NFON AG, Munich
Munich District Court, HRB 168022

Notes to the Financial Statements for Fiscal 2019

I. General information on the annual financial statements

The annual financial statements for fiscal year 2019 have been prepared in accordance with the applicable provisions of the German Commercial Code (HGB) as well as the relevant provisions of the German Stock Corporation Act (AktG) and the Company's Articles of Association.

The Company is a large corporation as defined in Section 267 (3) HGB.

The balance sheet and the income statement are structured in accordance with Section 266 (2) and (3) and Section 275 HGB, with the income statement drawn up using the nature of expense method.

Legally required disclosures on individual items of the balance sheet and the income statement are made in the notes.

The fiscal year is the calendar year.

By way of an agreement dated 26 June 2019, fairfon Telefonsysteme GmbH was merged with NFON AG retroactively as at 1 January 2019. As a result of the merger, the 49.83% share in nfon GmbH (Austria) owned by fairfon Telefonsystem GmbH in particular was transferred to NFON AG, with the effect that NFON AG has held a 100% share in nfon GmbH (Austria) since the reporting year 2019. The book values were maintained in the context of the merger. As such, no merger income was generated.

II. Accounting policies

Purchased **intangible fixed assets** are carried at cost less scheduled amortisation and write-downs where applicable. Intangible assets chiefly consist of rental rights and software. They are amortised on a straight-line basis with an amortisation period of between three and five years.

There is a capitalisation option in accordance with Section 248 (2) HGB for internally generated intangible fixed assets. The Company exercises this option to the effect that they are not capitalised, but instead the expenses incurred for them are recognised through profit or loss.

Tangible assets are measured at acquisition/production cost less use-related depreciation and any necessary write-downs. The depreciation period is between one and 23 years.

If the reasons for a write-down no longer fully apply or no longer apply at all, then the write-down is reversed in accordance with Section 253 (5) HGB.

Immovable tangible assets are depreciated on a straight-line basis.

Depreciation of movable items of tangible assets is recognised using the straight-line depreciation method.

For assets acquired in the fiscal year with an acquisition/production cost of up to EUR 800 (not including turnover tax), the accounting under commercial law follows the procedure for low-value assets in tax law – i.e. they are written off in full in the year of their acquisition – due to a lack of materiality. Assets with an acquisition/production cost of more than EUR 800 are written down over their useful life.

Financial assets are measured at acquisition cost, taking account of any necessary amortisation. If there are signs of permanent impairment, the assets are written down to their lower fair value. In the case of impairment that is not expected to be permanent, the option under Section 253 (3) Sentence 6 HGB is exercised and no write-downs are recognised. If the reasons for a write-down cease to apply, the lower carrying amounts are not retained. The reported carrying amounts of equity investments are tested for impairment once a year. Specific valuation allowances are recognised for the default risks entailed by loans.

Inventories are measured at acquisition cost including incidental cost or at their market prices if lower. Specific valuation allowances are recognised to the extent required for goods with low marketability and other (sales) risks. An additional write-down in the form of a global valuation allowance is recognised for other general risks.

Inventories (goods) are carried at acquisition cost and mainly consist of the acquisition cost of cables, other small items and a residual stock of telephones. If the fair values are lower, these are recognised. Discernible risks in relation to inventories have been accounted for with appropriate write-downs.

Apart from customary retention of title clauses, inventories are free from third-party rights.

Receivables and other assets are carried at their nominal amounts. Specific and global valuation allowances are recognised for potential default risks.

Cash and cash equivalents are carried at nominal value.

Deferred income and prepaid expenses are recognised for transitory items. The amount of deferred income and of prepaid expenses is based on the payment amount and the ratio of services received/performed by the reporting date and outstanding consideration. Items of deferred income and prepaid expenses that last several fiscal years are not discounted.

Deferred taxes are calculated in line with the “temporary concept”, considering only the differences between the accounting and tax carrying amounts of assets and liabilities. Losses carried forward are taken into account only to the extent that they can be used within five years.

Deferred taxes are measured at the tax rates that will apply when the difference is reversed. If these tax rates are not known, the individual tax rates on the reporting date are applied. Deferred taxes are not discounted. The option to offset deferred tax assets against deferred tax liabilities is exercised. The option to capitalise any net asset surplus that remains after offsetting is not exercised.

Provisions cover all discernible risks and uncertain obligations to an adequate extent. They are carried at their settlement amount, taking account of future price and cost changes. Provisions maturing in more than one year are discounted to present value using the average market interest rate for the past seven years, based on their remaining maturities.

Liabilities are reported at their settlement amount.

Foreign-currency assets and liabilities were translated at the middle spot exchange rate as at the reporting date. If they had a remaining term of more than one year, the realisation principle (Section 252 (1) No. 4, second half-sentence HGB) and the historical cost convention (Section 253 (1) Sentence 1 HGB) were taken into account.

Differences in accounting policies relate to accounting for the employee share option programme for the first time in the reporting year. This was based on the regulations of IFRS 2. In connection with this, EUR 638 thousand was recorded in personnel expenses. The capital reserves increased by the same amount in this context. The change in accounting took place because employee share options were granted for the first time in the reporting year as a form of share-based payment.

Share-based payment Expenses for share options are accumulated pro rata over the vesting period. The options are measured as at the commitment date in line with the figure recognised in the consolidated financial statements in accordance with IFRS 2 “Share-based Payment”. They are accumulated in capital reserves. The options constitute remuneration for work that is yet to be performed, which is why the capital reserves are accumulated pro rata over the period in which the employees perform the work (consideration). The offsetting item is personnel expenses.

III. Notes on the balance sheet

1. Fixed assets

Information on the development of the individual items of fixed assets in fiscal year 2019 is presented separately in the statement of changes in fixed assets in the annex to the notes, also disclosing amortisation and depreciation.

Loans to affiliated companies in the amount of EUR 3,873 thousand (previous year: EUR 6,456 thousand) relate to the companies NFON Italia S.r.l., Italy, NFON France SAS, France, NFON IBERIA S.L., Spain, and Deutsche Telefon Standard GmbH, Germany.

2. Inventories

Inventories consist entirely of goods in the amount of EUR 46 thousand (2018: EUR 16 thousand).

The EUR 33 thousand increase in inventories is mainly attributable to a higher customer base and the resulting requirements (provision of goods).

3. Receivables and other assets

Receivables and other assets break down as follows:

in EUR thousand	31 Dec. 2019	31 Dec. 2018
Trade receivables	4,503	4,273
(of which with a remaining term of more than one year)	0	0
Receivables from affiliated companies	0	4
(of which with a remaining term of more than one year)	0	0
(of which trade receivables)	0	4
Other assets	168	760
(of which with a remaining term of more than one year)	6	10
(of which from shareholders)	0	279
Total	4,671	5,038
(of which with a remaining term of more than one year)	6	10
(of which from shareholders)	0	279

Other assets include tax assets from other countries and input tax deductibles in subsequent periods in the amount of EUR 46 thousand as at the reporting date (previous year: EUR 456 thousand).

4. Cash-in-hand and bank balances

The cash-in-hand and bank balances item chiefly consists of bank balances of EUR 27,296 thousand (previous year: EUR 32,827 thousand).

Access to EUR 390 thousand of this (previous year: EUR 390 thousand) is restricted to the extent that it comprises banks' recourse rights for direct debits from customers.

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.

5. Prepaid expenses

Prepaid expenses amounted to EUR 900 thousand (previous year: EUR 376 thousand) and mainly included prepaid licence payments in the reporting year.

6. Equity

Equity increased from EUR 13,807 thousand as at 31 December 2018 to EUR 15,056 thousand as at 31 December 2019. On 18 October 2019, Active Ownership Fund SICAV-FIS SCS, Luxembourg (AOC) exercised its option under the warrant bond issued on 2 July 2019, causing equity to increase by EUR 10,604 thousand. In connection with the partial payment of the purchase price from the DTS acquisition, equity increased by EUR 2,500 thousand. Issuing employee share options resulted in an increase in equity of EUR 638 thousand. Another EUR 43 thousand of the increase in equity related to the equity component of the warrant bond issued to AOC. The net loss of EUR 13,957 thousand had an offsetting effect.

Subscribed capital and ordinary shares

As at 31 December 2019, NFON AG had issued 15,055,569 (as at 31 December 2018: 13,806,816) ordinary bearer shares with a notional interest in the share capital of EUR 1.00. Subscribed capital totalled EUR 15,056 thousand as at 31 December 2019 (31 December 2018: EUR 13,807 thousand).

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 2019 and 2018.

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. In addition, the capital reserves contain cumulated expenses for share-based payment transactions for specific members of the Management Board recognised as staff costs in earlier periods, expenses from the employee share option programme recognised as staff costs in the reporting period, and the equity component of the warrant bond issued in the reporting year.

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 12 December 2019, 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 11 December 2024 by up to EUR 3,000,000 by the issue of up to 3,000,000 bearer shares in exchange for cash or non-cash contributions (Authorised Capital 2019). Shareholders have pre-emption rights. 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 to acquire companies, investments in companies, parts of companies or other assets, including rights and receivables, and the new shares for which the shareholders' pre-emptive right has been disapplied do not exceed 10% of the share capital as at 31 December 2019, at the time this authorisation becomes effective or at the time it is exercised;
- if the capital is increased in return for cash contributions, the issue price of the new shares is not significantly lower than the stock market price at the time the issue price is finalised, and the new shares for which the shareholders' pre-emptive right has been disapplied do not exceed 10% of the share capital as at 31 December 2019, at the time this authorisation becomes effective or at the time it is exercised.

The Authorised Capital I of EUR 653,409 in place as at 31 December 2018 was cancelled in the reporting year.

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 8 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 9 April 2018 to 8 April 2023, the NFON AG share capital is contingently increased on the basis of the authorisation of the Annual General Meeting on 9 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 9 April 2018.

As at 31 December 2019, Contingent Capital I amounted to EUR 2,892,045. Contingent Capital II was unchanged as at 31 December 2019 as compared to the resolution at the Annual General Meeting on 9 April 2018.

Development of net accumulated losses

	in EUR thousand 2019	in EUR thousand 2018
Net loss/income for the year	-13,957	-10,328
Loss carried forward from prior year	-33,431	-23,103
31 December	-47,388	-33,431

Voting rights

In 2019, NFON AG published the following notifications on the Group's website in line with Section 20 (1) or (4) of the German Stock Corporation Act (AktG) or Section 33 (1) of the German Securities Trading Act (WpHG) and in line with Section 20 (6) or Section 38 (1) and Section 40 WpHG:

Date of change in equity investment	Name of holder of equity investment	Thresholds exceeded/ fallen short of	Share of voting rights
25 March 2019	KBC Asset Management NV, Brussels, Belgium	Below 3%	2.99%
25 April 2019	Swedbank Robur Fonder AB, Sundyberg, Sweden	Above 3%	3.18%
21 May 2019	Dr Matthias Hallweger (indirect)	Below 5%, below 3%	0.00%
28 May 2019	FIL Limited, Pembroke, Bermuda	Below 3%	2.80%
17 July 2019	FIL Limited, Pembroke, Bermuda	Above 3%	3.05%
9 Aug. 2019	FIL Limited, Pembroke, Bermuda	Below 3%	2.95%
1 Oct. 2019	Klaus Röhrig (indirect)	Above 3%	3.12%
1 Oct. 2019	Florian Schubhauer (indirect)	Above 3%	3.12%
21 Oct. 2019	Earlybird Verwaltungs GmbH, Munich, Germany	Below 15%	14.05%
21 Oct. 2019	Klaus Röhrig (indirect)	Above 5%	9.33%
21 Oct. 2019	Florian Schuhbauer (indirect)	Above 5%	9.33%
4 Dec. 2019	Klaus Röhrig (indirect)	Above 10%	11.43%
4 Dec. 2019	Florian Schuhbauer (indirect)	Above 10%	11.43%

7. Provisions

Provisions break down as follows:

in EUR thousand	31 Dec. 2019	31 Dec. 2018
Tax provisions	69	69
Other provisions		
Personnel provisions	1,195	1,170
Outstanding incoming invoices	834	627
Remuneration for partner commission	714	582
Other*	308	29
Provision for financial statements and audit	281	183
Social security for false self-employment	0	21
Total	3,402	2,681

The tax provisions mainly relate to payroll taxes for previous years in the amount of EUR 69 thousand.

The personnel provisions chiefly comprise provisions for bonuses of EUR 755 thousand (previous year: EUR 678 thousand) and provisions for holidays of EUR 331 thousand (previous year: EUR 361 thousand).

*Other provisions chiefly consist of hidden reserves of EUR 270 thousand that were disclosed in connection with the acquisition of DTS.

8. Liabilities

Liabilities break down as follows:

in EUR thousand	31 Dec. 2019	with a remaining term of up to one year	more than one year	thereof: more than five years	thereof secured by liens and similar rights	Type and form of collateral
Bonds	5,075	5,075			No	
Liabilities to banks	9,007	9,007			No	
Trade payables	2,308	2,308			Yes	General retention of title
Liabilities to affiliated companies	4,287	4,287			No	
Other liabilities	1,115	986	129		Yes	Rent guarantees have been concluded as collateral
of which taxes	271					
of which social security	22					
Total	16,717	16,588	129			

With regard to liabilities to banks, minimum liquidity of EUR 12,000 thousand must be kept available in accordance with the loan agreement between NFON and the bank.

Trade payables to affiliated companies mainly resulted from the cost allocation of NFON UK Ltd. (EUR 3,320 thousand) and nfon GmbH (EUR 966 thousand).

in EUR thousand	31 Dec. 2018	with a remaining term of: up to one year	more than one year	thereof: more than five years	thereof secured by liens and similar rights	Type and form of collateral
Bonds	0				No	
Liabilities to banks	6	6			No	
Trade payables	1,976	1,976			Yes	General retention of title
Liabilities to affiliated companies	5,728	5,728			No	
Other liabilities	1,157	984	173	173	Yes	Rent guarantees have been concluded as collateral
of which taxes	508					
of which social security	14					
Total	8,867	8,694	173	173		

Other liabilities break down as follows:

in EUR thousand	31 Dec. 2019	31 Dec. 2018
Collateral received	336	335
Turnover tax liabilities	205	285
Deferral for rent-free period	172	216
Creditors with debit balances	81	54
Credit card liabilities	5	5
Payroll liabilities:		
payroll and church taxes	271	223
Other	45	39
Total	1,115	1,157

9. Deferred taxes

The temporary differences between the accounting valuations and tax valuations of assets, liabilities, prepaid expenses and deferred income were calculated in the fiscal year. The information obtained from this results in a potential capitalisation option for deferred tax assets. In accordance with the option under Section 274 (1) Sentence 2 HGB, non-capitalisation of deferred tax assets is applied. In particular, it should also be mentioned that any previously unused tax loss carryfowards cannot be capitalised, as there is a history of loss overall when the prior-year results are taken into account.

10. Contingent liabilities

In April 2017, a parent company guarantee agreement was entered into, under which 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 event under guarantee is considered unlikely to occur.

11. Other financial obligations

As at 31 December 2019, there were obligations from longer-term rental agreements and leases of EUR 3,512 thousand (previous year: EUR 4,855 thousand).

Specifically, these resulted from vehicle leases in the amount of EUR 179 thousand (previous year: EUR 239 thousand) and rental agreements for buildings of EUR 3,333 thousand (previous year: EUR 4,616 thousand).

IV. Notes on the income statement

The income statement has been drawn up using the nature of expense method.

1. Revenue

Revenue breaks down as follows:

in EUR thousand	2019	2018
Areas of activity:		
Recurring	29,900	25,621
Non-recurring	5,848	6,224
Non-recurring IC	1,881	-8,948
Total	**37,629**	**22,897**

in EUR thousand	2019	2018
Geographically defined markets:		
Germany:	34,337	30,401
European Union:	1,051	1,090
European Union IC	1,881	-8,948
Rest of Europe:	360	354
Total	**37,629**	**22,897**

2. Other operating income

in EUR thousand	2019	2018
Investment grant	220	103
Offsetting of non-cash benefits	136	211
Reimbursements under the German Expenditure Compensation Act	80	25
Income from provisions*	70	361
Miscellaneous other operating income*	24	10
Reimbursement (passing on) of IPO costs to shareholders	0	1,266
Income from write-ups on financial assets*	0	7,099
Prior-period income*	0	53
Total	529	9,128

* = prior-period income*

Prior-period income totalling EUR 94 thousand (previous year: EUR 7,523 thousand) is included in other operating income. This mainly resulted from the reversal of provisions, income from receivables concluded in prior periods, and commission income.

3. Cost of materials

The cost of materials chiefly consists of purchases of goods (hardware) in the amount of EUR 2,795 thousand (previous year: EUR 3,124 thousand) as well as purchased services in the form of software deployment of EUR 2,293 thousand (previous year: EUR 2,187 thousand) and airtime of EUR 1,810 thousand (previous year: EUR 1,917 thousand).

4. Personnel expenses

The EUR 2,196 thousand increase in personnel expenses to EUR 16,891 thousand (previous year: EUR 14,693 thousand) is chiefly due to the increase in the number of employees and to bonus payments and an employee share option programme.

In 2019, NFON AG introduced an employee share option programme. The exact details regarding the group of people participating and the conditions are described in the IFRS consolidated financial statements. The share options are non-transferable share options that are issued to a precisely defined group of people and had the following values as at the reporting date.

Determination of fair values

Grant date /employees entitled	Number of options (thousands)	Contractual vesting period of the options	Contractual term of the options	Expected staff turnover in %	Value of option	Value as at 31 Dec. 2019 in EUR thousand	Value over entire term
Options granted to Management Board							
On 2 Jan. 2019	199	4 years	10 years	4	4.04	193	773
Options granted to employees							
On 2 Jan. 2019	418	4 years	10 years	4	4.07	410	1,641
On 9 May 2019	26	4 years	10 years	4	4.76	20	119
On 27 Sept. 2019	47	4 years	10 years	4	4.80	14	217
On 20 Dec. 2019	15	4 years	10 years	4	3.44	1	50
Total share options	705					638	2,800

The following calculation parameters were used for the new options issued in 2019:

Weighted average exercise price*)	EUR 8.98
Weighted expected volatility	39.9%
Term	10 years
Weighted risk-free interest rate	0.15%

*) Corresponds to the weighted average of the middle closing prices for the Company's shares in Xetra trading on the Frankfurt Stock Exchange on the last 10 trading days before the share options were issued

5. Amortisation and write-downs of intangible fixed assets and depreciation and write-downs of tangible fixed assets

in EUR thousand	2019	2018
Amortisation and write-downs of intangible assets	73	89
Depreciation and write-downs of tangible assets	590	481
Total	663	570

Amortisation, depreciation and write-downs increased as a result of increased acquisitions and corresponding amortisation, depreciation and write-downs.

No write-downs were recognised in the reporting year. Further information can be found in the statement of changes in fixed assets.

6. Other operating expenses

The total amount of other operating expenses came to EUR 27,098 thousand in the reporting year (previous year: EUR 20,353 thousand) and mainly included the items as broken down below.

in EUR thousand	2019	2018
Costs reimbursed to subsidiaries	8,944	3,471
Advertising, media, trade fairs	5,312	3,873
Selling expenses	4,159	3,423
Freelancers, consulting costs	3,000	4,818
Expenses for premises	1,284	848
Software use	840	570
Support costs	496	397
Travel expenses, entertainment, gifts	485	460
Miscellaneous other operating expenses	465	86
Financial statements and audit costs	449	683
Personnel recruitment, training	325	542
Administrative expenses	317	219
Maintenance, repair, IT	307	118
Fleet, including vehicle insurance	271	266
Insurance, not including vehicle insurance	190	341
Supervisory Board remuneration	144	110
Corporate event	112	129
Total	27,098	20,353

Other operating expenses include prior-period expenses of EUR 51 thousand (previous year: EUR 23 thousand) resulting from bad debts.

7. Net interest income

in EUR thousand	2019	2018
Income from other securities and loans held as financial assets	199	329
Other interest and similar income	29	12
Interest and similar expense	-788	-141
Total	-560	200

"-" = expense

The previous year's other interest and similar income relates to blocking and reminder fees. In addition, other interest includes interest income of EUR 0.2 thousand from the discounting of provisions.

Interest expenses rose by EUR 647 thousand year-on-year to EUR 788 thousand. This increase was primarily attributable to interest expenses for the acquisition loan and the warrant bond.

8. Income taxes

Income taxes break down as follows:

in EUR thousand	2019	2018
Corporation tax including solidarity surcharge	0	182
Trade tax	0	196
Total	0	378

"-" = expense

9. Other taxes

Other taxes break down as follows:

in EUR thousand	2019	2018
Backpayments of taxes for prior years	0	-86
Vehicle taxes	-5	-4
Total	-5	-90

"-" = expense

Other taxes include vehicle taxes of EUR 5 thousand (previous year: EUR 4 thousand).

V. Other disclosures

1. Total fee for the auditor

KPMG AG WPG audited the annual and consolidated financial statements of NFON AG. In addition, KPMG AG WPG performed 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. The disclosures on the auditor's fees are included in the consolidated financial statements of NFON AG. Based on the exemption clause for corporations under Section 285 (17) HGB, they are not published here.

2. Average number of employees for the year

During the fiscal year, there were 195 employees on average (previous year: 172), as calculated in line with the provisions of Section 285 HGB. All of these employees were salaried employees.

Number	2019	2018
Full-time employees	178	158
Part-time employees	17	14
Total	195	172

3. Management Board

In the reporting period and in the period up until the preparation of the annual financial statements for 2019, the Company's Management Board was made up of the following members:

- Jan-Peter Koopmann, degree in computer science and business administration, Nackenheim, CTO (since 1 October 2012)
- Hans Szymanski, degree in business administration, Berlin, CEO/Chairman of the Management Board (since 1 July 2016)
- Cesar Flores Rodriguez, degree in business economics, Pullach im Isartal, CSO (since 1 March 2018)

Liabilities to members of the Management Board amounted to EUR 3,241.19 as at the end of the reporting period (previous year: EUR 0.00). These liabilities result from current travel expenses.

4. Supervisory Board

During the reporting period and up until the preparation of the financial statements, the Company's Supervisory Board was made up of the following members:

- Rainer Christian Koppitz,
  Chairman (from 1 February 2015 until 27 July 2016),
  member (from 24 July 2017 until 9 April 2018),
  Chairman (since 9 April 2018)
  Profession:
  CEO of Katek SE, Munich.

- Dr Rupert Doehner,
  Deputy Chairman (since 9 April 2018)
  Profession:
  Lawyer, Managing Director of RECON. Rechtsanwaltsgesellschaft mbH, Munich.

- Ralf Grüßhaber,
  member (from 9 April 2018 until 12 December 2019)
  Profession:
  Managing Director and CFO of think project! GmbH, Munich
  Supervisory Board member 11880 Solutions AG, Essen (until 30 September 2018).

- Angelique Werner,
  member (from 9 April 2018 until 12 December 2019)
  Profession:
  Senior Director of Customer Success at salesforce.com Germany GmbH, Munich.

- Günter Müller,
  member (from 12 December 2019)
  Profession:
  Managing Director of Milestone Venture Capital GmbH, Hösbach.

- Florian Schuhbauer,
  (since 12 December 2019)
  Profession:
  Managing Director of Active Ownership Capital S.a.r.l and Active Ownership Corporation S.a.r.l., Grevenmacher, Luxembourg;
  Member of the Supervisory Board of PNE AG, Cuxhaven.

5. Disclosures on 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 NFON AG, including any of their immediate family members and any entity owned or controlled by such persons.

Related party transactions may particularly include rental, service and financing transactions. If there is a corresponding market for such transactions, they are regularly concluded at standard conditions on the market in question.

The following tables show related party transactions with the exception of remuneration for key management personnel.

in EUR thousand	2019	2018
Sales of goods and services and other income, including interest income	2,177	-8,013
Purchases of goods and services and other expenses, including interest expenses	9,290	3,720

in EUR thousand	Balance outstanding as at 31 December 2019	Balance outstanding as at 31 December 2018
Receivables	3,873	6,739
Liabilities	4,294	5,728

All transactions with these related parties have been concluded under standard market conditions and, with the exception of loans to affiliated companies, are to be settled within two months of the reporting date. None of the balances is secured.

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. Purchases of goods and services and other expenses mainly include services provided by companies which are held by related parties, and interest expense in relation to the loans.

The receivables item includes loans of EUR 3,873 thousand (previous year: EUR 6,456 thousand).

6. Total remuneration of members of executive bodies

Pursuant to Section 314 (1) No. 6 a sentences 1 to 3 HGB, the Management Board received remuneration of EUR 1,858 thousand in the reporting year (prior year: EUR 2,852 thousand). This included the grant values for share-based payments of EUR 805 thousand (prior year: EUR 1,388 thousand). For the share-based payment recognised in the prior year, full cost absorption by the shareholders was agreed. A total of 199,229 share options were granted (in the prior year, 4,449 SARs were granted).

In accordance with the resolution passed at the Annual General Meeting on 9 April 2018, Section 286 (5) HGB was exercised and the disclosure of the remuneration of each individual Management Board member pursuant to Section 285 No. 9 a Sentences 5 to 8 was omitted.

There were no loans or advances to members of executive bodies as at 31 December 2019,

nor had any contingent liabilities been entered into for these individuals.

The Supervisory Board remuneration breaks down as follows:

EUR thousand	2019	2018
Supervisory Board remuneration		
Basic remuneration	119	86
Attendance fee	24	24
Total Supervisory Board remuneration	143	110

7. List of shareholdings

List of shareholdings pursuant to Section 285, No. 11 HGB:

nfon GmbH, St Pölten/Austria		Share:	100.00%
Net income in 2019:	EUR 11.5 thousand	Equity:	EUR +8,752 thousand
NFON UK Ltd., Maidenhead/Great Britain		Share:	100.00%
Net income in 2019:	EUR 323 thousand	Equity:	EUR +4,888 thousand
NFON Iberia SL Madrid/Spain		Share:	100.00%
Net income in 2019: EUR -22 thousand		Equity:	EUR -854 thousand
NFON Italia S.R.L, Milan/Italy		Share:	100.00%
Net income in 2019: EUR -48 thousand		Equity	EUR +52 thousand
NFON France SAS, Paris, France		Share:	100.00%
Net income in 2019: EUR -8 thousand		Equity:	EUR +92 thousand
Deutsche Telefon Standard GmbH, Mainz		Share:	100.00%
Net income in 2019: EUR 23 thousand		Equity:	EUR 410 thousand

The stated figures for annual net profit and equity are based on the figures from the IFRS reporting packages (HB II) prepared by the subsidiaries for the purposes of preparing NFON’s consolidated financial statements as at 31 December 2019.

8. Group affiliations

NFON AG, Munich, prepares the consolidated financial statements and the Group management report for the NFON Group. The consolidated financial statements and the Group management report of NFON AG, Munich, are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and are published electronically in the Federal Gazette and filed with the Munich District Court (HRB 168022).

9. Report on events after the reporting date

With the exception of the events described below, there were no events after the reporting period which had a material effect on the financial position or results of operations as at 31 December 2019.

Since January 2020, the coronavirus has been continuing to spread all around the world (coronavirus epidemic). This is expected to have significant negative effects on global economic growth and on economic growth in Germany.

In the NFON Group, neither procurement nor sales are directly impacted by the epidemic, but there may be currently unforeseeable effects on future valuations.

10. Declaration on the German Corporate Governance Code in accordance with Section 161 AktG

On 31 March 2020, NFON AG will publish the declaration required under Section 161 AktG for 2019 and make this available in the Investor Relations section of its website at www.nfon.com.

11. Appropriation of net profit

The Management Board and the Supervisory Board will propose to the Annual General Meeting on 25 May 2020 that the net accumulated losses of EUR 47,389 thousand be carried forward to new account.

Statement of changes in fixed assets for the 2019 fiscal year

in EUR thousand	Acquisition/production cost				
	1 Jan. 2019	Additions*	Disposals	Reclassifica-tions	31 Dec. 2019
I. Intangible assets					
Purchased concessions, industrial and similar rights and assets and licences in such rights and assets	413	33	0	0	446
II. Tangible assets					
Other equipment, operating and office equipment	3,332	1,679	28	0	4,982
III. Financial assets					
Investments in affiliated companies	16,394	20,400	25	0	36,768
Loans to affiliated companies	6,455	3,571	6,153	0	3,874
	26,594	**25,683**	**6,206**	**0**	**46,070**

* As part of the merger of fairfon GmbH with NFON AG, the 49.83% share in nfon GmbH (Austria) owned by fairfon Telefonsystem GmbH was transferred to NFON AG at a carrying amount of EUR 3,105 thousand, with the effect that NFON AG has held a 100% share in nfon GmbH (Austria) since the reporting year 2019. This amount is included in the additions to shares in affiliated companies.

in EUR thousand	Cumulative depreciation and amortisation			Carrying amounts	
	1 Jan. 2019	Depreciation, amortisation, write-downs and write-ups (-) in the fiscal year	31 Dec. 2019	31 Dec. 2019	31 Dec. 2018
I. Intangible assets					
Purchased concessions, industrial and similar rights and assets and licences in such rights and assets	180	73	253	192	233
II. Tangible assets					
Other equipment, operating and office equipment	2,170	590	2,759	2,223	1,162
III. Financial assets					
Investments in affiliated companies	0	0	0	36,768	16,394
Loans to affiliated companies	0	0	0	3,874	6,455
	2,350	**663**	**3,013**	**43,057**	**24,244**

The total for carrying amounts as at 31 December 2018 was corrected in comparison to the previous year, as the figure of 22,849 was an arithmetical error. The figures for the individual items are not affected by this correction.

Statement of changes in equity in fiscal year 2019:

* in accordance with Section 272 (2) No. 4 HGB

in EUR thousand	Subscribed capital	Capital reserves*	Losses carried forward	Net profit	Equity
Balance on 31 Dec. 2016	371	34,013	-24,866	461	9,978
Net income for the fiscal year			461	1,303	1,303
Balance on 31 Dec. 2017	371	34,013	-24,406	1,303	11,281
Capital increase:					
Issuance of shares (IPO)	4,167	45,833			50,000
Increase from Company funds	9,269	-9,269			0
Net income/loss for the year			1,303	-10,328	-10,328
Balance on 31 Dec. 2018	13,807	70,577	-23,103	-10,328	50,952
Capital increase:					
issuance of shares	1,249	11,898			13,785
Employee share options		638			
Net income/loss for the year			-10,328	-13,957	-24,285
Balance on 31 Dec. 2019	15,056	83,113	-33,431	-13,957	50,781

Munich, 27 March 2020

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Hans Szymanski Jan-Peter Koopmann Cesar Flores Rodriguez