise of all our colleagues. We would like to express our sincere thanks and respect to them!

In Europe, there is only one pioneer for the freedom of business communication: NFON AG. On our way to becoming the number 1 for cloud telephony, we would also like to express our special thanks to our partners, customers and shareholders for the trust they have placed in us.

Thank you very much.

Hans Szymanski, Jan-Peter Koopmann and César Flores Rodríguez

Report of the Supervisory Board for financial year 2018

In the past financial year, the Supervisory Board of NFON AG (hereinafter also referred to as "**the Company**") performed the duties incumbent upon it under the law, the Articles of Association and the Rules of Procedure and, by fulfilling its advisory and supervisory function, it actively supported the Management Board to manage the business. 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 orally about the business situation and development, the current earnings situation, the risk situation, risk management, short-term and long-term planning as well as investments and organisational measures. During the reporting period, the Chairmen of the Supervisory Board were in close contact with the Management Board and were informed regularly about the development of the business situation and key business transactions.

After careful examination and consultation, the Supervisory Board voted on the decisions or measures of the Management Board that require the approval of the Management Board by law, the Articles of Association or the rules of procedure, as well as on other decisions of fundamental importance. The decisions were mainly based on the reports and resolution proposals of the Management Board, which were examined in detail by the Supervisory Board. In 2018, the Management Board and Supervisory Board cooperated constructively and thus continued the Company's ongoing growth course.

Composition and changes in the Supervisory Board

From 01 January to 09 April 2018, the Supervisory Board consisted of the following persons:

- Kristian Schmidt-Garve (Chairman of the Supervisory Board),
  Member of the Management Board of MIG Verwaltungs AG;
- Ann-Kathrin Müller (Deputy Chairperson of the Supervisory Board),
  Member of the Supervisory Board of ASC Technologies AG;
- Dr. Hendrik Brandis, Managing Director of Earlybird Verwaltungs GmbH;
- Rainer Koppitz, Chairman of the Management Board of KATEK SE Group, Munich;
- Elmar Meid, Managing Director of Bayern LB Capital Partner GmbH;
- Günther Müller, Managing Director of Milestone Venture Capital GmbH.

The Annual General Meeting held on 09 April 2018 reduced the size of the Supervisory Board from six to four members by amending the Articles of Association. This amendment to the Articles of Association was entered in the Commercial Register on 23 April 2018.

As at 09 April 2018, the Supervisory Board consists of the following persons elected at the Company's Annual General Meeting on 09 April 2018:

- Rainer Koppitz (Chairman of the Supervisory Board),
  Chairman of the Management Board of the KATEK SE Group, Munich;
- Dr. Rupert Doehner (Deputy Chairman of the Supervisory Board), Attorney-at-law;
- Angélique Werner, Senior Director Customer Success at Salesforce.com Germany GmbH;
- Ralf Grüßhaber, Managing Director and CFO of think project! GmbH.

Rainer Christian Koppitz,
Chairman of the Supervisory Board

Angélique Werner,
Member of the Supervisory Board

The Supervisory Board

Ralf Grüßhaber,
Member of the Supervisory Board

Rupert Doehner, Deputy Chairman
of the Supervisory Board

Meetings of the Supervisory Board and main areas of discussion

In financial year 2018, the Supervisory Board held six ordinary meetings and, due to the IPO, two extraordinary meetings. In addition, it passed 18 circular resolutions. The Supervisory Board did not form any committees.

The meetings of the Supervisory Board in financial year 2018 focused in particular on the following topics:

- Preparation of the Annual General Meeting on 22 February 2018 to increase the share capital from Company funds;
- Approval of the half-year financial statements as at 30 June 2016, which were subsequently audited with a view to the IPO;
- Extension of the appointment of Management Board members Hans Szymanski and Jan-Peter Koopmann in the run-up to the IPO until 30 April 2021 and adjustment of Management Board remuneration as at 01 September 2019;
- Adoption and approval of the audited annual financial statements and the consolidated financial statements including the Company's management report for financial year 2017;
- Preparation of the Annual General Meeting on 09 April 2018 (new version of the capital market-oriented Articles of Association, authorisation to buy back shares and issue convertible bonds, new Supervisory Board);
- Following the downsizing of and new appointments to the Supervisory Board, Rainer Koppitz, Chairman of the Supervisory Board, and Dr. Rupert Doehner, Deputy Chairman, were elected;

- Support during the IPO (including approval of the price range for the book building, conclusion of a cost sharing agreement with the existing shareholders, conclusion of an insurance policy with regard to the risks arising from prospectus liability, resolutions on the implementation and volume of the capital increase from authorised capital);
- New development of the Company's core product, the Cloud telephone system Cloudya;
- Issue of stock options to executives in the NFON Group in accordance with the authorisation granted by the Annual General Meeting on 09 April 2018;
- Investment of the Company's cash and cash equivalents and granting of a credit line;
- Development of the Company's acquisition strategy;
- Implementation of the necessary organic investments for future growth in Germany and abroad;
- Suitable means to retain and recruit key personnel in an extremely tight labour market for specialists and executives in a cloud environment;
- Determination of the budget of the NFON AG Group for 2019 and through 2021.

The Management Board regularly informed the Supervisory Board about the net assets, financial position and results of operations of NFON AG and its subsidiaries and associated companies.

The Supervisory Board examined and approved the budget planning prepared by the Management Board for financial year 2019. It discussed and reviewed the strategic orientation of the Company and the Group on the basis of medium-term and long-term corporate planning. The Supervisory Board analysed and reviewed the information received from the Management Board in detail. It paid particular attention to the risk situation and risk management.

In its circular resolutions, the Supervisory Board mainly gave its approval to transactions which, although not of strategic significance, require approval in accordance with the rules of procedure of the Management Board. The Supervisory Board also made time-critical decisions, particularly in connection with the IPO, by way of circular resolutions.

Annual and consolidated financial statements and management reports

The Annual General Meeting of the Company on 09 April 2018 appointed KPMG AG Wirtschaftsprüfungsgesellschaft, Munich (hereinafter "**KPMG**") as auditors of NFON AG for financial year 2018. The Supervisory Board subsequently commissioned KPMG to audit the company's annual financial statements and consolidated financial statements for financial year 2018.

The Management Board prepared the annual financial statements in accordance with the provisions of German commercial and stock corporation law relating to accounting and the consolidated financial statements in accordance with Section 315a (3) of the German Commercial Code (HGB) in accordance with International Financial Reporting Standards (IFRS). KPMG has audited the annual financial statements and the consolidated financial statements, including the related management reports, 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 audit of the auditor and the audit by the Supervisory Board did not lead to any reservations or objections. The auditor issued the unqualified audit opinions required by law.

All members of the Supervisory Board received the special documentation relevant to the financial statements, in particular the annual financial statements and consolidated financial statements, the combined Group management report and the related audit reports from KPMG, in good time before the Supervisory Board's balance sheet meeting on 10 April 2019. In preparation for this meeting, all members of the Supervisory Board dealt in detail with the aforementioned documents. At the balance sheet meeting, the annual financial statements, the consolidated financial statements and combined Group management report were discussed in detail with the Management Board. The Supervisory Board independently examined the annual financial statements prepared by the Management Board, the consolidated financial statements and the related combined Group management report for their legality, regularity, appropriateness and cost-effectiveness. KPMG's responsible partner and the audit manager also attended the balance sheet meeting on 10 April 2019. They reported on the audit, commented on the focal points of the audit and were available to the Supervisory Board for further questions and information.

After detailed examination of the annual financial statements and the consolidated financial statements as well as the related combined Group management report for financial year 2018, the Supervisory Board raised no objections. The Supervisory Board concurred with KPMG's audit findings and approved the annual financial statements and consolidated financial statements of NFON AG. The annual financial statements of NFON AG are thus adopted.

The Supervisory Board would like to thank the members of the Management Board and all employees for their great commitment and achievements in financial year 2018.

Munich, April 2019

For the Supervisory Board

Rainer Koppitz
Chairman of the Supervisory Board

Group corporate governance report

The Management and Supervisory Boards report annually in the corporate governance report on the Company's corporate governance. This together with the statement of compliance constitutes a part of the Company's corporate governance statement pursuant to Section 315d of the German Commercial Code (HGB) in conjunction with Section 289f HGB. The German Corporate Governance Code is designed to create transparency for national and international investors regarding the applicable rules in Germany for company management and monitoring. In its provisions and rules, the Code focuses on shareholders' interests, a company's management and supervisory boards, transparency of company management and the responsibilities of the statutory auditor. The Management and Supervisory Boards of NFON AG are committed to the interests of the shareholders and thus to the recommendations and suggestions provided by the German Corporate Governance Code ('Code'). The Management and Supervisory Boards also ensure, in accordance with the principles of a social market economy, the Company's continuation as a going concern and its ability to create sustainable value. These principles call not only for legality, but also for ethically sound behaviour that recognises personal responsibility (mission statement of honourable merchants). The Management and Supervisory Boards report on potential deviations from the Code's recommendations both in the statement of compliance as well as in the following detailed explanations, with regard to the Code in its version dated 07 February 2017.

Statement of compliance regarding the Corporate Governance Code

Pursuant to Section 161 of the German Stock Corporation Act (AktG), the Management and the Supervisory Boards of NFON AG declare in their statement of compliance which recommendations included in the German Corporate Governance Code, as issued by the German Federal Ministry of Justice in the version dated 07 February 2017 and announced in the official section of the electronic German Federal Gazette, have been and will be complied with or which recommendations were or will not be applied.

3.8 D&O insurance was taken out for the Supervisory Board. The remuneration of the Supervisory Board is calculated in such a way that it currently leaves no room for a deductible for the Supervisory Board or the premium for a deductible insurance.

4.2.5 The Annual General Meeting held on 09 April 2018 resolved that the information required by Sections 285 No. 9 a) Sentences 5 to 8, 314 Para. 1 No. 6 a) Sentences 5 to 8 of the German Commercial Code be omitted from the annual financial statements and consolidated financial statements of NFON AG. This resolution applies to the annual and consolidated financial statements of NFON AG for the financial years 2018 to 2022 inclusive, but no later than 08 April 2023. Accordingly, the remuneration of the Management Board is not reported on an individualised basis in the remuneration report using the tables provided as an attachment in the Corporate Governance Code.

5.3.1 As long as the Supervisory Board consists of four people, no committees will be set up where the chairperson or another member of the Supervisory Board could chair another position, as the composition of the committees would be virtually the same as the composition of the Supervisory Board.

5.3.2 As long as the Supervisory Board consists of four people, the Supervisory Board as a whole performs the tasks of an Audit Committee.

5.3.3 For the establishment of a Nomination Committee, the same considerations apply as for other committees.

5.4.6 In view of the experience with the workload caused by the mandate of the Chairman of the Supervisory Board, the Deputy Chairman of the Supervisory Board and ordinary members of the Supervisory Board in the Company, the Annual General Meeting of 09 April 2018 resolved that only the Chairman of the Supervisory Board should be taken into account in the remuneration of the members of the Supervisory Board.

7.1.2 Due to the extensive consolidation work, the consolidated financial statements are prepared within four months of the end of the financial year. Also due to major consolidation work in line with stock exchange regulations and the Transparency Directive Implementation Act, the quarterly financial announcements and the half-yearly reports are published no later than within two and three months, respectively, of the end of the corresponding reporting period.

Munich, 10 April 2019

General information on the Company management's structure and the underlying rules

NFON AG has its registered office in Munich and is governed by the German Stock Corporation Act. It has a Management Board, Supervisory Board and an Annual General Meeting. Company management is based on the very close and trusting collaboration of all corporate bodies as well as an active and constant flow of information between these corporate bodies. Shareholders may ask management questions and exercise their voting rights particularly at the Annual General Meeting.

Taking responsibility is a natural part of NFON's philosophy. The Company assumes responsibility for products and processes, employees, customers and partners as well as for the environment and society. In this regard, the Company maintains open dealings and continuous dialogue with its stakeholders. A dual management system, made up of a management board and a supervisory board, is a legal requirement for German stock corporations. In accordance with the Company's Articles of Association, NFON AG's Supervisory Board consists of four members elected by the Annual General Meeting. A chairperson and deputy chairperson are elected from among the Supervisory Board. The Supervisory Board's bylaws, which it draws up itself, define the chairperson's and deputy chairperson's functions.

According to the Articles of Association, the meeting of NFON's Supervisory Board is held once each calendar quarter, with two meetings to be held each calendar half-year. Special sessions are convened by the chairperson of the Supervisory Board as needed and at his or her discretion. The Supervisory Board's resolutions are generally adopted in meetings. The Supervisory Board constitutes a quorum if at least half of its members participate in voting. Written, telexed, faxed, telephonic or telegraphic resolutions or resolutions by e-mail or video conference are permitted outside of the meetings.

According to the bylaws, the Supervisory Board can appoint one or more persons to the Company's Management Board. NFON AG's Management Board currently has three members. The Management Board manages the Company with the objective of sustainably adding value on its own responsibility and in the interests of the Company, i. e. taking into account the interests of the shareholders, the Company's employees and other groups affiliated with the Company.

Pursuant to the bylaws drawn up by the Supervisory Board, the Management Board conducts the Company's business according to uniform plans and policies. In this regard, the Management Board assumes responsibility for the Company's entire business management. As part of the overall responsibility for business management, the three Management Board members work in their respectively assigned areas of responsibility in a collegial and trustful manner for the Company's benefit. The Management Board develops the Company's strategy and coordinates it with the Supervisory Board. Besides ensuring that all statutory provisions and the Company's internal policies are observed, including in the Group companies, the Management Board also makes sure that risks are appropriately managed and monitored in the Company. More information is contained in the risks and opportunities section of the group management report. Management Board meetings are held regularly, biweekly if possible.

Committees of the Supervisory Board

Due to the Company's size and the number of Supervisory Board members stipulated in the Articles of Association, the Company generally does not set up committees or similar bodies. Therefore, the Supervisory Board as a whole decides and reviews matters relating to the remuneration system for the Management Board, including key contract elements. The Supervisory Board as a whole also performs the tasks of the Audit Committee. This means that the chairperson of the Supervisory Board simultaneously assumes the responsibilities of the chairperson of the Audit Committee. At least one member of the Supervisory Board has specific accounting expertise as required.

Collaboration of the Management and Supervisory Boards – Diversity

The joint objective of the Management and Supervisory Boards' close collaboration is to sustainably raise enterprise value. The Management and Supervisory Boards discuss at regular intervals the status of the Company's agreed strategic direction. The Management Board also regularly informs the Supervisory Board about all issues relevant to the Company concerning planning, business development, the risk situation, risk management, internal accounting and compliance. The Management Board reports on any instances of business performance deviating from the budgets and objectives, and explains such deviations. The manner in which the Management Board is required to provide information and report has been stipulated by the Supervisory Board in the bylaws applicable to the Management Board. The bylaws for the Management Board stipulate that any decisions or measures which fundamentally change the Company's assets, liabilities, financial position and financial performance and any transactions of major significance must be approved by the Supervisory Board.

In accordance with the provisions of the German Corporate Governance Code, NFON AG has obtained D&O insurance for members of the Management Board. This insurance provides for a deductible of at least 10% of the damages and up to one and a half times the Management Board member's fixed annual compensation pursuant to Section 93 (2) of the German Stock Corporation Act (AktG). D&O insurance was also obtained for the Supervisory Board. This insurance policy currently does not stipulate any deductible for the Supervisory Board.

Diversity concept

Diversity is of key importance for the entire NFON Group. In accordance with the German Stock Corporation Act (AktG) and the Corporate Governance Code, the Supervisory Board is to always consider the matter of diversity in terms of its composition and the corresponding nominations proposed to the Annual General Meeting. This includes the recommendation, as per the German Stock Corporation Act (AktG) and Corporate Governance Code, that the Supervisory Board comprises female and male members, and also the consideration that the experience of the individual members in terms of their age, professional experience and internationality be taken into account. The guiding principle for nominations is the Company's interests and the requirements set forth Section 5.4.1 Sentence 1 of the Code regarding the expertise, abilities and professional experience of a Supervisory Board.

Furthermore, in terms of its composition, the Supervisory Board is to appropriately consider the number of independent Supervisory Board members in accordance with Section 5.4.2 of the Code. Accordingly, the Supervisory Board recommends the most suitable candidates following appropriate application and recommendation procedures and in consideration of a balanced composition of the Supervisory Board according to expertise, capabilities, experience and independence.

In order to ensure that the Supervisory Board advises and monitors the Management Board independently, the Supervisory Board's bylaws stipulate that more than half of the members of the Supervisory Board are to be independent within the meaning of the German Corporate Governance Code. In the view of the Supervisory Board, there are no specific indications for any Supervisory Board members of relevant circumstances or relations, in particular to the Company, to members of the Management Board or other Supervisory Board members, which could constitute a material and not only temporary conflict of interests and therefore call their independence into question. Supervisory Board members shall not exercise directorships or similar positions or advisory tasks at key competitors.

Furthermore, both the German Stock Corporation Act (AktG) and the Code stipulate that a Supervisory Board of a listed company is to define targets for female representation. There is currently one woman in the Company's Supervisory Board. By resolution dated 23 April 2018, the target for female representation for the period ending no later than 22 April 2023 was defined as 25%.

The new rule on filling Management Board positions is to be considered under the same conditions. As with the Supervisory Board, the Management Board is to consider the Company's interests as the guiding principle for filling executive positions. Furthermore, in the case of Management Board positions, it is important to ensure continuity in the Company's future strategic development. Therefore, in accordance with the rules of the German Stock Corporation Act (AktG) and the German Corporate Governance Code, the Supervisory Board has adopted a target of 25% for female representation in the Management Board for the period up to 22 April 2023 at the latest. The Supervisory Board will accordingly take into account the matter of diversity in the search for candidates who are professionally suited to vacant Management Board positions.

In addition, the Management Board is required to define a target for female representation in the first and, if applicable, also the second management levels below the Management Board. The Management Board has defined the first management level below the Management Board to be the managing directors of the international companies and the vice presidents in Germany or the equivalent staff function in the Company. NFON Group does not have a second management level below the Management Board. The Management Board stipulated on 21 April 2018 that female representation for NFON in the first management level below the Management Board is to be at least 22%. This target has already been achieved.

Remuneration of the Management and Supervisory Boards

According to the resolution passed at the Annual General Meeting on 09 April 2018, NFON AG does not observe the individualised disclosure pursuant to Section 285 No. 9 a) Sentence 5 to 8, 314 (1) No. 6 a) Sentence 5 to 8 HGB. The main features of the remuneration system and the summary of Management Board remuneration are outlined in the remuneration report.

The members of NFON AG's Supervisory Board receive the following cash remuneration in addition to the reimbursement of expenses in accordance with the Articles of Association of NFON AG:

a) basic remuneration payable after the end of the financial year of EUR 40,000.00 for the Chairman of the Supervisory Board and EUR 25,000.00 for the remaining Supervisory Board members (in each case plus any applicable VAT);

b) for each Supervisory Board meeting (plenary session) in which they fully participate, an additional attendance fee payable after the end of the financial year of EUR 1,000.00 (plus any applicable VAT).

With this remuneration, possible memberships and chairs of committees are also compensated. Supervisory Board members who are on the Supervisory Board or chair the Supervisory Board only for part of the financial year receive their remuneration stipulated in a) on a pro rata temporis basis. For the purposes of calculating this remuneration, time is rounded up to full months.

The Supervisory Board members continue to receive the remuneration pursuant to a) and b) in the subsequent financial years unless the Annual General Meeting decides otherwise. The remuneration of the Management Board includes a multi-year, variable compensation component in the form of stock options. The stock options have a vesting period of four years and are linked to the achievement of a performance target.

Conflicts of interest

The Management and Supervisory Boards are required to act in the Company's interests; in their decisions and in their work they must not pursue personal interests or afford other individuals benefits or business opportunities to which the Company is entitled. Each Management Board member discloses conflicts of interests to the Supervisory Board and informs the other members of the Management Board. Likewise, each Supervisory Board member discloses conflicts of interests to the Supervisory Board. The Supervisory Board reports to the Annual General Meeting on any conflicts of interest and how they are being handled. There were no conflicts of interest requiring disclosure in 2018.

Efficiency review

The Supervisory Board regularly reviews the efficiency of its work. As NFON AG's Supervisory Board has only recently been established, no efficiency review has taken place yet this year. The Supervisory Board will consult on the frequency of the efficiency reviews.

Shareholders and Annual General Meeting

The Management Board convenes the Annual General Meeting at least once a year. The shareholders receive the adopted consolidated or annual financial statements and the corresponding management reports at the Annual General Meeting and also adopt a resolution on the appropriation of net profit (if applicable) and on the discharge of the members of the Supervisory Board and the Management Board. The participants of the Annual General Meeting also newly elect the statutory auditor for each financial year.

The shareholders of NFON AG exercise their rights of joint administration and oversight at the Annual General Meeting. They have the option of exercising their voting rights personally or by an authorised representative of their choice – including by an association of shareholders. Furthermore, to make it easier for shareholders to exercise their rights, the Company also offers the services of a voting representative, who can also be reached during the Annual General Meeting. The Company publishes on its website the documents requested for the Annual General Meeting together with the order of business for the shareholders and thus makes them easily accessible for users. At the same time, the documents are sent directly to the shareholders by their banks. The bylaw provides for the option of postal voting.

It is naturally in the Company's interests as well as the interests of the shareholders to efficiently manage the proceedings of the Annual General Meeting quickly. Accordingly, the Articles of Association stipulate that the chair of the Meeting may appropriately limit the time allowed for shareholders to ask questions and speak. Due to the great organisational effort it would entail, full internet transmission of the Annual General Meeting is not provided for.

Transparency

Corporate Governance for NFON AG means responsible and transparent management and supervision of the Company. This especially includes the equal treatment of shareholders when information is forwarded to them. The chairperson of the Supervisory Board is, within reasonable limits, prepared to discuss with investors topics relevant to the Supervisory Board. This involves topics for which the Supervisory Board is solely responsible and which must be decided by it alone. For matters that can be decided only jointly by the Management and Supervisory Boards, talks are held either by the Management Board alone or by the chairperson of the Supervisory Board together with the Management Board.

All shareholders, financial analysts and comparable recipients are immediately informed of all new circumstances. This involves the dissemination of information in German and English, both on the website of NFON AG as well through systems that ensure simultaneous publication of information in Germany and abroad.

Key recurring publications and dates are disclosed in the financial calendar with sufficient notice. In accordance with the applicable legal requirements, NFON AG provides information on its website if members of the Management Board and the Supervisory Board as well as any related parties acquire or sell shares or associated derivatives. According to Article 19 of the Market Abuse Regulation (MAR), these persons are required to report transactions whose value reaches or exceeds EUR 5,000 in a calendar year.

Beyond the legal obligation to immediately notify and disclose trading in the Company's shares, ownership of the Company's shares or related financial instruments by Management and Supervisory Board members is also to be disclosed if such ownership amounts directly or indirectly to more than 1% of the shares issued by the Company. As the Management and Supervisory Board members' overall holdings do not exceed 1% of the Company's shares, there are no further explanations provided for overall ownership.

Financial reporting

Shareholders and third parties are informed particularly through the consolidated financial statements and during the financial year also through quarterly statements and the half-year financial report. Due to major consolidation work in line with stock exchange regulations and the Securities Trading Act, contrary to the Code's recommendation, the quarterly statements and the half-year reports are published no later than within two and three months, respectively, of the end of the corresponding reporting period.

The consolidated financial statements and interim statements are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. The legally required financial statements, which are also authoritative for taxation and dividend payment, are prepared according to the provisions of the German Commercial Code (HGB). An internal control system and uniform accounting principles ensure a true and fair view of the assets, liabilities, financial position and cash flows of all Group companies. The Management Board also ensures that the Company has an appropriate risk management and control system.

The Management Board informs the Supervisory Board regularly and promptly of any existing risks and of developments of such risks. The Supervisory Board advises on risk management and, in light of Section 107 (3) AktG as adopted by the German Accounting Law Modernisation Act (BilMoG), is explicitly concerned with monitoring the effectiveness of the risk management system, the internal control systems, the accounting process and the year-end audit, especially its independence. The Company discloses in its consolidated financial statements a list of relations to shareholders who are considered related parties as defined by IAS 24.

Statutory audit

In accordance with the resolution adopted at the Annual General Meeting of 09 April 2018, the Supervisory Board engaged KPMG AG Wirtschaftsprüfungsgesellschaft, Munich, to audit the 2018 annual and consolidated financial statements. In line with the Code's recommendations, it was agreed with the auditor that they inform the Chairman of the Supervisory Board without undue delay of any grounds for exclusion or disqualification due to impairment of the auditor's independence that occur during the audit, unless any such grounds are eliminated immediately. In addition, the auditor shall report immediately all findings and events of importance for the tasks of the Supervisory Board which the auditor becomes aware of during the performance of the engagement. The Supervisory Board shall arrange for the auditor to inform it or note in the audit report if the auditor identifies any facts that indicate an inaccuracy in the Management and Supervisory Boards' Compliance declaration regarding the German Corporate Governance Code pursuant to Section 161 AktG.

Compliance

The Management Board is required to ensure adherence to legal requirements and internal Company policies and work towards their being observed by the Group companies (compliance). Compliance matters are routinely the subject of consultation between the Supervisory Board/ chairperson of the Supervisory Board and the Management Board. The corporate culture of NFON Group is based on trust and mutual respect, as well as the will to strictly abide by laws and internal rules. Nevertheless, it can never be completely ruled out that legal violations due to an individual's misconduct might occur. Employees and third parties can report misconduct in the Company (whistle blower system https://www.corporate.nfon.de/). The Company makes every effort to minimise this risk as far as possible, uncover misconduct and rigorously follow it up. The observance of legal and ethical rules and principles is of central importance. The rules and principles, as well as responsible handling of insider information, are laid down in the Compliance Policy. These serve to provide all staff with guidance regarding integrity in business dealings. Managers and staff receive training on the compliance policy.

Information on corporate governance practices applied beyond the legal requirements

It goes without saying that the NFON Group is managed in accordance with the legal requirements. The values on which good corporate governance is based do not only require legality. They are also essentially based on ethically sound and responsible conduct. On the way to giving customers freedom in business communication, the Management Board, Supervisory Board and all employees follow five values.

Agility – Excellence – Innovation – Team Spirit – Customer Orientation

NFON does not pursue strategies slavishly to the letter. By living a culture of error and empowering people to make their own decisions, we increase their willingness to take responsibility. Our employees are our greatest asset. We recognise potential, develop and use it. At the same time, we give each of our employees the freedom to perform outstandingly. This is the prerequisite for every NFON employee to continue to develop and achieve excellence in his or her field. Because there is always something to improve. That is why it is particularly important for us to move forward with our goal as a unit. Customer orientation is not just a buzzword for us. Our customers are our friends and it is important to us to address every customer with our open, transparent and personal communication. We want to put a smile on everyone's face every day.

THE SHARE

The NFON share – Transparency creates trust

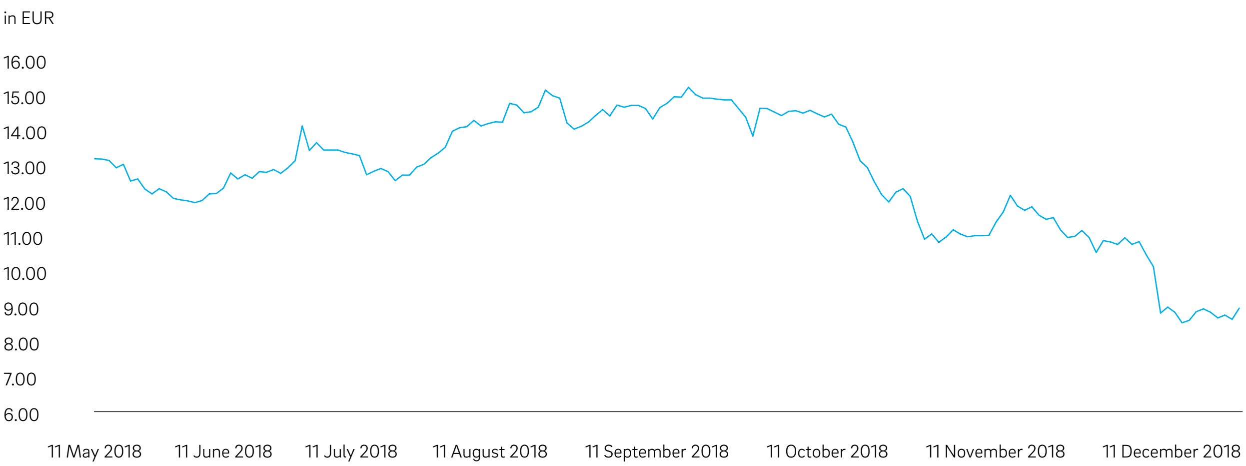
Summary of the first trading year of NFON AG on the Frankfurt Stock Exchange (Prime Standard)

Coverage (Status: March 2019)	Berenberg Bank Baader Bank Oddo BHF Hauck & Aufhäuser	Buy Buy Buy Buy	EUR 16.00 EUR 18.00 EUR 15.60 EUR 19.00
Initial listing (11.05.2018)	EUR 13.00		
Closing price (28.12.2018)	EUR 8.97		
Year high (06.09.2018)	EUR 15.31		
Year low (13.12.2018)	EUR 8.55		
Market capitalisation as at 28.12.2018	EUR 123,847,139.50		
Average trading volume	10,179 shares per day		
Conference and road-show days after IPO	6 conference days 3 roadshow days	82 meet-ings with investors	

NFON share shows positive development after IPO until October 2018

NFON AG has been listed in the Prime Standard of the Frankfurt Stock Exchange since 11 May 2018. In the nearly 11 months following the initial listing, the NFON share has experienced a volatile course. After the issue price was set at EUR 12.00 per share on 09 May 2018, trading began two days later with an initial quotation of EUR 13.00 and closed the first day of trading successfully at EUR 13.26. The upward trend continued up to the high for the year of EUR 15.31 and an increase of around 18% until 06 September 2018. At the beginning of the fourth quarter, the general uncertainty on the German stock market, driven by macroeconomic events, in particular the trade dispute between the US and China, was also clearly reflected in the performance of the NFON share. Many investors changed their investment strategies, which mainly affected small caps with a market capital-isation of around EUR 100 million. It therefore came as no surprise that the small cap DAX (SDAX) also posted a loss of 24% at the end of the year. General macroeconomic de-velopments also had an impact on the performance of the DAX, Germany's leading index, which also fell by 19% at the

Share chart



end of the year. The NFON share reached its low for the year on 13 December 2018 at EUR 8.55. At the closing price on 28 December 2018, the share price was back to EUR 8.97.

Trading volume

The trading volume of the NFON share on the XETRA platform averaged 10,179 shares traded per day over the course of 2018. 142,829 shares were traded on the first day of trading. This volume was exceeded on 30 May with 229,541 shares traded and on 31 May with 241,943 shares traded. Between August and the beginning of December, an average of only 3,896 transactions were carried out on a daily basis, a relatively small number compared with the year as a whole. In the final days of trading of financial year 2018, volumes rose again on average to 11,052.

Shareholder structure

(as at 28 December 2018 according to the voting rights notifications received)

Shareholders	Share in %	Country	City
Milestone Venture Capital GmbH	30.10	Germany	Hösbach
Earlybird Venture Capital	17.82	Germany	Berlin
MainFirst Asset Management	7.74	Germany	Frankfurt
MIG Verwaltungs AG	5.76	Germany	Munich
Universal-Investment-Gesellschaft mbH	5.12	Germany	Frankfurt
Fidelity International	3.91	UK	London
High-Tech Gründerfonds GmbH & Co. KG	3.41	Germany	Bonn
KBC Asset Management N. V.	3.04	Belgium	Brussels

All analysts recommend: Buy

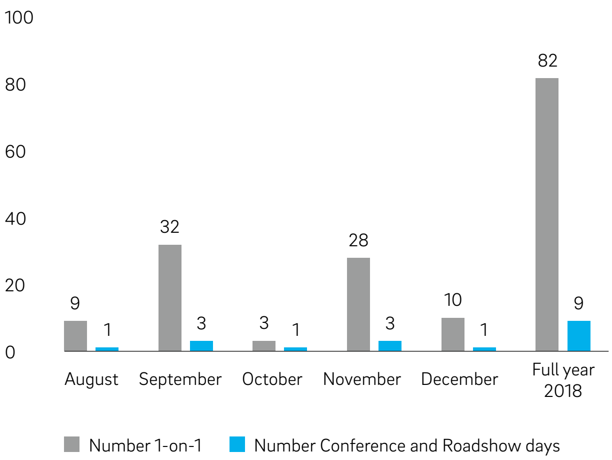
The NFON AG share was rated by four analysts in its first year on the stock exchange. While Berenberg Bank, Baader Bank, and Oddo Seydler have been covering the share since the IPO, Hauck & Aufhäuser initiated its coverage on 25 September 2018. All four analysts have recommended the share as a buy since the beginning of their coverage. Investor Relations maintains an open dialogue with the analysts, who regularly report on the Company and, in case of relevant events, provide capital market participants with an update or commentary on their current assessment. Especially against the background of the changes due to MiFID II, NFON AG sees itself in a good starting position with coverage by four analysts in order to achieve attention and a balanced valuation of the share on the capital market and among investors.

In continuous dialogue with capital market participants

NFON AG's investor relations work stands for a continuous, consistent and transparent dialogue with capital market participants. The Company regards the disclosure requirements of the Prime Standard segment of the Frankfurt Stock Exchange, in which the NFON share is listed, as a minimum requirement for its communication work. In the capital market dialogue, great importance is therefore attached to very regular capital market-oriented communication, the top priority of which is a trustworthy exchange with investors and analysts.

Besides the mandatory publications such as quarterly and annual reports and press releases, the Investor Relations department of NFON AG and its Management Board members therefore present at several investor conferences and road shows. After an intensive roadshow phase before the IPO, a large number of other roadshow and conference activities took place in August. The Management Board and the Investor Relations team used individual discussions to present NFON's business model and explain its growth strategy.

Overview of the number of investor meetings, conferences and roadshows



The conference months after the IPO in August started with a visit to the Berenberg DACH conference in Copenhagen at the end of August. In September, the Management Board gave presentations at the autumn conference of the Equity Forum in Frankfurt, the Baader Investment Conference and the German Corporate Conference of Berenberg/Goldman Sachs in Munich. At the same time, individual discussions took place at all three conferences. October ended with an initial roadshow in Zurich, followed by the German Equity Forum in Frankfurt in November, Europe's most important platform for equity financing of medium-sized companies. CEO & CFO Hans Szymanski took the opportunity to present NFON AG to numerous investors, analysts and financial journalists. In addition, the Management Board of NFON AG was able to hold talks with more than 20 investors on this day alone. In the same week, the management used the time it spent in Frankfurt for a roadshow day, followed by another in London. Another ten investor meetings were held in December at the Berenberg Conference in Pennyhill Park in London.

Over the course of the year under review, additional meetings were held as well as numerous one-on-one meetings with investors, both in person and by phone. NFON AG used telephone conferences for investors and analysts following the publication of quarterly figures as an important communication tool.

Visitors and capital market participants can find all relevant information in the Investor Relations section of the Company's homepage https://corporate.nfon.com/en/investor-relations/. In addition to the Group and half-year financial reports, quarterly reports, financial presentations, conference recordings and press releases on NFON AG are also available there. All current developments, such as voting rights notifications, can also be found there. The Company will continue its dialogue with investors and further increase its IR activities in financial year 2019. NFON's presence at international roadshows and capital market conferences is to be expanded in order to intensify existing contacts and establish new ones. A first Capital Markets Day, to which all investors are cordially invited, is also planned.

Sabina Prüser, Head of Investor Relations at NFON AG, is available to answer any questions you may have by e-mail (sabina.prüser@nfon.com) or by calling +49 (0) 89 453 00 134.

Annual General Meeting

Since its stock exchange listing on 11 May 2018, NFON AG has not yet held a shareholders' meeting. The first Annual General Meeting will take place in Munich on 05 June 2019.

Master data of the NFON share

First day of trading	11.05.2018
Number of shares	14,091,554 (as at: 22.03.2019)
Type of shares	No-par value bearer shares
Share capital	EUR 14,091,554
Voting rights	Each share entitles the holder to one vote (as at: 22.03.2019)
Security code number (WKN)[1]	A0N4N5
ISIN (International Security Identification Number)	DE000A0N4N52
Ticker symbol	NFN
Reuters symbol	NFN.DE
Bloomberg symbol	NFN.GY
Trading segment	Official Market/Prime Standard
Stock exchanges	Frankfurt Stock Exchange/Xetra
Sector	Telecommunications
Designated sponsors	Baader Bank, ODDO Seydler
Coverage	Baader Bank, Berenberg Bank, Hauck & Aufhäuser, ODDO Seydler
Paying agent	Baader Bank Aktiengesellschaft

1 Until the Annual General Meeting, NFON will have two different WKN/ISIN WKN A2TSJV – ISIN DE000A2TSJV3.

COMBINED MANAGEMENT REPORT

Profile of the Group

The Group's business model

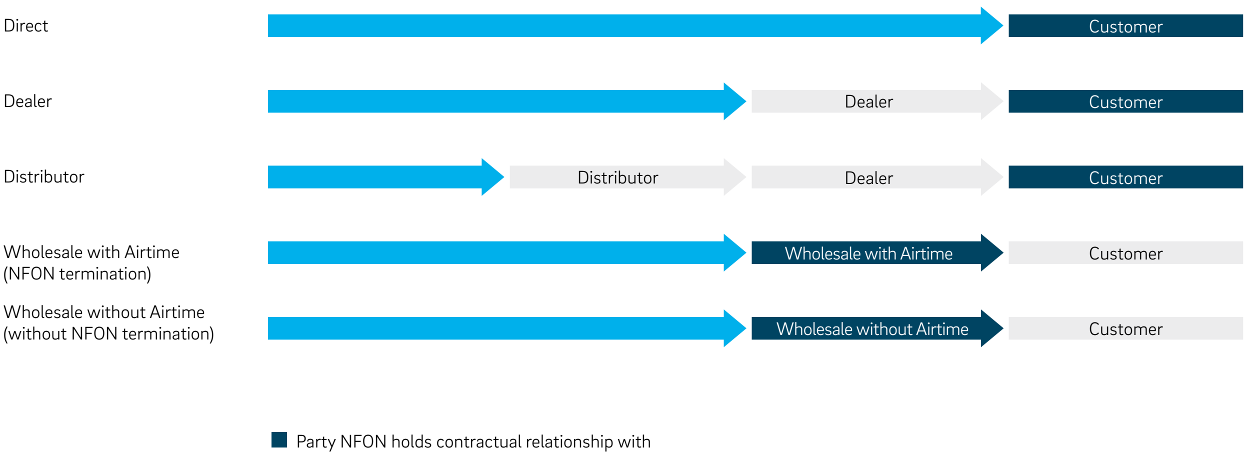
NFON AG (hereinafter referred to as 'NFON'), based in Munich, was founded in 2007 and is the only pan-European provider of cloud-based telephone systems. NFON has over 20,000 business customers in 13 European countries. NFON has affiliated companies in Germany, Austria, the United Kingdom and Spain. It also has a large network of partners for sales operations in the remaining countries.

NFON generates revenue mainly by providing cloud-based telephone services to business customers. In this process, customers are provided with the required brokerage service from the cloud in NFON data centres via the Cloud PBX (Private Branch Exchange), meaning that they do not need to have traditional telephone systems on their own premises. Generally, the customer initially pays a one-off activation fee for each extension in addition to a monthly service fee for each extension used. Furthermore, NFON can replace the telephone connection, meaning that the customer pays the fees for all telephone traffic to NFON. NFON procures this service itself from various carriers. Since November 2018, NFON AG has for the first time offered a pan-European, homogenous tariff model with its core product 'Cloudya', which covers the core functions associated with a telephone system, such as telephone conference facilities, automatic call forwarding (ACF) or the automatic forwarding of calls to the person responsible. NFON also offers premium services to over 20,000 customers. On request, NFON also sells end devices (telephones, soft clients for PCs and smartphones) and the corresponding software, which the Company procures from several manufacturers, and provides internet access on a reselling basis as required.

NFON divides revenue into recurring and non-recurring revenue. Recurring revenue includes monthly fees for the cloud PBX, ongoing call charges and SDSL monthly fees (Symmetric Digital Subscriber Line is a DSL access technology for a public digital network) as well as premium solutions such as Neorecording and Ncontact. In contrast, non-recurring revenue is one-off revenue from the sale of hardware, set-up fees for the cloud PBX or set-up fees for SDSL.

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

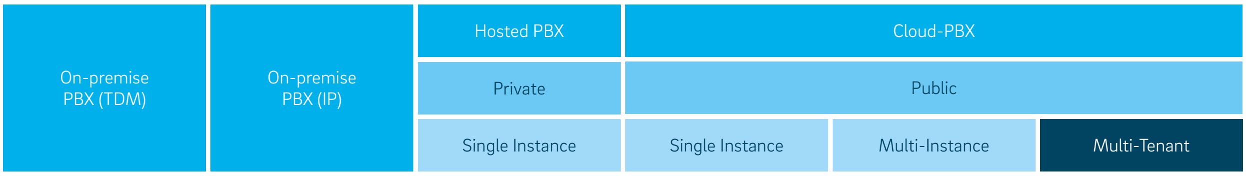
Sales are conducted through five channels with a clear focus on indirect partner sales



General market characteristics

The European market for business telephony can be broadly divided into four segments.

European business telephony market

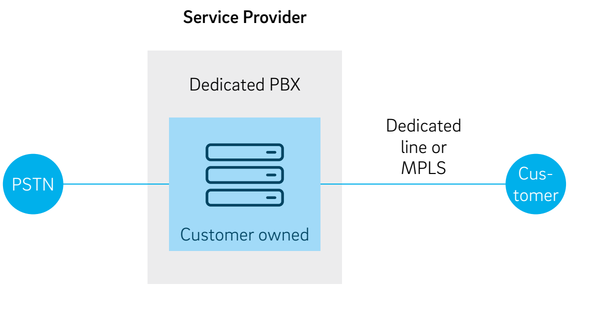


On-premise PBX (TDM) and on-premise PBX (IP) incorporate the traditional fixed telephone system installed on site. The IP-based telephone systems segment begins with hosted PBX. A distinct feature of hosted PBX is that the telephone system is operated on a server and as software but is the property of the end user, who is also responsible for maintenance (single instance).

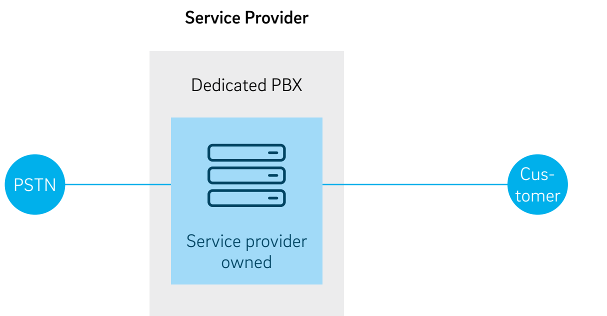
Distinguished from this are the public cloud telephone systems (PBX) again subdivided into

Single Instance, the telephone system that is the property of the service provider but in which the individual user has their own system.

Private Single Instance (1:1) (Hosted PBX)

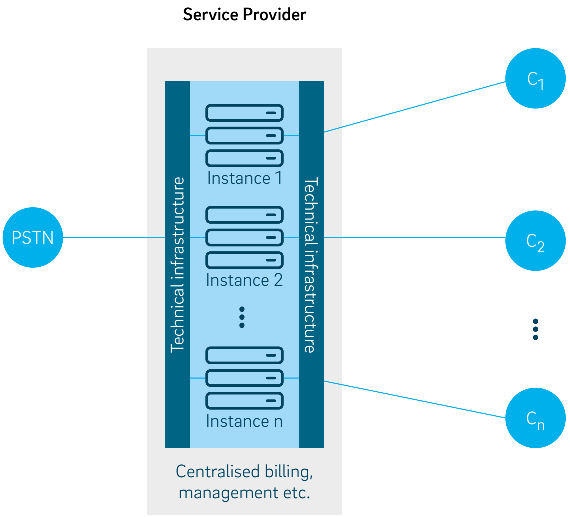


Public Single Instance (1:1) (Cloud-PBX)



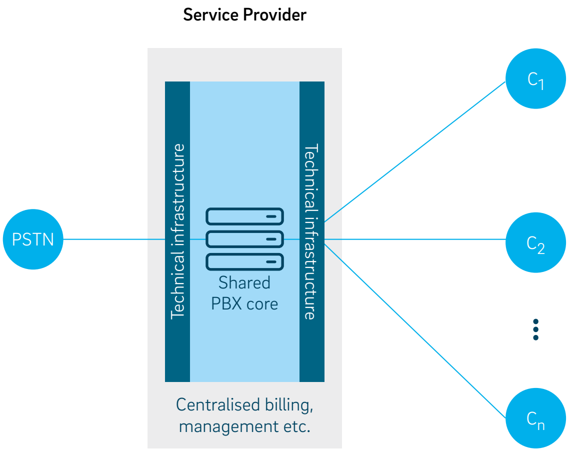
Multi-Instance, the telephone system in which the individual user/customer each owns their instance within a system.

Public Multi-Instance (n:n) (Cloud-PBX)



Multi-Tenant, the telephone system within which a number of customers/end users share one platform.

Public Multi-Tenant (1:n) (Cloud-PBX)



Objectives and strategies

As the market leader in Germany, NFON AG already holds a strong position in the highly fragmented international cloud telephony market. Using its strategy based on five growth vectors, the Group is pursuing its clearly defined aim of becoming the no. 1 for cloud telephony services in Europe.

Increase penetration and adoption	Transform product	Open APIs	Expand regionally	Capitalise on high market fragmentation
Increase marketing efforts to drive penetration of existing clients and adoption of new clients in existing markets	Roll-out of innovative features will attract additional customers, increase ARPU and add value to the core product	Further develop open APIs to allow broad access for third-party solutions	Leverage proven market entry strategy to cover continental Europe	Consolidate highly fragmented European market by capitalising on opportunities to gain further market share
Customer development +	Product development +		Market development +	Market consolidation

Expansion and further development of the customer base in existing markets

The exploitation of cross-selling and up-selling potential among the existing customer base and the continued acquisition of new customers are significant strategic components for the successful development of the Company. This requires increased awareness of the NFON brand and cloud telephony solutions. For this purpose, NFON plans to significantly increase its marketing and sales activities.

In an extremely fragmented telecommunications market, the importance of a brand that clearly shows how a purely B2B product benefits the customer cannot be underestimated. This requires a nuanced and real multi-channel-marketing approach and means combining extremely well targeted B2B communication, in particular for NFON premium solutions, with communication to a wider range of target groups. NFON aims to exploit three different main target groups:

- Channel: partners, specialists, resellers
- IT managers: IT specialists, IT departments
- Decision makers: Management Board level, CEOs

Furthermore, the existing partner network must be continuously optimised and expanded, while, in addition to marketing activities, the scope of sales must also be significantly expanded and the three main target groups specifically addressed via the appropriate sales channels to acquire them as customers.

Roll-out of innovative UCaaS functions

A key component of NFON's growth strategy is the rollout of innovative UCaaS functions and the associated further evolution of NFON from a Software-as-a-Service company to a Unified Communication-as-a-Service company. The introduction of NFON's new core product Cloudya in November 2018 represents a key milestone in the Company's growth strategy. Cloudya brings together services such as the Softphone[1] and Ncontrol[2] in one application, which makes use significantly easier for the end user. These technologies, which had previously been offered separately, fade completely into the background. Furthermore, Cloudya makes telephoning easier and thus provides the customer with a lot more freedom in their business communication. With the development and introduction of Cloudya, NFON has taken the first important step towards becoming a Unified Communication-as-a-Service (UCaaS) company. Cloudya is the basis for all further developments towards areas of further potential collaboration.

Development of open APIs

The development of open APIs (development of programme interfaces) enables the integration of the NFON Cloud telephony solutions in service solutions from third party providers, and also establishes a potential future field of activity for NFON by offering a Communication platform-as-a-Service.

Targeted further growth throughout Europe

At the start of the year, NFON was represented in 13 European countries: in Germany, the UK, Austria and Spain through its own subsidiaries and in the other countries via its dealer network. The current market conditions in European countries and the disruptive changes in the cloud telephony sector provide exactly the right environment to expand further in Europe. The first focus countries for NFON are France and Italy along with the Netherlands, where business is to be further expanded.

As at the end of financial year 2018, NFON AG was also able to take the first important step in implementing its growth strategy. On 06 December 2018 NFON Italia S.R.L. was established as an independent subsidiary of NFON AG. The Managing Director of the new Italian company has been responsible for this entity since 01 January 2019. As with the other subsidiaries of the NFON Group, it is this Managing Director's task to build up a team of sales and service staff at the same time as setting up a partner network in Italy. However, in accordance with the targets drawn up at the time of the IPO, the Company is also assessing the French market and also plans to establish its own subsidiary in France.

Consolidation opportunities in highly fragmented cloud PBX markets

The European cloud PBX market is highly fragmented. NFON plans to take an active role in the increasing consolidation of the market. In this regard, NFON could seize attractive opportunities to acquire competitors in a targeted manner and in line with established criteria, and also to take over companies with suitable, appealing technologies to complement the existing NFON product and solution portfolio. The Company would thus underline its desire to be the leader in the European cloud communications market.

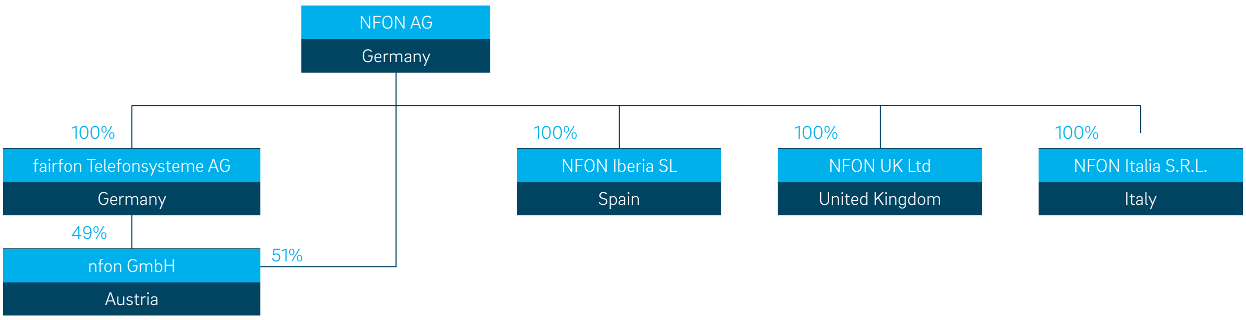
1 A Softphone is a piece of software that enables Voice over IP (VoIP) calls to be made online. This type of software can be installed on a computer, laptop or a mobile device. The user interface often resembles a standard phone with a keypad and further controls such as call, hang up and contacts. Examples of Softphones include the NFON cloud telephone system and Skype for Business.

2 The Ncontrol user interface enables every user to easily and individually manage their extension.

Organisation

Group structure and locations

The Group structure as at 31 December 2018 is shown in the following figure.



Management and control

The members of the Management Board work in close collaboration 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 and provides it with advice. Since the prior financial year, the Chairman of the Supervisory Board, Rainer-Christian Koppitz, has been joined by Dr Rupert Doehner (Deputy Chairman), Ralf Grüßhaber and Angélique Werner.

Employees

The number of employees as at 31 December 2018 compared to the prior year is broken down as follows by regions and functions:

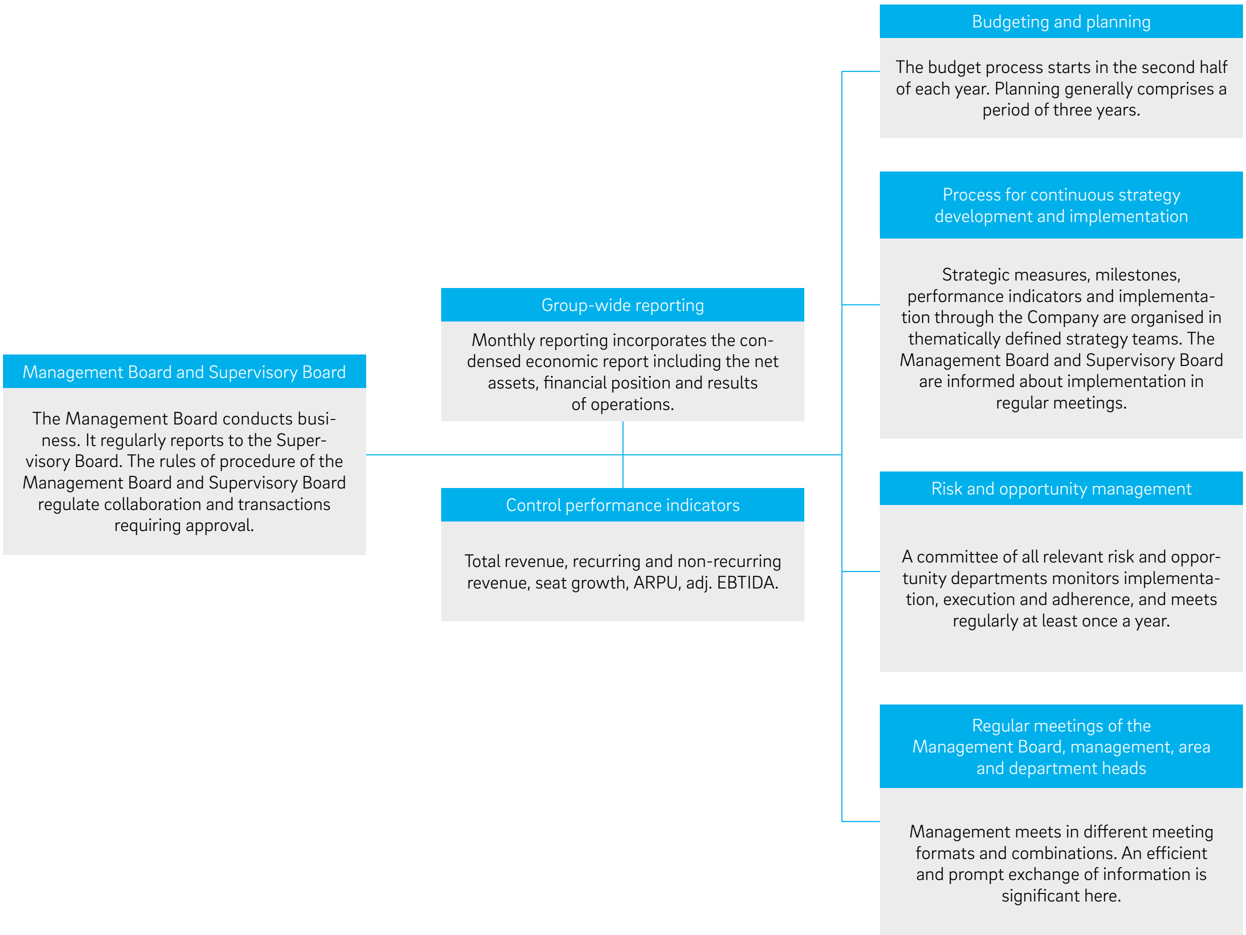
Regions	2018	2017	Change
Germany	177	146	21.2%
United Kingdom	37	23	60.9%
Austria	25	19	31.6%
Spain	6	7	–14.3%
Total	**245**	**195**	**25.6%**

Function	2018	2017	Change
Administration	36	28	28.6%
Support	47	31	51.6%
Sales & Marketing	100	81	23.5%
Research & Development including Technical Support	62	55	12.7%
Total	**245**	**195**	**25.6%**

Management

Control systems

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



Financial and non-financial performance indicators

The NFON Group is managed using the following performance indicators:

- Seat growth
- Total revenue
- Recurring and non-recurring revenue
- Recurring and non-recurring revenue as share of total revenue
- ARPU (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. NFON AG has defined total revenue and the share of recurring revenue as key financial performance indicators. Furthermore, the Company also treats the development of seats (total number of extensions and licences used by customers) as a key non-financial performance indicator.

NFON divides revenue into recurring and non-recurring revenue. Recurring revenue includes monthly fees for the cloud PBX, ongoing call charges and SDSL monthly fees (Symmetric Digital Subscriber Line is a DSL access technology for a public digital network) as well as premium solutions such as Neorecording and Ncontact. In contrast, non-recurring revenue is one-off revenue from the sale of hardware, set-up fees for the cloud PBX or set-up fees for SDSL. Recurring and non-recurring revenue is calculated as a share of total revenue.

NFON uses average revenue per user (blended ARPU) as a further sales-related financial performance indicator, which is calculated from the average total recurring revenue per month divided by the average number of seats per month in each year including revenue and seats from end customers that have a contractual relationship with our wholesale partners.

The Group uses earnings before interest, taxes, depreciation and amortisation (EBITDA) to measure operating performance and the success of the individual business units. Non-operating expenses such as costs from the successful IPO or one-off expenses associated with taxes and matters pertaining to social security are subtracted for purposes of measuring operating performance to give the adjusted EBITDA.

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

in mEUR	2018	2017	Change
Total revenue	**43.0**	**35.7**	**20.7%**
Recurring revenue	34.6	27.8	24.6%
Recurring revenue as share of total revenue (in %)	80.4	77.9	
Non-recurring revenue	8.4	7.9	7.0%
Non-recurring revenue as share of total revenue (in %)	**19.6**	**22.1**	
ARPU blended[1] (in EUR)	9.92	10.32	–3.88%
Seats	**320,728**	**253,360**	**26.6%**
Adjusted EBITDA[2]	–1.2	0.2	n/a

1 Based on average number of seats per month every year.

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

In line with the forecast for the NFON Group published in May last year, the key performance indicators have developed as follows:

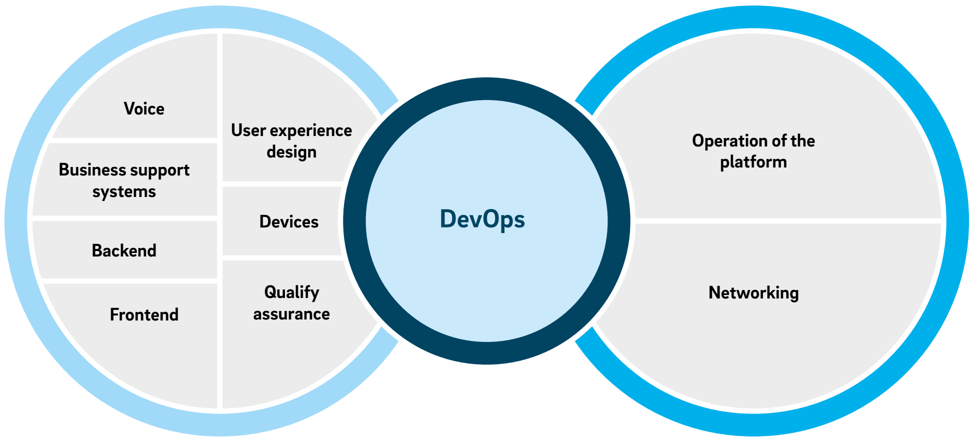
	2017	Expectation 2018	Change	2018	Deviation
Total revenue	EUR 35.7 m	Significant improvement in revenue growth rate compared to prior year 2017	+20.7%	EUR 43.0 m	The forecast for 2018 was met in full.
Recurring revenue as share of total revenue	77.9%	Recurring revenue as a percentage of total revenue to be between 75% and 80%.		80.4%	This percentage was at the upper end of the forecast.
Seat growth	253,360	The number of seats will grow by approx. 30% over the prior year.	+26.6%	320,728	The forecast was nearly met with about 10% deviation.

Research & development

The research & development department concentrates both on the development of new products and services and also on the development of product expansions and new functions for existing products and services, which are made available to NFON customers through regular updates.

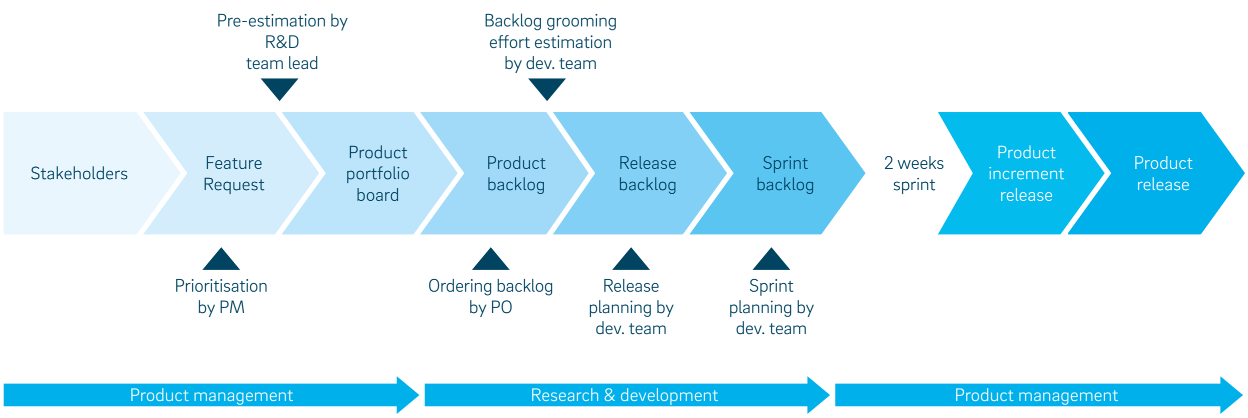
Products and services are developed internally using agile software development involving the following areas:

Agile development



R&D centres Munich, Mainz, Berlin

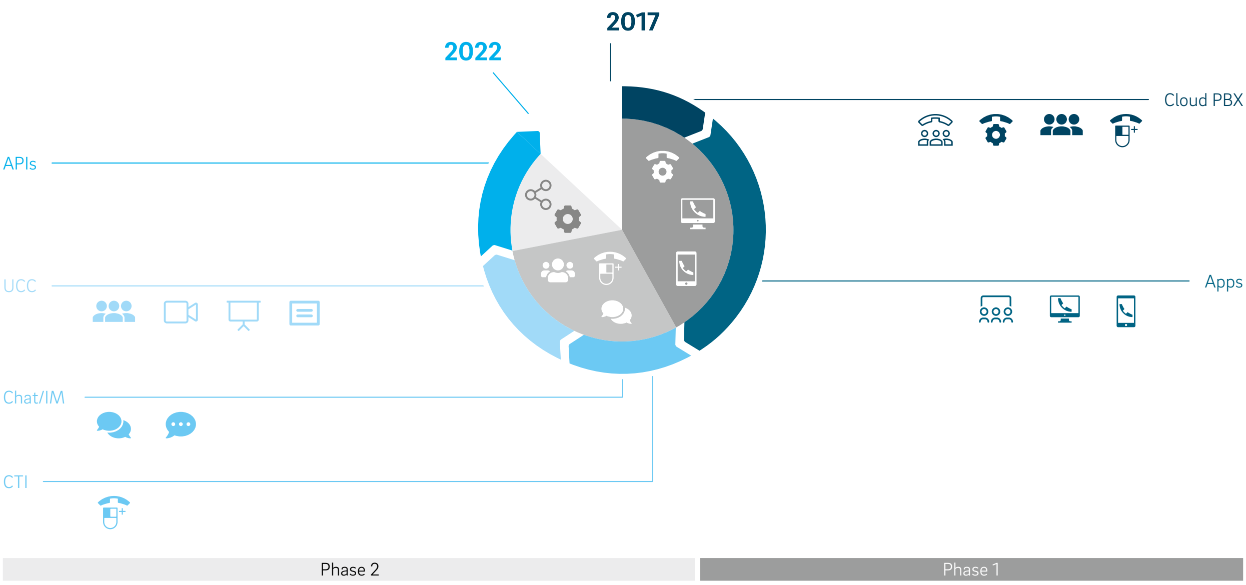
NFON develops its products following a clearly defined process.



NFON is currently focusing its R&D activities on the further development of the new NFON client Cloudya[3]. The new solution is the first step towards transforming the successful cloud telephone system into a communication service platform. It forms the basis for further features, technologies and services, which will enrich the NFON platform in the future.

The initial focus of integration from a user perspective is on extension management and the soft phone functionalities. In the near future all customer-orientated services are to be integrated into the solution. Ultimately, the customer will be able to experience a uniform service which meets all of their needs in daily business communication.

Roadmap Research & Development

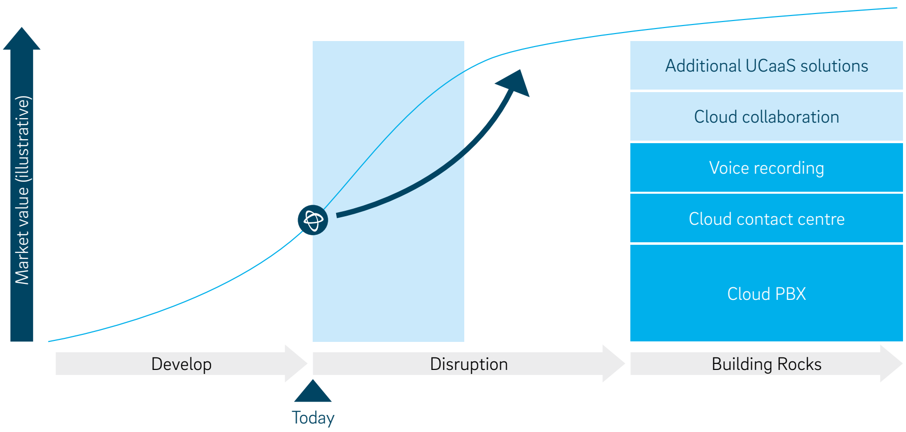


Further UCaaS solutions such as video conferencing and collaborative functions, e.g. screen sharing or chat functions, are planned for Cloudya.

NFON believes that the integration of additional UCaaS solutions is a necessary step towards meeting the demand for more comprehensive communication solutions in a rapidly changing work environment and fully meeting customer demands.

3 In this context client means the system used by the NFON cloud telephone system to make calls and manage the telephones.

European cloud business communication market development



In particular the issue of customer requirements and customer focus will also be a decisive factor in gaining and committing customers in the future. This requires appropriate interfaces between research & development, product management and customers. This task has been assumed by the Technical Consultant function at NFON. The tasks can for the most part be divided into pre-sales support and solution design as well as project management and configuration and migration support. The following table gives an example of the sub-tasks:

Pre-sales support and solution design	Project management/ configuration and migration support
Evaluation of special requests, setting up feature requests in product management	Project and migration planning
Development of tailor-made solutions in respect of technical functionality and feasibility	Configuration and putting into operation PBX and premium solutions
Support with testing and proof of concepts	Go live support

As at 31 December 2018, the R&D department, including the Technical Consultants division, numbered 62 staff.

Economic report

General economic conditions and industry environment

Overall economic development in Europe and trends in the PBX market

The sustained economic growth[4] over recent years in Europe reached its peak in 2017 and has declined somewhat ever since. GDP growth of 2.1% was estimated for the eurozone in the prior year. However, the fundamentals for sustainable growth in the single European market are still in place. The euro area continues to benefit from the expansive monetary policy of the central bank, improved labour market conditions and rising wages. In the course of the coming year, the economy will likely grow at a slower pace than 2018. The European Commission forecasts growth of 1.9%.

GDP growth for 2018 in the German domestic market is estimated to be 1.7% over the whole year. In January 2019, the German government lowered the growth forecast for 2019 to 1.0%. Also the ifo Business Climate Index presents a somewhat less hopeful picture at the end of 2018 than at the start of the financial year. Apart from a slight upturn in August, the trend indicator for the German economy developed negatively over the course of the year and ended on 101.0 points.

In NFON AG's largest foreign market, the UK, GDP growth is expected to be 1.3% in 2018 after having been 1.7% in 2017. According to experts, the UK economy is suffering from the uncertainty created by the planned exit from the EU. Therefore, the forecast for the future remains subdued, with predicted GDP growth of 1.2% for 2019.

Significant sales markets and the competitive position of the NFON Group

NFON AG operates as a provider solely in the highly fragmented European market for cloud telephone systems. In its German domestic market, NFON AG has a market share of more than 25% based on the published data of MZA 2017[5] and its own estimates, and is thus market leader in the field of multi-tenant cloud telephone systems in Germany. In addition to sales in Germany, the Europe-wide sales are carried out by NFON's subsidiaries in the United Kingdom, Austria and Spain as well as a dense partner network of more than 1,100 partners. The NFON Group also benefited from the sustained trend to cloud-based solutions for telephone systems in financial year 2018. Customers of all sizes can be connected to cloud telephone systems via the sales channels. Nevertheless it can be seen that the majority of NFON customers belong to the small and medium-sized segment.

As regards the development of the European market for telephone systems, a clear shift – continuing the trend in the prior year – can be observed from traditional on-premise telephone systems (PBX – Private Branch Exchange) to hosted/cloud telephone systems. From the perspective of the Company, there are various reasons for this. Two main reasons are:

- Using hosted/cloud telephone systems as opposed to classic telephone systems brings significant advantages that correspond to the general change in the demands of working life. The advantages include flexibility, mobility and independence. Included in this are all the advantages of Software-as-a-Service. No costs are incurred to operate the system and the customer only pays for what they actually use and need, meaning that they can save up to 50% of their overall costs.
- This trend is accelerating as the telephone companies will change from ISDN to All-IP in the foreseeable future. Therefore, standard telephone systems will no longer be usable.

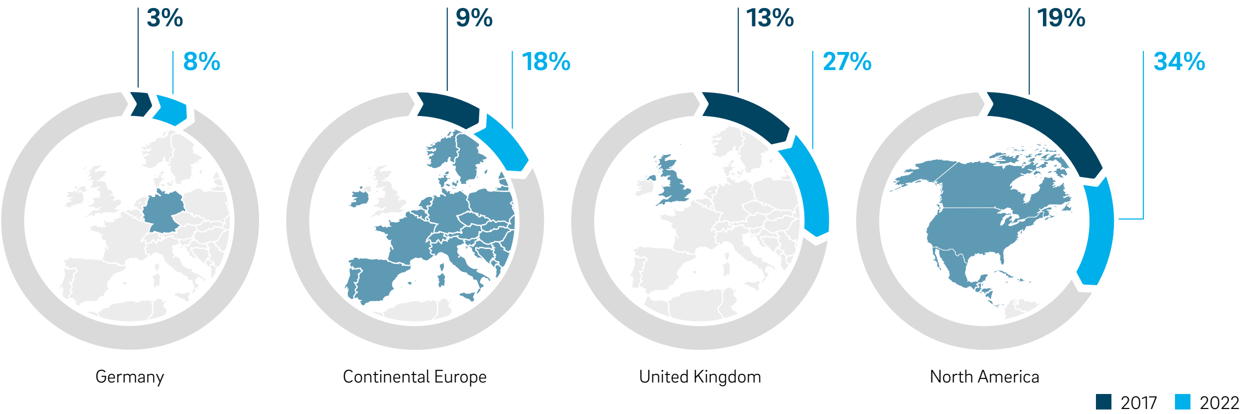
Overall, the European market was estimated to comprise approx. 135 million telephone extensions (PBX seats) as at the end of the prior financial year (2017). This involves cloud PBX seats including approx. 10 million public multi-tenant seats. In comparison to the North American market, which generally leads the way in terms of key technological trends, the market has huge potential. With a penetration rate of 19% at the end of 2017, North America is twice as well developed as continental Europe.

4 Source: European Commission – European Economic Forecast, Autumn 2018 (November, interim).

5 MZA 2017 The German Hosted/Cloud Business Telephony Market.

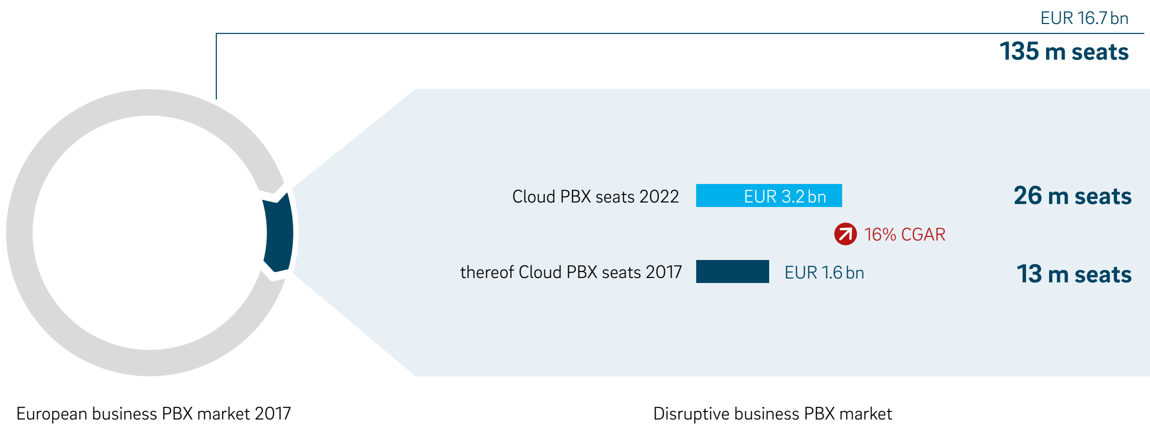
Continental Europe is expected to reach the penetration rate of North America in around five years.

Cloud PBX penetration



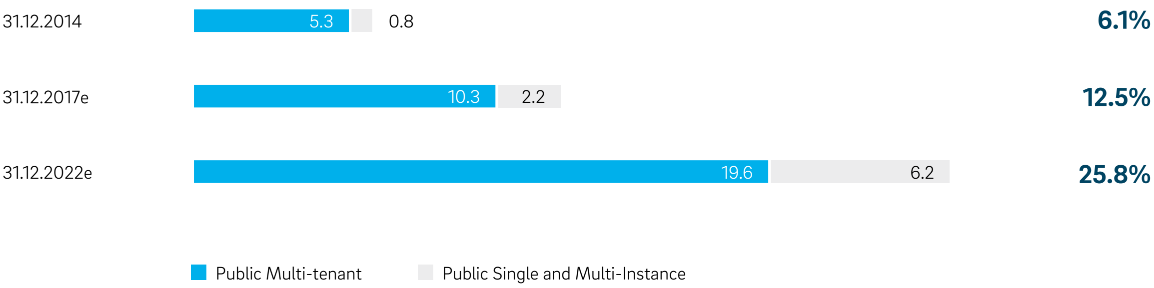
For the German and British markets, this roughly represents a doubling of the current penetration rate. In terms of overall market development, a compound annual average growth rate (CAGR) of approx. 16% is expected, meaning that the number of cloud seats in the European market could have increased to approx. 26 million by around 2022.

Cloud PBX penetration Europe



In terms of the various PBX that are available, there is a significant trend related to absolute growth towards public multi-tenant PBX – the sector in which NFON exclusively operates.

Trend to Public Multi-tenant PBX



The public multi-tenant cloud PBX market in Germany and the United Kingdom

The large number of local telephone systems (TDM and IP) in Germany can be put down to several factors. However, it is mainly because German customers have in the past been conservative regarding the introduction of cloud PBX delivery models. The number of multi-tenant seats in Germany is expected to increase by more than 20% each year from 2017 to 2022. [6]

The total PBX market in the UK has significantly fewer seats in comparison to Germany. However, it does have a higher cloud PBX penetration rate. In general, there is considerably stronger affinity for internet-based technology in the UK – comparable with that in North America. This doubtless goes hand-in-hand with the lower risk aversion in terms of using data. As at 31 December 2017, the estimated number of public multi-tenant PBX seats in the UK amounted to approx. 1.8 million. This figure is expected to almost double from 2017 to 2022.

Development of cloud PBX in future markets

In France the estimated number of public multi-instance and multi-tenant PBX seats amounted to 1.3 million by the end of 2017. The number of public multi-instance and multi-tenant seats in France is expected to increase from 2017 to 2022 by approx. 26% to a total of 4.2 million. The estimated number of public multi-instance and multi-tenant PBX seats in Italy amounted to 0.2 million by the end of 2017. By 2022 this figure is expected to increase by approx. 34% per annum to a total of 1.0 million. There were 1.6 million seats in Belgium and the Netherlands at the end of 2017. The total number of public multi-instance and multi-tenant PBX seats in these countries is expected to climb to a total of 3.2 million. This corresponds to an annual growth rate of approx. 15% by the end of 2022.

6 Source: Cavell 2017

Presentation of the Company's performance

Comparison of the actual with the forecast business performance in 2018

	Forecast 2018	Actual 2018	Explanatory note
Total revenue	considerably higher revenue compared to prior financial year (17.3%)	20.7%	As forecast, actual revenue growth was considerably higher than in the prior year. This increase in revenue growth resulted mainly from intensified marketing activities, the increased number of sales staff across the Group and the enlarged partner network which also sells NFON products.
Share of recurring revenue to total revenue	is between 75% and 80%	80.4%	The share of recurring revenue is at the upper end of the forecast range for financial year 2018. The high share of recurring revenue shows the strength of the business model.
Growth of seats (extensions installed at customer) for the full year	considerable growth of customer base (seats) of approx. 30%	26.6%	Despite the slight delay in winning new customers, the forecast was nearly fulfilled with about 10% deviation.

Overall, NFON AG developed favourably relative to its forecast for the full 2018 year issued in May. The attraction of NFON's business model is evident in the development of the number of seats, which grew by 26.6% over the prior year, and will provide a sustained revenue contribution. Revenue growth of 20.7% was clearly above total revenue growth in financial year 2017 (end-2017: 17.3%). With a share of revenue of 80.4% (end-2017: 77.9%) the share of recurring revenue is at the upper end of the forecast range between 75% and 80% for the full year 2018. As expected, the Company is currently experiencing a slight decline in blended ARPU. Blended ARPU includes all revenue, irrespective of the sales channel generating the revenue, which produces a mix effect. The revenue effect from highly successful current sales with wholesale partners excluding voice minutes (airtime) is evident here; compared to other sales channels this does not contribute any voice minute share to revenue but equally lower costs are incurred on the part of NFON. With the Cloudya core product launched in the financial year 2018, a basis was achieved which not only counters the ARPU trend but also constitutes a significant cornerstone for further growth of NFON in the direction of being a UC provider and thus provides for additional growth.

2018 was the first trading year for NFON AG. NFON invested the fresh capital raised through the successful IPO in part already successfully in the implementation of the growth strategy. These expenses are evident in the increased personnel and marketing costs in the course of the year and resulted in a planned negative EBITDA of EUR –7.8 million. Adjusted for IPO expenses, the retention bonuses granted in connection with this and the one-time charges due to the share-based payment, NFON reported a slightly negative EBITDA of EUR –1.2 million.

Financial performance

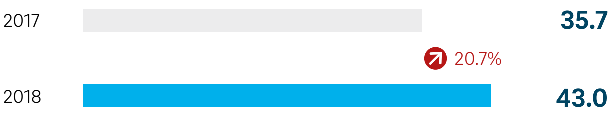
Development of key items in the consolidated statement of profit or loss and OCI

in mEUR	2018	2017	Change in %
Revenue	**43.0**	**35.7**	**20.7**
Cost of materials	11.1	9.7	14.2
Gross profit	**31.9**	**25.9**	**23.1**
Other operating income	1.3	0.5	174.8
Personnel expenses	22.1	13.7	60.7
Other operating expenses	18.9	13.6	38.7
EBITDA	**–7.8**	**–1.0**	**n/a**
Adj. EBITDA	**–1.2**	**0.2**	**n/a**
Amortisation and depreciation	0.7	0.7	2.8
EBIT	**–8.5**	**–1.7**	**n/a**
Net interest expense	–0.1	–0.1	n/a
Income tax expense/income	0.5	–0.2	n/a
Consolidated loss	**–8.1**	**–2.0**	**n/a**

Group revenue

At 20.7%, revenue growth is considerably higher than in the prior year

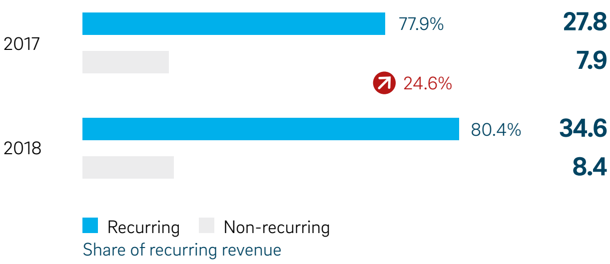
Revenue Performance in mEUR



Revenue growth in financial year 2018 primarily stems from acquiring new customers and existing customers increasing the number of installed extensions (to 320,728 seats), particularly in Germany, the UK and Austria, as well as the expansion of the product portfolio.

Recurring revenue at the upper end of the forecast range of 75% to 80%

Recurring/non-recurring revenue in mEUR



Recurring revenue essentially includes monthly payments of a fixed licence fee per seat plus a fixed or volume-based fee for the use of voice minutes. With a share of total revenue of 80.4% (PY: 77.9%), the share of recurring revenue is at the upper end of the forecast range between 75% and 80% for the full year 2018. Non-recurring revenue includes, among others, sales revenue from the sale of devices or corresponding software (phones, soft clients for PCs and smartphones) and the one-time activation fee per extension upon initial connection.

Revenue performance by segment

The breakdown by segment corresponds to the individual legal entities of the NFON Group, which includes a subsidiary each in Germany, Austria, the United Kingdom and Spain in financial year 2018. Excluding the German corporation, which is also responsible for research and development within the Group, the entities mainly act as sales companies in their domestic markets, based on the same business model and range of services.

The determination and presentation of segment reporting on 31 December 2018 has been modified in relation to the notes in the consolidated financial statement from 31 December 2017. On 31 December 2017, reporting to management was based on management reporting for which the segments were based on the main geographic markets, which did not necessarily correspond to the legal entities. In the first quarter of 2018, NFON AG revised the organisation of corporate control and amended reporting in such a way that in future the operating segments will correspond to the legal entities of the NFON Group. The Group comprises four operating segments which are presented separately below as reportable segments. The four operating segments are NFON AG, nfon GmbH, NFON UK Ltd and NFON Iberia SL.

Following this, the segment information for the activities in financial year 2018 is presented on the basis of the new segment structure. The values for the prior year were also adopted to the new structure. Operating segments are reported on in such a way that the report corresponds to the internal reporting to the chief operating decision-makers.

The generated revenue of the entire Group with external customers is broken down to the individual legal entities as follows and is reported in accordance with the local financial reporting framework:

in mEUR	2018	2017
NFON AG	31.8	26.6
nfon GmbH	4.7	4.1
NFON UK Ltd.	6.2	4.9
NFON Iberia SL	0.3	0.1
Total revenue of reportable segments	**43.0**	**35.9**
All other segments	0.0	0.0
Reconciliation effects	0.0	–0.2
Total Group revenue	**43.0**	**35.7**

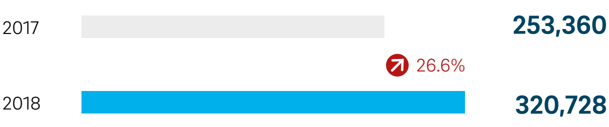
The favourable revenue performance in segment NFON AG from EUR 26.6 million to EUR 31.8 million is based mainly on the seat base being clearly higher than the prior year, which resulted directly in increased recurring revenue. In addition, non-recurring revenue increased due to the increased activation fees for new seats.

For the same reasons revenue in the segment nfon GmbH increased from EUR 4.1 million to EUR 4.7 million. Owing especially to the intensified expansion of the business with wholesale partners, revenue in the segment NFON UK Ltd. increased from EUR 4.9 million to EUR 6.2 million.

In line with the forecast, revenue performance in the segment NFON Iberia SL developed somewhat more hesitantly, rising by just EUR 0.2 million from EUR 0.1 million to EUR 0.3 million; in this respect the partner network is only in the set-up phase and structural market requirements still need to be overcome.

Forecast development of seats the forecast was nearly fulfilled with about 10% deviation

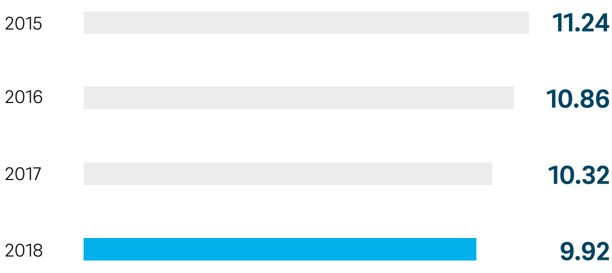
Seat growth in kEUR



NFON uses the mixed average recurring revenue per user from all services, sales channels and countries – 'blended ARPU' (Average Revenue Per User) – to measure the operating performance of current business. The ARPU is calculated from the average recurring revenue across all sales channels including wholesale partners without voice minutes per month divided by the average number of seats per month. In particular revenue from the highly successful developing business with wholesale partners without voice minutes affects blended ARPU as compared to other sales channels the share of revenue is lower owing to the absence of revenue from voice minutes. For this reason a decline in ARPU is visible overall. NFON is countering this trend by increasing the sale of premium solutions, which enables the business to generate additional revenue per user.

Declining trend in blended ARPU is slowing

ARPU in EUR per month



Other operating income

Other operating income increased considerably in the 2018 reporting period by 174.8% to EUR 1.3 million (PY: EUR 0.5 million); this includes one-off contributions of EUR 0.7 million of existing investors in connection with the assumption of agreed Management Board bonuses in the event of a transfer of shares.

Cost of materials

The increase in cost of materials was disproportionately lower than revenue; cost of materials rose by approx. 14.2% from EUR 9.7 million in the prior year to EUR 11.1 million in financial year 2018. This is due to the purchase of hardware, purchased software deployment and voice minutes as well as costs for the operation of the data centre.

Personnel expenses

Personnel expenses increased year-on-year by approx. 60.7% in financial year 2018 to EUR 22.1 million (PY: EUR 13.7 million). One reason for this considerable increase is the continuous, strategic increase in staffing. Another is that the increase in personnel expense is significantly due to one-off effects from share-based payment plans and granted bonuses.

The share-based payment of EUR 3.6 million (PY: EUR 0.2 million) is based on agreements made in prior years, with existing and former members of the Management Board, for which debt assumption was agreed with the existing shareholders. The claims from these share-based payment plans have in part not been met due to the bonus agreement concluded in connection with the IPO. As a result, the amount was not and will never be disbursed at any time, but must be recognised in the full amount through profit or loss in the capital reserve under IFRS 2.

Granted bonuses of EUR 1.6 million relate first to members of the Management Board, although it should be noted that these bonuses are borne by the existing shareholders, which is why corresponding relief of EUR 0.7 million is recognised under other operating income (please refer also to the note 'Other operating income'). On the other hand, they relate to the retention programme for senior management, which – as in the case of the Management Board bonuses granted – is related to the IPO.

In addition, personnel expenses have been lowered by EUR 0.1 million due to the reversal of the provisions formed in the prior year for one-off effects relating to tax and social insurance matters.

In total, personnel expenses were adjusted by EUR 5.0 million; this nevertheless contrasted with an adjustment of other operating income of EUR 0.7 million for the adjustment of EBITDA.

Based on reported personnel expenses, the personnel expenses ratio in relation to revenue amounted to 51.3% compared to 38.5%. Adjusted for the specified one-time effects of EUR 5.0 million, personnel costs increased year-on-year by just 28.5% to EUR 17.1 million. This corresponds to an adjusted personnel expense ratio of 39.6% after 37.2% in the prior year.

Other operating expenses

Other operating expenses considerably increased year-on-year by EUR 18.9 million in financial year 2018 (PY: EUR 13.6 million). This is mainly due to increased expenses for marketing and increased sales commissions corresponding to the rise in revenue.

This resulted in an unadjusted expense ratio of 43.9% for financial year 2018 compared to 38.2% for 2017.

In addition, legal and consulting expenses in the course of the successful IPO, mainly legal costs for the preparation of the prospectus and auditor fees for the comfort letter as well as other transaction costs, increased other operating expenses in the amount of EUR 2.4 million.

Adjusted for one-off effects totalling EUR 2.3 million, other operating expenses in the reporting period increased by just 26.9% to EUR 16.5 million from an adjusted EUR 13.0 million in the prior year. This corresponds to an adjusted ratio in respect of revenue of 38.5% after 36.6% in financial year 2017.

Marketing expenses

Investments in marketing are an essential element to gain new market shares, which has been attributed the utmost priority by management. As planned, NFON has reinforced its investment in marketing due to the additional liquidity provided by the successful IPO. Marketing expenses therefore increased by 49.9% to EUR 5.5 million over financial year 2017 (PY: EUR 3.6 million).

Selling expenses

Selling expenses rose in the 2018 reporting period to EUR 4.3 million (PY: EUR 3.6 million). In terms of revenue, this represents a stable year-on-year ratio of approx. 10.0% (PY: 10.1%). Selling expenses include in particular payment commissions to NFON AG's sales partners, which participate in a proportionate share of revenue.

Amortisation and depreciation

In the financial year 2018, amortisation and depreciation remained unchanged over the prior year at EUR 0.7 million.

Interest income/loss

The net interest expense (interest and similar income less interest and similar expenses) amounted to EUR 0.1 million in financial year 2018 (PY: EUR 0.1 million).

EBITDA by segment

The determination and presentation of segment reporting on 31 December 2018 has been modified in relation to the notes in the consolidated financial statement from 31 December 2017. On 31 December 2017, reporting to management was based on management reporting for which the segments were based on the main geographic markets, which did not necessarily correspond to the legal entities. In the first quarter of 2018, NFON AG revised the organisation of corporate control and amended reporting in such a way that in future the operating segments will correspond to the legal entities of the NFON Group. The Group comprises four operating segments which are presented separately below as reportable segments. The four operating segments are NFON AG, nfon GmbH, NFON UK Ltd and NFON Iberia SL.

Following this, the segment information for the activities in financial year 2018 is presented on the basis of the new segment structure. The values for the prior year were also adopted to the new structure. Operating segments are reported on in such a way that reporting corresponds to the internal reporting to the chief operating decision-makers.

The breakdown by segment corresponds to the individual legal entities of the NFON Group, which includes a subsidiary each in Germany, Austria, the United Kingdom and Spain in financial year 2018. Reporting is in accordance with the local reporting framework. The reconciliation effects include both the adjustments for non-recurring items of the period made in internal reporting as well as the adjustments to EBITDA according to IFRS.

in mEUR	2018	2017
NFON AG	3.9	9.6
nfon GmbH	–1.7	–6.3
NFON UK Ltd.	–1.9	–2.9
NFON Iberia SL	–1.2	–1.0
Total adjusted EBITDA of reportable segments	**–0.9**	**–0.5**
All other segments	0	0
Reconciliation effects	–6.9	–0.5
Group EBITDA	**–7.8**	**–1.0**

EBITDA, EBIT, consolidated profit/loss

in mEUR	2018	2017
EBITDA	**–7.8**	**–1.0**
IPO costs (other operating expenses)	2.4	0.2
Retention bonus	0.8	–
Share-based payment plan	3.6	0.4
Cash settled	–	–
Other non-recurring items (other operating expenses)	–0.2	0.6
Total amount of adjustments of EBITDA	6.6	1.2
EBITDA adjusted	**–1.2**	**0.2**
EBIT	–8.5	–1.7
Consolidated loss	–8.1	–2.0
Consolidated loss adjusted	**–1.5**	**–0.8**

Financial position

Regular controlling of liquidity ensures that liquidity bottlenecks can be recognised at an early stage and countermeasures taken, where necessary. There were no liquidity bottlenecks during the reporting period. The Company met its payment obligations on time during the reporting period. As at the reporting date, cash and cash equivalents equalled EUR 41.4 million.

Financing analysis

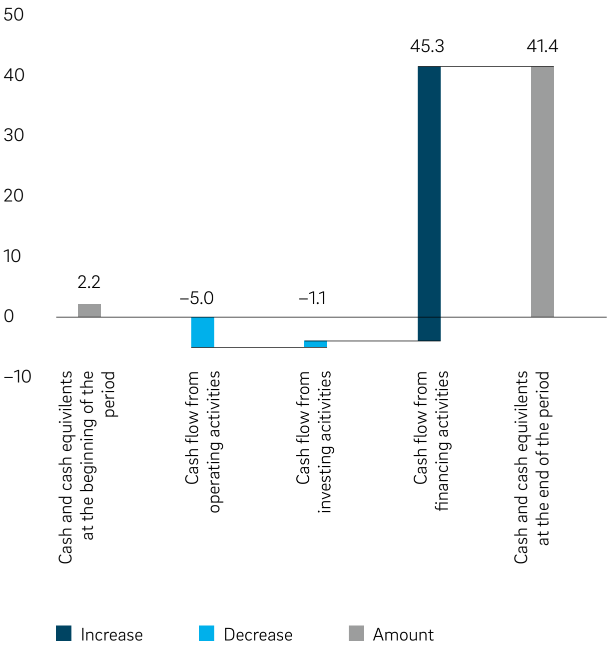
IPO and proceeds

The Company has been successfully listed in the Prime Standard of the Frankfurt Stock Exchange since 11 May 2018. In connection with and for the purpose of the offer, the Company issued 4,166,666 new shares by way of an IPO. The capital increase was approved by the Management Board on 09 May 2018 with approval of the Supervisory Board on the same day on the use of authorised capital. With entry of the implemented capital increase in the Commercial Register, the share capital of the Company amounts to EUR 13,806,816.00 and is divided into 13,806,816 no-par value bearer shares. All shares in the Company are fully paid. The IPO resulted in net proceeds of approx. EUR 47.7 million. NFON AG primarily used the funds raised from the IPO for financing in financial year 2018.

Investment analysis

The investments made in the reporting period in property, plant and equipment in the amount of EUR 0.9 million almost wholly (EUR 0.9 million) pertain to expenses for IT infrastructure and server hardware to create a corresponding basis for the planned growth.

Liquidity analysis in mEUR



Earnings after tax of EUR –8.1 million were reduced by EUR 3.6 million in operating cash flows, inter alia by the share-based remuneration in the course of the IPO, which is recognised as an increase in the capital reserve. The sum of trade receivables and payables contributed EUR –0.7 million. In addition to amortisation and depreciation of EUR 0.7 million and income tax of EUR –0.5 million, various smaller amounts, which are almost eliminated in aggregate and are broken down in the notes, contributed to the change in cash flows from operating activities.

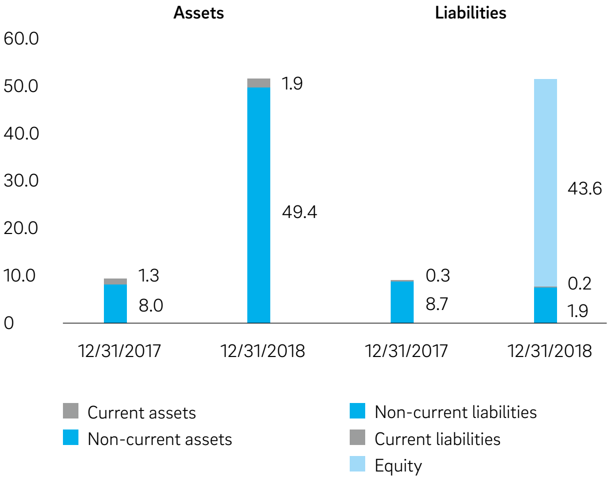
Cash flows from investing activities of EUR –1.1 million largely included investments in property, plant and equipment of approx. EUR 0.9 million. These include IT infrastructure and server hardware to create a corresponding basis for the planned growth, as well as other operating and office equipment which was mainly necessary in the course of leasing new office space. EUR 0.1 million was invested in intangible assets in the form of the further development of NFON software.

The proceeds from the IPO have placed NFON in a comfortable position in respect of liquidity. They contributed a net EUR 47.7 million, after the deduction of IPO costs and the reimbursement of costs by existing shareholders, to cash flows from financing activities. These were further reduced in total primarily by payments to the seller of the outstanding amounts relating to the acquisition of non-controlling shares in the subsidiary nfon GmbH in the amount of EUR 2.3 million.

On 09 May, 2018, the Management Board decided with the approval of the Supervisory Board a capital increase by 4,166,666 bearer shares without par value within the scope of the IPO decided. The share capital of the Company thus amounted to EUR 13,806,816 at this date.

Assets and liabilities

Diagram of the Balance Sheet Structure in mEUR



Non-current and current assets

in mEUR	2018	2017	Explanatory notes/changes
Property, plant and equipment	1.4	1.0	Increase due to investment in IT infrastructure and server hardware to create a corresponding basis for the planned growth, as well as other operating and office equipment which was mainly necessary in the course of leasing new office space.
Intangible assets	0.2	0.2	
Other financial assets	0.0	0.0	–
Non-current assets	**1.9**	**1.3**	
Trade receivables	5.9	4.6	With the increasing customer base, at the same time amounts invoiced which are currently owed by customers increase almost proportionately.
Other financial and non-financial assets	2.0	1.2	This increase is mainly due to an increased contract asset that has not yet been invoiced but for which performance is complete as well as increased tax receivables from overpayments of tax.
Cash and cash equivalents	41.4	2.2	In addition to the increase in trade receivables, referred to above, cash and cash equivalents considerably increased due to the IPO proceeds.
Current assets	**49.4**	**8.0**	

Equity

As at 31 December 2018, the share capital of NFON AG was EUR 13.8 million, divided into 13,806,816 no-par value bearer shares without nominal value.

Equity has risen as at 31 December 2018 in comparison with 31 December 2017 by EUR 43.3 million to EUR 43.6 million. The increase is largely the result of the IPO conducted on 11 May 2018, during which a gross amount of EUR 50 million was received.

As such, subscribed capital increased as at 11 May 2018 by EUR 13.4 million and the capital reserve rose by EUR 38.1 million. Transaction costs in connection with the placement of new shares as part of the IPO of EUR 2.6 million were recognised directly in the capital reserve.

An additional EUR 2.4 million was recognised in the reporting period as other operating expenses in the profit or loss. This also includes expenses in connection with the IPO, but for the placement of existing shares. The distinction between recognising such expenses as transaction costs in the capital reserve and as other operating expenses in the profit or loss is based on the criteria specified in IAS 32.37. Reimbursements by the existing shareholders of EUR 0.5 million have been offset against the capital reserve.

The capital increase conducted in the IPO followed the resolution of the Annual General Meeting of 22 February 2018 to increase the share capital of the Company by EUR 9.3 million with funds from the capital reserve.

Due to share-based payment plans, an amount of EUR 3.6 million was also recorded as an increase in the capital reserve in the first six months of the year.

Non-current and current liabilities

in mEUR	2018	2017	Explanatory notes/changes
Other non-current liabilities	0.2	0.3	Mainly the reversal of the deferred item for rent-free periods for the leased property in Machtlfinger Straße.
Deferred tax liabilities	0.1	–	Initial recognition of deferred tax liabilities due to the profit situation in the subsidiaries after adjustment of system of transfer pricing.
Non-current liabilities	**0.2**	**0.3**	
Trade payables	3.2	2.6	Increased in the course of increase in business volume.
Current provisions	1.4	1.6	The decline is mainly due to a clear reduction in tax-related provisions. Due to the findings of a tax audit in Germany at the beginning of 2019, provisions relating to payroll tax and social insurance were reversed. A reduction in provisioning also resulted due to the adjustment of the system of transfer pricing. This was offset mainly by an increase in the commissions for sales partners.
Current financial liabilities	0.1	2.6	Due to the repayment of an acquisition loan for the full acquisition of the Austrian subsidiary, this item declined considerably.
Other liabilities	2.6	2.0	Increased liabilities arising from personnel relating to bonuses and outstanding leave as well as VAT.
Current liabilities	**7.4**	**8.7**	

Overall evaluation of the economic situation

NFON AG experienced a successful financial year 2018. The Company not only reached forecast performance indicators but also made considerable progress in implementing the growth strategy.

Revenue rose considerably by 20.7% year-on-year to EUR 43.0 million. Recurring revenue, as indicator for the scalable nature of the business model, grew by 24.6%, disproportionately to Group revenue, and contributed 80.4% overall. Seats (extensions operated at customers) increased by 26.6% in 2018 to more than 320,000 seats. This increase is evidence that the Company is succeeding in addressing the promising market of cloud telephony and expanding its customer base further.

NFON has a clearly defined growth strategy with four significant pillars: (1) further development of existing customer base, (2) further development of its own product portfolio through to UCaaS (Unified Communications-as-a-Service), (3) internationalisation of business activities within Europe and (4) M&A activities in a strongly fragmented market environment. In addition to operational progress in 2018, NFON AG also achieved significant strategic milestones in the reporting period. With the market launch of the new NFON core product 'Cloudya', we laid the basis for the planned expansion of the UCaaS product portfolio. With respect to international expansion, NFON has prepared for market entry in Italy in the second half of 2018 and will complete this in March 2019. In parallel, market entry in France has also been prepared. NFON has also been very successful in respect of M&A activities. In the second half of 2018, significant preparatory work for the acquisition of Deutsche Telefon Standard AG was carried out, which was successfully completed in the first quarter of 2019.

In view of the positive operational and strategic development in 2018, the Management Board of NFON AG considers that as the only pan-European cloud PBX provider it is well on the way to becoming the number 1 for cloud telephony in Europe. Accordingly, the Management Board expects to be able to ramp up the dynamic growth trajectory in 2019. Reasons for this assumption are the advancing international expansion, the launch of NFON's core product Cloudya and the completed takeover of Deutsche Telefon Standard AG. With the proceeds of the IPO the Management Board of NFON AG considers the financial and liquidity situation to be currently comfortable.

Subsequent events

Acquisition of Deutsche Telefon Standard AG and increase in capital

NFON AG acquired Deutsche Telefon Standard AG in March 2019. As a result the Company is continuing to drive the expansion strategy rigorously in the new year. The Mainz-based Deutsche Telefon Standard AG, established in 2007, is specialised in SIP communication (Session Initiation Protocol). The business, with 65 experienced employees and an extensive partner network, offers its customers DSL and SIP trunk solutions. With the SIP-TK system CentrexX, Deutsche Telefon Standard AG also sells cloud telephone systems in the mid-market segment.

NFON financed approx. EUR 17 million of the purchase price (cash and debt free) for Deutsche Telefon Standard AG in part from the proceeds of the 2018 IPO as well as from external funds. In addition, the existing shareholders of Deutsche Telefon Standard AG participated in the issue of new shares in NFON in the course of a capital increase with a total volume of approx. EUR 2.5 million from authorised capital. For this purpose, the share capital of NFON was increased by 284,738 shares; the share capital amounts to EUR 14,091,554 following the capital increase and is divided into 14,091,554 shares without nominal value.

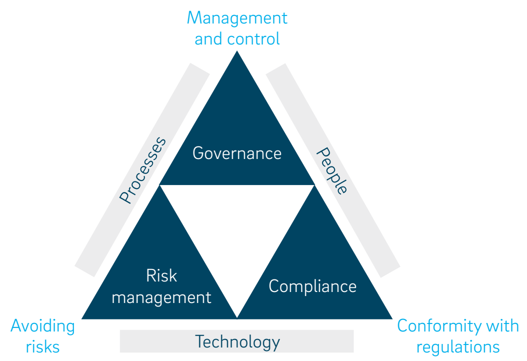
In order to become the number 1 for cloud telephony in Europe, acquisitions are an essential element in a strongly fragmented market. As a result of the business combination, a comprehensive cloud product portfolio has emerged, which is currently unique in Europe. NFON has an additional clear competitive advantage in the future market for cloud telephony. The acquisition of Deutsche Telefon Standard AG has increased NFON's customer base from more than 320,000 seats previously (as at 31 December 2018) to more than 370,000 seats and more than 35,000 SIP trunk channels. In addition, additional sales channels have opened up due to the expansion of the partner network to more than 2,000 partners across Europe. With more than 300 employees, the NFON Group will serve all customer segments in a more focused and flexible manner.

Risks and opportunities

Risk and opportunity management system

NFON AG redeveloped and implemented its risk and opportunity management system in the reporting period. It is based on the triad of risk management, compliance and governance.

Risk and opportunity management system



Source: WMC

This is an integrated, holistic approach, which ensures that the organisation can conduct itself ethically, in accordance with its risk affinity and within internal and external guidelines – enabled by the coordination of strategies, processes, people and technology – whereby efficiency and effectiveness are increased.

As part of this approach, the risks of all three components (risk management, compliance and governance) are recorded, qualified and controlled in a uniform approach and according to a uniform model.

The risk and opportunity management system of the NFON Group serves to recognise and identify opportunities and risks at an early stage and to contain risks as necessary. In general, the risk and opportunity policy of the NFON Group is geared towards sustainably securing the Company's ability to continue as a going concern and continuously improving its competitiveness. Risk and opportunity management is integrated into the value-driven management and existing structures of the NFON Group in order to recognise and assess potential signals at an early stage. The key phases of the risk management of the NFON Group are:

Phases of risk management

Risk and opportunity management is based largely on ISO 31000 and ISO 27001 in conjunction with further legal regulations, particularly Section 91 (2) of the German Stock Corporation Act (AktG) and Section 107 (3) sentence 2 AktG. Thus, risk and opportunity management is ensured to be governed by a uniform methodology in the NFON Group.

The NFON Group views risk and opportunity management to be a continuous and integrated process. Furthermore, risks identified during the financial year that have a high probability of occurrence and high potential damages are communicated promptly to the Management Board through the reporting lines. The risk and opportunity early detection system is evaluated by the auditor in the course of the financial statement audit to ensure that the system is suitable to promptly record, assess and communicate any risks that may jeopardise the Company's ability to continue as a going concern.

The Supervisory Board advises on risk management, compliance management and monitors the effectiveness of the risk management system, the internal control system and the accounting process as well as the audit and its independence.

Responsibilities

The Management Board is responsible for the introduction of the risk management system. It sets down the risk management targets and methods for the Group, including the methods to hedge risks.

On behalf of the Management Board, the Risk/Opportunities Committee monitors the implementation, execution and compliance of a uniform risk strategy and methodology.

The following areas of responsibility have been defined for the committee, divided into risk types:

I. Research & development
II. IT/Support
III. Operations
IV. Technical Consultant
V. Personnel
VI. Procurement
VII. Sales and distribution
VIII. Regulation, Legal and Compliance
IX. Product Development
X. Market and Reputation
XI. Finance and Controlling

The committee is composed of seven members including the opportunities/risk manager. Each member of the Risk/Opportunities Committee assumes responsibility for coordinating the risk inventory in the areas they have been assigned. The task of identifying, analysing and assessing the risks and opportunities in a specific department remains the responsibility of the department heads. Moreover, they are to ensure that opportunities are exploited and risks managed appropriately. The following areas have each been assigned to one member of the committee:

1. R&D, IT/Support, Operations
2. Purchasing, Sales, Product Management, Business Development, Market/Reputation, Technical Consultant
3. HR, Regulation, Legal, Compliance
4. Finance/Controlling
5. IT Security Officer
6. Data Protection Officer
7. Opportunities/Risk Manager

In the committee's joint meetings, the members consult at regular intervals on the identification, analysis and assessment of opportunities and risks. This approach ensures that the integrated, holistic approach that has been selected by NFON is embraced. All risks from the areas of compliance and governance are accounted for and indexed in HR, Regulation, Legal and Compliance.

The risk and opportunity report drawn up by the Risk/Opportunity Committee is regularly coordinated with the Management Board.

Furthermore, the Supervisory Board has the task of regularly monitoring the risk management system.

Risk assessment

In order to identify, evaluate and control all significant risks, the central risk assessment (risk inventory) of the NFON Group will in future take place at least once a year and refers to the period of one year. The purpose of risk assessment is to support decisions. This determines the 'loss amount' and the 'probability'. The 'loss amount' is defined as the potential impact of the loss if the risk actually occurs. The financial loss must be estimated numerically. The probability of occurrence is the result of a possible number of incidents of the risk within a defined period.

Risk assessment can lead to the decision:

- to not take any further action (acceptance),
- to consider options for responding to the risk (relocation),
- to conduct further analyses to better understand the risk (minimisation),
- to maintain existing controls or to reconsider objectives.

Decisions should consider the broader context and the actual and perceived effects on external and internal stakeholders. The results of the risk assessment are recorded, communicated and then validated at the relevant levels of the NFON Group.

If the risk situation changes significantly, an inventory will be required more frequently. All risks identified are assigned risk classes and evaluated according to risk potential, meaning the loss amount and the probability of occurrence. The risk assessment is conducted based on the following criteria:

Loss amount

If a loss occurs, it can have corresponding consequences. The loss has corresponding consequences if the defined amounts are incurred during the respective period. This is regardless of whether the loss was incurred due to one or several events during the respective period. The thresholds for the amount of damage were determined before the successful IPO. With the IPO, NFON AG grossed cash and cash equivalents of EUR 50 million gross. Due to the positive development of net assets, financial position and results of operations, consideration is being given to adjusting the evaluation criteria for 2019.

Classification of the loss amount

Loss amount	Interpretation	Effect on assets, liabilities and financial performance
5 – catastrophic	Loss potential threatening Company's ability to continue as a going concern	> EUR 2,000,000
4 – significant	Significant loss potential	> EUR 1,000,000
3 – medium	Medium loss potential	> EUR 250,000
2 – low	Low loss potential	> EUR 10,000
1 – very low	Immaterial loss potential	< EUR 10,000

Examples: One incident costing EUR 2.5 million occurs within one year. This would threaten the Company's ability to continue as a going concern – catastrophic. Three losses of EUR 0.75 million are incurred within one year. The total loss is EUR 2.25 million and therefore equally threatens the Company's ability to continue as a going concern – catastrophic.

The loss categories described above relate to the total loss of one or several events which may occur in the respective period. In the multiplication shown below, individual events are used as a basis for evaluation.

NFON has liability and financial loss insurance with coverage of EUR 10 million.

Probability of occurrence

The probability of occurrence is defined individually as follows per period:

Class	Description (qualitative)	Probability of occurrence (quantitative)	
5	Almost certain	80–99%	monthly
4	Very likely	60–79%	annually
3	Likely	40–59%	on average every 1–2 years
2	Unlikely	20–39%	on average every 3–5 years
1	Very unlikely	0–19%	on average every 5 years at most

The determination of the probability of occurrence is based on empirical and measured values from prior periods, e.g. findings of a management review and events, if available. Alternatively, these values are to be estimated.

Risk classes

A classification into five risk classes can be derived by multiplying the figures of the loss amount and the probability of occurrence.

Loss amount						
> EUR 2,000,000	5	5	10	15	20	25
> EUR 1,000,000	4	4	8	12	16	20
> EUR 250,000	3	3	6	9	12	15
> EUR 10,000	2	2	4	6	8	10
< EUR 10,000	1	1	2	3	4	5
Probability of occurrence →		<1	2	3	4	5
Probability of occurrence →		0–19%	20–39%	40–59%	60–79%	80–99%

The result of multiplying the probability and the loss amount, and the associated risk classification, can be seen in the following risk portfolio.

Risk class 5 – red

Risk class 5 covers risks threatening the Company's ability to continue as a going concern. They can seriously jeopardise the Company's assets, liabilities and financial performance and the Company's ability to continue as a going concern.

Risk class 4 – orange

These risks can seriously affect the Company's assets, liabilities and financial performance and the Company's ability to continue as a going concern.

Risk class 3 – yellow

These risks can moderately affect the Company's assets, liabilities and financial performance and the Company's ability to continue as a going concern.

Risk class 2 – green

These risks have no significant impact on the Company's assets, liabilities and financial performance and the Company's ability to continue as a going concern and can only jeopardise the Company in absolutely exceptional circumstances. Nevertheless, they can strain the Company's financial performance, and should be reduced through organisational safeguards and checks as part of general company monitoring.

Risk class 1 – blue

These risks do not affect the Company's assets, liabilities and financial performance or the Company's ability to continue as a going concern.

CIA values

As well as the risks recorded above, IT security and data protection risks are assessed again separately. Each IT security and data protection risk must be assessed based on the respective fundamental values of confidentiality (C), integrity (I) and availability (A).

The synergy of fundamental values is referred to as a CIA profile.

Profile	C	I	A
Degree of impact	Violation of confidentiality	Violation of integrity	Violation of availability
Catastrophic	4	4	4
Significant	3	3	3
Low	2	2	2
Very low	1	1	1

Gross and net risks

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. Measures which have already been implemented are not considered.

Net risks are risks which exist after measures have been taken and therefore constitute the residual risk.

Overall, a total of 9 individual material risks (risk categories 4 and 5) had been identified for the NFON Group as at the balance sheet date. Of these, 3 are key risks (risk category 5), which on occurrence would jeopardise the Group's ability to continue as a going concern if the Company had not implemented appropriate countermeasures.

Risks for the NFON Group

Market-related risks

Competitive environment

The market for cloud business communication is very fragmented on the whole and this situation is not expected to change significantly over the short term. The sector has just a few larger companies, such as the European providers easycall, Fuze, Gamma, j2global, Sipgate, Vonage, Voz, Voz Telecom and Vozelia or the large US competitors RingCentral and 8x8. Both companies already offer numerous solutions in the Unified Communications-as-a-Service (UCaaS) segment. These solutions include video conferencing, collaborative platforms or messaging and chat services. Thus far, both RingCentral and 8x8 have only had a limited presence in continental Europe. NFON currently assumes that the differing regulatory requirements among European countries, the array of languages and the requirements of the EU General Data Protection Regulation will prove to be significant barriers to market entry for the large American companies. Nevertheless, it can be assumed that the US providers regularly evaluate a potential entry into the continental European markets. This evaluation could lead to large competitors accelerating their market entry in continental Europe. NFON AG is countering this risk with corresponding measures concerning partner management and product development. The quicker NFON implements its growth strategy and becomes a dominant provider of cloud business communication solutions in Europe, the less likely it is that competitors will successfully enter the market. Given that NFON has only had the financial resources required for the implementation since its IPO, the Company nevertheless views the risk as material.

Use of airtime

A general trend can be seen in the development of competitors and their portfolio of products/solutions towards the increasing use of digital services in terms of Unified Communications-as-a-Service (UCaaS). This development carries the risk that customers will use ever fewer call minutes, as the use of new Social Media Exchange platforms or Over-the-Top services will increase. NFON also intends to evolve from a Software-as-a-Service supplier to a UCaaS supplier. NFON is able to mitigate the drop in prices by creating new services.

Operational risks

Potential exit of the United Kingdom from the European Union

The lack of clarity surrounding the negotiations over the UK's exit from the European Union (Brexit) has led to significant economic, political and social uncertainty, not only in the UK and Europe but around the globe. How significantly Brexit impacts on the NFON Group's business, in particular on its business in the UK, will depend partly on which agreements are reached between the UK and the EU after Brexit and the extent to which the UK continues to apply laws that are based on EU legislation. The period in the run up to Brexit may see significant uncertainty, including uncertainty regarding possible regulatory or tax changes and the impacts on NFON's business in the UK. For example, Brexit may disrupt established trading relationships by causing the introduction of licence fees or withholding of taxes. Ultimately, Brexit may also result in NFON no longer being able to serve customers in the UK from its servers installed in Germany for regulatory reasons, meaning that the Company would have to set up servers in the UK. No assurance can be provided that such server infrastructure could be set up swiftly or even at all in the UK; such a situation would disrupt the business relationship with existing customers in the UK or even lead to contracts eventually being terminated. Notwithstanding the still very uncertain political situation overall, NFON has drawn up initial plans to install hardware in British data centres, which can be implemented if necessary.

Pace of development

In a market that is experiencing disruptive change, it is not only important to offer high-quality products and services, but also just to be able to keep up with the pace of change. To this extent there is a risk that the Company may not be able to achieve the speed that the market demands, or at worst that it may fall well behind the pace of change and thus no longer be able to meet customer needs. In an extremely fragmented market with numerous competitors, this could lead to us no longer being able to deliver the quality that our customers desire and the competition offering a more extensive and better developed portfolio of products and services. The consequences of this could be the termination of existing customer agreements, which will neither be compensated nor overcompensated by newly acquired customer agreements. Overall, NFON would then lose its competitiveness in the cloud telephony market. The NFON Group counters this risk by steadily improving the overall process to implement customer, market and technical requirements.

Pace of development and provision of new functionalities

At the same time, NFON is constantly working to improve its software development process and is implementing software development in quick and agile project groups. In addition, it is also important to implement development requirements and aims by way of appropriately and sufficiently staffed development teams. As set out in the growth strategy published by the NFON Group, after the IPO the Company has the required funds to expand its development teams to the required size. Furthermore, in the R&D department there is also the possibility to call in external development capacity.

Intellectual property

Despite the efforts to maintain confidentiality, including the obligations of secrecy that have been agreed with NFON employees, suppliers and partners, the NFON Group's intellectual property and expertise may fall into the hands of competitors. This could mean that competitors are able to use the Company's own technological developments and expertise to increase competitive pressure on the Company. This risk is particularly high when employees with specific expertise, for example product managers, are poached by competitors. If NFON's intellectual property is not appropriately protected, the corresponding expertise may ultimately no longer be put to use in NFON's products. Furthermore, efforts to enforce special intellectual property rights may be met with defence mechanisms, counterclaims and counterclaims against the validity and enforceability of NFON's intellectual property rights. In addition, any legal dispute, whether or not it is resolved in the Company's favour, can incur significant costs and impact the efficiency of the R&D department, meaning both staff and management. NFON AG has implemented appropriate protective mechanisms.

Hacker attacks

As a provider of cloud telephony systems, NFON AG is a potential target for hacker attacks or other instances of unauthorised access to company systems to steal data, disrupt operations, delay or interrupt services being provided to customers. This could have various consequences, which may range from a loss of intellectual property and reputational damage to liability actions associated with this. On account of the material risk that would arise for NFON from successful hacker attacks, the Company has implemented diverse safeguards and taken preventive measures to impede the success of potential attacks.

Brand risk

NFON was in the past accused of having violated the brand of a third party and had to enter into a coexistence agreement that limits the use of the nfon brand. The resulting limitations on the use of the 'NFON' brand may prevent the NFON Group from marketing its services under the brand that is most suited to the Company; this may have a negative impact on brand attractiveness for services among potential customers.

Financial risks

Despite NFON AG having generated gross proceeds of EUR 50 million with the capital increase as part of the IPO, the Company may potentially require additional financing in the future. This financing may not be available or may be available only at unfavourable conditions. This could have a significantly negative impact on planned future growth. However, NFON AG has significantly reduced financing risk overall by way of its IPO.

Overall assessment of the NFON Group's risk situation

The principal risks of the NFON Group (net risks) are summarised in the following table.

The following table provides a summarised overview of the risk position of the NFON Group as at the reporting date as well as the development of risks relative to the prior year. Taking account of potential damages and probabilities of occurrence, there are currently no discernible risks which would result in a lasting, material negative impact on NFON's assets, liabilities, financial position and financial performance. Overall, the risks are manageable and from today's perspective there is no threat to the Group's ability to continue as a going concern. NFON AG currently does not expect major changes to the risk position. In terms of organisation, the Company has created the conditions to be informed of potential new risk exposures at an early stage and to be able to respond quickly.

Summary of the risks presented for the NFON Group (net risks)[1]

Risks	Loss amount	Probability of occurrence	Risk category	Development
Market-related risks				
Competitive environment	3	4	4	≈
Use of voice minutes	3	5	5	≈
Operational risks				
Brexit	5	2	4	≈
Pace of development	5	3	5	–
Provision of new functionalities	4	3	4	≈
Intellectual property	5	4	5	≈
Hacker attacks	5	3	5	≈
Brand risk	5	2	4	≈
Financial risks				
Financing	5	2	4	–

1 Development of risk indicator in comparison to the prior year.
+ increased/new risk, ≈ unchanged risk, – lower risk.

Opportunities for the NFON Group

The NFON Group fundamentally reconsidered and redefined its corporate strategy at the end of 2017. In this regard the opportunities in the disruptive development of the market for cloud communication were diligently reviewed and newly evaluated (see Objectives and Strategies section). For financial year 2018, the NFON Group has determined its opportunities on a qualitative basis; opportunities were not quantified or compiled in an opportunities matrix for tax purposes.

The NFON Group's growth strategy is pursuing the objective of becoming number 1 for cloud business communications in Europe. The subsequent disruptive factors in respect of both market conditions and customer behaviour form the basis for the successful implementation of the growth strategy defined by NFON. These factors also provide the culture for positive opportunities to further develop NFON AG:

1. The conversion from ISDN to All IP announced by all telephony providers (carriers).
2. The introduction of digital technologies, which impact on many business processes and increase the necessity to integrate diverse digital solutions on one platform.
3. The need for digital scalable services to be as flexible as necessary and the need to only post expenses that are actually incurred.
4. The remote deployment of all digital technologies used in one business.
5. The minimisation of administrative and maintenance services by central control of all used performance and services.
6. The considerable reduction of costs and increase in efficiency in all work and business processes.

Market opportunities

The NFON Group is already represented in 13 European countries and is thus the only pan-European provider of cloud technology. With a market share of more than 25% in Germany, NFON is also the market leader in its domestic market. In view of the fact that the market for cloud telephony in Europe is highly fragmented overall, NFON has a strong starting position to become the dominant provider of cloud telephony in Europe. For this reason, the growth strategy of NFON AG has defined market development and market consolidation as two of the five significant growth vectors. In line with the plans published with the IPO, the NFON Group has already established a new company in Italy in 2018 and is preparing its market entry there. In addition, NFON Group has already made provisions for market entry in France. In combination with the endeavours of NFON to become an active part of intensifying market consolidation, this development could considerably speed up the process in Italy and in France. In addition, it is likely that the number of smaller providers in the European market will decline considerably and the market opportunities for larger providers to gain significant market share could rise.

These developments are also receiving additional impetus from the ongoing conversion of ISDN to All-IP. Businesses with a known brand and corresponding reputation will find it easier to gain customers in this environment. As market leader in Germany and with its increasing brand awareness in other European countries, NFON has already developed a corresponding reputation. Customers who are compelled to convert their telephony are increasingly taking notice of NFON as provider. If implementation of the conversion announced by carriers is faster than previously indicated, NFON can make use of its market presence as an additional opportunity to accelerate its growth strategy.

Opportunities as employer

For many employers the search for qualified employees has become a critical success factor. NFON considers this factor to be a major opportunity in the rapidly changing market for cloud communication. The brand essence defined for NFON also applies for NFON's employees: The key issue is freedom, which is also reflected in the vision of the NFON Group. By creating attractive employment conditions and the opportunity to work throughout Europe, NFON is already presenting itself as an interesting employer. Agility, excellence, team spirit, innovation and a focus on the customer are values that we practice. In this way the NFON Group can differentiate itself internationally from the competition and hire staff who will clearly advance the development of NFON in terms of its product and market strategy.

Product opportunities

Business communication is no longer confined to just telephony. Following the triumph of email, chat and messaging functionalities, collaboration platforms along with web and video conferencing are increasingly being used. Networked and remote working will lead to increasing use of Unified Communications-as-a-Service, UCaaS. This will result in the migration of telephony, communication and collaboration to a single system in a cloud environment. Advanced UC platforms already offer diverse functionalities such as internal chats, web meetings, virtual team work, telephony and video conferencing and also ensure the mobile accessibility at all times of field staff or those in home office. Additional services that could be offered via a UC platform are contact centre functionalities such as automated switchboards, IVR technology (interactive voice response), call forwarding or integration with standard CRM approaches. Full flexibility and scalability for day-to-day business will be possible with these services.

The NFON Group also views its development to a UCaaS provider as significant for its future success. Aside from providing UC functionalities that are already known, NFON AG can also anticipate emerging trends from the evaluation of disruptive customer behaviour and needs and, in combination with its agile development process, provide other, new corresponding functionalities. These can be rapidly offered to customers via the existing developed Cloudya platform. As a result, the NFON Group could develop to become a preferred provider of UC services.

Sales opportunities

A significant factor for the positive development of the NFON Group is a growing and successful partner network. The NFON Group already had a partner network of more than 1,100 partners in 2018. This network is maintained by the established partner management in the NFON Group and is being expanded further. In addition, opportunities also arise through activities relating to market consolidation to expand the partner network with networks that are already established and thus to step up growth. Increased penetration of the market is possible through expanding the partner network. Such development could bring NFON AG more rapidly to its objective of being the number 1 for cloud communication in Europe.

Overall evaluation of the opportunities position

The opportunities and risks are balanced.

Compliance management system

The Management Board is required to ensure adherence to legal requirements and internal company policies and to work towards their being observed by the Group companies (compliance).

Compliance matters are routinely the subject of consultation between the Supervisory Board/chairperson of the Supervisory Board and the Management Board. The corporate culture of NFON Group is based on trust and mutual respect, as well as the will to strictly abide by laws and internal rules. Nevertheless, it can never be completely ruled out that legal violations due to an individual's misconduct might occur. Employees and third parties can report misconduct in the Company to the compliance officer appointed for this purpose. NFON AG has set up a system for its employees and third parties to report such matters confidentially (whistleblower system). The Company makes every effort to minimise this risk as far as possible, uncover misconduct and rigorously follow it up. The observance of legal and ethical rules and principles is of central importance. The rules and principles, as well as responsible handling of insider information, are laid down in the Compliance Policy. These serve to provide all staff with guidance regarding integrity in business dealings. Managers and staff receive training on the compliance policy.

Internal control system (accounting process)

The accounting-related internal control system (ICS) is an integral component of the comprehensive 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 will be prepared in accordance with applicable regulations. The NFON Group's ICS is largely based on a functioning internal control system on the basis of the existing processes and process-integrated, organisational security measures such as access restrictions in the IT department or payment guidelines. Process-integrated controls reduce the likelihood of errors occurring and support the detection of errors which have occurred.

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

NFON AG prepares the consolidated financial statements as the parent company of the NFON Group. This process follows financial reporting for the Group companies included in the consolidated financial statements. Both processes are monitored by a rigorous internal control system which ensures both the compliance of accounting and adherence to the relevant legal requirements.

The key functions in all departments are controlled centrally, with the individual subsidiaries having a set level of independence in the preparation of their financial statements. Significant regulations and instruments in the preparation of the consolidated financial statements include:

- accounting guidelines at Group level,
- clearly defined separation of duties and the assignment of responsibilities between the departments involved in the accounting process,
- involving external experts where necessary, for example to measure pension obligations,
- Using suitable IT finance systems and applying detailed permission concepts to ensure task-oriented authorisations taking into account the segregation of duties,
- system-based controls and other process controls for accounting in the companies, consolidation as part of the consolidated financial statements and other relevant processes at Group and Company level,
- consideration of risks recorded and evaluated 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 are the responsibility of the CFO of NFON AG. This board member is supported by the Vice President for Finance. By employing qualified and specialist staff, through targeted and regular training and adhering 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.

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

Forecast 2019

Total revenue	Growth between 40% and 45%
Share of recurring revenue to total revenue in %	Between 75% and 80%
Seat growth (number of extensions operated at customers)	At least 45%

The budget as well as all following comments are based on the state of knowledge at the beginning of financial year 2019 taking account of the opportunities and risks described for the NFON Group. As a result, deviations may arise between the budgeted figures and the figures actually reached at year-end. This also applies to the assumptions made in respect of the general economic conditions. The following assumptions apply for the forecasts made by NFON:

- all forecasts take account of effects from corporate transactions,
- the ongoing conversion from ISDN to All-IP announced by all telephony providers (carriers),
- the change in business communication to increased use of digital UC solutions and services, e.g. collaboration tools, chat and messaging (UCaaS),

- the introduction of digital technologies, which impact on many business processes and increase the necessity to integrate diverse 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 opportunity to be able to recruit the staff necessary for the further development of the business.

The forecasts of the NFON Group and its reportable segments for financial year 2019 are based on the expectations and assumptions for the general economic development and the specific industry developments for the various countries in which the NFON Group operates, which are described in Section 'General economic conditions and industry environment'.

Expected general economic conditions and industry environment

The market for business communications is undergoing a historic transformation. NFON AG is benefiting from the structural shift to cloud-based telephony solutions, which permanently changes the business communication market. The European cloud telephony market is expected to grow by an annual average of 16% from 2017 to 2022. The detailed description of the market development can be found in Section 'General economic conditions and industry environment'.

Expected business performance of the NFON Group

As current sole pan-European provider of cloud-based telephony systems, the NFON Group has the opportunity to grow considerably more rapidly than the European total market. As a result, the Company is projecting accelerated growth for the current financial year based on the growth strategy rolled out in financial year 2018. The first positive effects from the significant step up in marketing activities could already be seen in the previous financial year. These activities will be stepped up further at the beginning of 2019 and will be extended to new countries, such as Italy and France. The setup of new sales companies in these two countries will initially require more investment; nevertheless NFON expects to connect the first customers to the NFON cloud this year. NFON is also planning to offer additional services via the new core product Cloudya in 2019. Services such as chat and messaging are planned. The integration of Deutsche Telefon Standard AG into the NFON Group will have a significant effect on the business performance. This is reflected in the forecast for financial year 2019.

Expected development of key performance indicators and overall conclusion on the expected development

Based on the successful financial year 2018, with revenue of EUR 43.0 million, and the advancing implementation of the growth strategy, the Company is entering financial year 2019 in a stronger position and will push ahead with its dynamic growth.

The Management Board projects a considerable acceleration in the pace of growth for 2019 relative to financial year 2018. The Company thus projects year-on-year growth of revenue of between 40% and 45% for 2019. The majority of subsidiaries given in segment reporting contributed to the organic growth of revenue in financial year 2018. With the exception of NFON Iberia SL, a similar trend is anticipated for financial year 2019. Typically companies which are initially developing their seat base have a higher share of non-recurring revenue. In respect of seats operated at customers, NFON AG is projecting growth of at least 45% for financial year 2019.

Disclosures relevant to the acquisition – Explanatory report from the Management Board on the disclosures pursuant to Sections 289a (1) and 315a (1) HGB

Composition of subscribed capital

For more information, please refer to the disclosures in the notes to the consolidated financial statements in Section 20.

Restrictions affecting voting rights or the transfer of shares

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

Direct or indirect shareholdings that exceed 10% of the voting rights

Milestone Venture Capital GmbH, which has its registered office in Hösbach, Germany, informed us that it had exceeded the voting rights threshold of 30% in NFON AG on 09 May 2018. Consequently, Milestone Venture Capital GmbH held 30.1% of the shares on that day, which corresponds to 4,155,852 voting rights in NFON AG. Of these, 3,448,640 voting rights (24.98%) are directly attributable to Milestone Venture Capital GmbH pursuant to Section 33 of the German Securities Trading Act (WpHG) and 707,212 voting rights (5.12%) are indirectly attributable pursuant to Section 34 WpHG.

Shares with special rights

NFON AG has not issued any shares with special rights.

Voting controls for employee participation

There are no voting controls.

Legal requirements and provisions of the Articles of Association on the appointment and dismissal of members of the Management Board and on changes to the Articles of Association

Rules and provisions of the Articles of Association on the appointment and dismissal of members of the Management Board comply with the regulation pursuant to Section 84 (1) AktG. A member of the Management Board can be dismissed with or without reason and/or be replaced by Supervisory Board resolution at any time.

Management Board's authorities in respect of issuing or repurchasing shares. In this regard, the specific authorities that relate to the issue or repurchase of shares are to be described

The Company was founded in the form of a German corporation limited by shares (Aktiengesellschaft) with an initial share capital of EUR 50,000.00. Subsequently, the Company's share capital was increased in several steps to the amount of EUR 13,805,816.00.

On 22 February 2018, the Company's Annual General Meeting resolved to increase the Company's share capital using the Company's funds from EUR 370,775.00 by EUR 9,269,375.00 to EUR 9,640,150.00. The capital increase was entered into the Commercial Register on 08 March 2018. Furthermore, the Annual General Meeting resolved to convert the no-par value shares into shares with a nominal value of EUR 1.00 (nominal value share).

On 09 April 2018, the Annual General Meeting resolved to convert registered shares into bearer shares. The Annual General Meeting also resolved to convert shares with a nominal value of EUR 1.00 (nominal value share) into no-par value shares, with one share with a nominal value of EUR 1.00 (nominal value share) being replaced by one no-par value share. The voting rights arising from the shares were adjusted in such a way that each no-par value share confers one vote at the Annual General Meeting.

On 09 May 2018, the Management Board approved a capital increase of EUR 4,166,666, divided into 4,166,666 no-par bearer shares, with the approval of the Supervisory Board. As a result, the Company's share capital at this time amounted to EUR 13,806,816.

Authorised capital

On 09 April 2018, the Annual General Meeting resolved to establish authorised capital of EUR 4,820,075.00, of which EUR 4,166,666.00 was used in the course of the IPO. The resolution of the Annual General Meeting was entered into the commercial register on 23 April 2018. Pursuant to Section 4 (3) of the Articles of Association, the Management Board is authorised to increase the Company's share capital up to 08 April 2023, subject to the approval of the Supervisory Board, through the issuance of no-par value bearer shares by up to a total of EUR 4,820,075.00 in return for cash or non-cash contributions ('authorised capital I'). This authorisation can be exercised by way of one or more issues. Furthermore, the Management Board is authorised to exclude shareholder's subscription rights subject to the approval of the Supervisory Board. However, shareholders' subscription rights may be excluded only in the following cases:

a) to even out fractional amounts,

b) for the issue of shares in return for non-cash contributions to acquire companies, ownership interests in companies, companies (including through mergers), components of companies or other assets, including the associated rights and obligations,

c) if the capital is increased in return for cash contributions and the total pro-rata amount of share capital attributable to the new shares for which the subscription right is excluded does not exceed 10% of the existing share capital at the time the authorisation is entered into the commercial register or – if this amount is lower – at the time the new shares are issued, and the issue price of the new shares does not significantly exceed the stock exchange price of the already listed shares of the same class and features at the time the issue price is ultimately determined by the Management within the meaning of Section 203 (1) and (2), Section 186 (3) AktG; to calculate the 10% limit, the pro-rata amount of share capital attributable to the newly issued or repurchased shares is to be taken into account for shares issued or sold since 08 April 2018 under the simplified exclusion of subscription rights in accordance with or corresponding to Section 186 (3) sentence 4 AktG and the pro rata amount of share capital to which option and/or conversion rights or obligations under bonds issued since 08 April 2018 in analogous application of section 186 (3) sentence 4 of the AktG relate,

d) if the capital increase in return for cash is carried out for the purpose of issuing new shares on domestic and/or foreign stock exchanges, and

e) where this is necessary to grant the bearer of convertible bonds or convertible participation rights or option rights a subscription right to the extent to which they would be entitled as a shareholder after exercising the convertible participation or option right.

The Management Board is authorised, subject to the approval of the Supervisory Board, to make decisions regarding further share rights and their terms of issue.

Conditional capital I & II

Conditional capital I

On 09 April 2018, the Annual General Meeting resolved to establish conditional capital of EUR 3,856,060.00 ('conditional capital I'). The conditional capital increase serves to grant no-par value shares to the bearer or creditor of convertible or warrant-linked bonds or profit participation or profit participating bond or combinations of these instruments which are issued by the Company or a Group company on the basis of the authorisation issued by the Annual General Meeting on 09 April 2018. The resolution of the Annual General Meeting was entered into the Commercial Register on 23 April 2018.

Conditional capital II

On 09 April 2018, the general shareholders' meeting resolved on the creation of a conditional capital in the amount of EUR 964,015.00, ('Conditional Capital II'). The Conditional Capital II serves to secure subscription rights from stock options that are issued by the Company in the period from 09 April 2018 to 08 April 2023 on the basis of the authorisation granted by the general shareholders' meeting on 09 April 2018. The resolution of the general shareholders' meeting was registered in the Commercial Register on 23 April 2018.

Share option plan 2018

For more information please refer to the disclosures in the notes to the consolidated financial statements.

Authorisation to issue convertible bonds and other instruments

By resolution of the Annual General Meeting dated 09 April 2018, the Management Board is authorised, subject to the approval of the Supervisory Board, up to 08 April 2023, to issue, in part or in full or simultaneously in different tranches, convertible bonds, warrant-linked bonds, participation rights and/or profit participating bonds or a combination of these instruments (collectively referred to as 'bonds') in a total nominal amount of up to EUR 115,681,800 with or without restrictions on term, and to grant the bearers or creditors (collectively referred to as 'bearers') option rights or obligations or conversion rights or obligations for shares with a total proportion of share capital of EUR 3,856,060.00. The bonds can also be issued in exchange for non-cash contributions. All partial debentures from a tranche issued must confer equal rights and obligations.

Bonds can be issued in euro as well as any national currency of a member state of the Organisation for Economic Co-Operation and Development (OECD) provided the corresponding euro equivalent is not exceeded.

The bonds can also be issued by a Group company. In such a case the Management Board is authorised, subject to the approval of the Supervisory Board, to issue a guarantee for these bonds for the Company and to grant the bearers or creditors of these bonds option or conversion rights.

In the event that convertible bonds are issued, the bearers of the bonds are entitled to exchange their bonds for shares in line with the bond terms and conditions.

The bonds can also be mandatorily convertible at the end of their term (or earlier) or provide for the Company's right to grant the bearers of the bonds shares rather than redeem the bonds.

The bond terms and conditions may also stipulate that in the event an option or a conversion is exercised, the Company may at its own discretion also grant treasury shares.

The bond terms and conditions may provide for the Company's right to issue no shares and instead to pay out the equivalent in cash.

The option or conversion price for a share amounts to at least 80% of the average closing price of the share on the Xetra trading system of the Frankfurt Stock Exchange (or a comparable subsequent system) in the ten trading days before the day on which the Management Board resolves to issue the bonds, or, in the case of subscription rights trading, on the days of the subscription rights trading with the exception of the last two trading days of the subscription rights trading period. In the case of bonds with a conversion obligation or where the Company has the right to grant the bearers of the bonds shares instead of redeeming the bonds, in line with the bond terms and conditions, the conversion price may either be at the least the aforementioned minimum price or the volume-weighted average price of the share in the Xetra trading system of the Frankfurt Stock Exchange (or a comparable subsequent system) on the last three trading days before the conversion price is set, even if this is below the aforementioned minimum price. Sections 9 (1) and 199 (2) AktG remain unaffected by this.

The bond terms may also provide for certain dilution prevention measures whereby the option or conversion rights and obligations may be adjusted in value if during the term of the bond the financial value of the existing option or conversion rights and obligations are diluted, particularly due to capital increases or the sale of treasury shares, and no subscription rights are granted as compensation.

The shareholders are generally entitled to a subscription right to the bonds. The bonds may also be acquired by one or several banks pursuant to Section 186 (5) sentence 1 AktG with the obligation to offer the shareholders a subscription.

The Management Board may, with the consent of the Supervisory Board, exclude the subscription right to the bond in certain cases and under certain circumstances, including:

- if the bonds are issued in exchange for cash payment, provided the issue price is not significantly lower than the theoretical market price according to recognised financial mathematical methods and the bonds contain option or conversion rights and/or option or conversion obligations for shares with a pro-rata amount of share capital that does not exceed 10% of the Company's share capital existing at the time this authorisation becomes effective, or – if this amount is lower – the authorisation is exercised,
- if the bonds are issued in exchange for non-cash contributions, in particular in the course of business combinations or to acquire companies, components of companies, interests in companies or other assets or receivables including receivables from the Company or its Group companies,

- to grant bearers of option or conversion rights or option or conversion obligations a subscription right to the extent that they would be entitled to after exercising the option or conversion right,
- for fractional amounts, or
- to the extent participation rights or profit participating bonds are issued which do not contain any option or conversion rights or option or conversion obligations, if these participation rights or profit participating bonds are structured in the same way as bonds, i.e. they do not represent membership rights in the Company, grant any participation in the liquidation proceeds and the interest amount is not calculated based on the amount of the net income for the year, retained earnings or dividends. Furthermore, the interest and issue price of the participation rights or profit participation bonds should in this case also correspond to comparable loans at current market conditions as at the issue date.

The Management Board is authorised, subject to approval of the Supervisory Board, to stipulate further details and terms regarding the bonds in line with the parameters of the authorisation.

Authorisation to aquire and sell treasury shares
The Company does not currently hold any treasury shares.

Based on the resolution of the Annual General Meeting dated 09 April 2018, the Company is authorised, in the period up to 08 April 2023, to acquire its own no-par value shares in an amount up to 10% of the share capital existing at the time of the resolution or – if this amount is lower – of the share capital existing at the time that this authorisation is exercised. Treasury shares that were acquired based on this authorisation may, along with other shares that were acquired by the Company at the time it acquired the treasury shares and are still held or attributable to the Company according to Section 71 et seqq. AktG, at no time exceed 10% of the Company's share capital.

The authorisation may not be used to trade in treasury shares. The authorisation may be exercised in full or in part and on one or more occasions by the Company, its Group companies or third parties acting on behalf of the Company or a Group company.

Treasury shares may, at the discretion of the Management Board, be purchased on the stock exchange or through a public offering addressed to all shareholders or through a public invitation to submit an offer for sale addressed to all shareholders.

- If the shares are purchased on the stock exchange, the purchase price per share (excluding ancillary purchase costs) may not exceed or be lower than the calculated average closing rate of the shares in the Xetra trading system of the Frankfurt Stock Exchange (or a comparable subsequent system) by more than 10% on the five trading days before the purchase obligation.
- Should they be purchased through a public offering or through a public invitation to submit an offer for sale addressed to all shareholders, the purchase price paid (excluding ancillary purchase costs) may not exceed or be lower than the calculated average closing rate for shares in the Xetra trading system of the Frankfurt Stock Exchange (or a comparable subsequent system) by more than 10% on the five trading days before the day of the public announcement of the offering or the public invitation to submit an offer for sale.
- If, following publication of a public purchase offer or public invitation to submit an offer for sale, there are significant deviations of the stock exchange price of the shares from the relevant price or price range, the purchase offer or public invitation to submit an offer for sale may be adjusted. In this case, the relevant period are the five trading days prior to the adjustment. The volume of the offer or public invitation to submit an offer for sale may be restricted. If the offer is oversubscribed, or, in case of a public invitation to submit an offer for sale, out of a number of equal offers, not all of them are accepted, acceptance of the offer must take place on a pro-rata basis. A preferential acceptance of smaller units of up to 100 tendered shares per shareholder may be stipulated.

The Company's treasury shares purchased on the basis of this authorisation may be used for any lawful purpose, in particular to be sold via the stock exchange or in a public offering addressed to all shareholders.

Furthermore, with the consent of the Supervisory Board, the treasury shares may be used excluding subscription rights as follows:

(a) to sell treasury shares for cash excluding subscription rights, provided that the selling price is not significantly lower than the market price and the amount of treasury shares to be sold does not exceed 10% of the share capital at the time the resolution to sell is adopted or – if this amount is smaller – at the time the authorisation is exercised. The number of treasury shares sold on the basis of other authorisations is to be credited against this limitation if the sale takes place during the term of this authorisation excluding shareholders' subscription rights pursuant to Section 186 (3) sentence 4 AktG;

(b) to sell treasury shares in exchange for non-cash contributions, in particular in the course of business combinations or to acquire companies, interests in companies, components of companies or other assets or receivables including receivables from the Company or its Group companies;

(c) to offer and transfer treasury shares to current or former employees or Management Board members of the Company or its affiliated companies;

(d) to service subscription or conversion rights or obligations from bonds;

(e) for a scrip-dividend through sale in return for the full or partial transfer of the shareholder's entitlement to dividend;

(f) for fractional amounts.

Moreover, subject to approval by the Supervisory Board, the Management Board is authorised to withdraw treasury shares in part or in full without a further resolution by the Annual General Meeting.

All of the aforementioned authorisations may be exercised on one or more occasions, in part or in full and individually or jointly.

Significant agreements of the parent company conditional on a change of control in the event of a takeover bid and the related implications

No significant agreements of the parent company conditional on a change of control in the event of a takeover bid have been concluded either with third parties or subsidiaries.

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

Share option plan

The options that have been issued remain unaffected should a third party assume control of the Company within the meaning of Section 29 (2) of the German Securities Acquisition and Takeover Act (WpÜG). A 'delisting event' is deemed to have taken place if the shares in the Company are no longer listed on an organised market (Section 2 (5) WpHG). If a delisting event occurs, the beneficiary has the right, within the scope of legal provisions, to demand that the Company or its legal successor pay out the option value for each option. The option value is paid out within 2 weeks of the occurrence of the delisting event.

Group corporate governance report

The corporate governance statement of the NFON Group includes the required disclosures pursuant to Section 315d HGB in conjunction with Section 289f HGB and is published on the homepage of NFON AG (https://corporate.nfon.com/de/ueber-nfon/corporate-governance/).

Remuneration report

I. Management Board

The remuneration of the members of the Management Board of NFON consists of fixed and variable components. In 2018 the fixed base salary of Management Board members Hans Szymanski and Jan-Peter Koopmann was raised mainly due to the increased responsibility associated with the attained IPO.

Additionally, member of the Management Board Jan-Peter Koopmann received a company car and member of the Management Board Cesar Flores Rodriguez concluded a pension plan with a salary conversion agreement. NFON makes all the required payments for this. Apart from that, NFON has concluded a third-party financial loss insurance (D&O cover) for all members of the Management Board which considers the legal deductible rates. These benefits are taxable as non-cash benefits for members of the Management Board.

The short-term variable salary of all three members of the Management Board is 50% dependent on the revenue of the NFON Group and 50% on the EBITDA of the NFON Group. In this process, the variable salary is capped at a target achievement of 125%. For a target achievement of under 80% no variable salary is owed. This measure does not apply to member of the Management Board Cesar Flores Rodriguez in 2018; he is guaranteed a payment of the pro-rata variable compensation of 100% through his contract of employment and his start of employment with NFON in 2018. The short-term variable salary component adds up to between 21% and 32% of the fixed salary. According to the contract of employment for members of the Management Board, the Supervisory Board is able to grant a discretionary bonus of a maximum of one fixed annual basic salary, which did not occur in this financial year.

In addition, NFON grants members of the Management Board share options (long-term variable salary). These options were firstly allocated in the financial year 2019 and entitle members of the Management Board to purchase a specified number of shares of the Company, provided a fixed qualifying period lapses and the performance objective is attained (20% increase in revenue as reported in the consolidated financial statements for the financial year in which the options were issued relative to revenue as reported in the consolidated financial statements for the final financial year before allocation).

Next to the recurring salary components, all members of the Management Board received a performance bonus for the executed initial public offering of the Company of EUR 0.7 million. This performance bonus replaced demands according to agreed stock-based plans. The expenses for this performance bonus were fully paid by the divested shareholders.

All members of the Management Board agreed to a non-competition clause, and which was formalised within their contracts of employment, which states that the respective member of the Management Board receives a compensation of 50% of the last contractual salary for the duration of one year. Apart from that, member of the Management Board Jan-Peter Koopmann receives an exit-related performance-based bonus in case of expiration of his contract of employment, as agreed upon in 2013, which has also been adjusted and renewed, now amounting to EUR 0.1 million.

II. Supervisory Board

The members of the Supervisory Board did not receive any compensation in the financial year 2018, except for the reimbursement of expenses, up until the new elections of the Supervisory Board at the annual general meeting on 09 April 2018.

Since that decision that was made at the annual general meeting on 09 April 2018, all members of the Supervisory Board of NFON AG will receive – next to the reimbursement of expenses according to the statute of NFON AG – the following cash payments:

a) a basic salary of EUR 40,000 for the Chairman of the Supervisory Board and EUR 25,000 for the remaining members of the Supervisory Board after conclusion of a financial year (plus any due turnover tax);

b) for each meeting of the Supervisory Board (plenary sitting), which the respective Supervisory Board member fully attends, additionally after conclusion of a financial year, they will receive an attendance fee of EUR 1,000 (plus any due turnover tax).

With this compensation any memberships and chairmanships in committees are compensated. Members of the Supervisory Board who only belong to the Supervisory Board for a limited period of the financial year or execute a chairmanship in the Supervisory Board will receive the compensation stated in a) respectively remuneration compensation pro rata temporis. The amounts will be rounded up to full months.

The compensation stated in a) and b) will continuously be paid to the members of the Supervisory Board in the following years, unless the general meeting decides otherwise.

The Chairman of the Supervisory Board Rainer Koppitz received a basic remuneration of EUR 30,000 and EUR 6,000 attendance fees (plus any due turnover tax), the remaining members of the Supervisory Board received a basic salary of EUR 18,500 as well as EUR 6,000 attendance fee for the financial year 2018 (plus any due turnover tax).

The total remuneration of the Supervisory Board amounts to EUR 0.1 million net in financial year 2018 (without reimbursement of expenses). In the financial year 2017 and until 09 April 2018 the Supervisory Board received no payments, except for the reimbursement of expenses.

NFON AG (HGB)

The financial statements of NFON AG have been prepared in accordance with the provisions of the German Commercial Code (HGB).

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

NFON generates revenue mainly by providing cloud-based telephone services to business customers. In this process, customers are provided with the required brokerage service from the cloud in NFON data centres via the Cloud PBX (Private Branch Exchange), meaning that they do not need to have traditional telephone systems at their own premises. Generally, the customer initially pays a one-off activation fee for each extension in addition to a monthly service fee for each extension used. Furthermore, NFON can replace the telephone connection, meaning that the customer pays the fees for all telephone traffic to NFON. NFON procures this service itself from various carriers. On request, NFON also sells end devices (telephones, soft clients for PCs and smartphones) and the corresponding software, which the Company procures from several manufacturers, and provides internet access on a reselling basis as required.

Sales are conducted through five channels with a clear focus on indirect partner sales. The direct channel represents just one of these sales channels. In addition to its own sales function, NFON sells via dealers and involves distributors as intermediaries in a third channel. Two additional sales channels are served with wholesale partners who themselves sell voice minutes or procure them via NFON. The voice minutes comprise the length of the individual telephone calls and generate recurring revenue in the form of call charges.

NFON divides revenue into recurring and non-recurring revenue. Recurring revenue includes monthly fees for the cloud PBX, ongoing call charges and SDSL monthly fees (Symmetric Digital Subscriber Line is a DSL access technology for a public digital network) as well as premium solutions such as Neorecording and Ncontact. In contrast, non-recurring revenue is one-off revenue from the sale of hardware, set-up fees for the cloud PBX or set-up fees for SDSL.

Financial performance

Income statement of NFON AG pursuant to HGB (abridged version)

in mEUR	2018	2017
Revenue	22.9	36.0
Other operating income	9.1	0.2
Cost of materials	7.2	6.6
Personnel expenses	14.7	10.5
Amortisation, depreciation and write-downs	0.6	0.6
Other operating expenses	20.4	9.8
Write-downs of financial assets	0	7.1
Interest income/loss	0.2	0.2
Income taxes	–0.4	0.4
Earnings after taxes	**–10.2**	**1.4**
Other taxes	0.1	0.1
Net income/loss for the year	**–10.3**	**1.3**

Revenue

The decline in revenue is mainly due to the transfer price posting for prior years which was carried out in the prior year. Due to the cost-plus transfer pricing method, an amount totalling EUR 9.4 million for the period 2009 to 2017 was invoiced to the subsidiaries in 2017. This method was changed as a result of a tax audit in 2018. The transaction-based net margin method is applicable since 2018. This transfer pricing revenue was shown as non-recurring.

The prior-year revenue figures are thus not comparable due to the adjustments in the system of transfer pricing. The prior year includes income from transfer pricing of EUR 9.4 million. A credit entry was made in 2018, which is treated as negative revenue. Excluding transfer pricing income and credit entries relating to this, revenue of EUR 31.8 million resulted in 2018 and revenue of EUR 26.7 million in 2017.

After adjustment for these transfer prices, 2018 revenue increased over the prior year by approx. 19.1% due to the increased customer base (recurring revenue) and the sale of hardware (non-recurring revenue).

Revenue comprises recurring income of EUR 25.6 million and non-recurring income of EUR 6.2 million.

Other operating income

Other operating income mainly consists of a reversal of impairment losses (recognised in prior years) on loans to and receivables from subsidiaries of EUR 7.1 million associated with the adjustment of the system of transfer pricing. In addition, there was a reimbursement of IPO costs as well as management bonuses relating to the IPO by existing investors in the amount of EUR 1.3 million.

Cost of materials

In the course of expanding business activities, cost of materials also increased by 9.1%. This includes the purchase of hardware, purchased software deployment and voice minutes as well as costs for the operation of the data centre.

Personnel expenses

The increase in personnel expenses by 40.0% is particularly due to bonuses related to the IPO of EUR 1.2 million as well as the continuous strategic expansion of staffing. This resulted also in a slight increase in contributions and expenses for employee benefits.

Amortisation, depreciation and write-downs

Investments consisted of replacement investment and minor expansion investment. Consequently, amortisation and depreciation remained at the same level. No impairment losses were recognised.

Other operating expenses

The increase in other operating expenses is mainly due to expenses for the profit transfer of subsidiaries as part of the application of the transaction-based net margin method for 2018 in the amount of EUR 3.5 million. In addition, the legal and consulting costs associated with the IPO of EUR 3.6 million as well as an increase of EUR 1.6 million for expenses in marketing and sales contributed in total EUR 7.3 million to this increase.

Interest income/loss

The positive finance income is mainly due to the intercompany interest income from loans to subsidiaries.

Income taxes

Taxes on income include tax credits relating to other periods.

Write-downs of financial assets

Owing to the agreement on the system of transfer pricing reached in the prior year, loans to affiliated companies arose which were written off in the prior year's financial statements.

Earnings after taxes

The change in the transfer pricing method in the wake of the tax audit contributed significantly to the considerable year-on-year differences in earnings after tax. In addition, extensive consulting costs associated with the successful IPO and restructuring costs for the legal entity in Austria had a significant impact on earnings.

Other taxes

Relative to the prior year, tax back payments from prior years ceased to apply in other taxes, resulting in this item solely constituting a low amount of vehicle taxes.

Net loss for the year

The extent of the net loss for the year is mainly due to expenses arising from the change in the transfer pricing method made in the wake of the tax audit and expenses in the course of the IPO. Adjusted for these effects, positive annual earnings are reported due to the considerable rise in revenue and the disproportionately smaller rise in personnel expenses and other operating expenses.

Financial position

Statement of cash flows of NFON AG pursuant to HGB (abridged version)

in mEUR	2018	2017
Cash flows from operating activities	–12.5	14.8
Cash flows from investing activities	–6.3	–17.2
Free cash flow	–8.8	–2.4
Cash flows from financing activities	49.9	–1.5
Net change in cash and cash equivalents	31.1	–3.9
Cash and cash equivalents at the beginning of the period	1.7	5.8
Cash and cash equivalents at the end of the period	32.8	1.7

The negative change in cash flows from operating activities is based on the effects referred to in the Section 'Earnings after taxes', while revenue from the collection of income from prior years was included in the prior year.

The reduction in negative cash flows from investing activities compared to the prior year is mainly due to the reclassification of intercompany clearing balances from current assets to loan under fixed assets in 2017. This addition to fixed assets resulted in strongly negative cash flows from investing activities being reported here in 2017.

The considerable increase in cash flows from financing activities is due to the proceeds of EUR 50 million gross from the IPO. As a result, cash and cash equivalents increased from EUR 1.7 million at the start of the reporting period to EUR 32.8 million. This created a comfortable liquidity position for NFON AG. NFON AG was able to meet its payment obligations at all times.

Assets and liabilities

Statement of financial position of NFON AG pursuant to HGB (abridged version)

in mEUR	2018	2017
Fixed assets	24.2	11.0
Current assets	37.9	5.2
Prepaid expenses	0.4	0.4
Assets	**62.5**	**16.6**
Equity	51.0	11.3
Provisions	2.7	2.2
Liabilities	8.9	3.1
Equity and liabilities	**62.5**	**16.6**

Fixed assets

The change in fixed assets is mainly due to intercompany transactions associated with the change in the system of transfer pricing in financial year 2018. The increase in shares in affiliated companies thus contrasted with a decline in loans to affiliated companies:

A capital increase of EUR 7.3 million was conducted for the subsidiary in the United Kingdom. At the same time, the existing loan of EUR 7.7 million in the prior year was repaid.

Further loans were issued to the subsidiary in Spain, which amounted to EUR 2.8 million as at the reporting day.

The subsidiary in Austria partially reduced existing loans, resulting in a residual loan of EUR 0.5 million.

Further, a capital increase of EUR 8.5 million was conducted in Austria.

In addition, the loans to fairfon GmbH were increased to EUR 2.4 million. fairfon GmbH thereby settled the outstanding purchase price instalments arising from the acquisition of non-controlling shares in nfon GmbH, St. Pölten, Austria in the prior year.

In addition, EUR 0.1 million was paid as a capital contribution to establish the subsidiary in Italy, thereby increasing the amount of shares in affiliated companies.

Current assets

Current assets were mostly influenced by the inflow of funds from the IPO of EUR 50.0 million and the associated considerable increase in cash at banks. Corresponding to the increase in revenue adjusted for transfer price postings, there was an increase in trade receivables.

Equity

The positive change in equity results mainly from the increase in subscribed capital of EUR 0.4 million from diverse capital increases to EUR 13.8 million as well as an increase in the capital reserve from EUR 34.0 million to EUR 70.6 million from the proceeds of the IPO. The increase in the accumulated deficit from EUR –23.1 million to EUR –33.4 million had an offsetting effect.

Consequently, equity rose from EUR 11.3 million to EUR 50.9 million.

Provisions

The increase in provisions is mainly attributable to the increase in personnel provisions from EUR 0.5 million to EUR 1.2 million, in this regard mainly provisions for bonuses. In addition, provisions for missing incoming invoices increased from EUR 0.4 million to EUR 0.6 million and for partner commissions from EUR 0.5 million to EUR 0.6 million, which are due to the expansion of revenue that is mediated by partners.

The reduction in tax provisions from EUR 0.7 million to EUR 0.1 million had an offsetting effect, as the change in the system of transfer pricing in the AG means that no profit is generated. The remainder principally relates to prior years.

In aggregate provisions increased from EUR 2.2 million to EUR 2.7 million.

Liabilities

The increase in liabilities to affiliated companies of EUR 5.6 million results mainly from the assumption of expenses from the subsidiaries of NFON AG outside of Germany, which relate to the changed system of transfer pricing in financial year 2018.

Overall evaluation of the economic situation

2018 was a successful year overall for NFON AG. Adjusted for non-recurring items, including from the adjustment of the system of transfer pricing and the IPO, revenue increased and earnings stabilised. Significant effects were the expense relating to the restructuring grant provided to the Austrian subsidiary and income from reversals of impairment losses relating to loans to subsidiaries that had been impaired in the prior year. Due to the proceeds from the IPO, the financial position improved considerably over the prior year. Cash balances increased from EUR 1.7 million to EUR 32.8 million, while at the same time all funds from external financing were repaid. Owing to the adjustment to the system of transfer pricing recognised in the reporting year, there is a complete change in the presentation of intercompany receivables and liabilities relative to the prior year.

Risks and opportunities

The business performance of NFON AG is subject to the same risks and opportunities as the Group. NFON participates in the risks of investments and subsidiaries in the full amount as these concern companies in which NFON AG holds 100% of the shares. 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 Risk and Opportunity Report of the group management report.

Forecast

Owing to the interrelationships of NFON AG with the Group companies, please refer to the statements in the forecast report of the Group management report, which especially also mirror the expectations for the parent company. NFON AG is expecting a considerable increase in revenue for financial year 2019. In line with the growth strategy of the Group, personnel expenses at NFON AG will also rise and the marketing budget at the level of NFON AG will rise considerably. Nevertheless it is expected that NFON AG, as in 2018, will also close the year with a positive adjusted EBITDA, even if the momentum slows in the subsequent year owing to the expenses specified for increasing growth. Considered in this regard is adjusted EBITDA in line with segment reporting, i.e. adjusting for costs in the wake of the IPO and the purchase of Deutsche Telefon Standard AG, the costs from the share-based payment plans for current and former Management Board members as well as adjusting for corporate actions for subsidiaries. Further, the effect on earnings from adjustments in the wake of the change in the transfer pricing method in the financial year is also eliminated. The number of customer-operated extensions (seats) will grow significantly faster in the 2019 financial year than in the previous year. This budget is based on the state of knowledge at the beginning of 2019. The Company points out that deviations may arise between the budgeted figures and the figures actually reached at year-end.

Responsibility statement of the legal representatives in accordance with section 315 (1) sentence 5 and section 289 (1) sentence 5 HGB

We hereby confirm that, to the best of our knowledge, the consolidated financial statements give a true and fair view of the Group's assets, liabilities financial position and financial performance in accordance with applicable accounting policies, and that the management report for the Group and the Company gives a true and fair view of the Group's business development including its performance and financial position, and also describes significant opportunities and risks relating to the Group's anticipated development.

Munich, 11 April 2019

Hans Szymanski
CEO

César Flores Rodríguez
Management Board

Jan-Peter Koopmann
Management Board

CONSOLIDATED FINANCIAL STATEMENT

Consolidated statement of profit or loss and other comprehensive income

for the period from 01 January to 31 December 2018

in kEUR	Notes	01.01.–31.12.2018	01.01.–31.12.2017
Revenue	19	43,028	35,654
Changes in inventories of finished goods and work in progress		9	0
Other operating income	16	1,256	457
Cost of materials		–11,083	–9,705
Personnel costs	18	–22,082	–13,738
Depreciation and amortisation	6/7	–690	–671
Other operating expenses	17	–18,875	–13,604
Impairment loss on trade and other receivables		–73	39
Other tax expense		38	–132
Income from continuing operations before net interest income and income taxes		**–8,473**	**–1,699**
Interest and similar income		13	13
Interest and similar expense		–168	–136
Net interest expense		**–155**	**–123**
Earnings before income taxes		**–8,628**	**–1,822**
Income tax expense	13	376	–199
Deferred tax expense	13	139	0
Net profit/(loss)		**–8,113**	**–2,021**
Attributable to:			
Shareholders of the parent company		–8,113	–2,021
Non-controlling interests		0	0
Other comprehensive income (will be reclassified subsequently to profit or loss when specific conditions are met)		–113	148
Tax on other comprehensive income		0	0
Other comprehensive income after taxes		**–113**	**148**
Total comprehensive income		**–8,225**	**–1,873**
Attributable to:			
Shareholders of the parent company		–8,225	–1,873
Non-controlling interests		0	0
Net loss per share, basic and diluted (in EUR)	**15**	**–0.76**	**–5.45**

Consolidated statement of financial position

as at 31 December 2018

in kEUR	Notes	31.12.2018	31.12.2017
Non-current assets			
Property, plant and equipment	6	1,352	1,011
Intangible assets	7	233	210
Deferred tax asset	13	203	0
Other non-financial assets	10	99	62
Total non-current assets		**1,886**	**1,283**
Current assets			
Inventories	8	92	18
Trade accounts receivable	9	5,859	4,628
Other financial assets	9	390	390
Other non-financial assets	10	1,605	787
Cash and cash equivalents	21	41,436	2,176
Total current assets		**49,382**	**7,999**
Total assets		**51,268**	**9,282**

in kEUR	Notes	31.12.2018	31.12.2017
Equity			
Subscribed capital	14	13,807	371
Capital reserves	14	70,131	32,052
Retained earnings		–40,749	–32,637
Currency translation reserve		445	557
Total equity		**43,633**	**343**
Non-current liabilities			
Other long-term liabilities	10	172	266
Deferred tax liabilities	13	63	0
Total non-current liabilities		**236**	**266**
Current liabilities			
Trade accounts payable	21	3,237	2,576
Short-term provisions	11	1,392	1,551
Short-term financial liabilities	11	128	2,565
Total current liabilities	10	2,643	1,981
Total current liabilities		**7,399**	**8,673**
Short-term provisions		**51,268**	**9,282**

Consolidated statement of cash flows

for the period from 01 January to 31 December 2018

in kEUR	Notes	01.01.–31.12.2018	01.01.–31.12.2017
1. Cash flow from operating activities			
Profit/Loss after taxes		**–8,113**	**–2,021**
Adjustments to reconcile profit (loss) to cash provided			
Income taxes	13	–515	199
Interest income (expense), net		155	123
Amortisation of intangible assets	7	89	51
Depreciation on tangible assets	6	601	618
Impairment on financial assets		73	–39
Gains (losses) on disposal of property, plant and equipment and intangible assets	6	0	22
Equity-settled share-based payments	20	3,551	362
Other non-cash income (expense)		–136	–2
Changes in: Inventories		–83	8
Trade and other receivables		–1,898	–885
Trade and other payables		1,165	3,041
Provisions and employee benefits		47	464
Deferrals in connection with the IPO in the reporting year and deferral items		297	–2
Adjustment for acquisition payable for remaining interests in subsidiaries		0	–2,335
Interest paid		–206	–94
Income taxes paid, net		–4	0
Foreign currency revaluation through P&L		15	148
Cash flows from operating activities		**–4,960**	**–341**

in kEUR	Notes	01.01.–31.12.2018	01.01.–31.12.2017
2. Cash flows from investing activities			
Proceeds on disposal of property, plant and equipment and intangible assets	6	0	23
Payments on investments in property, plant and equipment	6	–943	–898
Payments on investments in intangible assets	7	–112	–204
Cash flows from investing activities		**–1,055**	**–1,079**
3. Cash flows from financing activities			
Acquisitions of non-controlling interest		0	–755
Equity contributions from the capital increase by shareholders of the parent company after offset against IPO costs and cost reimbursement by previous shareholders	14	47,720	0
Repayments of bank loans and liabilities similar to bank loans	12	–2,438	–1,387
Cash flows from financing activities		**45,282**	**–2,162**
Changes in cash and cash equivalents		**39,267**	**–3,582**
Effect of movements in exchange rates on cash held		–7	–19
Cash and cash equivalents at the beginning of the period		**2,176**	**5,777**
Cash and cash equivalents at the end of the period		**41,436**	**2,176**

Cash and cash equivalents at the end of the period include deposits with banks of kEUR 339 as at 31 December 2018 (31 December 2017: kEUR 333), which are not freely remissible to the Group because of security deposits from customers with bad credit ratings. All restrictions on such deposits are short term in nature.

Consolidated statement of changes in shareholders' equity

as at 31 December 2018

	Attributable to owners of the Company						
in kEUR	Share Capital	Capital reserves	Currency translation reserve	Retained Earnings	Total equity	Non-controlling interests	Total
Balance at 01.01.2018	**371**	**32,052**	**557**	**–32,637**	**343**	**0**	**343**
Total comprehensive loss for the period							
Loss (Income) for the period	0	0	0	–8,113	–8,113	0	–8,113
Other comprehensive income for the period	0	0	–113	0	–113	0	–113
Total comprehensive loss for the period	**0**	**0**	**–113**	**–8,113**	**–8,225**	**0**	**–8,225**
Transactions with owners of the Company and equity transactions							
Equity-settled share-based payments	0	3,551	0	0	3,551	0	3,551
Increasing share capital by decision of the general meeting on 22.02.2018	9,269	–9,269	0	0	0	0	0
Payments into equity due to the IPO	4,167	45,833	0	0	50,000	0	50,000
Expenses and income related to the IPO recognised equity	0	–2,035	0	0	–2,035	0	–2,035
Transactions with owners of the Company and equity transactions	**13,436**	**38,080**	**0**	**0**	**51,516**	**0**	**51,516**
Balance as at 31.12.2018	**13,807**	**70,131**	**445**	**–40,749**	**43,634**	**0**	**43,634**

Consolidated statement of changes in shareholders' equity

as at 31 December 2017

	Attributable to owners of the Company						
in kEUR	Share Capital	Capital reserves	Currency translation reserve	Retained Earnings	Total equity	Non-controlling interests	Total
Balance at 01.01.2017	**371**	**34,696**	**409**	**–30,616**	**4,860**	**97**	**4,957**
Total comprehensive loss for the period							
Loss (Income) for the period	0	0	0	–2,021	–2,021	0	–2,021
Other comprehensive income for the period	0	0	148	0	148	0	148
Total comprehensive loss for the period	**0**	**0**	**148**	**–2,021**	**–1,873**	**0**	**–1,873**
Transactions with owners of the Company							
Equity-settled share-based payments	0	362	0	0	362	0	362
Total transactions with owners of the Company	**0**	**362**	**0**	**0**	**362**	**0**	**362**
Transactions within equity							
Acquisition of 49,8 % of the shares of nfon GmbH	0	–3,006	0	0	–3,006	–97	–3,103
Transactions within equity	**0**	**–3,006**	**0**	**0**	**–3,006**	**–97**	**–3,103**
Balance as at 31.12.2017	**371**	**32,052**	**557**	**–32,637**	**343**	**0**	**343**

NOTES

1. Basis of presentation

Company overview

The NFON Group provides cloud telephone system services enabling convenient and effective communication for customers across all their locations, all their employees, all the time, on multiple devices, including smartphones, tablets, personal computers and desk phones. It operates in various countries in Europe, most significantly in Germany, Austria, United Kingdom and Spain.

The Company has its registered offices in Machtlfinger Strasse 7, 81379 Munich, and is entered in the Commercial Register of the Munich District Court under HRB 168022. The Company is a stock corporation according to German law.

The consolidated financial statements for the fiscal year as at 31 December 2018 were approved for publication by Management Board resolution on 10 April 2019.

Consolidated financial statements

The consolidated financial statements and notes present the operations of NFON AG (the "Company") and its subsidiaries (combined "NFON" or the "Group"). The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and as adopted by the European Union ("EU"), taking account of the interpretation of the International Financial Reporting Interpretations Committee (IFRIC) and accounting provisions in accordance with Section 315e (1) 1 HGB.

Currency

The consolidated financial statements have been prepared in euro (EUR), which represents the functional and reporting currency of NFON AG. Unless otherwise indicated, all figures in the consolidated financial statements and related notes are rounded to the nearest thousand euro (kEUR). Therefore, rounding differences may occur within the tables included in the notes to the consolidated financial statements.

Other

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

Comparative information

The consolidated financial statements include amounts as at and for the periods ended 31 December 2018 compared to 31 December 2017.

2. Significant accounting policies

A. Basis of preparation

The financial statements have been prepared on an accruals 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. Basis of consolidation

The consolidated financial statements include all subsidiaries controlled by NFON AG. All intercompany transactions and balances have been eliminated. The financial statements of NFON AG's subsidiaries are included within 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 variability of returns from its involvement with the investee or has contractual rights and has the ability to affect those returns through its control over the investee.

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

- Control over the investee (i. e. existing rights that give it 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 use its control over the investee to affect its returns.

Generally, it is deemed 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 owners of the parent of the NFON Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. If necessary, adjustments are made in the financial statements of subsidiaries so that their accounting methods correspond to the Group's accounting methods. 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 proportion of the equity held by non-controlling interests, any difference between the amount of the non-controlling interests in Group equity and the fair value of the consideration paid or received is recognised directly in Group equity.

The composition of the consolidated group of entities is as follows:

- NFON AG, Munich, Germany (ultimate parent entity)
- nfon GmbH, St. Pölten, Austria (wholly owned by NFON AG, 50.2% directly and 49.8% indirectly via fairfon Telefonsysteme GmbH)
- NFON UK Ltd., Maidenhead, United Kingdom (wholly owned by NFON AG)
- fairfon Telefonsysteme GmbH, Munich, Germany (wholly owned by NFON AG)
- NFON Iberia SL, Madrid, Spain (wholly owned by NFON AG)
- NFON Italia S.R.L., Milan, Italy (wholly owned by NFON AG)

C. Inventories

Inventories are stated at the lower of cost and net realisable value and are written down, if necessary. Cost is determined on the basis of actual acquisition cost and, where applicable, direct labour cost that has been incurred in bringing the inventory to its present location and condition. Net realisable value is the estimated selling price less estimated costs of completion and estimated costs necessary to make the sale. If net realisable values are below inventory costs, a provision corresponding to this difference is recognised.

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

The Group's inventory mainly consists of a minimal stock of hardware, e.g. telephones that are sold to customers.

D. Trade and other receivables

Credit is extended to customers based on the evaluation of the customer's financial condition. Trade and other receivables consist of amounts billed and currently due from customers. Trade and other receivables are recognised initially at amortised costs plus transaction costs that are directly attributable to the acquisition or issue. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses. The approach for measuring impairment losses is described in Note 8 (Trade accounts receivables).

E. Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses. 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 increase the carrying amount of the original asset or are capitalised as a separate asset only 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 3 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 accumulated depreciation and impairments are removed from the consolidated statement of financial position and the net amount, less any proceeds, is taken to the consolidated statement of profit or loss.

The recoverability of property, plant and equipment for impairment is examined 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.

F. Intangible assets

Intangible assets are recognised at cost less any accumulated depreciation and any accumulated impairment losses. Subsequent expenditure is capitalised only for existing other intangible assets if it increases the future economic benefit embodied in the asset to which it relates. Cost of development activities are capitalised when the recognition criteria in IAS 38 are met. 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.

The useful lives of other intangible assets are determined individually. Intangible assets with finite useful lives are amortised systematically over the economic useful life and are assessed for impairment if events or circumstances indicate that their carrying amount may no longer be recoverable.

Intangible assets with an indefinite useful life are not amortised. Impairment losses are recognised if the carrying amount is higher than the recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. The useful life of an intangible asset with an indefinite useful life is examined at least once a year as to whether the assessment of an indefinite useful life is supported. If this is not the case, the change in the useful life assessment from indefinite to finite is made on a prospective basis. The assessment of the existence of impairment is taken either at the level of the individual asset or the cash-generating unit (CGU). For the periods presented, the Group did not capitalise any indefinite-lived intangible assets.

Other intangible assets that are not yet completed are also tested for impairment annually.

G. Impairment testing

Financial assets are measured at fair value through profit or loss and tested for impairment at each reporting date in order to determine whether they are recoverable. An impairment loss is recognised when there is objective evidence that the asset's carrying amount exceeds the recoverable amount.

The carrying amounts of non-financial assets (other than inventories and deferred tax assets) are reviewed at each reporting date whether there is any indication of impairment. If there is any such indication, then the asset's recoverable amount is estimated.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use and that is largely independent of the cash inflows of other assets or cash-generating units (CGUs). Goodwill arising from a business combination is allocated to CGUs or groups of CGUs that are expected to benefit from the synergies of the combination. The geographical segments identified by management as the operating segments are also the CGUs for reviewing the indications of impairment.

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 value of an asset or of a CGU exceeds its recoverable amount. Such impairment losses are recognised in profit or loss. First the carrying amount of the goodwill allocated to the CGU is reduced. 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.

An impairment loss on goodwill is not reversed in subsequent years. With other assets, a write-down can be reversed only taking account of depreciation and amortisation to be made in the interim.

H. 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 balance sheet as a reduction of cost and reversed equally over the estimated useful life of the corresponding assets as depreciation.

I. Foreign currency translation

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

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

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

Foreign currency translation differences are recognised in profit or loss.

The functional currency of the foreign subsidiary, NFON UK Ltd. is British pound sterling (GBP).

As at the reporting date, the assets and liabilities of this subsidiary are translated into the Group's reporting currency at the rate of exchange ruling at the balance sheet date (spot exchange rate). The statement of comprehensive income is translated at the moving average exchange rate for the reporting period. The foreign currency translation differences are recognised in other comprehensive income and taken directly to 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 to the exchange rate as at the reporting date.

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

	Spot rates 31.12.		Average rates	
	2018	2017	2018	2017
GBP	1.11791	1.12710	1.13031	1.14068

J. Segment reporting

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

K. 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 current tax liabilities for the current and prior periods are measured at the amount expected to be paid to or recovered from the taxation authorities, using the tax rates and tax laws that have been enacted by the balance sheet date. Current tax also includes any tax arising from dividends.

Deferred tax is recognised using the liability method on the temporary differences between the recognition of an asset or a liability in the balance sheet and the amount used for tax purposes as at the balance sheet date. Deferred tax liabilities are recognised for all taxable temporary differences with the exception of

- deferred tax liabilities from the initial recognition of goodwill and from the initial recognition of an asset or a liability in a transaction that is not a business combination and at the time of the transaction, affects neither accounting profit nor taxable profit in the reporting period and the
- deferred tax liabilities from taxable temporary differences associated with investments in subsidiaries if the timing of the reversal of the temporary differences can be influenced 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 losses and unused tax credits to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences and the carry forward of unused tax losses and unused tax credits can be utilised, with the exception of

- deferred tax assets from deductible temporary differences resulting from the initial recognition of goodwill and from the initial recognition of an asset or a liability in a transaction that is not a business combination and at the time of the transaction, affects neither accounting profit nor taxable profit in the reporting period and
- deferred tax assets from deductible temporary differences associated with investments in subsidiaries if it is probable that the temporary differences will not reverse in the foreseeable future and no sufficient taxable income is available against which the temporary differences can be utilised.

The carrying amount of the deferred tax assets is examined at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit is available against which the deferred tax assets can be at least partially utilised. Unrecognised deferred tax assets are examined on each reporting date and recognised to the extent that it has become probable that future taxable income 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 tax rates (and tax laws) that have been enacted by the balance sheet date. Future changes to tax rates are recognised as at the balance sheet date 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 an offset exist.

L. Cash and cash equivalents

Cash represents cash on hand and cash held at banks. 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 measured at amortised cost.

M. Provisions

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

For a discussion on provisions, refer to Note 11 – Provisions and Note 25 – Contingencies and commitments.

N. Revenue

According to IFRS 15 Revenues from contracts with customers, NFON recognises revenue to depict 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 mainly month-to-month contracts, i. e. they do not have a minimum contract duration and are prolonged month by month if not cancelled. However, there is a very small number of contracts which have 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 ("PO") 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 they result in an extension of the NFON network and do not transfer a good or service to the customer. Further, the customer cannot choose not to purchase activation activities without significantly affecting the monthly telephone services.

The Company has applied IFRS 15 ahead of schedule already in prior year.

Recurring revenue

Recurring revenue is generated when the customers pay for monthly telephone services per seat for usage of the NFON cloud technology. The amount of monthly license fee per customer depends 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 may 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 may 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.

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 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 depends 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 its products and services based on the relative stand-alone 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.

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.

Long-term contracts

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

The hardware and the monthly telephone services are separable in NFON's contract, because they are not inputs to a single asset (i. e. a combined item) 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.

Non-recurring services such as activation of the port 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 considerations (e. g. fixed monthly fees for airtime or the price for hardware) and variable considerations (e. g. fee per usage), but not a significant financing component. At the contract start date, after identifying the relevant performance obligations, NFON determines the estimate transaction price for the total initially committed fixed considerations. Variable future consideration for the fee per usage is not committed at inception, and hence, not included in the estimated transaction price. The total consideration is allocated based on their relative stand-alone 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 if revenue is recognised over time or at a point in time.

Relative stand-alone 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 presented in the statement of financial position as other non-financial asset where a customer has paid an amount of consideration prior to the entity fulfilling its performance obligation by transferring the related good or service to the customer.

Incremental costs of obtaining a contract

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

O. Share-based payments

The grant date of fair value of equity-settled share-based payment arrangements granted to employees is generally recognised as an expense, with a corresponding increase in equity, over the vesting period of the awards. The amount recognised as an expense is based on the agreed service and non-market performance conditions at the initial vesting date. For share-based payments with non-vesting conditions, the grant date of fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

The fair value of the amount payable to employees in respect of cash-settled share-based payments is recognised as an expense with a corresponding increase in liabilities over the period during which the employees become unconditionally entitled to payment. The liability is re-measured at each reporting date and at settlement date based on the fair value of the awards. Any changes in the liability are recognised in profit or loss.

P. Equity

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

Q. Financial instruments

The Company has applied IFRS 9 ahead of schedule already in prior year.

1. Recognition and initial measurement of financial assets

Trade receivables are initially recognised when they are originated. 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.

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 or fair value through profit or loss.

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:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All financial assets not classified and measured at amortised cost or FVOCI as described above are measured at FVTPL.

Business model assessment

The Group makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level.

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

For the purposes of this 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 during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a 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 fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss.
Debt investments 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 accumulated 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 classified as measured at amortised cost or FVTPL. 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. 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. 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.

The Group enters into transactions whereby it transfers assets recognised in its statement of financial position, but retains either all or substantially all the risks and rewards of the transferred assets. In these cases, the transferred assets are not derecognised.

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 presented in the statement of financial position when, and only when, the Group currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

5. Impairment of financial instruments

The Group recognises impairment losses for expected credit losses ("ECL") on financial assets measured at amortised cost. 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

At each reporting date, the Group assesses whether financial assets carried at amortised cost are credit-impaired. 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 because of financial difficulties.

Non-derivative financial assets

Financial assets not classified as at FVTPL, were assessed at each reporting date to determine whether there was objective evidence of impairment.

Objective evidence that financial assets were impaired included:

- default or delinquency by a debtor;
- restructuring of an amount due to the Group on terms that the Group would not consider otherwise;
- indications to bankruptcy of a debtor or issuer;
- adverse changes in the payment status of borrowers or issuers;
- the disappearance of an active market for a security because of financial difficulties; or
- observable data indicating that there was a measurable decrease in the expected cash flows from a group of financial assets.

For an investment in an equity instrument, objective evidence of impairment included a significant or prolonged decline in its fair value below cost. The Group considered a decline of 20% to be significant and a period of nine months to be prolonged.

Financial assets measured at fair value

The Group considered evidence of impairment for these assets at both an individual asset and a collective level. All individually significant assets were individually assessed for impairment. Those found not to be impaired were then collectively assessed for any impairment that had been incurred but not yet individually identified. Assets that were not individually significant were collectively assessed for impairment. Collective assessment was carried out by grouping together assets with similar risk characteristics.

In assessing collective impairment, the Group used historical information on the timing of recoveries and the amount of loss incurred, and made an adjustment if current economic and credit conditions were such that the actual losses were likely to be greater or lesser than suggested by historical trends.

An impairment loss was calculated as the difference between an asset's carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses were recognised in profit or loss and reflected in an impairment account. When the Group considered that there were no realistic prospects of recovery of the asset, the relevant amounts were written off. If the amount of impairment loss subsequently decreased and the decrease was related objectively to an event occurring after the impairment was recognised, then the previously recognised impairment loss was reversed through profit or loss.

Financial assets measured at fair value
Impairment losses on available-for-sale financial assets were recognised by reclassifying the losses accumulated in the fair value reserve to profit or loss. The amount reclassified was the difference between the acquisition cost (net of any principal repayment and amortisation) and the current fair value, less any impairment loss previously recognised in profit or loss. If the fair value of an impaired available-for-sale debt security subsequently increased and the increase was related objectively to an event occurring after the impairment loss was recognised, then the impairment loss was reversed through profit or loss. Impairment losses recognised in profit or loss for an investment in an equity instrument classified as available-for-sale were not reversed through profit or loss.

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. Write-off

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 generally 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 subject to the write-off. However, financial assets written off during the reporting period may still be subject to enforcement activity.

7. Finance income and finance 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 as at the date on which 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.

R. Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly 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 participants, 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 normally 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.

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, excluding costs for servicing equity, excluding ordinary shares and the weighted average of the outstanding ordinary shares in the fiscal years, adjusted for bonus shares issued in the fiscal year and without consideration of treasury shares.

2. Diluted earnings per share

In diluted earnings per share, the value used to determine the undiluted earnings per share is adjusted for consideration of:

- 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 diluted potential ordinary shares.

T. Operating leases

When a contractual agreement is entered into, the Group determines whether the agreement is or contains a lease.

At inception or on reassessment of an agreement that contains a lease, the Group separates payments and other consideration required by the agreement into those for the lease and those for other elements on the basis of their relative fair values.

Where an entity within the Group is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the entity, the total lease payments are recognised in profit or loss (net of any incentives received from the lessor) on a straight-line basis over the lease term. The lease term is the non-cancellable period for which the lessee has contracted to lease the asset together with any further terms for which the lessee has the option to continue to lease the asset, with or without further payment, when at the inception of the lease it is reasonably certain that the lessee will exercise the option. Initial direct costs attributable to negotiating and arranging leases are recognised within non-financial assets and recognised in profit and loss over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Leases of property, plant and equipment that transfer to the Group substantially all the risks and rewards of ownership are classified as finance leases. The leased assets are measured initially at an amount equal to the lower of their fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the assets are accounted for in accordance with the accounting policy applicable to that asset.

Assets held under other leases are classified as operating leases and are not recognised in the Group's statement of financial position.

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

For the periods presented, NFON did not have any contracts classified as finance lease.

3. Summary of estimates, judgements and assumptions

The preparation of financial statements in conformity with IFRSs 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 recognised revenues and expenses for the periods presented. Estimates and underlying assumptions are reviewed at each balance sheet date. Revisions to accounting estimates are recognised in the reporting period in which the estimate is revised and future reporting periods, if relevant.

Below is a presentation on information about assumptions and estimation uncertainties that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial reporting period.

A. Revenue

In line with the requirements of IFRS 15, revenues and other operating income are recognised when service is provided or goods are delivered. For long-term contracts, management estimates the total transaction price per contract based on the fixed price components which are contracted and known at the start date of the contract. If contracts will be modified or terminated earlier such estimates may change. Variable components are not taken into account at inception of long term contracts as they cannot be reliably estimated and depend on customer's usage. For further details on revenue recognition refer to Note 19 – Revenue.

B. Share-based payment (IFRS 2)

In respect of the accounting of virtual share appreciation rights, assumptions and estimates are made for the development of performance conditions, service conditions and non-vesting conditions as well as for the determination of the fair value of the underlying shares and the implied options. These are determined using a discounted cash flow model and the option pricing model. For details refer to Note 20 – Share-based payments.

C. Current and deferred taxes

For current taxes there is a risk that changes in tax legislation, administrative practice or case law could have adverse tax consequences for the Company.

In addition, the Group has tax losses carried forward of various legal entities in different tax jurisdictions which 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. Please refer to the accounting policies on income taxes and the income tax disclosures in Note 13 – Income taxes.

D. Provisions

Regarding recognition and measurement, there are uncertainties in respect of the outcome of legal disputes, the outcome of audits of fiscal authorities and social insurance agencies as well as in respect of the extent, date and probability of utilisation of the respective provision. For details refer to Note 11 – Provisions.

E. Expected credit loss of financial assets

We apply assumptions and estimates in determining the expected credit loss of financial assets. Refer to Note 5 Financial instruments – impairment of financial instruments.

F. Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for the following items, which are measured on an alternative basis as at each reporting date.

Items	Measurement bases
Non-derivative financial instruments at FVTPL	Fair value
Available-for-sale financial assets	Fair value
For contingent liabilities assumed in a business combination	Fair value
Liabilities for cash-settled shared-based payment arrangements	Fair value

4. New standards and interpretations whose application was mandatory for the first time in 2018

In 2018, the following standards and interpretations to be applied for the first time had no or an immaterial impact on the consolidated financial statements:

- Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2)
- Transfers of Investment Property (Amendments to IAS 40)
- Annual Improvements to IFRS 14 – 16 Cycle – various standards (Amendments to IFRS 1 and IAS 28)
- IFRIC 22 Foreign Currency Transactions and Advance Consideration

5. Standards and IFRIC interpretations issued but not yet effective as at 31 December 2018

At the time of publication of the consolidated financial statements, the following standards and interpretations were published, but their application was not yet mandatory and will be implemented by the Group in a later period.

IFRS 16 Leases

IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for current leases and leases of low-value items. Lessor accounting remains largely unchanged to the current standard – i. e. lessors continue to classify leases as finance or operating leases. IFRS 16 applies to all fiscal years beginning after 31 December 2018. The Group will adopt the standard for the fiscal year beginning as at 01 January 2019.

The impact on the application of IFRS 16 on the NFON AG consolidated financial statements as at 01 January 2019 is as follows:

- Rights-of-use from leases for vehicles: kEUR 312
- Current lease liabilities for vehicles: kEUR 150
- Non-current lease liabilities for vehicles: kEUR 163
- Rights-of-use from leases for property: kEUR 4,043
- Current lease liabilities for property: kEUR 825
- Non-current lease liabilities for property: kEUR 3,219

The following standards are expected to have no or an immaterial impact on the Company's financial statements in the period of initial application:

- IFRIC 23 Uncertainty over Income Tax Treatments.
- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (amendments to IFRS 10 and IAS 28).
- Prepayments Features with Negative Compensation (amendments to IFRS 9).
- Annual Improvements to IFRS 15 – 17 Cycle – various standards (amendments to IFRS 3, IAS 11, IAS 12 and IAS 23).
- IFRS 17 – Insurance Contracts
- Investments in Associates (amendments to IAS 28)
- Regulations on accounting for plan amendments (amendments to IFRS 19)
- Presentation of financial statements (amendments to IAS 1)
- Accounting policies, changes in accounting estimates and errors (amendments to IAS 8)
- Business combinations (amendments to IFRS 3)

Other new standards or amended standards and interpretations issued, but not yet effective, are not expected to have an impact on the Group.

6. Property, plant and equipment

The major categories of property, plant and equipment ("PP&E") and movements in the carrying value of each category are as follows:

A. Reconciliation of gross carrying amount

in kEUR	01.01.2018	Addition	Disposals	31.12.2018
Cost				
Leasehold improvements	19	25	0	44
Furniture, fixtures and other equipment	2,893	917	0	3,810
Total cost 2018	**2,912**	**942**	**0**	**3,854**

in kEUR	01. 01.2017	Addition	Disposals	31.12.2017
Cost				
Leasehold improvements	2	19	2	19
Furniture, fixtures and other equipment	2,099	878	84	2,893
Total cost 2017	**2,101**	**898**	**86**	**2,912**

B. Reconciliation of accumulated depreciation and carrying amount

in kEUR	01.01.2018	Depreciation	Disposals	31.12. 2018
Depreciation				
Leasehold improvements	1	1	0	1
Furniture, fixtures and other equipment	1,901	601	1	2,501
Total depreciation 2018	**1,901**	**601**	**1**	**2,502**

in kEUR	01.01.2017	Depreciation	Disposals	31.12.2017
Depreciation				
Leasehold improvements	1	1	1	1
Furniture, fixtures and other equipment	1,324	617	40	1,901
Total depreciation 2017	**1,325**	**618**	**41**	**1,901**

Carrying amounts

in kEUR	31.12. 2018	31.12.2017
Carrying amount		
Carrying amount	43	19
Furniture, fixtures and other equipment	1,309	993
Total carrying amount	**1,352**	**1,011**

The Company did not recognise any impairment charges on property, plant and equipment for the years ended 31 December 2017 and 2018. The impact of foreign currency exchange rate changes is immaterial.

7. Intangible assets

A. Reconciliation of gross carrying amount

Movements in intangible assets are as follows:

in kEUR	01.01.2018	Additions from purchases	Disposals	31.12.2018
Gross carrying amount				
Software	291	100	0	391
Other intangible assets	12	12	0	24
Total intangible assets	**303**	**111**	**0**	**414**

in kEUR	01.01.2017	Additions from purchases	Disposals	31.12.2017
Gross carrying amount				
Software	88	204	0	291
Other intangible assets	12	0	0	12
Total intangible assets	**99**	**204**	**0**	**303**

B. Reconciliation of accumulated amortisation and carrying amount

Accumulated amortisation is as follows:

in kEUR	01.01.2018	Amortisation	Disposals	31.12.2018
Amortisation				
Software	86	89	0	175
Other intangible assets	7	0	0	7
Total amortisation on intangible assets 2018	**93**	**89**	**0**	**182**

in kEUR	01.01.2017	Amortisation	Disposals	31.12.2017
Amortisation				
Software	34	51	0	86
Other intangible assets	7	0	0	7
Total amortisation on intangible assets 2017	**42**	**51**	**0**	**93**

Carrying amount

in kEUR	31.12.2018	31.12.2017
Carrying amount		
Software	216	205
Other intangible assets	17	4
Total carrying amount	**233**	**210**

The impact of foreign currency exchange rate changes is immaterial.

8. Inventories

Inventories amounted to kEUR 92 as at 31 December 2018 (2017: kEUR 18). Inventories mainly comprise hardware, e.g. telephone devices. Hardware on hand is usually minimal within the Group as hardware is shipped just-in-time by the suppliers whenever requested by NFON based on customer orders. No reserves for obsolete inventory were required in the periods presented.

9. Trade accounts receivables and other financial assets

	Financial year ended 31.12.	
in kEUR	2018	2017
Trade receivables due from related parties	280	4
Other trade receivables	5,579	4,624
Total	**5,859**	**4,628**

Information about the Group's exposure to credit and market risks, and impairment losses for trade and other receivables is included in Note 21 – Financial instruments for movement in impairment allowance.

Measurement of ECL

The Group applies the simplified approach for providing for expected credit losses prescribed by IFRS 9. This approach requires to recognise the lifetime expected loss provision for all trade receivables. The Group uses the impairment matrix to compute the credit allowances for trade receivables and contract assets.

Under this approach, the Group uses historical loss experience on its trade receivables and contract assets, and adjusts historical loss rates to reflect:

i. information about current conditions; and
ii. reasonable and supportable forecasts of future economic conditions.

Other financial assets amounted to kEUR 390 as at December 2018 (2017: kEUR 390). The position contains restricted cash because of recourse rights of banks for direct debits from customers.

10. Other (non-financial) assets and other (non-financial) liabilities

As at 31 December 2018 and 2017, other non-financial assets were as follows:

	Financial year ended 31.12.	
in kEUR	2018	2017
Other current assets		
Other current assets	210	18
Capitalised contract costs	124	115
Tax receivables	475	12
Prepaid expenses	473	499
Other non-financial assets	323	143
Subtotal other current assets	**1,605**	**787**
Other non-current assets		
Prepayments	47	16
Others	51	46
Subtotal other non-current assets	**99**	**62**
Other assets	**1,704**	**849**

As at 31 December 2018 and 2017, other non-financial liabilities were as follows:

	Financial year ended 31.12.	
in kEUR	2018	2017
Other current (non-financial) liabilities		
Tax payables	720	460
Liabilities to employees	1,306	729
Other non-financial liabilities	617	792
Subtotal other current (non-financial) liabilities	**2,643**	**1,981**
Others	172	266
Subtotal other non-current (non-financial) liabilities	**172**	**266**
Other (non-financial) liabilities	**2,815**	**2,247**

11. Provisions

in kEUR	Carrying amount as at 01.01.2018	Addition	Utilisation	Reversal	Carrying amount as at 31.12.2018
Current provisions					
Personnel-related provisions	7	121	0	0	128
Other provisions	879	1,183	736	143	1,183
Tax-related provisions	666	24	389	218	83
Summe	**1,551**	**1,328**	**1,125**	**362**	**1,393**

in kEUR	Carrying amount as at 01.01.2017	Addition	Utilisation	Reversal	Carrying amount as at 31.12.2017
Current provisions					
Personnel-related provisions	247	7	0	247	7
Other provisions	451	878	410	42	878
Tax-related provisions	192	492	0	18	666
Summe	**890**	**1,377**	**410**	**307**	**1,551**

Other provisions mainly comprise provisions for outstanding invoices for sales commissions amounting to kEUR 750 (2017: kEUR 496) and provisions for year-end report and audits amounting to kEUR 258 (2017: kEUR 173).

As at 31 December 2018, the personnel-related provisions include primarily kEUR 113 in obligations for share-based payments to a member of the Management Board.

As at the 2018 reporting date, the tax-related provisions include essentially provisions for corporate tax and trade tax for previous years. In the previous year, provisions related mainly to corporate tax and trade tax, and risks in conjunction with potential value added tax repayments and payroll taxes at NFON AG.

There are no provisions for warranties, order-related losses and risks for environmental obligations.

12. Interest-bearing debt

The following loans and borrowings are reflected in current financial liabilities. For details refer to Note 21 – Financial instruments.

	Financial year ended 31.12.	
in kEUR	2018	2017
Current financial liabilities		
Acquisition loan	0	2,335
Working capital loan	121	230
Others	7	0
Total financial liabilities	**128**	**2,565**

All loans are granted without collateral and subordination agreements.

Credit facility

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

The revolving credit facility of kEUR 4,000 with an annual interest rate of 8.00% on utilisation and a commitment fee of 1.50% per year which was in place in the 2018 fiscal year was replaced on 08 January 2019 by an acquisition credit facility of kEUR 10,000. The interest rate of 4% from the date the contract is entered into is variable and alters based on changes of the monthly average of the EURIBOR for three-month funds. The commitment fee amounts to 1%.

Acquisition loan

In the previous year, the Group recognised an acquisition loan for its acquisition of the remaining 49.8% stake in nfon GmbH in October 2017. The loan bears interest at a rate per annum equal to 2.50% over the 3-month EURIBOR but at least 2.50% per annum.

As at 31 December 2017, the Group's outstanding acquisition loan amounted to kEUR 2,335 (including interest of kEUR 10). The loan was fully repaid in financial year 2018.

Working capital loans

The Group entered into an agreement in Austria in order to finance hardware purchases. Hardware may be sold to customers. However, customers may pay the price of such hardware over the duration of a long-term contract. Therefore, working capital financing was used historically whenever hardware for such types of contracts was sold. Historically, the average interest rate on monthly drawings was 13% p. a. and the average repayment term for drawings was 36 months. The remaining loan amount as at 31 December 2018 was kEUR 121. Since August 2017, no new loans were received.

13. Income taxes

A. Amounts recognised in profit and loss

Current tax on the net profit or loss for the year is recognised as an expense in the consolidated statement of profit or loss with any changes in the provision for deferred tax.

A. Tax on profit for the year

	Financial year ended 31.12.	
in kEUR	2018	2017
Current tax income (tax expense) Current year (federal and state)	–376	199
Deferred tax income (tax expense)	–139	0
Income tax expense (income)	**–515**	**199**

kEUR 390 of the 2018 tax income relate to tax income for earlier years and kEUR 14 tax expenses relate to the current year. The tax expense in the previous year related to 2017. Deferred tax income of kEUR 140 results from the recognition of deferred tax assets on tax losses carried forward. Remaining deferred taxes results from the recognition of deferred taxes on temporary differences.

B. Amounts recognised in OCI

In the reporting period and in the prior-year period, there were no transactions which has an impact on deferred taxes in other comprehensive income.

C. Reconciliation of effective tax rates

In Germany, the calculation of current tax is based on a combined tax rate of 32.6% for the Group, consisting of a corporate tax rate of 15%, a solidarity surcharge thereon of 5.5% and an average trade tax rate of 16.8%.

in kEUR	2018	2017
Profit before tax from continuing operations	–8,628	–1,822
Tax using the Company´s domestic tax rate 32.6%	2,815	597
Tax effect on:		
Difference due to foreign tax rates	–368	343
Non-deductible expenses	–76	2
Prior year adjustments	0	85
Tax effect related to share-based payments in accordance with IFRS adjustment	–1,159	39
Current-year losses for which no deferred tax assets are recognised	–2,408	–1,166
Tax impact in connection with the recognition of IPO costs	664	0
Adjustments for current taxes of previous years	390	0
Reversals of impairments done in previous years	140	0
Usage of tax losses carried forward for which no DTA was recognised in prior year	31	0
Minimum taxation	2	–181
Change in realisability of deferred tax assets and tax credits	415	100
Others	69	–18
Current income taxes	**515**	**–199**
Current tax expense	376	–199
Deferred tax income (tax expense)	139	–
Income tax expense	**515**	**–199**

The transfer prices have a very large effect on the actual taxes incurred. Other effects on the effective tax rate include IFRS-related remeasurements e.g. consideration of share-based payments. Deferred tax assets are impacted decisively by the non-recognition of tax losses carried forward at NFON AG.

D. Movement in deferred tax balances

A provision is recorded for deferred tax on the basis of all temporary differences in accordance with the balance sheet 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 be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date. 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.

E. Deferred tax assets/tax liabilities (prior year: non-recognised deferred tax assets/tax liabilities)

	Financial year ended 31.12.2018			
in kEUR	Deferred tax assets	Deferred tax liabilities	Changes in the current financial year	thereof affecting net income
Assets				
Non-current assets				
Property, plant and equipment	12	21	–19	–19
Intangible assets	8	0	8	8
Other non-current assets	0	16	–16	–16
Current assets				
Inventories	0	1	2	2
Trade receivables	12	125	–107	–107
Other current assets	12	69	15	15
Equity				
Capital reserves	0	0	–312	–312
Liabilities				
Non-current liabilities				
Non-current provisions	0	3	–3	–3
Other non-current liabilities	0	14	–78	–78
Current liabilities				
Trade payables	1	0	1	1
Current provisions	0	64	–64	–64
Current financial liabilities	30	0	–27	–27
Other current liabilities	225	1	183	183
Consolidation effects	37	4	33	33
Sub-total temporary differences				
Tax losses carried forward	141	0	141	141
Sub-total temporary differences				
Offset	–256	–256	0	0
Sub-total temporary differences after balancing	**222**	**63**	**–243**	**–243**
Impairment	–23	0	–22	–22
Reversal of an impairment	438	0	438	438
Impairment prior year	–434	0	–33	–33
Total temporary differences	**203**	**63**	**139**	**139**

	Financial year ended 31.12.2017			
in kEUR	Deferred tax assets	Deferred tax liabilities	Changes in the current financial year	thereof affecting net income
Assets				
Non-current assets				
Property, plant and equipment	11	0	7	7
Current assets				
Inventories	0	4	–1	–1
Trade receivables	0	7	5	5
Other current assets	0	72	–40	–40
Equity				
Capital reserves	312	0	108	108
Liabilities				
Other non-current liabilities	64	0	64	64
Current liabilities				
Current provisions	1	0	–72	–72
Current financial liabilities	58	0	20	20
Other current liabilities	41	1	8	8
Consolidation effects	32	32	0	0
Sub-total temporary differences	**519**	**116**	**99**	**99**
Tax losses carried forward	–1	0	0	0
Sub-total temporary differences	**518**	**116**	**99**	**99**
Offset	–84	–84	0	0
Sub-total temporary differences after balancing	**434**	**32**	**99**	**99**
Impairment	–33	–32	–99	–99
Reversal of an impairment	0	0	0	0
Impairment prior year	–401	0	0	0
Total temporary differences	**0**	**0**	**0**	**0**

F. Tax losses carried forward

Other provisions mainly comprise provisions for outstanding invoices for trade tax losses carried forward of kEUR 31.596 (2017: kEUR 14,741) and corporation tax losses carried forward amounting to kEUR 31.918 (2017: kEUR 23,157). Of the trade tax losses carried forward, kEUR 7,265 relate to the reporting year and kEUR 24,331 to earlier periods. Of the corporation tax losses carried forward, kEUR 7,381 relate to the reporting year and kEUR 24,537 to earlier periods. The trade tax and corporation tax losses carried forward for which no deferred tax assets were recognised, are not subject to any restriction relating to utilisation.

G. Uncertainty over income tax treatments

The Group believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretations of tax law and prior 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 made at a flat-rate withholding tax rate of 25.0% plus a solidarity surcharge thereon of 5.5%.

14. Equity

Capital increase and IPO

For the year ended 31 December 2018, equity increased by kEUR 43,290 to kEUR 43,633 as at 31 December 2017. This rise resulted essentially from the IPO on 11 May 2018 in which there were gross proceeds of EUR 50 million. In the process subscribed capital as at 30 June 2018 was increased by EUR 4.2 million and capital reserves by EUR 45.8 million. Transaction costs of EUR 2.6 million in connection with the placement of new shares in the context of the IPO were recognised directly under capital reserves. In the reporting period, a further EUR 2.4 million was recognised as other operating expenses in profit or loss. These were also expenses in connection with the IPO. However, these were for the placement of existing shares. The difference between the recognition of such expenses as transaction costs in capital reserves or as other operating expenses in profit or loss is aligned to the criteria of IAS 32.37. Cost reimbursements from the previous shareholders of EUR 0.5 million were offset against capital reserves. By resolution of the Annual General Meeting on 22 February 2018, the capital increase implemented in the context of the IPO was preceded by a capital increase which increased the share capital of the Company by EUR 9.3 million with funds from capital reserves.

Subscribed capital and ordinary shares

As at 31 December 2018, NFON AG had issued 13,806,816 (as at 31 December 2017: 370.775) ordinary bearer shares with a notional interest in the share capital of EUR 1.00. Subscribed capital totalled 13,807 kEUR as at 31 December 2018 (2017: 371 kEUR).

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

All issued and outstanding shares are fully paid in as at 31 December 2018 and 2017.

Capital reserves

The capital reserves contain the premium from issued shares and the transaction costs reimbursed by the previous shareholders in connection with the IPO which took place in the prior year. This offset the transaction costs in connection with the placement of new shares in the context of the IPO. Capital reserves also contain cumulated expenses for share-based payment transactions for specific members of the Management Board recognised as staff costs in the reporting period and in earlier periods totalling kEUR 4,596 (prior year: kEUR 1,045).

As at 31 December 2017, the parent company had a dividend restriction of kEUR 37 pursuant to Section 150 (2) AktG. 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 09 April 2018, the Management Board is authorised, 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 in the period to 08 April 2023 by up to EUR 4,820,075 by the issue of up to 4,820,075 bearer shares in exchange for cash or non-cash contributions (Authorised Capital I). This authorises the Management Board, with the approval of the Supervisory Board, to decide on the disapplication of shareholder subscription rights. However, they may be excluded only in the following cases:

- to compensate fractional shares;
- if shares are issued against non-cash contributions in order to acquire companies, investments in companies or parts of companies or other assets including rights and receivables;
- in the case of a cash capital increase where the new shares for which the shareholders' pre-emptive right has been disapplied do not exceed 10% of the share capital;
- if the cash capital increase takes place to introduce new shares of the Company;
- to the extent necessary to grant bearers of convertible bonds, convertible participation rights or option rights a right of subscription to the extent it would be granted after exercising the right of conversion or the option right.

As a result of the IPO implemented in the reporting year, EUR 4,166.66 of this authorised capital was used. As at 31 December, authorised capital of EUR 653,409 remains.

Contingent capital

The creation of contingent capital (Contingent Capital I) in the form that the NFON AG share capital is contingently increased by up to EUR 3,856,060 as a result of the issue of up to 3,856,060 new no-par value bearer shares, serves to authorise the Management Board, with approval of the Supervisory Board, in the period to 08 April 2023 to issue bearer convertible bonds, warrant bonds, participation rights, participating bonds or combinations of these instruments with or without a restriction on duration up to a total amount of EUR 115,681,800 and to grant bearers and creditors of convertible or warrant bonds conversion or option rights to new shares of the Company with a pro rata amount in the share capital of up to EUR 3,856,060, the issue of which can take place on a non-cash basis.

In addition, to secure subscription rights from share options (subscription rights within the meaning of Section 192 (2) No. 3 AktG) issued in the period from 09 April 2018 to 08 April 2023, the NFON AG share capital is contingently increased on the basis of the authorisation of the Annual General Meeting on 09 April 2018 by up to EUR 964,015 by the issue of up to 964,015 new bearer shares (Contingent Capital II).

Contingent Capital I and Contingent Capital II were both resolved in the Annual General Meeting on 09 April 2018.

Retained earnings

Retained earnings contains losses incurred in prior years and in 2018.

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 2018, NFON AG published the following notifications on the Group's website in line with Section 33 (1), Section 38 (1) 1 and Section 40 German Securities Trading Act (WpHG):

On 14 May 2018, Earlybird Verwaltungs GmbH, Munich, informed us in accordance with Section 33 German Securities Trading Act that as at 09 May 2018 it has acquired absolutely and directly 2,062,609 (14.94%) of the voting rights.

On 14 May 2018, FIL Limited, Pembroke, Bermuda, informed us in accordance with Section 34 German Securities Trading Act that since 10 May 2018 an absolute figure of 539,881 (3.91%) of the voting rights are attributable to them. The complete chain of subsidiaries starting with the ultimate controlling party: 1. FIL Limited, Pembroke, Bermuda, FIL Holding (UK) Limited, Hildenborough, United Kingdom, FIL Investments International, Hildenborough, United Kingdom, and 2. FIL Limited, Pembroke, Bermuda, FIL Holding (UK) Limited, Hildenborough, United Kingdom, and FIL Pensions Management, Tonbridge, United Kingdom.

On 14 May 2018, Universal-Investment-Gesellschaft mbH, Frankfurt am Main, informed us in accordance with Section 34 German Securities Trading Act that as at 09 May 2018 an absolute figure of 671,365 (4.86%) of the voting rights in NFON AG are attributable to them. The complete chain of subsidiaries starting with the ultimate controlling party is: Universal-Investment-Gesellschaft mbH, Frankfurt am Main, (2.997%), Universal-Investment-Luxembourg S. A., Grevenmacher, Luxembourg.

On 15 May 2018, MainFirst SICAV, Munsbach, Luxembourg, informed us in accordance with Section 33 German Securities Trading Act that as at 09 May 2018, it has acquired absolutely and directly 1,068,116 (7.74%) of the voting rights.

On 15 May 2018, Syquant Capital, Paris, France, informed us in accordance with Section 34 German Securities Trading Act that as at 09 May 2018 an absolute figure of 420,000 (3.04%) of the voting rights are attributable to them.

On 16 May 2018, Dr. Matthias Hallweger informed us in accordance with Section 34 German Securities Trading Act that as at 09 May 2018 an absolute figure of 794,964 (5.76) of the voting rights are attributable to MIG GmbH & Co. Fond 9 KG, Pullach. In addition, due to a claim for re-transfer of a securities loan, in accordance with Section 38 (1) 2 German Securities Trading Act, an absolute figure 221,009 (1.60%) of the voting rights are attributable to it. The complete chain of subsidiaries starting with the ultimate controlling party is: 1 Dr. Matthias Hallweger, HMW Emissionshaus AG, Pullach, HMW Verwaltungs GmbH, MIG GmbH & Co. Fonds 9 KG, Pullach, with 5.20% total voting rights 6.65%, 2. Dr. Matthias Hallweger, HMW Emissionshaus AG, Pullach, HMW Verwaltungs GmbH, Pullach, and MIG GmbH & Co. Fonds 11 KG, Pullach.

On 15 May 2018, High-Tech Gründerfonds GmbH & Co. KG, Bonn informed us in accordance with Section 34 German Securities Trading Act that as at 09 May 2018 an absolute figure of 470,184 (3.41%) of the voting rights are attributable to them. The complete chain of subsidiaries starting with the ultimate controlling party is the Federal Republic of Germany, represented by the Federal Ministry of Economics and Technology, High-Tech Gründerfonds GmbH & Co. KG, Bonn.

On 15 May 2018, KBC Asset Management NV, Brussels, Belgium informed us in accordance with Section 34 German Securities Trading Act that as at 09 May 2018 an absolute figure of 420,000 (3.04%) of the voting rights are attributable to them.

On 17 May 2018, Milestone Venture Capital GmbH, Hösbach, informed us in accordance with Section 33 German Securities Trading Act that as at 09 May 2018, it had absolutely and directly acquired 3,448,640 (24.98%) of the voting rights. In addition, in accordance with Section 34 German Securities Trading Act 707,212 (5.12%) of the voting rights are attributed to them.

On 30 May 2018, Universal-Investment-Gesellschaft mbH, Frankfurt am Main informed us in accordance with Section 34 German Securities Trading Act that as at 25 May 2018 an absolute figure of 706,855 (5.12%) of the voting rights are attributable to them. The complete chain of subsidiaries starting with the ultimate controlling party is Universal-Investment-Gesellschaft mbH, Frankfurt am Main, (3.25%), Universal-Investment-Luxembourg S.A., Grevenmacher, Luxembourg.

On 18 June 2018, Earlybird Verwaltungs GmbH, Munich informed us in accordance with Section 33 German Securities Trading Act that as at 12 June 2018 it had absolutely and directly acquired 2,460,813 (17.82%) of the voting rights.

On 23 July 2018, Syquant Capital, Paris, France informed us in accordance with Section 34 German Securities Trading Act that as at 23 July 2018 it has fallen below the 3% threshold and that on this day an absolute figure of 407,697 (2.95%) of the voting rights were attributed to them.

On 05 September 2018, Universal-Investment-Gesellschaft mbH, Frankfurt am Main informed us in accordance with Section 34 German Securities Trading Act that as at 31 August 2018 an absolute figure of 660,365 (4.78%) of the voting rights are attributable to them. The complete chain of subsidiaries starting with the ultimate controlling party is Universal-Investment-Gesellschaft mbH, Frankfurt am Main, Universal-Investment-Luxembourg S.A., Grevenmacher, Luxembourg.

On 27 November 2018, Universal-Investment-Gesellschaft mbH, Frankfurt am Main informed us in accordance with Section 34 German Securities Trading Act that as at 22 November 2018 an absolute figure of 706,365 (5.12%) of the voting rights are attributable to them. The complete chain of subsidiaries starting with the ultimate controlling party is Universal-Investment-Gesellschaft mbH, Frankfurt am Main, (3.02%), Universal-Investment-Luxembourg S.A., Grevenmacher, Luxembourg.

15. Earnings per share

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

Diluted earnings per share are calculated by adjusting earnings after tax attributable to the ordinary shareholders of the parent company and the weighted average number of ordinary shares outstanding during the reporting period for the effects of any dilutive effects inherent in converting potential ordinary shares. There were no dilutive instruments for the historical periods presented. Even though the Company has granted cash-settled and equity-settled share-based payments to members of management, any future payment under the plans will be through cash, and therefore, the granted awards are not considered potential ordinary shares outstanding for the purposes of calculating earnings per share.

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

in kEUR	2018	2017
Profit (loss) for the year, attributable to the owners of the parent for basic earnings	–8,113	–2,021
Profit (loss) for the year, attributable to the owners of the parent for diluted earnings	–8,113	–2,021

Quantity	2018	2017
Weighted average number of ordinary shares for basic earnings per share	10,669,523	370,775
Weighted average number of ordinary shares for diluted earnings per share	10,669,523	370,775

	Financial year ended 31.12.	
EUR	2018	2017
Loss per share		
Basic earnings	–0.76	–5.45
Diluted earnings	–0.76	–5.45

16. Other operating income

in kEUR	2018	2017
Other operating income		
Management bonus	740	0
Non-cash employee-related benefits	277	118
Reversal of provisions	0	307
Miscellaneous other income	239	32
Total other operating income	**1,256**	**457**

The payments made to the Management Board as a result of the IPO were borne by the previous shareholders. In the reporting period, this payment of kEUR 740 is contained in other operating income. The corresponding expense is recognised in staff costs. In the reporting period, the reversal of provisions is recognised as an expense for the first time, recognised by establishing the relevant provision. As a result, the cost of materials is down kEUR 16, other operating expenses are kEUR 126 lower, staff costs are reduced by kEUR 81 and other taxes are kEUR 127 lower. Income from the reversal of provisions in the comparative period of kEUR 242 result from the reversal of provisions for share-based payment programmes. Non-cash employee-related benefits include charges to employees for car usage.

17. Other operating expenses

in kEUR	2018	2017
Other operating expense		
Marketing expenses	5,452	3,636
Sales commission	4,305	3,593
General administration	992	1,016
Support costs	405	310
Selling costs	147	52
Consultancy expenses	2,711	1,134
IT expenses	753	581
Travel expenses	1,022	667
Rental costs	1,181	909
Other personnel costs	1,908	1,706
Total other operating expenses	**18,875**	**13,604**

The increase in marketing expenses in the reporting year results from various marketing projects implemented or initiated in the reporting year, especially in connection with the Cloudya launch.

As sales commission represents a percentage share of revenues generated through value-added resellers or distribution partners, the increase from kEUR 3,593 in financial year 2017 to kEUR 4,305 in financial year 2018 was driven mainly by the increase in total revenues and especially by the increased portion of revenues generated through partner channels.

The increase in travel expenses in comparison to the prior year resulted not only from the higher business volume in comparison to the prior year and the related expansion of travel activities by sales staff, but also as a result of the IPO implemented in 2018 and the related road shows with the involvement of Group management.

In financial year 2018, consultancy expenses included legal costs of kEUR 697 and consultancy fees of kEUR 2,014, essentially in connection with the IPO implemented in the reporting year.

The increase in other personnel costs from kEUR 1,706 in financial year 2017 to kEUR 1,908 in financial year 2018 was primarily due to higher recruiting expenses, necessary to support our growth strategy.

Expenses included in other operating expenses relating to the IPO total kEUR 2,397. Please refer to the notes on capital reserves.

18. Personnel costs and employees

Personnel costs comprised the following:

in kEUR	2018	2017
Wages and salaries	15,745	10,987
Social security contributions	2,314	2,158
Share-based payment plans [1]	3,664	362
Expenses for pensions and other benefits	39	33
Other personnel costs	319	197
Total	**22,082**	**13,738**
1 Thereof equity-settled	3,551	362

Expenses for pensions and other benefits mainly relate to the Company's payments to defined contribution plans (contributions to state plans) which are expensed when 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.

kEUR 3,551 of the strong increase in expenses for share-based payment programmes related to the cancellation of the (equity-settled) share-based payment plans concluded in prior years with members of the Management Board. The payment of these payment plans related both to the occurrence of an exit, but also to reaching a certain percentage of (existing) shares which would have had to be transferred to new shareholders in the case of an exit. The latter condition was not achieved in the May 2018 IPO. There was and there will be (also in the future) no payment from these payment plans. In any case the relevant bonus payment would have been assumed by the previous shareholders, so that there would have been no net cash outflow from the Company. Nevertheless, in line with the requirements of IFRS 2, the recognition parameters underlying the initial measurement of the payment plans must still be used and amounts recognised in profit and loss are to be allocated to the capital reserves until the end of the vesting period (in 2021). A bonus agreement concluded with the Management Board members in connection with the IPO on the condition that the claims from share-based payment arrangements concluded in prior years lapse is to be assessed as cancellation within the meaning of IFRS 2 of these share-based payment arrangements concluded in prior years. As a result, for these payment plans, the amounts remaining at the point of cancellation, which originally would have been allocated to the capital reserve over the vest period ending in financial year 2021, must be fully recognised in the reporting period ("accelerated vesting").

In 2018, the average number of employees was 228 and managers 14 (2017: 188 and 12).

19. 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	Recurring services are mainly 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 satisfied 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 satisfied 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 due to the relative stand-alone selling prices. The total transaction price estimated at inception of a contract is allocated to the performance obligations which are known from the beginning (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.

Non-recurring	**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/setup 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 time 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 are 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, which may comprise both recurring and non-recurring services and/or products, mainly do not have a minimum contract duration (month-to-month contracts). In relation to such contracts, management assumes that the contract term is 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 which can be estimated reliably. Further, the Group determines the performance obligation of each service/product, calculates the relative stand-alone selling price for each performance obligation based on the list prices and allocates the relative stand-alone selling prices to the performance obligations over the life of the contract.

B. Disaggregation of revenue

In the following table, revenue is disaggregated by segments based on recurring and non-recurring products/services.

in kEUR	2018	2017
Product/Services		
Recurring revenue		
NFON AG	25,621	21,281
nfon GmbH	3,688	3,006
NFON UK Ltd.	5,076	3,291
NFON Iberia SL	199	94
Total recurring revenue by segments	34,584	27,671
Transition to Group recurring revenue	0	94
Group recurring revenue	34,584	27,765
Non-recurring revenue		
NFON AG	6,225	5,368
nfon GmbH	1,028	1,124
NFON UK Ltd.	1,106	1,641
NFON Iberia SL	75	51
Total non-recurring revenue by segments	8,434	8,184
Transition to group non-recurring revenue	9	–295
Group non-recurring revenue	8,442	7,889
Group revenue	**43,028**	**35,654**

C. Contract balances

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

	Financial year ended 31.12.	
in kEUR	2018	2017
Receivables, which are included in trade accounts receivables	5,859	4,628
Contract assets	210	18
Contract liabilities	18	28

The contract assets, which are presented under other assets on the statement of financial position, primarily relate to the Group’s rights to the consideration for work completed but not 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 on the statement of financial position, primarily 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.

Due to the rolling nature of the long term contracts and due to materiality considerations, all contract assets and all 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/setup of new geographical numbers) which are not dedicated to separate performance obligations. Long-term contracts do not include a significant financing component.

	2018					2019
in kEUR	01.01.	Reversal in	New in	Reversal new	31.12.	Reversal in
Contract assets	18	7	242	43	210	79
Contract liability	28	18	9	1	18	3

	2017				
in kEUR	01.01.	Reversal in	New in	Reversal new	31.12.
Contract assets	8	3	16	3	18
Contract liability	46	21	6	3	28

D. Transaction price allocated to the remaining performance obligations

The following table includes revenue expected to be recognised in the future related to the performance obligations that are unsatisfied (or partially unsatisfied) at the reporting period. This mainly relates to future revenue from fixed price components under long term contracts (i. e. flat rates).

	Financial year ended 31.12.	Recognition		
in kEUR	2018	2019	2020	2021
Unsatisfied allocated transaction price to performance obligations	300	145	102	52
Portion	100%	48%	34%	17%

The Group applies the practical expedient in paragraph C5(d) of IFRS 15 and does not disclose the amount of the transaction price allocated to the remaining performance obligations as at 31 December 2017.

E. Costs to obtain a contract

Costs to obtain contracts relate to incremental commission fees which range between 25.0% and 85.0% paid to intermediaries (mainly dealers and wholesalers) as a result of obtaining customer contracts. 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.

For long-term contracts, income from capitalisation of kEUR 10 (2017 amortisation of kEUR 61) was recognised in the consolidated statement of profit or loss.

For month-to-month contracts, which represent the majority of customer contracts in the NFON Group, applying the practical expedient in IFRS 15, NFON recognises the incremental costs of obtaining a contract as an expense when incurred. Commissions under such contracts amounted to kEUR 4,316 in 2018 (2017: kEUR 3,567) and are reflected in other operating expenses in the consolidated statement of profit or loss.

Commissions

Management expects that commission fees paid to its partners for obtaining the whole contract can be invoiced to the customer over the contract duration. Whenever the contract term is more than twelve months, the Group capitalises commission fees as contract costs. These amounted to kEUR 124 as at 31 December 2018 (2017: kEUR 115).

Applying the simplified approach of IFRS 15.94, for month-to-month contracts the Group recognises the commission fees payable to its partners as expense when incurred.

20. Share-based payment

A. Description of share-based payment arrangements

1. Share appreciation rights (equity-settled)

In the financial year as at **31 December 2017**, the Group had the following equity-settled share-based payment arrangements:

6) On 08 December 2016, the Group established a share appreciation right (SAR) programme that entitles a key executive to a cash payment in the event that an exit event occurs until 31 December 2019. The programme comprises a fixed amount of 1,112 SARs. The awards are fully vested at the grant date. The amount of the cash payment is determined based on the exit proceeds (the exit being a trade sale of more than 50% of NFON's shares in a single or in multiple related transactions) calculated for 100% of the shares of NFON less transaction costs less a contractually agreed base price.

   The cash payment per SAR is derived by dividing the increase in value (from the base price to the exit proceeds less transaction costs) by the diluted number of shares of NFON (i.e. the shares and the total number of granted SARs).

7) On 06 December 2016, the Group established a share appreciation right (SAR) programme that entitles a key executive to a cash payment in the event that an exit event occurs until 31 December 2019. The programme comprises a fixed amount of 3,708 SARs. The vesting period starts on 01 October 2016 and ends on 01 October 2019. If the employee leaves employment before the end of the full vesting period, he is allowed to keep the vested proportion of the award. In case the exit event occurs prior to 30 September 2019, all SARs vest (accelerated vesting). The amount of the cash payment is determined based on the exit proceeds (the exit being a trade sale of more than 50% of NFON's shares in a single or in multiple related transactions) calculated for 100% of the shares of NFON less transaction costs less a contractually agreed base price.

   The cash payment per SAR is derived by dividing the increase in value (from the base price to the exit proceeds less transaction costs) by the diluted number of shares of NFON (i. e. the shares and the total number of granted SARs).

8) On 12 December 2016, the Group established a share appreciation right (SAR) programme that entitles a key executive to a cash payment in the event that an exit event occurs until 31 December 2019. The programme comprises a fixed amount of 5,562 SARs. The vesting period starts on 30 June 2016 and ends on 30 June 2019. If the employee leaves employment before the end of the full vesting period, he is allowed to keep the vested proportion of the award. In case the exit event occurs prior to 30 June 2019, all SARs vest (accelerated vesting). The amount of the cash payment is determined based on the exit proceeds (the exit being a trade sale of more than 50% of NFON's shares in a single or in multiple related transactions) calculated for 100% of the shares of NFON less transaction costs less a contractually agreed base price.

   The cash payment per SAR is derived by dividing the increase in value (from the base price to the exit proceeds less transaction costs) by the diluted number of shares of NFON (i. e. the shares and the total number of granted SARs).

9) On 02 March 2017, the Group established a share appreciation right (SAR) programme that entitles a former senior employee to a cash payment in the event that an exit event occurs until 31 December 2019. The programme comprises a fixed amount of 1,584 SARs. Vesting occurs in 36 monthly instalments of 1/36 starting on 01 January 2015 and up to 31 December 2017; i. e. at the grant date 26/36 of the awards were vested. If the employee leaves employment before the end of the full vesting period, he is allowed to keep the vested proportion of the award. In case the exit event occurs prior to 31 December 2017, all SARs vest (accelerated vesting). The amount of the cash payment is determined based on the exit proceeds (the exit being a trade sale of more than 50% of NFON's shares in a single or in multiple related transactions) calculated for 100% of the shares of NFON less transaction costs less a contractually agreed base price.

   The cash payment per SAR is derived by dividing the increase in value (from the base price to the exit proceeds less transaction costs) by the diluted number of shares of NFON (i. e. the shares and the SARs).

Modifications of SAR programmes (A)(i) 7) and 8):

On 19 December 2017, the Group modified the SAR programmes (A) 1 7) and 8) in an identical manner in order to provide an incentive for the two key executives with regard to an envisaged initial public offering (IPO).

The number of the respective SARs remains unchanged by the modification. The modification reflects a modified vesting schedule with several vesting periods.

- Tranche 1: x%, x being the portion of shares of NFON which – in the course of the IPO – are sold in secondary transactions (vesting date of Tranche 1 = IPO date)
- Tranche 2: (100 – x) %/4 (vesting date of Tranche 2 = IPO date + 15 months)
- Tranche 3: (100 – x) %/4 (vesting date of Tranche 3 = IPO date + 18 months)
- Tranche 4: (100 – x) %/4 (vesting date of Tranche 4 = IPO date + 21 months)
- Tranche 5: (100 – x) %/4 (vesting date of Tranche 5 = IPO date + 21 months)

The key executives need to remain in employment until the stipulated dates in order for the respective tranches to vest.

For Tranche 1, there is a market condition of an IPO with minimum proceeds exceeding the base price. For Tranches 2 to 5, there is an additional market condition that the secondary transactions in the course of the IPO need to amount to at least kEUR 40,000.

The derivation of the cash payments under the modified SARs basically remains unchanged. The exit proceeds are replaced with the IPO proceeds (NFON shares prior to the IPO multiplied by the issuing price for the shares).

Any payments under the SAR programmes (A) 1 6) to 9) and under the modifications are borne by the shareholders of NFON by way of assumption of debt and hence are accounted for as equity-settled. NFON is therefore the receiving entity for the services but has no obligation to settle the awards.

The key terms and conditions related to the grants under the programmes in place in the fiscal year ended 31 December 2017 are as follows:

Grant date/ employees entitled	No.	Number of instruments	Term	Vesting at grant date in %	Vesting until	Exercise price per SAR in EUR
SARs granted to key management personnel (equity-settled)						
On 08.12.2016	SAR 6	1,112	31.12.2019	100.0	8.12.2016	119.89
On 06.12.2016	SAR 7	3,708	31.12.2019	16.8	01.10.2019	119.89
On 12.12.2016	SAR 8	5,562	31.12.2019	16.8	30.06.2019	119.89
On 19.12.2017	SAR 7 mod.		31.12.2019	0.0	Various	125.83[1,2]
On 19.12.2017	SAR 8 mod.		31.12.2019	0.0	Various,	125.83[1,2]
SAR (equity-settled) granted to senior employees						
On 02.03.2017	SAR 9	1,584	31.12.2019	72.2	31.12.2017	37.54
Total SAR		**11,966**				

1 Change see text.

2 Fair value at grant date: 236.29 EUR.

In the financial year as at **31 December 2018**, the Group had the following equity-settled share-based payment arrangements:

The arrangements (SAR) A.1.6) and 9) continued unchanged in financial year 2018.

With the arrangement (SAR) A.1. 7) and 8) and with the modifications to these programmes (modifications of 19 December 2017), within a bonus agreement between the NFON parent and the beneficiaries there was a cancellation on 18 May 2018. In this connection, the amounts that otherwise would have been recognised for services received over the remainder of the vesting period were recognised immediately in the second quarter of 2018.

10) On 26 February 2018, the Group established a share appreciation right (SAR) programme that entitles a key executive to a cash payment in the event that an IPO occurs before 28 February 2021. The programme comprises a fixed amount of 4,449 SARs. The following vesting schedule with several vesting periods applies in the case on an IPO.

- Tranche 1: x/36, where x is the number of completed calender months from March 2018 to the IPO
- Tranche 2: (18 – x)/36 to the end of August 2019
- Tranche 3: 12/36 to the end of August 2020
- Tranche 4: 6/36 to the end of February 2021

The amount of the cash payment is calculated for 100% of the shares of NFON less transaction costs less a contractually agreed basis price.

The key executive needs to remain in employment until the stipulated dates in order for the respective tranches to vest.

Any payments under the SAR programmes A.1.10) are borne by the shareholders of NFON by way of assumption of the liability and hence are accounted for as equity-settled. NFON is therefore the receiving entity for the services but has no obligation to settle the awards.

With the arrangement (SAR) A.1. 10), in the context of a bonus agreement between the NFON parent and the beneficiaries there was a cancellation on 18 May 2018. In this connection, the amounts that otherwise would have been recognised for services received over the remainder of the vesting period were recognised immediately in the second quarter of 2018.

The key terms and conditions related to the grants under the programmes in place in the financial year ending 31 December 2018 are as follows:

Grant date/employees entitled	No.	Number of instruments	Term	Vesting at grant date in %	Vesting until	Exercise price per SAR in EUR
SARs granted to key management personnel (equity-settled)						
On 08.12.2016	SAR 6	1,112	31.12.2019	100.0	08.12.2016	119.89
On 19.12.2017	SAR 7 mod.	3,708	31.12.2019	0.0	Various [2]	125.83 [1,3]
On 19.12.2017	SAR 8 mod.	5,562	31.12.2019	0.0	Various [2]	125.83 [1,3]
On 26.02.2018	SAR 10	4,449	28.02.2022	0.0	Various [2]	142.15
SAR (equity-settled) granted to senior employees						
On 02.03.2017	SAR 9	1,584	31.12.2019	72.2	31.12.2017	37.54
Total SAR		**16,415**				
Total SAR as at 31.12.2018 (after cancellations)	**SAR 6. 9**	**2,696**				

1 Change see text.
2 Cancellation in May 2018.
3 Fair value at grant date EUR 236,29.

For all tranches there is the market condition of an IPO with minimum proceeds exceeding the base price an that the secondary transactions in the course of the IPO need to amount to at least kEUR 40,000.

2. Share appreciation rights (cash-settled)

In the financial year ended **31 December 2017**, the Group had the following cash-settled share-based payment arrangements:

As no exit event had occurred as at 30 September 2017, the cash-settled share-based payment arrangements expired. The value of the awards was zero after the lapse.

In the financial year ended **31 December 2018**, the Group had the following cash-settled share-based payment arrangement:

11) On 22 February 2016, the Group established a share appreciation right (SAR) programme that entitles a key executive to a cash payment in the event that a sale of stake of more than 50% in NFON or an IPO ("exit") occurs before 30 September 2019. If the beneficiary remains employed until the exit, he receives a cash settlement. If the beneficiary ends the employment relationship prior to the exit or no exit occurs by 30 September 2019, the claim lapses. The cash payment is based on the sales proceeds/IPO proceeds calculated for 100% of the shares of NFON. The cash payment is limited to the lower of EUR 200,000 and 0.5% of the amount which actually flows to the selling shareholders on the occasion of the exit.

The IPO took place on 10 May 2018 and the beneficiary received share-based cash compensation of EUR 113,035 (0.5% of the amount which actually flowed to the selling shareholders on the occasion of the IPO).

B. Measurement of fair values

1. Share appreciation rights (equity-settled)

The fair value of the SAR programmes as at 31 December 2017 (see A.1 6) to 9)) and of the modifications to the SAR programmes A.1 7) and 8) and the fair value of the SAP programmes in the 2018 fiscal year (see A. 1 6) to 10) and modifications to A.1 7) and 8)) were measured using a discounted cash flow model (to determine the grant date fair value of the underlying shares) and the Black-Scholes formula (to determine the grant date fair value of the SARs and of the modifications). Service and non-market performance conditions attached to the arrangements were not taken into account in measuring fair value.

Since employee service up to the exit event is not required for the SAR programmes (see A.1 6) to 10)), the exit condition is a non-vesting condition. The probability and the estimated date of an exit event therefore are factored into the grant date fair value of the SARs. For the modifications to A.1 6) and 7), the IPO event and the additional requirements are vesting conditions (see above A.1).

The incremental fair value resulting from the modifications A.1 6) and 7) – measured as the difference between the fair value of the modified equity instrument and that of the original equity instrument (both estimated as at the modification date 19 December 2017) – amounted to approximately EUR 236 per SAR.

The inputs used in the measurement of the fair values at grant date of the equity-settled SAR programmes granted in the fiscal year ended 31 December 2017 were as follows:

	SAR 9 2017	SAR 6 2016	SAR 7 2016	SAR 8 2016
B.1. Equity-settled				
Value per SAR at grant date (reflecting probability of exit)				
Intrinsic value (in EUR)	66.50	53.94	57.15	54.08
Time value (in EUR)	0.00	0.38	0.29	0.33
Fair value (in EUR)	66.50	54.32	57.44	54.41
Expected term (years)	0.08	0.31	0.31	0.31
Expected probability of exit (in %)	40.0	70.0	70.0	70.0
Expected volatility (in %)	37.5	40.0	40.0	40.0
Expected dividend yield in %)	0.0	0.0	0.0	0.0
Risk-free interest rate (based on sovereign bonds) (in %)	−0.8	−0.7	−0.7	−0.7

Expected volatility has been based on an evaluation of the historical volatility of the share price of peer group companies whose business model resembles that of NFON.

The inputs used in the measurement of the fair values at grant date of the equity-settled SAR programmes granted in the fiscal year ended 31 December 2018 were as follows:

	SAR 10 2018
B.1. Equity-settled	
Intrinsic value (in EUR)	266.95
Time value (in EUR)	0.00
Fair value (in EUR)	266.95
Expected term (years)	0.20
Expected probability of exit (in %)	80.0
Expected volatility (in %)	35.0
Expected dividend yield in %)	0.0
Risk-free interest rate (based on sovereign bonds) (in %)	–0.6

Expected volatility has been based on an evaluation of the historical volatility of the share price of peer group companies whose business model resembles that of NFON.

2. Share appreciation rights (cash-settled)

The fair value of the SAR programme (see A.2. 11)) was measured using a discounted cash flow model (to determine the fair value of the underlying shares). Due to the expected fair value of the underlying shares at the end of the first quarter of 2018, the maximum amount was EUR 250,000 as at 31 March 2018. When the transaction was implemented, an amount of EUR 113,035 resulted (0.5% of the amount which actually flowed to the selling shareholders on the occasion of the IPO).

C. Reconciliation of outstanding share appreciation rights

The number and weighted-average exercise prices of SARs under the SAR programmes (see A. 6) to 10)) were as follows:

	Financial year ended 31.12.			
	2018		2017	
	Number of SARs	Weighted average exercise price in EUR	Number of SARs	Weighted average exercise price in EUR
C. Reconciliation of outstanding SARs				
Outstanding as at 01.01.	11,966	108.99	27,609	86.87
Expired during the financial year	0	0	17,227	66.98
Exercised during the financial year	0	0	0	0
Cancelled in the financial year (immediate vesting)	13,719	127.11	0	0
Granted during the financial year	4,449	142.15	1,584	37.54
Outstanding as at 31.12.	2,696	71.51	11,966	108.99
Exercisable as at 31.12.	0		0	

D. Expense recognised in profit or loss

For details of related employee benefit expenses, see Note 18 – Personnel costs and employees.

21. 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 the fair value.

31.12.2018	Amortised cost		Fair value			
in kEUR	Carrying amount	Total carrying amount	Level 1	Level 2	Level 3	Total
Financial assets not measured at fair value						
Trade receivables[1]	5,859	5,859	0	0	0	0
Other financial assets[1]	390	390	0	0	0	0
Cash and cash equivalents[1]	41,436	41,436	0	0	0	0
Total financial assets not measured at fair value	**47,685**	**47,685**	**0**	**0**	**0**	**0**
Financial liabilities not measured at fair value						
Working capital loan[1]	121	121	0	121	0	121
Trade payables[1]	3,237	3,237	0	0	0	0
Total financial liabilities not measured at fair value	**3,358**	**3,358**	**0**	**121**	**0**	**121**

1 Without specification of the fair value as this corresponds closely to the carrying amount.

31.12.2017	Amortised cost		Fair value			
in kEUR	Carrying amount	Total carrying amount	Level 1	Level 2	Level 3	Total
Financial assets not measured at fair value						
Trade receivables [1]	4,628	4,628	0	0	0	0
Other financial assets [1]	390	390	0	0	0	0
Cash and cash equivalents [1]	2,176	2,176	0	0	0	0
Total financial assets not measured at fair value	**7,194**	**7,194**	**0**	**0**	**0**	**0**
Financial liabilities not measured at fair value	**2,335**	**2,335**	**0**	**2,282**	**0**	**2,282**
Working capital loan [1]	230	230	0	239	0	239
Trade payables [1]	2,576	2,576	0	0	0	0
Total financial liabilities not measured at fair value	**5,141**	**5,141**	**0**	**2,521**	**0**	**2,521**

1 Without specification of the fair value as this corresponds closely to 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.

Trade receivables

The carrying amount of trade receivables generally approximates to fair value due to their short maturities. All the trade and other receivables outstanding as the balance sheet date 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. All the trade and other payables outstanding as at the balance sheet date are payable within 30 days from the reporting date 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.

Interest-bearing borrowings/payables

The fair value of interest-bearing borrowings or payables is computed using discounted cash flow method. The valuation model considers the expected future payments which are discounted using a risk-adjusted discount rate (8.00% p. a.).

Reclassification of financial assets

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. During the periods presented, the Group has not reclassified any financial assets.

Defaults

The Group did not have any defaults of principal or interest, or other breaches with respect to its loans and borrowings during the financial years 2018 and 2017.

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, they may lead to negative impacts on the net assets, financial position and results of operations 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.

Impairment losses on financial assets and contract assets recognised in profit or loss were as follows:

in kEUR	2018	2017
Impairment loss on trade and other receivables		
Impairment loss on trade and other receivables (including contract assets)	73	–39
Impairment loss on cash and cash equivalents [1]	0	0
Impairment loss on trade and other receivables	**73**	**–39**

1 See sub chapter "Cash and cash equivalents" below.

Trade and other receivables

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

As at 31 December, the maximum exposure to the credit risk for trade receivables by geographic regions was as follows:

in kEUR	2018	2017
Countries		
Germany	4,252	3,447
United Kingdom	1,058	714
Austria and rest of Europe	549	467
Total maximum credit risk exposure	**5,859**	**4,628**

The Group obtains a credit rating for every new customer from a credit rating agency. If a customer has a low rating, then at the initial stage the Group obtains a security deposit from such customer. No further track of customer rating is maintained by the Group as the amounts receivables are collected through direct debits. Only in the cases where the customers have negative bank balance or where the customer's bank details are insufficient or incorrect, there is a possibility of non-receipt of cash from trade receivables. A weekly tracking of non-payments is done by the Group. In case of non-payment, after eight weeks of the invoice date the Group discontinues the provision of its services to such customers.

There is no material contractual amount outstanding on financial assets that where written off during the reporting period and is still subject to enforcement activity.

Expected credit loss assessment for customers as at 31 December 2018 and 2017

The Group applies the simplified approach for calculating the expected credit loss allowance prescribed by 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 historical loss experience on its trade receivables, and adjusts historical loss rates to reflect:

i. information about current conditions; and
ii. reasonable and supportable forecasts of future economic conditions.

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 customer receivables.

NFON deems receivables past due more than 90 days credit impaired. Management considers the 90 days term appropriate. A minimum of 90 days is required to determine the customers inability to pay, due to e.g. insolvency. Amounts are written off when the customer is declared as insolvent. In case of customers past due for more 90 days, an impairment loss is calculated based on the impairment matrix described above.

The following table provides information about the exposure to credit risk and ECLs for trade receivables and contract assets from individual customers as at 31 December 2018:

	Gross carrying amount in kEUR	Loss rate in %	Impairment in kEUR	Credit impaired
Germany				
Not past due	3,074	0.49	15	No
1–90 days past due	862	1.85	21	No
Greater than 90 days past due	474	4.94	22	Yes
Total trade receivables in Germany	**4,410**		**58**	
United Kingdom				
Not past due	548	0.19	1	No
1–90 days past due	514	0.41	2	No
Greater than 90 days past due	–1	101.97	–1	Yes
Total trade receivables in United Kingdom	**1,061**		**2**	
Austria and other countries				
Not past due	400	4.94	5	No
1–90 days past due	130	16.62	5	No
Greater than 90 days past due	87	23.93	8	Yes
Total trade receivables in Austria and other countries	**617**		**18**	
Grand total for receivables	**6,088**		**78**	
Contract assets	210	2.14	0	No

The following table provides information about the exposure to credit risk and ECLs for trade receivables and contract assets from individual customers as at 31 December 2017:

	Gross carrying amount in kEUR	Loss rate in %	Impairment in kEUR	Credit impaired
Germany				
Not past due	2,648	0.73	19	No
1–90 days past due	382	3.14	12	No
Greater than 90 days past due	–79	5.98	–4	No
Total trade receivables in Germany	**500**	**5.04**	**25**	**Yes**
United Kingdom	**3,451**		**52**	
Not past due				
1–90 days past due	461	0.22	1	No
Greater than 90 days past due	240	0.62	1	No
Total trade receivables in United Kingdom	**8**	**11.66**	**1**	**No**
Austria and other countries	**5**	**30.35**	**2**	**Yes**
Not past due	714		5	
1–90 days past due				
Greater than 90 days past due	374	2.14	8	No
Total trade receivables in Austria and other countries	**50**	**8.71**	**4**	**No**
Grand total for receivables	**–10**	**15.57**	**–1**	**No**
Contract assets	75	13.40	10	Yes
Summe Forderungen aus Lieferungen und Leistungen in Österreich und sonstigen Ländern	**489**		**21**	
Gesamtsumme der Forderungen	**4,654**		**78**	
Contract assets	18	2.14	0	No

The movement in impairment in respect of trade receivables during the financial year was as follows:

	Movement during	
in kEUR	2018	2017
Impairment loss		
Opening balance as at 01 January	77	168
Impairment loss recognised	73	–39
Amounts written off	66	52
Closing as at 31 December	**78**	**77**

Concentrations of credit risk
Concentrations of risks are determined by the management based on amounts outstanding from individual customers as at period end. Due to the pan-European activities and diversified customer structure of the Group, there is no significant concentration of credit risk except with one customer – Telefónica Germany GmbH & Co. OHG. The receivable balance due from this customer as at 31 December 2018 is kEUR 865 (31 December 2017: kEUR 851).

Cash and cash equivalents
As at 31 December 2018, the Group held cash and cash equivalents of kEUR 41,436 (2017: kEUR 2,176). The cash and cash equivalents are held with bank and financial institution counterparties, which are rated A-1 to A-2, based on S&P Global's ratings.

Impairment on cash and cash equivalents has been measured on a 12-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. On the initial application of IFRS 9, NFON recognised no impairment allowance as the amounts are considered not material.

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 approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when they are due, under both, normal and stressed conditions, without incurring 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. To avoid concentration of liquidity risks with cash inflows from normal course of sales, the Group additionally maintains a line of credit, (i. e. revolving credit facility) amount to a total facility amount of kEUR 4,000 as at 31 December 2018. The interest rate is 8.00% per year and the commitment fee amounts 1.50% per year. This was replaced on 08 January 2019 by an acquisition credit line in the amount of kEUR 10,000. The interest rate of 4% on drawdown at the time the contract is concluded is variable and changes if the monthly average of the 3-month EURIBOR changes. The commitment fee is 1%.

The following table presents the contractual undiscounted interest and payments for the Group's financial liabilities. The maturities are based on the contractually determined interest rates of the financial instruments. As all the financial liabilities listed below have repayment periods of one year or less (except for trade payables which are due after 30 days from the invoice date as per the payment terms applicable to the Company), contractual maturities are considered on a yearly basis:

31.12.2018	Contractual maturities of financial liabilities					
in kEUR	Carrying amount	Contractual cash flows	1 year or less	1–2 years	2–5 years	5 years and above
Financial liabilities						
Working capital loan	121	134	99	35	0	0
Trade payables	3,237	3,237	3,237	0	0	0
Total financial liabilities	**3,358**	**3,371**	**3,336**	**35**	**0**	**0**

31.12.2017	Contractual maturities of financial liabilities					
in kEUR	Carrying amount	Contractual cash flows	1 year or less	1–2 years	2–5 years	5 years and above
Financial liabilities						
Acquisition consider-ation payable	2,335	2,359	2,359	0	0	0
Working capital loan	230	271	136	99	35	0
Trade payables	2,576	2,576	2,576	0	0	0
Total financial liabilities	**5,141**	**5,206**	**5,071**	**99**	**35**	**0**

3. Market risk

Market risk is the risk that changes in market prices such as changes in exchange rates and 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 and borrowings are denominated and the respective functional currencies of Group companies. The functional currencies of Group companies are primarily euro and British pound. The currencies in which these transactions are primarily denominated are euro.

Exposure to currency risk

The summarised quantitative data about Group's exposure to currency risk as reported to the management of the Group is as follows:

	Financial year ended 31.12.	
in kEUR	2018	2017
Receivables/liabilities	3,014	7,095
Bank balances	0	1
Net exposure	**3,014**	**7,094**

The following rates have been applied:

	Spot rates as at 31.12.		Average rates	
	2018	2017	2018	2017
GBP	1.11791	1.12710	1.13031	1.14068

Sensitivity analysis

A ten percent weakening/strengthening of the British pound would have increased/decreased equity and profit or loss by the amounts shown below. This calculation assumes that the change occurred at the reporting date and had been applied to risk exposures existing at that date.

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

	Profit or loss		Equity net of tax	
in kEUR	Strengthening (10% decrease)	Weakening (10% increase)	Strengthening (10% decrease)	Weakening (10% increase)
Sensitivity analysis for the net exposure				
31.12.2018	–301	301	305	–305
31.12.2017	–552	552	558	–558

The net currency exposure results from Euro payables in NFON UK where the functional currency is GBP.

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.

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 movements 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 management of the Group is as follows:

in kEUR	2018	2017
Financial liabilities		
Working capital loan	121	230
Acquisition consideration payable	0	2,335
Total financial liabilities	**121**	**2,565**

Fair value sensitivity analysis for interest-bearing financial liabilities

With regard to the consideration payable for an acquisition, a change of 1% interest rate would have increased/decreased equity and profit or loss in the prior year by kEUR 4 (strengthening)/kEUR –4 (weakening). The consideration bears interest at a rate per annum equal to 2.50% over the 3-month EURIBOR but at least 2.50% per annum.

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 balance sheet dates).

All other financial liabilities have a fixed interest rate therefore no analysis is necessary.

22. 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 in making financial and operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form. In addition, a related party is any member of the Management Board and the Supervisory Board of the NFON AG, including any of their immediate family members and any entity owned or controlled by such persons.

The following tables show transactions with related parties with the exception of the compensation of members of the Management Board (including the reimbursement of the IPO bonus by the former shareholders; see Note 16 - Other operating income) and the Supervisory Board. Unless otherwise stated, related parties are companies with significant influence over NFON AG.

	Transaction values	
in kEUR	2018	2017
Sales of goods and services and other income [1]	606	551

	Transaction values	
in kEUR	2018	2017
Purchases of goods and services and other expenses [2]	232	139

	Balance outstanding as at 31.12.	
in kEUR	2018	2017
Receivables	280	4

	Balance outstanding as at 31.12.	
in kEUR	2018	2017
Liabilities [3]	11	16

1 Thereof kEUR 45 (2017: kEUR 24) relates to transactions with members of the Management Board and kEUR 0 (2017: kEUR 6) transactions with members of the Supervisory Board.

2 Thereof kEUR 59 (2017: kEUR 77) relates to transactions with members of the Management Board and kEUR 32 (2017: kEUR 12) transactions with members of the Supervisory Board.

3 Thereof kEUR 5 (2017: kEUR 7) relates to transactions with members of the Management Board.

All transactions with these related parties are priced on an arm's length basis and are to be settled in cash within two months of the reporting date. None of the balances is secured. No material expense has been recognised in the current year or prior year for bad or doubtful debts in respect of amounts owed by related parties.

Sales of goods and services and other income include cloud-based services provided to related parties on the same terms and conditions as for any other customer of the Group and the assumption of costs in the context of the IPO. Purchases of goods and services and other expenses mainly includes services provided by companies which are held by related parties, and interest expense in relation to the Family & Friends loans.

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 transacted with the Group during the financial year. The terms and conditions of these transactions were no more favourable than those available, or which might reasonably be expected to be available, in similar transactions with non-key management personnel related companies on an arm's length basis.

From time to time members of the Management Board or Supervisory Board, or their related parties, may buy goods and services from the Group or sell goods and services to the Group. These purchases are on the same terms and conditions as those entered into by other suppliers, and are the reflected within other related-party transactions as per above or customers.

A. Company bodies and compensation

1. Management Board

The Management Board is made up of:

	Residence	Position and profession	External mandates
Hans Szymanski	Berlin	CEO & CFO, degree in business administration	n. a.
Jan-Peter Koopmann	Nackenheim	CTO, degree in computer science and business administration	n. a.
César Flores Rodríguez (since 1.3.2018)	Pullach im Isartal	CSO, degree in business administration	n. a.

Pursuant to Section 314 (1) no. 6 a sentences 1 to 3 HGB, the Management Board received remuneration of kEUR 2,852 in 2018 (previous year: kEUR 3,624). This includes the grant values for share-based payments of kEUR 1,388 (2017: kEUR 3,125), for which full cost absorption by shareholders was agreed, see note 20 – Share-based payments. A total of 4,449 SARs was granted (9,270 SARs were modified in the previous year). In addition, a Management Board member was indirectly granted a cash-settled agreement.

Pursuant to the resolution of the Annual Shareholders' Meeting on 09 April 2018, the disclosure pursuant to section 314 (1) no. 6 a) sentences 5 to 8 of the HGB has been waived.

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

in kEUR	2018	2017
Management Board compensation		
Total current compensation	1,464	499
Total share-based compensation (Long-term incentive)	3,664[1]	120
Total Management Board compensation	**5,128**	**619**

1 With regard to an amount of EUR 3.5 m: This amount was not paid and will never be paid, cf. comments under Note 18 (Personnel costs).

Current compensation of the Group's Management Board personnel includes salaries and bonuses.

2. Supervisory Board

The Supervisory Board of the NFON AG consists of four members as at 31 December 2018 (2017: six members). It comprises as follows:

31.12.2018	Position	Profession	External mandates
Supervisory Board			
Rainer Christian Koppitz	Chairman	CEO	n.a.
Dr. Rupert Doehner (since 09.04.2018)	Vice Chairman	Lawyer	n.a.
		CFO	Supervisory Board member 11880 Solutions AG (bis 30.09.2018).
Ralf Grüßhaber (since 09.04.2018)		Senior Director	
Angélique Werner (since 09.04.2018)		Customer Success	
Kristian Schmidt-Garve (until 09.04.2018)		Management Board	Supervisory Board member of Deutsche Konsum REIT-AG (from 01.03.2018)
			Supervisory Board member of Instamotion; B2X Care Solutions GmbH, Onefootball GmbH; SimScale GmbH; Movinga GmbH; eHealth
Dr. Hendrik Brandis (until 09.04.2018)		Managing Director	MediDate GmbH, Videdressing
Günther Müller (until 09.04.2018)		Managing Director	
Elmar Meid (until 09.04.2018)		Managing Director	
Ann-Kathrin Müller (until 09.04.2018)		Manger	Supervisory Board member of ASC Technologies AG

The members of the Supervisory Board receive the following compensation:

in kEUR	2018	2017
Supervisory Board compensation		
Basic compensation	86	0
Attendance fee	24	0
Total Supervisory Board compensation	**110**	**0**

23. Segment information

Under IFRS 8, operating segments must be defined on the basis of the internal reporting on Group business units that is regularly reviewed by the Company's chief operating decision maker, the Chairman of the Management Board (CEO) in order to make decisions on the allocation of resources to these segments and to assess their performance. The basis for the decision which information is reported is the internal organisational and management structure and the structure of internal reporting. The CEO obtains and reviews financial information as part of routine management reporting.

Segment results that are reported include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Segment reporting does not contain inter-segment sales. It does contain inter-segment transfers or charges. Management evaluates performance primarily on the basis of revenue and EBITDA as presented in the management reporting. EBITDA is measured as earnings before interest, tax, depreciation and amortisation.

The Group's segment structure reflects how management currently makes financial decisions and allocates resources. The calculation and presentation of segment reporting was modified in comparison to the financial statements for the year ended 31 December 2017. As at 31 December 2017, reporting to the management was based on management reporting where the segments represented the countries (in the form of geographical markets) in which the Group realises its revenue, but which did not necessarily correspond to the respective country subsidiaries. In the first quarter of 2018, NFON AG realigned the organisation of Group management and reorganised reporting so that the operating segments corresponded to the NFON country subsidiaries.

The Group has four segments, which are shown separately below as reportable segments. The 4 segments are NFON AG, nfon GmbH, NFON UK Ltd and NFON Iberia SL.

The segment information for the activities in the reporting year are shown on the basis of the new segment structure. The prior-year figures have been restated in line with the new structure.

The source of the revenue of all segments (including Germany, UK, Austria and other segments) is described in Note 2 L (Significant accounting policies – Revenue) and Note 18 (Revenue).

A. Revenue and EBITDA by reportable segments

in kEUR	2018	2017
Revenue		
NFON AG	31,846	26,649
nfon GmbH	4,717	4,130
NFON UK Ltd.	6,181	4,932
NFON Iberia SL	273	145
Total revenue of the reportable segments	**43,018**	**35,855**
Transition	9	–201
Total Group revenue	**43,028**	**35,654**

Revenues by reportable segment as shown in the table above correspond to revenues with external customers, are based on local accounting standards and do not include IFRS adjustments. Internal invoicing is presented in the segments as a charge to and credit from costs and is not included in sales. The business cost allocations are included in EBITDA, while tax transfer pricing requirements are presented outside EBITDA. In the management reporting, the segments are presented according to local accounting standards.

The reconciliation effects of kEUR 9 (2017: kEUR –201) relate to IFRS adjustments in connection with IFRS 15.

in kEUR	2018	2017
EBITDA		
NFON AG	3,948	9,595
nfon GmbH	–1,701	–6,267
NFON UK Ltd,	–1,969	–2,896
NFON Iberia SL	–1,173	–961
Total reportable segments EBITDA	**–895**	**–529**
Other segments	32	0
Transition	–6,920	–500
Group EBITDA	**–7,783**	**–1,028**
Addback:		
Depreciation and amortisation	–690	–671
Net interest income/expense	–155	–123
Income tax expense	515	–199
Group net profit/loss	**–8,113**	**–2,021**

Internal reporting is based on the respective local accounting standards and does not necessarily comply with IFRS. Special effects of the period that are considered extraordinary are adjusted in the reported EBITDA.

The reconciliation effects of kEUR –6,920 in 2018 relate in the amount of kEUR –5,818 to special effects in internal reporting from the costs of the IPO and the payment and set up of provisions for retention bonuses. Also included are kEUR –1,778 for IFRS adjustments. This mainly includes the recognition of share-based payments in the amount of kEUR –3,551 and the proportionate reclassification of IPO costs to Group equity in the amount of kEUR 2,428, as well as the reclassification of a cost sharing agreement for IPO costs in the amount of kEUR –525 to Group equity. Effects from currency translation are included in the amount of kEUR 666.

In 2017, IFRS adjustments mainly relate to hardware sales of kEUR –165 accounted under IFRS 15 and share-based payment expenses in the amount of kEUR –120 accounted under IFRS 2. Furthermore, effects from foreign currency translation in the amount of kEUR –169 are included as other reconciliation items.

B. Revenue by product/service

For a description of the Group's products and services refer to Note 19 – Revenue. Each of the reportable segments presented above offers recurring and non-recurring products and services.

in kEUR	2018	2017
Product/service		
Recurring revenue	34,584	27,765
Non-recurring revenue	8,443	7,890
Group revenue	**43,028**	**35,654**

C. Information about 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 from external customers

in kEUR	2018	2017
Revenue		
Germany	31,006	25,850
Austria	4,725	3,961
United Kingdom	6,181	4,900
Spain	273	145
Other countries	843	798
Total revenue	**43,028**	**35,654**

2. Non-current assets

The table below presents non-current assets other than financial instruments and deferred taxes.

in kEUR	2018	2017
Non-current assets		
Germany	1,455	1,120
United Kingdom	131	33
Austria	95	128
Spain	2	2
Total non-current assets	**1,683**	**1,283**

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.

24. Consolidated statement of cash flows

The statement of cash flows was prepared in line with the regulations of IAS 7. Cash and cash equivalents in the consolidated statement of cash flows corresponds to the "Cash" statement of financial position item and contains exclusively cash held at banks payable at short notice. 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.

25. Contingencies and commitments

The Group leases facilities and equipment under long-term operating leases. Leasing agreements mainly relate to leased office space and cars leased for certain employees. The majority of these contracts can be renewed upon the committed lease term. Some of these agreements may be terminated prematurely.

In financial year 2018, total expenses for operating leases amounted to kEUR 961 (2017: kEUR 749).

As at 31 December, liabilities from future minimum lease payments under non-cancellable leases were as follows:

	Minimum lease payments payable in		
in kEUR	less than 1 year	1–5 years	more than 5 years
Rental payments	1,101	4,011	198
Car lease payments	215	249	0
Total lease commitments as at 31.12.2018	**1,316**	**4,260**	**198**
Rental payments	638	2,505	444
Car lease payments	123	152	0
Total lease commitments as at 31.12.2017	**761**	**2,657**	**444**

In April 2017, the Company entered into a parent company guarantee agreement where 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 Group may be subject to litigation, claims and governmental and regulatory proceedings arising in the ordinary course of business. In such cases, the Group accrues a loss contingency 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.

26. Other disclosures

A. Auditors' fee

KPMG AG Wirtschaftsprüfungsgesellschaft, Munich, a member of the Audit Chamber in Berlin, has been the statutory auditor of the Company and the Group since this year. The auditor responsible for the Company is Matthias Koeplin.

In the financial years 2018 and 2017, the following fees were recognised for the statutory auditor.

in kEUR	2018	2017
Audit of the financial statements	201	40
Other assurance services	626	0
Other services	211	18

Fees for the audit of the financial statements mainly relates to the audit of the consolidated financial statements and the anual financial statements of NFON AG.

Other assurance services relate to the audit of financial statements and the issue of comfort letters in connection with the IPO. Other services relate to quality assurance support services in connection with the introduction of new accounting principles in accordance with IFRS and for the further development of guidelines, systems and processes against the background of the requirements placed on a listed company.

27. Provisional purchase price allocation with regard to the purchase of DTS

As at 01 March 2019, the Group acquired all shares in Deutche Telefon Standard AG, Mainz (DTS) for kEUR 17,195 (including shares in NFON AG with a total volume of EUR 2.5 million) in order to continue its expansion strategy. DTS will be included in the consolidated financial statements starting on 01 March 2019 with disclosure of the acquired hidden reserves. In this connection, the following provisional hidden reserves will be disclosed:

in kEUR	Carrying amount as at 28.02.2019	Disclosed hidden reserves	Fair Value at 28.02.2019
Assets			
Property, plant and equipment	1,090	0	1,090
Intangible assets (incl. Goodwill)	2,018	17,078	19,096
Inventories	158	0	158
Accounts receivable	808	0	808
Other non-financial assets	52	0	52
Total assets	**4,126**	**17,078**	**21,204**
Liabilities			
Financial liabilities	1,122	0	1,122
Accounts payable	787	0	787
Other non-financial liabilities	1,829	270	2,099
Total liabilities	**3,739**	**270**	**4,009**

The fair value of intangible assets includes disclosed hidden reserves in connection with the customer base (kEUR 5,013) and goodwill (kEUR 12,065). The calculation of the provisional customer base is based on a useful life of 20 years. Deferred tax liabilities relating to the customer base in the amount of kEUR 1,481 are offset against deferred tax assets in the amount of kEUR 1,481.

The goodwill to be recognised is based on the future synergy effects associated with the acquisition. In accordance with our expectations, the goodwill to be recognised in the consolidated financial statements is not tax-deductible.

28. List of shareholdings

With the exception of NFON Italia S.R.L., the following figures correspond to the (audited) annual financial statements as at 31 December 2017:

nfon GmbH, St Pölten/Austria

Share:	100.00%
Net income 2017:	kEUR –1,289
Equity:	kEUR –5,997

NFON UK Ltd., Maidenhead/Great Britain

Share:	100.00%
Net income 2017:	kEUR –3,108
Equity:	kEUR –6,138

fairfon Telefonsysteme GmbH, Munich/Germany

Share:	100.00%
Net income 2017:	kEUR –959
Equity:	kEUR –934

NFON Iberia SL Madrid/Spain

Share:	100.00%
Net income 2017:	kEUR –892
Equity:	kEUR –1,857

NFON Italia S.R.L, Milan/Italy

Share:	100.00%
Founded on:	06 December 2018
Equity:	kEUR 100

29. Events after the reporting period

With the exception of the events described below, there were no events after the reporting period which had a material effect on the Group's financial position or results of operations as at 31 December 2018.

As at 01 March 2019, the Group acquired all shares in Deutsche Telefon Standard AG, Mainz (DTS). The acquisition was preceded by the purchase and transfer agreement relating to the acquisition of the stake in DTS signed on 06 February 2019. NFON is financing approximately EUR 17 million of the purchase price (cash and debt free) for Deutsche Telefon Standard AG from parts of the 2018 IPO proceeds and from debt. In addition, the former shareholders of Deutsche Telefon Standard AG participate in NFON on the basis of the issue of new shares in the context of a capital increase from authorised capital with a total volume approximately EUR 2.5 million. For this the NFON share capital was increased by 284,738 shares. After the capital increase, the share capital amounted to EUR 14,091,554, divided into 14,091,554 no-par shares.

30. Declaration of conformity in accordance with the German Corporate Governance Code

The Management Board and the Supervisory Board have submitted the Declaration of Conformity on compliance with the German Corporate Governance Codex and published it on the Company's website (www.nfon.com).

10 April 2019

Hans Szymanski CEO und CFO	Jan-Peter Koopmann CTO	César Flores Rodríguez CSO

Independent Auditor's Report

To NFON AG, Munich

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

Opinions

We have audited the consolidated financial statements of NFON AG and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated income statement and the consolidated statement of other comprehensive income, the consolidated statement of cash flows and the consolidated statement of changes in equity for the financial year from 01 January to 31 December 2018, and notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the combined group management report of NFON AG for the financial year from 01 January to 31 December 2018.

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

- the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to Section 315e (1) HGB [Handelsgesetzbuch: German Commercial Code] and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as of 31 December 2018, and of its financial performance for the financial year from 01 January to 31 December 2018, and
- the accompanying combined group management report as a whole provides an appropriate view of the Group's position. In all material respects, this combined group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development.

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

Basis for the Opinions

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

Key Audit Matters in the Audit of the Consolidated Financial Statements

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements for the financial year from 01 January to 31 December 2018. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, we do not provide a separate opinion on these matters.

Share-based payment

For information on equity-settled share-based payment ('SAR programmes'), please see Section 20 of the notes to the consolidated financial statements.

The Financial Statement Risk
In preparation for the IPO carried out in the financial year under review, the Group in prior years had set up various SAR programmes, with some of the vesting periods of these programmes extending beyond the current financial year. After the successful IPO, the beneficiaries were granted additional payments that also settled the claims from the original program, irrespective of the original vesting periods.

The Group classified the arrangements concluded as a plan settlement according to IFRS 2 resulting in immediate vesting in the financial statements. Based on their commercial substance, the payments granted were only partly allocated to the plan settlement.

Due to the original design of the programme and the newly concluded arrangements, classification of the share-based payment plans as plan settlement or plan modification and the economic allocation of the payments agreed are complex.

There is the risk for the financial statements that the criteria for a plan settlement and thus for immediate vesting may not be satisfied or that the payments agreed should have been allocated differently.

Our audit approach
We first gained an understanding of the arrangements concluded by inquiry of employees of the legal and finance department and through an evaluation of the relevant agreements. We also obtained written agreements from the beneficiaries and from an external lawyer concerning the intended consequences of the arrangements.

In respect of the economic allocation of the payments, we referred to the arrangements concluded and also the fair value of the components of the programme as of grant date.

On this basis, we assessed the classification as plan settlement and the economic allocation of the payments.

Our observations
The classification as plan settlement and the associated financial reporting is appropriate and consistent with the applicable accounting policies.

Revenue recognition

Please refer to Sections 2 and 19 in the notes to the consolidated financial statements for more information on the accounting policies applied.

The financial statement risk

The consolidated financial statements of NFON AG for financial year 2018 report revenue of kEUR 43,028. In particular, monthly fees, minute-based voice tariffs and non-recurring revenue, such as the sale of hardware, and the provision of services, contribute to revenue.

The predominant part of the services of the NFON AG Group is rendered via the cloud and depends on factors such as the number of extensions and the number of voice minutes which are recorded by the Company's IT system and invoiced monthly. Accordingly, beyond the system recordings of the Company, there is in many cases no external proof of performance. Customers are entitled to a right of objection typically of 60 days, after which the invoiced services are considered to have been accepted.

There is the risk for the financial statements that the revenue is invoiced without underlying performance and is thus overstated.

Our audit approach

As provider of publicly accessible telecommunication services in Germany, the Company is required to ensure the accuracy of invoicing and the correctness of remuneration of data processing facilities by a quality assurance system and to have this audited annually (Section 45g of the German Telecommunications Act [TKG]). We considered the corresponding audit report in order to obtain an overview of the process in place for revenue recognition.

To audit revenue recognition, we assessed the recognition of revenue by reconciling invoices with the related contracts as well as the underlying system recordings or external proof of delivery. The basis for this was revenue selected using a statistical procedure.

In addition, balance confirmations were obtained for trade receivables not yet settled as of the reporting date, which were also selected on the basis of a statistical procedure. In cases where it was not possible to obtain balance confirmations, we conducted alternative audit procedures by reconciling revenue with invoices and related contracts, underlying system recordings or external proof of delivery as well as the receipts of payment in 2019.

Based on the receipts of payment of the year under review recorded in bank accounts, we calculated the expected value of revenue for the full financial year and analysed any deviations from the amount of revenue recognised.

Finally, we reconciled the voice minutes recorded in the system with the minutes invoiced by the network operators to the Company and asked the Company whether objections to the invoice were made within the respective period given and checked whether credit entries were made by the Company.

Our observations

The method for recognising revenue is appropriate.

Other Information

Management is responsible for the other information. The other information comprises the annual report, with the exception of the audited consolidated financial statements and combined group management report and our auditor's report.

Our opinions on the consolidated financial statements and on the combined group management report do not cover the other information, and consequently we do not express an opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially inconsistent with the consolidated financial statements, with the combined group management report or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

Responsibilities of Management and the Supervisory Board for the Consolidated Financial Statements and the Combined Group Management Report

Management is responsible for the preparation of consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e (1) HGB and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position, and financial performance of the Group. In addition, management is responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, management is responsible for the preparation of the combined group management report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, management is responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a combined group management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the combined group management report.

The Supervisory Board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and of the combined group management report.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Combined Group Management Report

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the combined group management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our opinions on the consolidated financial statements and on the combined group management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Section 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this combined group management report.

We exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements and of the combined group management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.
- Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the combined group management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of these systems.
- Evaluate the appropriateness of accounting policies used by management and the reasonableness of estimates made by management and related disclosures.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the combined group management report or, if such disclosures are inadequate, to modify our respective opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e (1) HGB.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express opinions on the consolidated financial statements and on the combined group management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our opinions.
- Evaluate the consistency of the combined group management report with the consolidated financial statements, its conformity with [German] law, and the view of the Group's position it provides.
- Perform audit procedures on the prospective information presented by management in the combined group management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by management as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

Other Legal and Regulatory Requirements

Further Information pursuant to Article 10 of the EU Audit Regulation

We were elected as group auditor at the annual general meeting on 09 April 2018. We were engaged by the Supervisory Board on 18 December 2018. We have been the group auditor of NFON AG as capital-market oriented company without interruption since financial year 2018.

We declare that the opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

German Public Auditor Responsible for the Engagement

The German Public Auditor responsible for the engagement is Matthias Koeplin.

Munich, 10 April 2019

KPMG AG
Wirtschaftsprüfungsgesellschaft
[Original German version signed by:]

Koeplin	Sandhaas
Wirtschaftsprüfer	Wirtschaftsprüferin
[German Public Auditor]	[German Public Auditor]

FINANCIAL CALENDAR

Q2

11.04.2019	Publication of the Group Annual Financial Report 2018
21.05.2019	Presentation of the Results for the 1st Quarter 2019 (Web und Telephone Conference)
05.06.2019	Annual General Meeting of NFON AG

Q3

23.08.2019	Presentation Half-year Results 2019

Q4

21.11.2019	Presentation 9 Month Results 2019 (Web und Telephone Conference)

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